

Recent Trends in Aid Predictability and the Policy Implications

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Aid Predictability Overview

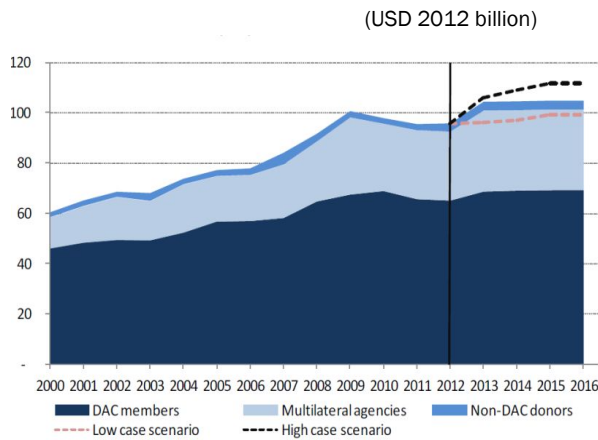
Providing predictable aid to partner countries has been an important issue for achieving effective development. Unfortunately, financial crisis and the euro zone turmoil had negatively affected providing aid along with donors' forward spending plans over the past year. However, OECD Development Assistance Committee (DAC) has recently announced a positive sign on this year's aid flows. According to the summary report on its sixth comprehensive *DAC Survey Results on Donors' Forward Spending Plans for 2013–2016*, the global Country Programmable Aid (CPA)¹ is projected to increase by 9% in

2013 mainly because of planned increase among major donors such as Australia, the United Kingdom, IDA and IFAD. A recovery in aid levels along with an increase in the forward spending this year are likely to make a positive contribution toward achieving the Millennium Development Goals targeted for 2015 and improve aid predictability and effectiveness as well.

defined through exclusion, by subtracting from total gross ODA aid that 1) is unpredictable by nature; 2) entails no cross-border flows; 3) does not form part of cooperation agreements between governments; 4) or is not country-programmable by the donor." (DAC Glossary. Available at www.oecd.org/dac/glossary).

¹ "CPA reflects the amount of aid that can be programmed at partner country level. CPA is

**Figure 1. Actual and projected CPA volume
2000–2016**



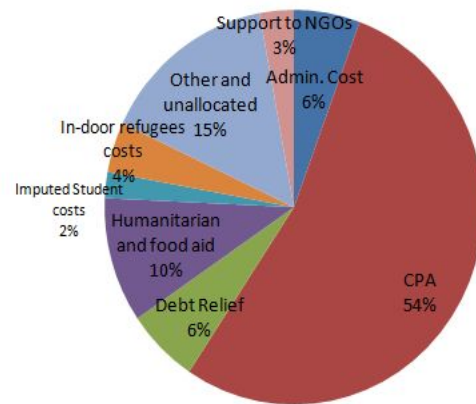
Note: Country Programmable Aid (CPA) can be used to represent actual transfers of funds to recipient countries. Source: OECD (2013), *Outlook on Aid: Survey on Donor's Forward Spending Plans 2013–2016*, p.1.

The OECD DAC defines that aid is predictable when “partner countries can be confident about the amount and timing of aid disbursements” (OECD DAC 2006, p.22). To be more specific, aid predictability can be divided into three categories according to time scale: 1) in-year predictability, which is closely related to the donor’s actual aid disbursement and implementation within the time frame and to the partner country’s administrative capacity and circumstances to receive ODA, 2) medium-term predictability, which depends on the donors’ capacity to ensure aid allocations in the course of their own budget procedure and to provide two- to five-year forecasts with partner countries, and 3) long-term predictability, which relies on the willingness of donors to meet their commitments over five years along with international pledges such as MDGs (OECD DAC 2006, pp.22–23).

This paper mainly covers the medium-term aid predictability by reviewing the evolution of international-level discussions on the issue. This paper also provides a brief diagnosis on

Figure 2. ODA Composition in 2011

(%)



Note: DAC countries, Total bilateral ODA Source: http://webnet.oecd.org/dcdgraphs/CPA_donor

Korea’s current budgetary process and multi-year spending plan on ODA. Finally, it draws policy implications for Korea as a new DAC member as well as a steering committee member of the Busan Global Partnership for Effective Development Co-operation.

The Evolution of International Discussion

The importance of providing reliable three- to five-year forward expenditure plans on ODA has been addressed since the aid effectiveness agenda had been actively discussed at the international level. The reliable, comprehensive, and timely information on aid flows enables partner countries to make their own strategic development plans and to link them with their budgetary frameworks. For these reasons, international aid community tried to encourage donors to share their future aid allocation policies and keep monitoring

both donors' and partner countries' efforts to increase the aid predictability.

Subsequently, at the Gleneagles G8 summit in 2005, donor governments pledged to scale up their aid to developing countries, especially to Africa, securing their aid agencies' budget increase. Moreover, donors committed to "provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules" at the Second High Level Forum on Aid Effectiveness (HLF2) in Paris in 2005. This commitment was monitored by conducting the first DAC annual survey on aid allocation policies and

indicative forward spending plans in 2007, and then the commitment was reaffirmed in the following High Level Forum in Accra (HLF3) in 2008 and in Busan (HLF4) in 2011.

At the Fourth High Level Forum, all DAC members particularly committed to ensure that by 2013, they would provide partner countries with the rolling three-to five-year indicative forward expenditures and/or implementation plans agreed in Accra. Table 1 shows Busan's commitment on medium-term predictability and its target.

Table 1. Busan's Commitment on Medium-Term Predictability (Indicator 5b)

Relevant Busan commitment	"By 2013... provide available, regular, timely rolling three- to five-year indicative forward expenditure and/or implementation plans as agreed in Accra..." (Busan §24a).
Measure	Estimated proportion of development co-operation covered by indicative forward expenditure and/or implementation plans covering at least three years ahead.
Proposed target	Halve the gap – halve the proportion of aid not covered by indicative forward spending plans provided at the country level. (Baseline year: 2011).

Source: OECD DAC (2012b), "Proposed Indicators, Targets and Process for Global Monitoring," Annex A.

Korea's Current Mid-term ODA Plan

Korea is planning to establish a Busan Global Partnership Implementation Plan on the whole government level by the first half of this year. The implementation plan is going to be systematically applied to most of the Korean ODA projects' operational plans, country partnership strategies, and evaluation systems by the end of this year. With regard to the aid predictability issue of the partnership, the Korean government has already announced that it will provide its 26 priority countries with indicative forward spending plans by 2013 (OECD DAC 2012a). Therefore, the relevant preparations and measurements to fulfill the promise are urgently needed.


Korea also needs to manage the aid increase effectively. Korea's total ODA volume has reached USD 1.55 billion in 2012 and 0.14% of the gross national income (GNI). It is a dramatic increase of 17.6% in net ODA, and Korea is still planning to scale up its overall aid, targeting an ODA/GNI ratio of 0.25% by 2015. It means that Korea should double the ratio within three years, which might be quite challenging not only for securing the budget itself but also for managing it effectively. Regarding these factors, it is recommended for Korea to fasten the follow-up measures for improving aid predictability by developing the current *Mid-term ODA Policy for 2011–2015* and establishing reliable indicative forward spending plans for partner countries.

According to the *Mid-term ODA Policy for 2011–2015* separate draft roadmaps exist on the share of Korea's ODA expenditures by country and region for bilateral grants, bilateral concessional loans and multilateral aid to MDBs respectively. To ensure greater policy coherence for development, the roadmaps need to have comprehensive and overarching framework to be applied to every ODA project from line ministries. Also, the mid-term plan has to be shared with partner countries in advance by enhancing the binding force of the document and reducing the domestic uncertainty on the budget approval for the plan.

Ways Forward: Policy Implications for Korea

To make its aid more predictable on a medium term basis, we suggest the following recommendations.

The medium term forward spending plan should be further developed through intensive discussion and co-operation with related line ministries and aid agencies in order to be coherently linked to the Korea's country partnership strategies and overall ODA policy. This way, the indicative budget plan can give a direction for the government's holistic aid efforts over the next three to five years and then foster complementary relationships and synergies across the stakeholders. Furthermore, the process of drawing consensus and sharing information—such as development co-operation policies, strategies, procedures, budgets (countries and sectors), programs and projects—would allow Korea's ODA to be more accountable, especially for those who need better predictability, including Korean budget offices, parliamentary, citizens and partner countries.

In addition, it should be considered how to review the performance of the mid-term plans and reflect the results on the annual budget process. As it is an estimate for the future aid flows, the plan needs to be appropriately adjusted by monitoring the performance and considering unexpected changes on the circumstances providing aid. If Korea could successfully establish the medium term monitoring system, based on the multi-year ODA policy and spending plan, its aid projects or programs could be implemented in a more sustainable manner – for example, in the enabling circumstances for a concrete pre-feasibility study and a policy dialogue with partner countries. 

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