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DEFINITION AND ESSENCE ANALYSIS OF PUBLIC-PRIVATE PARTNERSHIP (PPP) MODEL

Bo Liu¹, Xuehan Ma², Yun Li³ & Liang Tang^{*4}

¹Department of Accounting and Financial Management, Ginling College, Nanjing Normal University, P.R.China

²Department of Accounting and Financial Management, Ginling College, Nanjing Normal University, P.R.China

³Department of Accounting and Financial Management, Ginling College, Nanjing Normal University, P.R.China

^{*4}Department of Accounting, Business College, Fuyang Normal University, P.R.China

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Abstract

PPP model has become an important means to reduce the financial burden in the new normal, and PPP model in China has a certain difference with the PPP model overseas. Based on the analysis of the characteristics of PPP model, the definition of PPP model according with realistic of China is proposed; the advantages of PPP model are analyzed from helping the transformation of government functions, promoting investment diversification, and reasonable risk allocation etc.; through analysis of partnership concept, the essence of PPP model is put forward, which is the complementary advantages of the government and social capital.

Introduction

After more than 30 years of high-speed growth, the momentum of China's economic growth has begun to slow down ^[1]. Medium-to-high economic growth rather than high-speed growth becomes a normal and structural phenomenon, which is also the only way for China's economic restructuring and maturity ^{[2][3]}.

Under the background of China's economy entering the new normal and deepening the reform in an all-round way, it has become an important part of China's reform on supporting and guiding the healthy development of social capital investment ^[4]. Especially in the face of the difficulties that public investment may face when the economy enters the new normal, it has become an important task of the Chinese government on guiding social capital into the public sphere. On the basis of "Several Opinions of the State Council on Encouraging, Supporting and Guiding the Healthy Development of Private Investment" issued by the State Council in 2010, China has successively issued a series of guiding documents on partnership between the government and social capital since 2014. For example, the "Notice on Issues Related to the Promotion and Application of Public-Private Partnership Model", the "Guiding Opinions on Innovating Key Investment and Financing Mechanisms to Encourage Social Investment", the "Operating Guidelines for Public-Private Partnership Model (Trial)", the "Notice of the Ministry of Finance on Regulating the Management of Public-Private Partnership Model Contract, which provide effective support for the implementation of PPP model in China.

This shows that under the new normal, it is an inevitable development trend for social capital entering the public sphere ^[5]. The introduction of social capital is conducive to reducing the financial burden, promoting the diversification of investment subjects to enhance the effectiveness of project implementation and realize the reasonable sharing of risks ^[6]. In order to ensure the effectiveness of Public-Private Partnership, it is necessary to analyze the connotation and essence of PPP model.

Analysis of the Connotation of PPP Model

PPP (Public-Private-Partnership) model, as a financing model of public projects and a supply model of public goods, comes into being with the diversification of social demand for public projects ^[7]. PPP model first appeared in Britain in the 17th century. In the process of building lighthouses, "public-private-partnership" was introduced into it and played an important role in solving the shortage of government funds and improving the efficiency of funds. China introduced the concept of "public-private-partnership" in the 1980s. The landmark event was the implementation of Shenzhen Sha Tau Kok B Power Plant Project in the form of BOT.



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Considering that PPP model is a content with a very broad concept, and under different social backgrounds, the content represented by PPP has great differences. Therefore, there is no unified understanding of the definition of PPP concept. International organizations and researchers have given many different definitions of PPP:

The definition of PPP by the U. N. Institute for Training and Research is as follows: (1) Establish various partnerships between public and private advocates; (2) The public and private sectors establish partnerships to jointly implement large-scale public projects ^[8].

The United Nations Development Programme (UNDP) defines PPP as follows: PPP is an effective means to concentrate financial resources, management capabilities and professional knowledge into the construction and operation of infrastructure under the partnership system established between the public sector and the private sector through the exertion of the advantages of both parties.

Canada's PPP National Committee has made the following definition of PPP: PPP is a partnership between the public sector and the private sector to serve public needs through the establishment of risk sharing mechanism and benefit sharing mechanism on the basis of their respective advantageous resources ^[9].

Although the research on PPP started late in China, due to the attention of government departments, especially the government in the 1990s and early 21st century and the current three times of vigorously implementing PPP model, government departments and theorists have also made corresponding definitions of PPP. Among them, the more representative viewpoints are as follows:

Wang Shouqing, Ke Yongjian and others believe that, PPP model, that is, the Public-Private-Partnership, is a project financing and implementation model developed in the construction of public infrastructure and reached a medium and long-term partnership agreement between government departments and social capital. It is a modern financing model with the partnership concept of "win-win" or "multi-win" of all participants. PPP model can be divided into broad sense and narrow sense. In a broad sense, PPP refers to the partnership between government departments and social capital. In a narrow sense, PPP refers to the general name of investment and financing models between government departments and social capital, including BOT, BT, TOT, DBFO and other models ^[10].

In the "Notice of the Ministry of Finance on Regulating the Management of Public-Private Partnership Model" (CJ No.156, 2014) issued by the Ministry of Finance on December 30th, 2014, it puts forward the "PPP model Contract Guide (Trial)", in which the concept of PPP model contract is defined. It is mentioned that the PPP model refers to the contract concluded by the government (government or government authorized agencies) and the social capital (social capital or project company) on PPP model according to law. It can be seen from this that the Ministry of Finance of the People's Republic of China has given the partnership between the government and social capital for the PPP model.

At the same time, the National Development and Reform Commission has also defined the PPP model in the "Guiding Opinions of the National Development and Reform Commission on Public-Private Partnership" (NDRC Investment No.2724, 2014): the PPP model refers to the benefit sharing, risk sharing and long-term partnership established by the government and social capital through franchise, purchase of services, equity partnership and other means in order to enhance the supply capacity of public goods and services and improve the supply efficiency.

From the above analysis, although there is no unified understanding of PPP model at present. Overall, PPP model has the following characteristics:

- (1) PPP model is a partnership established between government and social capital;
- (2) Under PPP model, the government and social capital give full play to their own advantages;
- (3) Under PPP model, the government and social capital are constrained by contracts;
- (4) Under PPP model, the government and social capital realize "win-win".

Therefore, this study gives the following definition of PPP model: PPP model is a partnership between the government and social capital. Under the effect of this partnership, the government and social capital each exert their own advantages to achieve "win-win" as the goal, while under the constraint of the contract, both parties share risks and benefits.



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Different from the traditional public-private-partnership model abroad, the PPP model proposed by China is "Public-Private Partnership". As for social capital, in the "PPP Model Contract Guide (Trial)", the following definition is made for social capital: "Social capital refers to enterprises with legal person status established according to law and effectively existing, including private enterprises, state-owned enterprises, foreign enterprises and enterprises with foreign investment. However, government financing platform companies under the people's government at the corresponding level and other state-owned enterprises (except listed companies) controlled by them shall not participate in PPP model within the jurisdiction of the government at the corresponding level as social capital parties." ^[11] Therefore, China's definition of social capital is not private capital in the traditional sense. State-owned enterprises and foreign enterprises all belong to the category of capital ^[11]. Therefore, the concept of social capital in PPP model in China is broader than that in private capital in public-private-partnership abroad.

Analysis of the Advantages of PPP Model

As a new type of project implementation model, PPP model is a financing activity with the project as the main body. It arranges financing according to the expected income, assets and the strength of government support measures of the project, rather than the credit standing of project investors or sponsors. Through the use of PPP model, social capital can be well involved in the construction of public infrastructure projects, thus improving efficiency and reducing risks, and at the same time ensuring that social capital is "profitable" to a certain extent. PPP model enables government departments and social capital to make full use of their respective advantages, that is, to combine the social responsibility, long-term planning and coordination ability of government departments with the entrepreneurial spirit, social capital and management efficiency of social capital. The advantages of PPP model are as follows:

(1) It is conducive to the transformation of government functions and the reduction of financial burden. The government can get out of the heavy affairs and change from the past provider of infrastructure public services to a regulatory role, thus ensuring the quality and reducing the government pressure in the fiscal budget ^[12].

(2) It has promoted the diversification of investment subjects and improved the effectiveness of project implementation. It can provide more funds and skills for government departments by using social capital to provide assets and services, which is conducive to promoting the reform of the investment and financing system. At the same time, social capital participation in the project can also promote innovation in project design, construction, facilities management process and other aspects, improve work efficiency, and disseminate the best management concepts and experiences ^[13]. At the same time, under the PPP model, it is conducive to the integration of all parties involved in the project to form a strategic alliance, which plays a key role in coordinating the different interests and objectives of all parties.

(3) Reasonable risk allocation. PPP model can realize risk allocation at the initial stage of the project. At the same time, as the government shares part of the risks, the risk allocation is more reasonable and the social capital risks are reduced, thus reducing the financing difficulty, and improving the possibility of successful project financing ^[14]. While sharing the risks, the government also has certain control.

PPP model can achieve good results in promoting the acquisition of funds for public infrastructure construction, and under this model, government departments and social capital can reach a better partnership.

Although when applying PPP model, the requirements for legal environment and external market environment are relatively high. However, as a new government-social capital partnership model, PPP model has a wide range of applications. This model breaks through various restrictions on the introduction of social capital to participate in public infrastructure project organizations and can be applied to various infrastructure construction.

Essence of PPP Model

The important content of PPP model is the public-private partnership. Partnership itself is a way of joint action. Successful partnership should have several basic conditions, namely, unified goals, unified understanding and norms, atmosphere of trust, material basis, etc. Under PPP model, the government and social capital form a stable contractual relationship through a series of constraints such as contracts. As the government and social capital work under the framework of the contract, both parties give full play to their own advantages, thus having absolute advantages in the efficiency of work completion and risk control, and giving full play to the maximum value of funds.



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As a result, the essence of PPP model lies in the complementary advantages of government and social capital. Specifically, in serving the public domain, the advantages of the government lie in the strong communication brought about by rights, long-term planning prospects and the fulfillment of social responsibilities. The disadvantages embodied by the government lie in the grasp of efficiency and the lack of control of new management concepts. For social capital, its own advantages lie in its grasp of efficiency, control of new management concepts and flexibility, while its own disadvantages lie in its short-sighted behavior and passive communication brought about by lack of rights. In conclusion, the advantage of the government lies in its ability to allocate social resources, while the advantage of social subjects lies in the efficiency of the market mechanism. Therefore, PPP model connects the government and social capital in a link way, fully combines the advantages of the government and social capital, and provides a platform for the government and social capital to give full play to their advantages through certain constraints.

In order to understand the essence of PPP model more intuitively, this study gives a conceptual model of the essence of PPP model.

Suppose the government code is G and the social capital code is S . The advantages and disadvantages of the government are M and N respectively: The advantages and disadvantages of social capital are Q and R .

Then PPP model is to combine the advantages of the government M with the advantages of social capital Q through a certain mechanism and under certain constraints, and inhibit their respective disadvantages N and R in order to achieve the goal of win-win.

The conceptual model of the essence of PPP model is shown in Figure 1.

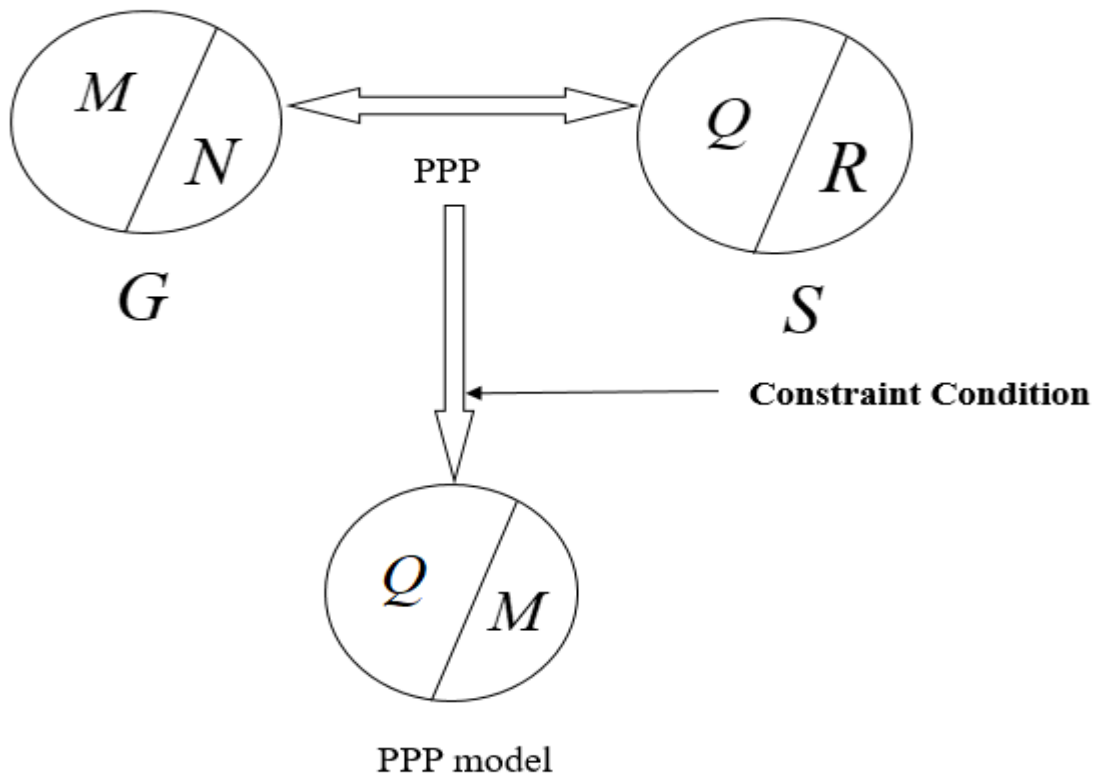


Figure 1 A schematic conceptual model of the nature of PPP model

Under PPP model, the government and social capital share benefits and risks through contracts, and can give full play to their respective advantages. Although for the benefit of government and social capital, each has not achieved the maximization of its own interests. However, under PPP model, the government and social capital can give full play to their respective advantages and form a partnership mechanism with the goal of "win-win"



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based on specific projects, which realizes the maximization of social benefits, that is, "Pareto optimality". This is consistent with the original intention of PPP model-to solve the problem of public services.

Conclusion

Under the background of prominent government financial pressure after China entered the new normal, social capital entering the public sphere is an important way to solve the shortage of government public expenditure. Therefore, PPP model would become an important means for the government in the coming period. Since the essence of PPP model lies in the complementary advantages of government and social capital, , reasonable mechanism design should be adopted to ensure that the respective advantages of government and social capital can be fully brought into play under PPP model.

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Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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