

Interpretation on the Circular on Regulating Project Database of the National PPP Integrated Information Platform

(08-JUN-2018)

Recently, the Ministry of Finance issued the Circular on Regulating Project Database of the National PPP Integrated Information Platform (CaiJin [2017] No.92, hereinafter referred to as “the Circular”). In this regard, the person in charge of the Ministry of Finance answered questions from reporters.

I. What is the brief background of the promulgation of the Circular?

Since China began to vigorously promote the Public Private Partnership (PPP) model at the end of 2013, remarkable progress has been made after more than three years of concerted efforts by all parties. The market environment has gradually been improved; the implementation of the projects has seen an acceleration and PPP model has been playing a significant role in ensuring steady growth, advancing reforms and benefiting people’s livelihood. However, in the course of PPP development, problems such as misusing PPP mode and even financing through PPP in disguised form and other irregularities have become increasingly prominent, which increases the hidden debt risks of local governments. This year, the Central Committee of C.P.C and the State Council require that risk prevention be given the priority. Both the National Conference on Financial Work and the executive meeting of the State Council have made specific arrangements for preventing hidden debt risks of local governments and correcting irregularities in PPP development.

In order to implement the decisions of the Central Committee of C.P.C and the State Council, the Ministry of Finance, together with relevant departments, issued the “Circular on Further Regulating Debt Financing of Local Government” (Cai Yu [2017] No. 50), strictly prohibiting the financing through PPP model in disguised form. On this basis, we drafted “the Circular” to further correct the generalized abuse of PPP model, aiming at further regulating the operation of PPP projects, promoting the return of PPP model to the origin of innovation and supply mechanism of public services and promoting its sustainable development with PPP Integrated Information Platform Project Database (hereinafter referred to as “project database”) management as the primary focus

II. What is the main content of the Circular?

“The Circular” put forward three major measures to standardize project database management: first, make classification. The project database should be classified into Project Reserve List and the Project Management Database according to the stage of the project. The projects on the Project Reserve List will focus on incubation and promotion, while the projects in the Project Management Database will be under strict supervision to ensure the standardized operation with whole life-cycle management; second, unify the entry criteria of new projects. The projects that are not suitable for PPP model, lacking in preparation, or without effective payment mechanism shall not be included in the database, thus improving the quality of the new entries. The direction of the policies shall be clarified, that is, to give priority to supporting PPP model to revitalize stocks of public assets and prudently carry out government-paid projects to prevent excessive growth of fiscal expenditures which may hit the ceiling of financial capacity; third, carry out concentrated elimination of the unqualified projects. Financial departments shall eliminate the projects whose operation is not standardized, or those that do not fit the entry criteria or without complete information, and establish and improve the management mechanism, where a designated person in charge of continuous project follow-up, and dynamic adjustment, thus improving the quality of the project database management.

III. What are the specific provisions in the Circular in improving the performance management of PPP projects?

In order to implement operation-centered and performance-oriented concept of PPP model, and make a change of PPP projects to emphasize on operation rather than on construction for ensuring their long-term stability, “the Circular” take the following measures in establishing an effective payment mechanism for the projects:

First, make a request that government subsidies be linked to performance appraisal results, thus enhancing the incentive and binding effects of project output performance on social capital returns, preventing the situation where government undertakes unconditional payment obligations for various expenditures of the project, which may turn PPP into an extended version of BT.

Second, require that government cover the construction and operation costs of the project in accordance with its performance appraisal results, in which the construction costs participating must account for more than 30% of the total. This measure will prevent some of the projects from taking for granted of the unconditional payment obligations of the government through the so-called “availability payment” in the name of “to pay once the project is completed”, which weakens the binding effects of the performance appraisal results.

Third, government subsidies are required to be paid continuously and smoothly during the project cooperation period, so as to prevent the backward responsibilities of excessive fiscal expenditure which may result in the surge of pressure on internal fiscal spending and intergenerational imbalances. This measure will also avoid the frontward

responsibilities of excessive fiscal expenditure and facilitate the social capital return, which helps the investment to exit earlier from the project.

IV. What are the requirements in the Circular in terms of financing management?

At present, some PPP projects face the difficulties of financing and being put into operation as well as the problem of not receiving actual investment or full fund from social capital in accordance with regulations, high leverage ratio, and reduced risk resistance capability of the company. In this regard, the following measures in terms of financing management are taken in “the Circular”:

First, make a request that social capital fulfil the debt financing obligations in accordance with the contract to prevent the project from being shelved or even failing due to the failure of timely and full financing.

Second, both the government and social capital are required to pay project capital in full and on time in accordance with relevant national regulations on capital management of fixed assets investment projects, and the debt capital should not be used as project capital, so as to prevent the “hollowing” of capitals that may lead to the “insignificance” of the long-term operational responsibilities of social capital and may aggravate the situation where the project emphasize more on construction and less on operation.

Third, the shares of social capital are not allowed to be held by third parties, in order to prevent some of the social capitals from designating their affiliated companies, subsidiaries, funds, and other third parties to perform the financing obligations on behalf of their own once selected, and stopping the irregularities where some consortiums undertake the construction or design of the project only without contribution in terms of shares, thus ensuring the seriousness and fairness of the social capital selection process, and consolidating the responsibilities of social capital for investment, construction, and operation.

V. How to organize the elimination of project database? What is the deadline?

According to “the Circular”, the provincial financial departments should uniformly assign the financial departments in cities, districts and counties under their jurisdiction to conduct centralized elimination work. The China PPP Center should be in charge of the elimination of PPP demonstration projects.

The deadline for the elimination falls on March 31, 2018. For regions failing to complete work in time, the PPP Center, under the guidance of the Ministry of Finance, shall urge them to complete the rectification within 30 days. In case of overdue rectification, rectification uncompleted or partly completed, new projects in the questioned region shall not enter the database until the rectification is completed.

VI. How to understand the role and influence of “the Circular”?

“The Circular” aims to correct the deviations that occur during the implementation of the current PPP projects, further improve the quality of newly included projects, enhance the effectiveness and transparency of information, and provide better social supervision. The withdrawal of some projects that are not suitable for PPP model helps promote the return of PPP model to the origin, orderly advance PPP projects and improve the effective allocation of public resources. Some projects will be more standardized and transparent after improvement, which will contribute to whole life-cycle management. In the long run, the clearance of projects will prompt all participants to focus on standardized operations and project management, help prevent and control risks, increase market confidence, and promote the long-term sustainable development of PPP model.

FROM: Ministry of Finance