3. Challenging Case: Yongin Everline Light Rail Transit, Seoul, Republic of Korea

Photo Credit[6]

Background

Anticipating an increase in travel demand based on Yongin City's development plans, in 1996 Yongin City proposed a PPP to establish the Yongin Everline Light Rail Transit (LRT). However, the project had to be deferred to 2001 due to insufficient bids received. The PPP project was re-announced in 2001 and in 2002 received only one project proposal submission, from a consortium formed by Daelim Industrial Co. Ltd. and Bombardier Transportation. The Daelim-led consortium was selected as the preferred bidder in 2002 and subsequently established Yongin Rapid Transit Co. Ltd.

Project Structure

The PPP agreement was signed in 2004 between Yongin City and Yongin Rapid Transit Co. Ltd. The consortium was awarded a 30-year concession to design, construct, and operate the Yongin LRT, which was to cover about 18 km at an estimated investment cost of KRW 728 billion (USD 646 million). The agreement stipulated that ownership of the LRT would belong to Yongin City. Yongin City would guarantee 90 percent of a predetermined, minimum revenue (i.e. a minimum revenue guarantee or MRG) over the 30-year operation period. At the same time, the consortium was required to provide additional equity (subject to a cap) in the event of any cost overruns.

Lessons Learned

The project started construction in 2005 and was completed in 2009. In the intervening period, however, a research institute determined that the estimated passenger volume would reach only 32,000 passengers per day, due primarily to competition from other public transport options that had been built or improved during the LRT's construction period. This figure was far below the 2001 estimate of 140,000. To satisfy its 90 percent MRG, this shortfall in demand would cost Yongin City an estimated KRW 2.5 trillion (USD 2.2 billion).

To avoid this financial burden, Yongin City reportedly denied the construction completion approval, a precondition to the consortium's receipt of construction payments. Instead, it proposed to move forward with operating the line without the completion approval. This led to the cancellation of the implementation agreement and an escalation of the dispute to international arbitration in 2011. In 2012, an international arbitration court ordered Yongin City to pay a total of KRW 779 billion (USD 692 million) to Yongin Rapid Transit Co. Ltd, as compensation for the project costs accrued before the cancellation of implementation agreement and the losses arising from opportunity costs.

After the termination of the original agreement, Yongin City and the Yongin Light Rail Co. Ltd. renegotiated a new, 30-year contract, which was subsequently signed in mid-2012. Under the new arrangement, the MRG provision was removed, but the city agreed pay about USD 20 million per year in operation and management fees, in addition to assuming responsibility for the debt associated with the LRT system.

In April 2013, Yongin Everline officially opened but attracted only about 9,400 users per day in its first month of operation, and around 10,000 people per day as operation continued. This traffic volume is even lower than the significantly reduced 2011 estimate of 32,000 per day. If this continues, the LRT is expected to cost taxpayers around USD 2.7 billion over the next 30 years, including maintenance.

In September 2014, the situation improved following implementation of the Metropolitan Unity Fare system, which integrated the fare for the LRT with surrounding transit systems and improved station-to-station connection. After the integration, the ridership level of the Yongin Everline tripled in less than six months to an average of 30,000 passengers per day, close to meeting the most recent demand forecast of 32,000.[7]

This project highlights the following:

- The risk of making or accepting overly optimistic demand forecasts, as optimism bias can present significant fiscal risks for the municipality in the long run. In estimating demand, the municipality should endeavor to account for competing projects, existing or planned, such as where multiple public transit options operate along the same corridor.

[6] Minseong Kim (https://commons.wikimedia.org/wiki/File:Yongin_Everline_Livery_Animal_1.jpg), https://creativecommons.org/licenses/by-sa/4.0/legalcode

[7] Park, Jin Young, and Jinsu Mun. Korea's Railway PPP (Public-Private Partnership) Projects. Gyeonggi-do: The Korean Transport Institute, 2014; Shin, Tom. 2007. "Light Rail Transit Projects in Korea: Case Study of Two International Projects." World Services Group. Accessed February 17, 2019. https://m.worldservicesgroup.com/article.aspx?id=2097;

Sang-soo, Kwon. 2013. "Yongin Everline: New Train, Few Passengers." *Korea Joongang Daily*, June 1, 2013. Accessed February 17, 2019. http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2972459.

- The importance of investing in qualified, independent transaction advisors and selecting the project company through transparent and competitive procurement processes.
- In the event of conflict or crisis, both parties should be open to renegotiation to seek the best available solution. Although the solution may not wholly reverse the damage that has already occurred, it can prevent or greatly mitigate future damages

Busses

4. City Bus Terminal, Sheberghan, Afghanistan

Photo Credit[8]

Background
Bus passengers in Sheberghan had to wait for buses outside on the main road, sometimes for hours, without access to public toilets or other facilities. There was also no organized parking space for drop-offs and pickups, which caused traffic jams and frequent road accidents. After receiving complaints from residents about the lack of a bus station in the city, the municipality decided to construct a modern bus terminal and to enter into a PPP for its operation and management to ensure its long-term sustainability.

Project Structure
The municipality built the bus terminal and made the project site available to a local private investor. Of the total USD 230,000 investment cost, the municipality contributed USD 50,000, a United States development aid agency contributed USD 120,000, and the private partner provided the remaining USD 60,000.

In addition to the operation and management of the bus terminal, the private partner was responsible for constructing 16 municipally owned shops adjacent to the bus terminal at no cost to the municipality. In return, the private partner leases the shops from the municipality at no charge for five years, during which time it may recover its initial investment in the project, plus a reasonable return, by subleasing the premises. After the initial five-year period, the private investor will begin making lease payments to the municipality, further contributing to the sustainability of the facility.

The bus terminal was inaugurated on 13 November 2013 and the project site comprises a canopy, shops, a restaurant, modern toilets, and other facilities. The municipality plans to use the lease revenue it will receive from the private partner for reconstruction projects throughout the city.[9]

Lessons Learned
This PPP promises not only to help address traffic problems and improve the comfort of bus passengers, it also should allow the municipality to generate revenue from leasing the shops to the private partner. This project shows how blending funding and financing sources (in this case combining contributions from public, bilateral development partner, and private sources) can help de-risk projects in more fragile contexts and jurisdictions with less developed PPP markets, where it may be more difficult to attract private investment. If successful, blended finance projects can serve as important demonstration projects that may help catalyze additional private investment, including wholly privately financed PPPs.

[8] Julian-G. Albert (https://commons.wikimedia.org/wiki/File:Coach_buses_in_northern_Afghanistan.jpg), „Coach buses in northern Afghanistan“, https://creativecommons.org/licenses/by/2.0/legalcode

[9] USAID. n.d. “Sheberghan Bus Terminal Includes Two Public-Private Partnerships”. ICMA. Accessed December 3, 2019. https://icma.org/documents/sheberghan-bus-terminal-includes-two-public-private-partnerships;

Wadsam. 2013. “Modern bus station to be established in Sheberghan”. Accessed December 3, 2019. https://wadsam.com/afghan-business-news/modern-bus-station-to-be-established-in-sheberghan-343/.