Private Participation in Infrastructure in Korea

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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

I. PPI Overview

- The Private Capital Inducement Promotion Act
  - Enactment: Aug. 1994

- The Act on Private Participation in Infrastructure
  - Revision: Dec. 1998
  - Risk Sharing, Minimum Revenue Guarantee

- The Act on Private Participation in Infrastructure
  - Amendment: Jan. 2005
  - 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.
I. PPI Overview

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: Negotiation & Contract Award (Designation of Concessionaire)
6. Competent Authority: Approval of Detailed Engineering & Design Plan
7. Concessionaire: Construction & Operation
I. PPI Overview

Implementation Process: Unsolicited Project

1. Private Sector: Project Preparation & Submission of Proposal
2. Competent Authority: Review of Proposal
3. Competent Authority: Request for Alternate Proposals
4. Competent Authority: (More Proposals Tendered) Evaluation/Selection of Preferred Bidder
5. Competent Authority: Negotiation & Contract Award (Designation of Concessionaire)
6. Competent Authority: Approval of Detailed Engineering & Design Plan
7. Concessionaire: Construction & Operation
8. Competent Authority: (No Third Party Proposals) Negotiation & Contract Award Designation of Concessionaire
I. PPI Overview

Implementation Process: BTL Solicited Project

**Private Sector**
- Submission of Investment Plans
- Submission of Project plans
- Submission of Detailed Plan
- Construction & Operation

**Competent Authority**
- Feasibility / VFM Test
- Designation of BTL project & Announcement of RFP
- Evaluation & Selection of Preferred Bidder
- Negotiation & Contract Award (Designation of Concessionaire)
- Approval of Detailed Plan

**MOSF**
- Establishment of BTL Ceiling
I. PPI Overview

**Government Support**

- Financial Support
  - Support for the acquisition of land
  - Infrastructure Credit Guarantee Fund
  - Termination Payment
  - Minimum Revenue Guarantee
  - Tax benefit
  - Construction Subsidy

Risk Sharing Measures, etc.
Gov’t Support (BTO Type)

① 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

<table>
<thead>
<tr>
<th>Period</th>
<th>May 2003 ~ December 2005</th>
<th>Starting January 2006</th>
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<tbody>
<tr>
<td></td>
<td>15 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Guarantee</td>
<td>First 5 years : 90%</td>
<td>First 5 years : 75%</td>
</tr>
<tr>
<td></td>
<td>Next 5 years : 80%</td>
<td>Last 5 years : 65%</td>
</tr>
<tr>
<td></td>
<td>Last 5 years : 70%</td>
<td>Abolished</td>
</tr>
<tr>
<td>Condition</td>
<td>Revenue &gt; 50% Forecasted Revenue</td>
<td>Unsolicted Projects</td>
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</table>
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
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%

<table>
<thead>
<tr>
<th></th>
<th>'98</th>
<th>'00</th>
<th>'02</th>
<th>'04</th>
<th>'06</th>
<th>'07</th>
</tr>
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<tbody>
<tr>
<td>Public Investment in Infrastructure (A)</td>
<td>12.7</td>
<td>15.2</td>
<td>16.0</td>
<td>17.4</td>
<td>18.4</td>
<td>18.4</td>
</tr>
<tr>
<td>PPI Investment (B)</td>
<td>0.5</td>
<td>1.0</td>
<td>1.2</td>
<td>1.7</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>B/A (%)</td>
<td>3.9</td>
<td>6.6</td>
<td>7.5</td>
<td>9.8</td>
<td>16.3</td>
<td>16.8</td>
</tr>
<tr>
<td>B/(A+B) (%)</td>
<td>3.8</td>
<td>6.2</td>
<td>7.0</td>
<td>8.9</td>
<td>14.0</td>
<td>14.4</td>
</tr>
</tbody>
</table>
Total project costs of signed BTO projects as of June 2008 amount to KRW 43.2 Trillion

* Nationally Managed Projects only

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>Costs (Trillion)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>24.9</td>
<td>58%</td>
</tr>
<tr>
<td>Rail</td>
<td>9.2</td>
<td>21%</td>
</tr>
<tr>
<td>Port</td>
<td>6.1</td>
<td>14%</td>
</tr>
<tr>
<td>Others</td>
<td>3.0</td>
<td>7%</td>
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</table>
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)

Sector Analysis: BTL

- Educational (6.4 tril.)
- Environmental (4.4 tril.)
- Military (2.4 tril.)
- Railway (2.4 tril.)
- Cultural, Welfare, etc. (1.0 tril.)
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

II. Performance Highlights

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
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.

III. Future of Korean PPI
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.

III. Future of Korean PPI
Thank you

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