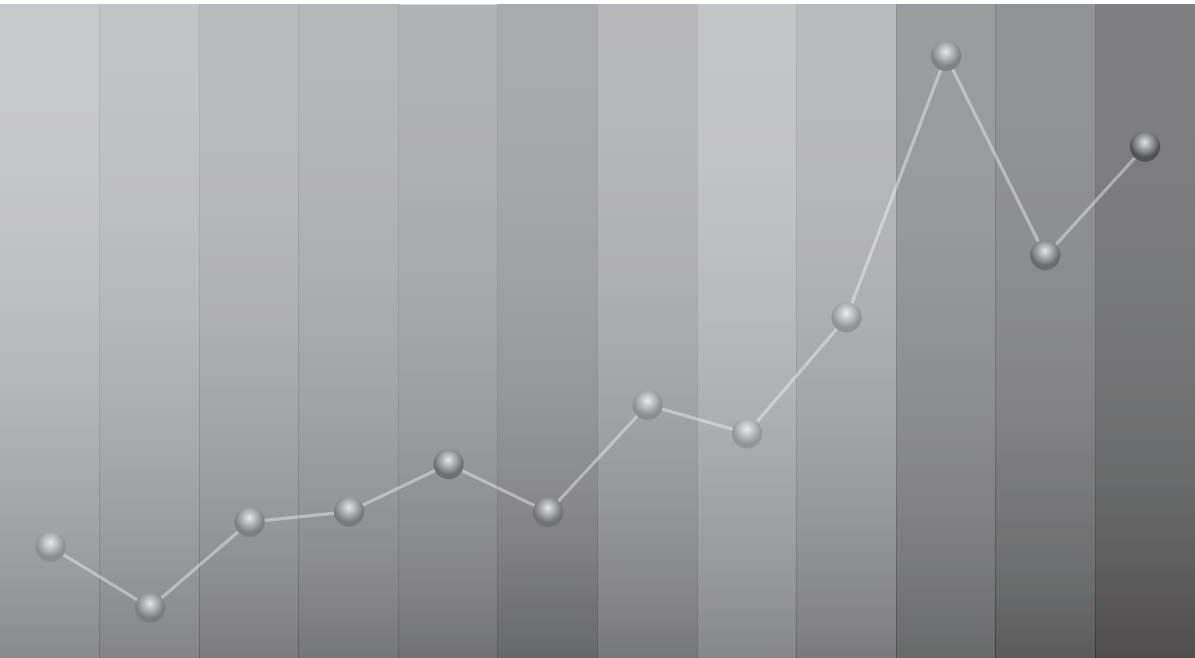


Policy Proposal to Improve the Efficiency of Government Expenditures Through Non-profit Organizations (NPOs) in the Culture and Arts Sector

December 2012

Wonik Son, Taekyu Park



Korea Institute of Public Finance

28, Songpa-daero 28-gil, Songpa-gu, Seoul 138-774, Korea

Tel: 82-2-2186-2114 Fax: 82-2-2186-2179

URL: www.kipf.re.kr

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I

Introduction

This study is a follow-up study to the 2011 Korea Institute of Public Finance (KIPF) Basic Assignment titled, “A Study on the Efficiency of Welfare Program (1)” and its aim is to devise a plan to improve the effectiveness of government spending projects in the culture and arts sector that are conducted through non-profit organizations(NPOs).

Recently, the government’s budget for the social services sector has been on the rise, and a significant portion of it has been focused on culture, arts, sports and tourism. While the budget of the Ministry of Culture, Sports and Tourism is increasing at relatively high increments, its percentage of the federal budget is still lower than in other major countries.

The purpose of this study is to devise a policy plan, in this time of increasing government expenditures in the culture and arts sector, to improve the effectiveness of government fiscal spending projects in the culture and arts sector that are conducted through NPOs. The first step in carrying out this study was to try to gain an understanding of the actual condition of the channels and methods used to deliver the social services provided through fiscal spending in the culture and arts sector. By analyzing the actual conditions, the flow of fiscal spending in the culture and arts sector was understood, the characteristics of each fiscal spending channel were analyzed, and the scale of each channel was estimated.

The government provides services through NPOs in various sectors,

and this includes specifically, social services related to welfare, health, education, culture, and the arts. In consideration of the reality of the numerous functions of NPOs, their role as providers of social services is growing, and in order to raise the effectiveness of fiscal spending, it is highly important to secure the effectiveness of projects that are actually being supported by the government.

This study will present an alternative policy plan regarding the method of providing services in the culture and arts sector that are offered through NPOs in order to improve the effectiveness of government fiscal spending, and, as a result, the ideal state that all NPOs should aspire to as an important partner to government policies.¹⁾

1) Won Jong-hak, Son Wonik, Park Taekyu, Lee Gwang-seok "A study on the Efficiency of Welfare Program (I)," Korea Institute of Public Finance, 2011. Reorganized.



II

Scope of the Culture and Arts Sector and NPOs

Definition and Scope of the Culture and Arts Sector

A. Definition

Culture and arts services are considered to be social services, except when the definition of social services is restricted to social welfare services. Article 32 of the Civil Act defines NPOs as “associations or foundations relating to science, religion, charity, arts, social intercourse, or otherwise relating to enterprises not engaged for profit or gain,” and thereby defines the scope of social services provided by NPOs. Of course, culture and arts services can be supplied by organizations that are for profit, but they can also be classified as social services that are provided through NPOs as will be discussed in this study.

The Culture and Arts Promotion Act defines 12 cultural and aesthetic areas and cultural industries. Article 1 (2) of the Culture and Arts Promotion Act stipulates that the culture and arts sector consists of 12 areas: literature, fine arts (including applied fine arts), music, dance, theater, film, entertainment, traditional Korean music, photography, architecture, language, and publishing. Based on this stipulation, the scope of culture and arts services can be restricted to services that are provided in these 12 areas.

The Framework Act on the Promotion of Cultural Industries is similar to the Culture and Arts Promotion Act in that both stipulate the scope of the culture and arts sector as an industry, but the two designations are not identical. Of the two, the Culture and Arts Promotion Act is more comprehensive in terms of its scope and definitions related to the culture and arts sector, and therefore, can be seen as the appropriate framework regarding scope and definitions of culture and arts services for the purposes of this study.

Recently, a systematic classification system for the culture and arts sector was presented based on the cultural domain classification presented at the 2009 UNESCO Framework for Cultural Statistics (FCS), the classification standards of major countries, domestic laws, etc.²⁾ According to this system, culture and arts services consists of four areas of performance (music, theater, dance, other performance arts); seven areas of visual arts and crafts (fine arts, photography, cartoons, crafts, design, architecture, other visual arts); one area of literature; and two areas of pop arts (film, broadcasting / entertainment). Therefore, excluding the areas of pop arts, this classification system is near identical to the scope of the culture and arts sector as stipulated in the Culture and Arts Promotion Act.

The Ministry of Culture, Sports and Tourism distinguishes between the culture and arts sector and cultural industry; then further divides the culture and arts sector into culture policies and arts policies. The scope of cultural policies is stipulated to include the culture of the Korean language and culture, local cultures, foreign cultures, libraries / museums, culture and arts education / multiculturalism, etc., while the scope of arts policies is stipulated to include literature, performance arts, visual arts (fine arts, crafts), traditional arts, design / spatial cultures (design, architecture), etc.

B. Government Funding and Socioeconomic Value of Culture and Arts

The government financially supports the supply of culture and arts services because culture and arts services are valuable when made available

2) Ministry of Culture, Sports and Tourism, "Analysis of the Representative Culture and arts Indices in 2011," 2011.

to the public. Funding for culture and arts services is desirable because culture and arts services provide various benefits (Yang Hyeon-mi et al., 2007). However, with regards to culture and arts services, there is especially a common awareness of the importance of their social value. After members of a society reach a certain level of economic wealth, it appears that their happiness becomes less dependent on economic conditions and instead more on social and cultural values. Therefore, it has been suggested that the meaning of government funding for culture and arts services should be placed most on their value to society (Yang Hyeon-mi et al., 2007).

2 Role of NPOs and Supply of Culture and Arts Services

A. Definition and Conditions of NPOs

1) Definition of NPOs

The argument in favor of supplying culture and arts services on consignment presents as its premise that supplying on consignment can raise the effectiveness of the public sector and simultaneously cut expenses. On the other hand, the argument against supplying culture and arts services on consignment presents as its premise that supplying on consignment can sacrifice the value of the public good of supplying social services (Brown et al. 2006). Proponents of supplying social services on consignment base their argument on the hypothesis that the private sector is more efficient and effective than the government.

The NPO classification system used in international comparison studies is the International Classification of Non-profit Organizations (ICNPO), which is an industrial classification system used in general citizen income accounts. This system classifies NPOs into 12 organizations based on the areas for which they provide services.³⁾ However, considering

3) The 12 ICNPO Organizations are: (1) culture and recreation, (2) education and research, (3) health, (4) social services, (5) environment, (6) development and housing, (7) law, advocacy,

the reality of our society, NPOs can be classified based on their area of operation into eight areas: (1) the culture and arts sector; (2) education-research; (3) medical-health; (4) social services sector; (5) civic organizations (including political organizations); (6) religion; (7) industrial and expert organizations (including workers' organizations); and (8) private clubs. Of these, excluding the area of "private clubs," Korean NPOs can be seen to consist of seven areas.⁴⁾

2) Operational Criteria of NPOs

The Johns Hopkins Comparative Non-profit Sector Project (CNP) stipulates five structural-operational criteria that define NPOs: (1) organizational, (2) private, (3) self-governing, (4) nonprofit-distributing, and (5) voluntary. An organization should meet these five criteria to be considered part of the non-profit sector.

B. NPOs and Supply of Social Services⁵⁾

Currently, in many market economies including Korea, NPOs of various forms are performing the important role as suppliers of various types of social services in areas including culture and arts services. According to traditional economics theories, this begins with "market failure." An example is the heterogeneity theory, which holds that a market failure causes a "government failure" in which the government fails to supply public goods (or public services) that are needed by members of the society (Weisbrod, 1977). This is because the government cannot efficiently deal with the citizens' various demands for public goods. For this reason, the government ceases to supply public services on its own, and instead supplies them efficiently through NPOs; thus NPOs become responsible as suppliers of social services in order to satisfy the social demands for such social services.

and politics, (8) philanthropic intermediaries and voluntarism promotion, (9) international, (10) religion, (11) business and professional associations, and (12) unions not elsewhere classified.

4) Won Jong-hak, Son Wonik, Park Taekyu, Lee Gwang-seok, "A study on the Efficiency of Welfare Program (I)," Korea Institute of Public, 2011.

5) Based on Son Wonik, et al. (2011).

C. NPOs and Supply of Culture and Arts Services

One of the most representative causes for why NPOs are responsible for supplying culture and arts services is market failure. Because the cost of providing culture and arts services is higher than the amount consumers are willing to pay, such services cannot be supplied through the market. Therefore, for the government to supply culture and arts services, it either has to provide subsidies or directly supply the services through government funding.

In addition, because culture and arts services are mixed goods that have the characteristics of both private goods and public goods, the government can maximize the social convenience of culture and arts services by providing financial support to cultural and arts organizations.

The government's direct supply of culture and arts services has its limits in that society's demands for various such services cannot be met. Not only are NPOs, which work for the public interest, considered more trustworthy than for-profit businesses by private citizens whose donations assist the supply of culture and arts services, but even so in instances when the government carries out tax support policies for donations or direct financial policies in order to support culture and arts services.

Current State of Non-profit Corporations in the Culture and Arts Sector

A. *Statistical Yearbook of National Tax*

Each *Statistical Yearbook of National Tax* is a collection by the National Tax Service of the sum of basic materials regarding the taxes collected at each taxation office, and contains the current status of NPOs. The *2011 Statistical Yearbook of National Tax* shows that the total number of public-service corporations⁶⁾ in 2010 was 29,132, the majority of which operated for religious purposes with 17,863 corporations; and those

6) Public-benefit corporations

operating in the culture and arts sector, the area of interest of this paper, amounted to 773 corporations.

B. Ministry of Culture, Sports and Tourism's *Current State of NPOs*

The Ministry of Culture, Sports and Tourism's report *Current State of NPOs* contains information on the current state of corporations that are under the jurisdiction of the Ministry of Culture and Tourism and of the Cultural Heritage Administration. In 2012, there were 1,133 non-profit corporations under the jurisdiction of the Ministry of Culture, Sports and Tourism, and 161 under the Cultural Heritage Administration, which add up to a total of 1,294 non-profit corporations.

NPOs consist of special corporations, foundation corporations and incorporated associations; and in 2012, there were 39, 285, and 970 of each, respectively, making corporate NPOs the majority. *The Ministry of Culture, Sports and Tourism: Current State of NPOs* supplied by the Ministry of Culture, Sports and Tourism contains information of both NPOs, the topic of this paper, and organizations that have quasi-governmental characteristics.

C. *Research on the Actual Conditions of Arts Organizations*

The *Research on the Actual Conditions of Arts Organizations* is usually conducted every three years, but has not been conducted since the 2006 edition. This research investigates and analyzes the current state of arts organization operations, the current financial state of arts organizations, the current state of subsidies for arts organizations, etc.

The *2006 Research on the Actual Conditions of Arts Organizations* drew a sample of 922 arts organizations from a pool of 4,747, for the final analysis. The results showed that the majority of organizations were in the area of traditional Korean music with 169 organizations at a rate of 18.3 percent, followed by fine arts (145 organizations, 15.7%), classical music (142 organizations, 15.4%), theater (113 organizations, 12.3%), literature (112 organizations, 12.1%), photography (75 organizations, 8.1%), dance (69 organizations, 7.5%), composite (45 organizations, 4.9%),

entertainment (26 organizations, 2.8%), film (20 organizations, 2.2%), and architecture (6 organizations, 0.7%).

C. Research on the Actual Conditions of Performing Arts and Arts Organizations

Research on the Actual Conditions of Performing Arts and Arts Organizations collects statistical materials about performing arts administrative offices, performance facilities and performing arts organizations, as well as on the current state of each of their public subsidies in the arts, and of the operation of performance facilities and performing arts organizations. The criteria for selecting the targets of investigation are based on the classification of performance facilities into the five specialized organizations of national facilities: literature and arts centers, performance halls in the Daehangno district, other (public) and other (private); and on the classification of performing arts organizations into the five arts forms of theatre, dance, Western music, traditional Korean music, and mixed genres, thus enabling the estimation of the market scale using a sample design that reflects the characteristics of the performing arts market.⁷⁾

E. Professional Arts Corporation and Arts Organization Designation System

The Professional Arts Corporation and Arts Organization Designation System refers to a system designed to support and cultivate culture and arts organizations that are recognized for their expertise by designating them as either specialized arts corporations or specialized arts organizations. Most performing arts organizations are in the form of a non-juridical voluntary association or NPO, and thus this system aims at creating a systemic support device that makes the national and regional governments recognize the expertise of an organization regardless of its

7) Ministry of Culture, Sports and Tourism, Arts and Korea Arts Management Service, 2011 *Research on the Actual Conditions of Performance and Arst Organizations*, 2011.

juridical nature or other characteristics.⁸⁾

As of August 17, 2012, 216 specialized arts corporations and 324 specialized arts organizations were designated, and the specialized arts corporations were made of 132 foundation, 50 incorporated associations, and 34 for-profit corporations (6.3%).

8) Korea Arts Management Service, www.artsdb.or.kr



III

Fiscal Analysis of the Culture and Arts Sector

Financial State of the Culture Sector

A. Financial State by Field and Accounting Type

The national fiscal operation plan covers 16 sectors of which one is culture and tourism. The culture and tourism sector consists of the five areas of culture and the arts, tourism, sports, cultural heritage, and cultural and tourism in general; and uses the budgets and funds under the jurisdiction of the Ministry of Culture and Tourism and the Cultural Heritage Foundation, as well as part of the Korea Communications Commission's budget.

The area of culture and the arts consists of one general account, two special accounts (Special Account for Regional and Local Development, Special Account for the Development of a Hub City of Asian Culture), the Culture and Arts Promotion Fund, the Film Development Fund, the Local Newspaper Development Fund, the Media Promotion Fund, the Broadcasting and Communications Development Fund, and as of 2011 amounted to a total of 1.6 trillion won (general account 1 trillion, special accounts 230.4 billion, funds 450.4 billion).

<Table III-1> shows the current financial state of the culture and tourism sector by area and account, and that the area of culture and the

arts has a greater percentage of general account expenditures than the areas of tourism or sports. The tourism area shows a slight expenditure through the general account, while the majority of the expenditure is conducted through the Special Account for Regional and the Local Development and Tourism Promotion and Development Fund. The sports category conducts most of its expenditures through the National Sports Promotion Fund.

This study focuses on the areas in which the government provides services through NPOs, and, excluding the four areas of tourism, sports, cultural heritage, and culture and tourism in general, analyzes the culture and arts sector.

<Table III-1> Current Financial State of the Culture and Tourism Sector by Area and Account

(Unit: million won, %)

Area	Accounts, Funds	2009 Settlement	2010 Budget (A)	2011 Budget (B)	Rate of increase (B-A)/A
Culture and the Arts	General Account	774,015	926,677	1,000,114	7.9
	Special Account for Regional and Local Development	127,030	172,100	158,639	-7.8
	Special Account for the Development of a Hub City of Asian Culture	32,583	49,686	71,876	44.7
	Culture and Arts Promotion Fund	73,806	89,111	100,520	12.8
	Film Development Fund	44,324	44,344	85,305	92.4
	Local Newspaper Development Fund	14,804	10,677	12,440	16.5
	Media Promotion Fund	6,613	28,322	26,270	-7.2
	Broadcasting and Communications Development Fund	-	203,100	226,000	11.3
Subtotal		1,073,176	1,524,017	1,681,164	10.3
Tourism	General Account	9,054	11,137	11,831	6.2
	Special Account for Regional and Local Development	305,222	312,099	372,004	19.2
	Tourism Promotion and Development Fund	560,287	566,439	541,881	-4.3

<Table III-1> Continue

(Unit: million won, %)

Area	Accounts, Funds	2009 Settlement	2010 Budget (A)	2011 Budget (B)	Rate of increase (B-A)/A
Subtotal		874,563	889,675	925,716	4.1
Sports	General Account	109,142	59,680	59,993	0.5
	Special Account for Regional and Local Development	104,794	92,973	95,693	2.9
	National Sports Promotion Fund	419,611	577,641	684,636	18.5
Subtotal		633,547	730,294	840,322	15.1
Cultural Heritage	General Account	457,236	398,852	408,780	2.5
	Special Account for Regional and Local Development	33,944	31,776	21,060	-33.7
	Cultural Heritage Protection Fund	-	90,577	93,004	2.7
Subtotal		491,180	521,205	522,844	0.3
Culture and Tourism in General	General Account	162,926	192,338	190,254	-1.1
	Culture and Arts Promotion Fund	10,902	10,859	11,178	2.9
	Film Development Fund	9,027	9,416	9,283	-1.4
	Local Newspaper Development Fund	578	586	607	3.6
	Media Promotion Fund	949	925	939	1.5
	Tourism Promotion and Development Fund	476	546	572	4.8
	National Sports Promotion Fund	17,586	19,178	21,751	13.4
Subtotal		202,442	233,848	234,584	0.3
Culture and Tourism Total		3,274,908	3,899,039	4,204,630	7.8

Note: With the enactment of the Framework Act on Broadcasting and Communications Development on March 22, 2010, the Broadcasting Development Fund was changed in 2011 into the Broadcasting and Communications Development Fund.

Source: Ministry of Culture, Sports and Tourism, Cultural Heritage Administration, Korea Communications Commission.

B. Current State of Transfer Expenditures (Private Sector and Local Governments)

Of government spending in the culture sector, the scale of transfer expenditures to the private sector and local governments exceeds 50 percent of the (total) expenditure in the culture and tourism sector. As of 2011, private transfers mounted to 1.2299 trillion won, while transfers to local governments were 1.4654 trillion won. Local government transfers are retransferred to the private sector, so their scale can be thought to grow larger than that of the private transfers.

<Table III-2> Current State of Transfer Expenditures in the Culture Sector

(Unit: billion won, %)

	2009	2010	2011
Private Transfers	1,077.8	1,196.3	1,229.9
General Account	509.4	493.6	522.4
Special Account for the Development of a Hub City of Asian Culture	7.9	9.6	1.8
Tourism Promotion and Development Fund	199.6	233.7	201.9
Broadcasting and Communications Development Fund	129.8	141.2	175.7
National Sports Promotion Fund	156.1	213.7	309.8
Culture and Arts Promotion Fund	48.1	64.3	51.0
Local Newspaper Development Fund	11.4	8.6	6.5
Media Promotion Fund	3.7	7.1	4.0
Film Development Fund	11.7	11.6	12.9
Cultural Heritage Protection Fund	-	13.4	13.6
Local Government Transfers	1,210.7	1,373.4	1,465.4
General account	333.7	319.1	316.6
Special Account for Balanced National Development	552.7	605.5	647.0
Special Account for the Development of a Hub City of Asian Culture	11.7	13.8	16.4
Tourism Promotion and Development Fund	83.5	77.3	82.2
National Sports Promotion Fund	210.8	316.3	337.5

<Table III-2> Continue

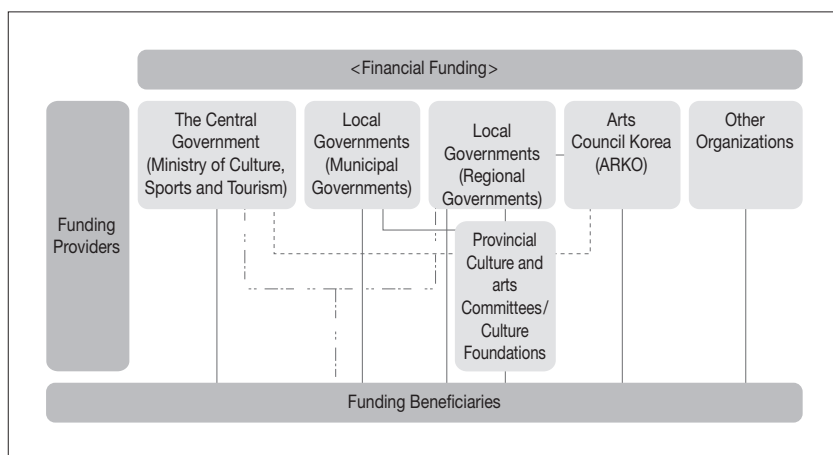
(Unit: billion won, %)

	2009	2010	2011
Culture and Arts Promotion Fund	18.3	19.3	43.7
Cultural Heritage Protection Fund	-	22.1	22.0
Total Transfer Expenditures (A)	2,288.5	2,569.7	2,765.3
Culture and Tourism Sector Total (B)	4,808.0	5,031.0	5,112.8
Rate (A/B)	47.6	51.1	54.1
Total Expenditures in the Culture and Tourism Sector (C)	3,274.9	3,899.0	4,204.6
Rate (A/C)	69.9	65.9	65.8

Source: Digital Budget and Accounting System (D-Brain)

Institutions that provide financial support in the culture and arts sector are the central government (Ministry of Culture, Sports and Tourism), local governments (regional governments, municipal governments), Arts Council Korea (ARKO), provincial culture and arts committees/ culture foundations, and other organizations.

[Figure III-1] Flow of Culture and Arts Finances (Summary)



2 Financial Resources and Scope of Government Spending in the Culture and Arts Sector

The culture and arts sector is one of the 16 areas under the national fiscal operation plan, and includes the budgets and funds under the jurisdiction of the Ministry of Culture, Sports and Tourism and the Cultural Heritage Administration, as well as part of the budgets and funds under the jurisdiction of the Korea Communications Commission. The finances of the culture and arts sector consists of a general account, two special accounts (Special Account for Regional and Local Development, Special Account for the Development of a Hub City of Asian Culture), and eight funds (Culture and Arts Promotion Fund, Film Development Fund, Broadcasting and Communications Development Fund, Local Newspaper Development Fund, Media Promotion Fund, Tourism Promotion and Development Fund, National Sports Promotion Fund, Cultural Heritage Protection Fund).

Of government spending in the culture and arts sector, excluding the general account, the Film Development Fund, the Local Newspaper Development Fund, the Media Promotion Fund, the Broadcasting and Communications Development Fund, and the Special Account for the Development of a Hub City of Asian Culture, are funds and accounts created with the purpose of developing special fields, and are therefore excluded from this study. And of the Special Account for Regional and Local Development, projects related to the Ministry of Culture, Sports and Tourism and the Cultural Heritage Administration are directly operated by local governments, and therefore the Special Account for Regional and Local Development will also be excluded from discussions in this study.

Government spending in the culture and arts sector consists of (1) central government expenditures and (2) local government expenditures, and also includes national culture and arts institutions, ARKO, etc. Thus, this study analyzes, based on the ICNPO system, government spending on the areas under the jurisdiction of the Ministry of Culture, Sports and Tourism (culture, arts, tourism, sports) excluding the areas of tourism and sports.

The Flow of Expenditures in the Culture and Arts Sector

A. Expenditures in the Culture and Arts Sector

1) Culture and Arts Institutions and Financial Resources

The central government's financial resources for the culture and the arts is spent through (1) national culture and arts institutions, (2) the central government (Ministry of Culture, Sports and Tourism), (3) local governments (regional governments), (4) local governments (municipal governments), (5) provincial culture and arts committees / culture foundations, and (6) ARKO.

The central government has subsidized culture and arts funds in the past, but it no longer provides supplementary financing. Each fund operates using only existing financial resources. Also, when regional culture and arts committees / culture foundations conduct special projects on commission, they sometimes receive funding directly from the government or out of the Culture and Arts Promotion Fund, but in general they operate on the financial resources of the Culture and Arts Promotion Fund and local governments, and are thus connected to the first two with dotted lines.

(2) The central government refers to the Ministry of Culture, Sports and Tourism, and the respective finances consist of a general account, special accounts, and funds. The central government sometimes provides direct funding to individuals and organizations, but also provides indirect support through regional governments or municipal governments. Also, the central government sometimes runs projects indirectly by contributing to certain institutions.

Local governments consist of (3) regional governments and (4) municipal governments, and the Culture and Arts Promotion Fund, a representative fund for the arts, is executed through (6) Arts Council Korea (ARKO). ARKO supports projects and operations to promote culture and the arts, and uses the financial resources of the Culture and Arts Promotion Fund.

The scale of direct funding from the central government and local

governments to culture and arts organizations is not large. For instance, in the city of Seoul, the culture and arts sector receives a total of 4.5866 billion won in funding of which only 296 million won is direct funding provided by the city, and even this amount is all spent on cultural projects organized by private arts galleries.

The Culture and Arts Promotion Fund is delivered to cultural foundations through ARKO as well as through local governments, but that does not mean cultural foundations are subordinate to ARKO. In 2009, numerous ARKO projects were transferred to cultural foundations, and as of 2012, the chair of the cultural foundation conference concurrently holds the position of the president of ARKO. As of 2012, the funding policy of the Seoul Foundation for Arts and Culture (SFAC) goes through a screening with ARKO in the ex post evaluation and feedback process. This prevents a single beneficiary from receiving funding more than once, and thereby prevents any particular organization from receiving funding regarding a single project from both ARKO and another cultural foundation.

(5) Regional cultural foundations or regional culture and arts committees are established by local governments, and, as of July 2012, 12 regions in the 16 metropolitan cities and provinces have cultural foundations. In the four regions that do not have a regional cultural foundation, a regional culture and arts committee performs the role of a cultural foundation.

Cultural foundations are sometimes commissioned to conduct projects for local governments, and when doing so, the finances for such projects are supplied by the city. Therefore, cultural foundations carry out projects on commission for local governments, or through funds matched by the local government or through the Culture and Arts Promotion Fund. Each year, regional cooperation projects, etc., worth as much as 18 billion won, are operated through the cultural foundation located within a local government's jurisdiction, and in cases where there is no cultural foundation, the city or provincial government's culture and sports department carries out such projects. The ratio of the matching fund is 1:2 (local government : Culture and Arts Promotion Fund) in Seoul Metropolitan City and Gyeonggi Province, while other metropolitan cities and provinces provide funding at a 1:1 ratio.

(7) The Korean Cultural and Arts Centers Association (KOCACA) conducts projects such as regional literature and arts center support projects, the Exciting Arts Trip program, the Love Ticket project, etc. KOCACA revitalizes the operation of regional literature and arts centers through the Regional Literature and Arts Center Special Program Development Support Project, and also provides local residents opportunities to view cultural and arts events.⁹⁾ KOCACA raises its operating expenses through internal sources of revenue such as rental fees or membership fees, and is subsidized by the government for projects aimed at supporting culture and arts center trainees, operating culture and arts centers, and establishing a foundation for revitalizing distribution. And for programs such as the Exciting Arts Trip, KOCACA also is subsidized through the Lottery Fund; and it is also subsidized in the form of matching funds. One representative project is the Provincial Culture and Arts Center Special Program Development Support Project which is subsidized through a fund that is matched by the local government (the fund is matched differently based on the level of financial autonomy of the relevant local government).¹⁰⁾

In addition, (8) the Korea Arts and Culture Education Service operates an arts lecturer pool system, and provides direct and indirect funding to private organizations and schools, etc. This institution supports culture and arts education of various forms such as culture and arts

9) The Korean Cultural and Arts Centers Association (KOCACA), website: <http://www.kocaca.or.kr>

10) Support for Outstanding Performances

- Outstanding performing arts programs by private arts organizations officially recognized for their aesthetic value and mass appeal are selected, and outstanding performances invited by local culture and arts centers are supported with part of the invitation expenses.
- Support rate: support is differentiated based on the degree of fiscal independence of the relevant local government (metropolitan cities excluding Seoul and provinces are supported 40%, local governments with an fiscal independence rate of 20% or over are supported 50%, local governments with an fiscal independence rate of under 20% are supported 60%).

Support for new programs

- Partial support is given for the operating expenses of new programs created and managed directly by culture and arts centers using locally based culture and arts organizations or professional arts organizations.
- The support rate is decided at the time of project evaluation based on the characteristics of the program.

education training programs; and, for the revitalization of local culture and arts education, selects 16 regional centers and traditional music operation organizations and provides them with center operating expenses and lecturers' fees.¹¹⁾ Also, (9) Korea Arts Management Service supports culture and arts organizations with educational programs for personnel management and personnel expenses.¹²⁾

2) Types of Financial Support

Financial support for culture and arts organizations is divided into Types (a) to (l). Type (a) refers to support for national culture and arts institutions, but the scale of expenditures through NPOs is very small, and will thus be excluded in the discussions in this section. Types (b) to (d) refer to direct subsidies from (2) the central government (Ministry of Culture, Sports and Tourism), (3) regional governments, and (4) municipal governments.

Type (e) refers to joint projects operated by the Culture and Arts Promotion Fund and local governments. The Culture and Arts Promotion Fund is provided through cultural foundations, but in the process the cultural foundations do not directly receive funding but instead are provided with matching funds from the local government.

Type (f) refers to support in the form of matching funds. (2) The central government (Ministry of Culture, Sports and Tourism), (3) regional governments, (4) municipal governments sometimes provide matching funds through the financial resources of the central government (Ministry of Culture, Sports and Tourism) and the provincial government (regional government) or the financial resources of the central government (Ministry of Culture, Sports and Tourism), the provincial government (regional governments), and the city government (municipal government).

Type (h) refers to direct support by ARKO, the main institution that operates the Culture and Arts Promotion Fund. Even the Korea Arts Management Service, an affiliated organization of ARKO, supports NPOs

11) Korea Arts and Culture Education Service, <http://www.arte.or.kr>

12) Korea Arts Management Service, <http://www.gokams.or.kr>

as a Type (i) institution.

Type (j) refers to projects operated by (7) KOCACA, and provides subsidies based on the financial resources of the central government and the Lottery Fund. In addition, the subsidies are provided to match funding by local governments.

Type (k) refers to funding by (8) the Korea Arts and Culture Education Service, which provides financial support through the Lottery Fund. However, support from the Lottery Fund is not only irregular but is also on a marginal scale, therefore most funding is provided by the financial resources of the central government.¹³⁾

Type (l) refers to cultural foundations that operate projects on commission for local governments or are based on funds matched by the financial resources of local governments or the Culture and Arts Promotion Fund.

Below, <Table III-3> shows culture and arts institutions and routes for the transfer of financial resources.

<Table III-3> Cultural and Arts Institutions and Routes for the Transfer of Financial Resources

Form of Funding	Type	Institute			Financial Resource(s)	Funding Recipient
Direct Funding	Type (a)	(1) National culture and arts institutions			Central government / Internal funding	NPOs
	Type (b)	(2) Central government			Central government	
	Type (c)		(3) Regional governments		Provincial and city governments	
	Type (d)		(4) Municipal governments		Municipal governments	

13) Korea Arts and Culture Education Service, <http://intro.arte.or.kr>

<Table III-3> Continue

Form of Funding	Type	Institute			Financial Resource(s)	Funding Recipient
Matching Funds	Type (e)		(3) Regional governments	(5) Cultural foundations	Provincial and city governments/ Municipal governments Culture and Arts Promotion Fund	NPOs
			(4) Municipal governments			
	Type (f)	(2) Central government	(3) Regional governments		Provincial and city governments/ Municipal governments	
			(4) Municipal governments			
	Type (g)		(3) Regional governments	(7) KOCACA	Provincial and city governments/ Lottery Fund	
Direct Funding	Type (h)			(6) ARKO	Culture and Arts Promotion Fund	
	Type (i)			(9) Korea Arts Management Service	Culture and Arts Promotion Fund	
Direct Funding	Type (j)			(7) KOCACA	Lottery Fund	
Matching Funds		(2) central government		(7) KOCACA	Central government/ Lottery Fund	
Direct Funding	Type (k)			(8) Korea Arts and Culture Education Service	Central government	
Funding Through Commission	Type (l)		(3) Regional governments	(5) Cultural foundations	Provincial and city governments	
			(4) Municipal governments			
Direct Funding				(5) Cultural foundations	Culture and Arts Promotion Fund	

B. National Culture and Arts Institutions

National culture and arts institutions are directly run by the government, and are not included in the scope of private organizations that receive government subsidies, which is the subject of this study. It was found that the amount of transfer payments by the government to NPOs is extremely small, and that the government aid to national culture and arts institutions was also insignificant.

Therefore, the scope of this study includes the central government (Ministry of Culture, Sports and Tourism), local governments (municipal governments, regional governments), Arts Council Korea (ARKO), and local culture and arts committees/cultural foundations.

Scale of Fiscal Expenditure by Stage

A. Central Government's Finances in the Culture Area

Financial aid for culture and the arts is mostly conducted by the Ministry of Culture, Sports and Tourism. For the past five years, the finances (budgets + funds) of the Ministry of Culture, Sports and Tourism increased from 2 trillion 294.8 billion won in 2006 at an average annual rate of 8.3 percent to 3 trillion 174.7 billion won in 2010. The budgets increased from 1 trillion 294.8 billion won in 2006 at a rate of 8.8 percent to 1 trillion 816.7 billion won in 2010; while the funds increased at a rate of 7.6 percent from 1 trillion 12.5 billion won in 2006 to 1 trillion 358 billion won in 2010.

The scale of the culture and arts sector's finances in 2010 was 1 trillion 326.6 billion, which is a 199.1 billion won (17.7%) increase from 2009. This was mostly caused by increases in building infrastructures for the promotion of cultural contents, research and development for providing technical support for cultural contents projects, constructing representative cultural spaces such as the National Museum of Korean Contemporary History and the Seoul branch of the National Museum of Contemporary Arts, Korea, expanding local cultural facilities, reinforcing

support for culture and arts organizations such as the Korea National Contemporary Dance Company, and supporting national basic news agencies.¹⁴⁾

<Table III-4> Financial Progress of the Ministry of Culture, Sports and Tourism in the Past Five Years by Sector

(Unit: hundred million won, %)

Category	2006	2007	2008	2009 ³⁾	2010	Average Rate of Annual Increase
Sum (Expenditure Scale)	23,073	22,660	26,354	28,746	31,747	8.3
Budget	12,948	12,681	15,136	16,665	18,167	8.8
Funds	10,125	9,979	11,218	12,081	13,580	7.6
Under the Jurisdiction of the Ministry of Culture, Sports and Tourism	23,073	22,660	26,354	28,746	31,747	8.3
Culture and Arts Sector ¹⁾	10,552	9,440	10,709	11,275	13,266	5.9
Tourism Sector	6,381	6,649	7,766	8,944	8,901	8.7
Sports Sector	4,090	4,419	5,304	6,431	7,303	15.6
Culture and Tourism in General Sector ²⁾	2,050	2,152	2,575	2,096	2,277	2.7

Note: 1) The culture and arts sector includes culture policies, arts, cultural projects, media, promotion, and national culture and arts institutions.

2) In the culture and arts sector, excluding the Cultural Heritage Administration and the Korea Communications Commission; excluding internal transactions and preservative spending.

3) The 2009 budget is included in the revised supplementary budget.

Source: Ministry of Culture, Sports and Tourism, "White Paper on Culture and Arts Policies," 2010.

14) Ministry of Culture, Sports and Tourism, "White Paper on Culture and Arts Policies," 2010.

The scale of fiscal expenditures in the areas of culture and tourism has been continuously increasing, but its percentage of total spending has been maintained at slightly above one percent.

<Table III-5> Changes in the Financial Share of the Ministry of Culture, Sports and Tourism Compared to that of the Government

(Unit: %)

Classification	2006	2007	2008	2009	2010
Share (A/B)	0.98	0.97	1.00	0.95	1.08

Note: 1. Based on scale of expenditures in national fiscal management plans, excluding internal transactions and adjustment expenses.

2. Fiscal criteria: budgets + funds

3. 2009 includes revised supplementary budgets.

Source: Ministry of Culture, Sports and Tourism, "White Paper on Culture and Arts Policies," 2010.

<Table III-6> Scale of Commission Work in the Culture and Arts Area through Subsidy Program Operators of the Ministry of Culture, Sports and Tourism

(Unit: %)

	Capital Subsidies + Current Subsidies	Current Subsidies			
		Total	Private	Local Governments	Overseas
Expenditures in 2010	1,038,259	506,132 (48.7)	445,734 (88.1)	60,298 (11.9)	100 (0.02)

Source: Ministry of Strategy and Finance, "Summary of Settlements in the 2010 Fiscal Year," 2010.

Of the 506.1 billion won in current subsidies, those provided through NPOs consist of 137.4 billion won as private subsidies, and 41.6 billion won as local government subsidies, showing that an annual total of 179 billion won was provided as subsidies by the Ministry of Culture, Sports and Tourism through NPOs.

Therefore, the total amount of current subsidies from the Ministry of Culture, Sports and Tourism, excluding the capital subsidies, was 506.1 billion won, and of this, 179 billion won was provided through NPOs.

<Table III-7> Account of Culture and Arts Subsidies Granted by the Ministry of Culture, Sports and Tourism Through NPOs

(Unit: million won)

Classification	Total (Capital + Current)	Current Subsidies	Subsidies Through NPOs
Total	1,038,259 (100.0)	506,132 (48.7)	179,032 (17.2)
Private	464,318	445,734	137,436
Local Governments	573,841	60,298	41,596
Overseas	100	100	-

Source: Ministry of Strategy and Finance, "Summary of Settlements in the 2010 Fiscal Year," 2010.

<Table III-8> Account of Subsidies Granted by the Ministry of Culture, Sports and Tourism and the Ministry of Health and Welfare

(Unit: million won)

		Total	Ministry of Culture, Sports and Tourism	Ministry of Health and Welfare
Central Government Budget Final	Current subsidies total	21,353,343	530,574	13,478,159
	Private current subsidies	4,841,031	465,396	181,645
	Local government current subsidies	16,459,646	65,078	13,295,868
	Overseas current subsidies	52,666	100	646
Amount Granted by Subsidy Program Operators	Current subsidies total	20,723,988	506,132	13,333,828
	Private current subsidies	4,636,142	445,734	171,998
	Local government current subsidies	16,035,288	60,298	13,161,184
	Overseas current subsidies	52,557	100	646

Source: Ministry of Strategy and Finance, "Summary of Settlements in the 2010 Fiscal Year," 2010.

1) Culture and Arts Promotion Fund

Fiscal spending in the area of culture and the arts is conducted not only through the central government budget, but also the Culture and Arts Promotion Fund. Fiscal spending through NPOs is as listed in <Table III-9>.

<Table III-9> Expenditures in 2010 Through NPOs from the Culture and Arts Promotion Fund

(Unit: million won)

Project Name	Sub-project Name	Expenditure
Total Spending of the Culture and Arts Promotion Fund		308,407
Total Spending Through NPOs		66,506
Support for Spaces to Create and Exhibit Arts	Support for vitalizing the arts	5,858
Support for International Exchange of Arts	Support for international exchange of arts	6,032
Management of Arts Galleries	Management of arts galleries	340
	Management of new programs	669
Promotion of Local Culture and Arts	Support for local culture and arts	12,548
	Support for vitalizing local government performance arts	2,970
Culture Sharing With Districts With Limited Access to Culture	Culture sharing with districts with limited access to culture	23,700
Culture Enhancing the Image of Culture and the Arts	Publication of culture and arts books	429
	Support for donation campaigns	12,983
	Enhancing the image of culture and the arts	366
	Research and development of basic arts policies	611

Source: Ministry of Strategy and Finance, "Fund Summary," 2010.

2) Lottery Fund

The Ministry of Culture, Sports and Tourism and Arts Council Korea (ARKO) operate culture sharing projects through the Lottery Fund.

For the 2011 Lottery Fund Support Project Operating Expenses, the welfare budget for the underprivileged including the low-income bracket was drawn up to 1 trillion 197.6 billion won, 282.3 billion won increase from the previous year 2010. Regarding the legal allocation project operating expenses, as prescribed by Article 23(1) of the relevant act, 361.2 billion won, which is 35 percent of the expected lottery earnings, was calculated based on the allocation rate as stated in the relevant enforcement ordinance. Regarding the public service operating expenses, as prescribed by Article 23 (3) of the relevant act, a total of 836.4 billion won, which is the result of subtracting fund operating expenses, lottery sales business expenses, legal allocation project expenses, and surplus funds from the total income, was supplied to projects in five areas including welfare for the low-income bracket.¹⁵⁾

The act related to public service expenses, the subject of this study, is the Act of the Lottery and Lottery Fund Article 23(3), which stipulates that the lottery profits and the lottery fund excluding the costs and expenses are used in one of the following projects: (1) project to support the residential stability of the low-income bracket such as by constructing rental housing; (2) welfare work for persons of national merit; (3) welfare work for the underprivileged including low-income households, disabled persons, victims of sexual abuse, domestic violence, prostitution, and projects to support multicultural families; (4) projects to promote culture and the arts;

15) Lottery Committee Office, Ministry of Strategy and Finance, "2011 Lottery Fund Operation Plan," Lottery Committee Office, Ministry of Strategy and Finance, 2011.

- Provided that the rate of the lottery fund used for project (5) is approximately 5 percent.
- In the Enforcement Decree of the Act on the Lottery and Lottery Fund Article 17 (Allocation and Use of Lottery Earnings) (5) Article 23 (3) 5, "public services as decided by a presidential decree" refers to projects to support "natural disasters" as stipulated in the Countermeasures Against Natural Disasters Act Article 2 (1), and "disasters" as stipulated in the Framework Act on the Management of Disasters and Safety Article 3 (1), and these projects are decided by the Lottery Committee.

or (5) public services as decided by a presidential decree.¹⁶⁾

<Table III-10> Lottery Fund Operating Expenses

(Unit: million won)

Classification	2009 Settlement	2010 Plan	2011 Plan
Total	2,911,289	3,033,506	3,341,306
Operating Expenses	930,027	915,294	1,197,583
- Legal Allocation ¹⁾	220,388	247,615	361,163
- Public Service ²⁾	709,639	667,679	836,420

Note: 1) (1) Science and Technology Promotion Fund, (2) National Sports Promotion Fund, (3) Working Welfare Promotion Fund, (4) National Housing Fund, (5) Small and Medium Enterprise Start-up and Promotion Fund, (6) Cultural Heritage Protection Fund, (7) Local Governments, (8) Jeju Self-Governing Province Development Project Special Account, (9) Community Chest of Korea, (10) Forest Environment Function Enhancement Fund, (11) Korea Veterans Welfare and Healthcare Corporation.

2) (1) Residential stability for the low income bracket, (2) welfare for persons of national merit, (3) welfare for the underprivileged, (4) promotion of culture and the arts → culture sharing with the underprivileged, (5) emergency disaster relief.

Source: Lottery Committee Office, Ministry of Strategy and Finance, "2011 Lottery Fund Management Plan," Lottery Committee Office, Ministry of Strategy and Finance, 2011 (reorganized). Lottery Fund Culture Sharing Project website: <http://www.lotteryarts.or.kr/>

Regarding financial resources that are distributed for public services, based on the budgets, approximately 667.7 billion won was used in 2010, while 836.4 billion won was used for 22 projects in 13 institutions in 2011. Of these, the financial resources used for the cultural empowerment of the underprivileged for the promotion of culture and the arts is shown in <Table III-11>.

16) - Provided that the rate of the lottery fund used for project (5) is approximately 5 percent.

- In the Enforcement Decree of the Act on the Lottery and Lottery Fund Article 17 (Allocation and Use of Lottery Earnings) (5) Article 23 (3) 5, "public services as decided by a presidential decree" refers to projects to support "natural disasters" as stipulated in the Countermeasures Against Natural Disasters Act Article 2 (1), and "disasters" as stipulated in the Framework Act on the Management of Disasters and Safety Article 3 (1), and these projects are decided by the Lottery Committee.

<Table III-11> Budget Proposal by Year for the Cultural Empowerment of the Underprivileged

(Unit: million won)

	2008			2009			2010			2011		2012
	Planned Amount	Planned Amount Final	Executed Amount	Planned Amount	Planned Amount Final	Executed Amount	Planned Amount	Planned Amount Final	Executed Amount	Planned Amount	Executed Amount	Budget Plan
Cultural Empowerment of the Underprivileged	19,800	19,800	19,752	21,800	21,800	21,800	23,700	23,700	23,700	48,000	44,557	57,400
- Culture Vouchers	-	-	-	-	-	-	5,000	5,000	5,000	24,500	24,500	34,300
- Performance Sharing	-	-	-	-	-	-	14,500	14,500	14,500	16,500	15,060	16,100
- Literature Sharing	-	-	-	-	-	-	2,000	2,000	2,000	4,000	2,180	4,000
- Exhibition Sharing	-	-	-	-	-	-	600	600	600	800	617	800
- Creativity Sharing	-	-	-	-	-	-	1,600	1,600	1,600	2,200	2,200	2,200
All Items of Expenditure (total)	19,800	19,800	19,752	21,800	21,800	21,800	23,700	23,700	23,700	48,000	44,557	57,400

Source: Lottery Committee Office, Ministry of Strategy and Finance, "Lottery Fund Management Plan," Lottery Committee Office, Ministry of Strategy and Finance, each year, reorganized.

<Table III-12> Subsidies for the Lottery Fund Culture Sharing Project

(Unit: million won)

Amount Subsidized in 2011	Basis for 2012 Calculations
(Plan 2011) 48,000	(Plan 2012) 57,400

Source: Lottery Committee Office, Ministry of Strategy and Finance, "Lottery Fund Management Plan," Lottery Committee Office, Ministry of Strategy and Finance, each year.

B. Finances of Local Governments in the Area of Culture

The scale for local government culture budgets was 5 trillion 666 billion won in 2010, 406.4 billion won decrease from the previous year, but in terms of percentage, at 3.3 percent of the entire budget, the percentage is higher than the central government.

The scale for local government budgets was 5 trillion 787.3 billion won in 2008, which then increased to 6 trillion 724 billion won in 2009, and later decreased to 5 trillion 666 billion won in 2010. The rate of the culture budget as part of the entire budget of local governments decreased from 3.8 percent in 2008 to 3.6 percent in 2009, and to 3.3 percent in 2010.¹⁷⁾

<Table III-13> Current State of Local Government Culture Budgets

(Unit: hundred million won, %)

Year	Total Budgets of Local Governments	Culture Budgets	Percentage	Culture and Arts Promotion	Cultural Projects	Tourism	Sports	Cultural Heritage
2005	1,058,547	38,088	3.6	12,714	1,669	6,285	12,848	4,572
2006	1,177,253	39,299	3.3	13,579	1,755	5,902	14,551	3,512
2007	1,286,394	44,445	3.5	14,791	1,553	6,805	17,593	3,702
2008	1,516,042	57,873	3.8	17,726	2,499	10,207	21,990	5,451
2009	1,664,268	60,724	3.6	19,606	2,788	10,297	22,866	5,167
2010	1,723,293	56,660	3.3	17,142	2,814	9,004	22,652	5,048

Source: Ministry of Culture, Sports and Tourism, "White Book on Culture and Arts Policies," 2010.

17) Source: Ministry of Culture, Sports and Tourism, "White Book on Culture and Arts Policies," 2010.

The current state of the expenditure budget in all areas of culture and tourism by regional government amounts to a total of 6 trillion 987.3 billion won. Of this, 6 trillion 280.4 billion won is processed through the general account, while 706.9 billion won is processed through the special accounts, showing that most of the budget is being processed through the general account.

The composition of the expenditure budget general account by local governments shows that the area of culture and tourism accounts for 5.79 percent of the entire budget.

<Table III-14> Culture and Tourism Expenditure Budgets by Local Government (General Account)

(Unit: hundred million won, %)

Classification	Total (A)	Culture and Tourism (B)	Percentage (B/A)
Combined	1,085,386	62,803	5.79
Seoul Metropolitan City	77,522	3,097	3.99
Metropolitan Cities Excluding Seoul	101,892	8,706	8.54
Provinces (-do)	127,278	4,585	3.60
Jeju Self-Governing Province	22,314	1,328	5.95
Cities (-si)	363,000	26,117	7.19
Counties (-gun)	212,880	14,884	6.99
Districts (-gu)	180,499	4,087	2.26

Source: Ministry of Public Administration and Security, "Local Government Budget Summary," 2011.

<Table III-15> shows the scale of expenditure settlements of the general account in the areas of culture and tourism of each regional government, as well as the scale of independent spending by each regional government and the scale of expenditures transferred to municipal governments.

<Table III-15> Settlement of Expenditures in the Areas of Culture and Tourism by Local Governments (General Account)

(Unit: million won)

		2010 Settlement	Independent Spending	Transferred to Municipal Governments
Combined	Total	3,451,034	1,998,376	1,452,658
	Culture and arts	1,099,320	826,995	272,325
	Tourism	644,260	239,794	404,466
	Sports	1,152,805	775,627	377,178
	Cultural heritage	490,796	130,266	360,530
	Culture and tourism in general	63,853	25,694	38,159
Seoul Metropolitan City	Total	468,631	398,995	69,637
	Culture and arts	233,830	198,787	35,043
	Tourism	48,769	47,184	1,586
	Sports	111,130	92,764	18,366
	Cultural heritage	66,142	51,500	14,642
	Culture and tourism in general	8,760	8,760	-
Busan Metropolitan City	Total	269,652	220,574	49,078
	Culture and arts	124,464	119,011	5,453
	Tourism	10,940	10,312	628
	Sports	112,912	82,865	30,047
	Cultural heritage	21,336	8,386	12,950
	Culture and tourism in general	-	-	-
Daegu Metropolitan City	Total	147,142	125,509	21,634
	Culture and arts	51,461	48,542	2,920
	Tourism	16,069	8,935	7,134
	Sports	70,868	64,482	6,386
	Cultural heritage	8,744	3,550	5,194
	Culture and tourism in general	-	-	-

<Table III-15> Continue

(Unit: million won)

		2010 Settlement	Independent Spending	Transferred to Municipal Governments
Incheon Metropolitan City	Total	168,275	120,291	47,983
	Culture and arts	68,558	47,468	21,090
	Tourism	14,932	11,962	2,970
	Sports	68,659	55,772	12,887
	Cultural heritage	15,965	4,929	11,036
	Culture and tourism in general	160	160	-
Gwangju Metropolitan City	Total	184,607	171,446	13,161
	Culture and arts	115,221	111,297	3,924
	Tourism	20,616	19,961	655
	Sports	43,141	36,694	6,447
	Cultural heritage	5,629	3,494	2,135
	Culture and tourism in general	-	-	-
Daejeon Metropolitan City	Total	127,918	110,871	17,047
	Culture and arts	54,459	45,797	8,662
	Tourism	16,452	15,288	1,164
	Sports	52,137	45,572	6,565
	Cultural heritage	4,870	4,214	656
	Culture and tourism in general	-	-	-
Ulsan Metropolitan City	Total	80,856	61,680	19,176
	Culture and arts	23,685	20,935	2,750
	Tourism	6,279	5,960	319
	Sports	42,194	31,101	11,093
	Cultural heritage	8,698	3,684	5,014
	Culture and tourism in general	-	-	-

<Table III-15> Continue

(Unit: million won)

		2010 Settlement	Independent Spending	Transferred to Municipal Governments
Gyeonggi-do (Province)	Total	269,251	148,304	120,948
	Culture and arts	110,709	94,146	16,563
	Tourism	27,902	12,556	15,347
	Sports	76,348	27,020	49,328
	Cultural heritage	40,079	3,873	36,206
	Culture and tourism in general	14,213	10,709	3,504
Gangwon-do (Province)	Total	167,365	68,554	98,812
	Culture and arts	26,901	11,616	15,285
	Tourism	65,595	31,301	34,295
	Sports	57,781	25,136	32,645
	Cultural heritage	17,088	501	16,587
	Culture and tourism in general	-	-	-
Chungcheongbuk- do (Province)	Total	105,794	26,288	79,506
	Culture and arts	20,803	5,032	15,771
	Tourism	26,376	10,585	15,791
	Sports	39,987	10,142	29,845
	Cultural heritage	18,628	529	18,099
	Culture and tourism in general	-	-	-
Chungcheongnam- do (Province)	Total	157,072	38,018	119,054
	Culture and arts	83,780	19,532	64,248
	Tourism	34,321	3,581	30,740
	Sports	38,971	14,905	24,066
	Cultural heritage	-	-	-
	Culture and tourism in general	-	-	-

<Table III-15> Continue

(Unit: million won)

		2010 Settlement	Independent Spending	Transferred to Municipal Governments
Jeollabuk-do (Province)	Total	143,215	48,494	94,721
	Culture and arts	32,667	20,652	12,015
	Tourism	38,066	6,582	31,484
	Sports	41,901	19,208	22,693
	Cultural heritage	30,581	2,052	28,529
	Culture and tourism in general	-	-	-
Jeollanam-do (Province)	Total	450,262	200,869	249,391
	Culture and arts	30,320	11,168	19,152
	Tourism	166,929	9,231	157,698
	Sports	200,177	173,955	26,221
	Cultural heritage	47,271	950	46,320
	Culture and tourism in general	5,565	5,565	-
Gyeongsangbuk- do (Province)	Total	315,795	40,028	275,768
	Culture and arts	33,487	13,048	20,440
	Tourism	69,008	9,183	59,825
	Sports	53,477	15,121	38,356
	Cultural heritage	124,668	2,176	122,492
	Culture and tourism in general	35,155	500	34,655
Gyeongsangnam- do (Province)	Total	238,562	61,826	176,736
	Culture and arts	40,647	11,638	29,009
	Tourism	50,468	5,644	44,824
	Sports	96,770	34,537	62,233
	Cultural heritage	50,677	10,007	40,670
	Culture and tourism in general	-	-	-

<Table III-15> Continue

(Unit: million won)

		2010 Settlement	Independent Spending	Transferred to Municipal Governments
Jeju Self- Governing Province	Total	156,635	156,629	6
	Culture and arts	48,326	48,326	-
	Tourism	31,535	31,529	6
	Sports	46,353	46,353	-
	Cultural heritage	30,421	30,421	-
	Culture and tourism in general	-	-	-

Source: Ministry of Public Administration and Security, "Financial Yearbook of Local Governments," 2011.

<Table III-16> shows the scale and percentage of each local government's transfer expenditures (local government subsidy programs) in 2011 in the culture and arts sector. The scale of the culture budget of local governments includes a general account, special accounts, and funds. Transfer expenditures of local governments in the culture and arts sector is 27.6 percent through the general account, 57.9 percent through special accounts, and 14.5 percent through funds, showing that the greatest amount of spending occurs through the special accounts.

<Table III-16> Regional Government Transfer Expenditures in 2011 in the Culture and Arts Sector

(Unit: million won, %)

	Regional Government	Total	Percent age	Percentage		
				General account	Special accounts	Funds
	Combined	299,000	100.0	27.6	57.9	14.5
1	Gyeonggi-do (Province)	37,742	12.6	23.5	62.7	13.8
2	Busan Metropolitan City	36,866	12.3	59.4	30.4	10.1
3	Gyeongsangbuk-do (Province)	32,232	10.8	14.3	76.4	9.3
4	Gwangju Metropolitan City	28,787	9.6	4.5	88.7	6.7
5	Seoul Metropolitan City	25,988	8.7	36.3	41.2	22.5
6	Gyeongsangnam-do (Province)	24,254	8.1	28.9	59.6	11.5
7	Jeollanam-do (Province)	19,872	6.6	37.7	48.0	14.3
8	Jeollabuk-do (Province)	18,407	6.2	20.4	65.1	14.5
9	Daegu Metropolitan City	16,538	5.5	28.5	50.6	20.9
10	Chungcheongnam-do (Province)	16,006	5.4	18.0	69.1	12.9
11	Gangwon-do (Province)	13,471	4.5	16.7	65.4	17.9
12	Chungcheongbuk-do (Province)	10,006	3.3	42.4	39.5	18.1
13	Daejeon Metropolitan City	6,653	2.2	12.2	64.1	23.7
14	Jeju Self-Governing Province	4,172	1.4	32.2	39.6	28.1
15	Incheon Metropolitan City	4,156	1.4	28.1	22.8	49.2
16	Ulsan Metropolitan City	3,850	1.3	18.4	56.7	24.9

Source: Ministry of Culture, Sports and Tourism, "FY2012 Statement of Accounts of Tax Revenue and Expenditures (Income and Expenses)," 2012.



IV

Evaluation of the Efficiency of Fiscal Spending

1 Evaluation of Fiscal Spending Efficiency for Supplying Culture and Arts Services

A. Methods to Evaluate the Efficiency of Culture and Arts NPOs

Evaluations of the efficiency of culture and arts organizations need to be conducted based on qualitative standards as well as quantitative standards. First, standards for both the qualitative evaluation of consumer satisfaction with the government's supplying of culture and arts services, as well as the quantitative evaluation of determining the scale of culture and arts services provided via NPOs, must be utilized.

In order to determine the standards for qualitative evaluation, it is important how viewers assess the culture and arts services provided by NPOs that are receiving government subsidies. Therefore, this study uses the results of viewer evaluations that are being conducted on performing arts organizations.

In order to evaluate the efficiency of culture and arts NPOs based on quantitative standards, this study uses the annual reports made by cultural and arts organizations, and thereby evaluates the relative level of efficiency between the organizations through data envelopment analysis (DEA).

B. Methods to Evaluate Financial Support for Culture and Arts Organizations

The first stage of this study is an evaluation of the overall efficiency of government financial aid, and uses viewer satisfaction surveys on performances staged by cultural and arts organizations to make a qualitative assessment by analyzing how the viewers, as end beneficiaries of the performances staged by NPOs with financial support, evaluate those performances. The second stage consists of an evaluation using customer satisfaction surveys conducted at the stage of when ARKO provides financial aid to culture and arts NPOs. The third and last stage is a data envelopment analysis, a qualitative evaluation method, of cultural and arts organizations.

Using the quantitative and qualitative evaluation methods explained above, the efficiency of NPO's fiscal spending when supplying cultural and arts services, from the stage of providing subsidies, to receiving the subsidies, and implementing the culture and arts services can be assessed.

2 Analysis of the Satisfaction Data from the 2011 Viewer Satisfaction Survey of Arts Events Funded Through the Culture and Arts Promotion Fund

A. Data

The 2011 Viewer Satisfaction Survey was an exit poll conducted with visitors of each relevant event that were aged 15 years and older. The total number of polls amounted to 1,346 valid samples. This nationwide survey lasted from June 3 to December 23, 2011, and was conducted on all types of cultural and arts events excluding those difficult to investigate such as competitions. The viewer satisfaction survey conducted on arts events was subsidized by the Culture and Arts Promotion Fund.

B. Setting Independent Variables and Explanatory Variables

Of the questions about satisfaction, those related to viewer satisfaction and the appropriateness of government fiscal spending were set as independent variables, and then the variables that affect these independent variables were determined, and thus the effects of financial aid to culture and the arts was analyzed. The analysis used ANOVA (analysis of variance).

There were a total of eight questions regarding viewer satisfaction in the 2011 Viewer Satisfaction Survey. If all of the eight questions were to be analyzed as dependent variables, there would be a problem of overlapping and complexity, so the questions were reduced to two independent questions using similar questions through factorial analysis in terms of two variables (psychological variable, behavioral intention variable) that reveal consumer satisfaction.

The eight questions related to consumer satisfaction were reorganized so that Questions 7, 8-1, 8-2, 8-3, 8-4 were independent variables of consumer satisfaction, whereas Questions 9 and 10 were independent variables of behavioral intention, and Question 11 was a dependent variable regarding the appropriateness of subsidies through public funding.

This method analyzes the effects on the above-mentioned “consumer satisfaction” variables, “recommendation intent” variables, and “appropriateness of public fund subsidies” variables. The following five are explanatory variables in this analysis that can affect the “consumer satisfaction” variables, “recommendation intent” variables, and “appropriateness of public fund subsidies” variables.

C. Analysis Results

- 1) Does the residential district of a visitor, that is, whether the audience member is a resident or not (local or non-local) of the region where the culture or arts event is being held, affect the visitor’s “consumer satisfaction,” “intent to recommend,” and “appropriateness to receive public subsidies”?

The analysis showed that whether a culture or arts event is being held in the region where a visitor resides does not affect the member's "consumer satisfaction," "intent to recommend," and "appropriateness to receive public subsidies."

- 2) Does the area of a culture or arts event affect "consumer satisfaction," "intent to recommend," and "appropriateness to receive public subsidies"?

It was showed that (various aspects of) the area of the event affects "consumer satisfaction" and "intent to recommend," as well as that even (visual) culture and arts events have some influence on the two variables, revealing that depending on the genre of the culture or arts event, the influence varied on "consumer satisfaction," "intent to recommend," and "appropriateness to receive public subsidies."

- 3) Does the form of a culture or arts event (contest, performance, exhibition) affect "consumer satisfaction," "intent to recommend" and "appropriateness to receive public subsidies"?

It was showed that depending on the form of a culture or arts event, its influence varied on "consumer satisfaction," "intent to recommend" and "appropriateness to receive public subsidies," with both contests and performances having a greater influence than exhibitions on "consumer satisfaction," "intent to recommend" and "appropriateness to receive public subsidies."

- 4) Does the difference in amount of subsidies for a culture or arts event affect "consumer satisfaction," "intent to recommend" and "appropriateness to receive public subsidies"?

The difference in amount of subsidies for a culture or arts event was showed to affect "consumer satisfaction" and "intent to recommend," but not the "appropriateness to receive public subsidies."

The group that received the least amount of subsidies was shown

a more positive result than the group that received the most, in terms of “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies.” However, such a result is difficult to interpret because the scale of the subsidies can vary depending on the scale of the culture or arts event. Culture and arts events that require large-scale expenses can request a greater amount of subsidies than those that require a smaller budget. This study is limited in that it cannot examine in consideration of subsidies as a percentage of the scale of a culture or arts event because it can use as data only the scale of the subsidies but not scale of the culture and arts events.

In the simple analysis of the life of Korean citizens, it was shown that there is a positive correlation between “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies.” However, considering that there were 1,345 samples, the correlation coefficients of .06, .06 and .09 can have statistical significance. However, the correlation coefficients are too small to have practical meaning. There is a need to analyze more carefully the relationship between “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies” within the available data.

Analyzing the relationship between the scale of subsidies, area of culture and arts, and the form of the arts event revealed that theater productions received subsidies of all scales, and therefore, the relationship between “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies” was analyzed only in the area of theater.

Looking at how the scale of subsidies in the area of theater affects “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies” shows that “consumer satisfaction” is higher when the amount of subsidies are the smallest than when they are the greatest. Therefore, it can be interpreted that the scale of subsidies does not have great influence on “consumer satisfaction,” “intent to recommend” or “appropriateness to receive public subsidies.”

Looking at the relationship between the scale of subsidies and the form of the arts event shows that the group that receives the greatest amount of subsidies is arts events in the form of exhibitions. However,

it was found that only the case of “performances” receives all scales of subsidies, and thus, there is a need to limit the subject to performances and analyze how the scale of subsidies affects “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies.” Even in the case of performances, it was revealed that those with subsidies from 100 million to under 200 million won had a greater influence on “consumer satisfaction” and “appropriateness to receive public subsidies” than those that receive subsidies of 200 million won or more. A point of note is that performances with subsidies of 200 million won or more had the least influence in “consumer satisfaction” and “appropriateness to receive public subsidies.” Therefore, it can be concluded that the argument that the greater the scale of the subsidy the more positive the influence on “consumer satisfaction” and “appropriateness to receive public subsidies” is not convincing.

- 5) What influence does whether the visitor has to pay an entrance fee or not have on “consumer satisfaction,” “intent to recommend” or “appropriateness to receive public subsidies”?

It was shown that whether or not the visitor has to pay an entrance fee does not affect “consumer satisfaction,” but does influence “intent to recommend” and “appropriateness to receive public subsidies.”

D. Limits of the Data

Because the data used in this study does not include data on culture and arts events that were not subsidized, the study is limited in that it cannot analyze the differences between subsidized and non-subsidized culture and arts event in terms of “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies.”

Another problem is that the purpose of the visitor satisfaction survey is unclear. This is because it is unclear whether the purpose of the survey is to (1) investigate if government subsidies affect “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies,” or (2) if it is a general investigation of the levels of satisfaction of visitors

to culture and arts events. If the aim is the former (1), the result of the investigation based on the available data is that government subsidies do not influence “consumer satisfaction,” “intent to recommend” or “appropriateness to receive public subsidies.”

Instead, it seems that this study is more appropriate for the latter purpose (2). From the perspective of purpose (2), the result is that the visitors to culture and arts events are satisfied in general. This is because the average level of satisfaction was 1.7 to 2.0 on a scale of 0 to 5. However, this data is limited to subsidized culture and arts events, and therefore, it is unclear whether they are satisfied due to the subsidies.

Therefore, if the purpose of the survey is in investigating whether or not government subsidies affect “consumer satisfaction,” “intent to recommend” or “appropriateness to receive public subsidies,” the composition of the survey questions and the method of data collection are somewhat inappropriate. This is because if the survey is to evaluate the effect of government subsidies, there needs to be a single survey that simultaneously evaluates the specific areas where subsidies were provided, and analyzes the influence of subsidized events on visitor satisfaction.

E. How this Study Differs from the Content of the “ARKO Investigative Report on Visitor Satisfaction”

The “ARKO Investigative Report on Visitor Satisfaction” investigated satisfaction level of visitors to culture and arts events subsidized by the Culture and Arts Promotion Fund. The report is not more than a basic analysis because it analyzes through technological statistics the level of satisfaction of visitors to specific culture and arts events.

However, this study is distinguished in that it conducts a statistical analysis in consideration of the characteristics of individual culture and arts events. Especially, by reducing the number of similar questions into the categories of “consumer satisfaction,” “intent to recommend” and “appropriateness to receive public subsidies,” it not only applied the existing typical analysis method of surveying consumer satisfaction, but also analyzes how subsidies influence visitor satisfaction in consideration of the areas and forms of individual culture and arts events, the scale of subsidies

and the existence of an entrance fee. Therefore, while there are limitations due to limited data, it was possible to achieve the purpose of analysis that is close to the expected results of the original survey.

3 Arts Council Korea (ARKO) Customer Satisfaction Survey Analysis

The Arts Council Korea (ARKO) Customer Satisfaction Survey is dedicated to ARKO among the 2011 customer satisfaction surveys for all public enterprises and quasi-governmental institutions. This customer survey targeted organizations that benefitted from subsidies provided from ARKO through the Culture and Arts Promotion Fund.

1) Evaluation of Service Factors

In order to analyze the factors related to services provided by ARKO, the variables were divided into five simple factors: appropriateness of timing, professionalism of deliberation, efforts of the service provider to improve its business, usefulness of information on criteria and procedures for selection, and selected institutions' attitude toward customers.

The satisfaction level for each factor was generally positive. The analysis of the differences among four support projects¹⁸⁾ by type, however, reveals that while there was no difference in terms of efforts to improve business and attitude toward customers, the remaining three factors bring different results for each type of project. The average result suggests that organizations that received funds for the “promotion of local culture and arts” received the most positive response in the assessment of factors for supporting their projects.

18) Supporting venues for creation and presentation, promoting local culture and arts, encouraging arts in daily life, and enhancing social values of arts.

a) Evaluation of Social Responsibility

Four factors are assessed under the title of the “social responsibility” of ARKO. Questions one through four ask about the fairness of criteria, transparency of process, treatment toward customers, and employee ethics; customers’ responses were mostly positive.

The analysis of satisfaction towards social responsibility by type of support project shows that a similar outcome has been drawn for treatment towards customers, but that differences were found regarding fairness of criteria, transparency of process, and employee ethics. By type of project, organizations that received funds for the “promotion of local culture and arts” recorded the most favorable results in the assessment of the factors for financial support. And it was found that there is no difference among specific projects of “supporting venues for creation and presentation of artists.”

2) Analysis of Overall Satisfaction

The satisfaction survey shows that organizations that received subsidies mostly show satisfaction toward ARKO’s services related to financial assistance. In order to identify any differences in satisfaction level by type of project supported by the Culture and Arts Promotion Fund, analysis was conducted on four types of support designed for performing arts organizations: (1) supporting venues for creation and presentation, (2) promoting local culture and arts, (2) encouraging the arts in daily life, and (4) enhancing the social value of the arts. The results suggest that beneficiary organizations showed the highest level of satisfaction in (2) the promotion of local culture and arts.

More specifically, it was analyzed if satisfaction levels differed among specific projects for (1) supporting venues for creation and presentation of artists, to analyze whether or not there is a difference between subdivisions of the four types, but no significant difference was reported.

3) Satisfaction Regarding Enhancement of the Quality of Life of Korean Citizens and Social Development

The customer satisfaction survey (Questions 11, 12) asked if the subsidies provided by ARKO “improve the quality of life of Korean citizens” and if they “contribute to the development of the Korean society.” The evaluations by the beneficiaries were positive. Regarding the factors, it was analyzed if the response to ARKO’s financial assistance were different for each type of support project, but there was no difference in satisfaction levels by type of support project.

It was also found that there is no difference in satisfaction level for specific projects for “supporting venues for creation and presentation of artists.”



Problems with the Culture and Arts Promotion Fund Arts Event Viewer Satisfaction Survey and the ARKO Customer Satisfaction Survey (Subsidies-Funding)

A. Problems with the 2011 Arts Promotion Fund Arts Event Viewer Satisfaction Survey

1) Composition of Survey Questions

The two-page document of the Viewer Satisfaction Survey of Arts Events Funded by the Culture and Arts Promotion Fund, answered by a total of 1,346 respondents nationwide, consists of eight questions (Questions 6-1 through 6-6, 8-1 and 8-2) regarding the quality levels of services, but only two questions are related to the quality of core services. Two questions seem insufficient to measure viewers’ assessment of performing arts and assess how the nation’s finances were efficiently used in which areas. It is essential to create a survey in a systematic manner based on full consideration of what to ask and how to use the results, but the viewer satisfaction survey lacks such professionalism.

2) Survey Composition and Material Analysis

First, the Viewer Satisfaction Survey of Arts Events Funded by the Culture and Arts Promotion Fund consists of two pages of questions. While the report on the survey results consists of 35 pages in exclusion of appendices, as much as 95 percent of the content is based on the questions on the second page of the survey, indicating data squeezing that resulted from insufficient data analysis.

Second, the survey adopted a five-point scale (1: very much (positive response), 5: not at all (negative response)), but the report reversed the scale to give higher points to more positive responses. The reversal itself is not critically problematic, but it suggests the possibility that there was not sufficient time in creating the survey in the first place.

Third, since the first question is about the variables regarding the respondents' demographic information, the question may have been a barrier preventing respondents from giving straightforward answers.

Fourth, the analysis of data is determined by the scale used in a survey (Anderson et al., 1983). It is advised to avoid nominal scales and then ordinal scales when preparing survey questions (Pedhazur and Schmelkin, 1991). The survey in question, however, used the nominal scale in three questions and the ordinal scale in one questions (Question 12) out of a total of 22 questions. Since the survey was answered by as many as 1,342 viewers, it would have been possible to analyze the survey in a more efficient manner if more appropriate scales had been used.

Fifth, in order to evaluate financial aid for culture and arts services that had been effectively used, the survey should have included questions about the areas that received the subsidies, the proportion (%) of the subsidies out of the total fund required by the beneficiaries, and the satisfaction levels of the general viewers of specific areas that received said subsidies. Having this detailed assessment process may, in turn, lead applicant organizations to apply for subsidies in a more careful manner and the subsidized organizations to endeavor to more efficiently use such subsidies. And when the results of such efforts regarding the use of subsidies are reflected into the procedures for securing financial assistance, such processes will contribute to enhancing the efficiency of financial aid

for the provision of culture and arts events in the future.

B. Problems with the ARKO Customer Satisfaction Survey (Subsidies-Funding)

1) Composition of Leading Questions

Designed to ask organizations that applied for funds or received subsidies from ARKO about the levels of quality and satisfaction of services provided during the course of providing subsidies, the survey requires the respondents to give specific answers. The survey contains many expressions that imply that ARKO wants respondents to give favorable answers about ARKO services. Therefore, it is easy to conclude that it must have been difficult for the respondents—the applicants for the fund—to accurately express their satisfaction level or give frank answers and critical opinions about the process of applying for and receiving subsidies.

Considering that ARKO limited the survey respondents to the group of organizations that benefitted from the fund through the application process, it is plausible to expect the respondents to give favorable answers about ARKO, which they in fact did. In this vein, in order to attain the goal of understanding the evaluation of the quality and satisfaction levels of ARKO's subsidy-related services, it is recommended to also survey the organizations that failed to receive the subsidies, in addition to the successful beneficiaries.

2) Coding of the Survey

The fourth page of the survey categorized the respondents into “homepage users” and “visitors,” but this division is not clear enough. More specifically, Question 6 is designed for visitors only, and Question 8 for homepage users. However, it is difficult to identify them as separate groups because the number of responses from each group is the same at 436.

3) Customer Satisfaction Survey Being Limited to Supported Organizations

In the survey, a total of 50 questions inquired about the manner in which the government supported funds to the receiving organizations and individuals were received justifiably and efficiently. In reality, however, the questions did not cover the entire application, provision, and operational process, but instead focused on the application and assessment process that determined payment. If the survey was intended to identify the fairness and efficiency of the application and screening process, it would have been more appropriate to include the organizations that had failed to receive subsidies in order to evaluate the efficiency of the entire process of supporting funds through the Culture and Arts Promotion Fund.

5 Data Envelopment Analysis (DEA) of the Efficiency of Supplying to Cultural and Arts Organizations

In order to overcome the limitations from the first-stage of data envelopment analysis (DEA), this study uses the efficiency ranking for each sector derived from the DEA in order to analyze the correlation between the proportion of government financial support and the relationship to organizational efficiency. In addition, the analysis aims to supplement the shortcomings of the first-stage DEA by conducting Spearman's ranking analysis, a nonparametric analysis, of the relationship formed between the importance of financial support and the quantitative efficiency of cultural and arts organizations.

This study uses the 2010 annual reports (or 2009 reports) of cultural and arts organizations registered as "professional arts corporations" with the aim of relatively assessing the supply efficiency between cultural and arts organizations as decision making bodies.

In order to measure the supply efficiency of cultural and arts organizations through the DEA, it is a prerequisite to define the parameters of input and output of such organizations. Based on the 2010 annual reports of the organizations registered as "professional arts corporations"

the input and output may be defined as follows:

- (1) Input: total number of professional performers, total expenditures, and total labor cost.
- (2) Output: (total audience numbers), total number of performances, and total number of performance days.

Since the data regarding the total audience numbers is not readily available for many organizations, this study excluded such data from the output analysis. By considering that culture and arts organizations face different circumstances according to their main focus, this study uses the simple DEA model to measure relative efficiency of each area including music, theater and the traditional arts.

As explained earlier, the DEA has limitations in that it does not include qualitative components since it only measures the efficiency of output compared to input. Therefore, it is impossible to examine efficiency solely based on the DEA evaluation of cultural and arts organizations in different performing areas, and it is reasonable to use the results to identify quantitative features of each respective organization's efficiency. For a more comprehensive evaluation, it is necessary to conduct an audience assessment or other type of customer qualitative evaluation of the culture and arts services provided by the organizations.

A. DEA Results

1) Characteristics of the Total Sample

A total of 20 organizations were assessed by DEA analysis. By genre, there were six organizations in music, one in dance, seven in theater, and six in the traditional arts; this indicates a fairly equal distribution by field with the exception of dance. By region, there were 10 organizations from the Seoul area and another 10 from other regions.

Since there was only one dance organization, the DEA analysis was separately conducted for the organizations in the other areas. Constant returns to scale (CRS) were assumed for each organization, and efficiency was presumed based on the input-oriented model.

2) Efficiency of Music Organizations

The DEA was conducted for a total of six music organizations from Seoul and other regions. The organizations spend an annual average of one billion won, out of which 40 percent is used as labor cost for an average of 34 people. There is a reported average number of 51 performance days per year, resulting in approximately one performance per week.

The efficiency measurement results suggest that only one organization out of six showed an efficiency level higher than 0.8, while the rest recorded lower efficiency levels. The average efficiency level of all music organizations analyzed was presumed to be approximately 59 percent.

Slacks of input are also presented for each organization. Slacks are values that indicate the inefficiency of input, suggesting differences between the most efficient unit and other types of input. According to this study, which uses the input-oriented model, if input decreases by the amount of slacks, the most efficient units of outcome can be obtained. Except for unit No. 3, the slacks of all units are found in the total expenditures or total labor cost.

3) Efficiency of Theater Organizations

A total of seven theater organizations were analyzed suggesting that their average annual expenditures stands at 350 million won, the labor cost approximately 100 million won, and the average number of employees stood at 17. An average of 197 performances is staged per year, totaling 118 performance days.

The efficiency level of the seven organizations averaged 71.8 percent. This result shows a normal distribution, with two most efficient organizations, three within the efficiency range of 80 and 60 percent, and two below the 50-percent level.

Among five less efficient organizations, three had slacks in labor cost, and two in total expenditures.

4) Traditional Arts Organizations

This study analyzed six traditional arts organizations, which spend an average of 250 million won per year. Out of the total expenditures, approximately 98 million won is spent on labor for 17 employees. The number of performances and performance days averages 95 and 56, respectively.

Traditional arts organizations showed a fairly high efficiency rate of 89 percent on average, largely because as many as four out of six organizations were presumed to have maximum efficiency (efficiency=1), and another recording 89 percent. Only one organization showed a low efficiency level at 43 percent.

Since four organizations are presumed to be fully efficient, slacks were found only in two units. Among the two inefficient units, only one unit had slacks in total expenditures.

5) Comprehensive Comparison

As a result of comparing overall efficiency of music, theater, and traditional arts organizations, the latter recorded the highest average level at 88.76 percent, while the theater organizations had 71.84 percent, and music organizations recorded the lowest at 59.11 percent. Considering that the number of efficient organizations also showed the same trend—four traditional arts, two theater, and one music—it is viable to presume that traditional arts organizations are more efficient compared to their counterparts in other arts fields.

However, since the three artistic fields are very distinct, it is impossible to conclude that a certain field is less efficient than another. For instance, music organizations have to spend a larger sum on fixed costs; however the output—the number of performances and performance days—remains relatively low by nature. Therefore, it is not a fair analysis to directly compare the efficiency results of the different arts fields. In particular, given that a limited number of samples were used in the study, it will be more meaningful to use the analysis results in presenting methodologies for future studies, rather than in interpreting the findings of

this study.

B. Relationship Between the DEA Efficiency Analysis and the Rate of Financial Funding

Since the number of samples of culture and arts organizations is less than 30, this study had to settle with using first-stage DEA. It analyzes Spearman's rank ordering correlation to identify the relationship between the relative rankings of efficiency produced from the first-stage DEA and the importance of financial funding out of the total revenues of organizations studied in the DEA (amount of financial funding/ordinary revenues).

If the two sets of rankings show a positive correlation, it may be interpreted as an overall positive result. This would mean that higher proportions of financial funding lead to higher efficiency of relevant culture and arts organizations. On the other hand, in the case of a negative correlation, it is possible to interpret the low efficiency of organizations with high financial funding as their insufficient efforts to enhance efficiency. When no significant correlations are found, it is reasonable to conclude that the efficiency rankings of the DEA and the proportion rankings of financial funding have no meaningful correlation.

This study utilized Spearman's rank ordering coefficient (ρ) and p-value that show correlations between the efficiency rankings derived from DEA for music, theater, and the traditional arts organizations and the proportional financial funding rankings for each organization. The results suggest that there is no significant correlation between the two sets of rankings in all three areas of music, theater, and the traditional arts.

The analysis method discussed here, however, has an extremely limited number of samples and significance. Therefore, this study aims to present the method as only one of many methodologies that can measure efficiency in a quantitative manner. If there is enough data for NPOs related to each culture and arts field, it would be unnecessary to obtain the rankings from the first-stage DEA and Spearman coefficient proportion rankings of financial funding. When there is a sufficient number of organizations that have minimum variables of input and output required

by the DEA—such as the scale of the budget and the number of staff, as well as the number of performances, performance days, and viewers—the aforementioned fourth-stage DEA could be used as a more elaborate and meaningful efficiency method to indicate a quantitative analysis.

Case Investigation

A. Support Term

The 2012 support projects for the Seoul Foundation for Arts and Culture (SFAC) suggest that most of the support policy is limited to the relevant year. It is necessary to reform the support system so that performing arts organizations can formulate long-term plans.

With long-term support systems in place, performing arts organizations become able to set mid- and long-term strategies and plan original content free from financial constraints. In addition, such long-term support systems will enable culture and arts organizations to grow more independently. On the part of the government's financial funding, it is vital to ensure an organization's self-improvement by enabling it to continuously modify and stage their performances in a manner that will improve and perfect their works.

B. Support Direction and Content

The case investigation results show that many performing arts organizations have favorable opinions about the support project to foster resident organizations. Under the project, performing arts organizations operate in partnership with a theater, and the total budget is primarily allocated to that theater. As a result, since performing arts organizations need to receive a budget determined by the theater, the organizations and the theater have unequal power. In terms of transparency, it is thought to be desirable to provide financial support to the project itself in order to foster resident organizations by linking local culture and arts halls and other theaters with performing arts organizations. Nevertheless, a more in-

depth discussion is necessary to determine if creative autonomy would be compromised by the policy of allocating budgets via theaters.

It is indispensable for performing arts organizations to allocate labor costs for general operation, but most of the current culture and arts support policies do not provide funds for operational expenses. At present, culture and arts organizations may receive subsidies for their operational expenses only through projects that foster resident arts organizations and the Ministry of Employment and Labor's policy to support social enterprises.

If a performing arts organization becomes (preliminary) social enterprise, it may receive subsidies for labor costs. But at a time when most performing arts organizations have no regular clerical staff, they are bound to face practical problems from the restrictive application criteria.

C. Application Procedure and Selection

It has been found that private organizations are required to pay administrative expenses by undergoing different application procedures. Because it is difficult to identify the decisive factors of the application process and detect the most important parts among the many documents required for submission, most organizations tend to think of successful results as sheer luck. If the application notices clearly suggest the purpose of various support projects, applicant organizations will be better able to prepare their proposals in line with such stated purposes and improve overall application efficiency.

D. Cultural Tours for the Underprivileged ("Exciting Arts Trips")

The case investigation has found that many performing arts organizations have favorable opinions about culture tours for the underprivileged. Sponsored by the Korean Culture and Arts Centers Association, "Exciting Arts Trips" allow facilities (regions) to select appropriate performances. This not only improves audience satisfaction levels, but also makes it possible to reflect the outcome into the next year's selection process and provide feedback to the performing arts

organizations.

In addition, since performing arts organizations must satisfy the selection criteria required by facilities (regions) and they may receive more financial support if selected by more facilities (regions), it is likely that higher quality performances will be staged. Unlike prior support for performing organizations, ex post support for already staged performances may guarantee the quality of the performances. In terms of financial funding, the policy may maximize utility by allowing for options to prospective consumers. And consumers with choices for the following year may give feedback to performing arts organizations, thus contributing to improving the quality of performances.

E. Conclusions

Even though numerous performing arts organizations are aware of the existence of various funding policies, in reality they find it difficult to meet the requirements.

Under the current system where culture and arts organizations cannot afford the administrative expenses to receive policy support, it is vital to consider establishing an agency that will assist the organizations in the application process. Reasonable support policies are certainly necessary, but it is inefficient to require culture and arts organizations to deal with administrative duties rather than focus on organizing and producing performances. To address the problem, it is imperative to establish a center to support such organizations within a culture foundation or commission.



V

Summary and Policy Implications

Government fiscal spending for the culture and arts sector consists of a general account, two special accounts (Special Account for Regional and Local Development, Special Account for the Development of a Hub City of Asian Culture), the Culture and Arts Promotion Fund, Film Development Fund, Local Newspaper Development Fund, Media Promotion Fund, Broadcasting and Communications Promotion Fund; and, as of 2011, the total funding amounts to 1.6 trillion won (general account 1 trillion won, special accounts 230.4 billion won, funds 450.4 billion won).

The central government's expenditures for the culture and arts sector are conducted through six channels: (1) national culture and arts institutions, (2) the central government (Ministry of Culture, Sports and Tourism), (3) local governments (regional governments), (4) local governments (municipal governments), (5) provincial culture and arts committees/ culture foundations, and (6) Arts Council Korea (ARKO).

In order to grasp the scale of the subsidies provided by the Ministry of Culture, Sports and Tourism through NPOs, the settlement of accounts of the Ministry of Culture, Sports and Tourism (2010) was analyzed. As a result, current subsidies amounted to approximately 506.1 billion won, which is 48.7 percent of all subsidies; and of the current subsidies, private subsidies amounted to approximately 445.7 billion won, which is 88.1 percent of the current subsidies, while subsidies transferred to the private

sector through NPOs were approximately 137.4 billion won.

Of the 506.1 billion won in current subsidies, those provided through NPOs consist of private subsidies worth 137.4 billion won, and local government subsidies worth 41.6 billion won, showing that the Ministry of Culture, Sports and Tourism spends an annual total of 179 billion won worth of subsidies distributed through NPOs.

A case investigation was carried out in order to collect opinions about the process of supplying culture and arts services that are being conducted through government fiscal spending. The target of this case investigation was NPOs that are actually providing culture and arts services through government subsidies.

This case investigation highlighted the importance of fiscal independence for culture and arts organizations. If a performing arts organization, for example, is dependent on government subsidies as its sole source of income, the purpose and nature of the subsidies as well as the geographic uniqueness of the venue will affect the nature of the organization's performances. Therefore, there needs to be an improvement of such support systems in order to promote the creativity of performing arts organizations and further diversify the culture and arts sector.

The current support system which provides subsidies by connecting local culture and arts centers, etc., with performing arts organizations was judged to be advisable in terms of subsidy transparency. However, while a support policy that distributes a budget through performing arts venues is advisable in terms of transparency, in terms of fostering creativity, there is a concern that such distribution may hinder the independence of arts organizations. It was concluded that there needs to be a fundamental reevaluation of the support system. The reality is that it is unclear whether the policy goal of government support projects is in the "promotion of creative activities," or in the "enhancement of the use of performance venues." In order to raise the efficiency of government fiscal spending, the policy goals have to be clarified to a greater extent and the methods of operation must also be devised based on those policy goals.

Chapter IV of this study analyzed the efficiency of fiscal spending regarding culture and arts NPOs. The efficiency analysis consisted of (1) an evaluation of the process of supporting ARKO through the Culture

and Arts Promotion Fund (audience satisfaction survey on ARKO); (2) an evaluation by end consumers on the culture and arts services provided by arts and culture NPOs with subsidies from the Culture and Arts promotion Fund (audience satisfaction survey on culture and arts events supported through the Culture and Arts Promotion Fund); and (3) an analysis of the efficiency of culture and arts NPOs (data envelopment analysis of culture and arts NPOs of each area).

Through these two evaluations and one analysis, it was evaluated whether or not the financial support for the supply of culture and arts services by culture and arts NPOs was being carried out efficiently. The first of the three processes, the audience satisfaction survey on ARKO, was a quantitative evaluation of culture and arts organizations that receive financial support for the purpose of assessing the efficiency at the level of providing subsidies through the Culture and Arts Promotion Fund. Through this study, it was found that there were problems in the objective reliability of the results of the investigations into only the organizations that had received subsidies from the Culture and Arts Promotion Fund. Second, the audience satisfaction survey on culture and arts events supported through the Culture and Arts Promotion Fund was conducted on the entire process of receiving subsidies from the Culture and Arts Promotion Fund, including supplying them to the end users, and evaluates the level of satisfaction of the audience of the culture and arts services as end users. In this survey, the design and content of the survey questions were pointed out as problematic, suggesting the need to review the surveys that are part of evaluating the efficiency of government spending. Third, quantitative evaluation was carried out on the relative efficiency of the output (number of cultural and arts performances, duration of the performances) of culture and arts organizations compared to their input (total operating expenses, personnel expenses) in the process of supplying culture and arts services through independent income such as income from audience admissions and the financial resources such as government funding. Data envelopment analysis (DEA) showed that there are organizations whose inefficiency was relatively high due to the occurrence of slack of the input in either personnel expenses or total expenses. The DEA results are thought to be useful in improving the efficiency of organizations as long as the results

are applied in consulting services provided at arts management support centers. In conclusion, in order to comprehensively evaluate the efficiency of fiscal spending that supports culture and arts organizations, the results of the two surveys above and a quantitative assessment of relative efficiency must all be comprehensively analyzed. Such an analysis will enable the presentation of criteria with which to accurately evaluate the efficiency of fiscal spending.

However, in order for the customer satisfaction survey on ARKO, a qualitative evaluation of whether financial aid is being provided appropriately to culture and arts organizations at the stages of public offering and application for the Culture and Arts Promotion Fund mentioned above, as well as the customer (viewer) satisfaction survey, a qualitative evaluation of the culture and arts services of culture and arts NPOs that receive subsidies, to become more effective methods of evaluation, the following improvements need to be made.

First, in the customer satisfaction survey on ARKO, a quantitative evaluation at the level of supporting culture and arts organizations, (1) in order to derive from the audience a more accurate and objective opinion on the fiscal spending of culture and arts organizations, there needs to be efforts to avoid bias in the surveys by improving the content of the questionnaires, placement of particular questions, and a balanced composition of questions regarding satisfaction and dissatisfaction. (2) For an objective evaluation of whether or not the financial aid to culture and arts organizations was provided efficiently, the subject of satisfaction surveys should not be limited to organizations that currently receive subsidies, but should incorporate organizations that applied but failed to receive such aid.

The following improvements are needed in order for the customer satisfaction surveys of culture and arts events to be used as a more effective basis for evaluation. In order to deduce accurate and objective information for evaluation regarding customers or the audiences who benefit from the subsidies, (1) efforts need to be made to deduce analysis results using the wealth of data available through surveys, (2) the criteria for the content of questions needs to be reviewed and the surveys need to be designed to induce objective answers, and (3) the questions in the survey need to be

composed so that they induce audience evaluation of the aspects that were subsidized.

Lastly, in order to more effectively use the data envelopment analysis for the evaluation of culture and arts organizations that are in charge of supplying culture and arts services in evaluating efficiency, there needs to be basic information on the input and output necessary for data envelopment analysis. In order to evaluate whether or not the financial support for culture and arts NPOs is being conducted efficiently, both qualitative and quantitative evaluations need to be conducted. However, currently, most culture and arts organizations do not conduct both types of evaluations or are incapable of gathering the necessary data for data envelopment analysis. Because there is a great shortage of available information on culture and arts organizations, there needs to be support policies that enable quantitative evaluations by making culture and arts organizations write and make public standardized annual reports that provide quantitative data.

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- Korea Social Enterprise Promotion Agency, socialenterprise.or.kr



Wonik Son is a senior economist at the Korea Institute of Public Finance. He is a member of the National Economic Advisory Council for the President and also a member of the National Advisory Council for the Social Security. He is former president of the Korean Association of Public Finance and a president of the Korea Association for Cultural Economics. Son has a Ph.D. in Economics from University of Wisconsin-Madison.

Taekyu Park is a professor of Economics at Yonsei University.

