

Korea's Experience in Strengthening Local Government PPP Capacity

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Part 1. Introduction

Local Infrastructure Challenges: The Role of PPP & Capacity Building



Local Government as Key Infrastructure Provider

- Primary providers of economic & social infrastructure (transport, water, childcare, health)



Growing Socio-Demographic Pressures & Infrastructure Needs

- Aging population, climate change, & infrastructure renewal constrain fiscal resources



Centralized Fiscal Structure

- Fiscal Centralization & Limited Local Financial Autonomy; local tax revenue is only 24.6% of national tax revenue(2023)



PPP as a Strategic Solution

- PPPs: A Strategic Lever for Infrastructure Development & Private Capital Mobilization, requiring capacity building



Importance of Capacity Building

- PPP success depends on local government capacity; Korea's experience offers valuable lessons

Assessing Subnational PPP Capacity and Strategies for Improvement



PPPs are inherently complex, long-term contractual arrangements

- Often exceeding 20 to 30 years
- Require expertise in finance, law, engineering, and contract management



Subnational governments face severe capacity constraints

- Frequent staff turnover
- Lack of specialized PPP units
- Limited experience with project finance



Weaknesses manifest in multiple project failures

- Project delays and cost overruns
- Poorly negotiated concession agreements
- Suboptimal risk allocation
- Increased fiscal exposure through contingent liabilities

International Assessment



OECD Studies (2010, 2018)

- Emphasize the importance of dedicated PPP units to consolidate expertise
- Recommend use of standardized contracts and guidelines to ensure predictability
- Suggest platforms for peer learning among subnational governments



World Bank Studies (2015, 2018, 2020)

- Underline the need for robust contract management
- Highlight importance of fiscal risk assessment
- Promote on-the-job training models that embed capacity within administrations
- Discourage sole reliance on external consultants



Municipal PPP Frameworks (World Bank, 2018)

- Include self-diagnostic tools to help contracting authorities (Module 01: The Municipal Readiness Tool)
- Enable benchmarking capacity gaps
- Facilitate design of tailored responses to local needs

The Municipal Readiness Tool

Statement 1 - Creditworthiness

Statement	Response				Explanation
	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	
The municipality is a creditworthy, reliable counterparty for prospective infrastructure PPPs, with a history of timely debt repayment and honoring contractual commitments.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	The municipality's creditworthiness affects the likelihood that private investors will be interested in contracting with the municipality, as well as the cost of financing such projects. Even where the municipality assumes no regular payment obligations under a PPP, a history of timely debt repayment will bolster its credibility as a contractual counterparty and provide assurance that it will honor any payment obligations that might arise in the event of project termination.

Part 2. National-Level PPP Capacity Building in Korea

2.1 Korea's PPP Legal and Institutional Framework

PPP Act



Primary PPP Legislation (1994, 1998, 2004 revisions)

- Provides legal foundation for PPPs, defines eligible facilities and modalities, and sets the basis for fiscal support.

Enforcement Decree



Implementing Regulations

- Establish detailed procedures for eligibility, bidding, negotiations, and the operation of the PPP Review Committee.

Annual Basic Plan



Annual PPP Policy Framework

- Issued by the Ministry of Economy and Finance
- Outlines strategic policy direction, fiscal support principles, and risk allocation rules.

Guidelines & Manuals



Operational Guidance for PPP partners

- Includes standardized RFPs, model concession agreements, and appraisal manuals (VfM tests).

Key Characteristics

- ✓ **Clear Legal Foundation**
: Hierarchical structure ensures consistency
- 🛡️ **Institutionalized Risk-sharing Mechanism**
: Clear rules for fiscal and demand risk sharing
- ⚖️ **Independent Project Appraisal and Reviews**
: Specialized institutions ensure transparency
- 🏢 **Strong Central Oversight**
: Central government retains authority over major projects

2.2 Standardization of PPP Procedures and Operational Guidance



Standardized Reference Documents

- Provide contracting authorities with standard RFPs, concession agreements, and appraisal guidelines, reducing the need to design complex structures from scratch.



Codified Risk Allocation

- Mitigates fiscal exposure by avoiding excessive guarantees and ensuring transparent, predictable allocation of legal and financial risks



Institutional Consistency and Efficiency

- Enhances investor confidence through predictable frameworks, while reducing negotiation time and transaction costs.



Capacity Development through Standardization

- Standardized instruments serve as knowledge-transfer tools, gradually building analytical, VfM assessment, and negotiation capabilities within contracting authorities

Standardized Documents and Guidelines



Annual Basic Plan on PPPs

Sets policy direction, fiscal support rules, and risk allocation principles.

Effect

Provides policy consistency and enhances investor confidence



Unsolicited Proposal Guidelines

Specifies structure and contents for private-initiated proposals

Effect

Improves proposal quality, facilitates efficient and fair review



Standard RFP

Defines bidding procedures, evaluation criteria, and submission requirements

Effect

Ensures transparency and competitiveness, reduces transaction costs



Standard Concession Agreement

Codifies risk allocation, force majeure, termination, and compensation clause

Effect

Reduces renegotiation risks, strengthens contractual predictability

2.3 Development and Expansion of Dedicated PPP Units



Evolution of Dedicated PPP Institutions

- PICKO established in 1999 as Korea's first dedicated PPP institution
- Integrated into Korea Development Institute (KDI) as PIMAC in 2005
- PIMAC centralized project appraisal, policy research, and training functions



Expansion to Multi-Agency System

- 2019: Government designated 15 specialized agencies to complement PIMAC
- Shift from single centralized body to diversified institutional ecosystem
- Specialized agencies review unsolicited proposals and conduct sector-specific analyses



Current Structure and Benefits

- PIMAC remains lead PPP unit, specialized institutions provide critical support
- Projects below KRW 200 billion threshold efficiently reviewed and structured
- Expanded coverage, reduced bottlenecks, and encouraged regional expertise
- Combines central oversight with decentralized technical input

Evolution of Dedicated PPP Institutions

	PICKO (1999)	KDI PIMAC (2005)	Designated Specialized Agencies (2019)
Background	Established in response to the Asian Financial Crisis and fiscal constraints	Need for independent, credible reviews of PPP projects	Surge in unsolicited PPP proposals and bottlenecks in central system
Institutional Significance	First dedicated PPP institution, foundation for Korea's PPP framework	Designated as national PPP unit, recognized as international model	Diversified institutional structure, mobilized local expertise
Core Functions	Initial project appraisal, basic support to government	Eligibility testing, policy research and standards, training programs	Local proposal reviews, technical and financial analysis
Key Outcome	Laid groundwork for PPP framework, supported post-crisis recovery	Enhanced credibility, comprehensive knowledge hub	Strengthened regional PPP development, faster reviews with local focus

2.4 Capacity Development Program (KDI PIMAC)



PPP Expert Review & Q&A Service

- PIMAC provides independent expert reviews on PPP issues and responds to formal inquiries from contracting authorities and stakeholders through official channels

2024 Performance

- 188 cases of expert review and Q&A processed
- 47 formal written inquiries on PPP regulatory matters



PPP Help Desk and Advisory Service

- Provides dedicated phone, online, and in-person consultation services for central and subnational governments on PPP project development, procurement, and contract management.
- Serves dual purpose: delivering immediate technical guidance and collecting feedback to improve policy and operational frameworks

2024 Performance

- 141 Help Desk and online advisory inquiries handled
- Technical assistance provided to over 200 subnational officials

2.4 Capacity Development Program (KDI PIMAC)



Online Training Programs

- Regular training sessions for public officials and private professionals on PPP fundamentals, project structuring, and applications
- 1,364 public officials and 324 private professionals trained in 2024



Offline In-person Training

- In-depth case studies with interactive sessions and applied learning modules
- Biannual sessions with both introductory and advanced courses delivered



Workshops with KDI PIMAC and other PPP units

- Knowledge-sharing workshops involving KDI PIMAC and 18 designated PPP institutions
- Ensures alignment and consistency in project review standards and methodologies across institutions



Key Outcomes

- Strengthened PPP capacity at national and subnational levels through continuous knowledge sharing program

Part 3. Subnational PPP Capacity Building in Korea

3.1 Institutionalizing PPPs through subnational legislative framework



Local Governance and Ordinances

- National PPP laws cannot fully address local realities
- By 2024, 172 out of 243 local governments had enacted PPP-related ordinances, tailored to their governance and policy contexts.



Ordinance Content

- Ordinances typically establish local PPP committees, define fiscal support and contingent liability rules, and set procedures requiring council approval.
- Seoul and Gyeonggi, council consent is mandatory before project designation, strengthening transparency, accountability, and democratic legitimacy.



Multi-layered Governance

- Effective PPP governance is achieved through a central policy framework complemented by locally tailored legislative measures.

Seoul's PPP Ordinance: Key Features of Democratic Oversight



Broad Coverage

- Applies to projects under the PPP Act as well as municipal projects entailing fiscal commitments.



Council Pre-Approval

- Council consent is mandatory prior to project designation and implementation decisions.



Public Disclosure

- Concession agreements and key contract terms must be disclosed before finalization.



Fee Control System

- Council consultation required for setting initial user fees and approving subsequent adjustments



Regular Reporting

- Mandatory biannual reporting on project performance and notification of major contractual changes.

3.2 Evolution of Regional PIM Centers into PPP Units



Development Timeline

- Since 2012, local government established Public Investment Management (PIM) Centers in local research institutes
- Some were later designated as specialized PPP Units
- Currently, 14 centers are active, each with 3–30 professionals



Functions and Responsibilities

- Conduct feasibility studies and appraisals, provide negotiation and policy advice, and support municipalities in PPP project preparation.
- Under Korea's tiered framework, PIMAC oversees large-scale projects, while designated regional PPP Units handle smaller-scale ones.



Benefits of Regional Approach

- Reduces reliance on central PIMAC, incorporates local governance and fiscal realities into PPP development, and embeds PPP expertise closer to municipalities



Alignment with Best Practices

- Reflects international best practice in multi-level PPP governance, combining strong central oversight with regionally tailored technical capacity.

Regional PPP Units (PIM Centers): Establishment and Staffing



Designation Criteria

- Establishment of a dedicated PPP organization
- Employment of at least five qualified professionals in relevant fields:
 - Master’s degree or higher, Licensed lawyer, CPA, Professional Engineer

(As of June 2025)

Region	Year of Establishment (PIM Center)	Number of Staffs (PIM Center)	PPP Unit Designation	Regional Population (Million)
Seoul	2012	29	○	9.4
Chungbuk	2012	5		1.6
Busan	2013	10	○	3.3
Gyeongnam	2015	8	○	3.4
Daegu	2015	4		2.4
Ulsan	2016	5	○	1.1
Jeju	2016	8		0.7
Chungnam	2017	8		2.2
Gyeonggi	2018	16	○	13.5
Incheon	2019	10	○	3
Gyeongbuk	2022	5	○	2.4
Jeonnam	2023	2		1.9
Gwangju	2023	3		1.5
Jeonbuk	2024	3		1.7

Roles of Dedicated PPP Units across the Project Lifecycle

Stage / Process	Activities	Contracting Authority	KDI PIMAC (≥ KRW 200Bn)	Other PPP unit (< KRW 200Bn)
Project Identification & Preparation	Project identification, submission of unsolicited proposals	Planning, Proposal Review	△	△
	Feasibility Appraisal (VFM test)	Determination of PPP Project Implementation and Structure	◎	○
Procurement & Selection of Preferred Proponent	RFP Preparation	Project approval and public disclosure	△	△
	RFP Review	Project approval and public disclosure	◎	△
	Proposal Evaluation	Selection of the Preferred Proponent	△	△
Negotiation & Concession Agreement	Negotiations	Contract signing, Designation of Project Company	△	△
	Draft Concession Agreement Review	Contract signing, Designation of Project Company	◎	△
Construction & Operation	Refinancing	Concession Agreement Amendment	△	△
	Refinancing Review	Concession Agreement Amendment	◎	△

Source : SDI(2019)

◎: Mandatory Review by KDI PIMAC

○: Optional Review by Other PPP Units (upon request)

△: Advisory Support from KDI PIMAC or Other PPP Units

3.3 Strengthening PPP Expertise through Specialist Systems



The Need for PPP Expertise : Knowledge Continuity

- Frequent staff rotation undermines institutional memory
- PPPs require expertise spanning full project lifecycles (20–30 years), and institutional knowledge is critical for effective contract management.



Two Systems

1 : Term-Based Officials

- Hiring external experts as term-based officials under the Local Public Officials Act
- Limitation: Short-term contracts often constrain continuity, limit decision-making authority

2 : Specialist Track System

- Appointing PPP specialists under designated positions (pioneered by Gyeonggi Province, 2014)
- Providing stability, knowledge retention and dedicated focus on PPPs



Specialist System Design (Gyeonggi Province Case)

- Specialists serve at least 3–5 years, covering the full PPP project lifecycle from identification to contract management.
- They are incentivized through career recognition, allowances, and structured training, ensuring expertise retention.



Benefits and Outcomes

- Enhanced continuity in project oversight, improved credibility in negotiations with private partners, strengthened long-term expertise retention, and alignment with global best practices for preserving institutional memory

Comparison of PPP Experience between Public and Private Sector Participants

Category	Participant Profile		PPP Project Experience (Years)	
	Organization Type	Count (%)	Years of Experience	Count (%)
Private Sector	Construction Firms	40 (23.4%)	Less than 5 years	25 (14.6%)
	Financial Institutions / Pension Funds	57 (33.3%)		
	Engineering Firms	28 (16.4%)	5-10 years	22 (12.9%)
	Operating Companies	9 (5.3%)		
	Accounting Firms	8 (4.7%)	10-15 years	35 (20.5%)
	Law Firms	2 (1.2%)		
	Research Institutes	20 (11.7%)	Over 15 years	89 (52.0%)
	Others	7 (4.1%)		
	Subtotal	171 (100.0%)	Subtotal	171 (100.0%)
Public Sector	Central Government Agencies	13 (26.5%)	Less than 5 years	39 (79.6%)
			5-10 years	5 (10.2%)
	Local Governments	36 (73.5%)	10-15 years	2 (4.1%)
			Over 15 years	3 (6.1%)
Subtotal	49 (100.0%)	Subtotal	49 (100.0%)	

3.4 Designing Localized PPP Models: Seoul and Gyeonggi Model



Seoul's Public-Solicited PPP Model

- Addresses shortcomings of unsolicited proposals, which are often profit-driven and misaligned with public value
- Pre-identifies project sites and requirements, enabling transparent, competitive bidding
- Enhances transparency and aligns with social infrastructure priorities, particularly in parking and community facilities



Gyeonggi's Fiscal Participation Model

- Introduces fiscal participation through equity stakes and deploys subordinated loans as credit enhancement to improve project bankability
- Mobilizes citizen investment funds to foster local participation, while reducing reliance on construction subsidies and ensuring benefit-sharing with residents.



Innovative Adaptation within a Centralized Framework

- Demonstrates how subnational governments can innovate within Korea's centralized PPP framework, tailoring PPP structures to distinct local policy priorities and socio-economic needs



Collaboration with Regional PPP Units

- Both Seoul and Gyeonggi worked closely with regional PPP Units embedded in local research institutes to design and pilot these models

Reducing early-stage risks by formalizing and institutionalizing the project identification and preparation phase

Government-Solicited Project	Public-Solicited PPP model	Unsolicited Project		
Project discovery led by public sector	Project Planning through Public and Private Coordination	Project discovery led by private sector		
<ul style="list-style-type: none"> • Project designation and basic plan announced by ministry • Private sector participates as constructor and operator 	<table border="0"> <tr> <td data-bbox="802 385 1235 666"> Public <ul style="list-style-type: none"> • Site discovery and public solicitation • Consulting on policy direction </td> <td data-bbox="1235 385 1719 666"> Private <ul style="list-style-type: none"> • Business planning proposal • Detailed proposal content </td> </tr> </table>	Public <ul style="list-style-type: none"> • Site discovery and public solicitation • Consulting on policy direction 	Private <ul style="list-style-type: none"> • Business planning proposal • Detailed proposal content 	<ul style="list-style-type: none"> • Private sector prepares project proposal • Public sector assesses eligibility and manages competitive negotiations
Public <ul style="list-style-type: none"> • Site discovery and public solicitation • Consulting on policy direction 	Private <ul style="list-style-type: none"> • Business planning proposal • Detailed proposal content 			

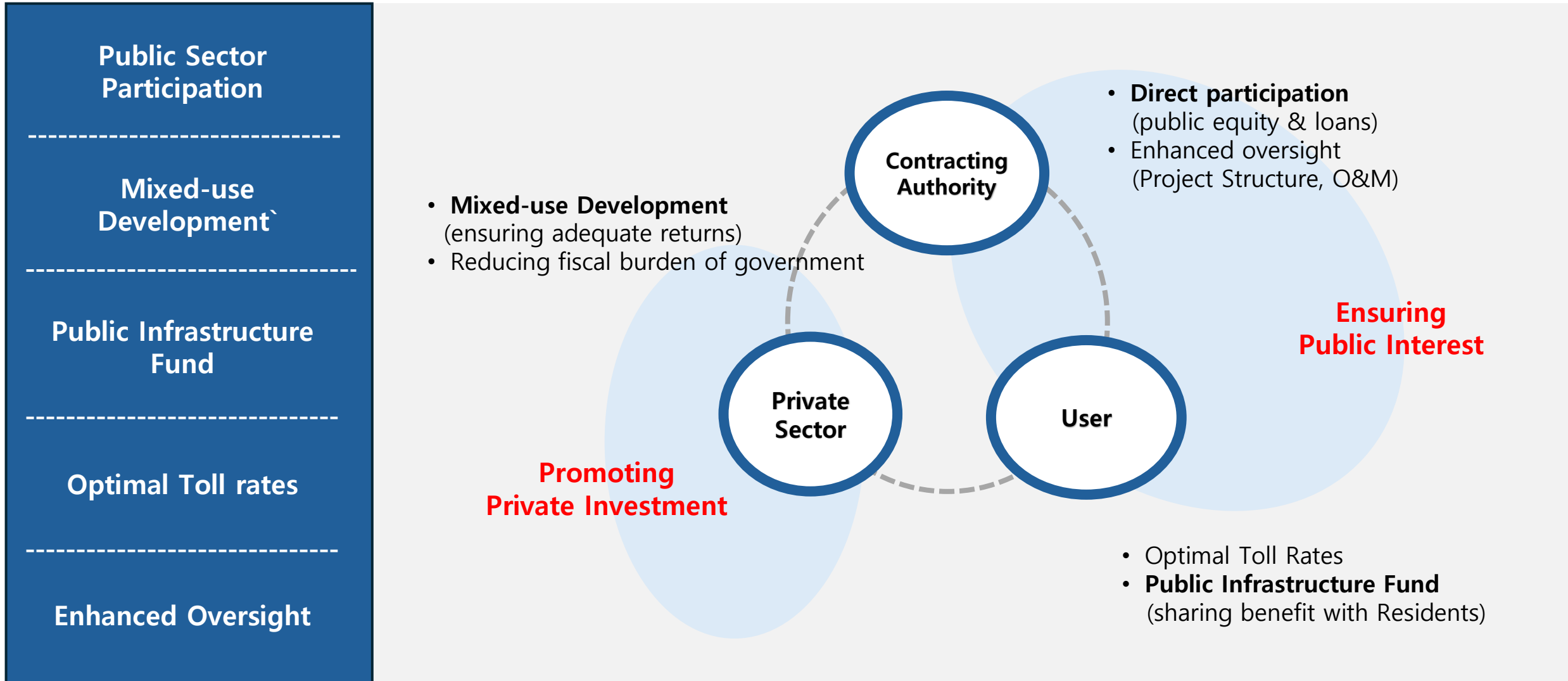
Cases of Publicly-Solicited PPP Project in Seoul



Comparison of Unsolicited and Public Solicited PPP Models

Category	Unsolicited Proposal Model	Public Solicited PPP Model
Project Identification	Private sector identifies and submits unsolicited Proposals	Public authority identifies priority projects and announces tenders
Project Planning	Private sector undertakes preliminary feasibility analysis and prepares proposals	Public authority develops project plan and issues RFP
Announcement & Competition	Original proponent granted priority negotiation rights, limiting competition	Open competitive bidding, multiple firms participate
Public Interest Consideration	Public interest considerations incorporated during evaluation/negotiation	Public interest embedded from project planning stage (via RFP requirements)
Leadership	Private sector-driven, government acts as reviewer and approver	Public sector-driven, private sector competes as Bidders
Transparency & Competition	Limited competition, potential lack of transparency	Greater competition and transparency ensured
Main Effect	Fosters innovation and creative project concepts from private proponents	Aligns with policy priorities, strengthens public value, and provides nationwide institutionalization

Gyeonggi Province PPP Road Project Model



Part 4. Managing Off-Budget and Non-PPP Act Projects

4.1 Hidden Liabilities in Non-PPP Act Projects



Background

- To bridge financing gaps, municipalities often pursue development projects outside the PPP Act framework—such as industrial complexes or tourism infrastructure—through agreements with private or public partners
- These agreements frequently involve credit enhancements (guarantees, purchase commitments, loss-sharing clauses)
- Such obligations do not immediately appear in fiscal accounts but can crystallize into actual liabilities under adverse conditions
- The need for systematic management became evident after the 2022 Legoland incident, where a declared default, though not realized, caused major disruption in financial markets and highlighted weaknesses in oversight and risk allocation



Key Problems

- **Excessive guarantees** to SPCs, creating disproportionate fiscal exposure
- **Opaque obligations:** Complex clauses often remain undetected or poorly assessed by local officials
- **Capacity gaps:** Local governments frequently lack the legal, financial, and technical expertise to negotiate well
- **Moral hazard:** Overreliance on guarantees or purchase commitments distorts incentives and inflates fiscal risks

Reforms for Managing Non-PPP Act Project Risks



New Management Framework (2023) by MOIS

- Since 2023, MOIS has reinforced contingent liability management framework to address risks from non-PPP Act projects
- These reforms embed stronger fiscal discipline, increase accountability, and provide local governments with clear guidance to balance innovative project financing with sustainable risk management.

Category	Contents
Clear Definition	Hidden obligations such as guarantees, land-purchase commitments, and revenue assurances are now formally defined as contingent liabilities, reducing ambiguity and strengthening legal clarity
Mandatory Pre-Review	Agreements must undergo ex-ante review by expert panels of legal, financial, and technical specialists, ensuring balanced risk allocation and preventing excessive fiscal exposure
Enhanced Disclosure	Local governments are required to report contingent liabilities on a systematic and regular basis, improving transparency for both central oversight and the public
Standardized Classification	Liabilities are categorized into standardized groups (e.g., guarantees, commitments, cost-sharing), allowing consistent monitoring and comparability across regions and projects
Central Monitoring	The Ministry prioritizes oversight of high-risk projects with exposures above KRW 10 billion, facilitating early detection and timely intervention before fiscal risks materialize

Part 5. Conclusions

Key Findings & Implications



Institutional Capacity as the Cornerstone

- Sustainable PPP programs are built not only on sound legislation and financing schemes but on institutional memory, professional expertise, and disciplined governance across the full project lifecycle.



Dedicated Central and Regional PPP Units

- Korea's designation of specialized PPP Units and PIM Centers illustrates how subnational governments can gradually strengthen capacity while benefiting from central oversight and technical support



Localized Innovation within a Central Framework

- Seoul's Public-Solicited PPP Model: institutionalized transparency and competition
- Gyeonggi's Fiscal Participation Model: pioneered public co-investment and citizen benefit-sharing.
- These demonstrate that PPPs can be tailored to local socio-economic priorities while operating under a unified national framework.



Managing Fiscal Risks Beyond the PPP Act

- Experience with off-budget and non-PPP Act projects revealed significant contingent liabilities.
- From 2023, Korea reinforced its contingent liability management framework, embedding stronger requirements for disclosure, monitoring, and fiscal discipline.

Key Findings & Implications



Lessons

- Anchor PPPs in a coherent legal and institutional framework
- Apply standardized instruments (Basic Plan, RFPs, Model Concession Agreements, Appraisal Guidelines)
- Ensure continuity by appointing dedicated PPP staff with multi-year track
- Invest in structured training, peer learning, and knowledge platforms to institutionalize expertise.



Final Insight

- PPPs should be understood as governance instruments rather than mere financing tools
- By formalizing upstream project preparation, codifying risk allocation, and embedding transparency, governments can mitigate early-stage risks, strengthen public trust, and deliver infrastructure that is fiscally sustainable and socially responsive.

Thank You!

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