

Korea's Public-Private Partnership



Ministry of Economy
and Finance

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Overview of PPP system in Korea

What is PPP?

Definition of PPP

Public-Private Partnership (PPP) is a framework under which public infrastructure and services are funded, constructed, and operated by private sector companies.

Primary Goals

To make available necessary public infrastructure and services promptly without delay and to take advantage of private sector's efficiency and ingenuity.

History of the Korea's PPP Act

- Legal framework is the most important government's support in reducing risks and uncertainties surrounding PPPs.
- Through revision of the PPP Act in 2005, the focus of PPP shifted from transportation facilities to social infrastructure.

Enactment (Aug. 1994)	Revision(Jan. 1999)	Amendment(Jan. 2005)
The Act on Promotion of Private Capital into Social Overhead Capital Investment	The Act on PPP in Infrastructure	The Act on PPP in Infrastructure
<ul style="list-style-type: none"> ▪ Introduction of PPP legal framework 	<ul style="list-style-type: none"> ▪ Government support measures ▪ Risk sharing mechanism ▪ Unsolicited proposals 	<ul style="list-style-type: none"> ▪ Introduction of BTL ▪ Diversification of PPP Project facility types* <p>*school, waste, sewage, military APT etc.</p>

Legal Framework of PPP system in Korea

Hierarchy of Legal & Administrative PPP system

PPP Act

Enforcement Decree on PPP Act

Basic Plan for PPP

Implementation Guidelines

- The PPP Act and its Enforcement Decree regulate PPP projects
- The Basic Plan for PPP gives direction to government policy.
 - Implementation procedures, rights and obligations, risk sharing mechanism
- The PPP Act is a special act that precedes other acts.
 - Exempts PPP projects from strict regulation

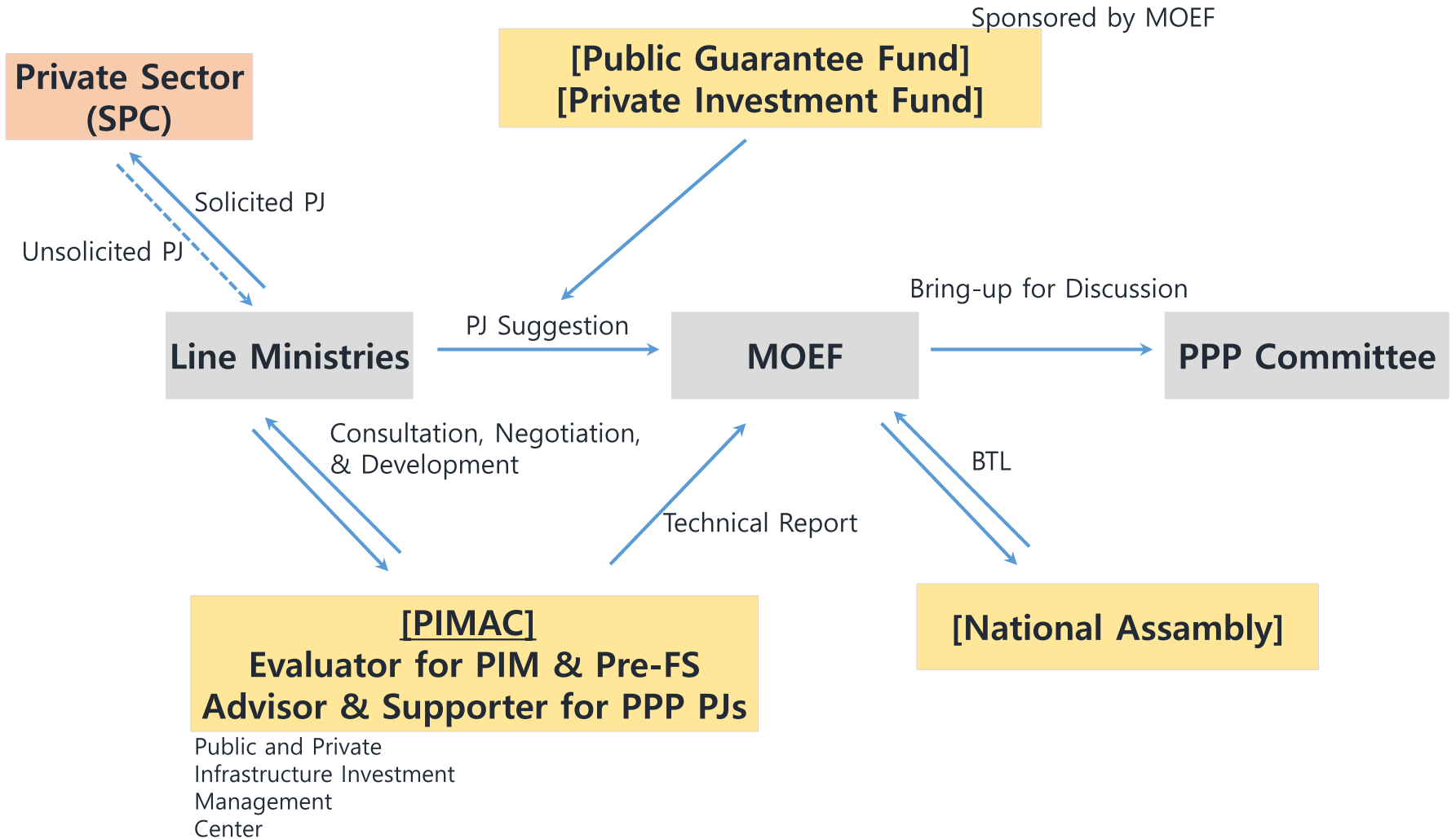
Major Players of Korea's PPP

	PPP Policy Division(MOEF)	PPP Review Committee	KDI PIMAC
Position	Commanding Tower of overall PPP Policies & Projects	Established under the MOEF	Established within the KDI to provide technical assistance
ROLE	<ul style="list-style-type: none"> ▪ set out policy directions & law ▪ budget support ▪ secretariat to Committee related to PPP ▪ submits PPP reports to the National Assembly 	<ul style="list-style-type: none"> ▪ reviews matters concerning & formulation of major policies ▪ establish & modify the PPP basic plans ▪ designate an expected PPP project & concessionaire 	<ul style="list-style-type: none"> ▪ supports potential PPP project review ▪ feasibility study ▪ PPP project evaluation ▪ supports services for foreign private investors

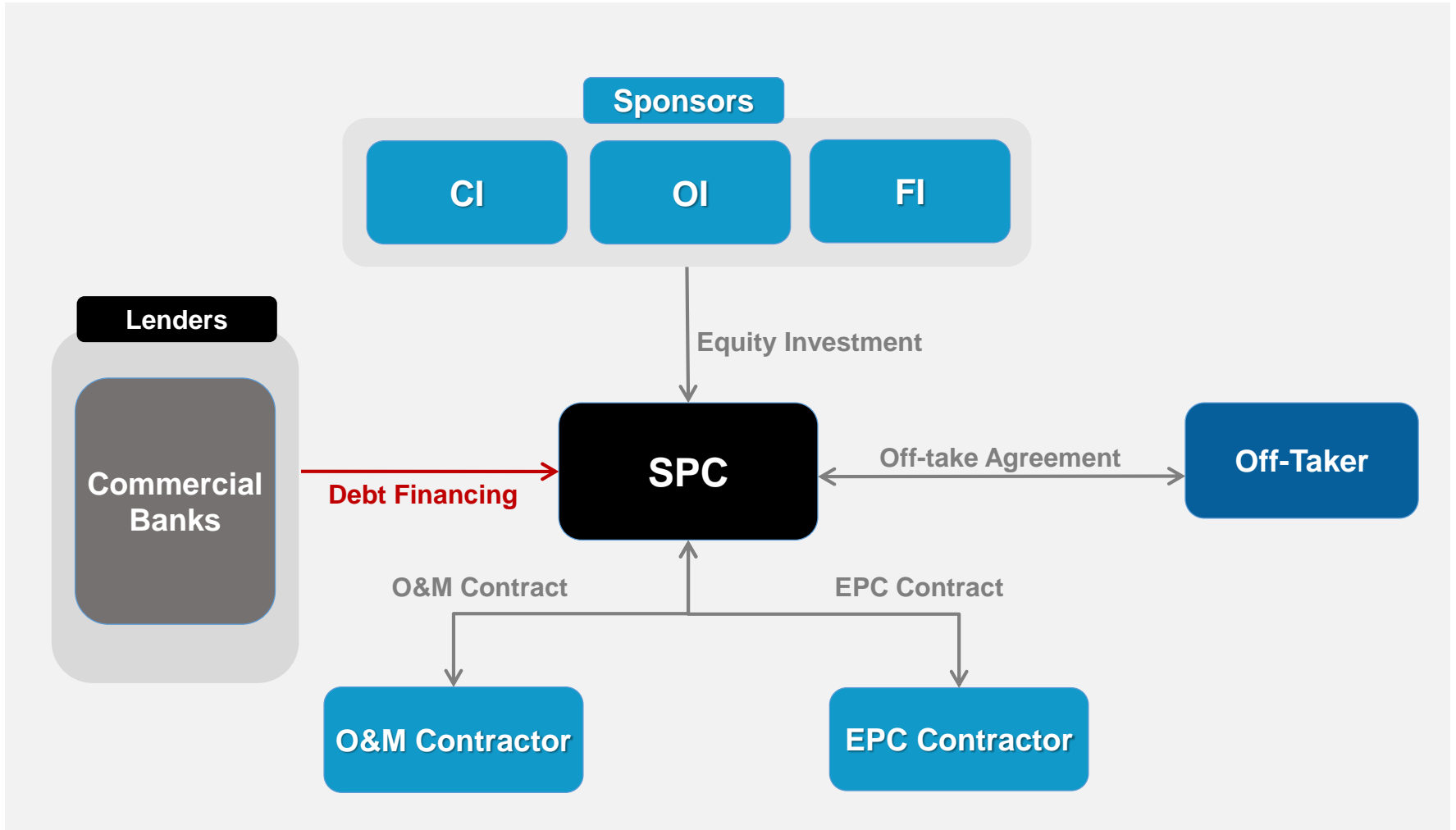
Major Players of Korea's PPP

	Line Ministries & Local Govn't	National Assambly
Position	Heds of Administrative Agencies in Charge of Infrastructure	Legislative Branch
ROLE	<ul style="list-style-type: none">▪ plans projects, conducts feasibility test, designate PPP project▪ supervise overall matters including operation of the facility▪ submits reports to MOEF	<ul style="list-style-type: none">▪ enacts & revises PPP act▪ checks the executive's PPP institutions & operation▪ deliberates & determines BTL expenditure ceiling

Ref.) PPP Scheme (PPP Unit)



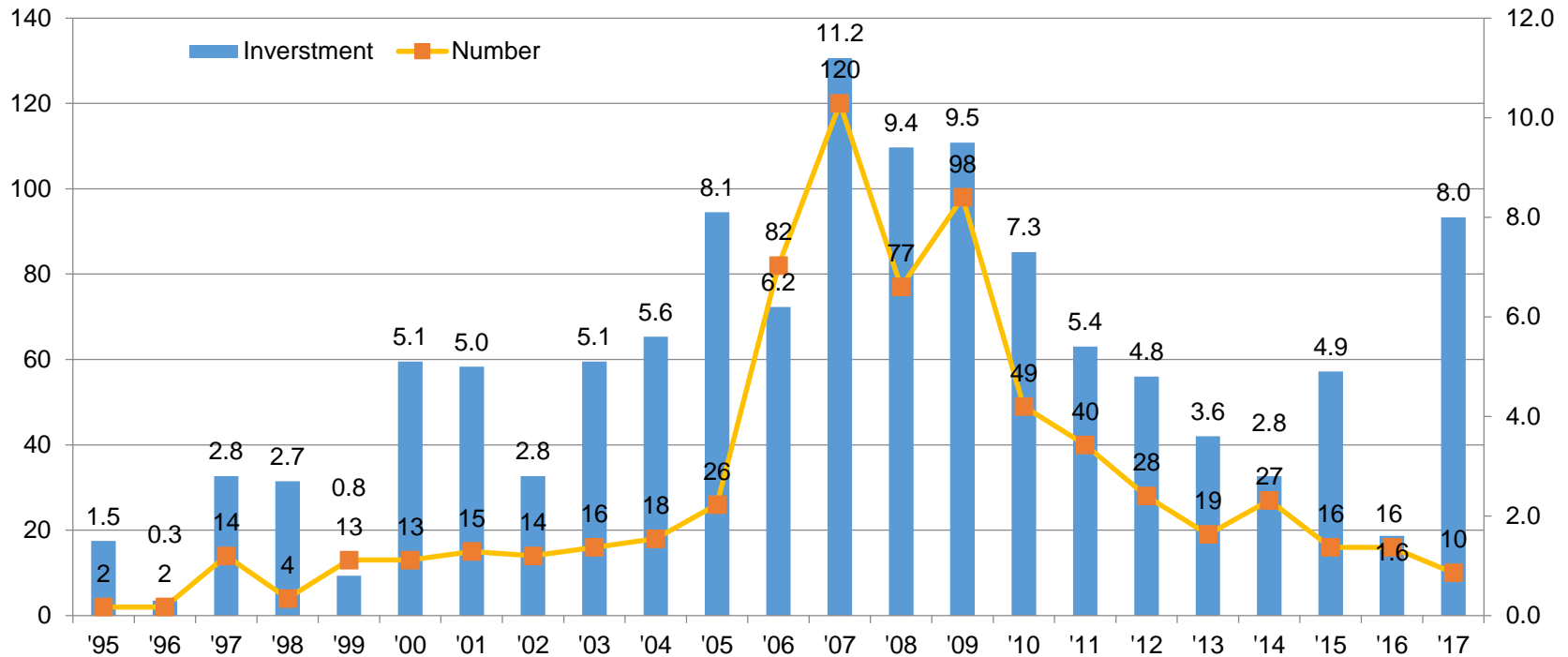
Ref.) PPP Scheme (Private Sector)





Management & Procurement Process of Korea's PPP

PPP in Korea so far



- 719 projects implemented (worth 114 Tril. ₩)
- PPP investments has contributed to overcoming economic crisis by bridging the funding gap for needed infrastructure.

The PPP Procurement Process: Pre-Delivery Phase

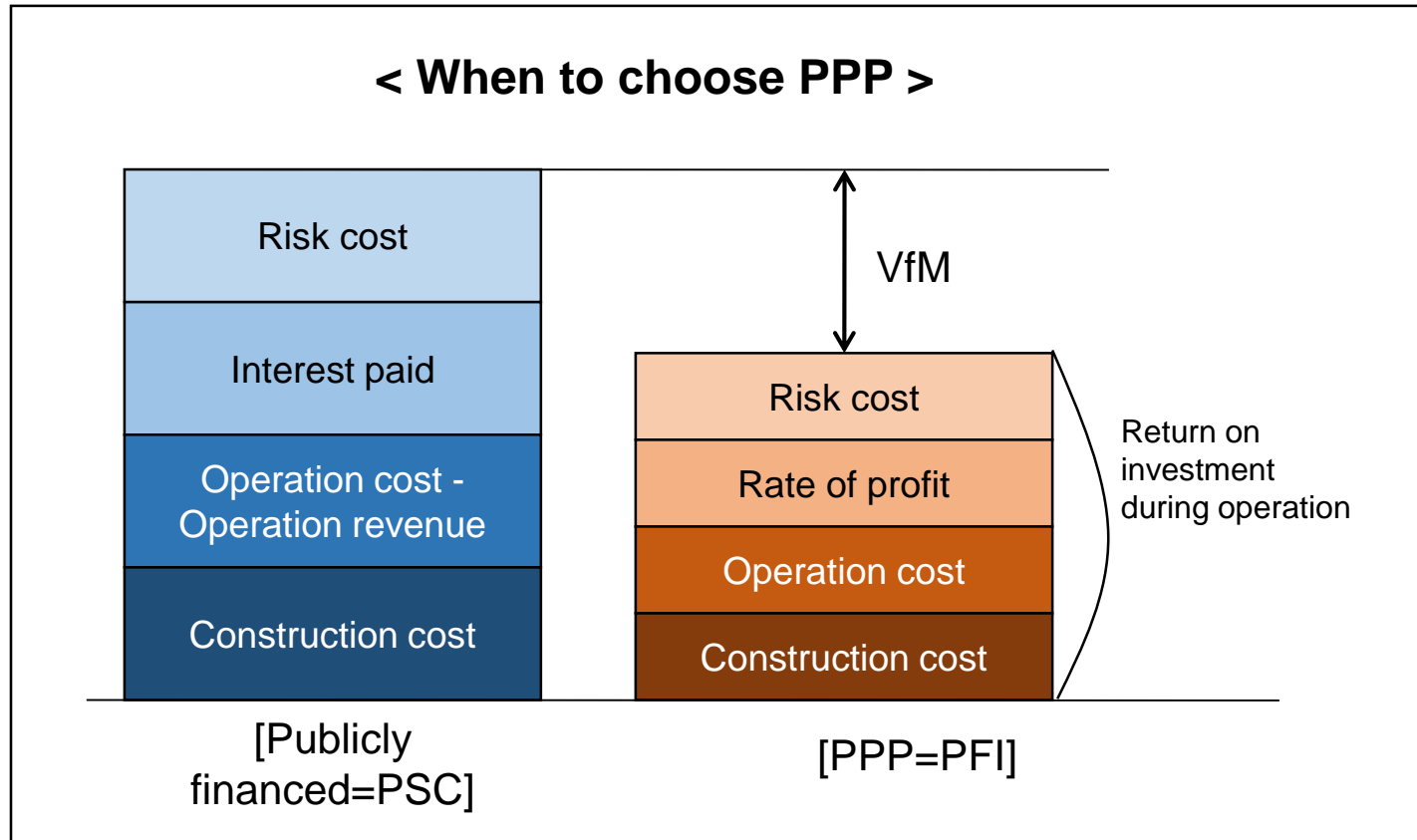
PPP Act

- In line with the longer-term infrastructure plan and priorities in the national investment plan
- Bankability to attract private sector participation
- PPP projects are subject to F/S test as publicly financed projects

Test & Evaluation Criteria

- 1st stage(Feasibility Study) : Economic Feasibility ($B/C > 1$)
- 2nd stage(VfM Test) : Decide whether PPP procurement is better than government procurement($VfM > 0$)
- 3rd stage(Design PPP implementation alternative): Calculate reasonable project cost, user fee level, budget support amount etc.

Ref.) When to choose PPP



The PPP Procurement Process: Delivery Phase

Solicited Project

1) Designate Project as PPP

2) RFP Draft & Announcement

3) Review Project Plan, Evaluation Negotiation

4) Concession Agreement & Designate
Concessionaire

5) Construction

6) Operation

7) Termination

Unsolicited Project

1) Decide Unsolicited Project

2) Announcement for the 3rd person proposal

3) Review Project Plan, Evaluation Negotiation

4) Concession Agreement & Designate
Concessionaire

5) Construction

6) Operation

7) Termination



Government Budget Support

Goal & Types

Goal of Government Support

- Maintenance of proper range of user fee
- Compensation for operating revenue deficit

Types of Support

- Land Acquisition Cost Support
- Construction Subsidy
- Minimum Revenue Guarantee(MRG)

Land Acquisition Support & Construction Subsidy

Land Acquisition Cost Support

- Land acquisition cost for BTO and BTL projects is covered by the gov'n't because the facility will be eventually transferred to the gov'n't.
- In some cases, when a PPP project is very profitable, the SPC bears land acquisition expenses.

* In FY2015, land acquisition budget takes 37.5% of all PPP related budget expenditure (1.26 trillion KRW)

Construction Subsidy

- Roads: within 30% of total investment cost
- Railroads: within 50% of total investment cost
- Ports: within 30% of total investment cost
- Environmental facilities: commensurate to facility types and local government's support

Rent & Operation Subsidy (BTL)

- BTL types of facilities are built thru privately invested capital, then the government pays the whole investment cost in equal installment for certain duration of time (ex. 20 yrs)
- BTL procurement is much like government budget in that, government annually pays rent (lease) directly to the concessionaire
- Strengthened parliamentary control over BTL procurement
 - Ex-ante approval of BTL budget ceiling (est. total payable)
 - Ex-post report of 5 year estimate of government payable to the National Assembly



Current challenges and policy response

Attitudes towards PPPs(1)

□ PPP has positive impacts on the overall economy of a nation

① PPP can cover the budget shortage caused by various reasons.
ex) Growing demand in social welfare sector

< Yearly Total and Welfare, SOC budgets(Wtril) >

	'98	'00	'05	'10	'15	'18
Total	75.6	88.8	135.2	292.8	375.4	428.8
Welfare	6.9	10.6	17.8	81.2	115.7	144.7
SOC	20.3	23.1	28.1	25.1	24.8	19.0

② PPP can practice User-specific public service and the benefit received principle

③ PPP can boost domestic demand by tapping into the idle funds of the private sector and offering investment opportunities

Attitudes towards PPPs(2)

- However, negative public perception of PPP exists.
 - Recent research paper showed a majority (82.8%) of citizens throw a doubt upon the user fee for PPP facilities. (PPP Perception Survey 2017, KDI)
- It is true that PPP is one of the widely used means of financing large-scale public projects, but the citizen concerns over PPP.
 - This concern deter latest PPP projects.
 - Policy action needs to be taken to prevent those concerns.

PPP Policy Agenda in Korea

Strengthened “publicness” of PPP projects
and early delivery of public facilities for public benefits

**Project
Refinancing/Re
structuring**

Lower toll

Ref.) Project Restructuring/Refinancing to lower toll fee

- **MRG payment worth KRW 17.5t reduced by restructuring/refinancing 19 projects in 5 years (2013-2017)**
 - As for expressway PPP projects, toll charges on 12 projects has been reduced with restructuring and refinancing in the past 5 years.
- Project refinancing: Adjustment of financing terms,
 - ex) capital structure and interest rate.
- Project restructuring: Changes to project structure,
 - ex) extension of the operation period and risk-sharing of project.

Ref.) Project Restructuring/Refinancing to lower toll fee

- (Early 2018) Restructuring/refinancing for 3 PPP expressway projects

Applied Expressways	Details	Time
Seoul Ring Expressway(northern)	• Restructuring (4,800 → 3,200KRW, 33.3%↓)	'18. 3.
Seoul-Chuncheon Highway	• Refinancing (36,800 → 5,700KRW, 16.2%↓)	'18. 4.
Suwon-Gwangmyeong Expressway	• Refinancing (2,900 → 2,600KRW, 10.3%↓)	'18. 4.

- Upcoming PPP projects will be also subject to maximum flexibility of toll adjustment in each phase* of the project cycle

* Unsolicited Proposal Submission → Vfm Assessment →
Announcement for the 3rd person proposal →
Concession Agreement & Designate concessionaire →
Concession Agreement → Implementation Plan Approval →
Construction

Key Factors of Successful PPP

- **Cooperative Partnership between Public & Private**
- **Private sector contributes to efficiency & creativity**
- **Government make rules & environment,
encourage private investment**

Suggestions

- **Bilateral Cooperation between Governments to share PPP Knowledge and Experiences**
- **Bilateral Cooperation between PPP Organizations**
- **Sharing Information about PPP Projects including Investment Relations in both countries**

Q&A



Thank you!!
