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LOCAL GOVERNMENT IN KOREA



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Korea Research Institute for Local Administration



CONTENTS

CHAPTER 1	6	INTRODUCTION
CHAPTER 2	8	INSTITUTIONAL FRAMEWORK OF LOCAL GOVERNMENT
	8	Local Government Structure
	10	Boundary Changes of Municipalities
CHAPTER 3	12	LOCAL GOVERNMENT FUNCTIONS
	12	The Principles of Local Government Discharging
	13	The Functional Division
CHAPTER 4	16	THE FRAMEWORK FOR LOCAL ELECTIONS
CHAPTER 5	19	LOCAL GOVERNMENT ADMINISTRATION
	19	Local Council
	20	Executive Arrangements
	21	Administrative Structures
CHAPTER 6	24	LOCAL GOVERNMENT CIVIL SERVICE
	24	Local Public Officials
	24	Classification of Local Public Officials
CHAPTER 7	26	THE CENTRAL-LOCAL RELATIONSHIPS
	26	Overview
	26	Cooperation among Local Governments
CHAPTER 8	29	OVERVIEW OF LOCAL FINANCE
	29	Fiscal Year and Accounting System
	29	The Role of Local Public Finance



CONTENTS

CHAPTER 9	32	LOCAL EXPENDITURE
	32	Local Expenditures by Function
	34	Local Expenditures by Character
CHAPTER 10	35	LOCAL REVENUE
	35	Trend in Local Revenues
	36	Local Taxes
	42	Non-Tax Revenues
	43	Local Borrowings
CHAPTER 11	44	INTERGOVERNMENTAL FISCAL TRANSFERS
	46	Local Shared Tax
	48	National Treasury Subsidies
CHAPTER 12	50	REGIONAL DEVELOPMENT POLICIES
	50	The History
	52	Participatory Government's Strategies for Balanced National Development
	54	Current Policy Frameworks
	57	Further Direction in the Future
CHAPTER 13	58	RECENT REFORMS IN LOCAL GOVERNMENT
	58	Government Efforts
	59	Improving Local Democracy
	60	Issues in the Near Future
	60	Fiscal Reform

FIGURES

9	1. Local Government Structure
22	2. Organization Chart of Seoul Metropolitan Government
23	3. Organization Chart of Seocho-Gu
30	4. The Ratio of Local & National Tax to GDP
31	5. Local Revenue Breakdown (FY2007 Budget)
33	6. Trend in Local Expenditures by Function
33	7. Local Expenditures by Government Type
34	8. Local Expenditures by Character (FY2007 Budget)
36	9. Trends in Local Revenues
38	10. The Structure of Local Taxes by Government Type (FY2007 Budget)
55	11. Visions and Policy Frameworks for the Balanced National Development

TABLES

17	1. Election District for Chief Executives
18	2. Election District and Number of Local Council Member in Metropolitan City & Province
18	3. Election District and Number of Local Council Member in Si/Gun/Autonomous Gu
25	4. Number of Central Government Officials
25	5. Number of Local Government Officials by Service Type
30	6. Government Expenditure in GDP
31	7. Local Revenues by Account
32	8. Structure of Local Expenditures
37	9. Local Tax Breakdown (FY2007 Budget)
42	10. Non-tax Revenue Breakdown
43	11. Trend in Local Borrowings
45	12. Intergovernmental Fiscal Relations
51	13. Changes in Regional Development Policies in the CNDPs
52	14. Concentration in the Capital Region
54	15. Shifted Paradigm in Balanced National Development Plan

INTRODUCTION

Korea administrative hierarchy consists of the central, provincial, and municipal levels. The current provincial boundaries were inherited directly from those of the late Chosen Dynasty(1896), being a legacy of a more than 1,500-year-old ancient nation.

Korea had been considered a centralized State before 1991's local election for local councils and for elected provincial governors and mayors in 1995. As for the local government structure, Korea has a two-tier system. The upper or regional level consists of provinces(*Do*) and metropolitan cities(metropolitan *Si*). The lower or basic local level is composed of municipalities, such as municipal cities(*Si*), rural districts(*Gun*, rural county) and autonomous urban districts(*Gu*, located inside metropolitan cities). And all municipalities in Korea have administrative sub-levels, *Eup* and *Myeon* in rural areas and *Dong* in urban areas.

Korea shows features similar to the Germanic-style legislative framework, but the Korean constitution does not clearly guarantee the existence of the provinces and municipalities nor provides for a distribution of responsibilities, while the province and the municipalities perform both their local tasks and delegated tasks; so in practice these are quite powerful in the decision-making for their own "local affairs." As a general principle of local self-government system, there are two fundamental tenets of administrative autonomy: the freedom of elected assemblies (as the representative of local people) to make decisions and the existence of an elected executive (as the head of local government).

According to the official statistics of 2002, the functions for which central Government took the final decision power are 73% of the whole governmental

functions, whereas local governments take charge of only 24% of functions together with 3% of delegated functions assigned to local authorities by the central government.

Local government in Korea employs over 338,000 staff and spends 100 trillion Won (roughly equivalent to 100 billion US dollars) a year, which accounts for around 55 per cent of public spending. Of this, only a quarter is funded by local tax. Local governments finance themselves by revenues from locally raised taxes (e.g. property-based taxes) and non-tax revenue and the intergovernmental fiscal transfers (grants, subsidies, etc.). In addition, local governments rely on local borrowings for capital investment.

There are over 3,600 elected council members (738 of upper-level and 2,888 of lower-level), 230 mayors and 16 Metropolitan and provincial executive presidents serving on 246 regional and local self-governments, having in average more than 200,000 inhabitants.

INSTITUTIONAL FRAMEWORK OF LOCAL GOVERNMENT

LOCAL GOVERNMENT STRUCTURE

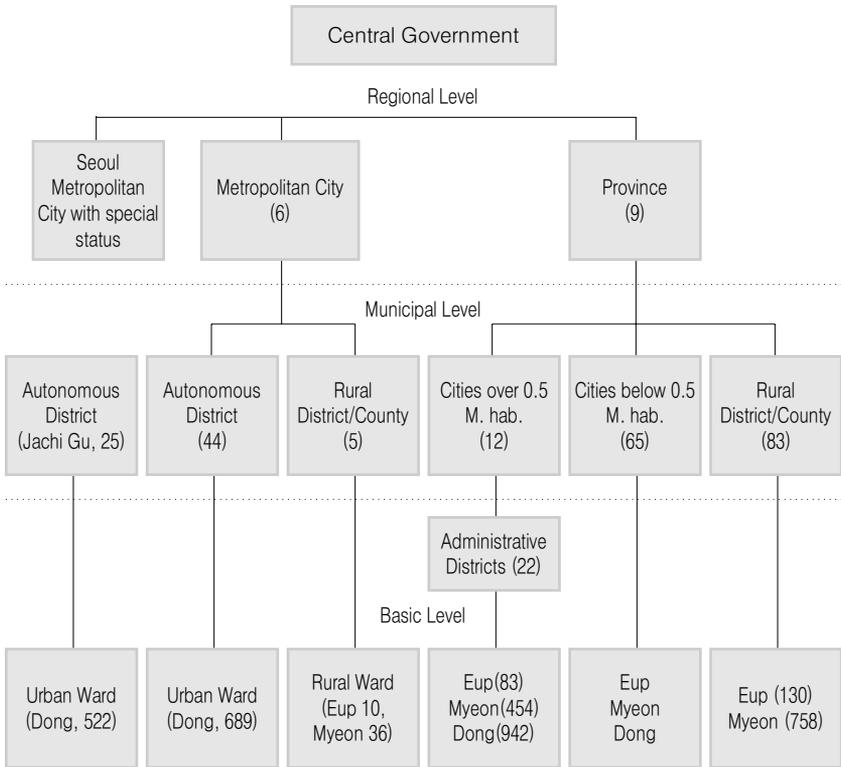
The provincial level includes the Special Metropolitan City of Seoul, and 6 other metropolitan cities, and 9 provinces of which Jeju Provincial Government became (since the first of July 2006) Jeju Special Autonomous Provincial government under the “Special Act for the Establishment of the Jeju Special Autonomous Provincial Government and International Free City” which entailed, after the local referendum, the annexation of the 4 municipalities into the provincial sub-administrative units.

The current provincial jurisdictions were laid out 100 years ago, and there have been no major changes except for the independence achieved by the metropolitan cities from the provinces.

Metropolitan cities are urban areas separated from provinces, often former provincial capitals, after 1945, based on the rationale that the interests of urban areas are better served by their own governments; this despite strong provincial disapproval. The Seoul Special Metropolitan City differs much from its counterparts in that its mayor is equivalent to central government ministers, unlike provincial governors.

The municipalities below these provinces concern the municipal cities and counties, and both are governed by political representatives, who include mayors and council members. These counties and municipal-level cities comprise various administrative sub-units, Gun, Eup, Myeon, according to demographic criteria.

Figure 1. Local Government Structure



Source : Official statistics of MOGAHA(Ministry of Government Administration and Home Affairs, 2006)

Note : M. hab. stands for million inhabitants.

When a Eup’s population exceeds 50,000, it can change its status to a city and, with over one million inhabitants, become a metropolitan city. The metropolitan cities, including Seoul, have districts with a municipal status, like the other municipalities governed by elected mayors and council members.

Actually, the local government system is based on Articles 2, 3 and 4 of the Local Autonomy Act, which, as well as making provision for municipalities and provinces, outline the basic principles underpinning their organization.

The Korean constitution recognizes the right to local autonomy as a general

principle of state organization laid down in Title VIII of the constitution. The constitution guarantees institution of the local councils (Article 118), stipulating the democratic and representative nature of their governmental bodies. It does not provide *a priori* for the existence of the province and metropolitan and municipal cities, but guarantees the right to implement local tasks within the legislation concerned, which offers local government various autonomy as a right. The local government structure is in fact guaranteed in the Local Autonomy Act.

Local councils with elected representatives have been established since 1991, and local elections for the head of the local governments were scheduled for August 1995 for the first time.

Autonomous districts within Seoul differ considerably in terms of their population and surface area, each district's population ranging from 250,000 to 600,000. It remains an open question whether these differences do reflect territorial distinctiveness and coherence. In other words, the scale of Korea's basic local governments generally fits the technical needs of territorial management, but at the same time these administrative units may be too large to encourage participative local democracy.

As far as the Metropolitan city at regional level is concerned, 6 metropolitan cities were granted their status as autonomous provincial governments in 1995. By placing an entire metropolitan area under the authority of a single Metropolitan city, government allows for overall control over development and land use. However, this same administrative arrangement can also pose problems for co-ordination between the metropolitan city and the province from which the former has been separated, considering especially that a metropolitan city with a population of over one million tends to exert economic and other influences beyond its own administrative boundaries. The boundaries of a metropolitan area cannot be definitively fixed since the appropriate boundary varies according to the function or goal in question.

BOUNDARY CHANGES OF MUNICIPALITIES

Korea's boundary reform has progressed with its rapid economic growth and subsequent urbanization, having been creating various spillover effects and regional transports development. Annexation and amalgamation have been the primary means used for altering administrative jurisdiction for continually expanding metropolitan cities by the central government.

The late-nineteenth-century provincial boundaries remained relatively unchanged until the end of Japanese colonial rule in 1945, when the country was

divided into South and North Korea after the Korean War in 1950. Few municipal boundary changes were made before the 1960s, while there were 24 cities at the municipal level at that period. Korean central government shows two opposite types of amalgamation policy during the period of 1960~2000; at the first part of the decades from 1960s the “urban-rural separation” policies are prevalent, whereas the “urban-rural integration” policies predominate through the 1990s. The main department in charge of the local government, the Ministry of Government Administration and Home Affairs(MOGAHA), preferred amalgamation by maintaining the idea that certain problems associated with fragmentation should be resolved through municipal amalgamations and that these municipal amalgamations would be more complicated after the municipal elections for the head of the local governments.

Accordingly, the Ministry of Home Affairs announced a plan for boundary reforms in early 1994, proposing amalgamation process and a list of affected municipalities. These municipalities were selected based on criteria such as the spatial scope of daily life, a shared regional identity of the local population, governance efficiency, and the existence of balanced growth between an urban core and its surrounding hinterlands. This reform of “urban-rural integration” in the 1990s contrasts with the earlier reforms of “urban-rural separation” since it sought to create consolidated municipalities containing an urban core and rural adjacent areas. Overall, the number of municipal boundary changes has increased to 74 cities by 2001.

LOCAL GOVERNMENT FUNCTIONS

THE PRINCIPLE OF LOCAL GOVERNMENT DISCHARGING

It is most likely that the Korean local government benefits from the Germanic principle of “self-administration”(*Selbstverwaltung*). Local levels are on the one hand regulated by a framework law, the Local Autonomy Act, and their responsibilities are defined by legislation, but not clearly denoted enough to distinguish the provincial responsibilities from the municipal responsibilities. As a result, the scope of responsibilities among the two levels is extremely blurred and complex; a large number of tasks are shared (of local government responsibilities enacted, two-thirds are exercised jointly by the upper-level local government and basic level local government). It may be due to the overlapping pattern of decision-making and roles of discharging the functions stipulated by the governmental statute of the Local Autonomy Act, though the detailed distribution of responsibilities among sub-national levels is set out in the latter and individual laws.

On the other hand, Korean local government system is influenced by structures inherited from the French model which is based on the unity and indivisibility of the State, and on the uniformity of the local government management structures. Another characteristic is that, though local administrations are not “creatures” of the intermediate level, as is in the federal system, the provinces and metropolitan city governments enjoy great supervisory authority over the municipal-level local government (city, rural districts, and autonomous urban districts).

THE FUNCTIONAL DIVISION

Article 117 of the Constitution stipulates the functional principle of sub-national governments: that local governments must promote the convenience and welfare of citizens in the course of managing their affairs, and should rationalize their organizations and management, and should optimize their size. As mentioned above, the functional distribution is ruled by the provisions of the Local Autonomy Act (art. 8~11), which regulates that local governments should not manage their affairs in violation of laws, subordinate statutes or bylaws of the metropolitan and provincial governments.

The Local Autonomy Act lists the functions of the provinces and metropolitan city governments and the basic level governments, and those that remain in the prerogative of the central government. First, the Act stipulates responsibilities that by their nature belong only to the central government. The centre conserves a regulatory role through the setting of objectives. They include national planning and national land use, etc. The second tasks which are practically the exclusive functions of the intermediate level of local governments, are called “intermediating functions.” Third tasks go to the shared tasks and responsibilities among the central, provincial and local governments. These are of two types; those shared between different tiers of local governments, and those shared between central and sub-national governments. It shows the close connection with the implementation of social (health, education, social assistance) or environmental policies. The sharing is intended so that each level is granted part of responsibility in a given field or in a given dimension. Formal responsibility may be attributed to one level but, owing to more than 400 subsidies or other factors, its clarity remains always clouded. The grey area induced by overlapping or complexity of responsibilities is not peculiar to the Korean system, and a review of task redistribution across levels of government constantly forms part of the reform agenda of many Napoleonic-style countries in Europe such as France, Italy, Spain, Portugal, Turkey.

Article 11 of the Act specifies the responsibilities of the central government as follows: first, functions belong to the national sovereignty, e.g., diplomacy, defense, judicial system, tax administration, etc.; second, those necessarily conducted by the nationally-uniformed means, price-policy, finance-policy, export-policy, etc.; and the responsibilities that require national standard and coordination, labor standard, weight and measurement system, and the like.

The tasks of the metropolitan and provincial governments are characterized by the intermediary functions which are : a. local affairs affecting more than two local governments' jurisdiction; b. affairs requiring uniformity within the provincial and metropolitan areas; c. affairs being necessarily consistent with some unit of upper-level local government; d. affairs related to the intermunicipal coordination between the central government and the basic-level local governments within the jurisdiction; e. affairs managed by the principle of subsidiarity on behalf of the lower level local governments; f. affairs appropriate to the regional government competences in consideration of the economy of scale; for example, in the fields of amenities, local public facilities jointly managed by more than two local governments.

As far as the basic level municipalities are concerned, they normally take the general-purpose responsibility of local affairs except the functions affected to the regional governments. However, cities with a population of 500,000 or more can manage a portion of provincial affairs such as health care, local public enterprise, housing and zoning.

The Korean constitution does not give autonomous and general decision-making authority to sub-national governments. Legal protection of sub-national responsibility is less extensive than in federal systems as in Germany and the United States. In unitary country such as France, only the State has "responsibility for its own responsibilities," that means local governments cannot alone determine their fields of action. This subject requires at least a passing reference to the statute arrangements in force. That is why the responsibilities of sub-national governments are not normally mentioned in the constitution. Even where an intermediate (provincial) level exists between the national and the local level, its responsibilities are, not in the constitution, but generally set out in specific legislation albeit being prior to the tasks of the municipalities in order of rank. Occasionally, as in France, the central government departments hold substantial prerogative regarding the distribution of competences. The amount of autonomy and freedom enjoyed by provincial and local governments in conducting their own policies depends, according to the Local Autonomy Act, on the power conferred on them by the Statutes, or Presidential Decree.

A general principle of "free administration" sometimes provides sub-national governments with legislative protection, that is to say, the right to guarantee any specific responsibilities remains in the hands of the legislator; some tasks delegated from central government and upper-level government do not guarantee them freedom in how those responsibilities are carried out. The degree of

devolution in local government varies enormously according to the fields of tasks, but State sovereignty remains at the centre. For instance, legislative authority is never shared; it remains exclusively the responsibility of the national parliament. While sub-national governments have decision-making authority in their fields of responsibility, they may not exercise general regulatory power, or such power is at best limited as in the United Kingdom. The classical analytical criteria by which “degrees of autonomy” could be determined, like the theoretical distinction between intrinsic and delegated fields of authority, are no longer fully valid. There are some systems in which the centre intervenes increasingly in the management of the “intrinsic” competences of sub-national governments. Over the years, delegated authority is being exercised with increased independence in various fields.

THE FRAMEWORK FOR LOCAL ELECTIONS

With regard to local government election, the Public Official Election Act prescribes the right to vote and eligibility of election. As of the record date of the electoral registry, a resident who is 19 years of age or above and registered as a resident in the district under jurisdiction of the local government concerned shall vote for the local council member and the chief executive of the local government in the district. The chief executive of the local government includes mayor of metropolitan city, governor of Do(province), and head of Si, Gun, autonomous Gu.

As for electoral eligibility, a national person of twenty-five years of age or above who has registered as a resident in the district under jurisdiction of the local government concerned for sixty consecutive days or longer, as of the election day, shall be eligible for election as a local council member or the chief executive of a local government.

The proportional representative City/Do(Province) council members shall be elected in the relevant City/Do(Province) as a unit and the proportional representative Si/Gun/autonomous Gu shall be elected in the relevant Si/Gun/autonomous Gu as a unit, respectively. Local council members of local constituency (the City/Do) shall be elected in the constituency of the members concerned as a unit. The chief executive of a local government shall be elected in the territory under jurisdiction of the relevant local government as a unit.

The fixed number of the City/Do council members in a local constituency shall be two for each Si/Gun/autonomous Gu under its jurisdiction. In the case of Si of the urban and rural complex form by a Si and a Gun consolidation, the full number of the Do council members shall be two in each Si and Gun as same as pre-consolidation. However, this is only applied for the first election of the City/Do council members after such consolidation. In a Metropolitan City and a Do(Province) in which the full number of local council members is fewer than 16, the full number of such Metropolitan City/Do(Province) council members shall be 16.

The full number of the proportional representative City/Do(Province) council members shall be 10/100 of the full number of the local constituency City/Do(Province) council members calculated. The calculated full number of the proportional representative City/Do council members, if fewer than three, shall be three.

As of May 31, 2006, there are 655 districts for metropolitan cities and provinces, and 1,028 districts for Si/Gun/autonomous Gu. With the creation of Jeju Special Autonomous Province on July 1, 2006, there is no Si/Gun/autonomous Gu any more in the province.

Table 1. Election District for Chief Executives

Region	Metropolitan City/Province	Si/Gun/Autonomous Gu
Seoul	1	25
Busan	1	16
Daegu	1	8
Incheon	1	10
Gwangju	1	5
Daejeon	1	5
Ulsan	1	5
Gyeonggi	1	31
Kangwon	1	18
Chungbuk	1	12
Chungnam	1	16
Jeonbuk	1	14
Jeonam	1	22
Gyeongbuk	1	23
Gyeongnam	1	20
Jeju	1	
Total	16	230

Source: National Election Commission

Table 2. Election District and Number of Local Council Member in Metropolitan City & Province

Region	Districts	Local Council Member	Proportional Council Member	Total
Seoul	96	96	10	106
Busan	42	42	5	47
Daegu	26	26	3	29
Incheon	30	30	3	33
Gwangju	16	16	3	19
Daejeon	16	16	3	19
Ulsan	16	16	3	19
Gyeonggi	108	108	11	119
Kangwon	36	36	4	40
Chungbuk	28	28	3	31
Chungnam	34	34	4	38
Jeonbuk	34	34	4	38
Jeonam	46	46	5	51
Gyeongbuk	50	50	5	55
Gyeongnam	48	48	5	53
Jeju	29	29	7	36
Total	655	655	78	733

Source: National Election Commission

Table 3. Election District and Number of Local Council Member in Si/Gun/Autonomous Gu

Region	Districts	Local Council Member	Proportional Council Member	Total
Seoul	162	366	53	419
Busan	69	158	24	182
Daegu	43	102	14	116
Incheon	42	97	15	112
Gwangju	19	59	9	68
Daejeon	22	55	8	63
Ulsan	16	43	7	50
Gyeonggi	148	364	53	417
Kangwon	51	146	23	169
Chungbuk	45	114	17	131
Chungnam	60	152	26	178
Jeonbuk	72	173	24	197
Jeonam	83	211	32	243
Gyeongbuk	101	247	37	284
Gyeongnam	95	226	33	259
Jeju	0	0	0	0
Total	1,028	2,513	375	2,888

Source: National Election Commission

LOCAL GOVERNMENT ADMINISTRATION

LOCAL COUNCIL

In Korea, there are local councils and members of local councils elected by a residents' universal, equal, direct, and secret vote. The term of office of the local council member is 4 years and none of local council members may concurrently hold any of the offices provided in the Local Autonomy Act.

With regard to competence of local council, local councils have authority to decide by resolution the matters of the following:

- Enactment, revision and abolition of Municipal Ordinance
- Deliberation and confirmation of a budget
- Approval of settlement of accounts
- Imposition and collection of user fee, commission, allotted charges, local tax and entrance fee
- Establishment and disposal of public facilities
- Acceptance and resolution of a petition
- Matters concerning interchange and cooperation with foreign local governments
- Other matters under its competence pursuant to Acts and subordinate statutes

As for local council session, the regular session of each local council is held twice each year. The Municipal Ordinance of the local government prescribes the date of assembly and other matters necessary for operation of the regular session. The chairman of the local council convenes the extraordinary session within

fifteen days after receiving a request from the head of the local government or from one-third or more of all the registered council members.

EXECUTIVE ARRANGEMENTS

As for chief executive of local government, there are mayor, governor, and head position by government level in Korea. The Seoul Metropolitan Government and Metropolitan Cities have the mayor, and Jeju Special Autonomous Do and other Dos have the governor, respectively. The Si, Gun, and autonomous Gu have a position of the heads of Si, Gun, and autonomous Gu, respectively. Like the local council election, the head of the local government is elected by a universal, equal, direct, and secret vote of residents. The term of office is 4 years and the head of the local government continues to hold office for three terms at the maximum.

The head of the local government represents the local government and has the general control of affairs. Unless the affairs of central government are prescribed by the Acts and subordinate statutes, by delegation to the Mayor/Do governor and the head of Si/Gun/autonomous Gu, the affairs are enforced and administered in the City/Do and Si/Gun/autonomous Gu. The head of the local government controls and executes the affairs of the local government concerned and the affairs delegated to the head of the local government by Acts and subordinate statutes. The head of the local government may delegate part of the affairs under his competence to its auxiliary organs, administrative organs under its control, and subordinate administrative organizations under the conditions as prescribed by the Municipal Ordinances or Municipal Rules.

The head of the local government may delegate or entrust part of the affairs under his control to the competent local government or a public institution or its organ (including its office and branch office). The head of the local government directs and supervises personnel under his control taking charge of matters concerning appointment, dismissal, training, service, disciplinary sanction, etc.

If a resolution of the local council exceeds its powers and violates the Acts and subordinate statutes, or is determined to be greatly detrimental to the public interest, the head of the local government may request reconsideration, specifying the reasons, within twenty days from the transferred date.

If a decision of the local council is considered to include an expenditure that cannot be executed under the existing budget, the head of the local government may request reconsideration, specifying the reason, within twenty days after the resolution transfer.

ADMINISTRATIVE STRUCTURES

Local governments may, if necessary within the scope of affairs under their jurisdiction, establish an autonomous police agency (limited to Jeju Special Autonomous Do), fire fighting organization, training organization, medical organization, test and research organization, and organization directing small-and-medium enterprises, etc. A local government may establish an office by the Municipal Ordinance of the local government under the conditions as prescribed by the Presidential Decree, when the local government needs to perform specific affairs efficiently. A local government may establish a branch office for the convenience of remote residents and for promoting the development of specific areas. If it is necessary to perform independently part of the affairs concerned, a local government may establish collegiate administrative organizations.

Each non-autonomous Gu has a head of Gu, and each Eup/Myeon/Dong has a head of Eup/Myeon/Dong. In this case, Dong means an administrative Dong. The head of a non-autonomous Gu is appointed by the head of the Si among the local public officials in general service. The head of the Eup/Myeon/Dong is appointed among local public officials in general service by the head of the Si/Gun/autonomous Gu, respectively. Head of subordinate administrative organization manages the affairs of the central and local governments under its competence, and direct and supervise his subordinates. In order to conduct division of duties for the affairs of local governments concerning education, science and athletics, separate organizations shall be established in the local governments.

The organization charts below are the exemplary administrative structure of Seoul Special City (as a metropolitan city) and Seocho-Gu (autonomous Gu).

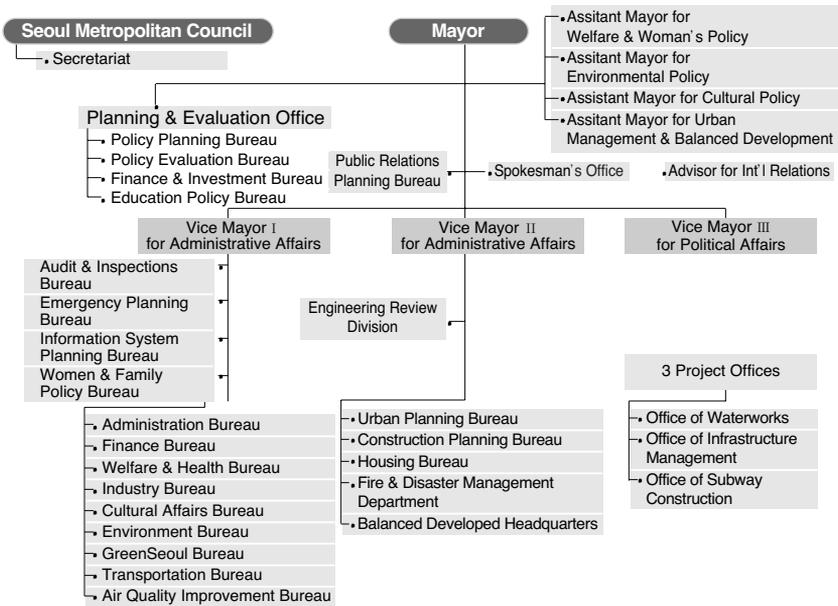
The administrative organization of the City of Seoul is divided into the Seoul Metropolitan Government as the executive branch, and the Seoul Metropolitan Council as the legislative body. Seoul has a three-tier administrative system: ‘si (city),’ ‘gu (autonomous district),’ and ‘dong (village).’

The Seoul Metropolitan Government has 1 mayor and 3 vice mayors (two for administrative affairs and one for political affairs), and four policy advisors, who are experts in the fields of women, welfare, environment, and urban management. In the city government, there are 1 office, 19 bureaus, 63 divisions, and 45 affiliate offices.

There are also 3 project field offices (Waterworks, Infrastructure Management, and Subway Construction) and 6 city-supported public work corporations (Seoul Metropolitan Subway Corporation, Seoul Metropolitan Installation Management

Corporation, Gangnam Hospital, Seoul Agricultural & Marine Products Wholesale Market Management Corporation, Seoul Metropolitan Development Corporation, and Seoul Metropolitan Rapid Transit Corporation).

Figure 2. Organization Chart of Seoul Metropolitan Government

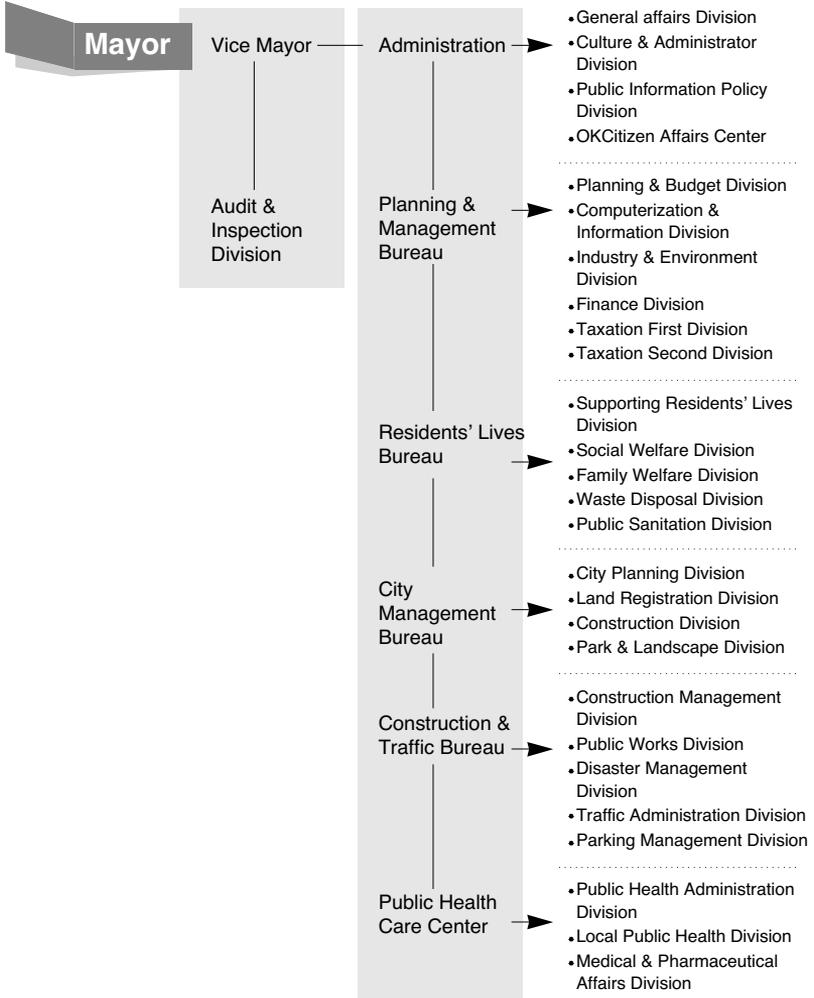


Source: Seoul Metropolitan Government

The Seocho-Gu office deals with all sorts of civil affairs including alien registration, cultural and physical development programs, taxation, maintenance and construction, urban sanitation and health.

The Seocho-Gu office as autonomous Gu is engaged in the following: civil affairs such as residence certification, seal impression, disposal of refuse, and regional parking problem like notification of resident first parking system.

Figure 3. Organization Chart of Seocho-Gu



Source: Seocho-Gu Office

LOCAL GOVERNMENT CIVIL SERVICE

LOCAL PUBLIC OFFICIALS

The Korean civil service system is divided into national and local public officials. National public officials are recruited and paid by central government, and deal with national administrative affairs. Local public officials responsible for local administrative affairs are recruited and paid by local governments. The total number of local public officials in each local government is regulated by the bylaw based on criteria prescribed by a presidential decree. The Local Civil Service Act regulates the appointment, examination, qualification, wages, services, guarantee of status, disciplinary punishment, and educational training. Also, national public officials can be employed in local governments according to the provisions of the law. Those who are in fifth grade and higher are appointed by the President while those not exceeding sixth grade are appointed by the Minister of Government Administration and Home Affairs.

CLASSIFICATION OF LOCAL PUBLIC OFFICIALS

According to the Local Government Civil Service Act, local public officials are classified into career service and special-career service officials in order to define the basis of personnel administration and to attempt democratic and efficient operation of local administration. In a grade level of local public officials, there are nine grades in general service and ten grades for labor service.

Career service officials are employed based on their performance and qualification,

and their status is guaranteed. There are general government service, specified government service, and technical-skilled service officials in career service. Local public officials in general government service deal with administrative affairs related to technology, research, and general public administration. Specified government service officials are educational public officials, police officials, local fire-fighting officials, and other officials in charge of special duties. In technical service, public officials are involved in technical tasks and classified by their skill.

Meanwhile, special-career service officials are political service officials who are elected by the people, appointed with the consent of local council, or by stipulation on law and bylaws; special service officials who are secretaries, chiefs of subordinate administrative organizations, or are stipulated according to laws and bylaws; professional service officials who are engaged in research and technology under contract with local governments for specified periods; and labor service officials who are engaged in simple physical labor.

As of December 2005, there are 910,452 public officials including central and local government officials. The number of central government officials is 571,982 and local government official is 338,470.

Table 4. Number of Central Government Officials

Political Service	Privileged Service	Contractual Service	Special Service	General Service	Technical Service	Total
131	2,305	58	433,135	92,118	44,235	571,982

Source: Statistical Yearbook (2006), Ministry of Government Administration and Home Affairs

Table 5. Number of Local Government Officials by Service Type

Political Service	Privileged Service	Special Service	General Service	Technical Service	Total
1	4,207	30,431	220,108	83,723	338,470

Source: Statistical Yearbook (2006), Ministry of Government Administration and Home Affairs

THE CENTRAL-LOCAL RELATIONSHIPS

OVERVIEW

The head of a central administrative agency or the Mayor(mayor of the Seoul & 6 metropolitan cities)/Governor(governor of 9 provincial governments) may advise, recommend, or guide on affairs of the local government and, if necessary, s/he may request the local government to present materials. If financial or technical support is necessary for a local government to handle affairs of such local government, in the opinion of the central government or City/Do, the central government or City/Do may provide such financial or technical support to such local government. In the case of City/Do, the Minister of central government shall guide and supervise the affairs of central government handled by a local government or the head of it under entrustment. In the case of the Si/Gun/autonomous Gu, on the other hand, the affairs of central government shall be primarily guided and supervised by the Mayor/Governor and secondarily by the competent Minister. Where the head of a central administrative agency and the head of a local government have a different opinion on the handling of affairs, a consultation/conciliation organization may be established under the Prime Minister in order to consult and conciliate it.

COOPERATION AMONG LOCAL GOVERNMENTS

A local government or the head of it may entrust part of the affairs under its competence to any other local government or the head of it to manage such part of its affairs. In this case, the head of the local government shall make a report to the

Minister of Government Administration and Home Affairs and relevant central administrative agency if a party entrusted with such affairs is the City/Do or the head of it. Likewise, the head of the local government shall make a report to the Mayor/Governor if a party entrusted with such affairs is the Si/Gun/autonomous Gu or the head of it. In addition, if a local government receives a request to jointly manage affairs or to consult, mediate, approve or support the performance of affairs from another local government, then it shall cooperate with the other local government within the limit of Acts and subordinate statutes.

Dispute Resolution Among Local Governments

If a controversy arises due to different views on disposing of affairs among local governments or the heads of the local government, the Ministry of Government Administration and Home Affairs or the Mayor/Governor may, upon request of the parties concerned, mediate the dispute. In order to deliberate and resolve matters necessary for the mediation of any dispute and matters to be consulted, a local government central dispute mediation committee shall be established under the jurisdiction of the Ministry of Government Administration and Home Affairs and a local government local dispute mediation committee under that of the City/Do.

Administrative Consultative Council

A local government may form an administrative consultative council in order to handle jointly part of the affairs related to two or more local governments. In this case, the head of the local government shall report it to the Minister of Government Administration and Home Affairs and the head of central administrative agency concerned if the City/Do is a member of it. Likewise, if the Si/Gun/autonomous Gu is a member of it, the head of local government shall report it to the Mayor/Governor.

Intergovernmental Corporative Body

If it is necessary to handle jointly one or more affairs, two or more local governments may establish a corporative body of local government. Through a decision of the local councils concerned, the intergovernmental organization shall establish rules and obtain the approval of the Minister of Government Administration and Home Affairs in the case of the City/Do, or the approval of the Mayor/Governor in the case of the Si/Gun/autonomous Gu. If the Si/Gun/autonomous Gu that is a member of the association extends over two or more Cities/Dos, the corporative establishment has to get the approval of the Minister of Government Administration and Home Affairs.

Consultative Council of Heads of Local Governments and Councils

The heads of local governments or the chairmen of the local councils may, according to the division falling under the followings, respectively establish a national consultative council(association) in order to promote mutual exchange and cooperation and to deliberate on mutual issues:

- Mayor/Governor
- Chairmen of City/Do councils
- Heads of Si/Gun/autonomous Gu
- Chairmen of Si/Gun/autonomous Gu councils

OVERVIEW OF LOCAL FINANCE

FISCAL YEAR AND ACCOUNTING SYSTEM

It is important first to know the fiscal year and the accounting system in a country in order to understand its public finance. In Korea, both central and local governments start their budget on January 1 of every year, closing all prospective spending on December 31. The accounting of local governments is classified into general account and special accounts. The general account is the basic accounting system to monitor administrative activities of a local government. Special accounts are again divided into those for local public enterprises and for others. The public enterprise special account is an account system that manages independent profitability of tap water business, sewage business, public development, local development fund, and subway business.

THE ROLE OF LOCAL PUBLIC FINANCE

The size of public sector in Korea has steadily grown last decades as shown in Table 6. The share of central government expenditure in GDP peaked in 2000 reaching 23.0%; since then it has declined to 20.4% of GDP. In 2005, the size of the local public sector represented 15.8% of the gross domestic product (\$787.5 billion). The size of local government expenditures has grown much faster than the central government and has doubled since 1985.

However, despite the significant size of local governments, the degree of local autonomy in Korea is quite limited. Under the current local autonomy system, the

functions of the central government and local governments are not clearly defined and many policy decisions are made at the central level. Especially in education, there is a large discrepancy between the size of local expenditure and the extent of local autonomy. The central government assumes the primary financial responsibility for education while local governments deliver the educational services, acting as agencies of the central government.

Table 6. Government Expenditure in GDP

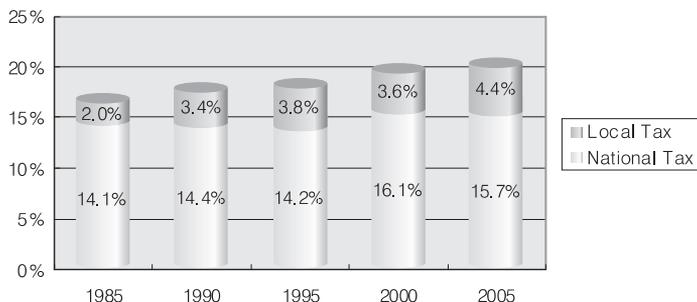
(unit: billion Won, %)

	1985	1990	1995	2000	2004	2005
Central Government	15,308	32,408	58,436	133,348	161,263	165,097
Local Government	6,595	22,914	52,379	77,176	125,844	128,415
Nominal GDP	84,061	186,691	398,838	578,665	779,381	810,516
% of GDP						
Central Gov't/GDP	18.2	17.4	14.7	23.0	20.7	20.4
Local Gov't/GDP	7.8	12.3	13.1	13.3	16.1	15.8

Source: 2007 Budget Summary of Local Governments (MOGAHA)

Looking at the other side of public sector, in 2005, the ratio of national tax to GDP is 15.7%, which has been increased by 1.6% point since 1985. With the emphasis of local decentralization, the ratio of local tax to GDP has increased more than national tax, from 2.0% to 4.4% partly due to the introduction of local education tax in 2001, which is still considered as low by local authorities.

Figure 4. The Ratio of Local & National Tax to GDP



Source: Korea National Statistical Office DB

The local revenues include local tax, non-tax revenue, Local Shared Tax, national treasury subsidy, and local government borrowings. According to the 2007 budget published by the Ministry of Government Administration and Home Affairs, the size of total local revenue is 111.98 trillion Won (\$120.4 billion), of which general account revenue is 86.52 trillion Won. In 2007, local taxes amounted to 38.07 trillion Won account for about one-third of the local governments revenue, followed by non-tax revenue, Local Shared Tax, treasury subsidy, and local borrowings.

Table 7. Local Revenues by Account

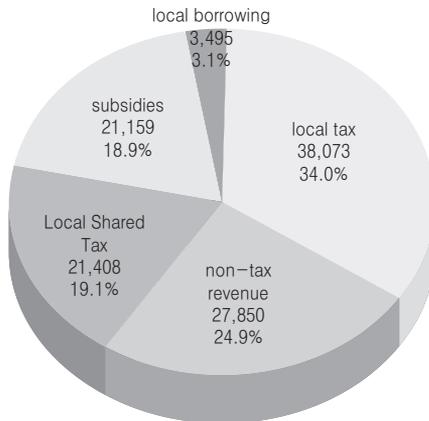
	Sum	Local Tax	Non-tax Revenue	Local Shared Tax	Subsidies	Local Borrowings
Total Size	111,986	38,073	27,851	21,408	21,159	3,495
General Account	86,521	38,073	10,140	21,408	16,265	635
Special Account	25,466	-	11,711	-	4,894	2,860

(unit: billion Won)

Source: 2007 Budget Summary of Local Governments (MOGAHA)

Figure 5. Local Revenue Breakdown(FY2007 Budget)

(unit: billion Won)



Source: 2007 Budget Summary of Local Governments (MOGAHA)

LOCAL EXPENDITURE

LOCAL EXPENDITURES BY FUNCTION

Article 9 of the Local Autonomy Act defines major sectors where local governments have a policy role according to the principle of local autonomy and where their activities are not confined to the implementation of policies decided elsewhere.

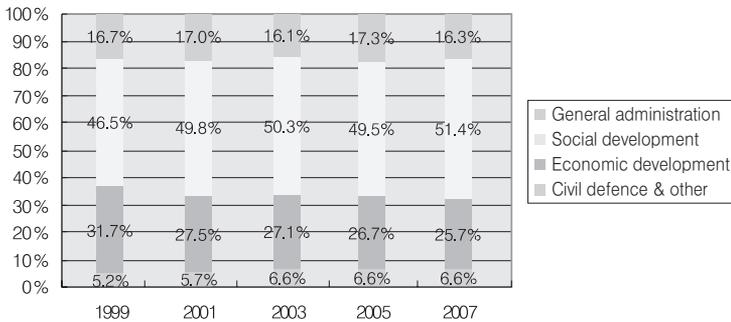
Table 8. Structure of Local Expenditures

Chapter	Clause	Billion Won	% of total
General administration expenditure	- Legislation & election	505	0.5
	- General administration	17,732	15.8
Social development expenditure	- Education & culture	9,799	8.7
	- Health & amenities	16,928	15.1
	- Social security	17,283	15.4
	- Housing & development of local community	13,522	12.1
Economic development expenditure	- Agriculture & fishery	6,334	5.7
	- Regional economic development	4,066	3.6
	- Preservation & development of resources	10,422	9.3
	- Transportation	8,009	7.2
Civil defense expenditure	- Civil protection	190	0.2
	- Fire service	2,067	1.8
Support & other expenditure	- Local borrowing repayment	1,312	1.2
	- All other expenditure	2,033	1.8
	- Grants	1,787	1.6
	- Contingency		

Source: 2007 Budget Summary of Local Governments (MOGAHA)

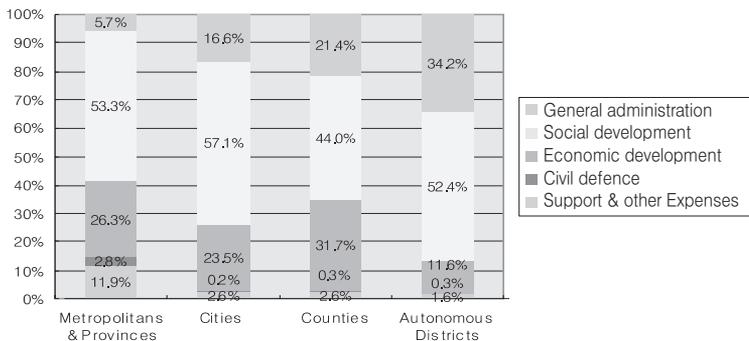
When expenditure is classified by function, a lot of revenue is expended for social development, which includes health, social security, housing, education and culture. As indicated in Figure 6, local governments in Korea have performed the prime goal of enhancing the welfare of the residents. The share of social development expenses has increased from 46.5% to 51.4% since 1999, with the corresponding decrease in the share of economic development from 31.7% to 25.7%. These recent percentage changes of government functions reflect the policy stance of the current administration.

Figure 6. Trend in Local Expenditures by Function



Source: 1) Korea National Statistical Office DB
2) 2007 Budget Summary of Local Governments (MOGAHA)

Figure 7. Local Expenditures by Government Type



Source: 2007 Budget Summary of Local Governments (MOGAHA)

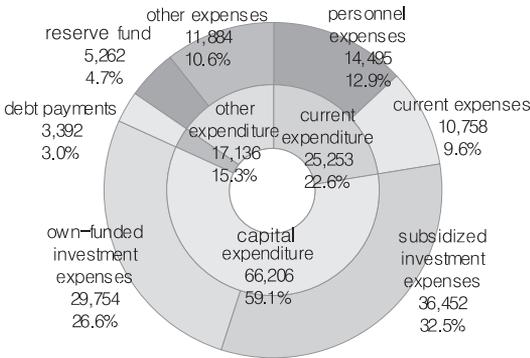
Local expenditures by government type are shown in Figure 7. In metropolitan cities & provinces, more than three-quarters of the revenue are expended for social development and economic development, while the share of general administration is much lower than other types of governments.

LOCAL EXPENDITURES BY CHARACTER

Classified by character, expenditures can be divided into current expenditure (personnel expenses and operating expenses), capital expenditure (own-funded investment expenses and subsidized investment expenses), public debt payments, and other expenditure (reserve fund, other expenses). Looking at Figure 8, in the 2007 budget, the share of capital expenditure accounts for 59.1% of local expenditure, which is 66.2 trillion Won.

Figure 8. Local Expenditures by Character(FY2007 Budget)

(unit: billion Won)



Source: 2007 Budget Summary of Local Governments (MOGAHA)

LOCAL REVENUE

TRENDS IN LOCAL REVENUES

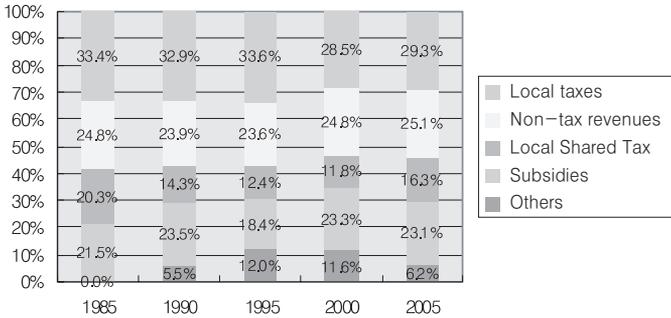
The local revenues are composed of local taxes, non-tax revenues, Local Shared Taxes, subsidies, and borrowings including bonds and loans. These revenue items may be classified in various ways according to the government levels.

Korean local revenues are characterized by three most referred features. First, the composition of revenues is complicated and diverse in styles. Second, the central government provides some fiscal assistance in the form of transfers. Significant discrepancies in fiscal capacity among regions require the central government to adjust them through fiscal transfers. Lastly, there are additional non-tax revenues featuring the user charge principle.

As of the 2007 fiscal year, the total size of local revenue (general accounts plus special accounts) amounts to about 112 trillion Won, composed of 34.0% with local taxes, 24.9% in non-tax revenues, 19.1% in Local Shared Tax, 18.9% in subsidies and 3.1% in borrowing.

The trend of local revenues on the basis of general account demonstrates that there is no significant change in the shares of local revenues. Compared to 1985, however, the shares of local tax and Local Shared Tax have been decreased by 4.1 % point and 4.0% point respectively. On the other hand, revenues generated from local borrowing and other sources have been increased from 0% in 1985 to 6.2% in 2005.

Figure 9. Trends in Local Revenues



Source: Korea National Statistical Office DB

LOCAL TAXES

Local Tax Breakdown

The local tax, imposed on residents and their properties under a given region of jurisdiction, is the single most important revenue source of local governments. Local taxes are levied and collected by local governments with the principle of the tax law, which is empowered by the constitution. However, there are several exceptions of the tax law, such as allowing local governments to employ elastic tax rates or tax expenditures in their local taxation.

There are a total of sixteen local taxes, of which eleven are general taxes and the other five are levied on an earmarked basis. Metropolitan governments, including Seoul Metropolitan City, can have 13 taxes whereas autonomous districts (Gu) have only three, such as the license tax, property tax, business firm tax. Provincial governments have seven tax items while cities (Si) and counties(Gun) are financed with 9 local taxes. Local taxes mostly depend on property related taxes.

The fiscal year 2007 shows that the revenue from local taxes amounts to 38.07 trillion Won. General taxes occupy 80.3% and earmarked taxes contribute 18.1%. The revenues from the previous year comprised about 1.6%. The composition of revenue categorized according to tax items is as follows: registration tax occupies the most with 17.8%; acquisition tax follows with 17.1%; resident tax and local

education tax share 15.1% and 10.5%. Major taxes such as those described four taxes contribute to local finance by about two-thirds.

One notable concern is the regional imbalance of the size of the tax bases, not only between urban and rural areas but also between capital and non-capital regions. In fact, most tax resources are concentrated in urban areas, such as Seoul, metropolitan cities, and cities. Thus, as stated earlier, local governments in rural

Table 9. Local Tax Breakdown (FY2007 Budget)

(unit: billion Won)

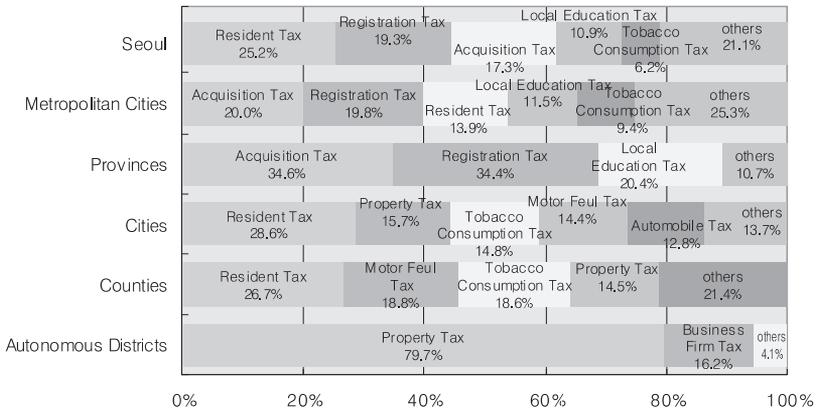
	Total	Upper-Level		Lower-Level			% of total
		Seoul & Metropolitan Cities	Provinces	Cities	Counties	Autonomous Districts	
Total	38,073	16,582	10,395	7,524	1,393	2,181	100.0
General Tax	30,569	13,154	7,813	6,502	1,282	1,818	80.3
Acquisition Tax	6,518	3,015	3,503				17.1
Registration Tax	6,792	3,227	3,565				17.8
License Tax	76	1	35			41	0.2
Resident Tax	5,752	3,285	34	2,079	354		15.1
Property Tax	3,301		40	1,273	211	1,778	8.7
Automobile Tax	2,048	950	21	917	160		5.4
Agricultural Income Tax	0	-	-	0			0.0
Butchery Tax	45	8	1	25	11		0.1
Leisure Tax	723	167	556				1.9
Tobacco Consumption Tax	2,510	1,165	33	1,072	240		6.6
Motor Fuel Tax	2,805	1,337	26	1,137	351		7.4
Earmarked Tax	6,886	3,145	2,457	871	90	323	18.1
Urban Planning Tax	1,658	1,005	12	595	46		4.4
Common Facility Tax	525	277	248				1.4
Business Firm Tax	646		3	276	44	323	1.7
Regional Development Tax	71	14	57				0.2
Local Education Tax	3,986	1,849	2,137				10.5
Revenue from Previous year	619	283	125	151	20	39	1.6

Source: 2007 Budget Summary of Local Governments (MOGAHA)

areas (this usually refers to provinces and counties) tend to depend on transfers from the central government for financial backing.

Looking at Figure 10, we can see the structure of local taxes by governmental type. In Seoul and metropolitan cities, the top five taxes such as acquisition tax, registration tax, resident tax, local education tax and tobacco consumption tax cover three-quarters of local tax. In provinces where resident tax and tobacco consumption tax are collected by municipalities (cities and counties), the share of tax revenue from acquisition tax, registration tax and local education tax accounts for approximately 90% of local tax. In municipalities, property tax plays an important role, especially in autonomous districts where its share reaches at 79.7% of local tax.

Figure 10. The Structure of Local Taxes by Government Type (FY2007 Budget)



Source: 2007 Budget Summary of Local Governments (MOGAHA)

The Rates and Bases of Local Taxes

The Local Tax Law regulates the framework of the local tax system, including taxable items and their rates. In addition, individual tax systems are managed by local governments in consultation with the Local Tax Bureau of the Ministry of General Administration and Home Affairs. There is, therefore, little variety among the individual tax systems of local governments.

a. Acquisition Tax

The Acquisition Tax is levied on persons acquiring real estate, motor vehicles, heavy equipment, trees, boats, aircrafts and memberships for golf clubs and condominium & health clubs, either through purchase or inheritance. The tax base of the Acquisition Tax is declared at the time of purchase. The tax rate for acquiring real estate is 1% of its Standard Value.

b. Registration Tax

The taxpayer of the Registration Tax is one who registers particular items concerning acquisition, creation, transfer, alteration or lapse of property rights or other titles in the official book. Like the acquisition tax, the registration tax base on real estate, ships, aircrafts or motor vehicles is based on the declaration of the person who registers or records in accordance with the pertinent regulations. However, in the case where the tax base is not reported, or the value at the time of acquisition is less than the Standard Value which is determined annually by the local government, the Standard Value is deemed to be the tax base.

Two types of tax rates are applied at registration: fixed tax rates and fixed tax payments. The fixed tax rates (1%) are applied to the registration of property, vessels and vehicles. The fixed tax payment rules are applied to the intangible right and registration of those properties.

c. Property Tax

The Property Tax base is the current Standard Value for buildings, ships and aircrafts. Different tax rates are applied to various properties; for example, tax rates for houses are 0.15%~0.5%. In addition, a person who owns land or house with its values exceeding 600 million Won is also required to pay General Real Estate Tax that was introduced in 2005 as a national tax to stabilize the prices of real estates. The rates of the General Real Estate Tax for houses are between 1% and 3%.

d. Urban Planning Tax

The taxpayer of the Urban Planning Tax is one who owns land or houses within areas designated for assessment of the city planning tax by the mayor or commissioner. The tax base is taken from the value of the land or house. While the standard tax rate is 0.2% of the land or house value, the maximum tax rate is 0.3% thereon.

e. Common Facility Tax

The taxpayer is one who benefits from public services such as fire-service facilities, garbage disposal systems and sewage maintenance or other similar facilities. In most cases, the tax base for fire-service facilities is the value of the house or respective homestead, while in other instance it may be the value of the land or house.

f. Automobile Tax

The Automobile Tax is levied on a person who owns at least one motor vehicle that is either a vehicle registered under the automobile law, or a dump truck/concrete mixer truck registered under the construction and machinery management law.

The taxable base and the tax rate vary according to the classification of the vehicle, size of the unit and type of utilization.

g. Tobacco Consumption Tax

The taxpayer of Tobacco Consumption Tax, established in 1989 as a local tax (city and county tax) is one who imports and sells manufactured tobacco within a city or county.

As the fixed tax payment rule is applied, the taxable standard value depends on the weight and number of units, and is also different according to the type of tobacco.

h. Leisure Tax (similar to Entertainment Tax or Gambling Tax)

While it may seem to be an earning tax levied on the winner and the winning ticket, the Leisure Tax can be classified as a consumption tax since the tax revenue is generated by consumers who enjoy risking on high stakes.

The Korean Racing Association is a major taxpayer as well as dealers of the wagering tickets. However, the actual tax burden is carried by the ticket buyers. The tax rate are 10% of the total sales of tickets.

i. Butchery Tax

The Butchery Tax is levied on the slaughter of swine and bovine animals based on the assessment of the city or county in which the slaughterhouse is located. Butchers are taxed less than or equal to 1% of the base, which is the market price of cattle or swine.

j. Motor Fuel Tax

The Motor Fuel Tax is a consumption tax backed by the national traffic tax. Although those who are involved in the gasoline refinery industry and crude oil imports are required to pay this tax, the actual tax burden is carried by the consumer of gasoline products.

k. Agricultural Income Tax

The taxpayer of Agricultural Income Tax is one who earns income from cultivating crops. The tax base is the amount remaining after discounting exemptions and basic deductions from the farmland income. The tax rates vary from 3% to 40% and are subdivided into five levels. The progressive surtax is applied to the agricultural income tax.

l. Resident Tax

The Resident Tax is divided per capita and pro rata income. The taxpayer of per capita is one whose domiciles and corporation with his/her offices are in a city or county, while the taxpayer of pro rata income is an individual and corporation liable to the payment of income tax, corporation tax or agricultural income tax. Thus, the tax base is according either to the number of inhabitants (per capita), or to the amount of income tax, corporation tax or agricultural income tax (pro rata income).

The varying fixed tax payments for per capita are applied to individuals, corporations and different regions, whereas the pro rata income resident tax is fixed at 10% of personal income tax, corporate income tax and agricultural income tax.

m. License Tax

The License Tax is applied to those who have obtained licenses from the administrative authorities. Depending on the region, the taxable standard value and tax rate are applied as the fixed payment base for five types of licenses as determined by the Local Tax Act.

n. Business Firm Tax

A business person who has registered a business location and provides employees with their proper salaries or wages must pay the required tax. The Business Firm Tax is classified per property and employee attributes. The tax base

of each property is the workshop area as of the date of assessment, and the tax base per employee is according to the monthly payroll. The property base rate is 250 Won per square meter, and per employee rate is 0.5% of the payroll.

o. Regional Development Tax

While taxable items and tax rates for the Regional Development Tax are prescribed in the Local Tax Law, the details of taxation are determined by the local rules. Therefore, the regional development tax is unique by not being prescribed in the law.

The taxpayer is one who capitalizes on the use of natural resources and one who loads or unloads crates and containers at harbours. The tax base is calculated according to the water for generating electricity, subterranean water, underground resources and containers.

p. Local Education Tax

The Local Education Tax was introduced to enhance the quality of local education in 2001. The education tax is levied on six other taxes including Registration Tax, Property Tax, Tobacco Consumption Tax, per capita Resident Tax, Automobile Tax, and General Real Estate Tax. The taxable standard value and the tax rate are applied in the fixed rate base.

NON-TAX REVENUES

The non-tax revenue plays an important role in financing local governments

Table 10. Non-tax Revenue Breakdown

(unit: billion Won)

General Account						Special Account	
Current non-tax revenue		Temporary non-tax revenue				Business operating revenue	Non-business revenue
user charge	other current revenue	property disposal revenue	net annual surplus	miscellaneous	other temporary revenue		
1,483.6	1,662.3	569.7	4,006.8	725.6	1,692.0	9,014.0	8,696.9
5.3%	6.0%	2.0%	14.4%	2.6%	6.1%	32.4%	31.2%

Source: 2007 Budget Summary of Local Governments (MOGAHA)

because it is self-financed revenue like local taxes. When we look at the trend of non-tax revenue in Figure 9, the share of non-tax revenue has remained between 23.6% and 25.1% in last two decades. There is a variety of non-tax revenue sources including user charges, fees, rents, etc.

Local governments can increase or decrease non-tax revenues at their will as long as they abide by the related regulations. Non-tax revenues are easily collected as they are generated by providing public services unlike ordinary tax collection. However, it is difficult to forecast the size of non-tax revenues since there are various types of non-tax revenues.

LOCAL BORROWINGS

According to Article 11 of Local Finance Act, the heads of local governments may issue bonds when their issuance becomes a long-standing benefit to their local governments and there is a need for urgent accident restoration, etc. Where the heads of local governments intend to issue the local government bond, they shall issue them within the amount limit for local governments bonds, set by the Presidential Decree, taking into account of the financial situation, the amount of liabilities, etc.

Outstanding local government borrowing, the debts of local governments, amounted approximately 17.4 trillion Won at the end of 2006. The size of local debts has not changed in recent years because of the strong control of local borrowings by the central government.

Table 11. Trend in Local Borrowings

	(unit: billion Won)				
	2000	2002	2004	2005	2006
Outstanding Borrowing	18,995	17,090	16,947	17,448	17,435

Source: 2007 Budget Summary of Local Governments (MOGAHA)

INTERGOVERNMENTAL FISCAL TRANSFER

The central government in Korea provides various types of grants-in-aid for local governments, such as Local Shared Tax and Provincial & Metropolitan Revenue Sharing to achieve horizontal equity and national minimum for public services. The central government provides local governments with funds from the Local Shared Tax, except for those autonomous districts under the jurisdiction of metropolitan cities which receive Metropolitan revenue sharing.

In addition to the Local Shared Tax, the Korean government administers the National Treasury Subsidy for the efficient allocation of resources and the integration of national policies. These categorical grants are provided for specified projects such as construction, sewage disposal facilities, and social welfare programs, etc.

Under the current Roh Administration, there occurred a major change in the area of intergovernmental fiscal transfers, in particular, between the central and local governments. Specifically, three new fiscal transfer systems were introduced after 2005: they are the Special Account for the Balanced National Development (specific grant), the Shared Tax for Decentralization (specific grant), and the Real Estate Related Shared Tax (general grant).

As indicated in Table 12, there are also intergovernmental grants between local governments, which are called Provincial revenue sharing and Metropolitan revenue sharing.

Korean intergovernmental fiscal relations depend financially on the central government, which comprises about 67% of the total government budget. In

addition, the share of intergovernmental transfers is 35% of local revenues on average. These results demonstrate that the Korean tax system leans heavily on national taxes. In Korea, the central government regulates the types and rates of local taxes and, simultaneously provides grants-in-aid to compensate for fiscal deficiencies of local governments.

Table 12. Intergovernmental Fiscal Relations

	Inter-governmental relations	Financial sources	Type of funds	Amount (billion Won)
Local Shared Tax				
- Ordinary shared tax	- central → local	- 19.24% of domestic tax revenue - 96% of Local Shared Tax	- general grants	17,754
- Special shared tax	- central → local	- 4% of Local Shared Tax	- earmarked grants	740
- Shared tax for decentralization	- central → local	- 0.94% of domestic tax revenue	- earmarked grants	1,002
- Real estate related shared tax	- central → local	- general real estate tax	- general grants	651
Subsidies				
- Treasury subsidy	- central → local	- general account of central government	- earmarked grants	18,332
- Special Account for the Balanced National Development	- central → local	- liquor tax, user charges, general & special accounts	- earmarked grants	5,474
Local grants				
- Provincial revenue sharing	- province → cities & counties	- 27%~47% of province tax	- general grants	2,534
- Metropolitan revenue sharing	- metropolitan city → autonomous districts	- 50%~70% of Acquisition Tax and Registration Tax	- general grants	3,537

LOCAL SHARED TAX

The Local Shared Tax is a general grant whose size and allocation formula are defined by law and plays a primary role in intergovernmental fiscal relations. The Local Shared Tax Law states that it is used to reduce fiscal disparities among local governments. The source of Local Shared Tax is from the 19.24% of the domestic tax revenue which was increased from 15% in 2000. The Local Shared Tax supplements the distribution of tax bases between the central and local governments. Local Shared Tax is classified as general revenue, allowing local governments to spend it without the central government's restrictions.

The Local Shared Taxes are divided into Ordinary Local Shared Tax, Special Local Shared Tax, Shared Tax for Decentralization, and Real Estate Related Shared Tax. The Ordinary Local Shared Tax, which comprises 96% of the total Local Shared Tax, is allocated on the base of a comprehensive formula. The Special Local Shared Tax, which comprises 4% of the total, is allocated on the basis of the special needs of local governments. On the other hand, the source of Shared Tax for Decentralization introduced in 2005 is 0.94% of domestic tax revenue. In addition, the Real Estate Related Shared Tax was introduced to supplement the decrease of tax revenue due to the property-related tax reform, which includes the introduction of General Real Estate Tax as a national tax, in order to stabilize national prices of real estates.

The Special Account for Balanced National Development was established in 2005 to consolidate various fund sources related to balanced regional development, which are managed by the different departments in the central government and to execute them in an efficient manner.

The Ordinary Local Shared Tax is distributed based on the difference between the Standard Fiscal Need and the Standard Fiscal Revenue. Various socioeconomic indicators are used to measure the Standard Fiscal Need and the Standard Fiscal Revenue. The central government allocates local share funds to fiscally deficient local governments based on the difference between the Standard Fiscal Need and the Standard Fiscal Revenue. The difference is not subsidized entirely, but pro-rated within the range of the total Local Shared Tax. The allocation formula of Local Shared Tax is as follows:

$$\text{Ordinary Local Shared Tax} = \text{Fiscal Deficiency} \times \text{Adjustment Rate}$$

where *Fiscal Deficiency* = *Standard Fiscal Need - Standard Fiscal Revenue*
and *Adjustment Rate* = *Total Ordinary Local Shared Tax / Total Deficit*

Standard Fiscal Need refers to financial needs that comply with the standards in terms of the administrative conditions of a local government.

The Standard Fiscal Revenue includes common and general revenues of local governments and excludes temporary and special purpose revenues. For instance, revenues from selling buildings, land and equipment are neither common nor general revenues of a local government. Rather, these revenues are omitted or partially reflected in the Standard Fiscal Revenue, which consists of basic revenues, supplement revenues and revenue incentives.

$$\text{Standard Fiscal Revenue} = \text{Basic Revenue} + \text{Supplement Revenue} + \text{Revenue Incentive}$$

Basic revenue is the 80% application of standard tax rates specified in the Local Tax Law. The reason for the 80% limit of tax rates is to guarantee its own revenue and to enhance tax efforts of local governments. If the total amount of expected revenues are reflected in the Standard Fiscal Revenue, it may cause an adverse effect on the local governments' tax efforts.

Basic revenues are broken down into two distinct categories: local taxes, including both general & earmarked taxes, and non-tax revenues. By definition, earmarked taxes are revenues from specific sources and thus are not included in basic fiscal needs.

$$\text{Basic Revenue} = \text{General Tax Revenue} \times 80\%$$

The basic revenue is calculated by estimating standard general tax revenues for each local government.

Supplement revenues are used when there are inaccuracies in the estimated basic revenues. Predictions of tax revenues are susceptible to changes in the economy and forecasting errors are likely to exist. Such discrepancies are adjusted by supplement revenues in computing Standard Fiscal Revenues for the following fiscal year.

Special Local Shared Tax is an instrument used to supplement General Local Shared Tax, on which it comprises a portion of one eleventh. Special Local Shared Tax places restrictions on the use of funds and may be given to local governments without fiscal deficits. Uses of the Special Local Shared Tax are categorized into five areas: national projects, financial preservation, disaster prevention, regional development and special urgent projects.

NATIONAL TREASURY SUBSIDIES

National treasury subsidies are categorical grants provided to local governments for specific projects. The size and number of projects are determined annually by the Ministry of Planning and Budget, while Local Shared Taxes are allocated based on formulas. The characteristics of national treasury subsidies are specified in the Local Finance Act, which states that the central government is either fully or partially responsible in the case that there is conflict between the central and the local governments. With a purpose to correct inefficient resource allocations arising from inter-jurisdictional externalities, national treasury subsidy is used to maintain proper quality levels of public services, implementing nationally integrated projects, providing new projects and responding to special fiscal needs. In other words, national treasury subsidy is a typical grant that the central government provides to foster specific projects of local governments. Funds of national treasury subsidy are provided by central agencies related to certain projects. In addition, it is a conditional grant that requires local governments to provide a matching fund in contribution to the overall funds.

There are two types of national treasury subsidy rates: basic and differential subsidy rates. The basic subsidy rate is applied based on relevant projects, types of expenses and subsidy rates, specified in the statutes of the National Treasury Subsidy.

Differential subsidy rates are applied to encourage balanced regional development by increasing or decreasing the basic rates to appropriate levels. While increased differential rates are not applied to metropolitan cities, decreased differential rates are applied to local governments that do not receive the Local Shared Tax. The projects to which the differential rates are applied include those with a basic rate of 100% and those selected by the central government annually. The financial condition of a local government is considered in determining the differential rates.

The size of national treasury subsidy fluctuates over time and among localities. Therefore, it is difficult for local governments to operate major fiscal

planning. National treasury subsidy is still a major source of revenue for local governments, although its significance has decreased since 1991 when the Local Transfer Fund was introduced. The source of Local Transfer Fund was a national tax whose revenue was shared by the central and local governments as specified in the law. The fund was also regarded as specific grants in the sense that local governments should use for specific purposes. However, it was abolished in 2005 because it had an ambiguous nature in that it shared the characteristics of Local Shared Tax and treasury subsidy.

REGIONAL DEVELOPMENT POLICIES

THE HISTORY

Despite massive destruction during the Korean War, Korean economy has achieved an exceptional growth in the past 30 years (the GDP per capita increased from 120 dollars in the 1960s to more than 10,000 dollars in 1995), now becoming one of the OECD countries. Such success was enabled by a dense network of centralized, top-down plans for economic development and territorial policies. For the territorial policies, Korean government has formulated the Comprehensive National Development Plan (hereafter, CNDP) every 10 years since 1972, which is designed to serve economic plan and respond to local problems.

The strategy undertaken in the early stage of Korean development can be characterized by growth pole strategies: key industries and selected areas. In an industrial policy sense, it was import-substituting manufacturing industries and heavy industries. In a regional policy sense, it was the Capital Region (Seoul, Incheon, Gyeonggi Province) and southeastern coastal regions (Busan, Ulsan, etc.). In the first CNDP (1972-1981), main instruments were massive infrastructure provisions and tax incentives in free export zone with regionally concentrated investment strategies. However, this concentration of investment in selected areas caused and deepened regional disparity.

Since the second CNDP (1982-1991), Korean government has presented explicit emphasis on balanced regional development, in recognition of regional

disparity. In 1982, Capital Region Readjustment Act was legislated to restrain the construction of new factories, universities, and other large-scale projects in the Capital Region. Accordingly, the third CNDP (1992-2001) continued to focus the development of lagging regions by strengthening industrial centers along the west coast and the regional and provincial cities. As a result, Korean government during this period introduced the Development Promotion Districts (DPD). However, despite the sincere efforts in the 1980s and 1990s trying to improve the economy and living conditions of non-capital regions, concentration in the Capital Region continued.

Table 13. Changes in Regional Development Policies in the CNDPs

	Principle	Policy Goals	Development Strategies	Characteristics
1970s 1st CNDP (1972-1981)	Economic efficiency	Maximize economic growth	<ul style="list-style-type: none"> - Growth pole strategy - Expansion of economic base (free export zone, infra provisions) - Target: Capital Region, Industrial belt in Southeastern coastal region 	Imbalanced regional development strategy
1980s 2nd CNDP (1982-1991)	Social equity	Regionally balanced economic growth	<ul style="list-style-type: none"> - Distributed growth pole development strategy (Restraining Capital Region) - Distribution of industrial belts (e.g. in west coastal region) 	Imbalanced (partly balanced) development strategy
1990s 3rd CNDP (1992-2001)	Quality of life	Globalization Regional specialization	<ul style="list-style-type: none"> - Regionally decentralized development - Enhancement of amenity 	Balanced development strategy

PARTICIPATORY GOVERNMENT'S STRATEGIES FOR BALANCED NATIONAL DEVELOPMENT

Policy Challenges

The current administration, or the Participatory Government, newly launched the “Balanced National Development Plan (hereafter BNDP)” in 2004, one year after its inauguration. The government identified three sets of policy challenges: regional disparity; stagnated economic growth; and globalization.

Regional Disparity

Among imbalanced regional developments in many levels, the one between the Capital Region and non-capital regions is most serious. The former accounts for approximately 48% of the national population, with around 22.5 million people in 2000. Most of Korea’s economic activity is concentrated in this capital region, which produces 47% of Korea’s gross domestic product (GDP, in 2001). Furthermore, the Capital Region hosts almost all of the headquarter functions of both private and public sectors: 91 % of the Korea’s 100 largest corporations (in 2000) and 85% of public institutions (in 2001). (See Table 14 in details).

Table 14. Concentration in the Capital Region

	Ratio of the Capital Region
Area	11.8%
Population (2000)	47.6%
Public institutions (2001)	84.8%
Headquarters of the 100 largest corporations (2000)	95.0%
Manufacturing firms (2000)	57.0%
Venture firm (2000)	72.0%
Financial transactions (2000)	66.8%

Source: Presidential Committee on Balanced National Development, 2005, Balanced National Development Policy

Although the growth of Seoul and the Capital Region was detrimental to national development, the Capital Region has shown diseconomies of agglomeration, like significant congestion costs. Therefore, the Participatory Government intends to co-develop the Capital Region and non-capital region for a balanced territorial development.

Stagnated national economy

Korea experienced an unprecedented economic crisis in 1997. Although Korea recovered quickly from the crisis within 2 years, its economy has expanded at a moderate rate. In addition, since the crisis, unemployment rate has increased. Therefore, the Participatory Government has switched the strategy from input-driven to innovation-led to resolve the deadlock.

Globalization

Due to further progress of economic globalization, national economies are increasingly open to international competitions and threats, but national governments are losing their power to protect their regions and firms. In response to the growing exposure of country and regions, the Korean government emphasizes endogenous development of locality based on region-specific resources and assets.

Policy Goals and Strategies

For the three policy challenges, the Participatory Government decided to formulate the first BNDP rather than revise the CNDP. The first BNDP states the national goal to be “Re-take-off of the national economy through balanced development,” to be achieved through independent localization and through regional innovation. Four strategies are presented:

- Innovation-led regional development;
- Development of rural communities in harmony with the development of urban communities;
- Redirection of the developmental trajectory of the Capital Region; and
- Construction of network-structured territory in terms of functions and physical infrastructures.

The first BNDP is characterized by three distinctive differences from the former CNDPs. First, the BNDP explicitly adopts a framework of regional innovation as a development strategy. Unlike the previous CNDPs, the BNDP overcomes the typical “center versus periphery” dichotomy, seeking for efficiency and equity simultaneously. The second and third strategies mentioned above address proactive regional policy: that is, capturing differentiated regional competitiveness for development of lagging regions and not ignoring crucial roles of the Capital Region as a global city-strategic hub in Northeast Asia. Third, due to the adoption of the regional innovation system and cluster theories, main assistance is provided in the form of soft infrastructure, such as promotion of

collaboration, networking among firms, governments, public (or private) R&D facilities, instead of hard infrastructure such as physical infrastructure or financial aid. Forth, large-scale relocation of the public sector is suggested to distribute major functions across the country for network-structured territory.

Table 15. Shifted Paradigm in Balanced National Development Plan

	Old Paradigm	New Paradigm
Aim	Efficiency or Equity	Efficiency and Equity
Conceptual Basis	Traditional location theories (cost-driven, factor-driven)	Regional innovation system, cluster theories (Innovation-led)
Orientations towards the Capital Regions	Zero-sum (regional redistributive policy)	Positive-sum (regional competitiveness policy)
Policy measures	Hard infrastructure	Soft infrastructure
Policy process	Top down/centralized	Collective/decentralized

CURRENT POLICY FRAMEWORKS

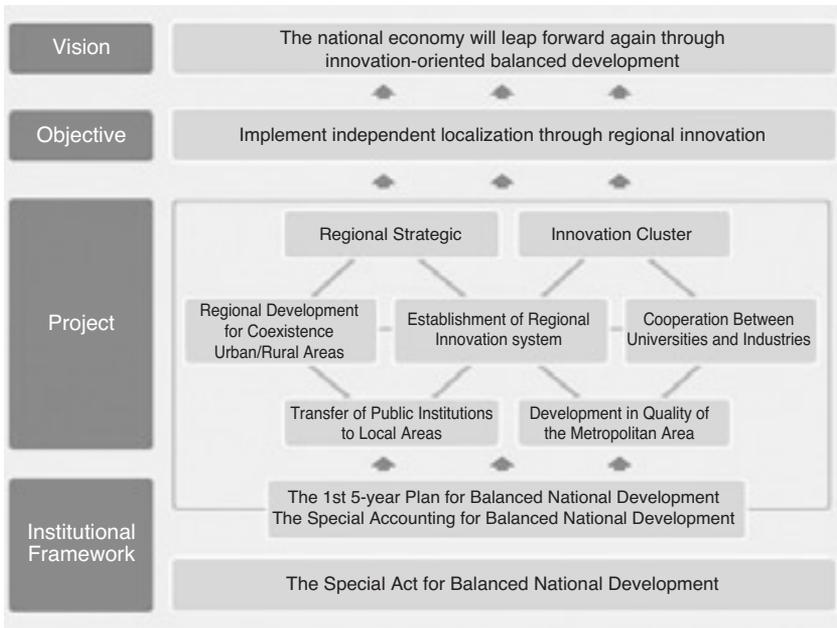
Presidential Committee on Balanced National Development was established in 2003. The council is organized under the direct authority of the President, involving twelve related ministries and fewer than 30 experts from the private sector. For the institutional settings, the Participatory Government enacted Special Act for Balanced National Development in January, 2004. The committee finalized the first BNDP in August, 2004. In order to mobilize financial resources for the implementation of the BNDP, the Korean government set Special Accounting for Balanced National Development. The special accounting is for funding development projects that agrees with guidelines for several types of policies announced by the committee.

This first BNDP covers a broad sphere of action beyond physical spatial policy. It has innovation policy, industrial policy, balance policy, spatial policy, and quality policy. These five policies are implemented by multi-sector annual programs.

Innovation Policy

The regional innovation system is a regional version of the national innovation system: “the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies.”

Figure 11. Visions and Policy Frameworks for the Balanced National Development



Source: Presidential Committee on Balanced National Development

In other words, the regional innovation system is composed of institutions (firms, governments, etc.) and principle of networking among them. Therefore, the goal of the innovation policy is to construct voluntary and reflective actors and governance structures for endogenous development through horizontal networks among innovative actors. Main instruments are (1) the organization of Regional Innovation Councils (RIC), and (2) cooperation between universities and industries.

Every metropolitan and provincial governments should organize RICs by the Special Act for Balanced National Development. Municipal governments may choose not to organize the RICs. In order to prevent the governmental power from being forced and to make regions select their development strategies and trajectories on their own, any government is prohibited from intervening in the selection of chairman and members of the RICs. The public sector only provides financial resources and administrative services to the RICs. The RICs comprise of

the representatives of the private industrial sector as well as experts in economics and technology. As of December 2006, 780 persons are involved in 14 RICs of the upper-level local governments and 4,123 persons are active in the lower-level local governments.

In addition to the organization efforts, the BNDP identified the roles of local universities. Therefore, a multi-year development program, New University for Regional Innovation (NURI) program, has been undertaken since 2004. This program targets “local” universities that are in a peripheral position in order to foster university-industry linkage around regional specific industry. It includes changes in curricula customized to industrial demand, interns & on-site training, and a range of collaboration projects between university and industry such as co-development of curricula or manuals, R&D, and information sharing.

Industrial Policy

The objective of the industrial policy in BNDP is (1) selective promotions of regional strategic industries, and (2) formation and distribution of innovation clusters.

Regional strategic industries which have higher potential for growth were selected by local government themselves. For example, the industries of Seoul are digital contents industry, IT industry, bio industry, and finance & business service industry. The first BNDP presented four strategic industries by each upper-level local government. In 2006, 64 strategies industries are selected and 32 of them are non-manufacturing industries.

The innovation cluster development project aims to embrace research function and production function in a certain geographical boundary in order to create synergistic effects between research facilities and industries. This cluster project was designed from the lesson of Daeduk Research Park, which is evaluated as a successful basic research program but of low economic outcome because of disconnection from industry. In 2006, innovation cluster projects are designated in 12 regions.

Balance Policy

The BNDP are particularly concerned with the development of lagging regions in a sense of ‘equal opportunity’. One of the active programs for the balanced policy is the “Revitalization Program” for the economic vitality of lagging regions that are isolated from industrialization and urbanization. This program started in 2005. Since this program emphasizes autonomy of local governments, planning

process is initiated by local governments: local governments prepare revitalization plan and applies for budgets to the Ministry of Planning and Budget.

Spatial Policy

The spatial policies of the BNDP have two components: functional decentralization and the construction of transportation network to induce the polycentric system. For functional decentralization, two plans for large-scale relocations of public sector are designed: (1) relocation of the administrative capital from Seoul to Chungnam province; and (2) relocation of government research institutes and public corporations called “Construction Program of Innovative City.” The latter targets relocations from the Capital Region to non-capital region. 175 public agencies are expected to move to non-capital regions by 2012.

Quality Policy

The quality policy in the Korean government focuses on improving quality of life in regions as a human settlement. However, the idea of human settlement goes beyond residential functions and it embraces economic, social, and environmental standards for the life of people. The ultimate goal of this policy is to restore environments, and regional community in regions that has been neglected for economic growth. The distinctive feature of this policy is emphasis on citizen autonomy and citizen-led planning process. Local community and citizens have the initiative in searching for local assets and planning regional differentiation strategies. In the implementation phase, local communities, local governments, and central government become a trinity.

FURTHER DIRECTION IN THE FUTURE

The time framework of the first BNDP is between 2004 and 2008. The main goal of the first BNDP is building an innovative base for regional endogenous growth. Currently, the Korean government is preparing the second BNDP in order to utilize the innovative base now established. The basic ideas of the second BNDP are to foster environments good enough for living conditions as well as favorable to doing business. Through higher quality of life in regions, regions are able to be equipped with more pull factors that attracts employees as the next engines for economic growth such as high value-added industry and creative industry.

RECENT REFORMS IN LOCAL GOVERNMENT

GOVERNMENT EFFORTS

Despite the achievement of rapid economic growth and continual commitment to balanced development, Korea encountered negative effects resulting in serious over-concentration of economic and commercial activities on the Capital areas, unseen phenomena elsewhere in the world, and extremely polarized and imbalanced territorial development. In the Capital metropolitan region, about 47% of the population is living in 12% of the whole territorial area, within which 84% of the public authorities and institutions are concentrated. Unbalanced regional development, moreover, has caused further conflicts, hindering social unity and leading to difficulties in effectively mobilizing national energy.

To cope with these problems, President Roh's Participatory Government has launched (from the inception of its official term) major decentralization reforms and strong balanced regional development policies. Roh is setting, as national goals, "Participation, Balance, Asian Hub," in order to bring about a true democracy through active participation of the citizens, to eradicate imbalance and discord throughout Korea, and to contribute to the prosperity of Asian economic development and cooperation through Korea's effort to be the hub of all economic, cultural activities especially in the Northeast Asian Area.

Undertaken by the Government, decentralization and balanced development strategies have served as the major key instruments in resolving such problems. The Roh Government has unhesitatingly stimulated Decentralization and Delocalization policies. Decentralization encourages, as we have witnessed in

many OECD Member countries, local government's autonomy by assuring the proximity to local people and by promoting a sense of ownership for the well-being of their local community. It also enhances efficiency in the allocation of national resources and accelerates improving national and regional competitiveness in globalized economy world. All the more, decentralization allows central government to facilitate ongoing balanced territorial development in order to both reduce regional disparities and to increase regional economic competencies. Through its delocalization policy, central Government envisages the reconstruction of a New Administrative Capital remote from the actual Capital City, Seoul, together with the relocalization of more than 250 public institutions to the Southern part.

To realize the Participatory Government's vision and strategies, three major advisory but powerful Presidential Committees were established in 2003: the Committee on Government Innovation and Decentralization (PCGID), Committee on Balanced National Development (PCBND), and Committee on the construction of New Administrative Capital. And it announced, in July of 2003, the "Roadmap to Decentralization", containing the key tasks of 20 agendas, e.g., introducing local referendum, local recall system, municipal police, etc. Also in 2004, the central Government decided to increase the rate of general grants assigning increases to municipality operational budgets from 15% to 18.3%, and created specific earmarked funds administered by Presidential Committee on Balanced National Development (PCBND) for realizing the equilibrium of regional development and economic competencies.

IMPROVING LOCAL DEMOCRACY

Since 2005, three main elements of renewing the institutional framework were introduced in the local political arena : from 2005, the Local Referendum Act confirmed the power of councils to hold referendums, Local Ombudsman Regime and Local Petition against the abuse of local finance in 2006; and the Local Recall system to elected mayors and councillors alike will be effective, for the first time, since July of 2007, through which elected local public officials may be removed from office by the procedure of local vote.

With these reforms, which will certainly bring about renewal of local democracy, it is very likely that local people will be encouraged to take greater participation and interest in their council's affairs by increasing local people's decision-making power.

ISSUES IN THE NEAR FUTURE

Policy for Diversity

In considering that the Korean institutional framework of local government has long stayed extremely uniform in the internal political and management structure of local authority, it is now necessary for Korean local government to open up a much richer variety of local democratic structures. New framework for diversity, innovation and local choice of great variety will make local government be more effective and more accountable; with the openness of the Local Autonomy Act to the reform of local government structures, locally elected officials will have greater scope to design a system of governance which is best suited to local circumstances; in the process, the central government can provide detailed guidance on the particular issues they need to address.

The Alleviation of the Over-Loaded Control by the State

As for the central government's control over local government, *a posteriori* administrative supervision to the local authority has not been yet replaced by the *a priori* oversight by central government of the merits and legality of decisions; this is not to say that the alleviation of the over-loaded control by the State over sub-national governments had not been changed since the inception of the establishment of local councils. So, central government must without delay be prompted to ease the various and detailed State control over local self-government in order to fully benefit the spirit of the "grass roots" of local democracy in Korea.

FISCAL REFORM

The theme of local decentralization has been one of the major national agendas of Participatory Government. A fiscal decentralization roadmap by Participatory Government represents three important policy directions which have been discussed in several decades by many scholars of local public finance. First, the size of the local public sector relative to the central government needs to be increased significantly. Second, the local revenue structure has to be revised toward enhancing fiscal accountabilities of heads of local governments. Third, in expenditure management, the autonomous decision making and the performance management by local governments should be emphasized rather than the standardized control by central government.

Many policy initiatives focused on fiscal decentralization were propelled during the past four years. In 2005, with the abolition of incremental grants and local transfer fund, the rate of financing local shared tax from domestic tax revenue was increased from 15% to 19.13%. Also, the Shared Tax for Local Decentralization was introduced to support financial resources related the 149 programs transferred to local governments.

For improving the local finance autonomy, Local Budgeting Directives considered as a control of central government were abolished and the overall ceiling system of outstanding local borrowing was introduced with the removal of individual approving system of local bond issuance. In addition, for enhancing local fiscal accountabilities, several new systems have been introduced or considered, such as annual local government fiscal analysis, accrual and double-entry accounting system, resident participatory budget system, and a program budget system.

