

# *Research on the Social Capital Active Exit Method of PPP Project*

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**Abstract:** The development speed of the PPP model has declined in recent years. One of the main factors is that government departments have not completed the construction of social capital exit mechanisms in PPP projects. This paper, while sorting out China's policy on social capital withdrawal and the status quo of research on the PPP project withdrawal mechanism, focuses on analyzing the need for the social capital party to voluntarily withdraw from the PPP model and the need for the social capital party to voluntarily quit successfully. After that, it analyzes the methods of voluntary withdrawal of social capital, such as maturity transfer, equity transfer, share repurchase, asset securitization, and public listing. This will allow the social capital side to have more reference when actively withdrawing from the PPP project, and increase the enthusiasm of the social capital for participating in the PPP project.

## **1. Introduction**

Since 2014, China's Ministry of Finance, the government, and the Social Capital Cooperation Center and other departments have focused on promoting the development of PPP projects, and the development of China's PPP projects has begun to rise. As of November 2019, the number of projects in the national PPP integrated information platform project management library project was 9,230, and the total amount of the project was 14,175.799 billion yuan. At the same time, relevant policies for the withdrawal mechanism have been promulgated continuously, and it is hoped that the introduction of related policies will improve the withdrawal mechanism of social capital and further promote the smooth progress of the project.

Most of the policies issued by the government on the exit mechanism of PPP projects focus on the non-active withdrawal of social capital, and the situation of voluntary withdrawal of social capital has not been elaborated too much. It can be seen that the government's main energy is devoted to how to attract social capital for investment. It has obviously paid insufficient attention to the voluntary withdrawal of social capital, which will affect the smooth progress of the project. In order to ensure the smooth progress of the project, mutual trust between the government and social capital and a good cooperation process are essential, and research on the way of social capital's active withdrawal is of paramount importance.

## **2. Necessity of Voluntary Withdrawal of Social Capital in PPP Projects**

### **2.1. Reduce Partner Risks**

In the process of PPP project cooperation, there will be many risks. Among them, political risk is one of the most frequent. Usually political risks mainly include default risks and corruption risks. And if political risks occur during the operation of a PPP project, it is often the unilateral benefit of social capital that is lost, and at this time the PPP project will be forced to terminate as a result, which will cause social capital to withdraw passively [1]. For example, in 2008, due to the implementation of the State Council's 4 trillion plan, the government's financial pressure was greatly relieved, which caused many PPP projects to be unilaterally terminated by local governments, and the social capital side could only be forced to withdraw. It can be seen that the withdrawal of the social capital party from the PPP project for advance planning can not only improve the contract terms, but also reduce the moral dishonesty of various stakeholders.

### **2.2. Improve the Utilization of Funds**

In the process of PPP project cooperation, social capital funds will be invested in the early stage of the project, but the benefits will be obtained in the middle and even later stages of the project. For investors, they hope that the investment period is shorter, so that the probability of risk in PPP projects will be smaller. For example, when the investment amount is the same and the return on investment is similar, the faster the flow rate of funds, the higher the return. In addition, through a reasonable initiative to withdraw, financial institutions such as banks, investment institutions, and securities companies can also obtain considerable returns in the short term, thereby recovering investment funds and enabling the long-term and short-term funds of enterprises to be smoothly connected [2]. It can be seen that the voluntary withdrawal of social capital parties from PPP projects can allow various investors to quickly recover their funds, thereby increasing the utilization rate of funds.

### **2.3. Enhance Social Capital Investment Confidence**

In the process of PPP project cooperation, although the social capital side cannot avoid the occurrence of political risks, the voluntary withdrawal of social capital has made social capital a retreat. As long as the social capital party can meet the conditions for exiting the PPP project, the social capital party can actively withdraw from the PPP project. The existence of a voluntary exit method of social capital makes the government subject to certain constraints in the PPP project, which not only increases the fairness of cooperation between the two parties, but also allows the two parties to make the cooperation relationship more harmonious [3].

## **3. Ways for Social Capital to Withdraw Actively from PPP Projects**

### **3.1. Ways to Exit Due**

Due transfer is mainly applicable to BOT mode and its derivative modes BT and BOOT mode. Usually, the project company does not involve the ownership of assets during the construction and operation period. The social capital party obtains reasonable input capital and profits. When the franchise period expires, the PPP project is transferred to the government or a designated unit for free. After the project is successfully received, it will be operated and maintained, and the project company will be cancelled and dissolved after the project is transferred. Its essence is that the social

capital party sells its technology to the government or a designated unit. At the beginning of the project, the social capital party can obtain a certain period of franchise rights, that is, the franchise period. During this period, the social capital party can Fees are charged for related project services to obtain profits.

### 3.2. Equity Transfer Exit Method

Equity transfer exit usually refers to the transfer of equity of the SPV company by the social capital to the government and other capital parties. There are two methods of equity transfer: active transfer and non-active transfer [4]. The active transfer mainly adopts the agreed transfer method, which means that the social capital is determined in writing when the project is signed, and one of the entities is responsible for exercising the repurchase right within the agreed period, so that other social capital parties drop out. The non-active transfer is mainly due to the contradiction between the government and social capital during the PPP project cooperation, which forced the withdrawal of the termination of the cooperation, or a problem with the social capital funding chain during the cooperation period that prevented the cooperation from continuing and then withdrawing.

### 3.3. Equity Repurchase Exit Method

The repurchase of equity repurchase is essentially a special type of equity transfer, which often refers to the round-trip purchase of equity by the government, SPV companies, and other social capital to the social capital party. Equity repurchase is mainly divided into active repurchase and non-active repurchase. Non-active repurchase refers to the temporary takeover of a project by a government department team when an irresistible event is encountered. Active repurchase mainly adopts the agreed repurchase method, which means that when the PPP project is signed, each investor determines it in writing, and the government buys back the PPP project within the agreed time, thereby helping social capital to exit successfully.

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