

SOE Reform & Future in Korea

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기획재정부
MINISTRY OF STRATEGY
AND FINANCE

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I

General Picture of SOE

1. Public Institutions

Public Institutions have been an active player in various sectors

▪ Definition of Public Institutions

- ▶ Public institutions have been established by the government to deliver public services or receive direct or indirect fund from the government.

▪ Public Institutions in social sectors

| | Finance & Banking | SOC | Power & Energy | Welfare, Culture, & Media | Industry |
|--------------|---|---|--|--|---|
| Institutions | Korea Development Bank, Korea Exim Bank, Korea Exchange, Korea Securities Depository | Incheon International Airport Corporation, Korea Railroad, Korea Expressway Corporation | Korea Hydro & Nuclear Power Corporation, Korea Gas Corporation, Korea District Heating Corporation, Korea Resources Corporation | Korea National Park Service, Korea Sports Promotion Foundation, Korea Performing Arts Center, Seoul Arts Center | Korea Rural Community Corporation, Korea Industrial Complex Corporation, Korea Internet & Security Agency |

2. Public Institutions in National Economy

Public Institutions cover a large part of Korean Economy

▪ Economic Position in Korea

| | Number of Institutions ('14.4) | Number of Employees ('13) | Budget ('13, KRW) | Debts ('13, KRW) |
|------------------------------|--------------------------------|--|---|----------------------------------|
| SOE | 30 | 99,856 | 247.4 trillion | 374.2 trillion |
| Quasi-Government Institution | 87 | 75,471 | 221.7 trillion | 138.5 trillion |
| Non-Classified Institution | 187 | 96,654 | 105.6 trillion | 10.5 trillion |
| Total | 304 | 271,981 (44.2% of government employees) | 574.7 trillion (168.0% of government budget) | 523.2 trillion (36.6% of GDP) |

II

SOE Management System Change

- 1. Improving Classification of Public Institutions**
- 2. Reforming Governance of Public Institutions**
- 3. Privatizing Public Institutions**
- 4. Reform Policy of Public Institutions in 2008**
- 5. Mid & Long-term Financial Management Plan**
- 6. Public Institution Management Evaluation System**

1. Improving Classification of Public Institutions

SOE (30)

Quasi-Government Institution (87)

Non-Classified Institution (187)

Public Institutions (304)

Act on the Management of Public Institutions (2007)

Reform

Government-Invested Institution

Government-affiliated institution

Government-Financed Institution

SOE Subsidiary

Act on the Management of Government-Invested Institutions (1983)

Act on the Management of Government-Affiliated Institutions (2004)

No Managerial Framework

2. Reforming Governance of Public Institutions (1)

▪ Strengthening Internal Governance

Before

The government appoints directors and no internal check & balance system

After

Strengthening Non-Executive Director System, Improving the Internal Audit System

- * Non-Executive Directors had Audit Request Right and CEO Dismissal Request Right
- * Mandatory Audit Committee (SOE), Auditor Job Performance Assessment

▪ Restructuring External Governance

Before

Inconsistent Supervising, Unclear Responsibility of Ministries

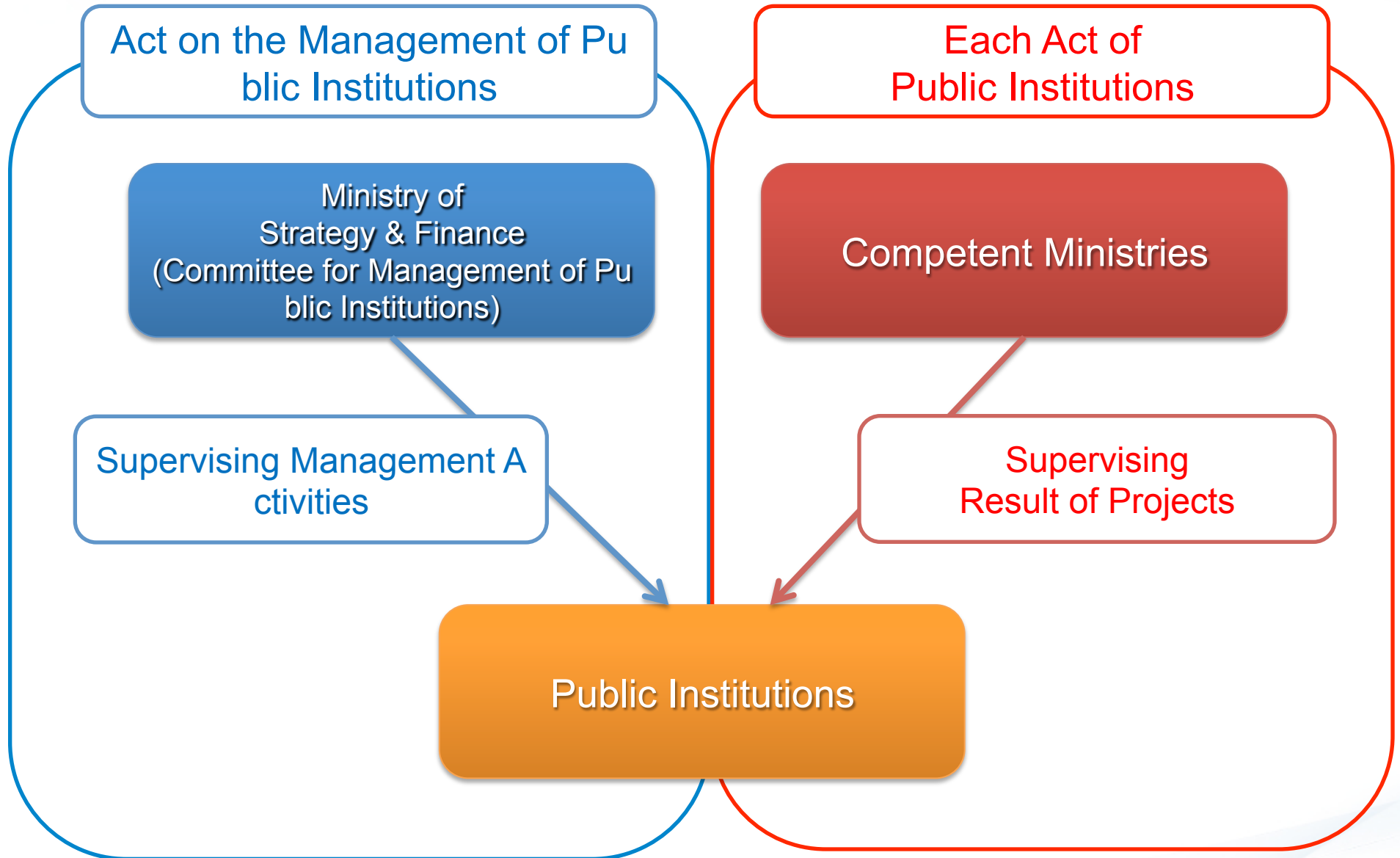
After

MOSF and Committee for Management of Public Institutions supervise institutions' management activities

Competent Ministries supervise the results of projects

| | Committee for Management of Public Institutions |
|-------------|--|
| Composition | ▪ More than half of committee members are from private sector (commissioned by the President) |
| Roles | ▪ ① SOE Designation, ② Appointment Process for the directors, ③ Management Evaluation System, ④ Screening the New SOEs, ⑤ Privatization & Adjustment of Institution's Function |

2. Reforming Governance of Public Institutions (2)



3. Privatizing

▪ Privatization Principles

- ▶ Upon the changes of national economy, privatization has been initiated. The needs for government intervention has shrunk.

▪ Privatization Cases

- ▶ The Korean government has continuously pushed the privatization and has achieved the outcome.

| Period | Background of Privatization | Major cases |
|-----------|--|--|
| 1968~1979 | · Liquidation of insolvent institutions and promotion of private enterprises | · Korean Air, Daehan Shipbuilding |
| 1980~1986 | · Economic liberalization promoting competitiveness of banks | · Korea National Oil Corp, Hanil·Chaeil Bank |
| 1987~1997 | · Transition to management by owner | · Korea Tungsten Corporation, Korea Fertilizer |
| 1998~2002 | · Expanded market economy and elimination of SOEs' inefficiency | · Pohang Iron & Steel Corporation, KT Corporation |
| 2003~2013 | · Enhancing national competitiveness by making public sector efficient | · Gyeongsangbuk-do Tourism Organization, Korea Enterprise Data |

4. Reform Policy of Public Institutions in 2008

▪ The Principles of Reform Policy (2008 – 2012)

- ▶ ① “Small Government , Big Market” , ② Promoting ‘People’s Benefits’ ,
③ Minimizing Social Costs, ④ Tailored Planning & Institutional Implementation

▪ Major Achievements of Reform

| | Achievements |
|----------------------------|---|
| Privatization · Share Sale | · 10 institutions including Gyeongsangbuk-do Tourism Corporation |
| Merger | · Consolidated R&D and Telecommunications institutions (36 → 16) · Dissolved 5 institutions including Resolution & Finance Corporation |
| Functional Adjust | · Unified various support to SMEs, integrated four major public insurance (22 institutions) |
| Downsizing | · Reduced the number of employees of 127 institutions for management efficiency (△22,000 people) |
| SOE Subsidiary Liquidation | · Liquidated 85 subsidiary companies |

5. Mid & Long-term Financial Management Plan

▪ Strengthening Public Institutions' Debt

Why

In order to select highly indebted public institutions and restore financial solvency through mid and long-term financial management

Who

SOEs and quasi-governmental institutions with the asset size of 2 trillion won and more(41), covering 96% of the total debt of public institutions, are making the Plan

** Act on the Management of Public Institutions Ch. 39.2*

How

Institutions: Submission to the MOSF and competent ministries (till 30 June)

The MOSF: Submission the Planning to the National Assembly (90 days before the fiscal year starts)

What

Financial Prospects and Management Plan for the next 5 years

** Management Objective, Business Plan, Investment Plan, Financial Prospects, and Management Plan*

When

The system started in FY 2012

6. Public Institution Management Evaluation System (1)

▀ Framework of the System

Goal

Strengthening the Publicness and Managerial Efficiency, Providing Expert Consulting, and Improving the Quality of public service

* Act on the Management of Public Institutions Article 48

Target

Evaluating the previous year's Management Performance of 117 SOEs and Quasi-Government Institutions

* SOE(30), Quasi-government Institution(87) (2014)

Evaluation Points

Whether to properly execute the budget, to achieve the planned result of projects, to keep good relationship between employer and employees and others about 10 points

Evaluation Team

Professor, lawyer, CPA, certified labor consultant, and other experts. Evaluation for 3-4 months

* 158 Experts are joining in the evaluation team (2014).

6. Public Institution Management Evaluation System (2)

▪ How to deal with evaluation results

- ▶ Incentive based on evaluation results
- ▶ Recommendation of the dismissal of institution heads

* Evaluation result will be used: ① S, A~E rating and incentives, ② Institutions that received E rating will receive recommendation to dismiss the head of institution

▪ Future direction of evaluation system

- ▶ Evaluation will continue to increase subjectivity and reliability
- ▶ Evaluation team members will be investigated to ensure they have no ties to evaluating institutions
- ▶ Evaluation indicators will be improved so that public institutions strive for enhancing productivity

III

SOE Reform Initiatives

- 1. Background of SOE Reform in 2013**
- 2. SOE Reform Initiatives**
- 3. Checking Implementation**

1. Background of SOE Reform in Dec. 2013

To overhaul distorted behavior and incorrect system for the future growth of Korean economy

▪ Corruption and reckless management in public institutions

- ▶ Many cases of corruption, false succession of employment, excessive benefit packages to employees still happen.

▪ Excessive debt of public institutions

- ▶ Increasing debt of public institution caused by SOC projects such as rental housing and overseas resources development has become a burden on Korean economy.

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Size of Debt | 338.5 trillion (KRW) | 398.9 trillion (KRW) | 460.8 trillion (KRW) | 498.0 trillion (KRW) | 523.2 trillion (KRW) |
| Debt Ratio | 135.4% | 163.8% | 194.7% | 219.6% | 216.1% |
| Debt to GDP | 29.4% | 31.5% | 34.6% | 36.2% | 36.6% |
| Debt to Government | 94.1% | 101.7% | 109.6% | 112.4% | 108.4% |

2. SOE Reform Initiatives (1)

▪ Direction of Reform

- ▶ Expanding disclosure of information such as performance results
- ▶ Plans designed by public institutions themselves and from the discussion between the labor and management
- ▶ Government-wide reform participated by ministry officials and private experts



(1) Expanding Disclosure of information

- ▶ Improving access to information in great demand
 - * By adding search function for debts and providing mobile web services
- ▶ Reorganizing All Public Information in One(ALIO) to make it easier for users to find information

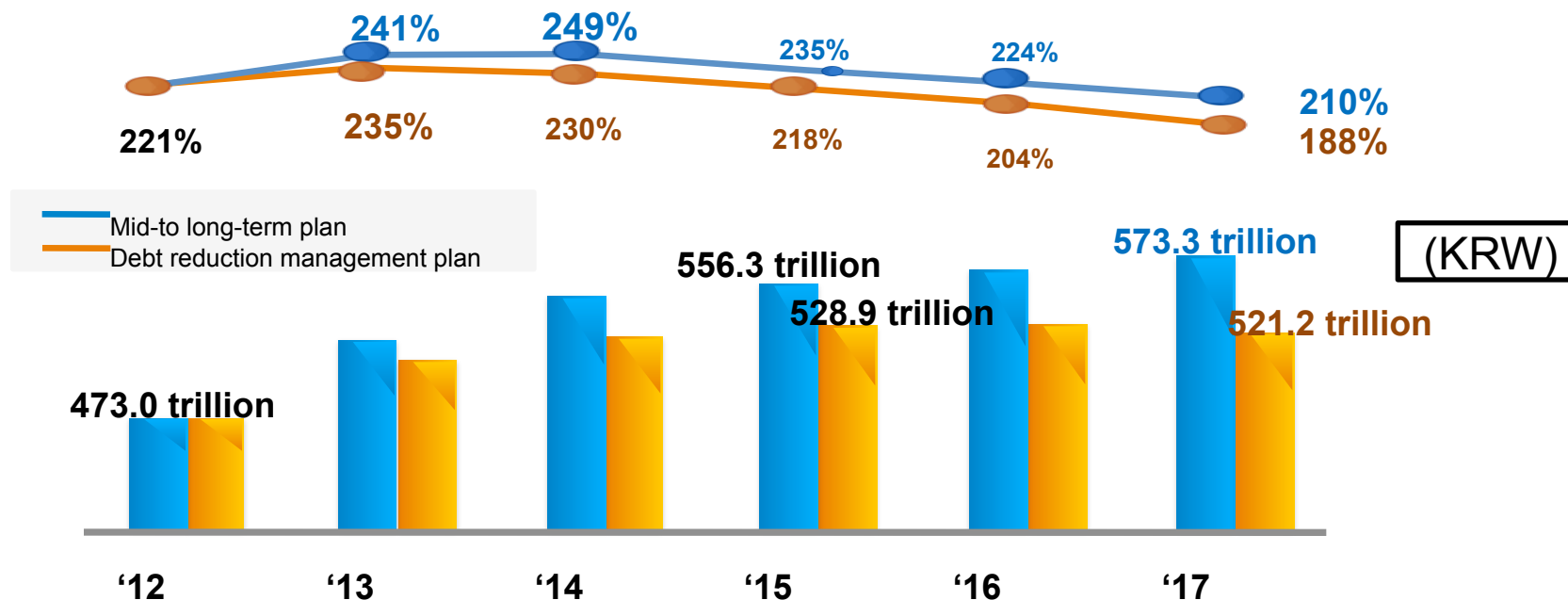


2. SOE Reform Initiatives (2)

(2) Strengthening Debt Management

- ▶ 18 institutions flagged as "highly indebted" should lower the debt ratio to 200% by 2017 with intensive management

* according to the debt reduction management plans of 41 institutions, 52 trillion won of debt will be reduced by 2017.



- ▶ Improving system to reduce debt by expanding segment accounting, strengthening preliminary feasibility study, and introducing ex-post in-depth evaluation system

2. SOE Reform Initiatives (3)

(3) Improving Reckless Management Practices

- ▶ **Selecting 20 public institutions for intensive management**
- ▶ **Correcting 8 cases of careless management and reducing employee benefit expenditure**

* Per person benefits will be reduced from 4.27 million won (2013) to 2.9 million won (2014)



(4) Enhancing productivity and efficiency

- ▶ **Checking and comparing functions for four major areas**
 - * four areas: ICT, SMEs, overseas resources development, employment and welfare
- ▶ **Improving evaluation system to raise productivity by introducing "Business Innovation Indicator" to pinpoint strong and weak business areas**
- ▶ **Dealing with deregulation of public institutions**



3. Checking Implementation

▪ Basic Direction

- ▶ The Ministry makes an interim report on the 38 public institutions. Based on the assessment, institutions will no longer be have the burden or receive recommendation to dismiss the head of institution

▪ Implementation Checking System

Committee for Management of Public Institutions (regular meeting)

**Chair: Deputy Prime Minister
Vice Minister of each Ministry,
Members from the private**

Public Institutions Reform Meeting

**(Commissioner: 2nd Vice Minister of MOSF)
Ministry-Agency-Administration
Chief Officer, private experts**

**Economic Ministerial Meeting
(in case of need)**

**Chair: Deputy Prime Minister,
other Ministers**



IV

Future Direction of SOE Policy

1. Future Role of Public Institutions

Strengthening the role of public institutions to support government's policy implementation

Supporting Vitality of Economy

- ◆ Consolidating the foundation for new added value by strengthening capacity of science technology
- ◆ Enhancing competitiveness of SMEs

Creating Jobs

- ◆ Increasing employment by employing the youth and women, and hiring flexible workers and alternate manpower
- ◆ Improving employment system by introducing job evaluation and giving equal opportunities to all applicants

Leading Local Economy

- ◆ Vitalizing communication with local government and enterprises after movement to regional areas
- ◆ Giving job opportunity to outstanding local workforce

< Network of LAC-MOSF-IDB >

Network of LAC-MOSF-IDB was made in the Conference in 2013 (<http://soe.kipf.re.kr/eng/main.aspx>)

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Thank you



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