

# Legal & Institutional Arrangements: Korea and International Practice

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# Shared Foundations for PIM

Korea shares some basic foundations with other good practice countries:

- ▶ Consensus across government on achieving 'public value' - economy, efficiency & effectiveness
- ▶ Recognition that incentives for spending ministries/agencies are not the same as for government as a whole
- ▶ Agreement that there is a role for the centre of government in achieving public value

Success not measured by tonnes of concrete poured, \$ disbursed or number of groundbreaking ceremonies

# Stylised Alternative Models for Centre of Government Role

## Total quality control model - Chile

- Centre specifies procedures and methods and validates that they have been applied

## Risk-based, independent review - UK

- Centre specifies procedures and universal methods and performs quality control and 'challenge function' for high risk projects (largely, but not only, defined by value, with values varying by sector, position in the organisational hierarchy and level of government).

## Risk-based, independent *ex ante* evaluation model - Korea

- Centre specifies procedures and methods and directly instigates independent *ex ante* evaluation of major projects (defined by value, irrespective of sector, but lower for SNG)

# Conceptualizing the Legal and Regulatory Framework

## Tier 1

Legal authority for PIM System

## Tier 2

More detailed procedural guidelines, high-level decision criteria and designation of analytical tools

## Tier 3

Methodological guidance, detailed criteria, standardized parameter values and procedural documentation

# International Comparison of Legal & Regulatory Frameworks

	United Kingdom	Cyprus	Korea
Tier 1: Legal authority	Treasury's accountability to Parliament and responsibilities placed upon Accounting Officers	Fiscal Responsibility and Budget Systems Law	National Finance Act and Enforcement Decrees
Tier 2: Procedural guidelines	<ul style="list-style-type: none"> <li>• Major Project Approval and Assurance Guidance</li> <li>• Public Sector Business Cases Using the Five Case Model</li> </ul>	PIM Guidelines	Operational Guidelines for the Preliminary Feasibility Study Guidelines for Total Project Cost Management
Tier 3: Methodological guidance	<ul style="list-style-type: none"> <li>• Appraisal and Evaluation in Central Government (the 'Green Book')</li> <li>• Templates for Business Cases</li> <li>• Sector-specific methodological guidance</li> </ul>	Methodological Manual for Pre-Selection and Appraisal of Public Investment Projects	General and sector-specific guidance on appraisal

# Legal & Regulatory Framework: Common Problems

Korea has found the 'sweet spot' in legal and regulatory design, but other countries struggle:

- ▶ Tier 1 missing, too detailed or inconsistent with PFM laws
  - ▶ Separate 'public investment law' generally inadvisable
- ▶ Tier 2 missing or poorly developed so that PIM procedures are *ad hoc* and not established as routines
- ▶ Insufficient detail at Tier 3, leaving project promoters with inadequate guidance on methods or detailed procedures

**In Korea the 2006 NFA 'cemented' a tried and tested system; other countries too readily equate legislation with reform**

# Dimensions of Independent Scrutiny

Korea has a unique model, variation in independent scrutiny in other good practice countries include:

- ▶ Meaning of 'independence'
- ▶ Coverage and depth
  - ▶ All projects or a subset?
  - ▶ Conformity with guidelines, questioning of assumptions or independent analysis?
- ▶ Outcome of independent review
  - ▶ Advisory only
  - ▶ Binding as part of a decision-making process
- ▶ Timing and timescale
  - ▶ Should not be constrained by budget preparation calendar

# International Comparison of PIM Units

Country	France	Ireland	New Zealand	UK
Name	General Secretariat for Investment	Central Expenditure Evaluation Unit	Investment Management & Asset Performance Team	Infrastructure and Projects Authority
Reporting Line	Prime Minister	Minister of Public Expenditure & Reform	Minister of Finance	Minister of Finance & Cabinet Office
Advisory	✓	✓	✓	✓
Independent Scrutiny	✓	✓	Facilitates/oversees	Facilitates/oversees
Independent Evaluation	✗	✗	✗	✗
Methods & Procedures	✓	✓	✓	✓
Portfolio Monitoring	✓	✗	✓	✓

# Korea's Evolving Model

Korea has not stood still since the 1999 reform:

- ▶ Total Project Cost Management system has been strengthened and complemented by
  - ▶ Legal basis in NFA 2006 and enforcement decrees
  - ▶ Reassessment Study of Feasibility
  - ▶ Reassessment of Demand Forecast
- ▶ The scope of PFS has been extended beyond investment by budget organisations:
  - ▶ PPPs - 2005 amendment to the Public Investment for Social Infrastructure Act and enforcement decrees
  - ▶ SOEs - 2016 amendment to the Public Institution Management Act

Continuous upgrading is a feature of PIM in good practice countries

# Korea's Performance is Quantified

Few countries can provide quantified data on system performance; Korea, Chile and Norway are among the exceptions

- ▶ Korea's PFS prevents numerous weak ideas from progressing further saving enormous amounts of taxpayers' money
  - ▶ Over 1/3 of projects rejected at PFS (1999-2018)
- ▶ TPCM System and RSF lead to closure of failing projects and savings from re-scoping
  - ▶ 24 out of 140 projects stopped during 2006-2010.
  - ▶ Total project cost savings of 18% were made on re-scoped projects

# Is Korea a Victim of It's Own Success?

In weak governance environments, versions of the Korean model are not generally favoured

- Is it too obvious a threat to vested interests?

In donor-dependent countries, donors/IFIs are often seen as doing the job of PIMAC

- Are donor/IFI and country interests sufficiently aligned for this to be true?

Governments tend to favour Chile's model, which appears to offer a high degree of control over the quality of the entire portfolio

- Does it offer the same degree of assurance as Korea's model and is it replicable in low capacity environments?

# Adoption/Retention of Good Practice in PIM is under Threat

## A characterisation of some objections to evidence-based PIM

- ▶ Technical experts are thwarting the 'people's will'
- ▶ Technical methods do not adequately capture important effects of public investment
- ▶ Low interest rates in developed economies offer an unprecedented opportunity for closing infrastructure gaps and ramping up investment programs risks being delayed by strict application of PIM

**Can we really afford to invest on a hunch and plan on the hoof? The evidence says NO!**

# The Future

- ▶ Projects are getting bigger, more complex and riskier
- ▶ Across the world, as few as one in one thousand mega-projects may be completed on budget, on time and with the promised benefits - Flyvbjerg
- ▶ More than ever we need strong - and strengthening - PIM
- ▶ Korean model involving objective evaluation firmly anchored in a supportive legal & regulatory framework has proved itself over 20 years

## CHARACTERISTICS OF KOREA'S PFS

Scope	✓
Stage in the project cycle	✓
Methods	✓
Objectivity	✓
Impact on decisions	✓