South Korea Profile

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

<table>
<thead>
<tr>
<th>ODA Net Disbursements</th>
<th>2008</th>
<th>as % of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>797</td>
<td>0.09%</td>
</tr>
</tbody>
</table>

OECD/DAC, preliminary 2008 data

In 2008, South Korean net ODA disbursements stood at US$ 797 million, 186% up from their 2002 level. The above figures do not include aid to North Korea. Figures from the Korean Ministry of Finance and Economy put inter-Korean aid at US$ 124 million for 2005 (MOFE, 2006, p16), whilst other sources give figures as high as US$ 430 million (Jerve, 2006, p7). Hence, if assistance to North Korea has stayed at the same levels since 2005, ODA could be 0.13% of GNI

1.2. Future Quantity Intent

Korea is aiming for an aid programme worth US$ 1 billion by 2010. In its 5-point plan for development assistance (see below), Korea has also laid out targets to reach 0.1% of GNI in ODA by 2009, and 0.25% by 2015, which would amount to US$ 2.8 billion. Also, Korea has pledged to triple aid to Africa by 2008, as part of its Initiative for Africa’s Development. Further, Korea does plan to double its aid for technical assistance by 2010, allocating 40% of this assistance toward “governance which includes support for aid-for-trade” (OECD/DAC, 2007). Also, in December 2007, Korea pledged US$ 13 million to the Palestinian Authority.

2) KEY AGENCIES/MECHANISMS

2.1 Bilateral Agencies and Structures

Ministry of Foreign Affairs and Trade (MOFAT)
Korea’s Ministry of Foreign Affairs and Trade is the lead ministry with regard to overall aid strategy. The ministry deals directly with multilateral organisations, but delegates most ODA policy making and implementation of projects to the Korean International Cooperation Agency (KOICA), which falls under its authority.

Ministry of Finance and Economy (MOFE)
One of the responsibilities of Korea’s Ministry of Finance and Economy is external economic cooperation. The Korean Export-Import Bank falls under MOFE’s auspices.

Korea International Cooperation Agency (KOICA) - (see KOICA, 2006)
KOICA was established in 1991 and is the main conduit for Korean grants. In 2005, it delivered 28% of Korean ODA. KOICA focuses its aid on supporting human
resource development and providing material and physical aid necessary to reduce poverty and achieve sustainable development.

*Korea Export-Import (EXIM) Bank and the Economic Development Cooperation Fund (EDCF)* – (see EXIM, 2007a)
Apart from the standard functions of an Export-Import Bank, Korea’s EXIM Bank also manages two government funds: the Economic Development Cooperation Fund (EDCF) and the economic cooperation programme with North Korea. EDCF, established in 1987, delivers Korea’s concessional loan programme. Its objectives are to “help developing countries spur industrial growth and improve economic stability as well as to encourage development of a sound economic relationship between other countries and Korea” (EDCF, 2007a). It includes loans, co-financing and mixed credits.

*International Development Cooperation Committee (IDCC)*
This is currently working to establish a comprehensive national ODA plan “aimed at streamlining its assistance” (MOFAT, 2006a, p134). It is chaired by the Prime Minister, reflecting the high profile of foreign aid in Korean politics. It to bring together the relevant Government actors, including high level representation from ministries, KOICA and the EXIM Bank, and there are also 6 seats reserved for non-Government members.

2.2 Key Policies and Legislation
Korea’s aid system is going through a period of flux, with large increases in quantity and a high-profile debate on the direction its aid policies should take. Development of a “Basic Act on ODA” is underway (MOFAT, 2007a), and it plans to join the OECD’s Development Assistance Committee (DAC) by 2010. Korea is convinced it has something distinct to bring to the DAC table: “We are currently working on creating a uniquely Korean model for aid by focusing on sectors in which we have comparative advantages to differentiate ourselves from other donor countries’ such the OECD-Development Assistance Committee” (MOFAT, 2007b).

*Korea’s Initiative for Africa’s Development* (MOFAT, 2006b)
Korea’s Initiative for Africa’s Development was announced during the President’s state visit to Nigeria in March 2006. It describes an increased focus of Korean aid on Africa, and targets all 47 countries in the African Union, plus Morocco. The focus of aid will be on five areas (which the Koreans also link to achieving the MDGs): (i) investment in human capital, (ii) development of health infrastructure, (iii) expertise in administrative governance, (iv) information and communication systems, and (v) agricultural communities. Of the 47 nations, 20 will receive bilateral program-based aid (e.g. various forms of pooled funding and direct budget support), with the remaining 27 getting multilateral aid coordinated with international/regional organizations (for an estimated 18% of the total, including support to e.g. NEPAD and the AU). The document also stresses the importance for Korean aid to Africa to be delivered in “close coordination with other donor nations to optimize the efficiency and consistency of the aid”.

*Korean Diplomatic White Paper* (MOFAT, 2006a)
The 2006 White Paper gives a good overview on how Korea is planning to organise its aid bureaucracy in the next couple of years, without giving much detail.
**Mid-term (2008-2010) ODA Policy (MOFAT, 2007c)**

The objectives of Korea’s Mid-Term ODA Policy are to “contribute to the achievement of development goals including MDGs and enhancement development capacity for the poverty eradication and sustainable development of developing countries”. It will also “prioritize in a coordinated manner all sectors Korea has a comparative advantage such as health, education and human resources development, governance, ICT and agricultural and rural area”. Also, the policy shows Korea’s commitment to ensuring policy coherence, and to coordinate and harmonize Korea’s aid policy with other donors.

**EDCF Medium-Term Strategic Management Plan (EXIM, 2007b, p26-27).**

In 2006, EDCF developed its Medium-Term Strategic Management Plan, “which takes a longer-term approach so as to efficiently identify eligible projects and to set forth goals, principles and management strategies for the years 2006 to 2009”.

### 3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

#### 3.1. Recipient Countries

**Table 3.1a: Top 10 recipients (for 2006)**

<table>
<thead>
<tr>
<th>based on net disbursements</th>
<th>US$ millions</th>
<th>% of total bilateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Iraq</td>
<td>57.1</td>
<td>15.2%</td>
</tr>
<tr>
<td>2. Sri Lanka</td>
<td>22.7</td>
<td>6.0%</td>
</tr>
<tr>
<td>3. Bangladesh</td>
<td>22.2</td>
<td>5.9%</td>
</tr>
<tr>
<td>4. Indonesia</td>
<td>18.9</td>
<td>5.0%</td>
</tr>
<tr>
<td>5. Albania</td>
<td>16.9</td>
<td>4.5%</td>
</tr>
<tr>
<td>6. Kenya</td>
<td>15.5</td>
<td>4.1%</td>
</tr>
<tr>
<td>7. Cambodia</td>
<td>13.8</td>
<td>3.7%</td>
</tr>
<tr>
<td>8. Laos</td>
<td>13.6</td>
<td>3.6%</td>
</tr>
<tr>
<td>9. Bosnia-Herzegovina</td>
<td>12.9</td>
<td>3.4%</td>
</tr>
<tr>
<td>10. China</td>
<td>10.2</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Total Top 10 Recipients</strong></td>
<td><strong>203.7</strong></td>
<td><strong>54.2%</strong></td>
</tr>
</tbody>
</table>

Source: OECD/DAC database, table 2a.

Table 3.1a gives the top 10 recipients of Korean aid for 2006. However, it should be noted that North Korea probably got more aid than any of the countries mentioned (see section 1.1 for estimates). Also, aid to Iraq fell substantially between 2005 and 2006 (from US$ 150 million to US$ 57 million). Between 2003 and 2005, KOICA delivered aid to 156 countries in Asia, Africa, the Middle East, Central and South America, Central Europe and CIS and Oceania (KOICA, 2006, p99). Since 1987, the EDCF has made loans to 41 countries (EXIM, 2007b, p28).

**Table 3.1b: Distribution among groups of recipients (for 2006)**

<table>
<thead>
<tr>
<th>based on net disbursements</th>
<th>% of total bilateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs</td>
<td>24.5%</td>
</tr>
<tr>
<td>Other LICs</td>
<td>12.9%</td>
</tr>
<tr>
<td>Asia</td>
<td>60.5%</td>
</tr>
</tbody>
</table>
Even though Asia still accounts for the vast bulk of Korean ODA (table 3.1b), especially with special reconstruction programmes in Iraq and Afghanistan and the aftermath of the earthquake in Pakistan and the tsunami, it is committed to increasingly focus its attention on Africa.

3.2. Allocation Criteria

3.2.1. Pre-selection criteria

Only for its Initiative for Africa’s Development does Korea have a pre-selection criterion in that Upper-Middle Income Countries (World Bank classification) are not eligible, unless “there is a specific diplomatic demand” (MOFAT, 2006b).

Mixed Credits (credits where soft loans from EDCF are combined with direct loans from the EXIM Bank) are only available to countries that meet the following two requirements: (i) the country is on the DAC list of Developing countries whose GNI is less than the World Bank limit for a 17-year loan (= IDA access threshold), and (ii) the country must be eligible for Buyer Credit at Korea’s EXIM Bank (EDCF, 2007b).

3.2.2. Allocation criteria:

KOICA has stated that in the coming years, it wants to concentrate on fewer partner countries in order to make its aid more effective. To this end, KOICA has placed 58 countries into 3 partner country groupings: (i) priority partners,¹ (ii) normal partners and (iii) special partners. Countries are allocated according to poverty levels, governance, and relations with Korea (KOICA, 2006, p10). Currently, Korea has 18 priority partners.

As for concessional loans, the EDCF currently classifies recipient countries into 5 groups, which determine the terms and conditions of the loan.² Criteria taken into consideration are: economic development phase, per capita income level and other relevant factors (EDCF, 2007b). For terms and conditions of EDCF soft loans, see section 4.1.

4) AID POLICIES

4.1. Concessionality

Korean bilateral ODA consists of grants disbursed by KOICA and concessional loans disbursed by EDCF. In 2006, 75% of Korean ODA was delivered as grants (table 4.1a).

² As of 2003: Group I - LDC; Group II- Countries with GNI less than US$ 745 except for the LLDC; Group III - Countries with GNI from US$ 736-1,415; Group IV - Countries with GNI US$ 1,416-2,934; Group V - Countries with GNI US$ 2,935-5,115. (broadly equivalent to the World Bank classification (based on 2002 GNI) of countries into LICs (Groups I and II), LMICs (Groups III and IV) and UMICs (Group V).
Table 4.1a: Concessionality (for 2006)

<table>
<thead>
<tr>
<th>Grant share of total ODA</th>
<th>74.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant share of ODA to LDCs</td>
<td>?</td>
</tr>
</tbody>
</table>

Source: OECD/DAC database, table 1.

In 2000-03, the average grant element of EDCF concessional loans was 60%, and for mixed credits delivered by EDCF, it has a policy of maintaining the minimum concessionality level of 35% for Low-Income Countries, and 50% for LDCs as required by the OECD arrangement for tied aid (EDCF, 2007b). The Korean Government has indicated it wants to increase that share, to get closer to the DAC average. HIPCs indicate Korea delivers all of its ODA as grants in Bolivia and Guyana.

Table 4.1b: Terms of EXIM Bank Korea Concessional loans (ECDF loans)

<table>
<thead>
<tr>
<th>Grant Element (%)</th>
<th>35.0% - 78.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity (incl. grace period)</td>
<td>10 - 30 years</td>
</tr>
<tr>
<td>Grace Period (years)</td>
<td>5 - 10 years</td>
</tr>
<tr>
<td>Interest Rate (%)</td>
<td>0-5% - 3.0%</td>
</tr>
<tr>
<td>Service charge (%)</td>
<td>-</td>
</tr>
<tr>
<td>Currency denomination</td>
<td>Korean Won/US$</td>
</tr>
</tbody>
</table>


The terms and conditions of EDCF loans are determined by each recipient’s classification by EDCF. In 2006, the EDCF introduced foreign currency-denominated loans (especially in US$) to “better satisfy the needs of partner countries” (EXIM, 2007b p26-27).

4.2. Types of Assistance

Until recently, the main activity of Korean aid was Technical Cooperation (TC), both developing country nationals studying and training in Korea, and Korean experts and volunteers managing technical cooperation projects in developing countries. Even before Korea became a donor, its institutions were already running such programmes under trilateral agreements funded by mainly multilateral institutions. Technical cooperation is also considered by Korea as one of its main development assistance assets: “We believe that the most effective assistance that an emerging donor with a relative short ODA history and limited resources can provide is technical cooperation focused on knowledge transfer” (Jerve, 2006, p7-8). HIPCs such as Guyana and Honduras indicate that Korean is reasonably well aligned to country priorities, but does not always translate into building local capacity. In the Paris Declaration survey, (indicator 4) Korea reports best practice in the majority of surveyed countries (8 out of 13) including Bangladesh, Indonesia and Peru where all Korean aid is considered to be well aligned to local priorities.

Table 4.2: Types of Assistance (for 2006)

<table>
<thead>
<tr>
<th>based on net disbursements</th>
<th>US$m</th>
<th>% of total bilateral aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project &amp; Programme Aid</td>
<td>81.6</td>
<td>21.7%</td>
</tr>
<tr>
<td>Technical Co-operation</td>
<td>116.8</td>
<td>31.1%</td>
</tr>
</tbody>
</table>
South Korea Profile

<table>
<thead>
<tr>
<th>Humanitarian Aid</th>
<th>24.4</th>
<th>6.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to NGOs</td>
<td>5.1</td>
<td>1.4%</td>
</tr>
<tr>
<td>Support to Int'l private organizations</td>
<td>0.2</td>
<td>0.1%</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>25.3</td>
<td>6.7%</td>
</tr>
<tr>
<td>Other grants</td>
<td>5.6</td>
<td>1.5%</td>
</tr>
<tr>
<td>Other Lending</td>
<td>117.1</td>
<td>31.1%</td>
</tr>
<tr>
<td>Total</td>
<td>376.1</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: OECD/DAC database, table 1, except for memo items which are based on OECD/DAC database, table 3.

During the last decade, Korea has delivered some debt relief, and participated in the HIPC initiative in which it had delivered debt relief worth US$ 7 million to 2 HIPC's (IDA and IMF, 2007, p94). It provided debt relief through the Paris Club to Indonesia and Pakistan (UN, 2004), and has provided support to the World Bank HIPC fund (World Bank, 2002). More recently, it has indicated its willingness to fund the AfDB and IDA to participate in the Multilateral Debt Relief Initiative (MDRI) (MOFAT, 2007d).

Korea has indicated that it will in future deliver a higher proportion of its aid through Programme Based Approaches (PBAs). Paris Survey Indicator 9 indicates Korean PBAs only in Cambodia in 2007. In general, HIPCs indicate a very low proportion of PBA-based aid, even in 2006.

4.3. Channels of Assistance
Korea has substantially increased its multilateral assistance in recent years. Growth in multilateral ODA between 2004 and 2005 more than tripled, mainly because of large contributions worth more than US$ 200 million to the World Bank’s IDA and the Inter-American Development Bank’s Special Fund, but 2006 total multilateral contributions were only 27% of the 2006 level. In 2006, multilateral ODA comprised 17% of total Korean ODA.

Korea is also increasingly channelling ODA funds through NGO’s (both Korean and local), albeit starting from a very low base. In 2005, KOICA spent US$ 2.77 million on support to NGO’s, which is 1.3% of its total budget (KOICA, 2006, p86).

According to HIPCs, almost all Korean government-to-government aid is reported on-budget, especially in Bolivia, Guyana, Honduras and Nicaragua.

4.4. Sectors and Projects

<table>
<thead>
<tr>
<th>Table 4.4: Distribution of Aid by Sector (for 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>based on commitments</td>
</tr>
<tr>
<td>Social &amp; Admin. Infrastr.</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Health</td>
</tr>
</tbody>
</table>

HIPCs indicate varying experience with Korean aid alignment to their sectoral and PRSP priorities. Best practice can be found in Ethiopia, where more than 75% of aid is aligned.

4.5. Flexibility
As Korea had not by 2005 given aid through Programme Aid Approaches (PBAs), it did not provide BoP/budget support assistance in the case of a recipient country experiencing a negative external shock or when a country faced budgetary/BoP gaps. HIPCs confirm this picture of very little flexibility. However, Korea has recently indicated that, as a signatory to the Paris declaration, it plans to switch a major share of its aid to PBAs. However, Indicator 9 of the 2008 Paris survey reports no aid given through PBAs to any of the surveyed countries.

4.6. Predictability
For priority partners and sectoral priorities, KOICA is establishing 3-year country-specific and sector-specific programs (KOICA, 2006, p10). It is not clear how firm financial commitments in the outer years of these plans are, or how much in-year budgetary discretion remains. HIPCs do not indicate a high level of predictability of Korean ODA, with only Guyana suggesting that 75% is in a multi-year framework.

According to HIPCs, disbursements perform well against commitments, with Ethiopia and Guyana analysing that 100% of aid is disbursed in the intended fiscal year. The Paris Survey (indicator 7) indicates best practice in Egypt where 82% of disbursements recorded by Government were scheduled by the donor.

4.7. Conditionality
With the limited use of PBAs, Korea does not have macroeconomic or political conditions on its aid, and these therefore do not cause disbursement delays.

4.8. Policy Dialogue
As its aid programme expands and moves into PBAs, Korea is becoming increasingly more active in the policy dialogue in recipient countries. However, it has indicated that there are issues with finding enough Korean aid experts to keep up with the scaling up of its ODA activities, including the staffing of Korean aid programmes in recipient countries (Kim, 2003). HIPCs indicate a varying degree of involvement, with most support for government positions in Guyana and Bolivia.

Korean aid is currently almost entirely disbursed independent of decisions by the BWIs (except for joint TA programmes with the World Bank), and this is confirmed by HIPCs. However, it is not clear whether the shift to PBA aid might increase such linkages.

5) AID PROCEDURES

5.1 Conditions Precedent
KOICA is in the process of adopting Country Assistance Strategies for its priority partner countries, which should indicate sectoral priorities in 3-year financing frameworks (MOFAT, 2007e and KOICA, 2006, p10). Similarly, the EDCF introduced in 2006 the Country Cooperation Strategy and Program (CCSP) to “ensure efficient allocation of funds”, with CCSPs developed for Indonesia, Vietnam and the Philippines in 2006, and more to follow. These are based on the partner country’s development status, outlook, and strategies, as well as Korea’s assistance strategy (EXIM, 2007b, p30).

According to Paris Declaration survey indicator 6, Korea does not use any Project Implementation Units, except in Cambodia.

According to HIPCs, Korea has the fewest conditions precedent in Ethiopia, Honduras and Nicaragua, where it asks for only two conditions apart from a legal opinion, including a loan request and a project appraisal, as also indicated on the Eximbank website (EDCF 2007c). It does not appear to request much counterpart funding, with Guyana indicating none at all.

Overall, according to HIPCs, its procedural conditions are not onerous and cause virtually no delays in Bolivia and Guyana.

5.2 Disbursement Methods
Partly because almost all Korean aid was in projects as of 2005, virtually all payments were made directly to project executing enterprises, rather than in reimbursements or advance payments to government.

5.3 Disbursement Procedures
EDCF loan procedures are well explained in the Korea EXIM Bank website (see EDCF, 2007c). However, the degree to which Korean aid uses local rather than its own public financial management (PFM) systems - reporting, accounting, auditing
and evaluation - is not entirely clear. Honduras indicates to both the HIPC CBP analysis and the Paris Declaration survey a high degree of utilisation of Honduran systems, with only financial supervision and evaluation conducted by Korea. In the Paris Survey (indicator 5a), best practice is found in the Philippines, Indonesia and Mongolia where respectively 78%, 60% and 41% of Korean aid uses local management (PFM) systems. More information is currently being collected.

5.4 Procurement Procedures
EDCF procurement procedures are well described in the EDCF procurement section of the EXIM Bank website (see EDCF, 2007d). They indicate that EXIM Bank can use either untied procedures (international competitive bidding or shopping) or tied procedures (limited competitive bidding among Korean companies or direct contracting with Korean companies). HIPCs indicate that virtually all Korean bilateral aid is tied, except in Honduras, though Korea is willing to gradually increase its untied aid (MOFAT, 2007e). More information is currently being collected.

Paris indicator 5b indicates that Korean aid does not make significant use of recipient countries’ procurement systems (4 countries out of 13). Best practice is found in the Philippines (78%) and Indonesia (60%). This is confirmed by HIPCs, who nevertheless indicate that Korean procurement is efficient and keeps any delays to less than 6 months, notably in Ethiopia, Honduras and Nicaragua.

5.5 Coordination
Korea is a signatory to the Paris Declaration, and plans to join the DAC by 2010, and therefore aims to progress in implementing the Paris agenda. It has increased its participation in donor coordination meetings (Guyana, Honduras) and EDCF is co-financing projects with multilateral development banks, but no joint analytical work is reported (Indicator 10b), and there are no aid harmonization participation/initiatives in relation to Korean aid on www.aidharmonization.org. HIPCs also see Korea’s harmonisation with other donors as very low. As for joint missions (Indicator 10a), best practice is found in the Philippines (88%), Afghanistan and Nepal (both 33%).

The area in which the Koreans have been most active regarding cooperation with other donors is undoubtedly Technical Cooperation, with Kim (2003, p30) reporting that since 1991, KOICA has carried out joint-training courses and trilateral cooperation with multilaterals like APEC, UNDP and UNESCO and bilaterals like Israel, Chile, Singapore and Japan. More information on trilateral cooperation is currently being collected.

Key Sources (All internet-based sources accessed in April 2008)


EDCF (2007a) “What is EDCF?” accessed at www.koreaexim.go.kr/en/edcf/m01/s01_01.jsp


EDCF (2007c) “EDCF Loan Procedures”, accessed at www.koreaexim.go.kr/en/edcf/m02/s02_01.jsp


EXIM (2007a) “EXIM at a glance – Overview”, accessed at www.koreaexim.go.kr/en/about/m01/s01_01.jsp


