Private Participation in Infrastructure in Korea

Submitted by: Korea
I. Investment Environment

Korea, Gateway to Asia

50 cities with populations of 1 million+ within 3 ½ hrs

Average growth rate
(Asia excluding Japan)
World: 5.2%, OECD: 2.7%
Diversified Opportunities

Asian Center of Business, IT & BT

IFEZ

Materials and Logistics

BJFEZ

Steel, Petrochemical and Logistics

GFEZ

Road, Rail, Port, School etc.
PPI

I. Investment Environment

Economic Policy: A Business-Friendly Environment

- Breaking down barriers
- Drastic reduction in corporate taxes
- Overhaul of Regulations
- Tax Cuts
- Systematic Changes

- Capital Markets Consolidation Act (January 2009)
I. Investment Environment

Incentives to Foreign Investors

- **Tax Reductions**
  - Corporate Tax, Income Tax: 7 yrs
  - Acquisition Tax, Registration Tax, Property Tax: 5-15 yrs
  - Tariffs: 3 yrs

- **Cash Grants**
  - Up to 15% of the amount invested (for investments of more than $10 million in high-tech areas)

- **Exemption from rent for 50 years or more for investors in FIZs**

- **Support for building of infrastructure**

- **Subsidies for employment and training**

- **Support for improvement of business and living environment**

Ⅱ. 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

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**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

II. PPI Overview

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.
II. PPI Overview

Implementation Process: Solicited Project

Competent Authority  ➔ Selection of PPI Project

Competent Authority  ➔ Request for Proposals (RFP)

Private Sector  ➔ Submission of Project Proposals

Competent Authority  ➔ Evaluation/Selection of Preferred Bidder

Preferred Bidder  ➔ Negotiation & Contract Award (Designation of Concessionaire)

Competent Authority  ➔ Approval of Detailed Engineering & Design Plan

Concessionaire  ➔ Construction & Operation

Implementation Process: Unsolicited Project

Private Sector  ➔ Project Preparation & Submission of Proposal

Competent Authority  ➔ Review of Proposal

Competent Authority  ➔ Request for Alternate Proposals

Preferred Bidder  ➔ (More Proposals Tendered) Evaluation/Selection of Preferred Bidder

(No Third Party Proposals) Negotiation & Contract Award (Designation of Concessionaire)

Competent Authority  ➔ Approval of Detailed Engineering & Design Plan

Concessionaire  ➔ Construction & Operation
Implementation Process: BTL Solicited Project

Private Sector | Competent Authority | MOSF
---|---|---
Submission of Investment Plans | Establishment of BTL Ceiling |
Feasibility / VFM Test |
Designation of BTL project & Announcement of RFP |
Evaluation & Selection of Preferred Bidder |
Submission of Project plans |
Approval of Detailed Plan |
Submission of Detailed Plan |
Construction & Operation |

Structure of BTO & BTL

BTO
- Private Sector (SPC)
  - Provides Services
  - Pays User Fee
  - Transfers Operational Rights
  - End-user
  - Government

BTL
- Private Sector (SPC)
  - Provides Non-core Services
  - Transfers Ownership
  - Core Services
  - Grant Operational Rights (Gov’t Payment)
  - Pay User Fee (If necessary)
  - End-user
  - Government
Key Players in PPI

Public Sector

Central PPI Unit
Competent Authority
Technical Assistance
Research & Policy Advice

Min. of Strategy & Finance
PPI Committee
Local Gov’ts

Min. of Land, Transport & Maritime Affairs
Min. of Culture, Sports & Tourism
Min. of Education, Science & Technology
Min. of Environment
Min. of Health, Welfare & Family Affairs
Min. of Natl. Defense, etc.

PIMAC

II. PPI Overview

Government Support

Financial Support

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

Infrastructure Credit Guarantee Fund
Termination Payment

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

1. Construction Subsidy: 30~50% of Total Investment
   - Roads: Less than 30% of Total Investment
   - 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

2. 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>
</tr>
</thead>
<tbody>
<tr>
<td>Period</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></td>
</tr>
<tr>
<td>Condition</td>
<td>Revenue &gt; 50% Forecasted Revenue</td>
<td>Abolished</td>
</tr>
</tbody>
</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
Infrastructure Fund

- An indirect investment company that collects funding, injects it into PPI project and distributes the profits to the fund investors
- to give investment or loan for implementing infrastructure facilities projects, to enjoy tax benefits and mitigation of regulatory conditions

Asset Mgmt Scope and Financing Regulations of Infra Funds
- Removal of Investment Cap, Allowance of Debt Financing (30% of Capital)
- Technical Assistance Provided by PIMAC
- Minimum Capital Requirement for Establishing Fund: KRW 10 billion
- Funds have voting right for their investment in projects

Infrastructure Funds (2007)
1. Public Offered (1) : Macquarie Korea Infra Fund (KRW 1.8 Trillion)
2. Private Invested (9) : Balhae Fund (1.2), Korea Infra II Fund (1.5), Korea Railway I Fund (1.0), Korea BTL Fund (1.0) etc

III. Performance Highlights
Korean Economic Outlook

III. Performance Highlights

(Year-on-year, in US$100 mil.)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (%)</td>
<td>3.1</td>
<td>4.7</td>
<td>4.2</td>
<td>5.1</td>
<td>5.0*</td>
<td>4.6</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>3.0</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>4.4</td>
</tr>
<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>1.3</td>
</tr>
<tr>
<td>Current Account</td>
<td>120</td>
<td>282</td>
<td>150</td>
<td>54</td>
<td>60</td>
<td>-90</td>
</tr>
<tr>
<td>Exports (%)</td>
<td>19.3</td>
<td>31.0</td>
<td>12.0</td>
<td>14.4</td>
<td>14.1</td>
<td>18.3</td>
</tr>
<tr>
<td>Imports (%)</td>
<td>17.6</td>
<td>25.5</td>
<td>16.4</td>
<td>18.4</td>
<td>15.3</td>
<td>25.0</td>
</tr>
<tr>
<td>CPI Inflation rate (%)</td>
<td>3.5</td>
<td>3.6</td>
<td>2.8</td>
<td>2.2</td>
<td>2.5</td>
<td>4.8</td>
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<tr>
<td>Overall Fiscal Balance</td>
<td>76</td>
<td>52</td>
<td>35</td>
<td>36</td>
<td>34</td>
<td>17</td>
</tr>
</tbody>
</table>

P denotes preliminary estimate (Korean Central Bank, 2008)

Private Investment Trend

- Increase in PPI to Complement Public Investment
  - PPI Investment: ('98) 0.5 trillion → ('07) 3.0 trillion KRW
  - Share of PPI to Public Investment: ('98) 3.9 % → ('07) 16.3%

(Unit: Trillion KRW)

<table>
<thead>
<tr>
<th></th>
<th>'98</th>
<th>'00</th>
<th>'02</th>
<th>'04</th>
<th>'06</th>
<th>'07</th>
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</thead>
<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>3.0</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>16.3</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>14.0</td>
</tr>
</tbody>
</table>
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>

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>Costs (Trillion KRW)</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>
</tr>
</tbody>
</table>

* Nationally Managed Projects only

III. Performance Highlights

Status of Projects (’08.6) : BTO

(Unit: Projects/Trillion KRW)

<table>
<thead>
<tr>
<th>Status of Projects</th>
<th>National Mgmt</th>
<th>Local Gov’t</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under Operation</td>
<td>22</td>
<td>10.4</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td>67</td>
<td>3.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Under Construction</td>
<td>34</td>
<td>28.2</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>1.1</td>
<td>29.3</td>
</tr>
<tr>
<td>Preparing to Construct</td>
<td>7</td>
<td>4.6</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>0.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Under Negotiation</td>
<td>17</td>
<td>11.7</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Announcing RFPs</td>
<td>3</td>
<td>1.9</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>56.8</td>
<td>177</td>
</tr>
</tbody>
</table>

Among 63 Signed Projects …
(National Mgmt Projects)

Unsolicited 25 projects

Solicited 38 projects
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**

- Cultural, Welfare, etc. (1.0 tril.)
- Military (2.4 tril.)
- Railway (2.4 tril.)
- Environmental (4.4 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
## Performance of Korean PPI

### III. Performance Highlights

#### Performance Highlights

<table>
<thead>
<tr>
<th>Status</th>
<th>Project Type</th>
<th>BTO/BOT/BOO</th>
<th>BTL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>National Projects</td>
<td>Local Projects</td>
<td></td>
</tr>
<tr>
<td>Under Operation</td>
<td></td>
<td>22</td>
<td>67</td>
<td>68</td>
</tr>
<tr>
<td>Under Construction</td>
<td></td>
<td>34</td>
<td>16</td>
<td>129</td>
</tr>
<tr>
<td>Preparing to Construct</td>
<td></td>
<td>7</td>
<td>8</td>
<td>34</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>63</td>
<td>91</td>
<td>231</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>154</td>
<td>231</td>
<td>385</td>
</tr>
</tbody>
</table>

### Number of BTO Projects by Sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Number of Projects</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>24</td>
<td>38.1</td>
</tr>
<tr>
<td>Port</td>
<td>16</td>
<td>25.4</td>
</tr>
<tr>
<td>Railway</td>
<td>6</td>
<td>9.5</td>
</tr>
<tr>
<td>Environment</td>
<td>5</td>
<td>7.9</td>
</tr>
<tr>
<td>Logistics / Others</td>
<td>12</td>
<td>19.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63</td>
<td>100</td>
</tr>
</tbody>
</table>

### Number of BTL Projects by Sectors

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Number of Projects</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
<td>128</td>
<td>55.4</td>
</tr>
<tr>
<td>Military Housing</td>
<td>23</td>
<td>9.9</td>
</tr>
<tr>
<td>Vocational Training</td>
<td>14</td>
<td>6.1</td>
</tr>
<tr>
<td>Culture</td>
<td>13</td>
<td>5.6</td>
</tr>
<tr>
<td>Environment</td>
<td>51</td>
<td>22.1</td>
</tr>
<tr>
<td>Railway</td>
<td>2</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>231</td>
<td>100</td>
</tr>
</tbody>
</table>
## Project Cost and Investment on BTO Projects (2008)

(Trillion KRW [=Billion USD])

<table>
<thead>
<tr>
<th>Number of Projects</th>
<th>Total</th>
<th>Road</th>
<th>Port</th>
<th>Railway</th>
<th>Environment</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>63</td>
<td>24</td>
<td>16</td>
<td>6</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td>43.2</td>
<td>24.9</td>
<td>6.1</td>
<td>9.2</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Average Cost</strong></td>
<td>0.7</td>
<td>1.0</td>
<td>0.4</td>
<td>1.5</td>
<td>0.24</td>
<td>0.15</td>
</tr>
<tr>
<td><strong>Least Expensive</strong></td>
<td>0.02</td>
<td>0.2</td>
<td>0.03</td>
<td>0.6</td>
<td>0.06</td>
<td>0.02</td>
</tr>
<tr>
<td><strong>Most Expensive</strong></td>
<td>3.9</td>
<td>2.5</td>
<td>2.4</td>
<td>3.9</td>
<td>0.6</td>
<td>0.3</td>
</tr>
</tbody>
</table>

## Foreign PPI Investment in Korea (Dec. 2007)

(KRW 100 million, %)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Total Invest-Cost</th>
<th>Equity of Debt (A)</th>
<th>Foreign Invest. (B)</th>
<th>Foreign Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Busan New Port 1</td>
<td>23,886</td>
<td>4,777</td>
<td>1,194</td>
<td>25.0</td>
</tr>
<tr>
<td>Yongin LRT</td>
<td>10,855</td>
<td>1,481</td>
<td>384</td>
<td>26.0</td>
</tr>
<tr>
<td>Daejeon Expressway</td>
<td>1,818</td>
<td>60</td>
<td>40</td>
<td>66.6</td>
</tr>
<tr>
<td>Busan Aquarium</td>
<td>350</td>
<td>76.5</td>
<td>76.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Debt Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Busan New Port 1</td>
<td>23,886</td>
<td>13,022</td>
<td>5,580</td>
<td>43.0</td>
</tr>
<tr>
<td>Daejeon Expressway</td>
<td>1,818</td>
<td>1,585</td>
<td>1,346</td>
<td>84.9</td>
</tr>
<tr>
<td>Busan Aquarium</td>
<td>350</td>
<td>273.5</td>
<td>273.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>
III. Performance Highlights

Rate of Return

- Market interest rate: Projects from 1998 to early 2000s have high returns as market interest rate reached at 12%~15%
- Types of Infrastructure Facilities:
  - Rails (subways) have higher interest rate compared with that of roads
  - Port have same level of interest rate as roads
- Proposal competition of Private sector

<table>
<thead>
<tr>
<th>Rate of Return</th>
<th>Less than 6%</th>
<th>6.0~6.9%</th>
<th>7.0~7.9%</th>
<th>8.0~8.9%</th>
<th>9.0~9.9%</th>
<th>More than 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>15</td>
<td>11</td>
<td>6</td>
<td>20</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Percentage</td>
<td>23.8</td>
<td>17.5</td>
<td>9.5</td>
<td>31.7</td>
<td>15.9</td>
<td>1.6</td>
</tr>
</tbody>
</table>

* Current rate of return

※ Interest Rate of the Market (Treasury Bonds for 5 years)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>7.25%</td>
<td>6.91%</td>
<td>5.38%</td>
<td>3.39%</td>
<td>5.00%</td>
<td>5.78%</td>
</tr>
</tbody>
</table>

Operating Period

- Operating Period: from 11 years to 50 years
- Operating Period According to Facility Types
  - BTO Types: Road 30 years (83%), Rail 30 years (83%), Port 50 years (56%)
  - BTL Types: School 20 years, Cultural Facilities 20 years

<table>
<thead>
<tr>
<th>Operating Period</th>
<th>11~19 years</th>
<th>20~29 years</th>
<th>30~39 years</th>
<th>40~49 years</th>
<th>50 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>5</td>
<td>10</td>
<td>37</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Percentage</td>
<td>7.9</td>
<td>15.9</td>
<td>58.7</td>
<td>3.2</td>
<td>14.3</td>
</tr>
</tbody>
</table>
Examples of BTO Projects

Incheon Airport Highway

- Length: 40.2km (6~8 lanes)
- Project Cost: KRW 1.7 trillion (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%)

Busan New Port

- Length: 9 Berth, 3.2km
- Project Cost: KRW 2.4 Trillion (Subsidy: 26%)
- Const.: '01~'09 (Operate 50yrs)
- Investors: DPW (25%), Hyundai Const. (9%), Samsung Const. (9%) etc.
  (Org. Investors: 20 Construction Co. 78%, 3 Financial Inv. 13%, Others 9%)
Examples of BTL Projects

Chungju Military Housing
- Project Cost: KRW 18.6 Billion
- Const.: '05~'07 (Operate 20yrs)
- Current Status: Opened in April '07

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

Fiscal management Rule

2% Limit Rule
- Limited to 2% of Total Estimated Gov’t Annual Expenditure
- Allowing Flexible Fiscal Management without Heavy Burden on Government Expenditure
- Estimation for Total PPI Government Expenditure is less than 1.7% of Total Estimated Government Annual Expenditure

* Estimation: 2010 (1.3%) → 2015 (1.7%) → 2020 (1.6%)

* PPI Government Expenditure: Lease Payment for BTL Projects, Land Acquisition Cost for BTO Projects, Construction Subsidy, and Minimum Revenue Guarantee (MRG)
**PPI Project Investment Direction**

① **BTO Type Investments**
- Roads: Metropolitan Areas and other Congested Area
- Rails: LRT, Urban Rail Transit and some Heavy Rails on Congested Metropolitan Areas or Areas with Large Urban Development
- Ports: Two Port System with Busan and Gwangyang and additional investment on other ports for global trades

② **BTL Type Investments**
- Maintain Appropriate Investment Level (2007 KRW 4.2 trillion)
- Achieve Efficiency and Effectiveness through various measures
  - Promote Integrated (Library, Museum, School, Youth Center) Facilities

**Improve PPI Quality**

- **Rational Selection of PPI Projects**
  - Projects which reduce government spending or implement creativity and efficiency of private sector in operating facilities
- **Strengthening Verification of Feasibility of PPI Projects**
- **Execution of Post Evaluation**
  - Service Satisfaction Survey for Users
  - Performance Evaluation
- **Transparent Management of PPI Program**
  - Avoid Preferential Treatment
- **Improvement of Application on VFM Test and Verification of Feasibility for PPI Projects**
### IV. Future of Korean PPI

#### 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.

- **Planning**
  - Public Hearing
  - Survey, etc.

- **Implementing**
  - Promotion Council
  - Project Homepage

- **Operating**
  - Monitoring Committee
  - Service Center

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### IV. 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.