



PPPs in Infrastructure

Day 3
Session 13.3

Korean PPP Experience

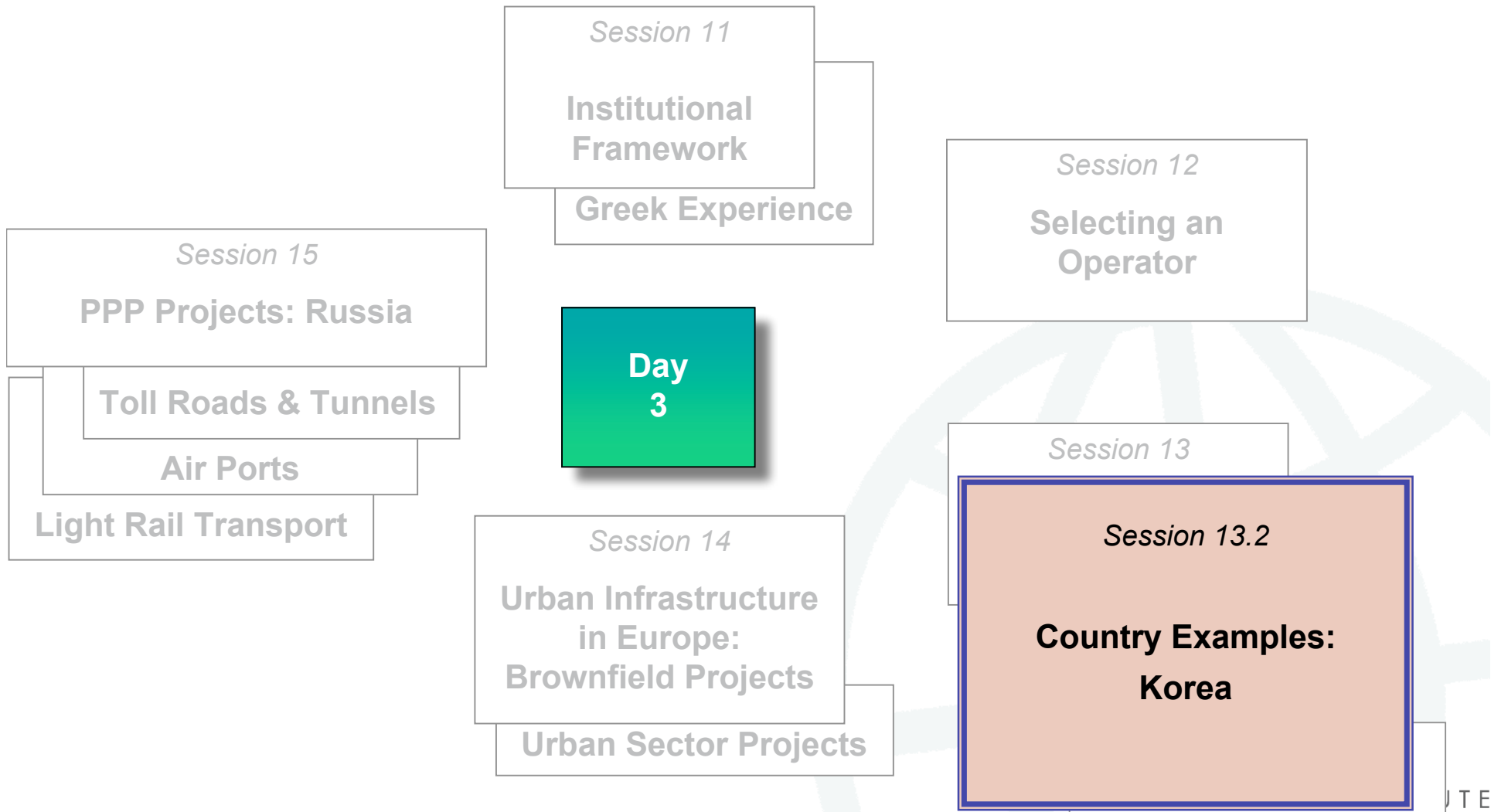
Junglim Hahm,
World Bank Institute



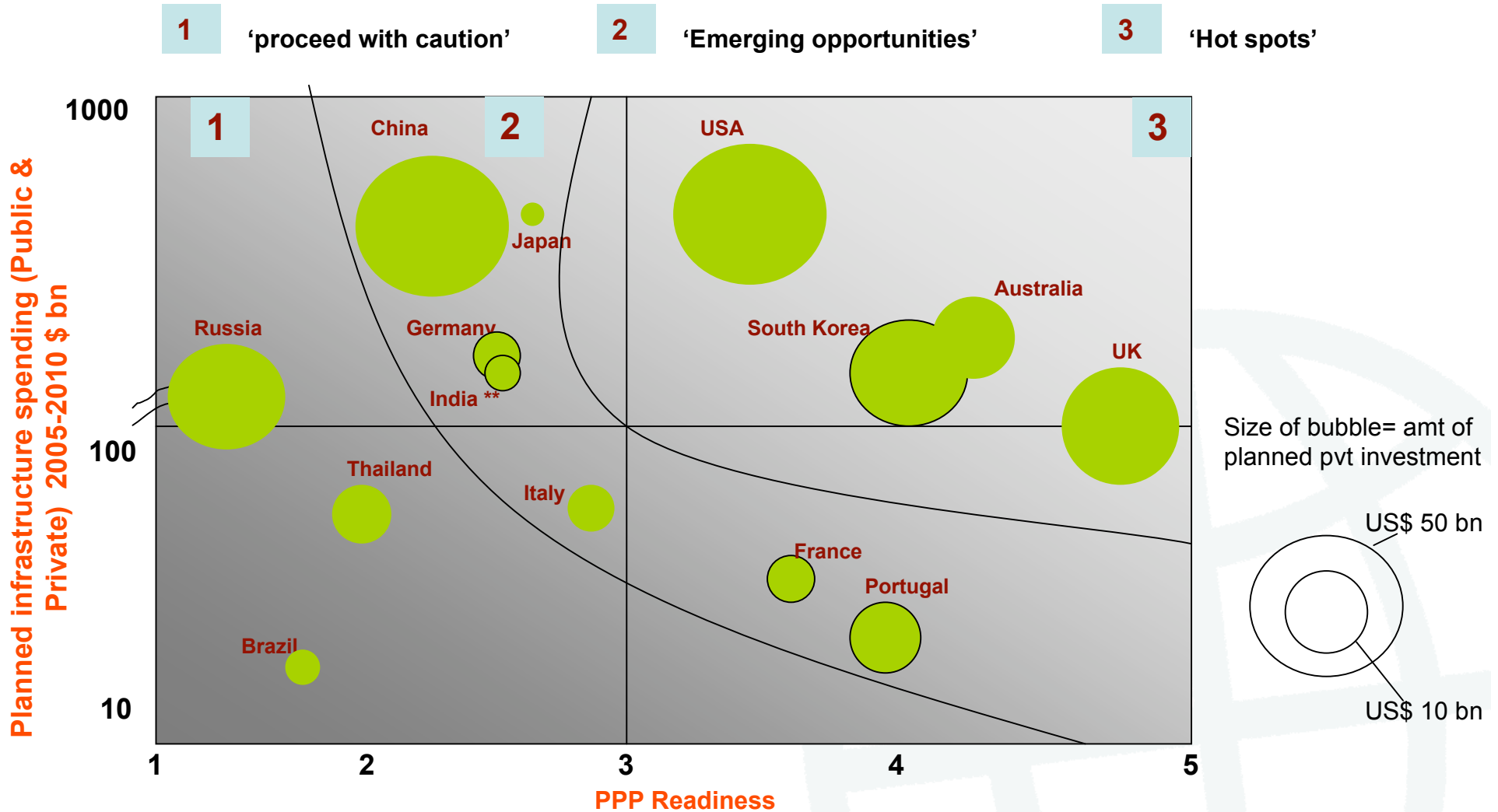
WORLD BANK INSTITUTE
Promoting knowledge and learning for a better world

Day 3

Institutions & Implementation



Country Attractiveness: PPP in Transport



Source: McKinsey Quarterly, April 2007

Number of PPP Projects in Korea in 2007

Step \ Type	BTO*		BTL**	Total
	National Projects***	Competent Authority Projects		
Under Operation	17	58	20	95
Under Construction	30	21	87	138
Preparing to construct	13	5	39	57
Under Negotiation	17	11	63	91
Under Bidding	2	2	27	31
Subtotal	79	97		
Total	176		236	412

* : as of Dec. 2007.

** : as of Aug. 2007.

*** : Large-scale projects whose total costs are 200bill. or more are monitored by the PPP Committee organized by the Ministry of Strategy and Finance.

Source: KDI, 2008

Number of PPP Projects in Korea in 1998

	National Projects	Competent Authority Projects	Total
Under Operation	0	6	6
Under Construction	5	31	36
Preparing for Construction	5	9	14
No Concessionaire Designated	35	9	44
Total	45	55	100

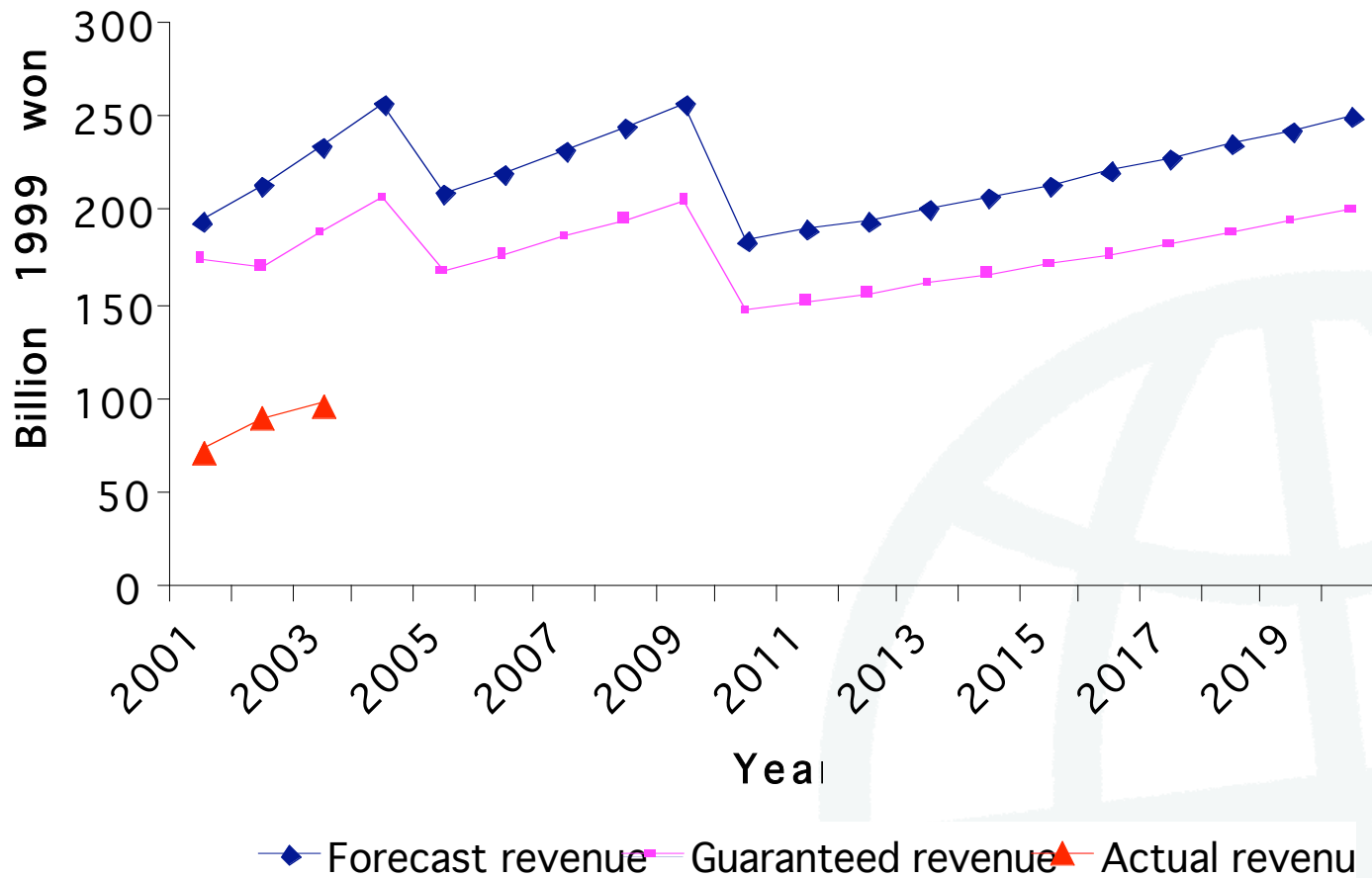
Source: Lee, 1999

What lead the difference?

1. Strong policial commitment
2. Stablized insitutional framework with strong leadership
3. Agile policy change adopting to the market
4. Flow of bankable projects
5. Increased capacity in the private sector

Minimum revenue guarantee

Incheon International Airport Highway



Source: Irwin (2004)

Number of unsolicited bids

(unit: number (Trill. KRW))

Phase		Road	Rail	Port	Env't	Others	Total
National Projects	Solicited	11	7	12	1	10	41 (28.4)
	Unsolicited	22	3	5	6	2	38 (26.7)
Competent Authority Projects	Solicited	11	-	-	22	20	53 (2.1)
	Unsolicited	6	-	-	31	7	44 (3.1)
Total		50	10	17	60	39	176 (60.3)

PPP Institutions in Korea

Ministry of Commerce,
Industry and Energy

**Ministry of Planning and
Budget**

PIMAC –
Private
Infrastructure
Investment
Management
Center (branch
of Korea
Development
Institute)

Ministry of Maritime
Affairs and Fisheries

**PIPC – Private
Investment Project
Committee**
(Chairman – Minister of
planning and Budget)

Ministry of Construction
and Transportation

- ✓ **Leading Government Ministry**
- ✓ PPP Unit
- ✓ Risk Management Unit
- ✓ PPP Nods
- ✓ PPP Board

Other line ministries

Local Governments

PPP Institutions in Korea

Ministry of Commerce,
Industry and Energy

Ministry of Planning and
Budget

PIMAC –
Private
Infrastructure
Investment
Management
Center (branch
of Korea
Development
Institute)

Ministry of Maritime
Affairs and Fisheries

**PIPC – Private
Investment Project
Committee**
(Chairman – Minister of
planning and Budget)

Ministry of Construction
and Transportation

- ✓ Leading Government Ministry
- ✓ **PPP Unit**
- ✓ Risk Management Unit
- ✓ PPP Nods
- ✓ PPP Board

Other line ministries

Local Governments

PPP Institutions in Korea

Ministry of Commerce,
Industry and Energy

Ministry of Planning and
Budget

PIMAC –
Private
Infrastructure
Investment
Management
Center (branch
of Korea
Development
Institute)

Ministry of Maritime
Affairs and Fisheries

**PIPC – Private
Investment Project
Committee**
(Chairman – Minister of
planning and Budget)

Ministry of Construction
and Transportation

- ✓ Leading Government Ministry
- ✓ PPP Unit
- ✓ Risk Management Unit
- ✓ PPP Nods
- ✓ PPP Board

Other line ministries

Local Governments

PPP Institutions in Korea

Ministry of Commerce,
Industry and Energy

Ministry of Planning and
Budget

PIMAC –
Private
Infrastructure
Investment
Management
Center (branch
of Korea
Development
Institute)

Ministry of Maritime
Affairs and Fisheries

**PIPC – Private
Investment Project
Committee**
(Chairman – Minister of
planning and Budget)

Ministry of Construction
and Transportation

- ✓ Leading Government Ministry
- ✓ PPP Unit
- ✓ Risk Management Unit
- ✓ **PPP Nods**
- ✓ PPP Board

Other line ministries

Local Governments

PPP Institutions in Korea

Ministry of Commerce,
Industry and Energy

Ministry of Planning and
Budget

PIMAC –
Private
Infrastructure
Investment
Management
Center (branch
of Korea
Development
Institute)

Ministry of Maritime
Affairs and Fisheries

**PIPC – Private
Investment Project
Committee**
(Chairman – Minister of
planning and Budget)

Ministry of Construction
and Transportation

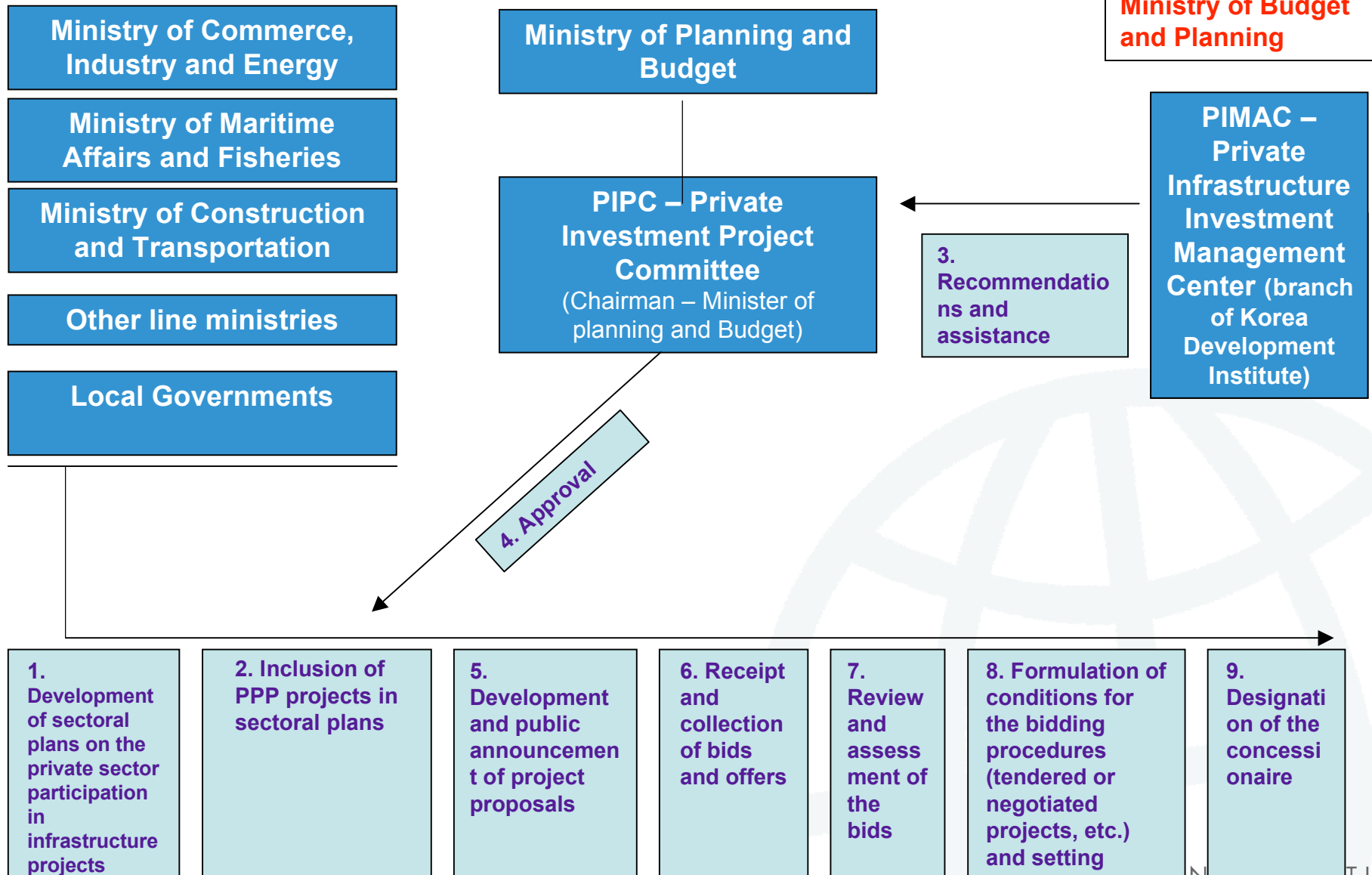
- ✓ Leading Government Ministry
- ✓ PPP Unit
- ✓ Risk Management Unit
- ✓ PPP Nods
- ✓ **PPP Board**

Other line ministries

Local Governments

PPP Procedure in Korea

Model: High specialization of the line ministries with a leading role of the Ministry of Budget and Planning



Public Private Infrastructure Management Center (PIMAC)

Location and structure

PIMAC is established by PPP law

It was first put at the government think-tank in charge of setting the national development plan

Then, was merged with the other organization in charge of public infrastructure

Currently PIMAC is located at KDI, a government funded think-tank

This structure allows competitive salary for the staffs, and also integration of public infrastructure planning and PPP infrastructure planning

PIMAC

Function

Role of PIMAC, specified at the decree includes

- Pre-feasibility study of public infrastructure
- Support for PPP legal framework
- Support for PPP regulatory framework
- Support for bidding, negotiation for PPP projects
- Promotion, research, and capacity building

PIMAC doesn't have approval power, but for some projects, PIMAC's review is required by the law including unsolicited bids, and concession agreements of national projects.

PIMAC

Staffing

When first established, the law put limit in staffing to be 30 and now it's around 80.

The staffs includes economists, finance specialists, accountants, lawyers, as well as engineers in most of the sectors covered by PPP law

The turn-over of financial specialists and lawyers are relatively higher than engineers.

PIMAC

Funding

Fixed cost is paid by the government

Part of the variables are charged to the clients

Fee chart is decided through discussion with clients and announced regularly

Fee level is lower than the service by the private sector

Legal Framework of PPP in Korea

- PPP Act
 - PPP Decree
 - Annual Plan
 - Guidelines
- This structure allows consistency and transparency
- More importantly, it allows agile policy change reflecting market condition

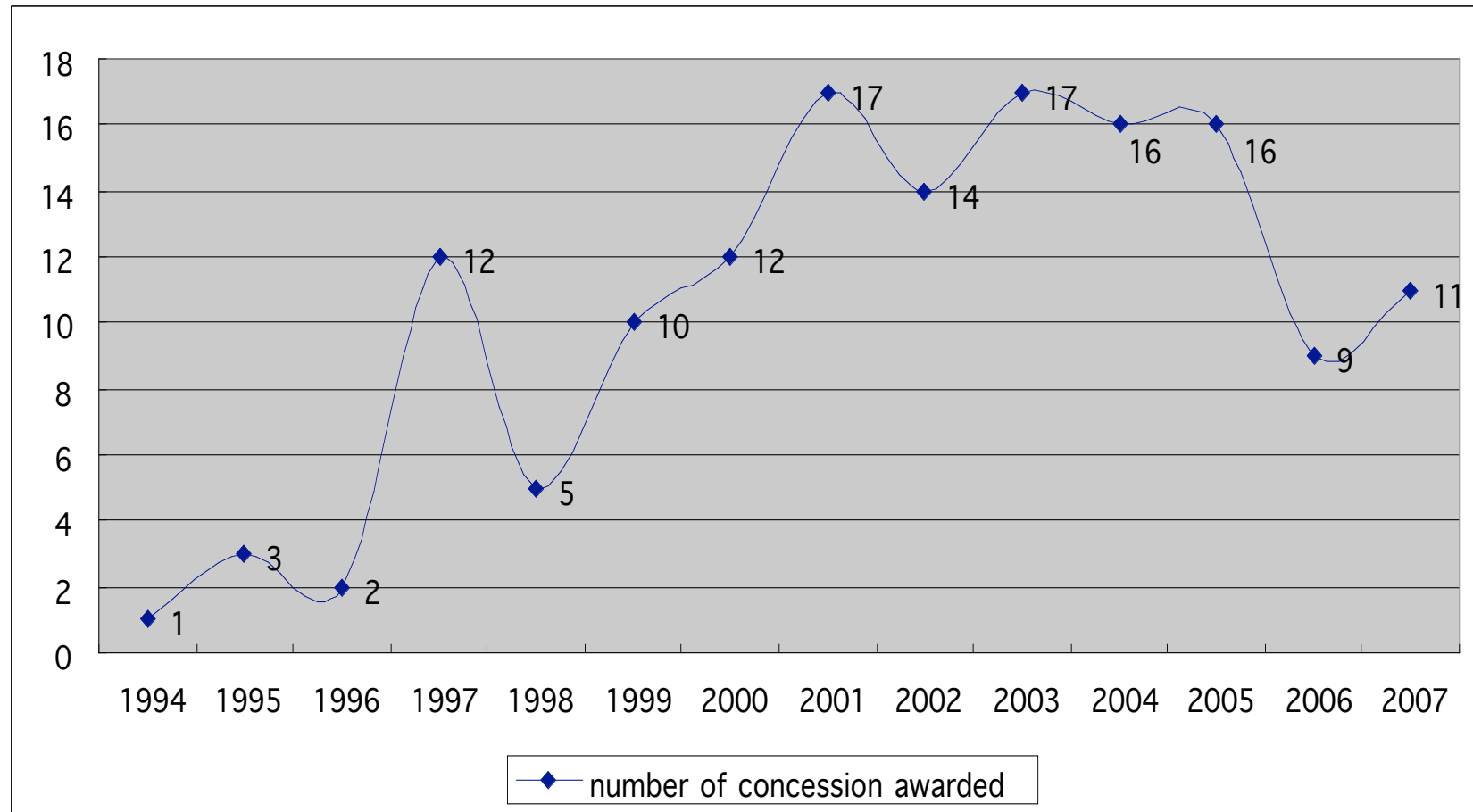
Minimum Revenue Guarantee

	Jan 1999		May 2003	January 2006	
	Solicited	Unsolicited		Solicited	Unsolicited
Period	Whole operating period		15 Years	10 Years	
Guarantee Level (Max)	90%	80%	First 5 Years 90% Next 5 Years 80% Last 5 Years 70%	First 5 Years 75% Next 5 Years 65%	Abolished
Condition	None		No MRG applied if Actual Revenue < 50% of Forecasted Revenue	Same as Left	

Policy which adopted to and lead the market

- Encouragement of competitive bidding: Mandatory rebidding in case of single bidder
- Compensation for the second preferred bidder
- Introduction of VFM test for unsolicited bids
- Incentive for equity investment of pension funds: Equity requirement 25%→20%
- Incentive for operating company's participation in SPV: Bonus points of 5% in bid evaluation
- Improvement of traffic database

Number of concessoin agreement signed (BTO)



Source: KDI, 2008

Annual investment of PPP in Korea

(unit: trillion KRW, %)

	'98	'00	'01	'02	'03	'04	'05	'06
Private Investment (A)	0.5	1.0	0.6	1.2	1.2	1.7	2.6	3.2
Gov't Investment (B)	12.7	15.2	16.0	16.0	18.4	17.4	18.3	18.4
A / B (%)	3.9	6.6	3.4	7.5	6.6	9.8	14.2	17.4

A : Public works completed

B : Annual budget in transportation and regional development sector, *The Five-year National Fiscal Management Plan*

Capacity of the private sector

- Developer, construction, financier (short-term & long-term), operating companies
- From the market lead by a few construction companies to the balanced market lead by various construction companies and pension funds
- From single financier (KDB) dominant market to competitive project finance market with secondary equity market
- Role of PPP Forum (private sector association participating in PPP)

Challenges ahead

- Performance management: renegotiation and refinancing
- Public antipathy
 - relatively low public infrastructure fee
 - early PPP projects with generous guarantee
- Independent policy audit to evaluate PPP program

Conclusion from Korean PPP experience

1. Strong political commitment
2. Stabilized insitutional framework with strong leadership
3. Agile policy change adopting to the market
4. Flow of bankable projects
5. Increased capacity in the private sector