Public Institutions Reform Cases and Future directions

May 17 2011

MINISTRY OF STRATEGY AND FINANCE

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1. What is a public institutions(PIs)?

Definition

- Institutions which are established or financially supported by the government to provide public services

Designating as public institutions

* Legal framework to designate as public institutions

1. *Government-invested institutions : established by law or invested by Gov't*
2. *Commissioned : government support including commissioned tasks or granted monopoly exceed the half of its total revenue*
3. Government-linked institutions : gov't or PIs has more than 50% of its shares, or more than 30% of shares & de factor control
4. Subsidiaries·reinvested institution : subsidiaries of or invested by PIs

2. Currently designated public institutions in 2011

- 286 as PIs under the Act on the Management of Public Institutions
- Classified into 3 types based on the finance and human resources

	Public Corporations	Quasi-governmental organizations	Non-classified public institutions	Total
Number	27	83	176	286
Requirement	Self-generating profit exceeds half of total revenue with more than 50 employees	Self-generating profit is less than half of total revenue with more than 50 employees	Designated as neither public corporation nor Quasi-governmental organization	
Examples	Korea Electrical Power Corporation Korea Highway Corporation	National pension Service, KOTRA	Government-invested research center, Hospitals affiliated with national universities	

Reference Public Institutions' status in the national economy

General current status

	Workforce (end 2010)	Budget (end 2010)	Asset (end 2010)	Debts (end 2010)	Current term net profits
Public corporation	93	181.5	444.6	271.8	5.0
Quasi-governtal institutions	67	173.9	183.7	104.5	1.1
Non-classified public institutions	88	108.9	25.7	10.3	1.1
Total	247	464.3	654.0	386.6	7.2

3. Public institutions management system in the past

Before 1983, ex-ante management by responsible management

- Act on the Government-invested institutions Budget and Accounting in 1962,
  Act on Management of Government-invested institutions in 1973
- Responsible ministers had the right to appoint and dismiss executives,
  and the members of the board of directors were only from the management board.

Performance evaluation system

- The Framework Act on Government-invested Institutions Management enacted in 1984
- Management evaluation system was introduced,
  The board of directors changed into non-standing director system from
  the government and outside directors

Autonomous & responsible management system

- Parallel system of standing and non-standing directors in the board of directors

Since 2004 Management coverage was extended to government-affiliated institutions

- The Framework Act on the Government-affiliated Institutions Management enacted 2003

Since 2007 Resetting the standard qualifying public institutions and strengthening ownership functions

- Unifying the management systems with the legislation the Act on Management of Public Institutions
- Differentiated managing level by PI types
- Ownership and internal checks were enhanced

4. Current PIs management system

Supervising PIs

Government | Internal corporate governance | People, meadia

Areas to be supervised by institution type

Areas to be supervised		public corporations + quasi-governmental institutions	non-classified PIs
Government	Budget formulation and enforcement	○	△ adherence
	Management results evaluation	○	△
	Dismissal or dismissal suggestion· demand for executives	○	△
	Guideline on executive remuneration	○	△
	Functional adjustments and guideline in innovation	○	○
Internal corporate governance	Organization the board of directors	○	X
	Executives appointment process	○	X
People, media	Management information disclosure, customers satisfaction survey	○	○

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1. Backgrounds for reform

- Lack of checking mechanism for monitoring the management board
  - ➡ incentives to prioritize the interests of the institution ex. labor union

- External monitoring system by responsible ministries not working properly due to collusions of interests between ministries and institutions

- Overlapping management systems of Various Acts
  - The Framework Act on Government-invested Institutions Management and the The Framework Act on Government-affiliated Institutions Management Act on Privatization, other relevant laws

2. Reform directions

Policy objectives To restore peoples' confidence and enhance the capability of institutions

Major tasks ahead setting 4 major tasks ahead

1. *Setting the standard for PIs and classification*
2. *External monitoring evaluation system*
3. *Internal check and balance system*
4. *Executives personnel system*

3. Governance reform 1 : setting standard for qualifying PIs

1 Setting the standards of PIs based on the international standard

Before the reform

- Unclear definition of PIs, blind-spots of monitoring

After the reform

- Designating public institutions base on the extent of Govt's financial support, and services' publicness

Reference	Description
1 Government -invested institutions	Gov't or public institutions have more than 50% of its shares or more than 30% of its shares&de factor control over
2 Government -affiliated institutions	Established by law and invested by Govt
3 Supporting· commissioned institutions	More than 50% of its revenues are from government support (govt-commissioned affairs, monopoly granted by the govt)
4 Subsidiaries·re -invested institutions	Public institutions have more than 30% of its shares and de factor control over, or established by a public institution and invested by the govt or the concerned institution

② Classifying institutions base on the business characters

Before the reform

- Lack of characteristic-based management system by institution type

After the reform

- Based on the rate of self-generating profits out of total revenue : public corporations, quasi-governmnetal institutions, non-classified public institutions

- Institutions whose self-generating profit exceed half of its revenue are public corporations, and institutions which do not exceed are quasi-governmental institutions

3. Governance reform 2 : enhancing external monitoring and evaluation system

1 The Committee for Management of Public Institutions

Before the reform

- responsible ministries, Govt- invested management committee, Gov't-affiliated committee duplicately managed

After the reform

- The Committee for Management of Public Institutions management monitors and evaluates

Reference	Committee for the Management of Public Institutions
1 Constitution	Half of the members are from the private sector (chaired by the Minister of Strategy and Finance)
2 Functions	Executives appointment; Management evaluation; Management guideline setting; Institutions evaluation; Executives evaluation

2 Re-organization of supervision system within the government

Before the reform

- Overlapping management monitoring by responsible ministries and the Committee causes no responsibilities

After the reform

- Dualizing the monitoring system : management supervised by the Commitee, businesses by responsible ministries

Reference	Before	After
Management	• Responsible ministries (comprehensive monitoring) Ministry of Budget Planning (setting the budget guideline)	• The Committee for Management of Public Institutions (setting the management guideline)
Businesses	• Responsible ministries (comprehensive monitoring) over business	• Responsible ministries (monitoring over business)

③ System improvement for transparent and autonomous management

Management disclosure

- Obligating all the public institutions to disclose their management information

Management evaluation

- Overcoming the non-competitiveness with the strict performance evaluation

- Encouraging performance improvement by reflecting the results to personnel and remuneration
- Enhancing the effectiveness of the evaluation system by making the system tailored for each institution
- Strengthening competitiveness by introducing global indices which make comparison with the world's top enterprises possible

* Details of the Business Performance Evaluation System for Public Institutions were presented at the 5th Asian Network in Kualarumpur

3. Governance reform 3 : strengthening internal check and balance system

① Promoting independence of board of directors

Before reform

- Checking management board has meant little due to standing directors

After reform

- Enhancing responsibilities and authority of the board of directors

- Introducing non-standing directors and giving new right to the board of directors to propose the dismissal of the institutional head

Deciding extension or dismissal of non-standing directors based on their performance

2 Enhancing effectiveness of internal monitoring system

Before reform

- The role of Inspection and Audit Officer was weak

After reform

- Internal management monitoring function works effectively

Market-based public corporations are obligated to establish the audit committee	Determining the personnel and remuneration based on the business ethics pledge and performance evaluation	Giving the Inspection and Audit Officer the right to request for auditing staffers' personnel

3. Governance reform 4 : transparent and fair personnel system

① Establishing the Executive Nominating Committee

Before reform

- Only candidates for the insitutional head was nominated by the Nominating Committee

After reform

- Candidates for the executives are nominated by the Executive Nominating Committee

Constitution of the Executive Nominating Committee

→ Mainly consisting of non-standing directors and outside experts from the private sector

② Adjustment of executives appointing rights

Before reform

- Appointing authorities by responsible ministries

After reform

- Autonomous management system strengthened by the Committee for Management of Public Institutions(CMPI)

<table>
<tr><th rowspan="2">Reference</th><th colspan="2">Public corporation</th><th colspan="2">Quasi-governmental institution</th></tr>
<tr><th>Before</th><th>After</th><th>Before</th><th>After</th></tr>
<tr><td>Recommendation of appointing institution's head</td><td rowspan="2">Responsible ministers</td><td>After being delivered by the CMPI ➔ responsible ministers</td><td rowspan="4">Responsible ministers</td><td rowspan="2">Responsible ministers</td></tr>
<tr><td>Appointing and dismissing standing directors</td><td>Instituion's head</td></tr>
<tr><td>Appointing and dismissing non-standing directors</td><td rowspan="2">Minister of MOSF</td><td rowspan="2">CMPI (chaired by Minister of MOSF)</td><td rowspan="2">CMPI (chaired by Minister of MOSF)</td></tr>
<tr><td>Recommendation of appointing the inspection and audit officer</td></tr>
</table>

* means large-scale institutions(Institutional heads, and inspection and audit officers are appointed and dismissed by the President)

3 Improving executives' term

Before reform

- 3 years

* Incentive-less without any specific condition of dismissal or consecutive term

After reform

- 3 years for institutional head's term, 3 years for other executives term with possibility of 1 year consecutive term

* Deciding consecutive term based on management performance and job evaluation
(Dismissal is possible even during the term)

Reference	Before	After
Institutional head	Guaranteed term of 3 years * Necessity of consecutive terms was not there and 3 years term was taken for granted.	3 years(term) + 1 year(extensions) * Based on management results
Directors, and audit officer		2 years(term)+ 1 year(extensions) * Based on job-evaluation

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1. Background of Reform

Undermining private sector's capability	• Undermining market economy's vitality even when private sector is competitive enough
Profligate management	• Sharp increase in labor costs, excessive welfare expenses ⇐ utility rates and financial support
Limitation of monitoring and control	• Monopolistic industrial structure, hard to be directly monitored by the people

Removing inefficiency of the public sector, vitalizing the market economy, and enhancing public sector's capabilities

2. Basic Principles for Public Institutions Reform

Small government, big market

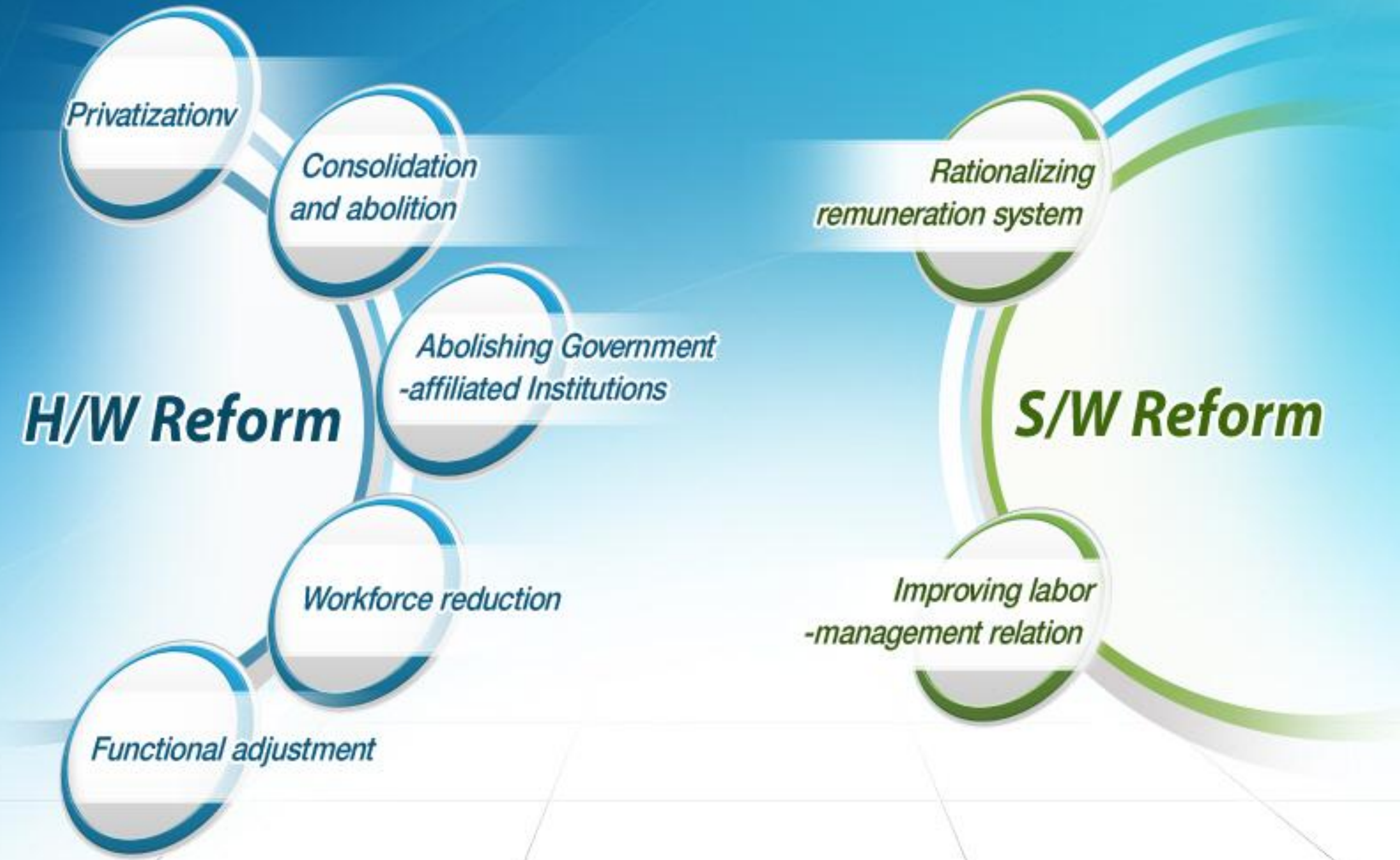
- Private sector competition is possible
  ➡ Privatization, private consignment
- Industries remaining in public
  ➡ Consolidation & abolition, streamlining
  (prescribed number of workers)

Stabilizing the Korean People's Life

- Excluding possibility of increase in service charges : businesses related to electricity, gas, and running water will remain at the hands of the government
- Promoting stable employment : employment transfer and natural retirement

3. Implementation Plan for Reform from 2008 to 2009

Six rounds of announcement for reform in order to enhance efficacy and competitiveness



4. Reform hitherto

Major changes

Consolidation, abolition

- Consolidating 36 institutions into 16, 5 abolished

Workforce reduction

- Reducing the prescribed numbers of PIs by 22,000 in 129 institutions, and cutting the subsequent surpluses gradually by year 2012

Privatization

- 7 institutions sold or listed, and sales announcements for 7

Functional adjustment

- Reducing or merging functions among institutions are underway

Liquidating invested-companies of PIs

- Stakes in 76 institutions out 131 were sold

Rationalizing remuneration

- Compensation for institution's head and audit reduced June 2008, starting salaries for employees cut in Feb. 2009, performance-based incentive system was introduced and gradually adopted by more institutions

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1. Completion of the current reform plan

Consolidation & abolition and workforce adjustment will be completed

Privatization, functional adjustment

Reforming PIs is well in process

Stake sales will be completed by 2012

performance-based incentive system

2. Enhanced autonomous and responsible management

Public institutions' autonomous management was enhanced

- Reviewing the offer of greater autonomy over labor force, organization, and budget based on major performance results of institutions under testing

Securing responsibility based on management evaluation

- Giving clear compensation and responsibility reflecting management results

Establishing performance evaluation system

- Requiring institutions to adhere to a standard for fair and systematic performance evaluation system

Strengthening the management information disclosure system or ALIO

- Improving ALIO system for a greater access by the people

3. New role of Public Institutions

PIs' role in creating a 'fair and just society'

- Need to fulfill social duties as corporate citizens

Correcting unfair transaction	*Offering equal opportunities*	*Spreading the sharing movement*
ex) Establishing a task force team to support small-and-medium sized companies within PIs	ex) Hiring people with physical handicap, women, the disadvantaged Supporting social corporations	ex) Identifying tasks by creating a social contribution committee within PIs

Creating more jobs for youth in PIs

- Creating value added, reserving enough labor pool to provide necessary services to the people
- Making the youth internship system effective by giving interns with good performance a regular position

Thank you

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