

The background of the slide features a blue-toned image of a globe with a glowing network of white lines overlaid on it. In the foreground, two hands in business suits are shaking, symbolizing a partnership or agreement. The overall theme is infrastructure and private participation.

Private Participation in Infrastructure in Korea

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I. PPI Overview

What and Why PPI?

■ PPI (Private Participation in Infrastructure)

- Public & Private Partnerships to provide infrastructure facilities and related public services

■ Rationale and Position of PPI

- Provide a new option for public service delivery under fiscal constraints
- Introduce private sector efficiency and innovation
- Provide stable & long-term investment opportunities for the private sector

National Expenditure

- High Share of Economic Development in '70s - '80s
- After '90s, Increasing Share of Social Welfare

< Share of Sectoral Expenditure >

(Unit : %)

	' 70	' 80	' 90	' 97	' 00	' 05
· National Defense	22.6	30.6	20.0	13.3	11.4	10.3
· Economic Devel't ¹⁾	27.3	26.0	20.4	24.5	25.2	21.0
· Social Welfare ²⁾	7.9	9.9	20.4	17.9	22.2	26.7
· Education	16.6	14.6	17.0	16.4	15.3	14.1
· Provincial Finance and others	25.6	18.9	22.2	27.9	25.9	27.9

1) Economic Development : Agriculture, Industry and SME, SOC, etc

2) Social Welfare : Health care, Welfare Subsidy, Culture, Housing, Environment, etc

History of PPI Act

Enactment
Aug. 1994

『The Private Capital Inducement
Promotion Act』

Revision
Dec. 1998

『The Act on Private Participation
in Infrastructure 』

- Risk Sharing, Minimum Revenue Guarantee

Amendment
Jan. 2005

『The Act on Private Participation in Infrastructure 』

- Expansion of Facility Types
- Introduction of BTL Scheme
- Diversification of Investor Profile (Infra. Fund)

** PPI Guideline is issued to provide PPI policy direction and implementation guidance*

Structure of the PPI Act

PPI Act, Enforcement Decree

- **Eligible facility types (45)**
- **Investment schemes :**
BTO, BOT, BOO, BTL, etc.
- **Implementation procedure**
- **Infrastructure Credit Guarantee Fund, Infrastructure fund**
- **Government support, risk sharing measures**

Basic Plans for PPI

- **Policy directions**
- **General guidelines for PPI project implementation**
- **BTL Implementation guidelines**

Implementation Schemes

■ **BTO (Build-Transfer-Operate)**

- Road, Railway, Port, etc.
- Concessionaire collects user fee to recover its investment
- Private sector takes demand risk
- Solicited & Unsolicited projects

■ **BTL (Build-Transfer-Lease)**

- Schools, Welfare/medical facilities, Cultural Facilities , etc.
- Government pays concessionaire for service delivery
- No demand risk for private sector
- Solicited projects only

■ **Others : BOT, BOO, etc.**

PPI Project vs. Fiscal Project

■ Characteristics of PPI Projects

- Higher Construction Cost with Financial Cost (Interest)
- To Reduce Cost by adoption of new Engineering & Technology
- Efficiency in the process of Construction and Operation

■ Construction Aspect

- To Keep Construction Period and Cost
- Period : PPI Project 5 years vs. Fiscal Project 7-8 years
owing to budget restraint
- Total Construction Cost : PPI Keeps Planned Cost vs. Fiscal Project has
10% - 15% Increase (49 Road Project Average)

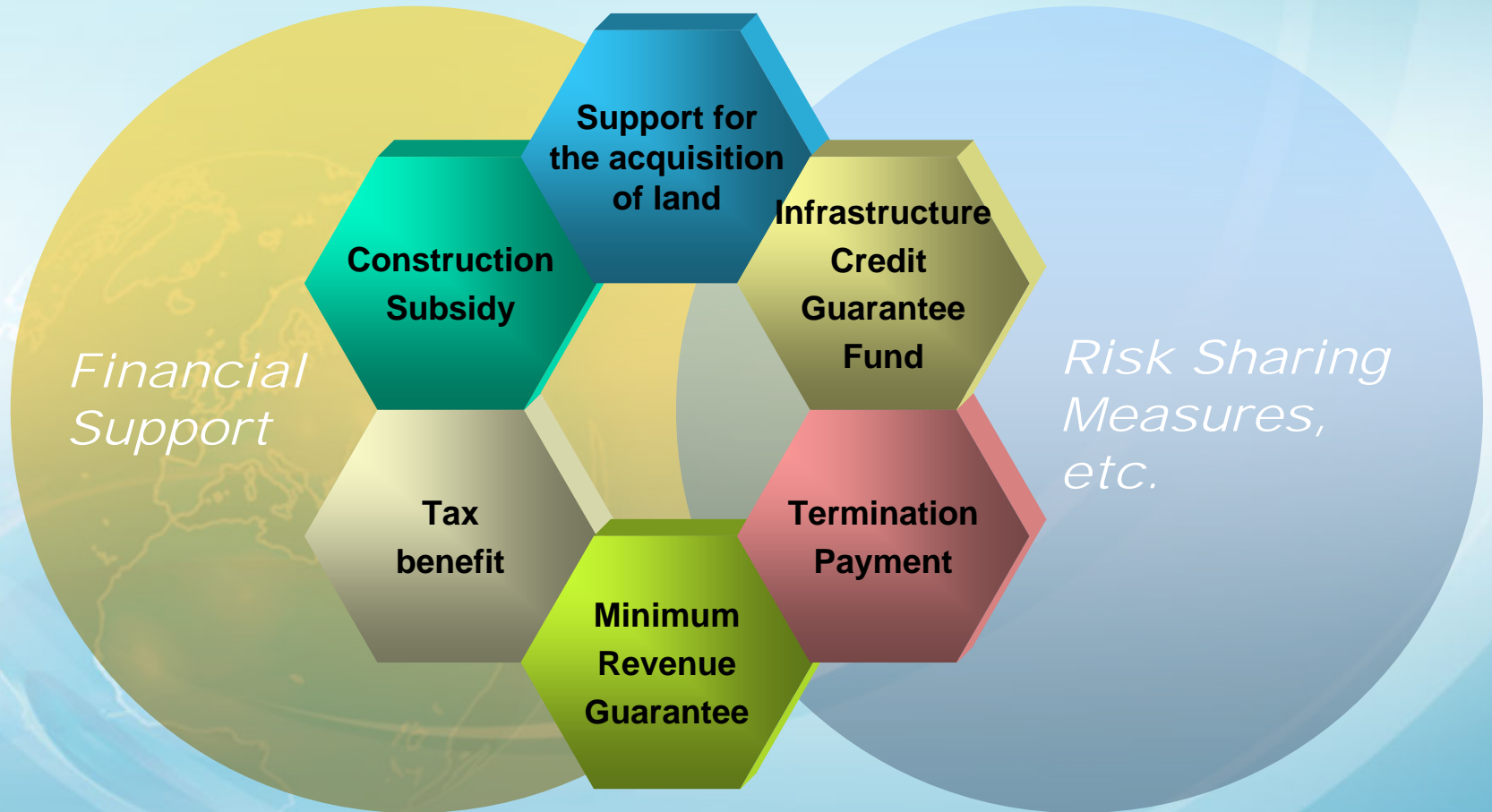
■ Operation Aspect

- PPI Project Saves Operation Cost with Efficiency of Labor Cost and
Adoption of Outsourcing
- PPI Project : KRW 300 million/km/year, Fiscal Project : KRW 400
million/km/year

How Projects Selected? (Unsolicited Projects)

- ① **Relations with Hyper National Plans (Competent Authority)**
 - For Road, Project is checked Whether it is included in National Land Development Plan or Transportation Plan, etc. (Ministry of Land, Transportation and Maritime Affairs, Local Government)
 - Priority Among Roads To Be Constructed
- ② **B/C Analysis and VFM Test (KDI PIMAC)**
 - (1st Stage) B/C Analysis : $B/C > 1$
 - (2nd Stage) VFM Test : $VFM > 0$ (PFI Project is prior to Fiscal Project in the point of Fiscal Burden)
 - (3rd Stage) Alternative Proposal : To suggest Optimal Cost, Toll Level, Fiscal Support Size, etc.
- ③ **Committee of PPI Projects**
 - Project : $BTO > \text{KRW } 200 \text{ billion}$ ($BTL > \text{KRW } 100 \text{ billion}$)
 - Other Projects are dealt in own Committee of Local Government

Government Support



Gov't Support (BTO Type)

① **Construction Subsidy : 30~50% of Total Investment**

- **Roads : Less than 30% of Total Investment**

** Recently most road projects have no construction subsidy*

- **Rails : Less than 50% of Total Investment**

- **Ports : Less than 30% of Total Investment**

- **Freight Terminals : No Construction Subsidy (BOO type)**

** Government provides access roads and rails*

② MRG on Solicited Projects

■ Minimum Revenue Guarantee

- Adopted after Financial Crisis of the late 90s
 - Induced Private Investment in Infrastructure

■ No MRG with under 50% of Forecasted Revenue

■ Led to Inflated Demand Forecasting

- Resulted in Increase of MRG Payment

➔ Reduced Level of MRG for Solicited projects & Abolished for Unsolicited Projects (2006)

Modification of MRG Mechanism

	May 2003 ~ December 2005	Starting January 2006	
		Solicited Projects	Unsolicited Projects
Period	15 years	10 years	Abolished
Guarantee	First 5 years : 90% Next 5 years : 80% Last 5 years : 70%	First 5 years : 75% Last 5 years : 65%	
Condition	Revenue > 50% Forecasted Revenue		

③ Various Tax Benefits

- Exemption of Acquisition and Registration Tax
- Application of 0% Tax Rate on VAT
- 15% Separate Taxation on Interest Income from Infra Bond
- Separate Taxation on Dividend Income from Infra Fund

④ Concession Termination Payment

- Force Majeure, Bankruptcy, etc

II. Performance Highlights

Private Investment Trend

■ Increase in PPI to Complement Public Investment

- PPI Investment : ('98) 0.5 trillion → ('07) 3.1 trillion KRW
- Share of PPI to Public Investment : ('98) 3.9 % → ('07) 16.8%

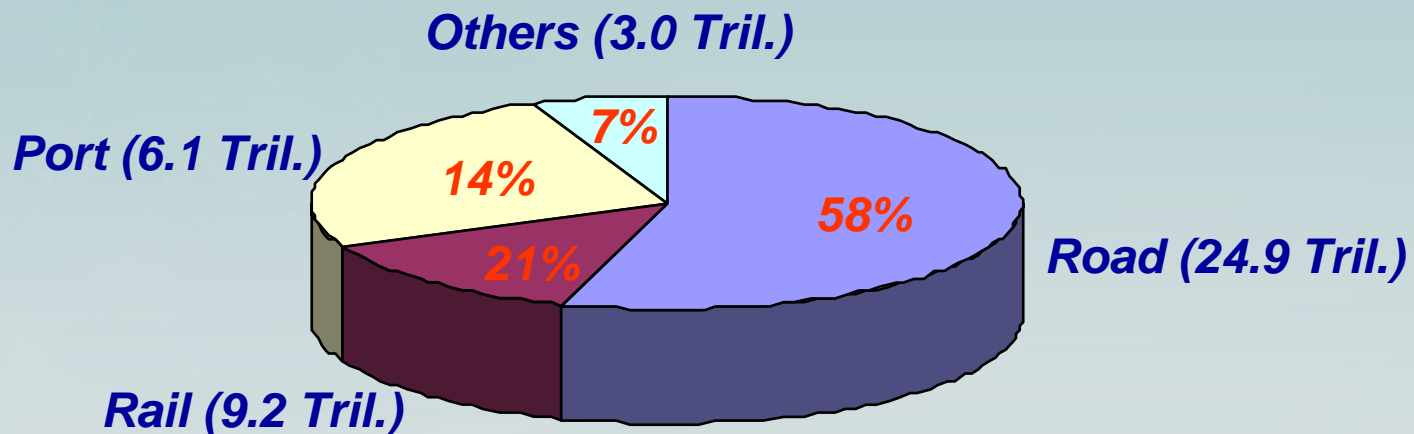
(Unit : Trillion KRW)

	'98	'00	'02	'04	'06	'07
Public Investment in Infrastructure(A)	12.7	15.2	16.0	17.4	18.4	18.4
PPI Investment(B)	0.5	1.0	1.2	1.7	3.0	3.1
<i>B/A</i> (%)	<i>3.9</i>	<i>6.6</i>	<i>7.5</i>	<i>9.8</i>	<i>16.3</i>	<i>16.8</i>
<i>B/(A+B)</i> (%)	<i>3.8</i>	<i>6.2</i>	<i>7.0</i>	<i>8.9</i>	<i>14.0</i>	<i>14.4</i>

Sector Analysis : BTO

- Total project costs of signed BTO projects as of June 2008 amount to KRW 43.2 Trillion

< BTO Projects by Facility Types – Contract Signed >

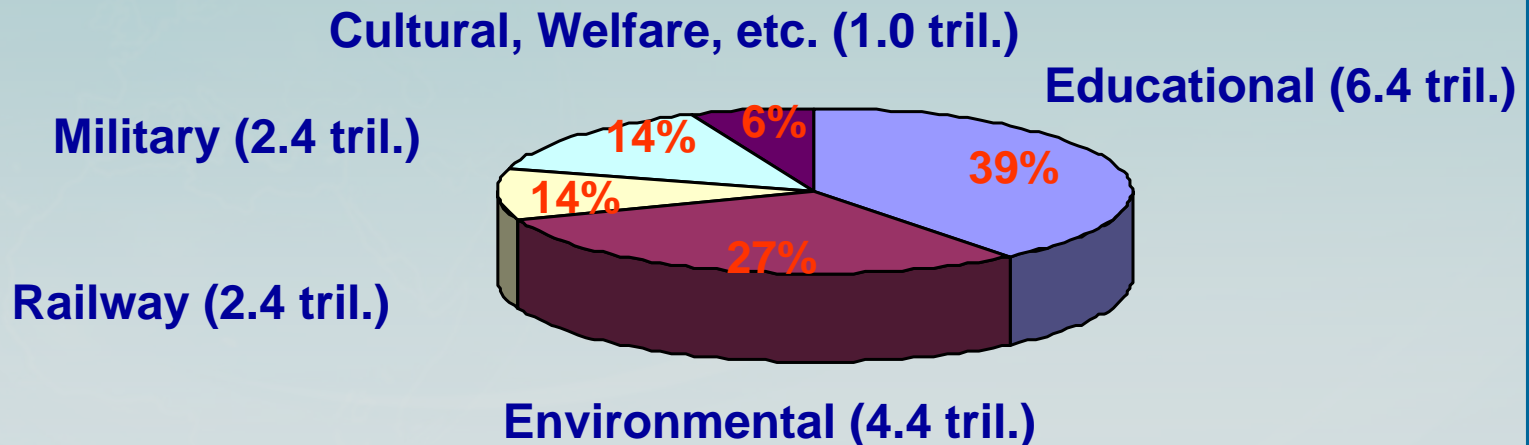


* Nationally Managed Projects only

Sector Analysis : BTL

- Total project costs of BTL projects which announced RFP as of June 2008 amount to KRW 16.6 Trillion
 - Among 292 projects, 231 projects were signed (11.2 trillion)

< BTL Projects by Facility Types – RFP Announced >



Key Success Factors

- **Solid Legal Framework Corresponding to International Standards**
 - Clear & Consistent Implementation Procedure Regulated by PPI Act & Implementation Guidelines
 - Fair & Equal Treatment of Domestic & Foreign Investors

- **Strong Government Commitment & Supports**
 - Construction Subsidy, MRG, Mitigation of F/X Risks, etc.
 - Technical Assistance Provided by PIMAC
 - Review of RFPs & PPI Contracts, Assistance in Project Evaluation & Negotiation, Research for PPI Policies & Guidelines, etc.

- **Central Role of MOSF**
 - To Develop National PPI Policies, Guidelines, & Fiscal Rules
 - To Coordinate Sectoral PPI Plans & Establish Comprehensive Investment Plans
 - To Review & Approve Nationally Managed PPI Projects
 - MOSF convenes PPI Committee when necessary

Examples of BTO Projects

Incheon Airport Highway

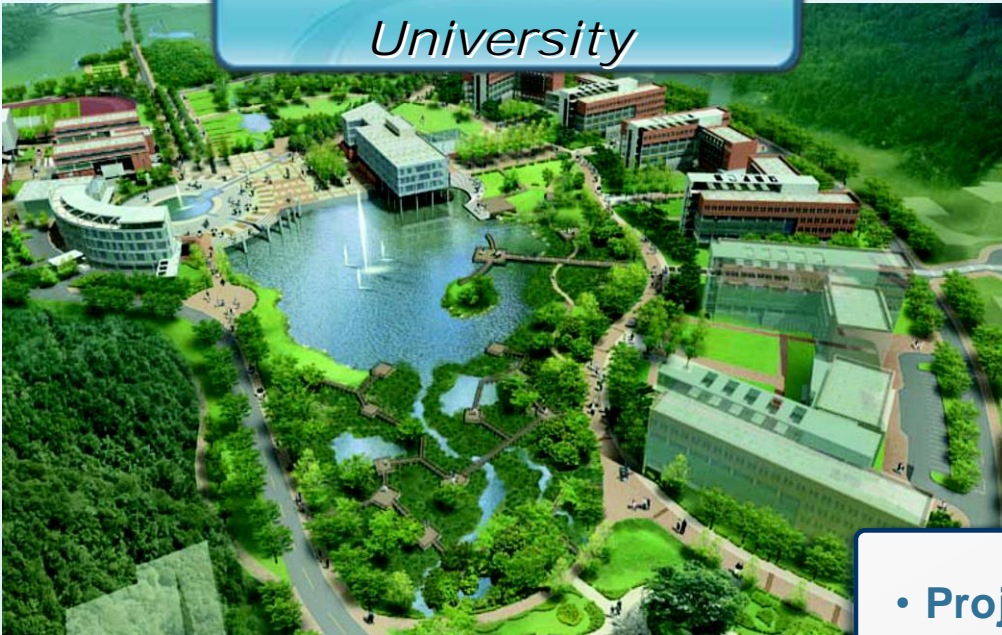
- Length : 40.2km (6~8 lanes)
- Project Cost : KRW 1.7trillion (Subsidy : 16%)
- Const. : '95~'00 (Operate 30yrs)
- Investors : KTCU (45%), MKIF (24%)
Kyobo Life (15%) etc.
(Org. Investors : 11 Construction Co. 85%, 2 Financial Inv. 12%, Others 3%)



YJ Bridge

Examples of BTL Projects

Ulsan National University



- **Project Cost : KRW 250 Billion**
- **Const. : '07~'12 (Operate 20yrs)**
- **Current Status :**
RFP announced in March '07

III. Future of Korean PPI

Prospects on PPI

■ **Fiscal Constraints in Infrastructure Investment**

- Decreasing Tax Revenue
- Increasing Social & Welfare Expenditure
 - Annual Increase Rate of 10.1% in Social Welfare ('03~'08)

■ **Increased Role of Private Investment in Infrastructure**

- Supplement to Public Investment
 - *Enables Early Provision of Public Services*
- Introduction of Private Sector Creativity & Innovation in Constructing & Operating Public Facilities
 - *Heightens Satisfaction of Facility Users*

Key Policy Issues

■ Establishment of PPI Long-Term Investment Plan('07~'11)

- Estimate Future Financial Commitment by Government
 - Roads, Railways, Ports, Logistics, Environmental Facilities, Educational Facilities, Military Housing, Cultural Facilities
 - Subsidies, MRG, Government Payments for BTL, etc.
- Development of Fiscal Guidelines and Strategies
 - Managing PPI Investment Amount within a Sustainable Level
- Inclusion in the National Fiscal Management Plan
- Forecast Appropriate Private Investment Level and Fiscal Burden

Fiscal management Rule

2% Limit Rule

- Limited to 2% of Total Estimated Gov't Annual Expenditure
- Allowing Flexible Fiscal Management without Heavy Burden on Government Expenditure
- Estimation for Total PPI Government Expenditure is less than 1.7% of Total Estimated Government Annual Expenditure
 - * Estimation : 2010 (1.3%) → 2015 (1.7%) → 2020 (1.6%)
- ※ PPI Government Expenditure : Lease Payment for BTL Projects, Land Acquisition Cost for BTO Projects, Construction Subsidy, and Minimum Revenue Guarantee (MRG)

Key Policy Issues

■ **Limitation of New Projects**

- PPI Projects with Profitable in Metropolitan Areas
 - Roads : Commercial bases for Metropolitan Roads, Construction Subsidy for Local Roads
 - Railways : Final Stage of Heavy Weight Subway in Seoul, New Light Weight Tram for Seoul and Local Cities
- PPI Port Projects Following Quantity of Goods Transported

■ **New Trial Types of PPI Projects**

- To Apply New Project Types such as RTO, ROT, etc.
- Underground Profound Road, Railways in Metropolitan Areas

To Cope with Financial Difficulty

■ Policy Direction of PPI Projects

- To Make Risk of PPI Projects Be Lowered
- Demand Risks Should Be Taken By the Private, on the other hand Risks of Interest Rate and Price Be Lowered By the Public

■ Idea to Cope with Financial Difficulties around PPI

- To Lower Ratio of Equity (25% In Total Cost at Present)
- To Lessen the Burden from Prices Increasing of Raw Materials
- To Expand Guaranty Level of Loan using Industrial Guaranty Fund
- To Mitigate the Influence from Fluctuation of Interest Rate, etc.

*** To Cope with Delay of Project Implementation**

+ To Renew System based on Long-term Perspective

Key Policy Issues

■ **Development of Public Involvement Model in BTL(2007)**

- To Enhance Service Quality & User Satisfaction of Social Infrastructure
 - Schools, Dormitories, Cultural & Welfare Facilities, etc.



Key Policy Issues

■ Promotion of Integrated Facilities

- BTL Facilities with Multiple Functions
 - **Schools + Sports Center + Public Libraries, Nursery Center, etc.**
- Efficient Use of Land & Facilities
- Development of Model MOU and RFP

■ Develop. of Standard Models for Major Facility Types

- Efficient & Transparent Procurement Process
 - **Guidelines for Feasibility/VFM Test, RFP, Output Specifications, Standard BTL Contract, etc.**
 - **School, Environmental Facility (ex. sewer pipe), Military Housing, Cultural Facilities**

Key Policy Issues

- **Strengthening Global Networks & Knowledge Exchange for Promotion of PPI/PPP**
 - Growing Interests in PPI/PPP Worldwide
 - **Int'l Events, Official Study Visits, Interchange of Personnel, etc.**
 - Several Ways of International Cooperation
 - **Multilateral Cooperation** : International Conferences, Seminars, etc.
 - **Bilateral Cooperation** : MOUs for establishing official networks among policy makers & practitioners, regular meetings, education/training programs, consulting, TA, etc.

Jeju Initiative

- **ASEM Finance Ministers' Meeting in Korea (2008.6)**
- **Asian PPP Network (APEN) led by Korea**
 - ✓ **Line up** : government officials, international institutions, scholars, private sector, etc
 - ✓ **Function**
 - Sharing information and Experience through on-line Hub Site
 - Education on PPI/PPP for government officials of developing countries
 - Dispatch experts on PPI/PPP to developing countries
 - International conference
 - ✓ **Budget**
 - Make up a budget for '09

Jeju Initiative (Cont'd)

■ Linking between Asia - Europe PPP Network

- ✓ **Purpose** : PPI/PPP Cooperation between Asia and Europe
 - EPEC (European PPP Experts Network), Partnership UK, etc.
- ✓ **Function**
 - International Conference
 - Sharing Information
 - Reciprocal Visit of Experts and Agents

■ Operation of PPP program

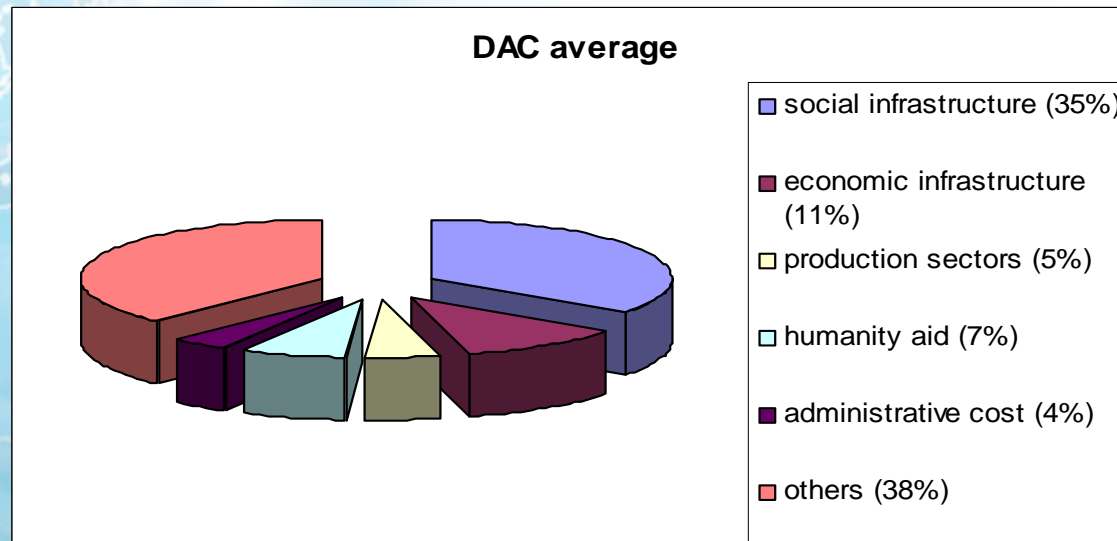
- ✓ Education for Governmental Officials of Developing Countries
- ✓ Dispatch Expert on PPP to Developing Countries

Future Work : ODA and PPI/PPP

■ Contributions of Donor Government to Developing Countries and to International Organizations

- ✓ Grant + Concessionary Loan (Long-Term, Low Interest Rate)
- Ex) Concessionary Loan in Korea → EDCF

The used sector ratio of ODA offered by DAC on average (2006)



source reconstruction based on OECD DAC Internet Database

Table 1: Net Official Development Assistance in 2005

	2005		2004		2005	
	ODA USD million current	ODA/GNI %	ODA USD million current	ODA/GNI %	ODA USD million (1) At 2004 prices and exchange rates	Percent change 2004 to 2005 (1)
Australia	1 680	0.25	1 460	0.25	1 557	6.7
Austria	1 573	0.52	678	0.23	1 539	127.1
Belgium	1 963	0.53	1 463	0.41	1 924	31.5
Canada	3 756	0.34	2 599	0.27	3 410	31.2
Denmark	2 109	0.81	2 037	0.85	2 076	1.9
Finland	902	0.46	680	0.37	883	29.9
France	10 026	0.47	8 473	0.41	9 893	16.8
Germany	10 082	0.36	7 534	0.28	10 013	32.9
Greece	384	0.17	321	0.16	372	15.9
Ireland	719	0.42	607	0.39	703	15.7
Italy	5 091	0.29	2 462	0.15	4 958	101.4
Japan	13 147	0.28	8 922	0.19	13 534	51.7
Luxembourg	256	0.84	236	0.83	248	5.4
Netherlands	5 115	0.82	4 204	0.73	5 036	19.8
New Zealand	274	0.27	212	0.23	251	18.5
Norway	2 786	0.94	2 199	0.87	2 494	13.5
Portugal	377	0.21	1 031	0.63	371	-64.1
Spain	3 018	0.27	2 437	0.24	2 911	19.5
Sweden	3 362	0.94	2 722	0.78	3 377	24.1
Switzerland	1 767	0.44	1 545	0.41	1 757	13.7
United Kingdom	10 767	0.47	7 883	0.36	10 640	35.0
United States	27 622	0.22	19 705	0.17	26 888	36.5
TOTAL DAC	106 777	0.33	79 410	0.26	104 835	32.0
Average Country Effort		0.47		0.42		
<i>Memo Items included in the above:</i>						
EC	9 390		8 704		9 224	6.0
DAC-EU countries	55 745	0.44	42 767	0.35	54 943	28.5
G7 countries	80 492	0.30	57 578	0.22	79 336	37.8
Non-G7 countries	26 285	0.50	21 832	0.45	25 500	16.8
<i>Non-DAC OECD Countries:</i>						
Czech Republic	135	0.11	108	0.11	126	16.2
Hungary	100	0.11	70	0.07	97	38.0
Iceland	27	0.18	21	0.18	23	10.5
Korea	752	0.10	423	0.06	673	58.9
Poland	205	0.07	118	0.05	171	45.6
Slovak Republic	56	0.12	28	0.07	53	87.7
Turkey	601	0.17	339	0.11	654	92.8

(1) Taking account of both inflation and exchange rate movements.

Note: The data are standardised on a calendar year basis for all donors, and so may differ from fiscal year data available in countries' budget documents.

Source: OECD, 30 November 2006.

ODA and PPP/PPI (Cont'd)

■ The Cooperation between Official Aid and Private Investment has emerged as a New Approach for Developing Countries' Sustainable Development

- ✓ OECD has encouraged the ODA-FDI nexus by notifying 'ODA-backed efforts to enhance the investment climate are relevant in the context of attracting FDI'(OECD 2004)
- ✓ The role of ODA in facilitating FDI inflows has become a main issue in the policy discussion (OECD 2006)
- ✓ The USA introduced the concept of Public-Private Alliance (PPA) to induce participation of the private sector in United States Agency for International Development (USAID) projects

■ ODA + PPI/PPP → (FDI ↑) → Sustainable Development



Thank you

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