

The Role of Official Development Assistance (ODA) in Economic Development: The Cases of South Korea and Ethiopia

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Abstract:

The role of Official Development Assistance (ODA) in economic development is one of the points of debate among economists, political scientists, sociologists, politicians, development workers, and business people. Some magnify its merits and others its demerits. Nevertheless, for more than half a century ODA has been in operation in supporting the foreign policy goals of the developed donor countries and in filling the resource gaps of the recipient developing countries. The number of donors and recipients as well as the popularity of ODA is also increasing from time to time.

In this paper, the writer examines the role of ODA in economic development based on the experiences of South Korea and Ethiopia. The paper attempts to address the following questions: Does ODA help or hinder economic development? Is ODA effective in solving economic and social problems of the recipient country? What do the experiences of South Korea and Ethiopia show us? What lessons can we draw from the experiences of these two countries?

Up to early 1980s, South Korea was one of the recipients of ODA and until 1970s, ODA was one of its significant foreign financial sources. Turning to the case of Ethiopia, Ethiopia is one of the low-income countries where ODA plays important role in its economic activities. The paper examines the experiences of these two countries in utilizing foreign development assistance and evaluates the roles played by ODA in the economic development of these countries and draws useful lessons in effective utilization of ODA resources for Ethiopia.

The methodology used in this study is descriptive. As the title implies, a case study research method was used to analyze the role of ODA in economic development of the recipient country by emphasizing on the cases of South Korea and Ethiopia. Regarding the case of Korea, historical research method was employed to describe, investigate, and interpret the utilization of ODA resources with the purpose of making deductions that can be useful for Ethiopia. In Ethiopian case, past experience and

current ODA utilization of the country was briefly evaluated and where possible compared with the experience of South Korea. This study relies mainly on secondary sources of data/information.

The major finding of the paper is that in the countries where there is a sound economic policy, competent and accountable government institutions, ODA plays catalyst role in promoting economic development and solving economic and social problems. This clearly shows that the effectiveness of ODA depends not only on the external factors (the amount and quality of aid) but also on internal factors (sound economic policy and well-organized aid management).

I. Introduction

Today, for the billions of the peoples of the developing countries and governments, the highest aspiration is achieving economic development. Achieving economic development means poverty alleviation, getting food security, access to education and health care as well as having a job and self-respect. In short, the achievement of economic development means achievement of a better life and improvement of the general well being of the society.

Economic development requires practical actions mainly in saving and investment, decisions at macro and micro levels. The saving requirement can be fulfilled either by domestic saving or by foreign saving. Since most of the developing countries are neither in a position to generate adequate resources by domestic saving nor able to borrow money for their investment in international capital market at ongoing market interest rate, grants, interest free loans, and loans at a low interest rate from developed countries and multilateral international and regional financial institutions are very important. Grants, interest free loans, loans at low interest rate, and technical assistance from the governments of the developed countries and from international and regional institutions to the governments of developing countries with the main objective of promoting economic development and welfare is called Official Development Assistance (ODA).

The Development Assistance Committee (DAC), the principal body through which the Organization for Economic Cooperation and Development (OECD) deals with issues related to cooperation with developing countries, defines ODA as:

Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (...) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (...) is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted (OECD, n.d.a).

According to this definition, for a grant or loan to be classified as ODA, it has to flow into developing countries that DAC has recognized as recipients of ODA and included in its Part I List

(developing countries). The list of ODA recipient countries varies from time to time based on the economic situation of the country on the list. For the purpose of this research it will suffice to recognize the recipients of ODA by the generic name of "developing countries".

Regarding the role of ODA in economic development, there are two main groups of thoughts-- those who question the importance of ODA in economic development by arguing that ODA creates more development problems than it will solve them (Bandow, 1995; Vasquez, 2003) and those who support the role of ODA by arguing that ODA can play crucial contributory role in economic development where there is appropriate domestic policy environment (World Bank, 1998).

The supporters of ODA argue that ODA is one of the means through which development inputs can be provided with the main objective of achieving economic development (the output). These inputs can come from individual countries through bilateral channel and from groups of countries through trilateral or multilateral channels in the form of finance (by cash transfer for general budget support, specific sector support, by directly financing projects or debt relief) and ideas (as policy advice and technical assistance) that fosters the emergence of good institutions and sound policies. The idea form of ODA can be translated into financial or monetary equivalents based on its expenditure.

The Dependents School of development thinkers, the great majority of whom are Latin American intellectuals, sees ODA as another instrument of domination (Raffer & Singer, 1996, p.62) and they are pessimists about the significance of ODA in economic development. They argue, "Foreign capital and foreign 'aid' thus fill up the holes that they themselves created. The real value of this aid, however, is doubtful" (Dos Santos, 1993, p.198). But, the economic success of some of East Asian "tigers" (also called "dragons") shows a different result. Raffer and Singer (1996) argue that generous ODA, mainly from the United States, was certainly one of the major starting advantages of the economic miracles of South Korea and Taiwan (p.62-63). The communist threat from North Korea and China made South Korea and Taiwan the two major U.S. ODA recipients in the East Asian region during the Cold War period and this in turn contributed to their high economic growth.

ODA was virtually the sole source of foreign capital for South Korea from the time of its liberation from Japan in 1945 until the late 1950s and the major source of finance to fill South Korea's balance of payment deficit up to early 1960s. During the period 1953-1960, more than 70 percent of South Korea's imports were financed by ODA (Sakong, 1993, p. 96). When South Korea's First Five Year Plan started in 1962, nearly 80 percent of gross domestic fixed capital formation was financed by external resources and from the end of the Korean War until the beginning of the 1960s, ODA amounted on average about 8 percent of South Korea's GNP each year (Raffer & Singer, 1996, p. 63). The availability and effective and efficient use of ODA resources together with entrepreneurial ability of Korean business sector, its industrious and

disciplined labor force, its high level of literacy, and the cooperation and interdependence of public and private sectors helped South Korea to achieve rapid economic development.

In the 1950s and early 1960s, the economic and social situations of South Korea and Ethiopia were almost similar—both countries were saddled with all the evils of underdevelopment. In 1962, the per capita income of Korea was only U.S.\$ 87 and its domestic saving was negligible. In 1967, about 41 percent of the population of South Korea was languishing in absolute poverty (Sakong, 1993, p.8) and in 1950s and early 1960s it had been relying on foreign aid to satisfy the basic needs of its people.

Today, South Korea is one of the richest countries in the world. According to the World Bank Data, in 2002 the gross national income (GNI) per capita of South Korea in current U.S. dollars was 9,930, almost hundred times that of Ethiopia which was U.S. \$100 for the same year and Korea's GDP in current U.S. dollars was 476.7 billion, almost 80 times that of Ethiopia which was U.S.\$ 6.0 billion in the same year. This paper also examines how South Korea achieved higher economic development and analyzes the contribution of ODA to this leap. Even though its name is still on the list of OECD's aid recipient countries, South Korea graduated from aid receiving in the early 1980s and at present, South Korea is one of the donors of our world.

Based on the experience of South Korea and the achievements recorded in ODA recipient countries since the Marshal Plan (1948-1951), this research assumes that since ODA brings additional finance and ideas that fill the saving and knowledge gap of the recipient country, it can play positive role in the economic development of a country, provided that it is properly utilized and the internal policy environment is sound. To prove this assumption, the role of ODA in the economic development of South Korea and Ethiopia will be examined below in turn and useful lessons will be drawn for Ethiopia in effective utilization of ODA resources.

II. The Role Of ODA in the Economic Development of South Korea

As in other newly industrialized East Asian countries/regions—Singapore, Hong Kong and Taiwan—high investment in human and physical capital has been one of the important causal factor of South Korea's economic development. It was mainly this investment that enabled it to develop the required skills, new ways of thinking, good organization and management of the economy. In other words, it was the high investment in human and physical capital that pushed the economic development of South Korea forward and helped it to break the vicious circle of poverty and all forms of economic underdevelopment within relatively a short period of time. Up to the 1970s, Korea was not in a position to cover its required investment expenditures in the development of human and physical capital or to cover other public expenditures. Therefore, parts of these public expenditures were to be covered by funds obtained from external sources—grants, concessional/soft loans, and commercial loans. Yoon Je Cho (1998) explains the contribution of foreign resources in the economic development of South Korea as follows:

Many observers overlook the importance of foreign aid and loans in shaping Korean economic policies (...) and its push toward economic development. From 1946 to 1976, the United States provided \$12.6 billion in economic and military aid to Korea (...); Japan contributed an additional \$1 billion, and Korea borrowed \$2 billion from multilateral financial institutions. For a country with a population of 25 million (at midpoint 1960), the total of more than \$15 billion gives a per capita assistance figure of \$600 for three decades. No other country in the world received such large per capita sums, with exception of Israel and South Vietnam (...). The total of \$6 billion U.S. "economic" grants and loans to Korea during 1946-78 compares with \$6.89 billion for all of Africa, and \$14.89 billion for all of Latin America (...) (Cho, 1998, p. 7).

From this it can easily be concluded that the availability and good use of foreign resources were among the contributing factors to the rapid economic development of Korea. In this regard, this section examines the role of ODA in the economic development of South Korea.

2.1 Sources of ODA to South Korea

During its initial development stage, South Korea received a significant amount of development assistance from bilateral and multilateral sources and used them to finance its development activities. The ODA receipts of South Korea are summarized in table 1 below.

Table 1: Summary of ODA Receipts of South Korea

Donor/Lender	Type of Financial Flow	Period	Unit Value	Amount
USA ^a	Grant	1945-1981	US\$ billions	4.6
	Cocessional Loan	1946-1981	„	1.5
	Total	1945- 1981	„	6.1
Japan ^b	Grant	1966-1979	Yen billions	106
	Concessional Loan	1966-1990	„	848
	Total	1966- 1990	„	954
UN ^c	Grant	1950- 1960	US\$ million	579.2
World Bank ^c	IDA Concessional Loan	1962-1991	US\$ millions	115.6

Sources: ^aUSAID (n.d). Country Data. *U.S. Overseas Loans & Grants [Green Book Online]*. Retrieved on August 15, 2003 from: <http://gesdb.cdie.org/gbk/index.html>

^b JICA (1999). Reviewing Japan's Assistance to the Republic of Korea. Bringing an End to Cooperation to Korea: New Era in Japan Korea Cooperation. *JICA Network/Special Report*. July 13, 1999. Retrieved on August 15, 2003 from: http://www.jica.go.jp/english/news/2000/publication/network/1999/net_9907-13/02.html

^cIl Sakong (1993). *Korea in the World Economy*. January 1993, pp.134 &135.

2.2 The Role of ODA in Post War Reconstruction of South Korea

Two years after its establishment, South Korea faced the Korean War (1950-53). The war that had begun in June 1950 and continued for over three years until armistice was signed on July 27, 1953, damaged both the human and physical assets of South Korea. As a result, South Korea was forced to continue relying on foreign aid/ODA to reconstruct its economy. Cho and Kim (1991) explain the role of ODA in the post war reconstruction of South Korea as follows:

...[D]uring the period 1953-1961 the economy [of South Korea] was alive largely by massive economic and military assistance from the United States....

The subsequent growth process was ... made easier by the massive influx of foreign exchange during this critical period of development, which held the country together and prevented massive starvation and economic dislocation. During the entire period 1945-83, aid or assistance from all sources to Korea is estimated at over US \$ 26 billion (...). Much of this was in the form of grants or concessions. About one-third of the total was military assistance, much of which was given during and just after the Korean War. By expediting postwar reconstruction and the recovery of the economy, these forms of assistance helped to lay the foundations for the subsequent development during the 1960s (Cho & Kim, 1991, p.13).

In 1953, when the post war reconstruction began, about 90 percent of gross fixed capital formation (fixed investment) had been financed by foreign saving, which was equivalent to 6.6 percent of the GNP of the same year (Kim & Kim, 1994, p.11). During 1953-57, it was the mass inflow of aid (annually on average about 10 percent of the then Korea's GNP) from the USA, other friendly countries and international organizations that enabled the Korean economy to recover from the damage of Korean War within a short period of time. By 1957, the Korean economy had largely recovered (Economic Planning Board/EPB 1962, pp. 9, 26-27). From 1953 to 1973, for twenty-one years, the average annual inflow of ODA to South Korea from USA alone was U.S.\$ 238 million (USAID, n.d).

For the eight-year period (1953-1960) following the end of the Korean War, on average 57.6 percent of Korea's gross capital formation had been financed by a foreign aid program. During this period, government and private consumption expenditure was equivalent to 94.4 per cent of the gross national product and gross capital formation was equivalent to 13.2 per cent. Out of the national expenditure on capital formation 7.6 percent in excess of the gross national product was covered by a corresponding import financed by foreign aid programs (EPB, 1962, pp. 26-27).

Even during the pro "self-sustained economic growth" period of president Park Chung Hee (1961-1979), Korea didn't deny the importance of ODA in its economic development. The primary objective of President Park's government was to find an external means of escaping the

vicious circle of underdevelopment (Sakong, 1993,p. 95). This objective was manifested in Korea's First Five Year Plan (1962-1966). Out of the total funds required for investment for the First Five Year Plan period, 47 percent was to come from foreign donation, mostly from the United States; about 19 percent from foreign borrowing in the form of intergovernmental (concessional) or private loans or private foreign direct investment, and the remaining 34 percent was to come from domestic saving (Nam, 1997, p. 23). For the First Five Year period, not only in area of investment but also in the area of required foreign exchange for imports, which included consumption and necessary inputs for production, the emphasis was put on the foreign donation. During the period between 1963-1966, more than 38 percent (about US\$1.8 billion) of the foreign exchange required for the Korea's imports of goods and services was to come from foreign donation and only 15 percent from domestic sources (Nam, 1997, p. 23).

2.3 The Role of ODA in Imports

The financing of imports was one of the major contributions of ODA to Korean's economic development. ODA, which was mostly provided in the form of grants, financed more than 70 percent of the Korea's imports during 1953-1960 (Sakong, 1993, p. 96). These imports provided a large number of items that would otherwise have been unavailable or extremely scarce in Korea during that time. The composition of ODA financed imported commodities during the period of 1953-1960 included, but not limited to, machinery, transport equipment, basic metal products, coal and petroleum products, basic chemicals, minerals, fertilizers and cement (Krueger, 1979, pp. 69-70). It should be recalled that before 1950, Korea also received foreign aid financed imports which included automotives, building materials, chemicals and dyestuffs, communications, education supports, fishing industry supplies, highway and railway construction equipment, and power and light related equipment.

In addition, the counterpart funds that were generated from the selling of aid financed imported commodities in the domestic market financed over half of the total general government expenditures during 1953-1960 (Kim & Kim, 1994,p.13-14). This means that in the 1950s, Korea's domestic regular sources of government revenues were not developed and the government relied heavily on ODA to finance most of its expenditures. In 1957, for instance, counterpart funds constituted 53 percent of government revenues, whereas domestic regular sources, mostly taxes, constituted only about 34 percent of these revenues (Krueger, 1979, p.75). In 1960s also, counterpart funds continued to be used to provide the domestic component of financing development projects. Since the decision of allocating a counterpart fund normally involves the donor, it does not give a free hand to a recipient government. The case of South Korea was not an exception to this general fact; the American government participated in decisions as to how counterpart funds should be expended.

Table 2: The Role of ODA in Imports of Goods and Services of Korea, 1953-73

Unit Value: US\$ millions

Year	Total Imports	Aid Financed Imports		Total Imports as share of GNP
		Total	%	
1953	354.4	191.8	54.1	9.8
1954	243.3	149.4	61.5	7.4
1955	341.4	232.8	68.2	10.0
1956	386.1	319.9	82.9	13.2
1957	442.2	374.0	84.6	12.0
1958	378.2	311.0	82.2	10.8
1959	303.8	210.7	69.4	10.3
1960	343.5	231.9	67.5	12.7
1961	316.1	196.8	62.9	14.9
1962	421.8	218.5	51.8	16.6
1963	560.9	232.6	41.5	15.8

Year	Total Imports	Aid Financed Imports		Total Imports as share of GNP
		Total	%	
1964	404.4	42.6	35.3	13.5
1965	463.4	135.5	29.2	15.9
1966	716.4	143.6	20.0	20.3
1967	996.2	119.2	12.0	22.4
1968	1,462.9	125.7	8.6	25.9
1969	1,823.0	120.5	6.6	26.0
1970	1,984.0	161.2	8.1	24.0
1971	2,394.3	105.6	4.4	26.5
1972	2,522.0	21.7	0.9	25.6
1973	4,240.3	0.0	0.0	33.5
Total	21,096.6	3,645.0	17.3	

Source: Sakong, Il. (1993)., *Korea in the World Economy*, Washington, DC: Institute for International Economics. pp.100 -101.

2.4 The Role of ODA in Investment

The period between 1945 and 1960 was the period when Korea received a great deal of its total foreign aid, which is more than 70 percent (Sakong, 1993, p.96). With its ODA receipts Korea made substantial investments in important sectors such as coal mining, glass, cement, fertilizer, and electric power generation and transmission, in reconstruction of educational and medical facilities as well as in other basic industries and infrastructure (Sakong, 1993, p.99). Sohn, Yang and Yim (1998) state that the total amount of aid funds used for the reconstruction of industrial infrastructure, social overhead capital, and production facilities from 1953 to 1960 was U.S. \$1.8 billion (p.15).

Foreign aid and other sources of foreign capital continued to play important role in Korea's economic development during its rapid economic growth period, notably in 1960s and 1970s. Yoon Je Cho (1998) summarized this as follows:

Economic growth averaged 8.2 percent during 1962-1982. Had investment depended totally on domestic saving, it is estimated that the average growth rate during the same period might have been only 4.9 percent, with remaining 3.3 percent coming from foreign

capital (...). Thus, Korean economic development was predicated heavily on foreign saving (p.7).

However, as the conditions of the economy and the living standards of the Korean people improved through time and as domestic saving increased, the gap between saving and investment had continued to narrow, the role of foreign capital, especially the role of ODA in Korea's investment, dwindled. For instance, when we see the inflows of foreign capital in general, for a period between 1962 and 1990, the amount was less than 10 percent of gross fixed capital formation (OECD, 1996, p. 4).

In 1960s and 1970s, even though the Korean domestic saving rate showed a significant increase from 3 percent of GNP in 1962 to 28 percent of GNP in 1979 (investment also increased from 13 percent of GNP in 1962 to 36 percent of GNP in 1979) (Nam, 1997, p.2-3), but this couldn't undermine the role of ODA in the economic development of Korea. Thus, it can be safely concluded that foreign saving helped Korea's economic growth, particularly during its initial stage of the economic development and contributed to the take-off and fast growth of the economic development of the country. ODA, commercial loans and direct investment together financed about 41.8 percent of the gross domestic capital formation of South Korea during the period of 1965-1970 (Choo, 1972, p. 18).

2.5 The Role of ODA in Economic Policies

Besides financing economic development activities and human resource development, the contribution of ODA to Korea was influencing the economic policies of the country in a variety of ways. According to the bilateral agreement signed on December 10, 1948 between the governments of South Korea and the United States concerning the provision of aid, the U.S. government agreed to give aid in the areas of finance, technology and other resources to South Korea upon its request. In return, the South Korean government agreed to adhere to general principles such as reduction of expenditures and increase of revenues to have balanced budget. Out of these general principles, subsidiary principles that focused on fiscal, financial, and monetary stabilization came out with the mutual consent of both governments (Kim & Whang, 1997, p.241).

The Korean political and economic policies during the 1950s and 1960s were highly influenced by the ideologies and attitudes of its donors, mainly by its single most important donor, the United States. The U.S. officials influenced the decisions of the Korean government by threatening that they would reassess the economic assistance to Korea unless required measures were taken. For instance, in April 1950, the then U.S. Secretary of State, Dean Acheson, sent a formal memorandum to the government of South Korea advising that the U.S. economic assistance would be reassessed unless measures were taken to control inflation (Krueger, 1979, p. 27).

In addition to shaping the political and economic system of Korea through its advisors, the U.S. also tightly monitored their implementation through its aid mission in Korea.

... all major economic policy measures for the country [Korea], regardless of their direct relationship to the U.S. assistance, were jointly determined by both the Korean government and the U.S. aid mission during this period [1953-1960]. The Combined Economic Board created in accordance with the "Agreement between the Republic of Korea Government and the Unified Command Concerning Economic Coordinating"(signed in May 1952) provided the channel for regular policy debates between the two sides and joint decision-making. Accordingly, it is really not clear which parts of the policies adopted during this period reflected the position of the Korean government (Kim & Kim, 1994, p.15).

The American policy advisory assistance gave a chance to Korean policy makers to borrow American liberal policy lessons and mix them with the lessons they borrowed from prewar Japan, which encouraged the strong government involvement in the economy. This helped Korean policy makers to balance these two ideologies and use them for the eventual economic development of the country (Cho, 1998, p.5).

The military government's assumption of power in 1961 in Korea coincided with U.S. decision to give more economic development loan assistance (concessional loan) rather than more grant assistance to Korea, based upon the U.S. Foreign Assistance Act of 1961. Furthermore, the U.S. government threatened the military government of Korea to reduce aid if the generals in power in Korea did not move back toward democratization. Those developments made the Korean leadership think about making hard decisions about its continuing dependence on U.S. aid and finding alternative sources of foreign exchange—mainly foreign borrowing. "The U.S. government decided to rely on development loans than on grant-in-aid. This change in U.S. aid policy and the realization that U.S. aid would gradually decline must have contributed toward Korea's adoption of a new, outward-looking development strategy and a policy of greater reliance on foreign borrowing" (Sakong, 1993, p. 102).

When the Korean government shifted its focus from maximizing foreign aid to getting foreign borrowing, its main lenders were the USA and Japan-the two countries that have had a special relationship with Korea and had given it ready access to foreign finance. The influence and participation of U.S. government in major policies of Korea reduced, if difficult to say totally halted, with a reduction and final closure of U.S. economic aid to Korea.

In the early stages of Korea's development, policy advice from its donors and lenders had contributed to important government decisions and policies. During that period "...Korean bureaucrats felt compelled to produce results or to deliver outcomes in terms of good economic performance. As a result, valuable outside advice was never wasted, regardless of whether it was from private or public, or from multilateral or bilateral sources" (Sakong, 1993, p.137). One

example of major decisions taken based on the policy advice of donors was the financial sector reform of 1965, which increased interest rates to control inflation that was running at 25 percent in 1963-64 and to raise the very low savings rate that averaged only 10 percent of GDP in 1963-64. These financial reform measures were taken mainly because of the pressure made by United States Operations Mission (USOM) on Korean government to control inflation (Perkins, 1997, p.78). This external advice helped Korea in its macroeconomic management and structural adjustments. The Korean government used this advice, particularly those from multilateral institutions, as a kind of sounding board for its ideas to persuade the public to accept painful economic adjustments (Sakong, 1993, p.137).

2.6 Role of ODA in Human Resource Development

ODA played an important role not only in Korea's import and investment but also in knowledge transfer and human resource development. Between 1951 and 1972 alone, the U.S. government sent approximately 1, 900 experts to Korea and gave a training opportunities in the U.S. for more than 4, 000 Koreans, by covering all the necessary expenses (Sakong, 1993, p. 128).

During its Heavy and Chemical Industries (HCI) promotion period of 1970s, Korea was one of the top five recipients of Japan's technical assistance (JICA, 1999). During that time, the Japanese government had borne all costs for dispatch of Japanese experts to Korea and for accepting of Korean trainees to Japan. This technical assistance contributed to solving the shortage of skilled manpower of Korea, which had been one of the constraints during the HCI Drive and to laying a base for industrialization.

Korea also benefited from human resource development programs of UN agencies. From 1951 to 1982, about 15,000 Koreans participated in UN agencies sponsored training programs and approximately 2,300 foreign experts were sent to Korea through different UN agencies' programs (Sakong, 1993, p. 128). This technical assistance must have contributed to the economic development of Korea. In addition to this, South Korea is an example of a country that, with ODA support, built both pillars of economic development: it invested heavily in education and human development while also greatly improving the environment for economic growth and entrepreneurship (Goldin, Rogers & Stern, 2002, p. xvii).

South Korea is always cited as a country where ODA has brought effective results. Dr. Il Sakong who was once Minister of Finance of South Korea and a researcher in the field of economics summarized this fact succinctly: "Thanks to the inflow of foreign aid, the living standard of the Korean people was maintained at a higher level than the Korean economy alone could have supported..." (Sakong, 1993, p. 98). In short, ODA played significant role in the economic development of South Korea and was effective in the sense that it attained its

objectives in solving food shortages, developing human resources, reconstructing or constructing infrastructure and putting the country's economic policy on the right track.

III. The Role Of ODA in the Economic Development of Ethiopia

Ethiopia is one of the poorest and least developed countries that seek external economic assistance to finance its development activities. In 2002, its Gross National Income (GNI) in current U.S. \$ was 6.4 billion and the GNI per capita for the same year was only U.S.\$ 100 (World Bank, 2003). Out of the 67 million Ethiopian population (as of July 2002), 44 percent live below the poverty line (Ministry of Finance and Economic Development/MOFED, 2002, p. xvii). Ethiopia's indicators on human development are also among the lowest in the world. In the UNDP's 2003 Human Development Report, Ethiopia ranked 169th out of 175 countries, with only six other African countries (Mozambique, Burundi, Mali, Burkina Faso, Niger, and Sierra Leone) behind it.

Fortunately, ODA flow to Ethiopia is increasing. The ODA receipt of Ethiopia, which was 10, 11.3 and 15.5 percent of its gross domestic product (GDP) in 1998, 1999 and 2000 respectively, reached 18.9 percent of its GDP in 2001 (UNDP/Ethiopia, 2003, p 20). During 1980-1997, the average annual inflow of ODA to Ethiopia was about 16 percent of its GDP (Abegaz, 2001, p. 170). In this section we will discuss the major sources of ODA to Ethiopia and its role in economic development of the country.

Table 3: Level of ODA to Ethiopia in Comparison with Sub-Saharan Africa (SSA) and Least Developed Countries (LDC), 1995-2001

Year	ODA as Percent of GDP			ODA Per Capita (U.S.\$)		
	Ethiopia	SSA	LDC	Ethiopia	SSA	LDC
1995	18.7	12.6	17.5	16.0	32.0	29.0
1996	14.6	5.6	14.2	15.0	28.1	25.0
1997	10.1	6.7	11.1	12.0	33.5	29.1
1998	10.0	4.4	8.4	10.6	21.4	20.2
1999	11.3	5.3	7.0	11.8	18.3	17.8
2000	15.5	6.2	7.6	14.5	19.4	19.1
2001	18.9	7.2	8.2	16.1	20.6	20.5
Average 1995- 2001	14.2	6.9	10.6	13.7	24.8	23.0

Source: 1. (For Years 1995-1998) UNDP/Ethiopia (2001). *A Four-Year Review and Analysis of Development Co-operation Activities of External Partners in Ethiopia*. Addis Ababa, p.14.

2. (For Years 1999-2001) UNDP/Ethiopia (2003). *Development Partners in Ethiopia: A Summary of Development Cooperation Funding*. Addis Ababa, p.20.

3.1. Major Sources of ODA to Ethiopia

In 2003, Ethiopia had about 47 donors/lenders (23 bilateral and 24 multilateral) (UNDP/Ethiopia, 2003, p.10 &13). Out of these, according to the OECD's recent rating based on their 2000-2001 average ODA contribution to Ethiopia, the top ten donors for Ethiopia are International Development Association (IDA), United States of America, European Union (EU), Japan, Netherlands, Germany, African Development Bank, International Monetary Fund, Ireland, and Sweden. (OECD, n.d.b, p. 1).

Out of these top ten donors, IDA/the World Bank, the United States, the European Union and the IMF play a significant role in the economic and political process of Ethiopia. Japan is also becoming one of the influential donors of Ethiopia. Below, we will briefly discuss the ODA of these major donors/concessional lenders to Ethiopia.

International Development Association (IDA)- Ethiopia became a member of the IDA in 1960 and up to December 2001 Ethiopia received a total of U.S.\$ 3.5 billion on concessional credit terms. Out of the total fund, U.S.\$ 2.3 billion (65.7 percent) was received in the post 1991 period for the financing of 18 projects and 5 programs (MOFED, 2001b, p.1).

International Monetary Fund (IMF)-Ethiopia became member of the IMF on December 27, 1945 and in the last 20 years (1983-2003), Ethiopia drew SDR 261.13 million from IMF credit arrangements. Out of this total credit, SDR 158.33 million (60.6 percent) was drawn under the Poverty Reduction and Growth Facility (PRGF), which has a repayment period of 5-10 years and an interest rate of only 0.5 percent and under the Structural Adjustment Facility (SAF), which also has a low interest rate and qualifies as ODA (IMF, 2003 & MOFED, 2001b p.6).

European Union-The relation between Ethiopia and the European Union (EU) goes back to 1975, the year when the Lome Convention was signed. From 1975-2001, Ethiopia received total ODA of Euro 2.23 billion from the European Union and the greatest parts of these receipts were grants (MOFED, 2001b, p. 19). Out of this total ODA, Euro 981.8 million (44 percent) was received from 1991 to 2001 for the implementation of 125 projects and programs (MOFED, 2001b p.20).

UN Agencies-Other multilateral agencies that are playing significant role in economic development of Ethiopia are UN agencies, particularly the United Nations Children's Fund (UNICEF), the United Nations Development Program (UNDP), the World Food Program (WFP), and the United Nations Fund for Population Activities (UNFPA). Pertaining to its large population, low per capita income, low human development indices, poverty situation and low development level, Ethiopia is one of the major recipients of grant ODA from UN agencies. For instance, in

2000 Ethiopia was the 4th largest recipient of UNDP assistance in the world following China, India and Bangladesh and was the single largest recipient in Africa. From 1975-2001, Ethiopia received U.S.\$ 1.4 billion from the four major donors of the UN agencies alone (MEDaC, 2000, pp.2-6). In addition, UN agencies like the World Health Organization (WHO), the United Nations Educational, Scientific & Cultural Organization (UNESCO) and the International Labor Organization (ILO) have been active participants in Ethiopia.

The United States of America- Ethio- U.S. relations date back to 1903. The relations of the two countries were further strengthened based on the treaty of amity and economic relations signed between the two countries in 1951. Following the eruption of the Ethiopian Socialist Revolution in 1974, the relations between the two countries were worsened due to ideology related issues and from 1977 to 1985 there was no grant ODA from the USA to Ethiopia. Even though the U.S. government decided to provide assistance to Ethiopia following the Ethiopian famine of 1984-85, because of the U.S. International Security and Development Act of 1985, which prohibited all U.S. economic assistance to Ethiopia with the exception of humanitarian disasters and emergency relief, Ethiopia couldn't attract a significant amount of development assistance from the USA until the government changed in Ethiopia in 1991. In 1992, U.S. ODA to Ethiopia resumed flowing in significant volume but with a lot of conditionalities, i.e., showing progress in economic reforms, democracy and respect for human rights. From 1946-2001 total U.S. ODA flow to Ethiopia was U.S.\$ 2.2 billion (USAID, n.d). Currently, USA is the largest bilateral donor to Ethiopia followed by Japan.

Japan- Ethiopia and Japan have had economic relations since the early 1960s. However, meaningful economic relations were started following the 1971 exchange of notes between the two governments regarding the dispatch of Japanese volunteers to Ethiopia. As of September 30, 2001, the total ODA receipt of Ethiopia from Japan was Yen 55.8 billion or about current US\$ 485 million (MOFED, 2001a, p.86).

3.2. The Role of ODA in the Economic Development of Ethiopia

Like in other low-income developing countries, ODA has played an important role in the economic development of Ethiopia in providing finance, sharing ideas, creating training opportunities and capacity building. Given the weak productive capacity and competitiveness of its economy, there has been no period when Ethiopia has mobilized adequate domestic resources necessary for its investment. As a result, ODA has played key role in the economic development programs of successive Ethiopian governments.

Ethiopia, under the government of Emperor Haile Sellassie (1930-1974), received development assistance from Western and Eastern bilateral donors and multilateral donors. One of the best hospitals in Ethiopia, Dejach Balcha Hospital, was built and is still supported by Russia. In the same manner, one of the best schools in Ethiopia Lyce Gebre Mariam School was built and is still supported by France. Sweden built one food processing factory (Fafa), one special pediatric clinic (found in the compound of Black Lion Hospital) and more than 6,500 elementary schools in different parts of Ethiopia. Alemaya Agricultural University, Gonder Health College, National Malaria Prevention Agency, Ethiopian Civil Aviation and the Highway authorities were mainly supported by the United States. It is possible to name many more institutions that had been supported and infrastructures that had been built in Ethiopia with ODA resources during the Emperor's era.

During the socialist period also, Ethiopia had been receiving development assistance from Eastern Block donors particularly from the Soviet Union and East Germany, as well as from Western bilateral and multilateral donors to some extent. Ethiopia also benefited from the technical assistance of Cuba, North Korea, and East European countries, which were socialist. Even though information on the volume of ODA flows to Ethiopia is incomplete and data in this area are conflicting, some sources indicate that in the last 24 years (1980-2003), Ethiopia has received U.S.\$ 23.4 billion ODA from bilateral and multilateral sources, an annual average of U.S.\$ 976.7 million.

Table 4: ODA Receipts of Ethiopia, 1980-2003

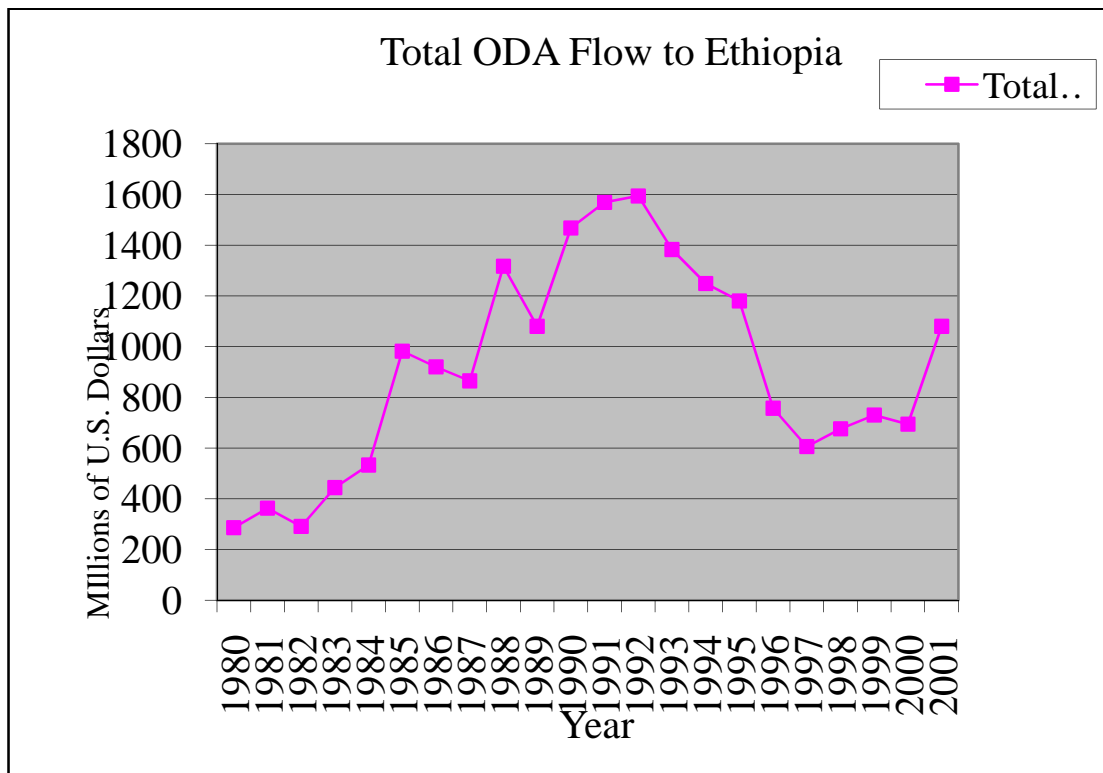
(In Millions of U.S.\$)

Year	ODA Loan (1)	ODA Grant (2)	Technical* Assistance (3)	Food* Aid (4)	Total 5=1+2+3+4	Grant % of Total 6=2+3+4/5*100	Loan % of Total
1980	43	169	44	30	286	85.0	15.0
1981	46	199	64	54	363	87.3	12.7
1982	40	160	53	38	291	86.3	13.7
1983	126	213	64	41	444	71.6	28.4
1984	75	286	81	91	533	85.9	14.1
1985	92	619	104	167	982	90.6	9.4
1986	67	563	115	175	920	92.7	7.3
1987	134	493	147	91	865	84.5	15.5
1988	188	775	197	157	1,317	85.7	14.3
1989	132	617	234	97	1,080	87.8	12.2
1990	161	858	254	195	1,468	89.0	11.0
1991	110	988	206	265	1,569	93.0	7.0
1992	106	1,076	190	222	1,594	93.4	6.6
1993	361	733	171	118	1,383	73.9	26.1
1994	311	764	126	48	1,249	75.1	24.9
1995	246	642	167	125	1,180	79.2	20.8
1996	243	514			757	67.9	32.1
1997	115	491			606	81.0	19.0
1998	150	526			676	77.8	22.2
1999	202	528			730	72.3	27.7
2000	173	521			694	75.1	24.9
2001	529	551			1,080	51.0	49.0
2002	656	780			1,436	54.3	45.7
2003	713	1224			1,937	63.2	36.8
Total	5,019	14,290			23,440	61.0	21.4
Average	209.1	595.4			976.7	79.3	20.7

Sources: Compiled from Abegaz, Berhanu (1999, p.10-11) for Year 1980-1995; from UNDP/Ethiopia (2001, p.15) for Years 1996-1999; and from OECD (n.d), Aid at a Glance by Recipient: Ethiopia for years 2000-2001 and from UNDP/Ethiopia (2003, p.7) for years 2002-2003

*Note: Technical Assistance and Food Aid for the years 1996-2003 were included into the Grant ODA.

Figure 1: Trends of ODA Flow to Ethiopia, 1980-2001



Source: See Table 4 Above.

As can be seen from figure 1 above, following the ending of the socialist system in 1991, the volume of ODA flow to Ethiopia reached its peak. It then declined reaching its lower level between 1996-2000. The decline of ODA from 1996 to 2000 was mainly because of a short-lived good harvest of 1995-96 that caused a reduction of food aid and the Ethio-Eritrea war of 1998-2000 that had been the reason for the reduction of ODA flows from some donors. Following the end of Ethio-Eritrea war in 2000, the ODA flow revived again. As a result, the per capita ODA of Ethiopia, which was U.S. \$12.0 in 1997, increased to U.S.\$20.54 in 2002, almost double (Janneh, 2002). The trend of ODA per capita of Ethiopia is increasing and estimated to be U.S.\$ 27.67 in 2003 (UNDP/Ethiopia, 2003, p.8).

Another point to note is that, when compared with that of Sub-Saharan Africa and the Least Developed Countries, the annual average of per capita ODA to Ethiopia is much lower (see Table 3). For instance, from 1995-2001, the average per capita ODA to Ethiopia was U.S. \$13.7 while that of Sub-Saharan Africa and the Least Developed Countries for the same period were U.S.\$ 24.8 and U.S.\$ 23.0 respectively (see table 3 above). This low per capita ODA is mainly because of the large population of Ethiopia, which is roughly 10 percent of the population in Sub-Saharan Africa.

For Ethiopia, a country where millions of people are on the verge of death because they are too poor to stay alive without getting food aid, the current flow of ODA is below what is needed. According to the observation of Professor Jeffrey Sachs, a special adviser to the UN Secretary General Kofi Annan, the current development assistance to Ethiopia, which is about U.S. \$1 billion a year, is far below the requirement of the country to bring about practical change in its economic condition, i.e., about U.S. \$5 billion a year (IRIN, 28 Jul 2003). The problem of ODA to Ethiopia is not only the volume but also the composition. The grant portion of its ODA receipt has been on the decline, moving from 81 percent of the total in 1997 to 51 percent in 2001. The decline of grant portion was mainly because of an increasing role of multilateral donors, primarily the World Bank, in Ethiopian economy. Another problem of ODA to Ethiopia is that the humanitarian relief assistance, the majority of which is food aid, has consistently been the largest sectoral recipient of ODA to Ethiopia, consuming on average 31 percent of total ODA or U.S.\$321 million per annum for years from 1997 to 2002 (UNDP/Ethiopia, 2003, p.7). During this period, on average, forty-eight cents of every dollar of grant ODA to the country was in the form of humanitarian relief. This is mainly because of recurring droughts that have caused famines and have affected millions, and the effect of Ethio-Eritrea war of 1998-2000, which displaced many people. These natural and man-made calamities have demanded large humanitarian assistance from the international community.

In the post 1991 period, the contribution of ODA in enabling more Ethiopians to get access to education, health, and safe drinking water as well as in building, expanding and maintaining physical infrastructure like roads, electric power, schools and clinics is significant. This is mainly because of a favorable domestic policy framework that has attracted more donors to work hand in hand with the government of Ethiopia in development. In the past ten years (1991-2001), more than 418 major completed and ongoing development projects were funded by ODA in Ethiopia. Out of these, 148 projects were funded by IDA and EU and 270 projects were funded by 13 major bilateral donors (MOFED, 2001a, p.2). ODA is also expected to finance a significant portion of Sustainable Development and Poverty Reduction Program (SDPRP) of Ethiopia.

3.2.1 The Role of ODA in Post War Reconstruction

Even though most of the history of Ethiopia is a history of wars, the recent major wars were the prolonged civil war of 1974-1991, the Ethio-Somalia War of 1977-78 and the Ethio-Eritrea War of 1998-2000. When the Ethiopian civil war came to an end in 1991 with the victory of Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) led forces, the international community organized its efforts under the Emergency Recovery and Rehabilitation Program (ERRP) to reconstruct the war-ravaged economy of Ethiopia. Under ERRP, a consortium of donors coordinated by the World Bank provided U.S.\$ 680 million and this was followed by a

U.S.\$250 million Structural Adjustment Credit from the World Bank on standard IDA terms (Abegaz, 1999, p.39). The main objective of ERRP (1992-1995) was to provide at least part of the urgently needed foreign exchange and commodities required for economic recovery and functioning.

Furthermore, ERRP had the objective of facilitation of the reconciliation and stabilization processes. This objective was clearly mentioned by the Director of the USAID Mission to Ethiopia (one of the key players in ERRP) Mr. Walter North in his official letter dated 28 August 1992, one day after the signing of Development of Competitive Market Program (DCM) agreement with the Ethiopian government, to Ministry of External Economic Cooperation of Ethiopia. He clearly pointed out that “ [t]he ERRP program is designed to jump start the economy but it is equally directed at fostering reconciliation, peace and prosperity.... I hope that the DCM and ERRP will be instruments of healing which will contribute to a lasting peace with prosperity in Ethiopia”.

To facilitate and expedite the resettlement, rehabilitation and reintegration of the ex-soldiers of the former (Derg) government into the civilian society as productive civilian members, USAID contributed U.S.\$ 5 million (LSGA, 1993). Germany had also contributed U.S.\$ 5.8 million for integration and resettlement of the ex-soldiers (MOFED, 2001a, p 50). These grants have contributed to the peace building process in Ethiopia.

In 2000, the World Bank approved two credits totaling U.S.\$ 400.6 million to support the Algiers Peace Agreement of December 12, 2000 between Ethiopia and Eritrea, and to assist the government of Ethiopia with its post-war recovery program. The program includes the emergency demobilization and reintegration of veterans of the conflict with Eritrea, emergency humanitarian needs and rehabilitation and reconstruction of infrastructure, as well as stabilizing the economy and restarting the reform agenda (World Bank, 2000).

This World Bank credit was from the IDA, the World Bank's lending arm for the poorest countries, which normally has a 10-year grace period and maturity period of 35 to 40 years. It is a loan with almost a zero interest rate and qualifies as ODA credit. Out of this total World Bank assistance, U.S.\$170.6 million credit was for the *Emergency Demobilization and Reintegration Project* which was targeted to reducing war-induced poverty by freeing up additional national resources for investment in social and economic sectors and to address the special needs of an estimated 17,000 disabled veterans. The rest, the U.S. \$230.00 million credit, was for the *Emergency Recovery Project* to address the immediate needs of war-affected people and to help the economy to recover.

3.2.2 The Role of ODA in Economic and Political Reforms

When the EPRDF led force took power, in 1991, some feared that its leaders would show the same socialist tendency as their predecessor in government. Therefore, donor countries like

the United States soon stepped in and started providing both finance and advice in order to influence the political and economic reforms. Most of the ODA flows in the post 1991 period have been conditional in taking measures and continuing progress towards economic and political liberalization. Partly because of the ideological and political commitment of the government of Ethiopia and partly because of the influence of its donors, many important policy measures that would have been unthinkable under the previous governments in Ethiopia have been taken as a part of the reform. In explaining its effort in influencing the Ethiopian government to adopt the federal system, USAID stated, “[t]hrough our democracy project and our participation in the public expenditure review, we are players in working to positively influence this federalist tendency.... If the ethnic factors is handled carefully, regionalism could be positive development” (USAID, 1993, p.7).

On the economic front, a number of sweeping reforms have been undertaken since 1991 to transform the economy from a state-dominated socialist-oriented economy to free market-oriented economy and the influence of donors, particularly the influence of Ethiopia's largest bilateral donor the United States, in the process of these reforms, has been significant. From 1991 up to 2001 almost all the ODA of the United States was based on conditions and prior to the call forward of commodity grants or disbursement of funds, Ethiopia was required to take the agreed upon reforms and other measures and to furnish evidence to USAID to prove that the measures had really taken according to the agreement.

The reform measures taken as part of the conditionalities of ODA grant agreements with the United States include the following:

1. Abolishing or reorganizing various government-owned corporations;
2. Privatization of government-owned passenger and freight commercial transportation vehicles through lease-purchase arrangement and loan provided from Commercial Bank of Ethiopia (40 percent) and the ERRP fund (60 percent);
3. Retrenchment or reassignment of surplus workers in previously government owned corporations;
4. Market liberalization, particularly for transport and fertilizer;
5. Abolishing checkpoints, which had hindered the free movement of goods and people during the previous regime;
6. Allocation of more budgets for the education and health sectors and system overhauling.

3.2.3. The Role of ODA in Filling Resource Gaps

ODA has been playing important role in the economic development of Ethiopia in filling the saving, foreign exchange and knowledge gaps and in helping the development effort of the country. Various development projects, which would not have been undertaken in the absence of ODA, were implemented with ODA resources and the implementation of these projects enhanced the public service delivery of the country and supported its economic growth.

To examine the role of ODA in the economic development of Ethiopia closely, we will briefly discuss its contribution in filling the saving, foreign exchange and knowledge gaps.

3.2.3.1 Filling Saving Gap

To achieve higher economic growth, an increase in the level of productive investment (capital formation) is essential. If productive investment is to increase, there must be saving growth or postponement of current consumption. Savings can be mobilized from the domestic sources through self-imposed cuts in consumption, government imposed taxes or domestic borrowing and from abroad through ODA and commercial borrowing. When an adequate volume of resources is not released through domestic saving to cover the investment requirement of a country, a saving gap or shortage of capital will be seen.

The domestic saving of Ethiopia is less than its actual investment requirement and there is a gap between its domestic saving and domestic investments. This is mainly due to low productivity and the low average income of the people. Since Ethiopia is not in a position to borrow money required to fill its saving gap from the international commercial capital market at market interest rate, and also not as such attractive for foreign direct investment, a great deal of its foreign saving comes from ODA resources.

Table 5: Gross Domestic Investment and Gross Domestic Saving As % of GDP, 1962-2000

Item	1962-66	1967-71	1972-76	1977-81	1982-86	1987-92	1993-00
Investment as %of GDP	13.5	12.6	9.7	11.0	14.3	13.4	15.9
Saving as % of GDP	11.4	11.0	9.0	4.7	6.5	7.1	5.3
Saving Gap%	2.1	1.6	0.7	6.3	7.8	6.3	10.6

Source: MOFED. (2002). Ethiopia: Sustainable Development and Poverty Reduction Program. Addis Ababa, p.19

Besides filling the saving gap, ODA also has the effect of reducing the fiscal deficit, the difference between total revenue and total expenditure. In the past twenty years (1980-1999), the average annual domestic revenue of Ethiopia as compared to its GDP was 17 percent and its average total (capital and recurrent) expenditure was 24.7 percent of its GDP. This shows an average annual fiscal deficit of -7.7 percent. Out of this fiscal deficit, 2.4 percent was covered by grant ODA, reducing the fiscal deficit to -5.3 percent of GDP (Abegaz, 1999, P.9).

To enhance the effectiveness of ODA resources in its economic development, the government of Ethiopia is doing its best to convince more donors to join the national investment programs (sector development programs) and work in a coordinated manner. Accordingly, more donors have joined the Road Sector Development Program (RSDP), Education Sector Development Program (ESDP), Health Sector Development Program (HSDP) and Water Sector Development Program (WSDP). The coordinated effort of government, donors and communities in these sectors has shown encouraging results. For example, education and health coverage were expanded, more roads were constructed, and the quality and efficiency of public service delivery are improving.

The contribution of donors in the first phase of these sector development programs was significant and it will continue to be more significant in the next phases. For instance, under the ESDP-I (1997-2002) more than U.S. \$ 278.6 million or more than 16% of the total cost of the program was covered by ODA resources (Ministry of Education/MOE, 1999, p. 11) and the share of ODA in the second phase of ESDP was expected to be greater. In HSDP and RSDP also, the contribution of ODA resources has been very significant and it was hoped that this trend would continue in an improved and increased manner. Out of the total cost of the HSDP-II (2003-2005), 40 percent and out of the total cost of WSDP (2002-2006) 41.2 percent was planned to be covered by the ODA resources. For the years from 2003-2005, the share of ODA in the total revenue of Ethiopia was estimated to be 31.3 percent (MOFED, 2002, p.145).

3.2.3.2 Filling Foreign Exchange Gap

Public investment in developing countries inevitably requires the import of necessary goods and services, which are not available from domestic resources, and foreign exchange is required to acquire these imports. When the export earning falls short of covering the required imports, a foreign exchange gap- a gap between foreign exchange earnings and import requirements during the plan period- will be created.

Normally, imports must be paid for by export earnings, but like in most other developing countries, this is not the case in Ethiopia. Ethiopia's export, which is led by coffee and the great majority of which is primary agricultural products has not been adequate enough to raise the foreign exchange earnings required for the total imports of the country. For example, in the fiscal

year 1993 and 1996, the export earnings covered only 20 percent and 33 percent of imports, respectively (World Bank, 1996, p.2).

Table 6: Ethiopia's Exports and Imports, 2000-2002

	In thousands of U.S.\$		
	2000	2001	2002
Export	481, 040	427,451	451,108
Import	1,550,009	1,776,812	1,579,515
Trade deficit	-1,068,969	-1,349,361	-1,128,407
Export as % of import	31.0	24.1	28.6
Import as % of Export	322.2	415.7	350.1

Source: Adopted from Ethiopian Export Promotion Agency. (2002). *Ethiopia's external trade statistics*. Retrieved on January 1, 2004 from <http://www.ethioexport.org/>

When domestic saving does not generate adequate exports to earn the necessary foreign exchange, the required foreign exchange should come from external sources to finance imports. In such cases, poor developing countries like Ethiopia require ODA as a source of foreign exchange to fill their foreign exchange gap. By filling the foreign exchange gap, ODA resources support investment of the recipient country as an addition to domestic saving.

3.2.3.3 Filling Knowledge Gap

Most of the development projects financed by ODA grants in Ethiopia have technical assistance components. The major objective of this technical assistance is to fill the knowledge gap of Ethiopia by providing expatriate experts. These expatriate experts introduce new experience, knowledge, skills, ideas and practice to the country and contribute to the improvement of the implementation capacity of project implementing institutions and to the overall effort of capacity building of the country. Moreover, many Ethiopians got and are still getting further education and training in the country and abroad through various technical assistance arrangements by donors. This curbs the shortage of skilled manpower of the country and fills the knowledge gap.

In the current world, where knowledge is becoming a key-determining factor for the competitiveness of a country, the contribution of ODA in filling the knowledge gap, by bringing external knowledge into the country and cultivating the local knowledge, is very important. Since there is strong link between the levels of knowledge and economic growth of a country, like in any other society, there is a growing belief in Ethiopia that knowledge can play a key role in increasing economic growth and bringing development through researching development

problems and solutions as well as stimulating creativity. In light of this, the role of ODA in filling knowledge gap is crucial.

Since the success of economic development primarily depends on country's own efforts, Ethiopia must take measures that contribute to reduce its dependency on ODA. These measures may include creating a more favorable environment to optimize domestic capital accumulation and resource mobilization as well as attracting foreign direct investment. Pertaining to its low gross capital formation (gross domestic investment), which was on average only 19.1 percent of its GDP for the years 2001 and 2002, compared to an average of 30.6 percent for South Korea during its high growth rate period (1972-1990) (Il Sakong, 1993, pp. 264-265), it is unrealistic to expect Ethiopia to become independent of ODA within a short period of time. However, given its unexploited rich natural resources and human potential, the writer is optimistic that in the long run Ethiopia can graduate from aid receiving like South Korea. According to the opinion of the author, to graduate from ODA receiving, Ethiopia has to consider the experience of South Korea and focus on trade and industrialization, since the revenue from agricultural products that Ethiopia is currently exporting is highly volatile mainly due to its climate and the unstable world market for primary agricultural products.

IV. Concluding Remarks

ODA is increasingly playing a catalyst role in economic development and the promotion of change in developing countries. In a world where there are extremely rich people whose cattle receive a subsidy of U.S. \$ 2 each a day and where there are also extremely poor people living on less than U.S.\$ 1 a day, the transfer of finance and ideas with the objective of promoting economic development and enhancing welfare through ODA is crucial. As discussed in the main text, ODA is one of the "quick fixes" to economic problems, but not the only one. According to the findings of the World Bank research, an increase of U.S.\$10 billion in ODA would lift 25 million peoples a year out of poverty (World Bank, 1998, p. 46). In light of this stark fact, the UN is consistently requesting that rich donor governments honor their promises to give 0.7 percent of their GNP to poor developing countries as development assistance. If these promises were respected, the amount of total world ODA would increase from the current about U.S. \$50 billion a year to U.S. \$175 billion a year (IRIN, 28 Jul 2003).

The effectiveness of the role of ODA in economic development depends not only on external factors- its availability in required volume and favorable financial terms and conditions- but also on internal factors- the project implementation capacity and ODA absorptive capacity of the country as well as proper utilization of resources. In short, the issue of effectiveness of ODA in economic development is overarching in external and internal factors. In a country where there is sound economic management, competent and efficient institutions and favorable policies, ODA leads to a higher private investment, more rapid economic growth, and faster poverty reduction.

This is what has been seen in South Korea, where ODA contributed to building the pillars of economic development.

In this paper, the role of ODA have been examined and its contribution to economic development has been analyzed based on the past experiences of South Korea and the current practices in Ethiopia. The analysis of the South Korean experience implies the following lessons for Ethiopia:

1. The role of ODA is very important in the early stages of economic development, when the saving of a country is far short of its investment requirement. The importance of ODA will diminish as a country achieves a higher stage of economic development.
2. ODA plays important role in making positive contributions to the efforts of a country to solve its underdevelopment related problems and to achieve economic development.
3. The effectiveness of ODA requires the right mix of finance and ideas within a sound policy environment. South Korea received both finance and ideas from its major donors, particularly from the USA and properly utilized them.
4. The idea and technical parts of ODA are as important as the finance part and help to bring about sound policies and create necessary institutions. The policy advice received by South Korea from its major donors was very important in revamping its policies and the technical assistance also contributed to its human resource development efforts.
5. ODA is relatively more effective and achieves significant positive impact when its flow is intensive rather than thin. The flow of ODA to Korea was intensive compared to the size of its population, whereas that of Ethiopia is thin.
6. The contribution of ODA is much better if it is used for productive economic activities rather than for non-productive activities (consumption). Therefore, the recipient country should ensure the proportion of ODA resources used for the non-productive activities is kept to the minimum level that the productive activities necessarily require.
7. The donors cannot provide ODA indefinitely. Therefore, a country should design its own strategy based on its peculiar characteristics, comparative advantage and surrounding environment to overcome dependency on ODA. South Korea made an exemplary decision and recorded remarkable achievement in this regard. In the early 1960s, when the U.S. grant ODA started to decline, South Korea turned its face toward borrowing as an alternative source of capital. By properly utilizing the borrowed capital in developing its competitiveness in its areas of comparative advantages-at the beginning in labor intensive light industries and later in heavy and chemical industries-South Korea managed to graduate from ODA receiving in the early 1980s. Currently, South Korea is one of a few countries that have transformed themselves from ODA receiving to donor status.

8. If internal and external conditions are favorable, trade and investment are more preferable to ODA. The utilization of ODA funds has some limitations, especially when it is tied ODA, and it also flows only to the public sector, which does not necessarily target profit. But, trade and investment by the private sector target profit and the drive for profit promotes creativity and efficiency.
9. The effectiveness of ODA, in part, depends upon the general efficiency of the recipient government and its policies. Some ODA conditionalities are useful instruments in persuading the recipient government to pursue good policies and put in place efficient institutions.
10. South Korea's donors were primarily three- USA, Japan and IDA- and it faced no serious problems of aid coordination. When a recipient country has a large number of donors like Ethiopia, donor coordination and the harmonization of procedures are crucial in facilitating the flow of information and finance.

Ethiopia has sound macroeconomic policies, and the competence and commitment to achieve economic development. The overall rating of country and institutional assessment of Ethiopia, which was 3.7 out of 5 points for year 1998, was better than the African average of 3.0 for the same year (Cited in Abegaz, 1999, p.7). The willingness of the IMF and the World Bank, which normally don't lend money to a country unless it has committed itself to having a good macro framework, to lend money to Ethiopia is also evidence that shows the policies of Ethiopia are on the right track. Even though it is far behind what is required, the volume of ODA flow to Ethiopia is also increasing. Therefore, there is a hope that Ethiopia, by combining ODA resources with domestic efforts, will achieve a positive result in its economic development. Since the success of economic development depends on self-reliance and voluntary efforts and the role of ODA is supporting the country's own efforts, Ethiopia should continue relying on its own efforts to achieve economic development as it is doing now.

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