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Executive Doctorate in Business Administration of Université Paris-Dauphine

Constructing Three-echelon Financing Model to Solve Financing Problems in Implementing China's PPP Project

(To apply for Executive DBA of Université Paris Dauphine)

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30th May, 2017

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ACKNOWLEDGEMENTS

In the time of writing this paper, I was extremely grateful to my supervisor Li Junlin for his consistent guidance, encouragement and support.

At the same time, I would like to express my appreciation to my partners for their engagement in exploring and completing many PPP projects and facilitating practical demonstration.

I would also like to express heartfelt thanks to my team and my family who have given me consistent support and dedication.

ABSTRACT

The PPP in China has gone through three periods. In the initiation period from the end of the 20th century to 2003, attempts were made on individual projects. From 2003 to 2013, the PPP entered the development period with the landmark of the franchise, but still lacked the top-level design and related laws and regulations. After 2013, it made a hit thanks to the country's promotion and establishment and amendment of related laws and regulations. According to the project library of Ministry of Finance National PPP Integrated Information Platform, as of the end of March 2016, the project library of National PPP Integrated Information Platform enlisted 7,721 projects with a total investment of 8,780.247 billion yuan and saw 724 projects and 648.047 billion yuan increase compared with that of the end of January, but the implementation rate is only 21.7%. The publication of the data raised a question in the industry, that is, why few PPP projects are materialized? This is because the project itself is not mature in addition to external environmental factors. In fact, one of the influencing factors is the difficulty in financing PPP projects. The purpose of this paper is to find the reasons for the difficult PPP project financing and then explore how to solve this problem.

Around the purpose of the study, the author elaborates on the PPP project financing theory. Project financing theory is a branch of international finance, and provides a new investment and financing theory for public goods construction and services. In the core of the theory, there are limited recourse or unlimited recourse financing. The investment structure, financing structure, capital structure and credit guarantee structure of the project financing are mutually supporting and constitute the core system of project financing while providing a good innovative way of thinking for the PPP project financing. But there are only a few specific financial practices under the guidance of project financing theory.

The characteristics of the PPP projects and the nature of SPV make it difficult to obtain financing support under the traditional corporate finance philosophy. Based on the project financing theory and combining with the characteristics and working practice of PPP projects, this paper puts forward the PPP lifecycle three-echelon financing model of PPP lifecycle as the demonstration of project financing theory and proves the feasibility and applicability of the model through case analysis and questionnaire survey. The PPP lifecycle three-echelon financing model originates through comprehensive application and innovation of financial instruments suitable for PPP investment and financing in PPP practice and flexible combination of a variety of financial instruments and financial innovation. According to project financing needs of different stages, as well as the cash flow and risk characteristics at different stages, it's

important to select the most appropriate financial instruments, build the best financing structure and maximize investment and financing support to serve the financial needs of PPP lifecycle.

Key words: PPP; Project Financing; Three-echelon Financing Model

Table of CONTENT

Chapter 1 Introduction 1
1.1 Definition of PPP 1
1.2 Introduction Background of PPP 2
1.3 Characteristics of PPP in China 6
1.4 China's Public-private Partnership Model 11
1.4.1 Macro-level architecture 11
1.4.2 Micro-implementation level architecture 12
1.5 Operation and Management Process of PPP in China 14
1.6 Research Questions 14
1.7 Research Objectives 17
Chapter 2 Theoretical Framework 20
2.1 Public Service Theory 20
2.2 The Theory of Financing Structure 23
2.3 The Relationship between Theory of Project Financing and PPP 26
2.4 The Theory and Financing of PPP 37
2.4.1 Theoretical research on PPP characteristics 38
2.4.2 Operation modes of PPP 46
2.4.3 Theoretical research on PPP financing structure 49
2.5 Financial innovation's Support to PPP Financing 65
2.5.1 Industrial Investment Fund 65
2.5.2 Asset Securitization 70
2.6 Limitations of Traditional Credit and Direct Financing Market 79
2.7 Conclusion 83
Chapter 3 Research Methods 85
3.1 Main research methods 85

3.2 Data for research and main methods for collecting data 87
3.3 Limitations in research methods 93
Chapter 4 Research Results 96
4.1 Questionnaire and Results 96
4.1.1 Feedback on the understanding of PPP 96
4.1.2 PPP financing survey 99
4.1.3 PPP investment structure survey 100
4.1.4 Risks of PPP financing survey 102
4.1.5 Views on three-echelon financing model instruments 104
4.1.6 Summary of questionnaire findings 105
4.2 Results of Interviewing with Banks and Government Departments 105
4.3 Cases Analysis and Results 107
4.3.1 Case I: Laibin Power Plant B plant BOT investment and financing method 108
4.3.2 Case II: Changzhou Xinlong Forest Park Phase II Project 114
4.3.3 Case III: Integrated construction of Jinshan Industrial Park, municipal stadiums and roads 137
4.3.4 Case IV 2015-2020 Ningbo South Trade Logistic Zone Investment Projects 162
4.3.5 Case V Internet+Agriculture Information Project 169
4.3.6 Case VI Xin Jiyan Highway Project of Huidong County 175
4.4 Case summary 179
4.5 Failed Cases 182
Chapter 5 Conclusion 184
5.1 Research Conclusions 184
5.2 Research Limitations 187
BIBLIOGRAPHY 188
APPENDIX 196

Table of FIGURES

Figure 1 Local debt balance/local public finance income in 2015 3
Figure 2 Local debt balance/local comprehensive finance income in 2015 4
Figure 3 Provincial fixed asset investment growth & comparison (2014&2015) 4
Figure 4 Private partner number in PPP demonstration project by Ministry of Finance 7
Figure 5 Investment amount by social capital types 8
Figure 6 Project number by social capital types 8
Figure 7 CSCEC subordinated company involved PPP projects from 08.2015-07.2016 9
Figure 8 Provincial guidance fund structure model 12
Figure 9 Guidance fund participating in SPV investment structure 13
Figure 10 Guidance fund participating in SPV investment structure 15
Figure 12 PPP project participants 44
Figure 13 PPP project risk categories 51
Figure 14 PPP risks categorized by three echelons 52
Figure 15 PPP project payment mechanisms 53
Figure 16 Optimal asset-liability ratio of all parties in power industry 63
Figure 17 Issuance number and total number of public utilities ABS since 2005 76
Figure 18 Distribution of bond market balance at the end of June 2016 83
Figure 19 Numbers of demonstration projects in months 95
Figure 20 Understanding of effectiveness of PPP 97
Figure 21 The most direct purpose to promote PPP 98
Figure 22 Reasons why few PPP projects have been launched 99
Figure 23 Major factors affecting financing of PPP projects 100
Figure 24 Solutions to capital of PPP projects 101
Figure 25 Biggest worry for PPP implementation 102
Figure 26 Risk concern in PPP risk sharing 103

Figure 27 Risk awareness of government breaching the contract 103
Figure 28 The most effective protection measurements to investors 104
Figure 29 Investment structure of B plant of Guangxi Laibin Power Plant 111
Figure 30 Project cash flow 116
Figure 31 Project trading structure 122
Figure 32 β coefficient of enterprises 135
Figure 33 VFM qualitative assessment questionnaire 141
Figure 34 Prediction on cash flow of government payment 143
Figure 35 Project cash flow trend 144