

## 12. SOUTH KOREA

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### Overview

In December 1997 Kim Dae Jung was elected President of the Republic of Korea. At that time the country was beset by its most severe economic crisis since the Korean War. The Korean won lost over 50% of its value against the US dollar during the last two months of 1997. In the aftermath of this balance of payments crisis Korea's GDP fell 5.8% in real terms in 1998. The economy has since begun a strong recovery. Korea's GDP grew 10.2% in 1999.

President Kim's election was a milestone for democracy in Korea. It marked the first time that an opposition party candidate has won the presidency. President Kim's predecessor, Kim Young Sam, was elected in 1992 after joining the ruling party of the Roh Tae Woo government. Kim's victory, however, was a narrow one. As candidate of the National Congress for New Politics, Kim received 40.8% of the vote, just 2% more than Lee Hoi Chang, candidate of the renamed ruling party, the Grand National Party. Kim's narrow victory was aided by an alliance with Kim Jong Pil of the United Liberal Democrats. Subsequent defections from the Grand National Party have helped to consolidate Kim's position in the 273-member National Assembly. However, Kim must hold together a diverse coalition in Korea's unicameral Assembly, a task made more difficult by the fact that Korean politics is still marked by regionalism and a personalist style of politics in which political forces often coalesce around individuals more than around policy issues.

In the face of these challenges, since the inauguration of President Kim Dae Jung, the administration has restructured government on three occasions: in 1998, 1999 and 2001.

### The sequence of reforms

The first government restructuring was undertaken immediately following the inauguration of the new government in February 1998. The stated intentions of the restructuring were: (i) to **reinforce democracy and openness**; (ii) to **enhance private sector development** and to **promote the productivity and competitiveness of the government**; and (iii) to respond to the economic crisis.

The restructuring saw the Planning and Budget Commission established under the President to strengthen Presidential leadership, replacing the arrangements under which the budget function was split between the Planning and Budget Commission under the President and the Budget Administration under the Ministry of Finance and Economy (MOFE). This reform had been proposed previously but the then opposition party

blocked its establishment as it was concerned about excessive strengthening of presidential power.

At the same time, the Prime Minister's responsibility for policy coordination and evaluation of the cabinet was strengthened by upgrading the former Administrative Coordination Office. A new Office for Government Policy Coordination was given the task of planning and implementing the government's deregulation policies.

The **restructuring attempted to rationalize departmental mandates**. The Ministry of Government Administration and the Ministry of Home Affairs were integrated into the Ministry of Government Administration and Home Affairs. Trade responsibility was transferred from the former Ministry of Trade, Industry, and Energy (MOTIE) to the Office of the Minister for Trade (OMT) which was newly established under the Ministry of Foreign Affairs and Trade (MOFAT). Also, the Ministry of Information and the Ministry of Political Affairs I & II were eliminated to make the central government smaller, and the Government Legislation Agency (GLA) and the Patriots and Veterans Administration Agency (PVAA) were downgraded from the ministerial level to the vice ministerial level. Some new agencies were also created.

This first government restructuring reduced administrative expenses, but tensions remained concerning functional overlaps between ministries and a more comprehensive restructuring was not feasible due to resistance from the large opposition party. These first reforms focused on structural change rather than operational systems. Public opinion held that government had protected itself from the dramatic restructuring that the crisis had caused in the private sector - seemingly feeling that the pains of the economic crisis were not being shared equally.

A second government restructuring in May 1999 sought to address this concern directly, and pressed for reductions in the workforce to signal that pain was being shared. A more robust approach to rationalization was adopted, and this was coupled with **a clear concern to transfer some service delivery responsibility to the private sector and local government**.

The Ministry of Planning and Budget (MPB) under the Prime Minister was finally established by merging the Planning and Budget Commission and the Budget Administration. A **Civil Service Commission** was established under the President to **protect merit and neutrality** in the appointment of civil servants. A Government Information Agency (GIA) was established. The restructuring saw a slight increase in the number of central government organizations but the number of cabinet members was decreased from 21 to 18, and the number of high-level posts and public officials was cut back significantly.

A third and more modest government restructuring was introduced in January 2001. The Ministry of Finance and Economy (MOFE) and the Ministry of Education were upgraded to the deputy prime minister level, and the Presidential Commission on Women's Affairs

was transformed into Ministry of Gender Equality. Deputy prime minister positions were reintroduced to coordinate economic policy and human resources development.

Following these major restructuring exercises, the focus of government reforms is moving from the "hardware" of reform to the "software" of basic operating systems. Key to these reforms is **changing the incentives faced by public officials** so that they emphasize both **competition and merit**.

To attract more qualified personnel and to raise professionalism and competitiveness, Korea's civil service career system was opened to lateral entry at more senior levels through the introduction of the Open Position System (OPS) in 1999. 131 positions at assistant minister director general grades will be open to outside candidates whenever a position is vacant. The Civil Service Commission was established in the second government restructuring in May 1999, to maintain some oversight and to prevent favoritism.

Some elements of performance pay have been introduced, and some semi-autonomous agencies have been established at arms-length from line ministries, balancing greater managerial freedom and flexibility with strengthened accountability for results. Agency heads are appointed by open recruitment, and employed on 3 year contracts. They are paid on a performance basis and work within an annual operational plan set by the supervising ministry. The Act on the Establishment and Operation of Executive Agencies came into effect in 1999 and by 2000 10 agencies had been established, including the National Medical Center, Auto-license Testing Station, National Visual Media and Publishing Center, and the Defense Public Information Agency.

The government has also introduced **Public Service Charters**. Nearly 600 Public Service Charters are published by nearly 300 agencies from central and local governments, presenting performance targets and standards for the agency and the compensation to be provided if they are not achieved.

The **Presidential Advisory Council for Anti-corruption** was also established to coordinate policies and develop practical measures. The Framework Act on Anti-corruption including a code of conduct for public officials and protection of whistle-blowers is now pending in the National Assembly.

### **Reformers' concerns**

The government has propelled the reforms with the stated intention of strengthening "democracy, the market economy and productive welfare." Clearly a desire to **invigorate the civil service** has been evident, coupled with a concern that government must not be seen as cushioned from the harsh economic realities that followed the downturn. **Customer service** is becoming more prominent as a driver of reforms and public pressure is ensuring that anti-corruption measures are a priority.

## **Institutional starting points**

### **Constitution/political system**

The Republic of Korea has a presidential system of government, with powers shared between the president and a 273-member unicameral legislature. The leading political parties include Grand National Party (GNP), United Liberal Democrats (UDL), and Millennium Democratic Party (MDP). The current ruling party is the MDP.

Korea's Constitution dates from 1948, and was last revised in 1987. The ROK is divided into nine provinces, and has six administratively separate cities (Seoul, Pusan, Inchon, Taegu, Kwangju, Taejon).

The government reform program needs strong support from the National Assembly. In the three government restructurings of February 1998, May 1999 and January 2001, the reform-related measures were stipulated in the Government Organization Act.

### **Structure of Government**

#### **Box 1 Ministries in Korea**

Agriculture and Forestry	Government Administration and Home Affairs
Planning and Budget	Health and Welfare
Commerce, Industry, and Energy	Information and Communication
Construction and Transportation	Justice
Culture and Tourism	Labor Maritime Affairs and Fisheries
Education	National Defense
Environment	Science and Technology
Finance and Economy	Unification
Foreign Affairs and Trade	Gender Equality

The civil service is divided into two categories: national civil servants and local civil servants, each appointed by their respective governmental bodies, and regulated by both national and local statutes. The local government civil service system, however, follows the main structure of the national civil service system.

Career civil servants have strong legal protection from dismissal and are expected to make a life-long commitment to the service. The career service is subdivided into three categories: General Service, Special Service, and Technical Skill Service.

Civil servants who work in the area of technology, research and advisory or general public service administration are classified as General Service.

The Special Service category includes Judges, Public Prosecutors, the Foreign Service, the Police, the Fire Service, and the Educational Service. Each Special Service has its own laws because it is desirable for them to be employed, classified, and paid differently from the General Service due to the unique nature of their work.

Civil servants who perform routine technical work or blue-collar service are classified as Technical Skill Service. This includes railway workers, postal workers, and word-processor workers. The General Service and the Technical Skill Service are further divided into occupational groups.

The following table displays statistics for each of these categories of national civil servants.

**Box 2 Structure of the civil service in Korea<sup>1</sup>**

Career	<b>Total career civil servants</b>		<b>544,336</b>
	General Service		90,917
	Special Service	Educational Service	291,252
		Police, Fire Service	95,375
		Foreign Service	1,432
		Others	1,691
Technical Skill Service		63,669	
Non-career	<b>Total non-career civil servants</b>		<b>3,982</b>
	Political Service		99
	Excepted Service		2,402
	Labor Service		1,481
<b>Total civil servants</b>			<b>548,318</b>

**Central agencies and reform management**

Since 1963, the Ministry of Government Administration (MOGA) had been a central personnel agency in Korea. The Ministry of Government Administration and Home Affairs (MOGAHA) was established by the consolidation of the MOGA and the Ministry of Home Affairs (MOHA) in 1998 and was the central agency responsible for the civil service system. The Civil Service Commission (CSC) was established in 1999 to provide some independent oversight of merit. Responsibilities for personnel policy and screening of appointments for civil servants have been transferred to the CSC from the MOGAHA.

The CSC makes and develops the basic policies for personnel management and pay, and examines the enactment and amendment of personnel-related laws and Presidential decrees. It reviews the appointment and promotion of the senior civil service, and develops, implements, and maintains the "Open Competitive Position System." The CSC consults on the selection of senior civil service positions that are to be made subject to open competition and specifies the requirements and qualifications for the positions. The CSC also inspects personnel actions and supervises personnel management in Executive Agencies.

MOGAHA undertakes workforce planning, analyzing the medium and long-term supply and demand for labor. It recruits lower grade civil servants and manages welfare incentives, including housing, loan arrangements, and pensions. It also has training responsibilities. The MOGAHA has two affiliated organizations: the Central Officials

Training Institute (COTI) and the Appeals Commission. The COTI, a civil servant training institute, provides courses for general training, specialized training, and forums on the national agenda. It also tries to promote international cooperation through Executive Development Programs. The Appeals Commission established to protect the rights of civil servants operates as a quasi-judicial body in making administrative rulings on appeals against disciplinary actions including dismissal, suspension, and reprimand.

### **Politicization**

Civil servants in the career service retain their positions during a change of government. In general terms, no civil servants can be dismissed from service against their will without being first subjected to formal disciplinary actions. However, civil servants at the most senior grade may be dismissed without formal disciplinary action.

Civil servants are restricted from soliciting on behalf of political parties and cannot engage in other political activity including standing for public office.

### **Reform activities**

#### **Summary**

Administrative reform has been linked to other democratizing reforms central to Kim's overall political agenda. Democratizing reforms were meant to make the bureaucracy more accountable. More radical reforms followed in the wake of the 1997 balance of payments crisis.

In response to the East Asia economic crisis, President-elect Kim Dae-Jung formed the Government Administration Reform Committee on January 7, 1998. The Committee consisted of 22 members. After public hearings and consultations with each government branch, the Committee finalized the government restructuring program on February 18, 1998. The revised Government Organization Act was approved by the National Assembly and took effect on February 28, 1998. The Act aims at producing a small but efficient and powerful government, with decentralized authority and a consumer orientation, flexible in response to social change.

Most recently, the Korean government awarded grants to 19 research institutes in universities and the private sector to analyze the management structures of the central government. This was the first time that Korea's **government had asked private sector management teams to design an overhaul of government functions and structures.** Following a four-month review of the functions, structures, and performance of ministries and other agencies of the central government, these teams drafted proposals that they submitted to the government for review. The main recommendations were as follows:

- Open 30% of senior government positions to outside candidates;
- Decentralize recruitment authority for lower-level officials (grade 6 and below) from the central personnel agency (MOGAHA) to the ministries;

- Introduce an executive agency system managed by contracted professional managers and experts;
- Integrate entrance examinations for higher foreign service and administrative service;
- Reinforce anti-corruption regulations;
- Publish plans and results of ministerial performances, including expenditure records;
- Introduce a double-entry booking system to enhance financial and managerial transparency;
- Improve information and technology management systems to promote a knowledge-based society;
- Expand the provisions of the Public Service Charter to enhance service quality.

President Kim's government has enforced registration and declaration of assets for elected officials and high-ranking public servants.

In September 1999 the government created the Presidential Advisory Council for Anti-Corruption. The Council drafted the Framework Act on Anti-Corruption including a code of conduct for public officials and protection of whistle-blowers, etc.

The Government Information Disclosure Act aims to ensure access to government information. The law provides the public with the right to request any government document, except those related to national security, defense, and other information that can be used against the national interests. Ministries and agencies should rule on the appropriateness for public release and provide the requested information within 15 days. Anyone whose request is rejected can file an appeal.

### **Reforms to the organizational structure of government**

The new Kim administration reduced the number of cabinet ministers from 21 to 17, and minister-level officials from 33 to 24. While the number of ministries and government officials is being reduced, this does not translate directly into staffing reductions as some agencies such as the Ministry of Labor and the Food and Drug Administration are to be strengthened through a reallocation of manpower.

Some 10 Executive Agencies have been established, at arms length from their supervising ministry.

### **Cutting back the programs undertaken by government**

During the three restructuring processes, 208 high-level posts were eliminated. Some **entities were abolished** and others **reduced in scope through deregulation, merging** bureaus and divisions performing similar functions, and the **privatization** of some functions. Many **functions were transferred to local government** to strengthen its autonomy and responsibility. In addition, the regional agencies of the central government were consolidated or abolished.

In respect to workforce reductions, the government decided on a plan for reducing the number of governmental employees, which would **decrease the 163,599 central governmental civil servants by 15.9 percent**, except for police officers and schoolteachers. This reduction is unprecedented. However, resistance from civil servants was counterbalanced by the larger problem of private sector unemployment and some public clamor for government restructuring.

The primary means of employment reduction was early retirement. Each ministry was given one year within which they were to lay off employees, and was prohibited from all recruitment and promotion during that time. Subsequently, government introduced "Total Workforce Control System" in 1998 to cap the expansion of government workforce permanently. This entailed a workforce ceiling prescribed through a Presidential Decree, totaling 273,982, excluding priority groups such as schoolteachers and public prosecutors. Local governments were, in principle, to be responsible for their own restructuring, following the central government model. However, in practice the local governments were strongly guided through control of local grant money. Consequently, local government restructuring followed processes similar to that of the central government.

### **Civil service and personnel reforms**

The major civil service reforms include the introduction of the Open Position System (OPS) in 1999, facilitating lateral entry into some senior positions. The Civil Service Commission oversees this system, as part of its mandate to promote the flow of personnel between the private and the public sectors, and to improve competence.

Ministers must designate 20% of positions in Grade 3 or higher in their agency as open competitive positions, and establish qualification requirements in consultation with the CSC. Selection boards determine the appropriate candidate, and civilians are appointed to these positions on contract. If a civil servant is selected, they are appointed through promotion, transfer, change of occupational series, or special employment. A civil servant appointed at an open competitive position can not be transferred for three years.

A personnel performance appraisal system introduced in 1995 has been extended to performance pay programs. For those above Director-General level, under the Annual Merit Incremental Program each minister will decide the amount of performance-related salary by appraising each employee's performance.

For those at the level of division director and below, the Performance Bonus Program operates grants a lump sum bonus to employees with favorable job performance ratings.

The statutory bases for the pay system are the National Civil Service Act, the Civil Service Pay Regulations, and the Civil Service Allowance Regulations. The wage bill for civil servants (excluding local government's employees) in the 2000 was 18% of the annual expenditure budget. The elements of the pay budget are the basic salary (45%), allowances (33%), and welfare expenses (22%).



### **Budget process changes**

Korea adopted **multi-annual budgeting** in 1998. The government developed a Medium-Term Fiscal Plan, which lays out indicative targets for fiscal investment, sources of revenue, budget balance, etc. The Plan is also revised annually and adjusted to accommodate changes in economic conditions.

A number of channels exist to **incorporate a wide range of public opinion into the budget process**. These include: i) a system in which interest groups can assess the performance of their concerned ministry, ii) public debates on budgetary policy for major spending areas, and iii) budgetary conferences of mayors and provincial governors. Other sources of feedback to enhance budgetary efficiency include the National Assembly's account statements and reports by the Board of Audit and Inspection.

Special accounting arrangements have been established for government enterprises operated in the form of corporations. The special accounting system is applied to railroads, communication, and grain and procurement businesses. Since January 2000, the Executive Agencies (23 agencies at present) were affected by the Act on the Establishment and Operation of Executive Agencies. The executive agency's business is regarded as a government enterprise.

A cash-based system is used, and only railroad, communication, grain and procurement, and the executive agencies have moved to double-entry book-keeping. There are no generalized pilots of full accrual accounting.

### **E-government**

Korea's new Online Procedures Enhancement for Civil Applications (OPEN) publishes procedures for civil applications through the Internet for citizens to have easy access to them and monitor the selection process.

To provide customer-oriented public service, One-Stop Processing of Civil Affairs is being implemented. In the past, people had to visit several agencies to complete civil affairs, but now different kinds of services can be obtained at one location.

### **Reform outcomes**

In the wake of the Asian economic crisis, the Kim Dae Jung government succeeded in cutting 9,084 public employees in 1998 and 7,973 the following year. As a complement to these employee reductions, the government has crafted a "total government workforce control system." The new system limits the total number of employees of the whole central government in advance. Under this system, employees will be allocated among ministries and administrations (vice-ministerial-level agencies) based upon presidential priorities and service demands set forth in presidential decrees.

A new performance pay system has been established, though it is too early to judge its impact.

The Regulatory Reform Committee was established under the President Kim in April 1998. The Committee is a standing body in charge of examining regulations and setting the basic direction of regulatory reform policy. The Committee is composed of the Prime Minister and a private individual as joint chairmen, private sector representatives and a few public officials. The Committee selects a particular area for regulatory improvement every year and notifies the ministries of the related guidelines. The Committee identifies its own tasks based on the guidelines and establishes a comprehensive regulatory improvement plan, receives approval from cabinet and the President, announces it to the public, and implements the plan.

In the first year of operation, the Committee eliminated 5,430 (48%) administrative regulations and improved 2,411 (22%) of the 11,125 administrative regulations in existence. In 1999, the Committee eliminated 503 (7.4%) of the remaining 6,820 regulations. In 2000, the Committee has focused more attention on regulatory quality.

Registration and disclosure of assets for elected officials and high-ranking public servants has been enforced. In September 1999 the government created the Presidential Advisory Council for Anti-Corruption. The Council drafted the Framework Act on Anti-Corruption including a code of conduct for public officials and protection of whistle-blowers, etc.

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<sup>i</sup> Additional information concerning Korea's Civil Service System, including compensation and allowances for civil servants is available at <http://www.csc.go.kr/>