



PPP Modality in China: Experience and the Way Forward

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- **WHAT**——Our Thoughts on PPP Modality
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- **Policy Recommendations**

Our Thoughts on PPP Modality

➤ **First, PPP can promote the supply of regional infrastructure and public services.**

Insufficient infrastructure supply has imposed negative impact on medium and long-term economic development and integration in Asia-Pacific Region. Government can attract more private capitals by developing PPP modalities in infrastructure sectors to such approach will not only reduce fiscal burden on public sectors, but also improve the efficiency of public goods supply as well as provide more opportunity for private sector development.

Our Thoughts on PPP Modality

- **Second, PPP can help improve national governance capacity.**

We view PPP modality as a path to institutional innovation, for the shift of the role of government from player to rule-maker so that government can better fulfill its obligations and provide quality services.

In PPP modality, government will turn from manager to supervisor and collaborator, more focusing on overall development strategy and supervision, which would reduce administrative cost and space for power rent-seeking.

Our Thoughts on PPP Modality

- **Third, PPP plays significant role in establishing modern fiscal system.**

Both local governments and enterprises have encountered challenges of unfair competition stemmed from improper fiscal stimulation. PPP programs can create pricing and profits-sharing mechanisms that boost local governments' fiscal revenues, so that local governments can imburse their debts and find new ways to financing public goods.

In addition, through medium-term fiscal plans, the government's expenditure responsibility in the PPP projects can be made clear and can be adjusted during the project cycle, which is in line with the internal requirements of modern fiscal system——scientific, fair, transparent and efficient.

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China's PPP Experience

- China local governments started to apply PPP modality dated from mid-1980s, introduced by multilateral development banks such as the World Bank and Asian Development Bank

eg. Beijing International Hotel

- National PPP Pilot Project started from 1994, led by then the State Planning Commission(Now the National Development and Reform Commission).

eg. Shanghai Huangpu River Bridge Projects.

(Yangpu Bridge, Nanpu Bridge and Dapulu Channel across the Huangpu River)

China's PPP Experience

- The first wave of nationwide promotion campaign was from 2003-2008. PPP Modality were applied in various areas such as sewage treatment, subway, development zones and etc.
eg. Beijing Subway Line 4
Beijing National stadium (bird's nest)
- Most of the PPP projects were in infrastructure area:
 - ✓ Until now, we've implemented more than 1000 infrastructure PPP projects.
 - ✓ The projects are implemented by means of BOT, BT, BTO, BOO and etc.
 - ✓ Total value exceeded 160 billion USD.

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The Reasons for the Government of China to Strengthen PPP Modality

WHY the central government of China has been strengthening PPP modality in these two years?

- **First, the current Administration is determined to deepen reform and opening up.**

Let the market play the decisive role in the allocation of resources, is one major theoretical innovation of the 18th third plenary session of the Communist Party of China. It was made clear by the third plenary that public resources allocation should be promoted in the market-oriented way, and non-public enterprises are encouraged into public services such as transportation, electricity, telecommunication and other franchise areas.

The Reasons for Chinese Government to promote PPP

➤ **Second, PPP can lead private capitals into public sectors.**

China has a huge private sector and enormous amount of private capitals. According to China's National Bureau of Statistics, from January to October of 2014, the private fixed assets investment amounts to 26.3 trillion yuan. However, channel for private capital to invest into public sector is quite limited. PPP can serve as the bridge.

The Reasons for Chinese Government to promote PPP

- **Third, PPP modality is an efficient way to address the gap between demand for public goods and narrowed fiscal space.**

After the 2008 global economic crisis, the world has huge demand for public infrastructure and services. But fiscal funds alone couldn't meet such vast demand, while existing financial system can't provide sufficient support neither. Although fiscal space is relatively adequate, China faces the problem too. Therefore, introducing new funding sources to promote public infrastructures and public services, especially PPP modality, is favored not only by the central government of China but also by the local ones.

The Reasons for Chinese Government to promote PPP

- **Fourth, China is playing a positive and responsible role in accord with international society.**

Major multilateral economic cooperation mechanisms such as G20 and APEC have inserted great efforts to promote PPP modality in recently years. China, as the host for 2014 APEC Meetings, also attached great importance to PPP to support regional infrastructure and global economic development.

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China's institutional arrangement for promoting PPP

➤ **Leadership**

Authorized by the State Council, as the leading agency, MOF has set up a PPP Working Group, chaired by Vice Minister Wang Baoan, to make institutional design and general guidelines for PPP promotion.

➤ **PPP Center within MOF**

China PPP Center.

➤ **Capacity Building**

MOF has been carrying out a number of education and training programs, nationwide and regional, to raise public awareness and government's institutional capacity and knowledge level of PPP.

China's institutional arrangement for promoting PPP

➤ **Law and Regulations**

With China's Constitution and Property Law admitting the inviolability of private property, the State Council has publicized several documents on encouraging and guiding private funds into public sectors. And the PPP Operations Guide drafted by MOF is currently requesting for comments.

➤ **International Cooperation**

- ◆ In 2014 APEC FMM, China formally launched the activities of the APEC PPP Experts Advisory Panel, finalized its Terms of Reference. China also committed USD 5 million from the Poverty Reduction and Regional Cooperation Fund in ADB to support capacity building and project development on infrastructure PPP.
- ◆ To promote regional connectivity through PPP, China initiated several multilateral development banks and mechanism:
 - Asia Infrastructure Investment Bank
 - New Development Bank
 - Silk Road Fund: 40 billion yuan

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Policy Recommendations

I. Enhance International Collaboration to Promote Capacity Building

Strengthen International cooperation with governments and multilateral organizations, to promote communication and cooperation on network construction, experience sharing and institutional capacity building. Mobilize financial and knowledge resources including technical assistance and transaction advisory services from experienced countries and MDBs.

II. Innovate PPP Modality to Increase Efficiency

- ❖ PPP can adopt Multi-party Collaboration, not just confined to government and private sectors. Multilateral development banks can also participate in PPP projects through the use of innovative financing tools including loans, equity investment, loan guarantee and project bond insurance.
- ❖ As for cross-regional project, multilateral PPP modality that involves all the related countries would be better than the traditional pattern.

Policy Recommendations

III. Design a High-quality, Integrated Master Plan to Strengthen Risk Management

- ❖ Set up regulatory and standardized procedures for PPP programs, through means of rules and guides.
- ❖ Gradually establish fair and efficient risk allocation mechanism.
- ❖ Take into consideration external risks and feasibility when selecting programs: programs should be in accord with national industrial policies and the requirement of using PPP modality.

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THANK YOU!