

# Introduction of Program Budgeting in Korea

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**The World Bank**

# Korea's PEM Reform Initiatives Since 2003

- Integrating medium-term perspective into budget
  - National Fiscal Management Plan (NFMP)
- Linking policy priorities with budgeting and providing more discretion to LMs
  - Top-down budgeting
- Establishing performance management system
- Integrating financial management information system (FMIS)

# Issues Yet to be Accomplished

- Integration of mid-term perspective into annual budgeting (MTEF)
  - NFMP plus annual budgeting
- Strategic decision-making mechanism
  - linking between policy priority and budget
- Performance-oriented system/culture
- Transition from line-item to program budget

# Current Budget Structure (1)

- Input control, line-item budgeting
- Complicated 8-level structure
- Confusing mixture of functional, organizational and object classification
  - 20 *Jang*, 66 *Kwan*, 553 *Hang*, 1,388 *Se-hang*, 6,014 *Se-se-hang*
- Detailed classification for control purposes
  - 49 object groups, 101 objects

# Current Budget Structure (2)

<u>Category</u>	<u>Name</u>	<u>Example</u>
Function	<i>Jang</i>	Environmental Improvement
	<i>Kwan</i>	Environmental Protection
	<i>Hang</i>	Environmental Protection
Organization	<i>Se-hang</i> (Office/Bureau)	Water Quality Management Bureau
Activity	<i>Se-se-hang</i>	Construction of Industrial Wastewater Management Facilities
Beneficiary	<i>Se-saup</i>	City of Chungju
Object	<i>Mok</i> (Object group)	Local government Capital Transfer
	<i>Se-mok</i> (Object)	Local government Capital Assistance

# Weaknesses of Current Structure

- Lack of information for resource allocation decision-making
  - line-item budgeting not suited for this purpose
- Lack of autonomy granted to line ministries
  - input control system
- Weak accountability mechanism
  - fails to indicate accountability for performance
- Lack of transparency and accessibility
  - complex structure that is difficult to interpret

# Why Program Budgeting in Korea?

- Strengthen linkage between policy objectives and budget
  - support MTEF/top-down budgeting
- Improve performance management and accountability
  - provide a basis for performance management system
- Enhance transparency and accessibility

# Key Elements of Program Budgeting

- Redefining ministries/agencies' objectives
- Setting programs as basis for budget appropriations
  - from line item to program structure
- Improving budget costing system
- Designating responsibility in line with discretion

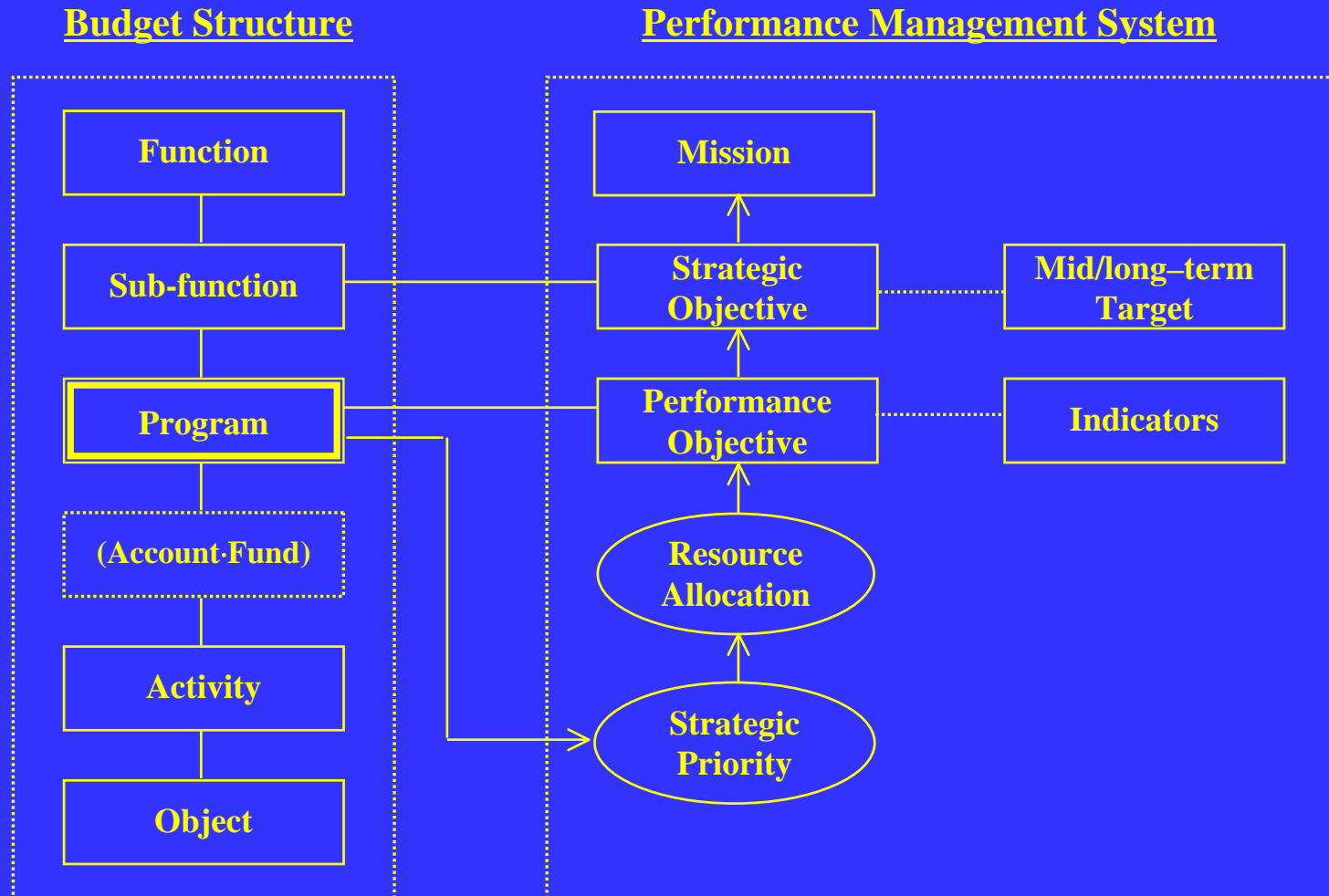
# General Principles of Program Budget Structure (1)

- Align the annual budget with the functional classification in NFMP
  - integrate mid-term prospective into annual budget
- Keep programs within the organizational structure
  - consider issues of accountability and program management
- Combine all activities according to program objectives
  - all activities grouped into one program regardless of revenue source if they have the same objective

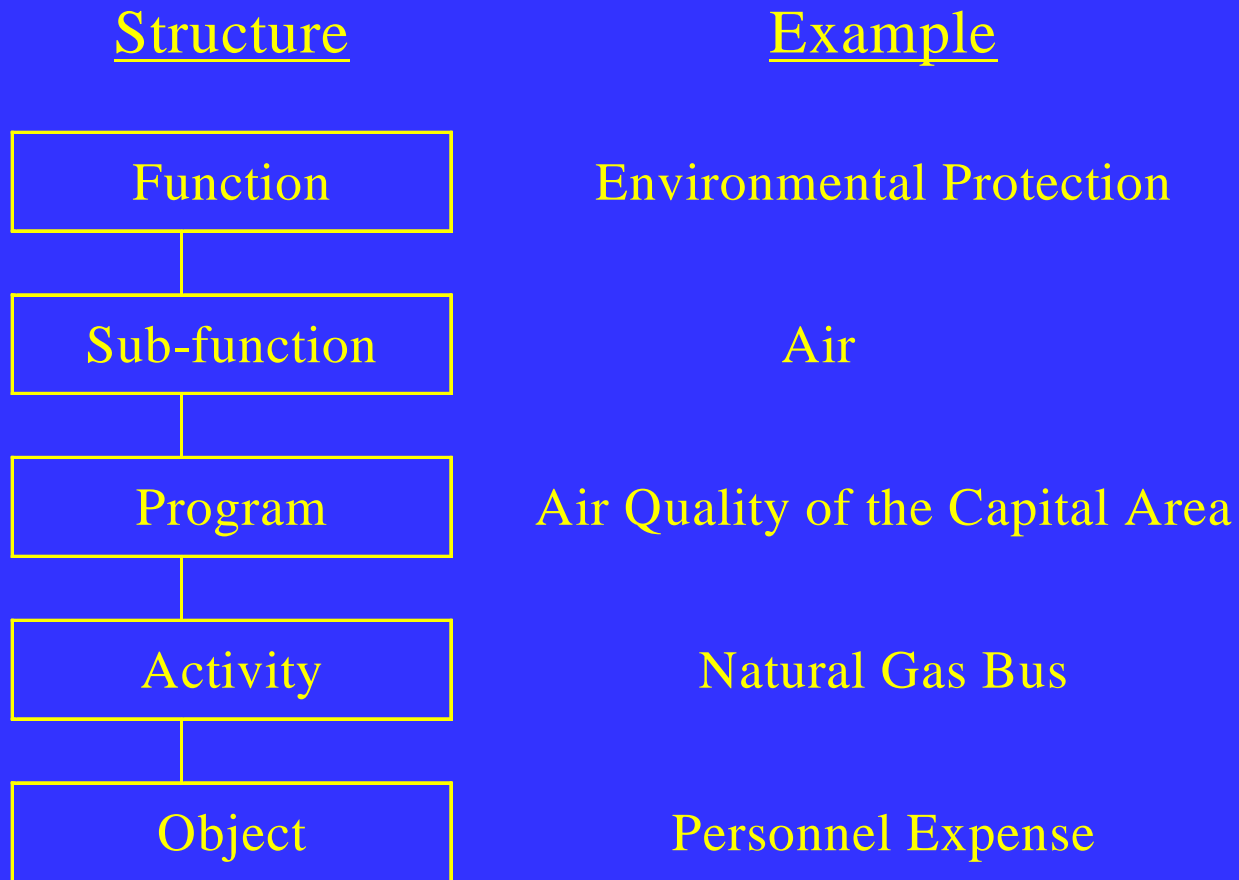
# General Principles of Program Budget Structure (2)

- Program should consider
  - ministry's objectives
  - degree of autonomy
  - performance management level
- Limit the number of activities in a program
  - maintain manageable number and facilitate policy analysis
- Keep the object level as simple as possible
  - allow line ministries more discretion at the object level

# Conceptual Framework of New Budget Structure



# New Budget Structure (1)



# New Budget Structure (2)

- Reduced to 5 levels
- Ministerial classification is outside the structure
  - but all groupings from sub-function down will be organized within ministerial units
- Provides the basis of resource allocation decision-making
- Links budget structure to performance management
- Improves transparency and accessibility of budget

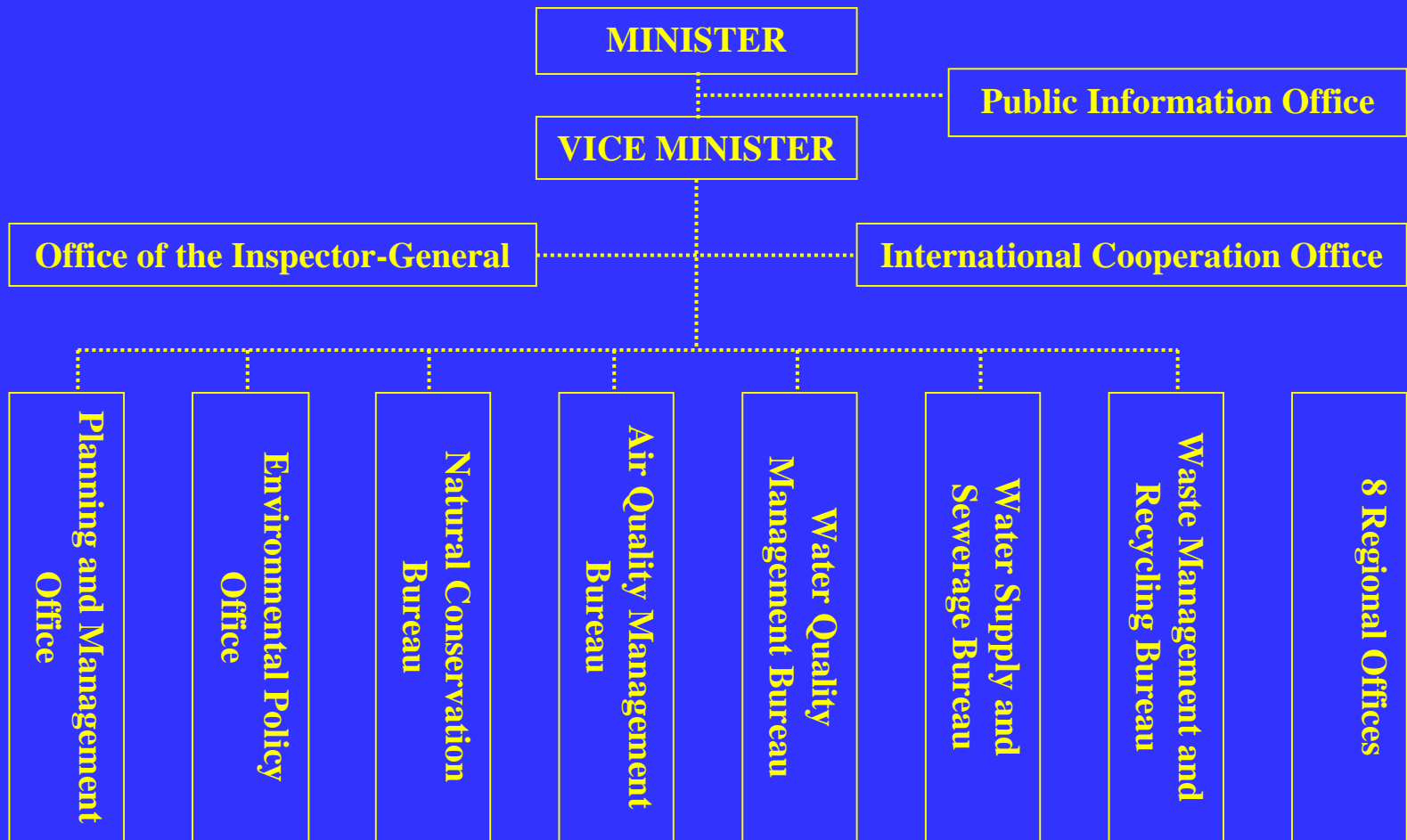
# Suggesting New Budget Structure for the Ministry of Environment (MOE)

# MOE's Mission

- Preservation of living habitation and natural environment

“preventing pollution from national territory so that citizens can enjoy clear water, air and air and other natural environment”

# MOE's Organizational structure



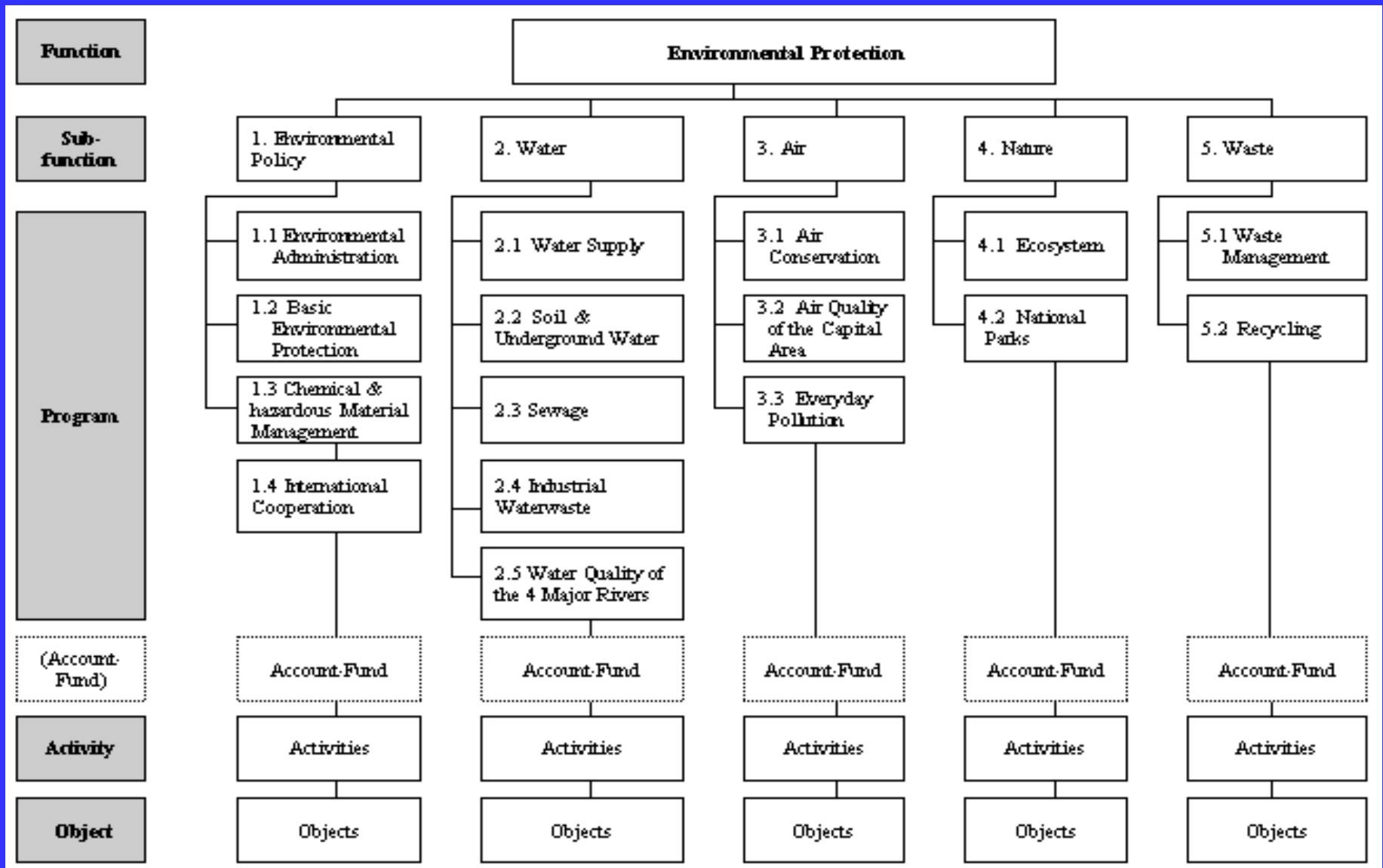
# Features of MOE's New Structure (1)

- 1 function, 5 sub-functions, 16 programs
  - currently, 3 functional (1 *jang*, 6 *kwan*, 12 *hang*),  
1 organizational (33 *se-hang*), and  
1 activity classification (319 *se-se-hang*)
- Each sub-function has 2-5 programs
- All programs are aligned with current organizational units

# Features of MOE's New Structure (2)

- General administrative activities are in a separate program
  - costing difficulty of administrative expenditures
- all activities with same objective grouped regardless of revenue source
- Activities would be reduced to less than 10 per program
- Object items would be simplified into 5-6 groups

# Suggested New Budget Structure for MOE



# MOE's Sub-function (1)

<b>Sub-function</b>	<b>1. Environmental Policy</b>
<b>Program</b>	<b>1.1 Environmental Administration</b>
	<b>1.2 Basic Environmental Protection</b>
	<b>1.3 Chemical &amp; Hazardous Material Mgt.</b>
	<b>1.4 International Cooperation</b>

- Promote environmental policies for sustainable development
- Currently 116 activities

# MOE's Sub-function (2)

<b>Sub-function</b>	<b>2. Water</b>
<b>Program</b>	<b>2.1 Water Supply</b>
	<b>2.2 Soil &amp; Underground Water</b>
	<b>2.3 Sewage</b>
	<b>2.4 Industrial Waterwaste</b>
	<b>2.5 Water Quality of the 4 Major Rivers</b>

- Increase the amount of safe water, and improve water quality in waterways and rivers
- Currently 137 activities

# MOE's Sub-function (3)

Sub-function	3. Air
Program	3.1 Air Conservation
	3.2 Air Quality of the Capital Area
	3.3 Everyday Pollution

- Provide clean and clear air quality
- Currently 24 activities

# MOE's Sub-function (4)

<b>Sub-function</b>	<b>4. Natural Environment</b>
<b>Program</b>	<b>4.1 Ecosystem</b>
	<b>4.2 National Parks</b>

- Preserve and restore the natural environment for a clean environment and quality of life
- Currently 23 activities

# MOE's Sub-function (5)

<b>Sub-function</b>	<b>5. Waste</b>
<b>Program</b>	<b>5.1 Waste Management</b>
	<b>5.2 Recycling</b>

- Safe and hygienic waste management and the promotion of recycling and reducing waste
- Currently 19 activities

# Issues for Further Consideration

- Allocating indirect cost to programs/activities
- Dealing with R&D expenditure
  - separate R&D or integrate into programs
- Ex-ante performance target  
vs. chronological trend for performance indicators

# Some Considerations for Successful Implementation (1)

- Intensive cooperation between the central budget office and line ministries
- Building consensus among the President's office, political parties, and the National Assembly
- Explicit reform blueprint
  - encompass all public expenditure reform

# Some Considerations for Successful Implementation (2)

- Piecemeal approach
- Role sharing between central budget office and line ministries
- Policy- and performance-oriented institutional culture