

**OPERATIONAL GUIDELINES FOR THE PRELIMINARY
FEASIBILITY STUDY 2009**

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MINISTRY OF STRATEGY AND FINANCE



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CHAPTER 1 GENERAL PROVISIONS

Article 1 Purpose of the Guidelines

The purpose of these Guidelines is to provide clear and detailed course of action concerning the standards related to selecting projects subject to preliminary feasibility study pursuant to Article 38(4) of the National Finance Act, the institution that shall carry out the study, the methods and procedures thereof.

Article 2 Definition of Preliminary Feasibility Study

Preliminary feasibility study denotes advance verification and evaluation of feasibility carried out under the supervision of the Minister of Strategy and Finance in order to formulate budget and fund management plans regarding new large-scale projects pursuant to Article 38 of the National Finance Act and article 13 of the Enforcement Decree thereof.

Article 3 Purpose of Preliminary Feasibility Study

The purpose of preliminary feasibility study is to prevent budgetary waste and contribute to enhancing the efficiency of financial management by ensuring that new government-financed projects are implemented in a transparent and fair manner according to established priorities based on an objective and neutral study of the feasibility of large-scale government-financed projects.

CHAPTER 2 PROJECTS SUBJECT TO PRELIMINARY FEASIBILITY STUDY

Article 4 Projects Subject to Preliminary Feasibility Study

- (1) Preliminary feasibility studies shall be conducted for new projects that fall under any of the following subparagraphs:
1. Construction projects, informatization projects and national R&D projects of which total project costs amount to not less than KRW 50 billion and for which government financial support amounts to not less than KRW 30 billion; and
 2. Projects in social welfare, health, education, labor, culture and tourism, environmental protection, agriculture, forestry, maritime affairs and forestry, industries and small & medium-sized enterprises of which medium-term fiscal expenditure amounts to not less than KRW 50 billion (hereinafter referred to as “other non-invested financial projects”).

- (2) Construction projects as provided in paragraph (1)1 signify projects involving construction works such as civil engineering and architecture, and informatization projects and national R&D projects as provided in the paragraph denote projects subject to compilation of an informatization budget and an R&D project budget according to the Guidelines by Detailed Project Type of the Guidelines for Formulation of a Budget Bill.
- (3) Other non-invested financial projects as provided in paragraph (1)2 denote projects that do not fall under construction projects, informatization projects or national R&D projects as provided in paragraph (1)1, among those projects that fall under social welfare, health, education, labor, culture and tourism, environmental protection, agriculture, forestry, maritime affairs and forestry, industries and small & medium-sized enterprises according to the category/sector classification under the program budget system.
 - (Example 1) Public medical informatization project of the Ministry for Health, Welfare and Family Affairs: This is a project falling under social welfare under the program budget system, but is classified as an informatization project.
 - (Example 2) Construction of the Gyeongju historic city culture center by the Ministry of Culture, Sports and Tourism: This is a project falling under culture and tourism under the program budget system, but is classified as a construction project.

Article 5 Types of Projects Subject to Preliminary Feasibility Study

- (1) The targets of preliminary feasibility study are entire projects involving government financial support including, but not limited to, projects directly undertaken by the central government, projects vicariously undertaken for the central government, local government-subsidized projects and Public-Private Partnership projects.
- (2) Among Public-Private Partnership projects, unsolicited projects shall be excluded from the targets of preliminary feasibility study. Such study shall be replaced by a Value for Money test conducted by the Public and Private Infrastructure Investment Management Center.

Article 6 Definition of Total Project Costs

- (1) Total project costs provided herein denote total expenses incurred for implementation of a project; provided, however, that in the case of a project that continues without a set period, whether such project is subject to preliminary feasibility study shall be determined on the basis of its total project costs for five years.
- (2) Total project costs as provided in paragraph (1) include the costs borne by the central government, local governments, public agencies and the private sector and so forth.

(Note) Total project costs include all costs related to loans, which shall be excluded in calculating the amount of government financial support.

(3) In principle, total project costs shall be based on the amount presented by the head of each central government agency. In the event total project costs change in the process of consultation with the Minister of Strategy and Finance, such changed amount shall be deemed the total project costs.

(4) Total project costs by project type shall be as follows:

1. Construction projects: All expenses incurred for large-scale construction works including, but not limited to, civil engineering and architecture; comprised of construction costs, compensation costs, facility incidental expenses and so forth (article 2 of the Total Project Cost Management Guidelines).

2. Informatization projects: All expenses incurred for implementation of a system and so forth; comprised of equipment purchase costs, rents, software development costs, etc.

3. With respect to national R&D projects, each of the following total project cost calculation standards shall respectively apply to R&D projects to establish the basis for research and pure R&D projects:

3-1. R&D projects for the establishment of the research infrastructure: All expenses incurred for the establishment of research facilities and equipment, creation of a research complex and so forth; comprised of construction costs, compensation costs, facility incidental expenses, equipment construction and purchase costs, etc.

* Research costs, operating costs, etc. incurred after construction of facilities shall be excluded from total project costs.

3-2. Pure R&D projects: All expenses incurred for research, technological development and so forth; comprised of labor costs, direct research costs (including outsourced research costs), indirect costs, equipment costs, etc.

(5) With regard to BTL projects among Public-Private Partnership projects, total project costs, not rents to be paid by the central government in the future, shall serve as the basis in calculating the amount of government financial support.

(Example 1) BTL project undertaken under the supervision of the head of a central government agency: As the total project costs of such project fall under government financial support in their entirety, a project of which total project costs amount to not less than KRW 50 billion shall be subject to preliminary feasibility study.

(Example 2) BTL project undertaken under the supervision of a local government: If the total project costs of a project amount to not less than KRW 50 billion and its total project costs multiplied by the ratio of future rents to be borne by the central government amount to not less than KRW 30 billion, such project shall be subject to preliminary feasibility study.

Article 7 Definition of Medium-Term Fiscal Expenditure

(1) Medium-term fiscal expenditure as provided herein denote fiscal expenditure under a medium-term project proposal submitted according to article 28 of the National Finance Act, which represents the aggregate fiscal expenditure

incurred for the five-year period following the commencement of a new project; provided, however, that said term means aggregate fiscal expenditure incurred during the entire project duration in the case of a project with a set period of not longer than ten years.

(Example 1) Projects with no set period among new projects for 2010: Aggregate of the estimated fiscal expenditure for the period of 2010 to 2013 as specified in the medium-term project proposal (2009 ~ 2013) and the estimated fiscal expenditure for 2014

(Example 2) Projects with a set period of seven years among new projects for 2010: Aggregate of total fiscal expenditure during the project duration, i.e. aggregate fiscal expenditure for the period of 2010 to 2016

- (2) Fiscal expenditure as provided in paragraph (1) denotes only the portion to be borne by the central government.

Article 8 Definition of New Projects

New projects subject to preliminary feasibility study mean those projects for which no central government subsidies have been provided including, but not limited to, feasibility study costs and design costs.

(Note) Projects, regarding which only the costs of advance services performed in the process of project planning and envisioning were reflected, shall fall under new projects.

Article 9 Unit of Projects Subject to Preliminary Feasibility Study

- (1) With respect to the unit of projects subject to preliminary feasibility study, 'detailed projects' under the existing budget and fund account description structure shall serve as the basis thereof, in principle; provided, however, that if a detailed project consists of independent sub-projects and any of such sub-projects meets the requirements of a project subject to preliminary feasibility study, such sub-project shall be subject to preliminary feasibility study.

(Note) Budget and fund account description structure: area - sector - program - bundle project - detailed project

(Example) Examples of preliminary feasibility study for sub-projects: 'drug candidate exploration project by disease', an independent sub-project of the future platform technology development project (bundle project) - new medicine development project (detailed project) → implementation of preliminary feasibility study in 2008

- (2) In the case of contributed research institutes, specific research institutes, etc., if an independent sub-project included in institutional operating costs, special project costs, major project costs and so forth meets the requirements of a project subject to preliminary feasibility study, such sub-project shall be subject to preliminary feasibility study.

- (3) In the case of a package project comprised of multiple individual bundle projects including, but not limited to, local development and tourist resort development, preliminary feasibility study shall be implemented for each individual bundle project, in principle.
- (4) Notwithstanding the provision of paragraph (3), in such case where it is more appropriate to evaluate two or more bundle projects as a single project in consideration of the features, purpose, implementation type and so on of such projects and the aggregate total project costs of such bundle projects meet the requirements for preliminary feasibility study, preliminary feasibility study may be conducted by combining two or more bundle projects as a single project.

Article 10 Collective Preliminary Feasibility Study Regarding Medium and Long-Term Plans, Etc.

As in the case of a medium and long-term plan for roads, railways and so forth, if individual projects included in such plan have a high level of interconnection and a possibility of affecting priorities, collective preliminary feasibility study may be conducted with respect to the individual projects included in such plan.

(Example) Medium and long-term plans subject to collective preliminary feasibility study: basic plan for road improvement (expressway), five-year plan for national highways/ government-subsidized local roads, national railroad network establishment plan, etc.

CHAPTER 3 PROJECTS EXEMPT FROM PRELIMINARY FEASIBILITY STUDY

Article 11 Projects Exempt from Preliminary Feasibility Study

- (1) Projects that fall under any of the following shall be exempted from the targets of preliminary feasibility study pursuant to the provision of article 13(2) of the Enforcement Decree of the National Finance Act:
 1. Construction or expansion of public buildings, correctional facilities, and elementary and secondary education facilities;
(Note) Public buildings: buildings, adjunct facilities and the land thereof that the central government utilizes, or has decided to utilize, as office space for central administrative agencies and entities belonging thereto and as residential space for government officials. (See Articles 2 and 3 of the Government Building Management Regulations.)
 2. Cultural property restoration projects;
 3. National defense-related projects which pertain to national security or require confidentiality;
 4. Projects that pertain to inter-Korean exchange and cooperation or are pursued according to an international convention or treaty;

5. Simple improvement, maintenance and repair projects to enhance the efficiency of existing facilities including, but not limited to, road maintenance and repairs and upgrades of aged water supply systems;
 6. Projects which need to be undertaken urgently to prevent disasters, support restoration, ensure facility safety and promote health and food safety, etc.;
 7. Installation of facilities or implementation of a project that are mandated to be pursued according to applicable laws;
(Example) Statutory or necessary facilities: installation of sewage treatment plants, waste disposal facilities, utility-pipe conduits*, etc.
* Facilities installed underground to preserve road structure and enable smooth road traffic by jointly accommodating necessary infrastructure (electric power, gas and water supply systems, drainage system, etc.)
 8. Projects intended for simple income transfer including, but not limited to, direct cash payment or payment in kind to such beneficiaries as national basic livelihood beneficiaries and the disabled;
(Note) Projects which are intended to provide benefits to compensate for deficiency of beneficiaries and of which purpose is attained simultaneously with the delivery of benefits, etc. to beneficiaries.
(Example) Basic livelihood benefits, basic old-age pensions, provision of helpers for mothers and newborn babies, payment of subsidies for income stabilization of farmers and fishermen, provision of money to cover chemical fertilizer purchase costs of farming households, etc.
 9. Projects regarding which preliminary feasibility study generates no practical benefits such as provision of labor costs and ordinary expenses and provision of loans to government-contributed or assisted entities; and
 10. Projects as determined by the Minister of Strategy and Finance that need to be implemented under national policies for such purposes as promoting balanced regional development or responding to urgent socioeconomic conditions.
- (2) With regard to projects primarily intended to increase income by using surplus funds and so forth among fund management projects, a profitability analysis or feasibility assessment, etc. conducted by an objective and reliable entity according to the Draft Fund Management Plan Formulation Guidelines shall replace a preliminary feasibility study.

Article 12 Requirements for and Procedures of Exemption Regarding Projects Undertaken under National Policies

- (1) Projects which need to be undertaken under national policies for the purpose of balanced regional development as provided in Article 13(2)10 of the Enforcement Decree of the National Finance Act denote those projects supporting infrastructure facilities and so forth that are implemented to redress serious regional imbalance and promote balanced provincial development.
- (2) Projects which need to be undertaken under national policies for the purpose of coping with urgent socioeconomic conditions as provided in Article 13(2)10 of the Enforcement Decree of the National Finance Act denote those projects

pursued urgently in order to respond to grave changes in the conditions inside and outside of the Republic of Korea including, but not limited to, an economic recession, mass unemployment and sharp fluctuations in foreign exchange rates.

- (3) Projects determined by the Minister of Strategy and Finance as exempt projects as provided in Article 13(2)10 of the Enforcement Decree of the National Finance Act denote those projects which have completed each of the following procedures:
1. Completion of a concrete project plan including, but not limited to, the purpose, scale and implementation method of the project;
 2. Completion of consultation among the agencies concerned on a need to pursue the pertinent project under national policies;
 3. Finalization through the policy-making agencies concerned that the project will be implemented under national policies; and
(Example) Policy-making agencies concerned
 - Meetings chaired by the President including, but not limited to, the Cabinet Council and the Emergency Economic Planning Committee
 - Government committees subordinated to the President that decide major national policies pursuant to applicable laws including, but not limited to, the Presidential Committee on Regional Development and the Presidential Council on National Competitiveness
 - Other statutory regular meetings where pertinent ministers decide major policies such as the Economic Coordination Meeting
 4. Acknowledgment by the Minister of Strategy and Finance of the need to exempt preliminary feasibility study through collection of opinions from the Government-Financed Project Evaluation Advisory Council.

Article 13 Simplified Preliminary Feasibility Study

With regard to the projects exempt from preliminary feasibility study pursuant to Article 11 hereof, the Minister of Strategy and Finance may, when necessary, review their appropriate scale, total project costs, efficient alternatives and so on by applying the method of preliminary feasibility study mutatis mutandis thereto, and reflect the results thereof in budget and fund management planning.

Article 14 Interim Measures Regarding Preliminary Feasibility Study

- (1) Any project for which feasibility study had been already completed or was underway prior to the enforcement of the preliminary feasibility study system pursuant to Article 3(2) of Addenda of the Enforcement Decree of the National Finance Act (before April 9, 1999) shall be excluded from the targets of preliminary feasibility study. In such case, feasibility study shall be conducted only to the extent that feasibility study costs for the project

concerned were separately reflected in a budget, and the feasibility study independently implemented by each ministry shall be excluded therefrom.

(Note) Feasibility study internally implemented by each ministry: feasibility study internally implemented by each ministry with basic project costs, policy research costs, contributions, etc.

- (2) Even in the case of projects regarding which feasibility study had been completed or was underway prior to the enforcement of the preliminary feasibility study system, any project that has not proceeded to an ensuing stage such as basic design as of January 2009 shall be subject to preliminary feasibility study, notwithstanding the provision of paragraph (1).

(Example) Projects included in the implementation plan for the national highway-replacement bypass project (1996~2026) and the medium and long-term project plan for central government-subsidized local roads (1996~2026), regarding which feasibility study had been completed at the time of the introduction of the preliminary feasibility study system shall be subject to exemption from preliminary feasibility study, in principle; provided, however, that among those projects included in said plans, any project regarding which a design has not been pursued as of January 2009 shall be subject to preliminary feasibility study pursuant to Article 14(2) hereof, and therefore it shall be required to conduct preliminary feasibility study before implementation of such project.

* Concerning projects reflected in the second five-year national highway/local road plan (2006~2010), collective verification was already carried out in 2005.

CHAPTER 4 SELECTION OF PROJECTS SUBJECT TO PRELIMINARY FEASIBILITY STUDY

Article 15 Principles to Select Projects Subject to Preliminary Feasibility Study

The Minister of Strategy and Finance may select projects subject to preliminary feasibility study upon request from the head of a central government agency or ex officio.

Article 16 Request for Preliminary Feasibility Study

- (1) In cases where the head of a central government agency intends to reflect a project subject to preliminary feasibility study in a draft budget or fund management plan, he or she shall request to the Minister of Strategy and Finance that a preliminary feasibility study be conducted, in principle, by the year immediately preceding the previous year of implementation of the project in consideration of the period required for such study; provided, however, that if there exist any urgent and unavoidable circumstances requiring implementation of the project, he or she may request a preliminary feasibility

study regarding a project to be newly executed in the immediately following year.

- (2) In cases where the head of a central government agency intends to request a preliminary feasibility study pursuant to the provision of paragraph (1), he or she shall prepare and submit a 'written request for preliminary feasibility study' as specified in Annex 1 twice a year (December for the first half of a given year and August for the second half of said year), in principle, in accordance with such procedures and manner as determined by the Minister of Strategy and Finance.

Article 17 Review of Project Prioritization and Concreteness of Project Plan

- (1) In cases where the head of a central government agency requests preliminary feasibility studies for not less than two projects, he or she shall determine the priority of such projects in consideration of a medium and long-term financial management plan, direction of national policies, equality among different areas and so forth, and reflect such prioritization in a written request for preliminary feasibility study.
- (2) Prior to making a request for preliminary feasibility study, the head of a central government agency shall specify, through utilization of advance services, etc., the goal, scale, implementation system, budget and so forth of the pertinent project.

Article 18 Written Request for Preliminary Feasibility Study

- (1) A written request for preliminary feasibility study submitted by the head of a central government agency shall clearly state I. project plan (draft); II. need for project implementation; III. adequacy of the central government subsidy; IV. amount and financing method of necessary resources; V. factors of balanced regional development ('need for technological development' in the case of an R&D project); and VI. risks associated with project implementation and countermeasures, etc.
- (2) Such project plan (draft) as provided in paragraph (1) shall contain the purpose, related developments and scale of the project, total project costs, implementation system, financing method, performance of advance services, anticipated benefits thereof, etc.

(Note 1) See "Annex 1. Form of a written request for preliminary feasibility study."

(Note 2) Matters that must be clearly stated in a written request for preliminary feasibility study by project type:

- Construction projects: Planned project site, major routes, whether the project is reflected in applicable laws or other higher plans including a national land utilization plan or urban plan, future facility utilization plan, etc.

- Informatization projects: Purpose and details of information services, targets and scope of such services, scope of system implementation, an information system utilization plan, etc.
- National R&D projects: Project implementation system, scale of necessary resources (budget, manpower, equipment, etc.) and a method to secure such resources, a method for differentiation and alignment of the project from and with existing ones, a plan to utilize R&D results, etc.
- * In the case of a publicly invited bottom-up project, the technological area or task for which an application is made shall be specified in submitting said written request.
- Other non-invested financial projects: Purpose to be attained by implementing the project, specific target of support, requirements for support, amount or rate of support, procedures to implement the project, delivery system, etc.

Article 19 Advance Review of Informatization Projects

- (1) In cases where the head of a central government agency submits to the Minister of Strategy and Finance a written request for preliminary feasibility study regarding an informatization project, he or she shall also submit such to the Presidential Council on Information Society.
- (2) In the process of conducting an advance review of planned projects submitted by each ministry or reviewing and coordinating an informatization promotion plan by area, the Presidential Council on Information Society may present to the Ministry of Strategy and Finance its opinion on whether the requirements for preliminary feasibility study have been satisfied, whether there exists any overlap or alignment between projects and so forth; provided, however, that in such case where the Presidential Council on Information Society submits its opinion based on an advance review, it shall engage in prior consultation with the Minister of Strategy and Finance to prevent any problem with the schedule of selecting projects subject to preliminary feasibility studies.
- (3) With regard to individual projects pursued by each ministry or projects jointly pursued by not less than two ministries, in such case where the Presidential Council on Information Society acknowledges, at its reasonable discretion, that it is appropriate to evaluate them as a single project by comprehensively considering the characteristics, purpose, implementation method, etc. of the projects pursuant to Article 9(4) hereof, it may recommend that such projects be included in the targets of preliminary feasibility study.

Article 20 Advance Review of National R&D Projects

- (1) In cases where the head of a central government agency submits to the Minister of Strategy and Finance a written request for preliminary feasibility

study regarding a national R&D project, he or she shall also submit such to the National Science and Technology Council.

- (2) With respect to planned projects submitted by each ministry, the National Science and Technology Council may present to the Ministry of Strategy and Finance its opinion on whether the requirements for preliminary feasibility study have been satisfied, whether there exists any overlap or alignment between projects and so forth; provided, however, that in such case where the National Science and Technology Council submits its opinion based on an advance review, it shall engage in prior consultation with the Minister of Strategy and Finance to prevent any problem with the schedule of selecting projects subject to preliminary feasibility study.

Article 21 Re-request for Preliminary Feasibility Study

- (1) With respect to projects for which preliminary feasibility study has been already conducted, reassessment thereof shall not be requested, in principle, in order to prevent any administrative waste in necessary manpower, budget and so on and to avert any irrational implementation of a project.
- (2) Notwithstanding the provision of paragraph (1), in cases where, from an objective point of view, there has occurred such a critical change in socioeconomic conditions related to a project that it would result in the preliminary feasibility study already performed to be significantly changed or where a project has been replanned on a full scale based on reflection of existing preliminary feasibility study results, etc., a request for preliminary feasibility study may be made again.

(Note) Simple adjustment of project costs and partial supplementation of a project plan shall not be deemed a change in conditions that allows a re-request for preliminary feasibility study.

Article 22 Ex Officio Selection

- (1) If deemed necessary, in his or her reasonable discretion, in connection with budget and fund management planning and so on, the Minister of Strategy and Finance may implement preliminary feasibility study even without a request from the head of the central government agency concerned.

(Example) When it is obviously expected from an objective point of view that total project costs will increase to KRW 50 billion or over considering the unit cost of a similar project, volume, etc. although total project costs presented by the head of a central government agency amount to less than KRW 50 billion.

- (2) The Minister of Strategy and Finance shall implement preliminary feasibility study for projects requested by the National Assembly by resolution pursuant to Article 38(3) of the National Finance Act. In such case, the head of a

central government agency shall formulate a concrete project plan regarding the pertinent project and submit a written request for preliminary feasibility study to the Minister of Strategy and Finance pursuant to Article 18 hereof.

Article 23 Procedures for Selection of Projects Subject to Preliminary Feasibility Study

- (1) The Minister of Strategy and Finance shall select projects subject to preliminary feasibility study via the Government-Financed Project Evaluation Advisory Council as provided in Article 25 hereof after reviewing projects regarding which central government agencies request preliminary feasibility study in accordance with the standards for selecting projects subject to preliminary feasibility study as provided in Article 24 hereof.
- (2) When necessary, the Minister of Strategy and Finance may request the head of a central government agency to additionally submit related materials on projects regarding which such agency requests preliminary feasibility study including, but not limited to, explanatory materials thereon and the rationale for prioritization.

Article 24 Standards for Selection of Projects Subject to Preliminary Feasibility Study

- (1) In selecting projects subject to preliminary feasibility study, the Minister of Strategy and Finance shall comprehensively consider I. concreteness of a project plan; II. urgency of project implementation; III. requirements for central government subsidies; and IV. factors of balanced regional development ('need for technological development' in the case of an R&D project), etc.

(Note) Matters of detailed consideration by selection standard

- Concreteness of a project plan: Consider whether the plan is sufficiently specific including the purpose, implementation system, necessary budget and manpower, and schedule of the project.
 - Examine whether major details of the project have been determined including the project site (architectural project) and routes (civil engineering project), in particular.
 - In the case of a publicly invited bottom-up project among R&D projects, it shall be examined whether the area and details of the project have been specified (establishment of specific research areas or research task pools in advance when necessary).
- Urgency of project implementation: Consider whether the project is consistent with investment prioritization under medium and long-term plans of the central government, direction of government policies, etc., and examine priorities among projects within the same ministry.
 - In considering priorities, the priorities presented by the ministry concerned shall be preferentially reflected absent special circumstances.

- Requirements for central government subsidies: Consider the adequacy of government financial support including whether the project is entitled to a central government subsidy, method to share the financial burden, matching ratios, etc.
- Factors of balanced regional development: Consider the ripple effects of the project on the local economy, level of financial independence, impact to improve the region's degree of lagging behind, etc. in order to prevent the deepening of regional imbalance and enhance equality among different regions.
- Need for technological development: Consider domestic and overseas research trends in related technological fields, socioeconomic ripple effects in the event of technological development, etc.

(2) In selecting projects subject to preliminary feasibility study, the Minister of Strategy and Finance may accurately ascertain factual relations and preferentially consider whether selection has been made within the scope of the selection standards as provided in paragraph (1) with regard to projects that fall under any of the following:

1. Projects regarding which it has been confirmed that a budget was requested without preliminary feasibility study in the process of budgeting notwithstanding that the projects are subject to preliminary feasibility study;
2. Projects regarding which the Presidential Council on Information Society and the National Science and Technology Council point out urgency of preliminary feasibility study based on their advance review;
3. Projects regarding which the Ministry of Strategy and Finance and the ministry of competent jurisdiction have completed consultation and agreed to pursue the project in the process of formulating a national financial management plan; and
4. Other projects regarding which preliminary feasibility studies have been requested based on a decision in the meeting process by the ministries concerned.

Article 25 Government-Financed Project Evaluation Advisory Council

In order to collect opinions on major details pertaining to the operation of the preliminary feasibility study system from civilian experts as well as the ministries concerned, the Minister of Strategy and Finance may seek advice from the ‘Government-Financed Project Evaluation Advisory Council.’

(Note 1) Government-Financed Project Evaluation Advisory Council: A specialized council of the ‘Advisory Council on Fiscal Policies’ established under the Regulations on Installation and Operation of the Advisory Council on Fiscal Policies of the Ministry of Strategy and Finance (July 31, 2008; Ministry of Strategy and Finance Directive No. 30)

(Note 2) For composition and functions of the Government-Financed Project Evaluation Advisory Council, see the attached Detailed Operational Regulations of the Government-Financed Project Evaluation Advisory Council.

Article 26 Modification of Project Plan

(1) In cases where it is necessary to change a project plan after the project is selected as one being subject to preliminary feasibility study, the head of a

central government agency may request a change thereto based on prior consultation with the Minister of Strategy and Finance, only to the extent that such change is consistent with the original purpose and purport of the project.

- (2) Upon receipt of a request for change in a project plan as provided in paragraph (1), the Minister of Strategy and Finance shall determine whether to change such plan by comprehensively considering whether such change is consistent with the original purpose of the project, feasibility of the changed plan, opinions of the research staff for preliminary feasibility study and so on.

Article 27 Withdrawal of Preliminary Feasibility Study

If any of the following occurs in the process of conducting a preliminary feasibility study, such study may be withdrawn at the request of the head of a central government agency or by the Minister of Strategy and Finance ex officio:

1. When any law related to the project is enacted or amended after the project has been selected as one being subject to preliminary feasibility study, and accordingly, the project falls under the category of projects regarding which facility establishment or project implementation is mandatory under such law;
2. When it is confirmed that a project of less than KRW 50 billion was selected for such reasons as a mistake in total project cost estimation by the head of a central government agency in requesting that the project be subject to preliminary feasibility study; and
3. When a project plan submitted by a central government agency falls significantly below the level necessary for preliminary feasibility study, making it impossible to conduct such study.

CHAPTER 5 PRELIMINARY FEASIBILITY STUDY IMPLEMENTATION SYSTEM

Article 28 Entities in Charge of Preliminary Feasibility Study

- (1) At the request of the Minister of Strategy and Finance, the Public and Private Infrastructure Investment Management Center (PIMAC) of the Korea Development Institute (KDI) shall take charge of conducting preliminary feasibility study; provided, however, that in the case of pure national R&D projects, the Korea Institute of Science and Technology Evaluation and Planning (KISTEP) shall take charge thereof.
- (2) The entities in charge of preliminary feasibility study shall select a project manager and organize research staff comprised of experts from various areas encompassing the academia, research institutes, private engineering companies and so on according to the characteristics of individual projects in order to

efficiently manage tasks in compliance with general principles and standards of the preliminary feasibility study system.

- (3) The entities in charge of preliminary feasibility study may organize and utilize separate advisory councils when necessary to ensure professionalism and objectiveness in such study.

Article 29 Selection of Staff for Preliminary Feasibility Study

- (1) Preliminary feasibility study may be carried out, based on classification thereof into internal tasks performed by the entities in charge of preliminary feasibility study and outsourcing tasks implemented by external experts, at their respective responsibility.
- (2) In cases where the entities in charge of preliminary feasibility study conduct such study by classifying such into internal and outsourcing tasks as provided in paragraph (1), they shall formulate the standards for dividing internal and outsourcing tasks and engage in prior consultation with the Minister of Strategy and Finance.
- (3) Research staff for internal tasks shall be selected in a manner appropriate to the project concerned, with researchers' majors, research areas, experience in performing preliminary feasibility studies and so on taken into account.
- (4) Research staff for outsourcing tasks shall be selected through open competition, in principle. With regard to government-run research institutes specialized by area (KOTI, KMI, National Information Society Agency, etc.), such staff may be selected through private contracts.

Article 30 Period of Preliminary Feasibility Study

- (1) The period of preliminary feasibility study shall be four months, in principle. Such period may be extended or shortened according to the nature, etc. of the project concerned.
- (2) In cases where it is deemed difficult to complete preliminary feasibility study within the originally planned period due to a request from the head of a central government agency for a change in the project plan as provided in Article 26 hereof or for review of an alternative therefor, he or she shall request extension of the period thereof.

Article 31 Guidelines for Performance of Preliminary Feasibility Study

- (1) In order to enhance consistency of preliminary feasibility study, the entities in charge of preliminary feasibility study shall formulate each of the following guidelines stipulating the basic principles thereof including, but not limited to,

analysis standards and methods. Research staff for preliminary feasibility study shall conduct such study according to such guidelines:

1. General guidelines: Stipulate the standards commonly applied to the process of preliminary feasibility study including the economic analysis and social discount rates.
(Example) Modification and complementation of the General Guidelines for Pre-feasibility Study (4th edition)
 2. Standard guidelines by area: Stipulate detailed matters concerning the methods and standards to perform preliminary feasibility study by project area including roads, railways, airports, harbors, water resources, informatization, R&D and other non-invested financial sectors.
(Example) Modification and complementation of the Standard Guidelines for Pre-feasibility Study on Road & Railway Projects (4th edition)
- (2) The entities in charge of preliminary feasibility study may formulate separate guidelines stipulating matters that must be complied with by research staff in the process of performing preliminary feasibility study such as prohibition of any materials leakage.
- (3) In cases where at the time of the commencement of preliminary feasibility study, there arises any matter requiring complementation or modification in connection with a study method and so on which was not reflected in the guidelines as provided in paragraph (1), the entities in charge of preliminary feasibility study shall give a public notice thereof to the research staff and disclose the details thereon on the web page thereof.

CHAPTER 6 ANALYSIS METHODS FOR PRELIMINARY FEASIBILITY STUDY

Article 32 Details of Analysis for Preliminary Feasibility Study

In preliminary feasibility studies, feasibility of project plans formulated by each ministry and possible alternatives therefor shall be reviewed, and matters to be considered in the process of implementing those projects shall be analyzed in order to ensure reasonable decision-making on whether to implement those projects in the future, an appropriate time to implement them, the scale thereof and so on.

Article 33 Method of Analysis for Preliminary Feasibility Study

- (1) The results of preliminary feasibility study shall be presented by comprehensively considering the evaluation results concerning an economic analysis, policy analysis and balanced regional development analysis.
- (2) Informatization projects and national R&D projects shall entail a technical analysis in addition to the evaluation items as provided in paragraph (1);

provided, however, that a technical analysis may not be performed in the case of a project deemed a construction project based on material details thereof.

- (3) In the case of a project which is not confined to a specific region or of which effect is not limited to a specific region, a balanced regional development analysis may be omitted notwithstanding the provision of paragraph (1).

(Note) Evaluation items by project type

- Construction projects: Economic analysis, policy analysis, balanced regional development analysis
- Informatization projects and national R&D projects: Economic analysis, policy analysis, technical analysis (or a balanced regional development analysis)
- Other non-invested financial projects: Economic analysis, policy analysis

Article 34 Economic Analysis

- (1) An economic analysis as provided in Article 33 hereof constitutes a core review process where the ripple effects of a project subject to preliminary feasibility study on the national economy and the adequacy of investment are analyzed. For such analysis, a Cost-Benefit Analysis shall be adopted as a basic methodology.
- (2) For the purpose of a Cost-Benefit Analysis, benefits shall be calculated by estimating the needs for implementation of a project, and costs shall be computed by aggregating total project costs and all other expenses incurred for the operation of the project.

(Note) In general, a B/C ratio higher than 1 means existence of economic feasibility.

- (3) In cases where a need for implementation of a project led by the private sector is raised in the process of an economic analysis and where it is deemed possible to secure investment from the private sector, a financial analysis may be carried out.
- (4) In the case of a project regarding which a Cost-Benefit Analysis is deemed inappropriate such as pure R&D projects and other non-invested financial projects, the ripple effects from a socioeconomic perspective or in terms of science and technology shall be estimated, based on which a Cost-Effectiveness Analysis may be performed.

Article 35 Policy Analysis

- (1) In a policy analysis, evaluation items including, but not limited to, consistency and resoluteness of policies related to the pertinent project, risks associated with implementation of the project, and special evaluation items pertaining to the project shall be analyzed quantitatively or qualitatively.

- (2) In performing a policy analysis, if it is deemed necessary to consider the environmental value of a project including, but not limited to, cultural and ecological value thereof, such shall be reflected in the special evaluation items for the project as provided in paragraph (1).

(Example) Projects to preserve cultural and historic sites where a number of cultural properties designated by the central, municipal or provincial governments exist or areas with a strong ecological importance such as mud flats and wetlands, or to promote environment-friendly use or tourism thereof

Article 36 Balanced Regional Development Analysis

In a balanced regional development analysis, factors affecting local development including, but not limited to, the labor inducing effects, the ripple effects on the local economy and improvement of the degree of regional underdevelopment shall be analyzed in order to prevent the deepening of regional imbalance and enhance equality among different regions.

Article 37 Technical Analysis

In a technical analysis, adequacy of a technological development plan, possibility of the success of technological development, overlaps with existing technologies and projects and so on shall be analyzed.

Article 38 Comprehensive Evaluation

- (1) In a comprehensive evaluation of the feasibility of a project, quantified numbers shall be produced based on application of the AHP (Analytic Hierarchy Process) method, a type of multi-criteria analyses, on the basis of the analysis results by evaluation item.
- (2) In conducting an AHP as provided in paragraph (1), weights applicable to each evaluation item shall be determined within the scope of each of the following weight class by project type absent special circumstances:
1. Construction projects: economic analysis (40~50%), policy analysis (25~35%), balanced regional development (15~30%);
 2. R&D and informatization projects: economic analysis (30~50%), technical/policy analysis (50~70%); and
 3. Other non-invested financial projects: economic analysis (25~50%), policy analysis (50~75%).
- (Note) In general, an AHP of 0.5 or higher means that implementation of the pertinent project is advisable.
- (3) In cases where a collective preliminary feasibility study is conducted with regard to a medium and long-term plan in accordance with Article 10 hereof, feasibility of each individual project contained in such medium and long-term plan shall be determined under the AHP methodology or in any other manner

deemed appropriate in consideration of the synergy generated by alignment of individual projects, relationship with large-scale development plans and so on in carrying out the comprehensive evaluation of the project feasibility.

Article 39 Policy Recommendations

- (1) When necessary in addition to such comprehensive evaluation as provided in Article 38 hereof, risks associated with implementation of a project, other policy considerations and so forth may be presented as policy recommendations.
- (2) In the case of other non-invested financial projects, the need for implementation of an exemplary project and so forth may be presented as policy recommendations in the overall consideration of the characteristics of individual projects, possibility of fiscal expenditure expansion in the future, costs incurred for an exemplary project and reevaluation, etc.

CHAPTER 7 EXEMPLARY PRELIMINARY FEASIBILITY STUDY

Article 40 Exemplary Preliminary Feasibility Study

- (1) Notwithstanding the scope of and requirements for projects subject to preliminary feasibility study as provided in Article 4 hereof, the Minister of Strategy and Finance may conduct an exemplary preliminary feasibility study in order to enhance efficiency of financial management if it is deemed necessary to expand or evaluate, from the perspective of policies, the areas subject to preliminary feasibility study.
- (2) An analysis method different from existing ones may apply to an exemplary preliminary feasibility study in consideration of the characteristics of a project.
(Example) Conducting a financial analysis in lieu of an economic analysis (B/C) or replacing AHP in numerical terms concerning feasibility of a project with qualitative descriptions, etc.

CHAPTER 8 USE OF PRELIMINARY FEASIBILITY STUDY RESULTS

Article 41 Notification of Preliminary Feasibility Study Results

In order to ensure that the results of a preliminary feasibility study are effectively used for budget and fund management planning, the Minister of Strategy and Finance shall give notice thereof to the ministry concerned immediately upon the completion of such study.

Article 42 Alignment with Budget and Fund Management Plans

For the purpose of implementing a project whose feasibility has been confirmed in

accordance with the results of preliminary feasibility study (e.g.: $AHP \geq 0.5$), the head of a central government agency may request a budget, etc. for the project to the Minister of Strategy and Finance in consideration of the urgency and financing conditions of the project as well as conditions for implementation thereof such as consultation with a local government.

Article 43 Disclosure of Preliminary Feasibility Study Results

Upon completion of a preliminary feasibility study, the entities in charge thereof shall submit a final report thereon to the Minister of Strategy and Finance and disclose study results on the web page thereof, etc.

CHAPTER 9 ADDENDA

Article 1 Date of Enforcement

These Guidelines shall enter into force on April 17, 2009.

Article 2 Applicable Examples Regarding Analysis Methods for Preliminary Feasibility Study

Analysis methods for preliminary feasibility study under Articles 32 through 39 hereof shall apply, beginning with those projects subject to preliminary feasibility study from the second half of 2008.