

Embargo:

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PPP BOOSTING MEASURES ANNOUNCED AT MINISTERIAL MEETING

The government announced PPP boosting measures at the 7th Ministerial Meeting on the Economy.

Rationale

Provide safe investment opportunities for idle capital in the market.
Stimulate economic growth by effectively utilizing available capital.

PPP Boosting Measures

1. Introduce improved types of PPP

- Until now, two major types of PPP were Build-Transfer-Operate (BTO)¹, where private investors take on most of the risk, and Build-Transfer-Lease (BTL)² where the government assumes most of the risk.
- Introduce improved types of PPP, BTO-rs (Build-Transfer-Operate-risk sharing)³ and BTO-a (Build-Transfer-Operate-adjusted)⁴, where risk is more equitably shared between the government and private actors.
- Develop a total of 7 trillion won worth of BTO-rs or BTO-a PPP projects.

2. Streamline regulations

- Construction companies to be exempt from a largest shareholder status in special purpose corporations (SPC) for PPP, which will encourage large construction companies to invest in PPP projects by removing the regulatory disadvantages of being the largest shareholder.
- Streamline processes required to make PPP proposals by the private sector: easing document requirements and the minimum capital ratio requirement.⁵
- Introduce a fast-track to reduce deliberation time between the government and the private sector, which will save up to 15 months, from 40 months to 25 months, before making contracts for road construction.
- Revise all existing time-consuming processes, which will save up to around 1 year before the completion of road construction.

¹ Build-Transfer-Operate (BTO) refers to PPP project where ownership is transferred to the government and the private sector operates facilities after completing construction.

² Build-Transfer-Lease (BTL) refers to PPP project where ownership is transferred to the government upon completion of construction and the private sector is granted the right to operate them and receive government payments based on performance.

³ BTO-rs refers to PPP projects where infrastructure investment and operating cost are shared (e.g. 50:50)

⁴ BTO-a refers to PPP projects where the government reduces business risk and lowers user fees by providing a portion (e.g. 70% of construction cost) of the investment and operating cost.

⁵ From 20 percent to 15 percent for Build-Transfer-Operate PPP projects.

3. Prioritize the Private Sector and Revise the PPP Act

- A total of 1.8 trillion won⁶ worth of fiscal projects to be financed by the private sector per year.
- Pass the PPP law revision in the first half of 2015 to allow the private sector to participate in building government complexes, where government offices, community facilities, and commercial properties are located.

4. Promote Supplementary Projects and Provide Tax Incentives

- The private sector is less enthusiastic about supplementary projects because they are riskier than primary projects and because it is difficult to attain the same returns.
- Promote supplementary projects, including roadside shopping malls and parking facilities, by setting a special earnings rate and giving compensation in the event of unavoidable project termination.
- Apply special low corporate tax and VAT rates to SPCs: a corporate tax exemption for corporate reserves for debt repayment and an extension of a zero VAT rate for SPCs beyond the initial sunset date in December, 2015.

5. Reform the Minimum Revenue Guarantee (MRG) System

- MRG will be determined through negotiations between the facilities operator and appropriate government body.

6. Shorten Project Timelines

- Shorten project completion timelines by 3-18 months compared to the original schedule for PPP projects worth approximately 13 trillion won in total. Twelve unfinished projects are being targeted: 6 road development projects, 2 railway construction projects, 3 metropolitan railway construction projects, and 1 tourism complex development project.

7. Establish a Committee for Boosting PPP

- Establish a committee for boosting PPP chaired by the 2nd Vice Minister of the Ministry of Strategy and Finance to continuously monitor the implementation of the PPP Boosting Measures.
- The committee will have the following responsibilities: monitor the creation and development of new types of PPP, shorten project timelines for existing PPP projects, develop measures to resolve bottleneck issues, and improve the MRG system.

⁶ Investment allowed for BTO PPP projects, of the total of 20 trillion won annual SOC budgets