OXFORD ANALYTICA

SOUTH KOREA

FISCAL TRANSPARENCY

Country Report 2005

Copyright © December 2005

Oxford Analytica Ltd
5 Alfred Street
Oxford OX1 4EH

Any reproduction in whole or in part without
the written consent of Oxford Analytica Ltd
is strictly forbidden.

SOUTH KOREA

COMPLIANCE RATINGS

Fiscal transparency	*2005*	*2004*	*2003*	*2002*
Clarity of roles	●●●●	●●●●	●●●●	--
Availability of information	●●●●	●●●●	●●●●	--
Budget preparation	●●●●	●●●●	●●●	--
Accountability	●●●●	●●●●	●●●●	--
Score	**4.00**	**4.00**	**3.75**	--

OUTLOOK & COMMENTARY

The new National Fiscal Management Plan, which serves as a guideline for annual budget formulations, has tackled the previous lack of strategic prioritisation in expenditure allocation. Strategic resource allocation and strengthening of ex-post evaluation combined with autonomous budget requests from local governments should help South Korea achieve the target of a fiscal balance by 2008.

Korea's budget is comprised of a general account, special accounts and public funds. Efforts were again made this year to either close or restructure some public funds.

As in other advanced economies, a change in fiscal structure due to the increase of public expenditure on social welfare is inevitable and is now a main concern for Korean fiscal sustainability. Although the level increase in the national debt raised concerns, it was stipulated that the national debt, as a percentage of GDP, would begin decreasing by 2007.

EXECUTIVE SUMMARY

4.00 Compliance in progress

South Korea complies with the IMF Special Data Dissemination Standard (SDDS), and publishes a comprehensive range of fiscal information through periodic publications.

The National Fiscal Management Plan has been formulated by the Ministry of Planning and Budget to serve as a Medium-Term Expenditure Framework. The purpose is to cover revenue, expenditure levels, budget balance, national debt and sectoral resources allocation for five years. Within the framework, the government is focusing strongly on social welfare. Under plans for 2004-2008, public expenditure on social welfare will increase while spending on economic sector programmes will decrease.

In the longer term, Korea's rapidly aging population poses a major risk to fiscal sustainability. The Ministry of Government Administration and Home Affairs has acknowledged the concerns and is currently working on reform of the pension system. The nature and timing of reforms remain unclear, although a degree of urgency is needed to avoid complete depletion of the National Pension Fund by 2047.

The introduction of top-down budgeting and performance has improved the management of public expenditure, and benchmarking activities have been initiated to study quasi-fiscal activities and expenditure ceilings according to the five-year plan.

The National Fiscal Act will serve as a legal framework for public expenditure management, supporting fiscal reform initiatives. New legislation and ongoing implementation of existing measures will further enhance the country's sound fiscal transparency framework.

South Korea's overall score is unchanged from last year.

1. Clarity of Roles, Responsibilities and Objectives

●●●● Compliance in progress

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions and responsibilities of government

South Korea's government structure is explained in the national constitution[1] and in supportive administrative law. The structure and functions of the government are clearly described on the country's official website[2] and in the different governmental websites. Under Korea's presidential system, the president performs the executive functions through the State Council, made up of 15 to 30 members and presided over by the president. The prime minister is appointed by the president and approved by the National Assembly.

The roles of the executive, legislative, and judicial branches are clearly defined, and there is a demarcation of roles between different levels of government. Explicit tax powers and expenditure responsibilities are specified in the Local Public Finance Act and additional by-laws. A fiscal reform package has been steadily implemented to improve fiscal management; in particular, it has aimed at achieving increased accountability and transparency in government operations.

According to the constitution, local governments deal with matters pertaining to the welfare of local residents, manage properties, and may, within the limit of laws, enact provisions relating to local autonomy regulations.[3] In 1988, the government initiated a revision of the 1949 Local Autonomy Act. The revised law provided for the establishment of 16 higher-level local governments, including seven metropolitan city governments and nine provinces, and 232 lower-level local governments.[4] This division was made to make smoother the transition in stages from a centralised system of government to local autonomy.

The Local Finance and Economy Bureau assists local governments in achieving sound finances. Revenues of local governments include local tax and non-tax income, while the central government provides transfers to local governments to meet total expenditures. The Ministry of Government Administration and Home Affairs (MOGAHA) conducts in-depth deliberations on the issuance of bonds and investment and borrowing projects.[5]

Coordination and management of budgetary activities

The Ministry of Planning and Budget (MPB) coordinates the formulation, management and execution of the national budget. Under the country's organisational chart, the Ministry of Finance and Economy (MoFE) is responsible for preparing the macroeconomic framework and revenue projections, while the MOGAHA is in charge of the administration of local government finances.

The new National Fiscal Management Plan (NFMP) -- a 5-year plan that presents the national policy vision and serves as a guideline for annual budget formulations -- has overhauled the process and information flow needed to reduce the previous lack of strategic prioritisation in expenditure allocation. The government has taken important steps to consolidate this transition to a 'top-down' budgeting system under the Medium-Term Expenditure Framework (MTEF).

There has also been a clear commitment to reduce the use of heavily earmarked budgetary expenditures, such as special accounts and public funds, which have long been used to fund projects in specific areas. The lack of sunset clauses has meant that many of these no longer serve their initial objectives. There are several extra-budgetary funds and institutions which have delivered positive benefits by allowing flexible financing in areas such as housing, welfare and rural development, but which have kept increasing so that their total size became more than that of the national budget. In some instances, poor control and accountability mechanisms have complicated the management of overall public finances.[6] Although the Basic Act on Fund Management was revised twice (in 1999 and 2001) to set the stage for fundamental reform of the fund system, including provisions for reporting to the National Assembly since 2001, consolidation of these accounts remains one of the greatest challenges.[7] The Fund Management Act was only fully adopted in 2005.

In the past, commentators had expressed their unease regarding the existence of both 'special accounts' and 'funds', given the lack of clear distinction between them and the overall need to scale down their share of expenditure.[8] In order to allay these concerns, the government decided in 2004 to reduce the number of public funds from 57 to 39 (by closing eight, privatising two and merging eleven into three) in order to increase spending efficiency and accountability.[9] In practice, this year has seen six special accounts abolished (including the national property special account), three accounts integrated and one separated. The number of special accounts went from 19 to 11. Also, five public funds have been abolished (including public funds for the cultural industry, defence industry and women's development) and two privatised, taking their numbers from 57 to 50 as of November 2005.[10]

Commentators pointed out that although the Standing Committee on Fiscal Innovation is seeking to reduce the number of special funds, many of them are linked to organisations, making it difficult to shut them down. As a result, there has not been such a steep decrease in the number of funds. Observers maintained that it is more important to unify the accounts than to simply abolish the special funds.[11]

Relations between government and public sector agencies

Non-financial public enterprises are, on the whole, run on a purely commercial basis although some public enterprises perform roles that are essentially fiscal in nature (mainly in executing public infrastructure spending). Under the NFMP, the government has an overall plan to decrease quasi-fiscal activity to almost zero. Nevertheless, some concerns remain over the lack of appropriate accountability measures, particularly in off-budget, government-funded institutions, and thus there is a need for gradually increasing the use of benchmarking and/or performance targets, and introducing competition in procurement and in the contracting out of government functions.[12]

In 2005, benchmarking was programmed against the UK. Commentators mentioned that the government is looking at the governance of all quasi-public organisations to decide which to include in the budget. Work is also being done on reform of non-departmental public entities.[13]

The institutional relationship between the government and the Bank of Korea (BoK) is clearly outlined in its regulations and annual reports. Recent reforms to the BoK Act have strengthened the operational autonomy of the central bank while implementing monetary and credit policies. These amendments were aimed at reducing the perceived ambiguities in the BoK Act with regard to government participation in the monetary policy-making process.[14]

Government involvement in the private sector

In 1998, the government launched a major privatisation programme with the understanding that transferring ownership to the private sector was a fundamental solution to the inefficiency of state-owned enterprises (SOEs).[15] The privatisation programme helped to overcome the foreign exchange shortage that triggered the 1997 financial

crisis. Following the 1998 programme, eight former SOEs have been privatised,[16] and the government has continued its efforts to privatise the remaining three SOEs and two state-run funds.[17] The privatisation programme is implemented by the MPB, following instructions from the Privatisation Steering Committee and in coordination with the line ministry responsible for the state-owned enterprise. The process is fair and transparent and is subject to internal financial and performance audits, as well as oversight by the Board of Audit and Inspection.

The Private Participation in Infrastructure (PPI) programme has gradually recovered from the slump following the financial crisis. The programme is under supervision by the Ministry of Construction and Education, whose website provides information about the objectives, regulation and projects in progress.[18] Nevertheless, as the projects increase in number and size in the future, fiscal transparency would benefit from detailed information on fiscal risks stemming from direct and contingent liabilities.

The Private Participation in Infrastructure programme is growing in size, and 2005 was the first year of Build-To-Lease (BTL) rather than Build-to-Operate (BTO) projects. BTO projects had poor accountability and most of them had poor rates of return. Under BTL the level of transparency was reasonably higher. Furthermore the work of the Public Infrastructure Management Assessment Centre (PIMAC) makes these projects very transparent. Commentators mentioned that although there is still no reliable data available to assess contingencies or sensitivities, transparency in this area is moving in the right direction.[19]

The government owns a number of financial institutions that concentrate lending to achieve specific policy goals. Lending by these institutions is generally conducted at market rates and on a commercial basis. Government grants to these institutions are included in the budget documentation and operational balances are publicly available through each institution. However, other extra-budgetary financial funds should be subject to greater scrutiny, particularly those performing quasi-fiscal activities.[20]

The Framework Act on the Management of Government-invested Institutions promotes the rationalisation of operations of government-invested institutions and the efficient administration of government investment by prescribing guidelines to ensure an autonomous and responsible operation system of such institutions.[21]

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

The Budget and Accounts Act, enacted in February 2001, provides general procedures and objectives for the national budget and accounting and the fundamental matters related thereto.[22] The management and accounting of goods and national property are subject to such conditions as prescribed in other legislation, but matters for which no special provision has been made are subject to conditions provided in this law.

The budgetary cycle of South Korea is explained and publicly available on the MPB website. The process has been reviewed this year in order to move to a 'top-down' approach to budget formulation, where the MBP and MoFE set aggregate spending ceilings at the beginning of the process according to the total size and sectoral/ministerial share of resources. The appropriate line ministries would subsequently divide the allocated resources according to their strategic priorities.[23]

An inter-ministerial Budget and Accounting Reinvention office (BARO) is being established to improve and streamline fiscal management. Also, a unit is currently being established within the MPB specifically to assess budget waste.[24]

Legal framework for taxation

Tax laws are publicly available and a summary of tax legislation is provided on the MoFE website. According to the constitution, taxes, duties, fees and charges must have an explicit legal basis enacted by the National Assembly. The president appoints the director of the National Tax Service (NTS); it is regarded as a very important position in the country's bureaucratic hierarchy, requiring confirmation by the National Assembly.[25] Legislation does not grant the director of the NTS any kind of special legal protection.

Since 2000, tax collection has been increasing and evasion is not considered a serious problem.[26] National taxes are collected in accordance with the National Tax Collection Act (NTCA), with the objective of securing tax revenue in a predictable manner. The principles of the NTCA may also be applied to the compulsory collection of local taxes and other public charges. Korea has a National Tax Tribunal, which solves disputes between the National Tax Service and taxpayers. The Basic Act for National Taxes, which contains details of taxpayer rights, tax dispute procedures, and the application of tax law, takes precedence over the general provisions and procedural regulations in the NTCA.

In 2005, a fiscal strategy office has been established within the MPB. This office is working on long-term issues, such as providing a 30-year plan on national goals, including expenditure estimates. This plan is likely to be completed by the end of 2005.[27]

Providing additional information on the tax-raising powers of local governments and simplifying the tax structure would enhance fiscal transparency. Local governments are allowed to levy more than 15 taxes but the central government administers most of their rules and rates, leaving local governments with little flexibility in practice. In addition, the intergovernmental tax sharing system (*Local Share Tax*) comprises complex distribution formulas for calculating transfers, and thus the ability to evaluate its performance in rectifying regional imbalances depends greatly on local fiscal capabilities.[28]

Ethical standards for public servants

Ethical standards for public servants are set forth in the *Code of Ethics for Public Officials*, which was welcomed as a major improvement over the previous general guidelines for public officials.[29] Korea also has an Ethics and Public Service Act, mainly establishing the process by which public officials have to disclose information on their assets before taking office.

In January 2002, the National Assembly passed the Anti-Corruption Act, and the Commission Against Corruption was established.[30] The Commission has the authority to take all necessary measures to prevent corruption, including the design of new anti-corruption policies, but it does not have powers of investigation.[31]

In general, laws and regulations regarding the operation of the central government are enforced and publicly available. However, public officials need to be better trained in the details of both the Code of Ethics and the Anti-Corruption Act. Commentators have suggested that current corruption scandals are closely linked to the inadequate financial framework of the country's political parties, rather than to its fiscal operations.[32]

2. PUBLIC AVAILABILITY OF INFORMATION

●●●● Compliance in progress

The public should be provided with full information on the past, current and projected fiscal activity of government.

Public provision of information on fiscal activity is adequate at the national level, although the standards of information from sub-national levels of government are variable. This is partly because full local autonomy was re-established in 1995, and higher and lower-level local governments are still in the process of setting up adequate information systems.[33] At the national level, the standards of data presentation by different ministries have been gradually harmonised, although some provide greater detail of activities than others. The MoFE publishes a wide range of fiscal information on its website, while the MPB publishes proposals and consolidated reports on national budgets.[34] Information is publicly available both in Korean and in English.

A new public information system for local government finances is currently under development. The planning phase was completed in 2005 and the system is expected to take one to two more years to become operational.[35]

Central government operations

Under the Budget and Accounts Act, the MoFE has the responsibility for collecting, compiling, and submitting final data on the central government to the National Assembly. The MoFE also has the responsibility for compiling and disseminating statistics on general government operations, which it publishes on its website and are updated on a monthly basis.[36] In addition, the MPB releases the *Daily Economic Indicator* bulletin, with information about major South Korean economic indicators such as interest rates, stock prices, exchange rate, and imports and exports. Some international economic indicators are also provided. Consolidated accounts of all central government budgetary activities are available through the MFE and the MPB websites.[37]

Information on the sources and methodology for compiling the central government element of the general government data is published by the MoFE in the annual *Government Finance Statistics.* This publication disseminates detailed data for the reference year showing the revenue and expenditure of the central government element of the general government data, classified in accordance with the IMF Government Finance Statistics (GFS) Manual.

The MPB publishes proposals and consolidated reports of national budgets. The budget documentation includes general statements on the fiscal activities of the public administration, and it also presents information on major expenditures projected for the year, listed by category. Quality processes are primary driven by the accuracy required under budget reporting systems, which ensure accurate and internally consistent fiscal data at central levels. The government has now introduced sectoral ceilings under the NFMP framework in order to remedy the perceived weaknesses in expenditure allocation between the MTEF and the actual annual budgeting process.[38]

Public sector operations

The MPB discloses information on central government budgets and the decentralised agencies under direct budgetary control. Information on social security institutions and public enterprises is publicly available, but it is not presented in a systematic and comprehensive format. However, in 2004 the government published the first

consolidated budget to include local governments. While coverage of publicly available information has been gradually expanded and is being periodically updated, the description of the fiscal stance of public sector operations would benefit from more periodic assessments of contingent liabilities and quasi-fiscal activities.[39]

Data on the execution of the budgets of local government levels are compiled and published by the MOGAHA. Its annual *Financial Yearbook of Local Government* disseminates data for the reference year on the revenue and expenditure transactions of the local government element of general government data, broken down by level of (local) government.

A commitment should be made to the timely publication of fiscal information.

Information about the size and balance of the consolidated budget, revenue and expenditures by general account, and the size of the budget by general and special accounts is publicly available through the MPB website. Moreover, information on changes in fiscal legislation is also contained in the budget documentation, as well as in the MoFE and MPB websites through press releases. South Korea meets the specifications of the IMF Special Data Dissemination Standard (SDDS) for the coverage and periodicity of all fiscal data categories.[40]

Debt reporting

The government provides quarterly information on the level and composition of central government debt -- including the budgetary central government and its extra-budgetary funds (including guaranteed debt) -- which is published in the press and posted on MoFE's website. Information on the government's external liabilities and assets is regularly published on the MoFE's website and through the *Korean Economic Update* report.

Advance release calendars

As part of its compliance with the SDDS, Korea disseminates advance release calendars for fiscal information. An advance release calendar which gives at least one-quarter-ahead notice of the approximate release dates, and at least one week ahead notice of the precise release dates, is available on the National Statistical Office's website.[41] A regular notice to this effect is also included in the *Monthly Economy Bulletin* published by the Economic Analysis Division of the MoFE.

3. Open Budget Preparation, Execution and Reporting

●●●● Compliance in progress

Fiscal policy objectives, macroeconomic framework and risks

Fiscal policy objectives

Budget documentation specifies general fiscal objectives, together with a statement of priorities of major government programmes. The structure of the budgeting process has been reformulated to correct the lack of strategic prioritisation in expenditure allocation. The use of the new 'top-down' approach is thus intended to encourage efficiency of expenditure within line ministries given the distribution ceilings. Fiscal policy formulation and implementation focuses mainly on the central government, but there are also details about sub-national levels of government. As before, the budget will be guided by an underlying medium-term plan -- revised and published on an annual basis -- but the NFMP envisages stronger links between the annual budget and the MTEF.

Top-down budgeting was introduced to all 48 ministries during 2005, and ministry spending ceilings were set based on the National Fiscal Management Plan 2004-2008. Furthermore, the government is now using a five-year framework for the budget, which makes it easier to budget for long-term trends in areas such as aging and social welfare.[42]

The government is not bound by any formal fiscal rules approved by the legislature, although it can only issue debt up to the limits approved annually by the legislature and must return to the legislature to get approval for additional borrowing. In the past, there has been a noticeable reliance on supplementary budgets, particularly since the current law allows the government to seek a supplementary budget when there is a need to change the initial budget amid certain quantitative restrictions. In order to provide greater transparency in fiscal spending, the draft of the National Public Finance Act submitted to the National Assembly by the MBP narrows down the provision to request a supplementary budget to instances where the economy is adversely affected by major natural disasters or is endangered by unforeseen external or domestic factors.[43]

The National Public Finance Act, currently under review in the National Assembly, will serve as a legal framework for public expenditure management, and supporting reform initiatives.[44]

Macroeconomic framework

The budget documentation contains macroeconomic forecasts both for the current budget year and the following one. The NFMP includes broad macroeconomic projections and key parameters/assumptions that influence the estimates of fiscal aggregates. Long-term forecasts are not published beyond those contained in the NFMP or the MTEF, but the former will be revised every year to update or review the five-year rolling scenarios.

In an effort to build consensus, final macroeconomic assumptions are prepared by the Office of Fiscal Planning at the MPB, based on the macroeconomic forecasts prepared by public agencies and quasi-public research institutes.[45]

Fiscal risks

Budgetary documentation does not provide an assessment of the major fiscal risks -- they are incidentally considered in the government's fiscal projections, but they are not periodically quantified. The fact that Korea has been over-performing in its budget estimations makes the introduction of fiscal risk figures a low priority for the government.[46] However, the MTEF is expected to provide better mechanisms for revenue forecasting, which should fix the persistent overshooting in actual revenues.

The risks of quasi-fiscal activities are not publicly available, because of the goal to eliminate them. The NFMP includes a fiscal outlook, but not a detailed analysis of fiscal risks. There is no separate specific paper on fiscal risk factors; instead, they are indicated throughout the plan. The government is aware that fiscal pressures are expected to increase in the future, and thus it is committed to providing additional information on the potential risks stemming from the financial restructuring and other state-guaranteed bonds, or from institutions and funds engaging in quasi-fiscal activities.[47]

Fiscal sustainability

After the financial crisis, the first MTEF report was prepared in 1999, which included some general remarks on fiscal sustainability, and fiscal sustainability studies are now produced by MOGAHA, MFE, MPB and the National Assembly. This year, in the welfare section of the NFMP, there is an analysis of the sustainability of the National Pension System (NPS) -- one of the chief sources of contingent liabilities in the future. The system was introduced in 1988 and will become fully operational in 2008. The Ministry of Health and Welfare has established the National Pension Corporation (NPC) -- a non-profit corporation set up to conduct the administrative activities of the NPS -- with a view to increasing the professionalism and performance of the system.[48] Commentators have suggested that the pension system as it stands today will not be able to work in the long term. However, changes to the pension system need to be approved by the National Assembly, and an agreement in the near future could prove difficult to obtain.[49]

As mentioned above, it is important to note that there are mechanisms for enacting supplementary budgets during the fiscal year, and therefore additional spending during the fiscal year beyond that set out in the original budget. The government is currently seeking to impose stricter requirements for a supplementary budget through the National Public Finance Act draft. The top-down budgeting system uses ceilings to protect budget allocation from political pressure.

Budget presentation

The National Assembly deliberates and decides upon the national budget bill. The executive formulates the budget bill for each fiscal year and submits it to the National Assembly, which has to approve the budget bill within thirty days of the beginning of the fiscal year.[50] The National Assembly is not allowed, without the consent of the executive, to increase the sum of any item of expenditure, or to create any new item of expenditure in the budget submitted by the executive; however, it plays an in-depth role in budget preparation. Budget documentation and other complementary information is available on the MPB website in Korean and English.[51]

If it were necessary to amend the budget, the executive may formulate a supplementary revised budget bill and submit it to the National Assembly. The core objective of the supplementary budgets is to correct original revenue and expenditures forecasts in the main budget that could change due to unforeseen circumstances, so as to maintain a balance budget performance. Supplementary budgets are usually accompanied by an explanation of changes, and are publicly available. In the past, some commentators have argued for a gradual elimination of these additional

budgets; the government has thus implemented the NFMP partly as a way to remedy the over-reliance on supplementary budgets and provide a better description of the fiscal stance each year.

Data reporting

Data are disseminated for the following components: revenue; expenditure; the balance (deficit/surplus); and financing, broken down by currency into foreign currency financing and domestic currency financing. The data are recorded on a cash basis, and are presented on a consolidated basis, with transactions between the central government and the local governments eliminated from the data.

Budget documentation available for each fiscal year distinguishes revenues and expenditures of the general account and major expenditures by category. Although central government budget classifications adhere to international standards of reporting, government data do not strictly adhere to such standards and only information on the economic classification for the consolidated central government is available monthly.

Quality and timeliness of information on sub-national jurisdictions do not follow similar standards of disclosure and availability as those for the national government. However, the central government continues to help local governments to strengthen their budgetary information systems, especially as more government functions are devolved from the central to local levels under the *Local Autonomy Act*. The NFMP has included for the first time the local government's final accounts in the national consolidated budget documentation.

Budget execution and monitoring

The annual budget is made and executed following the calendar year. The main budget is the original budget approved by the National Assembly for a fiscal year. If under certain circumstances the main budget is not approved before the beginning of that fiscal year, the government may temporarily continue spending at a rate equivalent to the previous fiscal year's budget. Transactions relating to the execution of the budget are recorded and are available for both internal and external audit.

The implementation of the budget is primarily the responsibility of the executive branch of government. However, the assembly may be involved during the year, particularly when there has been a need to approve supplementary budgets. Moreover, the MPB holds monthly finance review sessions that seek to ensure timely implementation of the budgets, including supplementary funds.

A pilot 'performance-oriented budget system' was introduced in 2000. This system was stopped in 2002 because its results did not improve the budgetary process, but having learnt from this experience the government is now introducing a new pilot 'Performance Management System'. This system, introduced at the same time as the 'top-down' budgeting system, is built around performance indicators developed by each ministry (with the technical assistance and supervision of the MPB) to ensure accountability within the expanded autonomy of the line ministries. The government expects to have this new system fully operational by 2008, when line ministries should be in a position to issue yearly performance reports.[52]

Accounting basis

The Treasury bureau, part of MoFE, is in charge of establishing the government's accounting policy. Accounting standards are generally perceived as effective, generating timely and reliable information on consolidated central government activities. More frequent reporting of the consolidated general government operations would nevertheless strengthen transparency.

Korea currently uses a cash-based accounting system. The government is preparing a new Government Accounting Act -- in coordination with the Digital Budgeting and Accounting System (this operating plan was formulated in early 2004) -- in order to introduce an accrual-based accounting system and provide online, real-time management of the budgetary process in the near term.[53] Once the new accounting guidelines have been adopted, the government also expects to adopt the IMF GFS Manual of 2001.[54]

The government is currently revising the current line-item (+6000) oriented budget structure for easier access and simplification. Increased autonomy and accountability should be created through systematic linkages between policy, organisation and programmes.

The accrual accounting has been partly implemented at the MoFE, while the MOGAHA has always been using accrual accounting.[55]

Procurement and employment

South Korea has well-established procedures for procurement and employment, and they are usually followed in practice. Procurement procedures are based on the Government Procurement Act, and are subject to audit and inspection by the Board of Audit and Inspection.[56]

The Public Procurement Service (PPS) is a central government agency that purchases and provides goods and services needed for the operation of various government organisations. Information about procurement and tendering is publicly available in both Korean and English, and regularly updated through the PPS website.[57] Since becoming a member of the Agreement on Government Procurement (AGP), procurements valued above the threshold specified in the agreement have been conducted on an international competitive basis.[58]

The new Government e-Procurement System (GEPS) is being rolled out. It will make South Korea's government procurement one of the most transparent in the world.[59]

The MOGAHA establishes norms for the ethical conduct of civil servants, which are perceived as clear and accessible. Moreover, the ministry also provides personnel administration for civil servants and manages national and local administrative organisations. There is competitive recruitment within the civil service, while the Central Officials Training Institute provides training for government officials.

Fiscal reporting

The MPB and the MoFE are required by law to report fiscal information to the National Assembly. Final accounts for the consolidated central government are prepared, externally audited, and submitted to the legislature for its approval within nine months of the end of the year. Reports for aggregate sub-levels of government accounts are available annually with a delay of eleven months from the end of the year, usually with no intra-year reporting.

Budget amendments made by the National Assembly are publicly available. Information on economic and financial indicators, budget revenues and expenditures, the balance of the consolidated budget, and multi-year expenses are annually updated on the MPB website. At the same time, the monthly *Korean Economic Update* provides detailed information on economic trends. Some commentators have suggested that, in order to improve overall fiscal management, better coordination between the MoFE and the MPB would be welcome.[60] The draft version of the National Public Finance Act includes some provisions to further improve fiscal coordination and to engage civil society in the control of fiscal accounts.[61]

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●●●● Compliance in progress

Data quality standards

Fiscal data is disseminated and regularly updated on the MoFE and the MPB websites, in accordance with South Korea's SDDS commitment. Budget data reflect recent revenue and expenditure trends and policy commitments, and also specify the underlying fiscal objectives. Fiscal policy formulation and implementation is mainly focused on the central government with less information publicly available on sub-national levels of government. The national government is seeking to improve fiscal policy reporting from lower levels of governments, particularly to bolster the consistency in the presentation and quality of information. The National Statistical Office (NSO) has had a leading role in strengthening the mechanisms and capacity of fiscal reporting for local government data.

Independent scrutiny of fiscal information

Independent Audit

The Board of Audit and Inspection (BAI), a constitutionally independent body, is established under the direct jurisdiction of the president and exercises external supervision over the whole executive branch, and has responsibility for improving performance and supervising the accountability of most public sector institutions.[62] The BAI inspects and examines the settlement of the revenues and expenditures of the state and other organisations specified by law.[63] It examines the closing of financial accounts of revenues and expenditures each year of central and local government agencies, government corporations, and related organisations, and reports the results to the president and the National Assembly in the following year. The annual reports are usually submitted by September of the following fiscal year and are publicly available. The board also evaluates the performance of the executive agencies and public officials, and has the power to inspect abuses of public authority or misconduct by public officials while performing their duties.

The chairman of the BAI is appointed for four years by the president, subject to the approval of the National Assembly, and cannot be dismissed except under an impeachment procedure. The BAI's role has been strengthened in recent years, and today it is perceived as a truly independent institution, with full institutional and operative capacity.[64] In addition to the external audit function exercise by the BAI, every government office has its own internal auditing and inspection unit. Recent pilot programmes for performance-oriented audits have been conducted with joint cooperation by the BAI and the MBP.

National Statistics Agency

The NSO is the central government authority in charge of statistics.[65] It has responsibility for coordinating the national statistical services as well as compiling fundamental statistics and disseminating integrated statistical information. As an independent central government authority, the KNSO is under the supervision of the MoFE, but as far as technical matters are concerned, it reports directly to the appropriate ministries. The Statistical Act ensures the reliability of statistics and the efficiency of the operation of the statistical system through a comprehensive coordination of statistical activities.[66]

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to South Korea between 14 and 18 November 2005.

Ministry of Planning and Budget

16 November 2005

Sokjin Chang	Senior Assistant Director	Fiscal Strategy Office, Fiscal Cooperation Team

Ministry of Government Administration and Home Affairs

17 November 2005

Chun, Ji-Yoon	Deputy Director	MOGAHA
Jung, Tae Up	Deputy Director	Pension Welfare Team
Yoo, Chung-sun	Team Manager	Pension Welfare Team

Bank of Korea

15 November 2005

Jin-Su Park	Senior Economist	Research Department, Financial Industry

ADDITIONAL INTERVIEWS

17 November 2005

Kang, Sung-Goo	Secretary General	Transparency International

18 November 2005

Kenneth H. Kang	Resident Representative	International Monetary Fund

NOTES

[1] Constitution of the Republic of Korea, 1948.
[2] See www.korea.net
[3] Constitution of the Republic of Korea, Article 117.
[4] Higher-level local governments serve as intermediaries between the central and lower-level local governments. Lower-level local governments deliver services to the residents through an administrative district system.
[5] In addition, every year the central government distributes 15% of national tax revenue to local governments to reduce financial disparity among local governments and to supplement any anticipated budget shortfalls.
[6] See for example: 'How Korea Reformed the Public Sector: 1998-2002', Ministry of Planning and Budget, 2003, p.127 and 'Reforming the Public Expenditure System in Korea', Economic Department Working papers No. 377, OECD.
[7] The funds are now reviewed every three years in order to assess their position. A summary status of the funds is published annually and available through the MPB website.
[8] Interviews in South Korea, 27-29 October 2003.
[9] Interviews in South Korea, 20-22 October 2004.
[10] Interviews in South Korea, 11-18 November 2005.
[11] Interviews in South Korea, 11-18 November 2005.
[12] Interviews in South Korea, 20-22 October 2004.
[13] Interviews in South Korea, 11-18 November 2005.
[14] Interviews in South Korea, 20-22 October 2004.
[15] 'How Korea Reformed the Public Sector: 1998-2002', Ministry of Planning and Budget, 2003, p.62.
[16] National Textbook Co., Ltd.; Korea Technology Banking Corp.; Pohang Iron and Steel Co.; Daehan Oil Pipeline Corp.; Korea Heavy Industry and Construction Co.; Korea Telecom Corp.; and Korea Tobacco and Ginseng Corp. In addition, Korea General Chemical Corp. was ultimately liquidated.
[17] Korea Electric Power Co.; Korea Gas Co.; and Korea District Heating Co.
[18] See Private Participation in Infrastructure (PPI) programme at:
www.moct.go.kr/EngHome/Polices/Private/Private.htm?MID=EM031&HOMEPAGENAME=&DEPT=&UID=
[19] Interviews in South Korea, 14-18 November 2005.
[20] Interviews in South Korea, 20-22 October 2004. For example, a substantial portion of the financial sector restructuring was financed through extra-budgetary funds. Other financial funds, which receive subsidies via transfers from the budget, were set up to facilitate credit guarantees to small and medium enterprises.
[21] Framework Act on the Management of Government-invested Institutions, available at: www.mpb.go.kr
[22] Budget and Accounts Act, available at http://152.99.157.42/hp30001ht/data_02.html
[23] Interviews in South Korea, 20-22 October 2004. The NFMP, in contrast to previous medium-term plans that were formulated irregularly, will be revised and updated every year, allowing the efficient allocation of national resources within a mid- to long-term framework. See also 'Fiscal Reform in Korea', Kim Byung-Il, Minister of Planning and Budget, March 15, 2004.
[24] Interviews in South Korea, 11-18 November 2005
[25] The confirmation hearing is not exactly a ratification process, but if the National Assembly does not confirm the appointment, the president has to nominate another candidate.
[26] In late 1999, the government introduced a system of tax deduction for the use of credit cards. This incentive boosted the use of credit cards across the country, improving the registration of transactions and boosting tax revenues.
[27] Interviews in South Korea, 11-18 November 2005.
[28] See 'Reforming the Public Expenditure System in Korea', Economic Department Working papers No. 377, OECD.
[29] Interviews in South Korea, 27-29 October 2003.
[30] The Commission is made up of nine commissioners who are appointed in equal proportions by the president, the National Assembly and the Supreme Court.
[31] Korean civil society is campaigning in favour of giving the Anti-Corruption Commission investigatory powers, but this is not likely to occur in the near future.
[32] In March 2004 President Roh Moo-hyun was impeached for breaching the Election Law, but the Constitutional Court overturned the verdict in May because the law breach fell "short of a threat to the constitutional order" and it was not grave enough to warrant his removal.

[33] Until 1995, South Korea was an extremely centralised country, with all fiscal and budgetary decisions being taken by the central government. Since then, fiscal decentralisation has become one of the most important issues for the government, which is now focusing on the accountability aspect of the decentralisation programme.
[34] Ministry of Finance and Economy, at http://english.mofe.go.kr/main.php; Ministry of Planning and Budget, at www.mpb.go.kr
[35] Interviews in South Korea 11-18 November 2005.
[36] Data are initially posted on the National Statistical Office website at: www.nso.go.kr/eng/imf/nsdp.html
[37] Interviews in South Korea, 14-18 November 2005.
[38] Interviews in South Korea, 20-22 October 2004.
[39] In particular, the government embarked on the NFMP partly as a result of its awareness that public finances will be under greater pressure in future. Higher financial needs would likely stem from the financial restructuring programme (which was financed in 1997-98 with government-guaranteed bonds issued by two off-budget public funds), the gradual expansion of the social safety net to provide for the ageing population, and the uncertain cost of future economic cooperation with North Korea.
[40] Korea is currently availing itself of a flexibility option on the timeliness of the general government or public sector operations data.
[41] See Advance Release Calendar at: www.nso.go.kr/eng/imf/arc.html
[42] Interviews in South Korea, 11-18 November 2005.
[43] Interviews in South Korea, 20-22 October 2004. Factors would include, for example, the need for immediate spending to support low-income families and for urgent state spending.
[44] Interviews in South Korea, 14-18 November 2005.
[45] The Korea Development Institute, the Korea Institute of Public Finance, and the Korea Institute of External Policy are among the most important research institutions that help the government in building its macroeconomic forecasts. In addition, forecasts prepared by the Bank of Korea are also taken into account. The MPB provides a common forum of discussion among these institutions to analyse and discuss the projections and to prepare its own assumptions.
[46] Interviews in South Korea, 27-29 October 2003.
[47] Interviews in South Korea, 20-22 October 2004.
[48] Information on both the NPS and the NPC, including information on revenue management, is publicly available at www.npc.or.kr In an effort to stabilise the fund, the income replacement rate for average income earners with a 40-year insured period has been lowered from 70% to 60%. Beginning in 2013, the current pension eligibility age will begin to increase by one year every five years until reaching 65 in 2033. In addition, financial recalculation will be made every five years from 2003 to adjust contribution and benefits levels appropriately and maintain the long-term sustainability of the system.
[49] Interviews in South Korea, 20-22 October 2004.
[50] Constitution of the Republic of Korea, Article 54.
[51] See the national budget documentation at: http://152.99.157.42/hp30001ht/data_03.html
[52] Interviews in South Korea, 20-22 October 2004.
[53] Interviews in South Korea, 20-22 October 2004.
[54] At present, South Korea follows the 1986 version of the GFS Manual.
[55] Interviews in South Korea, 11-18 November 2005.
[56] Government Procurement Act, 1994, available at: www.moleg.go.kr
[57] Public Procurement Service website, at: www.pps.go.kr
[58] In September 2002, the PPS established a nationwide integrated Government e-Procurement System that enables all procurement from 'purchase request' to 'payment' to be processed online, and provides a higher level of efficiency and transparency in the public procurement operations.
[59] Interviews in South Korea, 11-18 November 2005.
[60] Interviews in South Korea, 27-29 October 2003.
[61] Interviews in South Korea, 20-22 October 2004.
[62] See BAI website at: www.bai.go.kr/gamsa/plsql/bai_ehome
[63] Constitution of the Republic of Korea, Article 97.
[64] Interviews in South Korea, 27-29 October 2003.
[65] See Korea National Statistical Office at: www.nso.go.kr/eng/
[66] See the Statistical Act, available at: www.nso.go.kr/eng/about/act.html