

Korea's PPP Policy



Ministry of Strategy
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

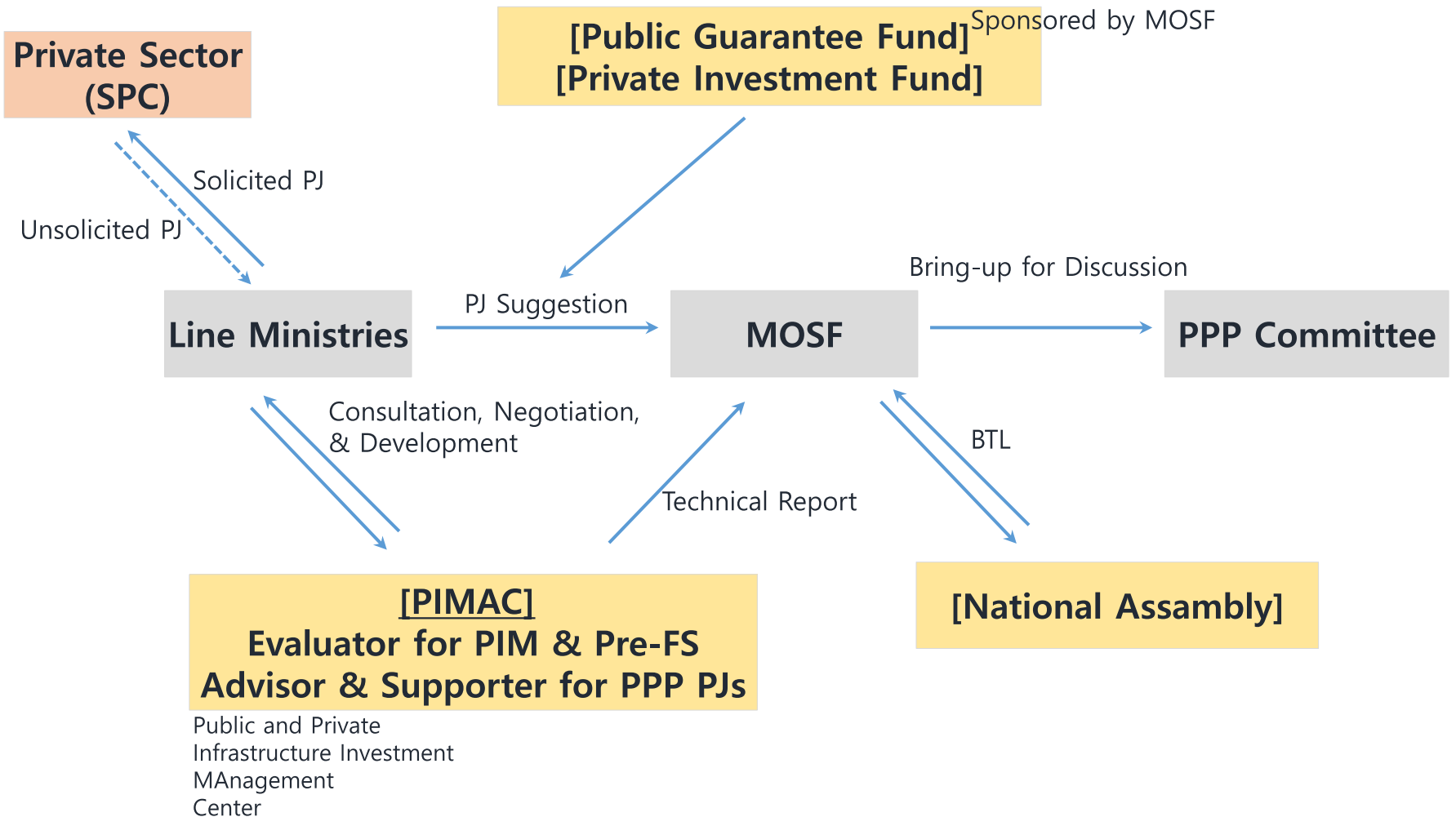
Major Players of Korea's PPP

	PPP Policy Division(MOSF)	PPP Review Committee	KDI PIMAC
Position	Commanding Tower of overall PPP Policies & Projects	Established under the MOSF	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

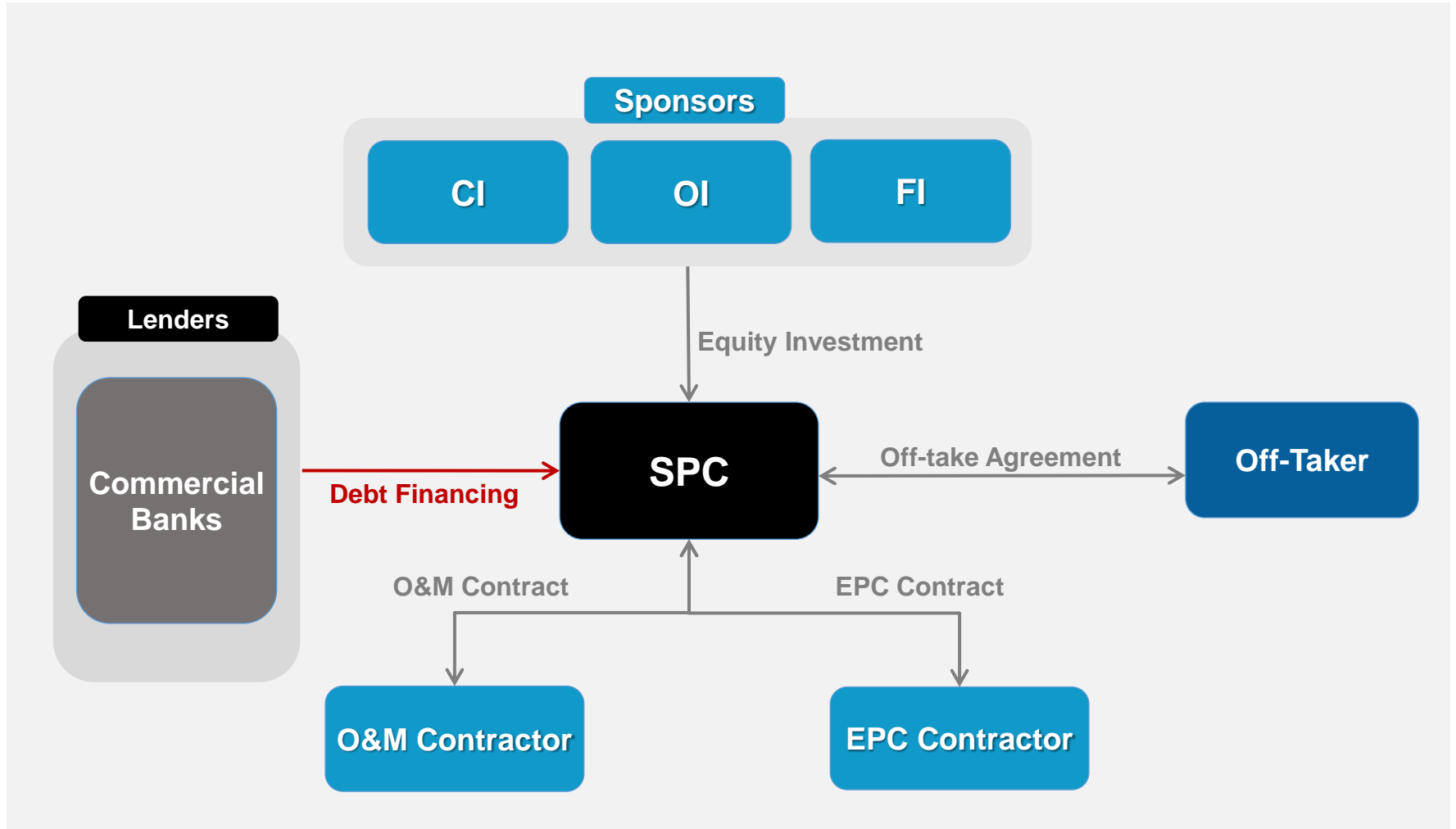
Major Players of Korea's PPP

	Line Ministries & Local Govn't	National Assambly
Position	Heds of the Executive Agencies in Charge of Infrastructure	Legislative Branch
ROLE	<ul style="list-style-type: none">▪ plans projects, conducts feasibility test, desgnate PPP project▪ supervise overall matters including operation of the facility▪ submits reports to MOSF	<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)



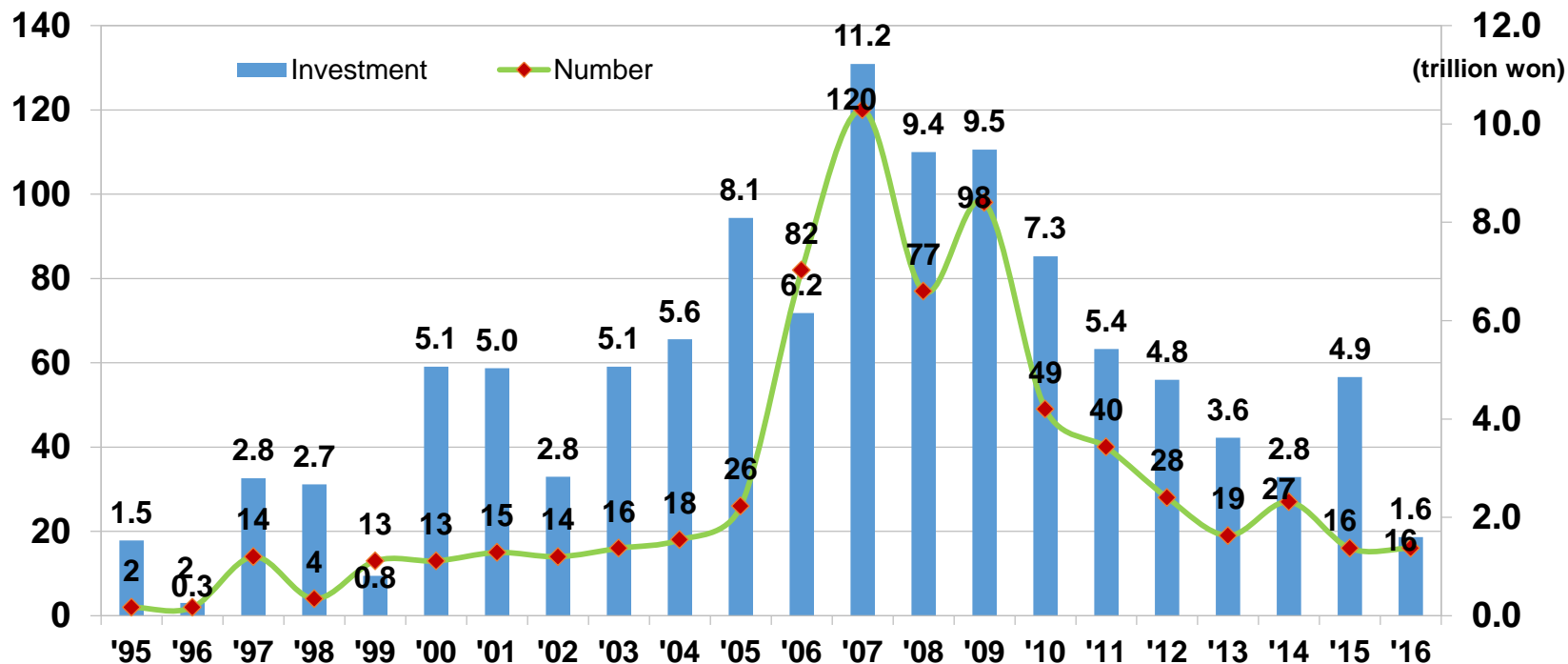
Ref.) PPP Scheme (Private Sector)





Management & Procurement Process of Korea's PPP

PPP in Korea so far



- 702 projects implemented (worth 100 bil \$)
- PPP investments has contributed to overcoming economic crisis by bridging the funding gap for needed infrastructure.

BTO & BTL

	Build-Transfer-Operate	Build-Transfer-Lease
applicable facility type	Facilities where investment costs can be collected (recovered) by levying user fee (Express Road, Seaport, Subway etc.)	Facilities where investment costs can't be collected(recovered) thru levying user fee. (schools, military facilities, library etc.)
Investment collection	User fee (payment by beneficiary principle)	Government's rent (Burden on Public Finance)
Risk	High risk, high return (IRR > 5.0%)	Low risk, low return (IRR < 3.0%)
budget support	<p><during construction ></p> <ul style="list-style-type: none"> · construction subsidy(30~50% of total investment cost) · 100% of the land acquisition cost <p><during operation ></p> <ul style="list-style-type: none"> · MRG(Min. Revenue Guarantee) Payouts(abolished in 2009) 	<p><during construction></p> <p><during operation></p> <ul style="list-style-type: none"> · government's rent(payment) (equiv. to total investment cost)
Results	225 PJs, 71.5 Tril. KRW	452 PJs, 28.5 Tril. KRW

BTO & BTL

	Build-Transfer-Operate	Build-Transfer-Lease
applicable facility type	  	  

The PPP Procurement Process: Pre-Delivery Phase

PPP Act

- PPP projects are subject to the same F/S test as publicly financed projects
- Solicited projects, unsolicited 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.

The PPP Procurement Process: Delivery Phase

Solicited Project



Unsolicited Project





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.

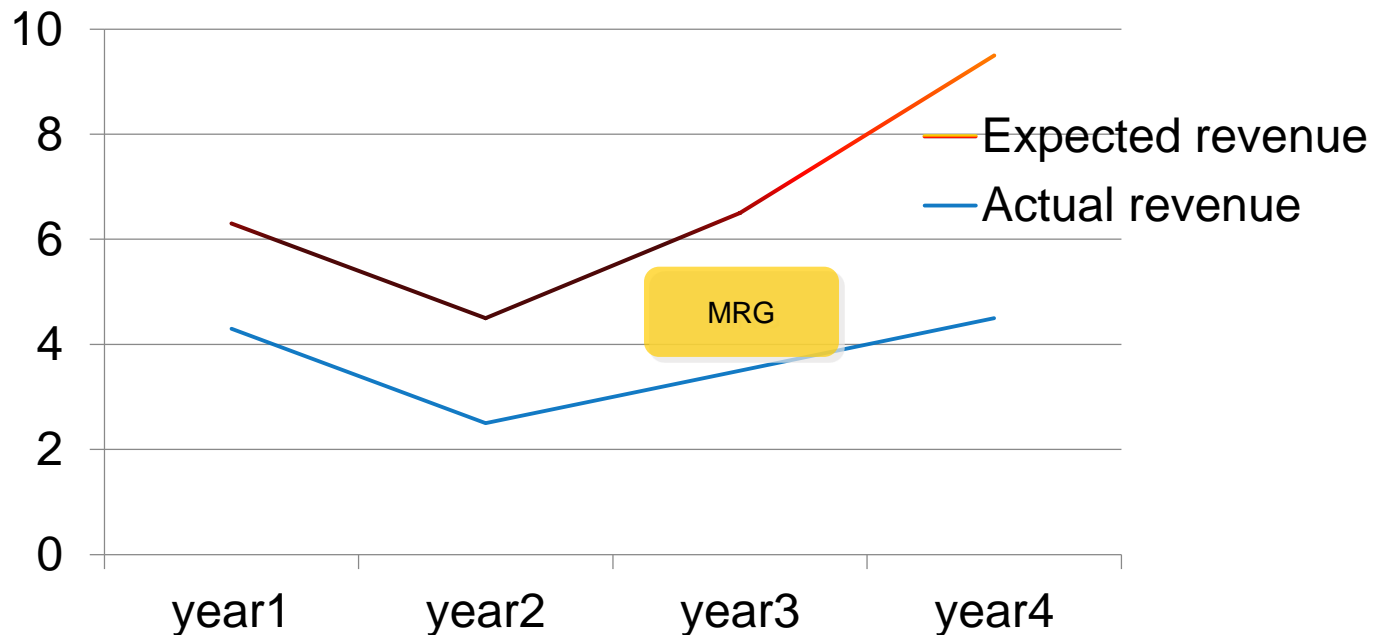
* In FY2015, land acquisition budget takes 37.5% of all PPP related budget expenditure (1.26 trillion KRW)

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

Concept of MRG

- The government may pay the difference between expected revenue and actual operation revenue.
- If the actual operation revenue exceeds the expected revenue, it will be redeemed within the limit of the amount previously paid.



Reality

- Overestimated traffic volume → overestimated revenue.
- Huge fiscal burden caused by subsidy for MRG
→ National Assembly & NGOs raised big issue on this.
- Moral hazard by SPCs
 - In 2009, MRG was abolished in PPP Act.



However, MRG played an important role in attracting private sectors to PPPs in the early days of Korea's PPP

Thank you