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# Determinants of Aid Modalities: A Case of South Korea on Triangular Cooperation and its Implication towards North Korea

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## **Biographical Statement**

Dr. Sojin Lim is Senior Lecturer and MA North Korean Studies Course Leader at the School of Languages and Global Studies of the University of Central Lancashire (UCLan). She also works as Deputy Director of the International Institute of Korean Studies (IKSU), and Chair of the Northern England Policy Centre for the Asia Pacific (NEPCAP).

## **Structured Abstract**

Article Type: Research Paper

*Purpose* - This study argues that the nature of aid modalities is a practical factor for aid donors in choosing modalities, while the theory shows the international norms and trends, the donor's domestic political environment, and the circumstances in the recipient country are the main rationale for the choice of aid modality.

*Design/Methodology/Approach* - This study examines the main determinants of aid modalities by exploring the cases of aid organizations in South Korea with an aid modality of triangular cooperation (TrC). This study suggests more case studies to theoretically conceptualize practical approaches into academic discussions as well as separate research projects regarding TrC

*Findings* - TrC can be used to develop an effective support mechanism from South Korea to North Korea in revising the old Sunshine Policy as well as the Inter-Korea Cooperation Fund (IKCF) in Moon Jae-In's new government, or even after.

Key words: aid modalities, aid types, triangular cooperation, South Korea, North Korea

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## **I. Introduction: Trilateral Approaches to ODA in South Korea**

As a state which successfully transitioned from a war-torn, aid-recipient country to an Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) donor country, the Republic of Korea (hereinafter, South Korea) has provided both grant and loan type official development assistance (ODA) to developing country partners for the last 30 years. However, compared to traditional DAC member countries, the types of ODA provided by the government of South Korea have been unique in introducing a Knowledge Sharing Programme (KSP) in 2004. While the KSP is basically a part of grant aid, both the budget holder and its operational mechanism are distinguished from the rest of grant aid projects in South Korea. Given this, some institutions in South Korea have categorized its ODA into three types: grant aid; loan aid; and KSP.

While the Ministry of Foreign Affairs (MOFA) plays the role of executive secretary to the grant aid providers in South Korea, the Ministry of Strategy and Finance (MOSF) manages the concessional loans, as *de facto* bodies of policy making for the types of grant aid and concessional loans. In terms of implementing bodies, excepting the Korea Export-Import Bank (KEXIM), more than 30 institutions, including ministries, agencies and local governments, provide grant aid. The KEXIM has been commissioned as the Economic Development Cooperation Fund (EDCF) by the MOSF as the sole body of concessional loan provision in South Korea. In comparison, most grant aid has been disbursed by Korea International Cooperation Agency (KOICA) while other ministries and agencies deal with a much lesser volume of grant aid. According to OECD DAC's latest peer review on South Korea in 2012, the KEXIM's EDCF (concessional loans) account for 33 percent of those drawn by the disbursements statistics. According to South Korea's ODA Law, grant aid constitutes 60 percent of the whole ODA volume in South Korea, while concessional loans take up 40 percent.<sup>1</sup> Here, it is noteworthy that 19 percent of grant aid has been delivered by the MOSF even though the MOSF is not supposed to be involved in grant aid disbursement. According to the aid management system architecture in South Korea, the MOSF is responsible for concessional loans while the MOFA controls grant aid. However, OECD DAC statistics clearly show that less than 20 percent of grant aid has been executed by MOSF, which is known as KSP. In other words, KSP has been disbursing as a proportion of grant aid since 2004, not controlled by MOFA but by MOSF.

Recently, the conventional typology of ODA between grant and loan aid in South Korea has been on the verge of revision. KSP is not managed by the MOFA, but by the MOSF, even though the MOSF is not responsible for grant aid by law. Accordingly, the MOSF has delegated KSP activities to two main institutions in South Korea: Korea Development Institute (KDI) and KEXIM EDCF Department. According to MOSF, "the MOSF of the Republic of Korea launched the KSP, a new paradigm of development cooperation, in 2004."<sup>2</sup> Hence, currently there is a series of discussions in South Korea over whether ODA types in Korea should be categorized only into grant aid and concessional loans as they are now, or revised into grant aid, concessional loans and KSP. Furthermore, there is a group who argue that South Korea's aid structure needs to be reframed as technical cooperation (TC), financial cooperation (FC) and KSP.<sup>3</sup> In comparison, Japan categorizes its aid by type as TC, ODA loans and grant aid, while Germany categorizes theirs as FC and TC.<sup>4</sup>

The majority of the existing literature on South Korea's development aid focuses on the dichotomy of the ODA management system between grant and concessional loans.<sup>5</sup> This research tends to ignore the fact that KSP is highly qualified as a unique type or model of aid, which exclusively depends on the developmental experience of South Korea, and does not exist in other OECD DAC countries<sup>6</sup> which heavily emphasizes the competitive relationship between MOFA and MOSF. At the same time, studies introducing KSP as a part of South Korea's ODA<sup>7</sup> lack this understanding of KSP as a type of ODA. These studies deal primarily with aid policies and systems, while some of them discuss the effectiveness of ODA projects operated by institutions. Yet, studies rarely compare the three aid types in South Korea, especially regarding why institutions select certain aid modalities. Furthermore, existing research that explores the motivations and policies of aid providers analyze them according to their different donor countries. They barely discuss how various aid institutions within a single nation can differ in this regard.

In the light of this, this paper aims to fill in the gap in the existing literature by examining determinants of aid modalities in the main aid institutions in South Korea for the three aid types, by focusing on aid modality of Triangular Cooperation (TrC). In other words, this paper aims to answer the question of why the government of Korea has or has not delivered

TrC as a new aid modality. The paper focuses on the institutions of KOICA (grants), KEXIM EDCF (loans), and KDI with EDCF (KSP) in its comparative analysis. The definition of the ‘determinants of aid modalities’ used in this paper differs from the one for ‘determinants of development aid’ itself: there are many existing studies dealing with determinants, rationales, or motivations of aid built upon altruistic, political, and commercial interests of each country at the macro level. However, this paper will argue that the factors in choosing aid modalities are somewhat different from the macro approaches of conventional discussion of aid motivations.

This research uses TrC as an aid modality, as research on TrC in South Korea is limited. Most case studies dealing with TrC are found for donor countries such as Australia, Canada, European Union, Germany and Japan because their volume of TrC distribution is high.<sup>8</sup> Perhaps the reason why scholars have not explored South Korea when discussing TrC is because South Korea is a relatively new DAC donor in the TrC mechanism, and its volume invested in TrC is very low compared to that of other DAC donors. However, as the government of South Korea has begun to show interest in TrC in its aid regime, it is worthwhile to explore TrC as an aid modality in analyzing why institutions choose it as an aid type. Furthermore, it is a crucial factor in discussing why some institutions in South Korea face obstacles when increasing TrC, even though it has been widely accepted in other donor countries. In other words, this study attempts to analyze TrC activities as a means to investigate why three main aid institutions seek to increase or hesitate in their use of TrC as a new aid modality, and how the trilateral approaches of aid types can be differentiated in terms of the choice of aid modality in South Korea.

In addition, and as discussed later in this paper, it will be interesting to look at any possible arrangements of TrC from South Korea to North Korea, which has yet to be broadly studied in the international academic community. While examining TrC profiles in South Korea, this research also answers to its second research question of what can be the future aid modality between South Korea and North Korea in the context of TrC. More specifically, this research attempts to investigate the implications of TrC as a new mode of aid in the context of South and North Korea relations. None of South Korea’s assistance to North Korea has been reported to the OECD DAC’s Creditor Reporting System (CRS) due to domestic legislation.<sup>9</sup> However, as financial support to North Korea is expected to increase in the form of a revised version of the Sunshine Policy championed by the current South Korean government led by the Moon Jae-In,<sup>10</sup> and especially based on the recent South-North Summit in April 2018, a section of this paper discussing TrC from South Korea to North Korea contributes to academic discussions of aid support from the South to the North. It also provides implications for national institutions when they consider TrC as a possible effective modality towards North Korea. Hence, this study also attempts to examine South Korea’s assistance to North Korea through a third donor country within the TrC settings.

In terms of its research methodology, this paper mainly employs a case study approach. While case studies can be designed with either a single case or multiple cases, this paper conducts a multiple case study of three aid institutions within a single country: South Korea. In this case study, this paper mainly uses methods such as document analysis, observation and interviews. As the government of South Korea has not yet provided an extensive list of its TrC activities, the main source of data to analyze the TrC profile can be found in documents prepared by aid agencies. At the same time, the research employs an observation and interview method for further data collection and triangulation. For example, for South Korea’s concessional loans, there has not yet been any official document prepared for TrC activities, and thus, information about any recent movement towards TrC adaptation in the concessional loan mechanism must be gained through observation and interview methods. A participatory

observation was conducted within aid agencies by “noting a phenomenon and recording it” as defined by Adler and Adler.<sup>11</sup> Observation used in this paper followed the flow of events as Flick advises.<sup>12</sup> At the same time, prompt individual interviews were also carried out. In doing so, the interviews with agency staff have been separated from the personal conversations to minimize any ethical concerns. Meanwhile, use of classified information or data from agencies has been strictly limited for the reason of transparent data use in conducting the participatory observation method. Yet, the fact that there are only a few sources for data collection regarding South Korea’s TrC activities can be considered the main limitation of this study. At the same time, case analysis of existing TrC towards North Korea is highly limited as there is very little existing literature which investigate North Korea and TrC.

The paper is organized into five sections. Following the introductory section, Section 2 explores recent discussions on TrC as an aid modality, while Section 3 analyses the existing literature on the choice of aid modalities and identifies what the main determinants are. In Section 4, this paper uses South Korea as a case study by analyzing its TrC activities. It will determine what factors are behind its choice of TrC by looking at the reaction from main aid agencies. In doing so, this paper investigates whether the findings from the case of South Korea in choosing TrC are commensurate with or show a somewhat different notion compared to the variables of the aid modality choice in theory. As previously mentioned, the activities of South Korea’s TrC towards North Korea are included in this section. Finally, in Section 5, the study discusses the main findings of the case study, and provides concluding remarks with theoretical research implications.

## **II. Triangular Cooperation as an Aid Modality**

TrC is an innovative and effective aid modality in the contemporary development cooperation regime, and since the 2000s, aid stakeholders have increasingly adopted the TrC process. According to the African Union (AU), TrC activities have been broadened and strengthened in international development as one of the emerging modalities.<sup>13</sup> However, as most of TrC literature points out, it is not a new phenomenon: the origin of TrC can be found in the late 1950s when the United States (U.S.) and India jointly provided assistance to Nepal and Afghanistan by establishing a radio network.<sup>14</sup> Nevertheless, TrC was not an interest of the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) donors until recently. TrC was internationally recognized especially by the third OECD DAC High Level Forum (HLF) in Accra, Ghana, in 2008, and is now “deeply” embedded in development activities.<sup>15</sup> During the third HLF, aid stakeholders considered TrC due to its potential effectiveness compared to traditional aid modalities. As a result, it is becoming more popular due to its emphasis on effectiveness.<sup>16</sup>

Although there is no internationally agreed definition of TrC, most studies adopt the OECD DAC definition of TrC: a partnership between an OECD DAC donor, a non-DAC donor, who is still a recipient country (pivotal country), and a beneficiary country (recipient country).<sup>17</sup> Some the studies delineate OECD DAC countries as traditional donors or industrialized countries,<sup>18</sup> while others use pivotal countries interchangeably as emerging donors, emerging economies or South-South cooperation (SSC) providers.<sup>19</sup> Pivotal countries generally mean those of middle income countries (MICs) who act as donors and recipients at the same time. As the number of MICs is increasing, DAC donors have given more interests in TrC.<sup>20</sup> The terminology of TrC also varies. For instance, in much literature the authors tend to use the term ‘TrC’ to mean trilateral development cooperation, triangular development cooperation (TDC), trilateral cooperation, trilateral assistance, triangular SSC, tripartite cooperation, tripartite agreement or reverse linkages.<sup>21</sup>

As both definitions and terminologies vary, TrC is conducted in numerous ways. For example, according to the Secretariat of the Ibero-America, the form of ‘South-South-South’ is also defined as TrC,<sup>22</sup> in comparison with ‘North-South(pivotal)-South’ format defined as TrC in the rest of the world. Despite the lack of clear definition or approach a common understanding has been formulated. For example, most of the aid stakeholders agree that a typical setting of TrC can be identified by the way that a DAC donor supports the existing SSC process between an emerging donor and a recipient country. At the same time, most of the literature agrees that the TrC has its advantages.

For OECD DAC donors, TrC can increase effectiveness of aid by utilizing the better adaptability of pivotal countries, whose cultural, social, political, economic, geographic, historical or regional environments are similar to those of the beneficiary country. Pivotal countries also share language or cultural characteristics with beneficiary countries, which is not the case for DAC donors. The similarities between pivotal countries and beneficiary countries can increase collective understanding, which can create more realistic solutions for development. OECD DAC donors can also phase out their assistance to MICs by using them as pivotal countries. In addition, DAC donors can maximize their cost effectiveness, as experts, technologies or services costs in pivotal countries are less expensive. For pivotal countries, TrC can resolve their financial constraints as DAC donors provide funding arrangements. At the same time, pivotal countries can benefit from DAC donors’ aid experience in terms of capacity building. It is a win-win situation for all three partners in TrC.<sup>23</sup> Through TrC, the relationship between the North and the South is enhanced, and thus, TrC is a primary tool for inclusive and innovative partnership.<sup>24</sup>

However, like other aid modalities, TrC has also shown limitations and challenges. Firstly, a lack of harmonization or coordination along with increasing fragmentation among partners is a major obstacle of TrC.<sup>25</sup> Secondly, high transaction costs, including coordination costs, have been a main drawback of TrC. A lack of institutional frameworks also results in high transaction costs, and therefore, it often discourages stakeholders from participating in TrC activities.<sup>26</sup> Thirdly, a lack of engagement of both pivotal and beneficiary countries in implementing the global norms and standards, which are believed to increase development effectiveness, limits the imposition of TrC.<sup>27</sup> Fourthly, difficulties in measuring the exact volume invested in TrC activities are a challenge, although TrC seems to be steadily increasing.<sup>28</sup> Finally, the lack of diverse arrangements of TrC can discourage donors from participating in the process. Currently, most of the SSC activities, which are the fundamental structure of TrC, have been arranged with technical cooperation (TC), and there is a demand to create more diverse forms of TrC activities beyond TC.<sup>29</sup>

According to OECD survey results<sup>30</sup> from 73 out of 150 requests sent to donors, international organizations and recipient countries, most of the donors agree that they provide TrC because of the learning and sharing effects they experience with other partners engaged in the TrC. In addition, traditional partners seek to use the comparative advantages of SSC. On top of that, many OECD DAC donors to use TrC as a means to increase partnership with pivotal countries by supporting their SSC activities. However, only a few of the TrC providers have developed clear guidelines as of the time of the survey being conducted, such as Japan and Germany. Furthermore, the survey results are not sufficiently convincing in showing that TrC has been beneficial for DAC donors. While there is a robust rationale for SSC providers to increase the volume of TrC, such as funding from DAC donors or sharing their aid experience, it does not appear that DAC donors have a strong motivation for providing TrC. As previously mentioned, the main arrangement of the TrC has been in the TC format, therefore donors who are engaged in more FC do not seem to benefit from the TrC. At the same time, DAC donors seem to have more burdens than South-South providers in the TrC mechanisms, as there are

higher risks for transaction costs than traditional North-South bilateral cooperation. In other words, it is not strongly persuasive in explaining why donors choose TrC as a new mode of aid instrument, even though existing studies highlight the increasing engagement of OECD DAC donors in TrC mechanisms. Few studies discuss why DAC donors decide to choose TrC. For instance, donors can enhance bilateral partnership and dialogue within the traditional North-South approach with SSC providers, and therefore, TrC does not seem to be such a competitive modality for strengthening partnership with them.

### **III. Determinants of the Choice of Aid Modalities in Theory**

According to Bandstein, there is no agreed-upon definition of aid modalities.<sup>31</sup> While some understand aid modalities as ‘approaches’, others describe them as ‘tools’, and yet others analyze them as ‘mechanisms and procedures.’ International organizations such as the World Bank and the OECD, define aid modalities as “approaches to delivering development assistance or to channeling donor support to the activities to be funded.”<sup>32</sup> Similarly, the New Zealand Agency for International Development (NZAID) describes aid modality as “the high-level approach agreed between the partners to a development activity, indicating its general scope and where the governance, leadership, and facilitation reside.”<sup>33</sup> While those reports define aid modalities as ‘approaches’, individual researchers, such as Ohno and Niiya, define them as “tools to transfer some aid-related money, goods and knowledge from donors to recipient countries.”<sup>34</sup> On the other hand, Leader and Colenso refer to aid modality as “the mechanisms and procedures through which donors channel resources to countries,” in comparison with aid framework, which can be understood as “mechanisms through which donors coordinate their analysis, strategies and disbursements, with each other, with recipient governments and with other actors such as the UN.”<sup>35</sup> However, they noted that it is difficult to draw a clear distinction between modality and framework. Here, as most researchers use aid modalities, aid instruments, aid modes or aid forms interchangeably, this study also employs aid modalities as an equivalent thereof.

From the existing literature dealing with the choice of aid modalities, many scholars have explored what kinds of aid modalities exist and how they differ, and discuss which modalities are appropriate. For example, Foster and Leavy analyze eight different types of aid modalities (balance of payments support, general budget support (GBS), aid funded debt relief, sectoral budget support, project aid using government systems, project aid using parallel systems, project aid through civil society organizations (CSOs), private providers and multilateral aid) drawn by three criteria (conditionality, earmarking, and disbursement channels and accountability).<sup>36</sup> In comparison, Leader and Colenso categorize aid modalities, such as off-budget emergency projects, off-budget reconstruction projects, technical cooperation, social funds, budget support and sector-wide approaches (SWAs), especially in fragile situations.<sup>37</sup> However, these studies do not clearly explain why or how donors decide to use specific aid modalities. In other words, they rarely delineate how and why donors choose those modalities, in spite of providing proportions of different kinds of aid modalities by donor or by criteria. At the same time, few studies have dealt with TrC in their aid instrument analyses or comparisons, even though TrC has a longer history than some of the other modalities studied. As Ohno and Niiya once argued, the majority of research addressing aid modalities describes the conditions of aid modalities, rather than analyzing how or why donors select specific modalities of aid.<sup>38</sup> For instance, Tilley and Tavakoli discussed conditions for decision making on aid modalities, such as the degree of ownership of the poverty reduction strategy (PRS) of recipient government and the degree “to which donors can provide support without exerting an undue policy influence and how effectively development progress can be monitored”<sup>39</sup> by

analyzing the British case. Their findings implied that most of the existing analysis on aid instruments tends to provide tools for aid modalities, such as decision trees for aid choices or comparison lists for strengths and weaknesses of each modality. In this sense, donors choose aid modalities based on “an assessment of the desired scope and relationships.”<sup>40</sup> Otherwise, much of the existing literature on aid modalities analyzes the correlation between the modality and aid effectiveness. For example, Ouattara and Strobl have explain that project aid modality has a positive impact on growth, but emphasize that it does not necessarily mean that project aid is a preferable method compared to other aid modalities.<sup>41</sup> Similarly, Furukawa and Takahata conducted a study on GBS and its effect on recipient countries’ health indicators, and provided a result showing that GBS alone does not show a significant impact on development, but should be combined with other aid modalities.<sup>42</sup> Nevertheless, as Tilley and Tavakoli pointed out, there are “no studies that explicitly provide a framework to assist donors in choosing a portfolio of aid instruments.”<sup>43</sup> On the other hand, Jelovac and Vandeninden have compared the impacts of both project aid and budget support, and concluded that budget support has a better effect on development than project aid.<sup>44</sup> The findings of Jelovac and Vandeninden suggest that the impact of aid modalities coincide with recipient countries’ preferences. The study also suggests that project aid can still be used while boosting efficiency.<sup>45</sup> Regionally, Hino and Limi have argued that aid modality can be a critical determinant for aid effectiveness by region especially for comparison of Asia and Africa, even though their main argument lies in the role of aid in leveraging private investment.<sup>46</sup> Although all of the aforementioned scholars differ as to which modality has the more positive impact on development, it seems that each modality has a different impact on development within different sets of circumstances.

As mentioned above, the amount of literature concerning donor decision factors affecting aid modalities is much smaller than that regarding the effectiveness of aid modalities. In other words, studies addressing what the main determinants of the choice of aid modality are have “only emerged relatively recently.”<sup>47</sup> Therefore, only a small number of scholars have attempted to analyze the determinants of the choice of aid modalities. For instance, Bandstein pointed out that donors do not simply choose aid modalities just because some are more effective than others when reviewing the existing literature on the choice of aid modalities. In her analysis, there are six factors which govern choosing aid modalities: international trends; the relationship between the partner government and the donor; the preferences of the partner country government; political interests; the role of the civil society and the private sector; and the role of the donor constituency.<sup>48</sup> However, as the literature on the choice of aid modalities is highly limited, Bandstein attempted to find the main reason for choosing aid modalities, and demonstrated that an incentive system plays a role in the donor aid system, especially when deciding aid modalities. As her theory lies in an incentive system framework, she argues that individuals and organizations act within the incentive systems. Here, incentive means both an internal motivation and an external influence, and Bandstein employed “external stimuli that actors are facing” in her analysis.<sup>49</sup> In more detail, as the incentive system is combined with an internal motivation and an external influence, both individuals and organizations which are influenced by external and internal factors work under the incentive system. However, in her argument, it is somewhat unclear how the incentive system correlates with the decision-making mechanism for aid modalities within the six factors. At the same time, Booth and Fritz claimed that not only incentives within the system, but also the institutional arrangements influence the choice of aid modalities.<sup>50</sup> Thus, this paper has reviewed the existing literature, and re-organized the categorization of the factors influencing donor choice on aid modalities into three pillars: 1) norms and trends at the international level; 2) domestic political environment at the donor country level; and 3) circumstances at the recipient country level.



### *3.1 Norms and Trends at the International Level*

Donors show a tendency to choose aid modalities in accordance with the contemporary international guidelines. For example, in the 1980s, along with the structural adjustment approach, donor society was strongly required to use budget support.<sup>51</sup> In the late 1990s, a new aid modality called SWAp was adopted by donors in contrast with project aid.<sup>52</sup> Since 2005, when the Paris Declaration (PD) was agreed upon by international aid stakeholders during the second OECD DAC HLF on aid effectiveness, both budget support and SWAp have merged into programme-based approach (PBA). Planning for the PD implementation lasted from 2005 to 2010, and the donor society was under pressure to increase their use of PBAs. For instance, the OECD DAC peer review asked whether a donor was effective or not in terms of its aid delivery efficiency by monitoring donor implementation of the PBAs as one of the review criteria in the effectiveness session.<sup>53</sup> Similarly, when the Accra Agenda for Action was agreed upon during the third HLF of the OECD DAC in 2008, donors began to consider wider use of TrC, especially in support of the SSC, as a new aid modality.<sup>54</sup> At the same time, since the final HLF was held in Busan in 2011, the OECD DAC has amended its peer review reference guide in accordance with the new global norm of the Busan Global Partnership,<sup>55</sup> and thus donors are now under pressure to adopt a new movement in the international development cooperation paradigm. For instance, as the Busan HLF outcome document demonstrates, global aid stakeholders officially adopted the private sector as a key player in development, and both the OECD and UN have highlighted the role of innovative financing methods in ODA as mobilizing private flows in developing countries.

### *3.2 Domestic Political Environment at the Donor Country Level*

Donors are heavily influenced by their domestic political environment when deciding what kinds of aid instruments to implement. For instance, Dodsworth has looked at the factors for donor decision on aid modalities, and discovered that donor self-interest and domestic policies affect the decision process for aid modalities.<sup>56</sup> Accordingly, it can be assumed that the aid modality choice mechanism is related to the motivations of donors. However, few studies have specifically answered the question why donors at an organizational level choose certain kinds of modalities in countries in relation to the donor's motivations. From the existing literature, it seems that donor organizations are heavily influenced by government level motivations. For instance, Lim argues that KOICA tends to provide aid based on political and diplomatic motivations influenced by the MOFA, while KEXIM EDCF is heavily occupied by commercial motivation as the MOSF emphasizes economic cooperation between South Korea and recipient partners.<sup>57</sup>

### *3.3 Circumstances at the Recipient Country Level*

Ohno and Niiya illustrate that “various aid modalities have evolved in response to emerging development priorities.”<sup>58</sup> In the light of this, Ohno and Niiya explain that donor aid modality choice has shown a nexus with priority problems in recipient countries within the Development Priority Matrix (DPM) framework.<sup>59</sup> They show how DPM can be used by donors in accordance with priority problems in recipient countries. For example, if the main problems in recipient countries are related to technical solutions, donors can decide to provide project aid in this case. In this sense, they argue that it is important to identify priority problems in recipient countries before making decisions on aid modalities in donor countries. In addition, they have emphasized the importance of understanding contextual differences for the choice of aid modalities as well as country needs and ownership. Similarly, Booth and Fritz have implied that donors should consider the recipient country's situation, such as governance and political

systems, when choosing aid modalities, even though their study does not focus on the determinants of the choice of aid modalities. According to them, “what we are saying about governance is directly consistent with what we have argued about aid modalities.”<sup>60</sup> In the case of Foster and Leavy, their research findings imply that recipient country circumstances can influence the donor decision-making process on aid modality although they seemingly fail to demonstrate what factors shape the choice of aid modalities.<sup>61</sup> Similarly, both Cordella and Dell’Araccia<sup>62</sup> and Hefeker<sup>63</sup> discuss how each aid modality can be appropriate under certain conditions in the recipient country. For example, Cordella and Dell’Araccia conclude that project aid can be more effective when the recipient country has fewer resources and developmental preferences while budget support can be more effective when the recipient country has greater resources and preferences.<sup>64</sup> However, from the findings of both Cordella and Dell’Araccia<sup>65</sup> and Hefeker<sup>66</sup> it is unclear whether those circumstances have influenced donors when deciding aid modalities. In comparison, Clist, Isopi and Morrissey claim that donors decide to provide budget support when the recipient country has a PRS, since it works as an indicator of government efficiency. Besides, they argue, donors incorporate the “efficiency of recipient spending” along with selectivity when they choose one modality over another.<sup>67</sup>

#### IV. Triangular Cooperation activities in South Korea

According to the last OECD DAC survey in 2012, South Korea was the lowest ranked in terms of TrC providers mentioned by developing countries. In comparison, Japan and Germany were the two top bilateral providers of TrC. South Korea was recorded as a provider group of between one and ten in terms of TrC activities, while Germany provided between ten and 50 TrC activities. When it comes to the amount of TrC volume, Japan was one of the top two providers, reporting more than USD 50 million, and Germany followed, recording reporting between USD ten million and 50 million. South Korea’s annual contribution to TrC was estimated at less than USD one million.<sup>68</sup> However, it is somewhat unclear whether the OECD DAC surveyed all of the 30 ministries and agencies that provide ODA in South Korea. There is a high possibility that the OECD DAC survey results against South Korea could be responded to only by KOICA as it is the main agency for TC activities, considering that the main instruments for TrC composed of TC. Besides, as the number of KOICA’s TrC activities (see Table 2 later in this section) seems to be identical with what OECD DAC’s survey shows (Table 1), this paper argues that there are more activities of TrC by other institutions in South Korea, which will be discussed later in this paper. In other words, while both OECD DAC survey on TrC<sup>69</sup> and KOICA’s documents identify that there are less than ten TrC activities in South Korea, there are more than ten cases of TrC in actuality.

Table 1. OECD DAC’s survey result of the estimated total number of Triangular Cooperation activities per donor and international organization

<b>Between 1 and 10</b>	Armenia, Bolivia, Cambodia, Cameroon, Central African Republic, Costa Rica, Guatemala, Honduras, Mauritania, Mali, Moldova, Peru, Thailand
<b>Between 10 and 50</b>	Colombia, Egypt, El Salvador, Mexico
<b>More than 50</b>	Brazil, Chile
<b>* Estimate not available</b>	Afghanistan, Benin, Cape Verde, Madagascar, Mozambique, Niger, Paraguay, Saint Vincent and the Grenadines

N.B.: As there is not a consensual definition of what is a TrC initiative, respondents reported the number of initiatives they have participated in according to their own definitions.

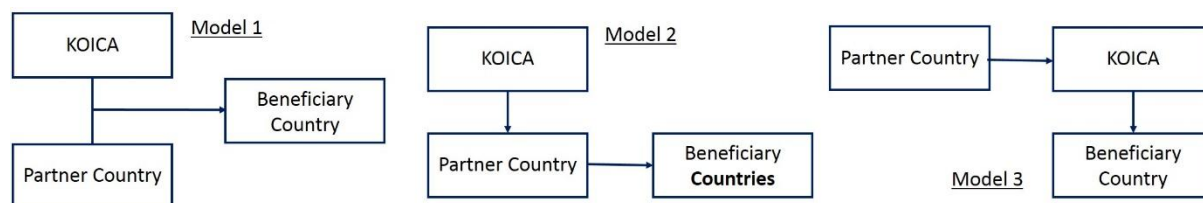
Source: Adapted from OECD, 2013b, p. 20

Judging by the comment provided in the OECD DAC TrC survey report, the survey includes KOICA as the only agency for TrC when it comes to South Korea. As stated in the report, South Korea was establishing guidelines for TrC at the time of being surveyed, and there was only one agency (KOICA) out of more than 30 institutions in South Korea which was planning to provide TrC guidelines. Accordingly, it is necessary to investigate other institutions' TrC activities in South Korea as well in a more in-depth manner.

#### 4.1 Grant Aid Triangular Cooperation of KOICA

KOICA published a TrC guideline at the end of 2013 and began to disseminate it within the headquarters and country offices in 2014. According to the guideline, KOICA pursues three models of TrC as described in Figure 1.

Figure 1. Triangular Cooperation models of KOICA



Source: Author's Own Compilation based on Korea International Cooperation Agency [KOICA], 2013, p. 21

As seen above, KOICA does not use the term 'pivotal country'. Instead, it prefers to use 'partner country', which is equivalent to pivotal country in the DAC definition. First of all, in the form of TrC Model 1, both KOICA and the partner country design TrC activities together from the beginning. At the same time, KOICA and the partner country provide joint activity to the beneficiary country based on co-funding and co-activities. TrC activities under this model have been provided in the form of joint training. Secondly, under KOICA's TrC Model 2, the partner country initiates TrC activities while KOICA provides in-kind or technical cooperation to the partner country. In this model, the partner country is expected to provide TrC activities to multiple beneficiary countries, not to one country. KOICA normally shares technology, finance, and human resources. Finally, for KOICA's TrC Model 3, KOICA continues its existing activities towards beneficiary countries, whereas it additionally utilizes the partner country's expertise and logistical advantages.<sup>70</sup> During the TrC categorization process, KOICA listed its TrC activities as in Table 2. As illustrated in Table 2, KOICA has conducted only a few TrC activities, which are possibly included in the OECD DAC TrC Survey in 2012.

Table 2. Triangular Cooperation activities provided by KOICA

Year	Pivotal Country	Beneficiary Country	Sector
1995-2013	Singapore	Asia-Pacific, Middle East and African countries	Trade, Urban and Regional Development etc.
1995	Israel	Vietnam, Thailand etc.	Agriculture
2003-13	Chile	South American countries	IT, Fisheries
2007	Egypt	African countries	IT
2007-09	Peru	Algeria	Agriculture
2011	Mexico	10 South American countries	Climate Change, Green Growth
2011-13	Colombia	Caribbean countries	Manufacturing, Electricity

Source: Author's Own Compilation based on Korea International Cooperation Agency [KOICA], 2013, p. 45

While TrC is not mainstream in KOICA yet, KOICA has planned to increase TrC activities in its project profile since the end of 2013. However, the main reasons why KOICA chooses to provide the TrC modality are different from team to team. For example, the Strategy Planning Team distributed the 'KOICA Triangular Cooperation Guideline' to the relevant teams in its headquarters and country offices in order to comply with international norms. According to the guideline, KOICA expects to increase its aid effectiveness throughout TrC activities in the context of increasing the partner country's ownership and mutual accountability.<sup>71</sup> However, it does not seem that KOICA has highly increased TrC since 2013, either in terms of number of projects or volume of aid.

According to the staff members in the Central and Latin America Team, KOICA had fewer interests in the Central and Latin America region due to the lower volume of aid to the Latin America region when it began to implement TrC.<sup>72</sup> KOICA's TrC activities have mostly targeted a limited number of countries such as Mexico (pivotal), Chile (pivotal), Thailand (pivotal), Turkey (pivotal), various Caribbean countries (recipient) and developing countries in the Association of Southeast Asian Nations (ASEAN) group (recipient).<sup>73</sup> The reason why KOICA provides TrC to those particular countries is to increase aid effectiveness by customizing the context of aid for the recipient end throughout pivotal partners.<sup>74</sup> In other words, the main advantage of TrC, which uses regional, cultural and language similarities between SSC provider and the beneficiary country, has been one of the main reasons for KOICA to choose TrC.<sup>75</sup> On the other hand, the reason why TrC has not sufficiently increased in KOICA is the high level of administrative costs and a lack of monitoring and evaluation mechanism for TrC modality.<sup>76</sup> In comparison, MOFA does not seem to have a clear approach to TrC yet.

Based on the above analysis, this paper argues that the main factor or rationale for providing TrC in KOICA is the nature of TrC, as it is much easier to customize the context of aid delivery in terms of the needs of the recipient country due to the better understanding of the pivotal country of the end beneficiary. In this sense, the reason why KOICA chooses TrC as one of the aid modalities is also due to the circumstances in recipient countries. While KOICA implemented TrC partially due to the international norms and trends, it is not because of the domestic political environment in South Korea.

#### 4.2 Concessional Loan Triangular Cooperation of KEXIM EDCF

The KEXIM EDCF has not yet actively engaged in TrC activities. However, while preparing for the business summit of the 2015 Inter-American Development Bank (IDB) and Inter-American Investment Corporation (IIC) Annual Meeting of the Boards of Governors in Busan, South Korea, the EDCF department first reviewed TrC activities as the initial agenda for the business summit, for the first time in the EDCF's 30-year history. The discussion centered on how to promote TrC activities among concessional loan providers and multilateral development banks in the form of Asia-Latin America partnerships. As the EDCF recognizes that TrC arrangements are mainly based on TC activities, it has attempted to find out how partners can engage in TrC based on concessional loan provisions. Accordingly, EDCF intends to propose a new model of TrC, which combines infrastructure projects within concessional loan provision from South Korea to Latin American pivotal countries, while they themselves are expected to provide KSP to neighboring beneficiary countries. Many MICs in South America have received KSP projects from South Korea. As the KSP team at the MOSF is planning to provide TrC activities throughout KSP, the EDCF is expected to increase its engagement in the TrC process in the future. At the same time, MOSF conducted a study to discover how the EDCF can more actively engage in TrC activities with other South-South providers.<sup>77</sup> However, findings from this research project have not yet been shared with the public. At the same time, the reason why the EDCF has not sufficiently increased its TrC is because of the nature of concessional loans, which are high volume and require interest payments. As discussed, TrC tends to be delivered within relatively low volume activities.

This demonstrates that the reason why the EDCF is willing to introduce TrC is partially due to international trends as it was required to participate in the discussion of how to promote TrC with partners. At the same time, it can be shown that the EDCF is under pressure to deliver TrC by its domestic political environment, in accordance with the recent interests of the MOSF. However, there was no indication of considering the recipient country's circumstances, whereas there was discussion between the EDCF and South-South providers at some level. Furthermore, due to the nature of the modality itself, it has been difficult for the EDCF to adopt TrC mechanism in its operation as TrC is highly a TC-like modality, which limits the function of loan distribution mechanisms.

#### *4.3 KSP Triangular Cooperation of KDI*

As a main institute of the KSP, KDI has shown its record of TrC activities. Currently, the KSP is composed of three pillars: 1) policy consultation and system consulting (KSP Model 1); 2) joint consultation with MDBs (KSP Model 2); and 3) modularization of Korea's development experience (KSP Model 3). While both KSP Model 1 and Model 3 are provided based on bilateral partnership, KSP Model 2 is performed as a multilateral partnership. Among these, KSP Model 2 is delivered by the EDCF while Model 3 is managed by KDI. Both the EDCF and KDI deal with parts of Model 1 (Ministry of Strategy and Finance of the Republic of Korea [MOSF], 2012). Accordingly, the EDCF's KSP is not involved in the TrC mechanism at all as their activities are binding to the bilateral activities only.

Even before its inception of KSP in 2004, KDI used to provide knowledge sharing (KS) projects, and some of them were given to North Korea, as shown in Table 3. However, when the government of South Korea officially created KSP and merged most of the existing mechanisms of KS projects into this format, KDI undertook no more KSP activities towards North Korea. At the same time, the KSP has limited its activities by binding to the aforementioned three models, and the existing practices of KDI in the KS patterns are terminated. Thus, Table 3 includes KS activities from KDI to North Korea until 2003, and the subsequent years until 2010 include other government sectors' KS activities in South Korea. While current KSP does not allow the use of TrC arrangements, there will be increasing needs

for TrC through KSP as the MOSF is reviewing future directions of KSP through TrC.<sup>78</sup>

Table 3. Knowledge sharing projects from South Korea to North Korea through Triangular Cooperation

Year	Provider in South Korea*	Pivotal Country	Sector
2001	KDI	China	IT
	KDI	Japan	Security and Cooperation
2002	KDI	China	Economic Development
	KDI	Cambodia	Economic Development
2003	KDI	Russia	Energy, Security, Infrastructure, Trade
2005	Ministry of Unification	China	Economic Development
2007	Ministry of Unification	China	IT
2008	MOSF	China	Economic Development
2009	MOSF through Seoul National University	China	Trade, Economic Development
2010	Ministry of Unification	China	IT

\* TrC KS projects providers in South Korea include only public sector, and exclude any private participants.

N.B.: Record after 2011 is not publicly available.

Source: Author's Own Compilation based on Moon, 2014, pp. 44-45

The reason why KDI provided its KS projects through a third country was because of the limited accessibility to North Korea and the unique situation between South and North Korea. KDI selected TrC-like activities with pivotal countries, which were located near North Korea or maintained adequate diplomatic relationships with North Korea. Not only that, there was an increasing need in North Korea for market economy training and education through TC and KS.<sup>79</sup> However, it is noteworthy that some contend that KDI's TrC activities towards North Korea are a part of South Korea's ODA as the government of South Korea does not recognize North Korea as an independent sovereign state by the Third Amendment of the Constitution. In fact, none of the assistance from any South Korean public sector to North Korea has been recorded as ODA, such as Inter-Korea Cooperation Fund (IKCF). The IKCF involves most of South Korea government's official support to North Korea-related aid activities. Likewise, the OECD DAC's Development Cooperation Report series repeatedly states that South Korea does not report its aid to North Korea, thus it is not possible to provide any statistics for South Korea's ODA to North Korea.<sup>80</sup> However, if South Korea sends out its ODA to other recipients which use it as a support to North Korea, it may be recorded as ODA. As this is a basic mechanism of TrC, South Korea will be able to use its ODA to support North Korea by using TrC.

At the same time, others may claim that KDI and other government institutions' KS activities before 2010 are not TrC, as South Korea was still a recipient country during the period. However, this paper argues that KDI's KS activities towards North Korea before 2004 (when KSP was established) and other ministries' KS support to North Korea before 2010 (when Korea became a DAC member state) through a third country (pivotal country) can be viewed as TrC activities of South Korea. Firstly, as Moon once argued, KDI funneled its assistance to

North Korea through the TrC process, and therefore, the amount of ODA provided to pivotal countries could have been reported to CRS as ODA despite the end beneficiary being North Korea.<sup>81</sup> This is because South Korea did not directly provide its ODA to North Korea in bilateral arrangements. There has not yet been any counter argument raised within South Korea's academic community against this. This could be because aid data from South Korea to North Korea is highly limited, and there have been few studies conducted in terms of TrC from South Korea to North Korea. Second, other institutions' KS activities to North Korea through a third country before 2010 can also be TrC by adoption of the definition of Secretariat Ibero-America (South-South-South), as mentioned at the beginning of this paper. Therefore, KDI and other institutions in South Korea have provided assistance to North Korea through the TrC process as KS activities.

Given this, it can be said that KDI's TrC in the form of KSP coincides with the domestic political environment and the circumstances of the recipient country; however, not with the international norms and trends. Similar to EDCF, the rationale behind choosing TrC in KDI is also due to the nature of the modality. As TrC can be highly effective when traditional donors provide aid through the pivotal country where the regional, cultural or even political notions are similar to those of the recipient country. As the government of South Korea had limited access to North Korea, the only route was to provide TrC through countries like Russia and China.

## **V. Concluding Remarks**

According to the theory of the choice of aid modalities, a classical approach to understanding the rationale behind the choice of aid modalities consists of three pillars: international norms and trends; donors' domestic political environment; and the circumstances in recipient countries. Based on the findings of the study, this paper argues that the main determinants for the choice of aid modalities do not always fall into these three categories. The case of South Korea shows that there are more than three variables in choosing aid modalities in donor countries, especially at the level of organizations regarding the types of aid. Findings in this paper suggest more variables against existing theories: consideration of the nature of modality which has high influence on decision-making process; and unintended circumstances which interfere the decision-making process.

In the case of KOICA, it has introduced TrC to comply with the international norms and trends. At the same time, in an attempt to consider the circumstances of the beneficiary country, KOICA discovered that TrC can be effective as it can provide a more customized means of support. The result has been that the donor country considers the nature of the modality itself a decision-making process. It does not seem that KOICA's choice of TrC is affected by its domestic political environment; however, some of the rationale behind the choice of TrC can be found in the context of compliance with international norms and trends. As with KOICA, EDCF also showed that the reason why it was willing to introduce TrC in the organization was due to these international norms and trends; however, it has not implemented the TrC as the nature of the modality does not allow for both donor and recipient to utilize it. While KOICA does not consider the domestic political environment when deciding to choose TrC, EDCF was under pressure domestically by the MOSF. At the same time, EDCF has not shown any sign of considering the circumstances of the recipient country.

In comparison, KDI has provided TrC due to the beneficiary country's circumstances as well as the domestic political environment. However, KDI's use of TrC was not deliberate. This paper has shown that KDI had no choice but to provide KS projects through a third party to North Korea due to the limited accessibility to and increasing need for training and education



opportunities in North Korea. In the case of KDI, using TrC was rather conducted coincidentally, not decisively, due to the unique conditions of assistance to North Korea. By using Russia or China as pivotal countries, South Korea could provide KSP to North Korea, and in this triangular system, the nature of TrC itself benefited all three parties. Here, this can imply that the new government of South Korea can consider the advantage of TrC as an aid modality when it revises the old Sunshine Policy and the IKCF.

When current United Nations (UN) sanctions against North Korea are eased, and when aid donors begin to provide ODA to North Korea, South Korea's IKCF will not be categorized as ODA due to the constitutional law unless a Peace Treaty or the end of current Armistice Agreement comes with a change of South Korea's constitutional amendment that allows or accepts North Korea as an independent sovereign state. Currently, TrC seems to be the only way for South Korea to seek another route to engage in the development process as a twin country. In this sense, using TrC mechanism with other South donor countries such as China, Russia, Vietnam, Cambodia and Thailand, or with international organizations which involves South donor countries with development projects within the region, such as the Greater Tumen Initiative (GTI), will be able to bring more efficient approach to maximize aid effectiveness towards North Korea. However, this issue needs to be discussed further in the following studies to seek an effective way of supporting North Korea in peaceful and mutually cooperative dynamics among the three parties. At the same time, TrC as a means of leveraging poor relations between South and North Korea can be also examined in further research projects.

In conclusion, this study argues that the nature of aid modalities in terms of both advantages and limitations is a practical factor in the choice of modalities by aid donors. The theory shows the norms and trends at the international level, the domestic political environment at the donor country level, and the circumstances of the recipient country, are the rationale for aid modality. Whereas the above analysis shows that the main determinants for the choice of aid modality in the case of TrC in South Korea are, to some extent, in line with the theory, the South Korean case illustrates that a consideration of the nature of modality also influences the decision. Both KOICA and KDI employed TrC by considering the advantages in terms of utilizing regional, cultural, linguistic, or political ties between the South-South partners, while the EDCF has faced practical limitations in using TrC because TrC is normally imposed based on TC conditions, not with FC conditions. Furthermore, the study also discovered that unintended circumstances can interfere with the decision-making process when choosing aid modalities, from the case of KDI's KS projects to North Korea. The findings of this paper imply that the theory is not fully commensurate with actual practices in the aid regime. Based on South Korea choosing TrC as a new aid modality, the study suggests that there can be various determinants in choosing aid modalities depending on the surrounding circumstances.

This, in turn, implies that more case studies need to be conducted and compared in order to theoretically conceptualize practical approaches into academic discussions. Furthermore, a series of separate research projects regarding TrC should be conducted, in order to develop an effective support mechanism from South Korea to North Korea in revising the old Sunshine Policy in President Moon Jae-In's administration, or even in the following government. In the end, as seen from the case of KDI, TrC can be a highly plausible modality in fragile contexts, such as in North Korea, and thus, an in-depth study is required in search of enhancing TrC mechanisms in fragile states.

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