



Integration of PIM and PPP in a Unified Framework

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C O N T E N T S



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Part-01 | **Overview**

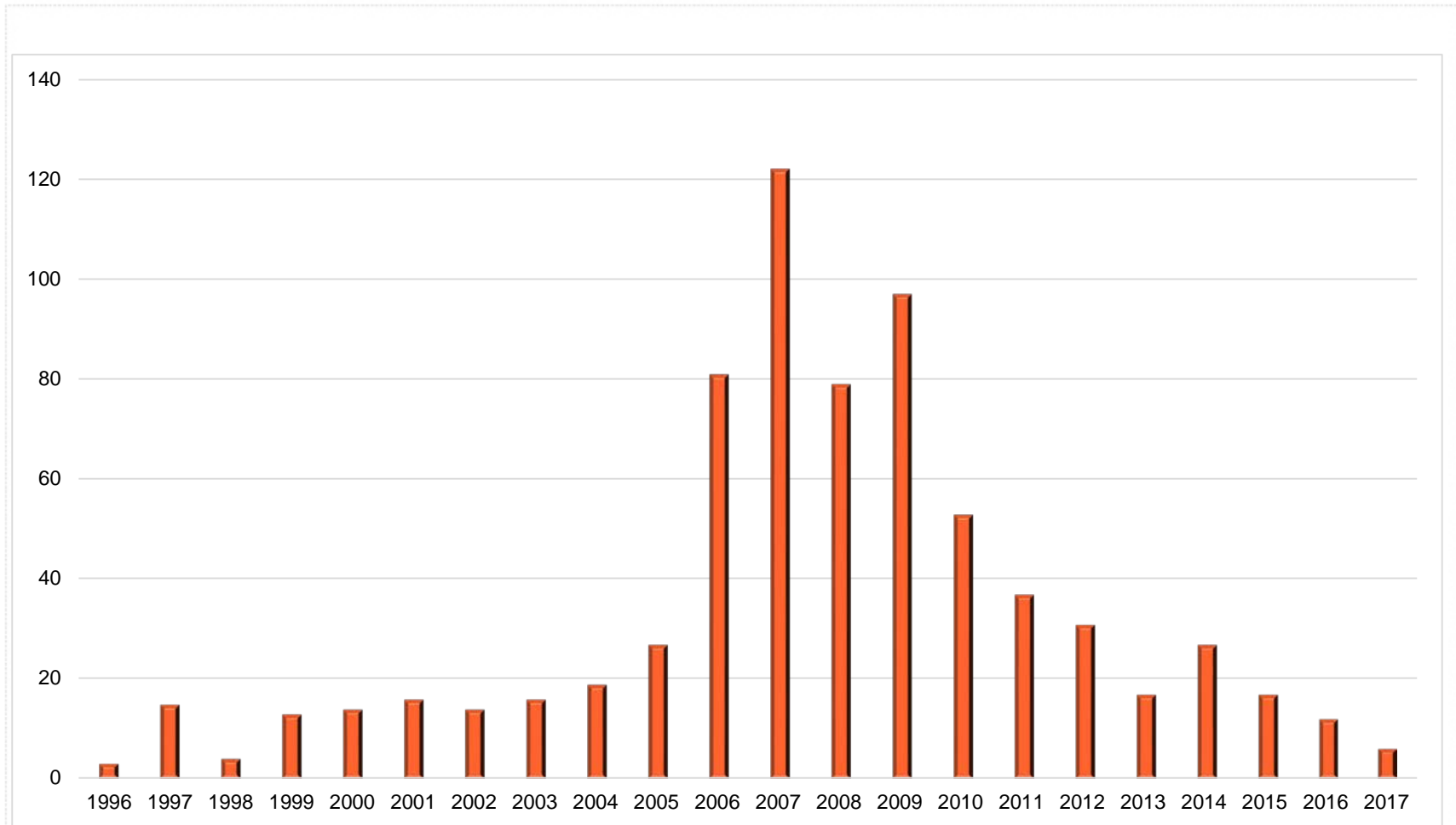
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Phases of Korea's PPP

Phases	Events and Characteristics
Establishment phase (1994 ~ 1998)	<ul style="list-style-type: none"> - Enactment of 1994 Act on Promotion of Private Capital Investment in Social Overhead Capital - Sluggish implementation due to immature PPP conditions, government's failure to play the proper roles, excessive regulations, and the fear of controversies over preferential treatment - Asian financial crisis (1997~1998)
Promotion phase (1999~ 2004)	<ul style="list-style-type: none"> - Enactment of Act on Private Participation in Infrastructure (Dec. 1998) - Introduction of various government support packages: MRG, Buyout Rights - Introduction of unsolicited BTO projects - Establishment of the first PPP unit, PICKO
Management phase (2005~ 2010)	<ul style="list-style-type: none"> - Revision of Act on Private Participation in Infrastructure (Jan. 2005) - Establishment of PIMAC - Introduction of BTL method - Abolition of MRG - Global financial crisis (2007~2008)
Revitalization phase (2011 ~ Current)	<ul style="list-style-type: none"> - Establishment of the Dispute Resolution Committee - Introduction of BTO-rs and BTO-a methods - Introduction of Mandatory VfM Test after PFS - Introduction of unsolicited BTL projects

Source: Based on the Table 2-1 of Kim *et.al.* (2011), the author recategorized, added, and newly named the phases.

Trends in Korea's PPP Market



Note: Number projects for which an agreement was signed each year

Source: PIMAC

Key Players (1)

❑ National PPP Review Committee (PRC) reviews:

- Major PPP policies including the Annual PPP Basic Plan
- Designation and cancellation of a large PPP project*
 - ✓ large project: total project cost with KRW 200 billion or above
- Formulation and modification of the RFP
- Awarding Concessions
- Other important matters on PPP

❑ **Chaired by the minister of economy and finance, PRC convenes whenever needed to make important decisions on PPP policies and major projects. It consists of members from procuring ministries and private sector experts.**

- The PRC is able to postpone or block part of the expenditures for PPP projects

Key Players (2)

□ MOEF

- Manages the institutional framework of PPP
- Drafts budget including budget for PPPs
- Formulates a comprehensive PPP investment Plan
- Evaluate performance of PPPs

□ Competent Authority (Central and local governments)

- Implements PPP projects:
 - ✓ Develops PPP projects
 - ✓ Designates PPP projects
 - ✓ Selects a preferred bidder through competitive bidding
 - ✓ Negotiates with SPC and awards contracts

...and PIMAC

Advisor and/or Government Agency in Project Management

- Development of PPP projects
- Execution and review of Value for Money (VFM) Test
- Support for formulation of Request for Proposals (RFPs)
- Review of RFPs and concession agreements
- Assistance in tendering and negotiation

Researcher

- Support for formulation of the Basic Plans
- Theoretical and policy studies on PPP programs
- Development of implementation guidelines

PPP Market Promoter

- Training programs and seminars on PPP for public officials
- International cooperation
- Database management

Key Factors in Each Stage

Key Factors of the Unified Framework in Each Stage of PPP Implementation

Stage	Key Factors
Upstream Project Selection	Mandatory Feasibility Test
	Integrated Decision-Making between TIP and PPP
Contract Agreement	PPP Accounting
	Fiscal Commitments and Safeguard Ceiling
Downstream Project Implementation	Sharing Refinancing Gains
	Renegotiation and Project Adjustment

Part-02 | Integration of Upstream Project Selection



PPP Project Selection Process

❑ Phase 1: Feasibility study (Decision to Invest)

- The cost- benefit analysis is conducted to determine feasibility of the project from a national economy perspective.

❑ Phase 2: Value for Money Assessment (Decision on PFI)

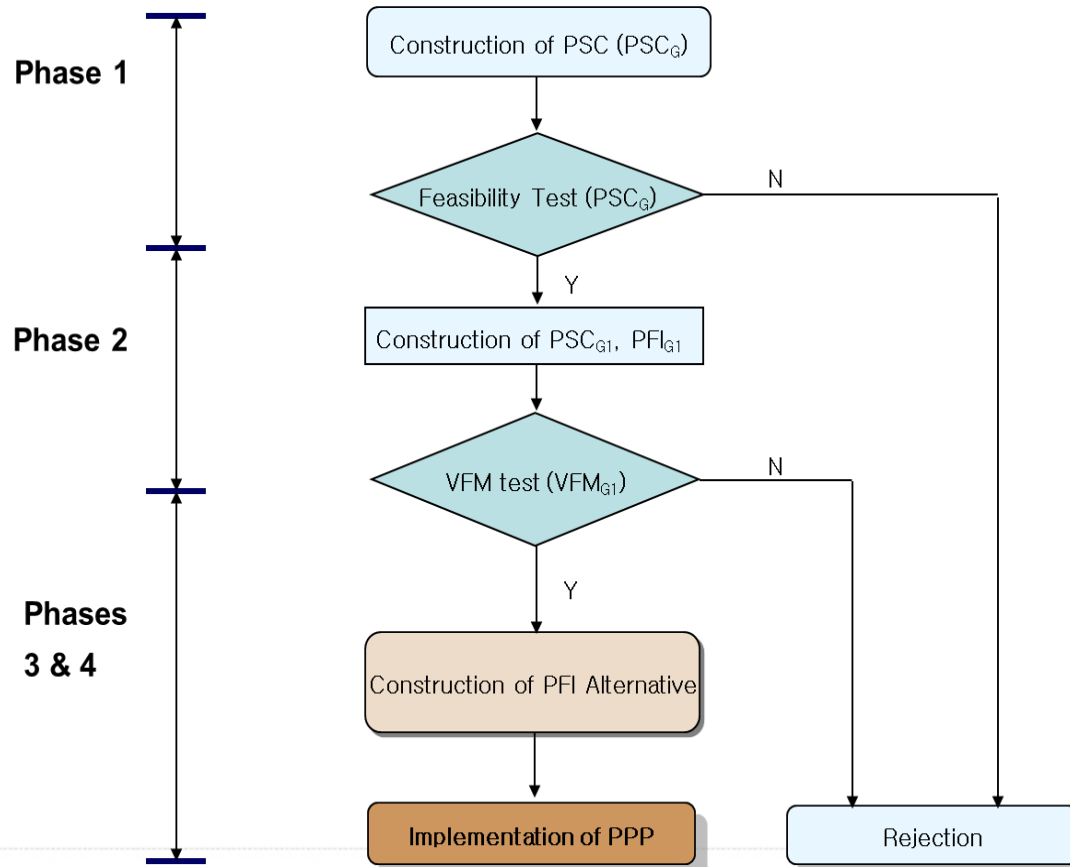
- The government payment of PSC (Public Sector Comparator) is compared against that of PFI (Private Finance Initiative) to assess whether the PFI achieves VfM.

❑ Phase 3: Formulation of PFI alternatives

- Based on the results of phase 2, an appropriate PFI alternatives are formulated
- The level of project cost, user fee, subsidy scale, etc. are suggested from the government.

Integrated Decision-Making between TP and PPP

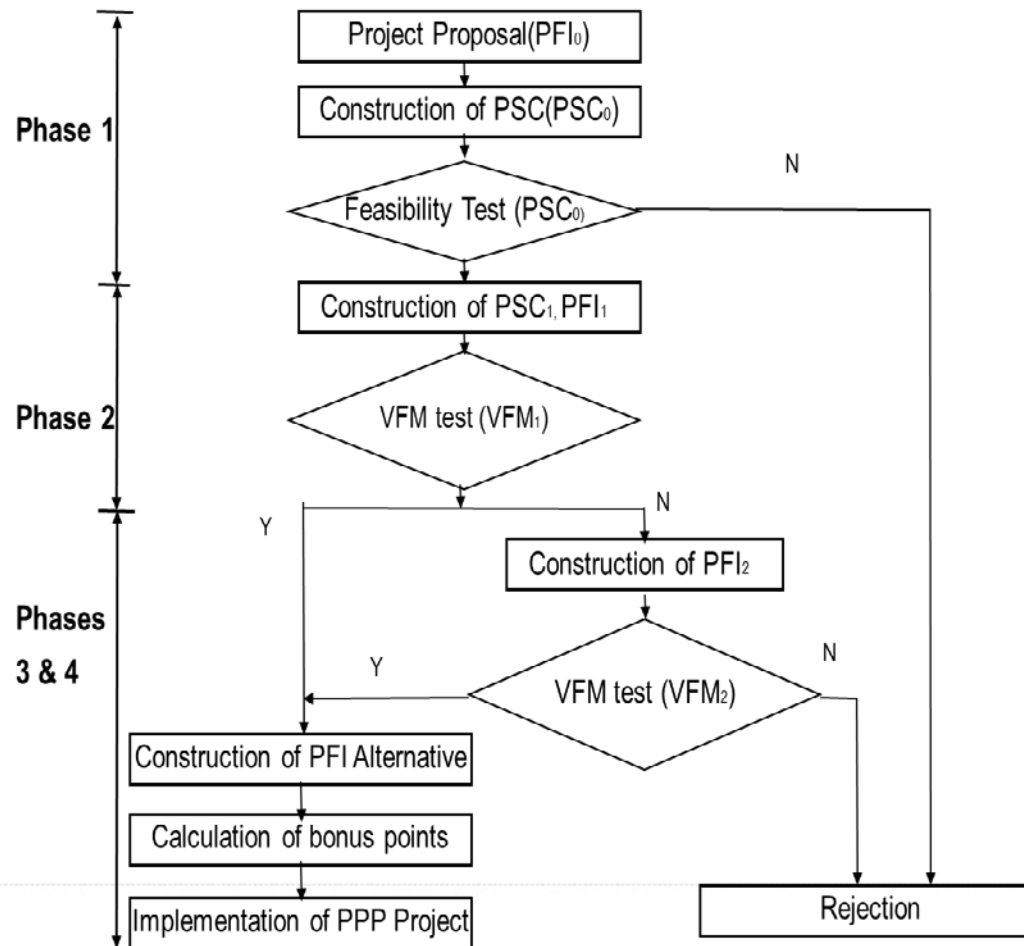
Flowchart of Integrated Decision-Making for Solicited PPP Projects



Source: PIMAC

Integrated Decision-Making between TP and PPP

Flowchart of Integrated Decision-Making for Unsolicited PPP Projects



Source: PIMAC

Challenges

❑ Challenges to **BALANCED** integrated decision making

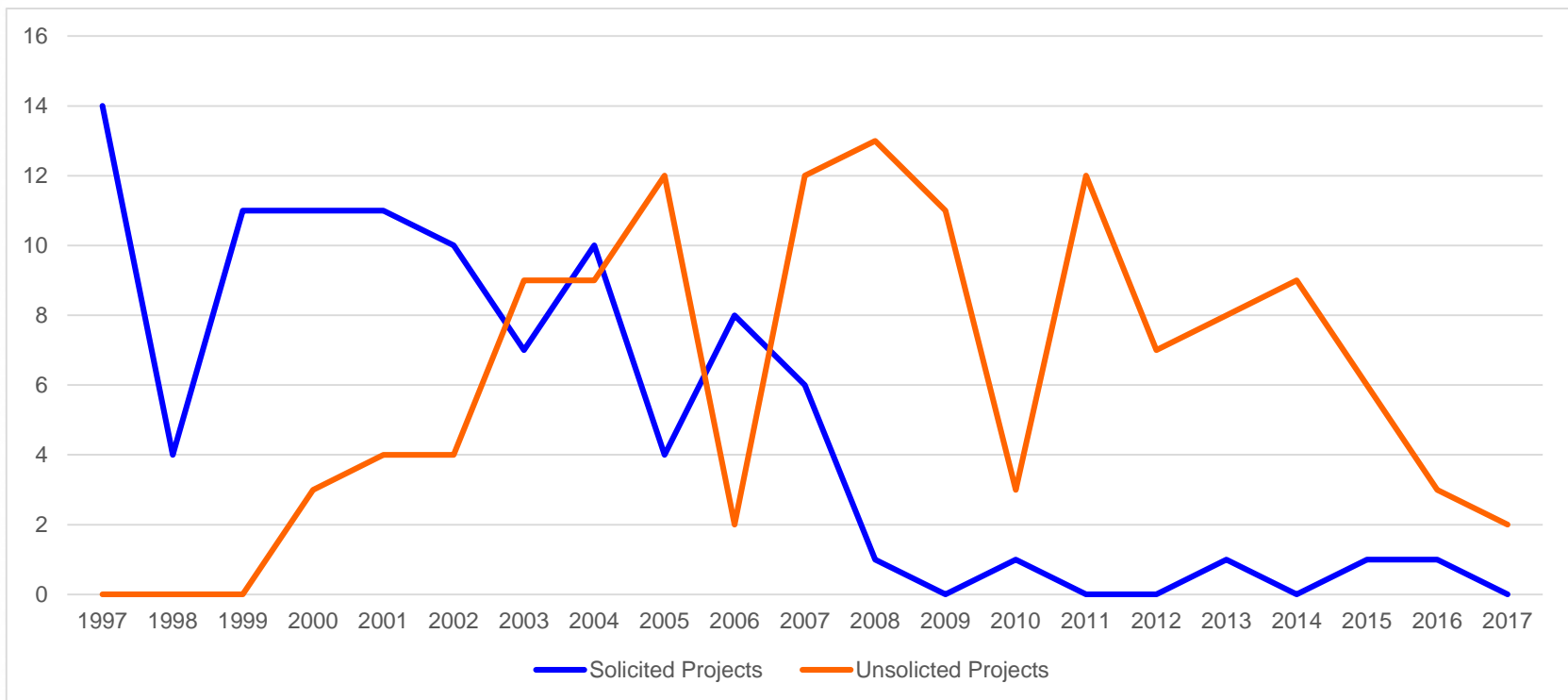
- Preference for TIP over PPP implementation
- Competent authorities and politicians usually care more about successful implementation on time than the fiscal burden from the project.
- They don't have to negotiate with private partners for TIP.

❑ Preference for **Unsolicited projects over Solicited projects**

- Public officials need to prepare all the details of the project for solicited projects

Challenges

Number of Solicited and Unsolicited BTO projects



Source: PIMAC

Meeting the Challenges

Project Categories and Facilities that require VfM Test

Categories	Facilities
Roads	Toll roads, Tunnels, Bridges, Parking lots
Railroad	General railroads, Urban railroads, Railroad facilities
Port / Airport	Port facilities, Airport facilities
Water	Water supply facilities
Environmental facility	Sewage, Sewage treatment equipment, Excrements disposal facilities, Waste disposal facilities, Recycling facilities

Source: PPP Basic Policy Article 64 (1), Ministry of Economy and Finance.

❑ Strengthening the PPP-PIM integration

- According to PPP Basic Policy (revised in 2017), VfM test is mandatory for the designated facilities if PFS result is positive.

Part-03 | **Contract Agreement
and Fiscal Risk Management**



PPP Government Support and Fiscal Commitments

	Known	Contingent
Government payment	<ul style="list-style-type: none"> • Unitary payment for BTL • Unitary payment from project adjustment 	
Risk sharing mechanism		<ul style="list-style-type: none"> • MRG(Minimum Revenue Guarantee) payment • Compensation for base cost • Foreign exchange risk
Subsidy	<ul style="list-style-type: none"> • Land acquisition costs • Construction subsidy 	
Guarantee	<ul style="list-style-type: none"> • Infrastructure credit guarantee through Infrastructure Credit Guarantee Fund 	
Tax incentive	<ul style="list-style-type: none"> • Exemptions from charges and taxes • Relaxation of finance-related regulation 	
Buyout right and termination payment		<ul style="list-style-type: none"> • Force majeure compensation • Early termination payment

PPP Accounting

Direct Liabilities	Contingent Liabilities
<ul style="list-style-type: none">• Up-front viability payment• Annuity or availability payments• Other forms of subsidy	<ul style="list-style-type: none">• Guarantees on risk variables• Force majeure compensation clauses• Termination payment commitments• Credit guarantees

❑ By the 2014 revision of Local Finance Act,

- The availability payments of BTL projects are included in debt management items,
- and categorized in direct liabilities.

❑ According to the Accounting Guidelines for PPP projects,

- BTO facilities are considered as the contributed asset
- Transferred operational right is considered as the debt

❑ Following the Government Finance Statistics Manual (GFSM 2001, IMF),

- The local government's fiscal risks from the contingent liabilities, such as the risks from MRG, are monitored and publicly announced by the Local Finance Act
- The risks of the central government are annually reported to the National Assembly.

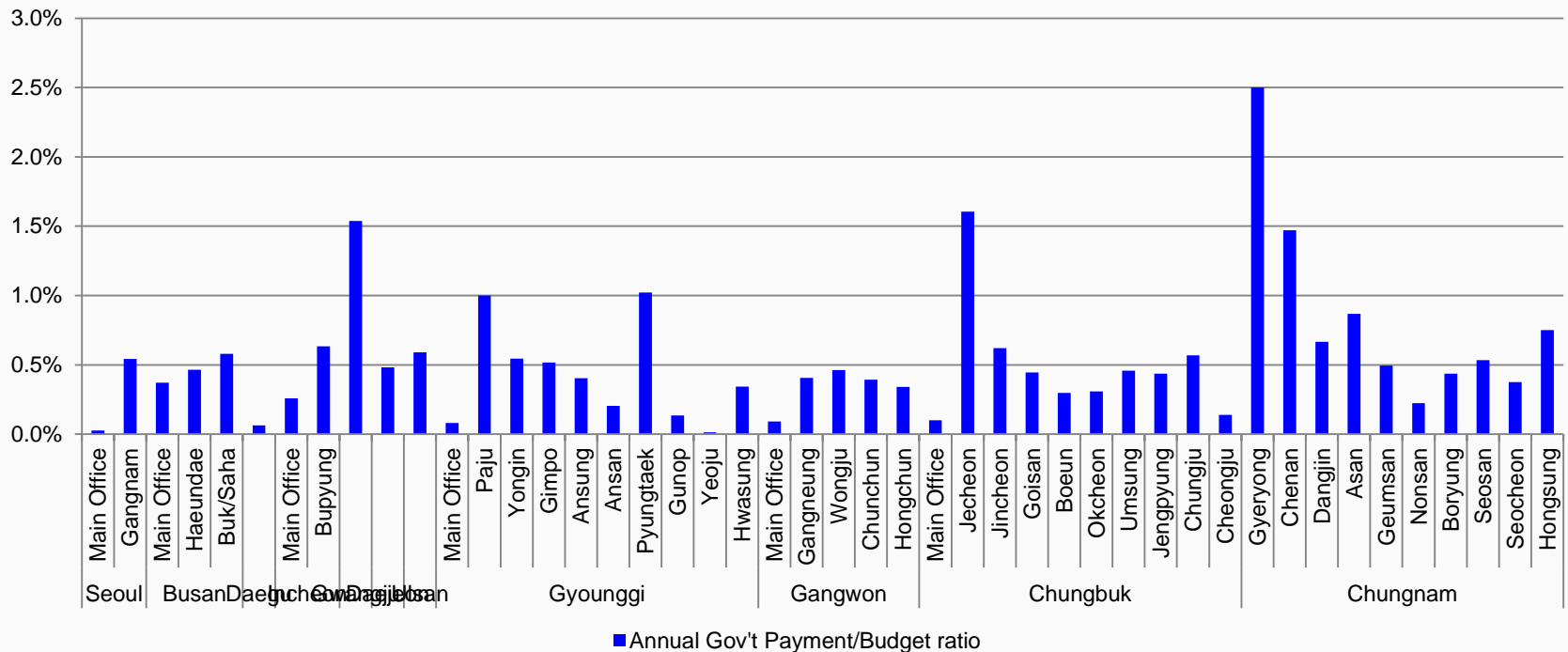
Challenges

□ Differences in the monitoring system b/w Central and Local

- MOEF has set its guidance for central gov't projects
 - ✓ Annual expenditures on public projects should be less than 2% of central budget
 - ✓ Or less than 10~15% of total public investment budget
- No rule for local projects
 - ✓ PPP Spending of almost all local gov'ts is within 2% safeguard ceiling
 - ✓ Now is a good time to set up the safeguard ceiling rule

PPP Spending vs Budget of Local Gov'ts

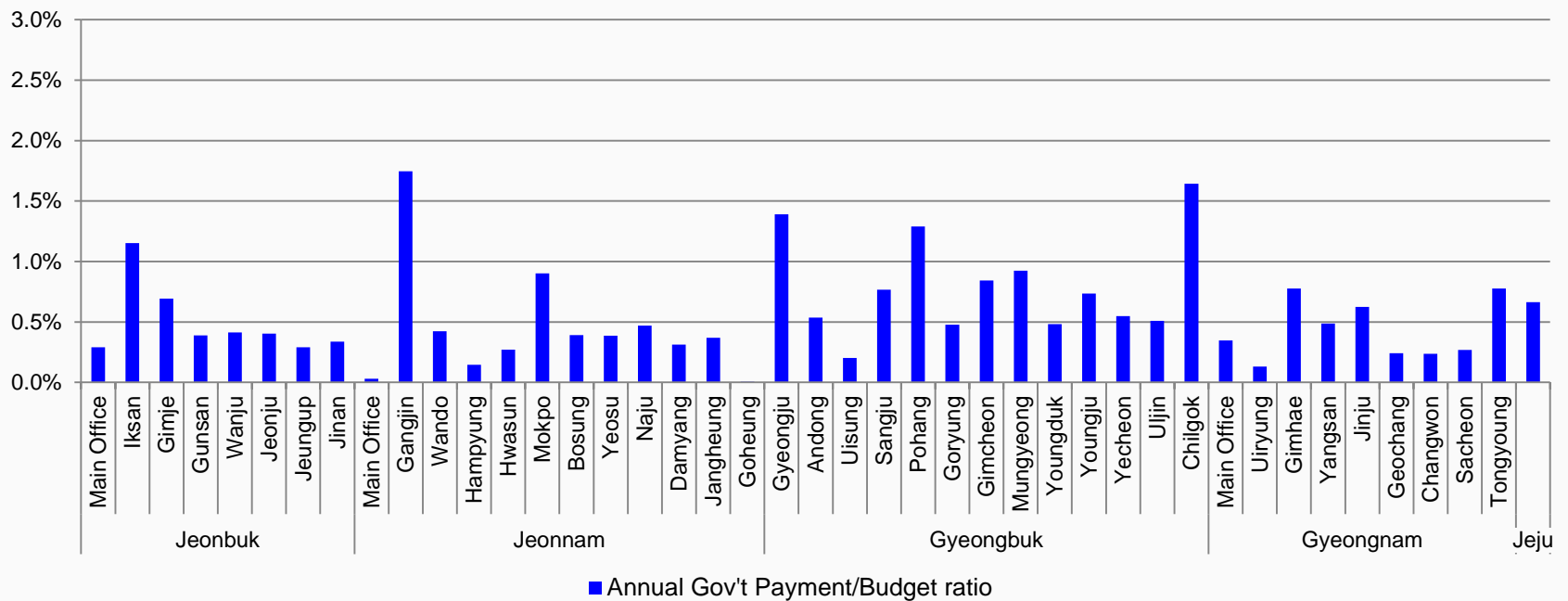
Ratio of Annual Government PPP Spending and Annual Budget in Local Governments



Source: Hojun Lee (2017)

PPP Spending vs Budget of Local Gov'ts

Ratio of Annual Government PPP Spending and Annual Budget in Local Governments



Source: Hojun Lee (2017)

Part-04 | **Integration of
Downstream Project Implementation**



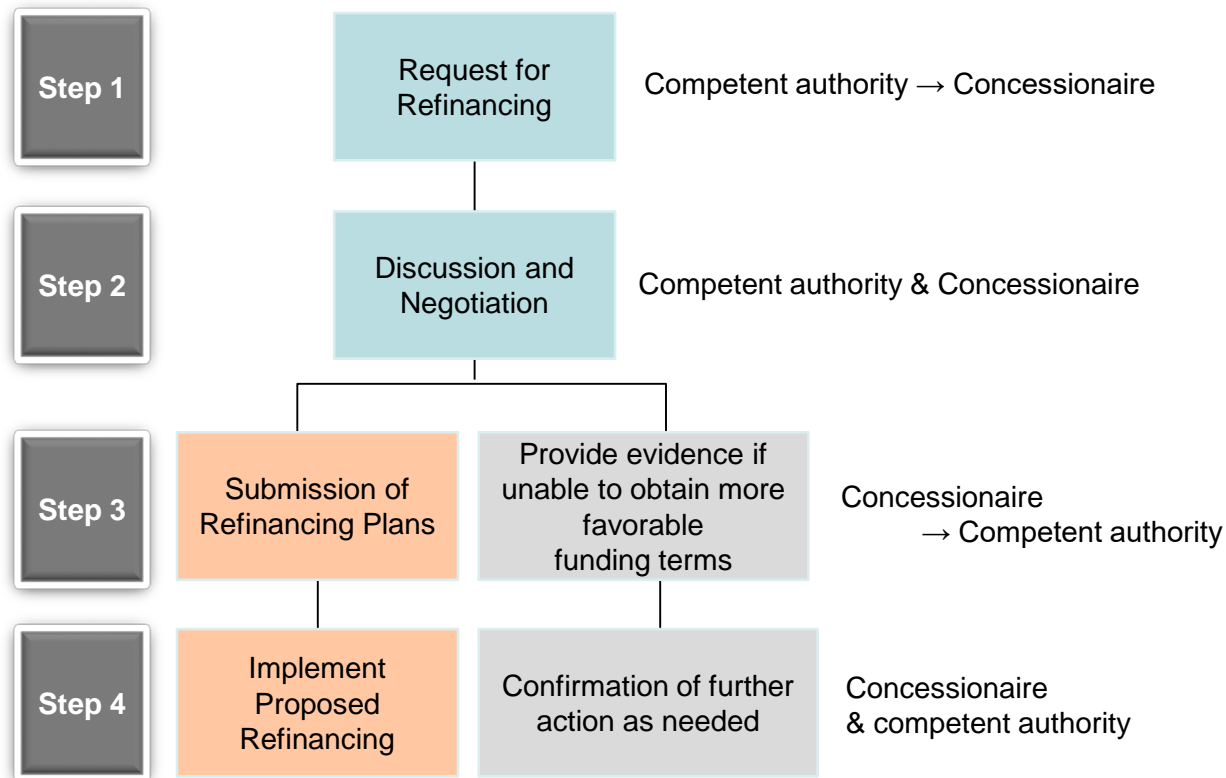
Sharing Refinancing Gains

- ❑ **Competent Authority is supposed to share any gains from refinancing with the Private Partner to lower**
 - the user fee
 - Or MRG level

- ❑ **Following the Basic Plan, they usually share the gain by 30:70,**
 - while 50:50 for BTO projects with MRG

Sharing Refinancing Gains

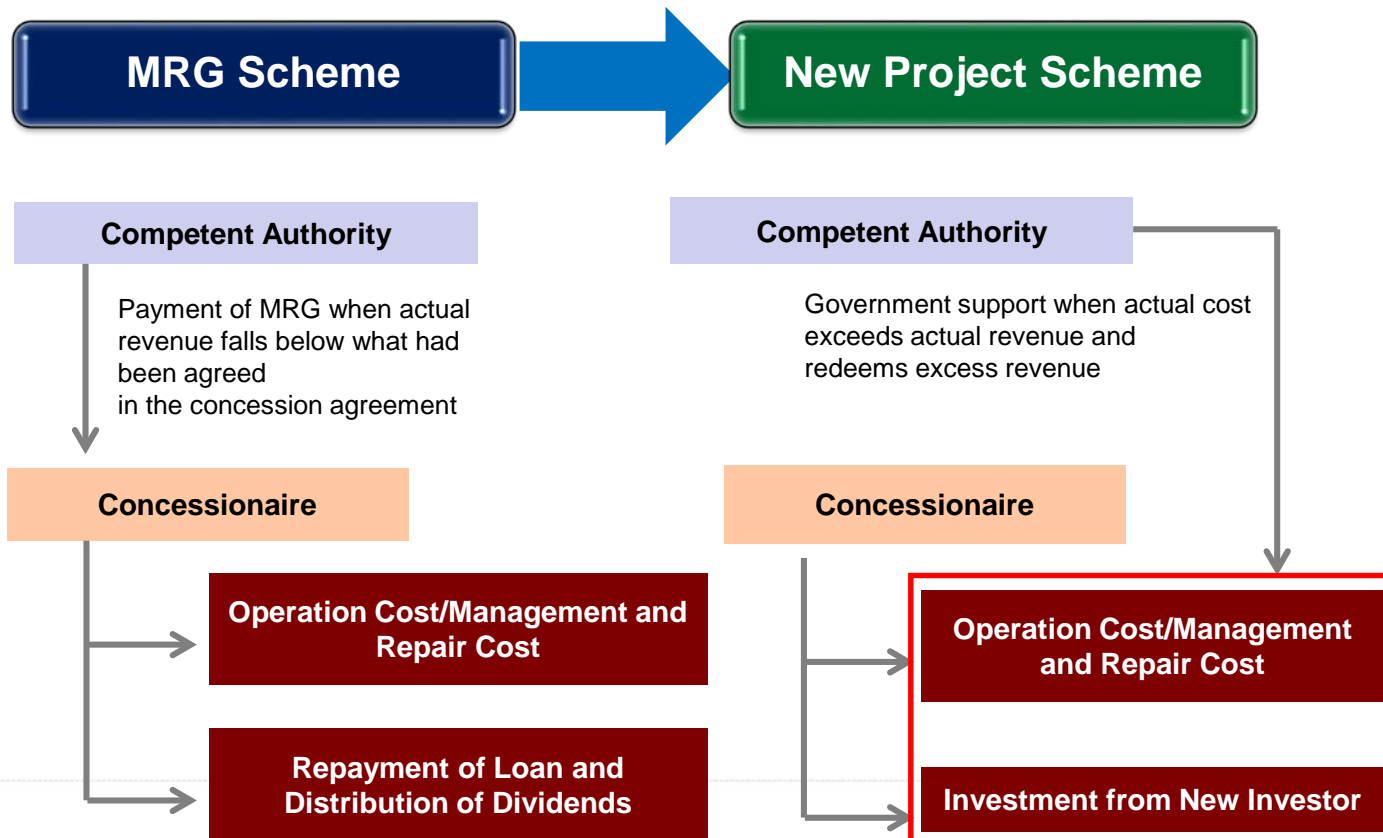
Procedure of Refinancing



Renegotiation and Project Adjustment

❑ Some projects w/ MRG have been adjusted based on renegotiation

- Competent authority gives the agreed unitary payment and covers O&M cost if needed
- For Concessionaire, the high-risk high return project adjusted to low-risk low return project



Challenges

❑ **Unitary payments of the adjusted project are the known liabilities**

- Changing from contingent liabilities to known liabilities
- Similar to the unitary payments of BTL projects

❑ **Approval process for the adjustment is much weaker than that for BTL projects**

- The ceiling for BTL projects spending should be approved by the National Assembly
- The adjustment plan of the project with the unitary payments is just reported to PRC.

Part-05 | Lessons Learnt



Lessons from Korean experiences (1)

□ Institutional and Organizational Arrangements are key to establish the integration.

- MOEF and PIMAC have the mandate to manage PPP projects from the fiscal perspective by PPP Act and other regulations
- Inside the MOEF and PIMAC, the PPP divisions are under the same umbrella as the divisions regarding TIPs, which gives consistency in managing PPP projects and TIPs

Lessons from Korean experiences (2)

□ **PPP-PIM integration should be carried out in a balanced way in line with the promotion of PPP markets**

- Stringent management of PPP projects can be a significant risk to the PPP market
- Reflecting the market environment and the fiscal status of the gov't, the intensity of management should be controlled.

Lessons from Korean experiences (3)

□ Unified framework should evolve as the nature of PPP agreements evolves.

- New forms of PPP agreement have been introduced reflecting new economic environments, for example, the unitary payment schemes as part of project adjustment,
- But the management system has not evolved quickly enough.
- A better synchronized evolution of the framework is needed.

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