



AID BY KOREA: PROGRESS AND CHALLENGES

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Abstract

This paper aims to evaluate the progress made in Korea's official development assistance (ODA) since 2008, when the country applied for accession to the OECD's Development Assistance Committee (DAC) and established its Medium-term Aid Plan (2008-2010). Using empirical statistical data, it assesses the performance of Korea's ODA against the norms and practices of DAC member countries. In particular, this study analyzes the Korean government's achievement in addressing the 2008 concerns of the OECD's Special Review Team about Korea's aid allocation to developing countries and coordination of the policies and programs of its numerous aid agencies.

Introduction

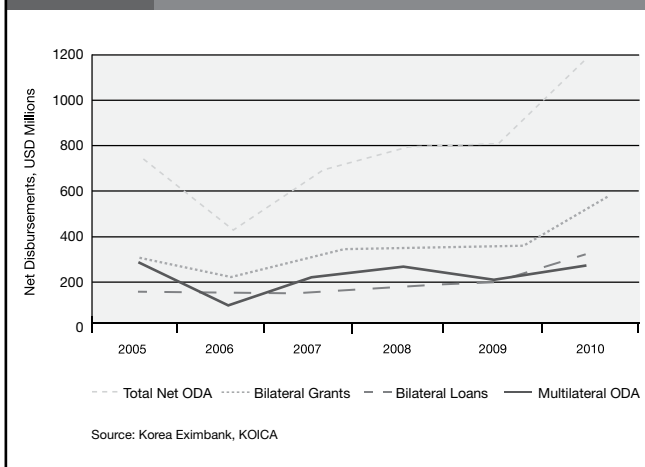
2012 marks a special year for Korea's official development assistance (ODA). A year after Korea hosted the Busan International Conference on Aid Effectiveness (HLF-4) in 2011, the country's aid is to be evaluated by the Organization for Economic Cooperation and Development (OECD) peer review team for the first time since Korea joined the Development Assistance Committee (DAC) in 2010. The DAC, which discusses and coordinates member donor governments' foreign aid policies, is composed of the European Union and twenty-three of thirty-four OECD member countries.

The DAC conducts a peer review of its member states' ODA policies and practices every two to three years, and publishes the results. The review will analyze changes in Korea's ODA since it applied for DAC membership in 2008 and offer recommendations for future improvement. The baseline reference will most likely be the OECD's 2008 Special Review Report, which provided data for evaluating Korea's DAC membership application. Although the review's recommendations are not binding, all DAC members agreed to follow Committee policies and regulations when they joined.

Accordingly, as a way of analyzing Korea's aid policies and practices, this paper is intended to evaluate any changes (or lack of changes) in Korean aid since the OECD's 2008 report. In particular, it analyzes issues and concerns raised by that report and compares Korean ODA policies and practices during the period 2008-10 with those that prevailed before the report was issued, i.e., the period 2005-07.

The Special Review Report urged changes to the scale and terms of Korean aid, and highlighted two additional concerns. One was that Korean ODA was ineffective mainly due to fragmentation: aid was administered by many ministries and other public agencies without a coherent legal and policy framework. Korea's bilateral ODA was divided between grants offered by KOICA (Korea International Cooperation Agency) under the policy guidance and supervision of the MOFAT (Ministry of Foreign Affairs and Trade) and concessional loans offered by the EDCF (Economic Development Cooperation Fund) under the guidance and supervision of the MOSF (Ministry of Strategy and Finance). In addition, some 25% of total bilateral grants were offered by more than thirty central and provincial governments and independent public organizations. Multilateral ODA was offered by more than twenty agencies to more than eighty intergovernmental organizations. Coordination and cooperation between the major grant and loan agencies, KOICA/MOFAT on the one hand and EDCF/MOSF on the other, and their programs was ineffective. Moreover, coordination was lacking between these agencies/programs and more than thirty other grant-giving agencies.

Figure 1 Korea's Net ODA



The other concern was the unclear criteria for selecting ODA recipient countries and allocating aid. The ODA allocated to recipient countries by income level was inconsistent with the ODA objectives generally agreed upon by all DAC members. A similar concern was expressed with respect to aid allocated to recipient countries classified by region, sector, and project.

Therefore, in addition to reviewing changes in the scale and terms of Korea's ODA since 2008, this paper will review shifts in legal and policy coherence, as well as selection and allocation criteria, as aimed in the Mid-term ODA Plan (2008-10). This paper will also empirically analyze Korea's aid allocation practices in comparison with other DAC member states. Finally, this paper will highlight conclusions and future challenges for Korean ODA.

The Scale and Terms of Aid

The Special Review Report (OECD 2008) expressed satisfaction with Korea's plan to increase ODA and encouraged a strong commitment. The incoming Lee Myung-bak government in 2008 promised to follow through with the plan, which was set up by the exiting Roh Moo-hyun government. The Mid-term ODA Plan 2008-10 stipulated that the volume of aid would increase from 0.06% of gross national income (GNI) in 2006 to 0.25 percent by 2015.

Since 2008, Korea has pursued the goal with vigor. During the period 2006-10, whereas Korea's total fiscal expenditure increased at 7 percent per year, its ODA expenditure rose at 29 percent per year. In 2010, the net ODA disbursed increased sharply, reaching \$1.174 billion, the equivalent of 0.12 percent of GNI. The size of ODA has scaled up by 0.03 percentage points every two years, i.e., 0.06 percent of GDP in 2006, 0.09 percent in 2008, and 0.12 percent in 2010. If this trend continues, the size of ODA will reach 0.27 percent of GNI in 2015, exceeding the 0.25 percent goal.

The Special Review Report (2008) also encouraged Korea to soften its ODA terms. A 1978 DAC agreement on improving ODA terms includes three standards. First, 86% of annual ODA commitments should be a grant element. Second, annual ODA commitments should be above the ODA members' average (0.28 percent of GNI in 2010). Third, ODA commitments for all least developing countries (LDCs) should contain a grant element above 90 percent annually, or ODA commitments for each LDC should contain a grant element above 86 percent on a three-year average basis.

Korea satisfied the first and third standards in 2010. The aid commitments contained a 93.6 percent grant element; annual aid commitments to all LDCs reached 94.5 percent, and the three-year average aid commitment to each LDC also exceeded 86 percent. This was made possible not by reducing the share of loans in total bilateral ODA, as recommended by the DAC; in fact, the share of loans in total bilateral aid rose steadily from 27 percent in 2007 to 36 percent in 2010. Instead, Korea achieved these goals mainly by softening concessional loan terms via reductions in interest rates (up to 0.01 percent) and extensions of the grace and repayment periods (up to forty years), especially for those loans directed to LDCs, green growth, and climatic change preparedness.

Regarding the DAC's second standard for ODA commitments at 0.28 percent of GNI, Korea's 2010 ODA commitments reached only 0.20 percent of GNI. However, Korea's ODA commitment would approach the second standard by 2015 if it attains the net ODA disbursement goal of 0.25 percent of GNI by 2015, and would nearly meet it if its loan commitment continues to increase as it has in recent years. Even if Korea's ODA does not attain the second standard, DAC members would likely understand: currently France fails to reach the first standard; Portugal falls short of the second standard; and Greece (0.17 percent), Italy (0.16 percent), and the United States (0.25 percent), like Korea, fail to reach the third standard.

Integrated Legal and Policy Frameworks

The integrated or coherent legal and policy frameworks for Korean ODA can be discussed at two levels: at all recipient countries level and at each individual recipient country level. First, at the level of all recipient countries, Korea has continuously pursued a coherent legal and policy framework since 2005. This effort finally came to fruition at the end of the Mid-term ODA Plan, when the government promulgated the Basic Law on International Development Cooperation in early 2010. Second, at the individual recipient country level, Korea decided to prepare Country Partnership Strategy (CPS) papers to coordinate all Korean aid agencies' programs and projects.

Basic Law and Related Mechanisms

The 2008 OECD Special Review Report recommended a single integrated legal framework to encompass all aid types and agencies, and a single integrated aid controller to guide and supervise all aid agencies and programs.

Basic Law

The government of Korea decided not to establish such an integrated aid agency, which may require a major reorganization of the rights and responsibilities of many ministries and a sharp increase in government officials. Instead, the government attempted to promote coordination and cooperation of numerous aid agencies through the Basic Law on International Development Cooperation of 2010. This law requires the government to designate controlling aid agencies for grants and loans, respectively, for a coherent legal and policy framework, and prepare a mid-term aid plan and annual implementation programs, for coordinated and cooperated aid implementation programs and projects.

The Basic Law designated MOFAT (Ministry of Foreign Affairs and Trade) as the controlling agency for all grant aid agencies, and MOSF (Ministry of Strategy and Finance) for loan aid agencies. The controlling agencies are responsible for coordination, monitoring and supervision, and support of other aid agencies, especially the thirty-plus grant agencies. In addition, the Basic Law elevates the existing Committee on International Development Cooperation as the apex agency for deliberation and coordination of all aid agencies and programs.

At present, there is no consensus on whether the OECD's 2008 recommendation as implemented in the Basic Law was appropriate for Korea. A single, overarching ODA law was not universally adopted by DAC member countries. At that time, only twelve of twenty-two members adopted such legislation; the other ten used only fundamental policy documents for managing ODA. Seven of those twelve members having such legislation also prepared and used a fundamental policy document (Sohn 2009).

While it is clear that the Basic Law has contributed to the coordination and regulation of Korean ODA efforts, the legislation also has a potential downside. Prior to 2010, Korea had several laws on ODA activities, including the organic laws for EDCF (1987), KOICA (1991), and KOFIH (Korea Foundation for International Health: 2005), which together provided legal authority and responsibility to handle about 80 percent of total bilateral ODA in Korea. These laws outlined two simple and clear ODA objectives: economic development of recipient countries and mutual exchanges. However, the Basic Law lists eight, adding such objectives

as: resolution of global development issues; promotion of human rights for women and children; gender equality; achievement of humanitarianism; improvement of developing countries' institutions and systems; and contribution to global peace and prosperity. Therefore, one risk that the Basic Law poses is that it may provide a legal basis for the proliferation of new agencies to specialize in some of the six additional aid objectives, potentially complicating rather than easing Korea's efforts to reduce proliferation of aid agencies and coordinate their ODA initiatives. Another problem with the law is that it does not give any sense of priority among the diversified objectives for aid resource allocation and execution.

Coordination and Cooperation Mechanisms

In accordance with the Basic Law, the controlling and other aid agencies collaborated to prepare the Aid Modernization Strategy Paper (Office of Prime Minister 2010) and Five-Year Aid Plan: 2011-15 (Office of Prime Minister 2011). This plan provided a basis for preparing annual aid implementation programs, the country assistance strategy for priority recipient countries, and the volume and grant elements of total ODA. Therefore, it indirectly enhanced aid predictability for all stakeholders and aid coordination among domestic aid agencies, goals that were emphasized in the Paris Declaration for Aid Effectiveness (OECD 2005), Accra Agenda for Action (OECD 2008), and the Busan Outcome Document on Aid Effectiveness (OECD 2011).

While the Five-Year Aid Plan improves aid predictability, the Annual Aid Implementation Program (AAIP) tries to ensure coordination and cooperation among all aid agencies and programs, and consistency between the Five-Year Plan and the annual aid budget. Before 2008, there was no planning and management instrument to ascertain coordination and coherence among programs of almost forty aid agencies, and monitor and evaluate their implementation.

The AAIP is similar to the International Assistance Envelope System in Canada, under which all aid related agencies and the budget authority work together to determine priorities and annual budget proposals for all aid agencies within the budget envelope given by the Ministry of Finance (OECD 2009).

However, Korea's AAIP does not function like Canada's system since it is put into effect in several sequential steps by aid implementing agencies, the controlling agencies, and the Committee on International Development Cooperation. Moreover, the program has no binding effects on the Ministry of Finance since it is prepared only by aid-related agencies without an aid budget envelope. To enhance aid predictability and consistency with the Five-Year Plan, Korea should try to include in the AAIP at least an indicative aid amount for the next two years, as has been done by more than half the DAC member states in their annual budgets (OECD 2009).

Country Partnership Strategies

For each priority aid recipient country, Korea is committed to prepare a Country Partnership Strategy (CPS) and update it every three years. Currently there are twenty-six priority countries. By the end of 2011, strategies for three countries had been completed, with half of the remaining scheduled for completion in 2012 and the other half in 2013.

Preparation of the CPS is a great stride forward for recipients' aid predictability and coordination among diverse Korean aid agencies. Before 2008, there were numerous cases of overlapping or conflicting aid programs or projects among numerous Korean aid agencies in each recipient country. There were also unbalanced or inequitable aid programs between recipient countries since each of the two major aid agencies (KOICA and EDCF) prepared their own country assistance strategy, and aid programs operated without any strategy documents for many recipient countries. Although there had been efforts to prepare a single assistance strategy paper for a particular recipient country before 2008, these simply combined KOICA and EDCF documents without a coherent assistance strategy or program, as pointed out by the 2008 OECD Special Review Report.

Currently, the CPS documents are flawed in that they contain only strategy and lack any implementation program over a three-year period. Therefore, the documents do not provide as much aid predictability to stakeholders as they could. Nor do they provide any guidance for the preparation of the Annual Aid Implementation Program or annual budgets. Moreover, the CPS system does not solve the problem of aid coordination and cooperation among aid agencies, especially Korea's numerous grant aid agencies, since the document does not discuss or include any implementation programs or projects at a recipient country level. Although the Five-Year Aid Plan provides a broad guide to the emphasis of EDCF's loan aid programs (e.g. infrastructure, green growth, climatic change preparedness), no guidelines have yet been provided for the division of labor or specialization among more than thirty grant aid agencies.

Selection of Recipients and Aid Allocation Criteria

The Special Review Report (OECD 2008) recommended that Korea should pay more attention to aid for the least developed (LDCs) and other low income developing countries (LICs), and should clarify the criteria for selecting recipient countries, allocating aid transparently among countries. To assess the progress made since the OECD report, it is useful to review Korea's aid allocations by recipient's income level, region, and sector.

Aid Allocation by Income Level

One of the most critically reviewed issues by the OECD team in 2008 was Korea's aid allocation by recipient's income level.

The review criticized Korea's allocation of grants and loans, which went against generally agreed upon international aid policies, such as poverty reduction or achievement of the Millennium Development Goals (MDG). The criticism is summarized as follows, using the KOICA and EDCF aid only, which accounted for about 80 percent of total bilateral ODA during 2005-07.

First, KOICA and EDCF allocated only 35 percent of total bilateral aid to the least developed (LDCs) and other low income countries (LICs), well below the DAC average of 44 percent. At the same time, the agencies allocated 56 percent of total bilateral aid to middle income countries (MICs).

Second, while EDCF—the loan agency—allocated loans mostly to LDCs (63 percent; and including LICs 54 percent), KOICA—the grant agency—allocated grants mostly to lower middle income countries (LMICs 68 percent). In other words, Korea allocated grants to LMICs, which have relatively greater capacities to repay debts, but provided loans to LDCs and LICs, which generally have weaker capacities to service debts. Such aid allocation policies were not only inequitable, but also would jeopardize debt sustainability in LDCs and LICs, and would risk the achievement of the MDGs. Such aid allocation practices were indicative of Korea's lack of a coherent or integrated aid framework and policies at a national level.

However, during the period 2008-10, Korea has shown starkly clear changes in aid allocation practices, reflecting the OECD's recommendations. First, of the total bilateral aid by KOICA and EDCF, aid to LDCs and LICs increased from 35 percent during 2005-07 to 43 percent during 2008-10, which

is nearly the same level as the DAC average. Aid to MICs decreased from 56 percent to 49 percent, with aid to LMICs in particular seeing a drop. Second, of the total KOICA and EDCF aid given to LDCs, the share of loans decreased from 63 percent to 45 percent, and the share of grants rose from 37 percent to 55 percent, a change that likely contributed to poverty reduction and achievement of the MDGs. Such changes are due to policy shifts by the KOICA and EDCF, as well as coordination efforts made by the Prime Minister's office and the Committee on International Development Cooperation.

Aid Allocation by Region

During 2005-07, the bilateral ODA by KOICA and EDCF focused on Asia by allocating 35 percent of total aid. The OECD's Special Review Report (2008) called the practice understandable, which is to be expected since the DAC recommended a focus and concentration in aid allocations. During 2008-10, the bilateral ODA by KOICA and EDCF allocated 55 percent of aid to Asia. KOICA's aid to Asia (47 percent) almost attained the Mid-term ODA Plan (2008-10) goal for grant aid of 50 percent.

Korea also increased its aid to high-poverty-rate Africa, from 13 percent to 15 percent of total bilateral aid. KOICA's aid (17 percent) almost attained the grant aid goal of 20% set in the Mid-term ODA Plan. Korea's aid to Africa was expected to increase sharply since the country announced its Initiative for Africa Development in 2006 with the aim of tripling aid to that continent by 2008. Although the goal was not quite attained, aid to Africa nearly doubled from a total of \$154 million to \$278 million during the two periods compared.

Table 1 Korea and DAC: Aid Allocation by Recipients' Income Level, 2005-07 (net ODA)

Countries	Korean ODA Average (2005-2007)						DAC average (2005-2007)	
	KOICA (grant)		EDCF (loan)		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Least Developed	39	17.2	65	39.3	103	26.6	28,962	27.1
		37		63		100		
Other Low Income	25	11.1	9	5.4	34	8.7	17,543	16.4
		74		26		100		
Lower Middle Income	127	56.5	59	35.7	186	47.7	31,903	30
		68		32		100		
Upper Middle Income	5	2.2	26	15.8	31	8.0	4,220	4
		16		84		100		
Unallocated	29	13.0	6	3.8	36	9.1	24,091	22.5
Total	225	100.0	165.0	100.0	390	100.0	106,680	100.0

Table 2

Korea and DAC: Aid Allocation by Recipients' Income Level, 2008-10 (net ODA)

Countries	Korean ODA Average (2008-2010)*						DAC average (2008-2010)*	
	KOICA		EDCF		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Least Developed	112	33.4	90	32.3	202	32.9	41,398	32.2
		55		45		100		
Other Low Income	54	16.2	8	2.8	62	10.1	13,753	10.7
		87		13		100		
Lower Middle Income	118	34.9	135	48.2	252	41.0	28,028	21.8
		47		53		100		
Upper Middle Income	6	1.7	42	15.0	48	7.7	7,832	6.1
		12		88				
Unallocated	47	13.9	5	1.7	51	8.3	37,646	29.2
<i>Total</i>	<i>336</i>	<i>100.0</i>	<i>279</i>	<i>100.0</i>	<i>616</i>	<i>100.0</i>	<i>128,657</i>	<i>100.0</i>

The OECD Special Review Report recommended that Korea give adequate consideration to the aid policies and practices of other numerous and active donors in Africa and to the relatively high income level and low poverty rates in Latin America. In fact, Korean aid to Latin America increased from 6.5 percent to 10 percent of total bilateral aid during the two periods compared. However, KOICA provided only 11 percent of its total aid to Latin America, which is much lower than the goal for grant aid to the region (15 percent) set in the Mid-term ODA Plan. This means that the increase in aid to Latin America, the relatively high income region, was made mainly by EDCF loans and was consistent with the OECD recommendation.

Korean aid in the Middle East did not meet its goals. KOICA and EDCF were tasked with providing \$100 million each in grant and loan aid to Iraq under the Mid-term ODA Plan. However, the two agencies fell far short of this target.

Aid Allocation by Sector

The OECD Special Review Report (2008) recommended that Korea's aid should focus on two-to-three sectors in each recipient country, taking into account the aid provided by other donors in the same country and the comparative advantage of Korean aid in those sectors. The special report pointed out that Korea tended to spread its relatively small amount of total aid too thinly across many countries and sectors.

However, during 2008-10, Korea's aid allocation by sector failed to make progress. Korea offered aid to all countries and sectors covered by other DAC member states. For example,

on the one hand, KOICA offered grant aid for seven sectors on average in each of some sixty ordinary partner countries and for the multi-sector at a rate much higher than the DAC average (18 percent versus 9 percent). On the other hand, it offered no aid for the program sectors (sector or budget supports) and reduced humanitarian sector aid from 7 percent to 4 percent, which is much smaller than the 8 percent DAC average.

During 2008-10, social-administrative infrastructure sector aid made up 42 percent of total Korean ODA, which is somewhat higher than the DAC average (39 percent). However, during the same period, economic infrastructure sector aid made up 32 percent of total Korean ODA, which is much higher than the DAC average (17 percent). These results may be due in part to the peculiar aid policies in Korea. EDCF loans, which share a greater part of total bilateral aid relative to other DAC member states, focus on economic infrastructure. However, KOICA's grant aid also covers economic infrastructure at 18 percent of its total. Likewise, EDCF's loans also allocate a high share to social-administrative infrastructure at 40 percent of its total.

Aid for economic infrastructure contributes more effectively to economic growth in a shorter period, while aid for social-administrative services contributes to economic growth over a relatively longer period of time, but more effectively improves welfare of the poor in the short-run (Radelet et al 2005). Therefore, loans may focus more on aid for economic infrastructure to generate funds to be used for repaying the loans in a shorter period, while grants may concentrate on aid for social-administrative infrastructure and services.

Table 3

Korea and DAC: Aid Allocation by Region, 2005-07 (net ODA)

Region	Korean ODA Average (2005-2007)						DAC average (2005-2007)	
	KOICA		EDCF		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Africa	27	12.1	24	14.6	51	13.1	39,257	36.8
		53		47		100		
Asia	76	33.7	97	58.9	173	44.6	20,275	19
		44		56		100		
Latin America	21	9.1	11	7.0	32	8.2	6,885	6.5
		66		34		100		
Middle East	64	28.4	11	6.6	75	19.2	17,713	16.6
		85		15		100		
Oceania	1	0.3	-	-	1	0.2	1,217	1.1
		100.0		-		100		
Europe	8	3.5	15	9.2	23	5.9	4,418	4.1
		35		65		100		
Unallocated	29	12.8	6	3.8	35	9.0	16,915	15.9
<i>Total</i>	<i>225</i>	<i>100.0</i>	<i>165</i>	<i>100.0</i>	<i>390</i>	<i>100.0</i>	<i>106,680</i>	<i>100.0</i>

Table 4

Korea and DAC: Aid Allocation by Region, 2008-10 (net ODA)

Region	Korean ODA Average (2008-2010)						DAC average (2008-2010)	
	KOICA		EDCF		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Africa	59	17.4	34	12.2	93	15.0	46,971	36.5
		63		37		100		
Asia	157	46.6	183	65.4	339	55.1	26,437	20.5
		46		54		100		
Latin America	36	10.8	24	8.7	61	9.8	9,707	7.5
		59		41		100		
Middle East	19	5.8	5	1.9	25	4.0	13,263	10.3
		23		77		100		
Oceania	-	-	-	-	-	-	1,704	1.3
Europe	19	5.6	28	10.1	47	7.7	5,608	4.5
		40		60		100		
Unallocated	47	13.8	5	1.7	51	8.3	24,967	19.4
<i>Total</i>	<i>336</i>	<i>100.0</i>	<i>279</i>	<i>100.0</i>	<i>616</i>	<i>100.0</i>	<i>128,657</i>	<i>100.0</i>

By allocating their aid according to recipients' income level, KOICA's grants and EDCF's loans made progress in improving their division of labor and specialization. Likewise, these aid agencies need to work more on allocating their aid by sector as well. In particular, the numerous aid agencies offering grants should develop a clear division of labor and specialization among themselves. The Committee on International Development Cooperation and MOFAT, the controlling and coordinating agencies for grant aid, should take up the challenge rigorously.

An Econometric Analysis of Aid Allocation Criteria

The OECD Special Review Report (2008) argued that Korea's aid recipients were too numerous and that the criteria for selecting recipients and allocating aid were unclear. In 2008, the number of recipients reached 129 countries, which were divided among three groups: priority, ordinary, and other recipients. The priority recipients included nineteen countries in the KOICA list and eleven countries in the EDCF list. However, seven priority countries were common to both lists, and therefore there were a total of twenty-three priority countries. Both the criteria for selecting those countries and the criteria

for allocating aid to those three groups of countries were unclear. Although the Mid-term ODA Plan indicates that priority countries were those with Korean embassies, the list included some priority recipient countries without a Korean ambassador. The Basic Law of 2010 indicates that the priority countries are basically the LDCs, but there are many non-LDCs on the list. The difference between the ordinary and other recipients is also unclear.

During the period 2008-10, there was little progress in reducing the number of recipients and clarifying the criteria for electing countries and allocating aid to them. However, few DAC member countries have clarified the country selection or aid distribution criteria (except perhaps the Millennium Challenge Corporation of the U.S.). Even when some member countries declared their policies or criteria, there were substantial gaps between the announced policies and actual practice (Alesina and Dollar 2000, Alesina and Weder 2002, Easterly and Pfutze 2008).

Some recent empirical studies of the data during the 1990s (and through 2003) indicate that DAC members increasingly selected recipient countries and allocated aid to them in accordance with the aid objective of poverty reduction (Dollar and Levin 2004;

Table 5 Korea and DAC: Aid Allocation by Sector, 2005-07 (net bilateral ODA)

Sector	Korean ODA Average (2005-2007)						DAC average (2005-2007)	
	KOICA		EDCF		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Social-Administrative	111	49.5	61	36.9	172	44.2	37,764	35.4
Infrastructure		65		35		100		
Economic Infrastructure	51	22.5	84	50.9	135	34.5	12,374	11.6
		38		62		100		
Production	11	4.7	12	7.1	22	5.7	5,654	5.3
		50		50		100		
Multi-sector	33	14.9	1	0.4	34	8.8	6,934	6.5
		97		3		100		
Program	-	-	-	-	-	-	3,520	3.3
Humanitarian	16	6.9	-	-	16	4.0	8,644	8.1
		100				100		
Others (debt service, adm., other)	3	1.5	8	4.6	11	2.8	31,790	29.8
		27		73		100		
<i>Total</i>	<i>225</i>	<i>100.0</i>	<i>165</i>	<i>100.0</i>	<i>390</i>	<i>100.0</i>	<i>106,680</i>	<i>100.0</i>

Table 6

Korea and DAC: Aid Allocation by Sector, 2008-10 (net bilateral ODA)

Sector	Korean ODA Average (2008-2010)*						DAC average (2008-2010)*	
	KOICA		EDCF		Total		\$ (million)	%
	\$ (million)	%	\$ (million)	%	\$ (million)	%		
Social-Administrative Infrastructure	147	43.8	110	39.5	258	41.9	49,469	38.45
		57		43		100		
Economic Infrastructure	60	17.9	136	48.5	196	31.8	21,550	16.75
		31		69		100		
Production	30	9.1	27	9.5	57	9.3	9,135	7.1
		53		47		100		
Multi-sector	60	17.9	2	0.6	62	10.1	11,836	9.2
		97		3		100		
Program	-	-		-	-	-	5,403	4.2
Humanitarian	14	4.0	-	-	14	2.2	10,679	8.3
		100				100		
Others (debt service, adm., other)	24	7.2	5	1.9	30	4.8	20,585	16
		80		20		100		
<i>Total</i>	<i>336</i>	<i>100.0</i>	<i>279</i>	<i>100.0</i>	<i>616</i>	<i>100.0</i>	<i>128,657</i>	<i>100.0</i>

Berthelemy and Ticher 2004; Claessens, et al 2007; Bandyopadhyay and Wall 2007). That is, DAC members increasingly allocated more aid to those developing countries with lower per-capita income, greater needs for human capital development, sounder political and economic policies and institutions, and a larger number of poor people. However, the studies did not reveal consistent results, and the estimation models were fraught with defects or weaknesses. Therefore, this paper makes an empirical analysis, overcoming the defects of the past estimation models, and using data on 157 recipient countries and twenty-three donor countries during the period 2005-10 (Annex 1). The analysis aims to confirm whether DAC member states, including Korea, provided ODA in a manner consistent with the optimum aid allocation model for poverty reduction (Collier and Dollar 2002).

The generalized least square model with heteroskedasticity to estimate the aid allocation practice of DAC member states can be expressed as follows:

$$A_{ijt} = a_0 + b_i + c_t + d_j + fX_{ijt} + e_{ijt} \quad (1)$$

A_{ijt} : bilateral ODA from each donor country (j) to each recipient country (i) over the sample period (t)

a_0 : common intercept

b_i : recipient country dummy, specific to each recipient but fixed over the period

c_t : year dummy, common to all countries in the sample but varies over the period

d_j : donor country dummy, specific to each donor but fixed over the period

X_{ijt} : independent variables including all variables explaining recipient countries' developmental needs and donor countries' economic interests in offering aid to recipients (i.e., per capita income and its squared value, infant mortality rate and its squared value, index of civil rights/participation rights, index of government effectiveness, size of population and its squared number, imports from the donor and its squared value, exports to the donor and its squared value, foreign direct investment from the donor and its squared value).

Estimation of DAC Members' Aid Allocation Criteria

The results of the analysis conducted for twenty-two DAC member states excluding Korea can be summarized as follows (Lee 2011). First, DAC member states did provide more aid to

those countries with lower per-capita real income and a larger population. However, the aid level was in a negative relationship with the civil rights and government effectiveness levels. Moreover, the need for human capital development, reflected in such measures as the infant mortality rate, was not seriously considered. Such practice contravenes the optimum aid allocation model. On the other hand, DAC member states also seriously considered their own economic interests in actual aid allocation practice. More aid went to those countries that import more from and export more to the donor country, although investment in the aid recipient countries (FDI) did not show a relationship at a statistically significant level.

Estimation of Korea's Aid Allocation Criteria

The same model was applied to the total aid by KOICA and EDCF during the periods 2005-07 and 2008-10, respectively, to ascertain any progress made toward the optimum aid allocation model for poverty reduction.

The results indicate that the total aid allocation by Korea made statistically significant progress toward the optimum aid allocation model between the two periods compared (Annex 2). During the Mid-term ODA plan period (2008-10), Korea provided more aid to countries with lower per-capita real income, higher infant mortality rates, and a larger number of the population. Moreover, more aid was provided to countries with higher levels of government effectiveness. However, total aid allocation by Korea during this period did not consider the civil rights level, which was well considered in the previous 2005-07 period.

On the other hand, Korea's total aid allocation in 2008-10 did not consider national interests, as was the case in the previous period. Imports from the recipient countries and exports to the recipients did not have any statistically significant influence on aid amount to recipients. This situation goes well for the modernization of Korea's aid system. However, it contravenes the domestic mandates given to KOICA and EDCF, since their organic laws, as well as the Basic Law on International Development Cooperation, stipulate that they should pursue the economic development of recipient countries and "mutual exchanges and friendships" at the same time.

On average, other DAC member states significantly follow their national mandates, which are often specified as their aid aim in either their laws or basic policy documents, such as "mutual benefits" (e.g. Netherlands), "national security" or "foreign policy objectives" (e.g. U.S.). These examples point to the difference between development assistance by the private sector (corporations, NGOs, philanthropic organizations, etc.) and official development assistance by governments and governmental organizations. Korea should strive to strike a balance between the competing objectives of ODA, as other advanced DAC member governments have done.

Multilateral Aid Allocation

Korea maintained about 30 percent of its total ODA for multilateral aid, i.e., non-earmarked contributions to intergovernmental organizations, as other DAC member states did. While this share was only 17 percent in 2006; it rose sharply to about 30 percent on average during 2007-10, although the share declined to 23 percent in 2010. Korea even joined the Multilateral Organizations Performance Assessment Network (MOPAN) with other DAC members in 2008.

As in bilateral ODA, the most critical issue in multilateral aid for Korea is a lack of a coherent allocation mechanism. During 2005-07, more than twenty government ministries, including the MOFAT, allocated aid to some eighty inter-governmental organizations. Korea has contemplated establishing a guideline for cooperating with international organizations, since ministries and government agencies were aiding numerous international organizations with overlapping small contributions and programs. However, the government has not yet developed any overarching and coherent strategy document to set priorities among competing objectives and international organizations.

Conclusions and Future Challenges

This paper aims to assess the progress made in ODA management by Korea since it expressed its interest in joining the DAC in 2008. Since the topic to be covered is so broad, this paper focuses on those issues and problems most critically reviewed by the OECD Special Review Report of 2008. They can be summarized as the scale and terms of aid, and a lack of a coherent aid management framework and aid allocation criteria.

Regarding the scale and terms of aid, Korea has made satisfactory progress since 2008. While total government expenditure rose by 7 percent per year, total aid increased by 29 percent per year. Based on this trend, it is expected that Korea will most likely attain its promised net ODA goal of 0.25 percent of GNI by 2015 and terms of ODA commitments comparable to those of other DAC member states.

As to the need for a unified and coherent aid framework encompassing all aid agencies and programs, substantial progress has been made since 2008. The Basic Law on International Development Cooperation (2010) mandated that Korea formulate an integrated Five-Year Aid Plan and the Annual Aid Implementation Plan. The Committee on International Development Cooperation, led by the Prime Minister, was designated as the apex agency for deliberation and coordination of all ODA related matters, and the MOFAT and MOSF assumed the responsibilities for monitoring, coordinating, and supporting all grant and loan aid agencies and programs, respectively. A new list of twenty-six priority aid recipients, which is common to both grant and loan aid programs, was drawn up, and an integrated country

partnership strategy document was prepared for each of three priority recipients in consultation with all stakeholders. However, the documents contain only strategy; an integrated implementation program covering three-year aid activities of all grant and loan programs per country has yet to be prepared and included in each of the strategy document. Moreover, the linkage between this country partnership strategy document and the Annual Aid Implementation Program as well as the annual budget proposal should be established and strengthened over time.

Although clear policies and criteria for selecting aid recipient countries and allocating aid have not been announced yet, grant/loan coordination in allocating aid by recipient countries' per capita income and region has substantially improved during the 2008-10 period. Contrary to the earlier period of 2005-07, grant aid tends to focus on the least developed or lower income countries, while loan aid focuses more on middle income countries. However, a coordination challenge still remains in allocating aid by country and sector. The challenge of clarifying the criteria for division of labor or specialization by sector at each recipient country level still remains between grant and loan aid agencies, in particular among more than thirty grant aid agencies. Moreover, Korea still tries to spread a small amount of total aid too thinly across some 130 developing countries. The total number of recipient countries may not be easily reduced. However, the major aid agencies like KOICA and EDCF should concentrate mainly on delivering aid to priority and ordinary recipient countries, and aid for the rest of the countries should be relegated to other numerous public aid agencies and private sector aid agencies like corporations and NGOs. Even for the priority and ordinary recipient countries, a challenge remains in reflecting the "Busan Partnership for Effective Development Cooperation" with other public aid agencies and the private sector organizations (OECD 2011).

To estimate the actual criteria for selecting recipient countries and allocating aid, an econometric analysis was conducted with an improved estimation model and the most recently available data. Although Korea's aid allocation does not quite reach the level of other DAC member states, the country has made progress toward selective (or modernized) aid allocation. Since 2008, it has allocated more aid to countries with lower per-capita income, greater needs for human development, a larger number of poor people, and a more effective government. However, Korea has not taken into account policies and political institutions, such as the promotion of civil rights/participation, and national economic interests simultaneously.

The Five-Year Aid Plan (2011-15) emphasizes the need to tackle these remaining issues and challenges, but does not provide specific policies or programs. The Committee on

International Development Cooperation and monitoring agencies, such as the MOFAT and MOSF, should show leadership and work harder with other stakeholders to fill that void.

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Variable	Source	URL
ODA- DAC member	OECD	http://stats.oecd.org/index.aspx?r=427326
ODA- Korea	KOICA	http://stat.koica.go.kr:8077/komis/jsptemp/ps/stat_index.jsp
GDP Deflator	World Bank	http://databank.worldbank.org/ddp/home.do?Step=2&id=4&DisplayAggregation=N&SdmxSupported=Y&CNO=2&SET_BRANDING=YES
GDP per capita	World Bank	http://databank.worldbank.org/ddp/home.do?Step=2&id=4&DisplayAggregation=N&SdmxSupported=Y&CNO=2&SET_BRANDING=YES
Infant Mortality	World Bank	http://databank.worldbank.org/ddp/home.do?Step=2&id=4&DisplayAggregation=N&SdmxSupported=Y&CNO=2&SET_BRANDING=YES
Civil Liberty & Political Rights	Freedom House	http://www.freedomhouse.org/templatecfm?page=25&year=2010
Govt. Effectiveness	World Bank	http://databank.worldbank.org/ddp/home.do?Step=2&id=4&DisplayAggregation=N&SdmxSupported=N&CNO=1181&SET_BRANDING=YES
Population	World Bank	http://databank.worldbank.org/ddp/home.do?Step=2&id=4&DisplayAggregation=N&SdmxSupported=Y&CNO=2&SET_BRANDING=YES
Export to the Donor	UNCTAD	http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx
Import from the Donor	UNCTAD	http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx
FDI from the Donor	OECD	http://stats.oecd.org/index.aspx?r=427326
FDI from Korea	Korea Eximbank	http://odisis.koreaexim.go.kr/fv/fvweb/login.jsp

Dependent Variable: Aid Amount (\$ in constant 2005 price)	DAC Members (2005-09)	KOICA+EDCF (2008-10)	KOICA+ EDCF (2005-07)
Recipient Fixed Effects	Y	Y	Y
Time Dummy	Y	Y	Y
Donor Dummy	Y	Y	Y
Common Intercept	57.81821* (18.80)	52.67486* (3.07)	2.683334 (0.88)
Real GDP per capita	-1.812406* (-5.13)	0.027868* (-24.71)	(dropped)
Real GDP per capita squared	0.0775636* (4.70)	1.29E-06* (34.96)	-1.14E-06* (-52.96)
Infant Mortality	-0.0593616 (-0.47)	0.2771697* (5.09)	0.0318128 (0.77)
Infant Mortality squared	-0.001732* (-2.21)	-0.002664* (-5.17)	-0.000306 (-1.04)
Civil Liberty & Political Rights	-0.490909* (-3.12)	0.0021943 (0.09)	0.2347748* (3.8)
Govt. Effectiveness	-1.984915* (-2.89)	1.597834* (2.51)	0.0871865 (0.38)
Population	0.3969686* (2.89)	0.0011204* (31.25)	(dropped)
Population squared	-0.000157 (-1.79)	-2.94E-10*(-30.71)	1.33E-12* (6.20)
Real Export to the Donor	4.32E-07*(2.45)	2.14E-07 (1.23)	-3.71E-07 (-1.79)
Real Export to the Donor Squared	-3.90E-15* (-5.20)	5.81E-15 (0.57)	1.03E-14 (0.43)
Real Import from the Donor	1.30E-06* (4.20)	-3.54E-08 (-0.2)	4.62E-07 (1.85)
Real Import from the Donor wSquared	3.77E-14* (2.46)	-1.28E-15 (-0.93)	-3.55E-14 (-1.26)
Real FDI from the Donor	0.0015829 (1.88)	7.94E-07 (0.19)	9.70E-07 (0.35)
Real FDI from the Donor Squared	-5.84E-09 (-0.03)	-8.64E-13 (-0.24)	2.22E-12* (2.29)
No. of Observations	5,540	336	366
Overall Specification Test	Wald chi ² (170)=30882 Prob>chi ² =0	Wald chi ² (124)=58859.21 Prob>chi ² =0	Wald chi ² (131)=6000.33 Prob>chi ² =0