



Presenter

Public-Private Partnerships in Korea

Sook Jin Kim

Director,
PPP Policy Division, Ministry of Planning and Budget (MPB) of the Republic of Korea



Public-Private Partnerships in Korea

Changes, Challenges, and Policy Directions

Presenter

Sook Jin KIM, MPB, Director of PPP Policy Division





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01

Introduction of PPP



Introduction and spread of PPP

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PPP was introduced in the 1980s and spread globally

- **Started in the UK, US and Australia**
 - (UK) Public Finance Initiative 1992 introduced private investment to deal with aging public infrastructure and fiscal constraints
 - (US) Expanding private involvement in transportation starting in 1980s with independent PPP legislations by states
 - (AUS) Started from NSW and Victoria in late 1980s opening the market for larger involvement of private sector
- **Spread to Asia and Europe**
 - (Asia) PPP was adopted in Korea in 1994, and in 1999 in Japan by legislating private investment acts
 - (Europe) EU encouraged PPP to member states starting late 1990s



PPP in Korea: Background

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Timely expansion of infrastructure using private capital

					Trillion KRW
Year	Traffic costs	Logistics costs	GDP	Fiscal deficit	National Debt
1991	4.6	18.9	242.5	1.6	16.5
1992	6.2	23.6	277.5	2.4	19.1
1993	8.6	26.8	315.2	4.5	22.0
1994	10.0	31.0	372.5	5.3	25.8
1995	11.6	38.1	437.0	6.1	30.0

[As of 1997] Korea ranked 37 out of 46 countries in quality and quantity of infrastructure, logistics costs accounts for 16.5% of GDP, 1.5– 2.0x of that of US (10.5%) and Japan (8.8%)

Source: Management Development Institute (1998)

- Limited fiscal budget despite increasing demand for infrastructure
 - ➔ Secure financial resources for additional investment



Enactment of the PPP Promotion Act

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(1968~1994) Sporadic private investment by individual legislations

- Road Act, Harbor Act in early stage
- Did not address details of private involvement e.g. procedures of PPP

(1994.8.) Legislation of the Act on the Promotion of Private Capital into Social Overhead Capital Investment

- Systematic and consistent legal framework for all SOC
- Expanding private investment projects
- Administrative and financial Incentives to foster private capital investment



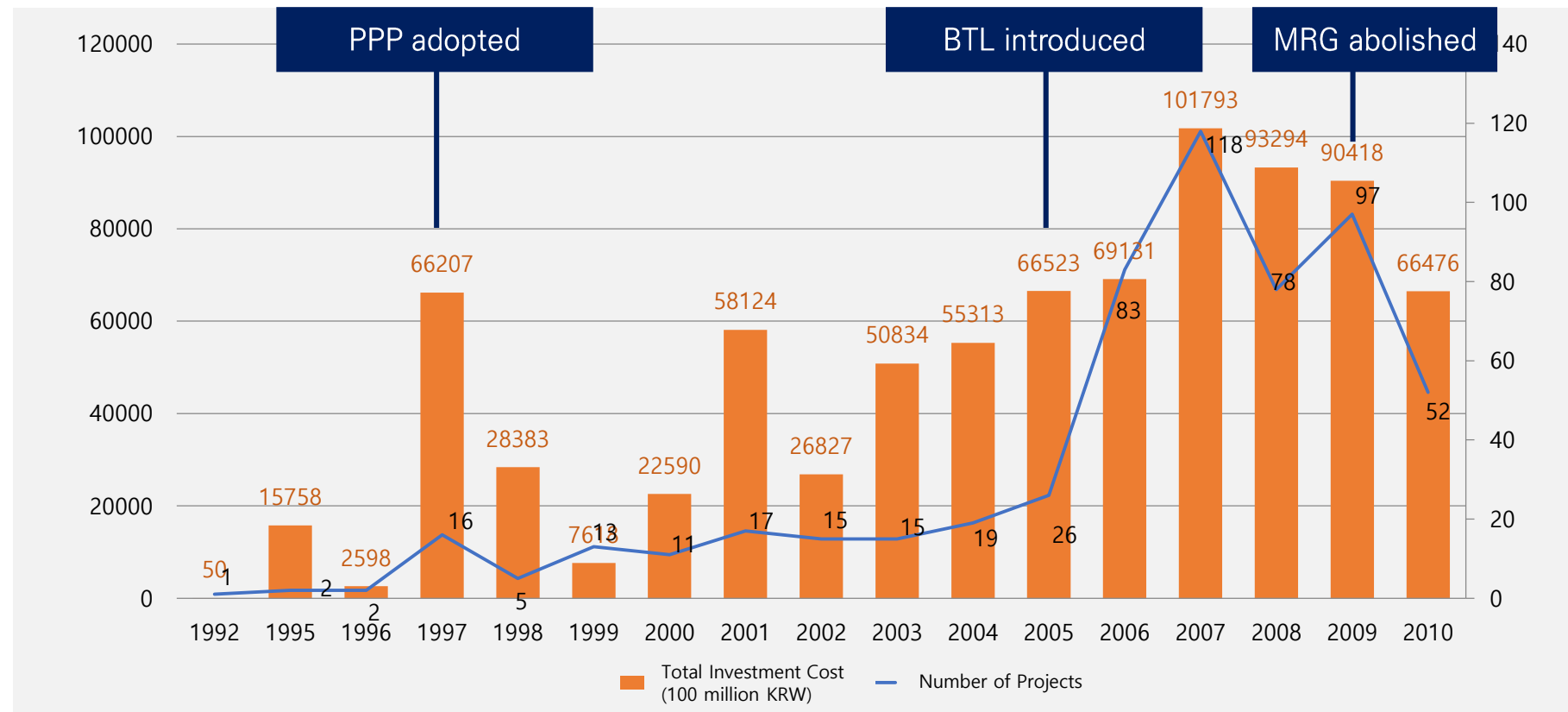
02

Changes and Challenges



Changes of PPP

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Adopted Unsolicited Project Proposals (1997)

- Favor initial proposal presenter (1997)
- Adopted Value for Money Test (2005)

Introduced BTL (2005)

- Hard to cancel off costs with operating revenue
- Applied in areas with sparse private investments



Changes of PPP

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The Act was renamed the Act on Private Participation in Infrastructure(1999)

- ① Government → Private, ② Established Public Investment Center (PIMA), ③ Established Collective Investment Vehicle for Infrastructure (Infrastructure Fund), ④ Recognize buy-out right

Adoption of Minimum Revenue Guarantee (MRG) (1999)

- Government guarantees minimum operating revenue if actual operation revenue is less than the estimated operation revenue
- Promoted private capital market for infrastructure
 - PPP continued to rise its share in entire SOC investment, 10% of the total in 2005.
- Miscalculation of demand increased government spending
 - MRG system was abolished (2009), introduced investment risk sharing mechanism to share risks between public and private (2015)

Expansion of eligible projects (2020)

- Switched from enlisting of eligible facility types to comprehensively including PPP facility types, allowing more private involvement in SOC investment

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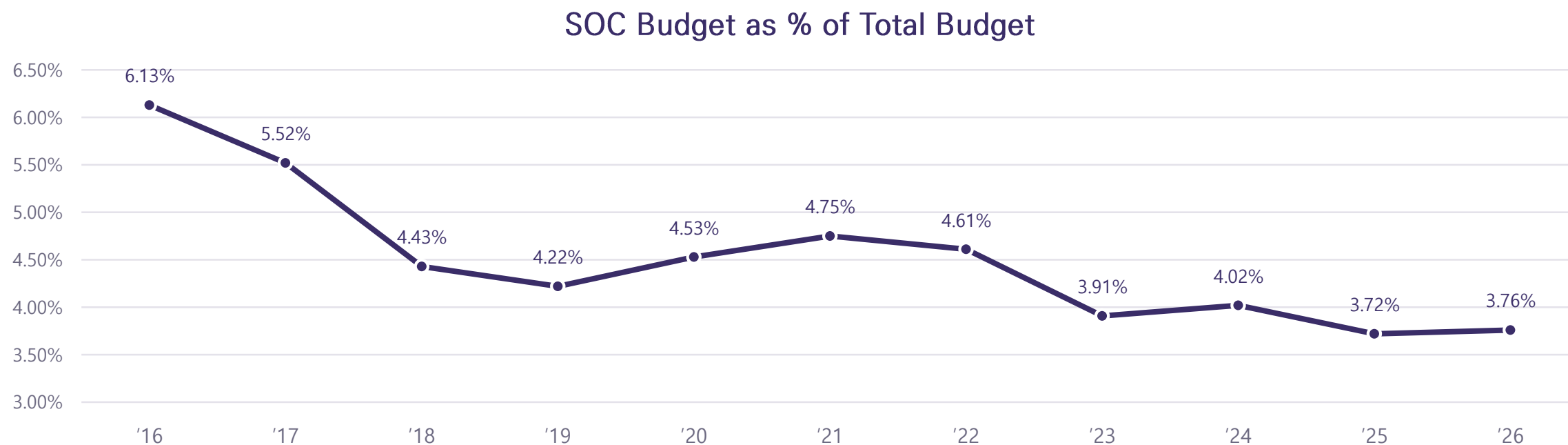


Challenges

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Increasing demand for infrastructure, limited budget to supply

- Increasing demand for various types of infrastructure following improvement of lifestyle other than transportation and necessities
- Widening gap between Seoul metropolitan area and rest of country



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Challenges

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Worsening environment for PPP

- Recent escalation of construction costs causing project overrun
- Difficulty in financing

'20 → '26 Construction cost index

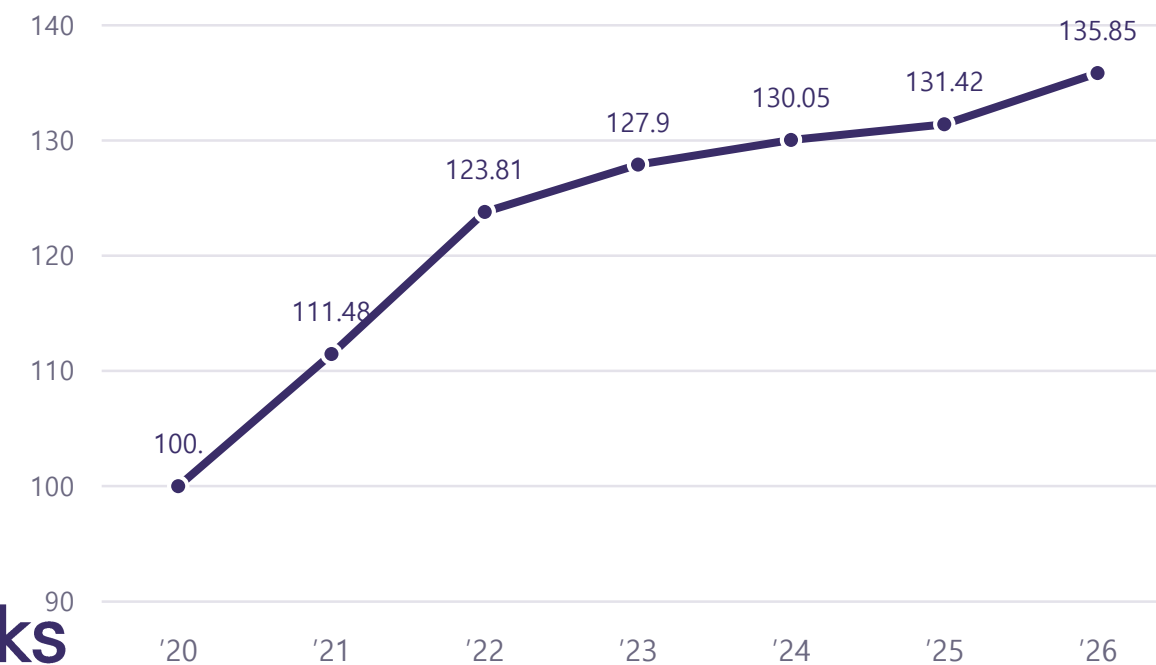
+35.9%

Annual avg +5.2% '25→'26 **+3.4%** re-accelerating

Lack of incentives despite high risks⁹⁰

- Limited profit margin, limited flexibility in pricing
- Overregulation

Construction cost index(2020 = 100)





03

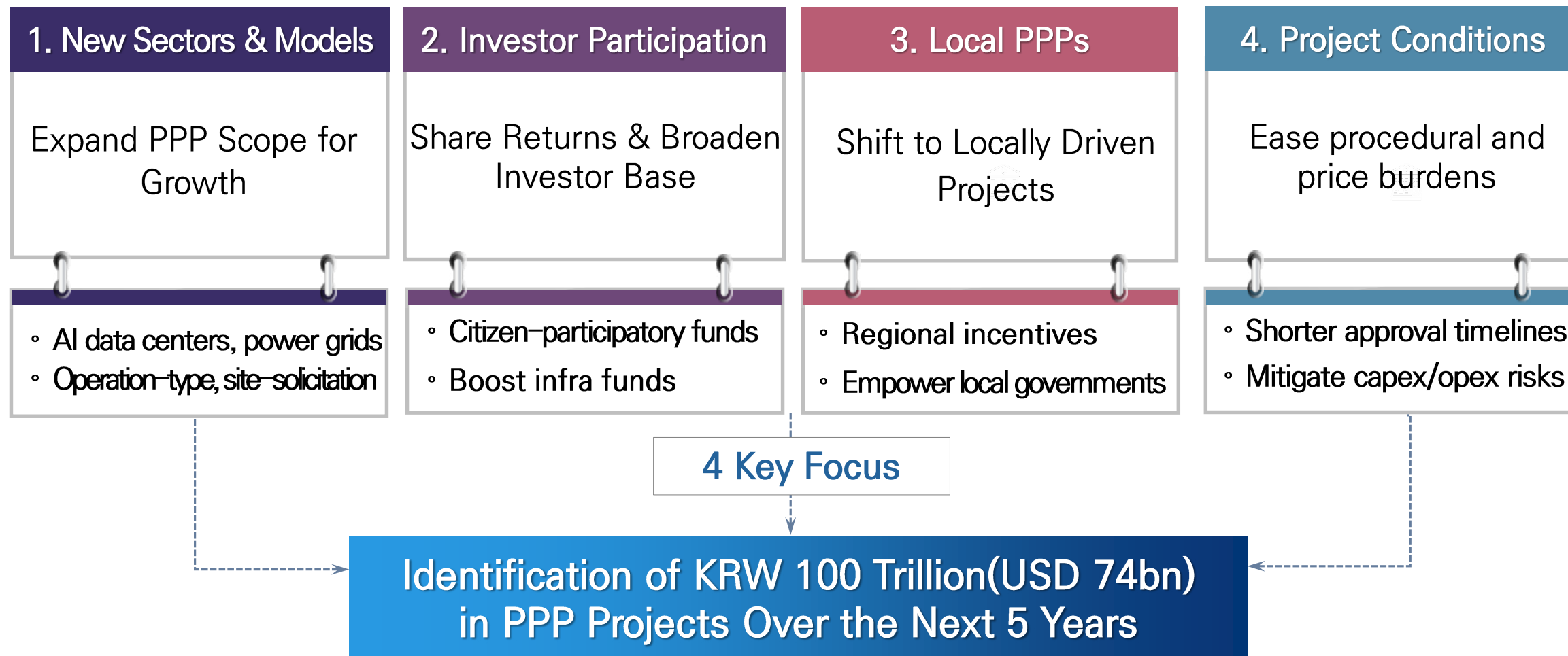
Policy Directions of the Korean Government



4 Key Focus Areas for PPP Revitalization

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■ Government Plan: Shifting the Paradigm of Public-Private Partnerships (PPP)



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New Sectors

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01

Future Infrastructure (AI Data Centers & Power Grids)

Proactively mobilize private capital for AI data centers and power grids

- ➔ ① **Include AIDCs in PPPs:** Cover integrated models across facilities, equipment, and software
- ② **Power Grid Participation:** Formulate privately funded grid models based on the amendment of the Special Act on the Expansion of the National Power Grid

02

New Business in Existing Sectors (Smart Environment & Rail Development)

Upgrade aging, fragmented infrastructure into smart, integrated facilities

- ➔ ① **Smart Bundled Upgrade:** Integrate and digitize assets such as storm drains, sewer lines, and pumps
- ② **Multi-Use Rail Development:** Combine stations and depots with adjacent land into mixed-use hubs



New Models

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03

Operation-Type PPPs (Rehabilitation & Operation-Only)

Institutionalize operation-focused PPPs to boost lifecycle efficiency and service quality

- ➔ ① **Rehabilitation & Operation:** Codify project types, procedures, and cost definitions via the PPP Act; extend to facilities delivered through public procurement
- ② **Operation-Only:** Establish a new framework without requiring major facility upgrades

04

Site-Solicitation PPPs (public land offered by the competent authority for private development proposals)
Combine public land with creative private development concepts

- ➔ ① **Proposal Cost Reimbursement:** Establish rules to compensate costs for proposal refinement
- ② **Centralized Solicitation Notices:** Consolidate all site solicitation notices on the PPP portal (InfraInfo)



Investor Participation

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01 Introducing Citizen-Participatory Public Infra Funds

- ☐ Launch public-offering funds backed by credit guarantees, enabling retail investors to share in PPP returns

- ☐ Award bonus points (20 / 1,000 pts) during bidder evaluation when financing via public-offering funds
- ☐ Classify fund financing as senior debt and provide credit guarantees

02 Promoting Infrastructure Funds

- ☐ Boost investment in funds established under the PPP Act to distribute returns and facilitate project financing

- ☐ Extend separate dividend taxation sunset by 3 years (through end of 2028)
- ☐ Launch perpetual infrastructure funds to attract institutional investors (e.g., insurers)
- ☐ Raise fund borrowing limit (30% → 100% of equity)

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Local PPPs

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■ Shifting to a **Locally Led PPP Framework**

01

Incentives for Depopulating Areas

- Bonus points for the initial proponent (1 of 100)
- Higher Regional Balance Weight: Increase weight in AHP (+5%p)

02

Incentives for Local Companies

- Local-Only Bidding: Restrict bids to local companies for small projects (national < KRW 8.8bn / local < 15bn)
- Bidder Evaluation Bonus: Up to 10 points (out of 1,000 pts) for local partner participation

03

Support for Local Governments

- Joint regional visits by MPB, KDI, and the Infrastructure Credit Guarantee Fund
- 1 private member of the PPP Review Committee nominated by Governors Association



Project Conditions

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01 Shortening Project Timelines

- ▶ **Streamline Prior Approvals:** Cut PPP eligibility review (up to -1 month) and PPP Review Committee review (up to -4 months)
- ▶ **Procurement Cost Review (< KRW 100bn):** Shift timing from pre-concession to post-concession

02 Mitigating Construction & Operating Cost Risks

- ▶ **Improve Inflation Adjustments (Construction):** Lower adjustment threshold (GDP deflator vs. CPI gap: 7% → 5%) & raise authority's cost-share (50% → 60%)
- ▶ **Electricity Cost Adjustment:** Authority covers up to 80% of power price increases exceeding CPI to ease operating cost surges

03 Easing Initial Capital Burden

- ▶ **Clarify Lower BTO Equity Conditions (15% → 10%):** Public investment $\geq 40\%$ of SPC equity & performance guarantee insurance
- ▶ **Earlier Proposal Cost Reimbursement:** Move the reference date from "within 30 days after the concession agreement" to "within 30 days after preferred bidder designation"



T H A N K Y O U

THANK
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