

KOREA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SOUTH KOREAN WON (KRW)

POPULATION AND GEOGRAPHY

Area: 99 461 km²
Population: 51.446 million inhabitants (2017), an increase of 0.42% per year (2010-15)
Density: 517 inhabitants / km²
Urban population: 81.5% of national population
Urban population growth: 0.4% (2017 vs 2016)
Capital city: Seoul (19.4% of national population)

ECONOMIC DATA

GDP: 1 973.0 billion (current PPP international dollars), i.e. 38 350 dollars per inhabitant (2017)
Real GDP growth: 3.1% (2017 vs 2016)
Unemployment rate: 3.7% (2017)
Foreign direct investment, net inflows (FDI): 17 053 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 31.1% of GDP (2017)
HDI: 0.903 (very high), rank 22 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Sixth Republic of Korea is a unitary republican state. The President, elected by a national popular vote for a single five-year term, is both Head of State and Head of Government. The Prime Minister is appointed by the President with the consent of the National Assembly, who is responsible for assisting the President and directing the Executive Ministries. The country has a unicameral parliament, the National Assembly (*Kuk Hoe*), elected for a four-year term. Most of the assembly's seats are filled by election from geographical constituencies, with the remainder distributed proportionally among the various parties.

Local Autonomy has been established in the constitution since Korea's First Republic, although it has been strengthened since 1995. Local magistrates and assemblies are elected in every province, metropolitan or special city, county, and autonomous district. City or county governments appoint officials at lower levels (*eup* and *dong*).

All subnational governments have the same governing structure made up of an executive body (governor for province, mayor for metropolitan city, municipal city, county and autonomous district government) and a local council, as a legislative body. Governors and mayors are elected by direct popular vote for a four-year term. As far as council members are concerned, 17~18% are elected by popular vote and the remaining seats are occupied by proportional representatives.

The decentralisation process in Korea is relatively recent, having started in 1987 with the "Declaration for Democratisation". It gained momentum in 1988 with the Local Autonomy Act and the Local Finance Act. Subnational elections for executives and legislative were introduced in 1991 and 1995, when substantial fiscal resources started being transferred to subnational governments. In 1999, a large reform of the public sector was launched including a comprehensive decentralisation programme, monitored by a Special Committee on the Devolution of Government Affairs.

In 2004, the Special Act on Decentralisation, enacted under the impulsion of the Presidential Committee on Government Innovation and Decentralisation, clarified principles and methods for decentralisation, transferred new functions to local governments and abolished special administrative agencies. It was followed by a fiscal reform in 2005 which established the "Special Account Balanced National Development".

During the following years, decentralisation was pushed further via the reinforced legal framework. The Special Act on Decentralisation, enacted in 2004, was changed into the Special Act on the Promotion of Decentralisation in 2008, and the Special Act on Decentralisation and Restructuring of Local Administrative Systems was enacted in 2013.

In 2017, the administration of Moon Jae-in included decentralisation as one of the Top 100 national tasks: "to promote well-balanced development across every region" (Goal IV), "to promote autonomy and decentralisation to realise grassroots democracy" (Strategy 1) and "to strengthen fiscal decentralisation for financial autonomy" (task 75). The "100 national tasks" programme includes measures to transfer functions of the central government to local governments and increase budgets allocated to local governments.

In March 2018, as the revised bill of the "Special Act on Decentralization and Restructuring of Local Administrative Systems" was promulgated, the Presidential Committee on Autonomy and Decentralization was set up. The constitutional amendment bill, proposed by President Moon Jae-in in March 2018, suggested adding the "Republic of Korea promotes decentralisation" in Article 1 of the Constitution, which would give local governments more autonomy. However, the vote was nullified, as a quorum was unmet. Addressing the regional imbalance between Seoul and surrounding regions is at the core of this 2017-2018 decentralisation programme. Almost half of the Korean population lives in Seoul Metropolitan Area, which accounts for 40% of national GDP.

Among the local government associations that represent the interests of local governments to the central government, there are the National Association of Governors, the National Association of Mayors, the Association of Metropolitan and Provincial Council Chairs.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	226 municipalities		17 regional entities	
	Average municipal size: 224 742 inhabitants			
	226		17	243

OVERALL DESCRIPTION. Korea has a two-tier local government system – regional and municipal – with no hierarchical link, and a very diverse and complex structure within each level.

REGIONAL LEVEL. It consists of eight provinces (*do*), one special self-governing province (*Jeju*), six metropolitan cities (*gwangyeoksi*), one special city (Seoul Metropolitan City) and, since 2012, Sejong special self-governing city, which both have a special status. Sejong was founded as Korea's de facto new multifunctional administrative city, with a goal to achieve more balanced national development by moving administrative functions out of Seoul. Metropolitan cities combine the functions of regional and local government.

MUNICIPALITIES. The lower-level of local government includes cities (*si*), counties (*gun* mostly rural) and autonomous districts (*gu*), which reflects the “municipal annexation” process that took place in 1995. The municipal level is further divided into 3 500 sub-municipal localities: 224 eup (urban division of counties), 1 189 myeon (rural division of counties), and 2 087 dong (within cities and districts) in accordance with the 2018 Statistical Yearbook published by the Ministry of the Interior and Safety regarding Administrative Districts of Local Governments. There are very large differences in the sizes of area and population of subnational governments even among similar types of local governments. While the average size of municipalities is the highest among OECD countries, the size of sub-municipal entities ranges from 10 000 to 50 000 inhabitants.

The local government sector also comprises 17 educational local authorities (ELA) at regional level and 188 lower-levels of ELA, which are independent elected entities according to the Local Education Autonomy Act.

Local governments may establish intergovernmental corporate authorities but this form of cooperation is rarely used.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The functions of SNGs are not clearly defined by law. According to Art. 117 of the Constitution, local governments have to focus on “matters pertaining to the well-being of local residents, manage properties and may establish their own rules and regulations regarding local autonomy as delegated by national laws and decrees”. The Local Autonomy Act (Article 9) distinguishes SNG functions between those delegated by the central government and those which are local by nature. It identifies six categories of SNG functions: category I: 11 functions related to the territorial jurisdiction, the organisational and managerial aspects of local governments; category II: 10 functions aimed at improving the general welfare of local residents; category III: 14 functions to foster growth in agricultural, trade and industrial sector; category IV: 15 functions related to regional development and environmental protection (construction and management of environmental facilities); category V: 5 functions to promote education (however, this falls under the responsibility of independent educational offices), sport activities, culture and art; and category VI: 2 functions concerning civil defence and safety (firefighting).

Nevertheless, a conditional clause to Article 9 stipulates that the “central government may exercise its own power and control over any function, if other laws define them as the functions of the central government”. Both SNG levels have the same functions but at different scales, but regions are also responsible for vertical coordination between the national government and lower level of government. Independent national agencies manage many other areas, including fire protection and education. As a result, there is a large degree of overlap in the division of responsibilities across levels of government.

Overall, local governments have limited policy-making authority, and are usually limited to the implementation of national policies, and the Act stipulates that the central government can use its own power and control over any function. Recently, local authorities have been pressing for more authority on the local level.

Within the framework of the 2017-2018 decentralisation programme, new functions could be transferred from the central government to subnational authorities. For example, in November 2018, the Presidential Committee on Autonomy and Decentralization announced that around one-third of the country's police force is set to be transferred from the central government to regional governments over the next four years.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Management of public properties and facilities	Management of public properties and facilities
2. Public order and safety		Firefighting and rescue services
3. Economic affairs / transports		Local public transport; Trade (licences)
4. Environmental protection	Environment	Environmental protection including refuse collection and recycling
5. Housing and community amenities	Housing	Land-use; Planning and development control; Local housing plans
6. Health		
7. Recreation, culture & religion	Culture	Leisure services; Sport; Libraries
8. Education	Education	Education
9. Social protection	Social welfare	Welfare services and social care

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: the municipal level comprises cities, counties (mostly rural) and autonomous districts. It is further divided into approximately 3 500 sub-municipal localities. The regional level consists in nine provinces, six metropolitan cities, Sejong Self-governing City and Seoul Capital City.

SNA 2008

Availability of fiscal data:
HighQuality/reliability of fiscal data :
High

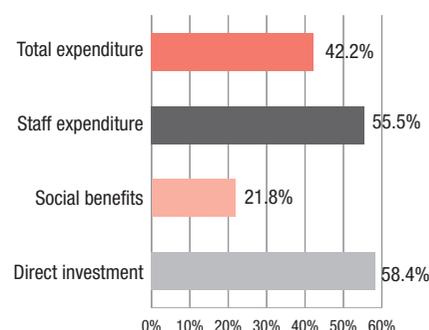
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GENERAL INTRODUCTION. Despite fiscal reforms dedicated to accompany the transfer of powers and spending responsibilities to local governments, the lack of fiscal independence in the local level significantly undermines the efficacy of political and administrative decentralisation in Korea.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	5 073	13.8%	100%	
Inc. current expenditure	3 727	10.2%	73.5%	
Staff expenditure	1 392	3.8%	27.4%	
Intermediate consumption	697	1.9%	13.7%	
Social expenditure	755	2.1%	14.9%	
Subsidies and current transfers	858	2.3%	16.9%	
Financial charges	24	0.1%	0.5%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	1 346	3.7%	26.5%	
Capital transfers	292	0.8%	5.8%	
Direct investment (or GFCF)	1 054	2.9%	20.8%	



EXPENDITURE. SNG spending has increased by 4.1 percentage points from 1995 to 2016 but has decreased as a share of total public spending (-1.7 percentage point), resulting in a mixed picture of transfers of spending responsibilities. In 2016, SNG expenditure accounted for 13.8% of GDP, below the OECD average (16.2%) but for 42.2% of public expenditure, above the OECD average (40.4%). SNGs account for more than half of public staff spending (vs 62.9% in OECD on average but 15 points above the OECD unitary country average) which results partly from the payment of teacher salaries (educational offices). The high level of expenditure also reflects the importance of social benefits that are disbursed by SNGs. Subnational social spending represents a significant share of total public social spending, higher than in the OECD on average (16.7%), especially compared to the average of OECD unitary countries (21.8% vs 10.5% in 2016). Korea is among the few OECD countries to use subnational expenditure limits; however, the country has become more inclined to rely on limits since fiscal consolidation started in 2010. This trend has slowed growth in current expenditure.

DIRECT INVESTMENT. In 2016, Korea had the highest share of general government spending devoted to investment among all OECD countries (16% vs 8% in the OECD). However, the last 2017-21 Fiscal Management Plan shifted spending priorities from economic activities to social welfare to adapt to the ageing population. As a result, infrastructure investment and R&D outlays are expected to drop respectively from 5.5% of total spending to 3.2% and from 4.9% to 4.0% over the period 2017-21.

SNG investment was also particularly high as a share of GDP (3% vs 1.7% in the OECD), while the share in overall public investment was slightly higher than the OECD average (58% vs 57% in 2016), reflecting an active role of subnational governments in public investment.

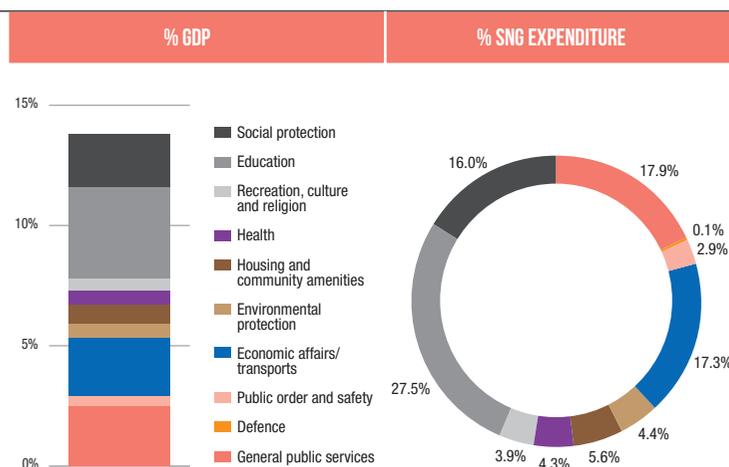
The 2013 Special Act on Urban Regeneration provided a framework encompassing national guidance, a strategic plan and an urban regeneration plans. These plans have called for more collaboration between local and national governments. The new 2017 administration strengthened the Act through a five-year Urban Regeneration New Deal which will designate 100 projects supported by an investment of KRW 1 trillion.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The top category of SNG spending is education (by the intermediary educational offices), representing 27.5% of SNG expenditure, followed by general public services (17.9%) economic affairs and transport (17.3%) and social protection (16%). SNGs are particularly active, as a percentage of total public spending, in the areas of housing and community amenities, culture and recreation and environmental protection.

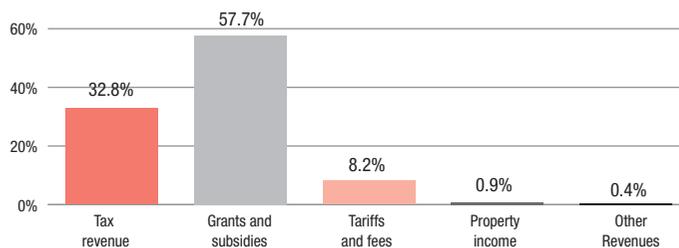
However, the share of SNG spending in total public spending has been – on balance – decreasing significantly in all categories since 2013 (decrease of 17 percentage points in housing and community amenities, 22 percentage points in environmental protection, and 26 percentage points in education).

The new 2017-21 Fiscal Management Plan marks a shift in spending priorities from economic activities to social welfare. Social welfare spending has accounted for an increasing share of local expenditure, especially since 2006 when several social welfare services were transferred to subnational governments (pensions for elderly and for disabled people in 2010, children care allowance, family and healthcare services, national basic living security). Social and health expenditure is on the rise because of Korea's aging population.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE	
Total revenue	5 255	14.3%	41.4%		
Tax revenue	1 725	4.7%	24.1%	32.8%	
Grants and subsidies	3 031	8.3%		57.7%	
Tariffs and fees	429	1.2%		8.2%	
Property income	49	0.1%		0.9%	
Other revenues	21	0.1%		0.4%	



OVERALL DESCRIPTION. The 1988 Local Finance Act, which determines SNG financing, has been amended several times in 2005, 2009 and 2011, in order to increase fiscal decentralisation and reform the tax and grants systems. In 2016, SNGs still depended heavily on central government transfers whose share in total SNG revenue is well above the OECD average. In 2017, the Ministry of the Interior and Safety (MOIS) announced, as part of the 2017-2018 decentralisation programme, that it would increase the ratio of local tax vs national taxes to 40%-60% in the long term. Expanding the share of local taxes could however raise new challenges in terms of tax disparities. The current structure of the Korean local tax system favours urban areas. Expanding local taxes would exacerbate this situation, further increasing the revenue capacity of the urban areas, at the expense of rural areas. This would call for a review of the equalisation mechanisms.

TAX REVENUE. The tax system was reformed in 2011, in order to simplify the tax mix. The number of taxes allocated to SNGs declined from 16 to 11. Indeed, nine of these taxes are ordinary taxes and two are earmarked. Most tax rates are determined by the central government. Provincial taxes comprise ordinary taxes (acquisition tax, registration and license, leisure, and local consumption taxes) and earmarked taxes (community resource and facility and local education taxes). City and county taxes comprise ordinary taxes including inhabitant, property, automobile, local income, and tobacco consumption taxes. Metropolitan cities can levy both provincial and municipal own taxes.

On 19 December 2017, Korea enacted the 2018 tax reform bill on redistribution and sustainable growth that will amend the acquisition tax exemption clauses and reform environmental tax, among others.

GRANTS AND SUBSIDIES. Transfers from the central government to local authorities mostly include transfers from revenue sharing between levels of government, categorical grants and fiscal equalisation payments.

Revenue sharing is divided between Regular Revenue Sharing (RRS) and Revenue Sharing for Decentralisation (RSD). The RRS consists of 18.3% of national tax revenue. 96% of receipts are non-earmarked to SNGs according to an equalising formula based on assessment of standard fiscal needs and revenues. The remaining 4% is earmarked. The RSD system, financed through a decentralisation tax, was introduced in 2006 in order to finance the decentralisation of administrative functions. Categorical grants are very diverse and are aimed at helping local governments to 1) provide services that would otherwise be too financial onerous, 2) finance delegated tasks and policy projects and 3) provide financial assistance and compensation, among others.

The current Local Finance Equalization Scheme comprises the transfer of resources between the central and local governments (local subsidy, local education subsidy and subsidy from the national treasury) but also transfers between metropolitan cities and low-level local governments to alleviate internal fiscal disparities. Metropolitan cities give away a certain percentage of the ordinary taxes they collect to low-level local governments based on formulas and special spending needs. Apart from metropolitan cities, provinces also award unconditional grants to lower levels of local government, which are distributed based on population, tax amount collected in a jurisdiction, and the fiscal capacity of local governments.

OTHER REVENUES. Other revenues include mainly user charges and fees (8% of revenue). Revenue from property (sales of assets, leasing, dividends, etc.) accounts for less than 1% of SNG revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	1 103	4.2%	7.6%	100%
Financial debt*	547	2.1%	4.3%	49.6%

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Local Autonomy Act, SNGs must maintain a balanced budget. Performance- based budgeting was also introduced for local governments in 2016. A Local Fiscal Crisis Alert System was introduced in 2012 to prevent local governments from being in fiscal insolvency or moratorium, which monitors seven local fiscal status which may be connected directly to fiscal crisis.

DEBT. SNGs are free to borrow to fund investment projects ("Golden Rule"). SNGs mostly borrow from the central government's public loan funds, and recently from "regional development funds", operated by the upper level of local governments. Since 2006, they have been able to issue bonds without prior approval from the central government if their debt levels are less than the maximum debt ratios set by the authorities (Local Bound Ceiling System). If not, the approval of the Minister of Government Administration and Home Affairs is required. SNG debt in Korea is low, well below the OECD average for unitary countries (8.2% of GDP and 12.0% of public debt). In 2016, half of the outstanding debt was made up of "other accounts payable" i.e. commercial debt and arrears; while the other half consisted of financial debt. The share of local bonds in SNG debt has been increasing markedly in the recent years, climbing to 29% of SNG debt in 2016 (compared to 9% in 2013). Domestic bonds include public bonds, also known as flotation bonds, compulsory bonds, and compensation bonds.



Lead responsible: OECD
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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Statistics Korea

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database).

Other sources of information: OECD (2019) Making decentralisation work: a handbook for policy makers // Im Gon Cho (2018) Fiscal decentralization in Korea // Ministry of the Interior and Safety.(2018) 2018 Statistical Yearbook // OECD (2017) Urban Transport Governance and Inclusive Development in Korea // Ahn Y. (2015) Local Autonomy And Local Finance in Korea, Korea Domestic Economic Situation and Government's Effort, KRILA // Ministry of Strategy and Finance of Korea (2014) the Budget System of Korea // Local Government Officials Development Institute (2013) Local Government and Public Administration in Korea // Junghun Kim (2013) National Mandates in Korea: Fiscal Illusion and the Irreversibility of Tax Revenue Transfers, KIPF // OECD/Korea Institute of Public Finance (2012), Institutional and Financial Relations across Levels of Government.