

## **China Minsheng Bank Supports Ecological Restoration in Beijing-Tianjin-Hebei Region Through PPP Syndicated Financing**

The sand prevention belt in North China spans nine provinces (autonomous regions and municipalities) and include six key national ecological function zones such as the Coordinated Development Zone of the Beijing-Tianjin-Hebei Region (BTH Coordinated Development Zone). As a part of the ecological layout of the “Two Shields and Three Belts” (the ecological shields in the Qinghai-Tibetan Plateau and in the Loess Plateau-Sichuan-Yunnan, and the forest belt in Northeast China, the sand prevention belt in North China and the hilly area belt in South China). It is a key area in China’s sand prevention and control, and also a focal and difficult area in China’s efforts in ecological protection and restoration. The northern mountainous area, represented by Zone C, is located in the BTH Coordinated Development Zone in the northern sand prevention belt. It has accumulated a large number of high-quality assets since long ago, but also faces the problems such as gradual vegetation degradation, monotonous forest types, scattered assets, being hard for unified management and high operation and maintenance costs, making it difficult to meet national policy requirements for major ecological protection and restoration. In response to the national policies, the government of City T urgently needed to overcome the financing difficulty and planed for long-term financial support, so as to further advance the development of eco-tourism, ecological conservation, ecological protection and other segments, strengthen ecological protection and restoration and spur the development of relevant industries in the northern mountainous area on the basis of the existing ecological and environmental protection system.

To this end, under the customer-centric philosophy, China Minsheng Bank innovatively launched the public-private partnership (PPP) syndicated financing plan for ecological protection in the northern mountainous area (the PPP Project) to revitalize the existing high-quality ecological assets in the area in City T. Through transfer of operation rights of existing assets, funds were obtained to provide stable and long-term financing for ecological protection, restoration and development, and to support key green finance projects of local governments and national ecological protection projects.

The PPP model helps achieve a healthy balance between economic and social

benefits and effectively mobilize social funds and increase the supply of public services. The combination of the PPP model and green finance projects is one of the best practices to mobilize and stimulate more social funds to invest in green industries, and is an important financial model to support the development of green industries and to build the green finance system.

Specifically, the PPP Project adopted a "TOT+BOT" operation approach, of which the existing projects were operated by the approach of "TOT" (Transfer-Operate-Transfer), and the new projects were operated by the approach of "BOT" (Build-Operate-Transfer). Company Y, the funding party with a registered capital of RMB6 billion, was the social financing party that had won the bid for the PPP Project for the ecological protection in City T. It signed the Contract on the PPP Project for Ecological Protection in City T with the Bureau of Planning and Natural Resources of City T, undertaking the investment, financing, design, construction, operation and maintenance of the PPP Project for the ecological protection in the northern mountainous area in City T. The operation work mainly included the conservation and maintenance of plants, the maintenance of infrastructure and public service facilities, and the operation and maintenance of eco-tourism scenic spots and experience areas. According to the contract, the project company legally enjoyed the exclusive right to operate the project and the right to obtain relevant benefits. The project income included government viability gap funding and fees paid by users. According to the final financing plan, it was determined to provide medium- to long-term syndicated loans to the project for the purpose of paying transfer fees of operation rights of existing assets and financing new projects. The overall transaction structure of the project is described in Figure 1.

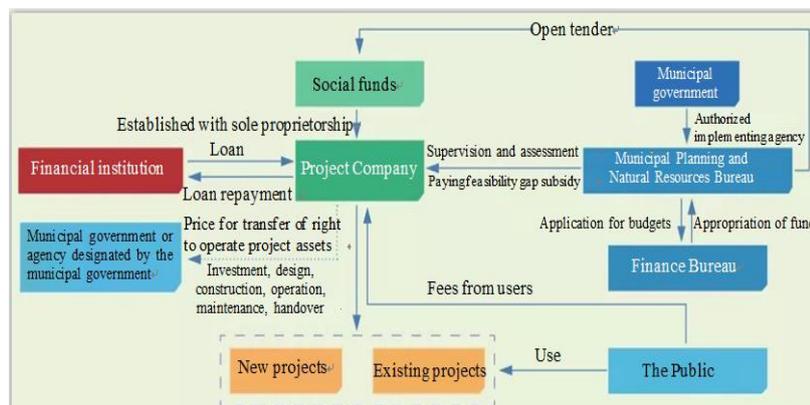


Figure 1: The overall transaction structure of the PPP Project of China Minsheng Bank

图片内容修改意见：

1. Municipal government 改为 Government;
2. Project Company 改为 Project company;
3. Municipal Planning and Natural Resources Bureau 改为 Bureau of Planning and Natural Resources;
4. Municipal government or agency designated by the municipal government 改为 Government or agency designated by the government;
5. Finance Bureau 改为 Bureau of Finance;
6. The Public 改为 The public;
7. Paying feasibility gap subsidy 改为 Payment of viability gap funding;
8. Price for transfer of right to operate project assets 改为 Transfer fees for operation rights of project assets;

The existing high-quality ecological assets in the area were revitalized through the PPP model. Fully considering the regional positioning and the advantages of the customer, national ecological protection policies and green finance concepts, the project design team put forward the core concept of ecological protection financing and promoted the formation of the final PPP syndicated financing plan. The Project has successfully passed the financial affordability argumentation and the value-for-money evaluation, and has been included in the PPP management database of the Ministry of Finance as a key project. Through transfer of asset operation rights, it obtained the transfer fees in a short time, revitalizing RMB30 billion existing natural assets and indirectly stimulating another RMB30 billion public welfare investment.

The Project is easy to be copied and popularized. It is of great inspiration and attraction to the parties of similar projects for the following reasons: Firstly, the financing model of syndicated loans is simple and transparent with reasonable financing cost, and is easy to be accepted by social investors. Secondly, the PPP project, as the underlying asset, is suitable for large-scale popularization for its transparency, standardization and normalization. Thirdly, during the cooperation period, the government has introduced social funds through the "viability gap funding", established a payment mechanism that completely linked to the output performance of the project, and therefore, the lump-sum investment was evenly amortized to 25 years, effectively smoothing the financial payment curve and reducing short-term expenditure pressure of local finance.

The Head Office coordinated with the branch of the Bank to improve assessment efficiency, winning recognition from customers. Considering the great importance attached to the project by the local government, the huge social significance and the large number of participating banks, the Project set high requirements for efficiency at its initiation. The investment banking and assessment teams of China Minsheng Bank stepped into the project in advance, analyzed project demands, provided guidance for the design of products and risk control, and enhanced process efficiency under the premise of controlling risks, which was highly recognized by customers.

The implementation of the project will effectively protect the existing natural resources in the area, increase the forest and grass vegetation coverage ratio, enhance the functions of windbreak and sand fixation, soil and water conservation, and the biodiversity, improve the quality and stability of the natural ecosystem, and promote the construction of ecological civilization. It also provides reference for similar ecological restoration and environmental protection projects. After implementation, the Project will help restore 339 mu (or 22.6 hectares) of bare lands, foster 2,200 mu (or 146.67 hectares) of ecological conservation and restoration area, 690 mu (or 46 hectares) of mountain forests, 690 mu (or 46 hectares) of introduction and domestication area, 828 mu (or 55.2 hectares) of ecological experience area, and 93,500 mu (or 6,233.33 hectares) of other benefited vegetation of ecological conservation. Meanwhile, it will also implement measures for other ecological restoration and protection, such as renovating and restoring mountains, replacing planting soil, and introducing irrigation and fireproofing facilities.

Note: This case study was published with the title of *Green Finance Supports Restoration of Ecological Environment in China Banking* (Issue 3, 2022)