



# **Private Participation in Infrastructure in Korea**

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The background of the slide features a blue sky with white clouds. A large, semi-transparent blue wave shape curves across the middle of the image. Below the wave, there is a grid pattern of glowing blue lines, resembling a network or a digital interface, set against a darker blue background with more clouds.

# **I. PPI Overview**

## *Concept of PPI*

### ■ **PPI (Private Participation in Infrastructure)**

- Public & Private Partnerships to provide infrastructure facilities and related public services

### ■ **Rationale and Position of PPI**

- Provide a new option for public service delivery under fiscal constraints
- Introduce private sector efficiency and innovation
- Provide stable & long-term investment opportunities for the private sector

## ***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, Minimum Revenue Guarantee

**Amendment**  
**Jan. 2005**

『The Act on Private Participation in Infrastructure 』

- Expansion of Facility Types
- Introduction of BTL Scheme
- Diversification of Investor Profile (Infra. Fund)

*\* PPI Guideline is issued to provide PPI policy direction and implementation guidance*



## ***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

## ***Implementation Schemes***

### ■ **BTO (Build-Transfer-Operate)**

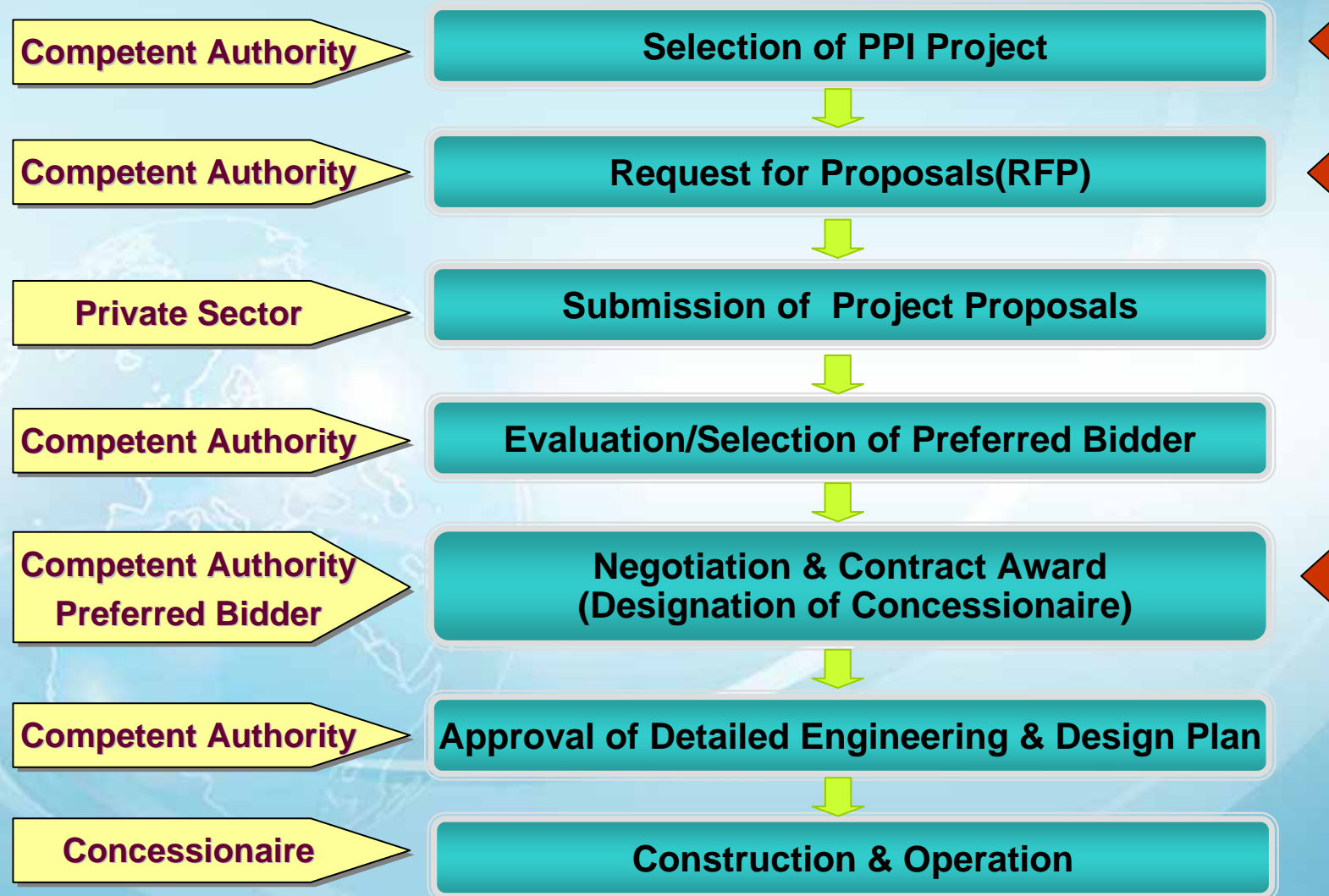
- Road, Railway, Port, etc.
- Concessionaire collects user fee to recover its investment
- Private sector takes demand risk
- Solicited & Unsolicited projects

### ■ **BTL (Build-Transfer-Lease)**

- Schools, Welfare/medical facilities, Cultural Facilities , etc.
- Government pays concessionaire for service delivery
- No demand risk for private sector
- Solicited projects only

### ■ **Others : BOT, BOO, etc.**

## *Implementation Process : Solicited Project*

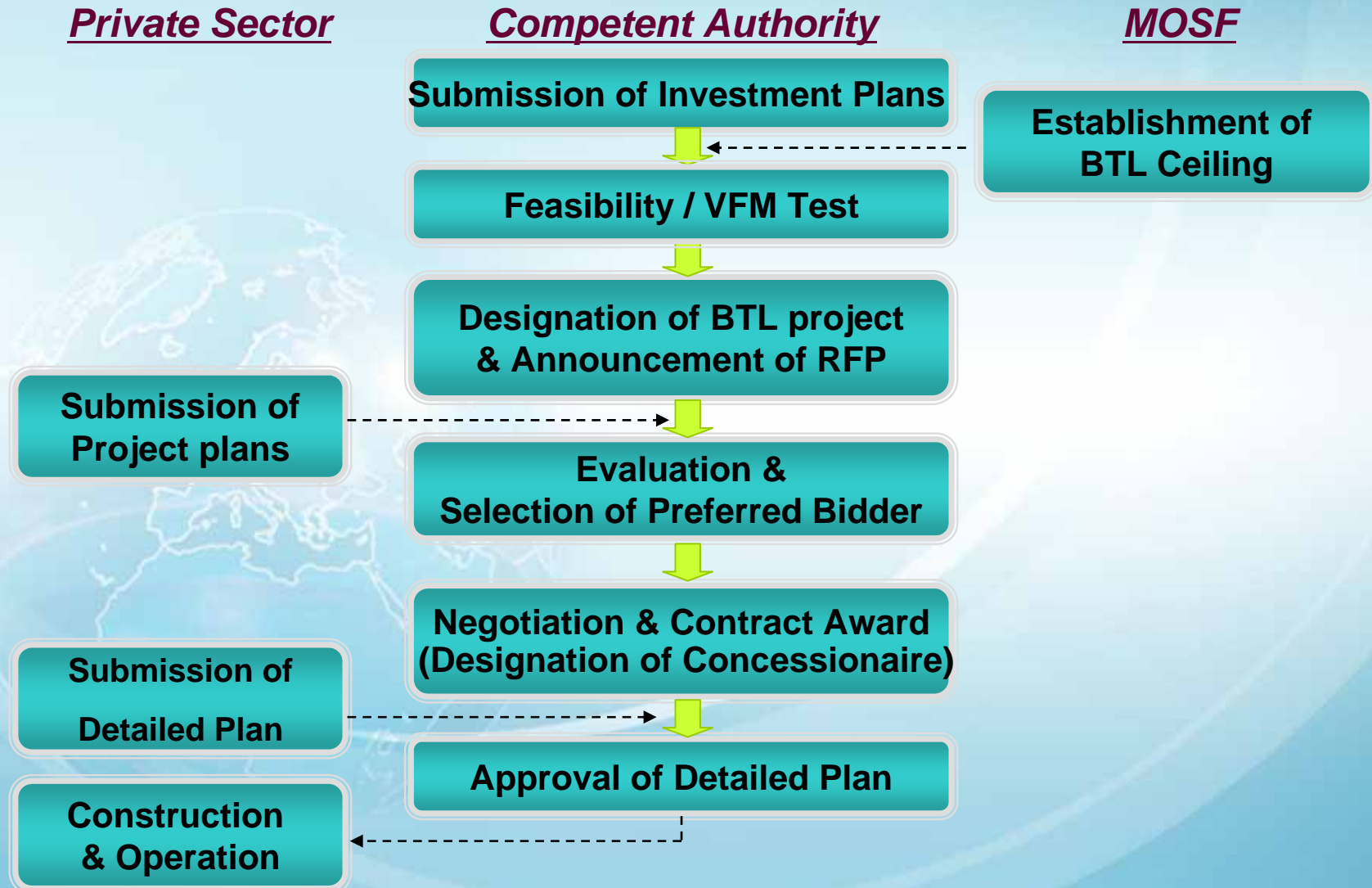




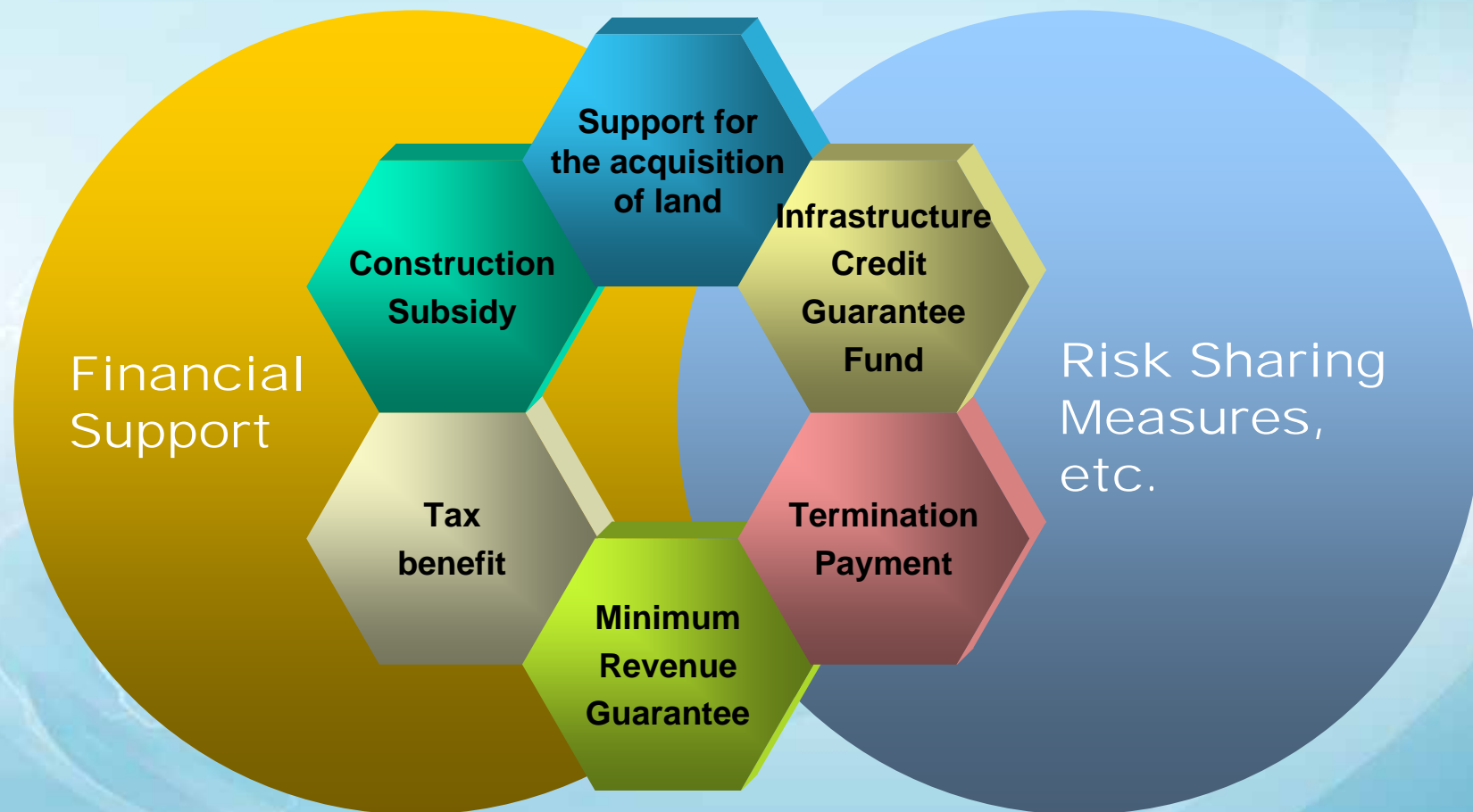
## *Implementation Process : Unsolicited Project*



## *Implementation Process : BTL Solicited Project*



## ***Government Support***



## ***Gov't Support (BTO Type)***

### **Construction Subsidy : 30~50% of Total Investment**

- **Roads : Less than 30% of Total Investment**

*\* Recently most road projects have no construction subsidy*

- **Rails : Less than 50% of Total Investment**

- **Ports : Less than 30% of Total Investment**

- **Freight Terminals : No Construction Subsidy (BOO type)**

*\* Government provides access roads and rails*

## MRG on Solicited Projects

### ■ Minimum Revenue Guarantee

- Adopted after Financial Crisis of the late 90s  
Induced Private Investment in Infrastructure

### ■ No MRG with under 50% of Forecasted Revenue

### ■ Led to Inflated Demand Forecasting

Resulted in Increase of MRG Payment

➔ **Reduced Level of MRG for Solicited projects  
& Abolished for Unsolicited Projects (2006)**



## Modification of MRG Mechanism

	May 2003 ~ December 2005	Starting January 2006	
		Solicited Projects	Unsolicited Projects
Period	15 years	10 years	Abolished
Guarantee	First 5 years : 90% Next 5 years : 80% Last 5 years : 70%	First 5 years : 75% Last 5 years : 65%	
Condition	Revenue > 50% Forecasted Revenue		

## **Various Tax Benefits**

- Exemption of Acquisition and Registration Tax
- Application of 0% Tax Rate on VAT
- 15% Separate Taxation on Interest Income from Infra Bond
- Separate Taxation on Dividend Income from Infra Fund

## **Concession Termination Payment**

- Force Majeure, Bankruptcy, etc

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## **II. Performance Highlights**

## *Private Investment Trend*

### ■ Increase in PPI to Complement Public Investment

- PPI Investment : ('98) 0.5 trillion    ('07) 3.1 trillion KRW
- Share of PPI to Public Investment : ('98) 3.9 %    ('07) 16.8%

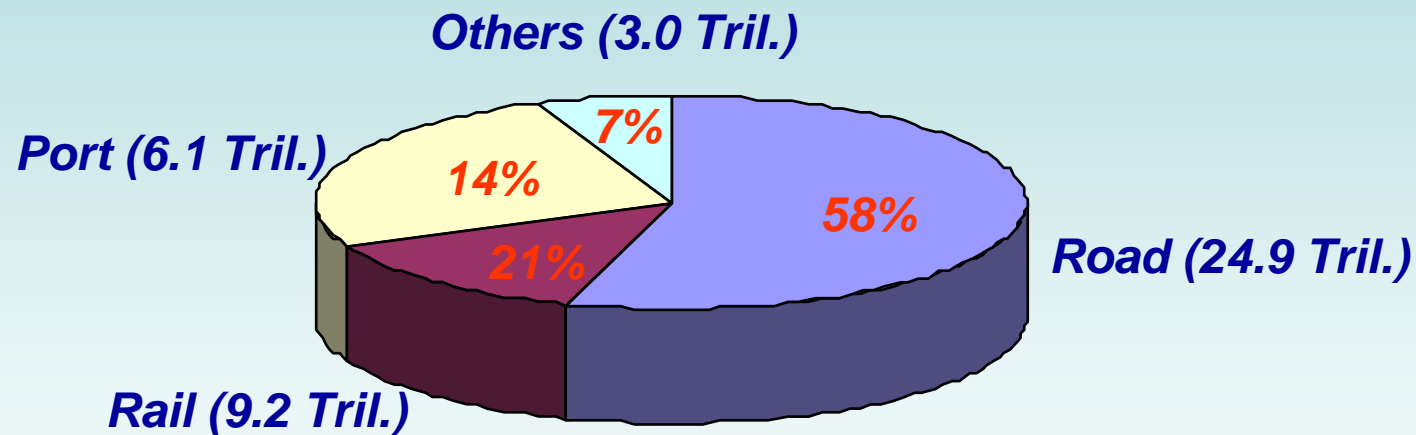
(Unit : Trillion KRW)

	'98	'00	'02	'04	'06	'07
Public Investment in Infrastructure(A)	12.7	15.2	16.0	17.4	18.4	18.4
PPI Investment(B)	0.5	1.0	1.2	1.7	3.0	3.1
<i>B/A</i> (%)	<i>3.9</i>	<i>6.6</i>	<i>7.5</i>	<i>9.8</i>	<i>16.3</i>	<i>16.8</i>
<i>B/(A+B)</i> (%)	<i>3.8</i>	<i>6.2</i>	<i>7.0</i>	<i>8.9</i>	<i>14.0</i>	<i>14.4</i>

## ***Sector Analysis : BTO***

- Total project costs of signed BTO projects as of June 2008 amount to KRW 43.2 Trillion

### **< BTO Projects by Facility Types – Contract Signed >**



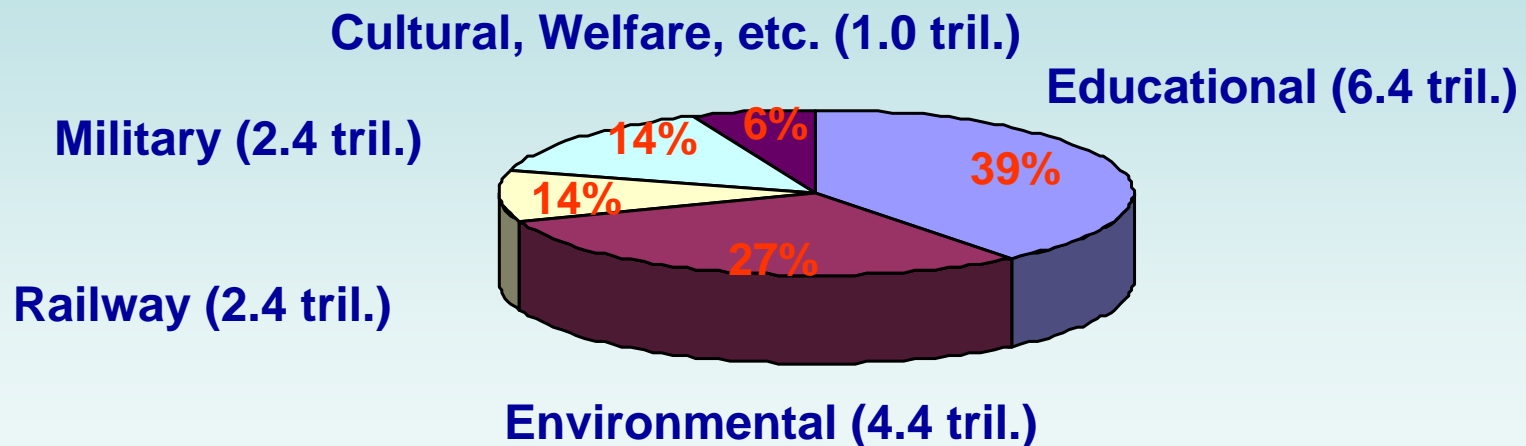
\* Nationally Managed Projects only



## ***Sector Analysis : BTL***

- **Total project costs of BTL projects which announced RFP as of June 2008 amount to KRW 16.6 Trillion**
  - Among 292 projects, 231 projects were signed (11.2 trillion)

### **< BTL Projects by Facility Types – RFP Announced >**



## ***Key Success Factors***

### ■ **Solid Legal Framework Corresponding to International Standards**

- Clear & Consistent Implementation Procedure Regulated by PPI Act & Implementation Guidelines
- Fair & Equal Treatment of Domestic & Foreign Investors

### ■ **Strong Government Commitment & Supports**

- Construction Subsidy, MRG, Mitigation of F/X Risks, etc.
- Technical Assistance Provided by PIMAC
  - Review of RFPs & PPI Contracts, Assistance in Project Evaluation & Negotiation, Research for PPI Policies & Guidelines, etc.

### ■ **Central Role of MOSF**

- Develop National PPI Policies, Guidelines, & Fiscal Rules
- Coordinates Sectoral PPI Plans & Establish Comprehensive Investment Plans
- Review & Approve Nationally Managed PPI Projects
  - MOSF convenes PPI Committee when necessary

## Examples of BTO Projects

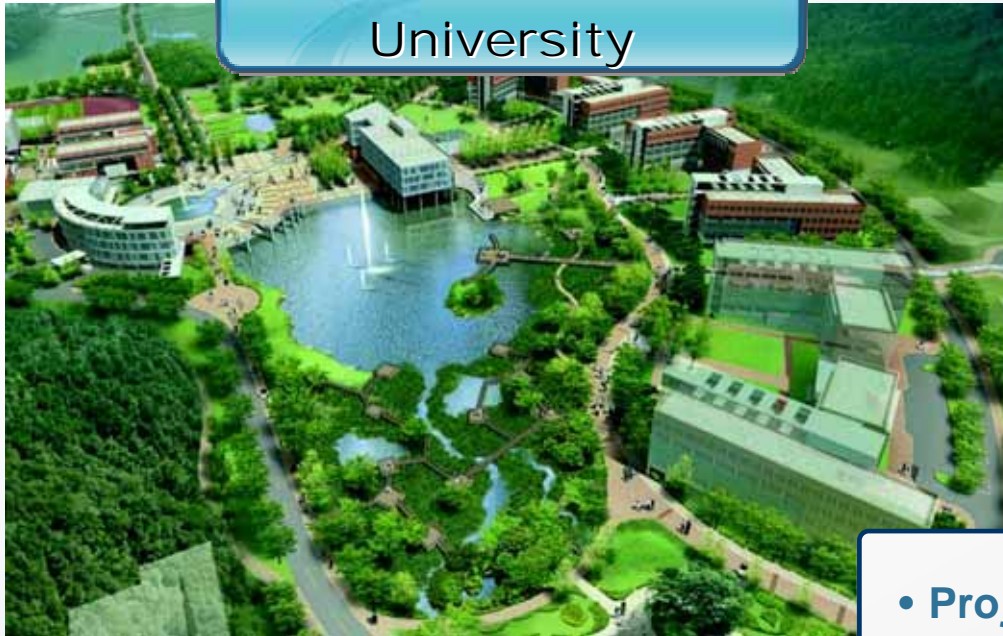
# Incheon Airport Highway

- Length : 40.2km (6~8 lanes)
- Project Cost : KRW 1.7trillion  
(Subsidy : 16%)
- Const. : '95~'00 (Operate 30yrs)
- Investors : KTCU (45%), MKIF (24%)  
Kyobo Life (15%) etc.  
(Org. Investors : 11 Construction Co.  
85%, 2 Financial Inv. 12%,  
Others 3%)



## *Examples of BTL Projects*

Ulsan National  
University



- Project Cost : KRW 250 Billion
- Const. : '07~'12 (Operate 20yrs)
- Current Status :  
RFP announced in March '07



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### **III. Future of Korean PPI**



## *Prospects on PPI*

### ■ **Fiscal Constraints in Infrastructure Investment**

- Decreasing Tax Revenue
- Increasing Social & Welfare Expenditure
  - Annual Increase Rate of 10.1% in Social Welfare ('03~'08)

### ■ **Increased Role of Private Investment in Infrastructure**

- Supplement to Public Investment
  - Enables Early Provision of Public Services*
- Introduction of Private Sector Creativity & Innovation in Constructing & Operating Public Facilities

***Heightens Satisfaction of Facility Users***

## *Key Policy Issues*

### ■ Establishment of PPI Long-Term Investment Plan('07~'11)

- Estimate Future Financial Commitment by Government
  - Roads, Railways, Ports, Logistics, Environmental Facilities, Educational Facilities, Military Housing, Cultural Facilities
  - Subsidies, MRG, Government Payments for BTL, etc.
- Development of Fiscal Guidelines and Strategies
  - Managing PPI Investment Amount within a Sustainable Level
- Inclusion in the National Fiscal Management Plan
- Forecast Appropriate Private Investment Level and Fiscal Burden

## *Key Policy Issues*

### ■ **Development of Public Involvement Model in BTL(2007)**

- To Enhance Service Quality & User Satisfaction of Social Infrastructure
  - Schools, Dormitories, Cultural & Welfare Facilities, etc.



## *Key Policy Issues*

### **■ Promotion of Integrated Facilities**

- BTL Facilities with Multiple Functions
  - **Schools + Sports Center + Public Libraries, Nursery Center, etc.**
- Efficient Use of Land & Facilities
- Development of Model MOU and RFP

### **■ Develop. of Standard Models for Major Facility Types**

- Efficient & Transparent Procurement Process
  - **Guidelines for Feasibility/VFM Test, RFP, Output Specifications, Standard BTL Contract, etc.**
  - **School, Environmental Facility (ex. sewer pipe), Military Housing, Cultural Facilities**

## *Key Policy Issues*

### ■ **Strengthening Global Networks & Knowledge Exchange for Promotion of PPI/PPP**

- Growing Interests in PPI/PPP Worldwide
  - **Int'l Events, Official Study Visits, Interchange of Personnel, etc.**
- Several Ways of International Cooperation
  - **Multilateral Cooperation** : International Conferences, Seminars, etc.
  - **Bilateral Cooperation** : MOUs for establishing official networks among policy makers & practitioners, regular meetings, education/training programs, consulting, TA, etc.





Thank you

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