

Korea's ODA Policy and Lessons from European Experiences

Deok Ryong Yoon Senior Research Fellow, International Macroeconomics Team, Department of International Economy (dryoon@kiep.go.kr)

Bokyeong Park Professor, Graduate School of Pan-Pacific International Studies, Kyung Hee University (bokyeong23@khu.ac.kr)

Yoo-Duk Kang Head of Team, Europe Team, Department of International Economy (ydkang@kiep.go.kr)

Yul Kwon Research Fellow, Development Cooperation Team, Department of International Cooperation Policy (ykwon@kiep.go.kr)

Eunjung Kang Researcher, International Finance Team, Department of International Economy (ejkang@kiep.go.kr)

Introduction

An aid management system is defined as a system by which a donor nation establishes the orientation of aid policy on a nationwide basis and allocates aid funds, and administers aid. It is essential framework because it has a critical consequence on the efficiency, and consistency of the aid. If the management system is unreliable, the effectiveness of the aid may reduced due to a lack of connectivity or synergy among projects, and the overlapping between projects may result in waste of resources. Fur-

thermore, if there is no adequate communication between the departments involved, it would lead to consistency problem in various development and cooperation policies. The aid management system of a donor country is also likely to affect the aid recipient country. Therefore, for both the donor and recipient countries, it is necessary to build and improve the aid management system.

Korea's aid management system is particular in its division of roles: the Ministry of Strategy and Finance (MOSF) takes charge of credit assistance policy,

while the Export-Import Bank of Korea, which is responsible for the administration of the Economic Development Cooperation Fund (EDCF), is in charge of executing credit assistance policy. Grant-type aid policy, on the other hand falls into competences of Ministry of Foreign Affairs (MOFA) and its execution is entrusted to the Korean International Cooperation Agency (KOICA). Multilateral aid is characterized by the same division, with the MOSF in charge of projects related to the IMF and the International Bank for Reconstruction and Development, while the MOFA is in charge of projects related to nonfinancial international organizations, such as the UN. This dichotomous division of roles in the aid management system has given rise to controversy about relevancy and efficiency. In this context, this paper analyzes the aid management systems of the European countries with a view to benchmark. They can be categorized into five groups.

The Characteristics of the Aid Management Systems of the European Nations by Type

The first criteria for classification are

whether foreign aid policy is integrated to particular ministry or unified within a single government department. According to these criteria, aid management systems can be divided into policy-integrated type and policy-separated-type. There are two subtypes under policy-integrated type. The first is the case that aid policy is part of the Ministry of Foreign Affairs's task, and the other is the case of a department with exclusive responsibility of aid policy. The second criteria are whether the implementation is assumed by a single unified agency or cooperated by multiple agencies. The first is the implementation-integrated type, and the second is the implementation-separated type. According to these criteria, the aid management systems of the European countries fall into the following five types: i) integrated to Ministry of Foreign Affairs, ii) integrated to aid department for implementation, iii) independent aid department in charge of implementation, iv) separated department or agency in policy and implementation, and v) separated in policy but integrated in implementation (see Table 1).

Table 1. Comparison of European Aid Management Systems

Type	Nation	Policy Department	Implementation Department	Characteristics
Integrated to Ministry of Foreign Affairs	Italy	Ministry of Foreign Affairs		Credit assistance is also under the purview of the Ministry of Foreign Affairs, UTC established as an implementation agency in the Ministry of Foreign Affairs
	The Netherlands	Ministry of Foreign Affairs		The Directorate-General for International Cooperation is in charge of policy, while the regional de-

	lands			partments are in charge of implementation
	Denmark	Ministry of Foreign Affairs		The regional departments are in charge of bilateral aid, and DANIDA is incorporated into the Ministry
	Finland	Ministry for Foreign Affairs		FINNIDA dissolved and its functions internalized, regional departments in charge of implementation
	Ireland	Department of Foreign Affairs		The department has overwhelming presence and role in foreign aid
	Sweden	Ministry for Foreign Affairs	SIDA, etc.	Aid implementation focused on SIDA
Integrated to aid department for implementation	Norway	Ministry of Foreign Affairs	Norad	Aid is integrated into the work of the regional departments, the embassies play an active role, Norad provides technical support
	Belgium	Federal Public Service Foreign Affairs	Lux-Development	There is a separate Director-General for Development Cooperation in the Service
	Luxembourg	Ministry of Foreign Affairs	BTC, BIO, etc.	The ministry is in charge of 98% of aid
	Great Britain	DFID		90% of aid is implemented through the DFID, and the DFID local offices have a great deal of autonomy
Separated aid department in charge of implementation	Germany	BMZ	GTZ, KfW, GDI, etc.	The technological and financial cooperation implementation agencies are separate, while the Ministry of Finance is in charge of multilateral aid
Separated department or agency in policy and implementation	Spain	Ministries of Foreign Affairs, Industry, and more	AECID, etc.	Various ministries and local governments participate in aid, with the Ministry of Foreign Affairs and Cooperation accounting for about 50%
	Switzerland	Ministry of Foreign Affairs, Ministry of Finance (Seco)		Policy bifurcated to the Ministries of Foreign Affairs and Finance with the Ministry of Foreign Affairs having a significant presence, implementation agency internalized
	Greece	Ministry of Foreign Affairs, Ministry of Finance and Others		Functions divided among various departments. The Ministry of Foreign Affairs accounts for less than 20%, scholarships account for much of the aid
Separated in policy but integrated in implementation	France	Ministry of Foreign and European Affairs, Ministry for the Economy and Finance	AFD	The Ministry of Cooperation was abolished and integrated into the Ministry of Foreign and European Affairs (1998), implementation agencies for credit assistance and grant-type assistance integrated
	Austria	Foreign Ministry, Finance Ministry, etc.	ADA	The Foreign Ministry does not have actual adjustment powers, debt forgiveness accounts for 50% of aid
	Portugal	Ministry of Foreign Affairs, Ministry of Finance, Ministry of Education, etc.	IPAD	Seeking to establish an integrated independent implementation agency (IPAD) separate from the Ministry of Foreign Affairs

1. Integrated to Ministry of Foreign Affairs

This type is very effective at keeping policy consistency and preventing segmentation, since foreign aid policy is integrated in the Ministry of Foreign Affairs. This is the most common type of aid management system in Europe, with nine out of seventeen European countries taking this type.

However, the systems in this type are taken by relatively small countries such as the Nordic countries except the case for Italy. This management system is also manageable because these countries give very little credit assistance, and their aid portfolios consist of grant-type and multilateral aid. This means they do not need the financial expertise necessary to implement credit assistance. Italy is notable, however, for the way its Ministry of Foreign Affairs takes charge of aid even though it gives credit assistance.

There are only four European countries that have separate implementation agencies for the implementation of aid projects, perhaps because the small scale of their bilateral aid does not require a separate organization. Italy, a larger country, has an agency in charge of aid implementation in its Ministry of Foreign Affairs. Also, in order to lessen the burden of implementation, it is possible to appeal to the embassies or make use of EU institutions through multilateral aid.

2. Integrated to Aid Department for Implementation

This type is the one that manages foreign aid in the most unified way among all the aid management systems. Not only does the independent department in charge of the aid allow integration at the policy measure, but

the department is also in charge of implementing aid projects. The only DAC member country that has this type of aid management system is Great Britain. DAC's Peer Review of the United Kingdom (2010, p. 17) on British aid states that the British system presents a strong model for development aid.

However, for such a system to work, aid policy must enjoy a high status in overall state policy. Britain maintains it mainly because of its unique background in its history of ruling vast colonies and the necessity of managing the British Commonwealth. This means that maintaining its relations with its former colonies and managing its foreign holdings and Commonwealth countries take policy priority. Furthermore, the experience of running the colonies has made foreign relations more important as a policy area in Britain compared to other countries.

3. Separated Aid Department in Charge of Implementation

In this type, there is a separate ministry in charge of foreign aid to establish and control national aid policy, but various implementation agencies or departments participate in the implementation of the aid projects. Of the DAC member states, only Germany falls into this type.

This type has the advantage of consistency in the donor country's policy because policy is integrated and does not burden the recipient country with segmentation. Since the ministry in charge is at the federal level, it is able to use political power in the control of policy even if various departments are involved. Furthermore, the kinds of expertise required in the implementation process may differ depending on the type of aid. Also, since the implementation agencies differ by type, this

type has the advantage of maximizing expertise in implementation. Germany in particular has a higher proportion of credit assistance compared to other European countries, making it suitable for a diversified implementation system.

However, as in the previously mentioned types, the scale of aid should be quite large for there to be a separate department in charge of development cooperation; there should be a nation-level consensus about the importance of aid for this system to be administratively feasible.

4. Separated Department or Agency in Policy and Implementation

In this type, aid policy is divided among multiple departments and the execution or implementation of aid projects is also divided. This is the type whose segmentation of aid policy within the donor country is the most severe among all types, and whose policy consistency is the most difficult to maintain. The problem is not severe for countries in this type if the economics ministry is only in charge of multilateral and bilateral aid in the finance sector and the foreign affairs ministry is in charge of the rest. These countries are functionally identical to those in the first type, where policy is focused on the Foreign Ministry. Switzerland is an example of this type, as is Spain, other than the comparative importance of its local governments.

The worst-case scenario in this type is one where various departments implement their individual aid policies without central control. Greece is one example. Although adjustments among departments is crucial in maintaining consistency of policy among them and improving the effectiveness of aid, this seems unlikely to happen because of the large num-

ber of departments involved and their traditionally strong autonomy. Legal provisions for a control agency among departments, therefore, are not of great importance.

5. Separated Policy but Integrated in Implementation

In this type, aid policy is divided among two or more departments, but the implementation of aid after policy decisions is largely concentrated in one department. In this type, it is likely that both policy and implementation were segmented as in Type 4, and although practical difficulties hindered integration at the policy level, the implementation agency was unified for synergy effect at the execution stage.

France, Austria, and Portugal all separated out the implementation function, formerly at their ministries of foreign affairs, and created independent implementation agencies for integrated implementation. That is, these are not countries that integrated formerly independent implementation agencies.

This type is an experimental form of aid management, at least in Europe, and it remains to be seen whether the integrated implementation agencies will result in the actual unification of bilateral aid implementation. Theoretically, this type is limited in a government-wide approach to policy, such as strategy establishment, but is expected to have positive effects, such as avoidance of overlapping projects at the implementation stage, the creation of synergy by combining similar projects, the improvement of efficiency by saving resources, the increased effectiveness by information sharing, and the reduction of administrative burdens for the recipient state.

Implications for the Improvement of Korea's Aid Management System

Considering the characteristics of Korean aid, it appears policy bifurcation is inevitable in its aid management system. With similar proportions of credit assistance (38.5%) and grant-type aid, policy integration is not to be expected. The departments have conflicting interests and there are also issues of expertise and of linkage with other policies.

With lack of integration in policy, the key is how effectively policy is implemented for government strategy and consistency. As in the case of Europe, the question is not whether to establish an adjustment agency or what kind of cooperative agencies to put in place. The important point is the political will to operate these adjustment and cooperative agencies at a practical level. Of particular importance are the will and authority of the organization that leads the agency.

Furthermore, integration at the execution level, that is, the integration of implementation agency, is even more important than integration at the policy level. For instance, we can seek to integrate KOICA and EDCF management for which there is European precedent in France, Austria, and Portugal. The integration of JICA and OECF in Japan is another example. The integration of aid implementation may bring about such effects as improvement of cost efficiency, prevention of redundant projects, synergy through combination of similar projects, and greater executive capability and expertise through information sharing.

In sum, case studies on European countries lead to the conclusion that Korea's aid management system should be reformed into a separated policy but integrated in implementation model. Considering the scale of aid, the type of aid, and the system of aid policy implementation, such a reform is recommended to reduce the segmentation problem. **KIEP**