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Does More Information Improve Budget Allocation? Evidence and Lessons from Performance-Based Budgeting in Korea

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Contents

- 📌 Introduction
- 📌 Background of Performance-Based Budgeting in Korea
- 📌 Results from Performance-Based Budgeting in 2005
- 📌 Utilization of Performance Information in Budgetary Process
- 📌 Lessons and Future Directions



Background of Performance Management 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 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



4 Major Fiscal Reforms

- 📌 Medium-term fiscal plan
 - Five-year fiscal plan for 14 sectors
 - Basis for Top-Down Budgeting
- 📌 Top-Down budgeting
 - Fixed amount of envelope for each ministry
 - Line ministries have autonomy in spending



4 Major Fiscal Reforms

- 📌 Performance-Based Budgeting
 - Assess performance of spending programs
 - Enhance link between performance and budget
- 📌 Digital Budget and Accounting System
 - Program Budgeting
 - Accrual Accounting
 - Computerization of accounting system

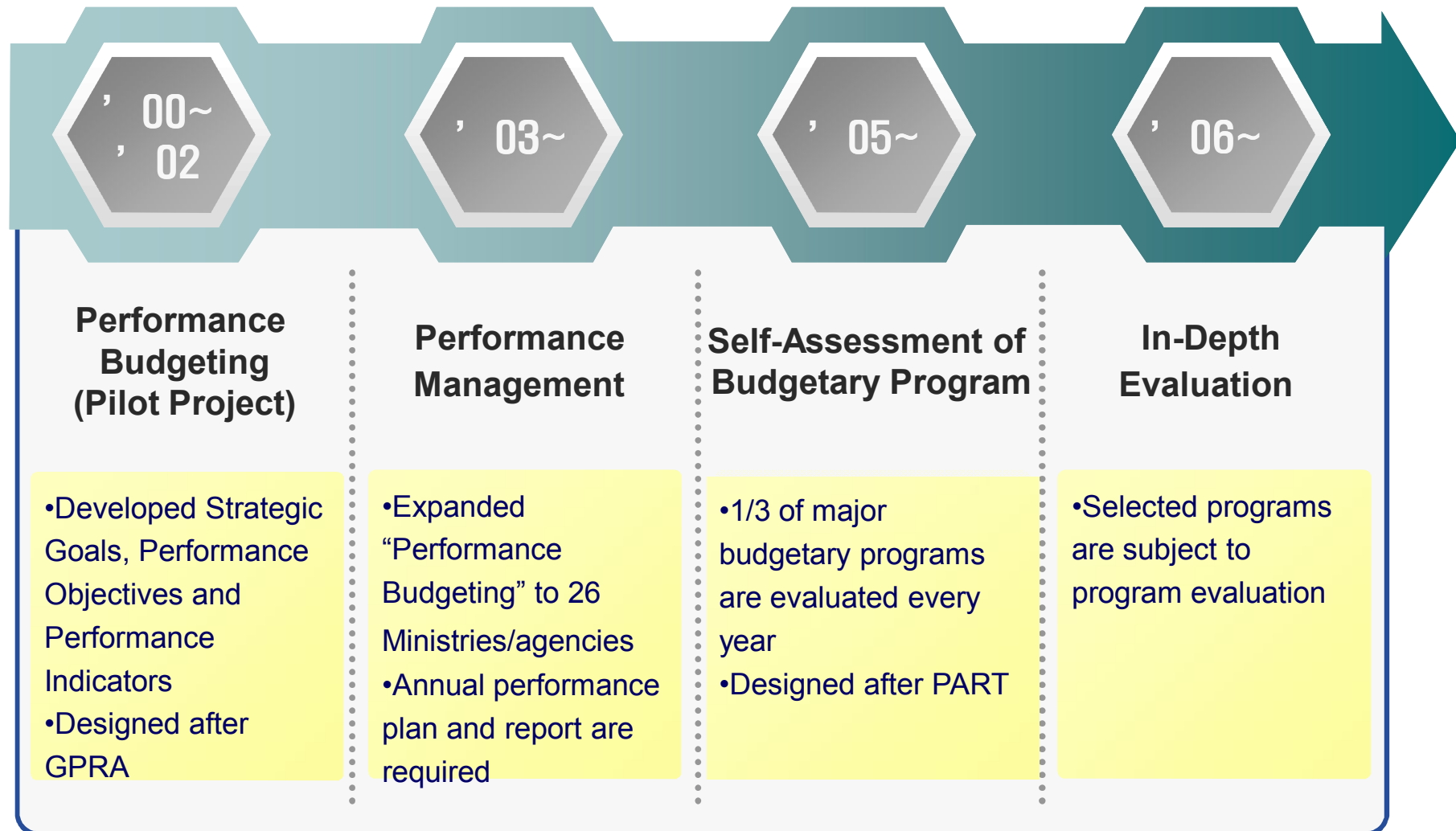


Reform Efforts towards Performance-Based Budgeting

- 📌 Performance Budgeting (2000-2002)
- 📌 Performance Management of Budgetary Program (2003-2005)
- 📌 Self-Assessment of Budgetary Program (2005)
- 📌 Program Evaluation (2006)



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”

- Started from 2005
- Designed after PART
- Review major budgetary programs in three years
- In 2005, about 550 programs are reviewed
- 15 common questions and additional questions for 7 program types



“In-Depth Evaluation of Budgetary Program”

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



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 1

- 📌 Design and Planning
 - Program purpose
 - Rationale for government spending
 - Duplication with other programs
 - Efficiency of program design
 - Relevance of performance objectives and indicators
 - Relevance of performance targets



Contents of Checklist 2

Management

- Monitoring efforts
- Obstacles of program implementation
- Implementation as planned
- Efficiency improvement or budget saving

Results and accountability

- Independent program evaluation
- Results
- Satisfaction of citizens
- Utilization of evaluation results



Report on 2005 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



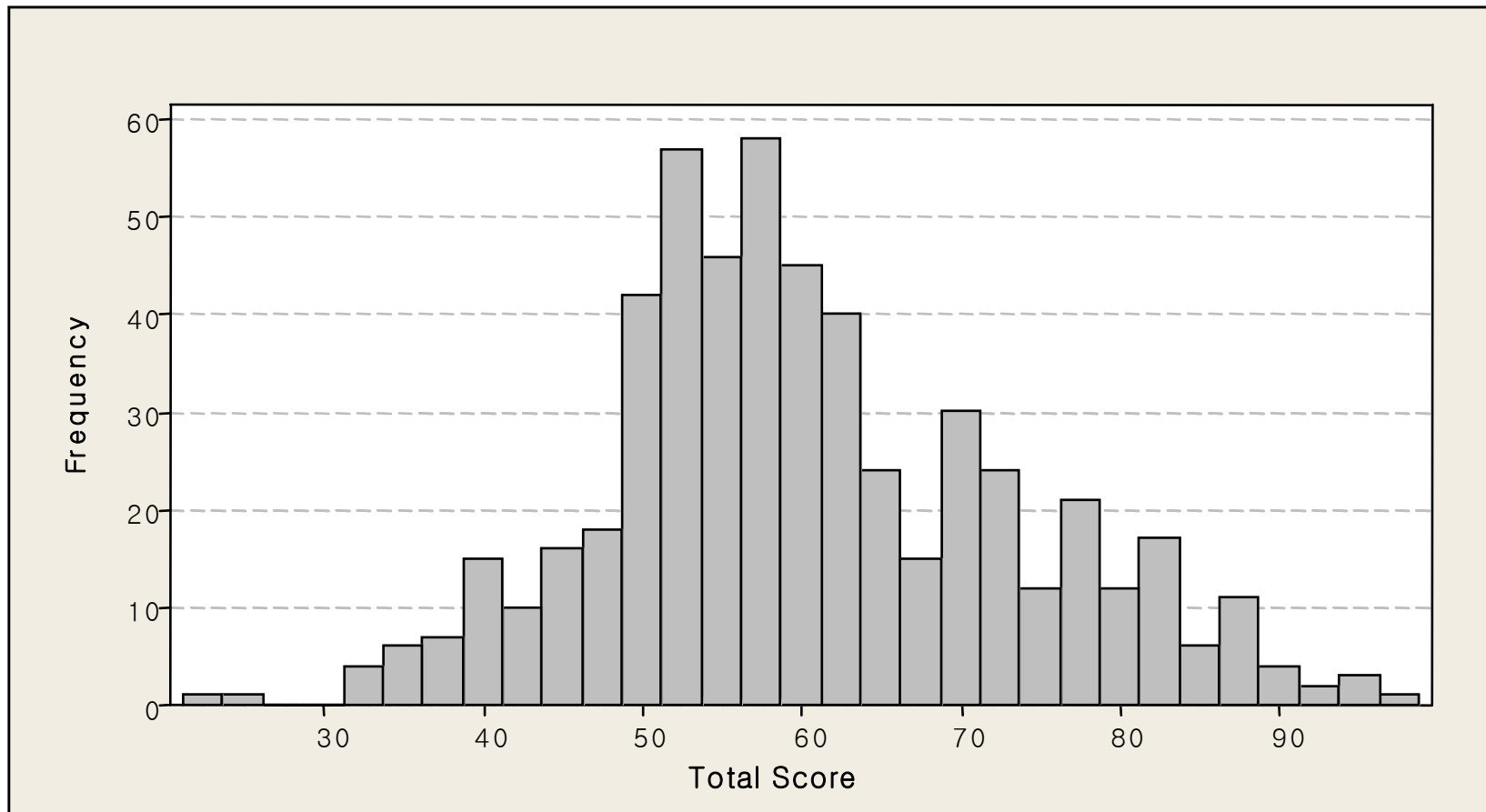
Evaluation Results by Rating

		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



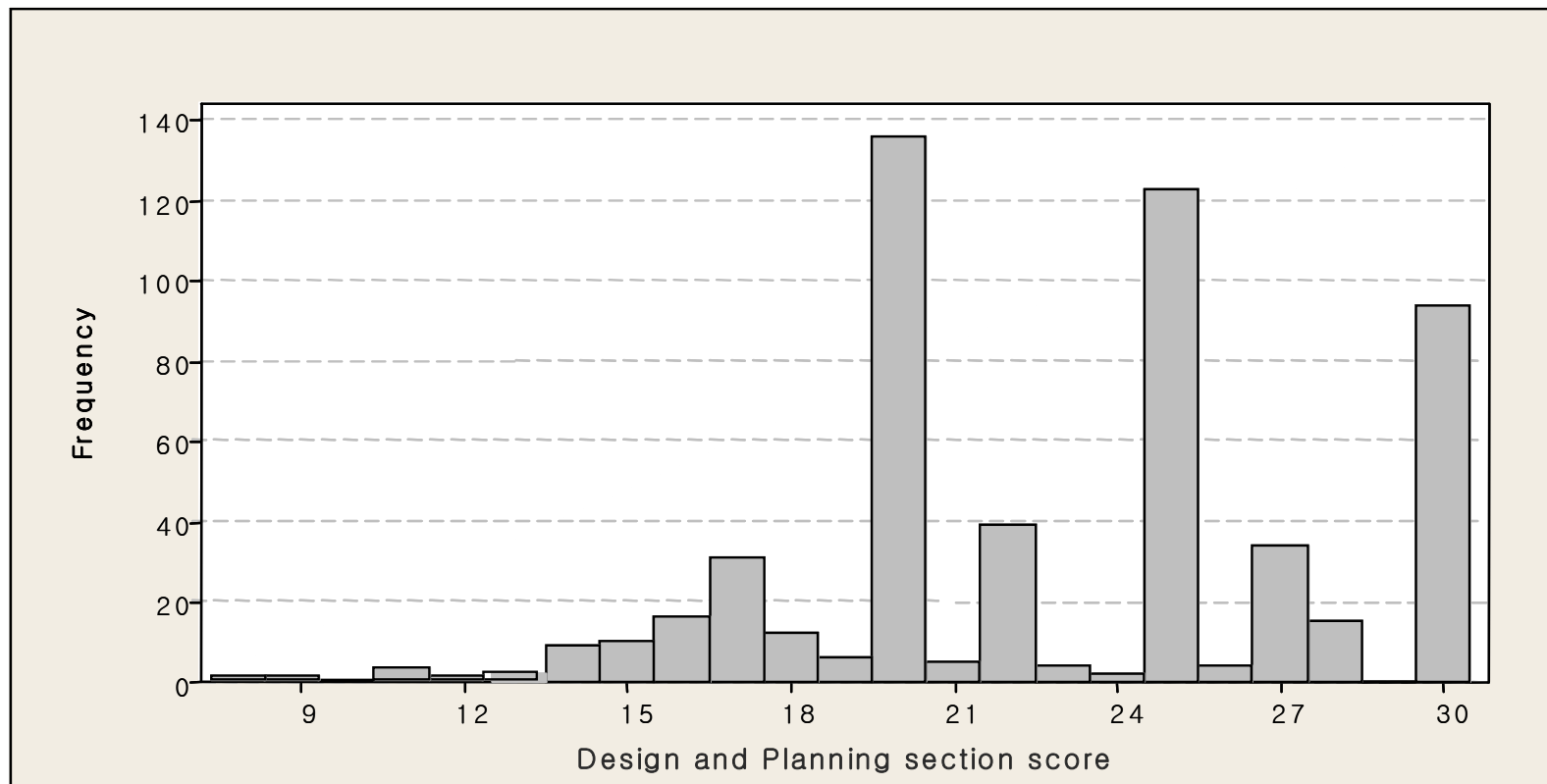
Total Score Distribution



#: 555 Mean: 60.460 SD: 12.867



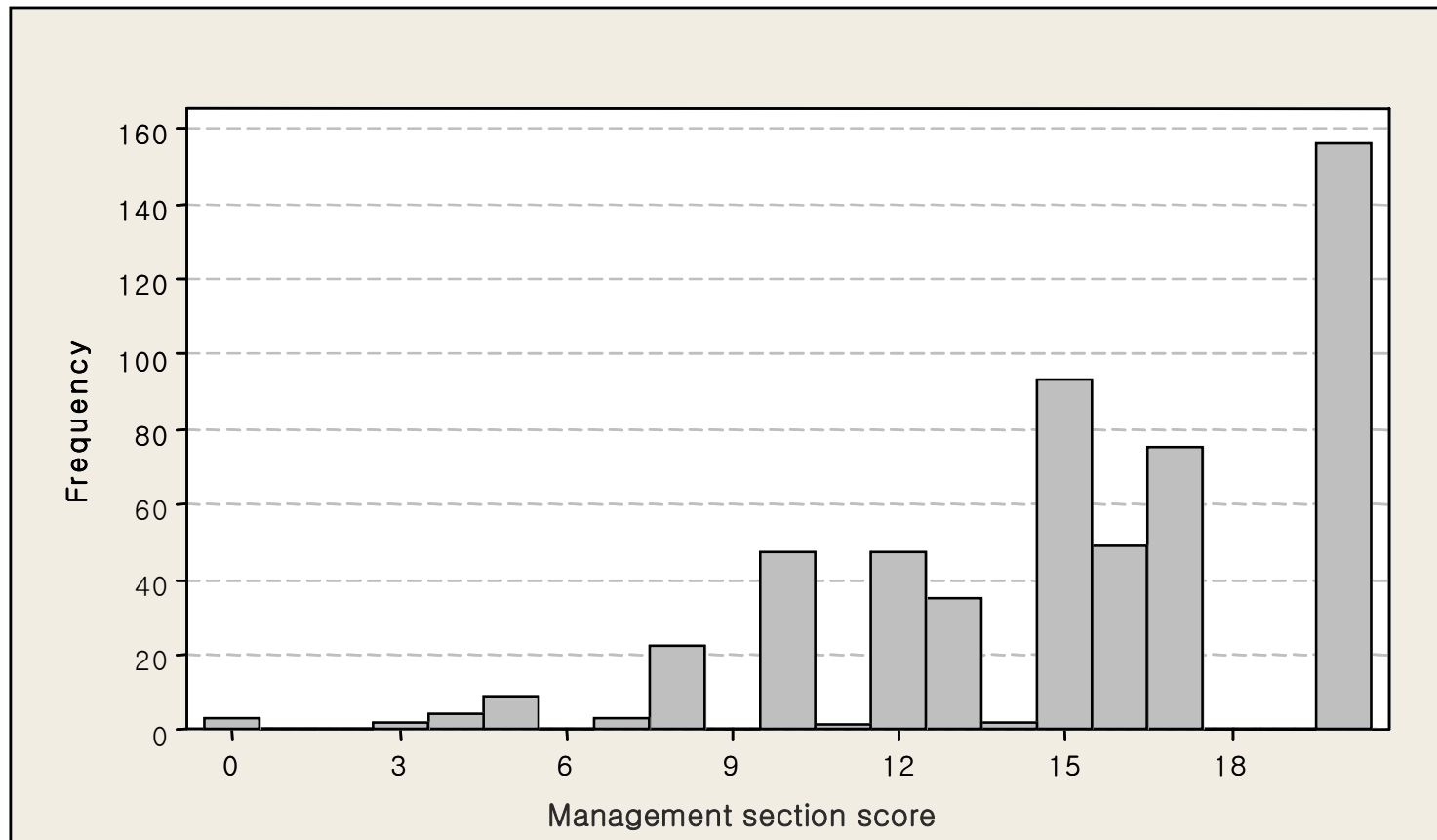
Distribution of Score (Design and Planning)



#: 555 Mean: 23.040 SD: 4.711



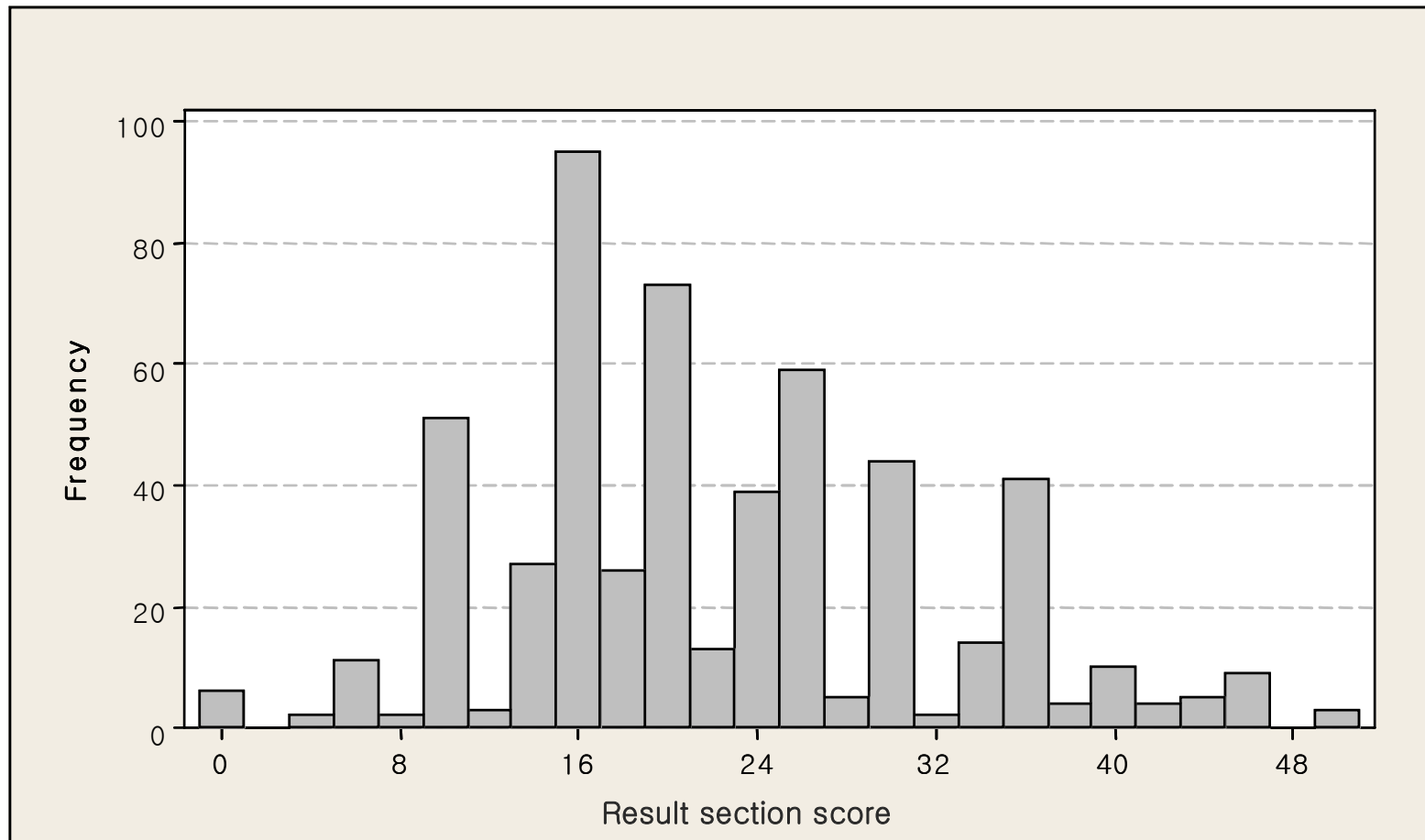
Distribution of Score (Management)



#: 555 Mean: 15.245 SD: 4.160



Distribution of Score (Results)



#: 555 Mean: 22.175 SD: 9.653



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



Evaluation Results by Section and Rating

Total Score	Rating	Number Of Program	Design and Planning(30)			Management (20)	Results (50)
			Total	Design (15)	Performance Planning (15)		
	Total	555	23.04	13.77	9.27	15.25	22.18
>85	Effective	28	29.19	14.19	15.00	17.31	42.10
70~84	Mod. Effective	100	26.43	13.95	12.48	16.55	32.71
50~69	Adequate	340	22.37	13.93	8.45	15.48	19.88
50<	Ineffective	87	19.27	12.78	6.49	11.95	11.13



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%	153	27.6 %	402	72.4%
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

2005 Evaluation Results by Program Type

		Total	Planning	Management	Results
Direct Program (160)	Mean	62.37	24.51	15.62	22.24
	SD	12.77	4.03	4.01	10.10
Subsidy to State Gov (117)	Mean	58.83	22.21	15.06	21.57
	SD	11.99	4.33	4.48	8.35
Subsidy to Private (122)	Mean	59.87	22.21	16.15	21.50
	SD	12.57	4.78	3.48	9.76
Loan (68)	Mean	58.82	21.33	15.09	22.40
	SD	15.24	4.74	4.17	11.22
Investment (49)	Mean	60.37	21.73	15.41	23.23
	SD	12.53	5.07	3.93	8.74
Capital Acquisition (8)	Mean	59.92	23.84	13.38	22.71
	SD	15.06	5.98	3.54	7.92
SOC (52)	Mean	63.24	26.30	12.26	24.68
	SD	12.16	4.30	4.44	9.48



Evaluation Result Comparison between MPB and Ministries/Agencies

	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 not open to public yet



Link between Evaluation and Budgeting

	2005	` 2006		Difference in amount			Difference in Ratio		
	Budget (A) ^{a)}	Agency (B) ^{b)}	MPB (C) ^{c)}	B - A	C - A	C - B	Ratio 1 ^{d)}	Ratio 2 ^{e)}	Ratio 3 ^{f)}
Eff	15,384.80	20,372.00	18,707.00	4,987.20	3,322.20	-1,665.00	0.43	0.39	-0.01
Mod. Eff	78,497.29	88,892.40	92,543.41	10,395.11	14,046.12	3,651.01	0.39	0.41	0.02
Adq	214,628.12	203,904.30	205,650.6 5	-10,723.82	-8,977.47	1,746.35	0.12	0.09	-0.01
Ineff	46,527.00	30,311.00	33,740.62	-16,216.00	-12,786.38	3,429.62	-0.07	-0.17	-0.08



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

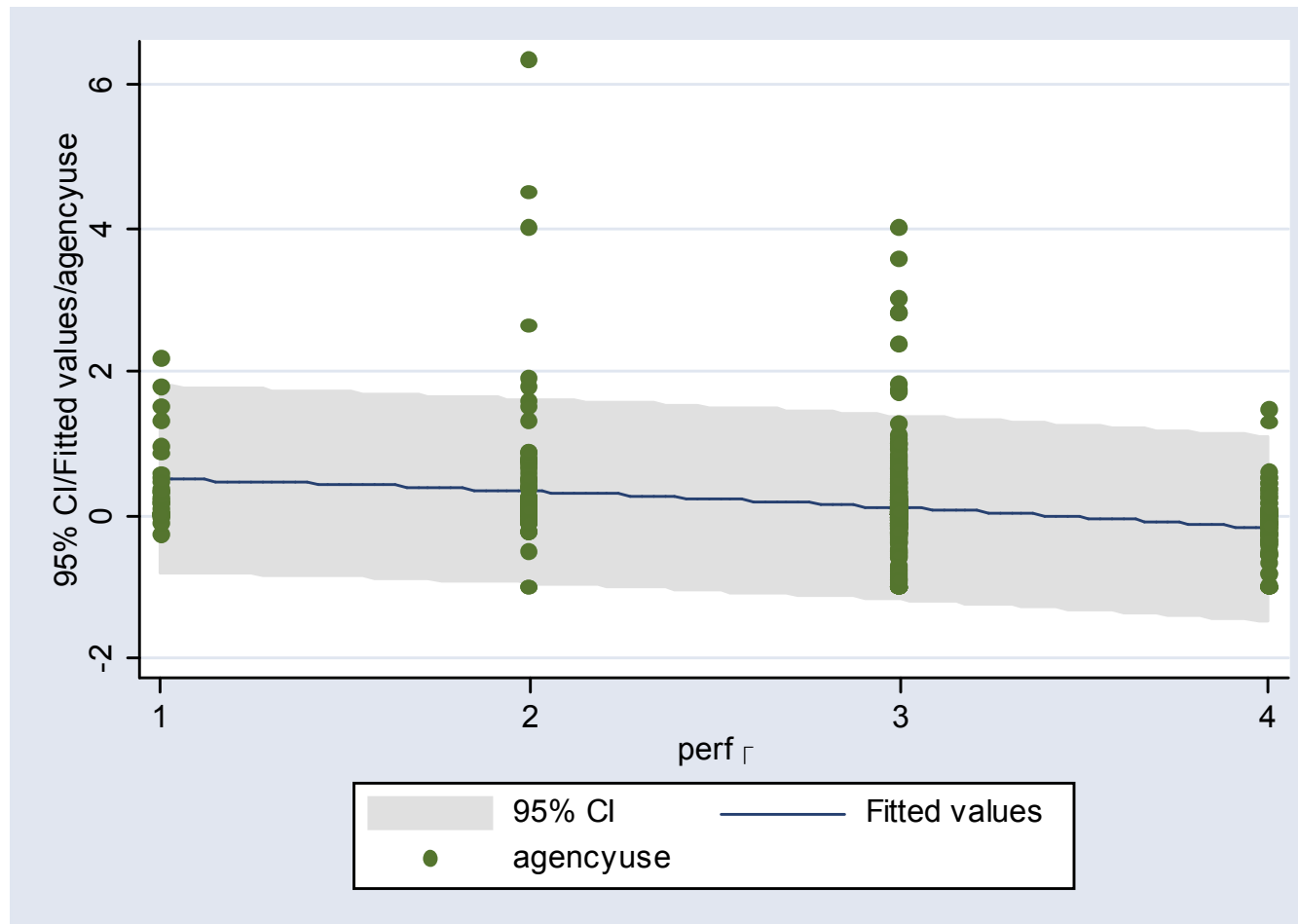


Link between Evaluation and Budgeting (2006)

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

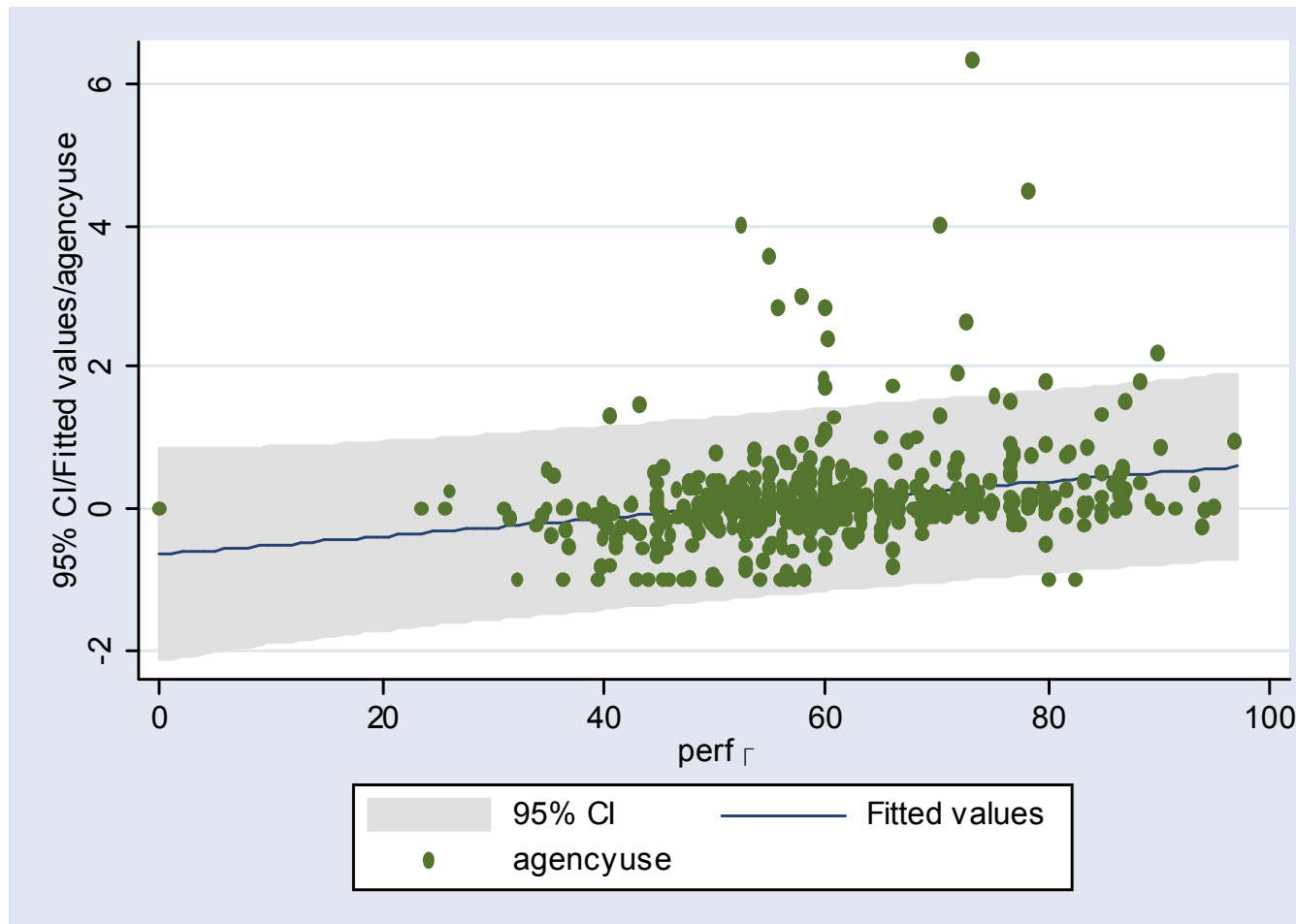


Use of Performance Information by Agencies



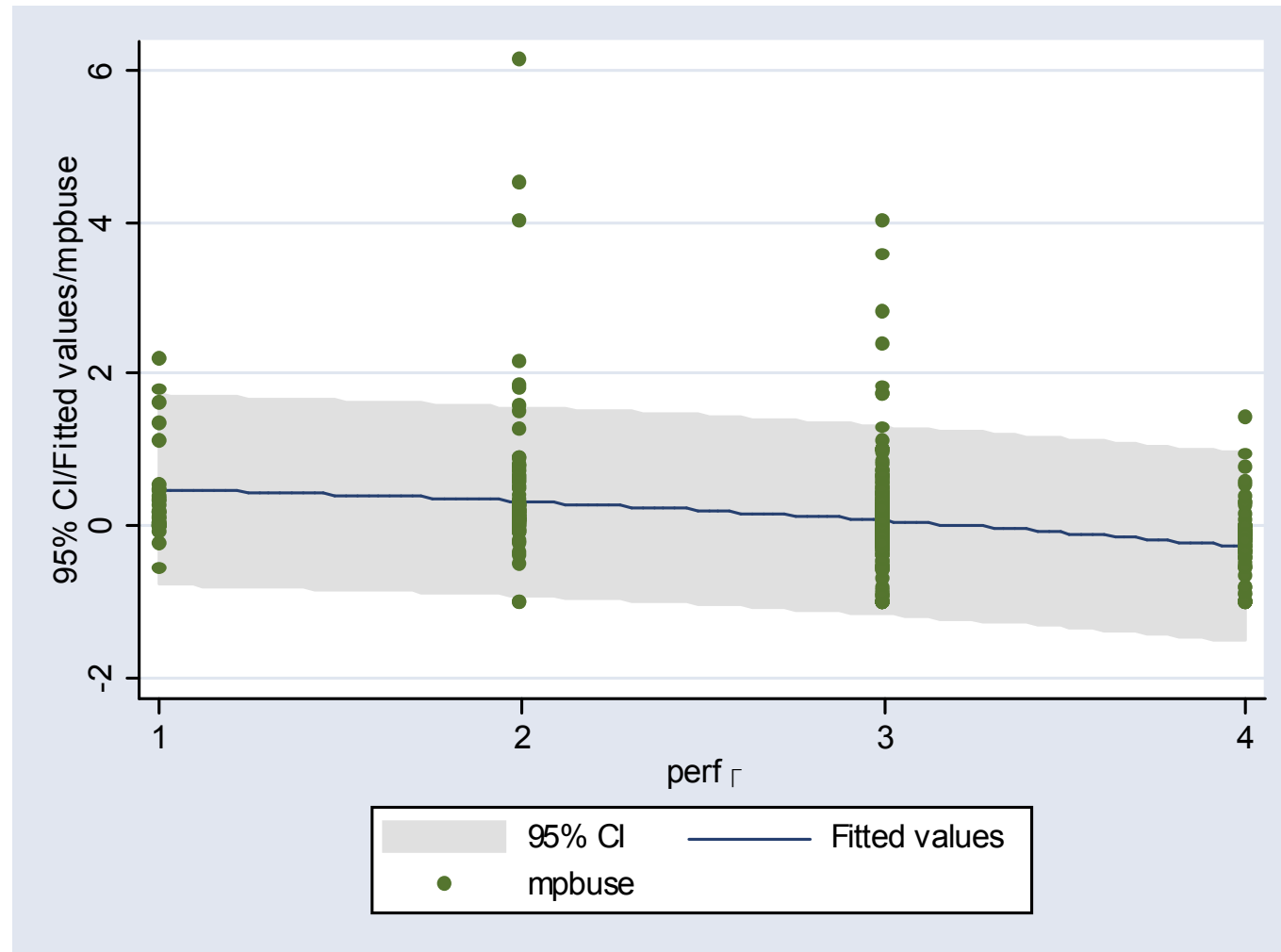


Use of Performance Information by Agencies



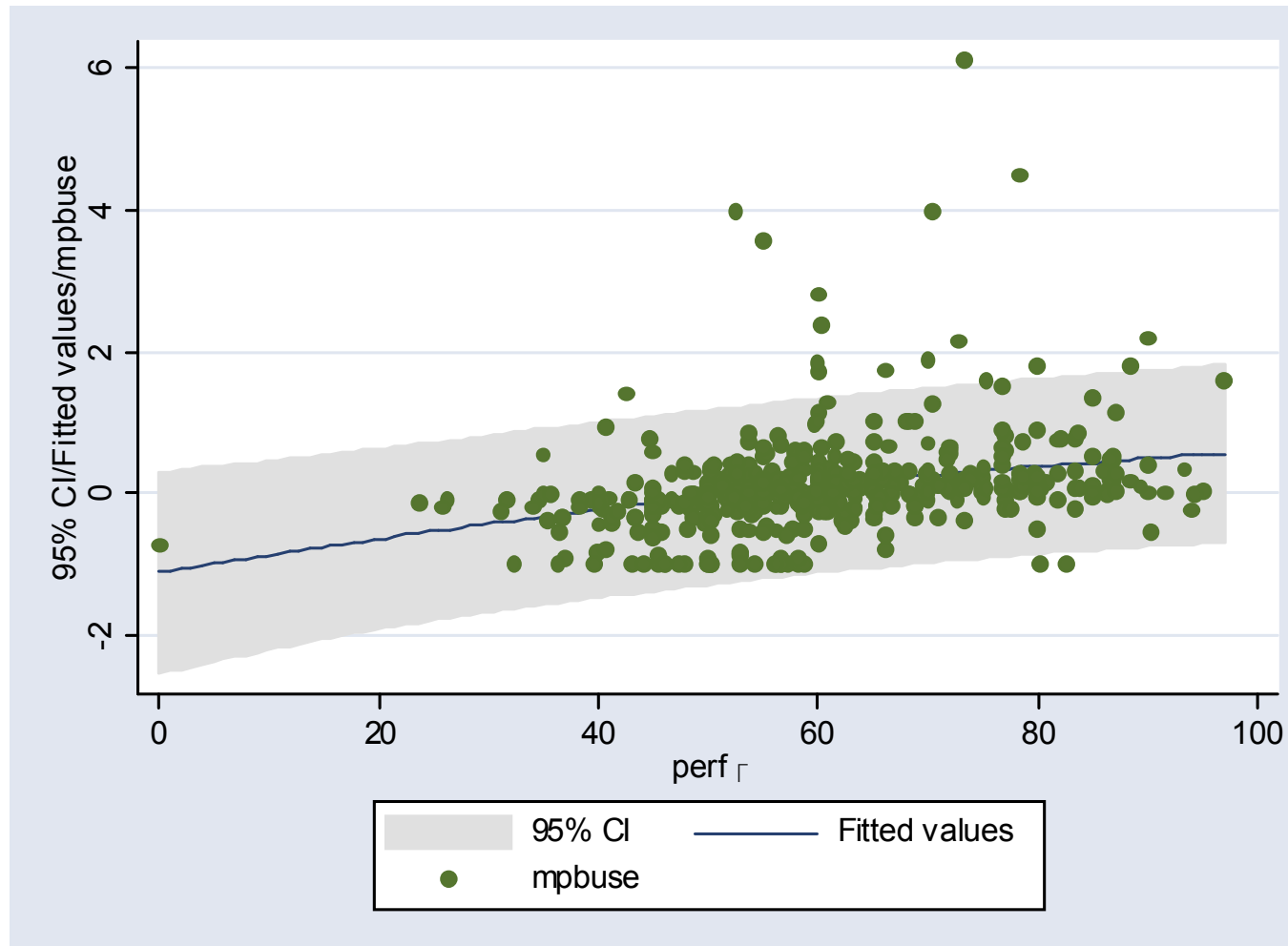


Use of Performance Information by MPB



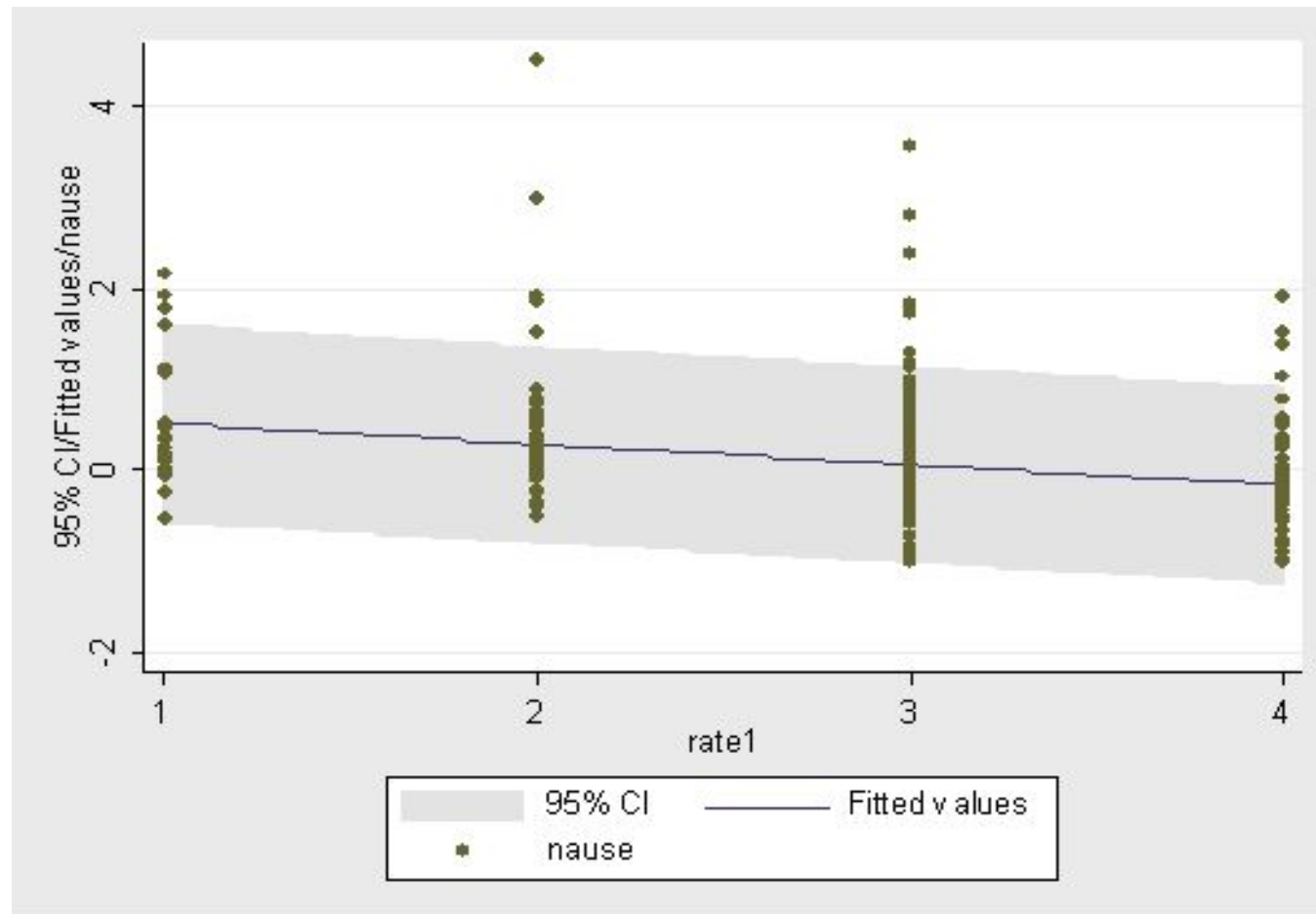


Use of Performance Information by MPB



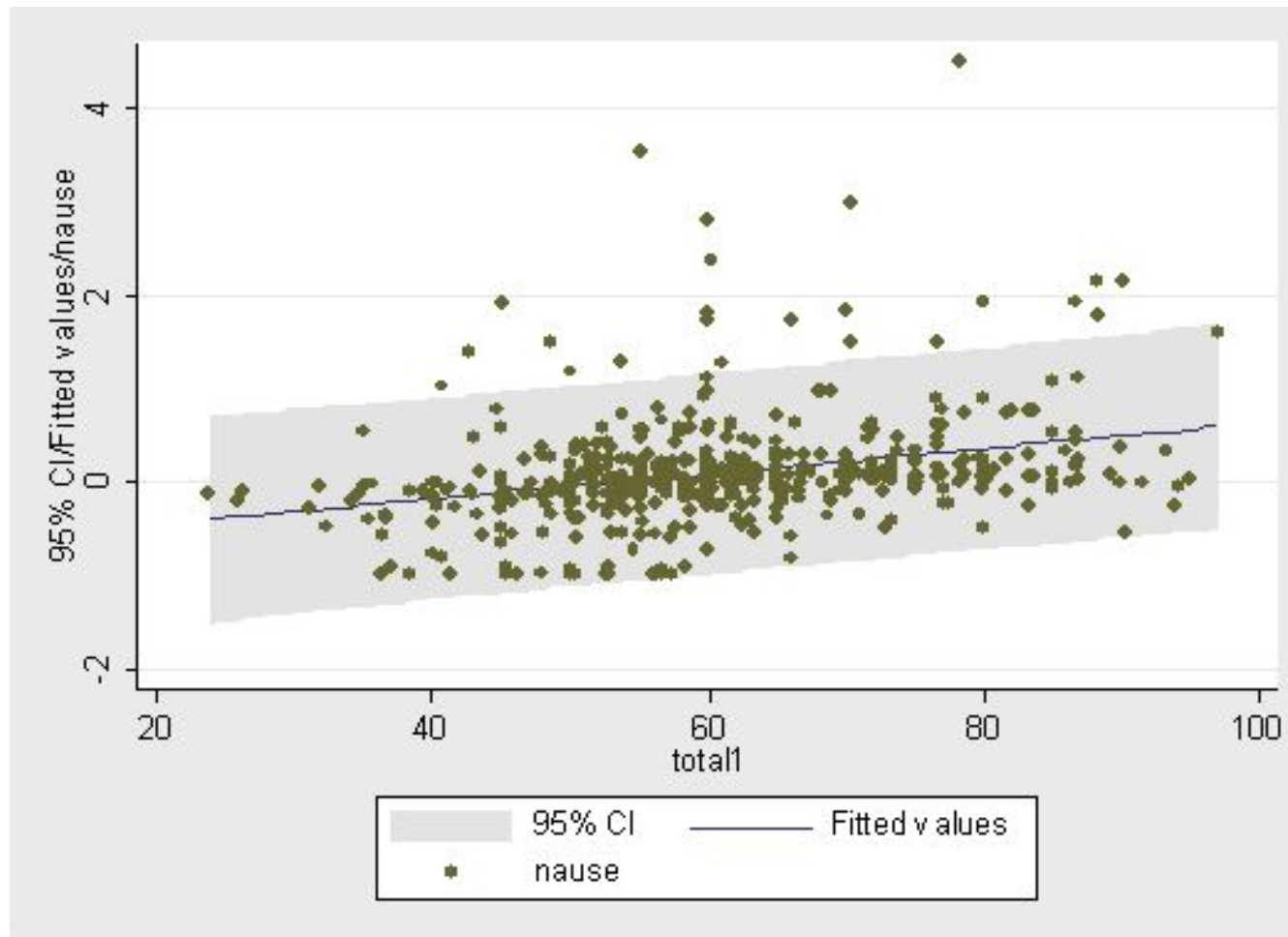


Use of Performance Information by the Legislature





Use of Performance Information by the Legislature





Observations on 2005 SABP

- 📌 Capacity of MPB
 - Increased workload
 - Unable to produce recommendation on evaluated programs
- 📌 Capacity of line ministries
 - Lack of useful performance information
 - 70% of program fails to provide useful info
 - Lack of relevant performance indicator and target
 - Lack of independent program evaluation



Observations on 2005 SABP

- 📌 Need improvement on the checklist
 - Some questions need clarification
 - Web-based application may be in need
- 📌 Utilization of evaluation results
 - Unconditional direct link between evaluation score and budget is not desirable in the long run.
 - In 2005, programs received ineffective rating suffered 10% budget cut.
 - Produce useful recommendation and develop effective follow-up procedure



Future Directions

- 📌 Develop effective performance information system
- 📌 Introduce program budgeting
- 📌 Develop cost accounting
- 📌 Introduce strategic planning
- 📌 Introduce auditing mechanism of performance data
- 📌 Foster proper understanding on performance budgeting and develop capacity of involved parties



Lessons 1

📌 Sequencing

- Infrastructure(program budgeting, cost accounting) may need to be introduced before PB if possible.

📌 Leadership

📌 Reorganization of government can be useful

- Separation of service delivery and policy formulation

📌 Balance between centralization and decentralization

- Need for central authority to enforce and monitor performance management system
- Need for autonomy of ministries/agencies



Lessons 2



Patience

- Monitoring and continuous improvement of performance management system may not be attractive to top-decision makers, but it needs to be done.



Thank you !!