PPP Policies, Performances & Prospects of the Republic of Korea

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Minister of Planning and Budget
I. Overview of Korean PPPs
I. Overview of Korean PPPs

**History of PPI Act**

- **Enactment**
  - Aug. 1994
  - "The Private Capital Inducement Promotion Act"

- **Revision**
  - Dec. 1998
  - "The Act on Private Participation in Infrastructure"
    - Risk Sharing

- **Amendment**
  - Jan. 2005
  - "The Act on Private Participation in Infrastructure"
    - Expansion of Facility Types
    - Introduction of BTL Scheme
    - Diversification of Investor Profile

* PPI: Private Participation in Infrastructure
I. Overview of Korean PPPs

Structure of the PPI Act

PPI Act, Enforcement Decree
- Eligible facility types (44)
- Investment schemes: BTO, BOT, BOO, BTL, etc.
- Implementation procedure
- Infrastructure Credit Guarantee Fund, Infrastructure fund
- Government support, risk sharing measures

Basic Plans for PPI
- Policy directions
- General guidelines for PPI project implementation
- BTL Implementation guidelines
I. Overview of Korean PPPs

Implementation Schemes

BTO: Build-Transfer-Operate
BTL: Build-Transfer-Lease
I. Overview of Korean PPPs

**Implementation Process: Solicited Project**

1. Competent Authority → Selection of PPI Project
2. Competent Authority → Request for Proposals (RFP)
3. Private Sector → Submission of Project Proposals
4. Competent Authority → Evaluation/Selection of Preferred Bidder
5. Competent Authority/Preferred Bidder → Negotiation & Contract Award (Designation of Concessionaire)
6. Competent Authority → Approval of Detailed Engineering & Design Plan
7. Concessionaire → Construction & Operation
I. Overview of Korean PPPs

Implementation Process: BTL Solicited Project

<table>
<thead>
<tr>
<th>Private Sector</th>
<th>Competent Authority</th>
<th>MPB</th>
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<tbody>
<tr>
<td>Submission of Investment Plans</td>
<td>Establishment of BTL Ceiling</td>
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<td>Feasibility / VFM study</td>
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<td>Designation of BTL project &amp; Announcement of RFP</td>
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<td>Evaluation &amp; Selection of Preferred Bidder</td>
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<td>Negotiation &amp; Contract Award (Designation of Concessionaire)</td>
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<td>Approval of Detailed Plan</td>
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<td>Construction &amp; Operation</td>
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<td>Submission of Detailed Plan</td>
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<td>Submission of project plans</td>
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</tbody>
</table>
I. Overview of Korean PPPs

Implementation Process: Unsolicited Project

1. Project Preparation & Submission of Proposal
2. Review of Proposal
3. Request for alternate proposals
4. Evaluation/Selection of Preferred Bidder
5. Negotiation & Contract Award (Designation of concessionaire)
6. Approval of Detailed Engineering & Design Plan
7. Construction & Operation
I. Overview of Korean PPPs

**Government Support**

**Financial Support**
- Construction Subsidy
- Support for the acquisition of land
- Tax benefit
- Minimum Revenue Guarantee

**Infrastructure Credit Guarantee Fund**

**Compensation on Termination**

**Risk Sharing Measures, etc.**

**Risk Sharing Measures, etc.**
II. Performance Highlights
## II. Performance Highlights

### Korean Economic Outlook

(year-on-year, in US$1bil.)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2007&lt;sup&gt;1/4p&lt;/sup&gt;</th>
<th>2007&lt;sup&gt;2/4&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td>GDP (%)</td>
<td>3.1</td>
<td>4.7</td>
<td>4.2</td>
<td>5.0</td>
<td>4.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Private Consumption (%)</td>
<td>-1.2</td>
<td>-0.3</td>
<td>3.6</td>
<td>4.2</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Equip. Investment (%)</td>
<td>-1.2</td>
<td>3.8</td>
<td>5.7</td>
<td>7.6</td>
<td>10.8</td>
<td>12.1</td>
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<tr>
<td>Construction Investment (%)</td>
<td>7.9</td>
<td>1.1</td>
<td>-0.2</td>
<td>-0.4</td>
<td>3.9</td>
<td>3.2</td>
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<tr>
<td>Current Account</td>
<td>11.9</td>
<td>28.2</td>
<td>15.0</td>
<td>6.1</td>
<td>-1.7</td>
<td>0.2</td>
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<tr>
<td>Exports (%)</td>
<td>19.3</td>
<td>31.0</td>
<td>12.0</td>
<td>14.4</td>
<td>14.6</td>
<td>14.4</td>
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<tr>
<td>Imports (%)</td>
<td>17.6</td>
<td>25.5</td>
<td>16.4</td>
<td>18.4</td>
<td>13.2</td>
<td>14.3</td>
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<tr>
<td>CPI Inflation rate (%)</td>
<td>3.5</td>
<td>3.6</td>
<td>2.8</td>
<td>2.2</td>
<td>2.1</td>
<td>2.5</td>
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<tr>
<td>Overall Fiscal Balance</td>
<td>7.6</td>
<td>5.2</td>
<td>3.5</td>
<td>3.6</td>
<td></td>
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<sup>P</sup> denotes preliminary estimate.
Private Investment Trend

Increase in PPI to complement public investment

- PPI Investment: (’98) 0.5 trillion → (’06) 3.2 trillion KRW
- Share of PPI to public investment: (’98) 3.9% → (’06) 17.4%

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Investment in Infrastructure (A)</th>
<th>PPI Investment (B)</th>
<th>B/A (%)</th>
<th>B/(A+B) (%)</th>
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<tbody>
<tr>
<td>’98</td>
<td>12.7</td>
<td>0.5</td>
<td>3.9</td>
<td>3.8</td>
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<td>’00</td>
<td>15.2</td>
<td>1.0</td>
<td>6.6</td>
<td>6.2</td>
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<tr>
<td>’01</td>
<td>16.0</td>
<td>0.6</td>
<td>3.8</td>
<td>3.6</td>
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<tr>
<td>’02</td>
<td>16.0</td>
<td>1.2</td>
<td>7.5</td>
<td>7.0</td>
</tr>
<tr>
<td>’03</td>
<td>18.4</td>
<td>1.2</td>
<td>6.6</td>
<td>6.1</td>
</tr>
<tr>
<td>’04</td>
<td>17.4</td>
<td>1.7</td>
<td>9.8</td>
<td>8.9</td>
</tr>
<tr>
<td>’05</td>
<td>18.3</td>
<td>2.6</td>
<td>14.2</td>
<td>12.4</td>
</tr>
<tr>
<td>’06</td>
<td>18.4</td>
<td>3.2</td>
<td>17.4</td>
<td>14.8</td>
</tr>
</tbody>
</table>

(Unit: Trillion KRW)
Total project costs of signed BTO projects as of December 2006 amount to KRW 37.5 Trillion

< BTO projects by facility types – Contract signed>

- Railways (9.3 Trillion)
- Roads (19.8 Trillion)
- Port (5.8 Trillion)
- Others (2.6 Trillion)

II. Performance Highlights

* PPI projects managed by central government only
Examples of BTO Projects

Cheonan~Nonsan Highway

- Length: 82.0km (4 lanes)
- Project cost: KRW 1.7 trillion (Subsidy: 27%)
- Const.: '97~'02 (Op. 30yrs)
Examples of BTO Projects

Busan New Port:

- Length: 9 berth, 3.2km
- Project cost: KRW 2.4trillion (Subsidy: 26%)
- Const. : '01~'09 (Op.50yrs)
Total project costs of BTL projects which announced RFP as of December 2006 amount to KRW 11.3 Trillion
- Among 213 projects, 70 projects were signed (3.1 trillion)
  & 56 projects under construction (2.4 trillion)

**II. Performance Highlights**

### Sector Analysis: BTL

- Educational facilities: 4.5 tril. (39%)
- Railways: 1.2 tril. (10%)
- Military housing: 1.6 tril. (14%)
- Environmental facilities: 3.4 tril. (30%)
- Cultural/welfare facilities, etc.: 0.7 tril. (6%)
Examples of BTO Projects

Chungju Military Apt. Housing

- Project cost: KRW 18.6 billion
- Const.: ’05~’07 (Op. 20 yrs)
- Current Status: Opened in April ’07
Examples of BTO Projects

Ulsan National University

- Project cost: KRW 250 billion
- Const.: '07~'12 (Op. 20 yrs)
- Current Status: RFP announced in March '07
II. Performance Highlights

Key Success Factors

- Strong government commitment & risk sharing
- Solid legal framework corresponding to int'l standards
- Central role of MPB
II. Performance Highlights

Public Sector Players

Central PPI Unit

Competent Authority

Min. of Planning & Budget

PPI Committee

Procuring Ministries

Local Gov’ts

Min. of Construction & Transportation
Min. of Culture & Tourism
Min. of Education & Human Resource Development
Min. of Environment
Min. of Health & Welfare
Min. of Maritime Affairs & Fisheries
Min. of Natl. Defense, etc.

Technical Assistance

Research & Policy Advice

KDI PIMAC
III. Prospects on Korean PPPs
Prospects on Korean PPP

Fiscal constraints in infrastructure investment
- Increase in social & welfare expenditure

Increased role of private investment in infrastructure
- Supplement to public investment
- Introduction of private sector efficiency & innovation in constructing & operating public facilities
Key Policy Issues

- Efficient & transparent procurement process
- 47 schools opened in March ’07
- Development of operational model based on evaluation of leading projects
- Constant development of guidelines/standard models
- Evaluation of operational performance of BTL facilities
- Establishment of mid-to-long term PPI investment plan

- Develop fiscal guidelines and strategies to manage PPI investment amount within a sustainable level
- Include in the National Fiscal Management Plan (’07~11)

III. Prospects on Korean PPPs
Thank you