

2024 APN CONFERENCE

*ADVANTAGES AND CHALLENGES OF UNSOLICITED PROJECT
PROPOSALS: INSIGHTS FROM CASE STUDIES*

KOREA'S EXPERIENCE



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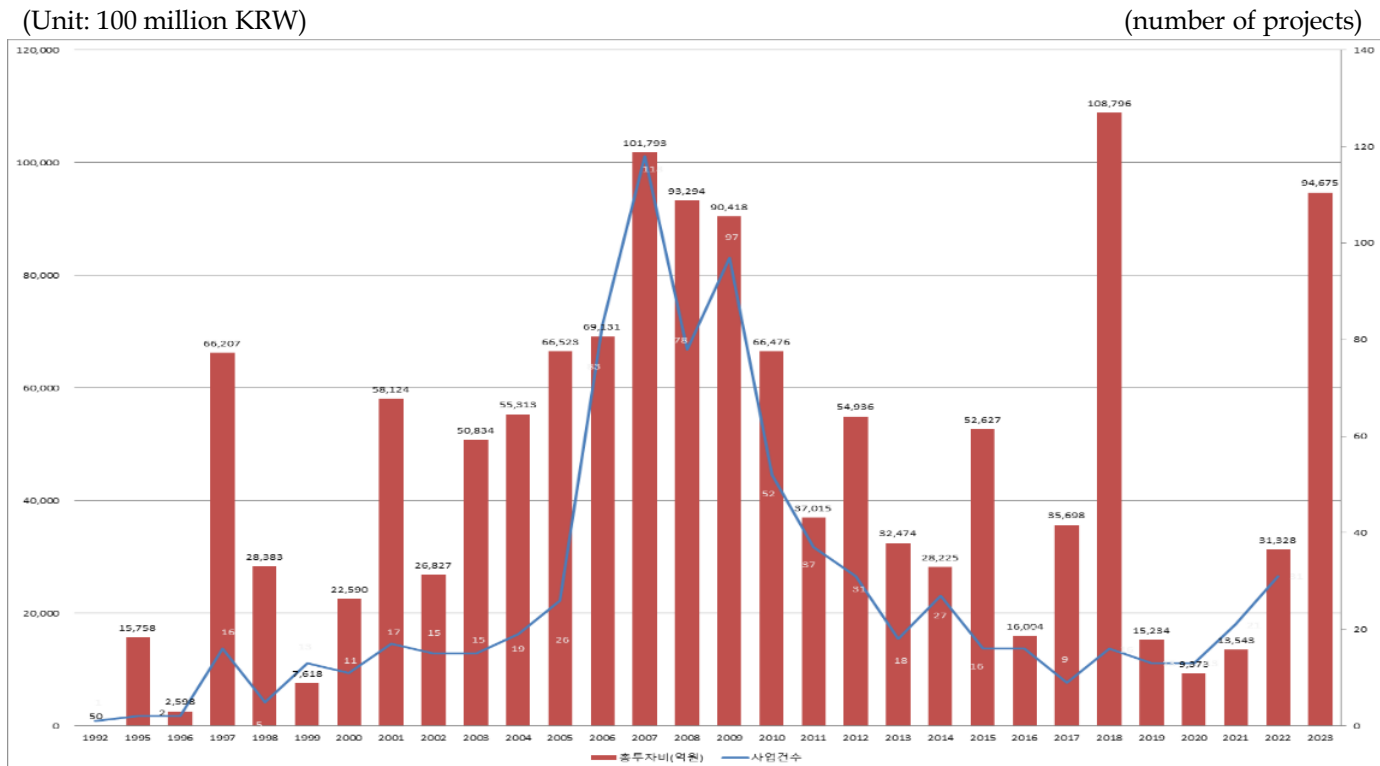


PART 01.
**Current State and Performance
of PPPs in Korea**

PPP Investment: Performance (1)

PPP Investment (1992~2023)

- The number of PPP projects and the investment amounts have continuously increased since 1994, when the legal grounds for the PPP system was established.



Source: KDI, 2023 KDI Public and Private Infrastructure Investment Management Center Annual Report, 2024.

PPP Investment: Performance (2)

Performance by Method

- Both the concession-type (BTO) and the service purchase-type (BTL) projects are implemented.
- Total of 853 projects, project costs amounting to 135.2 trillion KRW (approx. 94 billion USD)

Total number of projects and project cost (trillion KRW)				Complete	In operation	In construction	In preparation
Method	BTO	No. of Projects	281 (32.9%)	56	190	20	15
		Project cost	99.5 (73.6%)	2.7	69.1	18.0	9.6
	BTL	No. of Projects	572 (67.1%)	15	493	35	29
		Project cost	35.7 (26.4%)	0.3	32.1	2.1	1.2
Total		No. of Projects	853 (100%)	71	683	55	44
		Project cost	135.2 (100%)	3.0	101.2	20.1	10.8

Source: KDI, 2023 KDI Public and Private Infrastructure Investment Management Center Annual Report, 2024.

PPP Investment: Performance (3)

Performance by Initiation

- 681 government-solicited projects implemented with total investment of KRW 77.4 trillion
- 172 unsolicited project proposals implemented with total investment of KRW 57.8 trillion

(100 million KRW)

Mode of Delivery	No. of projects		Total investment	
		Proportion		Proportion
Government solicited	681	100.0%	773,869	100.0%
BTO	112	16.4%	418,739	54.1%
BTL	569	83.6%	355,130	46.9%
Unsolicited proposals	172	100%	577,996	100%
BTO	169	98.3%	576,161	99.7%
BTL	3	1.7%	1,835	0.3%
Total	853		1,351,865	

Source: KDI, 2023 KDI Public and Private Infrastructure Investment Management Center Annual Report, 2024.

PPP Investment: Performance (4)

Performance by Sector

- government-solicited: education (305), environment (132), defense (93)
- unsolicited proposals: environment (91), road (51)

(100 million KRW)

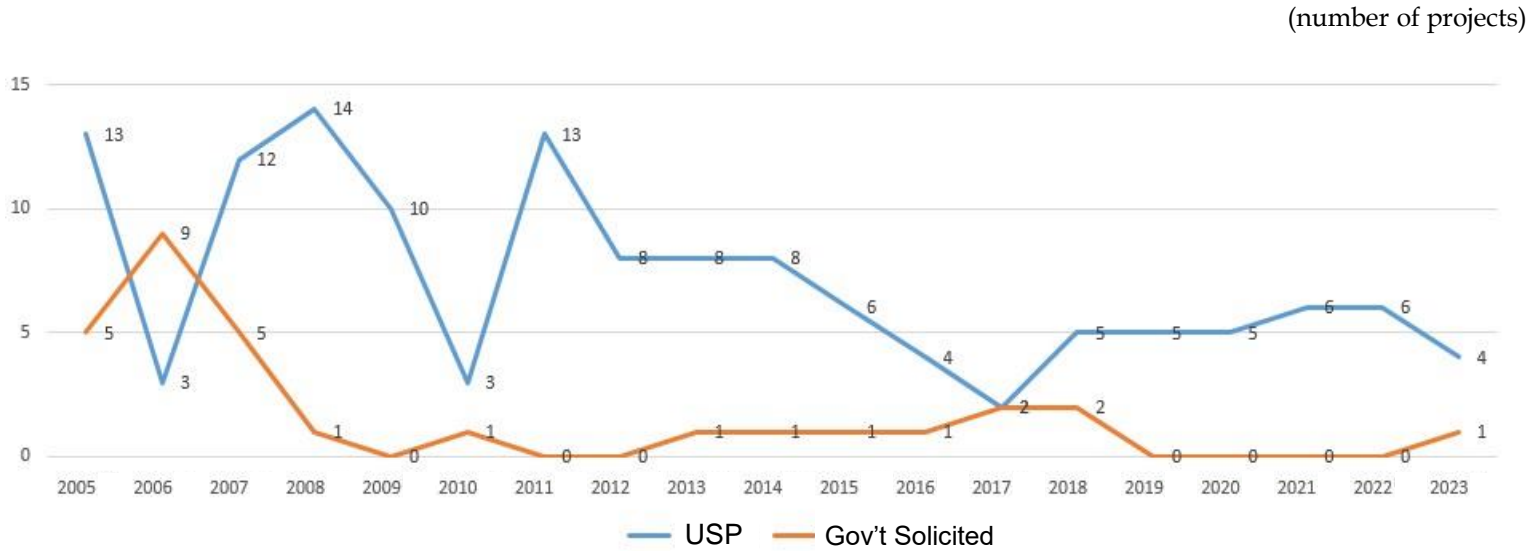
Facility Type	Government solicited				Unsolicited proposals			
	BTO		BTL		BTO		BTL	
	No. of projects	Total investment	No. of projects	Total investment	No. of projects	Total investment	No. of projects	Total investment
Education	2	1,299	303	128,564	0	0	1	270
Environment	26	9,230	106	76,239	89	89,692	2	1,565
Defense	0	0	93	68,228	0	0	0	0
Culture and tourism	1	267	33	11,567	8	11,281	0	0
Road	18	118,950	0	0	51	382,441	0	0
Road (parking lot)	28	2,805	0	0	3	777	0	0
Road (service station)	0	0	0	0	3	654	0	0
Welfare	0	0	21	8,511	0	0	0	0
Airport	13	7,755	0	0	1	501	0	0
Port	12	60,959	0	0	5	11,200	0	0
Railway	8	210,450	5	54,696	6	74,081	0	0
Logistics	4	7,024	0	0	2	5,090	0	0
ICT	0	0	7	7,088	1	444	0	0
Housing	0	0	1	237	0	0	0	0
Total	112	418,739	569	355,130	169	576,161	3	1,835

Source: KDI, 2023 KDI Public and Private Infrastructure Investment Management Center Annual Report, 2024.

USPs Performance

No. of Projects by Initiating Body (2005~2023)

- Out of 165 BTO projects implemented from 2005 to 2023, 135 projects (81.8%) were private sector proposed, while 30 projects (18.2%) were government initiated.



Source: KDI, 2023 KDI Public and Private Infrastructure Investment Management Center Annual Report, 2024.

Challenges of Over-reliance on USPs

■ Difficulties in Coordinating Infrastructure Investment

- USPs may diverge from the overall investment priorities for infrastructure development.
- While proposals are reviewed for policy alignment, it's challenging to comprehensively assess priorities across all projects.
- Generally, government-initiated projects allow for better integration with strategic plans.

■ Reasons for Government Reluctance to Lead Projects

- Lack of understanding of complex PPP procedures leads agencies to rely on easier private proposals rather than initiating and developing their own projects.



PART 02.
**Overview of PPP System
and USP**

■ Hierarchy of PPP Institutional framework

Regulation	Responsible public sector
PPP Act	Legislative bill (MOEF) → Resolution (National Assembly)
PPP Enforcement Decree	Enacted by MOEF (within the entrust of PPP Act)
PPP Basic Plan	Enacted by MOEF (annually updated)
PPP Implementation Guidelines	Published by PIMAC (within the entrust of PPP Basic Plan)

■ Legal Grounds for USP

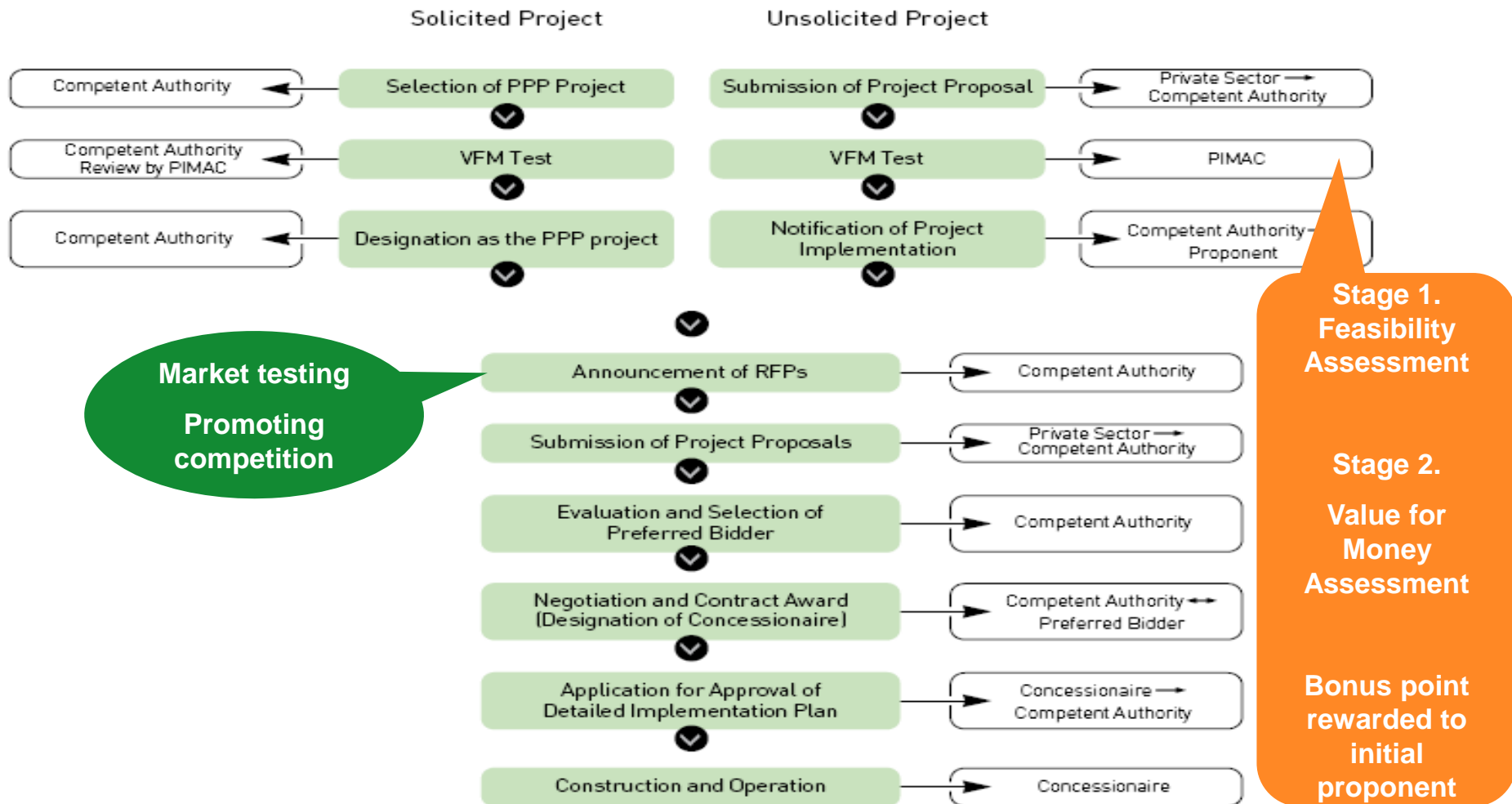
- Article 9 (Unsolicited Project Proposal by Private Sector) of **PPP Act**
- Article 7 (Implementation Process for Projects Proposed by Private Sector) of **PPP Enforcement Decree**
- Details on Implementation
 - Chapter II. Procedures for Implementation of Unsolicited Projects (Articles 92~104) of **PPP Basic Plan**
 - Chapter IV. Special Cases Concerning the Implementation of Unsolicited BTL Projects (Articles 136~146) of **PPP Basic Plan**

Policy Evolution

Period	PPP Policy Evolution
1994–1998	<ul style="list-style-type: none"> Act on the Promotion of Private Capital into Social Overhead Capital Investment.
1999–2004	<ul style="list-style-type: none"> Act on Private Participation in Infrastructure. Positive government support and role sharing for private investment.
2005–present	<ul style="list-style-type: none"> Enforcement of PPP Act BTL introduced Unsolicited projects required to undergo VFM Publicly offered infrastructure funds Unsolicited BTL allowed (amendment on March 2, 2016) Hybrid (BTO + BTL) projects allowed (provisions established on February 10, 2020) All-inclusive concept applied to infrastructure (amendment in March 2020)

Year	Policy Changes concerning USPs
2007	<ul style="list-style-type: none"> Compensation for non-selected bidders
2016	<ul style="list-style-type: none"> Unsolicited BTL allowed Preferred bidder compensation
2024	<ul style="list-style-type: none"> Simplifying submission requirements and USP procedure

Process of PPP Project Implementation



Incentives for Initial Proponent of USP

- Incentivize private proposal through preferential scores for the initial proposer within the scope of not restricting competition

Basic Plan for PPP

Article 101 (Preferential Treatment for the Initial Proponent)

- ① Pursuant to Articles 9 (4) of the Act and 7 (11) of the Decree, **the competent authority shall grant preference points to the initial proponent according to the ratio of preference points presented by the head of the PIMAC, etc. on the report on Value-for-Money (VfM) test of PPP.** <Amended on February 10, 2020>
- ② The preference point referred to in Paragraph 1 shall be **granted within 10/100 of the total evaluation score**, but where the competent authority announces details different from those of the initial proposal and the initial proponent thereby makes a proposal for amendment during the third-party competition process, preference point treatment may be given to the initial proponent within 5/100 of the total evaluation score based on consideration of the creativity, etc. of the initial proposal.
- ③ Where a private sector entity proposes a project for which feasibility studies and basic designs have already been carried out by the competent authority, preferential status as an initial proponent shall not be recognized in principle. Provided, however, that if a private sector entity makes significant improvements to a facility design of the competent authority and thereby significantly reduces the project cost or operating costs, or submits a proposal containing a significant improvement in the use efficiency of the facility, such contribution may be recognized during evaluation.
- ④ Where the competent authority determines the ratio of preference points to be given to the initial proponent pursuant to Paragraphs 1 and 2, it shall specify it on a request for alternate proposals.

<Cases of USP Preferential Score>

Facility Type	VFM Assessment Team	Competent Authority Decision	Reasons
Environment	1~2%	1%	<ul style="list-style-type: none"> - Lack of creativity in project development, as much of the proposals are based on higher plans - Considered the need to induce competition in the bidding process
Environment	0~1%	0%	<ul style="list-style-type: none"> - Lack of creativity in project development, as much of the proposals are based on higher plans - Considered the need to induce competition in the bidding process
Environment	1~2%	1.5%	<ul style="list-style-type: none"> - Recognized the creativity of the proposal, i.e. to build the PPP facility while uninterruptedly operating the existing facility - Contribute to budget savings by proposing partial reuse plans for the existing facilities
Environment	0~1%	1%	<ul style="list-style-type: none"> - Recognized the creativity of the proposal, i.e. to build the facility underground and use the ground-level as a community facility
Road	2~3%	2.4%	<ul style="list-style-type: none"> - Calculated by applying the linear interpolation method using Vfm ratio and qualitative evaluation results within the score range
Railway	2~3%	2.6%	<ul style="list-style-type: none"> - Calculated by applying the linear interpolation method using the Vfm ratio within the score range

Source: "Revised Guideline for Calculating Preferential Scores," PIMAC Working Guideline, KDI, Aug. 2023.



PART 03.
**Issues and Challenges of USP in
PPP Investment**

Creativity & Efficiency in PPP

Article 1 of the PPP Act explicitly states that the purpose of the act is to promote private investment in infrastructure to facilitate the construction and operation of **creative and efficient infrastructure facility**.

The introduction of PPP investment into the construction of infrastructure, for which the government typically has the responsibility to provide, is inherently aimed at leveraging private sector **creativity and efficiency**.

Government Projects

prioritize public benefit over profitability and involve individual project bidding rather than comprehensive turnkey contracts

- stability is prioritized over creativity
- achieving efficiency can be challenging

PPP Projects

1 slightly new and slightly original ideas in comparison to conventional projects

2 projects that are expected to increase project benefits, reduce project costs, and enhance service quality through early completion, improved safety and quality of facilities, and reduced total costs over the life cycle, compared to fiscal projects

Capturing Creativity in USP through Preferential Score: Principles

“Creativity” should be adequately considered in determining the level of preferential scores awarded to the initial proposer in USPs.

1

Relatively more creative compared with conventional procurement?

whether private creativity has relatively better aspects compared to projects pursued through fiscal means

2

Efficient / cost-effective?

Enhancing project benefits and reducing project costs over the life cycle of the projects, including, for example, through design, construction, and operation, can all be considered aspects of efficiency. Without private creativity, it would be challenging to achieve such efficiency.

3

Majority consent?

Since creativity is a concept that is challenging to achieve a common understanding of, evaluations of creativity should ideally be made through "majority consensus" whenever possible.

Capturing Creativity in USP through Preferential Score: Evaluation Criteria

The VfM Assessment team (PIMAC) makes suggestion on bonus points (10% max.) to be awarded to the initial proponent based on (i) the VfM test result (%) and (ii) qualitative evaluation of the proposal.

The quality of the proposal is evaluated based on the following criteria:

- ① **Adequacy / Creativity of design and construction plans (25 points)**
 - cost-effective new methods and eco-friendly methods are introduced in design and construction?
 - creativity in project development (i.e. new project types, projects not included in the higher-level plans but with high publicness, value addition to projects in higher-level plans)
- ② **Adequacy / Creativity of operation plans (15 points)**
 - creative ideas are incorporated in the operational plans (i.e. plans for providing high-quality services or stable services compared to government projects)?
 - cost-effective measures for reducing operational expenses
- ③ **Adequacy of investor composition and financing plan (15 points)**
- ④ **Level of ensuring publicness (25 points)**
- ⑤ **Adequacy of government support requirements (20 points)**

Grade	VfM (%)	Qualitative Evaluation of Project Proposal				
		Very Good	Good	Somewhat Good	Bad	Very Bad
1	More than 30%	More than 5%	4~5%	3~4%	2~3%	1~2%
2	15~30%	4~5%	3~4%	2~3%	1~2%	0~1%
3	0~15%	3~4%	2~3%	1~2%	0~1%	0%
4	Less than 0%	2~3%	1~2%	0~1%	0%	0%

Capturing Creativity in USP through Preferential Score: Evaluators

Composition of Evaluation Committee

The evaluation committee takes into consideration the written qualitative assessment by the VfM Team to perform comprehensive evaluation to reward preferential scores.

The evaluation committee consists of:

- Executive Director of PIMAC
- Director of PPP Division at PIMAC
- Project Manager (PIMAC) of the VfM Test
- Competent authority official (1 person) in charge of the project
- 4~5 external experts who participated in the VfM Test

According to KDI research, the average preferential score granted to initial proposers in BTO USPs (161 projects, as of Dec. 2020) was found to be at a level of 1.64%.

Competition for USPs

Article 7 of the PPP Act stipulates that the government should endeavor to create conditions conducive to the exercise of **private creativity and efficiency while maintaining public benefit.**

Government's role extends beyond leading creative and efficient projects from initial proposers to encouraging competition in the third-party proposal stage:

- **verifying whether there are better alternatives than those proposed by the initial proposer**
- **ultimately selecting the option that maximizes private creativity and efficiency in the public sector**

In Korea, innovation and creativeness of USPs are manifested through rewarding of **bonus points** to the initial proponent.

On the other hand, **competition and third party proposals** are critical to escape external criticism of USPs, and often times competent authorities regulate price increasing factors in the requests for third-party proposals.

Competition: Unsolicited Projects vs. Government Solicited Projects

Mode of Delivery (no. of projects)	Average Competition Rate
BTO Government solicited (95)	1.88
BTO Unsolicited proposals (161)	1.42

Source: *The Study on Improving Measures to Calculate Preferential Score for the Initial Proponent*, KDI, Dec. 2020.

According to KDI research, the mode of delivery (government solicited or USPs) affects competition rate.

The average competition ratio of USPs was lower than that of government solicited projects, showing statistical significance at a 1% significance level.

- In the case of USPs, there may exist a significant level of information asymmetry between the initial proposer and potential competitors in the call for third-party proposals.
 - The initial proposer would have invested considerable time, resources, and effort in drafting the project proposal, potentially acquiring advanced information that other competing third parties may find difficult to access.

Lessons Learned: Korean Experience

- The necessity of private proposal system lies theoretically in introducing the creativity of the private sector, but in practice, in addressing the often-limited capacity of the government in detailed project development.
- It is essential to examine whether the evaluation of private sector creativity plays a discerning role in evaluating private proposals.
 - The evaluation criteria that have placed more significant emphasis on financial factors such as project cost, value for money, and required financial support, rather than assessing creativity was revisited, resulting in the “Revised Guideline for Calculating Preferential Scores,” in 2023.
- At the same time, competent authorities as well as policymakers should continuously look for ways to promote competition and identify factors that are specific to PPP project proposals.



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