

Public Private Partnership for Future Vietnam Government

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Korea's Leading Think Tank



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Part-01 | **Why PPP?**

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Why PPP?

- ❑ **The issue of improving the infrastructure sector has become crucial for developing countries for the economic and social development.**
 - Growing urbanization around the capital city, and the increase of industry has caused a significant pressure on the supply of infrastructure.

- ❑ **However, the fiscal resources have not been sufficient to provide the requisite investment to supply adequate infrastructure for economic and social development.**
 - Existing physical capacities are outdated, and insufficient investments have been made to renew and expand them and to improve their quality.
 - As a result, the lack of basic infrastructure is clearly a major factor constraining economic growth to the developing countries.

Why PPP?

- ❑ **A new model to provide the investment needed to modernize and supply infrastructures have been required**
 - Public Private Partnership (PPP) is identified as a key instrument to attract much needed private investment for the development of infrastructure.
- ❑ **Governments have turned to the private sector as a partner in the provision of infrastructure services to reduce serious investment gaps by broadening financing options for infrastructure investments.**
- ❑ **This presentation focuses on factors for successful PPP implementation for Vietnam government given the investment needs of the infrastructure for its economic development.**
 - Policy suggestions are drawn in terms of the legal framework, procurement and evaluation to establish strategic directions for PPP implementation of the future Vietnam government .

Part-02 | **What is PPP?**

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What is PPP?

❑ Literature currently does not offer single definition, however widely agreed definition exists

- The European Investment Bank “relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services.”
- The Asian Development Bank “arrangement where a private party delivers infrastructure services under a concession agreement.”
- The OECD “agreement between the government and one or more private partners (which may include the operators and the financiers)

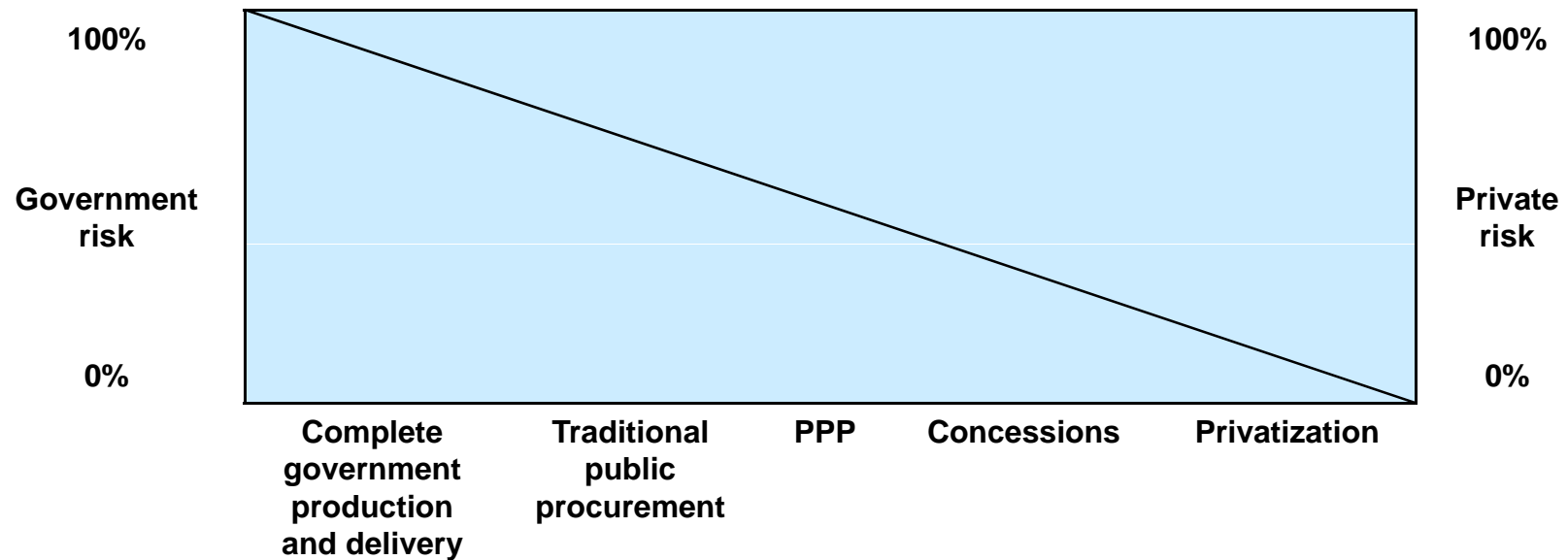
❑ “The partnership between the public and private sector (developers, investors, constructors and other service providers) to construct and operate the infrastructure assets under the term in concession agreements

- Public-Private Partnership in Infrastructure (PPPI) and Private Partnership in Infrastructure (PPI) are often used interchangeably. Also the term Concession is often used synonymously.

What is PPP?

□ The Spectrum of Public and Private Participation

The Spectrum of combination of Public and Private Participation, classified according to risk and mode of delivery



Source: OECD, *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money*, 2008.

What is PPP?

❑ Comparison of Traditional procurement and PPP procurement

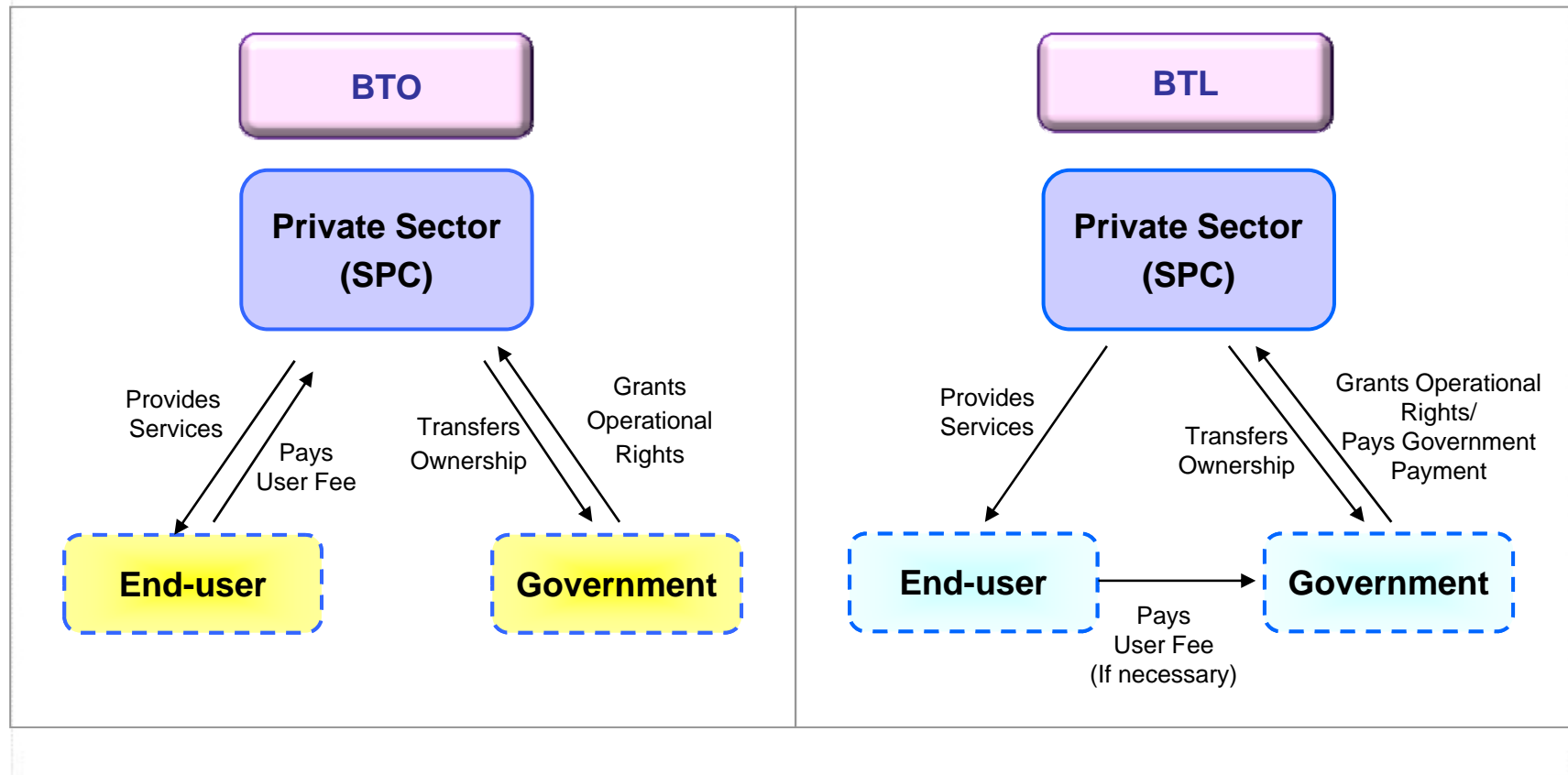
Traditional procurement and PPP procurement

	Traditional Procurement	PPP Procurement
Government purchase	Government purchases an infrastructure asset	Government purchases infrastructure services
Contract	Short-term design and construction contracts	One long-term contract integrating design, build, finance and maintenance
Specifications	Input-based specifications	Output-based specifications
Asset risk	Government retains whole-of-life asset risk	Private sector retains whole-of-life asset risk
Mode of payment	Payment profile has a spike at the start to pay for capital costs, with low ongoing costs	Payments begin once the asset is commissioned. The payment profile is relatively even, reflecting the level of service provision over the longer term of the contract
Construction time and cost overruns	Government is usually liable for construction time and cost overruns	Private contractor is responsible for construction time and cost overruns
Operation	Government operates the facility	Government may or may not operate the facility
Management of contract	Government manages multiple contracts over the life of the facility	Government manages one contract over the life of the facility
Performance standards	Often no ongoing performance standards	Performance standards are in place. Payments may be abated if services are not delivered to contractual requirement
Handover quality	Handover quality less defined	End-of-term handover quality defined

Source: adapted from Commonwealth of Australia, *National PPP Guidelines Overview*, 2008.

What is PPP?

Structure of the PPP Schemes (Example)



What is PPP?

Ways of PPP Project Initiation

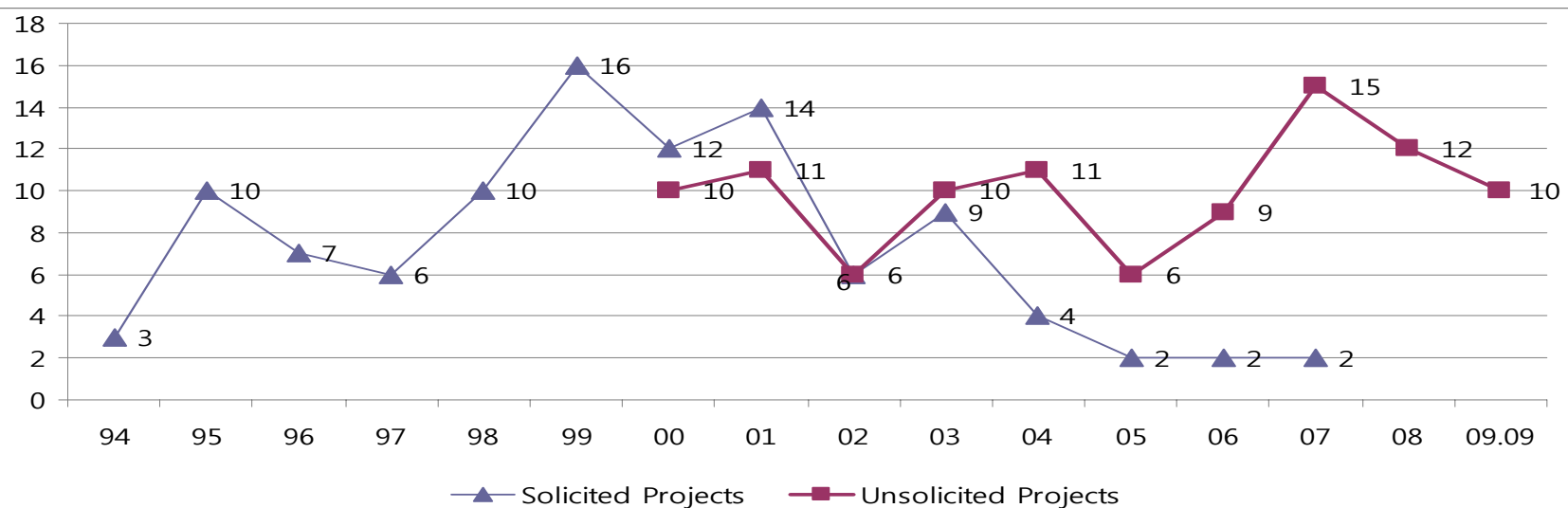
☐ Solicited Projects

- A competent authority identifies a project for private investment and announces a RFP

☐ Unsolicited Projects

- A private company (project proponent) submits a project proposal, and then a competent authority examines and designates it as a PPP project

Number of Solicited and Unsolicited Road- BTO projects (Korea)



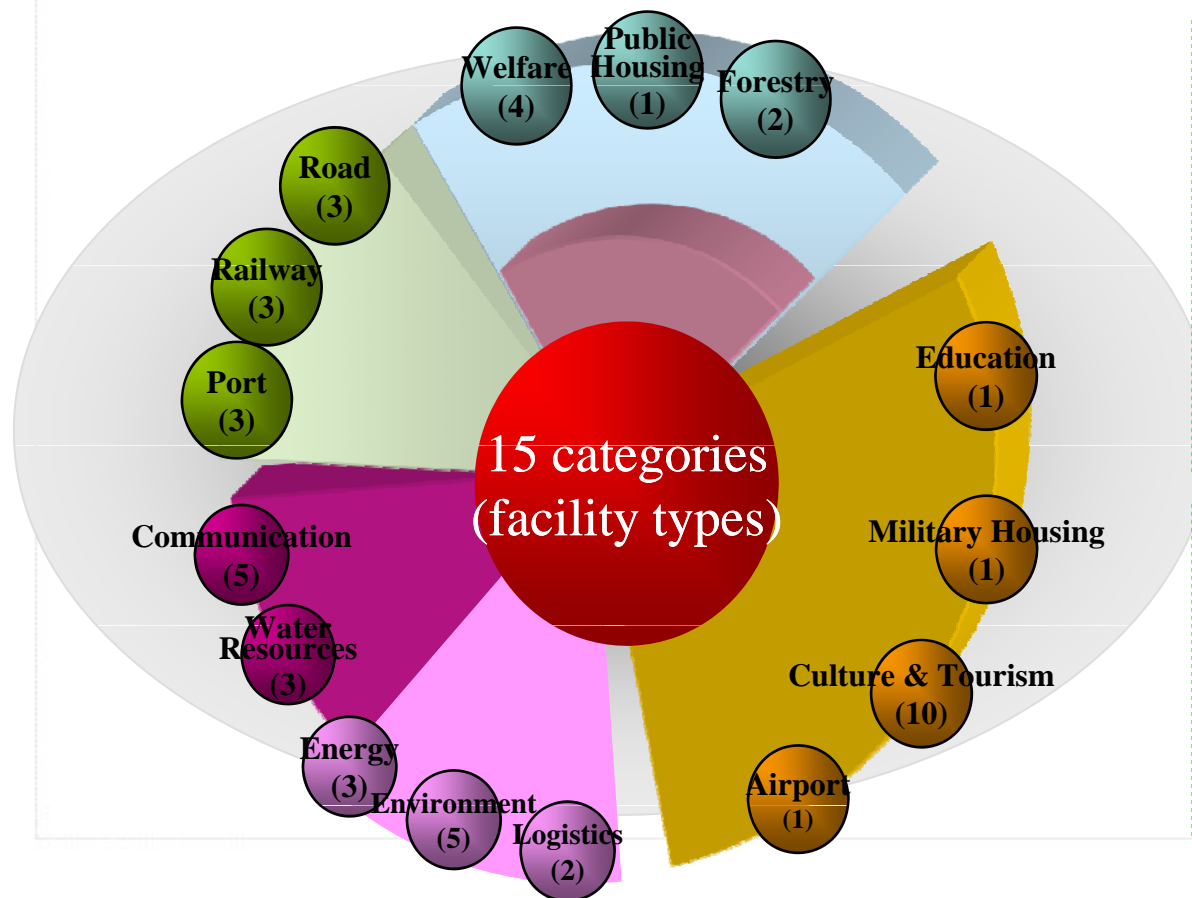
Part-03

What Types of Infrastructure Facilities are Implemented by PPP?

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PPP Facility Types (Korea)

47 types of facilities in 15 categories are eligible for PPP



Requirements :

1. The project is in accord with mid- to long-term Infrastructure plans and national investment priorities
2. The project has such profitability to attract private sector participation

Revision of the Act in 2009 :

Eligible infrastructure facility types, which have been stipulated by the Act, can also be stipulated by the Enforcement Decree.

PPP Facility Types (Korea)

PPP Facility Types

Sector	Facility Type
Road(3)	Road, Ancillary Facilities, Non-road Parking Facilities
Rail(3)	Railway, Railway Facilities, Urban Railway
Port(3)	Port, Fishing Port Facilities, New Port Construction Facilities
Communications(5)	Telecommunication Facilities, Information Communication System, Information Super-highway, Map Information System, Ubiquitous City Infrastructure
Water Resources(3)	Multi-purpose Dam, River-affiliated Ancillary Structures, Waterworks
Energy(3)	Electric Source Facilities, Gas Supply Facilities, Collective Energy Facilities
Environmental(5)	Waste Treatment Facilities and Public Livestock Wastewater Treatment Facilities, Waste Disposal Facilities, Wastewater Treatment Facilities, Recycling Facilities, Public Waste-water Treatment Facilities
Logistics(2)	Distribution Complex, Cargo and Passenger Terminals
Airport(1)	Airport
Culture and Tourism(10)	Tourist Site or Complex, Youth Training Facilities, Public Sports Facilities, Libraries, Museums and Art Galleries, International Conference Facilities, Culture Centers, Science Centers, Urban Parks, Professional Training Facilities*
Military Housing (1)	Military Housing
Education(1)	Schools
Forestry(2)	Natural Recreational Resorts, Arboretums
Public Housing(1)	Public Rental Housing
Welfare(4)	Child-care Facilities, Senior Homes, Medical Facilities, Facilities for the Disabled*

* Expected to be included in the 2009 revised PPP Act Enforcement Decree

PPP Facility Types (Korea)

Number of PPP projects by sector and process step (as of Dec. 2008)

	Preparing to Construct		Underonstruction		Under Operation		Total
	No	%	No	%	No	%	No
Airport Related	-	-	-	-	13	5.3	13
Science Museums	-	-	2	1.3	-	-	2
Schools	-	-	14	9.2	120	49.4	134
Military Housing	-	-	9	5.9	1	0.4	10
University Dorms	-	-	4	2.6	11	4.5	15
Road	12	44.4	12	7.9	19	7.8	43
Cultural Facilities	3	11.1	16	10.5	8	3.3	27
Logistcis	2	7.4	4	2.6	-	-	6
Medicare & Welfare	1	3.7	4	2.6	-	-	5
Information Facil	1	3.7	-	-	-	-	1
Parking	1	3.7	1	0.7	24	9.9	26
Rail	-	-	8	5.3	-	-	8
Others	-	-	-	-	2	0.8	2
Port ²⁾	1	3.7	10	6.6	6	2.5	17
Environment	6	22	68	44.7	39	16.0	113
Total	27	100.0	152	100.0	243	100.0	422

PPP Facility Types (Korea)

Number of PPP Projects by Procurement Types (as of Dec. 2008)

	Solicited Projects		Unsolicited Projects		Total
	No	%	No	%	No
Airport Related	13	3.7	–	–	13
Science Museums	2	.6	–	–	2
Schools	134	38.0	–	–	134
Military Housing	10	2.8	–	–	10
University Dorms	15	4.2	–	–	15
Road	19	5.4	24	34.8	43
Cultural Facilities	25	7.1	2	2.9	27
Logistics	3	0.8	3	4	6
Medicare & Welfare	5	1.4	–	–	5
Information Facil	1	0.3	–	–	1
Parking	25	7.1	1	1	26
Rail	7	2.0	1	1	8
Others	2	0.6	–	–	2
Port ²⁾	13	3.7	4	6	17
Environment	79	22.4	34	49	113
Total	353	100	69	100	422

PPP Facility Types (Korea)

Number of PPP Projects by Competent Authorities (as of Dec. 2008)

	Central Government Managed Projects		Local Government Managed Projects		Total	
	No	%	No	%	No	%
Airport Related	13	16	–	–	13	3.1
Science Museums	–	–	2	1	2	0.5
Schools	–	–	134	39	134	31.8
Military Housing	10	12	–	–	10	2.4
University Dorms	15	18	–	–	15	3.6
Road	16	20	27	8	43	10.2
Cultural Facilities	–	–	27	8	27	6.4
Logistics	5	6	1	0	6	1.4
Medicare & Welfare	–	–	5	1	5	1.2
Information Facil	1	1	–	–	1	0.2
Parking	–	–	26	8	26	6.2
Rail	4	5	4	1	8	1.9
Others	–	–	2	1	2	0.5
Port ²⁾	17	21	–	–	17	4.0
Environment	1	1	112	33	113	26.8
Total	82	100.0	340	100	422	100.0

Part-04

What are the Important Factors for Successful PPP Implementation?



Legal and Institutional Framework

- ❑ **A good legal and institutional arrangement is a key for success ensuring that the process in its entirety goes smoothly.**
 - The government should determine the role and function of all the relevant ministries and institutions into the government decree to avoid duplicative functions and the conflicts of interest since many government or public sector stakeholders are involved in concession projects.

- ❑ **The priority regarding the development of a countries' PPP legal and institutional framework is to formulate regulations for the actual implementation.**
 - Detailed procedures and guidelines need to be put in place through government and ministerial decrees.
 - Formulation of template documents to be adopted as standard written record as part of detailed implementation guidelines

Transparent and Competitive Procurement Process

- ❑ **Transparent and effective procurement practice has the potential to reduce opportunities for corruption though there are certainly cost and time resources required in a transparent tender process.**
 - Clear access to information on the content of the project proposal, standard concession agreement, government support and guarantees should be opened to the public.
 - Standard bidding document needs to be formulated. A good standard bidding document will ensure that the selection process proceeds smoothly and transparently.

Incentives and Risk Sharing with Fiscal Management

- ❑ **Private investment can only be secured if private investors are confident they will earn a reasonable return on their investments.**
 - Particularly for the initial PPP transactions, private infrastructure investors will require government guarantees in respect of certain classes of risks.

- ❑ **Adequate risk sharing is a key requirement if PPPs are to deliver high-quality and cost-effective services**
 - Construction and operating risks are typically borne by the private sector, whereas the political, regulatory, exchange rate, and residual value risks are generally borne by the public sector.
 - Private sector developers should be responsible for construction and operation risks, while government can bear a certain level of demand risk, regulatory and force majeure risks.
 - In order to attract sustainable private investment and involvement, a readjustment of pricing policy is needed to ensure a level playing field for private providers based on cost-based tariffs.

Incentives and Risk Sharing with Fiscal Management

- **If the government bears the risk and potentially faces high fiscal costs due to the explicit guarantees or incentives, the fiscal implications of PPPs should be properly accounted for and reported.**
 - Guarantees come due only if particular events occur and involve no immediate cost to the government, such promises to the private may seem attractive to political decision-makers.
 - They should be fully disclosed and incorporated into medium-term policy analysis not to bypass expenditure controls because government guarantees often have potentially significant social consequences.

Capacity Building

❑ **PPPs require development of specific technical expertise within the government.**

- Governments have to be able to conduct thorough project appraisals and prioritizations, manage projects, and ensure that PPPs are consistent with broader fiscal and economic policy objectives.
- Also the government needs to negotiate and deal with the private sector in the most effective manner.
- Because PPP represents different approach to procurement of infrastructure services, generally, specialized teams are created in order to focus specialist skills on the development and management of PPP projects.

❑ **In the absence of experience and shortage of knowledge on PPP implementations, one or two pilot concession projects, as an attempt at minimizing the many trials and errors, seems appropriate.**

- Pilot projects with support of international transaction advice are recommended. It then needs to prepare for the next transactions on its own by transforming the accumulative information from advanced foreign PPP units to knowledge.

Part-05 | **Summary and Suggestions**

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Summary and Suggestions

- ❑ **For governments in many countries, PPP provides a means to deliver key infrastructure projects as it limits pressure on both short-term cash flows and reduces the need to borrow heavily.**
 - Once the cost benefits in terms of whole-life costing and private sector efficiencies, PPPs may seem attractive.
 - This provides governments with impetus in recognizing the role those PPPs can play in helping to bridge the infrastructure gap.
- ❑ **Detailed guidelines according to specific sector and different procurement procedures of the program needs to be formulated before the actual implementation of concession projects.**
- ❑ **Transparency and competition in PPP implementation are crucial.**
 - Standard documents for bidding that clearly and comprehensively address the contents of proposals, financing and reimbursement issues, would be guides for the proponents that intend to participate in the tendering.

Summary and Suggestions

- ❑ **Government support could be considered to induce the private sector's -domestic or international- active participation.**
 - If the government bears the risk and potentially faces high fiscal costs due to the explicit guarantees or incentives, the fiscal implications of PPPs should be properly accounted for and reported.

- ❑ **Hiring of experts and capacity building is crucial.**
 - Public sector stakeholders including procuring ministries, needs training for the new delivery method using private finance in infrastructure building
 - Advice and consultation from foreign advanced PPP units may be needed at the initial implementation stage of concession projects

- ❑ **Defining the role of foreign partners and setting up legal / institutional bases for foreign investors**
 - Provided financial difficulties of both the public and domestic private parties of Vietnam, implementation of concession projects would involve significant amount of foreign investment. Setting up legal / institutional bases for foreign investors is very important

Part-06 | **Appendix : Example of PPP Projects**

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Major Projects: BTO (Under Operation)



❑ Incheon International Airport Expressway

- Total Project Cost: KRW 1,334 billion
- Length: 40.2 km, 8 lanes
- Competent Authority: Ministry of Land, Transport, and Maritime Affairs
- Construction Period: 1995-2000
- Operation Period: 30 years
- Capital Structure: Equity/Debt/Subsidies = 25%/59%/16%



❑ Seoul Beltway Northern Section

- Total Project Cost: KRW 1,471 billion
- Capital Structure: Equity/Debt/Subsidies = 23%/51%/25%
- Length: 36.3 km, 8 lanes (Total Length: 128 km)
- Competent Authority: Ministry of Land, Transport, and Maritime Affairs
- Construction Period: June 2001-June 2008 (currently in operation)
- Operation Period: 30 years



❑ Busan New Port Phase 1

- Total Project Cost: KRW 1,648 billion
- Capital Structure: Equity/Debt/Subsidies = 20%/55%/25%
- Work Scope: 9 berths (50,000 t), 3.2 km
- Competent Authority: Ministry of Land, Transport and Maritime Affairs
- Construction Period: 2001-2009
- Operation Period: 50 years

Major Projects: BTL (Under Operation)



❑ Chungju Military Apartment Housing

- Total Project Cost: KRW 18.6 billion
- Work Scope: 200 households and convenience facilities
- Competent Authority: Ministry of Defense
- Construction Period: 2005-2007
- Operation Period: 20 years



❑ Ulsan National Institute of Science and Technology

- Total Project Cost: Approximately KRW 250 billion
- Work Scope: Site 1,028,200 m², Total Floor Area 153,691 m²
- Competent Authority: Ministry of Education, Science and Technology
- Construction Period: 2007-2010 (1st Phase 2007-February 2009)
- Operation Period: 20 years



❑ Anhwa High School

- Total Project Cost: Approximately KRW 962 million
- Work Scope: Site 13,264.03 m², 5 stories above ground
- Competent Authority: Gyeonggi Province Office of Education
- Construction Period: 2006-2007
- Operation Period: 20 years