



**XXIVth World
Road Congress
Mexico 2011**
Mexico City 2011.

Overview of Korean PPP & Measures Taken to Revitalize in Response to Global Finance Crisis

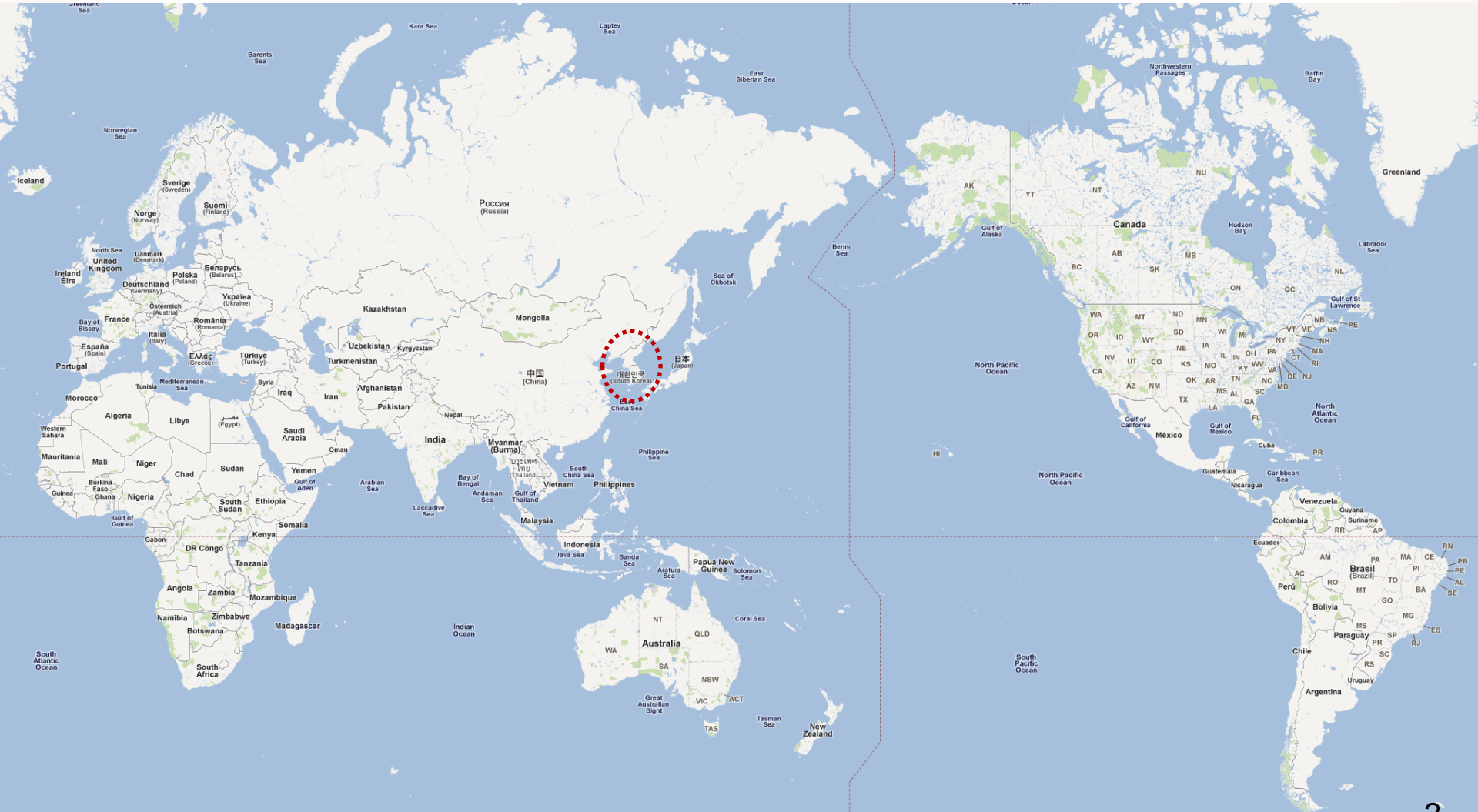
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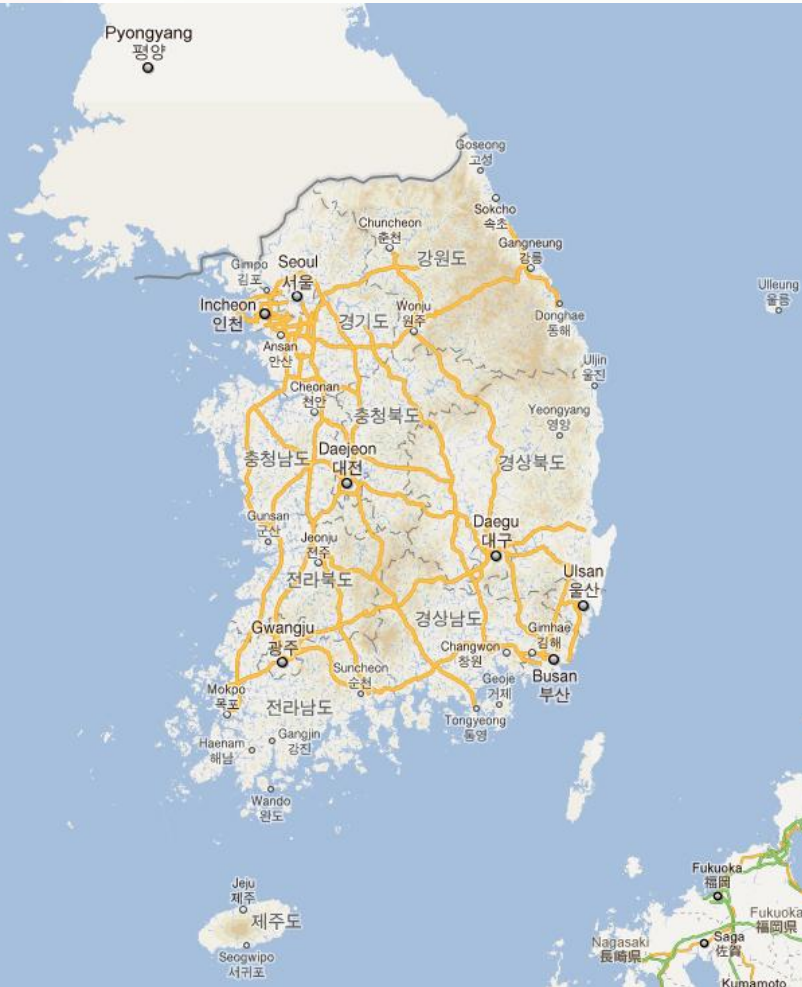
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KOREA in the world



Republic of Korea



- Population: 48.6M (2010)
Seoul Metropolitan Area : 23.8M (49%)
- Area: 100,210 km²
(5.1% of Mexico)
- Density: 485/km² (13th)
- GDP: 1.01 trillion USD (14th)
(Mexico: 1.04 trillion USD (13th))



Most Famous Sights

Mt. Seorak



Bulguksa Temple



Seokguram
(Grotto)



Gyeongbokgung Palace
(Royal Palace during 1395-1592)

Jeju Island



Major Sports Events 1

1988 24th Seoul Olympic Games



- 17 Sep – 2 Oct , 1988 (16 days)
- 159 nations, 13,304 athletes
- Rank – S.Korea: 4th , Mexico: 44th



Major Sports Events 2

2002 FIFA World Cup



- 31 May – 30 Jun , 2002 (31 days)
- Champions – Brazil
- Rank – S.Korea: 4th
Mexico: Round of 16 (11th)

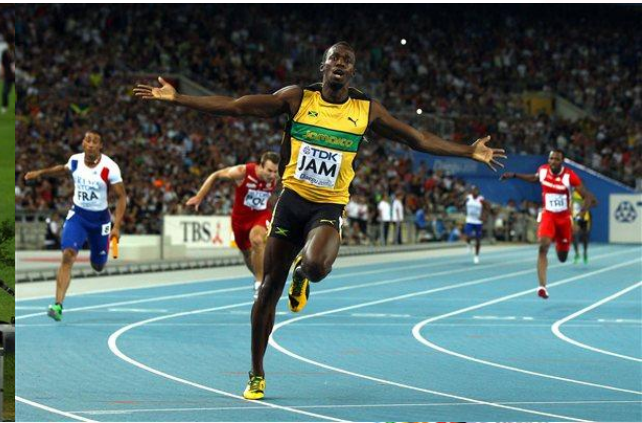


Major Sports Events 3

2011 World Championships in Athletics



- 27 Aug – 4 Sep , 2011 (9 days)
- 204 nations (1,848 athletes)
- World Record – 4 x 100m relay
(Jamaica, 37.04s)



Major Sports Events 4

2018 Pyeongchang Winter Olympic Games



- 9 – 25 Feb, 2018 (17 days)
- Won on its third consecutive bid



2015 PIARC Conference

- See this in closing ceremony.....



Famous Sports Stars

Jisung Park
(Manchester United)



Yuna Kim
(Figure Skater,
2010 Vancouver
Olympic Champion)

Taehwan Park
(Swimmer, First Asian to win
a gold medal in 400m free style in
2008 Beijing Olympic Games)



What is Privatization?

- **Privatization** is the process of transferring productive operations and assets from the public sector to the private sector.

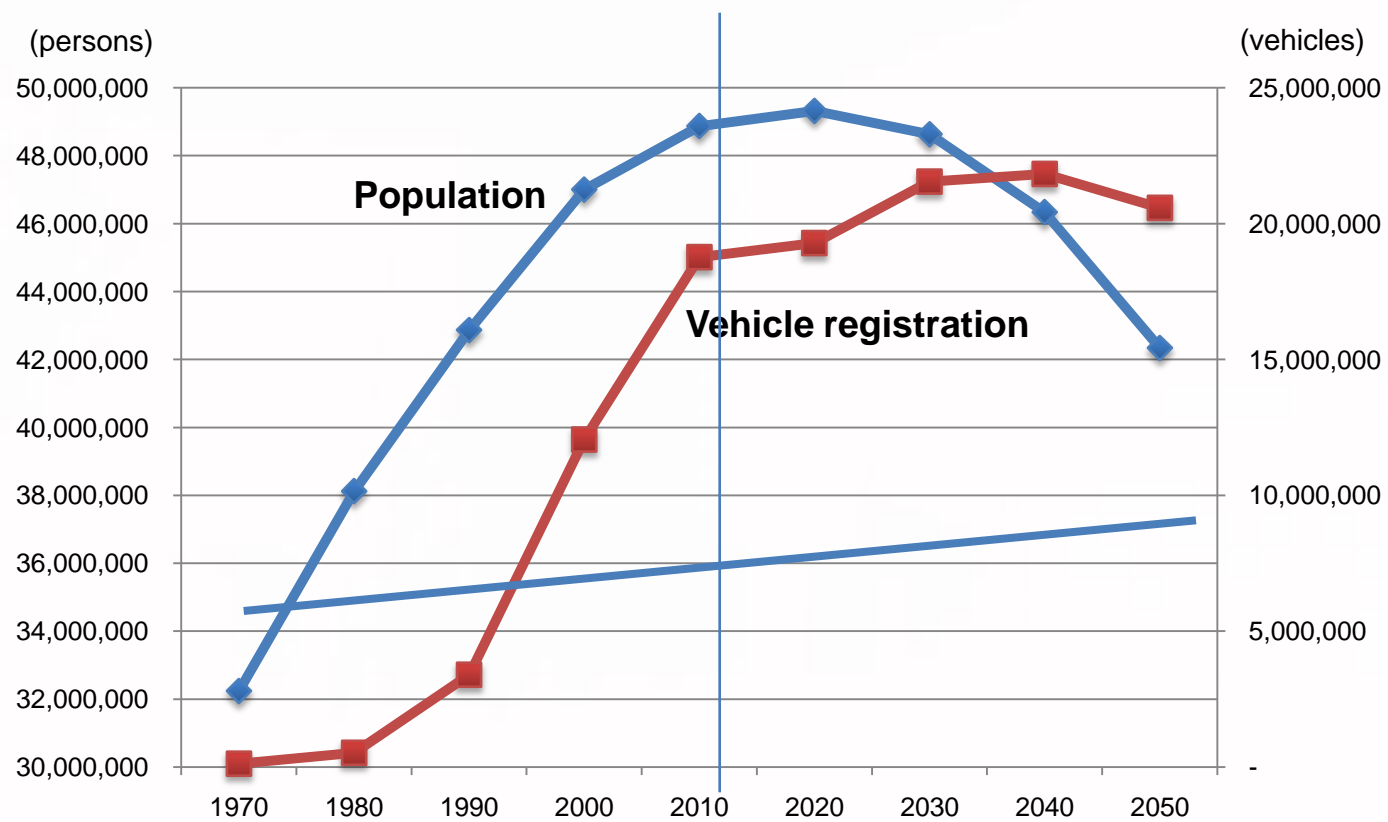


Why Privatization?

- The government is experiencing a **growing gap** between infrastructures needs and availability of fiscal funds.
- The private sectors have proven to be **more efficient** than the public sector in terms of construction cost and schedule, and operation of customer oriented service.



Trend of Population and Vehicle



<Forecasted>



Public Investment and PPPs in Korea

- PPP → introduced in Korea with the enactment of the Promotion of Private Capital into Social Overhead Capital Investment Act in 1994.
- The Act was amended to the Act on Private Participation in Infrastructure (PPI Act) in 1998, after the onset of Asian financial Crisis in 1997.
- In the amendment of the PPI Act in 2005, a service contract type (BTL) of Private participation was introduced in addition to the existing user fee type (BTO).



Trends of Public vs. Private Investments

Unit: Trillion Won, %

	'98	'00	'01	'02	'03	'04	'05	'06	'07	'08
Private	0.5	1.0	0.6	1.2	1.2	1.7	2.6	3.0	3.0	3.4
Gov't	12.7	15.2	16.0	16.0	18.4	17.4	18.3	18.4	18.4	19.6
Ratio (%)	3.9	6.6	3.4	7.5	6.6	9.8	14.2	16.3	16.3	17.3

Anyway, the ratio is increasing, in spite of the MRG.

*MRG: minimum revenue guarantee



Major Procurement Schemes

- **BTO (Build-Transfer-Operate) Scheme**
 - Both solicited and unsolicited projects are eligible
 - **Roads, seaports, and railway projects**, etc.
 - User-fees, Minimum Revenue Guarantee (MRG) for solicited projects
- **BTL (Build-Transfer-Lease) Scheme**
 - Only solicited projects are eligible
 - **School, dormitory, military housing**, etc.
 - Government payments (Lease rent + operating costs)
 - Low risk-low return



BTO Projects by Sector and Type

(As of Jun. 2008)

unit: number (trillion KRW)

Phase		Road	Rail	Port	Env't	Others	Total
National Project	Solicited	9	7	12	1	10	39 (27.7)
	Unsolicited	24	4	5	10	2	45 (29.4)
Competent Authority Project	Solicited	13	-	-	21	26	60 (2.6)
	Unsolicited	7	-	-	27	7	41 (3.4)
Total		53	11	17	59	45	185 (63.1)

Solicited: the one that competent authority identifies a project for private investment and announces a request for proposal

Unsolicited: a private company (project proponent) submits a project proposal, and then the competent authority examines and designates it as a PPP project



BTL Projects by Sector

(As of Dec. 2007)

unit: number (trillion KRW)

	Schools	Univ. Dorms	Vocational Colleges	Sewage	Military Housing
Number	138	14	3	61	37
Amount	5.3	0.9	0.1	4.4	2.2

	Communi- cation	Cultural Facilities	Medicare & Welfare	Railroads	Science Museums	Total
Number	1	24	5	3	4	290
Amount	0.2	0.7	0.2	2.4	0.2	16.6



VfM as a Measure of PPP Initiation

Conducting feasibility study and assessing VfM (Value for Money) by comparing PFI against PSC to test if PPP procurement **improves the value of tax payer's money**

- PFI (Private Finance Initiative)
- PSC (Public Sector Comparator)



Turn-Down Rate of Unsolicited Projects

		'05	'06	'07	'08 (until Sep.)	Total
BTO	Number of VFM Tests conducted	20	24	23	8	75
	Delivers value for money	12	21	16	4	53
	Does not deliver value for money	8	3	7	4	22
	Rate of project turn-down	40%	13%	30%	50%	29%



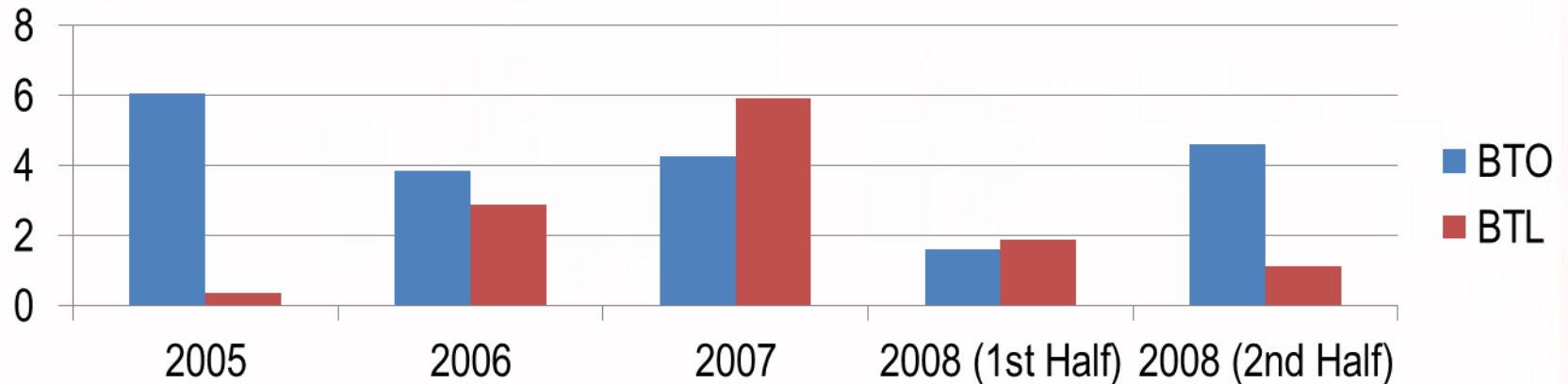
MRG Issue

- Minimum Revenue Guarantee... was a propellant factor of PPP up to early 2000s.
- Bad practices of TDF
- Incheon airport expressway, Cheonan-Nonsan expressway, Incheon airport railroad,
- Now, it is gone for unsolicited PPP projects
- Hard to find financial investigators.



2008 Global Financial Crisis

- PPP Korea was OK... but many PFs were rejected
- New revitalization issue arose....



Strategies and Initiatives for Reinvigorating PPP

- **The first PPP revitalization program:**
ease the financial crunch in February 2009, much of its focus has been on **short-term support measure**.
- **The 2nd PPP revitalization measures:**
create an enabling environment for **active private investment**, while minimizing the financial burden on the government;



The First Revitalization Initiative

1. Reducing Financial Burdens

- eased the financial burdens on concessionaires by lowering the **equity capital requirement ratio**.

Classification	Present	Revised
Build-Transfer-Operate	25%	20%
Build-Transfer-Lease	5-15%	5%



The First Revitalization Initiative

2. Avoiding Abrupt Changes in Interest Rates

- **a measure to share part of interest risks**
- For **BTO projects**, in case of a change of 0.5 percentage point or more → government can make up for the change.
- For **BTL projects**, reduced the period for readjusting the benchmark gov't bond yield from 5 years to 2 years, while replacing or redeeming 60–80% of excesses or shortages.

3. Shortening of the Project Implementation Periods



The Second Revitalization Initiative in August 2009

1. PPP Project Structure Improvement

- introduced a temporary arrangement of compensation for the concessionaire to pay back the invested funds when the project agreement is terminated due to inevitable reasons.

2. Improvement of Conditions for Funding

3. Reliability Enhancement



Closing....

PPP market grew a lot in spite of some problems.

PPP projects contribute to achieving some infra stock level domestically.

Global recent financial crisis has frozen both economy and PPP market and some measures were taken to revitalize PPP.



Summary

Measures taken are.....

- Interest rate risk sharing
- An increase in the upper limit of the infrastructure credit guarantee amount
- Provision of short-term loans by the Korea Development Bank
- Lowering of the minimum equity capital ratio
- Shortening of the procurement process
- Change in the termination calculation method, etc.



Summary and Outlook

Still facing many issues and challenges to be solved for PPP to be revitalized

→ PPP projects to be continued as an alternative means of fiscal stimulus, alleviating the fiscal burdens on the government



Thank You...

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The Second Revitalization Initiative in August 2009

A New Investment Risk Sharing Method

$$\text{Share of investment risk} = \text{private investment cost } a \times \frac{\text{Interest rate of gov't bonds } b}{1 - (1 + \text{interest rate of gov't bonds}) - \text{operation period}}$$

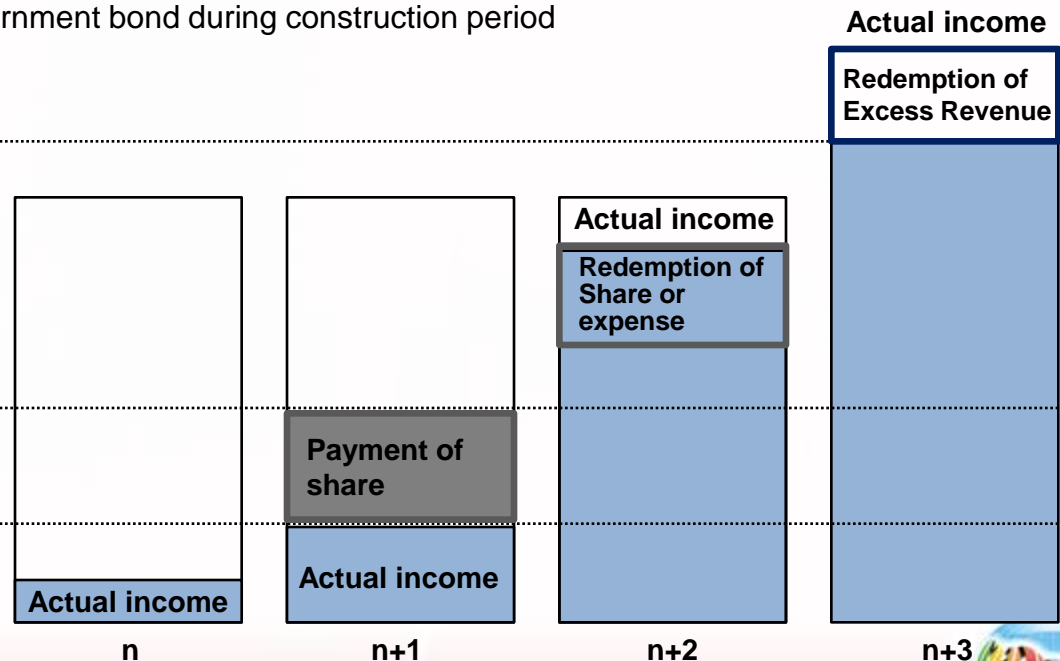
a Private investment cost = total private investment cost – construction loan interest

b Average interest rate of 5-year government bond during construction period

Estimated revenue of agreement

Amount of share of Investment risk

50% of the share of Investment risk



n = specific year when the mechanism begins to be applied. Source: Ministry of Strategy and Finance, Republic of Korea.



The Second Revitalization Initiative in August 2009

Improved Distribution of Excess Profits

- **Sets rules in the concession agreement**, project by project, the amount of profits gained from supplementary/ancillary projects in similar categories, as well as its role in the process.
- Currently, a **predetermined amount of profit goes to the competent authority** (reductions in subsidy and user fee), and the excess profit is shared between the competent authority and the concessionaire according to a 50:50 ratio.



The Second Revitalization Initiative in August 2009

Encourage Active Investment by Financial Companies

- enforcement regulations of the Financial Supervisory Service were revised.

Encourage Creation of Infrastructure Fund

- lowering the minimum capital requirement (from W10 billion to W1 billion) by the revision of the PPP Enforcement Decree

Revitalize Issue of Infrastructure Bonds

- diversified investors expected by securitizing investment funds



The Second Revitalization Initiative in August 2009

ICGF (Infrastructure Credit Guarantee Fund) **Role Enhancement**

- expansion of targets of guarantees for infrastructure bonds implies an enlargement — from infrastructure bonds issued by concessionaires to those issued by financial institutions or security companies.

Creation of Public Investment Fund

- The government seeks to create a public investment fund of W1 trillion through the Korea Development Bank and private financial resources.



The Second Revitalization Initiative in August 2009

Taxation Support

- actively being reviewed to extend the period of tax breaks and expand support for PPP projects in order to prevent increases in user fees and expand the investment base.
- The period for applying a 0% value-added tax rate for PPP projects will be extended up to 3 years (from the end of 2009 to the end of 2012).
- The period of separate taxation of interest earnings from infrastructure bonds will likewise be extended up to 3 years for the same period.

