

ACHIEVING PFM REFORM:

OVERVIEW, CHANGE MANAGEMENT, ACHIEVEMENTS AND FUTURE DIRECTIONS

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Contents

- Adaptive leadership challenges in PFM Reforms
- Overview of PFM Reforms in Korea
- Achievements of PB Reform
- Change Management of PFM Reforms in Korea
- Journey to Further Improvements

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Adaptive leadership challenges of PFM reforms

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Creating acceptance of reform need

Establishing reform team and building coalition

Strategic communications with actions

Develop capacity building program for stakeholders

Coping with unexpected challenges

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Need to overhaul PFM system

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- There had not been any major reform in PFM area since the Budget and Accounts Act in 1961. which is based on line-item budget classification.
 - ▣ Focused on resource mobilization to meet the given policy priorities with output-based monitoring rather than on developing policy priorities based on monitoring & evaluation
- After the Asian Financial Crisis in the late 1990s, the need for PFM reforms became evident.
 - ▣ Increasing government debt
 - ▣ aging population
 - ▣ increasing demand for social welfare

Demand for reform

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Aspiration for reforms within the central budget office

- Need for longer term perspectives in budget process
- Need for enhancing feedback mechanism
- Need for improving transparency and efficiency

Support from civil society

- In particular, strong support from academics and expert groups

Political need of the new government

- Need for shifting resource allocation to the new policy areas
- Need for more participatory budget process

PFM reform programs in Korea

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MTEF

Top-down
budgeting

Performance
Budgeting

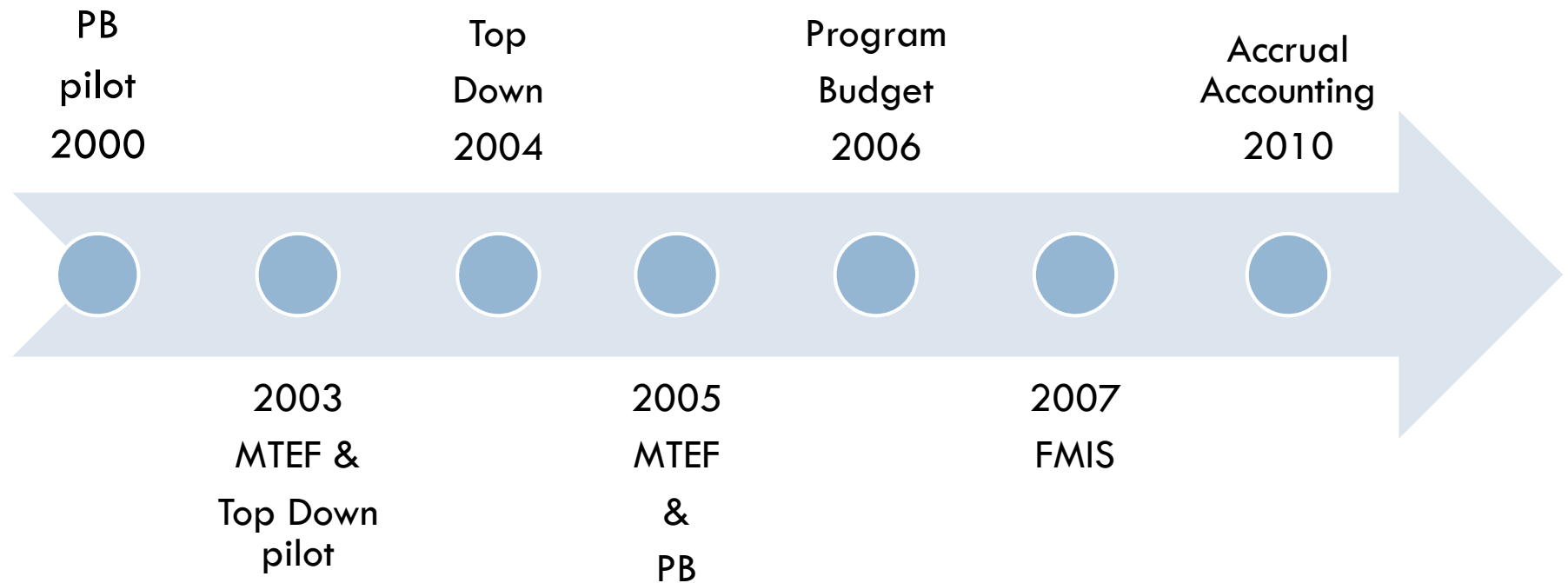
Program
budget
classification

IFMIS

Accrual
Accounting

Sequence of PFM reforms in Korea

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Characteristics of PFM reforms in Korea

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Big bang approach

- Introducing all major components of PFM reforms within a single presidential term (5 year)
- All initiatives are pursued in a parallel manner

Practical adjustment of reform programs

- Some delays in program budget classification and accrual accounting

Executive branch initiated reforms

- Almost no engagement of the legislature

Introduction of program structure

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- Initially, there was not much acceptance among CBA and line ministries
- With continuous communication with line ministries, the need for developing program structure was accepted
- As a trial basis, the first budget draft for FY 2006 with programmatic budget classification was submitted to the National Assembly in 2005.
- The first official program budget document was submitted to the National Assembly in 2006.

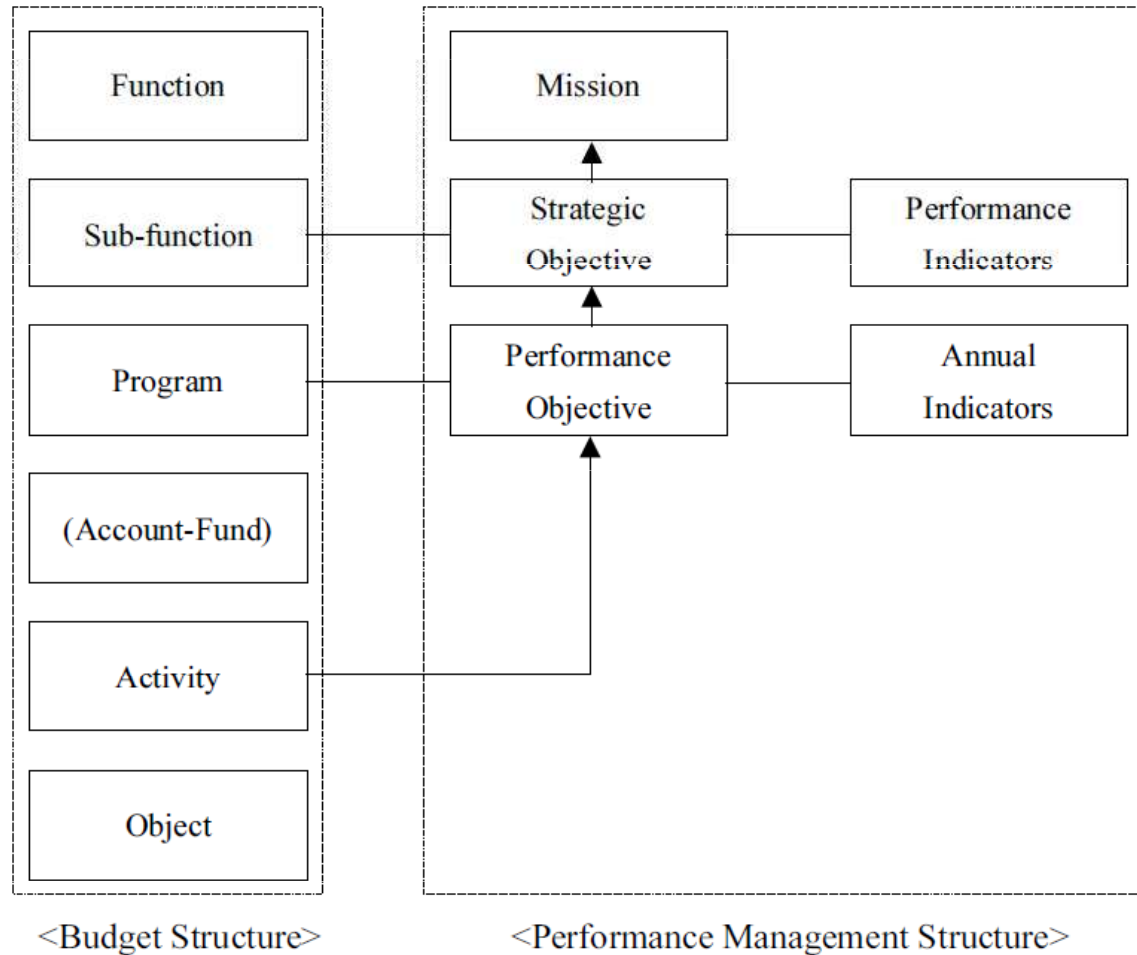
Issues in developing program structure

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- Existing organizational structure was observed
 - ▣ Program corresponds to office/bureau level
 - ▣ Sub-program corresponds to team level
 - ▣ No crosscutting program was developed
 - ▣ Practical approach was adopted to match budget execution unit and budget classification
- No distribution of overhead costs to each program was done
 - ▣ Created separate “Administrative support program”

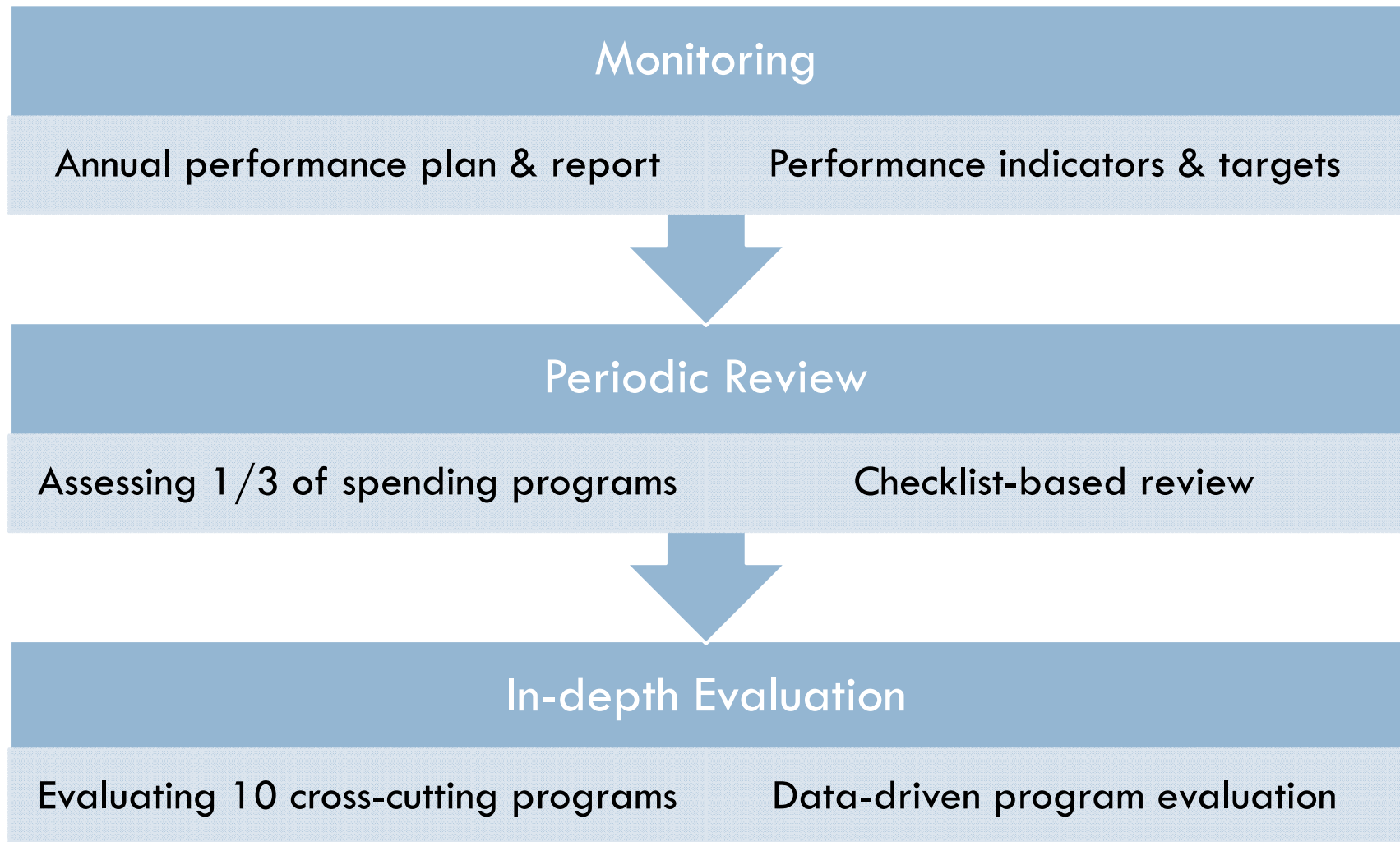
Program Budget Classification

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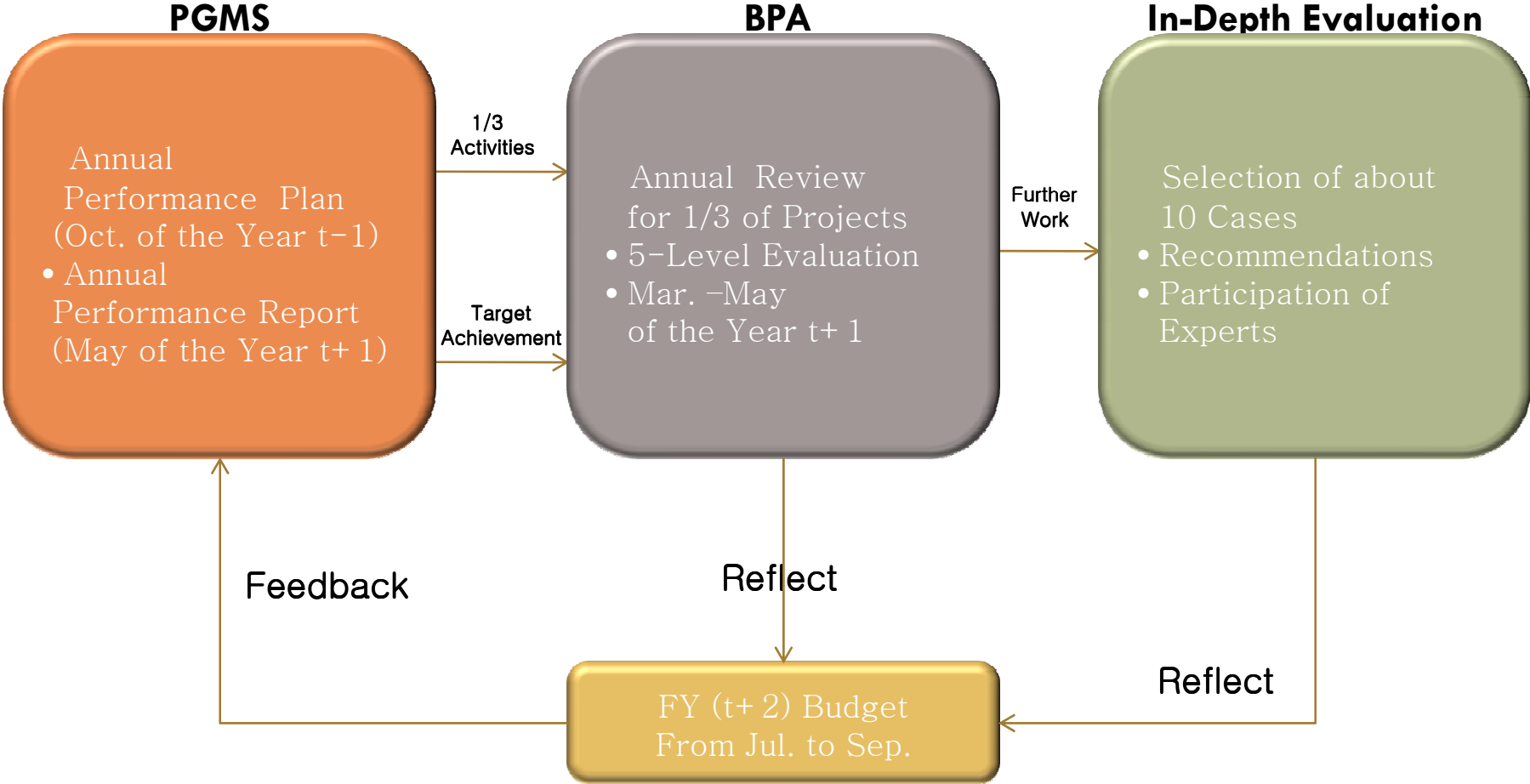


3 Layers of PB system

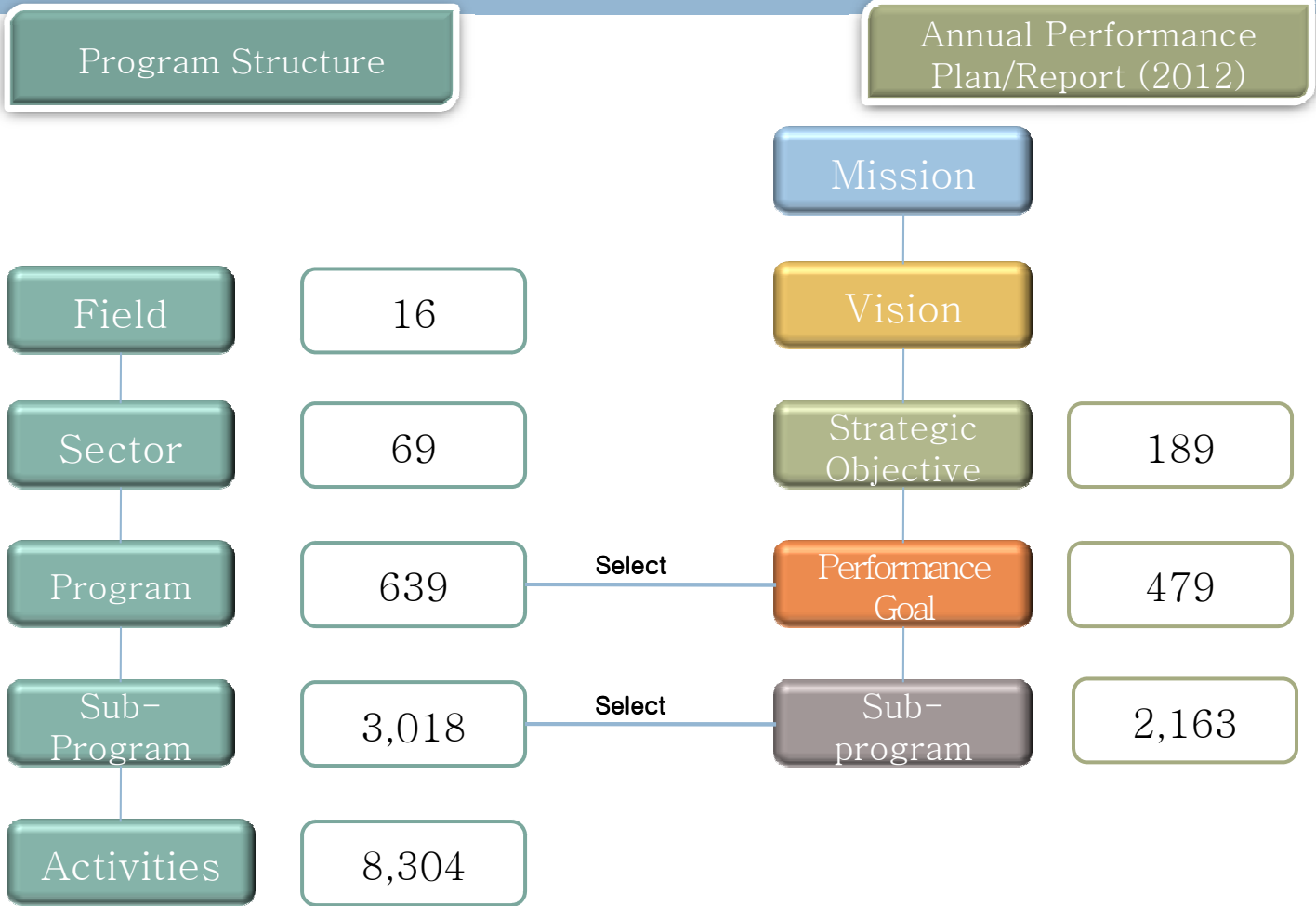
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Framework of PB in Korea



Relation between Annual Performance Plan and Budget Structure



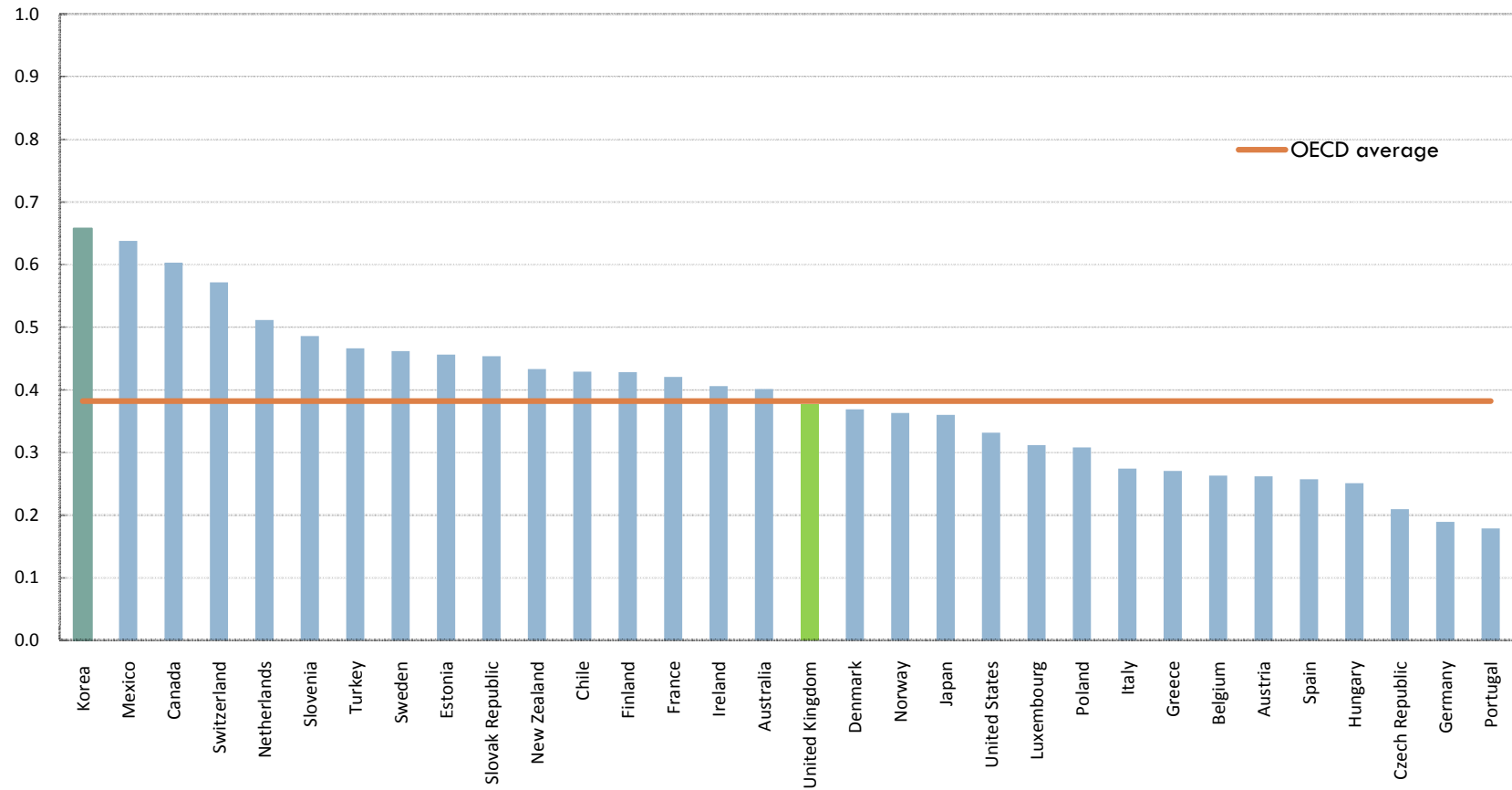
Program Review Results

(Number of Programs, %)

Year	Total	Effective	Adequate	Ineffective
2008	384 (100)	55 (14.4)	226 (58.9)	103 (26.8)
2009	440 (100)	36 (8.2)	311 (70.7)	93 (21.2)
2010	552 (100)	26 (4.7)	393 (71.2)	133 (24.1)
2011	482 (100)	33 (6.8)	317 (65.8)	132 (27.4)
2012	474 (100)	32 (6.8)	330 (69.6)	112 (23.6)
2013	597 (100)	29 (4.9)	424 (71.0)	114 (24.1)

Current status of Korean PB

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2011/2012 OECD Survey on Performance Budgeting Practice

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Use of Performance Information

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- Information from monitoring system (performance plan and report) has not been systematically utilized so far.
 - ▣ For internal use, they are useful information
 - ▣ From the viewpoint of central budget authority, they provide limited information
- Information from review system are actively used in budget negotiation process.
 - ▣ Programs rated as ineffective are in danger of suffering budget cut
 - ▣ Its use is systematically built into the budget process
- Information from program evaluation is usually useful
 - ▣ Their use in budget process depends on the quality of evaluation and the will of central budget authority
 - ▣ Recently it gained visibility by formalizing the reporting process.

Budget Cut for Ineffective Programs

(Billion USD, %)

Year	No. of Ineffective Programs	Total Budget in FY (t)	Total Budget for FY (t+1)	Budget cut (%)
2008	103	5.7	4.6	-19.3
2009	93	2.8	2.6	-6.8
2010	133	3.9	3.4	-12.5
2011	132	4.3	3.9	-10.0
2012	112	1.9	1.5	-18.4

Use of In-depth evaluation Information

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- 329 recommendations are produced from the in-depth evaluation between 2008 and 2012.
 - 166 are finished with follow-up actions
 - 144 are in progress
 - 19 are delayed
- Program consolidation, program design and implementation improvement, improvement of performance management
- Example: Program for the improvement of energy efficiency
- ESCO (Energy Service Company) program
 - Government provides subsidy and tax exemption to the company renovating facilities to improve energy efficiency.
 - 20% of the expense was exempt from corporate income tax.
 - The problem was government subsidy was counted as expense, which means double-counting.
- One of the in-depth evaluation's recommendation was the elimination of the double-counting practice, which was implemented by the Ministry of Strategy and Finance

Cultural changes in line ministries

- Monitoring & evaluation activities become essential elements of program design and management.
 - ▣ Many big programs set up M&E system. In particular, subsidy or grant programs are implicitly required to operate M&E system.
- Performance contracts are tried in some programs to improve program performance.
 - ▣ The initial evidence shows big improvement of performance.
 - ▣ However, contract management capacity is an issue to be addressed.

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Establishing reform team

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Initial failure of getting response from the central budget office

A small-sized reform team was established

- A junior member was appointed to the head of reform team which consists of 5 members
- Reporting directly to vice minister of MPB on a daily basis
- Vice minister directly reported to president

Supporting research center was established within KIPF

- Center for Fiscal Analysis was established to conduct research on PFM reform programs and to provide consulting and training services

Strategic communications with actions

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Overcoming resistance within the central budget authority

- Need to transform the function of the central budget office, which may mean loss of power and control
- Sending signals by showing support from the presidential office
- Reorganization of the central budget office to align organizational structure to the reformed budget process

Providing incentives to line ministries

- In return for outcome-oriented performance budgeting, increased autonomy with top-down budgeting was promised

Strategic communications with actions (Cont'd)

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Soliciting participation from general public

- Establishing the Reporting Center for Budget Waste

Working with experts, academics and CSOs

- Closely working with expert groups
- Inviting experts, academics and CSOs to the advisory committees

Gaining legitimacy by working with international organizations

- At the initial stage, international organizations provided the rationale for the reforms
- International organizations provided venues to share best practices among countries

Capacity building among stakeholders

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Provision of training and consulting programs to line ministries

- The public research institute (KIPF) played a role in training and consulting

Upgrading the budget office in line ministries

- Elevated its position from team level to bureau level
- Transformation from the conveyor of budget requests to budget formulator within line ministries

Coping with unexpected challenges

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Lack of cooperation from the central budget office

- Reorganization of the budget office
- Reducing its extra burden by adjusting timeline and work assignment

Lack of clear ideas about PB implementation

- Introducing new ideas by commissioning a further study

Uncertainties over technical difficulties

- Recognized technical difficulties of accrual accounting and delayed its initial timeline of implementation → Compromise

Power struggle over IFMIS ownership

- Intervention from the presidential office and organizational consolidation

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Further Challenges

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Engagement of the legislature

- The National Assembly wants to have more voice in the reformed budget process
- The budget deliberation and approval process within the National Assembly needs to be reformed

Engagement of the National Audit Office

- Adds more rigor the reformed budget process but also brings in the danger of becoming compliance mechanism

Further Improvement

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More timely intervention in program management

- Establishing quarterly performance information in FMIS and using it for decision making purposes

Further capacity building among stakeholders

- Fundamental reexamination of HR management in government
- Establishing government-wide evaluation policy

Revisiting the initial spirit of PFM reforms

- Revive top-down budgeting?

Further technical improvement

- Improving cost accounting and refining the scope of government

Where to go?

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- After a decade of PB implementation, the Korean PB is at the critical juncture.
 - ▣ Increasing demand for improving or overhauling the PB system
 - ▣ Symbolic budget cuts based on PB may not be sustainable
- Need to find a way to make PB useful for decision makers and various stakeholders at a reasonable cost
 - ▣ Need to establish government-wide M&E policy with the purpose of improving the responsibility and ownership of line ministries
 - Professionalization of PFM function
 - Enhance ownership of line ministries
 - Enhance capacity in the center of government
 - ▣ Need to enhance link between macro fiscal situation and PB

Thank you!

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