

USE OF PERFORMANCE INDICATORS AND RESULTS OF EVALUATION TO INFORM BUDGET PROCESS: OVERVIEW & LESSONS FROM KOREA

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NEED TO OVERHAUL PFM SYSTEM

There had not been any major reform in PFM area since the Budget and Accounts Act in 1961. which is based on line-item budget classification.

- Focused on resource mobilization to meet the given policy priority rather than on developing policy priority based on monitoring & evaluation

After the Asian Financial Crisis in the late 1990s, the need for PFM reforms became evident.

- Increasing government debt
- aging population
- increasing demand for social welfare

DEMAND FOR REFORM

Aspiration for reforms within the central budget office

- Need for longer term perspectives in budget process
- Need for enhancing feedback mechanism
- Need for improving transparency and efficiency

Support from civil society

- In particular, strong support from academics and expert groups

Political need of the new government

- Need for shifting resource allocation to the new policy areas
- Need for more participatory budget process

PFM REFORM PROGRAMS IN KOREA

MTEF

Top-down
budgeting

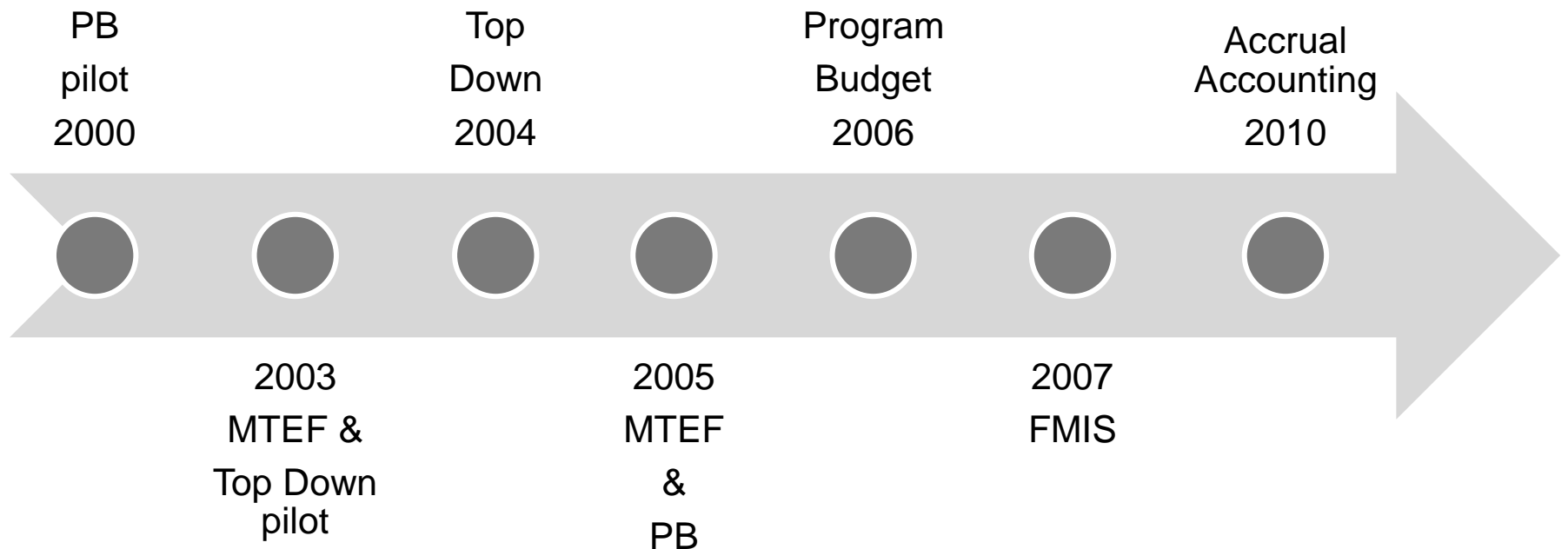
Performance
Budgeting

Program
budget
classification

IFMIS

Accrual
Accounting

SEQUENCE OF PFM REFORMS



CHARACTERISTICS OF PFM REFORMS IN KOREA

Big bang approach

- Introducing all major components of PFM reforms within a single presidential term (5 year)
- All initiatives are pursued in a parallel manner

Practical adjustment of reform programs

- Some delays in program budget classification and accrual accounting

Executive branch initiated reforms

- Almost no engagement of the legislature

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3 LAYERS OF PB SYSTEM

Monitoring

Annual performance plan & report

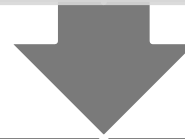
Performance indicators & targets



Periodic Review

Assessing 1/3 of spending programs

Checklist-based review



In-depth Evaluation

Evaluating 10 cross-cutting programs

Data-driven program evaluation

MONITORING

Every line ministries are required to submit annual performance plan & report to the National Assembly

Annual performance plan & report include the hierarchical structure of policy goals, which is based on program budget classification

Performance indicators and targets are developed each year by line ministries and examined by the Ministry of Strategy and Finance (MOSF)

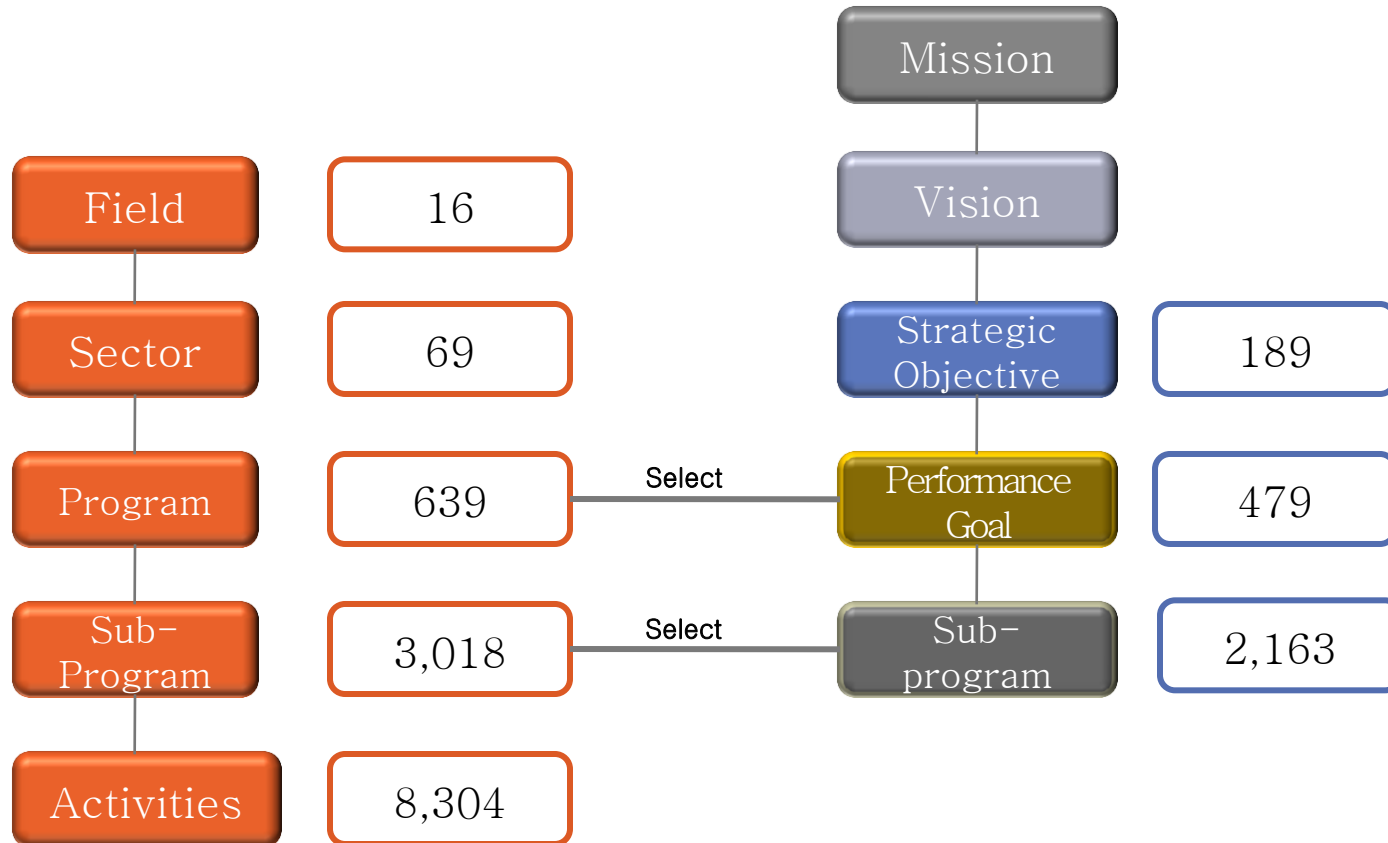
Annual performance report is examined by the National Audit Office

Annual performance plan is a starting point for PB

BUDGET CLASSIFICATION & ANNUAL PERFORMANCE PLAN

Program Structure

Annual Performance Plan/Report (2012)



PERIODIC REVIEW

1/3 of sub-programs are reviewed each year by MOSF and Finance with support from the Korea Institute of Public Finance.

Line ministries are required to submit their self-assessment based on the checklist developed by the MOSF.

Then MOSF reviews the self-assessment results and finalize the review results.

- This review process takes three steps to reach final conclusion
- ①The first review by MOSF → appeal opportunity for line ministries → ②the second review by MOSF → appeal opportunity for line ministries → ③if there is still disagreement, there will be a final face-t-face meeting among MOSF, line ministries and experts.

Program ratings are decided by the periodic review process.

10% budget cuts are recommended by MOSF to line ministries for “ineffective” programs.

REVIEW CHECKLIST

Design and Planning (30)	<ul style="list-style-type: none">• Program purpose• Rationale for government spending• Duplication with other programs• Efficiency of program design• Relevance of performance objectives and indicators• Relevance of performance targets
Management (20)	<ul style="list-style-type: none">• Monitoring efforts• Obstacles of program implementation• Implementation as planned• Efficiency improvement or budget saving
Results and accountability (50)	<ul style="list-style-type: none">• Independent program evaluation• Results• Utilization of evaluation results

Program Review Results

(Number of Programs, %)

Year	Total	Effective	Adequate	Ineffective
2008	384 (100)	55 (14.4)	226 (58.9)	103 (26.8)
2009	440 (100)	36 (8.2)	311 (70.7)	93 (21.2)
2010	552 (100)	26 (4.7)	393 (71.2)	133 (24.1)
2011	482 (100)	33 (6.8)	317 (65.8)	132 (27.4)
2012	474 (100)	32 (6.8)	330 (69.6)	112 (23.6)
2013	597 (100)	29 (4.9)	424 (71.0)	114 (24.1)

IN-DEPTH EVALUATION

About 10 cross-cutting programs are evaluated each year

- Typical program evaluation approach is adopted.

Program consolidation is the primary goal.

Evaluation is outsourced to public research institute and academics.

Examples of in-depth evaluation

- Job assistance programs : 55 programs by 10 ministries
- Local development programs : 27 programs by 5 ministries

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USE OF PERFORMANCE INFORMATION

Information from monitoring system (performance plan and report) has not been systematically utilized so far.

- For internal use, they are useful information
- From the viewpoint of central budget authority, they provide limited information

Information from review system are actively used in budget negotiation process.

- Programs rated as ineffective are in danger of suffering budget cut
- Its use is systematically built into the budget process

Information from program evaluation is usually useful

- Their use in budget process depends on the quality of evaluation and the will of central budget authority
- Recently it gained visibility by formalizing the reporting process.
- 3 trillion won was saved during 2009-2013.

Budget Cut for Ineffective Programs

(Billion USD, %)

Year	No. of Ineffective Programs	Total Budget in FY (t)	Total Budget for FY (t+1)	Budget cut (%)
2008	103	5.7	4.6	-19.3
2009	93	2.8	2.6	-6.8
2010	133	3.9	3.4	-12.5
2011	132	4.3	3.9	-10.0
2012	112	1.9	1.5	-18.4

CULTURAL CHANGES IN LINE MINISTRIES

Monitoring & evaluation activities become essential elements of program design and management.

- Many big programs set up M&E system. In particular, subsidy or grant programs are implicitly required to operate M&E system.

Performance contracts are tried in some programs to improve program performance.

- The initial evidence shows big improvement of performance.
- However, contract management capacity is an issue to be addressed.

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FURTHER CHALLENGES

Engagement of the legislature

- The National Assembly wants to have more voice in the reformed budget process
- The budget deliberation and approval process within the National Assembly needs to be reformed

Engagement of the National Audit Office

- Adds more rigor the reformed budget process but also brings in the danger of becoming compliance mechanism

FURTHER IMPROVEMENT

More timely intervention in program management

- Establishing quarterly performance information in FMIS and using it for decision making purposes

Further capacity building among stakeholders

- Fundamental reexamination of HR management in government
- Establishing government-wide evaluation policy

Revisiting the initial spirit of PFM reforms

- Revive top-down budgeting?

Further technical improvement

- Improving cost accounting and refining the scope of government

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USE TARGETS FOR PB

In theory, performance information should be used as one of important factors for budget allocation

In practice, consider setting specific targets for budget reshuffling, in order to secure fiscal space where PI can be more directly used

- Reshuffling 5% of budget mostly based on PI may not cause serious unintended problems

SELECTIVE APPROACH

Consider focusing on selective areas/programs that are important and easily subject to performance budgeting at the initial stage of reforms

- Since producing meaningful PI for every program takes time, it can be a good strategy to start with selective areas/programs to demonstrate the impact of performance budgeting.

DEVELOP CUSTOMIZED PI

Consider moving beyond performance indicators and targets, particularly if outcome indicators are used

- Outcome indicators need interpretation to be used in decision-making purpose due to external factors
- Therefore, consider developing program review process to have more systematic performance information, unless communication between central budget authority and line ministries are easily facilitated

SELECTIVE USE OF OUTPUT INFORMATION

Consider using output indicators in some areas

- If link between output and outcome is very tight, output indicator can be a good proxy for outcome
- If quality of services can be properly controlled, output-based budgeting can be useful
- In some areas, above mentioned condition can be met
- Then, consider using output measures for the selected areas, such as public health, education, social welfare and so on.

OTHER LESSONS

Capacity building is important

- The central budgetary authority's evaluation capacity
- Line ministries' evaluation and data management capacity
- If outside resources, such as research institutes and universities, are available, cooperate with them

Location of evaluation unit is important

- If evaluation unit is separated from budget office, performance information is less likely to affect the budget allocation

Develop proper incentive scheme for line ministries

- Flexibility of management
- Sanctions for poor performance

THANK YOU!

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