



Public and Private Infrastructure  
Investment Management Center

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Welcome to the Public and Private Infrastructure  
Investment Management Center (PIMAC) at the KDI,  
a gatekeeper to public procurement and private  
infrastructure investment projects in Korea!

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# Public Institution Evaluation

## Overview

The Preliminary Feasibility Study of public institution projects (public institution evaluation) is an assessment of the validity of new large-scale projects executed by public institutions and quasi-government branches. By objective assessment of new investment projects leading to fair decision-making, public institution evaluation is conducted with an objective of enhancing investment efficiency and financial soundness of public institutions' investment projects.

The Public Institution Evaluation was first conducted in 2011 in accordance regulations and laws including the Act on the Management of Public Institutions. In 2016 law and regulation on public institution evaluation strengthened with revision of the Act on the Management of Public Institutions and its enforcement decree along with the Guideline on Preliminary Feasibility Study on Public Institution Projects.

## Role of PIMAC

PIMAC is in charge of conducting the Preliminary Feasibility Study of public institution projects. PIMAC was designated as the specialized agency to conduct the study by the Ministry of Economy and Finance in accordance to the Detailed Implementation Plan for Preliminary Feasibility Study of Public Institutions Projects.

## Eligible projects

Preliminary feasibility studies on public institution(추가) shall be conducted on a new capital investment project of public institution when the total project cost is 100 billion won or higher and the state's financial support is 50 billion won or higher. The total project cost refers to the sum of all expenses spent in the course of executing the project including the state's share, local government's share, public institution's share, and private sector's share.

**Public institution projects may be exempted from evaluation if they apply to one of below criteria, in accordance to the Act on the Management of Public Institutions Article 40 Paragraph 3.**

- The project requiring preliminary feasibility study in accordance with Article 38 of the National Finance Act among the projects supported by the government budget. (If the project is subject to a preliminary feasibility study for publicly-financed procurement, it shall be conducted primarily, and the preliminary feasibility study of public institution shall be exempted.)
- Projects related with North and South Korean exchange and cooperation or projects carried forward in accordance with international treaties or agreements
- Simple improvement, repair and maintenance projects for the enhancement of the utility of existing facilities such as road repair and maintenance and improvement of old waterworks facilities
- Projects that need to be implemented urgently such as the prevention of disaster and have acquired agreement by related National Assembly Standing Committee
- Projects that need to be promoted in accordance with the law
- Projects that need to be carried forward as a part of national policy in order to promote regional balanced development or cope with urgent economical and social issues. In such cases project objectives and scale as well as specific project plan should have been established beforehand, and also implementation should have been confirmed by the State Council.

## **Selection and implementation procedure**

The heads of public institutions shall, by the end of January or end of June of the year before the project year apply project evaluation to PIMAC of KDI, professional agency for preliminary feasibility studies designated by the Ministry of Economy and Finance. The Ministry of Economy and Finance shall review requested project plans and select projects eligible for evaluation through public institutions project evaluation advisory meeting. Public institutions, when implementation of evaluation is decided, shall request PIMAC of KDI to conduct project evaluation, which in principal, shall require 4 months.

## Contents of analysis

### Evaluation Areas

The evaluation of the project is divided into the evaluations of public interest and profitability, and the details of the evaluation on domestic and overseas projects show the following differences. For domestic projects, the economic evaluation includes economic feasibility as well as policy feasibility, and the profitability evaluation includes financial feasibility as well as financial stability. Meanwhile for overseas project, the economic evaluation focuses on policy feasibility and spread effect on domestic economy, and the profitability evaluation focuses on financial feasibility, financial stability, along with overseas project risks.

### **Public Interest: Comprised of economic feasibility evaluation and policy feasibility evaluation**

- Economic feasibility evaluation refers to the cost-benefit analysis. For the analysis, the demand related to the execution of the project is estimated to calculate socioeconomic profits and the total project cost. All expenses required by the management of the corresponding project are added up to calculate the cost. The cost-benefit analysis is excluded in the overseas project evaluation.
- Policy feasibility evaluation is divided into 'coherence to the institution's founding purpose', 'coherence to national policy and upper and related plans', 'commitment of interested parties such as offices of primary concern to the execution of the project', 'preparation for project', 'environmental review', 'effect on regional economic development'. Overseas project evaluation includes 'coherence to the institution's founding purpose', 'coherence to national policy and related plans', 'commitment of interested parties', 'effect on export, employment, securing natural resources', and 'enhancement of institutional competitiveness.

## **Profit Evaluation: Comprised of the financial feasibility and financial stability of the individual project**

- The Profitability Index (PI) Method is used for financial feasibility evaluations. Unlike cost-benefit analysis for economic feasibility analysis, PI uses the ratio of the current value of the cash inflow generated from investment to the current value of cash outflow. If the profit index is greater than 1, it is considered that the project is financially feasible.
- For the evaluation of financial stability, the debt ratio, interest coverage ratio, debt dependency during the construction period and operation period are referred to, and country risk and exchange risk are additionally assessed for overseas projects.

# Public Institution Evaluation

For comprehensive evaluation, the appropriateness of the project execution is measured into quantified values using the analytic hierarchy process (AHP), which is a multi-criteria analysis based on the result of the analysis by evaluation items.

