

WHY UNTIE AID? AN EMPIRICAL ANALYSIS OF THE DETERMINANTS OF SOUTH KOREA'S UNTIED AID FROM 2010 TO 2013

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Abstract: As untying aid was widely considered key to enhancing aid effectiveness, the South Korean government decided to increase the share of untied aid. While the share increased substantially in recent years, considerable variation exists in the proportion of untied aid provided to different recipient countries. This article explores the reasons why. We identify three key variables: international factors, economic interests and recipient country governance. By analysing South Korea's aid data for the period 2010–2013, we find that Korea's aid-untying practice is affected by international norms and the recipient country's governance, but not by peer pressure and economic interests. Copyright © 2015 John Wiley & Sons, Ltd.

Keywords: foreign aid; official development assistance; development cooperation; untied aid; untying of aid; South Korea

1 INTRODUCTION

South Korean economic development has been praised as a success story of foreign aid because it played a significant role, especially during the early stages of the economic take-off (Kim, 2011; MOSF, 2012). As an emerging donor and one of the newest members of Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC), South Korea is regarded as a model of economic development for many developing countries. While the aid amount given by South Korea accounts for less than 1 per cent of total aid given by OECD/DAC countries in 2011, its growth rate of 17.6 per cent (2011–2012) in the aftermath of the 2008 financial crisis is

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remarkable. As of 2012, South Korea provided US\$1551 million to developing countries, showing a considerable increase from US\$279 million a decade ago. Although it is still controversial if foreign aid has increased recipients' welfare and reduced global poverty (Sachs, 2005; Riddell, 2007; Easterly, 2006; Moyo, 2009), recent studies find that aid has long-run positive cumulative impacts on recipients' economic growth (Arndt, Jones, & Tarp, 2015). Acknowledging the impact of aid on growth of developing countries and its increasing role in foreign policy, South Korea pledged to increase its aid amount from 0.14 per cent of GNI in 2012 to 0.25 per cent by 2015 near to the DAC average of 0.29 per cent (CIDC, 2011).

As South Korea's presence has grown in the aid community, international and domestic pressure to improve the quality of aid has also increased. This pressure has arisen because after more than 60 years of aid experience, many aid-providing countries and practitioners note that aid quality is a crucial factor affecting economic welfare in the recipient countries as well as the global eradication of poverty (World Bank, 1998; OECD, 2005). In this context, increasing attention has been directed to the quality of aid, especially how aid can be used more effectively to achieve developmental goals.

Untying aid is one of many practices that are widely considered key to enhancing aid effectiveness. With tied aid, aid-receiving countries are required to purchase goods and services only from selected providers—usually the countries that provide aid. Such conditionality has been criticized because it discourages local initiatives and ownership, prolongs recipient aid dependence and increases procurement costs by as much as 30 per cent, which negatively affects aid effectiveness (Jepma, 1991; Clay, Geddes, & Natali, 2009). Although untied aid has become a global norm, the share of South Korean aid that is untied remains much lower than the average among DAC countries. In 2010, 35.7 per cent of South Korean official development assistance (ODA) was untied, whereas the average for other DAC countries was approximately 83.7 per cent (OECD, 2012a). In this regard, South Korea's foreign aid has been criticized because the Korean government appears to emphasize its economic benefits over poverty alleviation and economic development in developing countries.

Facing growing international pressure, the Korean government decided to increase the share of untied aid up to 75 per cent of its total aid by 2015. This pledge to more than double the share of untied aid while at the same time increasing aid to 0.25 per cent of GNI made the Korean government implement aid-untying policies in careful consideration of various aid-related factors and actors. Interestingly, the Korean government did not untie its aid evenly across the board. In fact, considerable variation exists in the proportion of untied aid provided to different recipient countries. For instance, while South Korea's aid to Somalia was fully untied in 2011, aid to Zambia was fully tied in the same year. Why do the untied aid ratios of South Korea's foreign aid vary in different recipients? What affects South Korea's aid-untying practices? This article explores the reasons why. Despite the growing number of studies that focus on South Korea's ODA, closer examinations of Korea's untied aid and its determinants are rare. This article aims to investigate this relatively unexplored area by empirically testing the relationship between various factors and the share of South Korean untied aid received by each country.

Based on previous works, we identify three key variables that are expected to affect untied aid: international factors, economic interests and recipient country governance. By analysing South Korea's aid data, which are extracted from the OECD Creditor Reporting System (CRS) for the period 2010–2013, we find that the share of untied aid is higher among the least developed countries (LDCs) and less corrupt recipient countries.

In addition, the share of untied aid is inversely correlated with recipient government effectiveness. Interestingly, the results suggest that South Korea's economic interests and peer pressure are not statistically related to the proportion of untied aid received from South Korea.

This article is organized as follows. First, prior works on aid in general and untying aid in particular are examined. The second section briefly reviews the history and current status of South Korea's aid and its characteristics. Then, key variables and hypotheses are presented, followed by statistical analyses and discussion of the empirical findings. Finally, it concludes with several policy implications.

2 PRIOR RESEARCH ON UNTYING AID

Despite the long history of international development cooperation since World War II, many developing countries still face daunting challenges in economic and human development. Despite signs of progress, 1.2 billion people were living in extreme poverty as of 2010, and many development issues remain unresolved in many developing countries (UN MDGs Report, 2014). Meanwhile, many people in donor countries increasingly question the rationale of helping poor people abroad, especially when the economic situation worsens at home. Donors increasingly feel 'aid fatigue' and try to devise ways to make their aid more effective in achieving its primary goals, improving economic development and welfare in the recipient countries.

Among the various ways to enhance aid effectiveness, untying aid has become a global norm among donor countries. In tied aid, the recipient country can procure goods and services only from firms in a limited number of countries, and it is likely that recipient countries will spend more to obtain these goods than they would have in internationally competitive markets. According to prior studies on aid-tying practices (OECD, 2001), donors face economic incentives to tie their aid to improve opportunities to export their products to recipient countries. In addition, donors may have political reasons to tie aid when its visibility is useful to obtain domestic constituents' support for it. In this regard, untying aid is said to be more effective because it allows recipient countries to procure goods and services from the least costly suppliers. In fact, according to Jepma (1991), tied aid increases procurement costs by 15–30 per cent; therefore, the actual amount the recipient country can utilize for its development decreases significantly. Follow-up studies utilizing different methods reached similar conclusions (OECD, 2001; Aryeetey, Osei, & Quartey, 2003; Kwon, 2007; Clay *et al.*, 2009; People's Solidarity for Participatory Democracy's, 2010). More importantly, it has been argued that in addition to increasing procurement costs and decreasing aid effectiveness, tied aid increases the aid dependence of recipients, discourages local initiatives, undermines ownership and therefore impedes sustainable development.

Because of the negative effects of tied aid on recipient countries, issues regarding the untying of aid have been discussed since the early period of foreign aid, and international norms regarding aid-untying practices have emerged over time. In 1969, many OECD members showed their readiness to untie their bilateral aid, whereas other members disagreed with this early aid-untying scheme. In 1974, 10 donor countries signed a memorandum of understanding on the untying of ODA, but this agreement could not be fully implemented because of the oil crisis. In 1992, an agreement on principles to guide the use of tied aid led donor governments to search for ways to untie their aid, and the

DAC High-Level Meeting in 1998 mandated a recommendation to untie aid to LDCs. After this discussion, in 2001, DAC member countries agreed to untie most categories of aid to LDCs, except freestanding technical cooperation and food aid, which became a significant milestone in the aid-untying efforts (Clay *et al.*, 2009).¹

Previous efforts to untie ODA continued when DAC countries agreed on the Paris Declaration on Aid Effectiveness in 2005, which acknowledged the significance of untying aid and provided more concrete plans to implement the agreement. The Paris Declaration presented five principles to improve aid effectiveness—ownership, alignment, harmonization, managing the results and mutual accountability—along with 12 implementation indexes. Among these principles, alignment seeks to improve aid effectiveness by aligning donor aid with partner countries' development strategies and by strengthening the national systems of recipient countries, including their financial and procurement systems and developmental capacity.² The Accra Agenda for Action on aid effectiveness in 2008 reaffirmed the commitment of donor countries (Knack & Smets, 2013; OECD, 2001).

The 2001 Recommendation for untying aid to LDCs and 2005 Paris Declaration created awareness in the international community concerning the importance of untied aid. According to the Paris Declaration Monitoring Survey by the OECD, untied aid slightly but steadily increased from 78 per cent in 2005 to 84 per cent in 2009, although it did not reach the goal of 89 per cent or more by 2010 (OECD, 2012b, 54). Despite concerns that aid volume may decrease because of untying aid, bilateral untied aid and overall bilateral aid for LDCs increased from 1991 to 2001 (Kwon, 2007; Ha, 2007). Keeping pace with other donor countries, South Korea gradually increased its share of untied aid.

Although a growing consensus and concerted efforts to untie aid exist, the existing studies on untied aid have several limitations. First, most works on untied aid analyse its *effects* on aid effectiveness, whereas only a few studies examine the *determinants* of untied aid more closely (Jepma, 1991; Clay *et al.*, 2009). Table 1 indicates that clear variations exist in donors' aid-untying practices, but aid from some donors has already been fully untied, especially to LDCs and heavily indebted poor countries. However, the reasons why and the extent to which donors untie their aid have not been fully explored.

Second, despite the many normative arguments to untie aid, empirical analyses of untied aid are rare (Eom, Hwang, & Jung, 2014). For example, previous studies maintain that South Korea must untie its aid according to international norms and peer pressure from other DAC countries (OECD, 2012a, 2012b). To the best of our knowledge, however, whether international norms and peer pressure affect South Korea's untying of aid has not been empirically tested.

Finally, recipient countries and characteristics have not been considered when explaining aid-(un)tying practices; only donor interests—economic, political and reputational—have been emphasized. According to donor-centric explanations, donors' decisions to (un)tie aid are assumed to be independent of recipient countries' characteristics. Only a recipient's income level appears to play a role in the donor's decision. Nevertheless, even among

¹Because the recommendation of untying aid to LDCs was declared in 2001, tied aid of OECD member countries has rapidly changed to untied aid. This trend of untying continued, and almost all member countries exceedingly achieved their goals of untying ODA, from around 40 per cent in the mid-1980s to 76 per cent in 2007. Loans and non-grant forms of aid are main types of untied aid, and mixed credit arrangement is a limited one. Technical cooperation and food aid is excluded in 2001 recommendation.

²Untying aid is one of the important factors of the alignment, succeeding the DAC's recommendation for implementing untying aid to least developed countries in 2001 (Jang, 2007).

Table 1. Share of untied, partially tied and tied aid (DAC countries)

	2010			2011		
	Untied aid	Partially tied aid	Tied aid	Untied aid	Partially tied aid	Tied aid
Average in DAC	83.7	1.3	15	83.5	0.3	16.2
Australia	—	—	—	100	—	—
Austria	67.7	—	32.3	52	—	48
Belgium	93.2	—	6.8	95.8	—	4.2
Canada	99.2	—	0.8	99.2	—	0.8
Denmark	93.5	—	6.5	97.2	—	2.8
Finland	84.3	—	15.7	84.5	—	15.5
France	96.6	—	3.4	99	—	1
Germany	96	—	4	92.9	—	7.1
Greece	62.2	—	37.8	47.8	0.1	52.1
Ireland	100	—	—	98.4	1.6	—
Italy	58.5	1.0	40.5	53.8	5.3	40.9
Japan	93.7	3.4	2.9	94.3	0.9	4.8
Korea	35.7	—	64.3	51.1	—	48.9
Luxembourg	99	—	1	98.9	—	1.1
Netherlands	93.2	—	6.8	82.7	—	17.3
New Zealand	89.4	—	10.6	93.4	—	6.6
Norway	100	—	—	100	—	—
Portugal	32.9	—	67.1	12	—	88
Spain	76.2	16.6	7.3	93	2.7	4.3
Sweden	100	—	—	99.8	—	0.2
Switzerland	74	—	26	98	—	2
United Kingdom	100	—	—	100	—	—
USA	69.5	—	30.5	65.5	—	34.5
Standard deviation	20.02	6.86	20.50	23.41	1.80	24.19
Median	93.2	3.4	8.95	94.3	1.6	6.6

Source: EDCF (<http://www.edcfkorea.go.kr>).

recipients with similar income levels, great variations exist, which implies that non-economic variables may affect a donor's decision to untie its aid.

Unlike previous studies, this article closely examines the factors that affect the share of untied aid provided by South Korea to a recipient country. Specifically, this article carefully considers not only South Korea's economic interests but also international factors and recipient governance to explain its aid-untying practices. The South Korean case is interesting because untied aid from South Korea has increased substantially in recent years, and the ratios of untied aid provided to different recipients vary considerably. In the following section, a brief examination of South Korea's rise as a new donor and its aid-untying policies is presented.

3 SOUTH KOREA'S ODA AND AID-UNTYING EFFORTS

South Korea became a DAC member of the OECD in 2010, transforming itself from a major recipient of ODA into a donor. From the immediate aftermath of the Korean War to 1957, aid to South Korea, one of the poorest countries in the world, rapidly increased

to US\$380 million. The United States and Japan, which were motivated by politico-strategic and economic considerations, provided more than 90 per cent of bilateral aid to South Korea. Most multilateral aid to the country came from the World Bank in the form of concessional loans. In the 1960s, the Korean government began to implement a series of 5-year economic development plans, which all required considerable amounts of funding to succeed. Thereafter, grants to South Korea were gradually transferred to concessional loans, and technical cooperation and large amounts of such funds were invested in the country's economic infrastructure (Kim, 2012). As a recipient country, South Korea received US\$6.6 billion in grants and US\$5.5 billion in loans from 1945 to 1999 when South Korea graduated from its recipient status (KOICA, 2013; Lumsdaine & Schopf, 2007; Kim, 2013).

In 1963, South Korea first provided aid to developing countries for training programmes. With financial support from the United States, South Korea began inviting trainees from developing countries and dispatching experts of its own accord in 1965. South Korea's foreign assistance at this early stage was primarily motivated by strategic considerations to counter the influence of North Korea and focused on building cooperative relationships with newly independent developing countries in Asia and Africa.

As the South Korean economy developed, developing countries became interested in its experience of economic development, and their aid requests increased. The Economic Development Cooperation Fund (EDCF) and the Korea International Cooperation Agency (KOICA) were established in 1987 and 1991, respectively, to better manage and facilitate South Korea's foreign aid. In addition, it is argued that the major motivations of South Korean ODA changed from political and diplomatic to economic; the priority cooperation countries also changed from developing countries in Africa to those in Asia (Choi, 2011; Kim, 2012; Kim & Seddon, 2005; Lumsdaine & Schopf, 2007). In the 2000s, South Korean ODA gradually increased its scale and began to follow norms of international development cooperation especially as the Korean government prepared to submit applications for joining the DAC. The year 2010 was a watershed for South Korea because it became a member country of the DAC, which required it to meet the standards of international aid community regarding aid amounts and quality.

Consistent with its increasing role in the aid community, research on South Korea's ODA is rapidly growing. According to Kim and Oh (2012), there are two key trends in research on foreign aid: aid allocation and aid effectiveness. On the one hand, some scholars focus on aid allocation issues such as who provides foreign aid to whom, why and how much (Alesina & Dollar, 2000). Research on the determinants of South Korea's foreign aid has focused on donor interests, such as economic and politico-strategic considerations, or recipient needs, such as humanitarian and altruistic motivations (KOICA, 2013; Koo, 2011; Kim & Oh, 2012; Kim, Yoon, & Kim, 2013). Recent studies find that South Korea's selection of aid recipients and distribution patterns to these countries can be explained by both types of factors. For example, Kim *et al.* (2013) maintain that the 26 priority cooperation countries that receive approximately 70 per cent of South Korea's total ODA are chosen to enhance political, economic and humanitarian interests.

On the other hand, considerable attention has been directed to aid effectiveness. Although aid effectiveness is one of the most hotly debated topics among scholars and practitioners, only a few studies on the South Korean case exist because it is a new donor whose aid amount is not large enough to measure its effectiveness in promoting recipient development. Rather, many studies on aid effectiveness in South Korea focus on the

fragmented aid decision-making system. This system includes the Ministry of Strategy and Finance (MOSF) and EDCF, which are responsible for loans, and the Ministry of Foreign Affairs (MOFA) and KOICA, which manage grants. Scholars and NGO activists criticize this fragmented system and argue that it undermines the consistency of aid policy and therefore the effectiveness of aid.

Only a few studies examine untied aid from South Korea and its determinants despite its rapid growth, especially since the mid-2000s. In fact, the ratio of tied aid exceeded 95 per cent of total bilateral ODA provided by South Korea until 2006, although this share has decreased since 2007 (Lee, 2011). Because the ratio of tied aid was very high, the untying of aid was a crucial issue when South Korea sought to participate in international development cooperation more actively. Changes first started in the provision of grants such as removal of clauses in procurement rules that had facilitated aid-tying and inclusion of clauses that allowed competitive bidding, which increased international as well as local bidding. In 2008, KOICA started to provide its untied aid to the LDCs along with the amendment of its procurement rules and the establishment of electronic procurement system in recipient countries (KOICA, 2009). For instance, projects in Vietnam, Cameroon, Mongolia, Jordan and Tunisia included consulting for institutional design, system building, equipment provision and expert dispatch for training to establish or improve electronic procurement systems.

In 2009, the OECD DAC special evaluation report for membership recommended that South Korea untie more aid and quickly achieve international untying goals. To comply with this recommendation, the Korean government established guidelines for untying aid with the goal of untying 100 per cent of grants and 50 per cent of loans by 2015 (75 per cent of South Korea's total aid). Additionally, special emphasis was placed on untying aid for LDCs and heavily indebted poor countries with the objective of untying 90 per cent of aid to these countries by 2015.

As shown in Table 2, the share of untied aid has increased dramatically in recent years although it was still low compared with other DAC countries. Nevertheless, an increasing portion of South Korea's ODA became untied in the context of global norms, peer pressure from DAC countries and aid practitioner requests to untie aid. South Korea's reasons for untying aid, however, have remained unexplored. In the following section, we examine the factors that may affect South Korea's untying aid.

Table 2. South Korea's ODA (commitment, US\$ millions)

Year	Bilateral aid	Untied aid	Partially tied aid	Tied aid	Share of untied aid (%)	Share of tied aid (%)
2001	144.79	2.22	6.01	136.56	1.5	98.5
2002	214.46	3.35	19.12	191.98	1.6	98.4
2003	266.62	6.66	45.13	214.83	2.5	97.5
2004	410.08	17.2	61.51	331.37	4.2	95.8
2005	555.34	14.34	89.09	451.91	2.6	97.4
2006	524.65	9.99	97.7	416.96	1.9	98.1
2007	808.56	199.74	94.83	513.99	24.7	75.3
2008	1197.74	428.84	89.79	679.11	35.8	64.2
2009	1270.12	614.61	—	655.51	48.4	51.6
2010	1589.61	567.54	—	1022.06	35.7	64.3
2011	1341.74	685.33	—	656.41	51.1	48.9

Source: EDCF (<http://www.edcfkorea.go.kr>).

4 RESEARCH DESIGN

The South Korean government intends to increase its share of untied aid by 2015. Interestingly, the Korean government untied its aid unevenly, which indicates that the aid-untying process varied considerably depending on the recipient country. For example, South Korea provided fully untied aid to Somalia in 2011, whereas its ODA to Zambia in the same year was fully tied. Why does South Korea treat recipients differently? To answer this question, this article focuses on the following three mechanisms that may affect South Korea's aid-untying practices: international factors, economic considerations and governance in recipient countries.

4.1 International Norms and Peer Pressure

According to scholars who emphasize the role of international norms in shaping foreign policies, states may untie their aid because they are exposed to emerging international norms regarding untying aid. Because aid-tying has received considerable criticism as a primary cause of reduced aid effectiveness and a practice undermining local initiatives, in the early 2000s, the OECD DAC recommended that donors untie their aid, especially for LDCs, to strengthen their ownership of the aid. This concept became one of the key components of the 2005 Paris Declaration.

In this context, South Korea began to consider how to untie its aid in the 2000s. According to a government document on aid policy, it was clear that the South Korean government considered untying aid because there was a strong international consensus on it (CIDC, 2010). Moreover, the first peer review of South Korea's ODA in 2010 noted that South Korea needed to reduce the level of tied aid, especially for LDCs. In fact, South Korea's tied aid decreased over time from more than 98 per cent in 2006 to less than 50 per cent in 2011. Because there had been few discussions in the Korean government regarding untying aid in the early 2000s, it is likely that the government decision to untie aid, particularly to LDCs, was influenced by international standards. Therefore, we can hypothesize that South Korea, as a new member of the OECD DAC, tried to comply with global norms regarding untying aid.

Hypothesis 1. *The share of untied aid of total South Korean aid provided to LDCs is higher than that provided to non-LDCs.*

A donor country may untie its aid if other donors untie theirs. The untying of aid by fellow donor countries to a recipient country can affect a donor country's aid-untying decision because the donor would lose economic benefits by unilaterally untying aid. According to Jepma (1991, 14), 'those donors who initiate the process of untying damage their own interests if others do not follow'. Additionally, the potential benefits of untying aid by a small number of donors would be insufficient to reduce procurement costs of the recipient country, which may discourage untying aid.

Similarly, South Korea may determine its share of untied aid to a recipient country according to other donors' aid-untying practices in that country. Although a donor country may tie its aid even if other countries untie their aid to exploit an opportunity, peer pressure may work against this opportunistic behaviour. In this way, a donor would be sensitive to other donors' decisions to untie their aid to the same recipients. South Korea's decision to

untie aid to a recipient country can be affected by the extent to which other donors untie their aid to that country.

Hypothesis 2. *The share of South Korea's untied aid to a given recipient country is affected by the untied aid that country receives from all other donor countries.*

4.2 Economic Considerations

Economic considerations can also affect a donor's aid-untying practices. As an aid-untying strategy, the Korean government planned to increase 'the share of untied aid among aid loans in accordance with the recommendation of the international community *gradually and in stages*' (CIDC, 2011, 15 [italics added]). However, the same document also states that the mid- to long-term targets for untying aid will be examined in consultation with related agencies and the business community. Consideration of the business community in untying aid indicates that economic and corporate interests can influence aid-untying strategies during the decision-making process.

As many studies have noted, a donor country has an economic incentive to tie its aid because it can help domestic firms gain access to a recipient country's markets. By tying aid, a donor country can increase its exports to a recipient country, provide more business opportunities, increase the international competitiveness of domestic firms and create aid-related jobs. For example, Japan used its tied aid to resource-rich recipients to obtain energy supplies and sell its products (Chan, 1992). Industrial and commercial interest groups in a donor country, which expect economic benefits from tied aid, will likely influence aid-related policymaking decisions. According to Riddell (2007, 99), the high share of tied aid exists because 'for most donors, commercial pressures to obtain benefits from their aid programmes remain important, and for a number of donors, business interests continue to exert influence'. In this sense, a donor country may prefer aid that promotes its own commerce rather than the development of a recipient country. Therefore, tied aid is closely related to these 'mercantilist' motivations of aid-providing countries.

Despite its commitment to untying aid, South Korea's ODA policies indicate that the government clearly encourages domestic firms to participate in aid-related projects and programmes. According to the documents of the Committee for International Development and Cooperation (CIDC) chaired by the prime minister, the South Korean government clearly intended to assist South Korean firms' overseas operations through aid, especially in economic infrastructure projects (CIDC, 2011). Specifically, various measures have been used to encourage firms, particularly small and medium-sized enterprises, to expand their businesses abroad through ODA. These efforts include government-business conferences to discuss government support and business requests; information sessions for small and medium-sized enterprises with limited information on ODA and international procurement procedures; financial support such as loans, guarantees and export financing; and the institutionalization of support systems (MOSF, 2014).

Therefore, South Korean firms that would like to enter the procurement market of a recipient country but not to compete with foreign or local firms will likely pressure the government to tie aid to the recipient. In contrast, the government may be able to untie its aid to recipient countries whose trade and investment relationship with South Korea is weak because of little lobbying from businesses. We can expect that the share of untied

aid would be higher for a recipient country where fewer Korean investors and traders conduct business.

Hypothesis 3. *The share of untied aid of total South Korean aid is higher among recipient countries where the level of South Korean imports is lower.*

Hypothesis 4. *The share of untied aid of total South Korean aid is higher among recipient countries where the level of South Korean foreign direct investment (FDI) in the country is lower.*

4.3 Governance of Recipient Countries

Recipient countries' governance can be another factor that affects a donor's aid policy. In particular, a recipient country's procurement system is closely related to untying aid. According to the Accra Agenda for Action in 2008, donors are expected to use 'local and regional procurement by ensuring that their procurement procedures are transparent and allow local and regional firms to compete'. Because a properly functioning procurement system can reduce procurement costs for the same amount of development aid, a donor country is more willing to untie its aid to recipient countries with such a system in the hopes of improving aid effectiveness. In many recipient countries, however, procurement systems remain limited. Donor countries tie their aid and do not use the systems 'because the systems either lack the capacities or pose important fiduciary risks' (Ellmers, 2011, 5). In this regard, the ineffective procurement systems of recipient countries can discourage donors from untying aid. In contrast, when a recipient government has an effective procurement system, a donor government is likely to untie aid because it has confidence that the aid will be effectively implemented as expected.

Therefore, a donor country may have an incentive to untie its aid to a recipient government that can use aid resources effectively. Because a functioning procurement system is closely linked to the ways in which development aid is governed generally, a donor will provide more untied aid to a recipient with an effective government. Similarly, Miquel-Florensa (2007) argues that untied aid is more effective than tied aid in countries whose policy environments are more favourable to economic growth. In contrast, if a recipient government cannot deliver aid resources effectively to the needy and is characterized by poor governance, then a donor government would prefer to control implementation by tying its aid.

Hypothesis 5. *The share of untied aid of total South Korean aid is higher for recipient countries with effective government procurement systems.*

There have been many studies on the relationship between aid and corruption. Scholars suggest that aid does not necessarily reduce corruption. According to Knack (1999, 5), 'foreign aid represents a potential source of rents, with adverse effects on the quality of the public sector and on the incidence of corruption'. Aid increases publicly available resources and therefore reduces the receiving government's need and capacity to levy taxes, which, in turn, diminishes domestic pressure for accountability. Meanwhile, the effect of corruption on aid is less clear. Alesina and Weder (2002) find no clear evidence that aid is affected by the corruption of the receiving government. A recent study, however,

argues that corrupt governments receive more foreign aid (de la Croix & Delavallade, 2013). This unclear connection between corruption and level of aid received may reflect some donor countries' political and economic interests in the receiving countries regardless of their corrupt behaviour.

Although there are very few studies on the relationship between corruption and tied aid, corruption in recipient countries can affect aid untying. A donor country likely faces an incentive to tie its aid when the receiving government is corrupt. Amegashie *et al.* (2007) highlight cases of tied aid, which, despite its inefficiencies, can actually control a recipient's moral hazard behaviour by countering corruption. One of the reasons to untie aid is to provide opportunities for local firms to compete for aid contracts. In this regard, if corruption is widespread in an aid-receiving country, a donor country may have less incentive to untie its aid because of concerns over the misuse of funds. In this sense, we can expect that corruption in recipient countries negatively affects the aid-untying efforts of donors.

Hypothesis 6. *The share of untied aid of total South Korean aid is higher among less corrupt recipient countries than among more corrupt recipient countries.*

5 STATISTICAL ANALYSIS AND DISCUSSION

5.1 Data and Measurement of Variables

In this article, we use data from the OECD CRS database, which provides information on aid, such as donors, recipients, aid amounts and (un)tied aid amounts. The dependent variable is the share of untied aid of total South Korean aid in a given recipient country from 2010 to 2013.³ There are six explanatory variables: international norms, peer pressure, South Korean exports and FDI to the recipient country, recipient government effectiveness and corruption.

We create a dummy variable based on the CRS to operationalize the international untying norm. First, LDCs are coded as 1, whereas non-LDCs are coded as 0. To consider the peer pressure South Korea perceives from other donor countries, we use the untied aid provided by DAC countries, excluding South Korea, to a given recipient country to determine whether DAC countries affect South Korea's aid-untying in the recipient country.

To measure the economic considerations in untying aid, two variables are considered. First, the volume of South Korea's exports to a given recipient country is used to examine how economic interests affect the level of untied aid to the country. Second, the amount of South Korea's FDI in the country is employed as another economic variable to investigate how investment is related to its aid-untying practices. Data on South Korean exports and FDI are available from the Korea Trade-Investment Promotion Agency and the EDCF websites, respectively.

To measure the characteristics of a recipient country, which are expected to affect untied aid from South Korea, we use the Worldwide Governance Indicators (WGI) developed by the World Bank. First, the government effectiveness variable, which ranges from -2.5 to 2.5 (where a higher value denotes greater effectiveness), is employed as a proxy for the

³We use the data only from 2010 to 2013 because the quality of South Korea's aid data improved significantly after it gained DAC membership in 2010.

Table 3. Summary statistics

	Obs.	Mean	Standard deviation	Min	Max
Untied ODA ratio	528	0.316	0.348	0	1
International norm (LDCs)	529	0.294	0.456	0	1
Peer pressure	527	1.070	2.710	0	44.256
Export to recipient	528	2 677 202	1.55e+07	0	2.21e+08
FDI in recipient	528	84 073.26	396 295.4	0	5 097 480
Government effectiveness (WGI)	502	-0.531	0.634	-2.26	1.26
Corruption Perception Index	464	30.472	13.051	2	72
Population (log)	487	15.800	2.107	9.191	21.024
GDP per capita	492	3911.954	3804.595	185.23	24 035.7

effectiveness of a government procurement system. According to the WGI website, government effectiveness 'captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies'. Second, the Corruption Perception Index reported by Transparency International is used to examine the level of corruption in a given recipient country. The Corruption Perception Index score ranges from 0 to 100, where a higher score implies a less corrupt government.⁴

To control for country size, the population and GDP per capita of the recipient countries are included as control variables in the analysis. For population, the logarithm is used. To examine the effects of the independent variables on the dependent variable, the values of the independent variables are lagged by 1 year.

Our data are unbalanced panel data because some recipient countries lack complete data for all 3 years. Our panel data analysis employs random effects models estimated by generalized least squares (GLS) to account for time invariant variables. This method provides useful information in terms of longitudinal analysis. Before the statistical analysis, Table 3 presents the descriptive statistics including the number of observations, mean, standard deviation and minimum and maximum values of key variables. For the dependent variable, the mean value is 0.316, which indicates that South Korea still provides more tied aid to recipients. All variables show considerable variation.

6 RESULTS AND DISCUSSION

Table 4 presents the results of a panel regression analysis of the factors affecting the share of untied aid provided by South Korea to a given recipient. The panel regression analysis indicates that international norms and recipient governance help explain South Korea's aid-untying practices. The GDP per capita of recipient countries also affects the dependent variable.⁵

⁴The Corruption Perception Index was measured as a score between 0 and 10 until 2012; therefore, scores prior to 2012 are converted to the 100 scale.

⁵Of the control variables, only GDP per capita is negatively associated with aid-untying practices. This result suggests that GDP per capita may be linked to the economic motives behind aid-tying practices because there may be more business opportunities in wealthier recipient countries.

Table 4. Results

	Coefficient	Robust Standard error	$p > z $
International norm (LDCs)	0.134***	0.052	0.010
Peer pressure	-0.003	0.002	0.141
Export to recipient	0.151	0.128	0.238
FDI in recipient	-6.292	6.450	0.329
Government effectiveness (WGI)	-0.079**	0.038	0.034
Corruption Perception Index	0.003**	0.001	0.026
Population (log)	0.018	0.011	0.100
GDP per capita	-0.000***	4.82e-06	0.002
cons	-0.099	0.188	0.594
N		416	
rho		0.313	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

First, the results suggest that South Korea seriously considers international norms of untying aid to LDCs because its share of untied aid is higher for LDCs than for non-LDCs. However, it appears that South Korea pays little attention to other donors' aid-untying practices regarding a given recipient. The ratio of untied aid from other donors to a recipient (excluding South Korea's aid) does not affect the level of untied aid received from South Korea. This result implies that South Korea complies with international norms in general, whereas when aid policies specific to recipient countries are made, South Korea may adopt its own aid strategy. The competition in aid policy circles may explain this result. According to Kim (2015), there exist two mainstream aid discourses in South Korea: 'ethical leadership' or 'strategic followership' discourse, advocated mainly by MOFA, KOICA and NGOs, which respects and accepts global aid norms and 'intellectual leadership' discourse, supported mainly by MOSF, government think-tanks and corporations, that stresses alternative development paths based on Korea's own development experience. In this regard, South Korea's partial compliance with the DAC's aid-untying norms may result from 'a complex, strategic amalgam' of these two competing policy discourses (Kim, 2015, 4).

Second, economic considerations do not seem to affect the ratio of untied aid received from South Korea. South Korea's exports and FDI to a given recipient country have little effect on the dependent variable. There are several likely reasons for this unexpected outcome. First, the South Korean government may tie its aid to a recipient country whose trade and investment relationship with Korea is weak precisely because it seeks to promote its economic interests further in such a country by incentivizing domestic firms to conduct business there. According to Kimura and Todo (2010), foreign aid has a positive vanguard effect on FDI. When a donor country provides aid to a recipient country, private investors from the donor are encouraged to invest in the recipient because close coordination and consultation between public and private sectors facilitate information-sharing with regard to the recipient's business environment and reduce perception of investment risks. This reverse causality may explain this unexpected result. Second, we use the total amount of South Korea's exports and FDI to a given country to measure the significance of economic interests in that country. However, many recipient countries do not trade with Korea or receive FDI but receive aid from South Korea, which may explain the result. Finally, this result may occur because we do not distinguish grants and loans, and loans may be more

affected by economic considerations. Given that the institutional setting of MOSF/EDCF providing loans and MOFA/KOICA supplying grants and consequent inter-ministerial competition in Korea affected aid policies including untying of aid,⁶ it needs further investigation if South Korea is employing a vanguard strategy to link aid to future FDI prospects for Korean companies.

Third, it is clear that the governance of recipient countries is statistically significant. The results show that government effectiveness and level of corruption are statistically meaningful. However, the coefficient of government effectiveness shows a different direction from that posed in Hypothesis 5. Although untied ODA was expected to be higher for a recipient country that has an effective government, the analysis shows the opposite result. More effective governments receive a larger portion of tied aid. One possible explanation may be measurement problems because we use the government effectiveness index as a proxy for an effective procurement system in a recipient country. Yet another possibility is that the Korean government might provide more untied aid to ineffective governments because it joined international efforts like Accra Agenda for Action to help them strengthen their procurement systems by using them. This possibility needs to be explored through case studies and process tracing. In contrast, the share of untied aid received from South Korea is lower for more corrupt recipients as expected. South Korea maintains more control over its aid if it worries that a corrupt government will misuse the funds, whereas it unties its aid when it has some confidence in a recipient country with a less corrupt government.

Last but not least, it needs to be stressed that formal reporting of untying may not be necessarily associated with actual shift in procurement patterns and practices. According to Clay *et al.* (2009), despite the overall positive progress in the formal untying of aid that applies to donors' rules and regulations, many donors still try to influence its untied aid for historical, institutional and/or economic reasons. Given a gap between *de jure* and *de facto* untying by DAC countries, it remains to be examined if South Korea's formal aid-untying resulted in genuine changes in procurement patterns.

7 CONCLUSION

Untying foreign aid has become a global norm in the aid community because it is believed to enhance aid effectiveness. South Korea joined this international endeavour and pledged to increase its share of untied aid substantially by 2015. Although numerous studies have stressed the need to untie aid, the factors that affect untying have been relatively unexplored. In this article, we closely examine South Korea's ODA and the factors that have influenced its aid-untying practices.

This article finds that South Korea's untied aid to a given recipient country is affected by international norms and recipient country governance and is not affected by peer pressure or its economic relationship with the country. While the share of untied aid from other donors does not affect the level of untied aid provided by South Korea, South Korea provided more untied aid to LDCs, implying that South Korea's aid-untying strategy complies with international norms to a certain extent.

⁶During the period of 2010–2013, South Korea provided approximately US\$4.5 billion in loans and US\$2 billion in grants to recipient countries. Loans (42.09 per cent) and grants (55.43 per cent) were untied, implying that MOSF/EDCF be more interested in economic interests.

As for recipient country governance, the result shows it affects South Korea's aid-untying practices but requires further explanation. On the one hand, Korea's aid is more untied to recipient governments with less corruption as expected. On the other hand, more untied aid is provided to ineffective governments. This counterintuitive finding may result from a measurement problem because the overall government effectiveness index employed in this article cannot properly measure the extent to which a recipient government has an effective procurement system. Therefore, it remains to be determined precisely why the South Korean government provides more untied aid to ineffective governments.

Finally, the findings suggest that South Korea's aid-untying practices from 2010 to 2013 may not have been affected by economic considerations to the level originally believed. Unlike common wisdom that foreign aid has economic motivations, South Korea's export and FDI to recipient countries are not positively related to more tied aid to them. A possible explanation is that when the Korean government would like to promote its economic interests in countries whose markets are promising, although economic ties being weak at present, it may use foreign aid as a 'vanguard' of export and investment to such countries.

In sum, this article shows that contrary to the donor-centric view of economic interests, a recipient country's governance and international norm influence South Korea's aid-untying practices. It, however, has several limitations. First, the key variables require improved operationalization. Second, comparative research would help us determine which factors explain different donors' aid-untying practices. Third, case studies and process tracing would help clarify the causal mechanisms behind a donor's decision to untie aid. An important question is whether South Korea's formal untieing is associated with genuine changes in procurement patterns, which may be best answered through in-depth case studies and systematic data collection. Therefore, case studies and process tracing regarding incentives and strategies of various aid providers and their competition would help us better examine whether international norms, economic interests or some combination of them affect their aid-untying efforts.

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