

THE RESEARCH AND ANALYSIS OF THE STATE OF ODA IN OVERSEAS CONSTRUCTION INDUSTRY

Jin-Wook Choi¹, Jae-Jun Kim², Ja-Young Yoon³, Jeong-Seok Lee⁴ and Jin-Kyu Sim⁵

¹ Master Course, Dept. of Sustainable Architectural Engineering, Hanyang Univ., Seoul, Korea

² Associate Prof., Dept. of Sustainable Architectural Engineering, Hanyang Univ., Seoul, Korea,
(corresponding author). E-mail: jjkim@hanyang.ac.kr

³ Ph.D. Candidate, Dept. of Sustainable Architectural Engineering, Hanyang Univ., Seoul, Korea

⁴ Master Course, Dept. of Sustainable Architectural Engineering, Hanyang Univ., Seoul, Korea

⁵ Master Course, Dept. of Sustainable Architectural Engineering, Hanyang Univ., Seoul, Korea

Abstract

This research aims to investigate into Official Development Assistance (ODA), which may be regarded as assistance or aid to increase competitiveness in the overseas construction field through presenting, in the initial step of construction projects, schemes to secure financial resources to those who place orders. In this research, the present author analyzes ODA of advanced countries and S.Korea and distributes and collects questionnaires to experts in related fields in order to investigate into the current state and problems of overseas construction and ODA.

Keywords : Official Development Assistance (ODA), overseas construction field,
Economic Development Cooperation Fund (EDCF)

1. Introduction

1.1 Background and purposes of the research

Unlike its domestic construction market that dwindled by 5.3% in 2004 compared to the last year due to continued government regulations, S.Korea's overseas construction market has steadily developed each year. Moreover, after the launch of World Trade Organization regime, the international construction market has been more widely opened (Jun-yeol Choi, 2006). However, most S.Korean construction companies still receive orders through simple competitive bidding. It calls for them to have schemes to secure financial resources in the initial step of their business project. This research is intended to investigate into the current state of ODA in S.Korea, with a view to come up with schemes to secure financial resources for overseas construction projects and suggest future directions for the utilization of ODA.

1.2 Scope and methods for the research

This research concentrates on the utilization of ODA, among methods presented by the existing researches in order to increase the competitiveness of the S.Korean overseas construction industry in receiving orders. This research applies to the overall aspects of

S.Korea's ODA, with a focus on, among ODA-support projects, the Korea International Cooperation Agency (KOICA)-support projects and Economic Development Cooperation Fund (EDCF), which are closely related to S.Korean overseas construction companies' receiving orders. This research is mainly intended to understand the current and actual states of the use of S.Korean ODA, analyze ODA of advanced countries to draw some suggestions, collect data from books written by relevant experts and visits to relevant organizations, conduct a questionnaire investigation into S.Korea's overseas construction field and ODA, and, based on the findings, analyze the current state, problems, and suggestions in utilizing ODA.

2. Current state of ODA

2.1 What is ODA?

ODA should be such a fund as is offered in a more favorable condition than the money commercially loaned from the international capital market. In other words, the grant element of the fund should be more than 25% and the money should be drawn from the funds recognized by the Development Assistance Committee (DAC) of OECD (the Ministry of Construction-Transportation, 2004). ODA fund is largely classified into two types: tied aid and untied aid (the former fund is conditional while the latter unconditional). In 1961, the UN general meeting urged that international support for developing countries and the capital flow into those countries should reach 1% of the national income of advanced countries. In 1970, the UN general meeting recommended that the scale of ODA provided to developing countries should be increased to the level of 0.7% of GNP. Table 1 lists the current state of ODA support provided by OECD DAC major member countries and S.Korea.

Table 1 : Current State of ODA Support by DAC Major Member Countries and S . Korea

Nation	2004		2003		2002	
	ODA (million \$)	ODA/GNI (%)	ODA (million \$)	ODA/GNI (%)	ODA (million \$)	ODA/GNI (%)
United States	19,705	0.12	16,254	0.15	13,290	0.13
Japan	8,906	0.19	8,880	0.20	9,283	0.23
Netherland	4,204	0.73	3,981	0.80	3,338	0.81
New Zealand	212	0.23	165	0.23	122	0.22
S . Korea	423	0.06	366	0.06	279	0.06

source : the Ministry of Finance and Economy

In spite of international discussions and decisions to increase the quantity of ODA, however, the weighted average of ODA/GNI of OECD DAC member countries was about 0.22% as of 2004 (the Ministry of Finance and Economy, 2004). It reminds us of a need for increasing the scale of ODA in order to activate the overseas construction industry.

2.2 S.Korea's utilization of ODA

S.Korea has its structural weakness since the individual income in S.Korea is about one third of the average of that in OECD DAC member countries and the income is very vulnerable to external economic variables (the Ministry of Finance and Economy, 2004).

S.Korea's economy is much dependent upon other countries. In addition, advanced countries adopt policies to strengthen protective trade. In this situation, it is necessary for S.Korea to advance into the market of developing countries. Consequently, it is important for S.Korea to maintain long-term and stable economic cooperation with developing countries by means of the provision of ODA. S.Korea's ODA system is principally taken care of by the Ministry of Finance and Economy and the Ministry of Foreign Affairs and Trade and largely divided into bilateral cooperation and multilateral cooperation (See Table 2).

Table 2 : S . Korea's ODA System

Section	Formation	Organization	Department
Bilateral	○ Grant Assistance -Grant Provision ○ Technical Cooperation -Dispatch an Expert, Dispatch the Overseas Corps, Project etc.	KOICA	Ministry of Foreign Affairs and Trade
	○ Loan/Credit Assistance - (EDCF)	KEXIM	Ministry of Finance and Economy
Multilateral	○ Capital Stock : International Development Financial Agency etc.	Ministry of Foreign Affairs and Trade	
	○ Contribution : UN, OECD etc.	Ministry of Finance and Economy	

source: the Ministry of Construction Transportation

2.2.1 S.Korea's projects to support ODA

In relation to KOICA support projects and EDCF related to the construction sector, S.Korea had invested USD 2,231,7 between 1987 and 2004 in a total of 366 projects. In the case of ODA provided by Korea, the number of KOICA-support projects, which are a kind of gratuitous aid, is multiplied while the amount of EDCF-support projects, which are a kind of credit aid, is overwhelmingly greater (See Table 3).

It shows that ODA provided by S.Korea is inclined in general towards EDCF, which is credit aid. In the 2000s, the scale of ODA provided by S.Korea is 0.05~0.06% of GNI while the provisional average of those of OECD DAC member countries is 0.22% and the ODA value recommended by UN is 0.7% (See Table 4).

Table 3 : Project Results of Supported by ODA

Section	The Number of Cases	Amount (million \$)
KOICA (Grant Assistance)	243	156.6
-Development Assistance (~2004.9)	57	32.0
-Project (~2003.12)	186	124.6
EDCF (Credit Assistance), ~2004.10	123	2,075.1
Sum	366	2,231.7

source: the Ministry of Construction Transportation

So to speak, the scale of ODA provided by S.Korea is small and most of the ODA is offered as credit aid. Subsequently, developing countries that are receivers of the aid have low recognition of ODA support from S.Korea, which, in return, reduces the competitiveness of S.Korea's overseas constructors in receiving orders from other countries. It calls for coming up with epoch-making plans to improve the small scale of S.Korea's ODA support and the structure of the support biased to credit aid.

Table 4 : ODA Scale of S . Korea

	2002	2003	2004
ODA(A+B) (million \$)	278.78	365.91	423.32
Bilateral (A)	206.76	245.17	330.76
Grant Assistance	66.70	145.46	212.09
Credit Assistance	140.06	99.71	118.68
Multilateral (B)	72.02	120.74	92.56
GNI (a hundred million \$)	4,804	5,761	6,810
ODA/GNI(%)	0.058	0.06	0.062

source : Hae-ryong Gwon. "Korea's initiative for development and cooperation."

2.2.2 Orders received for overseas construction work through ODA support

Speaking of KOICA support and EDCF support for overseas construction work, among ODA provided by S.Korea, the database of International Construction Association inform that 32 construction companies received orders for 72 overseas construction projects worth a total of USD 569.7 million as of the end of 2004 (See Table 5).

Table 5 : Overseas Construction Work Supported by ODA

Section	Nation	Company	The Number of Cases	Amount (Ten thousand \$)
Sum	22	32	72	569.651
KOICA	14	16	33	22.778
EDCF	14	24	39	546.873

source : the Ministry of Construction Transportation

Note : not contain overlapping

Among the overseas construction projects for which orders were received with the support from ODA, more are supported by EDCF, which is credit aid or tied aid. Furthermore, most of the ODA support projects were executed in the Asian region, among the total of 22 countries where projects were implemented. More concretely, 80.1% of the total number of the projects and 63.0% of the total monetary amount of received orders are promoted in the region (See Table 6). Orders worth USD 569.7 million were received through ODA support, and the number of the orders is just 19.7% of the total S.Korea, ODA-support projects and the amount of the orders is no more than 25.6%.

Compared to the total orders received by S.Korean companies for overseas construction, the number of orders received through ODA accounts for 3.39% and the monetary amount 0.56% (See Table 6). It calls for the identification of factors and difficulties hampering S.Korean companies from advancing into the global construction market.

Table 6 : Ratio Analysis of Overseas Construction Work Supported by ODA

Ratio of ODA support overseas construction for which orders were received versus the total ODA support projects			
Region	Nation	The Number of Cases	Amount (Ten thousand \$)
Middle East	4	6	147,520
Asia	13	58	358,665
Europe	1	1	390
Africa	2	5	60,279
Latin America	2	2	2,797
Total	22	72	569,651
ODA support overseas construction work in each region/country			
Section	Cumulative Value of Total Scale of Overseas construction work	Overseas construction work supported by ODA	Ration(%)
The Number of Cases	2,124	72	3.39
Amount (million \$)	102,007	569.6	0.56
Ratio of ODA support overseas construction for which orders were received versus the total overseas construction			
Section	Total Scale of Overseas construction work supported by ODA	Overseas construction work supported by ODA	Ration(%)
The Number of Cases	366	72	19.7
Amount (million \$)	2,231.7	569.6	25.6

Source: The Ministry of Construction and Transportation

Note: cumulative value in 1987~2004

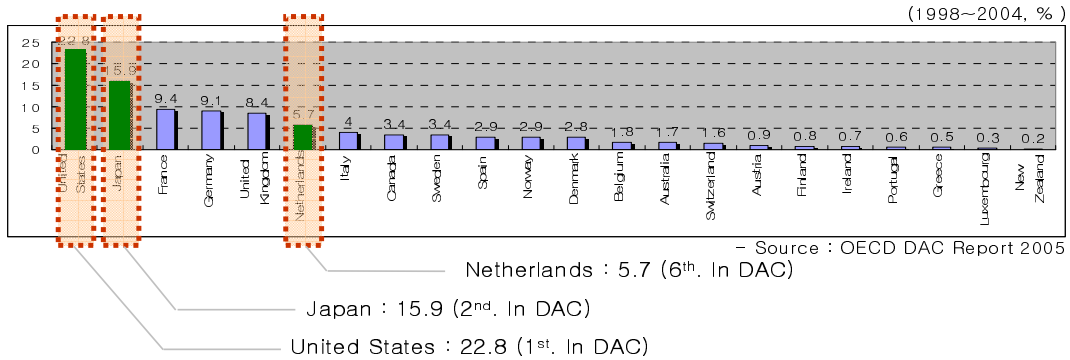
2.3 Advanced countries' utilization of ODA

S.Korea has a short history of ODA and does not have clear future directions for ODA policies. So, S.Korea needs to analyze and benchmark the actual state of ODA operated by advanced countries such as the U.S. that has the greatest international economy, Japan that has been closely related to Korea, and the Netherlands whose economic structure and scale is similar to those of S.Korea in terms of external dependence.

First of all, the U.S.'s ODA corresponds to 0.1% of its GNI, but it accounts for one fourth of the total amount of ODA provided by the total 22 OECD DAC member countries (See Figure 1). The U.S. plays a pivotal role in decision-making related to ODA in OECD DAC since it remains as the only super power in international economy and international politics. The U.S. insists on its own way different from other OECD DAC member countries in international discussion on the need that ODA should be increased to the level of 0.7% of GNI.

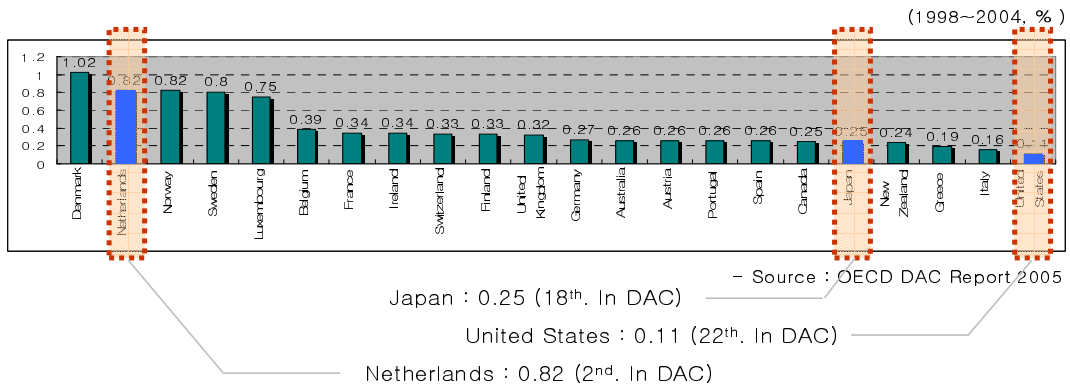
Secondly, Japan initially launched its aid to other countries in a negative manner due to pressure from the international society. But since late the 1960s, it has consistently promoted the aid for economic and diplomatic purposes and for the sake of its political interest. Seeing ODA as a means of diplomacy, Japan utilizes credit assistance as a means of economic benefits in full consideration of its national interest, although it also provides gratuitous funds for humanitarian and diplomatic purposes for which ODA was originally established (the Ministry of Finance and Economy, 2004).

Figure 1 : Analysis Subject Nation's Ratio Compared with the Total Sum of ODA



Thirdly, the Netherlands is praised by the international society for its supreme contribution to the development and cooperation of the global village since it was found to be the best rated for its policies for developing countries through the research and investigation made by the Center for Global Development in 2003 into the operation of ODA in OECD DAC member countries. It has also consistently maintained its higher rank among OECD DAC member countries when evaluation is made on its absolute scale of ODA and the ratio of its support to others versus GNI (See Figure 2).

Figure 2 : Analysis Subject Nation's Ratio Compared with GNI



3. Investigation into the current state and utilization of ODA

In this research, a questionnaire investigation was made into 45 experts connected to overseas construction and ODA in order to understand the actual state of utilization of ODA in Korea, identify related problems, and hammer out strategies to increase S.Korean constructors' competitiveness in receiving orders through the utilization of ODA. The questionnaire is composed of ODA related questions such their experience about overseas projects, difficulties they felt when receiving orders for overseas construction, their recognition of ODA projects, their experience about ODA projects, problems connected to S.Korea's ODA support projects, and thing to be improved in the future. Responders to the questionnaire worked in the field of overseas construction (38%), planning (20%), work (20%), public duties (4%), and others (18%) (See Figure 3). Most of them took much interest in overseas advancement since 75% of them planned to or were considering entering into the overseas market (See Figure 4).

Figure 3 : Responders to the Questionnaire

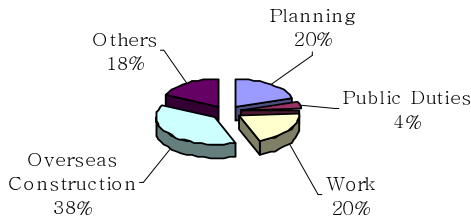
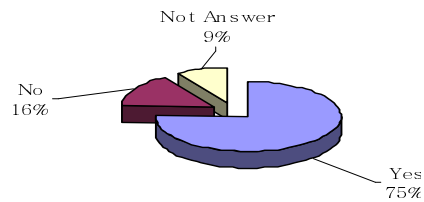


Figure 4 : Considering Enter into the Overseas Market



33% of the respondents answered that they would go overseas in order to find a new market and 30% in order to lift their profit, which reflects the depression of the domestic construction market, constant growth of the overseas construction market and more widely opening of the market (See Figure 5). Subsequently, it is inevitable for domestic enterprises to advance into the overseas market after being equipped with their competitiveness so as to make profit from the market.

When they were asked to present multiple choices from the problems they felt in their advance into the overseas market, the most people selected their lack of price competitiveness (26%), followed by lack of financial supply (21%), lack of information for receiving orders from overseas (17%), lack of technological competitiveness (17%), lack of capacity to find appropriate construction projects (16%), and by others (5%). It implies that the personnel in charge of practical matters in relevant fields felt that improvement should be made of overall spheres related to receiving orders for overseas construction (See Figure 6).

Figure 5 : Purpose of Going to Overseas Construction Industry

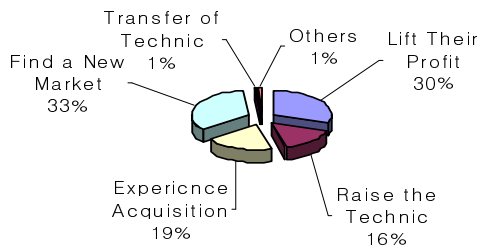
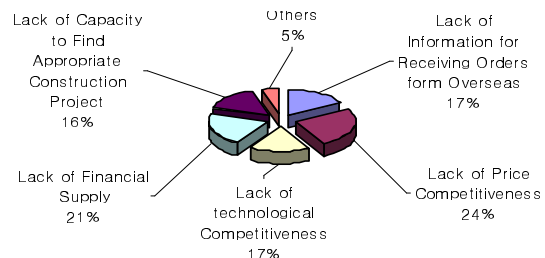


Figure 6 : Problem of Receiving Orders from Overseas Market



In particular, as many of the respondents indicated, alternatives should be set up urgently to lift price competitiveness and promote financial supply and diversify schemes to secure financial resources for overseas construction. As one of the schemes, it is very necessary to utilize the ODA system in the future.

44% of the respondents answered that poor utilization of the ODA system in receiving orders for overseas construction was due to the lack of opportunities apply the system to practical matters, 30% pointed out the lack of guidance to KEXIM and KOICA, 23% the lack of training in ODA related projects, and 3% others (See Figure 7). It calls for the establishment of schemes to activate ODA support projects in the future including expanded PR activities for the projects and intensified education conducted by related organizations.

When the respondents were asked about what should be improved in utilizing S.Korea's ODA, the most people pointed out the expansion of the scale of the aid (50%), followed by the simplification of relevant procedures (21%)(See Figure 8). It means that S.Korea need

overhaul the ODA system in order to expand the scale of the system in such a manner as to provide not nominal but practical support to the constructors. Also, complex procedures should be mitigated so as to activate the utilization of ODA.

Figure 7 : Reason of Poor Utilization about the ODA System

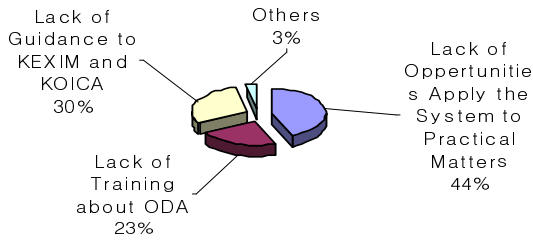
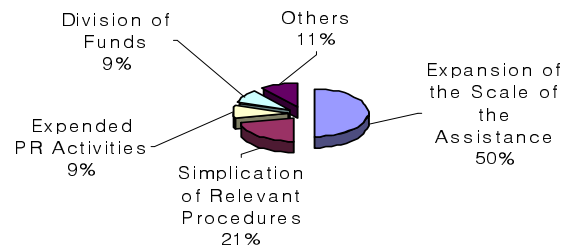


Figure 8 : What Should be Improved in Utilizing ODA



4. Conclusion

More S.Korean construction companies are willing to go overseas because the scale of the international construction market is continuously increasing while the domestic market is still in depression. Securing financial resources to execute construction projects is emerging as an important factor at a time when the scale of overseas projects is being made larger and the projects are being highly clustered.

At this juncture, this research was conducted to compare and analyze the actual states of ODA provided by advanced countries and S.Korea since ODA is a way to secure financial resources for overseas construction projects. Also, questionnaires were distributed to and collected from experts related to overseas construction and ODA-support projects. The investigation found that S.Korean constructors took much interest in overseas construction in order to enter into new markets and multiply their profit. It means that ODA should be positively utilized in order to increase the competitiveness of S.Korean construction companies advancing into the overseas market and, accordingly, ceaseless efforts and research should be made to resolve ODA-related problems and diversify the utilization of ODA.

5. Acknowledgment

This work was supported by the SRC/ERC program of MOST/KOSEF (R11-2005-056-03001)

References

- [1] **Hae-Ryong, Gwon. (2005).** "Korea's initiative for development and cooperation.". *Life & Dream*, 114-135, 157-172.
- [2] **The Ministry of Construction and Transportation. (2004).** "Schemes to connect receiving orders for overseas construction work with the utilization of public funds". 85-119, 149-169.
- [3] **The Ministry of Construction-Transportation. (2004).** "Study on the set-up of plans for the promotion of overseas construction". 77-129.
- [4] **Ju-Sik, Gong. (2004).** "Directions for Korea's ODA mid-term and long-term policies" *The Ministry of Finance and Economy*, 214-255, 313-341.
- [5] **Hwan-Pyo, Park. and Eun-Yeong, Shin. (2006).** "Strategies for domestic construction and engineering companies to enter Viet Nam". *Ed. 2, Vol. 7 of the collection of theses by the Korea Institute of Construction Engineering and Management*, 98-108
- [6] **Jun-Yeol, Choi. and two others. (2006).** "Problems derived from the analysis of the achievements of overseas construction and research into schemes to expand the market". *Ed. 4, Vol. 7 of the collection of theses by the Korea Institute of Construction Engineering and Management*, 109-117
- [7] **Overseas construction comprehensive services. (2006).** <<http://www.icak.or.kr>>.