



**THE QUALITY OF PUBLIC EXPENDITURE: CHALLENGES AND SOLUTIONS OF RESULT-
FOCUSSED MANAGEMENT SYSTEM IN THE KOREAN PUBLIC SECTOR**
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1. Imperatives for change

The financial crisis that hit Korea in the last half of 1997 had a devastating impact on the Korean economy, causing the worst recession in Korea during the post-war era. Real GDP growth fell from levels which had been sustained in the positive 5-10% range before the crisis to a negative 5.8% level in 1998. In the aftermath of the crisis, the unemployment rate rose from pre-crisis levels of 2% to above 4% from 1998 to 2000.

In order to address the fundamental causes of the crisis and to revitalise the economy, the Korean Government has taken bold and decisive steps towards comprehensive structural reforms. The reforms have concentrated on four major areas: the financial system, the business sector, labour, and the public sector. The restructuring program in each of the first three sectors required substantial fiscal support from the government. The public sector not only had to shoulder a large part of the restructuring burden of the other sectors, but also needed to undergo restructuring for its own sake as a sector, claiming a major portion of the economy.

The main direction of fiscal and public sector reform has been to adopt more market-oriented forces and managerial strategies to increase efficiency and transparency. An effort is being made to instil a performance-oriented approach into the system, which means public expenditure management based on the principle of “budgeting for results.” This new goal of budget management is not to control input but to control the output or outcome of expenditure. A distinctive feature is the introduction of a performance management concept that uses pilot tests and *ex ante* evaluations before new projects are approved. In addition, a formal review process has been introduced to ensure that funds are continually subjected to monitoring and evaluation. Furthermore, budgeting has been simplified by reducing the number of special accounts and government funds. Thus, some special accounts and government funds have been consolidated in order to strengthen their management systems.

The introduction of the results-focused management and budgeting system is still at its early stage in Korea. The Ministry of Planning and Budget, however, has adopted a series of the integrated (*ex ante*, intermediate, and *ex post*) quality control efforts of public expenditure management during the past several years. In this paper, after briefly describing the traditional performance management system that existed

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for several decades in Korea, the ongoing initiatives will be discussed. As the new modern results-based management system is being developed, experiences of the leading OECD Member countries will be valuable asset for such an effort.

2. Historical outline

2.1. *Ineffective institutional setting before the 1997 economic crisis*

In Korea, performance management systems existed for several decades but without a clear concept of “results-based management and budgeting”. The performance management system had evolved into two different directions: one evolved to a “performance evaluation” system approach and the other an “audit and inspection” system approach. Institutional arrangements of the “performance evaluation” has passed through many changes. In the 1970s, such an evaluation system was introduced and carried out by the Office of the Prime Minister. The Prime Minister was to report to the President on implementation results of the major policies via the State Council of Ministers. In 1981, the policy analysis and evaluation task was placed under the authority of the Performance Analysis Bureau of the Economic Planning Board (EPB) which is the major Ministry of Economy. At the same time, the Committee on Management Performance Evaluation of Government-Invested Organisations was installed within the EPB chaired by the Minister of EPB. In early 1995, the performance evaluation function of the EPB was transferred back to the Administrative Co-ordination Division within the Office of the Prime Minister, which resulted from another round of restructuring within governmental organisations. Since then, this division has been responsible for the inspection and evaluation of major economic and social policies and programs of line ministries.

The function of the “performance evaluation” system was to represent a comprehensive system that broadly covers not only review, analysis, and evaluation of the implementation and effectiveness of government measures, but also co-ordination of the pertinent administrative agencies’ treatment of the evaluation results. The performance evaluation also exerts to ensure that the results are incorporated into the follow-up execution of government tasks by the administrative agencies. However, this system rendered ineffective due to the conceptual confusion about what should be evaluated, and lack of specific methods and tools by which policies should be evaluated. Moreover, other barriers such as political sensitivities and the indifference of the individual agencies put further stress on the matter. No administrative agencies wanted their problems to be publicly revealed.

For the “audit and inspection” system, the National Board of Audit and Inspection was founded in 1948 under the President as the supreme audit institution, pursuant to the provisions of the Constitution, to carry out audits of the central government, local governments, government-invested organisations, and other organisations. The board placed emphasis on the efficiency and the transparency of the audit and inspection functions through the use of self or independent audit and independent inspection. It contributed to balancing the development of two major functions: audit of public accounts and inspection of the duties of each government agencies.

Although the ultimate objective of the audit and inspection had been to examine the effectiveness of the management and control of government policies, the National Board of Audit and Inspection did not establish a formal framework aimed at evaluating the major issues of government policies. The board's function had been limited to accounting and legal audits without the development of an overall evaluation of policies and programs.

2.2. *New initiatives after the economic crisis*

After the presidential election of December 1997, the current administration took power and launched a series of new initiatives for a result-based management system. To carry out innovative reforms, the government created several reform commissions. In early 1998, the Planning and Budget Commission (PBC) was established as a special commission reporting directly to the President. The PBC was given the responsibility of directing the budget process and had final authority over the Executive branch's budget decisions. The PBC was also given the mandate of directing the public reform program. In mid-1999, the PBC was incorporated into the Ministry of Planning and Budget (MPB) with the existing National Budget Office, technically under the supervision of the Ministry of Finance and Economy at the time.

The Government Reform Office within the PBC (MPB) has played a major role in restructuring government organisations and government-invested or funded organisations. The strong government reinventing movement stimulated a deep interest in performance evaluation, especially among public organisations. One of the most important changes has been an increasing effort to reflect the results of evaluation in post-budgetary processes. However, the evaluation results thus far have not actually been incorporated into the budget processes. Instead, a formal review process by the MPB was introduced to ensure that public expenditures are continually subjected to careful monitoring and evaluation.

Currently, evaluation and performance measurement is done by the Budget Management Bureau at the MPB, a newly established bureau for this purpose. Beginning with the budget for fiscal year 2000, the MPB introduced a performance-based budget in 16 pilot organisations, and scheduled a larger number of organisations for performance-based budgets in 2002 thereafter. The Budget Management Bureau is also in charge of inspecting the implementation of long-term public projects that are large in size. Inspection would facilitate identifying solutions for those reported problems, while the results may constitute a direct feedback to be taken into consideration during budget compilation. To improve the *ex ante* evaluation of proposed investment projects, preliminary feasibility studies have been conducted for large-scale national project proposals by the MPB assisted by the Korea Development Institute (KDI). An incentive payment system has been also introduced to help raise efficiency in fiscal management. The new system allows for a personal incentive payment of up to 20 million Korean won (about US \$16 000) to individuals who have contributed to expenditure savings or revenue increases.

3. *Performance management by new tools*

The new initiatives surrounding performance management at the Ministry of Planning and Budget introduced four devices: *a*) performance-based budgeting; *b*) inspection of the implementation completion; *c*) preliminary feasibility studies; and *d*) incentive payment for expenditure savings or revenue increases. Performance-based budgeting for some pilot agencies began in 2000 and a review of implementation for

some programs and projects started in 2001. The preliminary feasibility studies started in 1999, and incentive payment for expenditure savings started in 1998.

3.1. Performance-based budgeting

Directions: The Ministry of Planning and Budget introduced a performance-based budget from the fiscal year 2000 in 16 pilot organisations. Each government agency chosen for pilot studies should measure performance of the agency systematically through a strategy plan, performance plan, and performance report. The MPB and the agencies should feed the results back into budgeting and organisational management.

Pilot projects: Considering the peculiarity of the public sector such as the lack of experience in performance management or difficulties in measuring performance, 16 agencies such as the Rural Development Bureau of the Ministry of Agriculture and Forestry, and the Water Supply and Sewage Treatment Bureau of the Ministry of Environment were chosen for the pilot projects in 2000. The performance plans of these agencies were made public in May. In 2001, 12 agencies such as the Public Procurement Service and the Forest Service were added. The performance plans of these agencies became public in June, and the performance reports of the previous year were analysed and evaluated in September. The standard model of the performance report was established based upon that of the Rural Development Bureau. In 2002, 11 agencies have been added for a total of 39 agencies.

Contents of performance plan and performance report: In the performance plan, each agency should: denote the agency's mission by law; establish the strategic goals for the mid-term (three to five years); establish performance objectives such as the annually-targeted objectives to achieve the strategic goals; identify clear, objective and quantified performance indicators and the methods to measure them; suggest specific strategy and project plans such as policy measures and methods of the annual plans; and finally make the budget statement relevant to the objectives, including the budget size. The performance report should include: substantial outcomes achieved; unachieved performance objectives and the reasons; and a schedule for achieving remaining performance objectives.

Example 1: The first pilot case of a performance plan is that of the Rural Development Bureau (RDB) in 2000. The bureau's mission by law is to install the necessary infrastructure for agricultural production and to enhance the quality of rural life. The bureau established five strategic goals, such as ensuring stabilised farming. One of the performance objectives for stabilised farming is to reduce flood damage by constructing flood-preventive facilities. To evaluate the performance of this objective, the agency suggests the area of a region covered by the draining facilities to the targeted area as a performance indicator. The budget size associated with the performance objective is about \$167 million. According to the performance report, which was issued in November 2001, new draining facilities cover 9 000 additional hectares, whereas the targeted area until 2009 was 235 000 hectares. Hence, the completion ratio increased by 4% as planned. The report insists that the project be successfully expanded and proceeded consistently. In the performance report, two unachieved performance objectives are mentioned. Underdevelopment of the leisure industry resource which is targeted for increasing income of rural residents was one of them. The report indicates that the economic recession since the year of the economic crisis has made the private sector hesitant to invest in the leisure industry. The 2001 budget reflected this finding with a \$ 3.5 million reduction.

Example 2: Another case of a performance plan in 2000 is that of the Technology Policy Bureau at the Ministry of Commerce, Industry and Energy (MOCIE). The ultimate goal of the bureau in the performance plan is to strengthen the capacity of technology innovation for the sake of supporting the transition to the industrial structure that is suitable for a knowledge-based economy. The bureau established five strategic goals such as the development of core technologies and the expansion of technology infrastructure. Furthermore, expansion of technology infrastructure, one of the strategic goals, has three performance objectives including training technical manpower. The bureau suggested the number of enterprises that benefited as one of nine performance indicators. \$9.7 million was allocated for this performance objective. According to the performance report in 2001, the number of enterprises that benefited, which increased by 8% from 17 to 25, showed that the objective was achieved successfully. Therefore, the bureau planned to implement the same project of a similar size for the expansion of technology infrastructure, especially for IT and BT (biological technology). On the other hand, industrial application of invented technologies were an unachieved performance objective. This was because the interest rate was too high and such applications required a collateral that was too heavy for small or medium sized companies, which were the main targets of the lending policy in the program. In 2001, the bureau modified the conditions for lending by lowering the interest rates and relaxing required collateral.

Example 3: The Intellectual Property Office is the third example. The agency has been included in the pilot projects since 2001. Therefore, the first performance report of the agency has not been issued, thus far. The agency's mission by law is to promote activities to create, protect and utilise newly invented technologies. Strategic goals are composed of three categories, including advanced IPR (industrial property rights) policies for a knowledge-based economy. One of the performance objectives for advanced IPR policies is reinforcement of industrial information service. Two suggested performance indicators are the number of visitors to the Patent Technology Information Service's web site, and the number of attendants at the patented technologies and products distribution investment fairs. The budget size relevant to the performance objective is about \$16 million

The three examples mentioned show that even though the Ministry of Planning and Budget introduced a performance-based budget in pilot organisations, outcome targets for the organisations are not routinely displayed in the budget documentation. Only when the output targets can be well measured, can they be displayed in the budget documentation. Furthermore, how outputs contribute to the realisation of desired outcomes in general are not explained. There is no direct link between the output or the outcome targets and the whole-of-government budget statement, so far.

3.2. *Inspection of implementation completion*

Directions: The Ministry of Planning and Budget recognises the need to review the completed implementation of public projects that are large in size, require results analysis or have problems that were raised by the National Assembly or the National Board of Audit and Inspection. Such inspection would also facilitate the problems raised, while the results may constitute direct feedback to be taken into consideration during the next budget compilation. In 2001, the MPB selected 20 major public programs and projects considered in need of systematic analysis. They included: a program for providing public rental housing; a program for self-support vocational training; a program for preventive medical treatment; a program for regional trust guarantee foundation; a project for establishing regional research centres; a

project for redevelopment of arable land for residential environment improvement; a project for constructing technology innovation centres; a project for the development of agricultural and industrial complex; and others. In 2002, 30 new programs and projects were to have been chosen for inspection.

Inspection teams: In 2001, the 20 projects were categorised into 11 divisions according to the area of speciality and the similarity of checkpoints, and 11 teams corresponding with specific divisions in the MPB were formed. The directors of the 11 divisions in the MPB were appointed as team managers and took responsibility for the operation of each team. As a rule, each team must include a deputy director of the MPB, an officer in the line ministry, and one or two specialists from the private sector, from either academia or NGOs. Organisation and operation of the team are basically within the team manager's discretion. The teams were responsible for inspecting each project and preparing the inspection reports. The MPB intended to reflect the conclusions of the final report in the 2002 budget.

Inspection approach: Rather than put forth an abstract proposal for long-term policy direction, this inspection approach was intended to focus on obtaining more detailed information on the selected public projects that could be significantly reflected in the 2002 budget compilation. The inspection process is composed of several steps. The first step is to carry out due diligence for each project. To confirm the aims and direction of the inspection, the inspection team must possess in-depth knowledge about the project, including its background, specifications, and performance recorded to date. Contentions put forth by organisations such as the National Assembly, the National Board of Audit and Inspection, and NGOs, will be investigated, using materials and reports prepared by these institutions and the relevant ministries through their on-site inspections. The second step involves investigation of the projects implemented by the line ministries and budget implementation through documents and on-site visits. This step may involve questionnaires sent out to the line ministries or a personal visit. The final report is prepared after collecting the opinions of related specialists and customers of the projects, after which the Budget Management Bureau, Budget Office and the inspection team will convene a discussion on the report. Finally, the inspection team will notify the Budget Office in the MPB and the ministry in charge of the project with the results from the inspection in a final report. In general, the entire process may take approximately five months between March and July to complete.

Results: The follow-up measures recommended in the final report generally have two goals; budget efficiency and institutional improvement. In the 2001 report, one of the recommendations for budget efficiency was that residential environment improvement projects focus on the completion of existing districts during the budgeting process. The report also advised that the redevelopment of arable land project be down-scaled in 2002 according to the long-term reduction in the project's total volume. In addition to improving budget efficiency, measures aimed at institutional improvement are also very important. Whether or not the measures are implemented must be decided through consultations with the line ministries concerned. The 2001 report proposed that in the case of the redevelopment of arable land project, the government subsidy rate should be reduced from 80% to 70%. Regarding the regional trust guarantee foundation project, it was proposed that the matching subsidy rate between the central government and local government be re-adjusted. This inspection report occasionally puts forth suggestions regarding revisions in related laws or integration of projects as deemed necessary. If suggested, the line ministries concerned should proceed to further investigate the specified recommendations. In the case of the residential environment improvement projects, it was suggested that the so-called Act on Urban and Residential Environment Improvement be established with the intention of removing the subsidy for the projects after 2004.

3.3. *Preliminary feasibility studies*

Directions: Improvement of an evaluation system at the *ex ante* level is also very important for the quality of public expenditure. Since 1999, the MPB has been carrying out preliminary feasibility studies (PFS) to enhance efficiency in the decision-making process of major public investment projects. Throughout the project cycle such as the stages of identification, preparation, implementation, evaluation, etc., the government is initially interested in improving the methods of *ex ante* evaluation at the preparation stage by utilising cost-benefit analysis and multi-criteria analysis. PFS guidelines aim to maximise economic productivity by selecting large-scale public investment projects based on priority in a transparent and objective way. Under the new procedure, the MPB established the Public Investment Management Centre (PIMA) within the Korea Development Institute (KDI) with the mandate to conduct research and operational management in implementing PFS.

Methodology: According to the amendment of Budget and Accounting Act in 1999, every large-scale construction project costing more than 50 billion Korean won (about \$40 million) are to be implemented in the following steps: preliminary feasibility study, detailed feasibility study, basic design development, detailed design development, right of way acquisition, and construction. While the detailed feasibility study and the following steps are managed by the line ministries, the very first step of the process, the preliminary feasibility study, falls under the authority of the MPB. The PFS is conducted by a multi-disciplinary research team organised by the Public Investment Management Centre, that typically consists of economists, transportation researchers, and civil engineers. The mixture of specialists from different backgrounds and different organisations helps to provide diverse ideas into the evaluation and to improve the transparency and objectivity of the decision-making. The introduction of PFS required the development of a standard framework for project evaluation. The Public Investment Management Centre has published a series of evaluation manuals for road, railways, airport, and seaport projects since 1999. Cost-benefit analysis is the backbone of the evaluation framework employed by the manuals. The contents of PFS, however, consist of two parts: one is “economic analysis” employing a cost-benefit approach and the other is “policy analysis” that covers diverse social issues that are not easy to quantify. The overall evaluation of a project is made based on the results of “economic analysis” and “policy analysis”. Analytic hierarchy process (AHP), a multi-criteria decision-making approach, is also employed to synthesise the results of the analyses and to make overall decisions on the projects. The PIMA’s publications of manuals and guidelines are followed by development of manuals for detailed feasibility studies conducted by the line ministries.

Results: Based on the PFS, only a group of projects evaluated to meet the investment criteria should be approved and implemented. From 1999 to 2001, 41 out of 90 projects were accepted according to PFS evaluations. This is regarded as one of the most remarkable experiences in public management in Korea. With feasibility studies conducted by the line ministries before the PFS was introduced, virtually all projects were allowed to proceed. This procedure, which is applied primarily to large construction projects, could be extended to other areas such as various subsidy and credit programs.

3.4. *Incentive payment for expenditure savings or revenue increases*

Directions: In order to encourage voluntarily efforts by officials to save expenditure or to increase revenue, the MPB has developed an incentive payment system in 1998. The system works in two steps: the first is to provide an incentive payment to government officials based on their contributions to reducing expenditure or enlarging revenue through their initiatives and efforts; the second is to cut some portion of the corresponding budget for the next fiscal year in proportion to the amounts saved. In each year, the Screening Committee for Incentive Payment, of which the chairman is the Vice Minister of the MPB, is held to screen the results presented by each line ministries and to determine the beneficiaries. From 2001, individuals in the private sector who propose excellent suggestions for public expenditure savings or revenue increases can also be included in the beneficiaries.

Methodology: Four categories for incentive payment are as follows: personnel reductions, ordinary expenditure savings, expenditure savings for economic projects or programs, and revenue increases. For personnel reduction, the incentive payment can be provided up to the reduced personnel expenditures for one year. For ordinary expenditure savings or expenditure savings for projects or programs, the limits are 10-50% of the amounts saved, respectively. The big difference between the limits of incentive for the ordinary and the project/program expenditure reflects the difficulty in reducing ordinary expenditure. In any case, the incentive payment for a single person cannot exceed 20 million won (about \$16 000). As a follow-up measure, reduced personnel expenditure, 30% of savings for ordinary expenditure and the whole amount of savings for main projectsprogram expenditures will be cut in budget for the next fiscal year.

Results: In 1998, nine agencies (12 cases) received 4.3 billion won (about \$3.4 million) for 12.7 billion won (about \$10.2 million) of expenditure savings or revenue increases. In 1999, 18 agencies among 281 (6.4%) saved as much as 1 848.7 billion won (about \$1.5 billion) on budget and the amount of incentive payment reached 11.1 billion won (about \$8.9 million). Considering the technicality and fairness of the screening process, the Screening Committee integrated experts in the corresponding fields to participate in the screening process since 1999. In 2000, 1 400 billion won (about \$1.1 billion) worth of budget was saved by efforts in 16 agencies (305 cases) and 7.4 billion won (about \$5.9 million) was provided as an incentive payment. In 2001, 11 agencies saved 1 030 billion won (about \$820 million) and received 2.2 billion won (about \$ 1.8 million) as an incentive payment.

Examples: In 2001, the Ministry of Information and Communication introduced a new style stamp on which the customer's picture or company's logo can be inscribed. Instead of the conventional stamp, customers can choose to have their personal pictures or company logo on the stamp. Overcoming the decrease of stamp sales due to Internet or e-mail, these new-invented stamps were sold for more than 2.5 billion won (about \$2 million) since April 2001 and regenerated a stamp collecting trend, which was very popular in the past. The inventor of this idea received 20 million won (about \$16 000) as an incentive payment, which is the limit for a single person. Another example of an incentive payment is in dredging operation of Ulsan port. The Ministry of Maritime Affairs and Fisheries saved 16.1 billion won (about \$12.9 million) through applying a more advanced technology. The new technology, Hopper Method, is known by its technical, economical, and environmental excellence. By using this method, 40% of expenditure has been saved. Totally, 18 million won (about \$14 000) was given to four officials, who initially contributed to inventing the new technology, as an incentive payment.

4. Reporting to the National Assembly and whole-of-government perspective

In Korea, the performance management framework has been centred on improving the quality of policy implementation and service delivery, but accountability to the National Assembly has not been required by law. Results of performance evaluation is not systematically delivered to the National Assembly; it is delivered on an *ad hoc* basis. The evaluation result of the Ministry of Planning and Budget is not required to be reported to the National Assembly. The National Board of Audit and Inspection directly reports to the President, not to the National Assembly. However, each ministry and agency concerned has been encouraged to review the indicators to co-ordinate them with the performance goals put forth in their plans and include the information in the annual reports. Performance management is mainly seen as a tool used by the Executive branch to increase the quality of policy information, so the documents are not specifically intended for the National Assembly. The National Assembly has been taking an interest in the matter, and members of the Assembly have made some inquiries into performance management in government agencies. Recently, however, a revision of the Budget and Accounting Act is in progress to oblige the MPB to submit the annual reports of performance evaluation on major programs and projects to the National Assembly. The legislative review of the annual performance reports is intended to enhance the importance of results-based management of the budget.

Performance management and evaluation have focused on some central government agencies but not on the government as a whole. The focus has never been directed at cross-cutting issues but individual ministries have been evaluated within their own agencies. This is mainly attributed to the performance evaluation system which provides few incentives for agencies to focus on inter-departmental issues. Some local governments have also been implementing performance management, but most of them have not gone as far as the central ministries.

5. Response to the needs of citizens and e-government

One important goal of performance management is to produce changes that can be tangible and appreciated by consumers and the general public. Priority will go to cutting down on redundancy and red tape in the provision of public services at all levels. Clear transparency is essential if public sector reform is to gain the trust of the general public. For this purpose, the Korean Government is trying to broaden the scope of performance disclosure requirements, and also plans to adopt an index of administrative services, which will be measured jointly by the government and the public from the customer perspective. In order to improve the quality of public services, citizen's charters were established for some state-owned enterprises (SOEs) and public agencies. Service quality standards have been established for 19 SOEs and 10 pilot agencies in 1999 including health services, police departments, the subway system, passport office, etc.

In order to raise the satisfaction level of its customers and to raise its efficiency by concentrating on high-value work, which is how a knowledge-based electronic government ought to work, the government also placed the highest priority on the use of information technology. This includes issuing e-mail accounts to all government employees, building up an information management system by mandating electronic approval in office work, and building up one-stop or non-stop service systems through the use of electronic information technology. To enhance transparency and efficiency of SOEs procurement procedures, seven

companies whose transactions are relatively large, such as Korea Electric Power Corporation and Korea Telecom, established their own e-procurement system.

Performance management reform is a task that will be more effective with the participation of citizens. The government plans to facilitate greater citizens' participation in the identification of a reform agenda and the implementation and evaluation of the agenda.

6. Lessons learned and issues raised

The performance management system for public policy in Korea has not been very effective, especially during the period preceding the 1997 economic crisis. After the economic crisis, the government has been developing a new architecture of result-management and evaluation system. The experimental practices of performance-based budgeting, inspection of the implementation completion, preliminary feasibility studies, and incentive payment for expenditure savings or revenue increases at the Ministry of Planning and Budget are good examples of new initiatives. There are several areas where more can be done for higher effective and efficient performance management of public policies or programs.

6.1. *Incongruent practical guidelines of evaluation*

The definition of evaluation varies with the governmental organisations in charge of public policy evaluation in Korea. Even though there is a very limited but common ground on what policy evaluation means and the functions between the Ministry of Planning and Budget and the line ministries, no clear-cut conceptualisation of policy evaluation has been made and utilised, thus far. This leads to some conceptual and practical confusion about what should be evaluated. In fact, policy evaluation is normally conducted by the MPB, and program or project evaluation is technically and experimentally carried out by each line ministry and agency, while evaluation based on policy, program, or project has seldom been carried out by the National Board of Audit and Inspection.

There is no apparent logic for the evaluation of policies and/or programs in the governmental evaluation agencies. It should be noted, however, that the techniques for evaluation depend solely upon what type of evaluation is adopted. Nonetheless, there seems to be a tendency to rely heavily upon simple analytical evaluation methods and techniques chosen on an *ad hoc* basis. More specific guidelines should be developed for approaches and techniques for each policy/program/project evaluation. Outputs and outcomes of each policy/program/project should be more carefully specified and measured.

6.2. *Lack of collaboration*

The major institutions of performance evaluation, the Ministry of Planning and Budget, the line ministries, and the National Board of Audit and Inspection, do not appear to have any working level relations with each other in carrying out their own policy evaluations. Although there are some differences between these organisations in their duties, other overlapping activities still exist since evaluations and audits on policies, programs and projects are not mutually independent in a true sense. As such, lack of co-ordination between the institutions results in inefficiency and ineffectiveness in evaluation work.

There is no regular circulation of the results of an evaluation among the authorities concerned at the same level of the government hierarchy. In particular, no systematic exchange of information on evaluation or audit and inspection has been undertaken across administrative agencies. The self audit and inspection offices and internal evaluation offices have relations only with their own supervising institutions.

6.3. *Inadequate professional and trained personnel*

The performance management staff of every administrative agency lacks professional knowledge of evaluation and inspection. The current recruiting practices may be appropriate for recruiting personnel who are well aware of the target tasks and duties, but these practices are insufficient for recruiting personnel having in-depth knowledge of performance management and policy evaluation. In reality, public officials who are not experts with regard to policy evaluation, tend to be in charge of carrying out the evaluation of policies and/or programs. In this situation, one may hardly expect an efficient and effective evaluation.

6.4. *Unclear accountability*

All institutions involved in performance evaluation and audit – the Ministry of Planning and Budget, the line ministries, and the National Board of Audit and Inspection – have some problems of accountability.

Even though each line ministries are obliged to prepare output reports accompanying the budget submitted to the Ministry of Planning and Budget, the information provided in the reports are not explicitly related to the budget statements. Furthermore, they are not accountable to the National Assembly. Functions of the National Board of Audit and Inspection are limited to an advisory role for the President and is not an independent audit and inspection organisation. The board is not accountable to the National Assembly; instead it is accountable to the President. It is likely to conduct a self audit and inspection rather than a truly independent judicial audit due to close connection to the President. In addition, the board does not have an enforcing power to implement the post-evaluation proposals.

The Ministry of Planning and Budget also has an accountability problem. The MPB is in charge of the budget compilation and execution in the initial stages. Therefore, the MPB may not be a good candidate for evaluating the results of its own compilation and execution. Since, according to the recent amendment plan of the Budget and Accounting Act, the MPB is supposed to submit the annual reports of performance management to the National Assembly, thus the MPB would be more accountable to the National Assembly in the future.

6.5. *Low effectiveness of the post-evaluation proposals*

As already reviewed, the post-evaluation recommendation taken by the Ministry of Planning and Budget, each line ministry and the National Board of Audit and Inspection often rendered to be ineffective in affecting the budgetary process of the ministries concerned. Since post-evaluation recommendations have no legal binding force, public policy evaluation results are likely to fall into the status of a merely political or administrative routine.

Recently, however, some post-evaluation proposals suggested by the Ministry of Planning and Budget have been working effectively in a way only for the cases of new evaluation tools such as performance-based budgeting, inspection of the implementation completion, preliminary feasibility studies, and incentive payment for expenditure savings.

7. Challenges ahead

As discussed in the paper, the Korean Government launched a serious effort to reform its performance management and budgeting processes only recently. The main challenge is to introduce “a new performance management and evaluation culture” in Korea and to develop and implement a result-based budget system.

There are three areas of main tasks which lie ahead: *a)* developing the pilot projects on performance budgeting into a fully-fledged performance monitoring system; *b)* promoting the more advanced and specified performance evaluations in line ministries; and *c)* shifting the focus of audit activities by the National Board of Audit and Inspection from financial audits to program evaluations. None of these tasks are easy to accomplish, and they will require many years of consistent efforts. Of particular concern is the lack of interest on the part of line ministries in performance monitoring and program evaluation.

At this particular point in time, efforts are concentrated on the second area of tasks, namely promoting best practices of performance management in line ministries. For this purpose, we are currently developing a comprehensive evaluation strategy similar to those adopted by some leading OECD Member countries. In this process, the Ministry of Planning and Budget will play an active role by setting up the government-wide performance management structure, providing the guidance for departments and agencies, controlling the quality of evaluations, and feeding back the results into budget cycle.

At the same time, we are taking extreme caution not to “impose” too much reforms on line ministries. Performance management, including program evaluations, can have the greatest impact on final outputs and outcomes only when it is accepted and utilised voluntarily by line ministries themselves. The challenge lies in striking a right balance between generating sufficient momentum and minimising the resistance from the line ministries.