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PRIVATE EQUITY FUNDS IN THE KOREAN BUS INDUSTRY: CURRENT PRACTICES AND ISSUES

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The ITF's Our Public Transport (OPT) programme promotes a social model of public transport. A social model includes organisational and employment rights for workers and requires that any expansion of public transport guarantees decent jobs.

OPT:

- works in target cities to strengthen the voices of workers in the development of new urban transport modes, including bus rapid transit (BRT), and in negotiating the transition from informal to formal work

- campaigns to improve working conditions for all public transport workers – informal transport workers in particular – through increasing their industrial power. This includes building union networks in public transport multinational corporations, developing alliances with passengers, communities and other organisations and promoting women's employment in public transport

- works to develop an alternative public transport policy – one that is built on public ownership, public financing, decent jobs and union rights for workers

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EXECUTIVE SUMMARY

Private equity funds (PEFs) have been investing actively in bus operations under quasi-public regimes, and their involvement is expected to grow further. Some argue that these PEFs could provide effective alternatives to existing private bus operators. Given that the objective of PEFs is to seek maximum financial gains in short periods of time, their involvement in bus services is also generating significant concern.

This study reviews the structural factors built into the operation of quasi-public bus systems that induce PEF investment in bus services, and looks at the specific ways in which these funds have sought to maximise profits and minimise costs, outlining key issues and policy implications.

This study finds that Cha Partners and three other PEFs are currently active in the Korean bus industry, operating a combined total fleet of roughly 3,500 vehicles.

The PEFs are mainly attracted by three factors: the guaranteed profitability and ease of expansion of bus operations under quasi-public systems; the reimbursement of actual costs by local governments; and the difficulty of limiting PEFs' entry into the bus market and regulating their operations.

By reviewing the cases of individual bus companies acquired by PEFs, this study has found that the PEFs have actively sought to maximise their gains by taking significant amounts of cash from the bus companies in dividends, raising dividend payout ratios and maintaining them at high levels, and selling off key assets, such as garages.

This study also finds that the PEFs have sought to reduce their costs by relocating and merging garages, delaying the replacement of necessary parts, cutting maintenance personnel, and reducing or cancelling services on unprofitable routes. Irrespective of how effective existing private bus companies have been, the growing investment in the bus industry by PEFs makes little contribution to the development of bus operations as a public service.

To improve this situation in the short term, local governments should establish rigorous internal criteria for paying dividends, regulate and curtail leveraged buyouts of bus companies by PEFs, enforce strict sanctions against the sale of garages, and require PEFs to publish their investment strategies and plans.

In the long run, strengthening the public operation of buses would reduce the expected return on investment, and thus lead to a reduction in the involvement of PEFs in the bus industry. From this perspective, a full and complete overhaul of the quasi-public model is necessary, along with the transition to fully public bus systems.

CONTENTS

Executive summary 2

I. Introduction 4

II. PEFs in the Korean bus industry today 5
2.1 Overview 5
2.2 PEFs in the Korean bus industry 6

III. Why PEFs invest in quasi-public bus systems 9
3.1 Guaranteed profitability, ease of expansion, and stability 9
3.2 Benefits from the system of compensation for real operating expenses 12
3.3 Difficulties of limiting entry and regulating operations by PEFs 15

IV. PEF operations and related issues 17
4.1 Wasteful practices in the interest of maximising financial gains 17
4.1 Cost-cutting practices that may compromise passenger safety and convenience 22

V. Conclusion: Summary and implications 24

I. INTRODUCTION

Since the turn to quasi-public bus systems[1] began in various municipalities in South Korea, private equity funds (PEFs) have aggressively taken over bus companies and are expected to increase their control over the Korean bus industry. The involvement of PEFs has been welcomed by some as a solution to the financial and managerial problems that have plagued private bus operators. There are, however, those who worry that PEFs' increased involvement will have a negative impact, given that they are operated with the goal of achieving high returns in short periods of time.

Another major issue of concern is the fact that sizeable government subsidies, which are used to guarantee the operation of bus systems as a public service, can end up becoming a source for the realisation of high profits for PEF investors. Part of the problem is the quasi-public model of bus operation itself, which guarantees high returns, and therefore encourages PEFs to enter the market and aggressively expand their activities. July 2024 will mark the 20th anniversary of the introduction of the quasi-public bus system in Seoul, the first in the country. It is therefore time to critically evaluate the outcomes and implications of PEF investment in the bus industry.

In this study, we investigate the reasons PEFs invest in quasi-public bus systems, which, by virtue of their structure, are favourable to the realisation of high profits. We also look at the concrete circumstances of PEF-operated bus services today and examine the specific ways in which PEFs have realised financial gains and cut costs, to the detriment of bus users. Based on this analysis, we make clear the need for the government to take responsibility for systemically developing bus systems as a public service, and warn of the danger of attempting to make improvements via PEF investment.

We conclude that while strengthened regulation of PEF operations in the bus industry is needed in the short term, ultimately the quasi-public model of bus operations itself must be fundamentally revisited because it structurally guarantees high profits for PEF investors. Investment by profit-seeking PEFs can only be reduced through overarching reform of quasi-public bus systems, transition to public ownership and operation, and the strengthening of bus systems as a public service.

1 Translators note: In South Korea the term 'quasi-public bus system' refers to a model of bus operation where the local government retains regulatory authority over bus operations and providing operating subsidies, while recognising the rights of private bus operators to operate specific routes. The most common form of quasi-public bus system in Korea is the revenue management system under which the municipality retains all revenues made through bus fares while covering operating and ownership costs and guaranteeing reasonable profits for operators. In that subsidies are guaranteed at a fixed rate irrespective of performance, this type of system is similar to gross-cost route contracts found in other countries. However, in Korea private bus operators retain their rights to operating specific routes in perpetuity rather than bidding for limited-term contracts through tendering processes. For an explanation of gross-cost route contracts see World Bank and PPIAF (2011), Urban Bus Toolkit, https://www.ppiaf.org/sites/ppiaf.org/files/documents/toolkits/UrbanBusToolkit/assets/3/3.5/35(i).html.

II

PEFs IN THE KOREAN BUS INDUSTRY TODAY

2.1 OVERVIEW

In this study, we understand a fund as a collection of capital contributions or investments from more than one investor to satisfy a certain goal or an investment-related target. Such a fund can be composed publicly or privately. Public equity funds are those that raise investments from the general public without placing restrictions on who may invest. Private equity funds (PEFs) raise investments from only a qualifying minority.

In most instances, PEFs raise money from a select group of investors who are recognised to possess professional competency and capabilities for financial investment, and who are therefore able to protect themselves against possible losses and repercussions. PEFs therefore regulate themselves, rather than submitting themselves to oversight and control by the financial authorities, as there is relatively little conflict of interest between fund managers and investors. Institutional PEFs also limit eligibility to certain institutions only, such as financial institutions, public pension funds, mutual-aid societies, special purpose vehicles, and other publicly-traded companies that meet certain criteria.

When joining a fund, PEF investors do not provide any documentation other than their consent to the agreement of collective investment. Most PEFs include special clauses in their agreements that exempt them from reporting or other publication requirements. Public equity funds require transparency in the investment activities of professional fund managers and therefore rarely earn more than market rates of return. PEFs, on the other hand, specifically aim to generate returns that are significantly higher than the market rate, and therefore guarantee autonomy and anonymity for their fund managers (KCTU Research Centre 2022: 12-14).

Figure 1 below summarises the governing structure of most PEFs, which consists of limited partners (LPs) who are simple investors and general partners (GPs) who make the investment decisions. LPs are the select few individual or institutional investors whose liabilities extend only to the extent of their investments. PEFs do not disclose the details of investments made by LPs. GPs are those partners who create and manage PEFs and are generally asset management companies and financial institutions (Kang, 2007).

FIGURE 1: Structure of Korean PEFs

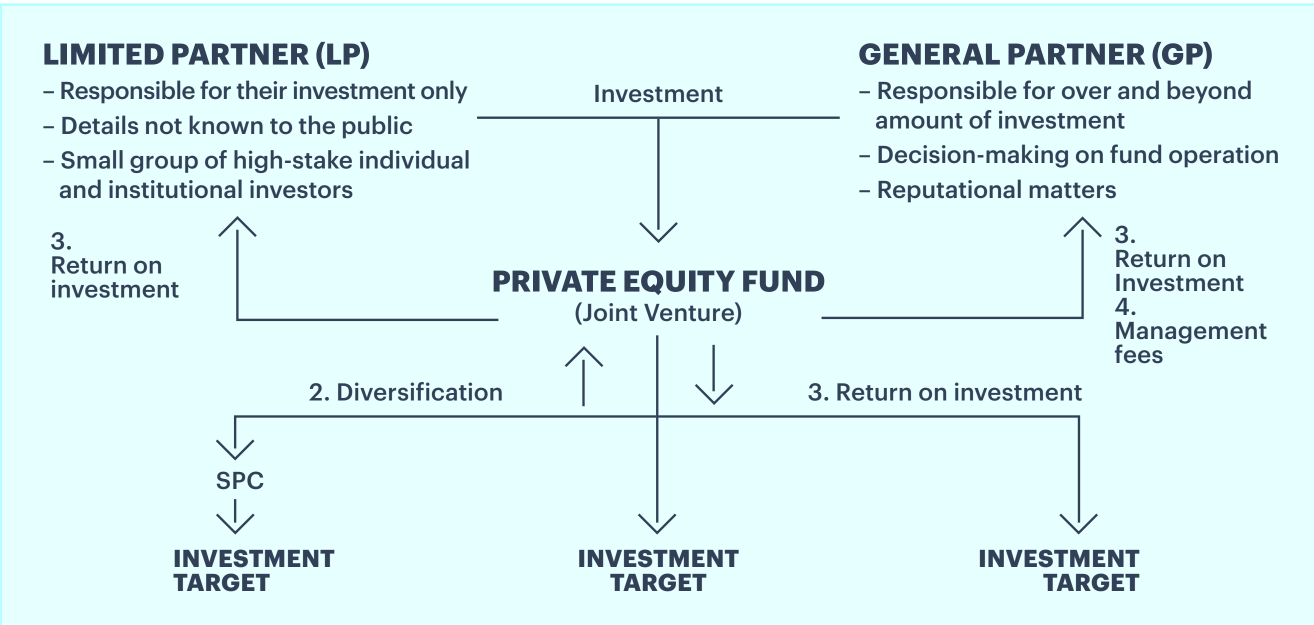
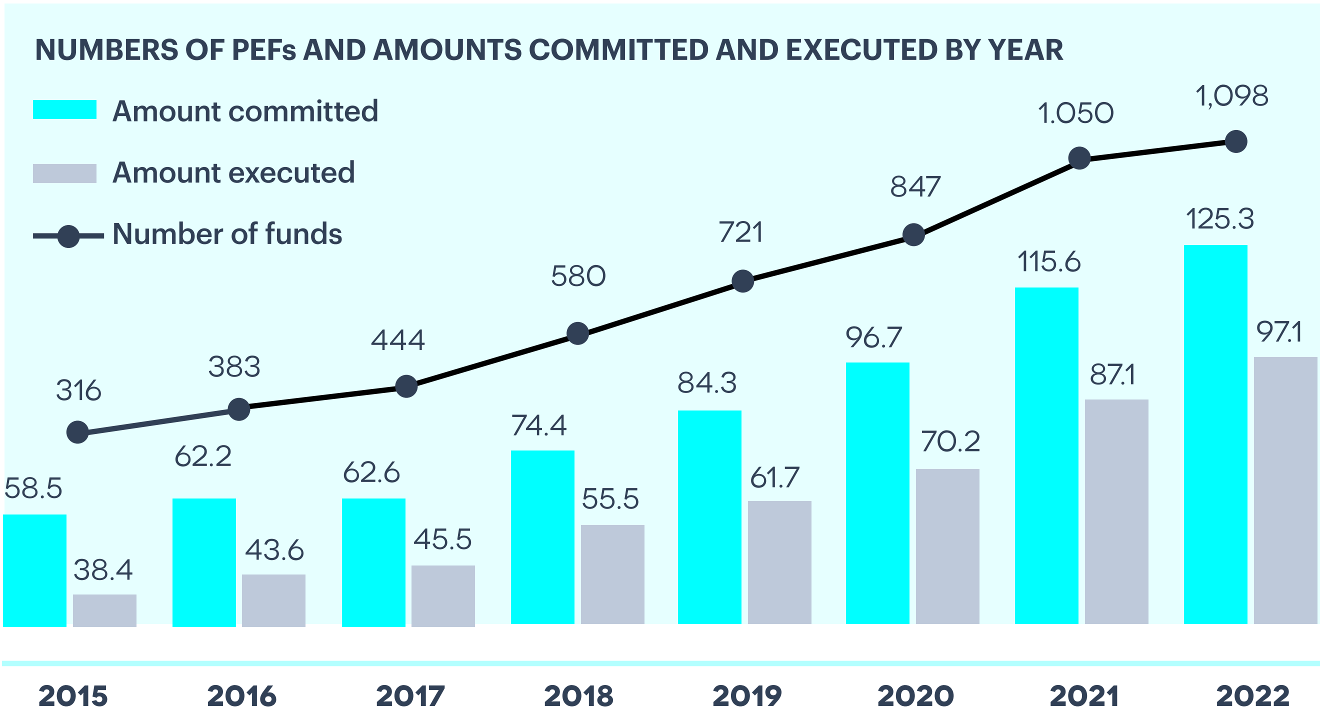


Figure 2 shows that at the end of 2022, there were 1,098 institutional PEFs in South Korea, with a combined total commitment amounting to KRW 125.3 trillion (KRW 97.1 trillion of which had been executed). Both the number of PEFs and the amount of assets under their management are on the rise[2].

FIGURE 2: Trend in the numbers of PEFs and amounts committed and executed (unit: KRW 1 trillion)



2.2 PEFs IN THE KOREAN BUS INDUSTRY

At present, there are four known PEFs active in the Korean bus industry. These funds are managed by Cha Partners, MC Partners, Greenwich PE, and Keistone Partners.[3] Cha Partners has invested the most by far, followed by MC Partners. Both companies operate PEFs that invest seriously in the bus industry.

As Table 1 shows, Cha Partners has gone on to invest in or own 20 bus operating companies, with a combined fleet of 2,000 buses nationwide under revenue management quasi-public systems.[4] Specifically, since 2019 the company has acquired seven bus companies with a total fleet of 1,035 vehicles in Seoul, 10 bus companies with a total fleet of 700 vehicles in Incheon, two bus companies with a total fleet of 141 vehicles in Daejeon, and one bus company with 70 vehicles in Jeju.

2 As reported by the Financial Supervisory Service (FSS) (2023) in "Institutional PEF Trends and Implications, 2022."

3 There have been reports in the media about Wired Partners acquiring Dongbu Express from Korea Wired Partners in 2021 for KRW 140 billion with the goal of taking over Dongbu Express' terminal assets and service charge revenues. Wired Partners is also believed to have acquired Soknisan Express and Geumho Express Tour. These cases were left out of this analysis, however, as the equity structures of Dongbu Transport and Soknisan Express have recently changed.

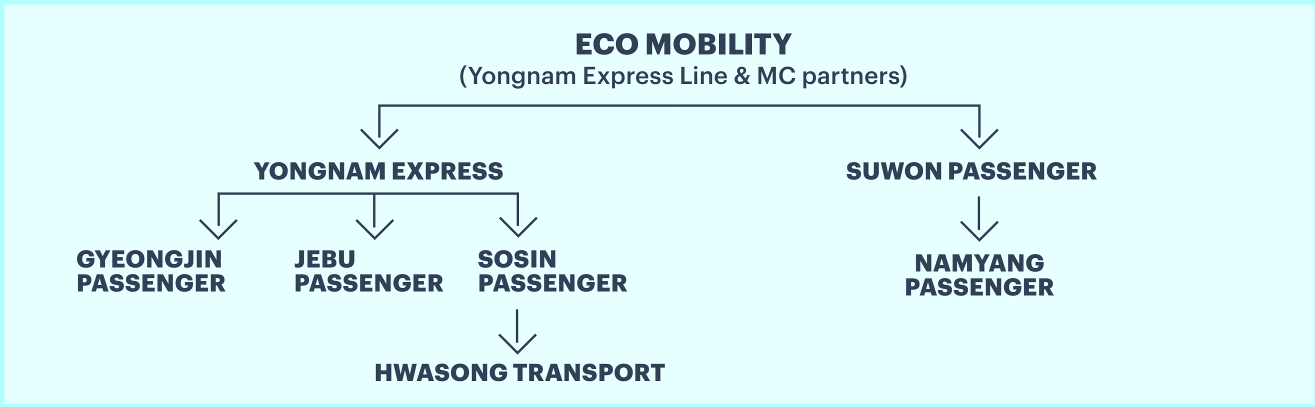
4 See the translators note at footnote 1.

TABLE 1: Bus Companies and Fleets Acquired by Cha Partners

REGION	BUS OPERATING COMPANY	NUMBER OF VEHICLES	DATE OF ACQUISITION	CHA PARTNERS' EQUITY RATIO
Seoul	Korea BRT	184	December 2019	80%
	Donga Transport	208	December 2020	100%
	Singil Transport	117	December 2021	80%
	Dowon Transport	121		84.3%
	Seonil Transport	65	August 2022	100% (through Dowon Transport)
	Seonjin Transport	295	July 2022	100%
	Seongwon Passenger	45	July 2023	100%
	Fleet size in Seoul	**1,035**		
Incheon	Myeongjin Transport	60	February 2019	100%
	Songdo Buses	61	July 2020	100%
	Ganghwa Transport (Part of Seonjin Transport)	49		100%
	Samhwan Transport	128		100%
	Incheon Smart Joint Capital Company	73		98.9%
	Seongsan Passenger	43	July 2021	100%
	Sewoon Transport	77	September 2022	100%
	Michuhol Transport	55	January 2023	
	Incheon Jemulpo Transport	54		100%
	Seonjin Passenger	100	June 2023	100%
	Fleet size in Incheon	**700**		
Daejeon	Dongin Passenger	65	December 2019	100%
	Daejeon Seunghap	76		97.1%
	Fleet size in Daejeon	**141**		
Jeju	Seogwipo Transport	70	May 2021	83.97%
20 COMPANIES WITH A COMBINED FLEET OF 1,946 VEHICLES IN 4 REGIONS				

Sources: Data Analysis, Retrieval and Transfer System (DART); websites of bus operator associations in relevant regions (for fleet size); Office of National Assembly Member Park Sang-hyeok.

FIGURE 3: Ownership Structure of Bus Companies Acquired by MC Partners
Source: Gyeongin Ilbo (2022) (reconfigured by the author).



MC Partners has acquired local bus companies across Gyeonggi-do Province since 2021, including two in Suwon (Suwon Passenger and Yongnam Express), four in Hwaseong (Gyeongjin Passenger, Namyang Passenger, Jebu Passenger, and Hwaseong Transport), and one in Bucheon (Sosin Passenger). MC Partners is a relatively new company, founded in 2019, yet it has already acquired five local bus companies for roughly KRW 130 billion in total. MC Partners has since merged these acquisitions to found the K1 Mobility Group.[5]

Note the heavy concentration of MC Partners' involvement in bus companies operating in Gyeonggi-do. Suwon Passenger, Gyeongjin Passenger, and Yongnam Express – the three companies that fall under Suwon's authority[6] - together operate 87 percent or 1,000 of the 1,200 buses in operation in the given jurisdiction. This makes Suwon the city with the highest rate of PEF investment in local bus operations, according to comments by City Councillor Guk Mi-sun during the 371st Suwon City Council Meeting.

The bus companies owned by MC Partners are governed through a complex structure of ownership, as shown in Figure 3. MC Partners and Yongnam Express Line currently co-own Eco Mobility, a holding company of sorts which brings together all MC Partners' bus operations. Eco Mobility owns controlling stakes in Yongnam Express and Suwon Passenger. In turn, these two companies own 100 percent stakes in Gyeongjin, Jebu, Sosin, and Namyang. Sosin Passenger, in turn, fully owns Hwaseong Passenger Transport. [7] All the companies together operate a combined fleet of roughly 1,400 buses.

Keistone Partners acquired KAL Limousine, which used to operate airport shuttles as part of the Hanjin Group, in 2021.[8] Greenwich PE teamed up with Cha Partners in the acquisition of Seonjin Transport. Cha Partners and MC Partners are by far the dominant private equity players in the Korean bus industry, together operating roughly 3,500 vehicles in total.

Cha Partners is expected to increase its acquisition of bus companies in municipalities where quasi-public bus systems are in operation. As the city of Incheon intends to expand quasi-public intercity buses operations in 2024, and Gyeonggi Province is planning to introduce its version of a quasi-public system under the title 'Local Bus Public Management Program' by 2027, investment by PEFs in bus services is expected to continue to increase.

5 Gyeongin Ilbo (2022), "Issue & Story: PEFs Control Bus Services in Gyeonggi," November 19.

6 Translator's note: Gyeongjin Passenger operates between Suwon and Hwaseong and is permitted in both cities.

7 Because with direct ownership PEFs may be exposed to legal constraints and issues, including mandatory auditing by independent auditors, and mandatory publication requirements, funds may prefer indirect ownership such as the example shown in the diagram.

8 Keistone Partners (2021), "Keistone Partners Signs SPA to Acquire KAL Limousine," February 2.

III

WHY PEFs INVEST IN QUASI-PUBLIC BUS SYSTEMS

3.1 GUARANTEED PROFITABILITY, EASE OF EXPANSION, AND STABILITY

Cha Partners, the PEF with by far the largest fleet under its management, has concentrated its investments exclusively in regions with quasi-public bus systems in place. The company has even created separate firms to acquire quasi-public bus routes.[9] Its practices reveal the true nature of quasi-public bus operations as essentially risk-free investment opportunities that are extremely attractive to private capital.

The lucrativeness of a private investment project depends on how well the developer can externalise its inherent risks. Private developers of large transportation projects, such as railway construction, cannot generate returns on their investment from anything other than the demand for the railways to be built. They will therefore inevitably seek to transfer the inherent volatility of the demand onto the public sector, preferring that the government guarantees a certain level of profits regardless of business performance.

Such government concessions to developers are known as availability payments (APs). They enable private investors to benefit from government subsidies for meeting certain performance-related criteria, usually laid out in the pre-existing executive agreement, regardless of how strong or poor the demand for the outcome of their investment is.[10] Quasi-public bus systems essentially guarantee these payments to private investors.

This occurs because quasi-public systems require local governments to guarantee the reimbursement of all the operating expenses that the private operator incurs. These expenses are based on a prefixed schedule of standard transport costs (STCs), and are paid as long as the operator meets the minimum criteria for the number of vehicles and routes operated, regardless of how many passengers actually use the bus service. Under this system, the amount the private operator earns from bus fares serves solely as the basis for determining how much the operator will receive in government subsidies (because subsidies are determined by subtracting fare income from transport costs) and has nothing to do with the operator's profits. This structure guarantees profits for private bus operators with a high level of security.

The amount of subsidies paid by local governments to private bus operators in regions with quasi-public systems changed dramatically during the Covid-19 pandemic. Starting in 2020, social distancing and lockdown measures drastically reduced the demand for public transport services. From 2019 to 2020 the demand for all modes of public transport dropped by nearly 30 percent. The operators of subway services in Seoul experienced a combined loss of nearly KRW 1 trillion over the three years of the pandemic.

The private operators of quasi-public bus services in Seoul were spared this fate. The plummeting demand did not impact their profits in the slightest. Because the city government guarantees reimbursement of STCs, bus operators in Seoul were able to maintain their normal annual net profit level of between KRW 60 billion and KRW 70 billion during the three years of the pandemic from 2020 to 2022 (Table 2).

9 In seeking to acquire Ganghwa Transport in Incheon, Cha Partners set up a special purpose vehicle capable of acquiring quasi-public local bus routes only. The company repeated the same step in acquiring Michuhol and Jemulpo Transport Companies as well, attempting to acquire the quasi-public local bus routes only and not the still public regional bus routes.

10 https://library.krihs.re.kr/bbs/content/2767.

TABLE 2: Net profits for all operators of quasi-public bus services in Seoul (unit: KRW 1 billion)

Year	2015	2016	2017	2018	2019	2020	2021	2022
Amount	72.8	66.2	69.7	69.4	67.3	74.7	77.2	71.6

Sources: Board of Audit and Inspection (2022); Office of City Councillor Kim Seong-jun, Seoul.

The Seoul Metropolitan Government took responsibility for compensating the city's bus operators for their loss in fares revenue due to the pandemic. As Table 3 shows, the amount of money Seoul spent on subsidising bus services nearly doubled in 2020 compared to 2019. The Seoul Government is responsible for setting the STCs for its quasi-public bus system, and set them at KRW 1.6 trillion in both 2019 and 2020.[11] The pandemic, however, cut bus operators' combined fares revenue from KRW 123.2 billion to KRW 956.4 billion during this period, a 22.3 percent decrease.This meant that the amount of subsidies the city had to provide to cover the losses nearly doubled to KRW 678.4 billion in just a year.[12]

The high profitability of quasi-public buses operations can increase both the dividend payout ratio and the amount of unappropriated retained earnings. As Table 4 shows, the dividends paid out by Seoul's bus operators more than doubled, from KRW 22.2 billion in 2015 to KRW 50.6 billion in 2022. The dividend payout ratio also rose over the same period, from 30.5 percent to 83.9 percent. The aggregate unappropriated retained earnings by these companies also grew significantly, by nearly KRW 200 billion, from KRW 282.1 billion in 2015 to almost KRW 500 billion in 2022.

TABLE 3: STCs, revenues, and subsidised losses for quasi-public bus operators in Seoul (KRW 1 billion)

Year	2019	2020	2021	2022
STC	1612.3	1654.0	1695.1	1864.0
Revenue	1232.2	956.4	950.2	1061.6
Losses to be subsidised	353.8	678.4	748.9	841.2

Sources: Office of City Councillor Kim Seong-jun, Seoul.

11 The STC schedule is updated every two years pursuant to the Metropolitan Ordinance on the Operation of Quasi-public Local Buses. In periods between STCs are revised to reflect consumer price and wage increases.

12 Seoul has since changed its position to subsidising only part of the losses, keeping the non-uncompensated portions as its debts. The Seoul Bus Operators Association has had to take out loans to cover these losses, with the city paying the interests on those loans. The reason there are disparities between the STCs, on the one hand, and the sum of revenues and subsidised losses, on the other, appears to stem from the minor differences in costs before and after settling the bills.

TABLE 4: Dividends paid out, dividend payout ratios, and unappropriated retained earnings of Seoul bus operators (unit: KRW 1 billion)

Year	2015	2016	2017	2018	2019	2020	2021	2022
Dividends	222	219	388	283	565	354	441	506
Payout ratio	30.5	33.2	55.7	40.8	83.9	47.4	57.1	70.6
Retained earnings	2,821	3,270	3,591	3,939	4,487	4,542	4,719	4,704

Sources: Board of Audit and Inspection (2022); Office of City Councillor Kim Seong-jun, Seoul.

According to the Financial Services Commission (FSC), the average dividend payout ratio of Korean companies over the five-year period from 2017 to 2021 was 26.3 percent, and the ratio actually dropped to as low as 19.14 percent in 2021.[13] Companies listed on the Korea Composite Stock Price Index (KOSPI) averaged 35.4 percent in annual dividend payout ratio in 2021, with the five-year average reaching 36.98 percent between 2017 to 2021.[14] Meanwhile, bus operators in Seoul had an astounding average dividend payout ratio of 56.98 percent during the same period, 20 percent higher than KOSPI-listed companies. This high dividend payout ratio is a strong pull factor for PEFs, which aim to maximise financial gains in a short period of time through high dividend payouts.

Quasi-public bus systems have also facilitated the expansion of PEFs through the acquisition of more assets. The system favours leveraged buyouts (LBOs). An LBO occurs when an investor seeking to acquiring a business funds much of the acquisition by providing the assets of the target business as a security collateral, or by promising to gradually write off the loans it takes out by liquidating the assets of the target business (Jang, 2021).

Quasi-public bus operations, with their accumulating retained earnings and high dividend payout ratios, present attractive opportunities for LBOs. The administrative audit run by Seoul in 2022 officially confirmed that when acquiring Korea BRT, Cha Partners leveraged the company's abundant internal liquidity. This can be seen in the excerpt from the City Council's questioning of Cha Partners' CEO Cha Jong-hyeon during the audit below. Leveraging (using loans or other third-party capital as a lever for increasing the rate of return on equity) can effectively raise the overall rate of return, enabling the investor to acquire more and more businesses with less capital in the intermediate to long run, facilitating expansion.

Lee Byeong-Yun (City Councillor):
Your financial statements show your profit to be about KRW 3 billion for the given year. Yet you paid out KRW 4.89 billion in dividends. Are these figures correct?

Cha Jong-hyeon, CEO, Cha Partners:
On behalf of the company, I can tell you that we regret the mistakes we made in the early days of our business, including the excessive amounts of dividends we paid out. Please note, however, that we became involved in the bus companies through M&A deals, and that we had to make our decisions on how much to pay out in dividends in consideration of the given financial situations of the companies we acquired at the time. Korea BRT, for example, had had a strong business record for 20 years or so preceding our acquisition. There were significant retained earnings and cash reserves in the company at the time. Upon acquiring companies like this, we pay the accumulated amounts of surpluses and cash to the sellers as part of our acquisition process.

13 Naeil Sinmun (2022), "Dividend Payout Ratios of Korean Businesses Only Half of Their Competitors' Worldwide," November 28.

14 Korea Exchange (2021), Press release on the market odds, dividend payout ratios, and stock price volatility of cash-paying corporations over the past five years, April 22.

TABLE 5: Composition of STCs

REGION	STC FOR LOCAL BUS OPERATIONS		
	CATEGORY	ITEMS	PAID ON
Transport costs	Operating costs	Labour costs (drivers) fuel costs, tyre costs	Vehicles in operation
	Operating costs	Labour costs (maintenance personnel), vehicle depreciation costs, vehicle insurance premiums, parking garage fees, repair costs, other maintenance expenses	Vehicles in operation and reserve vehicles
Sales and administrative costs	Operating costs	Labour costs (managerial personnel), labour costs of executives, other administrative expenses, appropriate profits	

Sources: Office of City Councillor Kim Seong-jun, Seoul.

The financial stability guaranteed by quasi-public bus systems is another incentive for PEFs. Local bus services are an important public good that local governments are expected to make available to the public. When it introduced the first quasi-public bus system in Korea in 2004, the Seoul Government included a provision guaranteeing bus operators' operating licenses and management rights in the quasi-public bus operation agreement, without establishing a time limit on these rights. This means that, barring a local government going bankrupt, bus operators continue to benefit from sizeable subsidies which create a high level of security. Given the profitability, stability, and ease of expansion of quasi-public bus systems, there is little reason for PEFs not to invest in these operations.

3.2 BENEFITS FROM THE SYSTEM OF COMPENSATION FOR REAL OPERATING EXPENSES

The fact that the Seoul Government reimburses the actual labour costs associated with employing drivers and actual fuel costs – costs which together make up 80 percent of the STCs – is another significant incentive for PEFs. As Table 5 shows, the STCs include transport costs, along with sale and administrative costs normally found on a company's income and losses statement. These are reconfigured according to the specificities of local bus services as three categories of operating costs and ten categories of ownership costs, including 'reasonable profit'.

The operating costs, which include the labour costs associated with employing bus drivers and the fuel costs, make up 80 percent of the total STCs (with the labour costs alone making up 70 percent). Seoul reimburses all operating expenses that local bus companies incur up to the stipulated threshold.[15] This means that the city subsidises up to 80 percent of the core cost of running a bus service.[16] As for the ownership costs, Seoul provides fixed subsidies in proportion to the number of buses in operation or operating distance, with the remaining losses or surpluses accruing to the bus company's income or losses.

15 Seoul currently reimburses expenses for up to 2.89 drivers per vehicle and up to KRW 54,875,198 per year, subject to the collective agreements between drivers and their respective employers (bus companies).

16 In other regions with semi-public bus services, local governments appropriate their budgets for subsidies to reimburse the costs of operating buses, allowing investors to generate even greater returns on their investments.

As of 2023, the 65 local bus companies across Seoul employ 20,392 persons. Of these, 87.7 percent or(17,866) are drivers whose wages are reimbursed by the Seoul Government. The current arrangement not only allows bus operators to transfer nearly 70 percent of their entire costs onto the city, but also the tangible and intangible costs of labour-management negotiations onto the city.

The fact that Seoul subsidises the cost of employing drivers and of fuel also enables PEFs to maximise their profits by cutting down on ownership costs and other indirect costs (Table 6). To put this another way, by externalising labour costs and adopting a strategy of efficient spending in ownership costs categories, PEFs can make additional gains above the guaranteed 'reasonable profits'.

TABLE 6: Breakdown of STCs in Seoul by item (unit: KRW 1)

<table>
<tr><th colspan="3">CATEGORY</th><th>2019</th><th>2020</th><th>2021</th></tr>
<tr><td rowspan="7">**Operating costs**</td><td rowspan="4">Labour costs (drivers)</td><td>Wages</td><td>399,025</td><td>421,830</td><td>434,491</td></tr>
<tr><td>Retirement benefits</td><td>33,252</td><td>35,153</td><td>36,208</td></tr>
<tr><td>Statutory benefits</td><td>45,760</td><td>49,017</td><td>51,001</td></tr>
<tr><td>Other benefits</td><td>11,236</td><td>11,236</td><td>11,292</td></tr>
<tr><td colspan="2">Fuel costs</td><td>86,497</td><td>75,425</td><td>75,425</td></tr>
<tr><td colspan="2">Tyre costs</td><td>3,806</td><td>2,922</td><td>2,937</td></tr>
<tr><td colspan="2">Subtotal</td><td>579,576</td><td>595,583</td><td>611,354</td></tr>
<tr><td rowspan="21">**Ownership costs**</td><td rowspan="4">Labour costs (maintenance personnel)</td><td>Wages</td><td>17,139</td><td>17,619</td><td>17,841</td></tr>
<tr><td>Retirement benefits</td><td>1,428</td><td>1,468</td><td>1,487</td></tr>
<tr><td>Statutory benefits</td><td>1,966</td><td>2,047</td><td>2,094</td></tr>
<tr><td>Other benefits</td><td>567</td><td>567</td><td>570</td></tr>
<tr><td rowspan="4">Labour costs (managerial personnel)</td><td>Wages</td><td>20,553</td><td>21,128</td><td>21,240</td></tr>
<tr><td>Retirement benefits</td><td>1,713</td><td>1,761</td><td>1,770</td></tr>
<tr><td>Statutory benefits</td><td>2,357</td><td>2,455</td><td>2,493</td></tr>
<tr><td>Other benefits</td><td>1,228</td><td>1,228</td><td>1,234</td></tr>
<tr><td rowspan="4">Labour costs (executives)</td><td>Wages</td><td>4,479</td><td>4,479</td><td>4,479</td></tr>
<tr><td>Retirement benefits</td><td>373</td><td>373</td><td>373</td></tr>
<tr><td>Statutory benefits</td><td>514</td><td>520</td><td>526</td></tr>
<tr><td>Other benefits</td><td>60</td><td>60</td><td>60</td></tr>
<tr><td colspan="2">Vehicle insurance premiums</td><td>11,578</td><td>10,444</td><td>10,148</td></tr>
<tr><td colspan="2">Vehicle depreciation</td><td>36,984</td><td>37,702</td><td>37,891</td></tr>
<tr><td colspan="2">Other vehicle maintenance expenses</td><td>4,323</td><td>4,337</td><td>4,686</td></tr>
<tr><td colspan="2">Other maintenance expenses</td><td>11,159</td><td>10,982</td><td>11,037</td></tr>
<tr><td colspan="2">Garage fees</td><td>5,724</td><td>6,263</td><td>6,780</td></tr>
<tr><td colspan="2">Repair costs</td><td>8,451</td><td>7,217</td><td>7,253</td></tr>
<tr><td rowspan="2">Reasonable profits</td><td>Basic profits</td><td>8,665</td><td>8,500</td><td>8,500</td></tr>
<tr><td>Performance incentives</td><td>8,665</td><td>8,500</td><td>8,500</td></tr>
<tr><td colspan="2">Subtotal</td><td>147,926</td><td>147,650</td><td>148,962</td></tr>
<tr><td colspan="3">**Total STC**</td><td>727,502</td><td>743,233</td><td>760,316</td></tr>
</table>

Sources: Seoul Metropolitan Government.

3.3 DIFFICULTIES OF LIMITING ENTRY AND REGULATING OPERATIONS BY PEFs

Since Cha Partners entered the local bus industry in 2019, demand has been rising for more effective regulatory control, and a response to the practices of PEFs that compromise the financial soundness of bus operations, including post-acquisition increases in dividend payout ratios and debt ratios. The Seoul Government responded by establishing the Criteria for Private Capital Investment in Local Bus Services (Table 7) on 18 May 2022, authorising only private investors that meet certain criteria to acquire local bus companies. These criteria include having been in operation for at least two years, managing at least KRW 100 billion in assets, employing at least three fund managers, and being capable of financing the necessary costs with revenue alone.

To address financially corrupt practices by PEFs running bus services, including excessive dividends and issuance of corporate bonds, Seoul has also revised and updated its manual for evaluating local bus performance, effective as of 2022. The following three standards apply under the new manual:

- Bus companies with capital adequacy ratios of less than 50 percent and dividend payout ratios exceeding 100 percent are docked a minimum of 10 points and a maximum of 50 points with the penalty increasing in stages.
- Bus companies whose interest cost rises by at least 50 percent compared to the previous year due to issuing new corporate bonds are docked between 10 and 50 points progressively.
- Investors that resell companies within five years of acquisition are penalised when operating new companies, starting from the point of resale for up to five years from the initial acquisition.

The establishment of these detailed criteria has nonetheless failed to effectively prevent PEFs from making headway into the bus industry (Kim, 2023). Strengthened regulation through the revised evaluation manual may lead to a reduction or loss of the performance incentives but it hardly exerts decisive influence on the management strategies of PEFs which plan to exit the market.[17] As PEFs are subject to the Financial Investment and Capital Markets Act, a national statute enforced by the national government, local governments fundamentally lack statutory control over these funds.

17 Performance incentives, which make up 60 percent of "appropriate profits," are determined based on evaluation results, with a given bus company receiving the amount corresponding to the rank it is given according to the evaluation manual (with a total possible score of 1,000 points). Low-ranked companies (those in the bottom 25 among the 65 companies evaluated) are denied any performance incentives, while those ranked highly receive higher amounts.

TABLE 7: Seoul's criteria for authorising private investors to invest in local bus operations

1. **Experience: Korean asset management companies that have been managing funds for at least two years since their establishment**
2. **Company size: Companies that currently manage at least KRW 100 billion in assets**
3. **Personnel size: Companies that employ least three experienced fund managers with at least five years of fund-managing experience**
4. **Finances: Companies that are capable of paying for the necessary costs and expenses from their revenues alone**
5. **Risk management: Companies with effective risk management systems for handling possible lawsuits, risks, compliance issues, etc.**
6. **Disqualifying factors:**

- Companies that have violated the Financial Investment Services and Capital Markets Act and other such applicable laws and/or that have yet to comply with correction orders from the authorities;
- Companies that have received institutional warnings or more severe penalties from the competent authorities in the last five years for violating applicable laws.

7. **Fund types: Institutional PEFs**
8. **Fund composition:**

- Each eligible fund must be raised exclusively from investors who are qualified, pursuant to Article 249-11 of the Financial Investment Services and Capital Markets Act, to invest in institutional PEFs, regardless of the modality of investment concerned (equity investment, loan-type fund, etc.).

IV

PEF OPERATIONS AND RELATED ISSUES

4.1 WASTEFUL PRACTICES IN THE INTEREST OF MAXIMISING FINANCIAL GAINS

Having entered the bus industry, PEFs are compelled to guarantee the highest possible returns for their investors by ensuring active payout of dividends, maintaining high dividend payout ratios, and liquidating or selling key assets, such as garages. Table 8 provides a summary of the dividends that Cha Partners paid out to its investors up to and including 2022. The figures in bold are the dividend amounts and payout ratios after Cha Partners acquired the respective bus company.

At first glance, the figures may not seem to differ dramatically from the pre-acquisition years. An analysis of each company, however, reveals the depths and lengths Cha Partners has gone to towards maximising the amounts of dividends it could pay out.

Note that the dividend payout ratio of Korea BRT skyrocketed to 204 percent in 2019, the year in which Cha Partners acquired the bus company. The ratio then fell in the next two years , but remained high, at 129 percent in 2020 and 102 percent in 2021. The dramatic rise in Korea BRT's dividend payout ratio mainly reflects the KRW 4.5 billion that Cha Partners paid itself in dividends in the first year after acquisition for the very purpose of paying for the acquisition itself.

TABLE 8: Dividend payouts by Seoul bus companies owned by Cha Partners (unit: KRW 1 million; %)

		2018	2019	2020	2021	2022
Korea BRT (Dec. 2019)	Amount	0	**4,500**	**3,500**	**3,140**	**1,340**
	Ratio	0	**204**	**129**	**102**	**44**
Donga Trans. (Dec. 2020)	Amount	887	6,600	**3,054**	**0**	**2,500**
	Ratio	67.6	139.3	**112.9**	**0**	**101.1**
Singil Trans. (Dec. 2021)	Amount	-	-	-	**0**	**1,275**
	Ratio	-	-	-	**0**	**100.8**
Dowon Trans. (Dec. 2021)	Amount	1,000	500	10,000	**1,570**	**1,950**
	Ratio	103.4	38.6	86.6	**101.3**	**99.3**
Seonil Trans. (Aug. 2022)	Amount	-	410	205	205	**0**
	Ratio	-	63.4	33.3	57.1	**0**
Seonjin Trans. (Jul. 2022)	Amount	4,615	2,622	0	0	**7,702**
	Ratio	201	80.6	0	0	**99.3**

Singil Transport, acquired by Cha Partners in December 2021, saw its dividend payout ratio jump to 100.8 percent in 2022. As an excerpt from the 2022 audit report on the company shows in Figure 4, Cha Partners converted KRW 22.9 billion of Singil's capital surplus of KRW 27.5 billion into retained earnings so that it could pay itself dividends. In principle, capital surpluses cannot be paid out in dividends . However, if the sum of the company's capital reserve and earned surplus reserve – both categories of capital surplus – is greater than 150 percent of the company's capital stock, the South Korean Commercial Act makes it possible to convert the portion above 150 precent into retained earnings through a decision of the shareholders at the Annual General Meeting. Cha Partners, in other words, took active accounting measures to maximise the dividends it could pay itself, a matter that did not escape the attention of City Councillor Lim Gyu-ho, who pointed it out during the administrative audit of the Seoul Government's Transport Committee in 2023.[18]

FIGURE 4: Singil Transport audit report, 2022 (unit: 1 share; KRW 1,000)

(2) Changes in capital and capital surpluses

The changes in the capital and capital surpluses, as reported in the current and previous fiscal years, are summarised below.

SUBJECT	NUMBER OF SHARES	CAPITAL	CAPITAL SURPLUS
Start of previous FY	1	10	n/a
Number of shares issued	306,249	3,062,490	27,562,410
End of previous FY	306,250	3,062,500	27,562,410
Start of current FY	306,250	3,062,500	27,562,410
Cost of issuing shares	n/a	n/a	(48,373)
Appropriated as retained earnings	n/a	n/a	(22,968,660)
End of current FY	306,250	3,062,500	4,545,377

18 Councillor Lim is recorded as having said, "Singil Transport appropriated most of its capital surplus of KRW 27.5 billion as retained earnings. The key difference is that retained earnings can instantly be paid out as dividends, whereas capital surpluses cannot. That is what the Commercial Act allows. Cha Partners therefore appropriates much of the company's capital surplus as retained earnings."

Dowon Transport, another bus company acquired by Cha Partners in 2021, paid KRW 29.7 billion into its own capital so that Cha Partners could finance its acquisition of Seonil Transport a year later. It has been pointed out that Dowon dramatically increased the dividends it paid out by issuing high-dividend preferred shares in the process.[19]

An audit report on the company states that Type-1 and Type-2 preferred stocks were to pay dividends at rates of 4.4 percent and 10.0 percent per annum, respectively. As Figure 5 shows, Dowon Transport therefore ended up paying KRW 840 million out in dividends for preferred stocks in 2022, which Cha Partners used to acquire Seonil Transport, which became a subsidiary of Dowon.

FIGURE 5: Dowon Transport audit report, 2022 (unit: KRW 1)

The income and loss per share, as of the end of the current and previous fiscal years, are as shown below.

SUBJECT	CURRENT FY	PREVIOUS FY
Net profit	KRW 1,964,128,471	KRW 1,549,493,339
Dividends on preferred stocks	KRW 841,797,000	n/a
Net profit after dividends on preferred stocks	KRW 1,122,331,471	KRW 1,549,493,339
Number of common shares in circulation	116,397	114,616
Income or loss per share	KRW 9,642	KRW 13,519

19 Below is a transcription of the dialogue between Councillor Lim Gyu-ho and the CEO of Cha Partners.

Lim: Cha Partners came to own Dowon Transport last year, in 2022, right? Cha Partners suddenly raised KRW 30 billion through paid-in increase in capital and then acquired Seonil Transport. You had preferred shares with a dividend ratio of at least 10 percent issued, instead of common shares that carry with them voting rights.

CEO of Cha Partners: Yes, we had the capital of Dowon Transport increased in order to acquire Seonil Transport. We did issue preferred shares.

Finally, Seonjin Transport, acquired in Seoul by Cha Partners in 2022, raised KRW 11.7 billion in additional capital that year by selling its properties (land and buildings). This was on top of the operating profit it generated (Figure 6). Of this, KRW 730 million was used to pay dividends to shareholders (Nam, 2023). Seonjin was able to turn a profit from its business, thanks to subsidies, but paid out even more in dividends by selling off its tangible assets.

Table 9 provides a summary of the dividends paid out by the bus companies Incheon Cha Partners had acquired,as of 2022. The figures in bold show dividend tendencies after the companies were acquired by Cha Partners. The dividend payout ratios of these companies in Incheon increased significantly more rapidly than the ratios of the companies in Seoul. Specifically, Songdo Bus Company saw its dividend payout ratio soar by 646 percent in 2020, with Cha Partners claiming KRW 5.4 billion in dividends in the same year it acquired the company. Samhwan Transport also saw its dividend payout ratio jump by 144.3 percent in just a year after Cha Partners acquired it. Ganghwa Transport's dividend payout ratio similarly jumped, by 70 percent in 2020 and again by 277 percent in 2021.

FIGURE 6: Cash flows stated in Seongjin Transport audit report, 2022 (unit: KRW 1)

II. Cash flows from investment activities		KRW 8,089,090,521
1. Cash inflows	KRW 19,838,345,273	
From disposal of short-term financial assets	KRW 7,000,000,000	
From disposal of real estate	KRW 11,718,418,000	
From disposal of vehicle transport equipment	KRW 52,727,273	
From national subsidies	KRW 1,067,200,000	
From decrease in security deposits	n/a	

TABLE 9:
Dividend payouts by Incheon bus companies owned by Cha Partners (unit: KRW 1 million; %)

		2018	2019	2020	2021	2022
Myeongjin Trans. (Dec. 2019)	Amount	n/a	**0**	**0**	**0**	**0**
	Ratio	n/a	**0**	**0**	**0**	**0**
Songdo Bus (Jul. 2020)	Amount	0	1,000	**5,476**	**800**	**260**
	Ratio	0	28.7	**646**	**105**	**31.7**
Ganghwa Trans. (Jul. 2020)	Amount	n/a	0	**234**	**1,010**	**1,250**
	Ratio	n/a	0	**70**	**277**	**120**
Samhwan Trans. (Jul. 2020)	Amount	0	0	**0**	**1,340**	**800**
	Ratio	0	0	**0**	**144.3**	**39.3**
Sewoon Trans. (Sep. 2022)	Amount	n/a	300	650	462	**626**
	Ratio	n/a	2,907	244	142	**166**

Instead of paying out dividends, Myeongjin Transport issued a private placement of non-guaranteed bearer bonds in 2019, which resulted in KRW 300 million to KRW 500 million annual interest costs for the subsequent three years of 2020 to 2022 as can be seen in Table 10 below.[20] This is reminiscent of the exorbitant profits that Macquarie reaped by providing high-interest loans, in the form of subordinated debts, to the developer of Phase 1 of Seoul Metro Line 9, even as Macquarie itself was a major shareholder of the very same developer.

In Daejeon, Dongin Passenger and Daejeon Seunghap, subsidiaries of the same company, paid dividends despite having deficits, as Table 11 shows. In 2020, the two companies recorded deficits of KRW 296 million and KRW 424 million respectively, yet each paid KRW 700 million in dividends, generating the unheard-of negative dividend payout ratios of -165 percent and -350 percent respectively In Jeju, Seogwipo Transport was found by an independent auditor to have engaged in 'inappropriate audit' practices for three years in a row, starting in 2020, for failing to disclose all the required documents after its acquisition by Cha Partners.

TABLE 10:
Myeongjin Transport non-guarantee bearer bonds issue, 2019

TYPE	DATE ISSUED	DATE OF EXPIRY	INTEREST RATE	AS OF YEAR-END
2nd round of non-guaranteed private bearer bonds	23 April 2019	27 December 2024	7.5%	2,900,000,000
3rd round of non-guaranteed private bearer bonds	27 December 2019	27 December 2024	20%	400,000,000
Special stakeholder	Account	2022	2021	2020
Cha Partners Public Mobility No. 1 (shares)	Interest cost	495,513,699	303,335,785	460,086,684

TABLE 11:
Dividend payouts by bus companies owned by Cha Partners in Daejeon and Jeju (unit: KRW 1 million; %)

		2018	2019	2020	2021	2022
Dongin Passenger (Feb. 2019)	Amount	N/A	0	700	0	0
	Ratio	N/A	0	-165	0	0
Daejeon Seunghap (Feb. 2019)	Amount	N/A	0	729	0	0
	Ratio	N/A	0	-350	0	0
Seogwipo Trans. (May 2021)	Amount (million KRW)	0	0	0	0	0
	Ratio	0	0	0	0	0

20 These are a type of corporate bond that a company issues to raise capital on the capital market instead of taking loans out of a bank. Bondholders have the option of either holding their bonds until the expiry date in return for interest or selling their bonds to other parties on the market to recoup their investment. Bearer bonds can be placed either privately or publicly. Public placements are done through a public offering while private placements take place through the intermediation of a broker who helps find private investors.

PEFs must exit the market once the fund in operation expires. When they do this, it is likely they will attempt to sell remaining assets, such as garages, to maximise cash returns on their investment. As the PEFs in the Korean bus industry have not been involved in the field for long, there are still only a few examples of garage sales, but the number of cases is starting to grow.

MC Partners, for example, sold off the Suwon Passenger garage in December 2021. This raised KRW 36.7 billion in cash, KRW 24 billion of which was spent to repay the loans it had taken out to acquire Suwon Passenger. MC Partners has also made known its plans to successively sell off the garages of other bus companies it owns. The investment proposals of both Cha Partners and Greenwich PE suggest selling all the garages as part of the exit process and using the money for either dividend payouts or the acquisition of additional businesses.[21]

In summary, the PEFs that have acquired bus companies in South Korea have dramatically raised the dividend payout ratios of these companies, used aggressive and strategic measures to secure additional funds for dividend payouts, and are selling off garages in an attempt to maximise short-term profits. These actions are natural given the nature of PEFs, and it can be expected that the more they enter the bus industry, the worse the situation will become. Government subsidies that ought to be used to support the operation of buses as a public service and protect mobility rights for the public are being used as a main source for the realisation of financial gains for PEF investors.

4.2 COST-CUTTING PRACTICES THAT MAY COMPROMISE PASSENGER SAFETY AND CONVENIENCE

Together with activities aimed at increasing financial gains, cost-cutting is equally important to PEF strategies for maximising profits.

Following their acquisition of bus companies, PEFs seek to cut costs in several ways. For example, following its 2019 acquisition of Myeongjin Transport, Cha Partners relocated the company's garage to Gajwa-dong in 2021 for cost-saving purposes. Cha Partners had received a permit from the city of Incheon to rent maintenance and car-washing facilities for two other bus companies at this new location. The maintenance facility at the new garage, however, is incapable of servicing Myeongjin's vehicles because of its size and other problems. As a result, there is growing concern that Myeongjin's vehicles are not being properly maintained. Cha Partners is also rumoured to be changing tyres and other key parts less frequently, while also reducing maintenance personnel.[22],[23]

As previously shown, local governments subsidise the indirect costs of bus companies at fixed rates. This has prompted PEFs to minimise their costs by merging garages and reducing the use of replacement parts and maintenance personnel. These cost-cutting measures are taken in the name of consolidation, but they compromise passenger safety. While traditional bus companies have used such strategies to a certain extent, PEFs, which must guarantee high returns for their investors, are likely to employ them more aggressively.

Bus companies in Gyeonggi-do that have been acquired by PEFs are also increasingly displaying cherry-picking behaviour, operating lucrative routes while reducing

21 Hankyoreh (2023), "[Exclusive] Why are PEFs buying up bus companies? Assets to sell or servicing passengers?" June 21.

22 Sisagihoek Chang (2023), "Republic of Korea Incorporated: Reviewing 30 Years of Private Investment Projects" (Ep. 437), aired on October 10.

23 Hankyoreh (2023), "[Exclusive] New owners of bus companies order bus drivers to 'go easy on tires,' putting safety concerns behind," June 21.

operations along less lucrative ones, or transferring them altogether to local governments to handle.[24] According to news reports, Namyang Passenger and Jebu Passenger, both acquired by MC Partners in July 2021, returned the rights to operate four routes each (eight in total) to the city of Hwaseong, citing as reasons chronic deficits, low demand, and difficulty in hiring drivers.

Sosin Passenger, also owned by MC Partners, has also started the process of reducing services and closing routes by designating five bus routes (numbers 5-3, 5-4, 8, 11, and 25) as targets for reduced services due to a lack of sufficient staff. There are, however, no alternative routes to replace numbers 5-3 and 5-4, which run from Bucheon Metro Station to Sangdong Metro Station and Bucheon Gymnasium respectively. The closure of these routes would make travel considerably more difficult for passengers.[25] The drive by PEFs to cut costs by reducing the number of vehicles servicing unprofitable routes, or even by completely eliminating these routes, directly clashes with the public's right to mobility.

24 Cherry-picking refers to the tendency to use or benefit from particularly popular features of a company's products or services while minimising or avoiding the use of products or services that are crucial to the company's profitmaking.

25 Hankyoreh (2023), "[Exclusive] PEFs sell off garages and shuts down unprofitable routes ahead of introduction of quasi-public bus system," October 17.

5.

CONCLUSION: SUMMARY AND IMPLICATIONS

PEFs are rapidly making headways into almost all industries, including logistics, golf clubs and resorts, food and dining, franchises, hotels, real estate, local bus services, utility services, wind power, digital platforms, internet banking, funeral services, and waste management (Kim, 2021). Their increasing involvement in public services, such as local buses, urban gas, waste management, and energy, is generating growing concern. In this study, we have reviewed specific examples that demonstrate how PEFs enter the bus industry, maximise profits and minimise costs, and identified the main problems associated with this behaviour.

We looked at several examples of PEFs realising financial gains through maximising dividends and selling garages. With bus companies in Seoul already recording average high dividend payout ratios, Cha Partners has gone to considerable lengths to increase dividends even further. For example, it claimed significant dividends from Korea BRT in the first year following acquisition, in order to pay what was owed to the seller. The PEF carried out a paid-in capital increase for Dowon Transport. It then used the high dividends on the new preferred shares issued to fund acquisition of another local bus company, Seonil Transport,as a subsidiary of Dowon. In the case of Singil Transport, capital surplus was converted into retained earnings so that Cha Partners could increase dividends. Seonjin Transport sold its land to raise more cash, again to increase dividends.

In Incheon, Songdo Bus Company and Samhwan Transport saw their dividend payout ratios rise dramatically after Cha Partners acquired them. After being acquired by Cha Partners, Myeongjin Transport issued corporate bonds again and repaid the principal and interests back to the PEF. In Daejeon, Cha Partners bought Dongin Passenger and Daejeon Seunghap and took dividends, even though both companies were running deficits.

There has been significant public concern that PEFs will sell off important assets in their relentless drive to achieve the high returns promised to investors. MC Partners made these concerns a reality by selling the Suwon Transport garage so that the PEF could repay its loans. In their investment proposals, Cha Partners and Greenwich PE likewise indicate their plans to sell garages upon exit. These PEFs have also been seeking to cut costs in every way possible, including by relocating and merging garages, delaying the replacement of key parts, and laying off maintenance personnel. In Gyeonggi Province, the PEF has begun to reduce the number of vehicles servicing unprofitable routes and even to shut down some routes altogether.

To summarise, while PEFs argue that their operation of local bus services has advantages over operation by traditional private bus companies, the examples reviewed in this study suggest otherwise. Given their main objective of maximising short-term profits, PEFs that have acquired bus companies in Korea have faithfully pursued the realisation of financial gains and minimisation of costs. In this process, government subsidies which are meant to support the operation of bus systems as a public service are becoming a main source for profit maximisation, while cut cutting measures are threatening bus safety, making travel less convenient for passengers, and violating public mobility rights.

Korean society as a whole must accept the fact that investment by PEFs in bus services plays little role in the development of bus systems as a public service, regardless of how competent or incompetent existing bus operators have been. Local governments must take responsibility for improving the quality of bus services in a manner that is consistent with public interests. This should not be done via PEFs.

Given that national law, particularly the Financial Investment and Capital Markets Act, effectively guarantee PEFs free entry into the bus industry, there is a limit to what local governments can do. Nonetheless, they can and should pursue active regulatory measures, including requiring strict internal criteria for payment of dividends, restricting leveraged buyouts, and imposing strict sanctions on the sale of garages. PEFs should also be required to publish their investment strategies and plans.[26] Strengthening transparency is essential to make PEFs conscious of societal oversight from the moment they enter the bus service market to the moment they exit.

This study also makes clear that in the medium to long run a fundamental change in the quasi-public model of bus operations is needed to make them less attractive to PEFs. Strengthening the public operation of buses would lower the expected return on investments, deterring PEFs from making further acquisitions. As July 2024 marks the 20th anniversary of the introduction of Seoul's quasi-public bus system, this could mark a watershed moment, particularly as the city has announced plans to restructure bus operations.

A review of local bus operations should not stop at minor improvements. A full and complete overhaul of the quasi-public model should be carried out, aimed at bringing bus services into public hands. This is the only way to achieve development of the bus industry as a public service and truly respond to the problem of increasing PEF investment.

26 The Seoul City Council has requested submission of these materials and s Cha Partners has responded that it would consider submission after review of the relevant laws.

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