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Performance-based Management and Budgeting in Korea: Observations and Lessons

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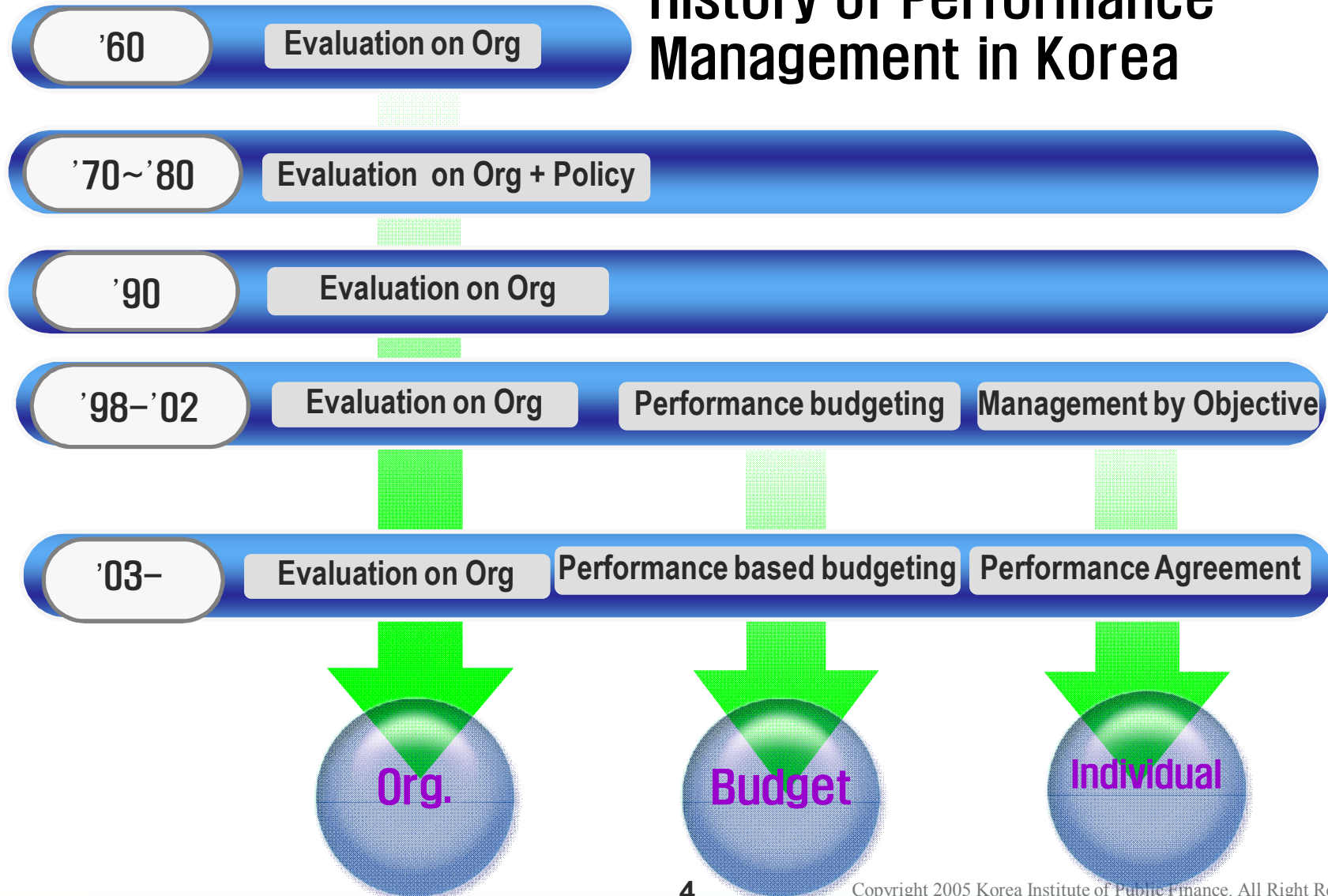


Overview of Performance Management System in Korea

- ❖ Korea has performance management systems for organization, budgetary program and individual.
- ❖ Performance management system for organization/government policy has been in place since 1961.
- ❖ Performance management system for individual has been in place since 1999.
- ❖ Performance management system for budgetary programs has been in place since 2005.



History of Performance Management in Korea





Move to Outcome-oriented Performance Management

- 📌 Since 2000, the focus of performance management moved to outcomes.
 - Before 2000, performance management has focused on inputs, process and outputs rather than outcomes.
 - It tried to check whether planned output has been produced or achieved rather than evaluate policy's effects.
 - The focus has shifted to the outcomes of policy/budgetary programs since 2000.



Background of Performance-based Budgeting in Korean Government

Expected budget problems

- Increasing public debts after 1998's Asian financial crisis
- Increasing spending on social welfare programs due to aging and economic polarization problems

Need for enhancing efficiency in public spending

Started 4 major reform programs in public finance

- Medium-term expenditure framework: Basis for top down budgeting
- Top down budgeting: autonomy to line ministries
- Performance management system: accountability
- Digital accounting system:

program accounting



Medium-term fiscal plan

- Five-year fiscal plan for all sectors
- Basis for Top-Down Budgeting

Top-Down budgeting

- Fixed amount of envelope for each ministry
- Each ministry has autonomy in spending

4 Major Fiscal Reforms

Performance-Based Budgeting

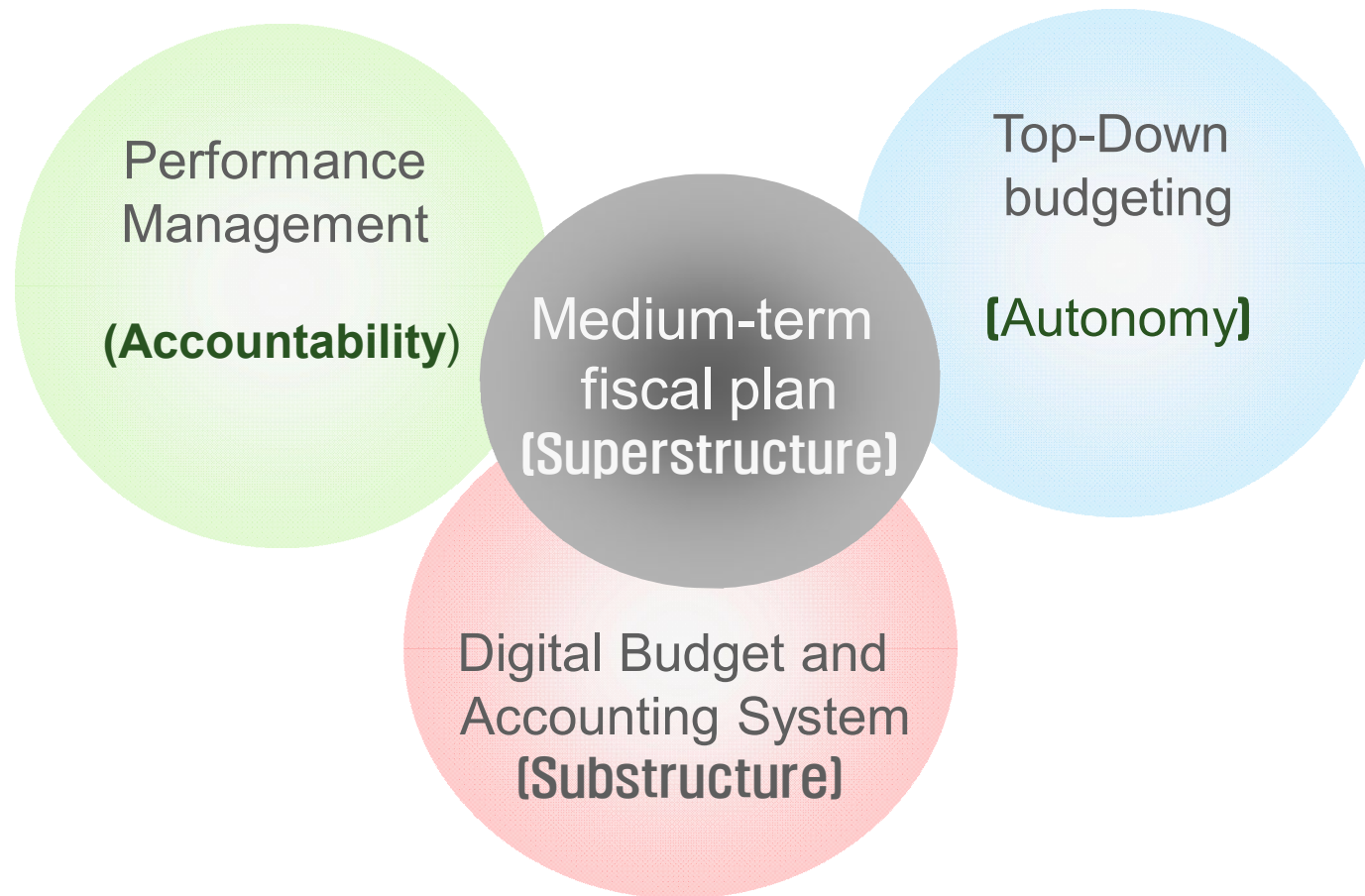
- Assess performance of spending programs
- Enhance link between performance and budget

Fiscal Budget and Accounting System

- Program Budgeting
- Accrual Accounting
- Computerization of accounting system

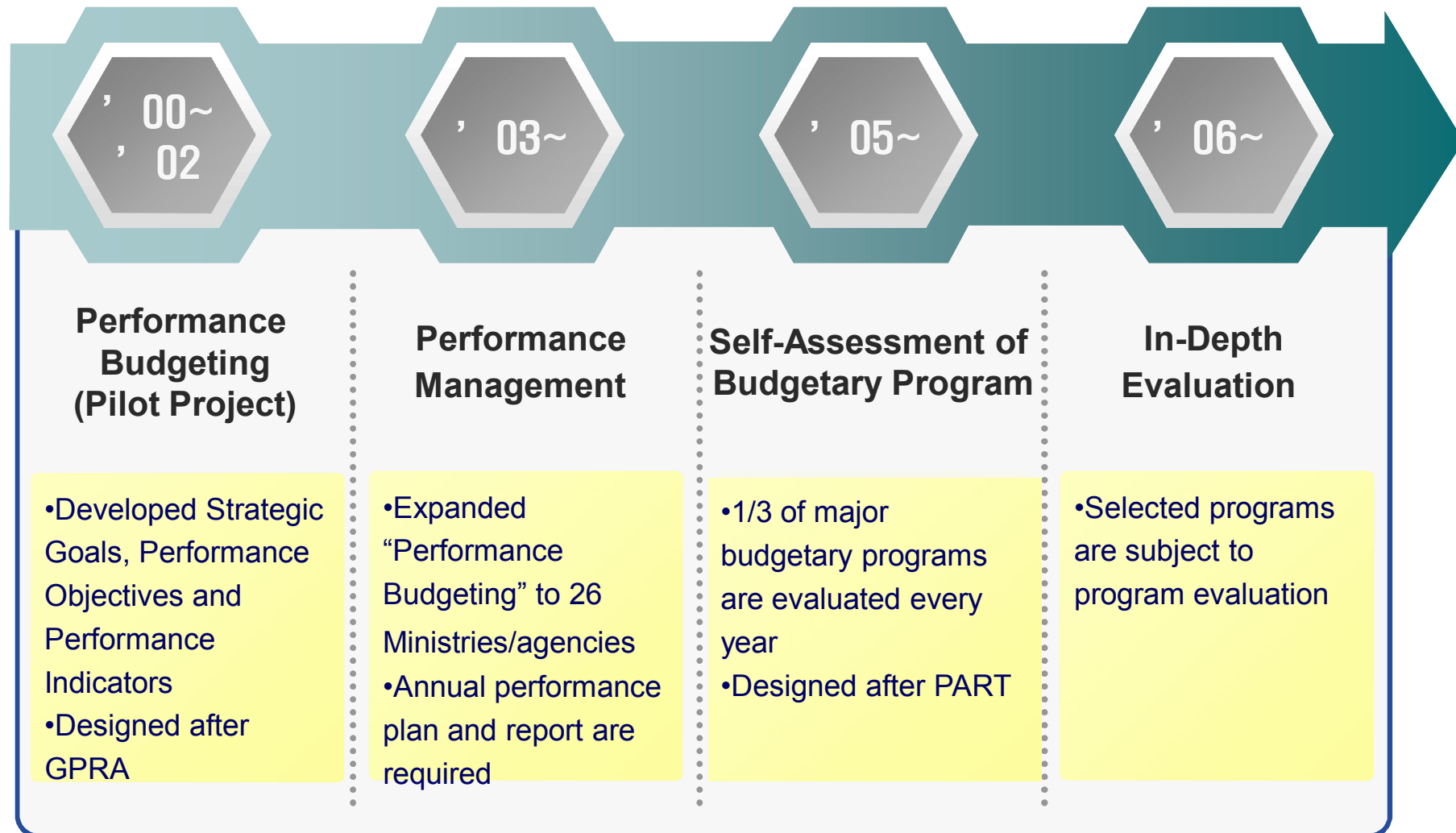


Structure of Public Finance Reform





Efforts towards Performance-Based Budgeting





“Performance Budgeting”

- 📌 Pilot project during 2000-2002
- 📌 Designed after GPRA
- 📌 Started with divisions and departments in 16 agencies and expanded to those in 22 agencies
- 📌 Developed annual performance plans and reports



“Performance Management of Budgetary Program”

- 📌 2003-present
- 📌 Developed from “Performance Budgeting”
- 📌 Started with 22 agencies and expanded to 26 agencies
- 📌 22 agencies developed 100% performance indicators.
- 📌 In 2005, 26 agencies submit annual performance plans.



“Self-Assessment of Budgetary Program (SABP)”

- Started from 2005
- Designed after PART in the USA
- Review major budgetary programs in three years
- In each year, about 500 programs are reviewed
- 15 common questions and additional questions for 7 program types



“In-Depth Evaluation of Budgetary Program”

- 📌 In 2006, program evaluation are introduced by MPB
- 📌 About 10 programs are supposed to be selected for evaluation
 - 9 programs are selected in 2006
- 📌 Focus will be given to crosscutting programs
- 📌 Purpose of evaluation is primarily about funding and reorganization of programs.



Enactment of “National Fiscal Law”

- 📌 “National Fiscal Law” was enacted in December, 2006
 - To provide a legal basis for 4 major fiscal reform programs
- 📌 Contains articles on performance-based budgeting
 - Annual Performance Plan and Report become legal requirements for line ministries/agencies.
 - SABP and In-depth Evaluation are stipulated.
- 📌 It gives stability and continuity of the system which may be a problem to performance management system.
 - Government has less incentives to maintain and improve performance management system than to introduce it, because efforts to improve the system is less visible to the public.



Framework for Performance-Based Budgeting In Korea

- 📌 Performance Monitoring
 - “Management of Performance Objectives”
 - Monitoring based on the performance indicators
- 📌 Program Review
 - “Self-Assessment of Budgetary Program”
 - Review based on the checklist
- 📌 Program Evaluation
 - “Budgetary Program Evaluation”
 - In-depth evaluation for selected programs



Description of “Self-Assessment of Budgetary Program”

- 📌 MPB reviews self-assessment of programs done by line ministries/agencies
- 📌 Budgetary authority provides a standardized checklist for reporting self-assessment
- 📌 The checklist contains questions on design, performance management system, implementation, and actual performance
- 📌 Entire program will be reviewed in three years.
 - About 1/3 programs will be reviewed each year



Contents of Checklist

Design and Planning (15)	<ul style="list-style-type: none"> • Program purpose • Rationale for government spending • Duplication with other programs • Efficiency of program design • Relevance of performance objectives and indicators • Relevance of performance targets
Management (20)	<ul style="list-style-type: none"> • Monitoring efforts • Obstacles of program implementation • Implementation as planned • Efficiency improvement or budget saving
Results and accountability (50)	<ul style="list-style-type: none"> • Independent program evaluation • Results • Satisfaction of citizens • Utilization of evaluation results

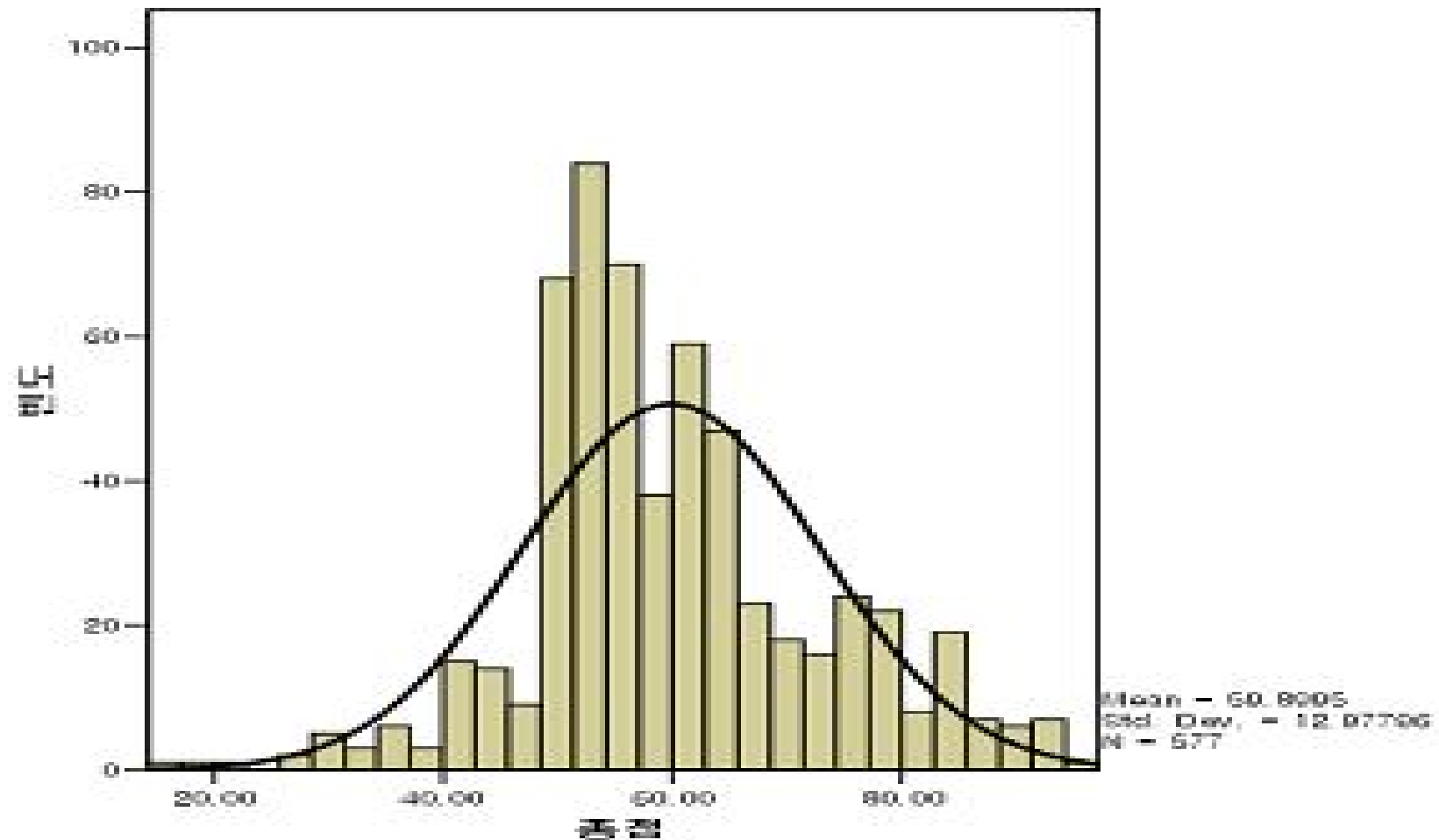


Report on 2006 Self Assessment of Budgetary Program

- 📌 Evaluation Results by Total Score
- 📌 Evaluation Results by Section
- 📌 Evaluation Results by Program Type
- 📌 Link between Evaluation Results and Budget



Evaluation Results by Total Score





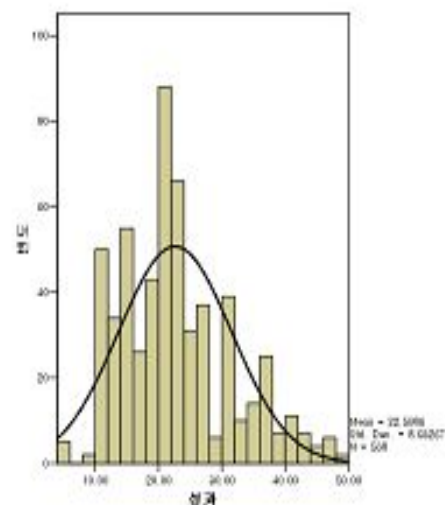
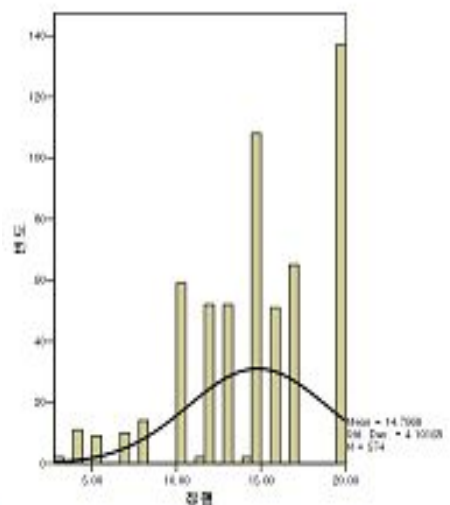
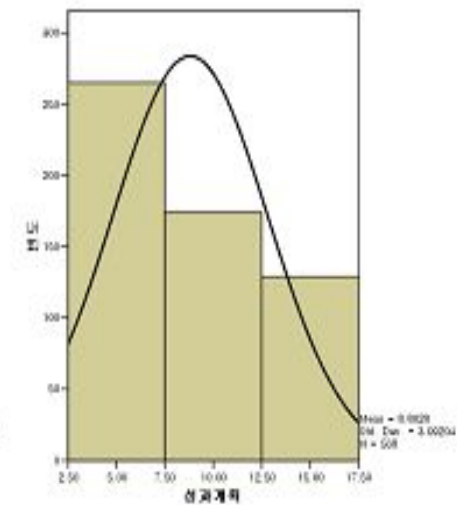
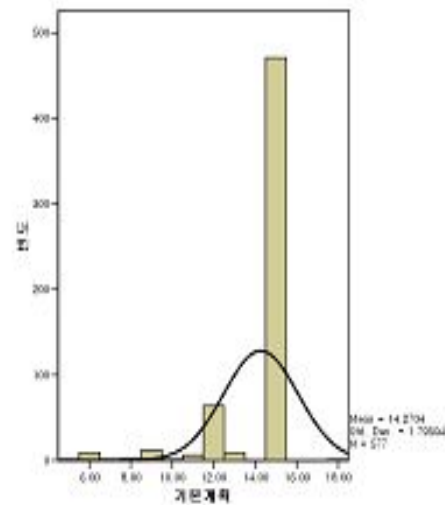
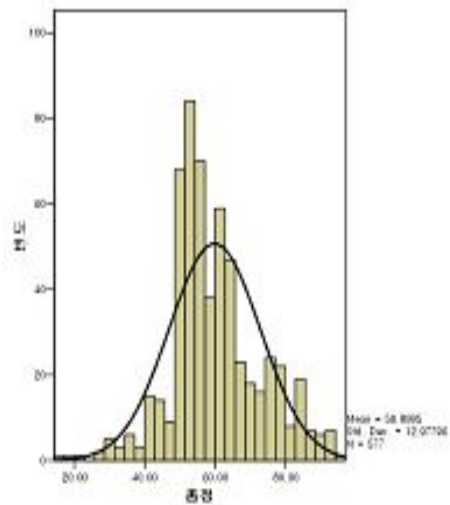
Evaluation Results by Rating

		Total	Effective (>84)	Moderately Effective (84~70)	Adequate (69~50)	Ineffective (<50)
2005 (A)	Number	555	28	100	340	87
	(%)	(100.0)	(5.0)	(17.9)	(61.4)	(15.7)
2006 (B)	Number	557	30	94	388	65
	(%)	(100.0)	(5.2)	(6.3)	(67.24)	(11.3)
(B-A)			0.2	-1.7	5.9	-4.4

Source: MPB



Evaluation Results by Section





Evaluation Results by Section

	Total Score (100)	Planning(30)			Management (20)	Results (50)
		Sub total (30)	Design (15)	Performance Planning (15)		
2005(A)	60.1	23.1	13.8	9.3	15.1	21.9
2006(B)	59.9	22.9	14.3	8.6	14.7	22.2
(B-A)	-0.2	-0.2	0.5	-0.7	-0.4	0.3

Source: MPB



Results from Questions related to Performance

	Number Of Program (A)	1-6 Performance Indicator				1-7 Performance Targets				3-2 Performance Results			
		"Yes" (B)	B/A	No" (C)	C/A	"Yes" (B)	B/A	No" (C)	C/A	"Yes" (B)	B/A	No" (C)	C/A
2005	555	336	60.5%	219	39.5%	158	28.5%	397	71.5%	497	89.5%	58	10.5%
2006	577	303	52.5%	274	47.5%	129	22.4%	448	77.9%	551	95.5%	26	4.5%

2006 Evaluation Results by Program Type

		Total	Design	Planning	Management	Results
Direct Program (185)	Mean	60.9	14.6	8.8	15.9	21.6
	SD	11.2	1.5	3.9	4.1	8.2
Subsidy to State Gov (94)	Mean	56.2	14.1	8.8	13	20.2
	SD	14.3	1.6	4.3	5	9.3
Subsidy to Private (151)	Mean	60.1	14.3	8.1	15	22.5
	SD	13.6	1.9	4.2	3.9	9.8
Loan (43)	Mean	58.5	14.1	7.9	14.1	22.3
	SD	12.3	2	3.5	4.2	8.6
Investment (45)	Mean	57.5	12.9	7.7	13.8	23.1
	SD	10.7	2.6	3.5	4	7.2
Capital Acquisition (9)	Mean	62.2	13.9	10	15.6	22.8
	SD	12.4	1.3	4.3	3	8.2
SOC (50)	Mean	65.6	14.7	10.3	14	26.7
	SD	14.8	1.5	5	3.2	12.4



Evaluation Result Comparison between MPB and Ministries/Agencies in 2005

	Design and Planning (30)	Management (20)	Result (50)
Ministries/agencies	28.1	17.7	40.4
MPB	23.1	15.1	21.9



Utilization of Evaluation Results

- 📌 MPB encouraged ministries/agencies to use the results in reshuffling budget allocation
- 📌 MPB announced 10% budget-cut would be done to “ineffective” programs, in principle.
- 📌 Submitted evaluation results to the National Assembly
- 📌 Evaluation results are open to public in 2006.



Link between Evaluation and Budgeting (2005)

2005	Number Of Program (A)	'05 Budget	'06 Budget	(B-A)	(B-A)/A
Total	555	35.0	35.8	0.8	2.4
Eff	28	1.6	2.2	0.7	44.1
Mod. Eff	100	8.3	9.6	1.3	15.6
Adq	340	21.7	21.0	-0.7	-3.2
Ineff	87	3.4	3.0	-0.4	-13.5

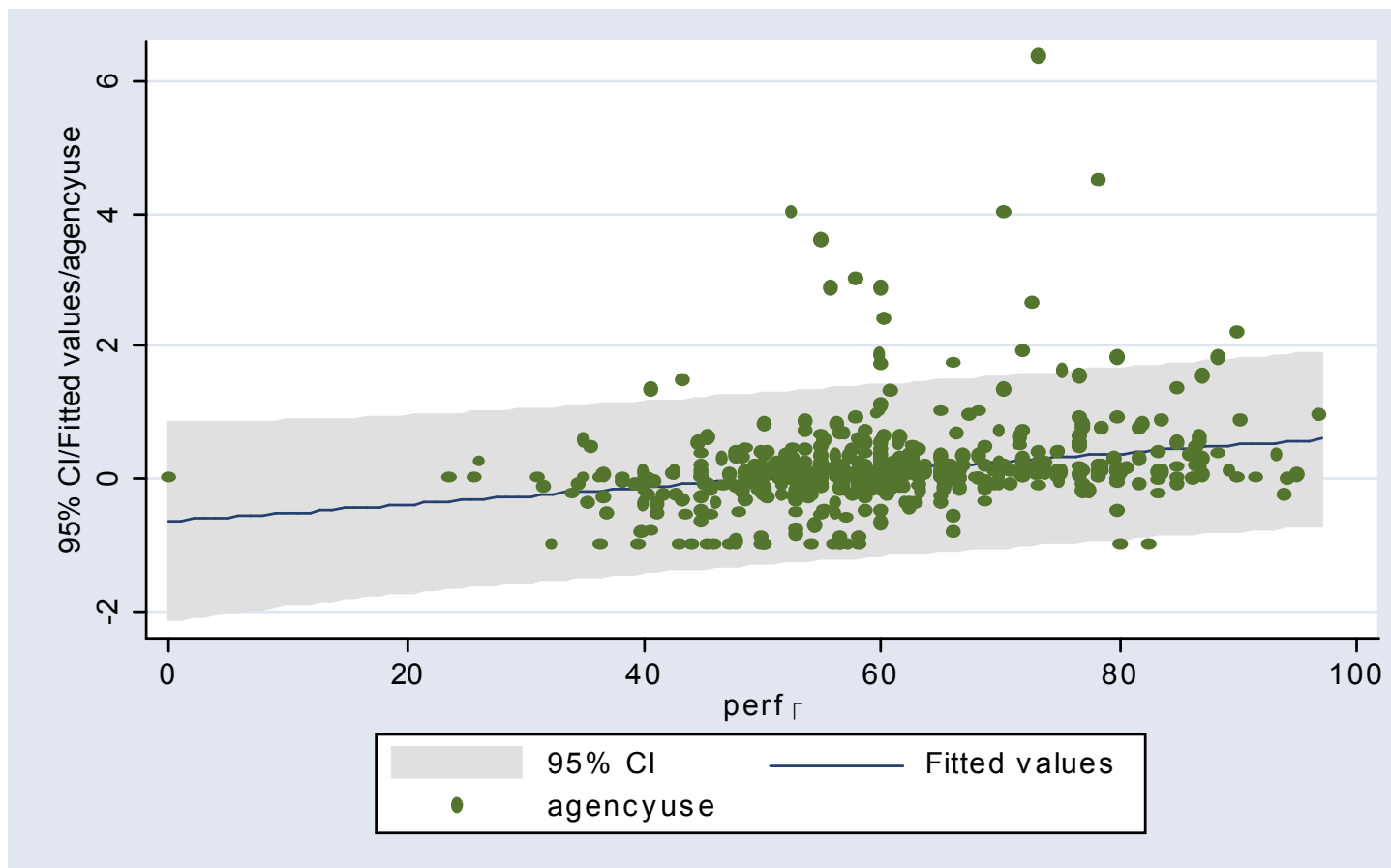


Link between Evaluation and Budgeting (2006)

2006	Number Of Program (A)	'05 Budget	'06 Budget	(B-A)	(B-A)/A
Total	577	35.1	34.0	-1.1	-3.1
Eff & Mod. Eff	124	4.2	4.4	0.2	5.8
Adq	388	29.7	29.0	-0.7	-2.4
Ineff	65	1.1	0.5	-0.6	-52.8

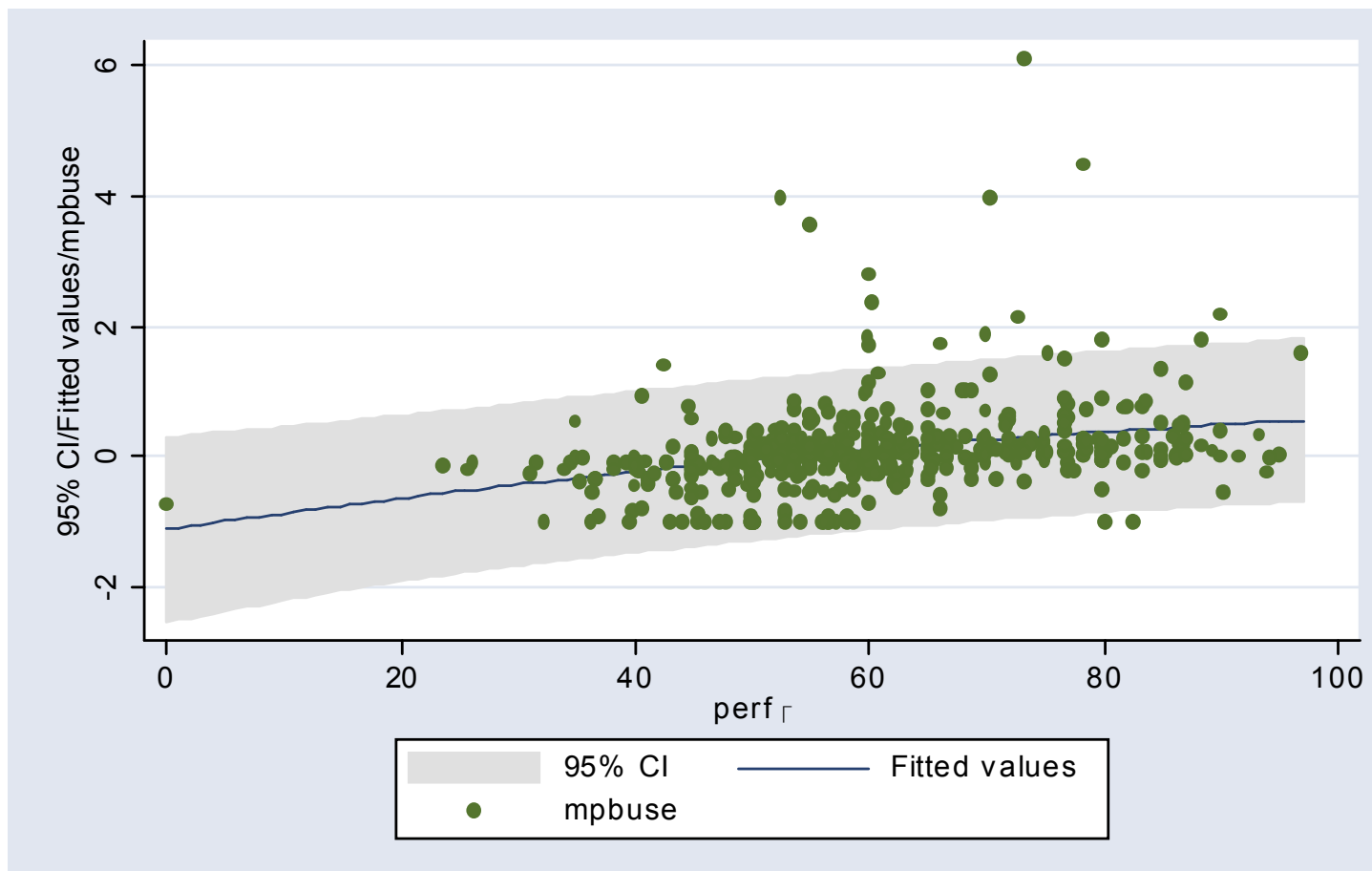


Use of Performance Information by Agencies (2005)



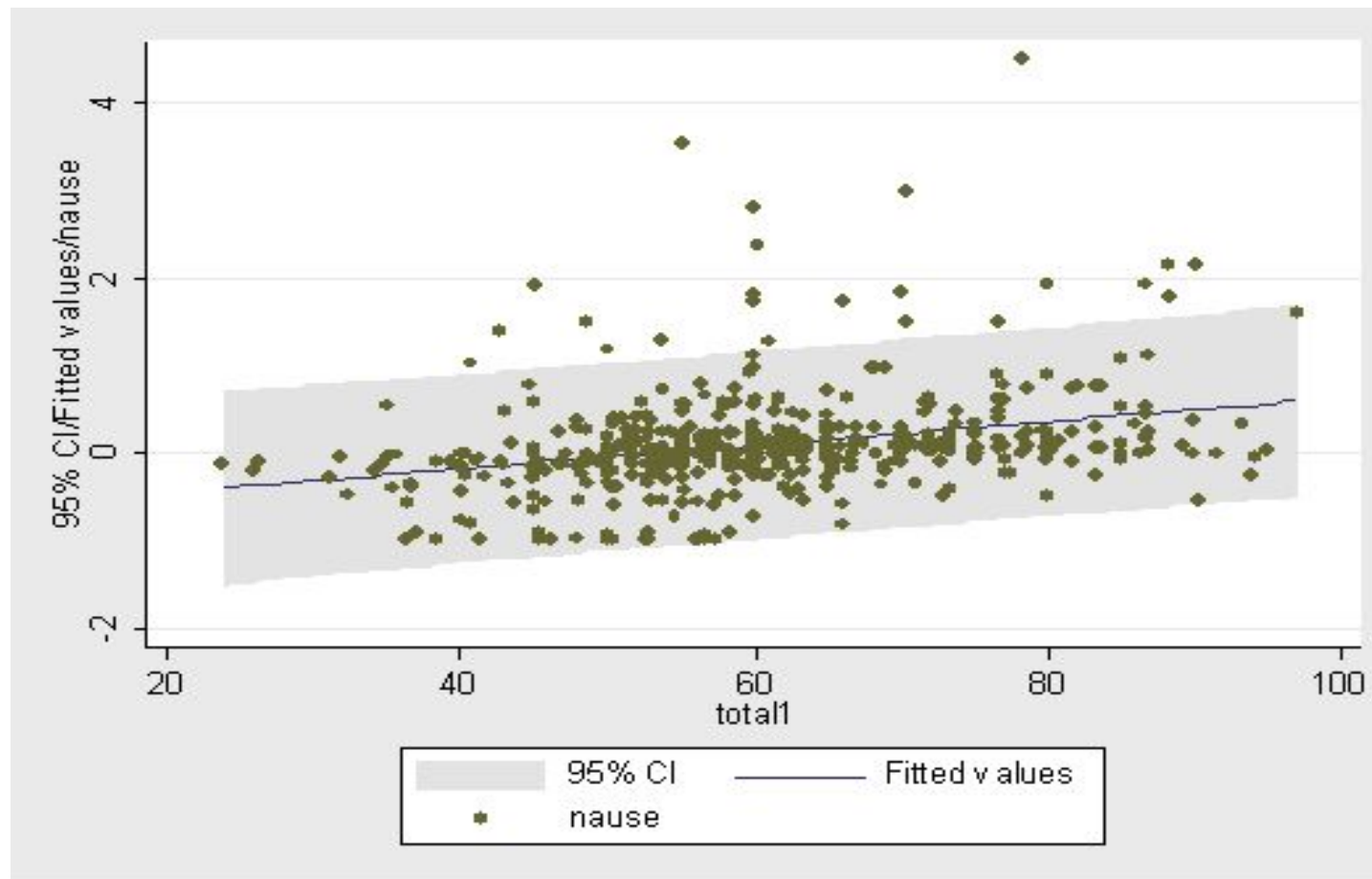


Use of Performance Information by MPB (2005)





Use of Performance Information by Legislature (2005)





Observations on SABP

- 📌 Capacity of MPB
 - Increased workload
 - Unable to produce recommendations on evaluated programs in 2005, but produced them in 2006.
- 📌 Capacity of line ministries
 - Lack of useful performance information
 - 70% of program fails to provide useful info in 2005
 - Lack of relevant performance indicator and target
 - Not much improvement between 2005 and 2006.
 - Lack of independent program evaluation
 - Little experience of program evaluation within line ministries



Observations on SABP (Cont'd)

- 📌 Need improvement on the checklist
 - Clarification has been made between 2005 and 2006
 - Another round of improvement is scheduled for 2008 SABP
- 📌 Utilization of evaluation results
 - Direct link between evaluation score and budget may not be desirable in the long run.
 - Programs received ineffective rating are supposed to suffer 10% budget cut in principle.
 - However, other factors are also considered in budget formulation.
 - Efforts have been made to produce useful recommendations and develop effective follow-up procedure.
 - Incentives are reinforced by the Office for Government Policy Coordination (OGPC) in 2006.
 - It utilizes evaluation results by SABP as one of components to rate performance of each line ministries/agencies which, in turn, affects ratings and compensation of civil servants.



Future Directions

- 📌 Coordinate various performance management systems within the Administration
- 📌 Develop effective performance information system
- 📌 Introduce program budgeting
- 📌 Develop cost accounting
- 📌 Make strategic planning effective
- 📌 Introduce auditing mechanism of performance data
- 📌 Foster proper understanding on performance budgeting and develop capacity of involved parties



Lessons

- 📌 Sequencing
 - Infrastructure(program budgeting, cost accounting) may need to be introduced before PB if possible.
- 📌 Leadership is important to make performance management systems work for line ministries.
- 📌 Reorganization of government can be useful
 - Separation of service delivery and policy formulation
 - Policy-oriented ministries are having hard time to develop useful performance information.



Lessons (Cont'd)

- 📌 Balance between centralization and decentralization
 - Need for central authority to enforce and monitor performance management system
 - Need for autonomy of ministries/agencies
 - Ownership by the ministries is important to avoid its becoming compliance-based system.
- 📌 Patience
 - Monitoring and continuous improvement of performance management system may not be attractive to top-decision makers, but it needs to be done.
 - Enactment of “National Fiscal Law” provides a favorable environment.



Thank You !