How to Select and Prepare PPP Projects in Different Areas

Guizhou China

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What can Consultancies do for PPPs?

- Project identification stage: project initiation, project identification, financial sustainability test, value for money valuation.
- Project preparation stage: a comprehensive project implementation plan.
- Project procurement stage: preparation of procurement documents, review of response documents, contract negotiation and signing.
Zhejiang Province:
- Located in Southeast China, Yangtze River Delta
- Population in 2016 is 55.90 million
- The most developed area in China, with GDP per capita 84,916 Yuan in 2016 (national GDP per capita is 53,980 Yuan at the same time)

Hangzhou, Shaoxing, Taizhou:
- Political areas account for 33.7% of Zhejiang
- Population takes 36.24% share of total population in Zhejiang in 2016
- Total GDP is above 2 trillion in 2016, accounting for 42.33% of Zhejiang GDP

Major Econ & Tech Index:
- Rail length: 269km
- No. of stations: 9
- Max. speed: 350 km/h (220 mph)
- Total Investment: 44.89 billion Yuan
Project Selection

- A major transportation route to connect the Yangtze River Delta metropolitan area with Taizhou & Wenzhou city cluster
- An essential part of Zhejiang One-hour Transport Circle, which helps improve the ground transportation network of Zhejiang
- An important strategy to eliminate the last No-railway-city titles in Zhejiang
- A beneficial infrastructure to bring more development opportunities for areas alongside the railway, especially tourism

**Hangzhou-Shaoxing-Taizhou High-speed Rail should run through PPP.**

- “Hangzhou-Shaoxing-Taizhou High-speed Rail…should be run through PPP by Zhejiang Province, and (Zhejiang) should positively attract private companies to finance and build it together.”
- One of the “8 Private Capitals Invest Railways Example Projects”, including Hangzhou-Shaoxing-Taizhou High-speed Rail.
Deal Structure

Case I: Hangzhou-Shaoxing-Taizhou High-speed Rail PPP
- Rail Passengers Pay
- China Railway Co. Delegate to Invest
- China Railway Development Fund Co., LTD
- Delegate to Run
- Pay

The People’s Gov. of Zhejiang Province Delegate to execute

Delegation Authority

Zhejiang Communication Investment Group CO., LTD

Private Partner(s)

Select by bids

Sign the PPP contract

15% Share

51% Share

13.6% Share

20.4% Share

Capital Base 12.36 billion Yuan (around 30% of the total investment)

Delegated to Invest

SPV

Build-Own-Operate-Transfer (BOOT)

Hangzhou-Shaoxing-Taizhou High-speed Rail

Delegated to Invest

Delegate to Run

Finance Entities

Loan Debt

Supervise

Relative Gov. Sectors

Financial Entities

Local Gov. Representatives

Case B: The Construction of Honghe River Tourism (First Phase)

Case C: Zhongdu Medical-Nursing Combined Project

Wrap-up
Milestones

Case I: Hangzhou-Shaoxing-Taizhou High-speed Rail PPP
- Consulting teams officially began to work
- Gov. officially approved the implementation plan
- Project bidding was successfully done
- The SPV was set up
- Railway construction began

Case B: The Construction of Honghe River Tourism (First Phase)
- Consulting teams got in touch with relative Gov. sectors
- Gov. officially approved the implementation plan
- Gov. and the private partners signed the PPP contract
- The SPV was set up
- Railway construction began

Case C: Zhongdu Medical-Nursing Combined Project
- Consulting teams officially began to work
- Gov. officially approved the implementation plan
- Gov. and the private partners signed the PPP contract
- The SPV was set up
- Railway construction began

Wrap-up
Innovation Highlights

1. Push the revolution of current railway running machine
   - Fully discover and mine the business attributes and income sources of high-speed rail projects.

2. Involved private capital into railway industry
   - SPV independently makes business decisions based on the market, and got revenues from tickets sales and other relative business.
   - Local governments pay subsidies to SPV during the early running years

3. Build a dynamic payment & adjustment mechanism
   - Adjustment mechanism works to handle specific changes, e.g. Extraordinary downside risk of demand/passenger amounts
   - Break the current unreasonable patterns and mechanisms in railway industry, e.g. railway revenue and cost clearing mechanism

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**Project Profile**

**Location:** South section of MiLe City, Honghe State, Yunnan Province

**Population:** The population is about 520 thousand of which minority nationalities account for 43.6%.

**Economy:** GDP 201.05 billion RMB, mainly in the secondary industry

**Project Type:** Travel & Leisure

**Project Content:** Cultural Creation; Health Regimen; Watery Region Holiday; Travel & Leisure; Ecological Residence
## Project Selection

### Reasons for the Government’s Selection of the Project

<table>
<thead>
<tr>
<th>National Key Project</th>
<th>Attributes of Tourism Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>One of the 135 great tourism projects of the National Tourism Administration</td>
<td>Flexible price adjustment mechanism</td>
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<tr>
<td>One of the 150 urban complexes in Yunnan</td>
<td>High level of marketization</td>
</tr>
<tr>
<td>Key project of Kunyuhong tourism economic area</td>
<td>Large scale of investment</td>
</tr>
</tbody>
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### Requirements of Operational Institution

- It is needed by professional companies to operate tourism projects.
- It is needed by self-financing of private capital at the later stage of the project.

### Project Preparation

Honghe state government attaches great importance to the project, a coordination group has been set up for the project. Before the implementation of the project, the market tests were carried out in several rounds to understand the intention of the private capital.

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Deal Structure

**Case B: The Construction of Honghe River Tourism (First Phase)**

- **Mile Government**
  - Grant the franchise right

- **Mile Bureau of housing and urban rural development**
  - Select
  - Handover when contract expired

- **Selected Private Capital**
  - Responsible for investment, financing, construction and operation

- **The Construction of Honghe River Tourism (First Phase)**
  - Providing project financing support
  - Paying parking fee, advertising fee, visitor center rental fee, etc.

- **Financial Institution**

- **User**

**Operation Model:** BOT

1. **Total investment:** 540 million RMB
   - Project capital 140 million RMB
   - Debt capital 400 million RMB

2. **The contract lasts 22 years**
   - 2 years for construction
   - 20 years for operation

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Project Process

Preparatory stage
PPP training was provided by the consulting agency for the project preparation and unified operation.

Identification & Preparation stage

Public Sector
Conducted several interviews by different departments of Mile municipal government, and then a unified project plan was worked out.

Private Sector
Communicated with potential private capital repeatedly to understand their corporation intention and interests.

Financial Institution
Visited Yunnan branch of China Development Bank several times to identify the financing requirements and demonstrated the feasibility of financing.

Procurement & Implementation stage
- Private units were selected through competitive negotiation.
- According to willingness of three sectors, they decided not to establish a Special Purpose Vehicle.
- Two months after the PPP contract was signed, the project financing was completed and obtained 400 million RMB of loan funds from China Development Bank.

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Milestones

- **2015.4**
  - Apr, project team started consulting service work

- **2015.7**
  - Sep, obtained a 400 million RMB loan from China Development Bank

- **2015.9**
  - May, investigated by the major leaders of Yunnan Provincial Government

- **2015.12**
  - Jul, the PPP contract was signed

- **2016.5**
  - Sep, selected into the second batch of demonstration projects

- **2016.9**
  - Dec, received 150 million RMB targeted construction fund

- **2016.10**
  - Sep, signed a strategic cooperation agreement with four luxury hotels and four airline companies

- **2016.10**
  - Oct, became the NO.1 resort in the city of Mile, about 260 thousand tourists during the weeklong National Day holiday

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Innovation Highlights

Form the Synergistic Effect to Promote the Whole Value

- PPP model operates infrastructure to ensure good project performance
- Private capital operated commercial facilities by themselves in order to enhance service quality
- Lead to increasing tourist flow

Decrease Government Subsidy

- Build underground parking lot
- Provide advertising and leasing services
- Encourage business innovation

Innovation of Project Financing Arrangement

- Clear loan intention in advance
- Innovative loan measures
- Introduction of financial institutions supervision

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Wrap-up
Location
Southwest of Shandong Province, North of Jining City

Economy and Population
A total population of 812 thousand, a GDP of 29 billion yuan and a General Public Budget Revenue of 1.36 billion yuan in 2017

Characteristics
Traditional Agricultural County, Millenary City of Buddha, Land of Confucianism

Project Total Investment
790 million yuan

Project Output
A new all-in-one community including 499 beds for health care and 1900 beds for elderly care

Batch of Demonstration Projects
The Third Batch of National PPP Demonstration Project
Project Selection

A. Project Collection
- The 12th and 13th 5-Year Plan for Economic and Social Development of Wenshang County
- Urban Comprehensive Planning of Wenshang County (2012-2030)

B. Demand Analysis
- The state council launched related guiding opinions
- Population aged 65 and over constantly increases

C. Screening
- In the field of public services
- Market Pricing Mechanism
- An investment of 790 million
- Aging of Population boosts the demand

D. Evaluation
- Pass the Value for Money and Financial Affordability Evaluation

- Push forward as a key project
- Establish the PPP Project Leading Work Group
- Authorize the Wenshang Civil Affairs Bureau as implementation organization
- Organize the project promotion event
- Conduct the market test
- Finish the implementation plan

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## Milestones

- **Adopted the PPP Model**
- **Finished the VFM Evaluation, Financial Affordability Assessment and Implementation Plan**
- **Be listed as one of the third batch of National Demonstration Projects**

- **2014**
  - Project Incubation
- **2015**
  - Project Planning and Approval
- **2016.1**
  - Completed the bidding and signed the contracts
- **2016.4**
  - Completed the construction and put into operation
- **2016.8**
- **2016.10**
- **2019.9**
Innovation Highlights

Let the professionals to do the professional things

- Multiple ownership enterprises are welcome to participate
- Entrust professional medical organization with the operation

Fully exploit the business value of the project

- Feed the medical service with the income of the pension service
- Increase income from entertainment center, rental shops and parking space
- Limit the construction of similar projects in specific period and area

Project Outcome

- Coordinated the interests of main stakeholders
- Minimize the risk and the input of public finance
- Increase the supply of medical care and elderly care
- Level up the efficiency of public services

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How to leverage the expertise of your consultants

- Attach importance to the VFM evaluation
- Pay attention to the assessment of fiscal affordability
- Make a comprehensive implementation plan
- Work together on the performance management
Thank You

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