

PPP Should Return to Its Original Goals

Interview with Dr. Wang Shouqing¹

Professor and Chief Expert
Center for Public-Private Partnership
Tsinghua University, China



Interviewed by Yu Yanjuan
Journalist, Project Management Review: PMR (China)

Journalist's notes

Public Private Partnership (PPP) has witnessed roaring growth in China since 2014. What does PPP mean in China? What are the challenges behind the PPP heat? What factors should PPP participants pay special attention to? What about the future of PPP in China?

With those questions in mind, we are so honored to have an interview with Dr. Wang Shouqing, professor in Tsinghua University, Chief Expert at Center for Public-Private Partnership (PPP), Tsinghua University. Hailed as “PPP Godfather”, he has been dedicated to PPP research, teaching, training and practice in China for more than two decades. His efforts and selfless dedication for promotion of PPP have paid off with fruitful academic accomplishments. We extend sincere gratitude and respect to him for his generosity to share forward-looking views with us and for his commitment and devotion to promote regulated PPP practice in China.

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Interview

Q1: As a top expert on PPP, would you please offer us a brief introduction to PPP in China?

Wang Shouqing: By definition, PPP in China is slightly different from that in other countries. In China, PPP means cooperation between government and social capital (official term, including both private and government-owned companies which have independent debt liability).

By the end of 2017, total investment of PPP since 2014 has amounted to 18,200 billion, making China the largest PPP market in the world. I believe we should promote PPP step by step on a gradual basis. Though regulated PPP is one of the best delivery approaches of public projects, we are not supposed to take it as a master key to all projects.

Due to the large population and developing stage of China, the PPP market in China is huge and will be long lasting if PPP meets the central government's objectives of applying PPP, e.g. to provide more and better public goods/services, solve government budget constraint and reduce government debt, improve efficiency and achieve Value for Money.

Q2: Aside from difference in definition, are there other differences between PPP in China and PPP in western countries?

Wang Shouqing: According to my observation, they also have different understandings about PPP principles and essentials. For example, PPP in China puts more emphasis on process while PPP in western countries is more results-driven. Our financing for PPP projects is mainly based on credit (corporate finance) while in western nations PPP is mainly on project finance. In China, we don't have a unified governing body for PPP. In the initial stage of PPP development, local governments take PPP approach for almost all (if not all) public projects while PPP is just one of various approaches for public projects in the west.

Q3: What are the challenges or barriers that PPP faces in China? In which direction should we make more efforts?

Wang Shouqing: As a relatively new concept in China, PPP has met some problems and challenges. In my opinion, currently the biggest challenge that PPP faces in China is how to achieve value for money while not resulting in contingent debt. More efforts should be placed on the selection of suitable projects for PPP and implementation of PPP projects following PPP principles and best practices so as to realize the central government's objectives.

There are a couple of problems worth our attention. First, the environment and mechanism of promoting PPP remains to be established. Now, we suffer from a lack of clear and sound law and regulations, mature financial systems, as well as efficient coordination across various government departments. Therefore, the government should improve legal framework and coordination, and strengthen performance supervision and monitoring on PPP projects. Besides, mechanism for public participation should also be properly established. It is also

important to train government officials and professionals relevant to PPP as we don't have sufficient PPP talents and are in urgent need of professionals with PPP knowledge and practice experience.

Q4: You've made a vivid analogy by saying that PPP is a marriage instead of a wedding. Why?

Wang Shouqing: It is not my saying but the common sense in PPP domain. This is mainly because that PPP is a long-duration contract between the Public and the Private (i.e. the social capital, ditto) and there are many uncertainties or risks during the contract period, as not anyone could make a perfect contract. Therefore, it requires all the stakeholders especially the Public and the Private to establish a real Partnership just like a marriage.

Whether a marriage is happy or not doesn't depend on the marriage certificate issuing but rather on the mutual operation (common goals, communication about unpredicted issues and things uncovered in contracts). Similarly, the signature of PPP project contacts doesn't equal the success of projects, which is judged by all-win of stakeholders long after project delivery.

Q5: You've been promoting regulated PPP implementation. So what's the original goal of applying PPP?

Wang Shouqing: PPP application is an inevitable trend. However, we have come across the problem of unregulated practices in the execution of PPP projects. For that reason, several government departments in China have issued rectification policies/documents. The purpose is not to bring an end to PPP, but to regulate PPP, to return to the original goals of PPP.

The original goals for adopting PPP are: (1) to solve the problem of public sector budget restraint; (2) to provide an integrated solution (for public infrastructure/services); (3) to reduce public money tied up in capital investment; (4) to cap final service costs; (5) to reduce the total project cost; (6) to save time in delivering the project; (7) to reduce public sector administration costs; (8) to ensure benefits to local economic development; (9) to realize non-recourse or limited recourse project finance, and so on.

Q6: You mentioned earlier that China needs more PPP professionals. What measures has China taken to strengthen professional PPP talent education?

Wang Shouqing: The National Development and Reform Commission (NDRC) organized and provided various training via Center for PPP at Tsinghua University (TUPPP), established jointly by Tsinghua University, NDRC and China Insurance Regulation Commission in April 2016, for PPP related government officers province by province from September 2016 to September 2017 and for NDRC PPP Experts in March 2017. The Ministry of Finance has also provided training for government finance officers since 2014. TUPPP, National Accounting Institute and other organizations also provide various trainings for PPP professionals. TUPPP has also established the China University PPP Alliance (currently with 63 university members) to promote PPP related research and teaching exchange. TUPPP and some universities have also offered PPP related graduate courses and/or degree program.

Q7: PPP Center of Tsinghua University issued “PPP index” in 2017. As far as you are concerned, what’s the significance of “PPP informatization”?

Wang Shouqing: It is aimed to give investors and financial institutions more independent information on PPP market maturity and risk in various cities in China so as to help them with better investment decision and to stimulate the governments to improve the investment environment.

Q8: You’ve said that PPP is not only Public and Private Partnership, but also the involvement of People and Politics. Would you please elaborate on this viewpoint?

Wang Shouqing: PPP is to provide public goods/services for people at large, and all stakeholders should take into account the final users (the People). People participation and engagement is therefore important. In addition, PPP is a long-term contract with many uncertainties, hence requires all stakeholders including the Public (many government departments involved) help not only at project level by sharing some risks but also at legal and institutional level by providing sound laws, regulations and policies which are also related to the country’s political system(Politics).

Q9: At present, transport and environmental protection are the biggest PPP sectors in terms of investment scale. Why?

Wang Shouqing: I think this is local government’s requirement. In western or northeastern provinces in China, especially poorer areas, transport like highway and railway is important for economic growth and improvement of life quality. In developed regions e.g. eastern and southeastern China, due to the huge population and improvement of quality of life, there is huge market demand for transportation especially subways, high-speed railway and environmental protection projects.

Q10: There is a statement about “fake PPPs”. From your perspective, what does “fake PPP” mean?

Wang Shouqing: Among all the identified PPPs, strictly speaking, about 72% do not fulfill completely the requirements of the latest PPP policies by the central government. Most investors are SOE engineering companies and their main objective of investing in PPP is to get the construction contract so that they can get most of their investment back after finishing their construction. However, due to unfair and unsound PPP contracts (resulting mainly from local government’s keenness to launch projects and incapability of consultants etc), they don’t pay much attention to operation.

Q11: You are praised to be “PPP Godfather” in China. So, “godfather”, would you like to make some predictions about the future of PPP in China?

Wang Shouqing: PPP in China has been cooled down since the end of 2017 and will gradually

resume rational and steady level. I guess the number of PPP projects in the future will be 25-30% of total public projects. However, there will also be more disputes in existing PPP projects in following years as those implemented in the past four years are not so normalized (did not follow strictly the central government PPP policies). But I'm confident that the PPP projects will be implemented better from now on than those in last several years as the central government has regulated the existing PPP projects and promulgated some rectification policies. All stakeholders have also learned lessons and accumulated experiences since 2014 and they will be more capable in implementing PPP projects.

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