

Challenges and Countermeasures of PPP Mode under the New Situation in China

Qingling Shi

School of Civil Engineering and Architecture, Southwest University of Science and Technology,
Mianyang 621010, China

Abstract

With a series of related the public-private partnership (PPP) policy laws and regulations publishing in 2017, China's PPP model stepped into an increasingly standardized situation. At present, the development of China's PPP model has experienced a period from rapid growth to gradual stability. However, the defective top-level design, the imperfect legal system and regulations, the slow progress of the charging system and the price system reform, the lack of professional third-party institutions still hinder the blossom of the PPP model. Therefore, exploring the countermeasures to popularize PPP model under the new situation has practical significance.

Keywords

New situation; PPP model; countermeasures.

1. Introduction

With the gradual improvement of the institutional system, the construction of the networked operation platform and the optimization of the market environment, the promotion and application of the Chinese PPP model has made great achievements since China's finance ministry promoted greatly the PPP model in 2014. As of the first quarter of 2019, the cumulative number of PPP projects reached 8,843 in the information platform, the total project investment is 1.99 trillion dollars. On the other hand, the cumulative number of projects which being determined and implemented increased to 5,541, the project investment is 1.25 trillion dollars. Although the number of start-up projects has declined, it still maintains a high scale. The number of implemented projects has increased significantly and is expected to be continued (Figures 1&2). It can be seen that the current development speed and scale of PPP projects in China still maintain a high level.

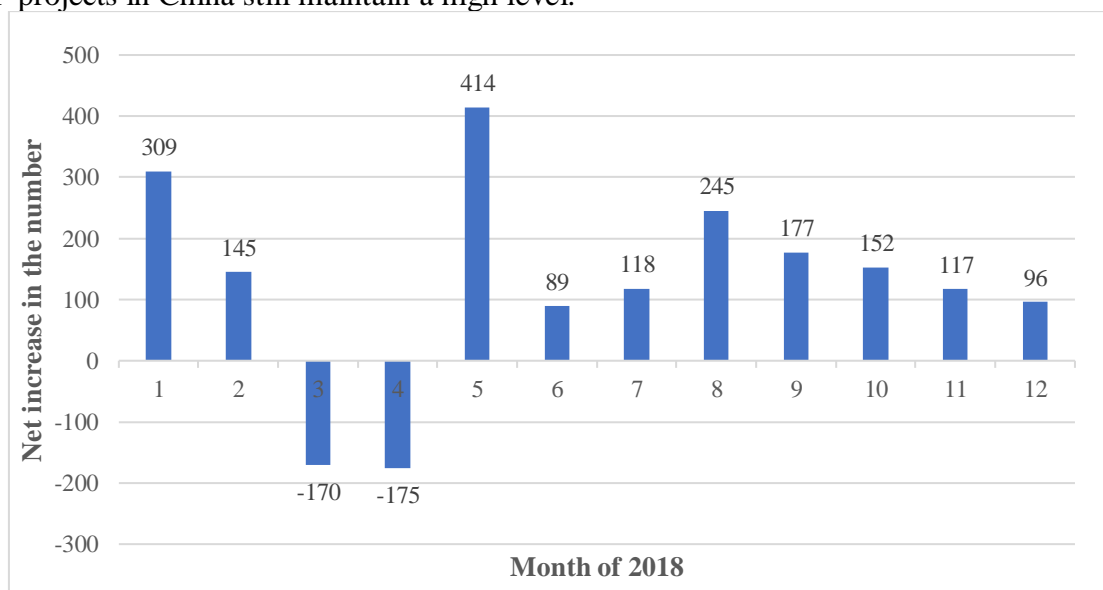


Fig.1 Monthly net increase in the number of projects in 2018

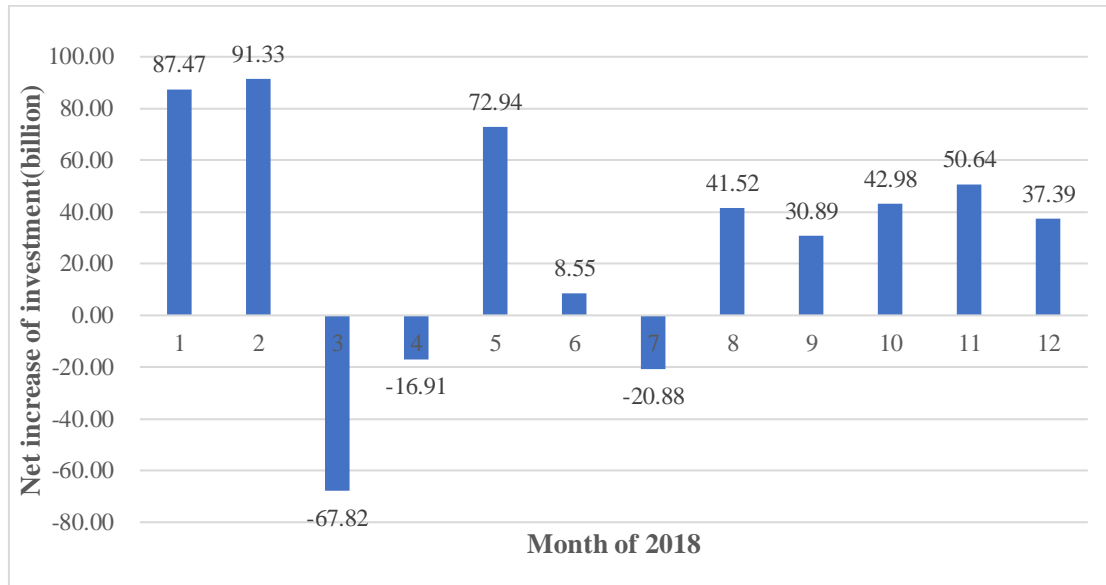


Fig.2 Monthly net increase of project investment in 2018(billion)

However, all kinds of signs have already indicated that China's PPP development model is about to enter a new phase. In 2018, according to data released by the Ministry of Finance, there is the “clean-up” work in the project library of the platform. The results of the cleaning work show that 2,557 projects have been canceled, and the amount of the investment of canceled projects is 3 trillion dollars [1]. The focus will be from simply focusing on the number of projects to the normalization of the project; from focusing on short-term benefits to focusing on long-term benefits. Therefore, it is of great practical significance to study the challenges of the PPP model under the new cycle and countermeasures.

2. Current challenges of the development of PPP mode

The development and transformation of China's PPP model has gone through three stages: from the beginning, it was introduced to attract foreign investment, and later went to the predicament due to the lack of top-level design, finally in the context of the current new economic era, gradually adapt to China's national condition through the establishment of legislation and regulations. Although the development of PPP has made great achievements, at present, there are still some problems, i.e. pay attention to quantity and neglect quality, pay attention to financing and neglect management, imperfect legal systems and regulations, slow progress in the reform of the charging system and the price system, and so on. These issues will seriously restrict the continued healthy development of PPP.

2.1 Lack of top-level design

According to the “Season 9 Quarterly Report of National PPP Integrated Information Platform Project Library”, as of the end of December 2017, there were a total of 14,424 PPP projects in the Platform, with a total investment of 2.7 trillion dollars. Compared with the national fixed asset investment, 2017 The proportion of investment in PPP implemented projects accounted for 3.8% of the fixed assets investment in the same period [2]. At the beginning of 2018, a large number of projects (including some demonstration projects) were cleared out, along with the state's centralized clean-up work for the PPP project management library. This phenomenon showing that the government's access mechanism for PPP projects was not perfect, blind introduction and neglecting the choice of capital partners. When choosing projects, the government also pay less attention to better public services, especially to meet people's new expectations of diversified public services, which ultimately leads to the pursuit of quantity and neglect of quality. At the same time, PPP projects have large investment, long cycle, and many uncertain factors, low the rate of return. In addition, there are serious deviations in the guiding ideology. The financing even became the only goal to alleviate the government's

financial constraints. Eventually, all parties attached great importance to the project initiation and construction stage, focusing on short-term projects and neglecting long-term sustainability, which turned into a phenomenon of “pay attention to financing and neglect management”.

2.2 Lack of mature legal system and perfect regulations

From the perspective of the public sector, the current operation of the PPP model in China lacks the support of national laws and regulations. According to the foreign practical experience of PPP mode, the effective operation of PPP requires a favorable legal environment. At present, the laws referenced in the management of PPP projects in China mainly include the Measures for the Administration of Concession for Infrastructure and Public Utilities, Government Procurement Law of the People's Republic of China, and The Bidding Law of the People's Republic of China. However, these laws cannot really solve the various problems that may occur in the construction of PPP projects [3]. In addition, China does not have a tax policy that is specifically applicable to PPP projects. The support and incentives of current tax policy for PPP projects are seriously insufficient, which has a certain impact on the development of PPP mode.

2.3 Slow progress in the reform of the charging system and the price system

The price mechanism is closely related to the success of the PPP project and the potential of the industry. If the construction and operation cost of a PPP project is not directly reflected in the user's payment, most of it will be reflected in the general taxation, which will result in the personal use cost shared by the public. At present, in China, the return mechanism of PPP projects mostly sets a price adjustment mechanism linked to the project operating costs, in terms of water supply, sewage treatment, waste incineration to generate power, rail transit and other related prices. Once the future price adjustment fails, most of the shadow prices and the risk of social capital settlement will be borne by the government. Therefore, the price adjustment mechanism of public utilities and public services is directly related to the long-term sustainable development of PPP projects.

2.4 The insufficient marketization and standardization of PPP projects

At present, some local governments have signed government procurement service agreements with investors for the financing, investment, construction and transportation of public welfare infrastructure. These methods can not only achieve the purpose of financing infrastructure construction, but also circumvent the PPP operation and review process. The local government concealed the fact of infrastructure installment payments, which may lead to a substantial increase in local government debt. In addition, some government departments lack understanding of the contract spirit, on the one hand, actively committing to attract investment, and on the other hand, the implementation is weak during the implementation of the project, especially in the face of government changes, major policy adjustments and other external environmental changes. The government pass the buck, seriously do harm to the rights and interests of social capital [4]. Simultaneously, in the implementation process of the project, the social capital will also violate the spirit of the contract. One part of the main reason for this phenomenon is that the company violates the commitment of the service or product in order to maximize profits. And the other part is because the project revenue is not up to expectations, and the company is reluctant to perform the contract. In a community of government and business, the government is in a strong position to formulate policies and rules, and the company is in a relatively weak position. Due to this natural unequal relationship between the government and enterprises, it is necessary to clarify the rights and obligations of both parties through contracts, thereby narrowing the gap between the two parties and ensuring fair trade between the two parties.

2.5 Lack of professional talent team and professional third-party institutions

At present, the operation of China's PPP has the following features: first, the departments involved (internal and external) are numerous; secondly, the knowledge fields involved are relatively extensive; finally, the whole process of the project is complicated and long. This requires all departments, sponsors and participants to have a deep understanding of PPP operations and possible risks.

Therefore, it is necessary to cultivate a professional talent team and form an authoritative third-party organization. A successful PPP project must rely on a professional team to carry out professional work such as planning, implementation, operation and maintenance. In many PPP projects, due to lack of experience and talents, difficulties and shortcomings in the implementation of the project have become increasingly apparent. At the same time, in the operation stage of a PPP project, the government department needs a third-party organization to supervise and evaluate the project. However, there is no authoritative third-party regulatory agency in China currently. Undoubtedly this will affect the fairness of project supervision and evaluation, and may cause unnecessary disputes in the future. Judging from the experience of other countries in the world, authoritative evaluation agencies are indispensable.

3. Coping strategies for PPP development under the new situation

Now that the Chinese economy has undergone structural adjustment in 2017, it will remain in the process of adjustment in 2018. With the continuous deepening reform of the mixed system, government investment will shift to social investment [5]. To achieve high-quality economic development and to meet the growing demand for high-quality infrastructure and public services, the government is bound by a huge gap in financial resources. A feasible way to solve these problems is through PPP. However, China's PPP development is about to enter a relatively stable and standardized new period in 2018. Therefore, in the new cycle of PPP development, we should actively respond to the current situation.

3.1 Optimize the top-level design, the development of PPP project will shift from paying attention to quantity to project quality

First of all, the PPP project should adopt the principle of “be slack in admission but strick in implement”, continuously strengthen the standardization of PPP business processes, and further improve the competitiveness of PPP projects and government risk management and control capabilities. Secondly, it is necessary to further optimize the operation mechanism of PPP. The admission is only part of the government's PPP support system and cannot be used as a basis for market participants to judge the quality of the project. Let social capital and financial institutions clarify this position, decide whether to implement or not by the market, and pursue responsibility according to market rules. For those projects that are not in the library, market participants are still encouraged to participate as long as they meet the policy conditions. With the increase in PPP implemented projects, projects that take advantage of social capital initiative and professionalism will become real needs. The attention to the supply efficiency of public goods and public services rather than one-sided financing or construction profits will certainly become a new theme. For the demonstration projects that have been initiated, attention should be paid to continuous tracking and dynamic adjustment to ensure that their demonstration role is effective. At the same time, in mature industries such as toll roads, water services and garbage disposal, standard texts such as contract models can be developed for reference.

3.2 The relevant system is need to improve

The practical experience of the foreign PPP model shows that a good legal environment is the basis for the effective operation and development of PPP. At present, the development level of PPP in China is still not high, and it is still necessary to continuously improve the lack of mechanisms such as regulatory norms, risk prevention and sharing, and benefit protection in the future development process. In the current situation, the National Development and Reform Commission and the Ministry of Finance are currently jointly responsible for the legislation, popularization of PPP. There is a lack of a special agency responsible for the affairs of the PPP model. Therefore, it is first necessary to establish a relatively independent regulatory body, and give relevant departments the supervisory function to ensure that PPP projects can be clearly and effectively controlled. Secondly, we must build a financial risk management system under the PPP model, and establish a PPP supervise model based on the five major workflows, i.e. PPP project feasibility assessment, project procurement,

project financing risk management, project operation risk management and project settlement control. A whole process and all-round risk supervision system would be established. We should clarify the various regulatory bodies and corresponding responsibilities to ensure that the entire management process can be put in place [6]. Finally, in particular, it is necessary to standardize and improve the credibility of local governments in PPP projects, to eliminate and reduce the undesirable phenomenon of local governments defaulting in PPP project operations.

3.3 Speed up the reform of the price and charging system

First, in accordance with the principle of social capital's profitability but not excessive profitable, the authorities should actively and steadily promote the reform of the price mechanism of public utilities and public services, mobilize social capital to participate in public utilities, and promote the PPP model sustainable development. Secondly, establish and improve the social security mechanism to comprehensively protect the interests of the people. Finally, the law should strengthen the supervision role of local people's congresses in the PPP project decision-making mechanism to prevent the local government blindly invests and shifts the price pressure caused by improper government decision-making. Only when the price reform is truly put in place, can the government's pressure on PPP financial payments be truly reduced, and the government will have the financial resources to implement projects that really need government payment, so that social capital and financial institutions can become interested in projects that have no income. It is that true purpose which realized by PPP financing [7].

3.4 Focus on project planning and standard operation

First, we must combine the needs of the project and pay attention to the feasibility of the project. When selecting projects, from the perspective of the needs of the public and the maturity of the project, the priority should be given to projects with flexible price adjustment mechanisms, long-term stable demand, and high degree of marketization, such as some elderly service facilities, sewage and garbage disposal, affordable housing projects, etc. Second, we must give full play to the demonstration effect of typical projects. When planning the project, the relevant government departments should select one or two projects that have been successfully implemented to provide guidance for other projects. Third, proceed from the reality, we could merging or split the project scientifically. In order to save operating costs and continuously increase the attractiveness of social capital, it is possible to split and merge the same type projects. At the same time, it is also possible to rationally split some projects with large investment amount, large construction span, and large gap in procedures. Effectively avoid affecting the overall progress of the project.

3.5 Introduce independent and objective third-party organizations

In the operation of PPP, it is necessary to promote the standardization of third-party evaluation. First of all, in order to establish a right to speak in a third-party assessment, it is necessary to issue relevant regulations and guidance documents. And it is essential to declare that major programs and measures must go through a third-party evaluation procedure, standardize the rights and responsibilities of the evaluation subject, clearly define the principles of evaluation. The authorities should protect the status of third parties in the law and standardize the independence and legitimacy of the assessment. Secondly, according to international experience, third-party evaluation has become a trend. The reason why foreign third-party evaluation agencies are developed is mainly due to the specialization of their personnel and the standardization of their organizations. It is especially important to cultivate the professional. At the same time, it needs to constantly improves the evaluation ability and professional level of third-party evaluation agencies to ensure fairness, accuracy, independence and objectivity. Finally, we should explore and establish assessment theories, methods and techniques that suit China's national conditions.

In general, as a new financing mode and management method, PPP has realized the organic integration of policy resources, industrial resources and financial resources. Today, the development of China's PPP model is becoming more stable, which means that PPP has entered a new phase.

Undoubtedly, how to achieve the continuous and stable development of PPP under the new situation will become a topic which worthy of attention.

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