

Abstract

Aid to middle-income countries has been one of the biggest debates in development cooperation field. While the global economy is struggling, aid fatigue due to limited public funding, diversification of private resources, and the emergence of emerging donors outside the DAC members have been catalysts for further discussions. The reliance on ODA of some middle-income countries tends to reduce as their economy is stabilized by reaching a certain income level and liquidity secured in resource mobilization. Thus, middle-income countries may request for different approaches from LDCs. Rarely but in some cases, for ODA termination following these changes, the economic and political relationships between the recipient and donor countries also show shifts accordingly.

There are already a number of donor countries that declared the exit of bilateral ODA to countries with relatively high income. The reduction and exit or termination of ODA can be understood as a natural outcome of the social and economic development of the recipient country and as the ultimate goal of aid, but as its ripple effects of the ODA contain both positive and negative, it is necessary to review from various perspectives. While there are prejudices about terms such as ODA reduction, termination or exit, the exit strategy itself is highly relevant to diplomacy and economic strategies. As ODA, beyond being simple support, influences widely into the society, systematic approaches must be followed. Thus, advanced donor countries attempt to minimize the negative effect of the ODA termination, by gradually reducing ODA through systematic exit strategy. Recently similar demands are found in KOICA, which strongly requires related study and analysis for further direction presentation and strategy establishment. In terms of regional aid proportion of KOICA, Asia accounts for the largest share by 25.3%, while many countries in the region refer to middle-income countries showing rapid economic growth. Also, in terms of income level, LDCs accounts for 33.5% and MICs for 40.6%, which requires deep consideration on the future direction of ODA in KOICA.

Exit strategy, which originally comes from military word, today in terms of economic policy refers to the normalization of various easing policies implemented to stimulate the economy; in other words, the strategy is to withdraw and normalize losses from temporarily applied strategies and policies. Meanwhile, exit strategy in terms of international development would refer to the plans and means of implementation withdrawing existing ODA funds and programs from the countries and regions, while ensuring the benefits gained through ODA and not endangering by the withdrawal. ODA can be interventions that are temporary by nature, that it will eventually be withdrawn at a certain point. In other words, ODA can be regarded as a temporary liquidity supply, and that once recipient country reaches certain economic growth level, normalization through ODA withdrawal is necessary to prevent the

possible risk caused by the ODA. While discussions on the withdrawal of ODA are ongoing, standard procedures and guidelines for withdrawing ODA have yet to be established. It seems that some donor agencies are trying to establish an effective exit strategy, but they face various problems such as lack of clear conceptualization and policy guidelines, and perhaps mostly lack of consistency with long-term development cooperation policy. Considering the characteristics of the international development cooperation field, which is difficult to standardize, it is relatively difficult for the withdrawal to be carried out strictly according to the specific procedure, but to seek optimal process under the given circumstances. In addition, the meaning and interpretation of withdrawal may be even broad and rather vague, as the wide range of stakeholders is involved according to each country's diplomatic, political and economic circumstances.

On the other hand, while the ODA termination is a natural consequence of the development, a study has shown that when macroeconomic stability, such as maintaining proper level of inflation, achieving high investment ratio, active efforts to mobilize domestic resources, and etc is supported, the likelihood of ODA termination increases in developing country. However, most of the actual discussions on ODA reduction or terminations are generally based on political reasons or reduction of financial resources of donor countries; it is very rare for the recipient country to lead ODA termination. The determinants of aid withdrawal can vary, but it is essential to consider how to manage the full process and minimize any type of risk. Multiple studies emphasize some common principles for aid exit strategies: ① transparency, ② inclusion, ③ predictability, ④ obligation, and ⑤ sustainability. From more practical view, ① advance country ownership, ② determine transition readiness by development progress, ③ mobilize public sector domestic resources for development, ④ catalyze private sector investment for inclusive growth, ⑤ prioritize transparency, evaluation, and accountability, ⑥ safeguard gains and continue progress, and ⑦ celebrate transitions have been suggested.

Generally, a good exit strategy is carried out in countries with the ability to overcome aid dependency, based on mutual planning, consultation, flexibility within a realistic period. However, there are considerable difficulties in realizing this, despite the continued discussions on the exit strategy. In addition, while economic development continues, global poverty topography and other challenges of middle-income countries continuously raise the necessities for the assistance. Considering the circumstances, donor countries are diversifying their approaches; prepare for ODA exit by expanding economic and technical cooperation considering countries' economic development stage, and seeking new partnerships through triangular cooperation and the global public goods.

The United Kingdom and the United States are leading donors, and they have several experiences on ODA exit. Their experiences show some common success factors that both countries have set up measures to keep the existing development achievement and invested enough time to transform the relationship from donor-recipient into a new strategic partnership. And these are commonly noted as the basic principles and evaluation indicators

of the exit strategy. In this end, the ODA exit can be considered as the end of one of various forms of relations between nations, and at the same time, a key point to lead to a more advanced relationship for continuous development. The UK-Vietnam and the US-Panama ODA exit cases had different intentions and meanings, and relationships after the exit, yet the basis was transparent and amicable communication for both cases. It is possible to say that there were joint effort to build relationship in different shape based on sufficient discussions in advance to be transparent and predictable, sharing the progress at each stage, while avoiding unnecessary conflicts and conflicts with each other.

Korea once was a recipient which made rapid development to a donor now. Based on ODA Korea received, it was possible to make rapid economic growth reaching 8% growth rate at a certain point, and that strongly sympathize with the importance of support and experiences in the process. In particular, considering that the main target partners of Korea ODA are Asian countries showing fast economic growth, it is imperative to search for the exit strategy and advanced role of ODA. There has not been much debate on ODA exit yet in Korea. However, recently ASEAN region has become a big issue, not just economically but also in terms of diplomatic and the relationship with North Korea. While Korea is trying to strengthen its economic diplomatic relations by expanding ODA in Asia, under the New Southern Policy, the ODA exit seems to be somewhat inappropriate. Yet, if to see on exit strategy as a change of relationship between countries rather than simply terminating financial support, the role of ODA as a future-oriented tailor-made development and the need for ODA creating policy synergy become more apparent. On the other hand, KOICA provides considerable support to middle-income countries in Asia and Latin America, and it is necessary to accelerate discussions on long-term ODA transfers and exits, including innovative financing for development, blended finances and other possible measures. Also, considering its role as a direct link with the host country, clear communication should be a prerequisite.

The debate over whether aid to middle-income countries is appropriate has long been ongoing. Various factors and stakeholders are involved, and as the recipient economy develops, discussions on the ODA termination could not be ignored. The exit strategy should serve as a long-term remedy. Furthermore, as the ODA exit represents changes in the political, economic, social, and cultural aspects of the country, it is also necessary for the recipient country to actively participate in the capacity building through systematic measures, and to maintain the development through monitoring and performance systems. In other words, it should be considered as a process in which both countries participate and execute, not a policy act that the donor country implements for the recipient country. Although there are difficulties in establishing and promoting standardized strategies due to each bilateral relations and environment thus the comparison may be somewhat ineffective, recent discussions on the ODA exit has gradually become more systematic as it is related to the change of international development cooperation system and sustainability from the fact that political factors were major in the past. Resultingly, ODA to middle-income issue should not be a dichotomous issue of continue or discontinue, but an approach that opens up various possibilities and search for the transition to new partnerships through systematic strategies.