

# *Restrictive Factors and Countermeasures of Adopting PPP Mode in Old-age Care Project*

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**Abstract**—The aggravation of the aging process has brought about problems such as the gradual disappearance of the demographic dividend and the reduction of the value-creating labor force. The seriousness and necessity of providing for the aged have gradually emerged. Characterized by public-private partnership, the PPP model provides new ideas about the development of pension projects and brings new development opportunities for the pension industry. The paper discusses the development opportunities by the PPP projects for the aged from five aspects: the basic concepts and characteristics, development status, development advantages, major problems and constraints, and development countermeasures.

**Keywords**—PPP model for pension projects; problems and constraints of PPP pension projects; Pension PPP project development; Development Countermeasures of PPP pension projects

## I. INTRODUCTION

According to the latest census data, the elderly population of China is expected to reach 248 million by 2020, and the aging level will reach 17.17 percent, among which the aged population over 80 will reach 30.67 million. By 2025, China's population over the age of 60 will reach 300 million and become an ultra-elderly country.

The pension industry in China is the public service sector that is most lacking in supply. With a large population China has entered an aging society. Only the government provides old-age care services cannot meet the demand of the market. it also needs the active participation in private capital. At the current stage, the pension service industry is not favored by the public, and private pension service is also very difficult. Therefore, this opens a large market space for the pension PPP projects.

## II. THE BASIC CONCEPT AND BASIC CHARACTERISTICS OF THE PPP MODEL IN THE PENSION PROJECT

PPP (Public-Private-Partnership) is a partnership between the government and private organizations to build urban infrastructure projects provide some public goods and services.

In recent years, China has promulgated a number of policies to encourage the PPP model to dock with the old-age service industry, actively encourage social capital to invest in healthy old-age service projects, and increase health and old-age service projects that give priority to social capital. In today's market, most pension projects adopt BOT (build-operate-transfer) model and BOO (build-own-operation) model. These two modes are also mostly used in PPP projects in other fields [1].

The PPP model is applicable to infrastructure construction and public service, while the pension industry belongs to the public service field, so the two are consistent in the applicable field. In addition, the pension industry and PPP mode has the characteristics of large investment and slow income. This has also created a docking base of the PPP model and the pension services industry.

## III. THE DEVELOPMENT STATUS OF OLD-AGE CARE PROJECT ADOPTING PPP MODE

PPP projects can be divided into five stages: identification, preparation, procurement, implementation and handover. At present, more than 2/3 of PPP pension projects stay at the initial stage of recognition with a low landing rate. No completed PPP pension project has yet to be transferred. According to the data onto the PPP comprehensive information platform of the ministry of finance, the number of projects signed in the pension service industry is far lower than the number of projects in the fields of transportation, water conservancy and environmental energy [2]. Under the government's impetus many places have explored and practiced the integration of pension services and PPP mode, but there is no complete experience of introducing PPP mode into the field of pension services. Most of the pension PPP projects are still in the state of exploration. According the date from 2012 to 2017, obtained by China public private partnerships center, since 2012 the number of pension PPP projects has increased gradually, reaching a peak at 2015 and then gradually declining.

#### IV. DEVELOPMENT ADVANTAGES OF OLD-AGE CARE PROJECT ADOPTING PPP MODE

The integration of PPP mode and pension project has four main advantages:

First, the PPP model is a new type of pension project financing mode. The endowment project under the PPP mode is conducive to broaden the source of funds. The PPP model supported by specific policies and guided by credible government can effectively reduce the investment risk of private capital, which helps to improve the confidence in private capital investment. For the government, it can not only relieve the financial pressure in providing funds to support the pension, but also activate the pension market fund.

Second, PPP financing mode can help private capital reduce risks, improve efficiency and improve the overall service level of the pension industry. Cooperating with the government and investing in the aged service industry under the support of policies is a favorable guarantee of private capital both in the choice of partners and in the support of policy conditions.

Third, to a certain extent, PPP mode can guarantee the profit of private capital. According to the government's regulation and regulation, private enterprises can better grasp the market direction and find the right opportunity to find the trigger point of interest.

Fourthly PPP model can reduce the government's investment burden and risk of the initial stage of construction and improve the service quality of infrastructure construction. After the government brings the pension industry to the market, only those enterprises with high service quality and professional level will survive in the fierce competition. For this reason, enterprises will continue to invest more and improve their own strength to adapting the market elimination mechanism. It can also push the development of the transformation of the entire pension industry [3].

#### V. THE MAIN PROBLEMS AND CONSTRAINTS FACED BY THE DEVELOPMENT OF PPP MODEL IN PENSION PROJECTS

##### A. *Three factors of PPP pension projects cause the problem of the shortage of pension service facilities in many places.*

By May 2018, pension projects accounted for only 2.18% of all PPP projects. Nowadays, PPP mode is mostly concentrated on municipal public facilities. For the public service field of the pension industry, the government needs to introduce relevant policies to encourage and guide social capital security and promote project development. The total investments of pension PPP project are about 196 billion Yuan, which a big gap is compared with the trillion-dollar demand of pension service market. At present, PPP pension projects are widely used in China, but the distribution is very uneven. Shandong Province has the largest number of PPP pension projects, up to 43. However, there are 9 provinces or autonomous regions that do not introduce PPP projects.

##### B. *PPP pension projects have similarities.*

For PPP pension project, the operation mode is single, the return mechanism is similar, the investment field is

concentrated, and the basic pension service institutions are few. The current PPP project practice mode mainly includes BOT(Build-Operate-Transfer),BOO(Build-Own-Operate), TOT(Transfer-Operate-Transfer), ROT(Renovate-Operate-Transfer). More than 90% of PPP pension projects choose BOT or BOO mode, which increases the demand for social capital and government input. Nowadays, 64.15% of the returns were paid by users, 35.84% were paid by the government and the feasibility gap subsidy. And the current PPP projects mainly focus entertainment facilities, life support, tourist attractions and other high-end consumer services for the elderly. However, it is little investment in basic services such as apartments and beds for the elderly, which is more demanded and meaningful [4].

##### C. *The pension service industry has a long investment return period, low profit margin and large difference in charges.*

Excessive investment reporting time will discourage some social capital. For the pension industry, the huge investment and high cost of exit affect the enthusiasm for some enterprises to participate. Moreover, the consumption concept of the elderly group needs to be changed. Compared with other social groups, the payment ability needs to be improved.

##### D. *It is difficult to supervise the pension industry and establish unified evaluation standards.*

Due to the special nature of the industry, unlike other infrastructure such as sewage treatment and rail transit, the assessment of the pension service industry has no fixed index as the standard, which increases the difficulty of supervision and assessment [5]. At present, most of the assessment criteria are hardware facilities, which cannot comprehensively assess the soft service quality. How to establish systematic and effective evaluation criteria is also a major difficulty in the implementation of PPP pension projects.

##### E. *It is difficult to find the entry point of PPP pension projects.*

As a financing method, PPP mode is widely used in municipal transportation ecological energy and environmental improvement projects. However, the PPP pension projects have certain differences due to the diversity of situation and the concept system of PPP mode. According to the current government documents, pension projects are mainly divided into public-private, private-funded, government purchasing services and other modes, which has a certain docking difference between the PPP recommended for the PPP series documents.

##### F. *There are still some risks in PPP pension projects.*

There are inherent risks in the pension industry due to its own industry specificity. Under the PPP mode, different subjects need to take some risks at different stages.

From the outside of the industry, the pension industry has strong public welfare and small profit space. The elderly population is special. The payment capacity of the elderly is different due to different regional minimum guarantee levels, so the markets of the elderly care services and products are different. Moreover, the acceptability of the new pension model needs to be improved. It is difficult to guide the public

to transform from a family pension model to a new one. At present, the pension industry has problems such as lack of regulation and relevant laws. Financial institutions will avoid being sucked into such business risks, which can lead to difficult financing problems. In addition, there are still problems such as failing to fully monitor the pension service units, and the regulatory standards are different. These problems will lead to risks in the acceptance and supervision of retirement projects. As the law on PPP pension project is not complete, it will bring risks such as unclear division of liability in the event of default.

From the inside of the industry, it is difficult for the pension project to be approved, it is also difficult to get the project construction qualification. The dual need of convenient living and family visit also brings some limitations to the location of nursing homes. Different regional customs will lead to different living habits of the elderly, inaccurate positioning will lead to low acceptance of products and waste or shortage of equipment. The physical and mental health of the elderly population are relatively fragile and prone to accident and liability disputes. In addition, the profits of the pension industry may be lower than the business expectations, which may affect the normal operation of the project.

## VI. THE DEVELOPMENT strategy OF PPP PENSION PROGRAMS

### A. Advice to the government

The integration of pension service industry and PPP mode requires the joint cooperation between the government and social enterprises to achieve effective development. In the high-speed operation of the market, only the joint efforts of the government and enterprises can effectively avoid market operation risks and achieve the success of the project. For the government, the following countermeasures should be taken to solve these problems.

#### 1) Reduce system costs and reduce approval procedures.

In the cooperation of old-age PPP projects, the government can appropriately reduce institutional costs of enterprises and provide policy support by reducing the approval procedures of old-age PPP projects. In terms of subsidy mechanism, the government should gradually narrow the gap between the government and public pension institutions in terms of policies such as construction and operation and expand and improve the scope of subsidies for operation. In addition, the service quality of pension service institutions is evaluated fairly and effectively, and the pension service institutions with high social evaluation are rewarded [5].

#### 2) Grade classification of pension service institutions

The pension service institutions are classified according to service type, service content and service institution setting. Establish the construction standard of all levels of service to the aged, including hardware equipment content, service content, service object and content charging mechanism. The criteria should be detailed and specific, providing assessment basis of customers.

#### 3) To supervise pension services institutions in an open manner.

Law enforcement departments responsible for the management of pension institutions need to check regularly and publish the inspection results. Pension service institutions need to accept the supervision and feedback from the service objects or the society. The violations committed by pension service institutions shall be dealt with in accordance with legal procedures and be subject to heavy penalties. The results of the evaluation feedback are linked to the performance evaluation in PPP mode [6].

#### 4) Government departments should strengthen the study of PPP mode knowledge and establish a sound decision-making mechanism.

With the assistance of professional consulting agencies, the government makes decisions and provides relevant laws regulations and decision-making support to create a favorable investment and financing environment for the elderly care industry. Government can refer to domestic and foreign successful cases to improve relevant mechanisms and policies and regulations. In the process of promoting PPP pension projects, talent cultivation should be given top priority. The government should adopt certain preferential policies to encourage social donations.

#### 5) Do well in project information disclosure

The government should reach a consensus with participating enterprises in the construction and operation [7] on of old-age care PPP projects, eliminate the asymmetry of information, and ensure that both parties involved has an open and transparent understanding of project information. The government should supervise and inspect the implementation of the project regularly or irregularly. Any problems found in violation of contract provisions shall be promptly urged to correct. This ensures that the projects transferred will not fail because of short-term profits. For the PPP pension projects by BOT, TOT and ROT, the government should prepare for the handover.

### B. Advice to the company

It's not easy to get into the pension services because it's an important public utility, competition is inevitable. In the project operation stage, enterprise should improve its core competitiveness and try to avoid risks. When recruiting, enterprises should check the qualifications of service personnel, select those experienced and high-quality service personnel, improve the enterprise training system, and ensure that the personnel have the corresponding pension services capacity before taking the post. Specific Suggestions for enterprises are as follows:

#### 1) Enterprises should help the government reduce external risks

As project executors, businesses are closer to the market, so they have a better understanding of the industry and the needs of the elderly than the government. Enterprises should communicate with the government in time. Enterprises should communicate with the government in time about the problems encountered, which is conducive to the government adjusting

policy direction, and ensure pension industry developing healthily [8].

*2) Enterprises should strictly control the process to reduce project risk.*

In the project preparation stage, enterprise should prepare tender sufficiently. In terms of site selection, scale, positioning and design, enterprises should conduct sufficient investigation and research to meet customer needs. At the same time, enterprises should reach a consensus with government to prevent the impact from demand changes. In the construction stage, enterprise should guarantee the construction safety and strictly control the quality, schedule and cost. When enterprise chooses a third-party partner, it should conduct a strict review of its qualifications to ensure the quality of the project.

## VII. SUMMARY

With the development of the aging process, the issue of old-age care needs to be better solved. The PPP model has brought new opportunities for the development of the pension industry. The combination of the pension industry and the PPP model can bring capital and profits. At the same time, this combination can also reduce project risk. However, PPP pension projects still have problems such as uneven distribution and low success rate. Companies need to continue to work hard to increase profit margins. The government also needs to be supervised in a timely manner to ensure an excellent environment for the pension industry. With the joint

efforts of the government and enterprises, we believe that the problem of old-age care will be effectively solved and the old-age industry will be better developed.

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