

# Research on the Operation Mode of PPP Project for Logistics Park in the Ethnic Regions

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**Abstract.** The PPP is just the mode of public-private partnership, referring to the long-term partnership established between the government and the social capital to provide the public products or services, with typical form of organizing a special project company by the government and the social capital based on the modern enterprise joint stock system to sign contracts with the government for special public products or service projects to provide public products and services. The paper selects a concrete case in the Inner Mongolian municipality and considers the practical situation and demands of the ethnic region to select the operation mode of PPP, divide assets ownership, design the concrete operation mode, institute the performance assessment mechanism, and define the price adjustment mechanism and interest sharing mechanism.

**key words:** PPP project, operation mode, BOT

## 1.Introduction

On May 8, 2015, the State Council approved the State Development and Reform Commission's notification of opinions concerning the emphatic work in deepening the economic system reform in 2015 and proposed actively popularizing the public-private partnership mode, introduced the methods of infrastructure and public utility franchising, to fully kindle the energy of social investment. The public-private partnership mode proposed in the notification is just so-called PPP mode [1], which refers to the long-term risk-sharing and interest-sharing partnership established by the government and social capital for infrastructure construction and public services [2].

As a multinational country, China has five national autonomous regions currently. The minority groups have specific manners and customs, and their demands for the public services are different from those of the Han people. Thus, it is needed to fully consider the demands and characteristics of the minority groups in implementation of PPP project in the ethnic regions.

This project is located in the Inner Mongolian municipality, and the construction content covers the road engineering, water supply engineering, drainage works, reclaimed water

engineering, electricity and communication engineering heat supply engineering, natural gas engineering and appurtenant road greening, road lighting and traffic engineering of the logistics park.

## **2.Types of PPP Mode**

### **2.1 Outsourcing**

In the outsourcing, the government reserves the ownership of the project and wholly invests in the project, which is then contracted to the private sectors in the form of contract, while the private sectors only assume one or more responsibilities of the whole project and charge the government sector to obtain the earnings, such as operation and maintenance (O & M), management contract (MC).

### **2.2 Franchised Operation**

Franchised operation is the most principal and the commonest mode in the public-private cooperation of public services. The project's ownership in the franchised operation can be shifted between the government sectors and the private sectors and will be turned over to the government sectors in expiry. The private sectors are responsible for whole or partial investment in the project, while the government entrusts the private enterprises via open tendering to provide the products or services. The two parties sign a contract to highlight respective rights and obligations. Its typical modes include build-operate-transfer (BOT), transfer-operate-transfer (TOT), rebuild-operated-transfer (ROT), etc. [3].

### **2.3 Privatization**

The privatization means the private sectors possess the project's ownership and are responsible for the whole investment in the project, and engage in investment, construction and operation of the project with the supervision and management of the government sectors, while the private sectors charge the users to recover the cost and obtain reasonable profit. The typical modes are built-own-operate (BOO), etc. [4].

## **3.Mode of Project Operation**

### **3.1 Cooperation Term**

Before defining the term of cooperated operation of the project, the following factors need to be considered:

(1)The term length should be able to make the investor concentrate on the long-term investment, operation and development of the enterprise to avoid short term acts;

(2)This project is characterized by large early capital investment and long design life . Too short term for cooperated operation would lead to low return of the social capital party or even failure to recover the early input, and will also increase the right wing front banner government's pressure of financial subsidies.

Based on the above principles and considering the high input cost and long recovery period of the project, the project's term of cooperated operation is recommended to be ten years (including two years as construction period).

### **3.2 Assets Ownership**

The project's assets ownership belongs to the government. The project company owns the right of operation during the cooperation period. After the term of cooperated operation expires, the project's assets and facilities will be transferred to the government or an institution designated by it.

### **3.3 Concrete Operation mode**

This project selects the BOT mode of the PPP mode [5]. The concrete implementation mode is as follows: the people's government authorizes the Ministry of Housing and Urban-Rural Development and the social capital to jointly construct a project company to implement the project of constructing the logistics park with the project company as the legal entity in the ethnic region; the people's government grants the project company the operation right; during the cooperation term, the project company is responsible for the design, financing, investment, construction of constructed project in the logistics park in the ethnic region and operation and management of the project company; the authorized operation period is ten years. During the project's term of cooperated operation, the social capital participates in the management of financing, operation, maintenance and updating for the whole life cycle of the project via PPP mode, to integrate the life cycle. In expiration of the cooperated operation term, the project's assets and facilities will be transferred to the government or an institution designated by it.

### **3.4 Performance Assessment Mechanism**

To bring the project's effect into play to the largest extent and better exert its traffic benefit after it is constructed, the project should enhance examination of project company's construction and operation and management after the adoption of PPP mode, and should also highlight the assessment indices for the construction period and the operation period, etc. To meet the demands for the performance assessment, the Ministry of Housing and Urban-Rural Development and PPP professional consultation units jointly perfected and instituted a reasonable set of performance assessment standards based on combination of the original management methods and performance assessment for road infrastructures and the special characteristics of the PPP project. The standard will be listed into the PPP contract in the form of annex as the reference for the performance assessment over the project's construction, operation and maintenance effect.

### **3.5 Price Adjustment Mechanism and Interest-sharing Mechanism**

In selecting the social capital, the quotation of the social capital is measured and calculated based on the estimated investment amount to provide a final quotation. In the stage of confirmation and negotiation with the social capital, the calculation equation for the project's gross investment and charge adjustment is defined, and the government's expenses of purchasing the services and grant-in-aid are re-calculated according to the final audited investment amount.

Due to the long term of cooperated operation, the project's operating cost changes with the time. The project price or charge should be confirmed and adjusted according to related laws and regulations, administrative regulations and operation cost, etc.

During the operation term, the subsidies for operating cost are dynamically adjusted according to the actual operation cost. The project company reports the operation and maintenance scheme each year to be audited by the government before defining a benchmarking operating cost to define the operating cost. If the actual operating cost of the project company is less than 10% lower than the benchmarking operating cost, the settlement will be made based on the benchmarking operating cost and the earnings go to the social capital party; If the actual operating cost is more than 10% lower than the benchmarking operating cost, the interest-sharing mechanism is set, and the earnings are split between the government and the social capital party. If the actual operating cost of the project company is less than 10% higher than the benchmarking operating cost, the settlement will be based on the benchmarking operating cost, and the exceeding part is assumed by the social capital party; if the actual operating cost is more than 10% higher than the benchmarking operating cost, the exceeding part is split between the government and the social capital party.

#### **4.Conclusion**

With a concrete project in the Inner Mongolian municipality as an example, the paper considers the practical situation and demands of the ethnic region to select the operation mode of PPP, and defines the operation mode of the project as BOT, divides the assets ownership, designs the concrete operation mode, institutes the performance assessment mechanism, and defines the price adjustment mechanism and interest sharing mechanism. The paper provides references for those engaging in PPP and related research by designing the operation mode via the concrete PPP project case.

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