Country Report: South Korea

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Executive summary:

Korea has experienced dramatic changes in transparency and participation since the democratic transition and the changes accelerated during the mid-2000s. On the one hand, the enhanced transparency and public participation in the budgetary process is a result of democratic deepening. On the other hand, budgetary participation and transparency has contributed to the deepening of democracy.

In Korea, there were three watershed events that produced a significant momentum for (budgetary) transparency and participation. They are the democratic transition in 1987, the reintroduction of full local autonomy in 1995, and the financial crisis and change of government parties in 1997. The democratic transition in 1987 played a decisive role in enhancing transparency in the political process by empowering the citizenry and the legislature. Reintroduction of local autonomy laid the foundation for development of public participation in local affairs, including participatory budgeting. Local autonomy empowered grassroots local NGOs in the monitoring of budget waste. In turn, the practice of participatory budgeting spread throughout the country.

After the democratic transition in 1987, many civil society organizations ("CSOs") were created and citizens’ demand for transparency in government increased. Among the newly organized CSOs, Citizens’ Coalition for Economic Justice (CCEJ) and People’s Solidarity for Participatory Democracy (PSPD) were particularly active and influential.

Korea has a long history of bureaucratic dominance. The power of bureaucracy over civil society was overwhelming. It has been very difficult to change the relationship between the bureaucracy and civil society. The situation began to change in 1987 with the democratic transition. But more dramatic changes were made beginning in 2003 with the inauguration of a liberal reform-minded president.

With this historical background, many of the participatory mechanisms were made under the auspice of president Roh, Moo-hyun (2003-2007), who chose "participatory government" as the nickname of his administration. Some advisory committees for budget proposal established in individual line ministries under President Roh were abolished under President Lee Myung-bak. President Lee revised a presidential decree to make exceptions for feasibility tests to implement his campaign agenda.
However, the improvement in budget transparency and participation has not always been steady. The reform coalition between the liberal presidents and civil society was not strong enough to prevent significant setbacks when the conservative government took power and ignored some mechanisms for transparency and participation. This shows the weakness of executive constraints, or legislative checks over the executive, in Korea. In particular, the president can quite easily exploit legal loopholes and use presidential decree power to make legal exceptions in order to promote his or her agenda as in the case of the Four-River Project.

Section 1: Historical Overview

South Korea, or the Republic of Korea, was established on the southern portion of the Korean Peninsula in 1948. The division between the South and the North, or the Democratic People’s Republic of Korea, was followed by the Korean War (1950-53) that ended in armistice. South Korea (hereafter simply Korea) began its democratic transition in 1987, and the country is widely considered a consolidated democracy that has passed the commonly used two election turn-over test.

South Korea has a presidential system with a unitary government. The president is directly elected by popular vote for a single five-year term. The unicameral National Assembly has 300 members for four-year terms: 246 are elected from single-member districts and 54 through proportional representation. Two major parties, conservative Saenuri Party and liberal Democratic Party, have alternatingly took power marginalizing other parties over time. The first transfer of power took place in 1997, when a long-time advocate of democracy, Kim Dae-jung, won the presidential election in the midst of the Asian financial crisis. After ten years of liberal rule under Kim Dae-jung (1998-2002) and Roh Moo-hyun (2003-2007), conservative Lee Myung-bak (2008-2012) and Park Keun-hye (2013-2017), daughter of the late dictator Park Chung-hee, won the presidency. The Saenuri Party enjoys strong support from the Southeast, or Youngnam region, and older generations, whereas the Democratic Party has a strong support base in the Southwest, or Honam region, and younger generations. Ideological conflicts between these parties developed first surrounding the North Korean policy (engagement vs. hardline policy), but recently economic and social policy issues have become increasingly salient.

Heads and council members of metropolitan, provincial, and municipal governments are elected for four-year terms mid-way between the National Assembly elections. In addition, referendum and recall have been introduced to enhance direct democracy in local politics. Korea has a vibrant and active civil society including many public interest groups, think tanks, and organized labor, as well as the business interests, who actively
participate in the policy-making process through policy proposals, petitions, and protests. Mass protests have taken place when there is an important political issue about which many people are outraged with the government, as in the cases of the parliamentary impeachment of President Roh Moo-hyun in 2004 and President Lee Myung-bak’s unilateral concession to import U.S. beef in 2008. As the conservative government of Lee Myung-bak tried to suppress mass protests and to control media, freedom of speech has declined since 2008.

Although South Korea used to be widely regarded as a model developmental state, increasing corruption and collusion between government-chaebol (large family-controlled conglomerates)-banks has posed challenges to the country’s political economy. After the financial crisis of 1997, which exposed the problem of Too-Big-To-Fail, or over-investment and over-borrowing of the chaebol, Kim Dae-jung’s government implemented sweeping reform of the chaebol’s corporate governance and financial sector and improved transparency in government policy including the budgetary process (You 2012). Subsequently, Roh Moo-hyun’s government further institutionalized budget transparency and participation by enacting the National Fiscal Act of 2006 (You and Lee 2013).

Table 1 provides a brief description of the chronological development of budget transparency and participation in South Korea. Democratic transition in 1987, reintroduction of local autonomy in 1995, and the change of government in the midst of financial crisis in 1997 were the three watershed events that produced momentums for the development of fiscal democracy in Korea. The first civilian president, Kim Young-sam (1993-1997), launched an ambitious reform agenda to promote transparency and control corruption, including the implementation of a real-name financial transaction system and the enactment of the Freedom of Information Act. Although his failure to reform the chaebol, or family-controlled conglomerates, and the financial sector made Korea vulnerable to East Asian financial crisis, his reform laid the foundation for government transparency. President Kim Dae-jung (1998-2002), in addition to enhancing transparency in both the public and private sectors through various above-mentioned reforms, made significant contributions to directly promoting budget transparency. In particular, the introduction of “preliminary feasibility tests” subjected major government projects to rigorous cost-benefit analysis. Introduction of budget efficiency awards provided citizens and public officials with incentives to report, or avoid, budget waste.

It was during President Roh Moo-hyun’s term (2003-2007) that various mechanisms for public participation in the budgetary process were institutionalized by law. Establishment of The National Assembly Budget Office and Audit and Inspection Research Institute provided avenues for participation during legislative review and auditing of the budget. Implementation of “three plus one reforms” that include the introduction of the National Fiscal Management Plan, Top-Down Budgeting, Performance Management System, and the Digital Budget and Accounting System in 2004, and the enactment of the National Fiscal Act of 2006-
which provided a legal basis for these reforms and stipulated the promotion of public participation in the budgetary process- were particularly important for the development of fiscal democracy. The Opening of a Call Center for Budget Waste Claims in each ministry, mandated by the National Fiscal Act, encouraged citizen participation. Also, ordinary citizens became eligible for budget efficiency awards that had formerly been given to public officials. With the amendment of The Local Fiscal Act, participatory budgeting in local governments spread throughout the country.

Development of fiscal democracy in Korea has brought about real changes in budgetary priorities. Traditionally, the budget for economic development was greater than that for social welfare in Korea, but the amount of the social welfare budget began to surpass that utilized for economic development during Roh’s presidency. However, development of fiscal democracy in Korea was not without setbacks. Under President Lee Myung-bak (2008-2012), who emphasized efficiency over participation, some of the progress made under previous governments were reversed, or circumvented. He circumvented preliminary feasibility tests for the controversial Four-River Project and let the line ministries abolish the advisory committees for budget formulation that had been established under President Roh.

Table 1. Development of budget transparency and participation in Korea
While the South Korean government made substantial efforts to improve transparency and curb corruption, its ranking in Transparency International’s Corruption Perceptions Index (45th in 2012) still lags behind most OECD countries. However, South Korea has performed well in the International Budget Partnership’s Open Budget Index. It scored 75 out of 100 in the 2012 OBI, the second highest in the East Asia and Pacific Region and the eighth among 100 countries surveyed worldwide. South Korea is also the leader in East Asia and the Pacific on budget oversight provided by the legislature and supreme audit institution, according to the OBI 2012. More significant for the purpose of this paper, the country ranked number one in the world, with the score of 92 out of 100, in the IBP’s new survey of budget participation in 2012. The IBP praises South Korea for providing “extensive opportunities for public engagement during all phases of the budget process” as Table 2 shows. It is questionable, however, if such participatory opportunities stipulated in the National Fiscal Act of 2006 are meaningfully, as opposed to superficially, provided by the relevant government agencies and if civil society organizations and the public really use these opportunities effectively.

Table 2. IBP’s assessment of public participation in the budget process in South Korea

<table>
<thead>
<tr>
<th>1961-1987</th>
<th>Authoritarian regimes</th>
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<tbody>
<tr>
<td>1987</td>
<td>Democratic transition, with direct presidential elections</td>
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<td>since 1987</td>
<td>Budget transparency improves marginally, with enhanced review of budget by the National Assembly</td>
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<tr>
<td>1993</td>
<td>Introduction of real-name financial transaction system</td>
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<td>1995</td>
<td>Restoration of local autonomy, with elections of governors/mayors and provincial/local councils</td>
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<td>1996</td>
<td>Enactment of Freedom of Information Act</td>
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<td>1997</td>
<td>Financial crisis; Election of opposition candidate, Kim Dae-jung, as president</td>
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<td>1998-2002</td>
<td>Improvement in budget transparency; E-government; Reform of corporate governance</td>
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<td>1999</td>
<td>Introduction of budget efficiency awards</td>
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<td>2000</td>
<td>Introduction of Resident Audit Request system</td>
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<td>2001</td>
<td>Enactment of Basic Law for Management of Special Fund</td>
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<td>2002</td>
<td>Election of a reform-minded president, Roh Moo-hyun</td>
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<td>2003-2007</td>
<td>Improvement in budget transparency and participation</td>
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<td>2003</td>
<td>Establishment of National Assembly Budget Office</td>
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<td>2004</td>
<td>Three plus one reforms</td>
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<td>2005</td>
<td>Establishment of Audit and Inspection Research Institute</td>
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<td>2005</td>
<td>Amendment of Local Fiscal Act that provides legal basis for participatory budgeting</td>
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<tr>
<td>2005</td>
<td>Opening of Call Center for Budget Waste Claims at each ministry</td>
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<td>2006</td>
<td>Enactment of National Fiscal Act that provides legal basis for “3+1 reforms” and public participation</td>
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<tr>
<td>2008-2012</td>
<td>Deterioration in budget transparency and participation</td>
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<tr>
<td>2008-2012</td>
<td>Circumvention of preliminary feasibility test for the Four-River Project</td>
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<tr>
<td>2008-2012</td>
<td>Abolishment of advisory committees for budget formulation in individual line ministries</td>
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Section 2: Participation in national level policies

Solid legal basis for participation

In terms of participation in budgeting, President Roh, Moo-hyun made significant contributions. As suggested by the nickname of his administration (2003-2007), “participatory government,” there were enormous endeavors to guarantee participation, not only in budgeting, but in various other policy spheres. In this context, the government enacted the National Fiscal Act in 2006. Article 16 of the NFA specifies the principles of budgeting in Korea.\(^1\) It stipulates that the government should try to enhance transparency and public participation in the budgetary process.

Type of citizen participation

It may be useful to classify the citizens in terms of participation in budgeting: general citizens, outside experts including professors, and staff of CSOs (civil society organizations) that focus their activities on budgeting. It is relatively easy for general citizens to participate in the local budgetary process, while it is difficult to access the central government’s budget. The Local Finance Act,

amended in 2005, stipulates participatory budgeting to promote participation by
general citizens in the local budgetary process. Even though it is not easy for the
general citizens to participate in the central government’s budgetary process,
participation in advisory committees or public hearings by experts and CSO staff is
open in each step of the budgetary process such as formulation of the Mid-Term
Expenditure Framework, performance evaluation, and budget formulation in line
ministries.

2.1 Executive: Budget and fiscal issues

Three Plus One Fiscal Reforms in 2004

With the inauguration of the liberal president Roh Moo-Hyun in 2003, audacious
attempts were made to renovate the budgetary process. To meet all demands, in
2004, the government began to implement significant budgetary reforms called
“Three plus one reforms,” which included the introduction of National Fiscal
Management Plan, Top-Down Budgeting, Performance Management system, and
Digital Accounting system. Simultaneous implementation of interrelated reforms
proved to be very effective.

The Top-Down Budgeting system was adopted to encourage innovations in budget
allocation at each ministry within sectoral ceilings. The National Fiscal Management
Plan was introduced based on the five-year Mid-Term Expenditure Framework.
These systems were interrelated with the Performance Management System that
emphasized performance goals and indicators. All renovations were introduced
simultaneously and the National Fiscal Act was enacted in 2006 to support this new
system. In particular, these systems were backed by IT infrastructure, which was
called D-Brain system. With the introduction of the “Three plus One” reforms,
budget transparency and participation were institutionalized.

Figure 1. Three plus One Reforms in 2004

Source: Lee (2007)
High participation with Pre-Budget: MTEF in Korea

The National Fiscal Management Plan was introduced as a substitute to the traditional ‘5-year economic development plan’. From 1962 to 1997, the Korean government made 5-year economic development plans to implement government-led development strategies. But as the market economy matured and democratization was consolidated, the government-initiated 5-year economic development plan was discarded officially in 1997. As Koreans suffered from the financial crisis in 1997, there was widespread demand for macro-economic control mechanisms.

In this context, the NFMP was introduced. The NFMP is a basic plan representing the aggregate plan for fiscal management. The NFMP is a 5-year fiscal management plan designed to present the national policy visions and directions, as well as the sectoral expenditure programs, in the medium-term perspective. The NFMP has the following characteristics. First, it is a rolling plan. The plan is subject to adjustment each year. Second, wide participation including NGOs and experts is permitted from the initial stage of formulation. Third, it is submitted to the National Assembly as an obligatory reference for budget deliberation.

NFMP is formulated from February to June. At the last stage, a public hearing is held in which professors, private sector experts, researchers at government-affiliated think tanks, and CSO staff are invited by the government. In 2013, the hearing was divided into 9 sessions including macro budgetary policy, local finance, welfare budget, education budget, industry support budget, agricultural budget, and R&D budget. After a draft was prepared, there was a public hearing on June 12, 2013. Each of the nine sessions was attended by about 6 participants including professors, researchers, and experts representing the private sector and civil society. The hearing is open to the public and televised. For the NFMP, however, the types of information are usually hard for the general public to understand. Although open to the public for the submission of oral or written suggestions, there is little participation of ordinary citizens. These meetings are not aimed at selecting specific projects but focus on broad forecasting and policy targeting thereby limiting participation of general citizens.

Role of Think Tanks established by government; KDI

It is important to understand the role of government-affiliated think tanks. Their primary role is supporting the government not necessarily facilitating citizen
participation. However, they do provide information and materials that influence public debate about the budget.

In Korea, one of the enabling establishments in the promotion of a continuous economic development agenda was a government think tank, Korea Development Institute (KDI). KDI was founded in 1971 in recognition of the need for a think tank that would analyze economic policy issues and assist the government in formulating the "Five-year Economic Development Plans" and related policies. KDI still conducts various research on economic and social policy issues as well as macroeconomic forecasting, and the specialized materials it provides are very important references for public participation.

Top-Down Budgeting: Decentralization and enlarged opportunity for participation

Before adopting the Top-Down budgeting system, the central budget agency (Ministry of Strategy and Finance) was fully authorized to allocate funds in public spending. The central budget agency screened all the detail projects that line ministries requested. The budgetary line items for all projects were ultimately determined by the central budget agency, which had overriding power over line ministries. This, however, created perverse incentives for moral hazard on the part of line ministries. They requested many projects without valid reasons and often inflated the total amount required, anticipating substantial cuts by the central budget agency. The sheer volume of projects, as well as the huge amount of budget requests, weakened the capacity of the central budget agency. Also, the line ministries were de-incentivized in performance considerations because there was no room for performance review or feedback systems by the over-burdened central budget agency.

After the adoption of the Top-Down budgeting system, the budgetary process was divided into two steps. In the first stage, the central budget agency sets the ceilings by sector, and in the second stage line ministries allocate the budget for programs in detail within the ceilings. Figure 2 shows the new process of the resource allocation by Top-Down method. With this new procedure, the national plan and budget are effectively connected with each other in accordance with the ceilings authorized by the cabinet. In each step of the process, there is an advisory committee for consultation, of which members are outside experts and CSO staff.

Figure 2. The Process of the Resource allocation by Top-Down Method

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2 This section has largely been drawn from You and Lee (2013).
3 During 1970s and 1980s, it was the Economic Planning Board. Minister of EPB was Vice Prime Minister, which meant that it had higher authorities compared with other ministries. But MoSF is just a level of ministry.
Also a performance evaluation system is enforced. Under the old budget system, it was difficult to understand the detailed contents of projects. Fraud, waste, and misuse were not easily noticed. The role of auditing was to screen the estimated and the implemented amount, not the real performance. With the introduction of performance management, main programs and projects are subject to review every three years. Line ministries carry out the program monitoring and program review, which is called self-assessment. If inappropriate or wasteful spending is found from the monitoring and review by line ministries, the central budget agency can request an in-depth review. The central budget agency can directly carry out a program meta-evaluation and reflect the results in budgeting for the subsequent year. Thus the evaluation process has two stages: self-evaluation by line ministries (policy experts participate in evaluation committees) and meta-evaluation by the central budget agency.

**Figure 3. Process of performance evaluation**

Source: MoSF (2009).
All of these processes are open to the public on the website of MoSF. Through the internet, citizens can learn about budgetary performance. Furthermore, during the program monitoring and review by line ministries and program evaluation by the central budget agency, participation is open to experts and NGOs. When each line ministry conducts self-evaluation, there should be a committee for evaluation. About 20 members are included in the committee. Again, participation is open to the public. And the members have strong power to influence the budgetary projects through evaluation. Thus, the decision is not limited exclusively to bureaucratic politics but to the broader policy community. With increased transparency and participation, there is enhanced democratic control and accountability of the bureaucracy.

With this kind of reform, new room was made for participation. Each line ministry is to organize a committee for self-evaluation of projects. Among the members, staff at CSOs, outside experts, and professors attended. Sufficient information is given to evaluate the performance of budgetary projects, and participants can provide the oral and written suggestions freely. Also, participants can vet or veto the proposals and audit the relevant ministry. The self-evaluation process is a very important channel for budgetary participation.

MoSF also organizes the Advisory Committee for Fiscal Policy according to Article 10 of the National Fiscal Act. The committee has about 30 members including vice ministers, governors, experts, professors, staff at CSOs, and local government officials. Before determining the NFMP and the executive’s budget, it must pass the Advisory Committee for Budget. Of course, sufficient information is given. The information provided by KDI is important. Participants can provide oral and written suggestions freely and can vet or veto the proposals and audit the whole budget. The fact that the Advisory committee can reject (veto) projects is a significant policymaking and political power exercised by this committee. The role of advisory Committee for the Budget is usually focused on macro-economic perspectives like forecasting and priority setting. Sometimes they debate national projects which contain significant costs and time considerations.

<table>
<thead>
<tr>
<th>The Role of the Advisory Committee for Fiscal Policy (article 10, the National Fiscal Act)</th>
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<tr>
<td>It shall advise the following issues;</td>
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<tr>
<td>1. National Fiscal Management Plan</td>
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<td>2. Proposal for budget and management of special funds for a fiscal year</td>
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<td>3. Guidelines for budget proposal</td>
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<td>4. Establishment, merger, or abolishment of special accounts and special funds</td>
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<td>5. Evaluation of management of special funds</td>
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Before the introduction of the 3+1 reforms, the budgetary process within the bureaucracy was considered a black box, but now tools for understanding the inner
process, and materials for negotiation between ministries, are available to the public.

However, some view the effectiveness of these reforms less favorably. Officially, the process is well designed. But the issue is real effectiveness. The principle of enhancing citizen participation is stated in the law, but the results of participation are not sufficiently analyzed. Particularly some mechanisms established under President Roh Moo-hyun that were abolished by his successor. During the Roh government, each ministry organized its own Advisory Committee for the Budget. Before each line ministry submitted its budget proposal to the central budget agency, it was reviewed by the Advisory Committee. However, after the new president Lee, Myung-bak(2008-2012) was inaugurated, this process was discarded. As the nickname for the Lee administration, “the Government of Pragmatism” implies, public participation in the preparation of detailed budget proposals for each ministry was considered burdensome. In this regard, solid reform requires a firm legal basis.

*Enhanced transparency, but limited participation by general citizens*

Strictly speaking, there is no Citizens’ Budget regarding the central government’s budget with the name of participatory budgeting. Even though some NGOs publish examples of fraud and waste through various website and press releases, their influence is limited. Their activities are ex post, and similar fraud and waste cases are repeated. As mentioned above, there are many ways for outside experts to participate, but it is hard to say that there is Citizens’ Budget.

In terms of Enacted Budget, there are sufficient ways for outside experts to participate through the evaluation process as was shown in figure 4. Of course, the evaluation process can be reflected in the next year’s budget proposal by each line ministry. Such participation is somewhat limited because opportunities for budgetary suggestion are similarly constricted. In conclusion, the evaluation system contributes to considerably enhancing transparency, but its contribution to increasing participation is limited.

After the establishment of the Digital Brain system, all the information regarding budget execution is available to the general citizenry. Even though there are no mid-year review processes, the entire process is open to the public. The Year-End Report is published by the government, and the Audit Reports for all line ministries are combined, published, and open to the public. All of these reports are available through the Digital Brain System which inform citizens’ preferences and the quality of voice they express.
2.2 Executive: Other policy arenas

New R&D Process with the National Science and Technology Council

With regard to a R&D budget, Korea established a special procedure. As each ministry is involved in R&D, there was a need to coordinate across the ministries. This is even more important in this arena because R&D requires professional perspectives and a long-term road map. To address this issue, the National Science and Technology Council was formed in 1999 under the president. The Council has been mandated submit a vision for science and technological development, set R&D priorities, conduct inter-ministerial R&D budget allocation and adjustment, and evaluate R&D performance. Although the organizational composition of the Council has changed considerably across presidential administrations, participation by outside experts to coordinate bureaucratic politics has been maintained.

Detailed missions are as follows:
- Formulation and coordination of major policies and plans for science & technological promotion
- Formulation of a basic and a master plan for local science & technology promotion
- Suggestion of budget expansion plan related to science & technology and of research & development investment
- Distribution, coordination, and operation of national research & development of a business budget
- Formulation of plans related to mid- and long-term national research & development of business
- Investigation, analysis, and evaluation of national research & development in business
- Promotion and development plan of government-funded research institutes in the science & technology field
- Formulation and coordination of a national growth engine policy
- Coordination of the policy for science & technology innovations such as next generation growth engine industry, culture and tourism business, part and process innovation field, etc.
- Coordination of the policy for science & technology manpower cultivation
- Construction of a support system for promoting local technological innovation policy
- Financial support for technological innovation
- Policy support related to national standards and intellectual property rights

The National Science & Technology Council is composed of a plenary session, a steering committee, 7 expert committees, 2 special committees, and 2 consultation committees.
The plenary session deliberates issues related to establishment and coordination of major policies for science & technology and efficient operation of the national R&D business budget.

The steering committee discusses issues related to science & technological policy and examines the agenda prior to plenary session.

The expert committees review R&D budget in each field and make decisions on the direction and appropriateness of major R&D business investments, connection and coordination between businesses, distribution and coordination of R&D budget, etc. Expert committees on Policy Coordination review and coordinate general science & technology policy, overlapped roles between expert committees, and current issues on science & technology which are difficult to be resolved in each field. The expert committee on Evaluation discusses and suggests opinions about the establishment of the R&D performance evaluation system and an efficient connection plan with fiscal policy. The distribution and coordination of the R&D budget is made by: the Expert committee on Big Science and Public R&D Coordination in the field of aerospace, maritime, construction, transportation, etc.; the Expert committee on Energy and Environment in the field of energy, environment, resources, meteorological technology; the Expert committee on Advanced Convergence Technology in the field of nano, SW, service; the Expert committee on Key Infrastructure Technology in the field of key industry, mid- and small sized business, local related business; and by the Expert committee on Life Science and Welfare in the field of life, health and medical treatment, food, agriculture, forestry and fisheries.

The special committees are constructed to temporarily, and intensively, discuss special issues to promote civil-military technological cooperation and multi-department technological collaboration. The Special committee on Civil-Military Technology Cooperation prepares the base for the inter-sectorial cooperation system between private and military technology and promotes cooperation between military and private sectors through mediating points of dispute between related departments. The Special committee on Multi-Department Technology Cooperation performs the function of managing/adjusting issues related to operation of national research & development projects which are conducted jointly by multiple central administrative agencies during the whole R&D period.

The consultation committees perform consultations of each field policy for promoting basic research and local science & technology. The Consultation Committee on Basic Research Promotion performs analysis and decision-making in policy direction on investment for basic research, year-round extraction of major issues in basic research, etc. The Consultation Committee on Regional Science and Technology Promotion formulates a master plan for local science & technology
promotion, plans and coordinates local science & technology related policies, and deliberates issues related to efficient operation of local R&D businesses.

In the area of R&D policy and budget, there are extensive opportunities for outside experts to participate in various committees.
2.3 Legislature:

The budgetary process in the Korean legislature is divided into two stages. The first stage is the preliminary review by standing committees, and the second is the review by the Special Committee on Budget and Accounts. When the budget proposal by government is submitted to legislature by the 2nd of October, it is first reviewed by standing committees. There are 16 standing committees in the National Assembly according to the relevant government functions. During the budgetary review in standing committees, there is no room for participation by outsiders.

After being reviewed by standing committees, the budget bill with preliminary revisions is transferred to the Special Committee on Budget and Accounts. The Special Committee on Budget and Accounts can make final amendments to the budget bill to be presented to the plenary session for an up or down vote, and it is most influential in the budgetary review process. According to the National Assembly Act, the Special Committee on Budget and Accounts should hold a public hearing.

| Article 84-3 (Public Hearings on Budget Bills, Fund Operation Plans, and Settlement of Accounts) |
| The Special Committee on Budget and Accounts shall hold a public hearing on a budget bill - a fund operation plan and settlement of accounts - provided, that in cases of a supplementary budget bill, a modified fund operation plan, or the settlement of accounts, it may be omitted by a resolution of the Committee. |
| [This Article Newly Inserted by Act No. 7614, Jul. 28, 2005] |

When a public hearing is held by the Special Committee on Budget and Accounts, usually 6 experts recommended by ruling and opposition parties are invited. So far parties have recommended professors, researchers, and staff of CSOs as speakers at the hearings. There is no limit to the agendas, which typically include macro-economic forecasts, budgetary priorities, and controversial projects. Even though there is no obligation for the Special Committee to reflect the opinions expressed at the hearing, it provides a good opportunity for experts and civil society to raise debatable issues. Through the public hearings, new perspectives and agendas can be raised. Since the Special Committee on Budget and Accounts helps decide the national budget in the last stage of the process, a select body of experts and CSOs have the ability to directly affect budgetary outcomes.

In terms of budgetary process in the legislature, the National Assembly Budget Office (NABO) plays a key role in participation. NABO was established according to Article 22-2 of the National Assembly Act.

| Article 22-2 (National Assembly Budgetary Policy Office) |
| (1) There shall be established a National Assembly Budgetary Policy Office to |
research, analyze, and appraise matters concerning the budget, settlement of budget, and the management of funds and finances of the state as well as to support parliamentary activities.

(2) The National Assembly Budgetary Policy Office shall have one director and other necessary public officials.

(3) The director shall be appointed or dismissed by the Speaker with the consent of the Steering Committee of the National Assembly.

[This Article Newly Inserted by Act No. 6930, Jul. 18, 2003]

The role of NABO is to support the National Assembly by analyzing and evaluating issues related to the national budget fund and fiscal operations. NABO was founded to help the National Assembly efficiently check and monitor the administration. NABO supports National Assembly members by undertaking the following responsibilities: first, it conducts research and analysis on budget bills, settlement of accounts, fund operation plans, and settlement of funds; second, it carries out cost analysis of bills that require the implementation of the budget or funds; third, it conducts analyses and produces outlook reports on the operation of state finance and macroeconomic trends. Fourth, it conducts analyses and evaluations of major government programs and analyses of medium to long-term fiscal demands. Fifth, it carries out studies and analyses in response to requests by the National Assembly members and standing committees.

There are two avenues of participation at NABO. One is the Panel of Advisors. The Panel of Advisors is composed of one chairperson and seventeen other members who serve two-year terms. They are all acknowledged experts in academic societies of finance and economy at universities, research institutes, government offices, or in journalism. The outside advisors can submit ideas on behalf of civil society.

The other route is through public hearings and conferences held by NABO. When the budget proposal by government is submitted to the National Assembly, NABO holds a public hearing to orient the analysis of the government budget. Sometimes the participants are overlapped with the public hearing in the Special Committee on Budget and Accounts, but the agendas are focused on specific methods or professional issues.

In summary, there are many endeavors to make a space for the participation of civil society throughout the budget review process in the legislature.
2.4 Supreme Audit Institutions

In Korea, the Board of Audit and Inspection belongs to the President, even though the constitution specifies that it is independent. From the beginning, it was considered a sophisticated process and a closed system. Essentially leaving no room for citizen participation.

In Korea, the supreme audit institution, BAI, has two kinds of roles: one is auditing and the other is inspection. Auditing is related to accounting review, while inspection is tied to detecting corruption. Thus, the process involves powerful investigation. There is little room for participation by civil society in such investigation activities.

But situations began to change in the 1990s, and a significant development for citizen participation in auditing was made with the introduction of the “resident audit request” system in 2000. A certain number of residents specified that a local ordinance can request the BAI to conduct an audit of specific actions of local governments that are against the law or have violated public interests, or rights of individuals. In addition, resident suit was introduced beginning in 2006 to enable residents to file suit against local governments regarding unlawful allocations of the budget or accounting.

Another opportunity is the establishment of the Audit and Inspection Research Institute under BAI in 2005. The role of AIRI is to carry out a range of applied research and technical analysis that contributes to extending the scope of BAI’s work as well as enhancing their overall quality. Extensive efforts are being made to include the voice of professors, and outside experts, on behalf of BAI.
Section 3: Specific case studies

Transparency facilitates participation: Digital Brain system

The Digital Brain System is an advanced mechanism for managing the budget and incorporates all the related fragmentary data. Also, it gives the real time data for budgetary implementation. With the D-Brain system, many kinds of information regarding budget execution are available to the public. Thus, it helps to enhance transparency. It was introduced as one of the 3+1 reforms.

The government organized "Budget and Accounting System Reinvention Office" to design a new system in consultation with the Ministry of Planning and Budget, Ministry of Finance and Economy, Ministry of Government Administration and Home Affairs, and Board of Audit and Inspection. Since the Budget and Accounting System Reinvention Office was established in May 2004, many studies have been carried out to set the direction for the new system and prepare detailed plans. The BASRO implemented four key tasks;

1. Adjust the reporting range of fiscal statistics to comply with international standards
2. Reform the Program Budgeting System for government policies and performance management
3. Introduce double-entry bookkeeping and efficient accrual accounting systems in the government sector
4. Establish the National Integrated Fiscal Information System.

The primary purpose of establishing the Digital Accounting System was to build a system for performance management of fiscal operations in the public sector. Another objective was to improve the credibility of the government by introducing double-entry bookkeeping and accrual accounting that included assets, debt, and cost information as well. It also tried to integrate and connect fiscal information systems in line ministries, local governments, and public enterprises. With these policy goals, a new fiscal management paradigm has been developed to ultimately enhance efficiency, transparency, and public participation in national fiscal management by providing relevant information.

The digital budget enables more accurate analysis of the fiscal data and information, which provides policy-makers with real time support for policy formulation. Most observers agree that the digital system has been functioning moderately well so far. It is the cornerstone of transparency and participation.

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4 Some professors and staff at CSOs participated in the Budget and Accounting System Reinvention Office as advisory members.
With the introduction of an electronic system, the Program Budgeting System based on performance management was established. The previous budgeting system, by line items, focused on input by unit item within a program. This system was useful for bureaucratic control but not for evaluation of performance and results of individual programs. Thus, through the reorganization of Program Budgeting System for policy programs and performance management, it became possible to analyze all fiscal processes of each individual program, including budget formulation, execution, budget account settlement, and performance evaluation.

In the establishment of the Digital Accounting System, it is expected that the national budget will be more sophisticated and transparent.

First, efficiency of fiscal management will improve. Performance management of programs and resource allocation to the top priority programs can be achieved by using information such as execution information, performance information, and feasibility information when the relevant line ministries formulate their budget. Moreover, through the fiscal analysis system, reasonable policy decisions and strategic resource allocation can be pursued.

Second, transparency in the fiscal management will increase. By exposing all working processes throughout the system and opening the contents of fiscal programs, people in charge, and conditions of execution, information will be provided transparently.

Third, accountability in fiscal management will improve. By using the system, authorities of fiscal programs will manage processes with a strong sense of responsibility, and current working status and results will be monitored in real time.
Fourth, fiscal information will be promptly provided. Current information in fiscal management will be delivered in real time through the system, thus the accurate status of fiscal activities in public sectors can be investigated easily. Furthermore, the amount of the budget in a certain program, determined by the government in the mid- to long-term view, and its current process can be found as well.

Fifth, accessibility of system users and the public will be enhanced. Officials can manage fiscal work online without delay through the system, and companies delivering goods to the government can manage online the number of goods, billing, and payment in a simple and fast way.

Finally, national monitoring of finance and its participation will be expanded due to simple and transparent fiscal information made accessible including national budget size, execution performance, and result of performance evaluation. Citizens, lobbies, and CSOs are able to participate in this process. Through the system, program performance will be improved, and misuse of budgets will decrease. The performance evaluation system has a strong influence. All the projects are classified into 5 categories according to their score. When a project is classified as unsatisfactory, it is subject to a cut of 10% or more.
During the early period of rapid economic development, the political elite decided almost all important budgetary projects. Without assessing the feasibility of the projects, some undertaken were not economically sound and subsequently failed. Even when feasibility studies were conducted, only physical feasibility was studied by the individual ministries that were spearheading the project. Since a physical feasibility study meant simply how to construct a certain project, it did not address the need to decide projects in terms of “economic validity based on cost-benefit analysis”. As the size of the economy and the budget grew, the opportunity cost of undertaking one project at the expense of another increasingly became important and the planning stage of economic projects began to receive much more scrutiny.

In 1999, Kim Dae-jung government mandated “preliminary feasibility study” for all proposed projects. The main goal of the preliminary feasibility study is to assess the economic validity of the proposed project during budget preparation. The feasibility study requires that economic planners ascertain whether the given project makes economic sense based on cost-benefit analysis.

At first, the requirement did not have a legal basis – it was proclaimed by presidential decree. All the SOC projects above 50 billion won (roughly equivalent to 45 million USD) were subject to the test. Another significant change from the past

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5 This section has largely been drawn from You and Lee (2013).
was that responsibility, and power, was given to the central budget agency over line ministries in budget making.

In 2000, the government established the Center for Public Investment Management at the Korea Development Institute to conduct feasibility studies. All projects must receive review from the center, and if the result of the feasibility study is not favorable, the project cannot go forward to the next budgeting phase. Some exceptions were made – for instance, some projects that had promoted equity goals were passed even if they did not pass the benefits/cost component of the feasibility test. Overall, this system is viewed as a great contribution to the development of budgetary management. It can be considered a mechanism of participation for experts.

In 2006, when the National Fiscal Act was enacted, the feasibility study was included in the law and gained legal footing. Furthermore, the object has been expanded to include not only SOC projects, but also R&D projects.

Feasibility testing turns out to be a critical procedure. Out of 378 proposed projects during ten years, from 1999 to 2008, as many as 162 projects, or 43 percent, failed to pass feasibility tests, and in terms of proposed budget amounts, 49 percent were rejected.

In 2008, when President Lee Myong-bak took office, serious conflicts arose. The president wanted to launch a big project to renovate the four main rivers in Korea, which was highly controversial. It was difficult to estimate the total cost of the four-river project, and it was not easy to understand its economic and environmental consequences. Despite these obstacles, the president pushed the project forward and wanted it finished within his term. The bureaucrats reacted by placing exception clauses in the presidential decree thereby exempting the four-river project from preliminary feasibility testing. Many NGOs fought against the exception clauses in the presidential decree, arguing that the decree was against the law. Ultimately, the projects were carried out. The debate is ongoing because a new president was elected in 2013. This illustrates how direct political engagement of CSOs is part of a larger political process. Presidents may attempt to override existing processes, but the new policies make it more difficult for Presidents to act unilaterally.
Table 5. Results of feasibility study (Unit: number, trillion won, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Target project</th>
<th>B/C ≥ 1</th>
<th>Final validity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
<td>% of Number</td>
</tr>
<tr>
<td>1999</td>
<td>20</td>
<td>18.7</td>
<td>45.0</td>
</tr>
<tr>
<td>2000</td>
<td>30</td>
<td>12.4</td>
<td>56.7</td>
</tr>
<tr>
<td>2001</td>
<td>41</td>
<td>19.8</td>
<td>34.1</td>
</tr>
<tr>
<td>2002</td>
<td>30</td>
<td>14.7</td>
<td>46.7</td>
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<tr>
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<td>53.1</td>
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<tr>
<td>2004</td>
<td>55</td>
<td>18.6</td>
<td>50.9</td>
</tr>
<tr>
<td>2005</td>
<td>30</td>
<td>12.4</td>
<td>53.3</td>
</tr>
<tr>
<td>2006</td>
<td>52</td>
<td>18.1</td>
<td>44.2</td>
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<tr>
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</tr>
<tr>
<td>2008</td>
<td>38</td>
<td>11.9</td>
<td>42.1</td>
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<td>63</td>
<td>45.5</td>
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<tr>
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</tr>
<tr>
<td>Total</td>
<td>564</td>
<td>290.7</td>
<td>46.1</td>
</tr>
</tbody>
</table>

Source: NABO (2009; 56)
Enhancing Award and Sanction System

Every country faces problems relating to fraud, waste, and abuse (FWA) during the process of budget implementation. Therefore, many instruments to fight against FWA exist from country to country. It is a serious problem that brings about not only leakage of financial capacity, but also violates the public trust. Some examples of this phenomena include:

- Intentional mistakes, such as incorrect calculations
- Recording of nonexistent transactions
- Intentional misallocation of contract costs
- Embezzlement and theft by means of deceit
- Overcharging of clientele or service recipients while pocketing the differences
- Placement of the fictitious names on the payroll
- Kickbacks from suppliers for overpriced goods
- Overcharging for travel expenses
- Stealing duplicate payments, especially utility payments
- Taking of agency materials, equipment, and services

To combat these behaviors, countries have some sophisticated instruments. This is important for public integrity and accountability. These instruments can be divided into two groups- awards and sanctions.

In Korea, there are some laws against such behaviors. First, there is a “law for the responsibility of the civil servants in charge of the fiscal accounting”. This law demands responsibility for compensation of the civil servants who commit FWA. Second, the National Fiscal Act, which is the basic law for the budget in Korea, contains an incentive system. These budgetary incentives are given to civil servants who have saved the budget during the budgetary decision making or implementation. Surprisingly, the incentive system can be applied to ordinary citizens as well. If a citizen suggest an idea that leads to budgetary saving, the individual can be awarded. As of 2013, 207 civil servants and 1 citizen were awarded for budget saving; the total amount of awards is 258 million won (about 24 thousand dollars) and the total saved amount is estimated to be 781 billion won (about 750 million dollars). To boost citizen participation, there is a banner at the homepage of MoSF with links for participation of ordinary citizens.\(^6\) Citizens can submit their ideas for the budget.

To fight against the FWA, civil society organizations have played an important role. They have articulated the problems, released information to the media, and demonstrated on the street. The government has recognized the importance of NGOs and tried to provide some incentives for voluntary activities.

\(^6\) [http://www.mosf.go.kr/pr/contest/2013/narasalim_idea.html](http://www.mosf.go.kr/pr/contest/2013/narasalim_idea.html)
There are important legal bases to support citizens’ participation. Article 100 of the National Fiscal Act encourages citizen monitoring of illegal expenditures with regard to the budget or special funds. If a citizen complaint leads to an increase in revenue or a reduction in expenditures, the minister in charge of the budget can award compensation to the complainant. Article 51 of the Presidential Decree for Implementation of the National Fiscal Act specifies that each ministry should establish and operate a Center for Reporting of Budget Waste. Any citizen who wants to complain about budget waste cases or make suggestions to prevent budget waste can report to the relevant Center. Then, the Center should investigate the case and report back to the citizen. The Minister of Strategy and Finance can oversee all the Centers managed by each ministry.

This kind of instrument has contributed to enhancing citizen participation. When the Centers were first established in 2004, they worked well. But as time passed, they began to lose their advantage. However, the new president has tried to emphasize it again in order to maintain fiscal soundness.
Section 4: **Outcomes**

4.1 Successful achievements\(^7\)

Transparency, participation, and accountability are interrelated. In Korea, with the National Fiscal Act of 2006, these values have been emphasized and widely applied. One of the dramatic changes can be seen in budget priorities.

Budget priority in Korea was given to national defense until the 1960s and then to the economy until the 1980s. During the late 1990s, there were attempts to shift budget priorities. President Kim Dae-Jung tried to increase the social welfare budget, but never surpassing that allocated towards economic development. Further efforts were made by President Roh Moo-Hyun, and the welfare budget surpassed the economic development budget during his term, as Figure 6 shows. This kind of budgetary reallocation reflected the fiscal demand from citizens and NGOs. In particular, the demand for social safety nets was accelerated after the financial crisis in 1997.

Also, such a dramatic change was made possible due to the Three plus One fiscal reform. If the projects had been added up from the line ministry requests, such a dramatic change would not have been possible. When the dramatic increase in the ceiling for the social welfare budget was given, many new programs were coined out and existing programs could be expanded. Many NGOs that advocated social welfare could reinforce their activities, and the government reflected their voices under the direction of the liberal president. The triangle of the Top-Down System, the National Fiscal Management Plan, and people’s participation in the budgetary process changed the priorities of budget allocation.

\(^7\) A substantial part of this section has been drawn from You and Lee (2013).
Figure 5. Government expenditure by sector, 1998-2008

Expenditure by sectors during 1998–2008 (%)

Source: MoSF (2009).

4.2 Limitations

Korea has a long history of bureaucratic dominance. The power of bureaucracy over civil society was overwhelming. It has been very difficult to change this relationship, but the situation began to change in 1987 with the democratic transition. More dramatic changes were made beginning in 2003 with the inauguration of a liberal, reform-minded president.

With this historical background, many of the participatory mechanisms were made under the auspice of president Roh, Moo-hyun, who chose “participatory government” as the nickname of his administration. The instruments of change can sway with presidential elections, such is the case in Korea. Some advisory committees for budget proposals, established in individual line ministries under President Roh, were abolished under President Lee Myung-bak. President Lee revised a presidential decree to make exceptions for feasibility tests in order to implement his campaign agenda.

In addition, a sudden exogenous shock can cause the system to weaken or fail. For example, the economic crisis in 2008 and 2009 has worsened the situation in Korea. The extra funds earmarked for boosting the economy were made available to the government as supplementary budgets, but was not subject to careful scrutiny by the legislature. The whole process was overwhelmed by hurry and haste. During the process, some sophisticated instruments, such as the preliminary feasibility study, were omitted for hasty implementation.

A discussion of budgetary participation is not complete without addressing the role of committees. Whether it is related with the executive or the legislature, the most
common type of participation is committee membership. There is no voting by
general citizens during the budgetary process in Korea. These participants don’t
necessarily represent a certain group of people. They are usually selected by
bureaucrats or recommended by political parties. Thus, even though there are many
kinds of committees and outstanding activities, they face the problem of legitimacy.

The advisory committees and public hearings have no power to insure that their
opinions are reflected in the final budget, inciting many observers to question the
usefulness of the participation. The opinions expressed in the committees or public
hearings are often simply opinions themselves. Sometimes the participants
complain that bureaucrats or politicians take advantage of their participation
merely as a tool for political propaganda.
4.3 What explains the variation in participation?

In Korea, there were three watershed events that produced significant momentum for (budget) transparency and participation. They are the democratic transition in 1987, reintroduction of full local autonomy in 1995, and the financial crisis and change of government parties in 1997. The democratic transition in 1987 played a decisive role in enhancing transparency in the political process by empowering the citizenry and the legislature. Reintroduction of local autonomy laid the foundation for development of public participation in local affairs, including participatory budgeting. Local autonomy empowered grassroots local NGOs, and the monitoring of the budget waste and the practice of participatory budgeting spread throughout the country over time. The financial crisis highlighted the importance and the urgency of transparency reform in both public and private sectors. In addition, popular demand for change in this political environment resulted in a transfer of power to the opposition parties for the first time since 1987. The new liberal government under Kim Dae-jung (1998-2002) implemented sweeping reform to increase transparency and citizen participation in government policy making and corporate governance. The three events reinforced and accelerated democratic reforms, including budget transparency and participation. These events empowered both the legislature and the citizenry, and the increasingly vocal civil society played a major role in promoting budget transparency and participation.

Then, the Roh Moo-hyun government (2003-07) further developed participatory mechanisms in various stages of the budgetary process in the central government. It also promoted participatory budgeting in local governments that had been spreading through the initiatives of reform-minded mayors and grassroots CSOs. However, the improvement in budget transparency and participation has not always been steady, and the coalition between reform-minded liberal presidents and civil society was not strong enough to prevent significant setbacks when the conservative government took power and ignored some mechanisms for transparency and participation. This shows the weakness of executive constraints, or legislative checks over the executive, in Korea. In particular, the president can quite easily exploit legal loopholes and use the power of presidential decree to make legal exceptions to promote his or her agenda as in the case of Four-River Project.

As the experiences of participatory budgeting in local governments in many parts of the world suggest, the political will of the top leadership seems to be a crucial enabling factor in public participation in the central government budget process as well. In particular, in countries like Korea where the president has strong decree power without strong checks from the legislature, the political will of the president is a very important factor. Budget transparency and participation improved dramatically under the reform-minded presidents Kim Dae-jung and Roh Moo-hyun, but there were substantial setbacks during Lee Myung-bak’s presidency who prioritized efficiency over participation. Even legal mandates were circumvented by coining exception clauses in presidential decrees. Some of the participatory mechanisms that were not legally mandated were more easily abolished. Even when
participatory mechanisms are working as a formality, it can be questionable whether they really promote participation of diverse groups with diverse interests and opinions or only invite those who largely conform to government policies.

In summary, public participation in the budgetary process has developed with the consolidation of democracy, including the restoration of full local autonomy and the change of government parties, the growth and empowerment of civil society organizations, and the political will of the reform-minded presidents. But, when the political will of the president is weak or absent, budget transparency and participation has regressed.

**Figure 6. Major Events and Mechanisms for Change**

Source: You and Lee (2013)
4.4 Motivating participation

NGOs changed Korean Society

After the democratic transition in 1987, many civil society organizations (“CSOs”) were created and citizens’ demand for transparency in government increased. Among the newly organized CSOs, Citizens’ Coalition for Economic Justice (CCEJ) and People’s Solidarity for Participatory Democracy (PSPD) were particularly active and influential.

CCEJ was founded in July 1989. CCEJ fought for legal and institutional reforms such as the real name financial transaction system, freedom of information act, whistleblower protection, and corporate governance reform. By 1997, the members of the CCEJ grew from 500 to 20,000 and had 40 local chapters throughout the country. Similarly, PSPD served as a watchdog against the abuse of power. Founded in 1994 by more than 200 members, the PSPD is dedicated to promoting justice and human rights through people’s participation.

After the financial crisis in 1997, civic movements for transparency in government, corporate governance, and business-government relationships expanded. In particular, new organizations and activities for budget monitoring were launched. Citizens Against Budget Waste was founded as one of the divisions at CCEJ in March 3, 1998. CABW declared March 3 as the Taxpayers’ Day, which was originally the day on which the National Tax Administration was established in 1966. It tried to show budgetary waste cases and celebrate the outstanding government officials who implemented efficient budgets- each year it announced ten worst cases and taxpayers’ “friend” awards. When the worst cases were related to a specific ministry, the minister and high-level officials were embarrassed because the president criticized the ministry.

In addition, CABW focused on educating citizens to enhance budgetary literacy. Citizens wanted to know about the budget, but they thought it was very difficult to understand. To increase the basic knowledge of an average Korean citizen on fiscal matters, CABW began holding classes on government budgeting for citizens. Ordinary citizens and local council members came together to study the budget. The increased literacy of citizens led to an increase in demand for institutional reform, and was a catalyst in the movement toward transparency and participation. Enhanced budget literacy and availability of budget information helped facilitate CCEJ’s monitoring of budget waste as in the case of National Cancer Center (NCC). When the decision to build the center was made in 1991, the Ministry of Health and Welfare estimated that construction would cost 41.9 billion Korean Won (at the time, approximately US$58 million) and would provide more than 500 beds. The

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8 This section largely draws on You and Lee (2013).
budget grew over time, reaching over 200 billion Won in 1999. When the NCC was completed in 1999, more than three and half years behind schedule, CCEJ compared the budgets of cancer wards at other university hospitals with the government’s budget for the NCC and found that the latter was excessive. CCEJ presented its findings to the Board of Audit and Inspection (BAI), and requested an audit based on the “resident audit request” system. The BAI found that overlapping and unclear investments between the NCC and a university hospital had caused inefficiency and financial waste (Ramkumar 2008, 142-3).

Another influential civil society organization was the Citizens’ Action Network. It was established in September 1999 and it specialized in an anti-budget waste movement on line. In particular, its monthly “Broken Jar Award” selected broken jar awardees to those organizations that had misused public funds. Even though the selected organizations always refused to accept this “award”, the announcement itself was very influential because it was widely publicized.

The Citizen’s Action Network’s main success was in networking the organizations working for budget transparency and participation. For example, it worked with women’s groups to monitor the National Assembly’s legislative activities and budget deliberations regarding women’s issues and programs. When the social welfare budget was at issue, it worked with organizations concerned with social welfare to increase the overall size of social welfare budget and improve efficiency of welfare spending.

People’s Solidarity for Participatory Democracy also joined the budgetary transparency movement. With the Center for Administration Watch and the Center for Tax Reform, PSPD became involved in activities to promote budgetary transparency. It focused particularly on the taxpayers’ lawsuits. PSPD submitted a petition on “the law for the taxpayers’ lawsuit” to the National Assembly in December 2000, but the legislative petition was not successful.

Another pressure for reform came from the Korean Taxpayers Union. It was founded in June 1999 and its mission was to make the tax system fair and reasonable. The founders were experts in fiscal policy, accountants, and lawyers, all in possession of the knowledge and skill necessary to effectively monitor and assess government budgetary bureaucracies.

All the civil society organizations mentioned above share some characteristics. First, many professors and experts, who had taken part in the student democratization movement during the authoritarian era, participated in the CSOs and contributed significantly to promote transparency and participation. Second, these organizations all emphasized that they were non-partisan and independent voluntary organizations. Third, their activities were often inspired by international organizations such as the World Bank, IMF, CAGW, and IBP, which published reports and guidelines that urged the governments to enhance transparency and participation. Many NGOs in Korea established collaborative relationships with
foreign and international organizations such as CAGW, NTU, POGO, and IBP. Use of authoritative reports and guidelines published by international governmental and nongovernmental organizations was one of the important, and successful, tactics employed by Korean NGOs.

**Reform-Minded Liberal Presidents**

Some reform-minded presidents played an important role in promoting transparency and participation in the budgeting process and overall government affairs. The first civilian president Kim Young-sam, the first opposition-turned president Kim Dae-jung, and the liberal president Roh Moo-hyun launched various initiatives for promoting transparency and participation. Particularly President Roh Moo-Hyun, who pursued the vision of government innovation and created seven initiatives to promote transparency, participation and openness, evaluation and internal audit, etc. To provide a roadmap for reform and monitor the implementation process, the Presidential Commission on Government Innovation and Decentralization was established. Many academics and staff from civil organizations were invited to the Commission. The philosophy and leadership of President Roh was crucial to the enhancement of transparency and participation as he pushed for new mechanisms for both.

**Bureaucracy**

The bureaucracy played the most important role in budget-making during the government-driven development era. At that time, civil society was weak and the National Assembly was nothing more than a rubber stamp. Under directions from the president, government officials enjoyed not only lifetime employment but also insulation from social pressure and political interference. Thus, the bureaucracy was closed, unresponsive, and not transparent.

As more and more openness and transparency were demanded of bureaucrats during the presidency of Kim Young-sam, such as mandatory disclosure of assets for high-level officials (1993), the enactment of Information Disclosure Act (1996), and Administrative Procedures Act (1996), there was some resistance from bureaucrats. President Kim Dae-jung drove further to open the bureaucracy with increased open recruitment for positions that require special expertise and/or international experience and through increased participation of civil society in policy making.

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9 Professor Wonhee Lee, a founding member of the CABW, was a visiting fellow at CAGW in 2000 and 2001. This was an important turning point for the CABW to establish cooperative relationship with civil organizations in the United States.
These reforms forced the bureaucrats to recognize the need for change in traditional bureaucratic behavior and to be more open and transparent to the citizenry and clients.

More dramatic changes took place during the Roh Moo-Huyn government. First, the government opened “the Call Center for Budget Waste Claims” at every ministry and agency in 2005. Any citizen can claim budget waste cases through the internet to the ministry concerned. If that claim is good enough to reduce the budget, he or she will be awarded with monetary incentives. Second, every ministry is expected to set up an advisory committee to oversee the budget. Before each ministry submits its budget to the central budget agency, each ministry should hold a public hearing organized by its Budget Advisory Committee. This system enhanced citizen participation and budget transparency. Third, when the National Fiscal Management Framework is prepared, experts or civil society organizations or anybody outside government can participate in the conference. Finally, with the introduction of the digital system, many budgetary and audit reports, including fiscal data, are open to the public. These institutional reforms have substantially changed the bureaucratic behavior toward greater openness, transparency, and responsiveness.

**Conclusion**

Korea has experienced dramatic changes in transparency and participation since the democratic transition and the changes accelerated during the mid-2000s. On the one hand, the enhanced transparency and public participation in the budgetary process is a result of democratic deepening. On the other hand, budgetary participation and transparency has contributed to the deepening of democracy.

The most striking characteristic of Korea’s budgetary reform is the legal foundation. While the driving force of reform stemmed from civil society, the reform-minded president made a legal basis which can guarantee the sustainability of participation to a certain extent. While it is possible for a president to circumvent some legal requirements for budget transparency and participation using his or her decree power to make exception clauses, such presidential actions are subject to criticism from the public and the opposition. In the case of Four-River Project, President Lee was widely criticized and his popularity declined because of his unilateral implementation of the project without a feasibility test.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Legal basis</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-budget</td>
<td>National Fiscal Act of 2006</td>
<td>Public hearing</td>
</tr>
<tr>
<td>Executive’s Proposal</td>
<td>National Fiscal Act of 2006</td>
<td>- Evaluation process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Advisory committee</td>
</tr>
<tr>
<td>Review and approval</td>
<td>National Assembly Act</td>
<td>Public hearing</td>
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by legislature

<table>
<thead>
<tr>
<th>Execution</th>
<th>National Fiscal Act of 2006</th>
<th>Claims against waste cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

However, direct participation of ordinary citizens is limited, and the most common form of participation takes place through various advisory committees and public hearings. Thus, it is the experts and CSO representatives rather than the general citizens that directly review and make comments and suggestions during the various stages of the budgetary process.

The newly introduced systems of budget transparency and participation in Korea are expected to play a key role in promoting government accountability and effectiveness and have overall positive economic and social consequences. However, fiscal democracy requires not only institutional reform but also political will of the president, reform of bureaucratic mindset, and civic culture. To broaden transparency and participation, which are the key concepts of fiscal democracy, a virtuous circle between participatory institutions, political will of the top leadership, and active citizenry is needed.

Lastly, it should be noted that there is a need to critically review the methodology of the IBP’s survey of budget participation. We suspect that the IBP’s survey methodology favors countries like South Korea that have legal provisions on some forms of participation in budgetary process but that it may not be able to assess the depth and effectiveness of participation. While laws are important, how they are implemented are equally, if not more, important.

**Figure 7. Virtuous circle to keep fiscal democracy**
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