

Making Public-Private Partnerships Work: Korea's Experience

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C O N T E N T S



- 1. Institutional Setting, Process, and Status of PPP in Korea**
- 2. Government Support for PPP Projects**
- 3. Lessons Learned + Takeaways**

Part-01 | **Institutional Setting, Process,
and Status of PPP in Korea**



Legal Framework for PPP

Hierarchy of legal and administrative framework of PPP System

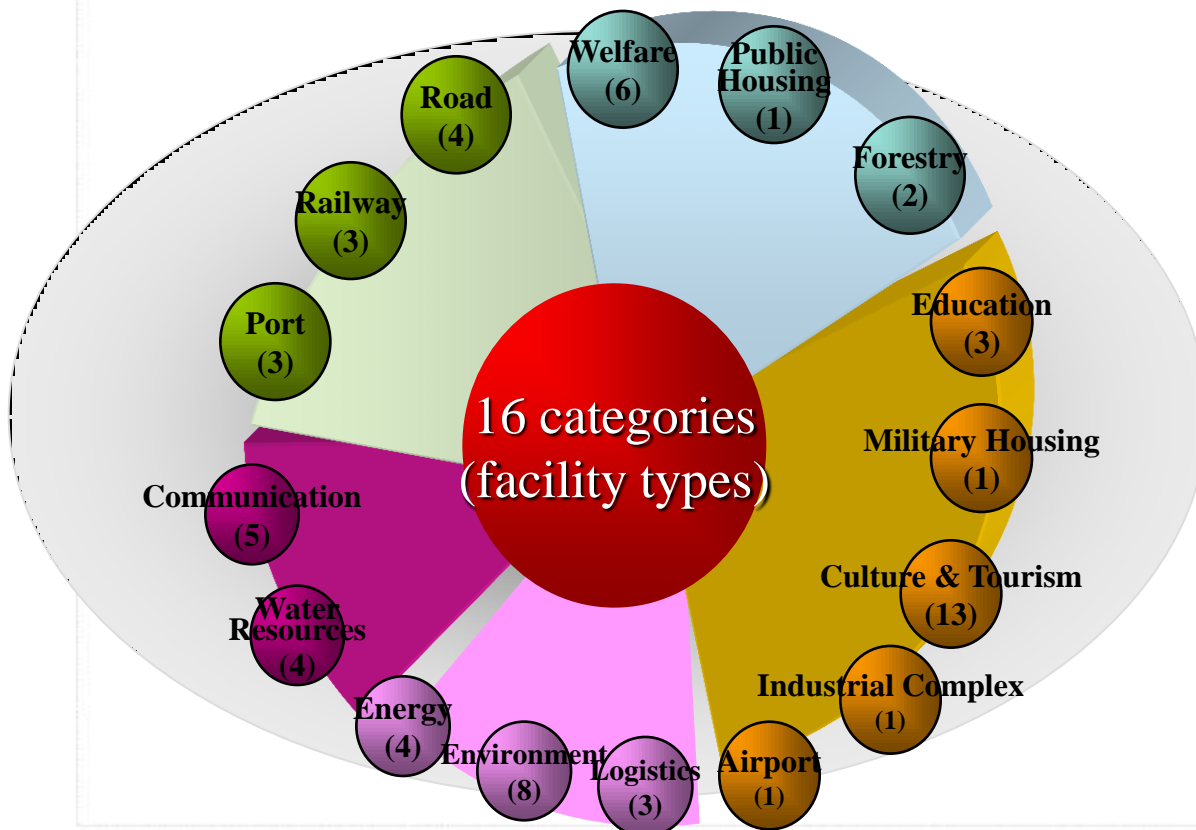
- PPP Act
 - PPP Act Enforcement Decrees
 - ❖ Annual PPP Basic Plan
 - ✓ PPP Implementation Guidelines

□ Legal Status of the PPP Act

- The **PPP Act** and the **PPP Act Enforcement Decrees** are the principal components of the legal framework of PPP
 - Eligible Infrastructure types, Procurement Types, Procurement Process, the roles of the Public and Private parties, etc
- The PPP Act is a **special Act** that precedes other Acts
 - Exempts PPP projects from strict regulation in national property management
 - Allows a SPC to play a role of competent authority

Eligible Infrastructure Types

62 types of facilities in 16 categories are eligible for PPP



Requirements :

1. The project is in accord with mid- to long-term Infrastructure plans and national investment priorities
2. The project has such profitability to attract private sector participation

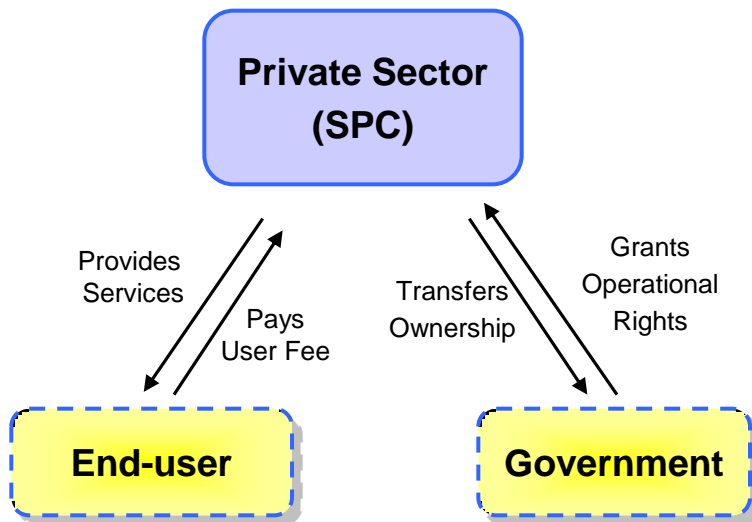
Revision of the Act in 2009 :

Eligible infrastructure facility types, which have been stipulated by the Act, can also be stipulated by the Enforcement Decree.

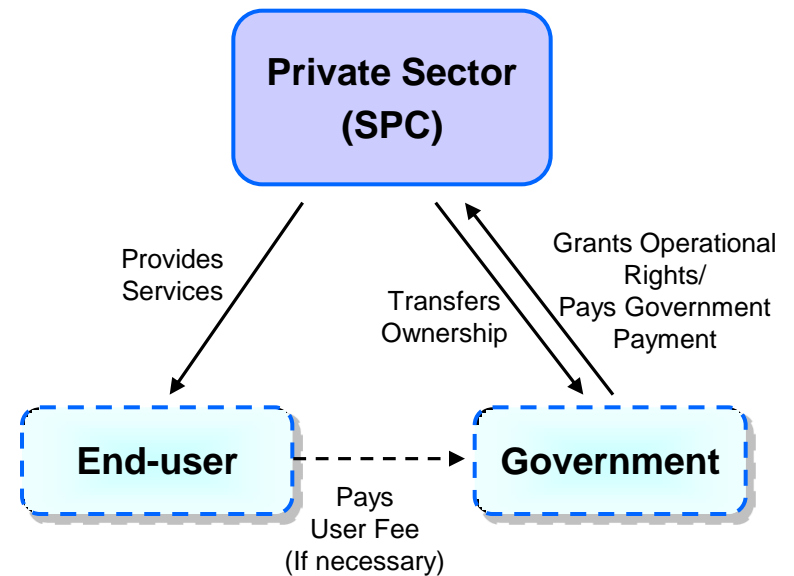
Procurement Schemes (1)

Comparison of BTO and BTL Schemes

BTO (Build-Transfer-Operate)



BTL (Build-Transfer-Lease)

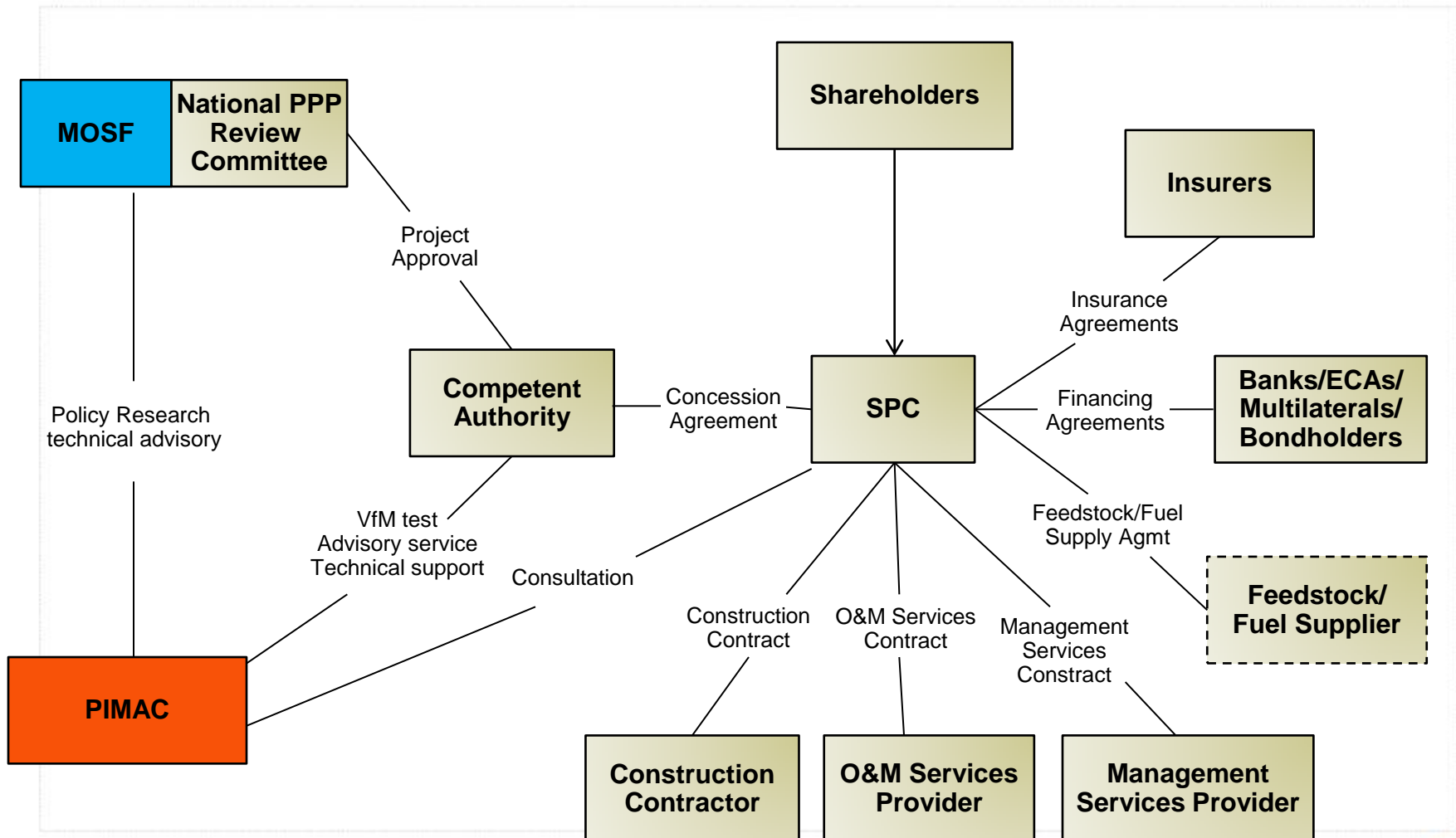


Procurement Schemes (2)

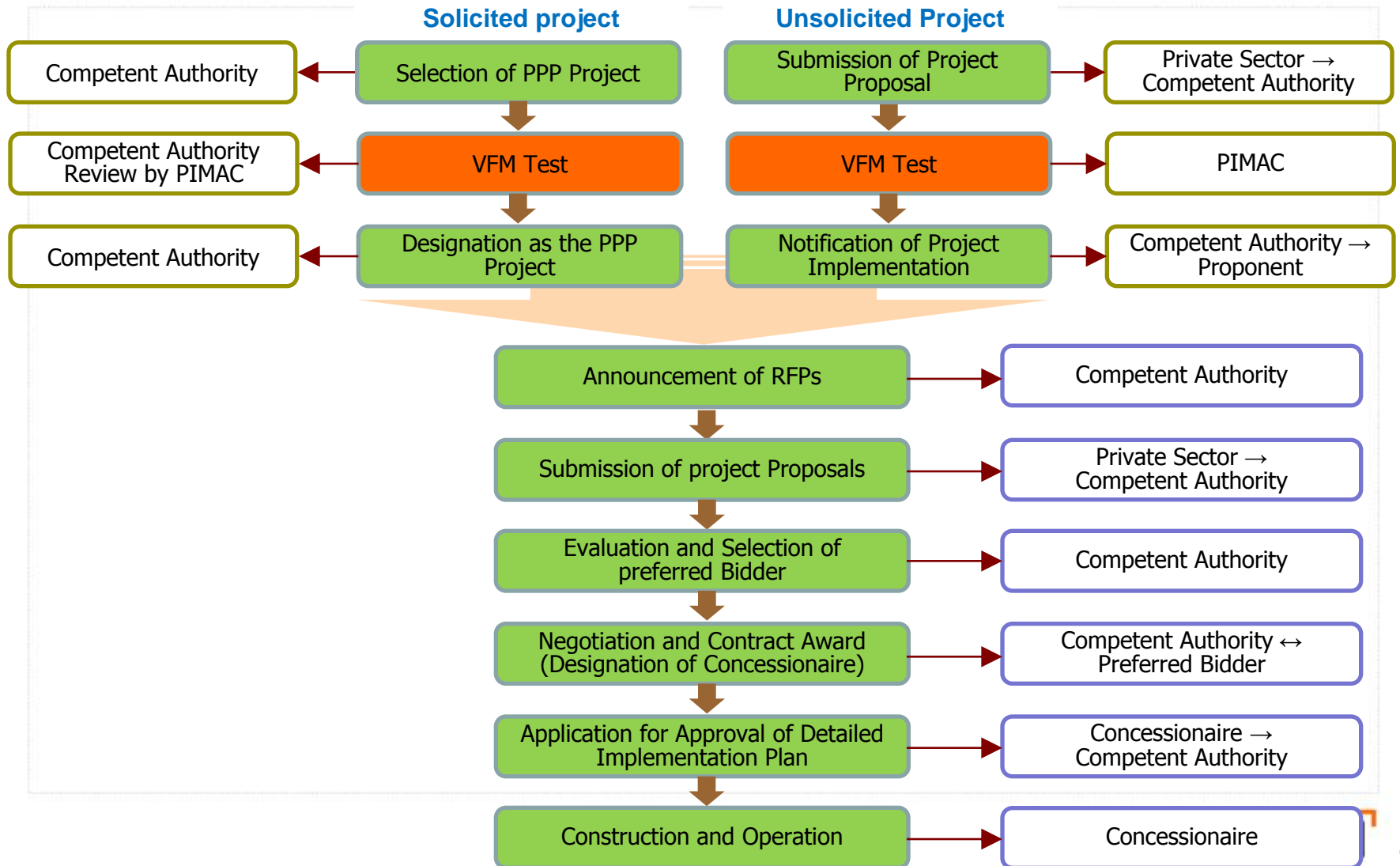
Characteristics of BTO and BTL Schemes

	BTO	BTL
Investment Recovery	User fees Construction subsidy MRG	Lease payment (Fixed Revenue)
Project risk	Demand risk on concessionaire	Little demand risk on concessionaire
Return	High risk, high return	Low risk, low return
Eligibility	Both solicited and unsolicited projects	Solicited projects only <i>(Accepting unsolicited projects under consideration)</i>

Simplified Project Implementation Structure

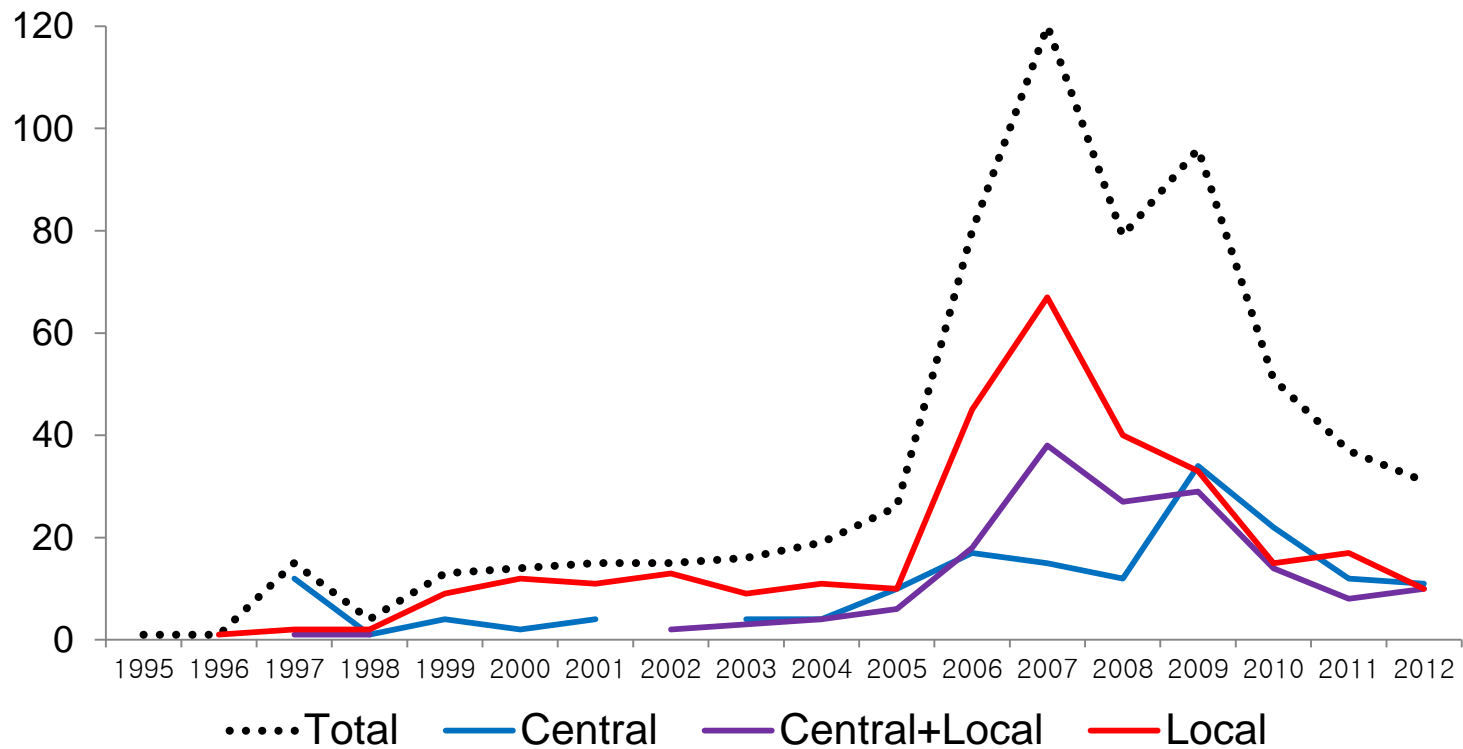


Implementation Procedure of Projects (BTO Projects)



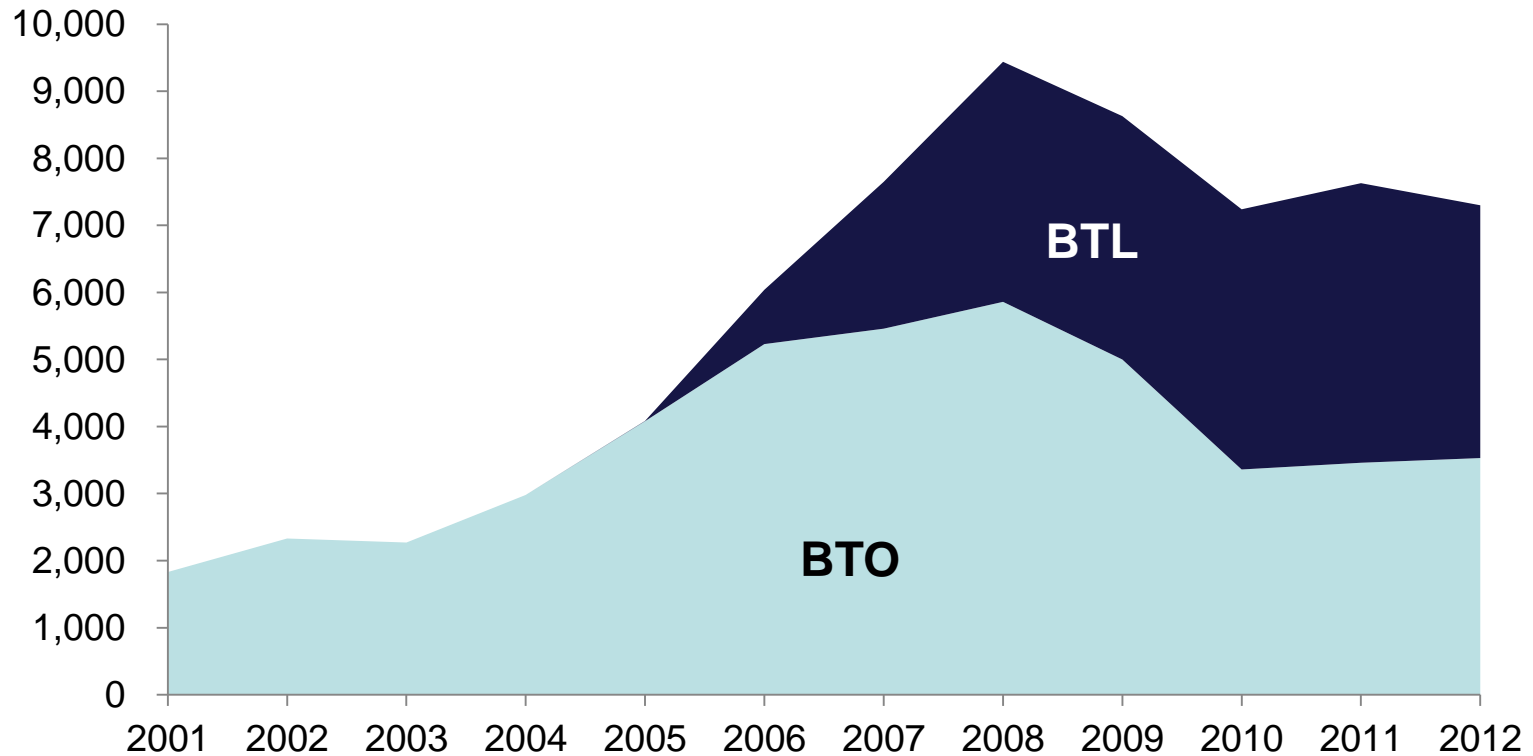
Status of PPP Projects (1)

PPP Projects by Authority by Year (No. of Projects)



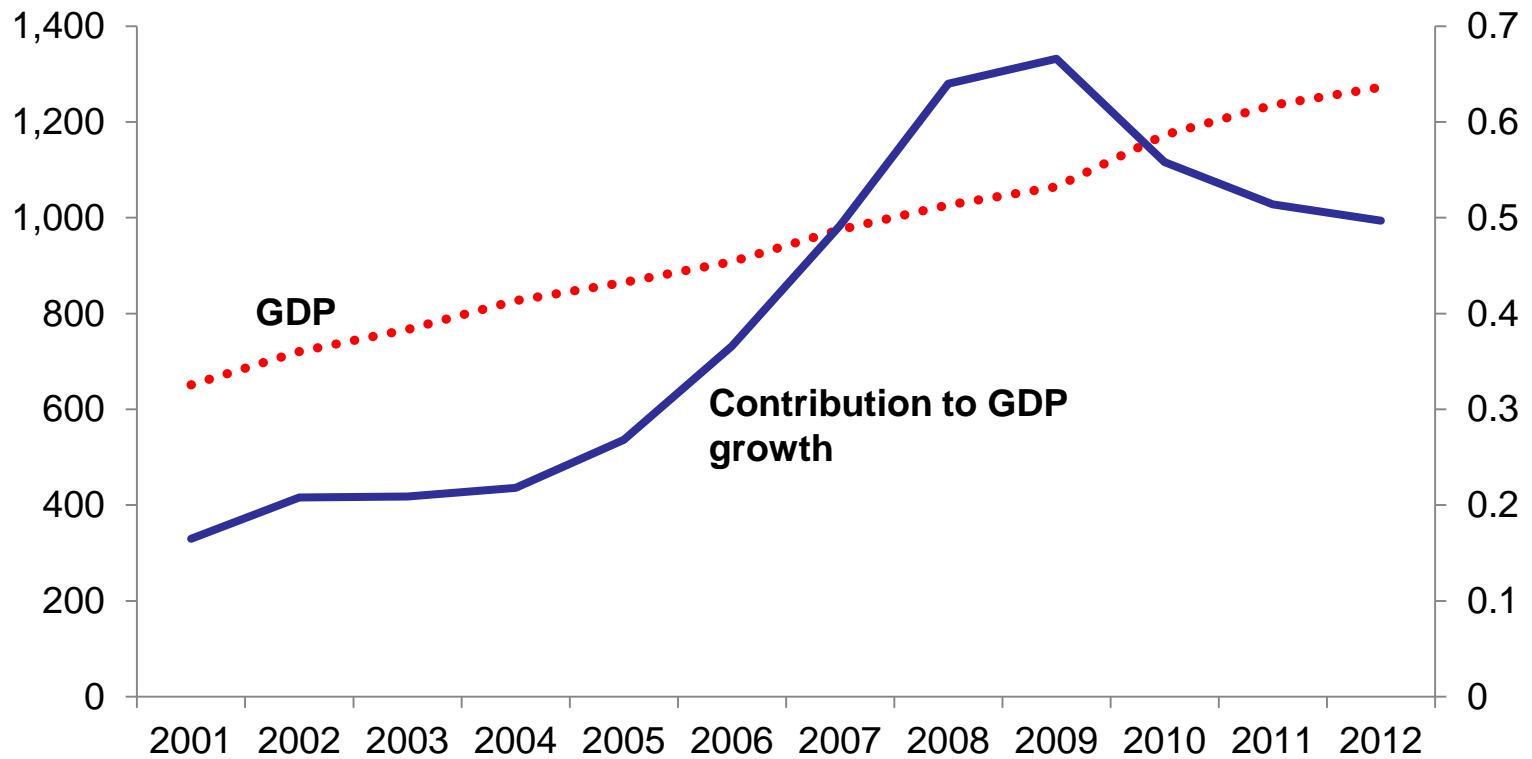
Status of PPP Projects (2)

PPP Projects by Type by Year (Billion KRW)



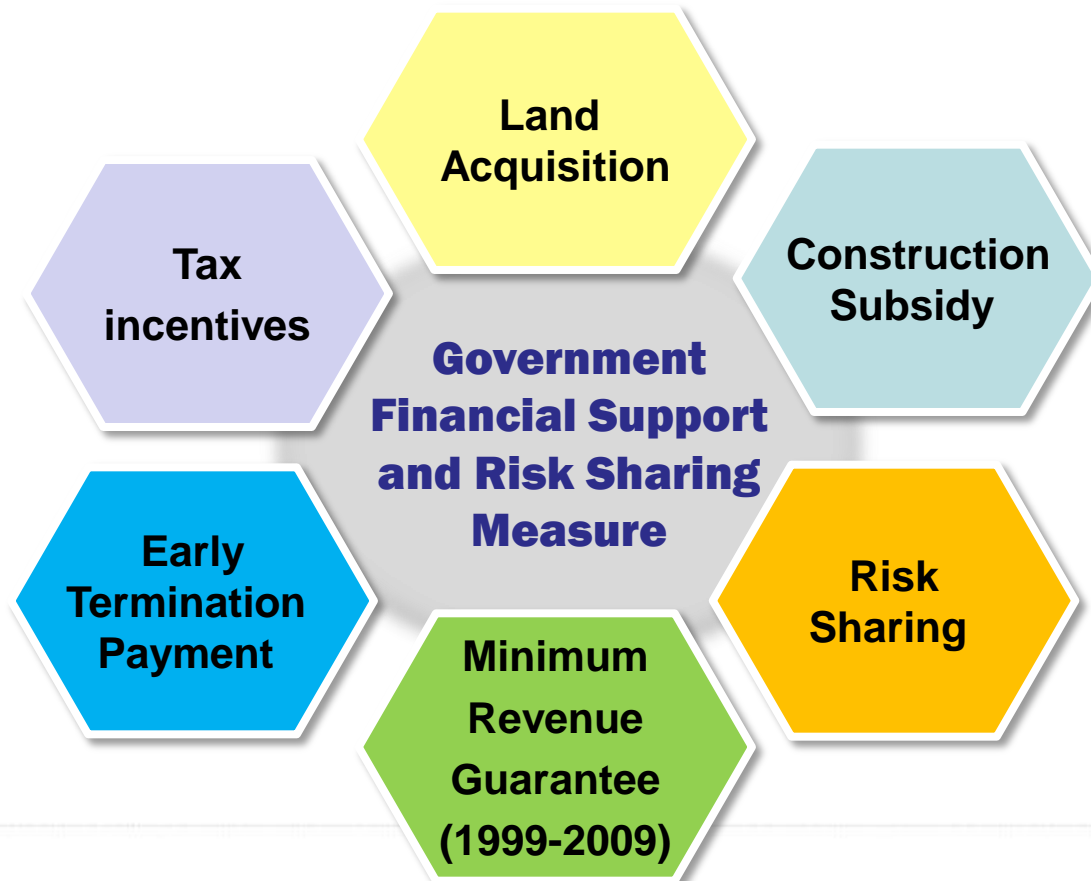
Status of PPP Projects (3)

Impact on Economic Growth of PPPs



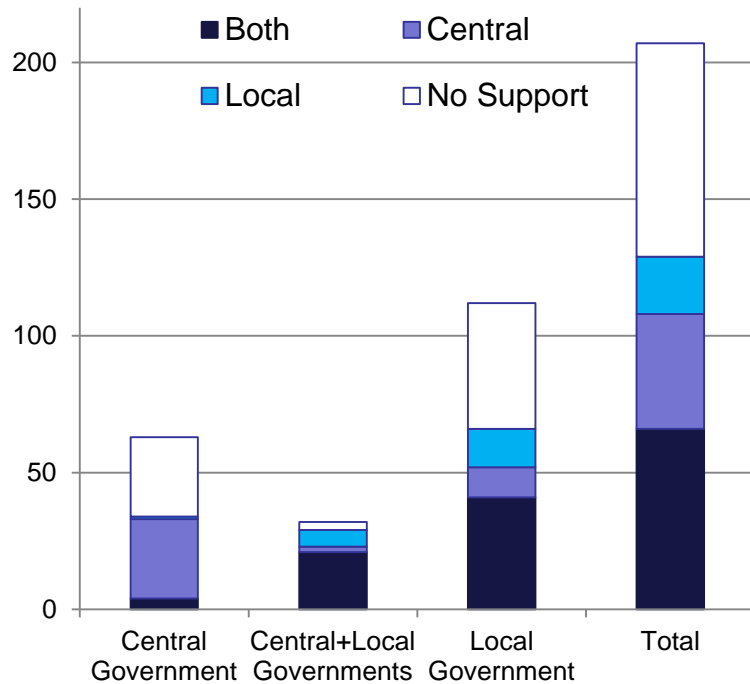
Government Support for PPPs (1)

- ❑ Korean government has promulgated various policies to stimulate PPP investment

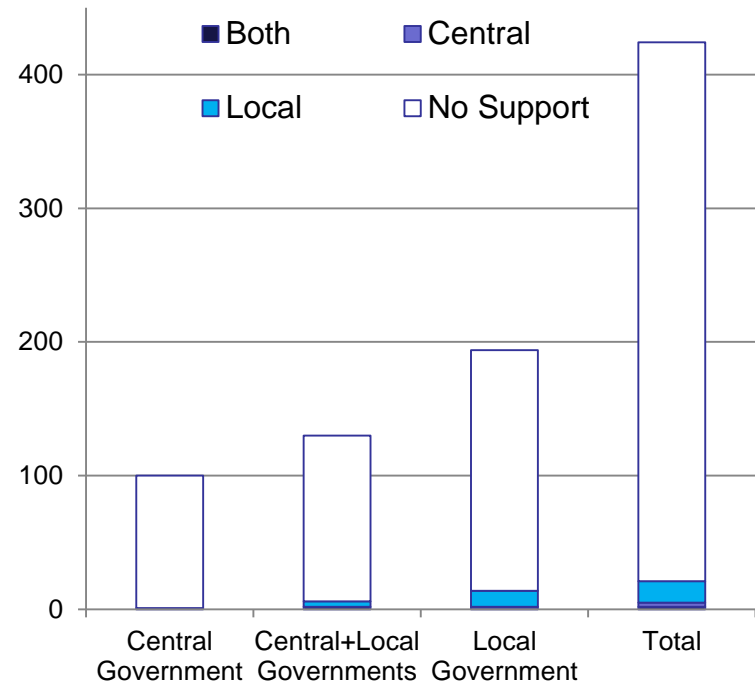


Government Support for PPPs (2)

Government Supports by Scheme (No. of Projects)



BTO



BTL

Key Success Factors (1)

❑ Streamlined institutional framework and institutional setting

- Clear and consistent implementation procedure regulated by the PPP Act & Implementation Guidelines, making project more “FORESEEABLE”
- Clearly defined role of different government agencies

❑ Market promotion along with fiscal discipline

- Market promotion:
 - ✓ Unsolicited proposals encouraged by awarding bonus points
 - ✓ Government supports: MRG, construction subsidy and land acquisition, etc.
- Fiscal discipline:
 - ✓ Due diligence : Unified project management of PPP and government project
 - ✓ Delivery of Value for Money from PPP
 - ✓ Comprehensive National PPP plan
 - ✓ Report to national assembly

Key Success Factors (2)

❑ Central role of MOSF for consistent project management

- MOSF develops and updates national PPP policies in accordance with higher level national agenda as well as economic policy directions
 - ✓ The National PPP Review Committee is chaired by the Minister of SF to decide important policy issues in PPP.
- Coordinates sectoral PPP plans & establish comprehensive investment plans
- Gatekeeper for big projects: MOSF approves major projects and monitors their implementation process step by step.

❑ Independent PPP Unit: PIMAC

- Conducts theoretical and policy research to help MOSF to develop PPP policy
- Publishes detailed PPP implementation guidelines
- Provides competent authorities with technical supports at every stages of project implementation
- Capacity building programs for public and private sectors
- Historical DB management (InfraInfo)
- international relations

Challenges

❑ Criticisms

- MRG payment has resulted in excessive fiscal burden on central and local government
- Too much incentive to private parties such as tax incentives, construction subsidy, etc.
- Contingent liabilities issues (BTL project and MRG payment)
- Higher tariff than conventional procurement

❑ Challenges Ahead

- Establishing fiscal rules for PPP projects to maintain sound fiscal management
- Strengthening *ex post* management and monitoring of PPP projects
- Demonstrating the benefit of PPP to persuade unfriendly public
- Setting a clear standard and principle for refinancing and re-negotiation
- Developing “bankable” projects that can deliver value for money

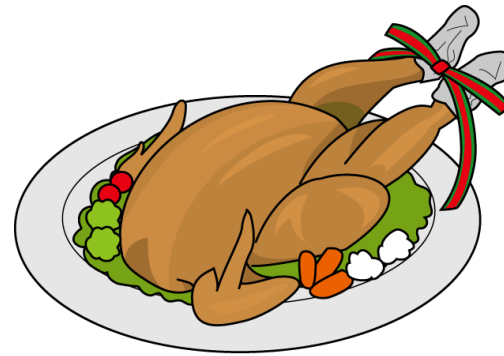
PPP Promotion vs. Fiscal Discipline

- ❑ The PPP is justified when it not only expands **fiscal space** but also it increases the **value of tax payers' money**.
- ❑ Korea's experience of PPP demonstrates the importance of keeping balanced between market promotion and fiscal discipline in the practice of PPP policy.

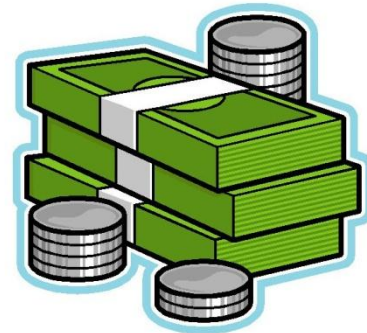
The Spirit of PPP

- ❑ Private sector's **creativity** and **efficiency**

- ❑ No Free Lunch!



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Role of PIMAC in PPP System

1) **Researcher**

- Support for formulation of the Basic Plan for PPP
- Theoretical and policy studies on PPP programs
- Development of implementation guidelines

2) **Advisor & facilitator for PPP Procurement**

- Development of PPP projects
- Execution and Review of VFM test
- Support for formulation of RFPs
- Review of RFP and concession agreement
- Assistance in tendering and negotiation

3) **PPP Market Promoter**

- Training programs and seminars on PPP for public officials
- International cooperation
- Data accumulation and management

International Cooperative Activities of PIMAC

❑ **Bilateral Cooperation**

- Indonesia, Vietnam, Kazakhstan, etc.

❑ **International Conference with IMF, WB, ADB, ASEM, etc**

❑ **Training Programs for foreign government officers**

- Legal framework of PPP System in Korea
- Sectoral Project Development
- Value for Money Test
- Project Financing and Understanding Financial Model
- Fiscal and Policy Issues of PPPs
- Site tour and case study

❑ **Technical Assistance**

- Regional TA project with ADB
 - *“Knowledge Sharing on Infrastructure PPPs in Asia”*
 - Publication of *“Public-Private Partnership Infrastructure Projects: Case Studies from the Republic of Korea”(2011)*

Thank you

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