

LOCAL GOVERNMENT IN KOREA



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SESSION 1



LOCAL ADMINISTRATION

CHAPTER 1. THE PRESENT OF LOCAL AUTONOMY

1. GOVERNMENT 3.0

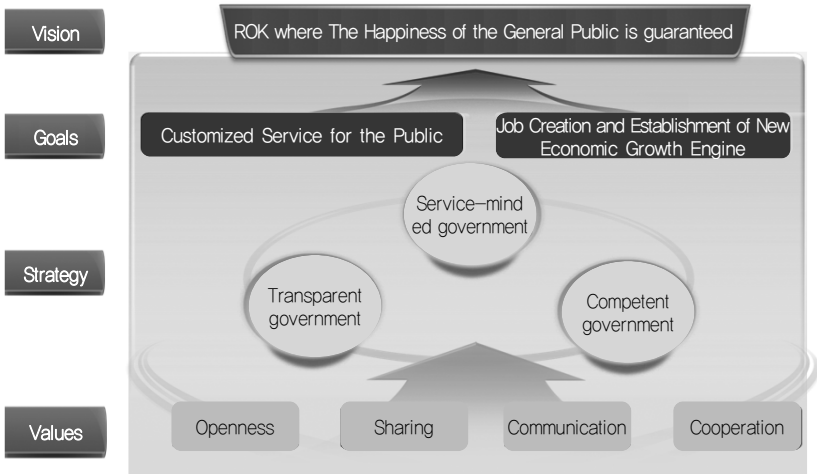
The roles and function of a government has been evolved as the society has become more diversified and complex. There has been much emphasis on the needs for the government innovation through openness and sharing. In particular, sharing public information and the communication between the government and the people has been insufficient, and the social integration failure has led to the continuous public's distrust to the government. In addition, governance inefficiency and lack of expertise and practicality have been pointed out.

To address these problems, the Park Geun-hye administration presented the 'Government 3.0', a new governance paradigm to promote communication and cooperation by disclosing and sharing the broad range of public information, and enabling cross-border communication within the government, thereby offering customized service for the public as well as to support job creation and boost creative economy.

The previous Government 1.0 put the government first, while the Government 2.0 was centered on the general public. On the contrary, the

Government 3.0 focuses on each individual citizen, and aims to provide two-way and customized administrative service to the public through disclosure, participation, openness, sharing, communication and cooperation with the broadened-democracy as its core values.

〈Figure 1〉 Vision and Strategy of the Government 3.0



Source: 「Guidelines for the Local 3.0」, Korea Research Institute for Local Administration (2013)

2. GOVERNMENT 3.0 GOES TO LOCAL

The Vision of Government 3.0 vision, 'The Happiness of the General Public' can be realized only when the local residents are happy and content with their local administrations. Therefore, to make the government “transparent, competent, and service-minded”, the central government set the following goals in applying the Government 3.0 to local government; to

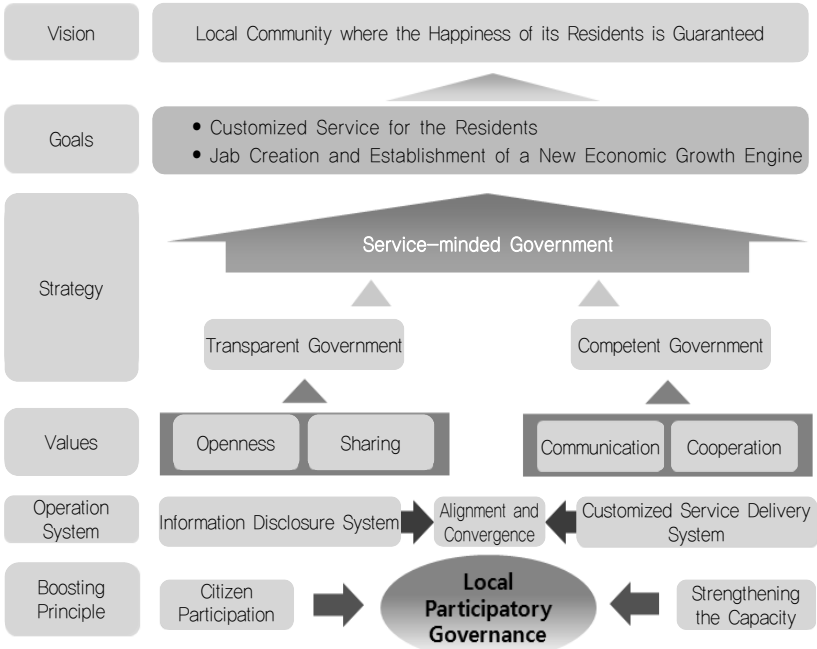
offer customized service, to create decent jobs and to find new economic growth engine.

The core framework of the application of the Government 3.0 to local government can be defined as follows; to achieve transparency in the governance through openness and sharing, to enhance its competency through communication and cooperation, and to establish the administration operation system which aligns and converges the information disclosure system and the customized service delivery system.

To this end, it aims to devise measures to promote public participation and to enhance the competitiveness of the local community. The active application of the Government 3.0 to local level is expected to minimize any blind spot of administrative service and to remove barriers among divisions and departments.

In particular, the framework was devised in consideration of the main tasks of the Government 3.0 and develops main tasks of the local governments accordingly, thereby providing the logical link between the central and local governments. Under the framework, ten main tasks were selected as follows; to protect the local residents' right to know by actively disclosing public information pertinent to the local community, to utilize the public use of local data, to complete participatory local governance, to eliminate barriers among local government's departments, to improve collaboration system among local governments, to deliver scientific local governance by using locally-tailored big data, to offer customized and integrated service to local residents, to enhance support for local start-ups and companies, to support the Information Have-nots, and to deliver locally customized service by utilizing new information technology.

〈Figure 2〉 Vision and Strategy of the Local Government 3.0



Source: 「Guidelines for the Local 3.0」, Korea Research Institute for Local Administration, (2013)

CHAPTER 2.

INSTITUTIONAL FRAMEWORK OF LOCAL GOVERNMENT

1. LOCAL GOVERNMENT STRUCTURE

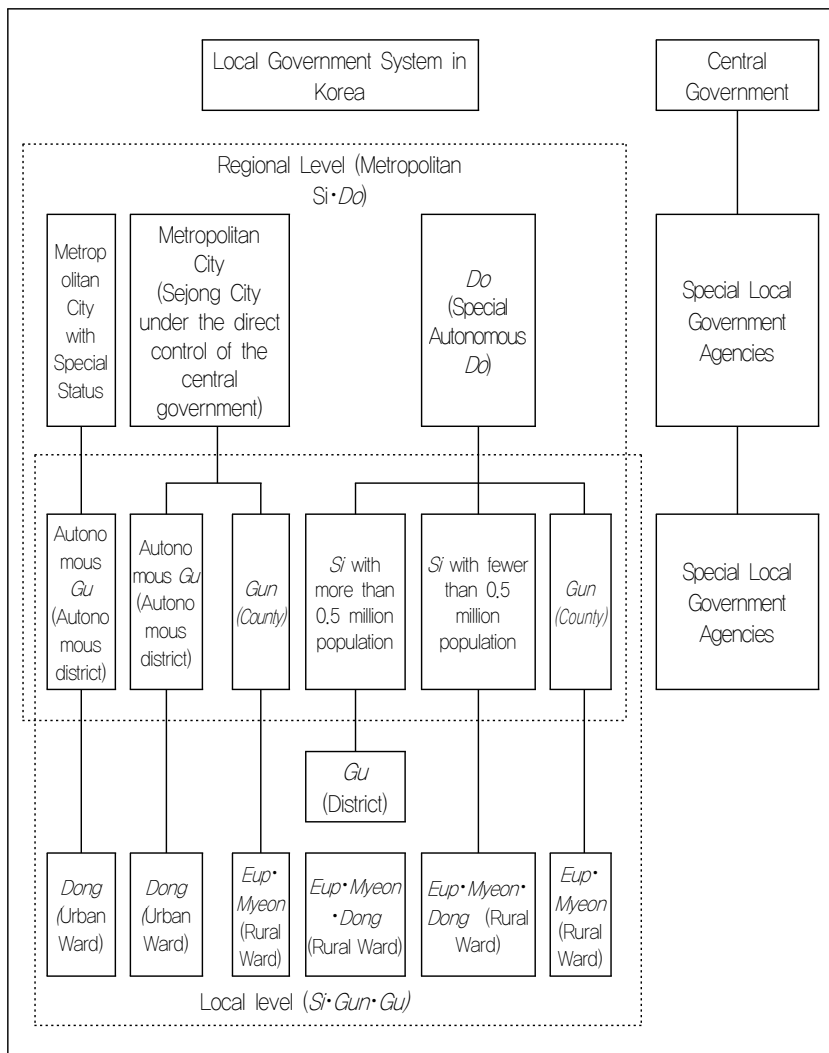
Institutional framework of local government is comprised of autonomy tiers and administrative tiers, which are defined in Article 2 and 3 of the Local Autonomy Act (hereinafter LAA) and Article 3-3 thereof respectively.

Based on the concept of local autonomy tier concept, the central government is also considered as one of autonomy tiers because it pursues decentralization. Therefore, the legal autonomy of local governments and the hierarchical and horizontal political devolution or decentralization among local self-governments underpin the relations among central government, the regional governments and the local governments.

Consequently, the autonomy tier encompasses both the local government boundary which sets a geographical boundary, and the political tier which refers to the hierarchical and horizontal relations between the central and local governments.

Municipalities of Korea consist of Cities (municipal cities) and Do (provinces), based on the administrative jurisdiction boundaries defined in the LAA. On behalf of local community, a local government aims to strengthen local democracy and enhance the public welfare. As such, autonomy tier among the central government, regional government and basic level localities reflects the political governance structure based on the principle of decentralization.

<Figure 3> Structure of Local Government in Korea



The administrative structure (jurisdictions) of Si·Do is set within the regional level in which autonomous Gu·Si·Gun comprise the sub-administration tiers; while the administrative structure (jurisdictions) of lower level provinces (Si·Gun·Gu) has Eup·Myeon·Dong as their sub-administration tiers.

The administrative structure (jurisdictions) of Si has either Gu or Eup·Myeon·Dong as their sub-administration tiers. Consequently, an administrative tier refers to the unit of administration within the jurisdiction of a government.

Currently, the local administrative structure consists of 17 regional level governments (1 Special Metropolitan City, 6 metropolitan cities, 8 Do, 1 Special Autonomous Do, and the Sejong Special City) and 227 basic level localities (74 Si, 84 Gun, and 69 autonomous Gu).

2. AFFAIRS OF LOCAL GOVERNMENT

The affairs and functional division of the central and local governments is defined in the LAA. Article 11 of the LAA specifies the State affairs that can not be addressed on the local level, thereby remain as prerogatives of the central government only. These include, but not confined to, the affairs related to the nation sovereignty, tasks that require national standard and coordination, nation-scale tasks, projects involving high technology, and affairs of large-scale finance.

In the meantime, the affairs that remain in the jurisdiction of local governments are mainly stated as 'autonomous affairs of the jurisdiction' in Article 9-1 of the LAA, referring affairs related to the purpose of the local government's existence, affairs to enhance the welfare of local residents with

its finance and resources, and tasks which are not stipulated in the law, referring to non-authoritative administrative affairs including service provision for local residents.

The autonomous affairs are divided into the regional government affairs and basic level localities affairs. Regional governments in cities and Do are mainly tasked with broad-scale, supplementary, and coordinative affairs (Article 10-1-1 of the LAA). The administrative affairs of special and metropolitan cities that are different from those of autonomous Gu are specified in the attached table 2 pertinent to Article 9 of the LAA. Notably, the LAA also recognizes exceptional affairs that normally belong to Do but can be carried out by cities with a population of 500,000 or more (Article 10-1-2 of the LAA). 'Joint affairs' and 'common affairs' of local governments are stipulated in the LAA as well.

According to the LAA, the delegated affairs are divided into agency-delegated and organization-delegated affairs. Because the agency-delegated affairs are State affairs in their nature (Article 11 of the LAA), the head of local government who is in charge with the affairs gets the status corresponding to the lower-level/upper-level local governments or the central government agency which delegated the affairs. Aforementioned division of tasks and affairs are summarized in Table 1.

<Table 1> Legal Grounds for the Functional Division according to the LAA
(Various expressions in the legal statements)

Category	Related statements and expressions in the LAA
State Affairs	<ul style="list-style-type: none"> • Responsibilities of the central government according to separate laws • Examples: Affairs that are essential to the national sovereignty such as diplomacy, defense, judicial system, tax administration, etc. (Article 11 of the LAA)
Autonomous Affairs	<ul style="list-style-type: none"> • Local government addresses the autonomous affairs within its jurisdiction, (first part of Article 9-1 of the LAA) • Affairs of local government (first part of Article 103 and Article 166 of the LAA) • Affairs that belong to local government (first part of Article 151 of the LAA) • The autonomous affairs of local government (Article 171 of the LAA)
Delegated Affairs	<ul style="list-style-type: none"> • Affairs that belong to local government according to a legislation (latter part of Article 9-1 of the LAA) • State affairs and affairs of cities·Do that are delegated to and addressed by local government or the head thereof, (Article 41-3 of the LAA) • Affairs that are delegated to the head of local government according to a legislation (latter part of Article 103 of the LAA) • Delegated affairs (Article 141 of the LAA) • Affairs that are delegated to and addressed by local government or the head thereof (Article 167 of the LAA)
Joint Affairs	<ul style="list-style-type: none"> • Affairs that are jointly addressed by multiple local governments or affairs that are addressed upon a request of others (Article 147 of the LAA) • Affairs that are referred by local government as 'affairs that needed to be jointly addressed or be requested as such' and of which methods are stipulated to utilize the administrative consultative council (Article 152), the local government association (Article 159), and the national consultative body (Article 165)
Common Affairs	<ul style="list-style-type: none"> • Affairs that are commonly applied to local governments (Article 10-1 of the LAA): 'Affairs related with the local government management' (Article 9-2-1 of the LAA)
Commissioned Affairs	<ul style="list-style-type: none"> • Affairs whose part is commissioned to and addressed by other local governments or the heads thereof (latter part of Article 151 of the LAA)

3. FUNCTIONAL DIVISION

According to 'Principles of the Functional Division' of Article 9-1 of the Special Act on Decentralization and Reorganization of Local Administrative System (hereinafter, the Special Act), which was overhauled in May 2013, "The central government should distribute functions among the central and local governments or among local governments themselves in consideration of the welfare of local residents and effects of execution, thereby allowing local governments to handle administrative affairs in a comprehensive way with autonomy and to prevent overlapping of functions."

The central government should follow the principle of subsidiarity as stated in Article 9-2 of the Special Act states "Affairs that are closely related to local residents should be distributed to Si·Gun·autonomous Gu, while affairs that can not be addressed by lower level provinces (Si·Gun·Gu), and autonomous Gu should be distributed to special cities · metropolitan cities · special autonomous cities · special autonomous Do. Affairs that cannot be dealt by Si · Do should be distributed to the central government."

As of 2013, 845 affairs and 88 functions of 17 central government departments including the Ministry of Strategy and Finance were devolved on local government during the deliberation period between 2009 and 2012.

<Table 2> Number of Devolved Affairs from the Central to Local Governments for 2013

State	Total	MOSF	MOE	MOSPA	MCST	MAFRA	MLTIE	MW	ME	MOGE	MOLIT	MOF	FTC	NEMA	CHA	RDA	Forest Agency	SMBA	KIPO
Numbers	845	17	57	28	1	13	76	26	154	53	246	94	4	10	16	2	53	1	4

Source: 「The Status of the Functional Devolution」, Presidential Committee on Local Autonomy Development(2013).

4. Special Local Administrative Agencies

The establishment of special local administrative agencies, which is also referred as special local government office of administration, is stipulated in Article 3-1 of the Government Organization Act (hereinafter, GOA), but currently it is established according to the Presidential Decree. According to Article 3-1 of the GOA, “If the performance of duties so requires, each central administrative agency may have local administrative agencies under its jurisdiction as prescribed by Presidential Decree, unless otherwise prescribed by Acts.”

Special local administrative agencies referred to "local administrative agencies that belong to a specific central administrative agency and they are in charge of administrative affairs that are within the jurisdiction of the central administrative agency," and they are directly established in local areas by the central government in order to address affairs where the nation-wide standardization, expertise or specialty is required.

The state of special local administrative agencies, and its changes in terms of numbers over time are stated in Table 3.

〈Table 3〉 The State of Special Local Administrative Agencies

	Year	2009	2010	2011	2013
Total	Agencies	4,703	5,115	5,145	5,194
Tax administration	(National Tax Service) Local Tax Service · Tax office · Precinct · Station (Korea Customs Service) Customs, Customs watchhouse, etc.	182	183	183	188
Public Security Administration	(Ministry of Justice) Corrections Agency · Prison, Immigration Office, etc. (Public Prosecutors' Office) Supreme Prosecutors' Office · District Prosecutors' Office (National Police Agency) District Police Agency, Police station · Police Precinct Office, etc. (Coast Guard Office) Local Coast Guard Office, Maritime Police Station, Police Substation, etc. (Ministry of Land, Infrastructure and Transport) Railroad Police Office · Branch office, etc.	2,136	2,548	2,572	2,597
Labor and Job Administration	(Ministry of Labor) Regional Ministry of Labor · Local or Branch office, etc.	47	47	47	47
Field Work Administration	(Ministry of Knowledge Economy) Regional Communications Office, Post Office, Mail Center, etc.	1,987	1,995	1,995	2,008
Others	Fair Trade Commission local office, Regional Branch Office of Patriots & Veterans Affairs, Regional Public Procurement Service Regional Statistics Office · Branch office, Regional Military Manpower Office · Branch office, Regional Meteorological Office · Branch Office, Regional Forest Service · Management Office, National Quarantine Station, Regional Food & Drugs Administration · Imported Food Inspection Center, Regional Environmental Office · Branch office, Regional Construction and Management Office · Branch office, etc., Regional Aviation Administration · Branch office, Regional Maritime Affairs and Port Office · Branch office, etc.	351	342	348	354

Source: 「The Current State of Special-Purpose Local Government」(As of June 2013), MOPAS, 「The White Paper on Public Security」, MOPAS (2012).

5. REORGANIZATION OF LOCAL ADMINISTRATION SYSTEM

According to the Special Act local administration system refers to a series of systems regarding local autonomy and local administration structure, jurisdictions of local government, and functional division among special cities · metropolitan Si · Do and Si, Gun · Gu. Article 18 of the Special Act states that reorganization “should be promoted to enhance local residents' benefit, and competitiveness of the state and local areas.” Goals of reorganization stated in the Special Act are as follows; ① to optimize local autonomy and local administration system, ② to Adjust local jurisdiction in order to enhance local residents' benefit, ③ to distribute roles and functions in accordance with the size of local government and its capacity, and ④ to promote proximity autonomy of residential unit.

Accordingly, the central and local governments should gather opinions from heads of local government, consultation bodies and experts from various fields, and they should devise legal and institutional measures for decentralization and reorganization of local administration system.

Therefore, in accordance with 'Basic Directions of Reorganization of Local Administration System' in Article 18 of the Special Act, Jeju Island abolished four of its *Si · Gun* and it was reorganized to become a special autonomous *Do* in 2007.

In addition, the Special Committee on Reorganization of Local Administration System was established in the 17th and 18th National Assembly in which the issue of abolishment and amalgamation of cities and counties was discussed. As a result, the city of Masan and Jinhae were merged into the city of Changwon.

Likewise, the main purpose of amalgamation of Si · Gun is to improve local administration system which has established and operated inefficiently, thereby achieving the following goals: ① to enhance welfare of local residents by addressing their daily grievances, ② to establish effective and productive administration service system, and ③ to strengthen national and regional competitiveness to win global competition.

CHAPTER 3.

ADMINISTRATIVE STRUCTURE OF LOCAL GOVERNMENT

1. OVERVIEW

Article 117 of Chapter 8 of the Constitution of the Republic of Korea (hereinafter, the Constitution) clearly states the right of 'local governments' to carry out their affairs and Article 118 of the Constitution stipulates the foundation of 'a local council within local governments.' In accordance with the Constitution, the Local Autonomy Act (hereinafter, the LAA) declares that local council is the ultimate decision-making body which also represents local government. At the same time, the LAA incorporates the check-and-balance system in local government by leaving the control over overall affairs of the council in the hands of an executive body.

Therefore, the basic rule of local governance, according to the LAA, is to separate functions between the executive body and local council which have an equal status in terms of legality. Nonetheless, mayors generally wield more power than local council.

Another characteristics of the structure is that governments of regional level as well as basic level localities have the check-and-balance system between local council and the executive body.

The local government administrative structure was founded in 1948 based on rules and ordinances on local autonomy stated in Chapter 8 of the Constitution. With the military coup in 1961, local autonomy was put on hold. Functions and powers of executive and legislative bodies are strictly

separated because the check-and-balance system has been introduced since 1995 when heads of local governments began to be directly elected by local residents.

In fact, however, the power of heads of local governments, who lead the executive body, is superior to that of local council. In this regard, local autonomy is a 'chief executive-centered' system in which mayor generally has the upper hand over local council.

<Table 4> Changes in Administrative Structure of Local Government

	Local Council	Head of Local Governments	Composition Principle
1949. 7 (The LAA est.)	Local council composition (Direct election by residence)	Head of basic level localities: Indirect election Head of regional level governments: Appointment system	Integration Separation
1956. 2	Local council composition (Direct election by residence)	Head of basic level localities: Indirect election Head of regional level governments: Appointment system	Separation Separation
1958. 12	Local council composition (Direct election by residence)	Head of regional level government and basic level localities: Appointment system	Separation
1960. 11	Local council composition (Direct election by residence)	Head of regional level government and basic level localities: Direct election by residence	Separation
1988-1989	Principle : Local council composition Interim measure: Not composed	Principle : Direct election by residence Interim measure: Appointment system	-
1990. 12	Local council composition (Direct election by residence)	Principle : Direct election by residence Interim measure: Appointment system	Separation
1994. 3 (Public Official Election Act est.)	Local council composition (Direct election by residence)	Direct election by residence	Separation

2. FUNCTION AND POWERS OF LOCAL COUNCIL

Based on Article 118-1 of the Constitution, local council is a governing body of local government and it composes local government together with the head of local government.

Status and functions of local council including its organization, authority, and operation are specified in the LAA. Local council oversees other local government bodies, namely resident representative agency, legislative and executive body (including the head of local government), and it exercises authority (function) in accordance with its status.

As it is stated in Table 5, under the LAA, the check-and-balance system should be implemented in the local autonomy system where local council is the ultimate decision-making body which represents local government, while the head of local government controls overall affairs, thereby carrying out functions within their jurisdiction.

〈Table 5〉 Powers and Functions of Local Council under the LAA

Function	Legal Grounds of its Power and Function
Resident Representation	Local council represents local residents as its members are directly elected by local residents under 'Rules of election of local council members' as stated in Article 31.
Decision-making	Local council carries out its decision-making functions based on rules on 'issues subject to decision-making by local council' as stated in Article 39.
	Local council exercises limited voting rights on issues of which redeliberation are requested by head of local government according to, but not limited to, the rules on 'request of reconsideration and re-deliberation on the decisions of local councils' (article 107) and rules on 'request for redeliberation on issues which can not be executed due to budgetary concern' (article 108)
Legislation	In accordance with rules on 'ordinance' (article 22)
Oversight	Oversight body which conducts administrative affairs oversight and investigation on executive body of local government (article 41), Rules on 'administrative affairs oversight or investigation report' (article 42)

In detail, local council represents local residents, and it is a legislative body which makes decision on local government's major policies, issues that can put burden on residents, or local government management (Article 118-2, the Constitution, article 39, the LAA).

Local council is a legislative body that can enact local government ordinances (Article 39, 1-1, the LAA), and its members are directly elected by local residents in universal, equal, secret, and direct voting (Article 31, the LAA). Local council thereby represents local residents and addresses residents' petitions, and oversees executive body.

In other words, local council has not only voting rights in enactment & abolishment of ordinances, deliberation & confirmation of budget, and approval of budget settlement, but also has the right to oversee and the right to investigate administrative affairs, to request relevant documents, and to demand answer of head of local government and subagencies accordingly.

Within a local government, functions and powers of the two agencies, namely head of local government and local council, are separated. They have equal legal status.

3. LOCAL COUNCIL MANAGEMENT

Committee and plenary sessions are more essential part in local council management. Therefore, agendas are mainly deliberated by standing committee, and then are voted in plenary sessions after the issue is reported by the committee. The basic rules stipulate that committee should conduct detailed and professional deliberation on the posted agenda.

In order to enhance efficiency and expertise of local council management, local council can set up committees (plenary sessions, standing committee, of special committee) and chairman and vice-chairman of local council have two-year term.

With the revision of the LAA on April, 28th, 2006, every local council can set up standing and special committee regardless of the number of its councilors.

<Table 6> Local Councils that Set up Standing Committee (as of 2013)

(Units: numbers of local council, number of its councilors)

		# of council	# of councilors	# of councils based on the # of Standing Committees													
				Total	0	1	2	3	4	5	6	7	8	9	11		
Total	Total	244	3,731	244	63		11	126	21	10	6	5					2
	upper level	17	855	17					1	4	5	5					2
	lower level	227	2,876	227	63		11	126	20	6	1						

		# of council	# of councilors	# of Standing Committees based on the # of Councilors (Excluding incomplete Standing Committees)													
				Total	3	4	5	6	7	8	9	10	11	12	13	14	15
Total	Total	244	3,731	627	7	67	127	110	125	70	53	28	21	4	8	1	6
	upper level	17	855	111				21	14	15	18	14	12	2	8	1	6
	lower level	227	2,876	516	7	67	127	89	111	55	35	14	9	2			

Sources: Internal reports, Ministry of Security and Public Administration (Dec/31/2012)

Local council is a legislation body, which can enact ordinances of local governments (Article 1-1, the LAA) and is composed of councilors who are elected by local residents in universal, equal, secret and direct election (Article 31, the LAA).

Therefore, local council represents its constituents, addresses local residents' petitions, and inspects and oversees executive body. Every public function of local council and public activities that are carried out by local councilors as representatives of their constituents can be included in 'legislative activities.' The 'legislative activities' can be divided into activities of local council and councilors, which also can be categorized into formal, and informal legislative activities.

〈Table 7〉 Formal and Informal Legislative Activities of Local Council

	Legislative Activities of Local Council	Legislative Activities of Local Councilors
Formal Legislative Activities	<ul style="list-style-type: none"> - Enactment & revision of ordinances. - Oversight and inspection on administrative affairs - Deliberation of budget and budget settlement - Review of administrative affair process state (report hearing) - Policy inquiry and policy proposal on execution body - Settlement, agreement, approval - Addressing of petitions and complaints - Public hearing, town hall meeting, seminars, forums - Parliamentary briefing - International exchange activities - Policy promotion 	<ul style="list-style-type: none"> - Meeting attendance (plenary session, committee meetings, etc.) - Legislation proposal - Policy proposal - Consultation, mediation, problem posing - Inquiry, presentation, documentation, documentation request - Petition introduction - Duty fulfillment (chairman, head of committee, etc) - Public hearing, town hall meetings - Seminars, forums - Parliamentary briefing - Host a briefing session (local districts)
Informal Legislative Activities	<ul style="list-style-type: none"> - Field visit - Research activities 	<ul style="list-style-type: none"> - Field visit - Research activities - Local community activities - Bond-building activities with local residents - Voluntary work - Online bulletin board management

Sources: Studies on the case of HR control of Gyeonggi-do Council and Policy Research

4. ELECTION OF HEADS OF LOCAL GOVERNMENT AND THEIR POWER AND FUNCTIONS

Heads of local governments have functions and powers both as representative body of local residents and execution body, and have entire responsibilities over these functions and powers. Simultaneously, since heads of local governments are directly elected by local residents, they are ultimately held accountable.

Head of local government is elected by residents' equal, direct, and secret votes, and a candidate who gains relative majority of votes wins the election. When votes are tied, elder candidate is chosen as the head of government. When there is only one candidate, the candidate becomes the head of government on the election day without voting.

The LAA stipulates that local council is the ultimate decision-making body of local government, which represent its constituents and speaks for the interest of local residents. The LAA also stipulates that local government should have a head who acts as execution body by controlling and managing overall administrative affairs. Under the LAA, head of local government also has the rights to represent, to execute administrative affairs, and to appoint its staff.

In addition, the LAA embedded the check-and-balance system in local autonomy by endowing head of government with the right to appeal to the Supreme Court when the municipal ordinances voted by local council and requests for redeliberation on other issues and when the enacted ordinances after redeliberation violate laws (Article 101, the LAA).

However, the head of local government's power and functions have institutional, administrative, and political limitations. As for institutional

limitations, the head of local government should address administrative affairs within the scope of laws and ordinances and in accordance with methods and procedures ordained in the laws and ordinances.

In exercising the prior consideration action right, the decision become invalid if it failed to gain ratification of local council.

In addition, local council checks and balances the power and function of the head of government through ordinance enactment, vote on budget and budget settlement, deliberation on critical policies, administrative inspection, and its request for documentations.

In terms of administrative control, the head of local government is inspected by supervision agencies, listens to advices, recommendations of supervision agencies (the central government agency or upper-level government agency) and is audited by them. In case of the head of local government violates law or unduly addresses administrative affairs, they are subject to due course of action, including corrective orders, revocation or suspension of relevant action.

In terms of political control, the head of local government is check-and-balanced by political parties, local residents and elections. The head of local government is elected by local residents after being nominated by his/her political party. Nonetheless, as seen in the Table 8, the balance of power between the head of local government and local council is still tilted toward the former.

<Table 8> Imbalance of Power between Head of Local Government and Local Council

Rights and powers local council has over execution body	Rights and powers execution body has over local council
Deliberation and voting rights on ordinance enactment, budget and budget settlement, and on other issues	The right to convene informal sessions, the right to prior consideration action
The right to consent on the prior consideration action right, the right to summon the head of local government and relevant public officials	The right to propose a bill, the right to request for redeliberation, the right to appeal to the Supreme Court
The right to inspect administrative affairs, the right to inspect, the right to request documentation submission, the right to ask questions on other issues	The personnel right over council staff, etc.

Non-institutionalized authority:

The right of no-confidence of head of local government, the right to dissolve local council

Supplementary measures residents' right to self-governance

The residents' right to request enactment/abolishment of ordinances (Article 15-3, the LAA)

The residents' right to inspection request (Article 16, the LAA)

The resident referendum system (Article 14, the LAA)

The residents suit system (Article 17, the LAA): the system in which resident can claim compensation for damages directly to head of local government after bringing the case for inspection to the upper-level public office (Article 20 of the LAA and the Public Recall Act)

5. LOCAL PUBLIC OFFICIALS

Public officials refer to every agent who carries out public duties, including a private person who works in the civil office under a legal contract, patent, or entrust management agreements. Likewise, local public officials refer to local civil workers in a broad sense.

Based on article 117 of the Constitution, laws in regards to local public officials consist of laws (the Local Public Officials Act, the Education and Training of Local Public Officials Act, etc.), presidential decrees (the decree on appointment of local public officials, rules in regards to wages, etc.), departmental ordinances and regulations of local governments.

With the enactment of Local Public Official Act. (hereinafter, the Act) in January, 1, 1963, the local personnel administration system moved away from the previous presidential decree-centered ones and was equipped with its own unitary legal system, which outlined entrusted legislation issues regarding appointment of personnel and rules on wages of public officials, rules on benefits of local public official and lower statues on specifics of execution.

Still, laws and institutions in regards to local public officials did not have its own distinctive characteristics, since centralized administrative system prevented them from being differentiated from those on central government public officials.

As local autonomy gained momentum in July, 1995, the local personnel administration system had a number of changes in order to support the enhanced local autonomy. New laws regarding personnel system were enacted and unreasonable or insufficient regulations and rules were revised or supplemented.

The main focus of local personnel administration system has been how to enhance autonomy and expertise of local governments, thereby strengthening their competitiveness.

Local public officials consist of career service officials and special career service officials. In appointment of career service officials, performance and qualification of applicants are main criteria of employment, and their job security is guaranteed.

In the meantime, special career service officials refer to officials who are hired through the ways other than career service-track and are excluded from the application from the Act except for Article 31 (grounds for disqualification), Article 44 and 59 (wages and code of conduct), Article 74 and 79 (on efficiency).

In other words, special career service officials including officials with political position (head of local government, councilor, etc.), officials in special government service, contract officials and public officials who are engaged in simple labor, are excluded from the application of the Act, if a special clause dictates otherwise.

Councilors and heads of local governments who take office by elections are allowed to engage in political activities based on Article 8 of the Act on the code of conduct.

The local personnel administration system refers to various institutions in regards to status of local public officials, and encompasses the human resource system regarding employment, performance assessment, promotion in addition to transference, education and training system for talents development, and welfare and benefits system including wages and allowances.

To establish fair personnel management system, performance

assessment system is based on performance contract, which is regulated by rules on local public officials evaluation, the official appointment regulations and the personnel committee prescribed in the Article 7 and 8 of the Act. In addition, performance evaluation is governed by performance agreement contracts to assure fair evaluation.

In the meantime, the Act was amended in 2000 to provide legal grounds for local governments to introduce the Open Competitive Position System. Currently cities and provinces have adopted the system.

Under the Open Competitive Position System, local governments hire personnel in a position that requires high level of expertise to enhance competency of public officials and to devise effective policies. Both public officials and non-public officials can apply for the open recruitment post, and an applicant who meets qualifications is hired through selection tests.

Required qualifications that reflect responsibilities and features of the post are specified in the job posting. The system allows local governments to select and hire an applicant with best qualifications through open recruitment system.

CHAPTER 4.

LOCAL ELECTIONS AND COUNCILORS

1. LOCAL ELECTIONS

The 'Election Act on Local Government Heads' and the 'Election of Local Council Members Act' used to regulate local elections until the enactment of the 'Public Official Election and Election Malpractice Prevention Act' in March, 1994, when the local autonomy system with elected officials through popular vote was fully adopted. The 'Act on the Election of Public Officials, and the Prevention of Election Malpractice' which prescribes laws in regards to presidential elections, also integrated laws on the elections of councilors and elections of head of local governments. In 2006, the Party Nomination System regarding councilors of basic level localities was introduced.

The Party Nomination System was allowed in the Election Act on Local Government Heads and the Election Act on Local Councilor within the limited scope before 1990, when the system was broadened to cover heads of regional government and regional councilors.

Then in 1994, the Public Official Election Act and the Election Malpractice Prevention Act were revised and integrated into a single act.

In 2006, every local elections including the elections of councilors adopted the Party Nomination System.

Under the Public Official Election Act, the National Election Commission takes charge of voting and ballot counting management, regulates election offenses, while local governments take care of election affairs. For example, local governments take charge of the electoral registers and registration of

absentee ballots, open and submit electoral registers to public inspection, and receive and address the objections.

Article 47-1 of the Act on the Election of Public Officials, and the Prevention of Election Malpractice states that "for election purpose, political parties (excepts the elections of local(Si/Gun/autonomous Gu)councilors) defines their party members within the scope of election districts", thereby allowing political parties to nominate their candidate for public official elections.

The Party Nomination System for heads of local government have created a number of problems, which led to criticism that the system hinders political progress and undermines local autonomy.

In fact, the Party Nomination System was permitted as a means to reform the election system of local councils, with grounds that the nomination system would check random candidacy, discover competent candidates, thereby revitalize party politics on regional level, enable responsible administration system, and reflect the interest of locals in the central politics.

Despite the original purpose of the nomination system, critics argue that the adoption of the party nomination system in local elections have done more harm than good, as the system led to the dominance of political machines, which thrives in the current political climate, including the current state of local autonomy, underripe party politics, elections practices, attitudes of politicians in the central committee of parties, and public awareness on the issue.

In the meantime, the proportional representative system with a single member district is adopted in the elections of the regional councilors, as it is in the election of the members of the National Assembly.

The unit of proportional representative of regional councils is Si-Do. The full number of proportional representative is 10/100 of the full number

of local council members. And as with the elections of proportional representative of the National Assembly, the election adopts the Party-List Bound Proportional Representative System.

The proportional representative system with medium members district is adopted in the elections of local councilors, in which the full number of the members are within the range of 2 to 4 according to the municipal ordinance of the relevant region (Si·Do).

The unit of proportional representative of local councils is Si·Gun·autonomous Gu, and the full number of proportional representative is 10/100 of the full number of local council members, and as with the proportional representative of regional (Si·Do) councils, the election adopt the Party-List Bound Proportional Representative System.

2. COUNCILORS

In regards to local elections, the ‘Public Official Election Act’, which was overhauled in April, 1, 1995, stipulates that 2 is the full number of regional councilors of each basic level localities. (If one basic level local government consists of more than two of the National Assembly members election districts, it refers to the election district of the National Assembly members, while it refers to administrative district if the National Assembly members election districts and administrative district is not identical as a result of the alteration of administrative district.) while 14 is the full number of regional councilors for metropolitan cities and provinces whose calculated full number is less than 14, thereby adopting small-scale council system. Since then, the full number of councilors was reduced with the revision of the act in April, 30, 1998, as there were criticisms that the number of the

second local council members was excessive.

However, the reduction in the number of regional councilors was reversed to recover the previous level since the fifth local council in 2006, and the full number of local councilors is decided by the Local Councilors Election Districts Division Committee of each city and province in the election year, which makes decision in consideration of the number of local population and local representation, and follows the standards of the National Election Commission.

The full number of councilors are closely related to the status of councilors, their stipends, and public sentiment toward them. Local representation, efficiency and expertise have been the core criteria of prescribing the size of council, and, local government has have either small-scale or large-scale depending on which criteria is more emphasized. Overall, the full number of councilors has been on a gradual decline.

The total number of local and regional councilors;

- In 1991: 5,170 (866 of regional and 4,304 of local councilors)
- In 1995: 5,513 (972 of regional and 4,541 of local councilors)
- In 1998: 4,180 (690 of regional and 3,490 of local councilors)
- In 2002: 4,178 (682 of regional and 3,496 of local councilors)
- In 2006: 3,626 (738 of regional and 2,888 of local councilors)
- In 2010: 3,731 (773 of regional and 2,888 of local councilors in addition to 82 of education councilors)

From June, 2014, the total number of councilors is set to decrease 82 of education committee members will be incorporated in the regional councilors elected with four years term.

Authority of local councilors is mainly based on congressional activities carried out through local councils, which are predicated upon statutory voting rights of local councils stipulated in the LAA. Important matters of deliberation for local councils include enactment, enforcement, and abolishment of ordinances (Article 15 and 22 of the LAA), deliberation and settlement of budget (Articles 127 through 131 of the LAA), approval of settlement of accounts (Article 134 of the LAA and Article 53 of the Local Finance Act), and imposition and collection of user charge, fee-for-service revenue, allotment, local tax or admission fee that are not stipulated under the existing provisions (Articles 135, 136, 139 of the LAA).

In the meantime, local councilors shall perform their duties conscientiously and faithfully as representatives of local residents. Since the stipend system for local councilors was adopted, emphasis on the duties and morality of councilors has been growing (Article 36 of the LAA). Therefore, local councilors shall give first priority to public interest and perform their duties conscientiously in order to improve the interest and welfare of their residents and promote regional development (Obligation of Faithful Performance of Duties). Local councilors may swear “an oath of allegiance” to pledge their commitment. Also, councilors shall maintain their integrity and dignity befitting their social standing and shall not abuse their office to acquire, or intervene to help others acquire certain rights, self-interest or office.

Article 35-1 of the LAA prescribes that no local councilor may concurrently hold office (The ban has been expanded since 1st July, 2010 when the amended the LAA was enforced). According to Article 22 of the Political Parties Act, if a teacher at a public school who is qualified to join a political party gets elected as a local councilor, he/she shall temporarily

retire from the school during the term of office. Local councilors shall not make for-profit transactions with their local government and public agencies and they shall not become an assignee or custodian of related facilities or properties. A private enterprise run by a local councilor and a corporation whose president or co-president is a local councilor shall not make such transactions.

Concurrent holding of offices by local councilors is prohibited because having a personal stake in other organizations may compromise fair performance of duties especially when the local government concerns granting subsidies to public agencies and deliberates budget.

CHAPTER 5.

COOPERATION AMONG LOCAL GOVERNMENTS

There is a growing need for horizontal cooperation, cooperative administration, and conflict settlement among local governments as there is mismatch between administrative district and actual living area where people conduct economic activities. The demand for administrative integration in metropolitan areas continues to rise, and more people ask for equal services across multiple local governments. At a time when local governments increasingly find themselves at odds with other localities due to a complicated administrative environment, the issue of cooperation among local governments has risen to the surface.

1. COOPERATION AMONG LOCAL GOVERNMENTS

Article 147 of the Local Autonomy Act (hereinafter, the LAA) stipulates that if a local government receives a request to jointly manage affairs or to consult, mediate, approve or support the handling of affairs from another local government, it shall cooperate with other local governments within the limit of the LAA and subordinate statutes. Cooperation among local governments is expected to gradually improve as the development of science, technology, and the means of transportation and communications likely to raise the demand for administrative integration in metropolitan areas.

Article 165 of the LAA states that heads of local governments or chairpersons of local councils may establish a national consultative council

in order to promote mutual exchange and cooperation and to deliberate on shared issues. Accordingly, the consultative council of mayors and Do governors; the consultative council of chairpersons of city and provincial councils; the consultative council of heads of lower level provinces (Si·Gun·Gu); and the consultative council of chairpersons of lower level provinces (Si·Gun·Gu) councils have been organized and operated. Consultative councils are given the right to present their opinions on laws and subordinate statutes, which directly affect the local autonomy, to the central government through the Minister of Ministry of Public Administration and Security (hereinafter, MOPAS; Presently the Ministry of Security and Public Administration). Despite such rules, however, the right has not been fully exercised in reality.

2. JOINT HANDLING OF AFFAIRS

Article 151 of the LAA stipulates regulations on entrustment of affairs, stating that a local government or the head thereof may entrust part of affairs, within its competence, to any other local government or the head thereof to manage such affairs. Although types of affair that can be delegated are not clearly demonstrated under the LAA, it allows local governments to establish their own rules through consultation among competent local governments. The entrustment of affairs among local governments is elastic and flexible because it does not require a new organization entitled to handle the job; it costs less than creating a local government association; and its relevant regulations are relatively less complex. Sejong Metropolitan Autonomous City commissioned its neighboring local governments in Chungcheong Do to handle part of the

metropolitan administrative task is a recent example of the entrustment of affairs among local governments.

Article 152 of the LAA prescribes that local governments may form an administrative consultative council in order to jointly handle part of affairs related to two or more local governments. An administrative consultative council is a self-regulating cooperative body designed to respond to the demand for administrative integration in metropolitan areas, and cooperation through the administrative consultative council is less strict compared to a local government association. Given its nature, the administrative consultative council should be seen as a supporting body to help facilitate cooperation among local governments instead of an administrative organization that completely resolves all of the administrative issue. A recent example is “The Administrative Consultative Council of Central Korea” consisting of cities such as Wonju and Chungju. The Council submitted a petition to establish Chungju-Wonju Double Track Railway.

Article 159 of the LAA stipulates that if it is necessary for two or more local governments to jointly handle one or more affairs, they may establish a local government association after formulating relevant rules and holding local council discussions, with the approval of the Minister MOPAS in the case of (upper level provinces), Si·Do; with the approval of competent mayor·Do governor in the case of lower level provinces (Si·Gun·Gu). The local government association shall be a juristic person. A local government association is an administrative organization with a legal personality and autonomy. With an efficient decision-making and executive body, the association offers a good way for local governments to jointly carry on administrative affairs. Members of the association are not local residents, but local governments that are juristic persons pursuant to public law.

3. DISPUTE MEDIATION AMONG LOCAL GOVERNMENTS

In accordance with the LAA, various committees have been established in order to mediate disputes related to local governments. They include the Administrative Consultation and Mediation Committee established in 2000 to mediate disputes between the central government and basic level localities; the Central Dispute Mediation Committee founded in 2000 to mediate disputes between regional level governments and basic level localities; and the Local Dispute Mediation Committee set up in 1994 to mediate disputes among basic level localities.

The Administrative Consultation and Mediation Committee (hereinafter ACMC) was established to mediate controversies arising due to different views between the central government and local governments according to the LAA amended in August 1999. Article 168 of the LAA and Articles 104 through 110 of the Enforcement Decree of the LAA stipulate relevant regulations. When a controversy arises between the heads of a central administrative agency and a local government carrying on affairs, ACMC shall be established under the auspices of the Prime Minister to consult and mediate differences in opinions.

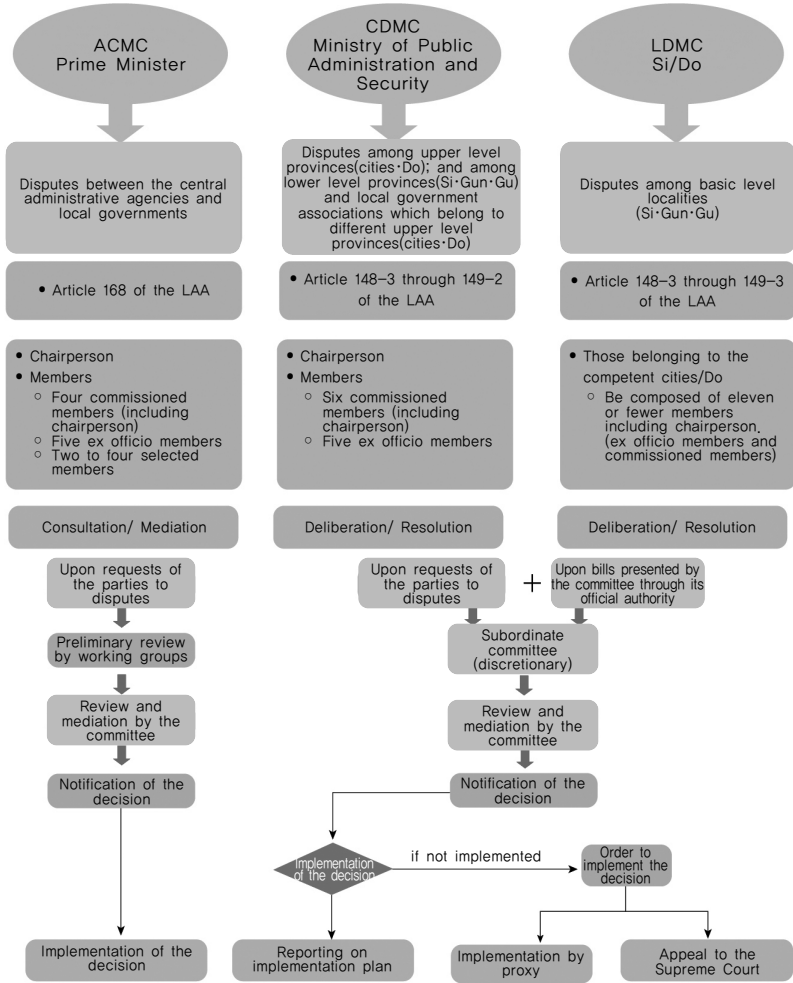
Relevant regulations of the Central Dispute Mediation Committee (hereinafter CDMC) are prescribed in Articles 148 through 150 of the LAA and Articles 85 through 94 of the Enforcement Decree of the LAA. If a controversy arises due to different views on carrying out affairs among regional governments, among basic level localities under different regional governments, and/or between regional level governments and basic level localities, the Minister of MOPAS or mayors·Do governors may mediate the dispute according to CDMC resolutions.

Relevant regulations of the Local Dispute Mediation Committee (hereinafter LDMC) are prescribed in Articles 148 through 150 of the LAA and Articles 85 through 94 of the Enforcement Decree of the LAA. If a controversy arises due to different views on carrying out affairs among basic level localities, mayors·Do governors may mediate the dispute according to LDMC decision.

Competent departments in charge of administering and managing dispute mediation committees differ depending on the type of committee and they are prescribed in the LAA and the Enforcement Decree of the LAA. ACMC adopts a dual-authority system where its administration is under the control of the Prime Minister, while its management is subject to MOPAS. CDMC is under the control of MOPOS for both administration and management. LDMC is under the control of competent cities·Do for both administration and management.

The structure and members of dispute mediation committees differ depending on the type of committee and they are stipulated in the LAA. ACMC consists of 13 or fewer members including the chairperson, while CDMC and LDMC consist of 11 or fewer members including the chairperson, respectively. Dispute mediation committees' right to force arbitration on official authority is demonstrated in the LAA and the Enforcement Decree of the LAA: the right is granted to CDMC and LDMC, but not to ACMC. According to the LAA and the Enforcement Decree of the LAA, CDMC and LDMC have the right to force arbitration on official authority, whereas ACMC does not.

〈Figure 4〉 Comparison Between APMC, CPMC, and LPMC



* Though law demands the implementation of the decision, regulations for forced implementation process are absent

* Within 15 days of the registration of implementation order, if the parties object to the decision

CHAPTER 6.

GUIDANCE AND SUPERVISION OF THE STATE OR UPPER-LEVEL INSTITUTIONS

With the advancement of local governance, the authority and autonomy of local governments have been enhanced. Nevertheless, there is a growing need for a nation-wide system to manage delegated affairs and to ensure a close connection between central and local government policies. In dealing with affairs that have been commissioned by the state or upper-level institutions, local governments are guided and supervised by the state or upper-level institutions. In order to raise efficiency, efficacy, and sense of responsibility in the administration of state affairs, local governments are jointly evaluated. Going beyond these schemes, conducting an audit is essential to guarantee appropriateness, fairness, and sense of responsibility in the operation of local governments.

1. GUIDANCE AND SUPERVISION

Article 167 of the Local Autonomy Act (hereinafter, the LAA) provides regulations on State affairs to local governments or the heads thereof. State affairs delegated to (upper level provinces) Si·Do are guided and supervised by ministers in charge, while State affairs delegated to lower level provinces (Si·Gun·Gu) are guided and supervised by mayor·Do governors first and then by ministers in charge. Affairs of (upper level provinces) Si·Do delegated to lower level provinces (Si·Gun·Gu) or heads thereof are guided

and supervised by city mayor·Do governor.

Article 166 of the LAA stipulates that heads of central administrative agencies or mayor·Do governor may give advice·recommendation·guidance about affairs of local governments and demand local governments to file documents if necessary. Also, when it is recognized that local government needs financial or technical support in handling its affairs, the support may be provided by the state or (upper level provinces) city·Do.

2. EVALUATION OF LOCAL GOVERNMENT

In 1999, demonstrative joint evaluation of local government was introduced. It was officially enforced with the enactment of the Framework Act on the Evaluation of Public Service, Etc. (Legislation No. 6347) in January 2001. Since the establishment of the Framework Act on Public Service Evaluation (Legislation No. 7928) in March 2006, the evaluation system has been carried out annually under the supervision of Ministry of Public Administration and Security (hereinafter MOPAS, Presently, Ministry of Security and Public Administration).

Article 21 of the Framework Act on Public Service Evaluation states that the Minister of MOPAS and heads of relevant central administrative agencies, if necessary, may jointly conduct evaluation on State affairs delegated to local governments or the heads thereof, national treasury subsidy projects and other major policies established under the Presidential Decree (including affairs designated by the state) in order to effectively carry out state of affairs.

〈Table 9〉 Changes in the Joint Evaluation System of Local Government

Year	'01 (Record of 2001)	'02 (Record of 2002)	'04 (Record of 2003)	'05 (Record of 2004)	'06 (Record of 2005)	'07 (Record of 2006)	'08 (Record of 2007)	'09 (Record of 2008)	'10 (Record of 2009)	'11 (Record of 2010)	'12 (Record of 2011)	'13 (Record of 2012)	'14 (Record of 2013)
No. of Policies (Departments)	62 (12)	69 (13)	30 (10)	53 (14)	42 (12)	46 (14)	46 (15)	74 (20)	38 (17)	40 (24)	38 (24)	40 (24)	36 (27)
Evaluation Method	Document & Field Evaluation	Document Evaluation	VPS Record Input + Document & Field Evaluation								VPS Record Evaluation + Audit Evaluation by Visiting Agency		
Results	Best, Second-Best (By field)		Class A, B, C (By policy)		Class A, B, C (By field)								
Incentive (100 Million KRW)	81	-	99,94	99,5	45	90	346	347	315	300	325	미공개	미공개
Reference	Legislation Enacted in Jan, 2001	-	-	-	Legislation Enacted in March 2006	-	Preliminary Integrated Evaluation	Full-scale Integrated Evaluation	-	-	-	-	-

Source: Recomposition of 「The Plan for Joint Evaluation of Local Government for 2013」, MOPAS(2013)

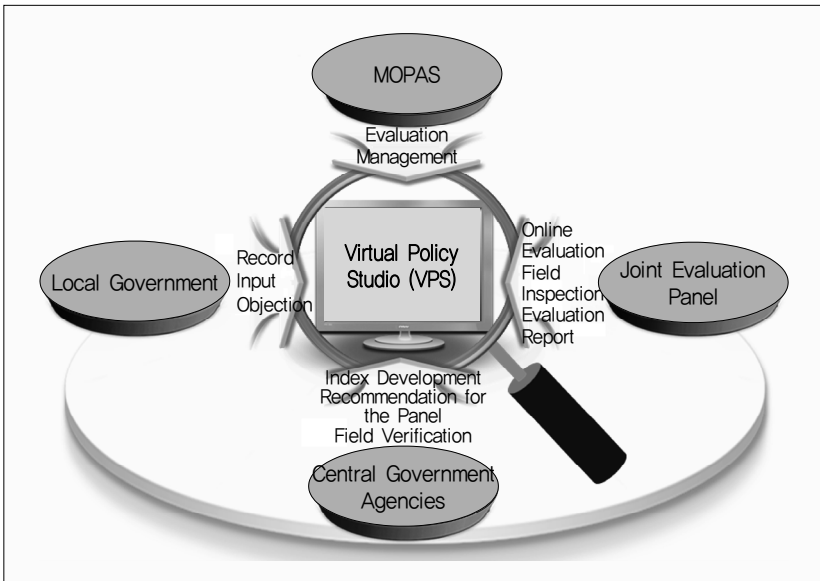
Across the nation, 17 regional governments, including Sejong City, and their lower level provinces (Si·Gun·Gu) results are subject to the joint evaluation. City-level governments and Do-level governments are separately evaluated.

Evaluation period begins on December 31st of the previous year. As for the year 2014, joint evaluation (VPS, On-Line), field audit, and client satisfaction assessment will be conducted by the joint evaluation panel consisted of 131 experts from the private sector.

The evaluation process is as follows: Every March, 17 regional governments enter their performances of the previous year to VPS. The

actual joint evaluation begins when regional governments file an objection against each other's record. Until mid-April, the joint evaluation panel carries out VPS online evaluation and turns in evaluation reports which are analyzed by index. Representatives from the central government agencies, MOPAS, and the joint evaluation panel pay visit to local governments and executes field inspection until mid-May. The central government agencies, the panel, and local governments work together performing cross-audits and narrowing down the gap between VPS online evaluation and field inspection until mid-July. The panel conducts additional quantitative assessment and final record verification until the end of July, while they draw up final reports until the end of September.

<Figure 5> Joint Evaluation System of Local Government



3. AUDIT OF LOCAL GOVERNMENT

Article 171 of the LAA states that the Minister of MOPOS or mayor·Do governor may receive reports on autonomous affairs of local governments or audit documents·account books·accounting of local governments, and may verify whether handling of affairs concerned violates the LAA before conducting the audit. The Act on Public Sector Audit enforced in March 2013 stipulates basic guidelines for local governments (excluding the Jeju Special Self-Governing Do) to form and operate a self-audit organization as well as requirements for an efficient audit system.

The Audit Committee of the Jeju Special Self-Governing Province is the only self-audit organization established in accordance with the Special Act on the Establishment of Jeju Special Self-Governing Province and the Development of Free International City (executed on 19 June 2013) and the only collegiate audit institution with independent status, although it is under the auspices of Do governor. The purpose of the creation of the Audit Committee of the Jeju Special Self-Governing Province is to ensure and enhance auditor independence; to resolve negative consequences of frequent and overlapping auditing performed by the central government; to remove the external audit conducted by central administrative agencies and the Board of Audit and Inspection except for parliamentary inspection, through the enhancement of auditor independence·professionalism·responsibility; and to establish a democratic and autonomous internal control system which is in line with the ideology of autonomy. As for guaranteeing independence of the Audit Committee of the Jeju Special Self-Governing Province, there have been discussions that there are limitations because the Audit Committee is under the auspices of Do governor and its organization·personnel matters·budget allocation are regulated by the LAA and the Local Public Officials Act.

CHAPTER 7. INSTITUTIONAL MEASURES FOR CITIZEN PARTICIPATION

Institutional measures for citizen participation cost less than non-institutional measures in encouraging citizens to engage in local government affairs. In addition, they draw participation from the underprivileged and enable the government to enhance citizen participation as residents are more positive about the use of institutional measures than non-institutional measures. Common institutional measures in Korea include citizen initiative, referendum, recall, audit, citizen suit, and residents' association as stipulated in the Local Autonomy Act (hereinafter, the LAA).

〈Table 10〉 Institutional Measures for Citizen Participation

	Citizen Initiative	Referendum	Recall	Audit	Citizen Suit	Residents' Association
Legal Basis	Article 15 of the LAA	Article 14 of the LAA & National Referendum Act	Article 20 of the LAA & Public Recall Act	Article 16 of the LAA	Article 17 of the LAA	Article 27 of the Special Act on Promotion of Decentralization
Purpose	To reflect citizens' opinions in the revision and abolition process of ordinance	To encourage citizen participation in the control, audit, and decision-making process of local administrative affairs	To tighten citizen control over elected local officials	To enhance citizen control over and participation in budget allocation and execution	To protect citizens' common interest	To promote grassroots self-governance and awareness of democratic participation

1. CITIZEN INITIATIVE

Article 15 of the LAA stipulates that citizens aged 19 and over can collect signatures to request heads of local governments to enact, revise or abolish ordinance, and that requirements for citizen initiative are determined by the Presidential Decrees. However, it is pointed out that citizens are not entitled to propose agendas, that it is up to local councils to accept the request, that ordinance limits the scope of citizen initiatives, and that the minimum number of signatures required to place an initiative is excessively high.

2. REFERENDUM

Article 14 of the LAA stipulates that heads of local governments can hold a referendum over an important local government affair that excessively burdens or materially affects citizens. Also, the National Referendum Act which went into effect in March 2013 prescribes issues subject to referendum, proposers, requirements for proposal, referendum procedures, and effects/penalties of referendum.

Since the introduction of referendum in July 2004, there have been eight referendums held between 2005 and October 2013. For instance, when Wanju Gun held a referendum over its administrative incorporation into Jeonju City in June 2013, 36,933 out of a total of 69,381 valid voters participated, recording a turnout of 53.2%. Tentative results showed that while 55.2% (20,343) of valid voters disagreed with the integration, 44.4% agreed and 0.4% cast invalid votes. In accordance with the National Referendum Act, the proposal failed because a majority of valid voters were

against it when a turnout was above 33.3%, overturning Jeonju City Council's decision to incorporate Wanju Country, which was made without a referendum.

3. RECALL

Article 20 of the LAA states that citizens have the right to recall heads of local governments or local councilors and that separate laws prescribe proposers, requirements for proposal, procedures, and effects of an election for recall. The Public Recall Act which went into effect in July 2012 stipulates proposers, requirements for proposal, procedures, and effects of an election for recall. By definition, recall is a mechanism under which residents are entitled to decide whether to remove elected officials before their term expires, tightening citizen control over elected officials to raise their sense of responsibility.

Mayors·Do governors, heads of Si, Gun, Gu, and local councilors are subject to an election for recall regardless of what the reason may be and residents express their opinions by casting votes against or for the removal of an official in question. However, the right to recall becomes limited when an elected official has been in service for less than a year, when the term expires within a year, or when a request for a second recall election has been made within a year since the first one. Once a recall referendum is proposed, the official's right to exercise authority is suspended from the date of proposal until the day election results are declared. When a recall is confirmed, the official is removed from the moment election results are announced and restricted from registering as a candidate for a by-election that follows.

As of October 2013, only six out of 64 recalls were put up for a vote. And so far, only two officials of Hanam City were actually removed from their office regarding their involvement in a crematorium construction project. In contrast, the recall of the mayor of Samcheok City failed. In June 2012, only about 26% or 15,698 out of 60,705 voters voted to remove the mayor on the ground that he pushed ahead with the construction of a nuclear power plant. The recall was turned down without a ballot count because voter participation rate was less than a third of the total. Among recall elections held up to today, five (excluding the Hanam City case) were rejected with a voter participation rate of less than 33.3%.

4. AUDIT

Article 16 of the LAA states that citizens aged 19 and over can collect signatures to request ministers, mayors, and Do governors in charge to conduct an audit if handling of an issue violates relevant laws or significantly undermines public interest. Beginning in January 2006 when citizen suit was introduced, residents must request for audit before they file a citizen suit.

The minimum number of signatures required to place a request for audit shall not exceed 500 for a (upper level province) Si·Do, 300 for a large city with a population of 500,000 or more, and 200 for lower level provinces (Si·Gun·Gu). Regarding issues handled by lower level provinces (Si·Gun·Gu), residents are authorized to make an audit request to mayors·Do governors in charge. Meanwhile citizens can ask ministers in charge to carry out an audit on an issue that was taken care of by a (upper level province) Si·Do. Last but not least, when it is unclear which ministry is in charge or when more

than two ministries are in charge, residents can request the Minister of Ministry of Public Administration and Security (hereinafter MOPAS; Presently, Ministry of Security and Public Administration) to audit the issue in question.

With the revision of the LAA on August 31, 1999, citizen initiative and audit were adopted. Nevertheless, these measures have not been fully implemented due to strict requirements and procedures of a request, distrust in audit results, limited scope of issues subject to citizen initiative and audit, and difficulties in collecting signatures.

5. CITIZEN SUIT

Article 17 of the LAA states that citizens who requested an audit against a head of a local government can file a lawsuit against the person in question on the ground that he or she committed an offence or neglected one's business related to an issue requested to be audited. Reintroduced in 2005, citizen suit is one of choices after an audit, especially regarding issues such as the use of public money, acquisition·management·disposal of assets, conclusion·fulfillment of a contract with the local government concerned, and imposition·collection of public money including local tax, fees, and commission.

Between 2006 and October 2013, there were 26 citizen suits. While 11 cases are in progress, residents lost in all of 15 suits that have been concluded so far. 54% (or 14 cases) of all citizen suits were mostly about 'redemption of increase in illegal political fund', and the execution of illegal operating expense and projects. Citizen suit has been under-used because procedures are complex and time-consuming, failing to attract citizens to

make use of the system. Furthermore, underutilization of citizen audit system has played a role as well.

6. RESIDENTS' ASSOCIATION

Article 27 of the Special Act on Decentralization and Reorganization of Local Administrative System (hereinafter, the Special Act), enacted and enforced in May 2013, states that a residents' association composed of residents in administrative districts such as Eup·Myeon·Dong can be established in order to promote grassroots self-governance and to raise awareness of democratic participation. According to Article 28 of the Special Act, some affairs of local governments can be delegated or commissioned to residents' associations, and the associations should promote local development and harmony, handle affairs commissioned or delegated by local governments or other affairs commissioned or delegated by laws·ordinances·rules.

Except for general administrative functions of Eup·Myeon·Dong, residents' association performs a broad range of functions from preparing for preliminary consultation to fulfilling duties commissioned to engaging in self-governance. First, residents' association prepares for preliminary consultation regarding regional development plans for Eup·Myeon·Dong, formation or creative villages using regional resources, and construction of unpleasant facilities. Second, residents' association carries out duties assigned such as managing community center, park and public facilities, and providing support for volunteer activities. Third, residents' association engages in self-governance through publishing community newsletters and newspapers, participating in volunteer patrol activities so that other residents

can return home safe particularly at night, and organizes school safety patrol programs.

Representatives from four major areas put their heads together and came up with three complete residents' association models out of four models proposed by the Neighborhood Self-Governance Subcommittee of the Committee for Reform of the Local Administrative System. They are residents' association models of 'Cooperation', 'Integration', and 'Community Organization'. Under the model of 'Cooperation', while Eup·Myeon·Dong office maintains the current administrative functions, residents' association would cooperate with Eup·Myeon·Dong office and deliberate on administrative functions of the office, and determine and execute functions of residents' association. The recently launched pilot programs in 31 Eup·Myeon·Dong introduced the model of 'Cooperation'. Under the model of 'Integration', resident's association is a combination of a legislative body composed of resident representatives and an executive body (former Eup·Myeon Office) made up of public servants. The residents' association model of 'Integration' performs all the work done by the current Eup·Myeon·Dong Office and duties of resident's association as stipulated in Article 21-2 of the Special Act on Reform of the Local Administrative System.

In May 2013, 31 Eup·Myeon·Dong across the nation were selected for the pilot project. They include Majang-dong (Seongdong-gu) and Yeokchon-dong (Eunpyeong-gu) in Seoul; Yeonsan 1(il)-dong (Yeonje-gu) and Anrak 2(i)-dong (Dongrae-gu) in Busan; Gosan 2(i)-dong (Soosung-gu) in Daegu City; Yeonsu 2(i)-dong (Yeonsu-gu) in Incheon City; Woonnam-dong (Gwangsan-gu), Im-dong (Buk-gu), and Bongsun 1(il)-dong (Nam-gu) in Gwangju City; Gayang 2(i)-dong (Dong-gu) in Daejeon;

Nongso 3(sam)-dong (Buk-gu) in Ulsan; Hanggung-dong and Songjuk-dong (Suwon City) in Gyeonggi Province; Sema-dong in Osan City, Songnae 1(il)-dong in Bucheon City; Yangchon-eup in Kimpo City; Ganseong-eup (Goseong-gun) and Inje-eup (Inje-gun) in Gangwon-Do; Jincheon-eup (Jincheon-gun) in Chungbuk; Wonsung 1(il)-dong (Cheonan City), Byulgok-myeon (Nonsan City), Tangjeong-myeon (Asan City), and Daeheung-myeon (Yesan-gun) in Chungnam; Gosan-myeon (Wanjoo-gun) and Oksan-myeon (Gunsan City) in Jeonbuk; Joongang-dong (Sooncheon City) and Shinheung-dong (Mokpo City) in Jeonnam; Gangnam-dong (Andong City) in Gyeongbuk; Yongji-dong (Changwon City), Buksang-myeon (Geochang-gun), and Bugang-myeon (Sejong City) in Gyeongnam.



SESSION 2

LOCAL FINANCE

CHAPTER 8. OVERVIEW OF LOCAL FINANCE

1. ACCOUNTING SYSTEM

Local finance refers to all types of activities regarding the management and disposal of assets and debt, and income and expense of local governments. Similar to that of the central government, the fiscal year of local governments runs from January 1st through December 31st every year. There are two types of accounting for local governments: general account and special account. While “general account” allows local governments to perform their general or basic functions, while “special account” is created and operated under relevant laws or ordinances when there is a need to manage accounting of certain fund, revenue, and expenditure, separately and distinctively from general revenue and expenditure, or to manage certain businesses or local public enterprises as stated in the Local Public Enterprises Act. Aside from general or special accounts, local governments are entitled to hold assets or establish funds to achieve administrative goals or promote common good.

2. KEY MEASURES TO FINANCE LOCAL GOVERNMENTS

1) Budget Allocation for Projects

Since 2008, local governments have planned, executed, and used budget for certain projects or policies, in addition to previous items. The aim is to ensure that allocations are in line with mid- to long-term policies, enhance fiscal outcome, and better manage financial results.

2) Double-Entry Bookkeeping and Accrual Basis Accounting

Since 2007, local governments have switched from single-entry bookkeeping, cash basis accounting to double-entry bookkeeping, accrual basis accounting. The latter is an accounting method that measures financial position (asset·debt·net asset) and operating results (income·expenditure) by recognizing economic events at the time in which transaction occurs. Also, it matches revenue with expenditure under the principle of equilibrium.

3) Gender-Sensitive Budget Initiative

Since 2013, local governments have introduced and implemented a gender-sensitive budget initiative which uses gender to analyze budget and its impact on men and women, and plans budget in consideration of the analysis results. The goal is to support gender equality in budget allocation.

4) Citizen Participation in Budget Process

Since 2011, local governments have been required to gather opinions from diverse residents and reflect them in budget plans. Compared to the past when the administration had a full control over budget plan, the right to plan

budget is now shared by citizens.

5) Fiscal Transfers from the Central Government to the Local Government

The central government provides local governments with the revenue from Local Shared Tax and National Treasury Subsidy. The central government aims to reduce fiscal gap among local governments by assigning a portion of tax revenue (19.24% of internal tax) to local governments for their administrative operation. Shared tax includes general shared tax, special shared tax, and decentralized shared tax. According to the Act on Subsidy Budget and its Management, the central government grants the National Treasury Subsidy to local governments as part of its national budget (general or special accounts). The use and terms of the National Treasury Subsidy are specially designated. To support specialized regional development and enhance competitiveness of the metropolitan economy, there are subsidies for ‘Special Account for the Metropolitan and Local Development.’

6) Fiscal Transfers from Regional Governments to Basic Level Localities

There are three types of fiscal transfers from regional governments to basic level localities: subsidy for Si·Do (upper level provinces), metropolitan revenue sharing, and fiscal compensatory grant. First, subsidy for Si·Do (upper level provinces) is granted to lower level provinces (Si·Gun·Gu) within budget when it is recognized that subsidy is necessary to implement city/provincial policies based on the Local Finance Act or when it is recognized that lower level provinces (Si·Gun·Gu) need subsidy on financial

grounds. Second, metropolitan revenue sharing is a mechanism based on the Local Finance Act under which a metropolitan city or a metropolitan city with special status assigns a portion of its city tax revenue (ordinary tax) and adjusts intergovernmental transfers with its autonomous Gun under its jurisdiction. There are general and special grants. Third, fiscal compensatory grant is a mechanism based on the Local Finance Act under which 27% of the total tax revenue of a metropolitan Si·Do (upper level provinces) (47% for Si with a population of 500,000 or more, and for Si that have Gu instead of autonomous Gu) and local consumption tax revenue (excluding regional resource & facilities tax on nuclear development·certain properties and local education tax) that metropolitan Si·Do (upper level provinces) (excluding metropolitan city with special status) collected from Si·Gun is distributed to the Si·Gun under its jurisdiction based on population, collection performance, and financial condition of Si·Gun.

7) The Aggregate Amount of Municipal Bonds

Under this scheme, municipal bonds are issued after council vote within the amount determined in consideration of the financial condition and total debt of local government. For an issue that exceeds the limit, bonds are issued after council vote within the amount determined by the Minister of Ministry of Security and Public Administration (hereinafter, MOSPA). The scheme covers the issuance of municipal bonds, debt obligation, obligation to perform guaranteed debt, and BTL (Build-Transfer- Lease) payment.

8) Mid-Term Plan for Local Finance

Local governments make multi-year budget projections in consideration of their mid- and long-term development plans and demand. The Mid-term

Plan for Local Finance is a five-year plan designed to manage finance through efficient allocation of financial resources. It suggests standards for annual budget planning based on mid- and long-term plans, enables local governments to pursue investment efficiency and fiscal soundness by allocating operating expenses in the order of importance, and ensures that fiscal policies of central and local governments remain closely connected.

9) Loan and Investment Assessment

The scheme has been introduced to enable efficient use of limited local budget, to carry out planned fiscal operations in line with the mid-term plan for local finance, and prevent investing in the same project. Also, it verifies and evaluates the validity and efficiency of major one-time and investment projects. Investment evaluation results are categorized into four: qualified, conditional, reexamination, and unqualified.

10) Local Finance Analysis

The scheme aims to enhance fiscal soundness and efficiency of local finance by performing a comprehensive analysis and evaluation based on data on fiscal status and performance. Since 1998, evaluation and analysis have been carried out annually pursuant to the local Autonomy Act (hereinafter, the LAA). Based on analysis results, local governments are offered support and alternative methods to help them restore their fiscal soundness and efficiency and prevent a fiscal crisis.

11) Early Warning System for Local Finance

Since 2012, the government (Ministry of Public Administration and

Security(MOPAS); Presently MOSPA) has introduced ‘Early Warning System for Local Finance’ to predict a fiscal crisis of local governments and take proactive measures when necessary. The system monitors fiscal balance, debt management, tax revenue and budget deficit, fund status, and other key fiscal indices that indicate fiscal soundness of state-owned companies. Based on the analysis, the system predicts the possibility of a fiscal crisis and sends early-warning signals. There are three levels of warning, ‘normal,’ ‘caution,’ and ‘danger.’

3. STATUS OF LOCAL FINANCE

1) COMPARISON OF NATIONAL AND LOCAL FINANCE

Local finance, along with national finance which refers to central government's financial activities, makes up public finance. Comparison of central government budget, local budget and local education budget including local ministries of education shows that in 2013 the central government had 263.6038 trillion KRW while local budget was 156.8887 trillion KRW and local education budget was 51.4496 trillion KRW. They each make up 55.9%, 33.2% and 10.9%. The ratio of central government to local government and to local education budget compared to GDP, is 19.9%, 11.8%, and 3.9%.

Fiscal transfer from the central government to local governments (Local Shared Tax, National Treasury Subsidy), from the central government to local ministries of education (Financial Grant for Local Education, Local Education Subsidy) and fiscal transfer and subsidies from local governments to local ministries of education are reflected in the following comparison of

how much budget they each spent. As of 2013, the central government spent 152.5707 trillion KRW, local governments 150.9667 trillion KRW, while local education budget stood at 54.9625 trillion KRW, each respectively accounting for 42.6%, 42.1% and 15.3%. Compared to GDP, the ratio of the central government to local governments and to local education is 11.5%, 11.4%, and 4.2%.

〈Table 11〉 Comparison of Central Government, Local Government and Local Education Finance (based on fiscal spending)

(Unit: 100 million KRW, %)

	2009	2010	2011	2012	2013
GDP (trillion KRW)	1,065	1,173	1,235	1,272	1,323
Central government	1,327,124	1,362,357	1,373,856	1,460,915	1,525,707
Local government	1,339,061	1,335,584	1,364,800	1,440,069	1,509,667
Local education	427,326	421,205	473,857	509,792	549,625

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013), KOSIS.

2) VULNERABILITIES OF OWN-SOURCE LOCAL REVENUES

Since the local governments in Korea are highly dependent on central government's finance, their own-source local revenue structures are vulnerable. As of 2013, the size of local governments budget amounts to 156.8887 trillion KRW and the ratio of dependent revenues, composed of Local Shared Tax and National Treasury Subsidy, accounts for 41.8% showing high dependency on the central government.

〈Table 12〉 Ratio of Central Government to Local Government Fiscal Composition (2013)

(Unit: billion KRW)

Size of local government budget 156,887 trillion KRW				
Own-source revenues(55.6%)		Dependent revenues(41.8%)		Local borrowings (2.6%)
Local tax	Non-tax revenue	Local Shared Tax	National Treasury Subsidy	
537,470	334,124	314,600	341,732	40,960

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

The ratio of national tax to local tax in 2013 was 80.1% to 19.9% and although there are differences by year, ratio of national tax to local tax is generally 80 to 20.

〈Table 13〉 Ratio of National Tax to Local Tax

(Unit: %)

	2009	2010	2011	2012	2013
National tax	78.8	78.3	79.0	79.3	80.1
Local tax	21.2	21.7	21.0	20.7	19.9

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

The ratio of own-source revenues to dependent revenues as of 2013 is 55.6% and 41.8% respectively. Annually, dependent revenues are growing while own-source revenues are slightly decreasing and revenues from local borrowings tend to maintain certain level.

3) FISCAL GAP AMONG LOCAL GOVERNMENTS

According to financial independence rate, which shows the ratio of own-source revenues (local tax + non-tax revenue) to revenue budget, national average for 2013 was 51.1%. However, it shows a huge gap among local governments. The highest financial independence rate of regional local governments is 87.7% but the lowest is 16.3%, and while highest independence rate of basic level localities is 75.9% the lowest is 7.3%.

〈Table 14〉 Comparison of Financial Independence Rate Gap among Local Governments (2013)

(unit : %)

	Regional level government					Basic level localities		
	City with special status	Metropolitan cities	Special autonomous city	Do	Special autonomous Do	Si	Gun	Autonomous Gu
Average	87.7 (Seoul)	53.0	38.8 (Sejong)	34.3	30.0 (Jeju)	36.8	16.1	33.9
Highest	87.7 (Seoul)	64.6 (Incheon)	38.8 (Sejong)	60.1 (Gyeonggi)	30.0 (Jeju)	65.2 (Seongnam)	45.7 (Ulsu)	75.9 (Seoul Gangnam)
Lowest		40.1 (Gwangju)		16.3 (Jeonnam)		8.6 (Namwon)	7.3 (Gangjin)	13.6 (Busan Seo District)

Source: 『Budget Summary of Korean Local Governments』, MOPAS(2013)

CHAPTER 9. LOCAL EXPENDITURE

1. BUDGET SIZE BY LOCAL GOVERNMENT

Out of total 156.8887 trillion KRW in local budget by fiscal year, general account occupies 120.5509 trillion KRW and special account 36.3377 trillion KRW and their ratio is 76.8% to 23.2%. By local government system, the budget of regional level governments (Si·Do) is 58.3612 trillion KRW and basic level localities (Si·Gun·autonomous Gu) 98.5275 trillion KRW. The regional level governments and basic level localities each occupy 37.2% and 62.8%. The budget size of regional level governments (37.2%) is made up of metropolitan cities with special status which have 34.2812 trillion KRW (21.9%), and Do that have 24.801 trillion KRW (15.3%). On the other hand, basic level localities (62.8%) include 51.7675 trillion KRW from Si (33.0%), 25.8635 trillion KRW from Gun (16.5%) and 20.8964 trillion KRW from autonomous Gu (13.3%).

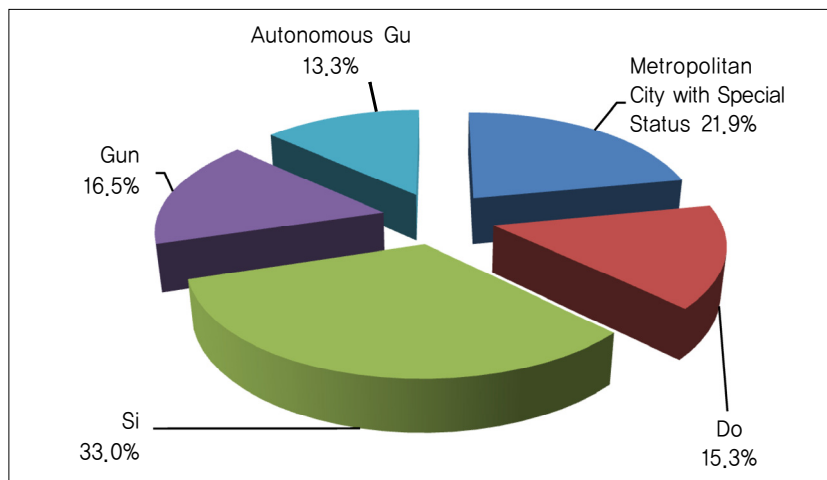
〈Table 15〉 Size of Local Budget by Fiscal Year & Local Government (2013)

(Unit: 100 million KRW, %)

	Budget	Ratio	General accounts	Ratio	Special accounts	Ratio
Total	1,568,887	100.0	1,205,509	76.8	363,377	23.2
Subtotal	583,612	37.2	359,414	22.9	224,199	14.3
Metropolitan cities with special status	342,812	21.9	192,430	12.3	150,381	9.6
<i>Do</i>	240,801	15.3	166,983	10.6	73,817	4.7
Subtotal	985,275	62.8	846,096	53.9	139,179	8.8
<i>Si</i>	517,675	33.0	413,562	26.4	104,114	6.6
<i>Gun</i>	258,635	16.5	232,807	14.8	25,828	1.6
Autonomous <i>Gu</i>	208,964	13.3	199,726	12.7	9,237	0.6

* Metropolitan cities with special status includes Sejong city. *Do* includes Jeju city.
Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 6〉 Budget Size by Local Government (2013)



2. BUDGET SIZE BY EXPENDITURE STRUCTURE

As of 2013, national policy projects take up most of the local government budget. In other words, national policy projects occupy the largest portion of the local government budget or 79.7% or 125.557 trillion KRW, followed by administrative operating expenses of 22.3905 trillion KRW (14.3%) and financial activities of 9.4425 trillion KRW (6.0%). National policy projects refer to financial expenses used for residents, and out of total 125.557 trillion KRW, national treasury subsidy projects take up 65.223 trillion KRW (41.4%) with government's own projects contributing 60.334 trillion KRW (38.3%) indicating that national treasury subsidy projects take the larger portion. Administrative operating expenses refer to personnel management expenses and general expenses spent to operate organizations and it slightly increased from 14.1% in 2011 and 2012 to 14.3% in 2013. Financial activities refer to internal transaction and debt repayment and in 2011 it account for 6.2% of total budget but in 2012 and 2013 it took up 6.0%.

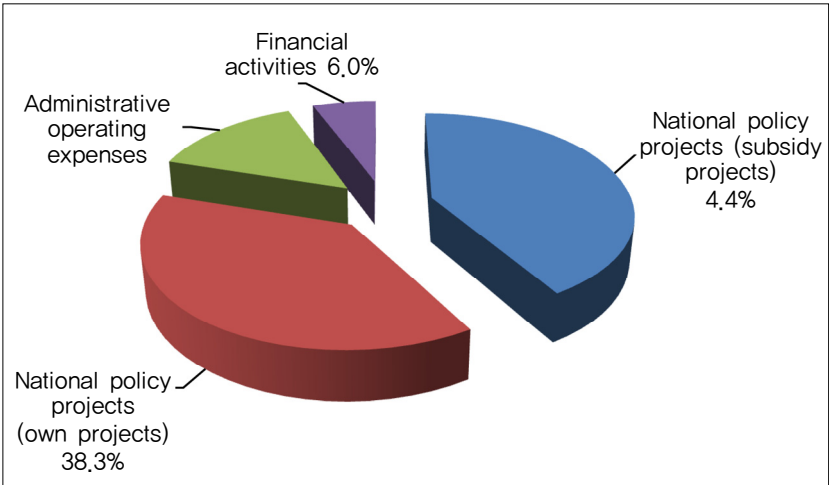
〈Table 16〉 Size and Ratio of Budget by Expenditure Structure

(unit : billion won, %)

		2011	ratio	2012	ratio	2013	ratio
Total		1,410,393	100.0	1,510,950	100.0	1,568,887	100.0
National policy projects	Subtotal	1,124,704	79.7	1,207,256	79.9	1,250,557	79.7
	Subsidy projects	555,003	39.4	600,789	39.8	650,223	41.4
	Own projects	569,702	40.4	606,467	40.1	600,334	38.3
Administrative operating expenses		198,480	14.1	212,317	14.1	223,905	14.3
Financial activities		87,209	6.2	91,377	6.0	94,425	6.0

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 7〉 Local Expenditure by Project Structure (2013)



3. BUDGET SIZE BY FUNCTION

Classification of local government's expenditure was comprised of five chapters and sixteen articles, but as budget allocation for items was transformed into budget allocation for projects, it changed to 13 categories and 51 sectors following: Classification of the Functions of Government (hereinafter; COFOG) by UN. This was adjusted to merge the classification of functions of local governments with that of the central government. As seen in <Table 19>, new classification of local budget by function is useful for understanding local government's activities and characteristics since it systematically categorizes local government's function into general administration, public safety, education, culture and tourism, environment protection, social welfare, health and agriculture, sea and fishery ect.

Out of total 156.8887 trillion KRW of local expenditure budget in 2013, welfare takes up the largest portion which is 35 trillion KRW or 22.3% followed by environmental protection (10.1%), logistics and transportation (9.9%), general public administration (8.3%), land and local development (7.8%) etc.

Trend of expenditure by function shows that by fiscal year, there are different budget priorities between general accounts and special accounts. In general accounts, welfare takes up 23.1%, while agriculture, sea and fishery makes up 8.7% followed by education, logistics and transportation accounting for 8.0% respectively. It shows that there is greater expenditure in social welfare, agriculture assistance, education and transportation. On the other hand, in special accounts, environmental protection makes up the largest portion of 27.1% followed by 19.7% in welfare, 16.1% in logistics and transportation and 13.2% in land and local development showing most budget expenditure in environmental protection, social welfare, transportation and local development.

〈Table 17〉 Structure and Size of Local Government Expenditure (2013)

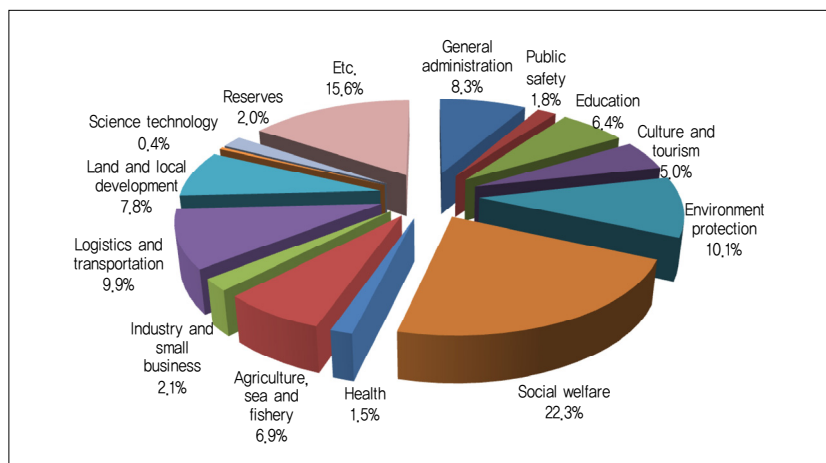
(Unit: 100 million KRW, %)

Chapter	Total	Ratio	General accounts	Ratio	Special accounts	Ratio
Total	1,568,887	100.0	1,205,509	100.0	363,377	100.0
General administration	129,895	8.3	92,906	7.7	36,989	10.2
Public safety	28,862	1.8	27,905	2.3	958	0.3
Education	100,180	6.4	96,859	8.0	3,321	0.9
Culture and tourism	78,408	5.0	71,307	5.9	7,100	2.0
Environment protection	157,925	10.1	59,393	4.9	98,532	27.1

Chapter	Total	Ratio	General accounts	Ratio	Special accounts	Ratio
Social welfare	349,921	22.3	278,430	23.1	71,491	19.7
Health	23,323	1.5	23,304	1.9	18	0.005
Agriculture, sea and fishery	108,898	6.9	105,322	8.7	3,576	1.0
Industry and small business	32,213	2.1	26,494	2.2	5,719	1.6
Logistics and transportation	154,683	9.9	96,281	8.0	58,402	16.1
Land and local development	122,118	7.8	74,078	6.1	48,041	13.2
Science technology	6,254	0.4	2,473	0.2	3,781	1.0
Reserves	31,038	2.0	24,956	2.1	6,082	1.7
Etc.	245,168	15.6	225,800	18.7	19,368	5.3

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 8〉 Local Expenditure by Function (2013)



CHAPTER 10. LOCAL REVENUE

1. OVERVIEW OF TAX REVENUE

As of 2013, the total size of local revenues amounts to 156.8887 trillion KRW, with revenues from general account making up 28.6173 trillion KRW (81.8%), and revenues from special account contributing 28.6173 trillion KRW (18.2%) which shows that revenues from general account take up the biggest portion.

By source of revenues, local taxes, non-tax revenues, the Local Shared Taxes, subsidies and local borrowings constitute revenues of local governments. Among total tax revenues, local tax accounts for 34.3% or 53.7470 trillion KRW making up the biggest portion, followed by subsidies (21.8%), non-tax revenues (21.3%), the Local Shared Taxes (20.1%) and local borrowings (2.6%). By fiscal account, in case of general account, local tax has the biggest ratio of 41.9% while in special account, non-tax revenue accounts for 66.9%.

〈Table 18〉 Structure of Local Revenue by Source of Budget (2013)

(Unit: 100 million KRW, %)

	Total	Ratio	General accounts	Ratio	Special accounts	Ratio
Total	1,568,887	100.0	1,282,714	100.0	286,173	100.0
Local tax	537,470	34.3	537,470	41.9	—	—
Non-tax revenue	334,124	21.3	142,765	11.1	191,359	66.9
Local Shared Tax	314,600	20.1	314,487	24.5	113	0.04
Subsidy	341,732	21.8	281,072	21.9	60,661	21.2
Local borrowings	40,960	2.6	6,919	0.5	34,041	11.9

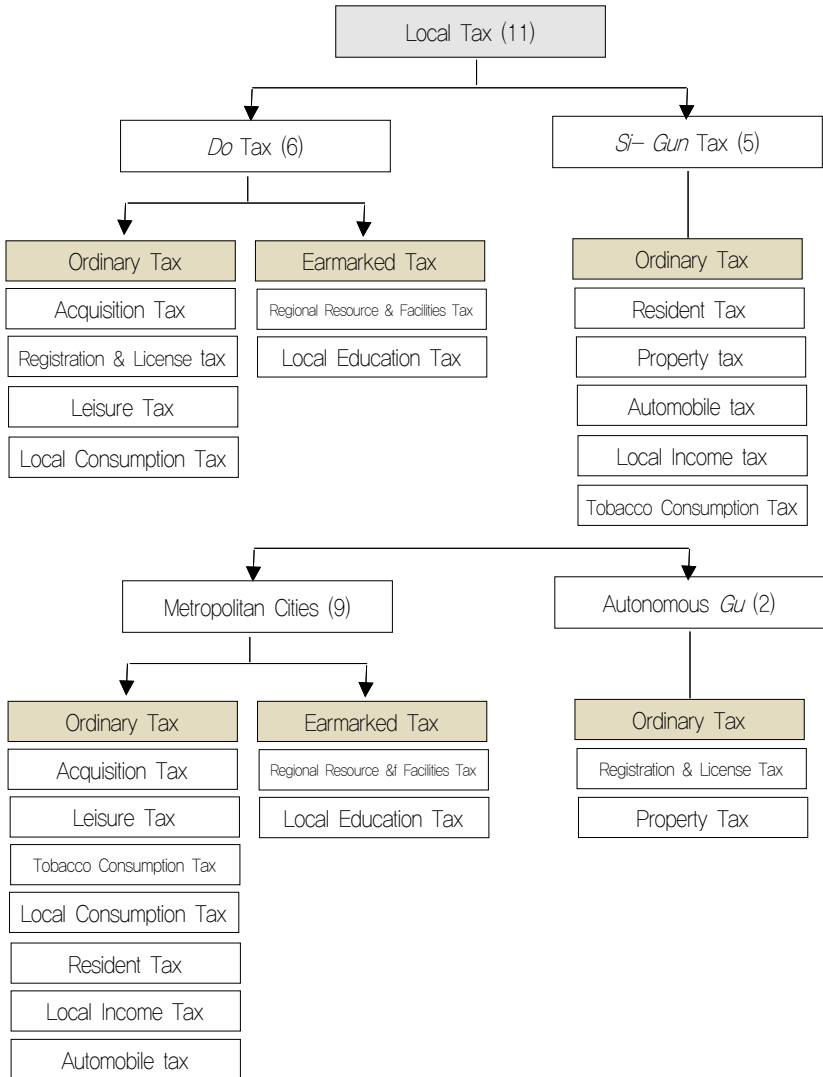
Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

2. LOCAL TAX

1) STRUCTURE OF LOCAL TAX

The number of the local tax items is 11 with 9 ordinary taxes and 2 earmarked taxes and can be divided into Do taxes (6), Si-Gun taxes (5), metropolitan city taxes (9) and autonomous Gu taxes (2). Ordinary tax is comprised of nine items including the Acquisition Tax, the Registration & License Tax, the Resident Tax, the Property Tax, the Automobile Tax, the Leisure Tax, the Tobacco Consumption Tax, the Local Consumption Tax and the Local Income Tax. Earmarked tax has two items such as the Regional Resource & Facilities Tax and the Local Education Tax. The summary of local tax structures is suggested in Figure 10.

〈Figure 9〉 Structure of Local Tax



Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

2) LOCAL TAX BREAKDOWN

In 2013, out of total 53.7470 trillion KRW in local tax, ordinary tax recorded 47.112 trillion won (87.5%) and earmarked tax recorded 6.36 trillion won (11.2%) with last year's revenue amounting to 732.2 billion won (1.3%). By local tax items, the Acquisition Tax stands at 13.8202 trillion KRW which makes up the largest portion of 25.7% followed by 18.8% of the Local Income Tax, 14.8 % of the Property Tax, 12.2 % of the Automobile Tax, 9.5% of the Local Education Tax and 5.9% of the Local Consumption Tax. In case of regional level governments (Si·Do), the Acquisition Tax (37.9%), the Local Consumption Tax (16.4%) and the Local Education Tax (14.05%) take up the largest portion, while in basic level localities (Si·Gun· autonomous Gu), the Property Tax (39.9%), the Local Consumption Tax (23.9%) and the Automobile Tax (21.3%) are the biggest source of tax revenue.

〈Table 19〉 Local Tax Breakdown (2013)

(Unit: 100 million KRW , %)

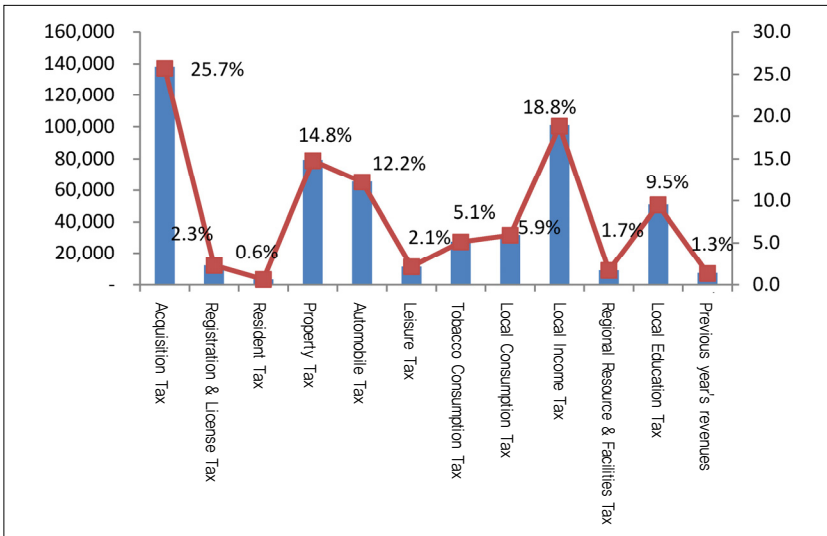
		Total	Ratio	Regional level governments	Ratio	Basic level localities	Ratio
Total		537,470	100.0	364,444	100.0	173,026	100.0
Sub-total		470,112	87.5	300,084	82.3	170,028	98.3
Ordinary tax	Acquisition Tax	138,202	25.7	138,202	37.9	—	—
	Registration & License Tax	12,169	2.3	6,792	1.9	5,377	3.1
	Resident Tax	3,250	0.6	1,102	0.3	2,148	1.2
	Property Tax	79,373	14.8	10,263	2.8	69,110	39.9
	Automobile Tax	65,615	12.2	28,781	7.9	36,834	21.3
	Leisure Tax	11,361	2.1	11,361	3.1	—	—
	Tobacco Consumption Tax	27,393	5.1	12,256	3.4	15,137	8.7

LOCAL GOVERNMENT IN KOREA

		Total	Ratio	Regional level governments	Ratio	Basic level localities	Ratio
	Local Consumption Tax	31,689	5.9	31,689	8.7	-	-
	Local Income Tax	101,060	18.8	59,638	16.4	41,422	23.9
ear marked tax	Subtotal	60,036	11.2	59,869	16.4	167	0.1
	Regional Resource & Facilities Tax	9,042	1.7	8,875	2.4	167	0.1
	Local Education Tax	50,994	9.5	50,994	14.0	-	-
Previous year's revenues		7,322	1.3	4,491	1.2	2,831	1.6

Source: 「Budget Summary of Korean Local Governments」, MOPAS (2013)

〈Figure 10〉 Size and Ratio of Local Tax by Items (2013)



3) LOCAL TAX BY ITEMS

① Acquisition Tax

The Acquisition Tax is levied on a person acquiring real estate, motor vehicles, heavy equipment, aircraft, vessel, trees, mining right, fishery right and memberships for golf clubs, horseback riding clubs, condominiums and health clubs either through purchase or inheritance. 2% ~ 7% tax rate can be imposed depending on the type of acquired goods and services and heads of local governments can adjust acquisition tax rate within the range of 50% under ordinances.

② Registration & License Tax

The Registration & License Tax is levied on a person who registers particular items or receives license. In terms of registration, the tax rate is based on standard tax rate. For license, the rate can differ based on the region where people received license and need to pay the tax for every type of license. Head of local governments can adjust the tax rate within 50% range under ordinances.

③ Leisure Tax

The Leisure Tax is paid by those who run track cycling, rowing or horse racing business and the tax should be paid at both the business site where taxable object is located and local governments with outside ticket agent. Tax base is total amount of selling betting tickets for races and tax rate is 10% of the tax base.

④ Tobacco Consumption Tax

The Tobacco Consumption tax is a local tax levied on cigarettes. Tax is paid when manufacturers transfer tobaccos from production site and when

sellers take out tobaccos from bonded area. Tax base is decided on the number of units or weight and volume, and fixed tax rate is applied which can differ according to the type of tobacco. Tax rate can be adjusted within 30% range by presidential decree.

⑤ Local Consumption Tax

The Local Consumption Tax is imposed by turning 11% of value added tax, a national tax, into local tax. Local consumption tax is levied by regional level governments that have jurisdiction over address or location of a person who consumes goods and services.

⑥ Resident Tax

The Resident Tax is divided into the per capita tax and the pro rata property tax. The taxpayers of the per capita tax are individuals and corporate bodies whose domiciles are with local government and an individual who owns business area of certain size - decided by presidential decree - in local government. Tax rate for individual who falls into the per capita tax is decided by Si-Gun ordinances within the range of 10,000 KRW or standard tax rate can be applied. It can also be adjusted within the range of 50% according to ordinances. For corporate body, standard tax rate is divided into five levels according to the size of workshop and minimum 50,000 KRW to maximum 500,000 KRW is levied as a fixed rate. For an individual who owns business, standard tax rate is 50,000 KRW per business unit. The Pro rata property tax rate is levied in accordance with business area within the range not exceeding 250 KRW per 1 m². Although mayors and Gun governors can reduce tax rate under ordinances, presidential decree stipulates that a rate two times higher than general tax rate must be imposed on pollutant emitting business places.

⑦ Local Income Tax

The Local Income Tax is divided into the pro rata income and the pro rata employee tax. Local government levies the pro rata income tax on people either obligated to pay income tax or corporation tax. Pro rata employees tax is levied on employers who pay wages. Standard tax rate for pro rata income is 10% of income tax amount or corporation income tax amount, and can be adjusted within the range of 50% under local government's ordinances. For the pro rata employees tax, standard tax rate is 0.5% of total wage paid on employees and heads of local governments can reduce the tax rate under ordinances.

⑧ Property Tax

The Property Tax is a local tax levied on lands, buildings, houses, aircraft and vessels. Different tax rates are applied to various properties and can be adjusted within 50% of standard tax rate under ordinances.

⑨ Automobile Tax

The Automobile Tax is a local tax that is divided into the motor vehicle property tax and the motor vehicle usage tax. The Motor vehicle property tax is levied on a person who owns at least one motor vehicle that is either registered under local government's jurisdiction or the automobile law. Tax rate can vary according to the purpose of the ownership - business or non-business - and displacement. Heads of local governments can adjust the rate up to 50% under ordinances. The motor vehicle usage tax is levied by local government on a person who is obligated to pay traffic·energy and environmental tax on gasoline, diesel or other alternative oil. Standard tax rate for motor vehicle usage is 36% of traffic·energy and environmental tax amount levied on taxable commodity and within this range, the rate can be

adjusted by 30% as stipulated in presidential decree.

⑩ Regional Resource & Facilities Tax

The Regional Resource & Facilities Tax is levied on protection and development of regional resources such as underground·submarine, tourism and water resources and special topography, as well as on safety management and environmental protection·improvement projects such as preventing special disasters. It is also imposed when the local government needs to secure budget for balanced regional development or when it needs to spend on public facilities including fire protection system, sanitation facilities and water installation.

⑪ Local Education Tax

The Local Education Tax was introduced to secure financial resources needed for the expansion of local education budget in order to increase the quality of local education.

Taxpayers of the Acquisition Tax, the Registration & License Tax, the Leisure Tax, the Tobacco Consumption Tax, the Per Capita Resident Tax, the Property Tax and the Automobile Tax are required to pay the Local Education Tax. Tax base and tax rate of the Local Education Tax are 20% of the Acquisition Tax, 20% of the Registration Tax, 40% of the Leisure Tax, 50% of the Tobacco Consumption Tax, 10% of the Per Capita Resident Tax, 25% if population is over 500,000, 20% of the Property Tax and 30% of the Automobile Tax. The Local Education Tax can be adjusted within 50% range of standard tax rate under ordinances.

3. NON-TAX REVENUES

Non-tax revenues are another important source of local own-source revenues along with local tax revenues. It can be classified into current non-tax revenues and temporary non-tax revenues. Current non-tax revenues are stable revenues which are collected every fiscal year including property leasing revenues, user charge, fee-for-service revenues, collection expenses grant, enterprise revenues and interest revenues among others and are normally benefit principle. Temporary non-tax revenues include nominal income such as fiscal transfer on book account and other non-tax revenues that occur under special circumstances which are carry-over, transferred funds, property disposal revenues, net annual surplus, allotment and previous year's revenues among others.

In 2013, non-tax local revenues were 33.4124 trillion KRW with current non-tax revenues accounting for 38.6% and temporary non-tax revenues 61.4%. User-charge revenues take up 20.0% of current non-tax revenues which is the biggest portion followed by enterprise revenues (10.7%), interest revenues (3.1%), and fee-for-service revenues (3.0%). Net annual surplus makes up 28.0% of temporary non-tax revenues which is the largest portion followed by property disposal revenues (6.6%), transferred funds (6.4%) and allotment (6.4%) etc.

By accounts, general accounts and special accounts make up 42.7% and 57.3% of total non-tax revenues respectively. In general accounts, net annual surplus (30.6%), property disposal revenues (10.5%), transferred funds (8.7%), user charge (7.5%) and fee-for-service revenues (6.5%) take up larger portion than others while in special accounts, user charge (29.3%), net annual surplus (26.1%), enterprise revenues (14.1%) and allotment (8.6%) account for larger portion.

<Table 20> Non-Local Tax Revenues Breakdown (2013)

(Unit: 100 million KRW, %)

		Total	Ratio	General accounts	Ratio	Special accounts	Ratio
Total		334,124	100.0	142,765	100.0	191,359	100.0
Current non-tax revenues	Subtotal	128,890	38.6	38,477	27.0	90,413	47.2
	Property leasing revenues	5,006	1.5	2,434	1.7	2,571	1.3
	User charge	66,733	20.0	10,754	7.5	55,980	29.3
	Fee-for-service revenues	9,876	3.0	9,308	6.5	568	0.3
	Enterprise revenues	35,867	10.7	8,826	6.2	27,041	14.1
	Collection expenses grant	1,082	0.3	1,069	0.7	12	0.0
	Interest revenues	10,326	3.1	6,086	4.3	4,240	2.2
Temporary non-tax revenues	Subtotal	205,234	61.4	104,288	73.0	100,945	52.8
	Property disposal revenues	22,172	6.6	15,057	10.5	7,115	3.7
	Net annual surplus	93,583	28.0	43,671	30.6	49,911	26.1
	Carry-over	1,163	0.3	1,100	0.8	62	0.0
	Transferred funds	21,282	6.4	12,402	8.7	8,880	4.6
	Balance and deposit received	-	-	-	-	-	-
	Loan collection revenues	11,706	3.5	1,278	0.9	10,428	5.4
	Allotment	21,495	6.4	4,990	3.5	16,505	8.6
	Miscellaneous	28,317	8.5	23,325	16.3	4,992	2.6
Previous year's revenues	5,517	1.7	2,465	1.7	3,052	1.6	

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

4. LOCAL BORROWINGS

Local borrowings are loans issued by local governments when they have less revenues than those needed to meet local demands.

Fulfillment of obligation occurs over a fiscal year and takes a form of local government bonds and loans etc. Local government bonds are issued for ① installation of shared or public facilities ② projects whose profit enables repayment of principal and interests ③ prevention of deficiency of tax revenues due to natural disasters ④ disaster prevention and restoration projects ⑤ refunding of issued local bonds and ⑥ projects deemed necessary for improving welfare of residents and etc.

In 2013, the amount of local borrowings was 4.960 trillion KRW and compared to the budget it took up 2.6% with 16.9% in general accounts and 93.1% in special accounts. By year, local borrowings recorded 2.8% in 2007 but due to the Global Financial Crisis it rapidly increased to 6.2%, and currently it is being stabilized to 2.6% in 2013. In general accounts, local borrowings by fiscal year stood at 0.5% compared to the budget in 2013 but for special accounts it was 11.9%.

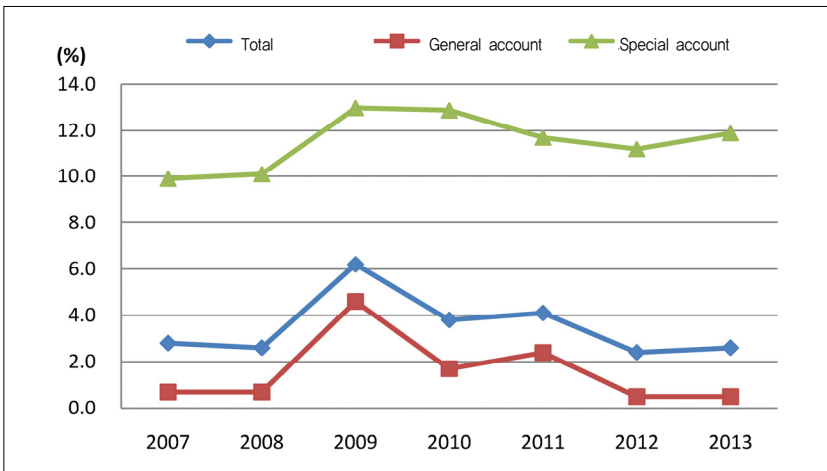
〈Table 21〉 Trend in Local Borrowings by Year

(Unit: 100 million KRW %)

Year	Total size			General account			Special account		
	Budget	Local borrowings	Ratio	Total budget	Local borrowings	Ratio	Total budget	Local borrowings	Ratio
2007	1,280,366	35,347	2.8	998,147	7,414	0.7	282,219	27,933	9.9
2008	1,444,536	37,382	2.6	1,153,125	7,901	0.7	291,410	29,481	10.1
2009	1,567,029	97,817	6.2	1,257,759	57,468	4.6	309,270	40,349	13.0
2010	1,497,797	56,270	3.8	1,218,960	20,432	1.7	278,837	35,838	12.9
2011	1,562,568	64,783	4.1	1,276,740	31,199	2.4	285,828	33,584	11.7
2012	1,670,153	40,324	2.4	1,366,855	6,215	0.5	303,298	34,109	11.2
2013	1,568,887	40,960	2.6	1,282,714	6,919	0.5	286,173	34,041	11.9

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 11〉 Trend in Local Borrowings by Fiscal Year



CHAPTER 11.

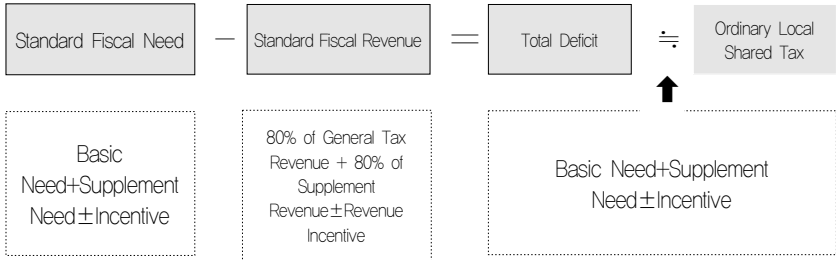
INTERGOVERNMENTAL FISCAL TRANSFERS

1. LOCAL SHARED TAX

The Local Shared Tax is an institution that promotes sound development of local administration by issuing part of tax income as financial resources necessary for local government administration. Financial resources of Local Shared Tax consist of 19.24% of total internal tax. The Local Shared Tax is usually composed of the Ordinary Local Shared Tax, Special Local Shared Tax, and Shared Tax for Decentralization. Ordinary Local Shared Tax, which grants general financial resources to maintain basic standards of administration of local governments, takes up 96% of total Local Shared Tax excluding Shared Tax for Decentralization. The Special Local Shared Tax is granted when budget demand not reflected in calculation of the Ordinary Local Shared Tax or unpredictable financial demand such as disasters, installation of public welfare facilities, or national projects arise. This comprises 4% of total Local Shared Tax without Shared Tax for Decentralization. The Shared Tax for Decentralization, introduced to preserve financial resources necessary for the project to transition part of National Treasury Subsidy projects to local governments, takes up 0.94% of domestic tax revenue as of 2013.

The Ordinary Local Shared Tax, which makes up most of the Local Shared Tax, is distributed to local governments with fiscal deficiency, based on the difference between the Standard Fiscal Need and the Standard Fiscal Revenue.

〈Figure 12〉 Calculating Ordinary Local Shared Tax



Recently the Local Shared Tax is on the rise. It was 19.4845 trillion KRW in 2005 but recorded 34.4409 trillion KRW in 2013, increasing by 1.77 times. The Ordinary Local Shared Tax increased 1.75 fold from 17.9275 trillion KRW in 2005 to 31.4479 trillion KRW in 2013. The Special Local Shared Tax showed 1.75 fold increase from 17.9275 trillion KRW in 2005 to 31.4479 trillion KRW in 2013. The Special Local Shared Tax rose from 711.5 billion KRW in 2005 to 1.3103 trillion KRW in 2013 by 1.84 times, while the Shared Tax for Decentralization showed 1.99 fold increase from 845.4 billion KRW in 2005 to 1.6826 trillion KRW in 2013.

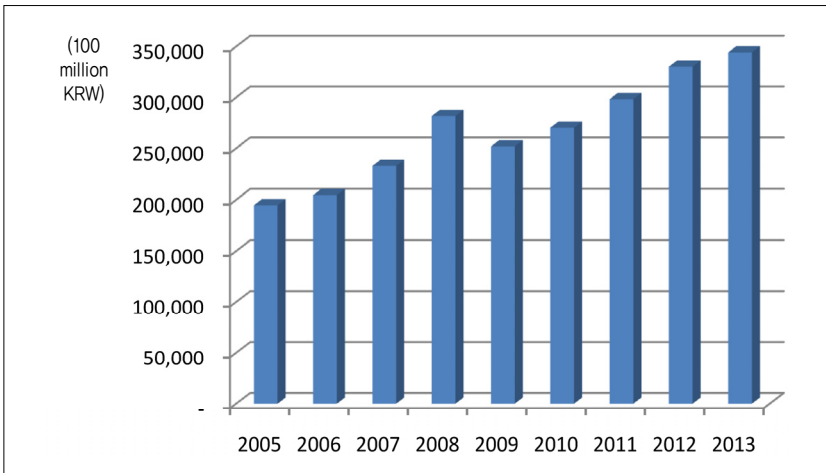
〈Table 22〉 Annual Trends of Local Shared Tax

(Unit: 100 million KRW)

Year	Total(Local Shared Tax)	Ordinary Local Shared Tax	Special Local Shared Tax	Shared Tax for Decentralization
2005	19,484,517	17,927,570	711,566	845,381
2006	20,441,392	18,691,488	743,396	1,006,508
2007	23,307,694	21,316,202	852,759	1,138,733
2008	28,213,686	25,795,852	1,039,411	1,378,423
2009	25,186,858	23,032,062	924,254	1,230,542
2010	26,990,688	24,679,136	992,880	1,318,672
2011	29,833,228	27,274,652	1,101,027	1,457,548
2012	33,064,835	30,191,425	1,257,977	1,615,433
2013	34,440,947	31,447,950	1,310,331	1,682,666

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 13〉 Annual Trends of Local Shared Tax



2. NATIONAL TREASURY SUBSIDY

The government can provide subsidies to local governments within budget capacity when policy needs or local government's budget needs are acknowledged. National Treasury Subsidies is a system that sets bounds for grants to delegated government works and policy projects, providing all or partial funding or allocating subsidies for financial assistance. This includes grant, state liability, and National Treasury Subsidies in a narrow sense. Grant is allocated when the central government delegates its works to local governments. State liability finances entire or partial amount of the cost for local government projects in accordance with the level of the government obligations. Through National Treasury Subsidies in a narrow sense, the government recommends a specific project to a local government or finances local government budget.

The total National Treasury Subsidy in 2013 amounts to 56.7164 trillion KRW, 40% of which is comprised of Local Matching Fund at 22.6917 trillion KRW. The annual trends show that while National Treasury Subsidy and Local Matching Fund are steadily on the rise, Local Matching Fund ratio of National Treasury Subsidy projects increased from 35.5% in 2009 to 40.0% in 2013.

<Table 23> Trend in National Treasury Subsidy and Local Matching Fund
(Unit : 100 million KRW, %)

Year	National Treasury Subsidy (A+B)	National Treasury Subsidy (A)	Local Matching Fund (B)	Local Matching Fund Ratio {B/(A+B)}
2009	417,716	265,387	152,329	35.5
2010	467,410	292,186	175,224	37.5
2011	486,182	300,883	185,299	38.1
2012	526,125	320,606	205,519	39.1
2013	567,164	340,347	226,817	40.0

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

3. Si·Do SUBSIDIES, EQUALIZING GRANTS, AND CONTROL GRANTS

Regional governments such as Si·Do can allocate Si·Do subsidies to Si·Gun·autonomous Gu should corresponding policy needs or fiscal needs of Si·Gun·autonomous Gu arise. Since Si·Do subsidies were created to compensate for financial needs of specific target projects, they are ring-fenced. These subsidies are provided in accordance with project priorities.

Equalizing Grants was created to secure certain amount of funding from ordinary tax in accordance with Article 173 of the Local Autonomy Act (hereinafter, the LAA) and equalize financial resources of autonomous districts within the jurisdiction. As of 2013, Equalizing Grants allocation ratios in Special Metropolitan City and other Metropolitan Cities are as follows: 20.5% in Seoul, 19.8% in Busan, 20.65% in Daegu, 20% in Incheon,

23% in Gwangju, 21.5% in Daejeon, and 18.1% in Ulsan.

Control Grants are the funds equivalent to 27% of the total metropolitan Si·Do tax revenue and Local Consumption Tax collected by mayors and Do governors, and are allocated to Si and Gun within the jurisdiction in accordance with the standards such as population, tax collection records, and Si·Do finances. Si·Do subsidies as of 2013 are 9.7939 trillion KRW, while grants (Equalizing Grants and Control Grants) are 6.7348 trillion KRW in total. The annual trends show fluctuation of Si·Do subsidies and steady increase in grants until 2012 that declined significantly in 2013.

〈Table 24〉 Si·Do Subsidies and Grants Status

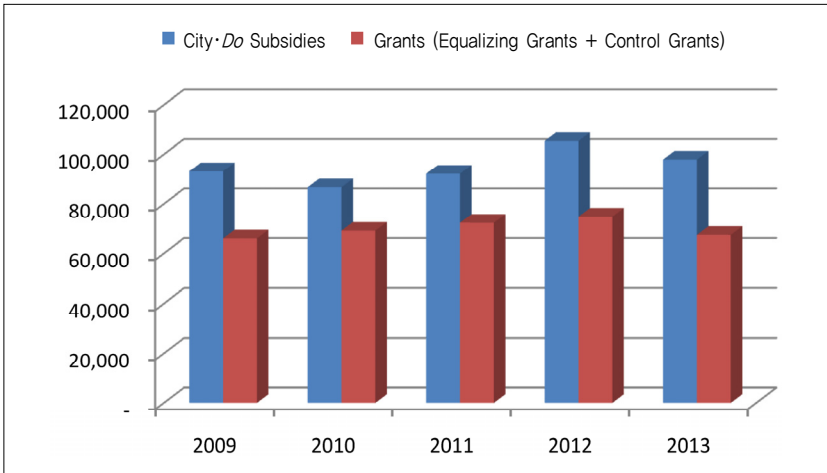
(Unit: 100 Million KRW)

Year	2009	2010	2011	2012	2013
Si·Do Subsidies	93,106	86,609	92,124	105,327	97,939
Grants	65,923	69,068	72,273	74,808	67,348

* Grants include Equalizing Grants and Control Grants.

Source: 「Budget Summary of Korean Local Governments」, MOPAS(2013)

〈Figure 14〉 Annual Trends of Si·Do Subsidies and Grants (Equalizing Grants and Control Grants)





SESSION 3



REGIONAL DEVELOPMENT

CHAPTER 12. OVERVIEW OF REGIONAL DEVELOPMENT POLICY

1. STRUCTURE OF REGIONAL DEVELOPMENT POLICY

Regional development policy, as a part of national development strategies, is a concept that encompasses state policy commitment, strategies, and instruments dedicated to enhance human settlements such as cities, farming and fishing villages, towns and residence. Korea's regional development policies after 1960s were created as means to facilitate economic growth. In particular, prior to local government, the central government led regional development policies that ranged from industries, housing, infrastructure, culture, environment, to rural and urban development.

After launching the local government system in late 1990s, the local governments started to establish and implement their own regional development policy, which resulted in diving the function of central and local governments in regional development policy.

Particularly after the 2003 Roh administration, implementation system of regional development policies underwent dramatic change. While prior to the Roh administration, regional development policies were not considered an independent agenda of national policies, however, after 2003, regional

development policies were begun to be seen as one of core national policy agendas. Since then, regional development policies, which were conducted by different ministries separately and fragmentarily, were implemented at a national level under the Balanced National Development System.

In particular, after the Roh administration, regional development policies at national level in accordance with the Special Act on Balanced National Development have been implemented.

2. HISTORY OF REGIONAL DEVELOPMENT POLICY

During 1960s and 70s, when Korea was recovering from the ashes of the Korean War, rapid economic growth was the most prioritized policy goal above all else. The focus of regional development policies was provision of industrial locations which were needed for effective economic development, and provision of social overhead capital such as roads, ports, and water for industrial use needed for the production.

To meet the national goal of establishment of foundation for national economic growth, regional development policies were considered relatively unimportant. Instead, the central government pushed ahead with a strategy to invest in development of core areas that proved to be most effective for development. Implementing the ‘growth-pole’ strategy that aims to facilitate trickle-down effects of development across neighboring regions, the central government fostered growth of the Seoul-Incheon axis, Seoul-Busan axis, Guro Industrial Complex, and Masan Free Export zone, facilitating development of the Seoul and Gyeonggi-Do.

Korea established the Comprehensive National Territorial Plan in 1968, and started implementing policies to prevent population concentration around

the capital since late 1970s. Such efforts include the Distribution of Industry Act of 1977, the Basic Plan for Population Redistribution for Capital Region of 1978, and the White Paper Plan for administrative capital relocation of 1979.

The capital area was still overcrowded in 1980s. This led to unbalanced development strategies, which aimed for facilitating trickle-down effects of development to neighboring areas through investment in growth centers, forming the basis of regional development policies. The ‘Regional Settlement Area’ policy consists of ‘basic settlement area’ with population equal to or more than 250,000, ‘regional settlement area’ with population equal to or more than 500,000, and ‘metropolitan settlement area’ with population equal to or more than 5 million. The central government made efforts to draft and implement the ‘Regional Settlement Area’ policy to prevent population growth in Seoul and Busan, the two major cities in Korea, but unbalanced regional development persisted due to lack of specific policy instruments. In order to address the problem, the Seoul Metropolitan Area Readjustment Planning Act was enacted in 1982.

After 1990, the focus of regional development policies shifted from growth to balance. However, the Balanced Development Strategy of 1990s lacked meticulous consideration of the foundation of regional development, and it was mainly consisted of strategies focused on the capital area regulations and the central government-led physical infrastructures development. Input-driven growth strategy that maximized trickle-down effects of growth-poles contributed to the unprecedented compressed economic growth of Korea. Owing to the rapid economic growth that continued for 13 years, Korea became the 13th largest economy in the world and a member of OECD, while Seoul joined the league of ‘global cities’ with

other famous cities around the world.

However, input-driven strategy also led to growth limits of the national economy as well as unbalanced regional development. Input-driven strategy became less convincing under knowledge-based economy, and its compressed growth left development gap between the growth-poles and the other regions. In particular, the anticipated trickle-down effects to provincial regions from growth-poles to the other regions did not take place, leading to excessive concentration of political, economic, administrative, and development potentials in the capital area. The capital area, which only occupies 11.8% of the total national territory, takes up 48.3% of total Korean population, produces 47.7% of GRDP, and accounts for 58.8% of total businesses and 67.8% of total savings in the nation.

In early 2000s, the Roh administration undertook the “Balanced National Development Policy” under the judgement that unbalanced regional development led to harmful consequences not only in the capital area and provinces but also across the entire nation. Agglomeration diseconomies compromised quality of life and competitiveness in the capital area, while provinces saw their communities at peril of disintegration as growth engines migrated to the capital area. To implement the Balanced National Development Policy, the Roh administration focused on creating ‘regional innovation’ driven by cooperation of diverse regional development actors as the greatest engine of development.

In late 2000s, the Lee Myung-bak administration shifted the paradigm of regional development policies from the balanced regional development metropolitan economies, emphasizing the regional and national competitiveness. The government moved on from small administrative district-focused regional development policies to metropolitan area

development policies to strengthen global competitiveness of Korea.

The Park Geun-hye administration, started in 2013, come to the decision that the previous metropolitan area-based regional development policies were not able to create real happiness of the residents, and they are implementing regional development policies focused on ‘Regional Happiness Area.’ In Regional Happiness Area, multiple areas work hand in hand to complement each other by adding functions which are needed for happiness thereby increasing happiness of the local residents.

〈Table 25〉 Regional Development Policy Overview

Time	Keynote	Policy Goal	Development Strategy	Characteristics
1960s	<ul style="list-style-type: none"> • Efficiency 	<ul style="list-style-type: none"> • Eradicate poverty • Rebuild nation 	<ul style="list-style-type: none"> • Build industrial complex • Establish infrastructure 	<ul style="list-style-type: none"> • Unbalanced development • Centralized
1970s	<ul style="list-style-type: none"> • Efficiency 	<ul style="list-style-type: none"> • Economic growth • Build industrial basis 	<ul style="list-style-type: none"> • Growth-pole strategy (4 major river regions) 	<ul style="list-style-type: none"> • Unbalanced development • Centralized
1980s	<ul style="list-style-type: none"> • Efficiency 	<ul style="list-style-type: none"> • Economic growth (weak focus on redistribution) 	<ul style="list-style-type: none"> • Decentralized growth centers • Foster four economic regions 	<ul style="list-style-type: none"> • Unbalanced development • Centralized
1990s	<ul style="list-style-type: none"> • A weak focus on equity added 	<ul style="list-style-type: none"> • Globalization • Local specialization 	<ul style="list-style-type: none"> • Decentralized growth centers • Prevent the capital area growth 	<ul style="list-style-type: none"> • Regional development introduced • Centralized
Early 2000s	<ul style="list-style-type: none"> • Equity 	<ul style="list-style-type: none"> • Balanced regional development • Abolish regional discrimination = balanced growth 	<ul style="list-style-type: none"> • Regional innovation system • Innovative cities • Relocate public offices 	<ul style="list-style-type: none"> • Regional development as national policy task • Centralized
Late 2000s	<ul style="list-style-type: none"> • Efficiency 	<ul style="list-style-type: none"> • Strengthen local competitiveness 	<ul style="list-style-type: none"> • Economic Region • 3D space policy 	<ul style="list-style-type: none"> • Centralized policy • Block grants introduced
Present	<ul style="list-style-type: none"> • Enhancing quality of life 	<ul style="list-style-type: none"> • Enhance happiness of individual residents 	<ul style="list-style-type: none"> • Endogenous development • Regional Happiness Area 	<ul style="list-style-type: none"> • Focus on welfare, culture, and education

CHAPTER 13.

REGIONAL DEVELOPMENT POLICES OF ROH MOO-HYUN ADMINISTRATION

1. POLICY KEYNOTES AND GOALS

The Roh administration promoted the Balanced National Development Policy to address harmful effects of unbalanced regional development. This was the first measure in the history that incorporated regional development policy into core national policy agenda. In order to effectively carry out balanced development policy across the entire nation, the government sought transition from the previous regional development policies in 1990s, to the basis of “integration” and “participation.” Firstly, while the past regional development policies aimed for quantitative growth, the Balanced National Development System strove for balanced growth. Secondly, the Balanced National Development System was driven by local governments, not the central government. Thirdly, in an aspect of implementation strategy, the Balanced National Development tried balanced development by promoting coexisting development of capital area and regional area, not by strengthening regulations on the capital area. When it comes to the past regional development projects, focused on material development such as SOC, the Roh administration’s Balanced National Development System emphasized vitalizing autonomy by establishing the Regional Innovation System (RIS). Lastly, the Balanced National Development System opted for comprehensive and consistent measures in order to push forward the policy that is not fragmented, decentralized and undertaken separately by ministries and projects.

〈Table 26〉 Main Principles of Balanced National Development Policy

	Past Regional Development Policy	Roh Administration's Balanced National Development Policy
Development Goal	- Quantitative growth	- Balanced growth
Implemented by	- Central government	- Local government
Strategy	- Strengthen capital area regulations	- Strive for coexistence in capital area/provincial development
Major policy	- Material investment such as SOC	- Build RIS to strengthen autonomy
Method	- Fragmented, decentralized	- Comprehensive, consistent

Source : 「Theory and Practice of Balanced National Development」, Presidential Committee on Balanced National Development(2007)

2. MAIN POLICY CONTENTS

The Balanced National Development Policy is again divided into Innovation Policy, Balance Policy, Industrial Policy, Spatial Policy, and Qualitative Development Policy.

Firstly, the Innovation Policy aims to strengthen innovation capacity of provinces, and includes establishing RIS and Regional Innovation Council in the upper and lower level provinces (Si·Gun·Gu or Si·Do).

Secondly, the Balance Policy, as a remedial policy, aims to better the regions left disadvantaged over the course of urbanization and industrialization, and includes the Revitalization Project and the Special Economic Zone for Regional Development Project. The Revitalization Project, with the duration of three years each and conducted twice, provides

comprehensive funding, block grant, to 70 disadvantaged regions with low regional development to create regional income. The Special Economic Zone for Regional Development Project mitigates regulations in the special economic zones that develop and utilize special resources to create income and jobs.

Thirdly, the Industrial Policy aims to create and foster regional growth engines, and includes nurturing the Strategic Industries, and Innovation Cluster. The Strategic Industry fosters four industries in each upper level provinces (Si and Do), and the Innovation Cluster is a system to create innovation by ensuring organic cooperation of businesses, research institutes, universities, local governments, and financial organizations that can create jobs.

Fourthly, the Spatial Policy aims to decentralize actors of innovation for regional development, and includes construction of Multifunctional Administrative City (Sejong City), Innovation and Business City, and relocation of public offices to provinces. As the goal is to build cities as important factors in balanced regional development, it aims to relocate public offices and ministries to Sejong City and other 10 innovation cities, and establish 4 business cities.

Lastly, the Qualitative Development Policy aims to look beyond quantitative growth and enhance the quality of lives in the region, which includes creating Livable Community. National and regional level governments picked livable communities and provided financial assistance.

The characteristic of the Balanced National Development Policy is the pursuit of regional innovation and autonomous specialization. In particular, the Roh administration emphasized regional innovation in the Balanced National Development Policy, carried out policies to build Multifunctional

Administrative City, Business Cities, and Innovation Cities, as well as relocation of public offices to provinces. Also, in order to establish RIS, the government created the Regional Innovation Council, and pushed forward with multi-faceted projects to create innovation factors in regions such as the NURI project and Innovation Clusters. For Autonomous Specialized Development, policies were led by local governments, instead of central government. To achieve differentiated specialized development, the government aggressively implemented regional development projects based on convergence between sectors, utilizing regional assets in projects such as the Revitalization Project.

Based on these progress, the Special Act on Balanced National Development was created.

〈Table 27〉 Content of Balanced National Development Policy

Category	Goal	Major Policy
Innovation	<ul style="list-style-type: none"> - Create governance actor for autonomous development 	<ul style="list-style-type: none"> - RIS - Regional Innovation Council
Balance	<ul style="list-style-type: none"> - Promote balanced development for disadvantaged regions 	<ul style="list-style-type: none"> - Revitalization projects - Special Economic Zone for Regional Development Project
Industry	<ul style="list-style-type: none"> - Create powerful regional economies based on fiscal soundness 	<ul style="list-style-type: none"> - Foster strategic industries - Innovation Cluster
Space	<ul style="list-style-type: none"> - Address overcrowding in capital areas and revitalize regions with relocated public offices 	<ul style="list-style-type: none"> - Administrative capital - Relocate public offices to provinces - Innovation/Business cities
Qualitative Development	<ul style="list-style-type: none"> - Promote qualitative growth and regional quality 	<ul style="list-style-type: none"> - Livable Communities

Source : 「Theory and Practice of Balanced National Development」, Presidential Committee on Balanced National Development(2007)

CHAPTER 14.

LEE MYUNG-BAK ADMINISTRATION'S REGIONAL DEVELOPMENT POLICIES

1. POLICY KEYNOTES AND GOALS

The Lee Myung-bak administration's regional development policies started from the critical perspective to the Roh administration's mathematical regional development policies that ignited inequality debates among regions. The Roh administration concluded that unbalanced development in the capital area and provinces was the greatest hindrance to national development, and implemented powerful decentralized regional development policies such as relocation of public offices in Seoul to provinces and building 10 local Innovation Cities. The Lee administration orchestrated policy shift from balanced regional development policies to the "New Region Development Policies" emphasizing regional competitiveness, and changed the regional development policy from "equity" to "efficiency."

In particular, the Lee administration sought to strengthen global competitiveness and address regional development gap by moving away from small administrative unit-focused development to Economic Region development that transcends administrative boundaries.

2. MAIN POLICY CONTENTS

The Lee administration's "New Regional Development Policy" under the vision of 'Creating competitive regions that guarantee jobs and the quality of

life’ has five strategies. These five strategies are ① maximizing growth potential of the entire territory, ② discovering growth engine and driving specialized regional development, ③ implementing further decentralization such as relocation of administrative, fiscal authorities to provinces, ④ developing the capital area and provinces simultaneously, and ⑤ providing advanced supplementation to existing balanced development policies.

In accordance with such vision and strategies, the government started the system promoting three-dimensional spatial development centered on Economic Region in order to strengthen competitiveness of the territory. This three-dimensional space consists of 5+2 Economic Regions, composed of upper level provinces (Si and Do), 4+α Supra-Economic Regions that include coastal and border regions, as well as Daily Living Spheres comprised of 163 lower level provinces.

〈Table 28〉 3D Regional Development Policy

Area	Purpose	Target	Plan
Daily Living Sphere	Guarantee basic quality of life	163 <i>Si/Gun</i>	Daily Living Sphere Development Plan
Mega-region	Strengthen local competitiveness	5+2 Economic Region	Economic Region Development Plan
Supra-Economic Region	Strengthen national competitiveness	4+α Belt	Supra Economic Region Schematic Plan

Source : Government Report, Presidential Committee of Regional Development(2008).

To strengthen regional competitiveness, the Lee government reformed the existing ‘Special Account for the Balanced National Development’ and created the ‘Regional Development Special Account’ that support both Economic Regions and daily living spheres. Here, regional development

consisted of autonomous projects of upper and lower level provinces (Si·Do or Si·Gun·Gu), while the projects created by ministries were allocated to the Economic Regional Development Account.

〈Table 29〉 Organization of Regional Development Special Account

Organization \ Account		Regional Development Account	Economic Regional Development Account	Jeju Special Self-Governing Do Account
Local government	Si·Do	① Organized autonomously by Si·Do	—	④ Organized autonomously by Si·Do * Daily Living Sphere Foundation Projects included
	Si·Gun·Gu	② Organized autonomously by Si·Do	—	⑤ Special Local Administrative Agency Relocation Cost
Ministries		—	③ Organized directly by ministries	⑥ Organized directly by ministries

Source : Presentation material for Economic Region/Regional Special Account budgeting, MOSF(2013)

Economic Region Policy reorganized the entire nation into 5+2 or 7 Economic Regions for major industrial policies. Under this goal, the government strategically assigned leading projects, human talent development projects, SOC projects to each Economic Regions. For sub-regions in Economic Regions, the government created Daily Living Spheres to secure basic quality of life in 163 lower level provinces (Si·Gun). In particular, driving daily living sphere development, block grants were introduced to strengthen autonomy of local governments, integrating similar

or redundant 200 small projects to form 22 Block Grant projects. 18 out of 22 projects were “upper level provinces (Si·Do) autonomous projects” and 4 projects in disadvantaged area development were “lower level provinces (Si·Gun·Gu) autonomous projects” where Si·Gun·Gu autonomously allocate budgets.

CHAPTER 15.

PARK GEUN-HYE ADMINISTRATION'S REGIONAL DEVELOPMENT POLICY

1. POLICY KEYNOTES AND GOALS

Differentiating from regional development policies that emphasized quantitative development of the regions, the Park administration set the regional development policy based on the concept of ‘enhancing happiness of individual residents.’ This keynote was created with the knowledge that the past regional development policies, despite heavy financial investment and intense policy efforts, failed to address many problems experienced by the regions and residents in Korea.

Especially, the Roh government created the ‘Special Act on Balanced National Development’ and reformed the system for balanced regional development including institutions, plans, facilitation system, and finance. Yet the policy approach proved problematic as it caused lots of debates around relocation of the capital and conflicts risen from excessive physical decentralization policies. While the Lee administration’s efforts to bring down barriers among regions through Economic Regions and emphasize region-linked development can be viewed in positive light, Economic Regions proved to be distant from actual resident settlement areas and the policies showed skewed concentration in securing long-term growth engines, restricting the regional job creation.

In order to enhance residents happiness, the Park administration’s regional development policies have shifted from Economic Regions to regional settlement area. In particular, it seeks to maximize resident

satisfaction and improve settlement conditions to enhance the quality of life by forming regional settlement areas composed by multiple local governments.

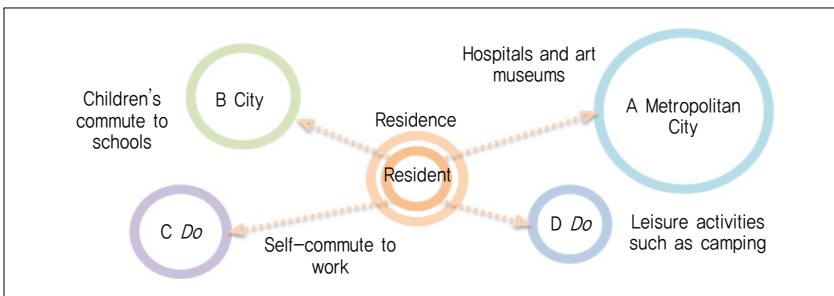
2. MAIN POLICY CONTENTS

The Park Administration’s regional development policies aim to bring “Happiness to People, and Hope to Regions” and named regional development policy as “HOPE” project.

In order to implement the “HOPE” project that aims to enhance happiness of residents, the government set ① building Regional Happiness Areas, ② providing customized package assistance, and ③ ensuring the projects to be led by regional government and strengthening cooperations. The Regional Happiness Area is a concept encompassing major cities, rural centers (Eup·Myeon), and small villages.

The Regional Happiness Areas, formed autonomously by multiple local governments, can be divided according to population structure and characteristics of the cooperating local governments into three kinds of areas : Pivot City Area, Urban-Rural Area and Farming & Fishing Village Area.

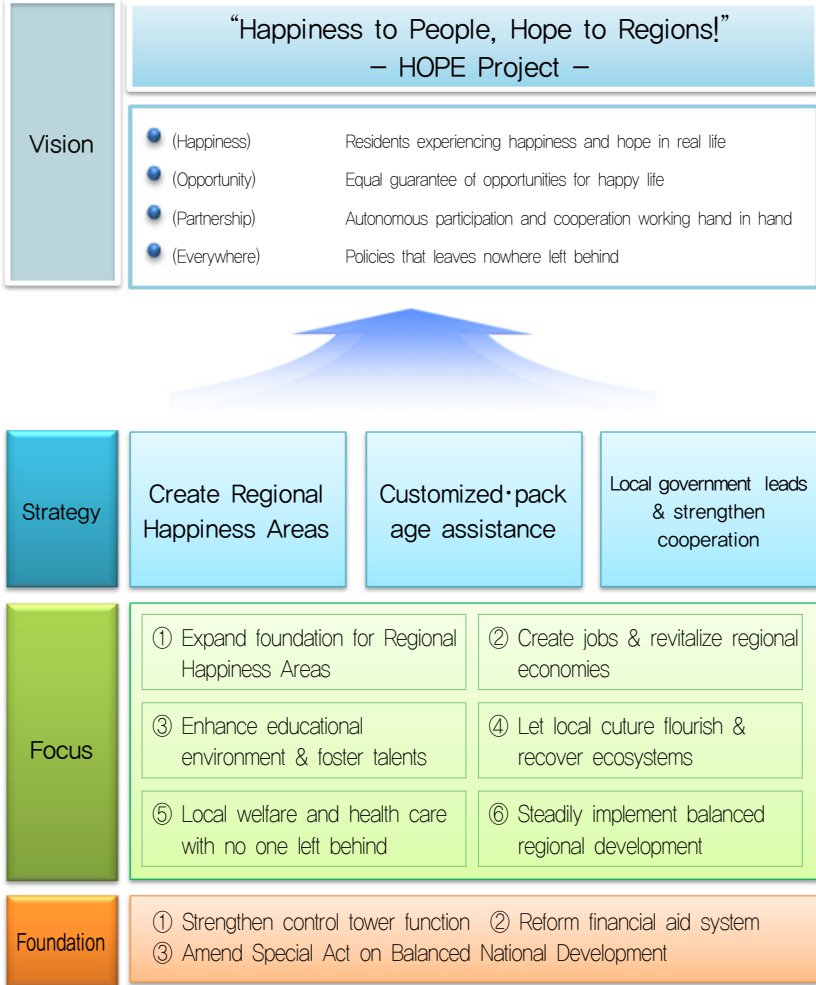
〈Figure 15〉 Regional Happiness Area Composition



Customized package assistance, based on residents and local government needs, provides intensive support to enhance resident happiness and hope for regional development. Also, to realize regional development policies led by local governments, participation of not only residents but also local communities will be encouraged to expand responsibilities and capacity of local government's to plan and execute projects and enhance local government's cooperation. Also, for Regional Happiness Area formed by local governments adopted bottom-up approach in consideration of accessibility, population, history and culture affinity, and commitment to cooperation. 17 tasks in 6 sectors were established, including infrastructure expansion, job creation, regional economy revitalization, education and environment enhancement, health care with no patient left behind, and steady implementation of balanced regional development.

To effectively implement the HOPE project, the Park administration expands control-tower function of the Presidential Committee on Regional Development, reforms the previous special accounts to support happiness of residents, and creates the foundation for implementation in accordance with the new policy by amending the 'Special Act on Balanced National Development.'

〈Figure 16〉 Current Regional Development Policies



Source: Happiness to People, Hope to Regions : HOPE Project , Presidential Committee of Regional Development(July 2013)

LOCAL GOVERNMENT IN KOREA

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