



# KOREA'S ROLE IN ECONOMIC DEVELOPMENT

## THE SECRET SUCCESS OF U.S. AID TO SOUTH KOREA

*By Andrew S. Natsios*

In the 1950s South Korea was one of the poorest countries in the world, and yet today it is one of the richest with the 13th largest economy and a functioning parliamentary democracy. Between 1961 and 1979 per capita income rose eight fold, and its economic growth rate exceeded 1400 percent. How did this economic miracle take place? What role did the United States aid program play in this transformation?

In the 1950s the Korean people were hungry, impoverished, and in poor health. The U.S. aid program imported massive amounts of food aid to feed the population, but focused on increasing agricultural development to produce food for Japanese markets. Dr. Syngman Rhee, President of the Republic of Korea between 1948 and 1961, also pursued a policy of import substitution based on what is called dependency theory. Under this theory the government created (and still continue to own) local businesses that produced products for domestic consumption to reduce the need for imports. This approach has consistently failed to produce sustained rates of growth in nearly every country it has been attempted, including in South Korea in the 1950s. Typically, the government-run businesses created by import substitution become inefficient monopolies that try to protect their exclusive control over domestic markets, avoid risk, innovation, and improvements in productivity. Thus import substitution policies impeded rather than increased economic growth.

General Park Chung-hee's assumption of the presidency in 1961 coincided with the arrival of a new USAID mission director (Bernstein) who proposed to Park that Korea shift focus from producing agricultural to industrial products for export. This appealed to Park who adopted the strategy and approached the effort as a military commander. He held regular staff meetings of his cabinet and business leaders at which he demanded accountability and results, established market-based export quotas of industrial goods the business community had to meet based on market demand, and created heavy incentives for those businesses which met the goals, and withdrew incentives when businesses failed to meet them. The industrialization effort was done through what were called the chaebol business elite who Park had earlier put in jail for corruption, but later released to lead his export-led growth strategy.

The Park strategy was part Korean and part American, and was partly based on a book called the Stages of Economic Growth by Walter Rostow, which had just come out on development economics. The author was a senior advisor to both President Kennedy and later President Johnson. Rostow argued that foreign aid could be used to accelerate growth at certain stages of economic development in poor countries using economists and other technocrats to guide the implementation. USAID provided both the funding and the economists to the South Korean government. Michael Pillsbury is currently writing an important new book, based on recently declassified CIA cables, called *The Secret Successes of USAID* which describes the aggressive nature of U.S. efforts in Korea to ensure that the growth strategy was successful. At times Park complained to the CIA that these USAID economists were running the country—though he continued to support the recommended policies.

The Korean economic model did not enjoy universal support among development professionals even as late as the 1970s when some questioned whether this was the right strategy. It was not until the 1980s that it became indisputably obvious that the Park strategy was a remarkable success.

What lessons can we draw from the Korean experience? Firstly, growth strategies required a long time horizon—two decades. It could not produce immediate, visible, and quantifiable results which policy makers in Washington often demand of aid programs. In fact none of the Asian economic success stories—Taiwan, Hong Kong, Singapore, Thailand, China, or South Korea—produced quick results.

Secondly, to be successful the strategy required President Park's strong and aggressive support over the entire period—without local leadership the strategy would have failed. This also meant donors—in this case the United States—had to provide consistent support for the strategy over a long period of time. The U.S. economic aid program was not phased out until 1982. Without country leadership the strategy would have failed.

Thirdly, the strategy would not have succeeded if there had been a civil war or widespread political instability in South Korea because “capital is a coward” as Colin Powell has often said. Investors avoid putting private capital at risk in an unstable country with an internal conflict raging.

Fourthly, the fear of a looming North Korea on the other side of the border with the South backed by the Communist Chinese and Soviet governments motivated President Park and the South Korean political and economic elite to make their strategy work. They took risks, avoided using aid money to reward friends and loyal supporters with unproductive government jobs and crony protection schemes (a problem in many developing countries), and avoided making unproductive

but politically popular economic investments. The abiding external threat over two decades created the motivation for leaders to ensure the strategy worked.

What worked in South Korea is not necessarily a model for every country. Each country has its own unique set of local challenges, its own historical narrative, and its culture and values which influence its development trajectory. But the Korean growth strategy, which the U.S. government aid program, according to the CIA declassified cables, played a major role in helping the South Korean government formulate and implement, produced the jobs and prosperity that created a South Korean middle class which later demanded political reform, democracy, and free institutions. Those skeptics who argue that foreign aid does not work should examine the shining example of South Korea. Other developing countries could benefit from learning how South Korea achieved its economic and political miracle.

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# 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

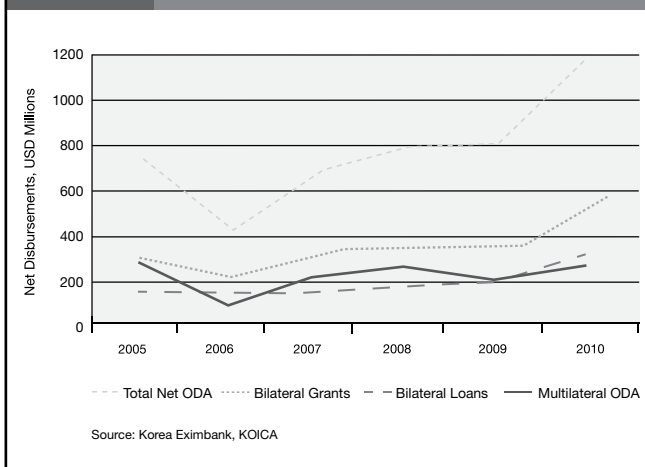
2012 marks a special year for Korea's official development assistance (ODA). A year after Korea hosted the Busan International Conference on Aid Effectiveness (HLF-4) in 2011, the country's aid is to be evaluated by the Organization for Economic Cooperation and Development (OECD) peer review team for 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
<b>Total</b>	<b>225</b>	<b>100.0</b>	<b>165.0</b>	<b>100.0</b>	<b>390</b>	<b>100.0</b>	<b>106,680</b>	<b>100.0</b>

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

<b>Dependent Variable: Aid Amount (\$ in constant 2005 price)</b>	<b>DAC Members (2005-09)</b>	<b>KOICA+EDCF (2008-10)</b>	<b>KOICA+ EDCF (2005-07)</b>
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 <sup>2</sup> (170)=30882 Prob>chi <sup>2</sup> =0	Wald chi <sup>2</sup> (124)=58859.21 Prob>chi <sup>2</sup> =0	Wald chi <sup>2</sup> (131)=6000.33 Prob>chi <sup>2</sup> =0







# **KOREA'S ROLE AND THE ACHIEVEMENTS OF THE FOURTH HIGH LEVEL FORUM ON AID EFFECTIVENESS IN BUSAN**

*By Enna Park*

## **Abstract**

On 29 November 2011, over 3,000 participants gathered in the bustling city of Busan to seek a new consensus on aid and development. The Busan Forum on Aid Effectiveness (HLF-4) represents a turning point in global development by shifting the paradigm from aid to development effectiveness and forging a new global partnership for development. The promise of the Busan Partnership will be met when the political momentum and active participation by all development stakeholders continue.

## Background

Three years ago, in March 2009, the decision was made in Paris that Korea would host the last High Level Forum on Aid Effectiveness (HLF-4) with the unanimous support of all the members of the Working Party on Aid Effectiveness (WP-EFF). Korea's hosting the global development event holds special meaning in the history of development cooperation.

Despite the remarkable economic progress in emerging and developing countries, poverty remains a global challenge. In addition, recurring global crises such as climate change, food insecurity, and financial instability have posed a great threat to both developed and developing countries.

The donor community has made significant efforts in terms of expanding the assistance to developing countries through Official Development Assistance (ODA) and enhancing the quality of aid with a series of OECD-led high level forums on aid effectiveness starting in Rome in 2003. Yet, the results of development cooperation have been not fully satisfactory.

With the target year of the Millennium Development Goals (MDGs) approaching in less than four years, the Busan Forum was uniquely positioned to take stock of progress and challenges in the past and to define new directions in development cooperation. In this context, Korea, as an exemplary case of showcasing the power of effective aid, offered an inspiring setting to discuss aid effectiveness and to look beyond the horizon of aid toward effective development cooperation.

## Lessons Learned

Five years of implementing the Paris Declaration and a global reflection on the changing development landscape have left invaluable lessons, putting the Busan Forum in a different context from previous forums.

As evidenced in the three-time monitoring surveys and independent evaluations, aid effectiveness matters for development results. Yet, political will, especially from the donor, is critical to bring further progress. The call for moving from the process-oriented, technical talks to more focus on sustainable development results has been increasing throughout the years.

At the same time, the global community needs to adapt to a series of changes in the global development landscape. While North-South cooperation remains the mainstream of development cooperation, developing countries are increasingly becoming vital sources of trade, investment, knowledge, and development cooperation. Moreover, NGOs, global programs, private funds and businesses are actively engaging in development, providing innovative thinking and approaches to development. The diversity of development players and the expansion of development resources beyond aid are reshaping the global development architecture. This means

that the development agenda set and led by donor countries alone will no longer be relevant and effective. This change calls for more inclusive development partnership.

In addition, as an Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) Chair previously noted, the global development community is now moving from “a transactional aid relationship” to a “transformational development relationship.” Aid is an important, but limited, resource for development. It is time to deepen the understanding of development in a broader context. As development is increasingly intertwined with other policy issues—such as trade, investment, the environment, security, etc.—promoting greater coherence among these policies is essential to producing better development results.

## Key Achievements in Busan

Against this backdrop, the Busan Forum marked a turning point in development cooperation by making an important step forward in several ways.

### Political Discussion on Aid and Development

The Busan Forum brought together the broadest range of stakeholders in development. Several heads of states, over 100 ministers from 160 countries, 30 heads of international organizations, around 90 parliamentarians, 300 partners from civil society organizations, and more than 100 representatives from the private sector and academia attended the meeting.

Most notably, there were high-profile political leaders in Busan including President Lee Myung-bak, President Paul Kagame of Rwanda, Prime Minister Meles Zenawi of Ethiopia, Secretary of State Hillary Clinton, UN Secretary General Ban Ki-Moon, and OECD Secretary General Angé Gurría.

The unprecedented high level of participation reflected the gravity of responsibility and enthusiasm for the work they are undertaking in Busan. All development actors represented in Busan were tasked with responding to the increasing call for more effectiveness, accountability and, most importantly, results of their efforts.

### Truly Multi-Stakeholder Partnership: Busan's Contribution to MDG 8

Unlike previous forums, the Busan Forum was attended by a large number of diverse development actors beyond governments and international organizations. With Korea's leadership, several multi-stakeholders events were organized including the Parliamentarian Forum, the Private Sector Forum, and the Youth Forum. Also, prior to the main event, the Civil Society Forum was organized with over 500 participants.

The Busan Forum recognized these development actors as true partners in development and facilitated their substantive

contributions to the Busan agenda and the outcome document, contributing to realizing the MDG goal of global partnership for development.

### **From Aid to Development Effectiveness**

It was well noted that there was much “unfinished business” in the aid effectiveness journey as only one of thirteen indicators of the Paris Declaration had been met. In response, the participants in Busan agreed to keep the promise on aid effectiveness by renewing core commitments including transparency, predictability, accountability and agreeing to monitor progress.

However, deepening the aid effectiveness agenda would not suffice to promote sustainable growth and development, and to respond to the rapidly changing world. To make development happen and enhance the impact of cooperation, there is a need to take a broader approach to development. Some critics argued that Busan was facing the risk of being “a lowest-common denominator without bite or focus by becoming more general and inclusive” and diluting the level of commitment by donors. However, sticking to the previous aid effectiveness agenda would make Busan even less significant.

To large extent, Korea’s vision for development effectiveness was largely based on its own development experience. And it was well supported by African countries through the Tunis Consensus. Aid should be used as a catalyst to leverage other development financing including trade, private investment, and domestic resources. By doing so, it can create the enabling environment to realize the country’s own potential for growth and development.

### **OECD-UN Joint Partnership**

Another initiative proposed by Korea was to forge more systematic cooperation among global development fora, calling for a synergic partnership between the OECD and the United Nations (UN) for the first time in the history of global development cooperation. This proposal was well received by the participants and incorporated into the outcome document.

Departing from the previous process led by donor countries, the Busan Forum demonstrated that developing countries can and should take the lead in setting the development agenda. The participants also recognized the role of the UN in enhancing effective development cooperation and invited the United Nations Development Programme (UNDP) along with the OECD to work together in supporting the effective functioning of the Busan Partnership. Given the UN’s universal convening power and the UNDP’s field presence in developing countries, inviting the UNDP as a core partner is expected to provide greater legitimacy and political clout to the new partnership.

## **Issues and Breakthroughs**

The outcome document, Busan Partnership for Effective Development Cooperation, was the result of an inclusive year-long process of consultation with a broad range of governmental, civil society, and private actors in development.

A small group of sherpas representing each constituency were responsible for negotiating the document. Like any other international negotiation processes, the Busan outcome document was finalized after a great deal of political nudge and compromise. Korea, as host country, played brokering roles and exerted diplomatic leadership to bridge the gap of differences and bring key issues into the consensus.

### **South-South Cooperation Providers**

The Busan Forum marked a significant progress in engaging South-South cooperation partners by recognizing their complementary roles and creating a space for them under the principle of “common but differential commitments” and “voluntary participation” in the partnership.

The outcome’s second paragraph clearly states, “The principles, commitments and actions agreed in the outcome document in Busan shall be the reference for South-South partners on a voluntary basis.”

Arguably, the paragraph lessened the overall ambition of Busan commitments. However, it is neither legitimate nor realistic to apply the same standards to South-South Cooperation providers as traditional donors. South-South partners have a relatively short history of development cooperation as providers. Also, they remain developing countries and face poverty at home. As the Mexican sherpa articulately explained during the negotiation, the engagement of South-South cooperation partners should be approached with a progressive manner. The so-called “twin-track” deal, thus, was an optimal option grounded on the careful political calibration of changing realities.

### **Korea’s Gender Initiative**

Korea’s proposal to include gender equality in the Busan agenda was not enthusiastically received at the initial stage. However, Korea, in close cooperation with the United States, the UN Women, and the GENDERNET, successfully placed the issue high on the effectiveness agenda.

The political support rendered by the UN Women and Secretary of State Clinton was also instrumental to highlighting the significance of gender equality and women’s empowerment for development effectiveness. As a result, a special session on Gender Equality was organized as the main event of the Busan Forum and a Joint Action Plan for Gender Equality and Development was adopted. More than twenty countries and organizations rendered support to this voluntary action plan.

## **The Role of Private Sector**

Another notable aspect of Busan was the active involvement of the private sector. For the first time, over 100 representatives from the private sector participated in the Busan Forum as full members of the broader effectiveness partnership, including large and small firms from both developed and developing countries.

Korea was among the leaders like the United States to advocate the role of private sector in development. A strong private sector and well-functioning market has been the key driver of poverty reduction, job creation, and sustainable growth in Korea. However, the private sector's contribution should not be confined to funding only, but involve market-driven technical input as well as training and capacity building. For this, a model where a profit objective meets with a development objective should be adequately explored.

The notion that development and the emergence of new markets can benefit the business's long-term profits was addressed in A Joint Statement on Expanding and Enhancing Public and Private Co-operation for Broad-based, Inclusive and Sustainable Growth at the Private Sector Forum. This statement was endorsed for the first time by both representatives from the public and the private sector in Busan.

## **Effective Institutions**

Effective institutions are important to deliver development results in a sustainable and holistic manner. This issue was broadly recognized at the Busan Forum where thirty organizations and countries endorsed a New Consensus on Effective Institutions.

Strengthening effective institutions covers the issues beyond the existing work on the use of country system and procurement, and addresses the importance of political economy of reform, capacity building, and institutional changes.

## **Busan Follow-up**

The outcome document has left the details of the Busan Partnership to be determined after the Busan Forum. The mandate of the Working Party on Aid Effectiveness has been extended to prepare for this transition period. Making maximum use of the existing group of sherpas who successfully negotiated the Busan outcome document, the members of the Working Party agreed to form a Post-Busan Interim Group (PBIG) to prepare detailed transition plans and lead consultative processes. The members of the PBIG have been extended from the existing sherpas to ensure a broader inclusiveness of stakeholders. After broad consultations, the final proposals of the working arrangements and the global monitoring framework of the Busan Partnership will be submitted to the last Working Party on Aid Effectiveness meeting in June for endorsement.

## **Closing**

Busan represents the high aspirations of the global development community for effective development cooperation. The impact of the new Global Partnership largely depends on support by all development stakeholders. In particular, the voluntary and proactive participation of emerging economies is essential to drive the new global partnership forward. Building trust through policy dialogues and knowledge sharing should be the starting point to work with the new partners. However daunting a task this may be, the Busan Forum demonstrated that with right spirit and strong political will, progress can be made. The Republic of Korea will remain fully committed to working closely with the global community to make the Busan spirit alive throughout the progressive transformation of the new global partnership.

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# KOREAN PUBLIC OPINION ABOUT DEVELOPMENT AID

*By Kwon Yul and Park Sukyung*

## **Abstract**

Since joining the OECD Development Assistance Committee (DAC) in 2009, Korea as a new donor has been actively carrying out reforms to improve its development aid system. This article provides recent trends of public opinion in Korea on issues of aid and development cooperation by presenting the survey results. It introduces the background of past opinion polls and presents public attitudes and perceptions in Korea on foreign aid. It identifies the level of public support, awareness, motives for aid giving, priorities in development aid, as well as the assessment of the contribution of Korea's official development assistance (ODA). Finally, it examines how the Korean government could respond to challenges to improve the effectiveness of development cooperation and to convince its citizenry to pursue its ambitious aid policy.

## Introduction

Korea's history as an official donor country and an OECD DAC member is short, but this new donor country has been proactive in setting a foundation for development cooperation since its accession to the DAC in November 2009. Followed by the first ODA reform plan in November 2005, the International Development Cooperation Act was enacted in early 2010 and the ODA Advancement Plan was also prepared in October 2010.

Despite the achievements and progress it made, Korea still has a long way to go in order to improve the quantity and quality of its aid. Korea pledged to the international development community to expand its aid volume to achieve an ODA/GNI ratio of 0.25 percent by 2015, which requires doubling of the current level of ODA budget. Besides this challenge, Korea has been facing several aid effectiveness issues such as fragmentation in aid implementation, a bifurcated aid delivery system and lack of coordination.

As Korea is scheduled to have its first official DAC peer review in 2012, it would be timely and meaningful to review the achievements of and changes in Korea's development cooperation for the past two years since its accession to DAC through the eyes of the Korean public. As the discussion on the reform of aid policy and management system is ongoing, Korea needs to closely monitor how the public's perception of global development, poverty issues and international development cooperation policies has been shaped.

This paper reviews how Korean citizens perceive the relatively new issue of development cooperation and how the Korean government could pursue its policy objectives based on public awareness and opinion. Particularly, it analyzes the level of public support, awareness, preference and participation about foreign aid in Korea to see how it has evolved over time and how

it relates to Korea's ODA policy and practice. Furthermore, we will also make comparisons with other countries' public survey results where relevant to find out unique or common characteristics of Korean public opinion in a broader context.

## Trends in Public Opinion on Development Aid in Korea

### Background of Surveys on Development Aid in Korea

Facing a downturn in the level of ODA spending after the Asian financial crisis in the late 1990s, public surveys on foreign aid in Korea began. The first survey was initiated by KOICA in 1999 and MOFAT<sup>1</sup> conducted another survey in 2002 for the targeted group of 'opinion leaders' who are more engaged in ODA policy, in addition to the general public. In 2003, *Dong-A Daily*, one of the major newspapers in Korea, launched a joint survey with KOICA. The earlier surveys were designed mainly for the purpose of public relations about ODA. The questions focused on the level of attention on ODA, and the awareness on Korean government's ODA and its implementing agencies.

As its ODA level began to increase noticeably from \$423.3 million in 2004 to \$752.3 million in 2005, securing public support for the expansion of ODA was posited as one of the Korean government's policy priorities. In this regard, the Korea Information Agency conducted a survey in 2005 and MOFAT also initiated surveys in 2008 and 2010 respectively. These surveys added questions closely related to decision-making issues such as opinions about the expansion of ODA volume, priority regions and sectors to provide assistance, and ODA's contribution to poverty reduction or national interest.

This section of the paper presents the result of the most recent public survey on development cooperation conducted in 2011 by Gallup Korea on behalf of the Korea Institute for International Economic Policy (KIEP) through a face-to-face survey involving 1,000 respondents. The detailed demographic char-

### Box 1

#### Demographic Characteristics of KIEP Survey 2011

\* Total number of respondents: 1,000 (100%)

\* Gender | male (49.3%), female (50.7%)

\* Age | 19-29 (18.9%), 30-39 (21.0%), 40-49 (21.9%), 50-59 (18.4%), 60 and above (19.8%)

\* Region | Seoul (21.2%), Busan (7.4%), Daegu (5.0%), Incheon (5.5%), Gwangju (2.7%), Daejeon (2.9%), Ulsan (2.1%), Gyunggi (22.7%), Gangwon (3.0%), Chungbuk (3.1%), Chungnam (4.1%), Jeonbuk (3.7%), Jeonnam (3.8%), Gyungbuk (5.4%), Geyungnam (6.4%), Jeju (1.0%)

\* Occupation | self-employed (19.8%), blue collar (24.6%), white collar (26.1%), housewife (19.5%), students (6.5%), others (3.5%)

\* Level of education | below primary school (6.3%), junior-high (9.0%), high school (38.7%), college/university (43.5%), graduate school (2.4%)

\* Level of monthly household income (KRW) | below 1 million (2.9%), 1-2 million (14.0%), 2-3 million (26.9%), 3-4 million (28.0%), 4-5 million (12.4%), above 5 million (15.2%)

acteristics of the respondents in this survey are summarized in Box 1. The composition of respondents by gender was 50 percent each for male and female. The age group was divided into five categories of 19-29, 30-39, 40-49, 50-59 and above 60 and the ratio in each group was set at approximately 20 percent. In terms of region, the survey followed the administrative district of the country and the number of sample was proportionately distributed according to the regional population; Seoul and Gyunggi area had the largest number of respondents over 20 percent each and the rest of the 14 regions had 1.0 to 7.4 percent of respondents depending on the size of the regional population.

The survey questions include various aspects of foreign aid such as motives for aid giving, level of support for aid, priorities in aid policy, effectiveness of aid as well as access to relevant information. It also reviewed the results of past surveys conducted in Korea as well as in other donor countries such as the EU<sup>2</sup> to gain a more comprehensive understanding of the Korean public's opinion on aid within various time series and country context.

Comparing the results with the previous surveys, three data sets are reviewed to compare the trend of public perceptions and attitudes toward foreign aid in Korea.<sup>3</sup> Additionally, the survey results of other donor countries will be introduced to compare the similarities and differences vis-à-vis Korea despite limitations imposed on the direct comparison among donor countries due to variations in the design, methodology and the respondent sample of each survey limit.

The following section introduces the level of support and awareness of the Korean public in general. More specific

responses to various policy related issues such as motivation of aid, volume of aid, priority regions and areas as well as the assessment of aid effectiveness will be presented in the next part of the paper with corresponding policy initiatives and changes in Korea.

### Public Support

The Korean public appears highly supportive of ODA as more than 90 percent of respondents strongly acknowledged the importance of development aid. The support level increased by more than 30 percent compared to the 2005 survey. This level of support in Korea is on par with the ones of other donors such as Sweden (93 percent), Denmark (92 percent), Ireland (92 percent) or EU (90 percent) according to the 2010 survey. Given that two thirds of (62.7 percent) of people in the 2011 survey still regard Korea as a developing country, it is interesting to know that the recognition of national status did not much affect the level of support for foreign aid.

While Koreans are largely supportive of development aid, survey results indicate that they tend to be less enthusiastic when it comes to scaling up the aid volume. Though Koreans are more generous than before regarding the level of aid, the majority still prefer to preserve the status quo. Such limited support for the expansion of the ODA budget despite the higher level of support for the principle of development assistance could be best explained by the concerns over the current state of the economy, according to previous survey results. Particularly, among those who are opposed to the provision of aid, the majority (70.7 percent) of respondents were concerned with the country's economic

**Table 1** Overview of Public Surveys on Foreign Aid in Korea

	Korea Information Agency	MOFAT	MOFAT	KIEP
Target group (age)	20+ years	19+ years	20+ years	20+ years
Sample size	1,000	500	1,002	1,000
Sampling method	proportional sampling	proportional sampling	proportional stratified / systematic sampling	multi-stage stratified random sampling
Survey mode	Telephone	Face to face	Telephone	Face to face
Duration of survey	2005.8	2008.8	2010.10	2011.15
Number of questions	12	25	12	22
Sampling error	±3.1%p (95% C.L.)	±4.38%p (95% C.L.)	±3.8%p (95% C.L.)	±3.1%p (95% C.L.)
Survey agency	TNS	Gallup	InfoMaster	Gallup

MOFAT: Ministry of Foreign Affairs and Trade; KIEP: Korea Institute for International Economic Policy; C.L: Confidence Level; this table only list surveys conducted after 2005.

**Table 2** Public Attitude Toward the Volume of Aid (as a %)

	2008	2011	Change
Too big	33.6	26.7	-6.9
Too small	13.6	10.0	+3.6
Adequate	44.0	63.3	+19.3

Source: MOFAT (2008), KIEP (2011)

situation and this is consistent with the 2005 survey result that showed two thirds of people think that “Korea is not rich enough to provide aid.”

**Public Awareness**

Almost half of the Korean public is aware that the Korean government is providing aid. This ratio has been constantly increasing; from 37 percent in 2005 to about 50 percent in 2008 and 2011. According to socio-demographic analysis, the younger generation in their 20s showed the lowest level of awareness. Similar to the case of support level, better-educated respondents knew more about the fact that Korea is providing aid to developing countries.

In terms of awareness of global development agenda items, such as MDGs (Millennium Development Goals), more than half (59.1 percent) have “never heard of” MDGs. The relatively low level of awareness of global agendas has remained largely unchanged in comparison with a previous survey in 2008. Interestingly, those who “have heard of it without knowing in detail” represent almost a third of the respondents. This group would be the priority target of

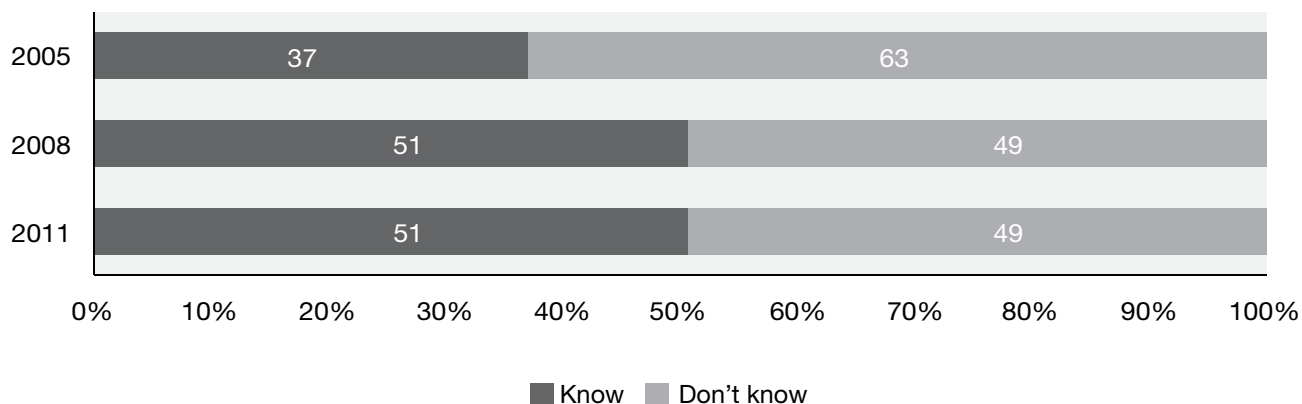
development education to boost the level of interest and awareness on foreign aid in the future. Analysis of the demographic determinants of public opinion shows that the younger generation in their 20s was, again, the least informed about MDGs.

There was correlation between the level of support and awareness. Those who know better about MDGs tend to strongly support foreign aid. Out of those respondents who are well aware of MDGs, 42.6 percent “strongly support” and another 54.1 percent “support” development aid. This group is more enthusiastic about the expansion of ODA budgets, as almost one third of the respondents think that Korea should increase its ODA above the committed level. This result confirms the previous research outcomes that no effective action is taken without sufficient prior awareness.<sup>4</sup>

**Motives of Aid Giving**

The unique characteristic of Korea as a former-recipient-to-donor inevitably influences its motivation for aid giving. In 2011, 13.4 percent of people think that “Korea should give aid to give back what it had received from other countries”

**Figure 1** Level of Awareness on Korea’s ODA Provision



Note: “know” includes both “know very well” and “know.” “Don’t know” includes both “have heard of it without knowing in detail” and “don’t know at all.”

**Table 3**

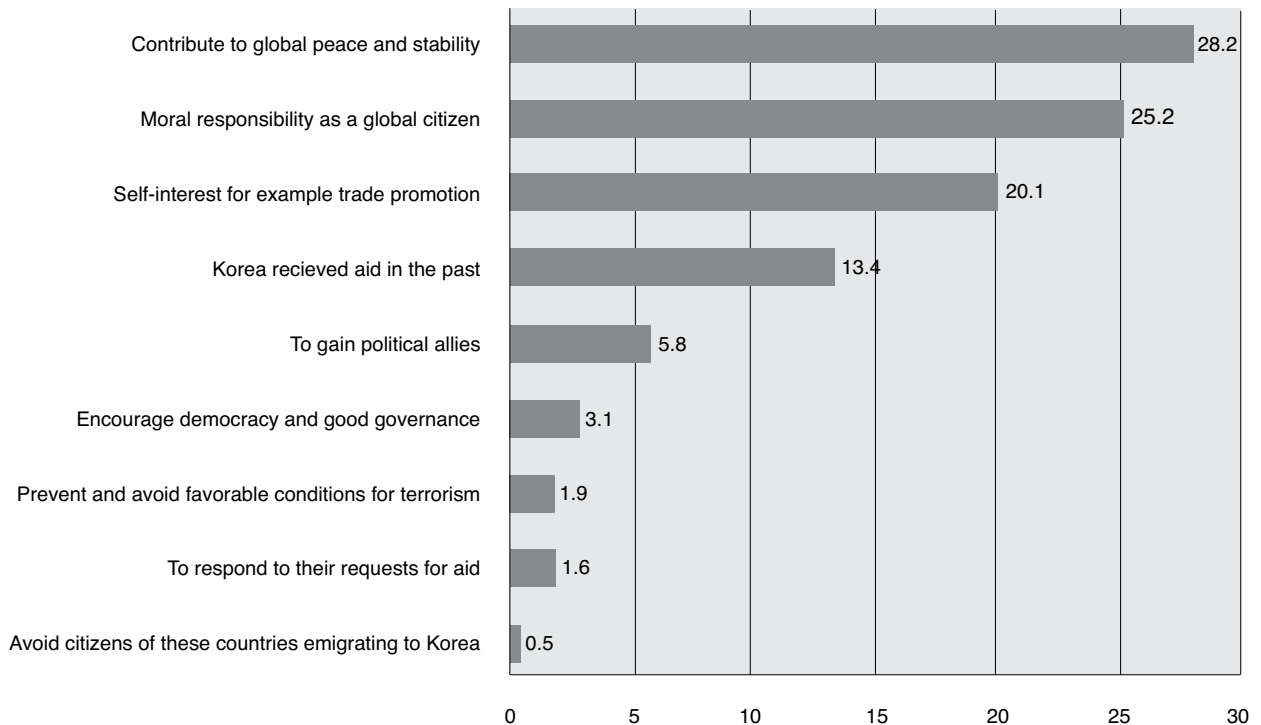
Correlation Between the Level of Awareness and Support (as a %)

		Awareness about MDGs					
		Know very well		Heard about it without knowing in detail		Never heard of it	
Support for foreign aid	Strongly support Support Oppose Strongly oppose	42.6	96.7	17.2	94.2	12.7	85.1
		54.1		77.0		72.4	
		3.3	4.9	5.8	13.0		
		-	0.9		1.9	14.9	
Current ODA volume	Too large Too little Adequate	19.7		21.6		30.5	
		11.5		10.6		9.5	
		68.9		67.8		60.1	
Expansion of ODA volume	More commitment needed Maintain commitment level Don't expand Reduce the volume	29.5		17.8		15.4	
		54.1		58.0		54.7	
		9.8		12.9		16.8	
		6.6		10.9		12.7	

Source: KIEP (2011)

**Figure 2**

Motives of Aid: Why Should Korea Give Aid to Developing Countries? (as a %)



Source: KIEP (2011)

according to the survey by KIEP. This tendency is also found in the 2008 survey, where the response ratio was higher, at 30 percent. Among other donor countries, Poland shows similar survey results regarding motives for giving aid. Almost half of the people in Poland think that it is their turn to help poor people since they benefitted from foreign aid from affluent countries; the ratio for this response rose to 50 percent from 33 percent in 2004.<sup>5</sup>

Aside from this particular consideration for Korea's past international status as an aid recipient, the Korean public seems to be driven more by humanitarian and egalitarian reasons. According to a 2011 survey, almost a third of the respondents replied that Korea should give aid to "contribute to global peace and stability" (28.2 percent), followed by "moral responsibility as a global citizen" (25.2 percent). The percentage of those who defend the aid for reasons of economic and self-interest was relatively low, at 20.1 percent.

Looking at examples from other donor countries, a 2009 EU survey shows that two out of three Europeans responded with reasons based on self-interest for giving aid (64 percent), namely to facilitate trade, to deter terrorism, to prevent migration and maintain positive political relations with developing countries. This tendency is particularly strong in Greece, France and Belgium.

The motive for giving aid also differs by age and level of education. Respondents over the age of 60 who have had direct experience as aid recipients in their lifetime tend to find the reasons of aid giving based on their personal events. A large number of better-educated respondents regard moral responsibility as the foremost reason for giving aid (41.8 percent) while a less-educated group tends to define Korea's past experience as a recipient country as the primary motivational factor.

The International Development Cooperation Act enacted in 2010 specifies the objectives of Korea's ODA as follows: "to reduce poverty and enhance sustainable development in developing countries based on humanitarianism; to promote economic cooperation with partner countries and to pursue global peace and prosperity."<sup>6</sup> The debate over what the motive for foreign aid should be is not new and Korea is not the only country that has had difficulty answering the question.

It is natural for Korea as a new donor to struggle to define its aid philosophy and ethics among contending norms and values. In Korea, what the objective of aid should be has been long debated. Should ODA proceed primarily for economic and humanitarian reasons, or should national interest play a part as well? Korea's strong inclination to assimilate into the group of traditional donors who are often referred to as advanced donors by the Korean government strongly implies to what direction the country is headed.<sup>7</sup> This sentiment is also emulated

in Korea's aid philosophy and the de jure principle of Korean aid leans towards international values.

### Priorities

According to 2011 survey results, almost 40 percent of Korean people consider sub-Saharan Africa as the most important destination for Korean aid while attention to Asia also remained strong as a substantial percentage of respondents stated Southeast Asia (33.8 percent) and South Asia (14.9 percent) as next in the list of priorities. The growing interest in Africa as a destination for ODA was also observed in the 2005 survey; almost half of respondents indicate Africa as the priority region followed by Asia-Pacific (24.4 percent).<sup>8</sup>

The share of Asian countries among Korea's top ten recipients such as Vietnam, Bangladesh, Sri Lanka and Mongolia is notable, representing 65.2 percent of total bilateral aid. But the figure has tended to fluctuate wildly; it reached 72.6 percent in 2001, down to 52.2 percent in 2008, decreased further to 38.5 percent in 2009, until soaring again in 2010. While maintaining a strong regional focus on Asia, Korea tries to balance its regional ODA allocation by providing more aid to Africa; the amount of aid going to the region more than tripled from \$39.1 million in 2001 to \$134.9 million in 2010. Sub-Saharan countries received most of the aid; top recipients in Africa include Tanzania (\$21.46 million), Angola (18.83), Senegal (14.85) and Ethiopia (10.2) in 2010.

The expansion of focus on Africa is partly reflected in some of the high-level initiatives such as President Lee Myung-bak's recent visit to African countries (Ethiopia and DR Congo) in July 2011, and also the 2006 visit of the late President Roh Moo-hyun to Egypt, Nigeria and Algeria. During Roh's visit to Africa, he announced the Initiative for Development in Africa and pledged to increase the ODA level for Africa by three-fold by 2008 and expand cooperation through sharing of development knowledge and increasing the number of volunteers and medical teams to Africa.

For priority sectors, the 2011 survey results show that the majority of Koreans think Korea can most effectively provide assistance in social and economic infrastructure and services such as health, education, transport or energy. Actually, Korea provided a total of \$1,279.01 million in these sectors, which is 88.1 percent of total bilateral ODA in 2009. Beside these sectors, agricultural development was regarded as the potential sector that Korea can help out effectively: 24.5 percent of respondents think Korea has a competitive edge in agricultural development and this reaction stands out among respondents in their 50s and 60s, with less education or lower income.

By sector, social and economic infrastructure and services have traditionally received the largest portion amounting



to approximately 60 to 80 percentage of total bilateral ODA and it has increased significantly since 2007. Particularly, support in such sectors as education and government/civil society was outstanding in 2010 compared to previous years and this change has meant a doubling in the amount of aid disbursed to the social sectors.

### **Assessment on the Contribution of Korea's ODA**

The attitude of the Korean public is mostly positive toward Korea's ODA contributions: 79.4 percent think that "Korea's ODA contributes to the economic development and poverty reduction in developing countries." Those who are more supportive and aware of Korea's experience as an aid recipient tend to be even more positive concerning Korea's contribution to developing countries through aid. Attitudes on Korean ODA have grown even more positive since 2005, when slightly more than half of respondents thought that Korea's ODA contributes toward tackling global issues. This ratio jumped significantly to 76.8 percent in 2008.

Among skeptics of Korea's contribution to developing countries are those who are concerned with problems prevalent in developing countries. "Weak aid management capacity" (28.4 percent) and "lack of self-help" (17.2 percent) are the two main reasons when citing aid ineffectiveness. Others pointed out some domestic issues such as "lack of specialization of aid agencies" (15.6 percent), "lack of transparency in aid management" (15.4 percent), "small aid volume" (13.6 percent), and an "inefficient aid system" (13.5 percent). In the 2008 survey which asked the same questions, a third of the respondents were concerned about "corruption in developing countries" as well as "poor management of aid in developing countries" (22.4 percent).<sup>9</sup> As survey questions and response options were not identical for the two surveys, it is hard to track down the trends of response over time. However, it is still worth noting that the Korean public recognizes issues of developing countries as the main reasons that hamper aid effectiveness.

The strong emphasis on efficiency and effectiveness of aid among the Korean public can also be observed in other aspects. The majority of the Korean public is most interested in whether the aid project has actually helped developing countries (56.4 percent) and if the aid budget was used efficiently (50.8 percent).<sup>10</sup> About a third (36.9 percent) of respondents think that post-project follow-up and maintenance is important. The 2008 survey shows a similar tendency to focus on effectiveness and efficiency as the majority of respondents were interested whether aid was properly used by the government of the developing country (40.4 percent) and to what extent the aid project contributes to poverty reduction in the recipient country (33.4 percent).

In terms of aid agency, Koreans demonstrate almost the same level of confidence toward government agencies and NGOs: 68 percent of respondents said that NGOs are best placed to deliver effective aid and another 64.8 percent expected that aid through government agencies would be more effective.<sup>11</sup> An interesting difference according to the level of education appeared: the more educated the respondents are, the more they trusted NGOs than government agencies. Also, students and high-income groups also showed a high level of confidence with NGOs.

### **Public Participation and Information**

Slightly over two thirds of Koreans describe themselves as being in favor of helping developing countries, without being a volunteer or giving donations. The ratio of people who are actively engaged in activities, such as giving donations or volunteering, was 23%. Nine out of ten Koreans believe that it is important to help developing countries, however, the level of participation and involvement remains relatively low. Very few Koreans are opposed to development cooperation in general but one in ten Koreans seems to be indifferent to voluntary activities or donations as they simply mention that "they are not interested." This result exhibits a discrepancy between the perceived importance of development cooperation and actual participation.

Socio-demographic analysis shows that high-income groups are more active in donations due to the natural reason of financial affordability. However, the level of participation as volunteers is not necessarily related to income levels, as some lower-income level groups showed an even higher participation rate. Those who have visited developing countries appeared to be more willing to give donations (30.3 percent) or work as a volunteer (9.6 percent). It can be seen as evidence of direct learning experience about situations in developing countries affecting the level of engagement to help developing countries.

In terms of exposure to media coverage on foreign aid and Korea's ODA activities, over half of respondents (52.4 percent) acquired information through various media sources. However, a greater percentage of younger people in their 20s stated that they were not familiar with information on development aid. This is consistent with the result that this group is the least aware of the fact that Korea received aid in the past. In addition, students, among other occupations, are the least acquainted with stories on foreign aid.

Knowledge and information on development aid obtained from various media sources seem to increase the level of awareness: more informed groups showed higher levels of awareness on MDGs by nearly fourfold (9.5 percent)<sup>12</sup> and on Korea's provision of development aid by a factor of two (66.6 percent). In terms of support level, those who are familiar with information

on foreign aid tend to show a slightly higher level of support. They tend to recognize to a greater degree the importance of aid in helping developing countries and expressed a higher level of support for providing aid. In addition, informed respondents were more positive on their assessment of the level of contribution of Korea's ODA. However, the support level in terms of current ODA volume or expansion of future aid budget does not seem to reflect these trends.

## Policy Challenges for Korea

Korea, as a new DAC member, pledged the international development community to expand its aid volume and has pursued various institutional arrangements to enhance the quality of its aid. For the Korean government to achieve its ambitious aid policy goals, one of the critical factors is to gain public support and to create a society-wide consensus on the need for better and more aid. Conducting surveys to gauge public opinion on development cooperation is one convenient way to assess the trend. Despite its relatively short history as a donor, the support for foreign aid in Korea is stronger now than in the past, as the survey results reveal. There definitely exists a positive environment to advance the Korean government's ODA policy in the long term.

However, Korea still faces several challenges despite these advances. According to survey results, immediate improvement is needed with respect to enhancing transparency of aid policy and dissemination of information on aid as well as post-completion management of aid projects. In terms of transparency, the Korean government needs to pay attention to the fact that the general public is more interested in efficiency and effectiveness of aid policy and their implementation than before. It needs to regard the general public as one of the key stakeholders in development cooperation, as they pay taxes which fund aid programs in other part of the world. The nature of development aid, where the policies do not directly influence the well-being of its own citizens but rather anonymous people beyond its borders, there exists a large discrepancy between the opacity vis-à-vis the public and their concerns about global issues.<sup>13</sup>

Similarly, a large number of respondents pointed out the importance of post-completion management for aid projects, and strengthening feasibility studies and ex-ante evaluation. Focus on the substance and result-based management of aid projects has been growing as the Korean public has better access through media and press coverage to monitor the aid effectiveness.

**Table 4** Correlation Between the Exposure to Media and Level of Support/Awareness (as a %)

		Exposure to media coverage on foreign aid			
		Yes		No	
Aware of MDGs	Know very well	9.5		2.3	
	Heard of it without knowing in detail	38.7		30.5	
	Never heard of it	51.8		<b>67.2</b>	
Aware of Korea's ODA	Know very well	7.6	66.6	3.6	<b>34.8</b>
	Know it	59.0		31.2	
	Heard of it without knowing in detail	27.2		35.8	
	Never heard of it	6.1		<b>29.5</b>	
Current ODA volume	Too large	23.0		<b>30.7</b>	
	Too little	11.2		8.6	
	Adequate	65.7		60.6	
Contribution of Korea's aid in developing countries	Contributing	<b>83.8</b>		74.5	
	Not contributing	16.2		25.5	
Importance of helping developing countries	Very important	32.0	<b>93.9</b>	26.1	87.6
	Fairly important	61.9		61.5	
	Not so important	5.9	6.1	11.8	12.4
Not important	0.2	0.6			
Support for providing aid	Strongly support	20.2	<b>91.2</b>	11.8	86.5
	Tend to support	71.7		74.7	
	Tend to not support	7.8	8.8	11.6	13.5
Not support	1.0	1.9			

In addition, other issues related to the aid system should not be ignored: (1) fragmentation of aid implementation bodies where more than a hundred government agencies take part in aid delivery based on their priorities has been pointed out as a major detriment to aid effectiveness and coherence; and (2) the lack of specialists who understand sectors, regions and situations in the field is a major hurdle Korea must overcome.

Lastly, the Korean government could take a more systematic approach to enhance the level of awareness on aid and development cooperation, particularly by forming target groups and strategies according to their stance on aid, age groups and personal background such as level of education. When the Korean public is well informed of issues related to development cooperation, they are more likely to act or express their support for aid.

### Conclusion

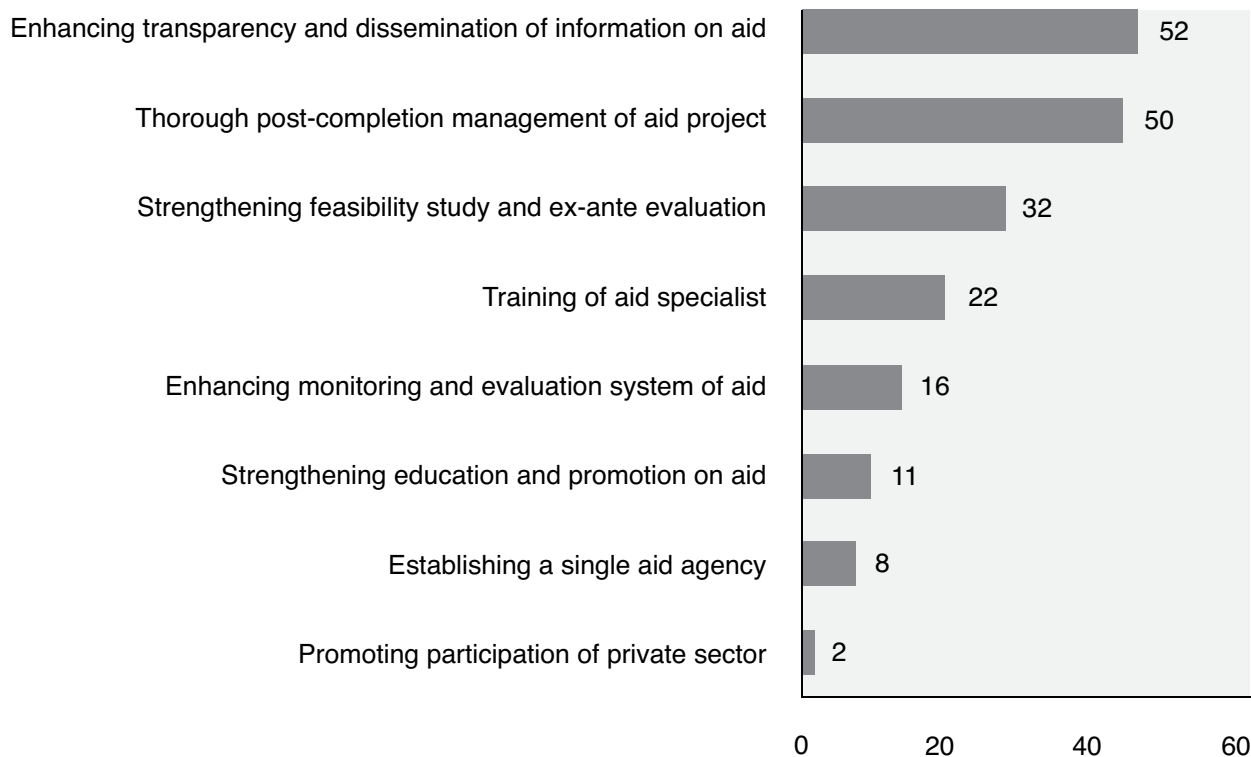
As a new DAC member, Korea has set ambitious aid policy goals and pursued various initiatives for providing more and better aid. One of the critical factors for the Korean government in justifying its policy drives and investments is to gain public support and to form a broad social consensus. With the changes and reforms in its aid system to improve the quality of

aid, the country has continuously striven to develop its ODA policy as well as to gain public support. In response to efforts to increase the volume of aid and to improve the aid system, public concerns about foreign aid policy have significantly increased as well. Public support towards the expansion of the ODA budget is essential to maintain the promise Korea made with the international community on increasing aid volume.

Most DAC members conduct public opinion surveys periodically in order to analyze and assess the public's perception and awareness of development assistance. This is because the majority of citizens are taxpayers who pay close attention to the effective spending of financial resources based on the appropriate aid policy. Moreover, survey results provide important background information to set up effective public engagement and development education programs in the country, which positively influence the support and understanding of the donor's foreign aid.

Public opinion surveys prove to be meaningful with respect to recommending effective ODA policy agendas and directions to the Korean government. It also provides useful findings about important factors that affect the general public's attitude towards development aid in Korea, such as the respondent's

**Figure 3** The Most Urgent Policy Issues in Korea's ODA



Source: KIEP (2011)

socio-demographic profiles, personal experiences, perception of poverty, recognition of Korea's national status (a developed or developing country), awareness of foreign aid projects, as well as experience of visiting developing countries.

In conclusion, the Korean government must gain full understanding of public opinion towards foreign aid and implementation of its ODA policy in order to establish greater public support as a new and small donor. The public poll on development cooperation may be one useful way to see how Korea's aid policy and practice are being accepted by its people. Despite its relatively short history as a donor, the support for development aid in Korea is stronger now as the survey results reveal. This is definitely a positive factor in advancing Korea's ODA policy in the long term, and Korea needs to sustain the course.

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<sup>1</sup> Ministry of Foreign Affairs and Trade (MOFAT). 2008. Public opinion poll on development aid and policy research on Korean government's development cooperation policy. (Korean)

<sup>2</sup> Refer to European Commission surveys. Attitudes towards development aid (2005); Europeans and Development Aid (2007); Development Aid in times of economic turmoil (2009); Europeans, Development Aid and the Millennium Development Goals (2010).

<sup>3</sup> (1) The 2010 survey was conducted by Infomaster on behalf of MOFAT, (2) the 2008 survey was carried out by Gallup Korea on behalf of MOFAT and (3) the 2005 survey was performed by TNS on behalf of the Government Information Agency. The details of research design and methodologies applied to each survey are shown in Table 1.

<sup>4</sup> Yankelovich D. 1991. *Coming to Public Judgment: Making Democracy Work in a Complex World*. Syracuse University Press, New York; Klingemann, H.D. Römmele A. (eds). 2002. *Public Information Campaigns and Opinion Research. A Handbook for the Student and Practitioners*. Sage Publications. London.

<sup>5</sup> Poland Ministry of Foreign Affairs. 2010. Poles on Development Assistance: Findings from a TNS OBOP Study for the Ministry of Foreign Affairs. Warsaw, December 2010. Multiple choices allowed.

<sup>6</sup> International Development Cooperation Act. Article 3.

<sup>7</sup> Kim, S. 2010. *A Bridge over Troubled 'Worlds'? An Ethical Case of South Korea's Aid*. Paper presented at the 2010 Development Studies Association UK annual Conference Values, Ethics and Morality, Westminster, London, 5 November.

<sup>8</sup> Korea Information Agency. 2005. Survey result report: public opinion on Official Development Assistance. (Korean)

<sup>9</sup> Ministry of Foreign Affairs and Trade (MOFAT). 2008.

<sup>10</sup> The question allowed multiple answers (up to two).

<sup>11</sup> The question allowed multiple answers (up to two).

<sup>12</sup> Those who responded that they "know very well" of MDGs.

<sup>13</sup> OECD Development Centre. 2003. *Public Opinion and the Fight Against Poverty*. OECD Development Centre. Edited by Mc Donnell et al.



# HOW KOREA CAN PUNCH ABOVE ITS WEIGHT ON DEVELOPMENT

*By Lawrence MacDonald*

## **Abstract**

Korea has made an excellent start on becoming a global leader on development and poverty reduction, drawing on its remarkable experience in moving from destitution to affluence in a single generation. Korea's leadership during the Seoul Summit in putting development on the G-20 agenda, in hosting the Busan high-level conference on aid effectiveness, and establishing the Global Green Growth Institute have attracted favorable international attention. But Korea's development-related policies lag far behind its rhetoric and other high-income countries. Korea can address these shortcomings by participating in international development organizations, improving development-related policies in areas where there is little domestic political resistance; and setting aside part of Korea's modest aid budget as an aid innovation fund. None of these measures would require an increase in Korea's foreign aid spending. They are smart, low-cost moves that build on Korea's tradition of punching above its weight in the global arena.

The Republic of Korea has thrust itself onto the international stage as a would-be leader on global development, achieving much in terms of international recognition. But Korea's aid program and its policies towards developing countries often fall short, even of the relatively low standards set by the established donor countries. Korea can do much better, establishing itself as a true global leader, if it takes advantage of its status as a newcomer to champion promising new approaches, just as Korean firms became household names around the world by leapfrogging over analog technology to lead the way in the digital communications revolution.

Korea has clearly signaled its ambition to be a leader on global development. Drawing on Korea's unusual experience in making the transition from poverty to affluence in a single generation, the Korean government pushed to include development issues on the G-20 agenda when it hosted the 2010 Seoul Summit, establishing an intergovernmental development working group that continues to operate, and launching a multi-year action plan. In 2011 Korea hosted the Fourth High Level Forum on Aid Effectiveness, in Busan, drawing hundreds of aid experts and official government representatives from around the world.

Korea has supported the creation of the Seoul-based Global Green Growth Institute (GGGI), a new international organization that provides advice on sustainable growth to developing countries. And Korea has joined the Development Assistance Committee (DAC) of the Paris-based Organization for Economic Cooperation and Development (OECD), the Western-dominated aid donors club.

Two men born in Korea are individually prominent in the international fight against poverty. UN General Secretary Ban Ki-moon frequently recalls the poverty of his childhood in Korea, when his family lacked electricity and he studied by kerosene light, in explaining his push to provide developing countries with sustainable energy for all. Jim Kim, an American medical anthropologist born in Korea, has recently been selected as the president of the World Bank. While Kim's selection is not a reflection of a Korean government initiative, the two high level positions further emphasize Korea's sudden new prominence in global development issues.

For all this, however, South Korea is very much a newcomer to global discussions on international development, and its aid program and non-aid policies towards developing countries rank at or near the bottom when compared to those of other high-income countries. This is not surprising, given that Korea has moved so quickly from being an aid recipient to an aid donor. Nonetheless, a frank recognition of Korea's substantial shortcomings in this regard is crucial if these are to be overcome.

I am a great admirer of the Korean people and of the effectiveness and resilience of Republic of Korea government institutions, having worked in Seoul as a reporter for AFP for two years in 1987 and 1988, a period that included the stormy transition to democracy and the hosting of the Olympics.

Although I had lived and worked in several Asian countries by the time I was posted to Seoul, I was deeply impressed by the determination of Koreans to excel internationally in fields as diverse as business, culture, and sports. I believe that Korea's push to be a leader in development is part of this drive for excellence and international prestige, and that it can achieve similar success. By drawing on traits that have been a source of national strength for Korea—openness to innovation and an eagerness to learn from experience—Korea can become a true world leader in the global fight against poverty and inequality. First, however, it is necessary to recognize where Korea currently falls short.

Korea's aid budget, at approximately \$1.3 billion per year in 2011, is small not only in absolute terms but also as a share of GDP. Of the twenty-two countries ranked in the Commitment to Development Index (CDI) published annually by the Center for Global Development (CGD), Korea ranked last for aid volume in 2010, giving just 0.09 percent of its GDP (by comparison, some European donors are close to the 0.7 percent goal promoted by many development advocates).

In 2010, more than half of Korea's aid (51 percent) was tied, that is, recipient countries were required to use it to hire Korean firms or buy Korean products, a stipulation that reduces the effective purchasing power of aid since recipients are unable to seek out the best value for money; here again Korea ranks last of the twenty-two countries in the CDI. Korea also scores poorly on two other aid quality measures in the CDI: selectivity (it gives a lot of its aid to less-poor and worse-governed countries) and project proliferation (it funds a large number of small projects, raising transaction costs for recipients).

A more detailed measure of aid quality, CGD's Quality of Official Development Assistance (QuODA), sheds further light on the Republic of Korea aid programs. QuODA measures aid quality across four dimensions: maximizing efficiency (rewards donors who channel aid to poor, well-governed countries, minimize administrative costs, support global public goods, and untie aid); fostering institutions (rewards donors who help to build the recipient government's capacity); reducing burden (rewards coordination with other donors and penalizes large numbers of small projects); and transparency and learning (rewards donors for promptly releasing information and for encouraging recipient country evaluation and learning).

A comparison of Korea's performance on QuODA with that of Japan and the United States (see <http://www.cgdev.org/>



Figure 1

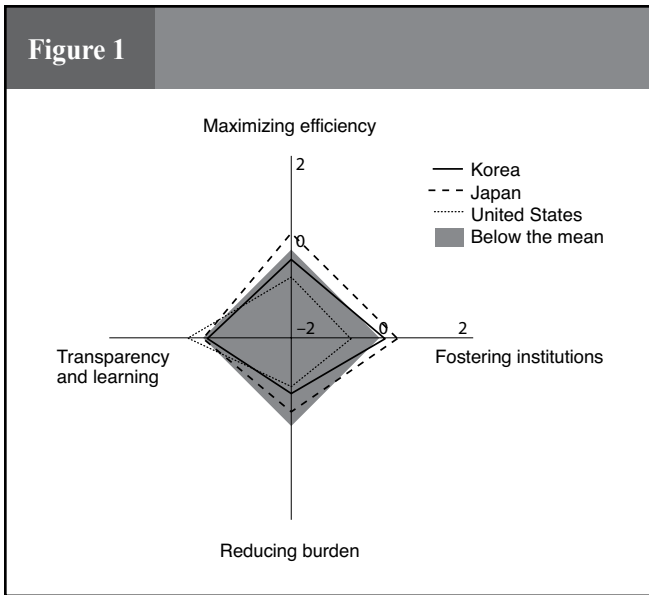
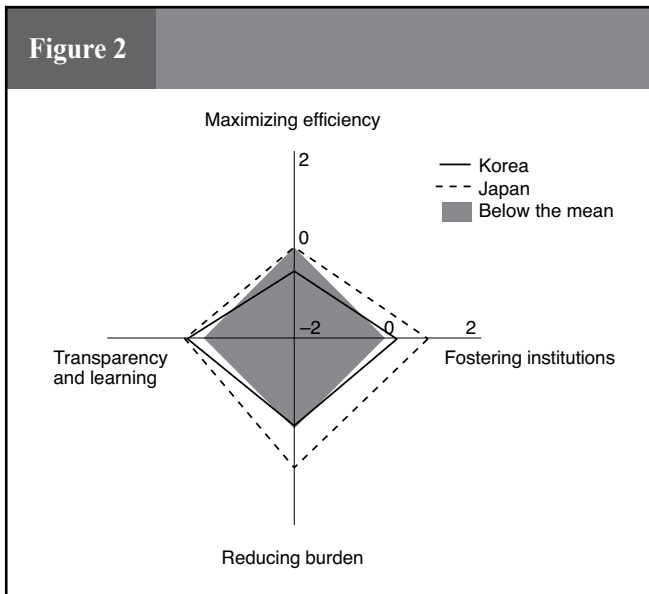


Figure 2



section/topics/aid\_effectiveness/quoda?p=i&d=20,21,19) shows that Japan scores better than Korea in all four dimensions. However, Korea scores better than the United States in three: maximizing efficiency, fostering institutions, and reducing burden. The United States does significantly better than Korea in one dimension: transparency and learning.

Drilling deeper into QuODA, it's possible to compare the scores of individual aid agencies (see [http://www.cgdev.org/section/topics/aid\\_effectiveness/quoda?p=ia&d=123,156](http://www.cgdev.org/section/topics/aid_effectiveness/quoda?p=ia&d=123,156)). The Japan International Cooperation Agency (JICA) outperforms the Korea International Cooperation Agency (KOICA) in all four dimensions. KOICA and the United States Agency for International Development (USAID) score about the same.

Korea's aid score on the CDI and its rankings on QuODA provide a simple set of diagnostics, benchmarked against

other donor countries, that can guide Korea's efforts to improve its foreign assistance programs. Raising the amount of aid Korea provides need not be a priority. In fact, there is a lively debate within the development community about whether or not aid actually helps development. Instead, Korean policymakers should concentrate on improving aid quality, steps that would improve Korea's ranking on the aid component of the CDI and on QuODA. Untying a larger share of Korea's aid would be one important step; improving aid allocation, so that a large share goes to poor, well-governed countries is another. Allocating a larger share of Korea's aid to activities that support global public goods, such as the fight against climate change, would help to improve Korea's QuODA score for maximizing efficiency.

But the single most important thing Korea can do is to leverage its small aid budget by becoming a champion of innovation and learning.

How? Korea should announce that it is setting aside a substantial share (say 20 percent) of its aid budget as an international "Aid Innovation Fund" that would be used to experiment with new approaches to foreign assistance. Innovations to be funded could be selected on a competitive basis, and the results monitored and evaluated by an independent entity, with the costs of the evaluation and dissemination of the results also covered by the fund.

Such a fund would meet an important global need. There are many promising new proposals for improving aid delivery, but because existing funding is committed to ongoing projects and approaches, very few new ideas are systematically tested and evaluated. As a new donor, Korea is much less bound than other donors to traditional approaches, and has greater flexibility to experiment and share the results.

CGD's proposal for Cash on Delivery (COD) aid is an example of one such innovation. Instead of the traditional approach of conditioning aid on specific policies, negotiated action plans, and the purchase of inputs (such as the purchase of textbooks or the construction of schools), funders would agree to pay for improvements in a specific area of progress, such as increases in the number of students who complete primary school and take a competency test. In theory, COD aid could be applied to any goal for which a verifiable incremental measure of progress can be identified and which is agreeable to a funder and recipient.

The ideas of COD aid have been under discussion for several years, and both donor and recipient countries have expressed interest and support. Pilot programs are now getting underway in Ethiopia and Tanzania. But launching the pilots has been a complex and time-consuming process, since available foreign assistance funds are typically committed several years

in advance. Funding an innovative idea thus requires withdrawing support from an existing program, a slow and difficult process even if the program is not performing as well as initially hoped.

COD aid is but one of dozens of new approaches to aid and poverty reduction that should be tested and evaluated. What are the best techniques for increasing girls' enrollment and middle-school graduation rates? What strategies work for reducing maternal and infant mortality? What programs are effective in getting kids vaccinated? What works for promoting small and medium-sized industries? How can young people who have been uprooted from their communities by war and civil unrest—including being forced to serve as child soldiers—be reintegrated into their communities when the fighting ends?

Improved impact evaluation techniques, including randomized controlled trials (RCTs), make it possible to test new approaches to determine which work best in what settings. The International Initiative for Impact Evaluation (3IE), established in 2007 and currently based in India, serves as a funder and clearinghouse for such studies. The Abdul Lateef Jameel Poverty Action Lab (J-PAL) is one of a handful of organizations that specializes in carrying out such studies and promulgating the results.

As a first step towards establishing its own aid innovation fund, Korea should become a member of the 3IE. This could be done by a variety of Korean government organizations, with KOICA as the most logical lead entity. By becoming a member, Korea would align itself—and have increased opportunities for interaction—with many of the most forward-thinking and highly regarded funders of foreign assistance, groups such as the Bill and Melinda Gates Foundation, the William and Flora Hewlett Foundation, and the aid agencies for Australia, the UK, Norway, Sweden and the United States. A 3IE membership would give Korean officials and policy-makers an opportunity to learn more about approaches to impact evaluation and promising innovations that could be worthy of Korean funding.

One possible model for a Korean aid innovation fund could be USAID's new Development Innovation Ventures (DIV) created in 2010 to fund new development initiatives with a strong emphasis on rigorous evaluation, learning and dissemination. It offers grants covering conceptual, pilot and scale-up phases. So far it has awarded twenty grants, including an inexpensive balloon tamponade to stop post-partum bleeding, a messaging campaign to reduce road accidents in Kenya, and grain storage bags to eliminate losses from insects and mold in Afghanistan. The office accepts applications on a rolling basis and applicants do not have to be from the United States.

Looking beyond aid, Korea should seek ways to improve non-aid policies that affect poor people in developing countries. Here the non-aid components of the CDI can provide a valuable guide. Each of the six non-aid components of the index has multiple indicators. Some, such as restrictions on migration, may be politically very difficult to change. Others, such as regulations concerning foreign investment, may encounter little opposition and indeed be welcomed by key constituencies who recognize an opportunity to do well by doing good. A summary of Korea's ranking on the CDI is available on the CGD Website.<sup>1</sup> Highlights in the most recent CDI include:

**Trade:** Korea has a score of 2.8, on a scale where 5 is the median, ranking 21st out of the 22 countries in the Index. Strengths include low agricultural subsidies (ranking 3rd). Weaknesses include high tariffs on agricultural commodities, and high barriers against textiles and apparel. As Korea moves increasingly into high-technology manufactured exports, these high tariffs on goods produced by developing countries could be gradually eased.

**Environment:** Korea scores 2.8 and ranks 22nd. Weaknesses include high tropical wood imports, low gas taxes, high carbon emissions per capita, and high fishing subsidies. Each of these is politically sensitive and thus likely to be difficult to change. Nonetheless, Korea has made green growth a national priority, one that would require addressing each of these policy areas. Raising gas taxes could be a good place to start, since it could either increase revenue or make it possible to cut taxes in other areas.

**Security:** Korea has a score of 1.7 and ranks 22nd. Strengths include no arms exports to poor and undemocratic governments (rank: 1). Weaknesses include small financial contributions to international peacekeeping operations, an area Korea might choose to address for other reasons, including the international prestige that can come from participating in such operations.

**Investment:** Rich-country investment in poorer countries can transfer technologies, upgrade management and create jobs. The CDI includes a checklist of policies that support healthy investment in developing countries. Korea does relatively well, with a score of 5.9 and a rank of 8. Strengths include providing insurance against political risk for both domestic and foreign firms; and not imposing restrictions on Korean pension fund investments in emerging markets

**Migration:** The movement of people from poor to rich countries provides unskilled immigrants with jobs, income and knowledge. Korea scores well in its openness to foreign students from developing countries, ranking 2nd. But the small number of unskilled immigrants from developing countries is weighted more heavily and puts Korea at the bottom of the list.

**Technology:** The CDI captures a country's contribution to the creation and dissemination of new technologies by measuring government support for R&D and penalizing strong intellectual property rights regimes that limit the dissemination of new technologies to poor countries. Korea does quite well on these measures, scoring 6.6 to earn a rank of 2nd, Korea's highest rank on any of the seven CDI components, due in part to a large tax subsidy rate for business R&D.

This is a daunting list, a reminder of just how far Korea has to go to become a true champion of development. On the other hand, Korea's overall average score of 3.1 on the CDI represents an increase of a full point compared to 2008, and Korea is only 0.6 points behind its traditional regional rival, Japan, which has been a developed country and aid donor for decades longer.

Scores on the CDI tend to change slowly, since the underlying policies that they reflect are themselves slow to change. Nonetheless, over time a country's ranking does shift, and occasionally a big policy change can lead to a large jump—or sudden back sliding. It would be entirely in keeping with the Republic of Korea's tradition of exceptional achievement for the government to decide that it wants to be the country that has made the most rapid progress on the CDI and to implement a few key reforms that move it out of last place, trumping Japan.

A good first step to learning more—and providing comment on the design of the index itself—would be for Korea to join the CDI Consortium, a club of countries ranked in the CDI that meets annually to share ideas about how to improve the rich world's support for development.

Would Korea join a club in which it is currently ranked at the bottom of the list? I would not be surprised, since this is very much in keeping with the Korean drive to learn and excel.

My colleague David Roodman, the architect of the CDI, recalled in a blog post the reaction he received when presenting Korean officials with their country's standing in the index, soon after Korea joined the OECD-DAC.

In conclusion, Korea has made an excellent start on becoming a true global leader on development and poverty reduction, drawing on its remarkable experience in moving from destitution to affluence in a single generation. Korea's leadership during the Seoul Summit in putting development on the G-20 agenda, in hosting the Busan high-level conference on aid effectiveness, and establishing the GGGI have attracted favorable international attention.

But Korea's own policies, in foreign assistance and in non-aid policies that impact development, lag far behind its rhetoric and even the relatively low standards of other high-income countries. Fortunately, there are several steps that

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Before releasing the CDI last year my colleague Cindy Prieto and I visited the Korean embassy here in Washington to brief officials. We were impressed with their constructive attitude, which blended respect for the CDI and hope that Korea would improve as it took its place among donors. We congratulate South Korea on its new status and wish it the best as it accepts the attendant responsibilities.

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Korea can take rather easily to begin to address these shortcomings. These include joining international entities such as the 3IE and the CDI Consortium; improving development-related policies (and thus Korea's CDI score) in areas where there is little domestic political resistance; and setting aside a percentage of Korea's modest aid budget as an aid innovation fund. Strikingly, none of these measures would require an increase in Korea's foreign aid spending. Instead they are smart moves that are very much within the country's tradition of punching above its weight in the global arena.

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<sup>1</sup> [http://www.cgdev.org/doc/CDI/2009/country\\_reports/South\\_Korea\\_2009.pdf](http://www.cgdev.org/doc/CDI/2009/country_reports/South_Korea_2009.pdf).

