

## **Underpinnings of effective country ownership: Lessons from Japan and South Korea as former aid recipients**

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### **Abstract**

What does effective country ownership mean? This study examines the underpinnings of true country ownership of aid programs from the perspective of recipients by drawing from the experiences of Japan and South Korea as former recipients of development aid. In doing so, the paper reviews cases from two World Bank-funded projects in Japan and one Japan-funded investment project in Korea. The Japanese and Korean cases highlight three forms of interrelated capacities that were essential to effective ownership: (1) the capacity to absorb new knowledge and foreign technology from aid projects or internalization; (2) the capacity to extend projects beyond the pilot stage or scaling up; and (3) effective negotiating skills/ability to persuade aid donors to support national priorities and strategies during tough aid negotiations. It recommends that a differentiated, need-based aid approach for a more effective assistance to middle-income countries must be carried out and that new modes of aid delivery that improves scaling up must be introduced to maximize the aid's development outcomes.

**Keywords:** Country ownership, foreign aid, Japan, South Korea, aid effectiveness, scaling up

### **Introduction**

Country ownership is at the centre of debate in foreign aid effectiveness of late. In 2005, it was adopted as one of the five principles on aid effectiveness stipulated in the Paris Declaration. As a basic principle, country ownership recognizes the need for partner countries to exercise effective leadership over their development policies, and strategies and co-ordinate development actions and emphasizes commitment of aid donors to respect partner country leadership and help strengthen their capacity to exercise it.<sup>1</sup> Indeed, the international aid community has embraced it as part of best practices in aid management. Aid donors from the Development Assistance Committee of the Organization for Economic Co-Operation and Development (DAC/OECD) have used it as a standard for aid reform. Yet, more than a decade later since the Paris Declaration, the concept of country ownership has remained rhetoric for many and there is little agreement on its definition. De Renzio, Whitfield, and Bergamaschi (2008) provide a donor-recipient dichotomy of definition noting that aid donors generally refer to it as commitment to policies, regardless of how those policies were chosen while recipient-governments view it as the degree of control that they are able to exercise over policy design and implementation. The

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World Bank (2008) defines country ownership as achieving some sort of a broad consensus among all stakeholders, including aid donors, and sufficient political support regarding the content of development policies and strategies, including the projects, programs, and policies for which external partners provide assistance. Country ownership necessarily requires institutional capacity for defining and implementing a national development strategy (World Bank, 2008; De Renzio, Whitfield, & Bergamaschi, 2008; Ohno I., 2005).

The concept of country ownership as embodied in the 2005 Paris Declaration assumes that aid recipients have development-oriented leaderships and institutional capacity. Stressing the potential dangers of incompetent, corrupt, and inefficient governments providing ‘leadership’ in national development, Cross (2014) argues that country ownership does not have to mean ‘government ownership’ rather it should be perceived as something that is ‘earned’ not ‘granted’ to governments. Since many developing countries lack both capacity and development-oriented leadership, Booth (2011) strongly asserts that country ownership should be treated as a desirable outcome where they do not exist. He notes that achieving development-oriented leaderships in recipient-countries would need donors to pay more attention to their non-aid policies ‘which are known to affect the economic and political systems of developing countries in negative ways’ and for leaders of recipient-countries to address collective action problems that hinder moves towards a more developmental politics (Booth, 2011).

From the brief discussion above, it can be argued that country ownership as a concept can be viewed either as an issue of capacity or as desirable outcome or both. It suggests that there are preconditions that must be in place in order for recipient-countries to exercise strong country ownership effectively. Two of which are highlighted above, namely, institutional capacity and development-oriented leadership. This study asserts that these concepts are not new at all. As former aid recipients, Japan and more importantly South Korea had demonstrated ‘true’ country ownership in defining and implementing their national development strategies. As shown later, their experience reveals that there are three dimensions of institutional capacities that are essential to effective country ownership. These are: (1) the capacity to absorb new knowledge and technology acquired from aid projects or internalization, (2) capacity to extend projects beyond the pilot stage or scaling up, and (3) capacity for leadership with effective negotiating ability to persuade aid donors during tough negotiations to support the recipient’s national priorities and strategies. As will be shown in the succeeding sections, in Japan and more importantly in South Korea, these capacities were achieved as a result of heavy investments in education and administrative capacity during the first wave of American aid.

If country ownership was manifestly embedded in the aid management systems of Japan and South Korea, then why is it that it was not given emphasis? There were a number of obvious reasons for this. First is the nature of the international environment. The cold war incentivized western aid donors to allot their assistance based on strategic rather than development goals thus the aid’s development outcome was not a priority. Second, the debate regarding aid effectiveness took off initially as a question of quantity or how much aid must be provided to have meaningful effects on recipients’ economic growth. Country ownership would come again to the fore only in

the 1990s as debate shifted from issues of ‘how much aid’ to ‘what *kind* of aid’ is effective. Moreover, aid donors generally prefer to finance projects that are deemed important and strategic even if they are not the priority of recipients. This is understandable considering that bilateral aid is funded mainly by taxes and that governments of donor-countries simply want to ensure that their resources are well-spent and not put to waste. Hence, aid conditionality became imperative and has been a standard practice of western aid donors. Today, the conditions that are attached to foreign aid range from economic such as adoption of neoliberal policies based on Washington Consensus to political ones including putting into practice good governance and upholding human rights. Many political conditions attached to western aid in post-2000 are intended to sanction and/or reward recipients (Molenaers, Dellepiane & Faust, 2015). Finally, the global aid architecture has evolved into a donor or supply-driven system where donors disproportionately determine what kind of aid should be provided instead of what recipients need. As a result, aid-dependent recipients in general defer to donor preferences during aid negotiations because aside from the simple fact that donors have more leverage during negotiations, many recipients also lack negotiating skills to persuade donors to support their development priorities. If they do possess effective negotiating skills but do not get what they requested, it is because they do not have political leverage or strong bargaining power. As will be shown later, both Japan and South Korea had used geopolitical leverage during the cold war to their advantage.

The goal of this study is to examine the underpinnings of country ownership based on Japanese and South Korean experiences by way of examining two World Bank projects in Japan and one investment project funded by Japanese reparations payment in South Korea. The two World Bank projects in Japan are the Mechanical/Agricultural Land Reclamation Project in 1956 which received funding of 2.463 million US dollars and the Aichi Water Canal Project in 1957 with 7 million US dollars funding from the World Bank. The Land Reclamation project was aimed at increasing Japan’s agricultural productivity by converting Hokkaido peatland into rice, dairy and mix farms. The Water Canal Project was intended to develop irrigation of surrounding agricultural lands, provide industrial and residential water supply, and generate additional hydroelectric energy for neighbouring areas in Aichi prefecture. Meanwhile, the investment project in South Korea that was chosen for analysis is the construction of Pohang Iron and Steel’s integrated steel mill which was the centre of Korea’s efforts toward industrialization during the Park Chung-hee regime.

In part this study also aims to understand how aid recipients that are transitioning from middle to high-income status have exercised country ownership. It should be noted that projects covered in this study were implemented at the time of Japan’s and South Korea’s economic transformation to advanced-country status. By 1960s, Japan’s economy was already comparable to those of many advanced countries in Europe. It was admitted as member of Development Assistance Committee (DAC, formerly known as Development Assistance Group or DAG) in 1960. Many Japanese regarded this as international acknowledgement of Japan’s successful post-war catch-up effort. Japan held the position of being the second largest economy in the world from 1968 after surpassing West Germany until it was overtaken by China in 2010. The 1950s

and early to mid-1960s can be viewed then as Japan's transition period to high-income status, particularly the period between the end of the Korean War (1953) and the implementation of the first Income-Doubling Plan under the Ikeda administration (1960-64). As mentioned earlier, the land reclamation and Aichi water canal projects were begun in 1956 and 1957, respectively.

On the other hand, South Korea's transition to high-income status took longer than that of Japan. The 2010 White Paper on Korean Official Development Assistance (ODA) mentioned the period 1963-1992 to be Korea's transition to high-income status, the most critical of which was the period 1963-1979 in which the country shifted to capital-intensive heavy and chemical industries. It was during this period when Park Chung-hee envisioned his ambitious goal of setting up Korea's steel industry. Based from official World Bank report, Korea was classified as an upper middle-income country from 1989 to 1994. It graduated to high-income status in 1995 but went back to the status of upper middle-income between 1998 and 2000 when the Asian financial crisis hit. From 2001 onwards, Korea's status has been that of high-income country. In 1993 it was removed from the OECD's list of ODA recipients. It joined OECD in 1996 and became a member of the DAC/OECD in 2010.

Finally, Japan and South Korea were selected as cases for this study since these two are widely recognized country-models that successfully transitioned from being aid recipients to full-fledged providers of foreign aid. As a former aid recipient, Japan received foreign assistance mainly from the United States worth 3.455 billion U.S. dollars between 1946 and 1970 (Takagi, 1995). South Korea, on the other hand, received 4.424 billion US dollars between 1945 and 1979 (Suh & Kim, 2014). As in the case of other Asian aid donors like China and India, both countries started their own bilateral aid programs while they were still receiving aid.

### **Country Ownership, Foreign Aid and Institutional Capacity**

Riddell (2007, p. 25) notes that former President Truman's 1949 inaugural address, particularly Point Four, contained three recommendations of how development aid must be provided, namely, that donors must (1) pool their resources, (2) coordinate their efforts under the United Nations if possible, and (3) ensure that the aid given would enable recipients to use it in ways they saw fit. By emphasizing a recipient rather than donor-oriented international assistance program, the third recommendation above is perhaps the earliest reference to the concept of country ownership principle of aid-giving. But for some reasons, the global aid architecture that emerged in the post-war period was far from these three ideals. Bilateral donors have never established a pool of global fund for international development. Instead, they have focused on coordinating their assistance and adopting best aid practices within the frameworks of the DAC/OECD and the United Nations. These international institutions have led in the aid effectiveness debate which initially centred on the 'ideal' aid quantity and on the official definition of development assistance. Soon after, the DAC/OECD adopted the norm of untying aid and use of political and economic conditions to improve foreign aid's effectiveness.

Bilateral aid donors have also worked toward harmonizing the end goals of international development assistance through the DAC/OECD and United Nations agencies. Since the basic

human needs approach to development emerged in the 1970s and the introduction of the concept of human development in the 1980s the development objective of foreign aid had shifted from mainly promotion of economic growth to poverty alleviation. There was also a marked shift in the nature of aid conditionality that western donors attached to their aid. Prior to the 1990s, the emphasis was in the adoption of neoliberal policies. Today, western donors tend to promote liberal values, democracy, sustainable development, and good governance in their foreign aid programs.

In the last two decades or so, aid donors and recipients alike have become more inclusive and receptive to pursuing a common development agenda for international aid. In September 2000, the largest gathering of world leaders adopted the UN Millennium Declaration which committed all nations to a new global partnership to reduce extreme poverty by 2015.<sup>2</sup> To achieve what was envisioned in this Millennium Summit, the Millennium Development Goals (MDGs) consisting of eight measurable development targets were set out. During a meeting of the International Conference on Financing for Development in Monterrey, Mexico in 2002, developed and developing countries adopted the so-called Monterrey Consensus in which they agreed to take joint actions for poverty reduction. The Consensus also recognized both the need for developing countries to take responsibility for their own poverty reduction and the necessity for rich nations to support this endeavour.<sup>3</sup> Consequently, developed countries committed themselves to increase the volume of their development aid and allocate a significant proportion of it to the achievement of the MDGs.

These developments have brought country ownership back at the core of aid effectiveness debate. Nonetheless, the narrative is disproportionately shaped by perspectives from aid donors themselves. In February 2003, under the auspices of the DAC/OECD the first High-Level Forum on Aid Effectiveness was held in Rome and culminated in the commitment of multilateral and bilateral development institutions and aid recipient-countries to harmonize their operational policies, procedures and practices (OECD, 2018). This gathering was followed by three more Forums held in Paris, Accra and Busan on 2005, 2008 and 2011, respectively. In Paris, five principles in making aid more effective was adopted, namely, ownership, alignment, harmonization, results, and mutual accountability. The principle of ownership acknowledges the crucial role of developing countries in the fulfilment of MDGs through locally generating and owning strategies to end poverty and by enhancing accountability of governments to their citizens.<sup>4</sup>

At present, the principle of country ownership is widely accepted standard of foreign aid reform across donor-countries. Nonetheless, since the Paris Declaration was launched there has been a wide gap between its rhetoric and actual practice in part because of disagreements with regard to its 'true' meaning. As described in the Paris Declaration country ownership is evident when developing countries are able to perform three functions, namely, (1) setting their own strategies for poverty reduction, (2) improving their institutions and (3) tackling the problem of corruption.<sup>5</sup> This description implies that the notion of country ownership relies upon leadership capacity that enables governments of developing countries to perform these functions.

Who and how development strategies are set and what combination of institutions is conducive to effective exercise of country ownership is still a matter of controversy. A popular interpretation among aid recipient-countries is that the government must take the lead in determining the content of national development policy. This view is also shared by some scholars from developed (mainly, Asian) countries. Shimomura and Ohno (2005), for instance, have proposed a state-centred notion of ownership. They argue that true ownership consists of three dimensions in which the state plays a crucial role, namely, (1) the goal of aid which relates to strong national leadership, (2) the scope of ownership which involves the capacity for donor management and policy autonomy and content, and (3) creativity of ideas defined as ‘the capacity to reinterpret relevant elements of exogenous model of the development strategy and adapt them to the prevailing conditions in a particular developing country’ (Shimomura and Ohno 2005, p. 7). The study, however, falls short of explaining why aid-recipient countries have varying capacities when it comes to ownership. The three dimensions of ownership above can be seen as desirable goals especially among developing countries, which are confronted with government inefficiency and corruption.

What kind of leadership does one expect from incompetent and corrupt government? This was the point taken by Cross (2014) when he writes that country ownership does not have to be ‘government ownership’. The World Bank (2008) also cautions that the development strategy to be adopted must have sufficient political support from stakeholders both from within and outside the country. In view of this, country ownership can be viewed as formation of a broad consensus regarding development policies adopted. Booth (2011) implies that this is easier said than done because most developing countries lack what he called development-oriented leadership that enables their governments to establish a consensus due mainly to collective action problem. He concludes that donor-countries should not assume that country ownership exists but rather they must regard it as a desirable outcome and that they can contribute to its formation.

InterAction (2011), an alliance of nongovernmental organizations based in Washington, D.C., provides a definition of country ownership that stresses the role of a country’s population in “conceptualizing, implementing, monitoring and evaluating development policies, programs and processes.” While people participation is desirable, some Third World societies glaringly lack the basic capacity to participate meaningfully in national decision-making processes. A study found that participation has not always resulted to an improvement of the design of aid programs (Winters, 2010). The World Bank (2008) moreover points out that country ownership does not require full consensus within a country but rather means that “the government can mobilize and sustain sufficient political support to adopt and implement the desired programs and policies even in the presence of some opposition.” Country ownership, hence, requires an enabling environment to allow the government to provide a development-oriented leadership whose major function is to mobilize support to development policies to be adopted through people participation and consensus building. The concept of country ownership necessarily brings the state in the development process back in, not to monopolize the process but to provide ‘consensual’ leadership.

The concept of consensual leadership has been used in corporate management studies. For instance, in their study Flamholtz and Randle (2007) come up with leadership style matrix, one of which is consensual leadership. They assert that this leadership style is suitable in a situation where programmability of the task is low and job autonomy is high. A programmable task requires specific steps or directions from a leader for an action to be completed. Job autonomy on the other hand is based on the individual team member's capability. Thus, low programmability of the task and high job autonomy means that minimal direction is needed because highly-motivated and independent team members prefer to work autonomously and to have more flexibility how to accomplish best the task.

Applying this to a country setting which achieved higher level of institutional capacity, donor-countries allow more autonomy to recipient-governments in performing the task of leading the development process and in determining the content of national policies through consensus building. Arguably, the current literature on country ownership applies to a state that has achieved certain level of institutional capacity which enables government to attain political support and consensus for its development policies, and social capacity that enables people to participate meaningfully in the process of national decision-making. In other words, country ownership as a principle of aid effectiveness becomes more acceptable to aid donors when the latter is confident that recipient-countries have the capacity to set up policies for development and poverty reduction. South Korea and Japan had these qualities that enabled them to exercise strong country ownership over aid-funded projects. Japan's Liberal Democratic Party (LDP) provided continuity and stability during its uninterrupted 38-year reign under the so-called 1955 system. Likewise, visionary leaders like Park Chung-hee and Pak Tae-jun played key roles in South Korea's industrial transformation in the 1960s and 1970s.

As a principle of aid effectiveness, country ownership can only be exercised effectively by aid recipients with certain level of institutional capacity. Its concept, however, is ambiguous and unlike economic reforms there is no clear consensus on institutional reforms (Graham, 2002). Broadly, capacity pertains to the "ability of people, organizations and society as a whole to unleash, strengthen, create, adapt, and maintain, capacity over time" (Hosono, Shunichiro, Sato, & Ono, 2011). The notion of institutional capacity as a key component of state capacity "implies a broader focus of empowerment, social capital, and an enabling environment, as well as the culture, values and power relations that influence us" (Willems and Baumert 2003, p. 10). Brown, et al. (2006) identify four spheres of institutional capacity, namely, (1) Human resources – or the technical knowledge and people skills both in the public and private sectors; (2) Intra-organizational – key processes, systems, cultures and resources within organizations such as within government agency; (3) Inter-organizational or agreements, relationships and consultative networks between organizations (say, between government agencies or between public and private organizations); and (4) External Institutional Rules and Incentives or regulations, policies and incentive schemes. The implementation of foreign aid programs requires a mix of these capacities. For instance, infrastructure project like bridge or dam construction entails planning, coordinating, and monitoring skills of implementing government agencies as well as

organizational, technical knowledge and skills of the private contractor. Some level of inter-organizational coordination including national government agency, private contractor, local government and interest groups is also desirable.

It should be noted that institutional capacity building is one of the earliest goals of international development. Indeed, the first U.S. foreign aid program embodied in Truman's Point Four consisted mainly of technical cooperation programs that were designed to strengthen local capacity. The logic behind technical cooperation as a modality of aid delivery in the 1960s was the fact that human capital in less-developed countries was sparse (Arndt, 2000). Stressing its importance Berg (cited in Arndt, 2000, p. 120) mentions that 'technical cooperation was needed not only to help build roads and universities but also to help develop the local capacity to maintain or run them.' Its key goal is to improve efficiency of state and society in implementing and sustaining development programs. More specifically, technical cooperation was aimed at improving bureaucratic competence and efficiency to enable governments of less developed countries carry out various tasks of national development. Nonetheless, after decades of implementing technical assistance bureaucratic incompetence is still a problem in many developing countries. Scholars have identified a number of reasons for its glaring failure. One of which and probably the most important was the supply-driven nature of technical cooperation programs which led to inefficient allocation of resources, weak local ownership, and limited commitment at least based on the experience of donor-countries in Sub-Saharan Africa (UNDP, n.d.).

There is no doubt that quality education and relevant trainings are essential to improving bureaucratic competence. As will be shown later, a considerable amount of assistance that went to South Korea under the Rhee and Park administrations was spent for education and trainings of bureaucrats and elites (Suh & Kim, 2014, p. 65). The government's emphasis on education is complemented by South Koreans' traditional high regard for education. On the other hand, the modernization and reform of Japan's education system took place under the Meiji government as part of its strategy to catch up with the west. In 1886, the University of Tokyo was designated as an imperial university to train elite leaders and technocrats. The Meiji government, during its early years, sent a large number of Japanese students abroad to study and hired foreign instructors to teach in local schools. Elementary education in Japan was free and compulsory from 1907.

Bureaucratic competence is not the only manifestation of institutional capacity. As highlighted in the preceding sections it also includes an enabling environment which empowers private organizations, including the business sector and civil societies to participate meaningfully in the overall development efforts. The 'right' kind of education system is an enabling environment that enhances the capacity of both the state and the society in setting up the goals of development and in building consensus to achieve them. In administering foreign aid, consensus building involves, among other things, getting the support of donor-countries for the recipient's development goals and strategies. In part, this is done during the aid negotiation process where representatives from donor and recipient governments sit down and discuss aid priorities. Here, it

is expected that foreign aid donors would have their own list of priorities. However, with institutional capacity recipient-countries could also persuade donor-countries to align their aid programs to local priorities. To do so, representatives of recipient-governments must be able to identify and utilize whatever leverage they may have over aid donors during negotiations. True country ownership therefore requires a high-level negotiating ability of recipient-governments to get the support of aid donors. This is one of the important lessons that developing countries could draw from the experience of Japan and South Korea as former aid recipients. Both countries were aware of their importance in the U.S. cold war strategy and at various times used this leverage during aid negotiations to their advantage.

Moreover, due to the supply-driven nature of the global aid system donor-countries have disproportionate influence in choosing the programs to be funded by their aid. Aside from effective negotiating skills discussed above, recipient-countries can address this challenge by their abilities to adapt incompatible foreign technologies embedded in aid projects to suit their needs. This is internalization or the ability of aid recipients to acquire know-how and technology from foreign aid projects and to make modifications of them to suit their current, local needs which is quite similar to Shimomura and Ohno's (2005) third dimension of ownership mentioned earlier. As former aid recipients Japan and South Korea had demonstrated these abilities as well. Japanese engineers, for instance, learned new techniques in dam construction from an American consultancy group that was hired for that World Bank project. The Koreans, meanwhile, did not just acquire the basic technology of steel making from Japan but also sought to improve the technology and innovate using locally-generated knowledge.

Another important feature of today's global aid architecture that was still in its infancy stage at the time when South Korea and Japan were still receiving aid was the active engagement of civil society organizations (CSOs) particularly non-governmental organizations (NGOs) in program implementation, monitoring and funding of overall aid effort (for a brief review of NGOs' roles in development see Mitlin, Hickey, & Bebbington (2007). NGOs vary in size, goals, and advocacies but share a number of common features including involvement in humanitarian, social, environmental, and development work; the non-profit nature of their activities; and an image that is distinct from government and other for-profit organizations (Riddell, 2007). The role of NGOs and other grassroots organizations in poverty reduction and development is a key feature of the New Policy Agenda that bilateral and multilateral donors pursued in the 1990s (Edwards & Hulme, 1996). The rise of the Washington Consensus further justified why bilateral and multilateral donors channelled a considerable proportion of their aid through NGOs – that they are “cost effective, flexible, innovative, localized, and committed to the poor” in contrast to inefficient, bureaucratized and urban-biased” state (Bano, 2008, p. 2298).

While the proportion of aid that has been channelled through NGOs increased since the 1990s, questions about their effectiveness as agents of development continue to linger (Banks, Hulme, & Edwards, 2015). For instance, NGOs are criticized for “being unrepresentative of and unaccountable to people for whose well-being they claim to work” (Bebbington, 2005). NGOs also contribute to aid fragmentation or a condition in which too many donors, working on too

many countries, on too many sectors, on too many projects, through too many channels, using too many contractors (Molenaers, Jacobs, & Dellepiane, 2014). Perhaps, the most serious challenge to NGOs and other grassroots organizations involved in administering aid-funded programs is increasing or scaling up the aid's impact (Uvin, 1995). This is because NGO-run aid programs are often small-scale which in many cases fail to extend beyond the pilot stage. Many NGOs, nonetheless, are capable of scaling up the aid's impact even without becoming large (Uvin, Jain, & Brown, 2000).

The literature mentions that there are two ways of increasing or scaling up aid's impacts – (1) by increasing the overall inflow or volume of aid and (2) by scaling up through aid. Broadly, scaling up the impact of aid means achieving its 'transformational impact at the country level' (Chandy, Hosono, Kharas, & Linn, 2013, p. 7). Aid flows 'should not merely support short-lived, one-time and partial development interventions... but should support projects, programs and policies that scale up successful interventions in a country, region or globally to reach the entire target population' (Hartmann & Linn, 2008, p. 2). Scaling up is not often achieved by simply increasing the overall volume of aid. A study by Collier (2006), for example, shows that foreign aid to Africa is subject to diminishing returns and thus doubling aid through conventional aid modalities would not double its impact.

By sheer organizational size, control of resources and extensive network the government is inherently in a better position than NGOs to scale up the aid's impact. The issue of scaling up through aid therefore inevitably brings the state back in and that state relation with CSOs could significantly affect its outcomes. In a study of NGO-government relations in Africa Bratton (1989) shows that political rather than economic considerations tend to influence this relationship. As will be shown later, the cases of Japan and South Korea as aid recipients demonstrate the role of state in scaling up the aid's impact.

### **Foreign aid to Japan (1953-64) and South Korea (1961-92) during Transition**

The success stories of Japan and South Korea as the first and second non-western countries that transitioned into full-fledged aid donors from being recipients are well acknowledged today. Both countries had joined the ranks of advanced, industrialized countries and foreign aid played a catalytic role in their economic transformations. Table 1 below summarizes the foreign aid provided to Japan and South Korea in various years. Nonetheless, scholars and practitioners often tend to ignore the significance of these countries' experiences as aid recipients in the aid discourse. The high-level forum on aid effectiveness held in Buzan, Korea in 2011 gave South Korea a chance to showcase its economic miracle and past experience in managing aid. The Japanese and Korean experiences reveal that they continued to receive aid at the time when they graduated to upper middle-income status. Their experiences also provide telling examples of how well-managed aid can contribute effectively to development. Both countries showed strong ownership, alignment, and ability to internalize and scale up aid-funded projects beyond their nominal scope. As will be shown later, their well-managed aid utilization was made possible by high levels of social capital and better quality of institutions already in place. A considerable

volume of foreign aid to South Korea during the first ten to fifteen years were invested in improving the quality of education and in strengthening administrative capacity while Japan underwent reforms in various sectors including education, economy and government during the Meiji era. By late-nineteenth century Japan had a well-functioning, efficient, merit-based, and autonomous bureaucracy.

**Table 1:** Foreign Aid to Japan and South Korea, in million US dollars (various fiscal years)

Program, fiscal year	Source	Japan	South Korea
GARIOA, 1945-49	United States	1,577.5	502.1
EROA, 1949-51	United States	285.5	-
ECA, 1949-53	United States	-	109.2
CRIC, 1950-56	United States, United Nations	-	457.4
UNKRA, 1951-60	United States, United Nations	-	122.1
PL480, 1956-71	United States	-	795.7
ICA, 1953-79	United States	-	2,438.0
Concessional Loans Japan, 1953-1970 Korea, 1962-2001	World Bank	862.9	15,707.47
Export Credit Japan, 1956-1970 Korea	U.S. EXIM Bank	942.0*	?
Other bilateral loans: from Japan		NA	123

Source: Compiled by the author from various sources. \*Takagi (1995, p. 9).

### Foreign Assistance to Japan

Post-war foreign aid allotments to Japan came in two successive waves. The first wave of aid was from the U.S. army-administered Government and Relief in Occupied Areas (GARIOA) program, which became later as the Economic Rehabilitation in Occupied Areas (EROA) (Higuchi, 2013; Suh and Kim 2014). GARIOA/EROA aid allowed Japan and Korea during the early post-war years to secure basic relief goods like food, medicine, fertilizers, and other consumer goods for post-war survival. This type of assistance is reminiscent of the basic commodities or humanitarian relief (or program aid) provided by donors nowadays to post-conflict societies and grant aid extended to least developed countries except that GARIOA/EROA aid was regarded as loans rather than grants by the Japanese government (Higuchi, 2013, p. 31). Japan received a total of about USD1.8 billion worth of technical and financial assistance from this program between 1945 and 1952. Apart from humanitarian relief, GARIOA/EROA aid was also spent for developing social capital. It allowed hundreds of

Japanese students to go to the United States and facilitated the exchange of visits of U.S. consultants and Japanese experts during the US occupation of Japan (Higuchi, 2013).

The second wave of assistance came from the World Bank. Japan's admission to international organizations including the World Bank came only after it signed the Peace Treaty with Allied Powers in 1951. Following Japan's membership, the World Bank expanded its lending to Japan, which, for a while, was its second largest borrower after India (Takagi, 1995). Table 2 below shows the amount of loans that the World Bank extended to Japan between 1953 and 1966. These borrowings complemented the expanding industrial activities within Japan because of U.S. procurements during the outbreak of the Korean War (1950-53). U.S. procurement boosted Japan's economic recovery and rehabilitation by helping it achieve a balanced current account by the end of 1953. Around 1960, the World Bank began to tighten its lending terms to Japan after demonstrating its ability to borrow from international financial markets (Takagi, 1995).

**Table 2:** World Bank Loans to Japan, 1953-1966

Year	Project	Loan (thousand US \$)	Subtotal
1953	Kansai Power plant	21,500	40,200
	Kyushu Power plant	11,200	
	Chubu Power plant	7,500	
1955	Nippon Steel plant	5,300	5,300
1956	Steel plant	2,600	32,400
	Machine tools for car plant	2,350	
	Ship engine plant	1,650	
	Ship engine plant	1,500	
	Kawasaki Steel plant	20,000	
	Agricultural land development	1,330	
	Agricultural land development	1,133	
	Non-project	984	
	Non-project	853	
1957	Aichi Water Project	7,000	7,000
1958	Kawasaki Steel plant 2	8,000	164,000
	Kansai Power plant 2	37,000	
	Hokuriku Power plant	25,000	
	Sumitomo Steel plant	33,000	
	Kobe Steel plant	10,000	
	Chubu-Hatanagi Hydroelectric Power plant	29,000	
	Nippon Kokan Steel plant	22,000	

1959	Miboro Power plant	10,000	54,000
	Hirohata Steel plant	24,000	
	Tobata Steel plant	20,000	
1960	Expressway project 2	40,000	53,000
	Kawasaki Steel plant 3	6,000	
	Sumitomo Steel plant 2	7,000	
1961	Kyushu Power plant 2	12,000	132,000
	New Tokaido Shinkansen (bullet train)	80,000	
	Amagasaki-Ritto Expressway	40,000	
1963	Expressway project 3	75,000	75,000
1964	Expressway project 4	50,000	75,000
	Haneda-Yokohama Expressway	25,000	
1965	Kuzuryu Power plant	25,000	125,000
	Expressway Project 5	75,000	
	Kobe Expressway project	25,000	
1966	Expressway	100,000	100,000
Total			862,900

Sources: Drawn from Kohama (1995, p. 202); cross-checked with Takagi (1995, p. 9)

The table above supports the fact that World Bank loans to Japan were spent mainly for infrastructure and industrial investments. Most projects were steel plant and power plant constructions. Of the 31, only two were spent for agricultural projects. As loan recipient, Japan showed strong ownership in their implementation. One of the two agricultural land development projects was the proposal by Hokkaido Development Authority (HDA) to develop huge tract of undeveloped peatland in the Shinotsu region in Hokkaido into farmland for rice planting. After the war Japan's Ministry of Agriculture and Forestry vigorously sought investments to increase agricultural productivity. In 1953 and 1954 the World Bank missions to Japan suggested that the peatland in Hokkaido should be developed into dairy farming and wheat cultivation instead of paddy fields for rice farming (Nakayama & Fujikura, 2013, p. 59). The Japanese government was surprised by the recommendation but insisted that the Shinotsu peatland must be converted to paddy fields. The HDA led in the negotiations which consequently persuaded the World Bank to agree with the original Japanese proposal of reclaiming the peatland for rice farming. In 1956, the World Bank finally approved the loan for the Mechanical Land Reclamation Project.

In implementing World Bank-funded projects, the Japanese government ensured that they were in close alignment with national development strategies. These aid projects coincided with Japan's first and second Five-Year Economic plans and the period of high growth. The first post-war Five-Year plan was published in December 1955 which aimed, among others, to improve national productivity and industrial rationalization. The second five-year plan covered the fiscal years 1960 to 1965. Apparently, Japan's World Bank loan applications were intended to support

the goals of the five-year plans. Kohama (1995) nonetheless notes that infrastructure received the highest allocation from government loans between 1952 and 1967 while government loans for investment were less than 20 per cent. Indeed, in the above table industrial projects dominated the World Bank-funded loans in terms of quantity but infrastructure projects received the largest amount. It is also interesting to note that the first batch of World Bank loans (1953-1960) were utilized for industrial projects while the second half were mostly allotted for infrastructure projects (1960-1966).

More importantly as aid recipient, Japan showed its capacity in internalizing foreign technologies and knowledge acquired from World Bank projects and in getting them to scale. These abilities were demonstrated in the Agricultural Land Development projects in 1956 and in the Aichi Water Canal project in 1957. The former, also called the Mechanical Land Reclamation Project, was aimed at converting three peatlands into arable paddy fields for rice planting, dairy farming, and mixed farming. The tracts of land covered by the project were the Konsen Pilot Farm (for dairy farming) and Shinotsu peatland (for rice farming) both in Hokkaido and the Kamikita Pilot Farm (for mix farming) in Aomori Prefecture (Nakayama & Fujikura, 2013). Meanwhile, the Aichi Water Canal Project was intended to provide water supply for irrigation, industrial and municipal use in the Aichi Prefecture, and to increase power generation. The World Bank provided funding for both projects in 1956 and 1957.

The reclamation plan of the Konsen Pilot Farm for dairy farming was prepared locally by Japan's Ministry of Agriculture and Forestry and the Hokkaido government (Nakayama & Fujikura, 2013). The Plan introduced the pilot farm approach in Japan which entailed two stages – first, the clearing of land by machines and second, inviting farmers to settle and cultivate the land. Each chosen farmer-settler was provided with a total of 18.8 hectares of farm, 14.4 hectares of which consisted of land for cultivation and the remaining 4.4 hectares would be for hay, fuel wood and dwellings. Each settler was also provided with 10 cattle to raise. Prior to actual settlement, farmers-settlers were also given trainings, 611,000 yen subsidy each farm, and financing of up to 2.5 million yen (Fujikura & Nakayama, 2013). The project's success can be seen by the volume of milk production in the farm. In 1960, milk shipment per farm was 12.2 tons. It increased to 119.7 and 273.8 tons per farm in 1973 and 1983, respectively. The Hokkaido government later adopted the Konsen Pilot project as a model to be applied to as many districts as possible (Fujikura & Nakayama, 2013).

Part of the World Bank funding for the Konsen project was for importation of farm equipment. A total of 46 rake dozers were used for reclamation and cultivation but of these 12 were made in Japan. From the 68 farm implements utilized in the project, 20 were sourced locally (Fujikura & Nakayama, 2013, p. 78). Also, local workers translated the English operating manuals that came with imported equipment into Japanese. Because the project was new at that time, both farmers and training personnel from the local government developed their own management and farming techniques to be implemented in the site. The pilot project soon became a breeding ground for new ideas in dairy farming. Once these ideas were proven

successful in the pilot farm, farmers from other areas adopted them as well (Fujikura & Nakayama, 2013).

Japan's experience with the implementation of the Aichi Water Canal Project is another demonstration of its ability to internalize new knowledge and technology as well as capacity to expand its scope beyond the pilot stage. This World Bank-funded project involved the construction of a huge dam (called Makio dam). The Aichi Irrigation Public Corporation was created as the lead agency to implement and later maintain the facility. The project provided Japanese engineers and officials to learn new things related to dam construction. The first of these was the participation of a consulting firm in a construction project which did not exist in Japan at that time. The World Bank recommended the hiring of an American consulting firm to provide supervision of the construction. Nakayama and Fujikura (2013, pp. 53-54) note that Japanese engineers were amazed at the modern way by which the American consulting firm designed the project in Chicago using only maps and technical data of the project site sent from Japan. The consulting firm also prepared a detailed timeline for construction work. It also refused to renegotiate the contract with Japanese contractors and obliged the latter to complete the work based on agreed specification and timetable. After the project, some Japanese engineers who were involved in the construction established the first ever Japanese construction consulting firm, Sanyu Consultants Inc. (Nakayama & Fujikura, 2013) in 1962.<sup>6</sup> Other large construction firms had also established their own affiliated consulting firms. Many of these consulting firms have been involved in Japanese ODA-funded infrastructure and foreign investment projects around the world.

Japanese engineers and contractors in the project, who were mainly seconded from prefectural governments and from the Ministry of Agriculture and Fisheries, played a crucial role in transmitting to other prefectures the new method of dam construction called rock-fill used in Makio dam. It should be noted that prior to the Aichi project, post-war dam constructions in Japan were based mainly on concrete arc dam type (Nakayama & Fujikura, 2013). The technology as well as the methodology involved in the construction of rock-fill dam was later transmitted by the same Japanese engineers who returned to their respective prefectures upon the completion of the Aichi project. Thereafter, several rock-fill dams were built in Japan including the Miboro and Kuzuryu dams in 1961 and 1968, respectively (Nakayama & Fujikura, 2013).

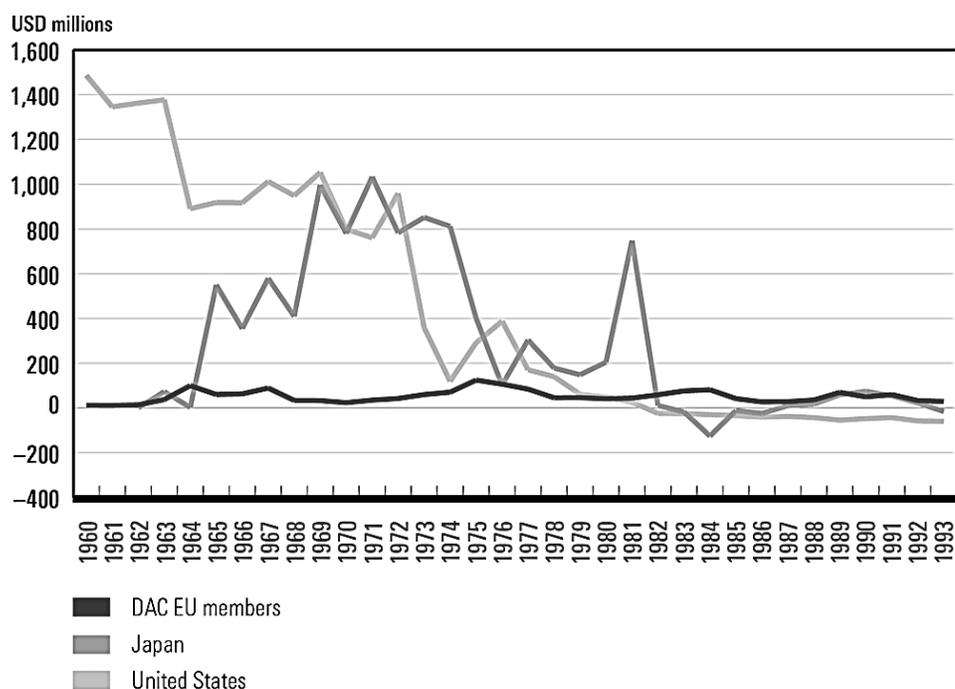
The project also facilitated transfer of skills to Japanese workers in operating construction machineries that were imported using World Bank loan. Perhaps, the greatest feat in this experience was redesigning some of those machineries to work based on specific needs of the project (Nakayama & Fujikura, 2013). The reclamation of the Shinotsu peatland into paddy fields, which was originally to be developed into dairy farming as recommended by the WB, was challenging. One, bulldozers that were imported using WB loan were of little use in the actual project because they were inappropriate for peatland reclamation. As a result, Japanese engineers had to redesign them so that they would not sink in swamps. Because of the Shinotsu project local manufacturers later started producing commercial bulldozers that could be used in peatland reclamation (Nakayama & Fujikura, 2013).

Aside from transfer of technical skills, Japan also benefitted from World Bank loans by acquiring and absorbing new ways of doing things. This is reflected in one of the most well-known WB projects in Japan – the new Tokaido Shinkansen line that connects Osaka and Tokyo. The World Bank loan was 80 million US dollars which was roughly 14.6 per cent only of the total cost. According to Nakayama and Fujikura (2013) in spite of the small share of the WB loan to the total project cost it was necessary to ‘internationalize’ the project. World Bank approval was used as a gauge to measure the project’s ultimate economic feasibility. An approval would also help dispel any scepticism, attract public support, and provide ‘guarantee’ to money borrowed from public and private financial institutions. Moreover, the World Bank taught Japanese planners involved in the project about cost-benefit analysis, rational project analysis, pricing train tickets, and to think about railway line in the context of Japan’s national transport system (Nakayama & Fujikura, 2013). A Japanese engineer who was affiliated with the project mentioned that this knowledge had been applied to every project that they executed and in all extension of railways in Japan (Nakayama & Fujikura, 2013, p. 63).

The above discussion reveals two important prerequisites in successful internalization of technology and knowledge acquired from WB aid projects in Japan. At the time when the country was an aid recipient Japan already possessed advanced technical ability/skills and manufacturing capacity which were developed during the pre-WWII period. Most of Japan’s loans from WB were aimed to reinvigorate technical skills and manufacturing capacity which were complemented by new technology and knowledge absorbed from WB projects. South Korea’s case as aid recipient is quite different. The country had to develop those capacities sequentially in the 1950s through the 1970s.

### ***Post-war Foreign Assistance to South Korea***

Suh and Kim (2014) divide the post-war assistance to Korea into three successive waves. The first wave (1945-49) came from the United States in the form of GARIOA. This assistance consisted mainly of relief particularly food and consumer goods after the Second World War. The second wave (1950-53) of assistance consisted of military aid and emergency relief from the U.S. and the United Nations, respectively, during the Korean War. The start of the third wave of assistance coincided with the end of the Korean War and the founding of International Cooperation Administration (ICA), the precursor to U.S. Agency for International Development (USAID) in 1953. This third wave of assistance to Korea would have the most profound impact on the nation’s economic transformation under President Park Chung-Hee. It also marked Korea’s attempt to diversify its financing sources. World Bank lending to Korea began in 1962 and loans from Japan started, following normalization talks, in 1965. The World Bank funded a total of 128 projects worth 15,701.47 million US dollars between 1962 and 2001. These loans were mainly earmarked for infrastructure, investment, two-step loans and structural adjustment.



**Figure 1:** Bilateral assistance to South Korea, 1950-1993 in million USD

Source: Marx & Soares (2013)

Whether or not foreign aid contributed directly to South Korea's remarkable economic growth is still a matter of controversy. Nevertheless, there is no doubt that U.S. assistance in the 1950s was very important for Korea's survival (Krueger & Ruttan, 1989). In this period, foreign aid inflows financed about 69 per cent of crucial imports and funded the reconstruction of damaged infrastructure following the Korean War. In the 1960s and 1970s, foreign aid supported in various ways Korea's economic transformation. Suh and Kim (2014) show that the core of U.S. assistance to Korea (on top of emergency, relief and military aid) focused mainly on programs that aimed to enhance education and public administration. Between 1955 and 1975 the volume of ICA assistance that was spent for education-related projects in Korea was USD 3.14 million. U.S. assistance had financed the technical training of many Koreans in the United States. On the other hand, the value of aid that aimed to improve public administration and governance in Korea was USD 11.9 million. A considerable amount of this was spent for the enhancement of the Korean military's management skills through various trainings and introduction of special curriculum designed by the U.S. military (Suh & Kim, 2014, pp. 64-65). These aid programs helped to build administrative and organizational capacities which were crucial conditions to the success of South Korea's state-led industrialization under the Park regime.

Foreign aid, moreover, was an important source of investment financing to Korea during its early stage of economic development. The U.S.' PL 480 surplus food program, for instance,

served as payment in kind to rural workers who had engaged in land reclamation and other agricultural projects nationwide (Krueger & Ruttan, 1989). Because foreign assistance to Korea constituted a huge chunk of investment financing source (Kim S.-H. , 2007), which accounted for 42 per cent of overall fixed capital formation in the 1965-1974 period (Krueger & Ruttan, 1989) it enabled the Korean government to effectively constrain or incentivize firms that were dependent more on borrowed money rather than equity capital in their operation (Kwang, 1998). When the U.S. announced in late-50s that aid to Korea could not be increased further in the coming years, it became clear among policymakers that an export-driven strategy was the best viable solution to finance the rising cost of imports. In this vein, foreign aid enhanced the interventionist nature of the Korean state and supported crucially the shift toward an export-oriented economy.

More importantly, the Korean state exercised strong autonomy and ownership of aid programs. Policy recommendations of U.S. negotiators and aid officials were often rejected even in the 1950s when the United States was the sole provider of exceptionally large assistance to Korea. Krueger & Ruttan (1989, p. 234) explain that this was due to U.S.' relatively weak bargaining power because of its political commitment to maintaining the South Korean government amidst the cold war environment. If there is an important lesson that could be drawn from the Korean experience in managing aid, it would be its ability to adapt donor policy preferences to local context. Kim (2013) notes that Korea's aid management strategy was one of adaptation or translation of foreign aid in the local context rather than policy transfer which only reflects the implantation of donor-driven aid projects and preferences. Korea's ability to internalize and absorb technology acquired from an aid project is demonstrated well in the development of Japan-funded integrated steel mill. Not only was this project home-grown, Korean negotiators also showed their adeptness in persuading Japanese contractors to build the steel mill based closely on their required specifications. This project is an example of the so-called full turn-key formula, which is one of the four channels through which technology can be transferred from industrialized to developing countries (Akira, 2000)

### ***The Case of Korea's Pohang Iron and Steel (POSCO)***

The establishment of POSCO under then president Park Chung-hee is at the centre of Korea's industrialization efforts. President Park recognized the political and commercial value of establishing a Korean integrated steel mill and was inspired by Japanese industrialization under the Meiji government. The first of a series of attempts to establish an integrated steel mill began in 1961 which also marked the beginning of Korea's first Five-Year Development Plan. Both the World Bank and the U.S. rejected Park's request for funding. USAID and U.S. Export-Import Bank said that the project was not feasible and that the U.S.' main priority at that time was to use foreign aid to pressure Park to restore civilian rule in Korea (Rhyu & Lew, 2011). On the other hand, the World Bank declined financial support because South Korea lacked capital, technology, market and comparative advantage in the production of steel.

By mid-1960s the government pursued a policy of diversifying sources of credit. POSCO as a state-owned enterprise was established in 1968. In 1969 after intense negotiations at the third South Korea-Japan Ministerial meeting, an agreement was reached wherein Japan would provide Korea 107 million US dollars in reparations and low-interest loans worth 54 million US dollars' worth of credit from Export-Import bank of Japan. Nippon steel and Nihon Kohan conglomerates were chosen to provide technical assistance to POSCO. The decision to help Korea build an integrated steel mill was highly controversial in Japan. The motivations that led to such decision were both political and commercial. Politically, the move was regarded as a contribution to regional security. Commercially, it was seen as an opportunity to increase plant exports to Korea at least from Japanese steelmakers' perspective and for Japanese inroads to South Korea's economy. The project was completed in 1973 and POSCO started production with initially 1.03 ton of steel. By 1992, total production reached 21.1 million tons. In 2000 it became the second largest producer of steel after Nippon steel. It was also privatized in that year. Today, POSCO is one of the largest and competitive producers of steel in the world.

In terms of ownership and alignment, the establishment of an integrated steel mill was in line with Korea's first Five Year Development Plan and overall goal of achieving heavy and chemical industrialization. Koreans, particularly then President Park had been so persistent and used effective bargaining leverage to convince Japanese negotiators to fund the project. Rhyu and Lew (2011) mention that the key to POSCO's success lay as much with Park's manipulation of great power relations as with its state's Weberian internal organizational resources. Apparently, the Koreans were able to internalize Japanese steel technology and on that basis used it to generate new and more innovative local technology. Research institutes on steel production which received funding from the government were created side by side with the establishment of POSCO. To scale up, the main incentive was to make the steel mill profitable. This was done through continuous innovation and research to improve production. After the first integrated steel mill was built, POSCO underwent four phases of expansion which led to, among others, establishment of Kwangyang Steel Mill. In 1970, the Steel Industry Promotion Act was enacted to assist POSCO and future other Korean steelmakers based on performance.

## **Conclusion**

The cases studied here showed that aid programs must be sequential and must complement the actual development needs and level of the recipient country. Aid must be invested to education and capacity building at the early stage of development and moving later to infrastructure and investment projects. The study indicates that capacity for ownership and alignment during economic transition requires strong administrative and educational foundation. A key in making aid effective is the ability of recipient countries to scale up its impact. In the examples discussed governments had played crucial roles in this process. Nowadays, civil society organizations participate in the aid processes, particularly in the aid delivery. It is time to rethink how they can contribute to scaling up projects beyond the pilot stage and the kind of relationship with the state that must be cultivated to achieve this aim.

It took years before the international aid community acknowledged the importance of ownership and alignment in aid effectiveness. This is so because donors pay more attention to their experience than to successful aid recipients' experience. By focusing too much on infrastructure development in their aid programs, Japan and South Korea have been outliers in the aid discourse. The study also shows that the amount of aid matters and so are geo-economics and strategic interests of donors on recipients. The volume of aid that went to Japan and South Korea was huge in comparison to most country aid programs we have today. And finally, the examples shown have demonstrated the importance of harmonization. Both Japan and Korea had borrowed from the US and the World Bank and in the case of Korea from Japan. Aid was less fragmented then because aid donor countries were still few. With the emerging new donors, coordination and harmonization have become imperative for aid effectiveness.

## Endnotes

<sup>1</sup> Copy of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action is available in <http://www.oecd.org/dac/effectiveness/34428351.pdf>

<sup>2</sup> Copy of the UN Resolution is available in <http://www.un.org/millennium/declaration/ares552e.htm>

<sup>3</sup> The Monterrey Consensus is available in <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

<sup>4</sup> There were several essays and reports by OECD, UNCTAD and other UN-agencies which stressed the importance of country ownership in the pursuit of MDGs. See for instance, [http://unctad.org/en/Docs/alde20091\\_en.pdf](http://unctad.org/en/Docs/alde20091_en.pdf);

<http://www.un.org/esa/socdev/egms/docs/2016/Poverty-SDGs/NareshSinghpaper.pdf>;

<https://www.oecd.org/dac/POST-2015%20Overview%20Paper.pdf>;

<https://www.oecd.org/development/effectiveness/40987004.pdf>

<sup>5</sup> <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

<sup>6</sup> <http://sanyu.tcp.jp/english/company/chronology.html>

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