

Development Co-operation: Korea's New Role in the 21st Century (21세기 국제개발원조와 한국의 역할)

Seoul, September 21-22, 2006

KOREA AND THE OECD Conference in Commemoration of
the 10th Anniversary of Korea's Accession to the OECD

Presentation by
Michael Roeskau /Director, OECD Development Co-operation Directorate

Introduction

Previous speakers have already aptly demonstrated Korea's remarkable development and progress over the course of its 10 years of OECD Membership.

With this speech, I would like to turn the focus to Korea's development co-operation. As other areas where the OECD is an international standard setter, Korean assistance has undergone an impressive evolution since 1996. Moreover, Korea has ambitious plans for its development co-operation programme for the years to come. This reflects how Korea embraces a new role as an increasingly important donor commensurate with its weight and

impact on the global economic scene in the 21st century.

Development co-operation and policy is also one of the key OECD areas of work. In spelling out the OECD acronym, “Organisation for Economic Co-operation and Development”, it is evident that co-operation and development are key principles upon which the organisation is built. This mandate is not limited to members of the organisation, but also includes non-members, as enshrined in the founding charter of the OECD. With the Development Assistance Committee (DAC), the OECD is home to the key forum of bilateral donors. Whereas all areas of the Organisation work increasingly with non-Members, the DAC is the principal body through which the OECD addresses development co-operation issues. Korea is one of eight countries, most of whom joined the Organisation after 1990, who do not participate as full members in this area of work. Yet both Korea’s own development experience and its rapidly emerging role as a donor make its strong participation in a dialogue on development co-operation policy and donor co-ordination a clear desideratum. The Korean government has indicated that it is envisaging DAC Membership around 2010. The DAC covers a key area of the organisation’s work and expertise, and Korea’s full participation would complete Korea’s OECD Membership, promising substantial further benefit to Korea, the organisation, and ultimately developing partner countries.

In outlining some perspectives on Korea’s new role in the 21st century in the area of development co-operation, I will proceed in three steps: 1) outlining the historical context of Korea as a developing and ODA recipient country, then 2) turning to the country’s more recent role as a donor of official assistance, before 3) concluding with some thoughts and perspectives on Korea as part of the donor, or development co-operation, community.

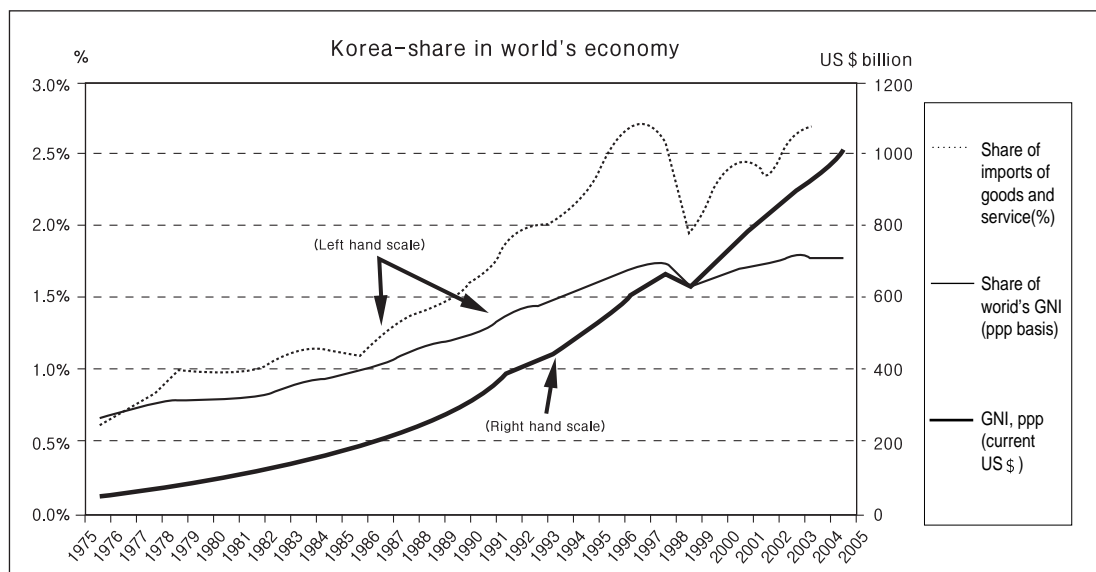
Korean development: a great success story also for development co-operation

The evolution of Korea as a donor is all the more impressive if seen against the background of its development since the mid-20th century. Suffering badly throughout the first half of the

20th century, the country was devastated by the Korean War. When the country emerged from the war in 1953, it was one of the poorest countries in the world and had to rely greatly on foreign assistance. Since then, however, the country has had a phenomenal growth record and it is now the 11th largest economy in the world (see Chart 1 for the evolution of Korean GNI and share in the world economy).

Korea was a recipient of ODA until 2000 and of OA (Official Assistance) until 2004. This is an indication of the positive impact that assistance from the international community can have on national development when used systematically to complement the development strategy of a recipient country. In the case of Korea, the aid was channelled into building capacity, and notably into the development of human resources, which became a key factor and condition for sustained and rapid further development.

Chart 1

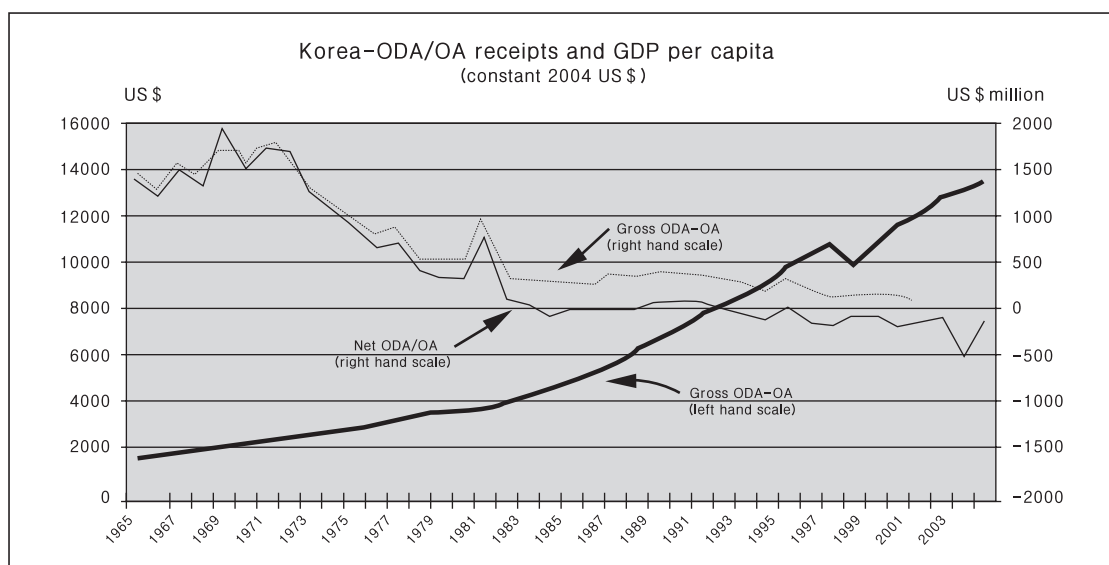


The next Chart (Chart 2) provides a graphical illustration of the evolution of ODA receipts and per capita GNI in Korea. With the equivalent of USD 1.3 billion (all figures constant 2004 terms) in 1960, total gross ODA to Korea accounted for about 6 per cent of GDP.

Notwithstanding considerable year-on-year fluctuations, this ratio declined quickly with Korea's rapid economic growth. In 1965, the equivalent of USD 1.37 billion represented slightly below 4 per cent of Korean GDP. By 1970, the share had declined to 2.5 percent despite an increase of gross ODA to USD 1.54 billion. It kept falling further in subsequent years, so that 1975 was the last year in which gross ODA, at USD 970 million, exceeded 1 per cent of Korean GDP.

After peaking in 1971, absolute amounts of gross assistance to Korea did show a clear downward trend, albeit amid significant year-on-year fluctuations. Net receipts of ODA declined even more quickly, as Korea's swiftly improving autonomous development capacity increasingly allowed early repayment of concessional development financing.

Chart 2



Korea as a donor a new role in the 21st century

Already in the late 1970s, Korea started its first donor activities, although these were scattered across different ministries and agencies and did not take the form of an integrated

programme. In 1984, net receipts of ODA were negative for the first time. The year of its accession to the OECD, 1996, was the last time Korea recorded positive net receipts of aid.

Korea's donorship has drawn much of its impetus and rationale from the country's unique development experience. The donor activity started in 1977, well before accession to the OECD, and when Korea was a developing country on the way to upper middle income levels. This process in itself constitutes a precious asset. Sharing the knowledge gained throughout it not least including an understanding how international co-operation can be a valuable component for successful development holds enormous benefit and practical inspiration for other, lower income developing countries.

Parallel to the domestic development aspect, Korean donorship can also be seen in the light of a changing global context. While over the past decade, the phenomenon of 'Globalisation' brought an unparalleled pace of transformation to the world, Korea's rapid development might be referred to as one of the early outriders of globalisation and a process that implied a growing stakeholdership of Korea in the world. To make globalisation an ultimately successful and sustainable process, it needs to be balanced and inclusive. A strong commitment to development co-operation and the MDGs will be a key element for achieving this, by helping other developing countries to integrate into and realise the benefits of an ever more interconnected world.

Korea's early donorship focused on training and knowledge transfer, before an "Economic Development Cooperation Fund" was established in 1987 to provide concessional loans, which have been implemented by the Export-Import Bank. This was followed in 1991 with the establishment of the Korea International Cooperation Agency (KOICA), which allowed a more systematic and integrated aid programme.

The basic structure of Korea's aid programme remains unchanged until today. Grant aid and technical assistance are delivered by KOICA under the authority of the Ministry of Foreign

Affairs and Trade and soft loans are delivered by EXIMBANK's Economic Development Cooperation Fund under the authority of the Ministry of Finance and Economy. This puts Korea into a group with DAC members such as France, Germany or Japan, who have taken the same division of labour along institutional lines. However, the majority of DAC Members now tends towards virtually exclusive grant aid, and the question of 'grants versus loans' is the subject of an ongoing debate on the appropriateness and development effectiveness of different aid modalities.

However, Korean development co-operation has seen a tremendous evolution since. During his recent visit to Seoul in May 2006, Richard Manning, the Chair of the OECD Development Assistance Committee, was impressed by the political profile and energy, as well as the strategic approach of Korea's increasing role as a donor. The attention this issue receives within the Korean government is reflected by the recent establishment of a Committee on ODA Strategy chaired by the Prime Minister.¹⁾ This comprises representatives of the 15 Ministries with a stake in Korea's ODA, as well as representatives of non-governmental organisations, academia and business, with attendance also from KOICA and EXIMBANK.

This focused approach to enhancing the framework and co-ordination for ODA policy is mirrored on the quantitative side by the growth of Korean ODA volumes vice versa the increasing aid volumes indeed reinforce the need for a strategic framework and policy for effective aid management. From 1991, the year of KOICA's creation, to 1996, when Korea acceded to the OECD, Korean ODA more than doubled from USD 64 million²⁾ to USD 140 million. Since then, Korea's ODA has increased more than fourfold to USD 665 million in 2005, equivalent to 0.09% of GNI³⁾. In current terms, Korea is already a larger net donor than five DAC Members. But Korea is gearing up for further increases with a tentative target to

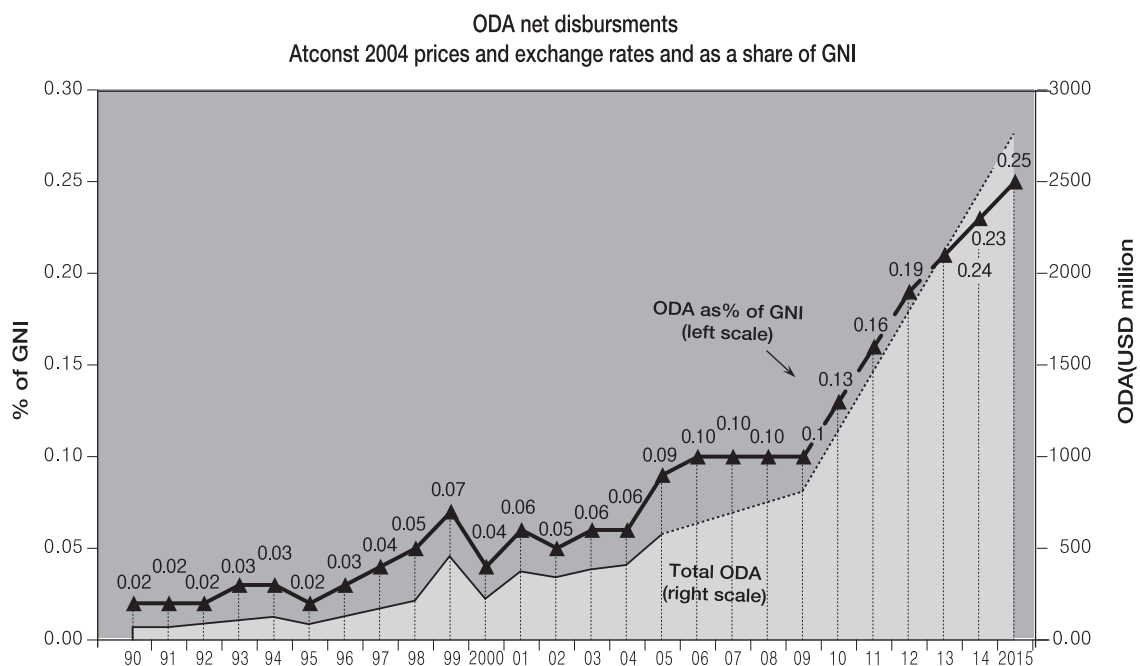
1) In addition to meeting at Prime ministerial level, the committee also meets at working level. Its secretariat is provided by the Ministry for Government Policy Coordination.

2) All figures are given in constant 2004 USD unless otherwise specified. The figures do not include aid to North Korea. Whereas this would be ODA eligible in principle, it is not reported by Korea as ODA and handled by the separate Ministry of Unification, as an intra-Korea transfer..

3) In current dollars, total ODA amounted to USD 743 million (preliminary data).

reach 0.1% of GNI by 2009 and 0.25% by 2015. If realised, this will imply an estimated programme of around USD 2,8 billion by 2015, as illustrated in Chart 3⁴⁾. The size of its ODA programme would make Korea the world's 14th largest donor.⁵⁾

Chart 3



Scaling up ODA with benchmarks until 2015 is the first point of a five point strategy to enhance Korea's role as a donor and the effectiveness and quality of its aid. Creating an original Korean development assistance model distinguished from that of more advanced donors is the second strategic point. This aims to adapt Korea's unique development experience and comparative advantages to the needs of its partner countries. The basis for this will be their poverty reduction strategy, and, at a fundamental level, the Millennium Development Goals (MDGs). A further emphasis is placed on promoting democratic values and human security. The third element relates to an improved aid management system, with enhanced

4) On the basis of projected GNI growth of 5.2% in 2006 and 5.3% in 2007, and assuming subsequent GNI growth of 4.5% per year.

5) This very tentative estimate is based on existing commitments and on projections of more moderate economic growth than Korea's (2% per annum).

partner consultations with individual partner countries. Programme-based approaches will be implemented on the basis of mid-term country plans, making individual country engagement more predictable and strategically integrated. In this process, the question of strategic partner country selection will also be addressed. In the past, Korean aid has tended to be geographically scattered, with the bulk going to Asian countries (see Table 1). The new approach, however, will introduce a strategic focus on core partner countries or regions of each continent, including a stronger engagement in Africa.⁶⁾ Notably, the share of Korean aid to Least Developed Countries and Sub-Saharan Africa, the region with the highest density of least developed countries, will be scaled up. In 2004, LDCs and Sub Saharan Africa received shares of 19 per cent and 14.4 per cent of Korean ODA, respectively, compared to a DAC average for that year of 35 per cent and 32.4 per cent.⁷⁾ A systematic development education effort to raise public awareness and support for Korea's donor policies constitutes the 4th point, complemented by the intention to strengthen networks with NGOs, including as partial implementers of Korean ODA, as the final aspect of the strategy.

This is an impressive agenda by any standard. Its realisation will take time and enhanced capacity in the Ministry for Government Policy Co-ordination as well as in the key operating Ministries. However, with continued support beyond the government from parties across the political spectrum, from a strong NGO sector, and with a population that is increasingly international in outlook, it looks decidedly feasible and throughout the last decades Korea has often proven its ability to move decisively at national level.

Korea and the donor community

Korea is considered an emerging donor and its development assistance is still undergoing an ambitious and far-reaching transformation process, as I just outlined. But it has long

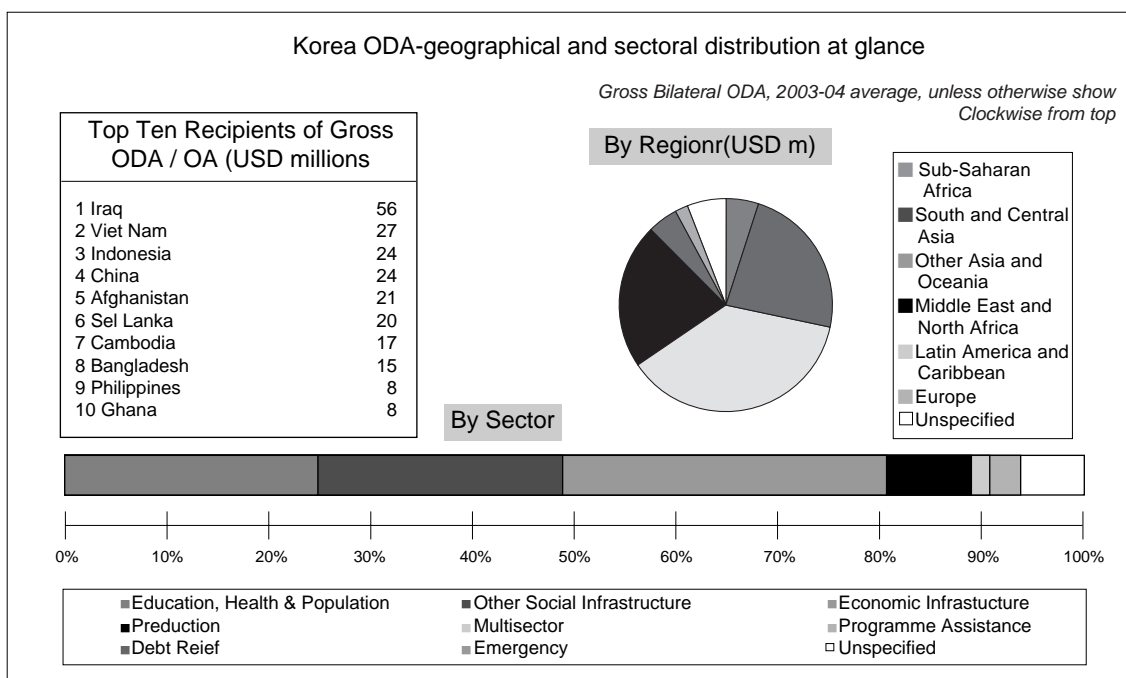
6) President Roh Moo-hyun recently announced a tripling of Korean aid to Africa to \$100 million by 2008.

7) See OECD Development Co-operation Report 2005, Statistical Annex, tables 29 and 31 (http://www.oecd.org/document/35/0,2340,en_2649_33721_36052835_1_1_1_1,00.html).

assumed a place in the donor community even if so far a less integrated one than ‘advanced’ donor countries. Korea can indeed be seen as a role model, not only by other OECD countries who are not members of the DAC, but beyond that for other emerging donors in its region and at a global level.

As an emerging donor, Korea has stated and demonstrated its commitment to enhancing its engagement in the donor community, and to share in co-ordination and dialogue processes.⁸⁾ This engagement is important not only in light of the changing aid architecture and globally scaled-up aid. It also forms the basis for evolving approaches to and good practice for development co-operation.

Table 1



8) For the first time ever, Korea participated with a ministerial level delegation at the DAC High Level meeting in April 2006. Korea also participated and was among the lead speakers at the conference in Moscow on "Emerging Donors in the Global Development Community" in April 2006, held under the auspices of the Russian G8 Presidency (Outcome document at: http://www.g8finance.ru/doc_eng.htm).

The fundamental motivation of the dialogue among donors, and increasingly including partner countries, is to make development co-operation more effective at a global as well as individual donor level. With the Paris Declaration of March 2005, a practical, action-orientated roadmap was laid down to improve the quality of aid and its impact on development. The declaration is built on five principles: (1) partner-country ownership of development strategies and processes, (2) alignment of donors behind those strategies, (3) harmonisation of donor practices, and (4) mutual accountability of recipients and donors in (5) managing for results. Twelve indicators were established by the Declaration that monitor progress on its implementation.⁹⁾

Korea is one of currently 101 countries that have signed up to the Paris Declaration. Completing the agenda set out by the declaration will be ambitious for any signatory, donor or partner country. The discussion within the Korean government, and the objectives set for the its programme show an awareness of and work on the challenges of its implementation.

Overall, the 12 indicators and 56 commitments of the Paris Declaration aim to support sustainable progress and capacity development. This means that the yardstick for success should not be visibility of assistance. This has been for a long time a widely applied default approach, but is mistaken. Instead, the yardstick need to be development impact and progress. Korea's present programme is still very much project-based, including many small institutional projects with a strong "Korean friendship" label. However, to ensure the effectiveness of its aid, Korea will need to adapt this approach, as its aid continues to grow, and as the country evolves into a more significant donor in several target sectors or countries.

Another lesson of the past for DAC donors has been that development co-operation on the basis of enlightened self-interest rather than more narrow perspectives of national interest eventually produce greater mutual benefit to recipients and donors. The tying status of aid is

9) See <http://www.oecd.org/dac/effectiveness/parisdeclaration>.

an example of this. In 2004, USD 81 million, representing 19 per cent of Korean ODA, went to Least Developed Countries. It is estimated that almost of this has been tied. A common reflex of emerging donors to tie aid is understandable, especially after it has taken the DAC 40 years to agree on a common position. It does not, however, change the reasons and evidence why tied aid is often problematic. Extensive analyses have found the tying of assistance to significantly increase the price (on average 25%) of goods and services procured. Increased administrative burdens and the risk of biasing aid towards inappropriate technology are other important concerns related to tied aid. Acknowledging the problems associated to tied aid, DAC Members agreed in 2001 the *Recommendation on Untying Official Development Assistance to the Least Developed Countries*.¹⁰⁾

Tied aid also carries the risk of undermining the principle of partner country ownership, and their accountability for the development process. This is especially true in countries with very limited capacities. This takes us back to the condition sine qua non for sustainable impact of development co-operation – partner country ownership of the development process. Only if developing countries are in the driving seat are they in a position to manage for results and assume proper responsibility and accountability of this process. A supply driven approach to co-operation sets the wrong incentives. To be sustainable, development co-operation must be demand driven.

The way in which Korea pursues an enhanced donor capacity in a very strategic and systematic manner, are a testimony to the fact that these points have come to be well appreciated. Indeed, many of them are addressed by the five-point strategy referred to above. Moreover, the Korean government indicated it is considering a comprehensive set of ideas for implementation in the medium term. This includes new legislation, harmonisation of the various aid schemes, promoting a gradual move towards untying, regulating emergency relief, developing human resources, strengthening the national development research capacity,

10) See <http://webdomino1.oecd.org/comnet/dcd/untiedpubliccws.nsf/> for detailed assessments of aid untying.

including through a new research centre for ODA and regional studies on developing countries, as well as increasing the involvement of Korean NGOs.

There is no question that Korea may still be an emerging, but already is a sophisticated and strategically managed donor. The country already meets key criteria of DAC Membership with regard to volume, the existence of a policy and institutional framework for aid delivery, and the provision of statistics on its ODA programme. Korea is now in a position to contribute to as well as learn from the pool of experience of DAC members. In view of this, an official position of moving towards DAC Membership by about 2010 as referred to above may appear rather cautious. However, the period until then already offers the opportunity for Korea to enhance its engagement in the donor dialogue facilitated by the DAC.

Its ten years of OECD Membership have constituted a decade of mutual benefit to Korea and the Organisation. Korea's donor capacity increasingly reflects its growing profile and stakeholdership in the world. This implies that the scope for further benefit from participating in the OECD's dialogue on development assistance has been steadily increasing. Let me therefore conclude with the strong hope that, at the next 10-year anniversary conference of Korea's OECD accession, a retrospect will include many years of full membership in the DAC.