

Financial departments (bureaus) of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan, and the finance bureau of Xinjiang Production and Construction Corps, Financial Supervision Commissioner Offices of the Ministry of Finance in all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan,

It is a major decision and plan made by the CPC central committee and the State Council to promote the application of the Public Private Partnership (PPP) model in the field of public services, bring in social forces to participate in providing public services, and improve the quality and efficiency. In order to implement the spirit of the Central Economic Work Conference and the National Financial Work Conference, effectively prevent and control the hidden debt risks of local governments, give full play to the positive role of the PPP model, ensure the “ stability in six fields ” , make up for the shortcomings of infrastructure, and promote high-quality economic development, the following suggestions are put forward:

## I. Firmly grasp the overall requirements for promoting the standardized development of PPP

In recent years, financial departments at all levels have worked in collaboration with relevant parties to promote PPP development, playing a positive role in maintaining steady economic growth, promoting reform and benefiting the people. However, there are also problems occurring, including excessive financial affordability, solidified government expenditure responsibilities, and the abuse or generalization of PPP application. Financial departments at all levels should further raise their awareness, follow the principles of “ standardized operation, strict supervision, openness and transparency, and honest fulfillment of agreement ” , effectively prevent and control the hidden debt risks of local governments, resolutely fight to prevent and defuse major risks, and make solid progress in the development of PPP standardization.

1. Regulated operation. We should improve the regulatory framework, elaborate the positive/negative list for entry verification, clarify the requirements for the management of the entire project life-cycle, set stringent criteria for project Management Database entry, improve the flexible mechanism for projects to enter in or be removed from the Management Database, and implement incentive assessment for project performance.

2. Strict supervision. We should adhere to the principle of necessary and affordable financial input, make prudent and scientific decisions, improve the fiscal expenditure responsibility monitoring and risk early warning mechanism, so as to reduce the financial pressure caused by excessive government fiscal expenditure responsibility, and earnestly prevent and control the hidden debts of local governments under the guise of PPP.

3. Openness and transparency. We should select social capital for procurement in a fair, just and open way. Make good use of the National PPP Integrated Information Platform, fully disclose the whole life cycle information of PPP projects, protect the right of public acquisition, and effectively supervise and constrain all parties involved.

4. Honest fulfillment of agreement. The integrity construction of local governments should be strengthened and their concept of contract should be enhanced to fully embody the principle of equal cooperation, and protect the legitimate rights and interests of social capital. Include the fiscal expenditure responsibility in the budget management in accordance with the law, and performance will be implemented in time according to the contract, so as to enhance the long-term investment confidence of social capital.

## II. Promote the implementation of PPP projects in a regulated way

Regulated PPP projects shall meet the following conditions:

a. For public welfare projects in public service sector, the term of cooperation shall, in principle, be more than 10 years, and the procedures for VFM evaluation and financial affordability assessment should be carried out according to the regulations;

b. Social capital shall be responsible for project investment, construction and operation and bear corresponding risks, and the government shall take the risks pertaining to policies and laws;

c. Establish a payment mechanism that is completely linked to project performance, and shall not solidify government fiscal expenditure responsibility in advance by lowering assessment criteria;

d. The capital of PPP project shall be in line with the proportion stipulated by the state, and the shareholders of the project company shall pay the capital with their own funds on time and in full;

e. The signing party of the government side shall be the people's government at or above the county level or its authorized organ or institution;

f. Incorporate the projects into the project database of National PPP Integrated Information Platform as required, fully disclose project information in a timely manner, and take the initiative to accept social supervision.

2. In addition to above conditions, the newly listed government-funded projects should also meet the prudent requirements as follows in principle:

a. In areas where governments' fiscal expenditure responsibility account for more than 5% of the total, government-pay projects should not be listed. In accordance with the principle of "substance over form", the government-pay projects of sewage and garbage treatment managed under the "separation of revenue and expenditure" are exceptions;

b. Select the social capitals by competitive means including public bidding, invited bidding, competitive consultation and negotiation;

c. Strictly control project investment, construction and operating costs, and strengthen follow-up auditing.

To circumvent the above restrictions, for the newly listed government-pay project that packed as project that containing little user-pay component but without substantial relation, if the proportion of user-pay component is less than 10%, it is forbidden to entry into the database.

3. Strengthen the fiscal expenditure responsibility monitoring. Ensure that the PPP projects' fiscal expenditure responsibility allocated from the general public budget of the local government shall not exceed 10% of its general public budget expenditure of the current year. New signed projects shall not attain PPP operation subsidies from government-managed funds or state capital operations budget. An early-warning system for expenditure responsibility of PPP projects should be set up, giving risk warning to areas where fiscal expenditure responsibility accounts for more than 7%, and projects in areas where fiscal expenditure responsibility accounts for more than 10% are forbidden to entering the Management Database.。

### III. Strengthen the regulated management of PPP projects

Financial departments at all levels should give top priority to regulated operation, and implement regulated PPP projects in strict accordance with relevant requirements. The following behaviors should not occur:

The government side or representatives of government investors

repurchase the investment principal, promise the return or guarantee the minimum profits. The government actually bear the risks of the project investment, construction and operation by signing dual contract, or providing various forms of guarantee and repayment.

Different kinds of financing companies and platforms affiliated to the government at the corresponding level and the state owned enterprises in which financial platforms hold the share and exert substantial influence on business activities participate in PPP projects of the same level as social capitals. The social capital only undertakes the project construction but not the operation responsibility, or the government expenditure is not linked to project performance.

Select social capital without legal procedure. Implement project in the name of PPP without receiving the VFM evaluation or financial affordability assessment, and evading the bottom line of 10%.

Debt funds are used as project capital, or the capital contribution is not true.

Fail to fully disclose project information in a timely manner in accordance with regulations, or disclose false project information, which

seriously affects public's right to stay informed about and the right of social supervision.

For the case where the clause 1 exists, the projects that have been included in the database shall be removed, and the financial spending responsibilities resulted from the project should be identified as hidden debt of the local government, and the relevant departments are required to hold the concerned companies or individuals accountable in accordance with laws and regulations.

For the case where the clause 2 to 5 exist, the projects should be rectified within the time limit. If the rectification cannot be carried out or is not in place, the projects shall be removed from the database; if the hidden debt of local government is involved, it shall be submitted to the relevant departments for accountability and punishment in accordance with laws and regulations.

#### IV. Create a sound environment for regulated development

The financial departments at all levels should, in collaboration with relevant departments, take measures to strengthen regulated management and give guidance for classification, and increase policy support for key areas and key projects.

Encourage the participation of private capital and foreign capital. The support for private enterprises and foreign-invested enterprises to participate in PPP projects should be increased, high-quality projects with good government credit and stable returns should be introduced to private enterprises, and give preferential support to private enterprises in participating projects under the same conditions. The relevant special transfer payment funds in the central public service sector will give priority to supporting PPP projects involving qualified private enterprises. Study and improve the method for performance appraisal of China's PPP fund, and take investing in projects involving private enterprises as one

of important assessment criteria, guiding to increase support from China's PPP fund. When conducting PPP projects in all regions, it is forbidden to set up discriminatory clauses or additional conditions for foreign-funded enterprises and overseas branches of Chinese enterprises. High-quality procurement at reasonable price is encouraged, and the procurement methods should be reasonably selected according to the characteristics of procurement projects, thus further strengthening the management of procurement requirements and performance acceptance, and improving procurement quality.

Increase financing support. The local government should give support to regulated PPP projects by injecting capital and operation subsidies based on its financial situation. Guide insurance funds and China PPP funds to increase equity investment and broaden the sources of capital for projects. Encourage the revitalization of project assets through equity transfer, asset trading, asset securitization etc., thus diversifying channels for the entry and exit of social capital.

Put focus on key sectors. Give priority to projects that help strengthen weakness in infrastructure, and the public welfare projects that produce benefits in the field of basic public service equalization including healthcare, pension, culture, sports and tourism. Accelerate the

implementation of projects that meet the needs of economic and social development, with a complete decision-making process, a clear return mechanism and a reasonable financing structure.

Ensure reasonable expenditures. The government expenditure resulted from qualified PPP projects are recurrent expenditures provided by the government as operating subsidies for the people to enjoy public services. They should be made on the premise that the public can enjoy public services according to agreed conditions. Local governments should include their financial expenditure of regulated PPP projects in budgetary management in accordance with laws and regulations, honor their commitments and keep their promises, so as to stabilize market expectations.

Strengthen information disclosure. Based on the National PPP Integrated Information Platform, whole life-cycle information of PPP project should be disclosed, collected, analyzed and monitored, the flexible mechanism for PPP projects to enter in and be removed from the Management Database should be improved. It is neither allowed to promise database entry of the projects for compliance, nor as a condition for commercial bank loan.

Strengthen to give different guidance to different categories of projects. For projects under construction, all parties should strictly implement the contract, ensure that their investment is in place, and promote the projects to be completed on schedule to avoid “half-baked projects” . For projects that have not yet started, all parties should strengthen the review of contract terms and standardize financing arrangements in strict accordance with requirements. For projects entering the procurement stage, publicity and information disclosure should be strengthened to attract all kinds of market players, especially private and foreign-funded enterprises, to participate in the projects on an equal footing. At the same time, the reserve of major projects should be strengthened, early demonstration of projects should be sound to facilitate the formation of a development pattern that combines distance with hierarchical classification.

Strengthen the management of PPP consulting agency database and expert database. Consulting agencies and experts should play their professional roles, abide by professional ethics and provide consulting services for PPP projects in accordance with law and regulations. The consulting agencies and experts that help develop unregulated PPP projects and increase the hidden debt risk, provide opinions in violation of relevant policies and regulations, charge unreasonably compared to

market average, causing negative impact and serious consequences on the implementation of PPP projects shall be held accountable in accordance with relevant regulations.

#### V. Work together for better project implementation

Financial departments at all levels should enhance their stance, take the initiative, and accelerate the establishment of a working mechanism featuring coordination, strong guarantee and adequate measures.

Enhance cooperation between different departments, strengthen communication, coordination and information sharing during the procedures of the project, including early identification, demonstration, and database entry, and do a solid job in the early preparation of the project, consolidate the foundation for project implementation, and promote scientific decision-making.

Enhance tracking and monitoring. Strengthen tracking, guidance and

supervision of entire project life-cycle, establish and improve the supervision mechanism of policy implementation and project implementation. Increase information disclosure, take the initiative to accept audit and social supervision, and promote the standardized and orderly implementation of projects.

Encourage local governments and departments to make innovation in working mechanisms, increase policy support, strengthen experience summaries and case promotion. The experience and practices developed and major problems discovered in the course of work should be timely reported to the Ministry of Finance.

Ministry of Finance

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FROM: Ministry of Finance