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*Public Investment Management for Decades to Come:
Lessons from the Past and Challenges for the Future*
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Challenges for the future PIM in Korea

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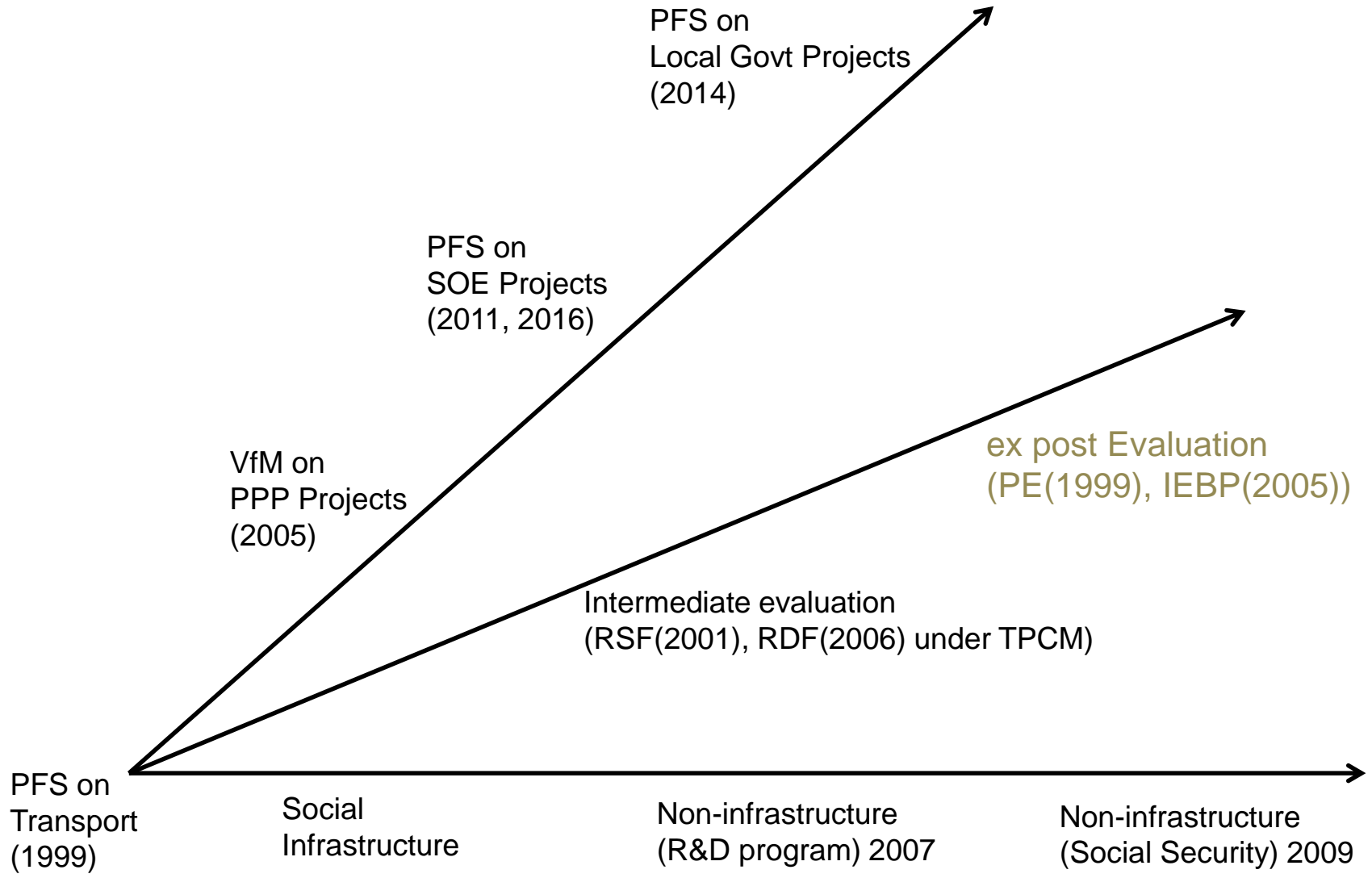


Contents

1. Performance of PFS and Contributing Factors
2. The Change in PIM/PFS Environment
3. Way Forward

Performance of PFS and Contributing Factors

Evolution of PIM in Korea



The Establishment of MAC Institutions in Local Level

Name	Year	Legal basis (Municipal code)	Designated PPP Unit	Staff
Seoul	2012.5	○	○	24
Busan	2013.9	○	○	9
Daegu, Gyeongbuk	2015.6	-	○	3
Ulsan	2015.12	-	-	6
Chungbuk	2012.2	-	-	4
Chungnam	2017.12	-	-	4
Gyeongnam	2014.12	-	○	5
Jeju	2016.10	○	-	4
Gyeonggi	2018.10	○		12

Source: Jaehong Ju(2019), "The role of local public investment management center to strengthen local fiscal autonomy."

The Scope of Responsibilities of MAC Institutions in Local Level

- ❑ Review of the local government projects by the Local Public Finance Act
 - Local public investment management center leads the review works, or they provide technical supports to the department in charge of the review
 - Conduct FS or review the FS report done by consultants
- ❑ Support local government to prepare and implement public investment projects
 - Developing project proposals that are subject to PFS or review by the Central Investment Review Committee under the Ministry of the Interior and Safety
- ❑ Review of PPP project proposal and support for project implementation
 - Four local public investment management centers are designated by MOEF as institutions that carry out VfM test on PPP
 - Providing technical supports of implementation department of PPP projects

The Role of PFS on Fiscal Accountability

- ❑ Three approaches to enhance accountability (Forrer, et al.(2010), PPP and public accountability Question)
 - Accountability to other government bodies (check and balance)
 - Accountability to impersonal standards
 - Hierarchical accountability

- ❑ Elements of PFS contributing to fiscal accountability
 - Regulations on PFS (NFA, NFA decrees, PFS operational guidelines) articulate the roles and responsibilities of stakeholders in infrastructure project.
 - PFS improves the structure of check and balance between budget authority and implementation agencies by resolving the information asymmetry
 - PIM guidelines (FPS technical guidelines) define the explicit criteria (impersonal standards) of project selection

Pillars of PFS and Contributing Factors

	PFS Implementation on organization	PFS Team	Appraisal Criteria	Data for PFS	Reporting and Monitoring
PFS	PIMAC KDI	Multi-organizational	Standard Guidelines & Updates	Database	5 meeting rule/ National Assembly & website
Objectivity	○	○	○	○	
Consistency	○		○	○	△
Transparency		○	△	△	○

The Change in PIM/PFS Environment

The Change in PIM Environment

- ❑ PFS was introduced in the wake of financial analysis
 - Budget cut was immediate target in the public financial management
 - The single most important mission of MPB (Ministry of Planning Budget) was enhancing fiscal efficiency

- ❑ After 20 years of experience
 - The expansionary fiscal policy
 - Role of Budget authority change
 - MOEF have multiple missions including macro economic indicators, such as economic growth rate and job creation

The Change in PFS Environment

- ❑ Over emphasis on the PFS results
 - Binding effects of PFS in budget allocation
 - Division of labor between information production and budget drafting blurred
 - Some tension between owner of PFS (MOEF) and implementation agency of PFS (PIMAC)

- ❑ PFS have become an critical part of budget process
 - Politicians pay attention to the implementation process of PFS as well as its result
 - Periodic audit and inspection made the PFS process rather bureaucratic. The PFS team tends to be more conservative in the appraisal works than before.

2019 Update on the PFS Operational Guidelines

- Dual structure of weighting between Sudokwon (Seoul and Capital Region) and Non-Sudokwon

	Economic Analysis	Policy Analysis	Balanced Regional Development Analysis
Sudokwon	60-70	30-40	-
Non-Sudokwon	30-45	25-40	30-40
Until 2018	35-50	25-40	25-35

- Incorporation of additional social values in the appraisal
 - Job creation, improvement in community living environment, environmental impacts, and safety improvement

2019 Update on the PFS Operational Guidelines (2)

- ❑ Change in approach to PFS on social welfare project
 - More emphasis on consultation on the project/program rather than/as well as go-stop decision
- ❑ Separating the role of analyst from the evaluator
 - The PFS team organized by PIMAC, conducts economic analysis, policy analysis and balanced regional development analysis and presents the results to MOEF
 - The Public Investment Project Appraisal Committee chaired by the Vice Minister of MOEF, concludes the feasibility of a project using AHP (Analytic Hierarchy Process) based on the information produced by the PFS team.
- ❑ Addition of KIPF as PFS implementation institution
 - PIMAC : Infrastructure
 - KISTEP: R&D
 - KIPF: Social welfare + Infrastructure

Combined Effects of 2019 Updates

- ❑ Strengthened role of MOEF at post-PFS analysis stage
 - The final decision on the PFS is decided by the resolution of the Public Investment Project Appraisal Committee organized by the MOEF
 - The implementation agencies (line ministries and local governments) have the opportunity of appeal at the Committee to the decision by the sub-committee
- ❑ More likelihood to be feasible projects
 - No minus points on balanced regional development analysis
- ❑ Increased weight on non-economic criteria
 - No minus points on balanced regional development analysis

Way Forward

Way Forward (1)

- Balance between economic efficiency and social equity in project selection
- Mobilizing group dynamics in final decision using AHP
 - AHP is a group decision making support system
 - Active discussion among decision makers (evaluators) they can reduce the discrepancy among them, reaching rigorous decision making

Pre-set Weights (%) by Project Appraisal Criteria (Infrastructure)

Year	Economic Analysis	Policy Analysis	Balanced Regional Development Analysis
2004	40~60		
2006	40~50	25~35	15~25
2009	40~50	25~35	15~30
2012	40~50	25~35	20~30
2016	40~50	25~35	25~30
2017	35-50	25-40	25-35
2019			
Sudokwon	60-70	30-40	0
Non-Sudokwon	30-45	25-40	30-40

Spectrum of Decision Making Criteria on Public Investment

Criteria	Traditional CBA	MCDM Focused on CBA	MCDM with CBA	MCDM with limited CBA
Countries	Denmark Greece Ireland Portugal Spain	Germany Italy UK	France	Belgium Netherland

Source: Leleur, Steen, Road Infrastructure Planning: A decision-oriented approach, Polyteknist Forlag, 1995.

Hyeon PARK, Multi-Criteria Decision Making Approach in Pre-Feasibility Studies, 2001.

For updated discussion, please refer to

OECD(2011), *Improving the Practice of Transport Project Appraisal*, ITF Round Table, No. 149, OECD Publishing.

<http://www.internationaltransportforum.org/Press/PDFs/2011-05-03.pdf>

Way Forward (2)

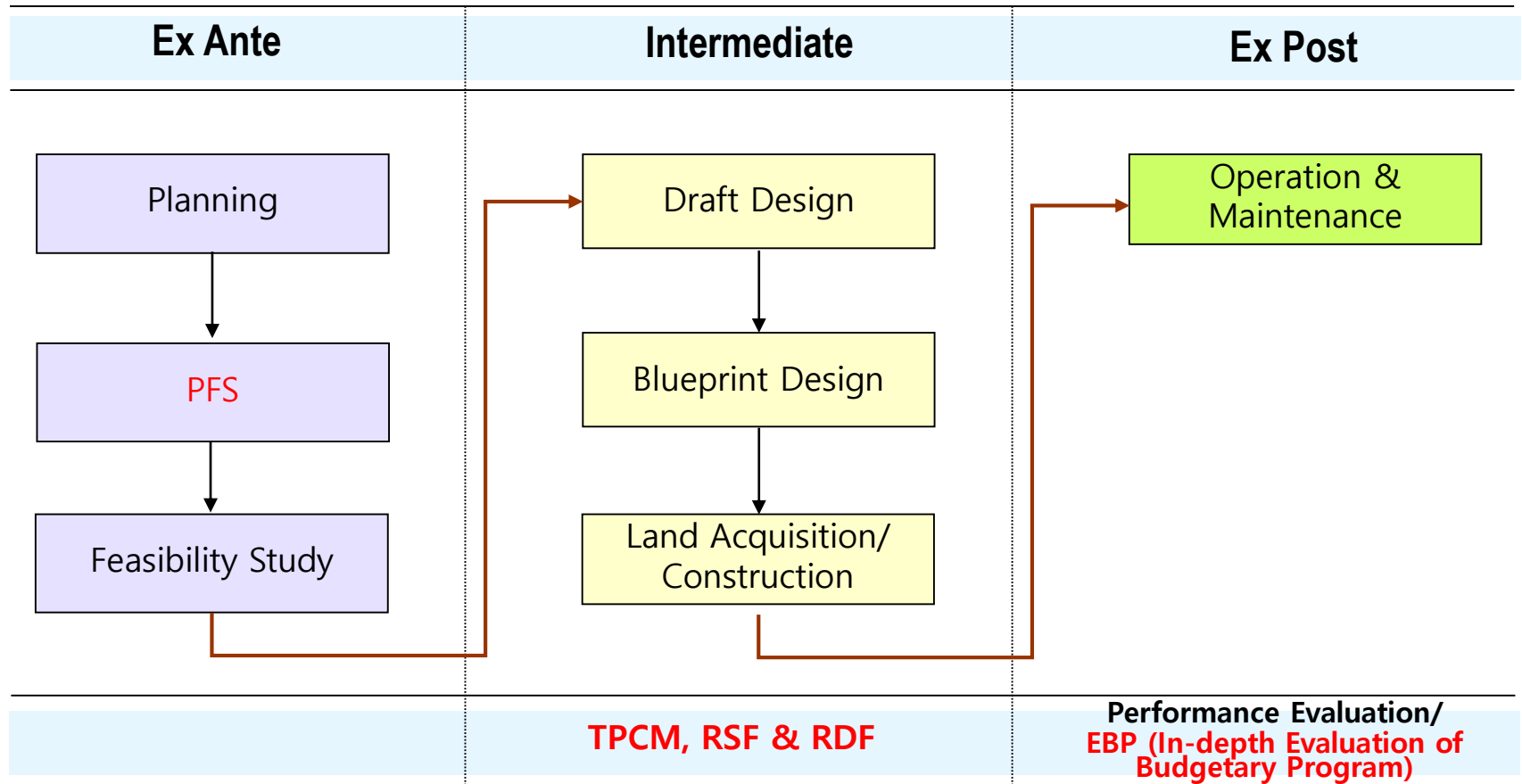
- Division of labor between PFS and FS
- Management of time overrun
 - Weak PIM results in Cost overrun, Time overrun, and Low quality of infrastructure
 - TPCM implemented by RSF and RDF contributed to control cost overrun

<Table> Proportion of the cases of time overrun

	Express way	National Highway	Rail	Water	Other	Total
Case of Time Overrun (a)	14	75	23	9	1	122
Number of Projects (b)	33	362	50	19	4	468
a/b(%)	42.4	20.7	46.0	47.4	25.0	26.1

Source: MOLIT(2014), the impacts of time overrun on indirect costs.

Project Implementation Process and PIM System in Korea



* Evaluation works in **RED** characters are owned by budget ministry

- ✓ **TPCM (Total Project Cost Management); PFS (Pre-Feasibility Study)**
- ✓ **RSF (Re-assessment Study of Feasibility); RDF (Re-assessment of Demand Forecast)**

Way Forward (3)

- Strengthening PIM at the ex post stage
 - Even though the performance evaluation was introduced in 1999 with PFS, PE has no substantial impacts on the efficiency of public investment of Korea
 - PE is self-evaluation rather than independent evaluation
 - There is no designated institution specialized on performance evaluation
 - No formal process how to feed the lessons learned to new projects
 - The IEDP(In-depth Evaluation of Program) is conducted on a selective basis

Independent and Self Evaluation

➔ AN IMPRESSIONISTIC PICTURE OF PIM SYSTEMS ACROSS SELECTED COUNTRIES

Country Examples>	Haiti	Sierra Leone	Angola	Mongolia	Georgia	Brazil	Vietnam	Ireland	Korea	U.K.
PIM Feature										
Guidance	Poor	Weak	Weak	Poor	Poor	Weak	Weak	Good	Good	Good
Appraisal	Poor	Poor	Weak	Poor	Poor	Weak	Weak	Good	Good	Good
Independent Review	Poor	Poor	Poor	Poor	Poor	Weak	Poor	Good	Good	Good
Selection/budgeting	Poor	Poor	Poor	Poor	Good	Weak	Poor	Good	Good	Good
Implementation	Poor	Poor	Poor	Poor	Weak	Good	Weak	Good	Good	Good
Adjustment	Poor	Poor	Poor	Poor	Poor	Poor	Weak	Good	Good	Good
Operation	Poor	Poor	Poor	Poor	Weak	Good	Weak	Good	Good	Good
Evaluation	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Weak	Weak	Good
Unified PPP?	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Good	Good	Good
GNI per capita	810	680	5010	3770	3570	11690	1730	39110	25920	39140



Source, Rajaram (2014)

Implications for PIM in Developing Economies

- ❑ The Government of Myanmar has been developing the Project Bank (Public Investment Program) since 2018 to select priority projects aligned with higher level development strategy, Myanmar Sustainable Development Plan.
- ❑ Challenges
 - Lack of capacity
 - Lack of data
- ❑ Institutionalization/ formal process of PIM
 - Developing the operational guidelines seems to be more important task
 - Technical guidelines may be developed afterwards