



# **20 Years of PFS in Korea**

## **- Lessons and Challenges Ahead -**

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**Talking is easy,  
Starting is harder, but  
Sustaining is the hardest !!**

# *Outline*

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- 1. Why the PFS ?**
- 2. How we started ?**
- 3. What we have achieved ?**
- 4. Challenges ahead**

# *PFS in local and global context*

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## **Local**

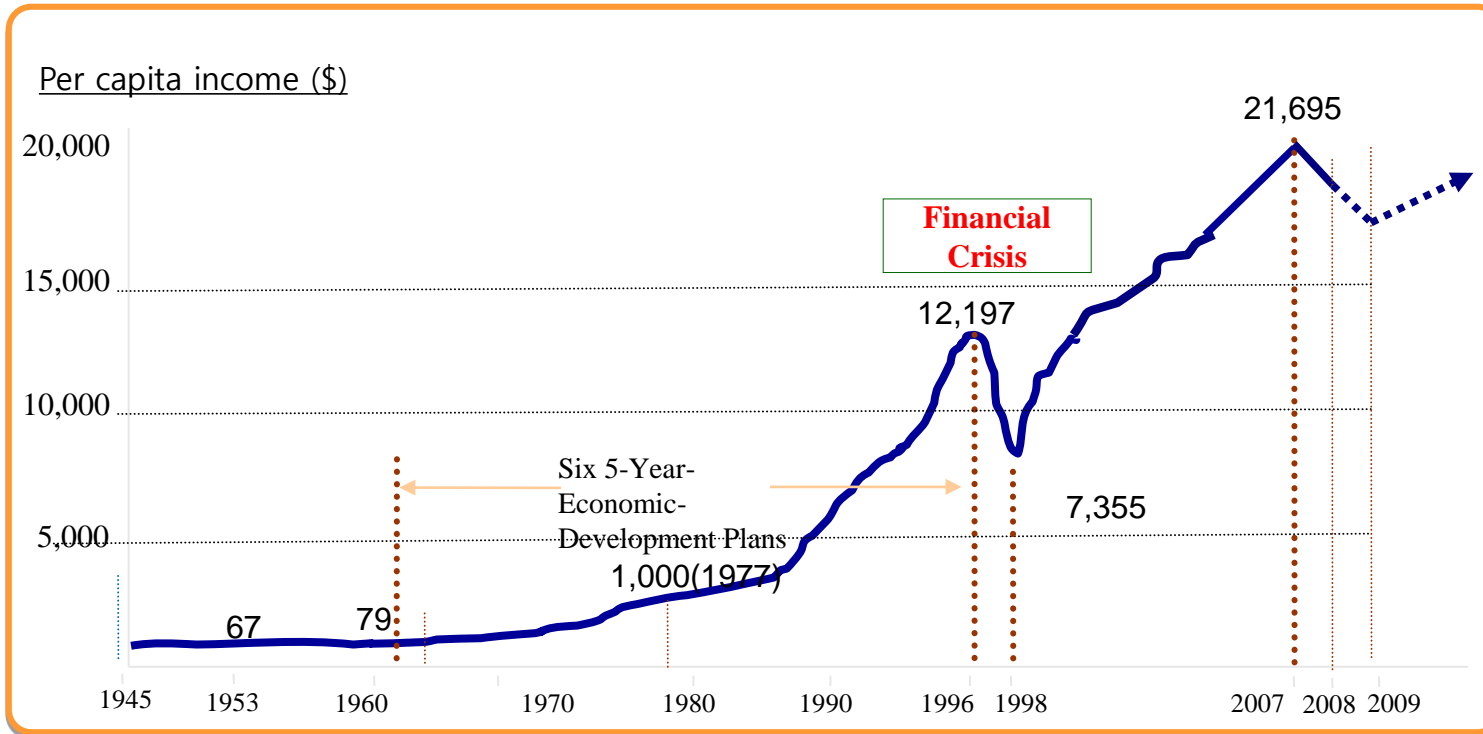
Failure of  
incumbent  
feasibility studies

Fiscal constraints  
due to Asian  
financial crisis

## **Global**

New  
Management  
Movement

Emergence of  
PIM framework



- **Cost overrun : Case of KTX (5.5 → 18.5 tn KRW)**
- **Optimism bias of incumbent FS**

# *PFS in a Nutshell*

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- ❑ **(Objective)** PFS is an ex-ante evaluation of a project to produce information for budgetary decision
- ❑ **(Role)** PFS provides a judgment of PFS team (feasible or not) on the overall feasibility of the project.
- ❑ **(Eligibility)** All new projects with total project costs of 50 bn KRW or more are subject to PFS
- ❑ **(Areas)** Initially economic infrastructure, later expanded to information system, cultural and industrial facilities etc.
- ❑ **(Exemption)** Government facilities, essential public facilities, defense and security related investment may be exempted

# *How we started ?*

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## **1. Making an institutional framework**

- **Strong initiative of budget ministry (MPB) on fiscal soundness (1999)**
- **Establish PFS against the line ministries' objection**
- **KDI PIMAC as a designated PFS agency**
- **Aims to deliver high-quality information for budgetary decision-making**

## *How we started ?*

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### **2. Develop a PFS methodology through co-work with experts**

- **Finding out and working with “Friends”**
- **Establish CBA methods for road projects**
- **Cost estimation / Identification of benefits / other CBA related issues**

## *How we started ?*

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### **3. Evaluate the evaluators: “Five Meeting Rule”**

- **KDI internal & MoF mid-report meetings in sequence**
- **Cross-check by internal and external reviewers**
- **Enhance the rigor of CBA in project evaluation**

# *How we started ?*

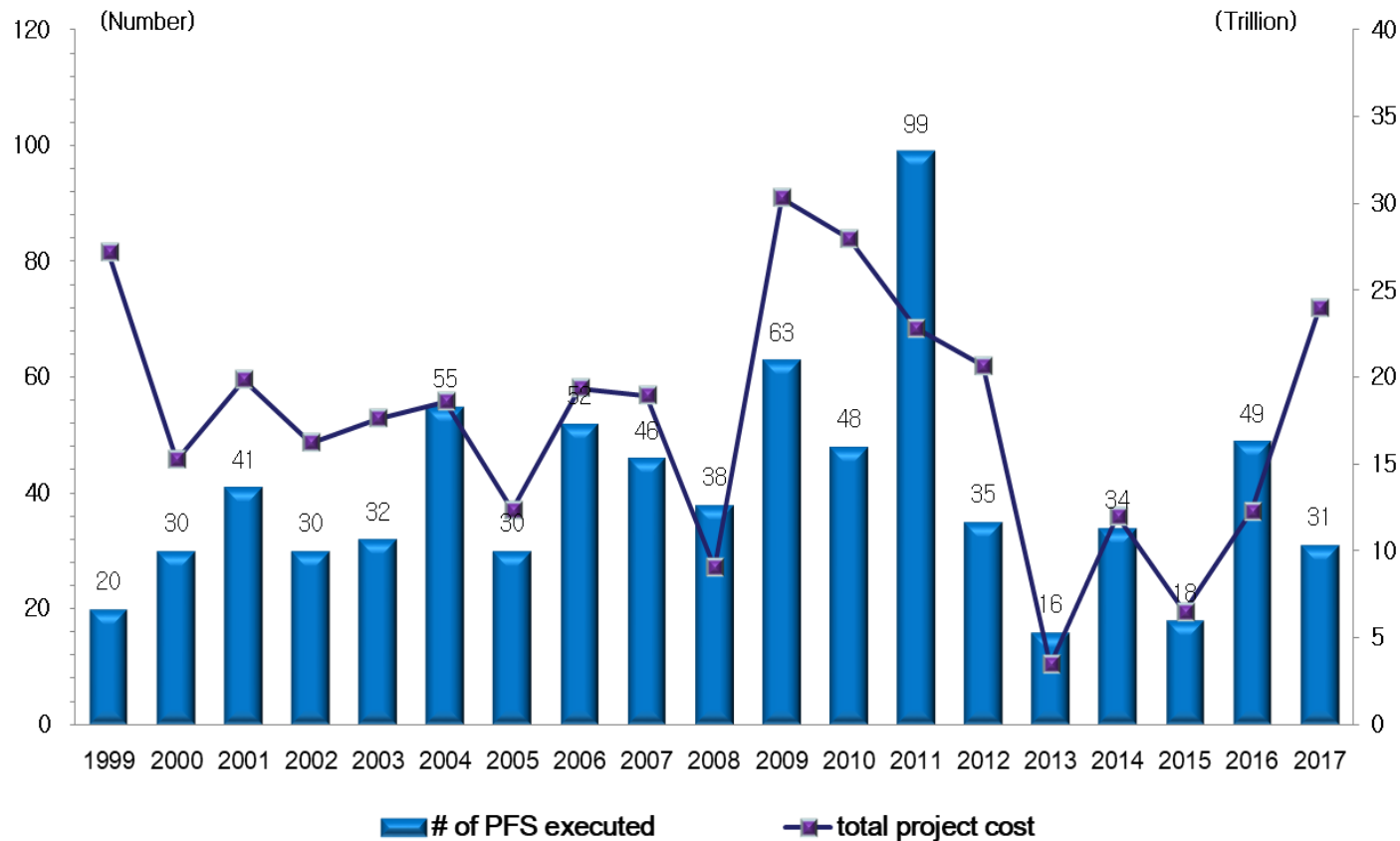
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## **4. Self-evolve to respond to the challenges**

- **“PFS does not take place in a policy vacuum”**
- **Big or small innovations**
  - **AHP : Tool for combining quantitative and qualitative criteria**
  - **Regional Balance dimension**
  - **Revision of KDI and MoEF “Guidelines” etc.**

# What we have achieved ?

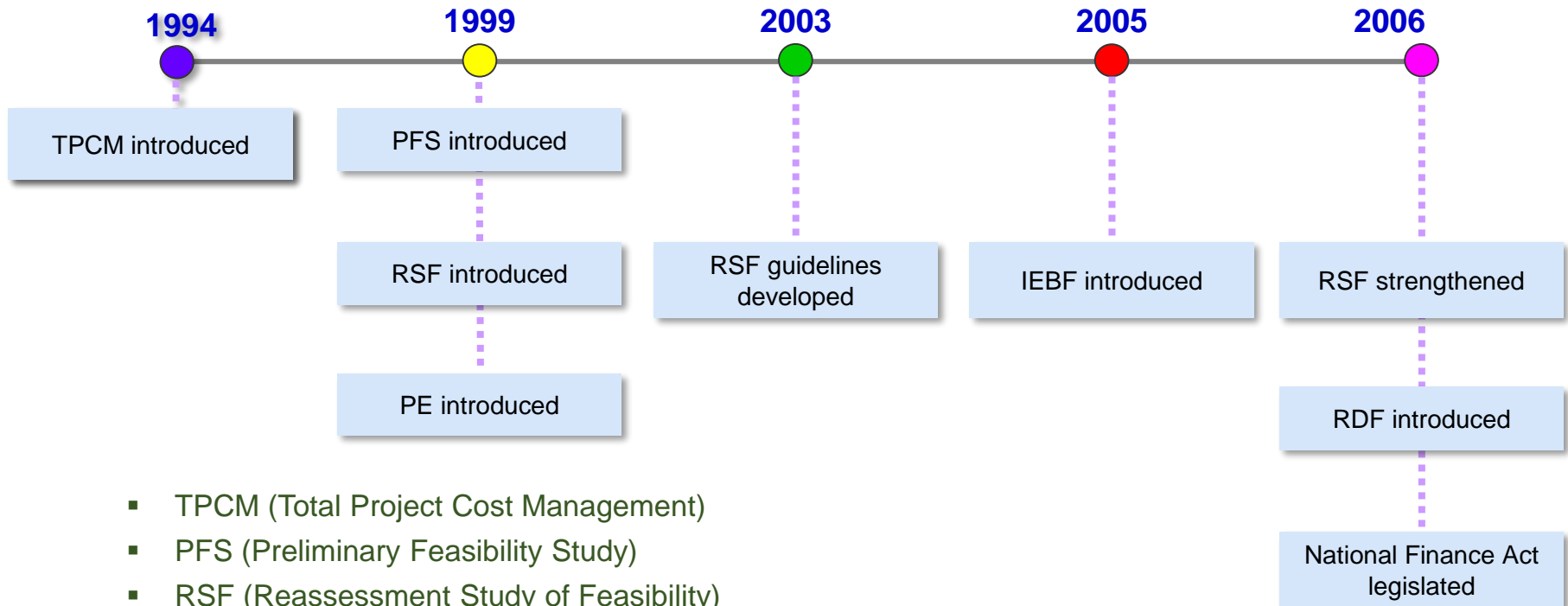
- Total 767 projects reviewed (-2017) and 141 tn KRW saved !!  
(in the total costs of rejected projects)**



# What we have achieved ?

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## 2. Establish & expand the PIM framework



- TPCM (Total Project Cost Management)
- PFS (Preliminary Feasibility Study)
- RSF (Reassessment Study of Feasibility)
- IEBP (In-Depth Evaluation of Budgetary Program)
- RDF (Reassessment of Demand Forecast)
- PE (Performance Evaluation)

# What we have achieved ?

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## 3. International benchmarking case

### Box 2.30. Public and Private Infrastructure Investment Management Centre (PIMAC) in Korea

PIMAC is a Korean think tank that conducts project evaluation as preliminary feasibility studies (PFS) and re-assessment studies of feasibility on public investments, and value for money tests for PPP projects of infrastructure investment projects.

The Preliminary Feasibility Studies Guideline provides guidance on how to appraise projects and states what kinds of cost and benefit analysis should be included. The purpose of the guideline is to present results of technical appraisal work logically and clearly, to maintain the consistency across different PFS and to improve the reliability and accountability of the PFS results. It provides for general guidelines and standard guidelines for each area, such as road, railway, airport, harbour, culture, tourism, sports and research and development (R&D).

The guideline includes detailed guidance on economic feasibility, fiscal feasibility assessment, policy analysis (e.g. degree of lagging regional development, promoting regional economy, possibility of receiving fiscal support, consistency with related plans, environmental impact assessment, etc.) and the analytic hierarchy process (AHP).

Source: <http://pimac.kdi.re.kr> (accessed on 20 October 2015).

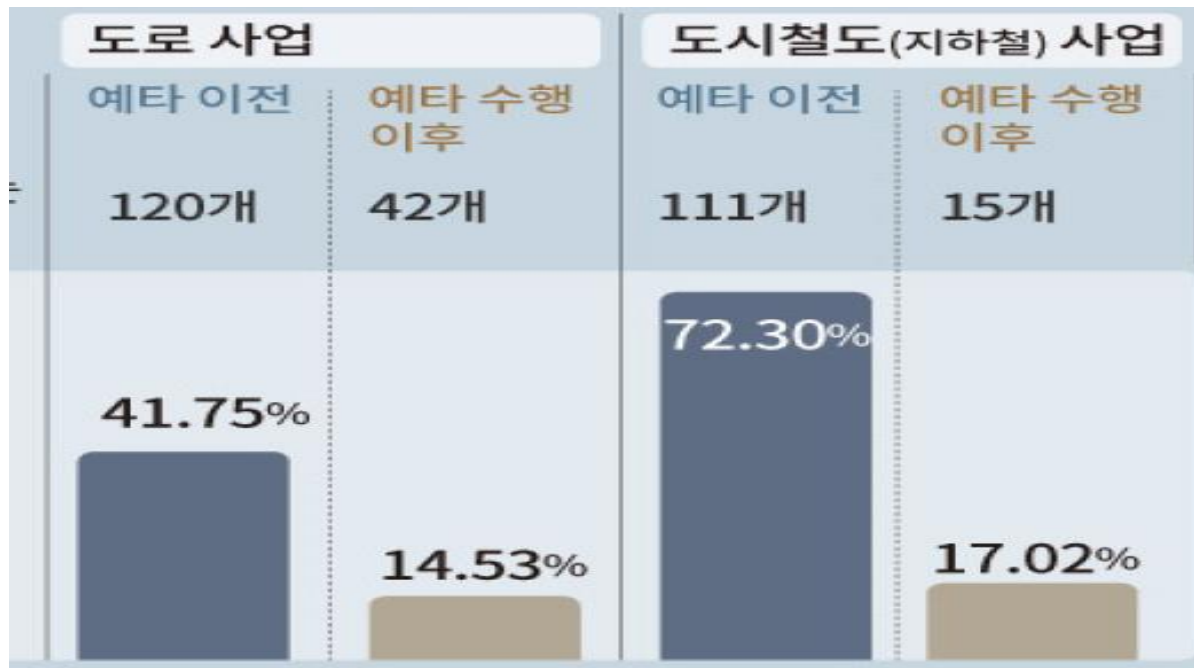
Source: OECD (2016), "Integrity Framework for Public Investment"

# What we have achieved ?

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## 4. Dissemination of PFS practices

- Emergence of regional evaluation centers
- PFS does not avoid error, but improve the result !!



Source: Kangsoo Kim (2017), article in *Chosun Ilbo*

# *PFS Reform in 2019*

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## □ **Background**

- Changes in the policy direction
- Increasing demands on social and sustainability dimensions in the infrastructure project appraisal process
- Widening regional gap and strong demands of relatively underdeveloped regions on infrastructure

## □ **Reform measures in a nutshell**

- Consider the **social dimensions** more explicitly in PFS
- Strengthen the “**balanced regional development**” aspect in a way to give advantage to underdeveloped region
- Enhance **transparency** in the AHP process

# Challenges Ahead

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- **“Measuring the unmeasurable”**
  - The issue of identifying and measuring qualitative dimension of projects
  - UK’s VFM case : Do we still need CBA?
- **From micro to macro perspective ?**
  - PFS model for an individual project still valid ?
  - Demand on macro-level analysis and priority setting :  
Experience of “Overall PFS for Road Projects”

# *Challenges Ahead*

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- **Infrastructure investment as a “political economy” process ?**
  - Participation of diverse stakeholders in the decision making process
  - What is the adequate role of expert evaluation ?
- **PFS in the coming 20 years**
  - Maybe in different form, but will continue to contribute to fiscal soundness

□ Thank you for your attention !!

□ For further information :

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- Homepage of KDI PIMAC

[http://www.kdi.re.kr/kdi\\_eng/kdicenter/pimac\\_main.jsp](http://www.kdi.re.kr/kdi_eng/kdicenter/pimac_main.jsp)