



Effective Implementation of BTL Projects in Korea

December 7, 2005

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Leading Sectors of PPP Infrastructure

Road

Port

Rail & LRT

Environment



History of PPI

1994	Enactment of the Promotion of private Capital into Social Overhead Capital Investment Act
1999.1	Enactment of Act on PPI
1999.4	Establishment of PICKO (Private Infrastructure Investment Center of Korea)
2001.12	Formulation of the Ten-Year Plan for PPI

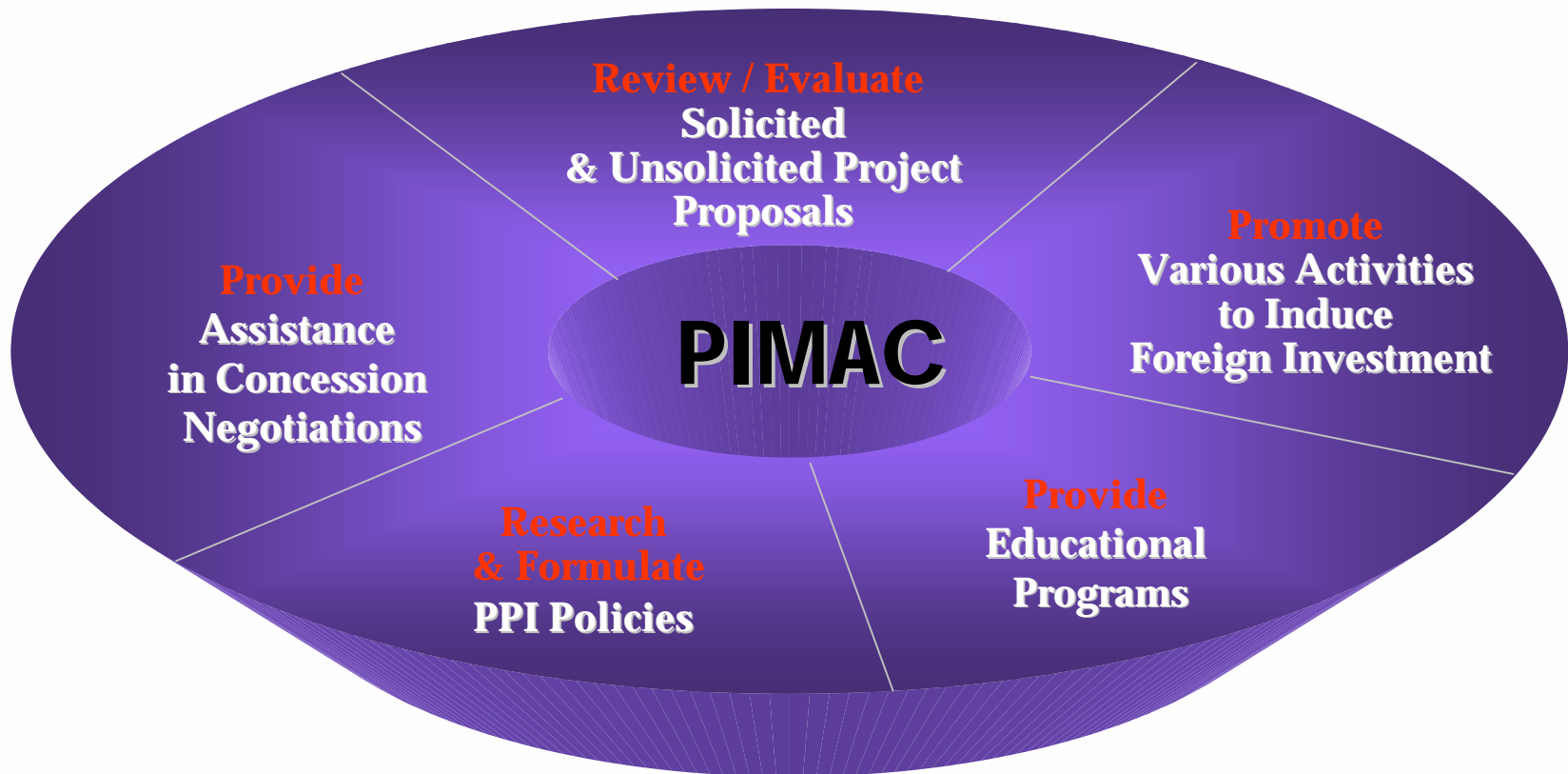


2005 Act on PPI

- PICKO of KRIHS and PIMA of KDI merges to become PIMAC of KDI
- Infrastructure facility types include social and welfare facilities such as schools, hospitals, cultural centers, etc.
- BTL scheme is introduced
- Investor profile is diversified



Role of PIMAC in PPI



Trend of Public Infrastructure Investment

- ❑ Infrastructure facilities expanded in 1990s
- ❑ Compared to OECD countries, Korea is in the middle tier in terms of transportation infrastructure
 - Road expansion in proportion to total arable land : 13th
 - Railway expansion in proportion to total arable land : 12th
 - Per capita GDP : 23rd
- ❑ Average increasing rate of infrastructure budget
 - 19.1 % in 1993-2000
 - 8.3 % in 2000-2003
 - -1.9 % in 2003-2005



Table 1. Expansion of Infrastructure Stock Level

Expanded facilities	1990 (A)	2004 (B) ¹⁾	(B) / (A)
Roads of 4 or more lanes (Km)	4,823	18,290	3.79
Two way railroads (km)	847	1,079	1.27
Highways (km)	1,559	2,923	1.87
Port capabilities (million ton / year) ²⁾	190	501	2.64
Airport capabilities (thousand times / year)	1,331	2,012	1.51
Housing (thousand units)	7,357	12,988	1.77

Note: 1) The figures are an estimate.

2) The figures are based on trading ports.



Table 2. Increasing Rate of Infrastructure Budget

	1993~2005	1993~2003	1993~2000	2000~2003	2003~2005
Infrastructure	12.6	15.8	19.1	8.3	-1.9
Transport	11.8	15.1	19.0	6.5	-3.0
Other	16.9	19.9	20.2	19.2	3.3
Total Spending	10.9	12.0	12.9	10.0	5.5
GDP		9.5	10.3	7.6	

Source: Ministry of Planning and Budget (2005 a).



Table 3. Ratio of Private Infrastructure Investment over Public Investment

	1998	2000	2001	2002	2003	2004
Private Infrastructure Investment (A)	529.3	987.1	592.4 ¹⁾	1,653.2	2,119.3	2,519.4 ²⁾
Public Infrastructure Investment (B) ³⁾	11,175.5	13,886.6	14,802.2	1,585.5	17,656.8	16,716.3
	4.7	7.1	4.0	10.6	12.0	15.1

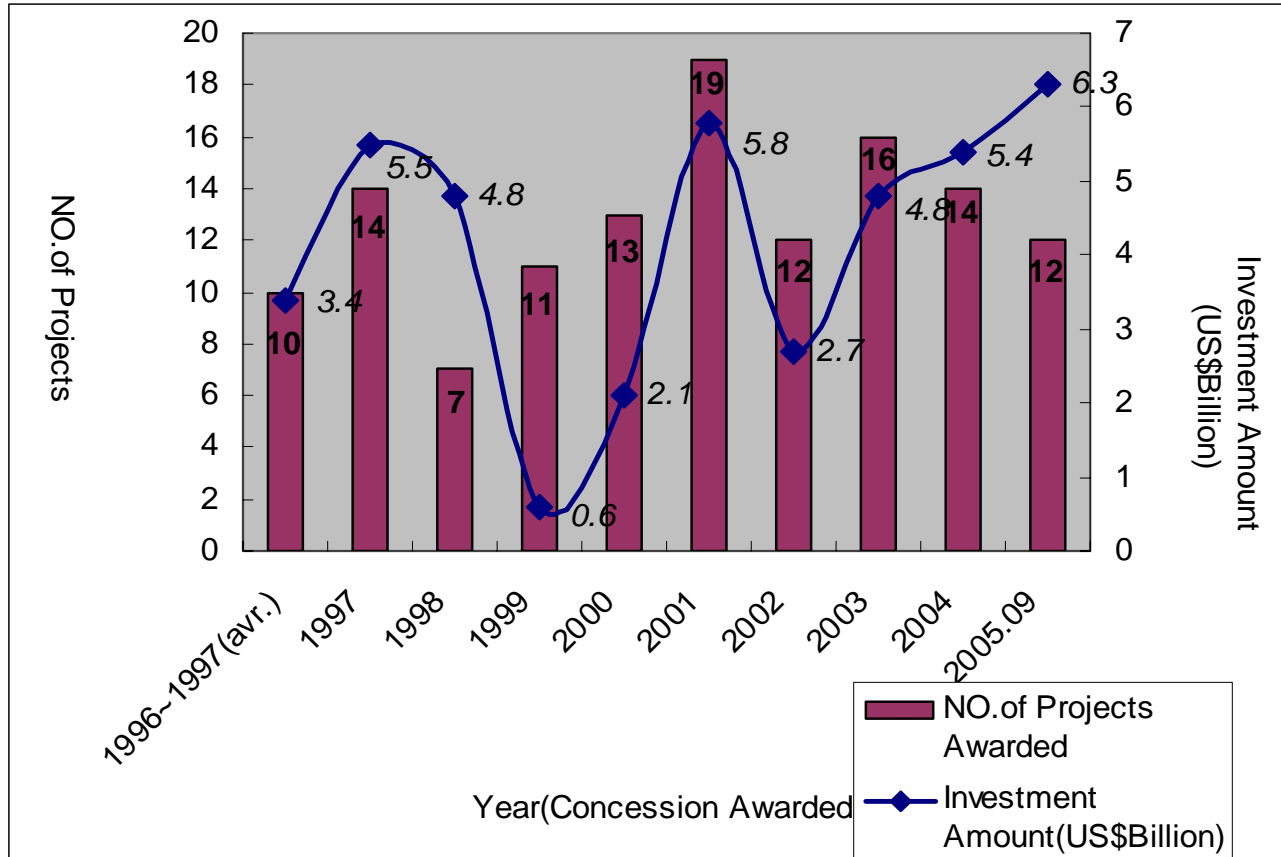
Note: 1) In 2001, the figure decreased temporarily due to the completion of New Airport Highway.

2) Tentative.

3) Investment amount input by central government.

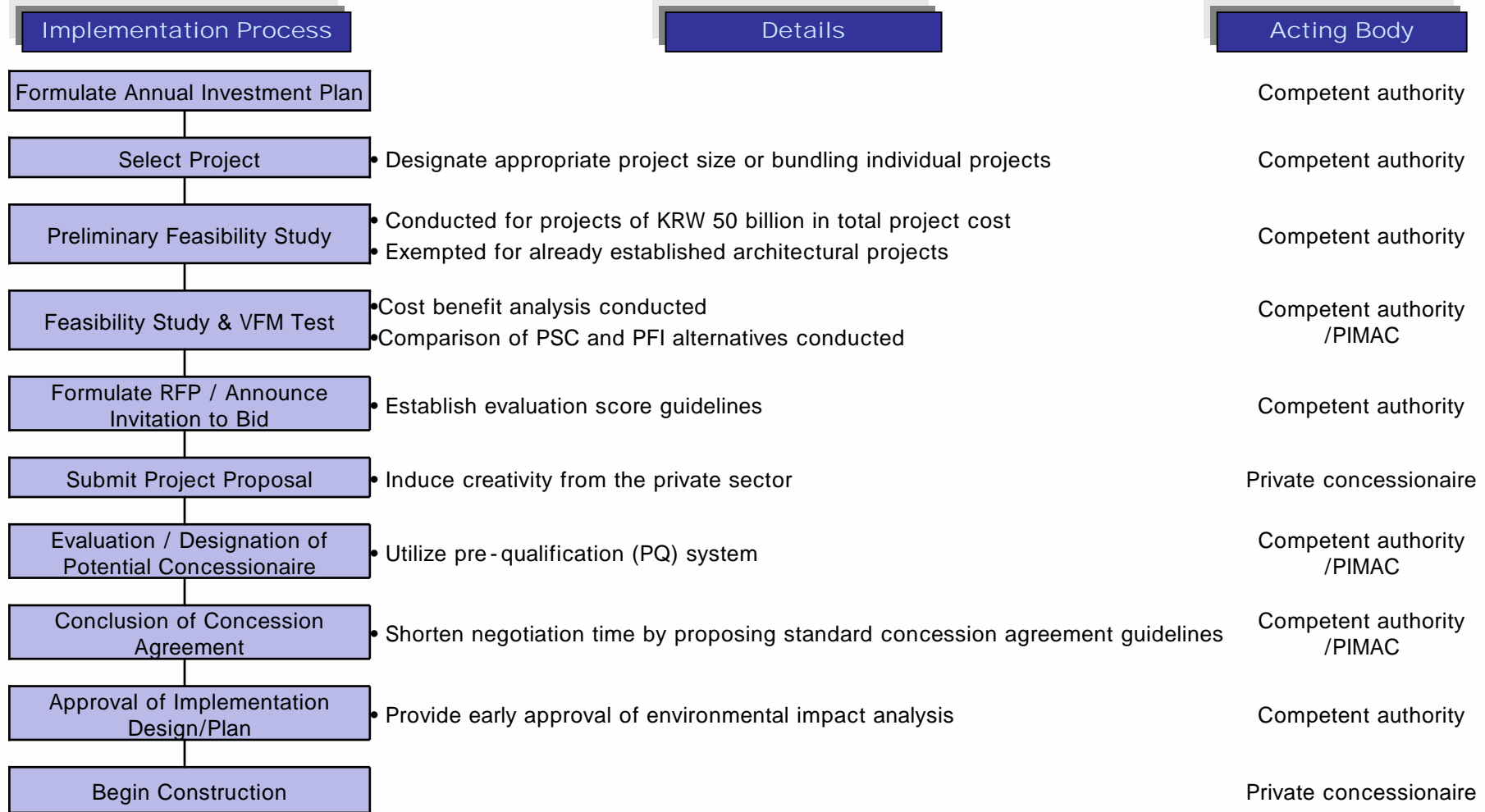


Figure 1. Number of PPP Projects Approved



Source: PIMAC (2005)

Figure 2. PPP Projects Implementation Procedure





Introduction to BTL

- ❑ In the past most PPI project was implemented by BTO and some by BOO scheme.
 - ROI is possible through collection tariff from the end-users while the concessionaire operates the facilities for a given time.
- ❑ Private investment participation is low in projects where direct operation is not possible or where ROI is too low with only tariff collection.
- ❑ BTL projects will be implemented on facilities deemed necessary by the government. To differentiate with publicly finance projects, private sector creativity and experience will be fully utilized.

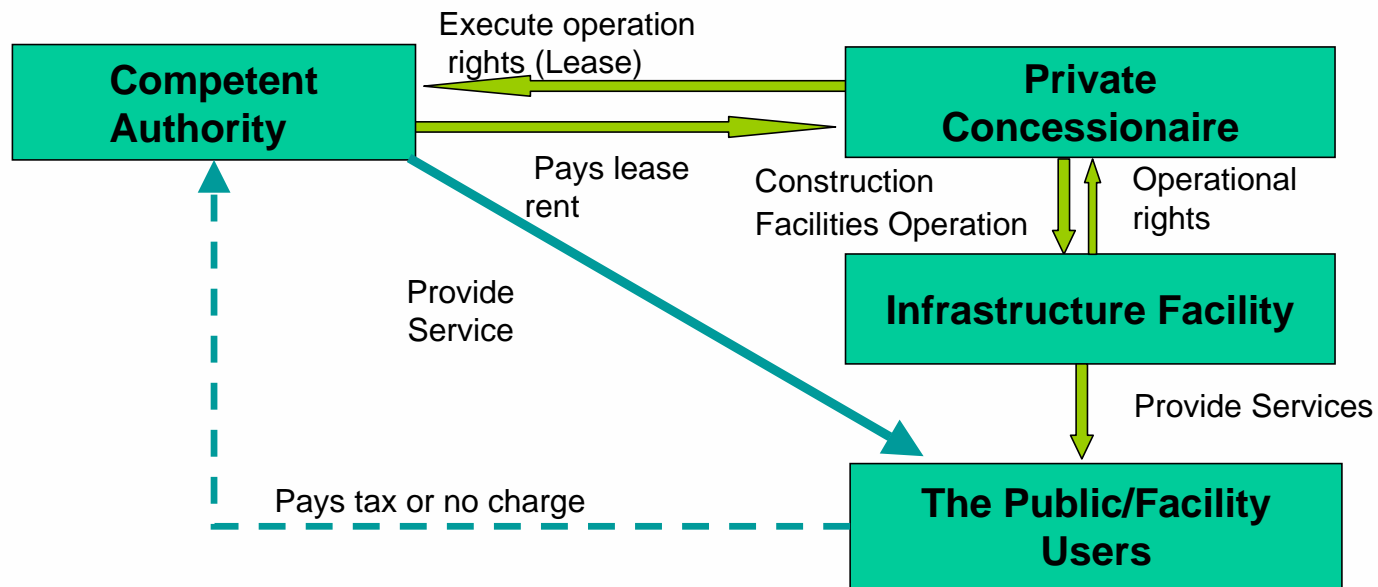


BTL Definition

- The private sector “builds” the infrastructure facility, “transfers” ownership to the government/local municipalities, and “leases” the property to the government/local municipalities to get return on investment.
 - In return for constructing the facility and transferring the ownership to the government, the private sector is granted operational rights.

(Act on PPI, Article 26)

Figure 3. BTL Framework



* Operation of the infrastructure facilities can be implemented by operating companies, private concessionaire, or the competent authority



Table 4. Expected Investment of BTL Projects in 2005

Departments	Types	Budget(KRW billion)	Number of projects
Ministry of Education	Dormitory	456.5	27
	(National University) School	2,642.20	62
Ministry of Defense	Military Housing	613	13
	Barracks	64	10
Ministry of Culture & Tourism	Cultural Center	156.4	4
	Library	35	2
	Museum	170	4
	Complex facilities	259.7	8
Ministry of Health&Welfare	Facilities for seniors	52.6	2
	Local hospital	83.6	2
	Welfare town	15.3	1
Ministry of Environment	Sewage Treatment Plant	1,000	17
Ministry of Labor	Dormitory	39.8	1
Ministry of Construction & Transportation	Railways	435.8	1
Sum		6,027.8	

Source: the Ministry of Planning & Budget(2005)



□ BTL Project selection

- Demand risk is borne by government

Choose a project which has a stable demand

- Thorough discussion in advance as to who would bear the demand risk
- Should not be implemented just on the basis of budget shortage
- Screening through a value for money(VFM) test



□ Value for Money Test

- 1st stage : Decision to Invest
- 2nd stage : Decision to Implement by PPP
- 3rd stage : Present a best implementation practice



□ Project Bundling

- Bundling to maximize the economies of scale
- Bundling of a childcare facility, a library, and senior welfare center on school grounds
- To stimulate integrated development, a preferred budget subsidy rate of 10% point is announced
- Encourage a systematic cooperation among diverse government ministries and local municipalities



□ Activation of Supplementary Profit-making Facilities

- Financial burden of government can be alleviated when the private concessionaire takes on supplementary profit-making project
- Do we need a guideline that defines what are accepted for supplementary project?



□ Detailed Output Specification

- Poor output specification in an earlier stage of BTL implementation
- Establish the standard for output specification
- Harmonize the level of output specification and the level of cost down



□ Penalty on Government Payment through Service Quality Monitoring

- Government Payment = Lease Rent + Operating Cost
- Penalty on government Payment vs. Penalty on Operating Cost
- Optimal size of penalty?



□ Accounting and Reporting Treatment of BTL Projects

- Ministry of Planning and Budget submit the total investment ceiling of BTL projects to the National Assembly
- Based on the lessons of UK, Australia, Eurostat, need to develop a standard for accounting treatment
- Study a disclosure rule for the details of BTL and government obligations