

Circular on Further Advancing the Public-Private Partnership in Public Services

(20-OCT-2016)

Note: English version for reference only, Chinese version shall prevail.

CaiJin [2016] No.90

The finance departments (bureaus) of all provinces, autonomous regions, municipalities directly under the Central Government and cities specially designated in the state plan, and the Finance Bureau of Xinjiang Production and Construction Corps,

To implement the work plans of the Central Committee of the Communist Party of China and the State Council, deepen the reform of the public-private partnership (PPP) in public services in a coordinated way, improve the quality and efficiency of public services, and boost the drivers for sustainable growth, the relevant issues are hereby given as follows:

I. Push through the supply-side structural reform in public services. Finance departments at all levels shall, working with the relevant agencies, continuously promote the PPP model's concept of "advancing the reform, benefiting the people, and sustaining steady growth", fulfill the latest requirements for supply-side structural reform, and further shift the provision of public services from a government monopoly model to a partnership model, and from a short-term balance to a medium and long-term balance, and shift the funding from a single source to multiple sources. Reform shall be made to adjust the supply structure, increase effective supply, and improve the quality and efficiency of public services; as well as stimulate the vitality and creativity of social capital to generate organic growth drivers and promote the sustainable and healthy development of the economy and the society.

II. Further expand the application of the PPP model. Two "enforcements" can be piloted on public services funded by the central government in light of the features and maturity of the sectors. For public service

projects such as waste and sewage treatment, which can generate cash flow, are highly market-driven, and have wide and proven application experience in the PPP model, the PPP model shall be "enforced" in such new projects, with funding from the central government gradually reducing and the special subsidies for construction being removed. For projects in other public service sectors funded by the central government which can generate cash flow and have operating conditions, identification of the PPP model and a feasibility study shall be "enforced", and application of the PPP model shall be encouraged, with focus on project operation to improve the public service quality.

III. Actively channel social capital into PPP projects. Finance departments at all levels shall work with relevant agencies to create a level playing field, and to encourage businesses of all types of ownership including state-owned holding enterprises, private enterprises, mixed-ownership enterprises and foreign-invested enterprises, to participate in PPP projects under the same eligibility requirement and equal treatment; work with the relevant industrial agencies to set procurement standards and terms to ensure fair, just and open procurement, and prevent differential or discriminatory treatment on potential partners under unreasonable terms (including too high or irrelevant eligibility requirements, and excessive deposit), so as to boost private investments. Finance departments at all levels will not provide any subsidies and policy preference for any PPP projects with differential or discriminatory treatment on social capital.

IV. Conduct a preliminary study for projects. Financial departments at all levels shall, working with the competent industrial agencies, conduct the value-for-money evaluation and the financial affordability study for projects in a timely manner on the basis of the results of the feasibility study; focus on the public service sector, and pursuant to the provisions of the Circular of the General Office of the State Council on Forwarding the Guiding Opinions of the Ministry of Finance, the National Development and Reform Commission and the People's Bank of China on Promoting the Public-Private-Partnership Model in Public Services (Guo Ban Fa [2015] No.42), give priority to input of public funds, assets and resources in improving the quality and level of public services, determine the corporate partners in accordance with the relevant provisions of the government procurement law, and effectively prevent invalid investment and redundant construction; strictly separate public service projects from industrial development projects, deepen the PPP reform in sectors such as energy, transportation, municipal works, agriculture, forestry, water conservancy, environment protection, government-subsidized housing, healthcare, elderly care, education, science & technology, culture, sports and tourism, and establish a catalogue of local PPP projects by relying on the integrated PPP information platform.

V. Make efforts to regulate and advance the implementation of PPP projects. Finance departments at all levels shall, working with the relevant agencies, study all aspects of a PPP project, including the partnership term, the pricing mechanism, the return rate, the risk sharing framework and government subsidies, and scientifically design the implementation plan to fully reflect the characteristics of "sharing of both risks and profits, incentive compatibility", and to prevent potential higher debt risks of local governments as a result of

excessive government spending in the forms of committed fixed return, equity purchase arrangements and equity but actually debts, replacement of the medium- and long-term expenditure liabilities of PPP projects by government spending in services purchased over the current period and evasion of certain assessments and studies for PPP projects. Efforts shall be made to strengthen the administration of contract performance throughout the project life cycle to ensure the government and the corporate partner enjoy equal rights and obligations and the government expenditure liabilities are linked with the public service performance.

VI. Give full play to the leading role of demonstration projects. Finance departments at all levels shall, working with the relevant agencies, greatly accelerate the implementation of PPP demonstration projects in a regulated manner subject to the principal of "fastness and effectiveness" and "easy access and easy exit"; proactively create a favorable environment for implementation and give full play to the leading and proactive role of demonstration projects by strengthening targeted guidance and guiding the units involved to prepare the implementation plan in a scientific manner, carefully select operation mode and social capital, cautiously sign the project contract, strengthen supervision, and secure the quality. Efforts shall be made to actively supervise demonstration projects and accelerate the implementation. A demonstration project will be disqualified if it fails to meet the contracting requirements within certain time limit.

VII. Improve the administration mechanism and system in light of the local reality. Finance departments at all levels shall, pursuant to the relevant regulations and policies regarding PPP projects issued by the Ministry of Finance, further develop the policies and systems to support wide implementation of PPP projects in the locality; refine the policy guidance in cities and counties; further integrate and strengthen the specific capabilities in light of internal function adjustment, and build a solid institutional system; develop an inter-department collaboration mechanism for PPP projects, further figure out the working process, define clear responsibilities, and emphasize the importance of standard administration and procedures.

VIII. Effectively perform the financial management function. Finance departments at all levels shall, working with the competent industrial agencies, work out a reasonable cost for public services, allocate public funds, assets and resources in a coordinated way, balance the public burden and social capital's return requirement, and build up a reasonable return system for PPP projects. The budget for government-managed funds may be allocated to PPP projects provided that it complies with the policies and relevant regulations. For user-fee projects involving franchise rights, the franchise right shall be evaluated pursuant to the approach stipulated by law, and converted to equity in the project, granted or transferred to guard against loss of state-owned assets. For the projects with the cost and profits fully covered by user payments, the extra profit shared by the government shall, subject to the contract, be turned over to the State Treasury under supervision in full and in a timely manner, and a dynamic price subject to the pricing adjustment mechanism as agreed shall be set to materially release the public burden.

IX. Unlock potentials of market participants through streamlining the administration and delegating more power to lower levels. Finance departments at all levels shall, working with the relevant agencies, further

optimize the project initiation process and the PPP model operation procedure and strengthen the linkup between them, and further trim administrative approval formalities. For the PPP projects regarding engineering & construction, equipment procurement or service outsourcing with a partnership established in accordance with the government procurement law, if the corporate partner is able to construct, produce or provide services by law, such corporatepartner may not launch tenders according to Article 9 of the Regulations on Implementation of the Tendering and Bidding Law of the People's Republic of China.

X. Give more fiscal support. Finance departments at all levels shall implement the fiscal and tax preferential policies on PPP projects in public services approved by the state, put great efforts on policy interpretation and promotion, closely collaborate with the China PPP Fund to give priority in funding the qualified demonstration projects of finance departments at all levels. We shall encourage the finance departments at all levels to, in light of the local realities, proactively explore effective ways to channel capital from the private sector and financial institutions into PPP projects by providing fiscal support, and cultivate a favorable environment for regulated implementation of PPP projects by providing preliminary subsidies and rewards instead of financial aid.

XI. Give a full play to the integrated PPP information platform. Finance departments at all levels shall accelerate the establishment of the project and expert databases through the integrated PPP information platform, and increase supervision capacity and improve services; urge the entities involved to disclose such information as the implementation plan, contract, project progress on the integrated PPP information platform; broaden information sharing and help project matchmaking; ensure an open, transparent and orderly implementation and the quality.

Finance departments at all levels shall work together to deepen the PPP reform in public services by attaching great importance to the reform, giving a full play to the coordination, and actively communicating and cooperating with relevant agencies, so as to combine social forces to increase the supply of public services.

FROM: Ministry of Finance