

Zonbong Landscape's PPP Exploration in Urban Landscaping - Introduction to Cases on PPP Demonstration Projects

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I. Introduction to Private Partner

Zonbong Landscape Co., Ltd. ("Zonbong Landscape") is the selected private Partner for the PPP demonstration project of the Ministry of Finance on Urban Landscaping of Songyuan City, Jilin Province.

The company integrates investment, research and development, design, planning, consulting, construction, nursery stock and conservation, and is an operator of urban landscape and ecological system engaged in the whole industry-chain development. At present, its annual construction capacity is RMB 500 million, and its design capacity is RMB 50 million. It currently has qualifications such as Level A in special scenery landscape engineering design, Class I in urban landscaping construction, Class II in general contract for municipal public works, and Level C in engineering consulting for municipal public works (scenery landscape), making it the only landscape enterprise that owns double A qualifications and is listed on the NEEQ.

Since 2014, the company has kept up with national policies, studied PPP-related knowledge in depth, and through the PPP model and the model of government procurement of public services, cooperated with the government in successfully implementing, among others, the project on landscaping of roads and streets in the main urban areas of Erdao District, Changchun City, the project on upgrading and

transforming "old, shabby and scattered neighborhoods" in Erdao District, the project on landscaping of roads and streets in Changchun International Logistics Park, and the project on landscaping of Baishan City.

II. Experience regarding Private Capital's Involvement

When engaged in the project on urban landscaping of Songyuan City, the company has accumulated valuable experience mainly in the following aspects:

(I) The project operation. There was no successful experience for reference in China during the operation of this project. In light of the characteristics of this project, the company engaged a consulting agency and a legal team to carefully studied relevant PPP policies of the State, set up a special team and designated personnel dedicated to the research into the model, investment and financing, operation, assessment and other relevant procedures, to ensure the lawful, precise and orderly implementation of this project.

(II) Risk sharing for this project. The company identified and allocated the risks likely to arise during the implementation of this project, and specified in the agreement for the PPP project that risks associated with government policies should be assumed by the project implementing entity (the Landscape and Forestry Administration Center of Songyuan City), and the risks in respect of financing, construction, operation and maintenance should be borne by the company.

(III) Financing for this project. The company made extensive contacts with financial institutions, actively explored multiple financing channels, and eventually selected Everbright Bank Changchun Branch as the lender for this project, obtaining the financing successfully. Specific steps are shown as follows:

1. The party representing the private partner contributed 20%-30% of the total investment in this project as the project capital, and the financial institution granted the loans equal to the remaining 70%-80% of the total investment; the financing amount of this project upon calculation was RMB 200 million.

2. In respect of the term of financing, as government payments were adopted for this project, the company found that to comply with the requirement on debt service, it was better to repay the loans in 8-10 years for minimum repayment pressure; and upon negotiation with the financial institution, the loan term of this project was determined to 8+1 years (8 years for repayment and 1 year as grace period).

3. In respect of risk control, the success in financing for this project was ensured for the following reasons: the People's Congress of Songyuan City had issued a resolution on including the payment into the financial budget; this project had attempted to pledge the future income rights under the PPP contract of this project; and the affiliates of the borrower provided guarantee.

(IV) Output management for this project. In the early stage of this project, the Landscape and Forestry Administration Center of Songyuan City developed the standards for operation and maintenance of this project carefully and seriously by reference to the standards of the State and Jilin Province for the landscaping industry, and drafted and determined the administrative measures on performance assessment. The company also proposed suggestions according to previous experience.

(V) Communication and cooperation with the government. The company and the party on behalf of the government established a communication and coordination mechanism, and under the leadership of each party's head, communication and coordination would be conducted with respect to specific issues regularly. The party on behalf of the government gave the company sufficient space for participation.

III. Implications for Nongovernmental Investors

Under the PPP model, the thresholds for private partner to involve in government projects were lowered; and meanwhile, the involvement of private partner effectively reduced the funding pressure on the government, and significantly improved the quality of social services; as a result, it is conducive to the transformation of government functions.

The company was tempered when participating in the PPP project on urban landscaping of Songyuan City; under the PPP model, only through constant innovation and step-by-step growth can the company become a market player in whole industry-chain development covering investment, construction and operation, a real active participant in regional economic development and a quality supplier for government procurement of public services.

As the operation of a PPP project is widely different from that under a traditional model, the company also encountered some obstacles in the implementation of this project. The PPP model is still in the early stage of development in China, and there are some issues such as unspecified procedures; as a result, the parties providing the private capital may encounter problems that no government agency can handle the affair or no guidance on rules or procedures is provided when going through the formalities at the early stage. The government is expected to coordinate each department as well as define the procedures and responsibilities. In addition, it is hoped that the country can complete the PPP-related legislation as soon as possible, to provide law bases for PPP operations.

(Contributed by: Zonbong Landscape Co., Ltd.)

Schedule

Name of Private Partner (Enterprise)	Zonbong Landscape Co., Ltd.	Name of PPP Demonstration Project of the Ministry of Finance	Urban Landscaping of Songyuan City
Registered Capital	RMB 53.97 million	Location of Demonstration Project	Songyuan City, Jilin Province
Mode of Government Procurement	Open tender	Signing Date for Contract on Demonstration Project	September 25, 2015
Name of Project Company	Zonbong Landscape	Term of Cooperation for Demonstration Project	10 years



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