

Japanese Policy and Implementation on PFI

Asia-Pacific Business Forum
October 4, 2007
Seoul, Republic of Korea

Hirohiko MACHIDA
Director for PFI promotion office
Cabinet Office of Japan (CAOJ)

Introduction of PPP/PFI in Japan

Background and History

Background

- Shortage in tax revenue due to depression over the years and a preference for small government
- Necessity of rebuilding due to aging buildings and increasing of concern about earthquake resistance
- Failure of previous joint private-public ventures (a corporation owned both by private and public) due to poor risk allocation and planning
- Inspired by PFI success in England

History Chart

07/1999	Enactment of "PFI Law"
10/1999	Creation of "The Committee for Promotion of PFI" in the Prime Minister's Office
03/2000	Drawing up "Policy Framework"
01/2001	Release of "Process Guideline" and "Risk Sharing Guideline"
07/2001	Release of "VFM Guideline"
07/2001	Revision of "PFI Law"
06/2003	Release of "Contract Guideline" and "Monitoring Guideline"
06/2004	Release of "Interim Report of the committee for promotion of PFI"
08/2005	Revision of "PFI Law"
11/2006	Arrangement Paper of "Directors from PFI Liaison Conference of the Relevant Ministers and Agencies"
12/2006	Annual Report 2005 (the 1st Annual Report) was issued.

Introduction of PPP/PFI in Japan

The Institutional Framework (1)

PFI Law

The Law Regarding the Promotion of the Construction of Public Facilities, their Management and/or the Provision of Related Services Using Private Capital and Other Resources Provided by the Private Sector (PFI Law)

Enacted July 1999

Revised December 2001, August 2005

Policy Framework for the Implementation of PFI

Cabinet Office Notification No. 11 (Mar 2000)

Set by the Prime Minister in accordance with PFI Law (article 4)

Policy Framework shows the basic concept and procedures for implementation of PFI

Introduction of PPP/PFI in Japan

The Institutional Framework (2)

Guidelines

Practical guidance for implementation of P F I projects

- | | |
|--|----------|
| ① Guidelines for the Implementation Process of Private Finance Initiative Projects | Jan 2001 |
| ② Guidelines for Risk Sharing | Jan 2001 |
| ③ Guidelines for VFM (Value for Money) | Jul 2001 |
| ④ Guidelines for Contract | Jun 2003 |
| ⑤ Guidelines for Monitoring | Jun 2003 |

The Committee for Promotion of PFI

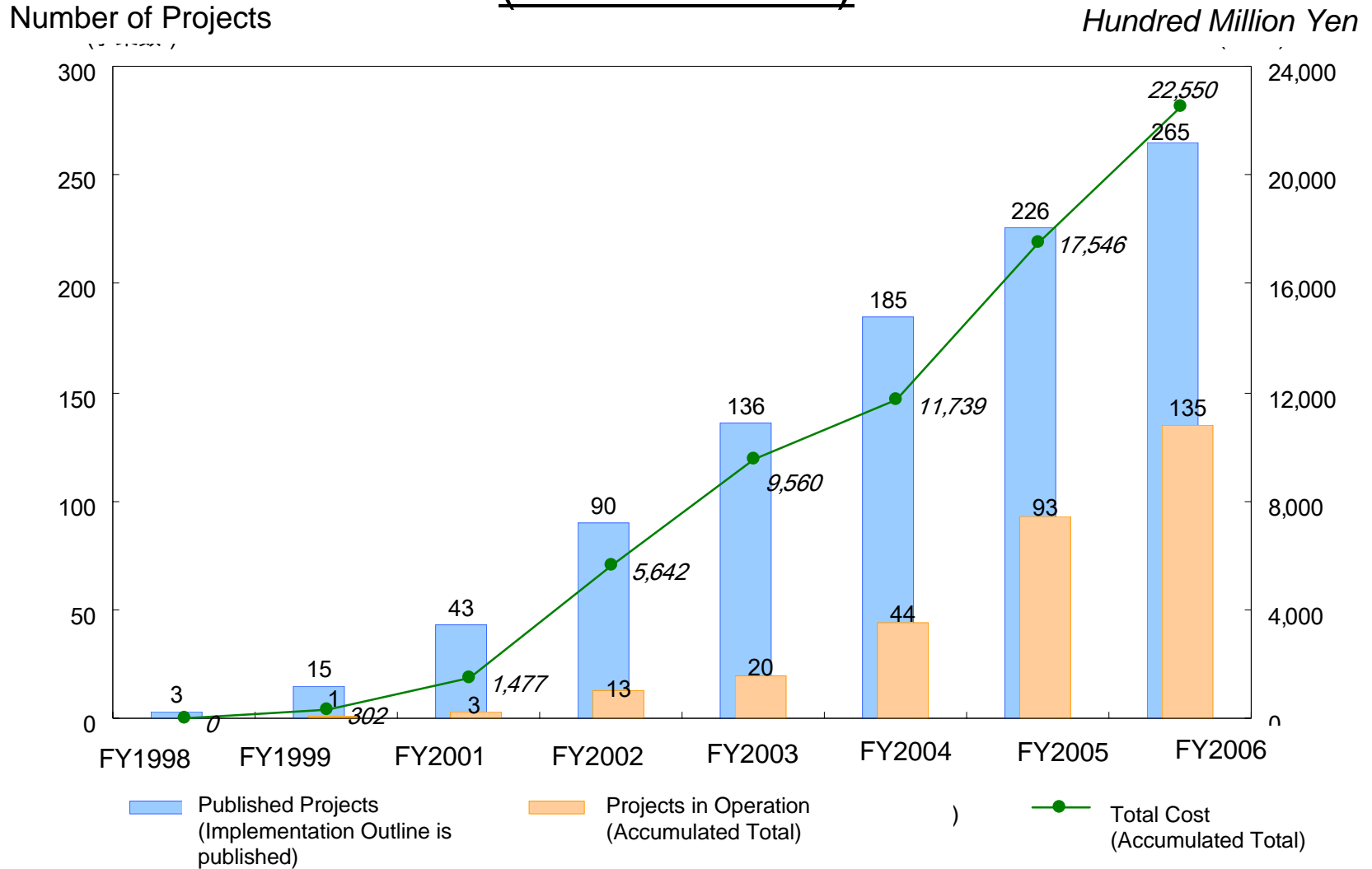
Established in accordance with PFI Law (article 21) in Sep 1999

Committee consists of 9 specialists. (Chairman: Mr. Youichi MORISHITA, Matsushita Electric Industrial Co., Ltd.)

Introduction of PPP/PFI in Japan

Growth in Number and Cost Basis of Projects

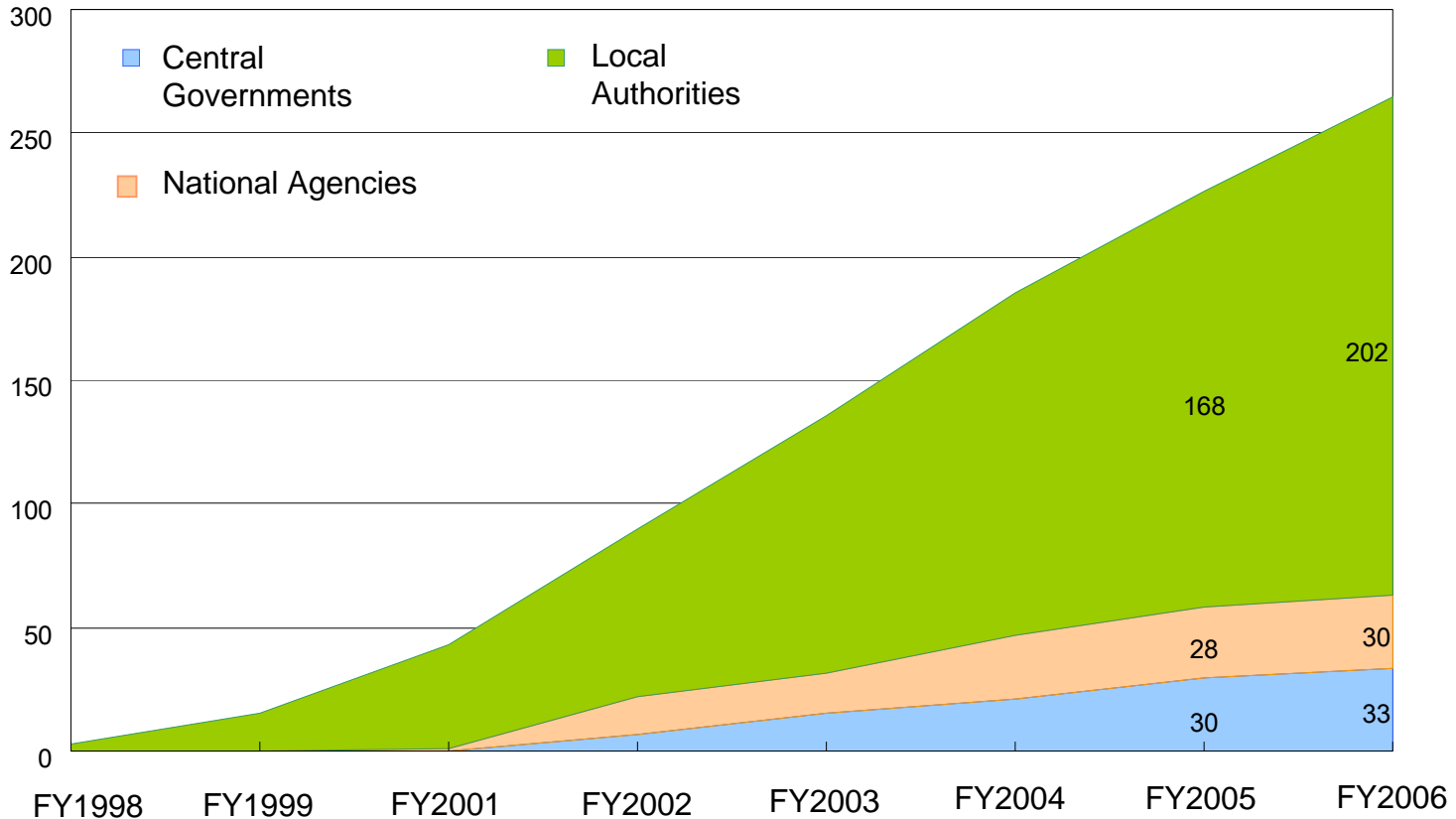
(FY1998-2006)



Introduction of PPP/PFI in Japan

Growth in Number of Projects by Administrator (FY1998-2006)

Number of the Projects



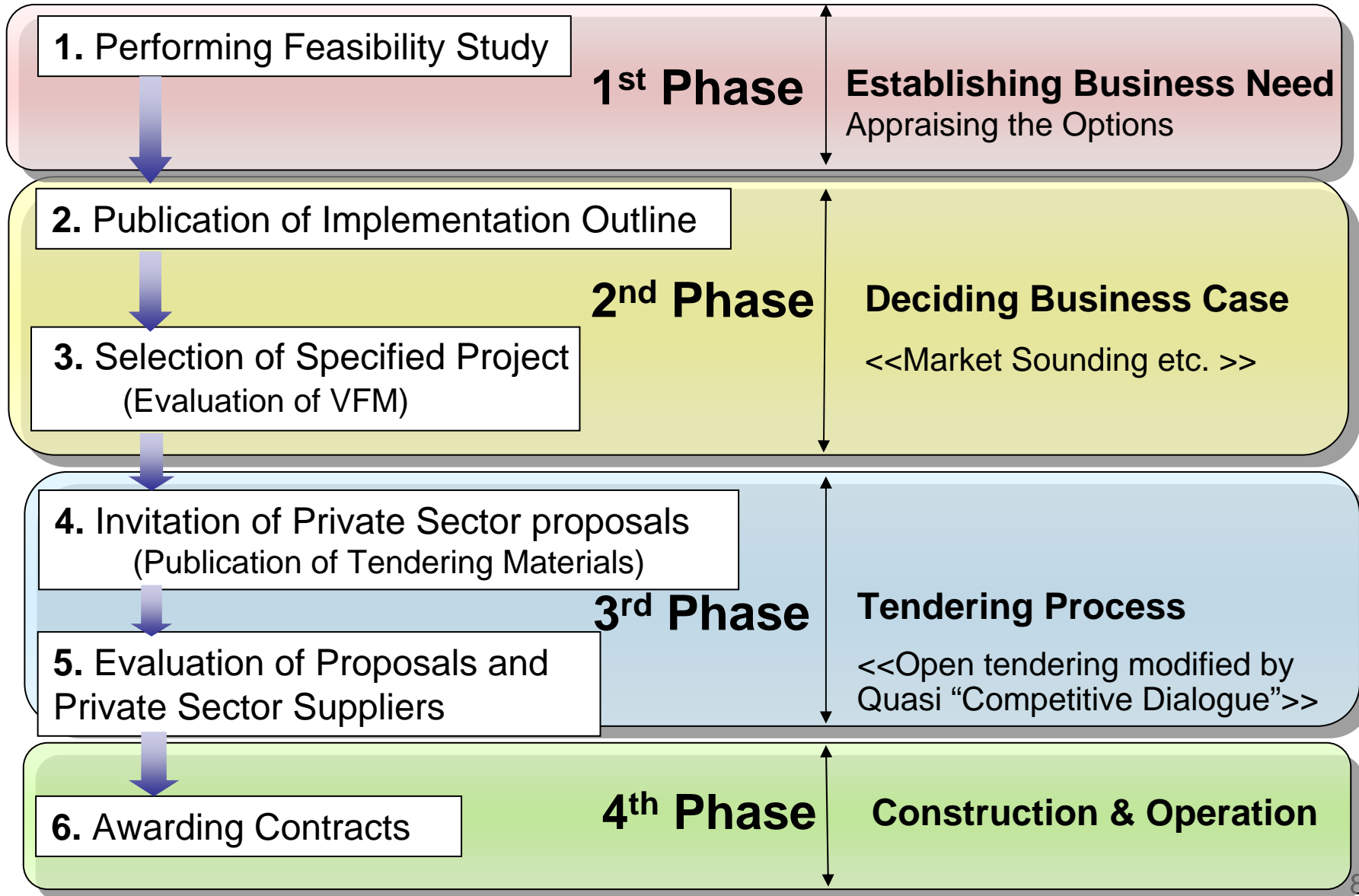
Introduction of PPP/PFI in Japan

Progress of Projects (2007/7/31)

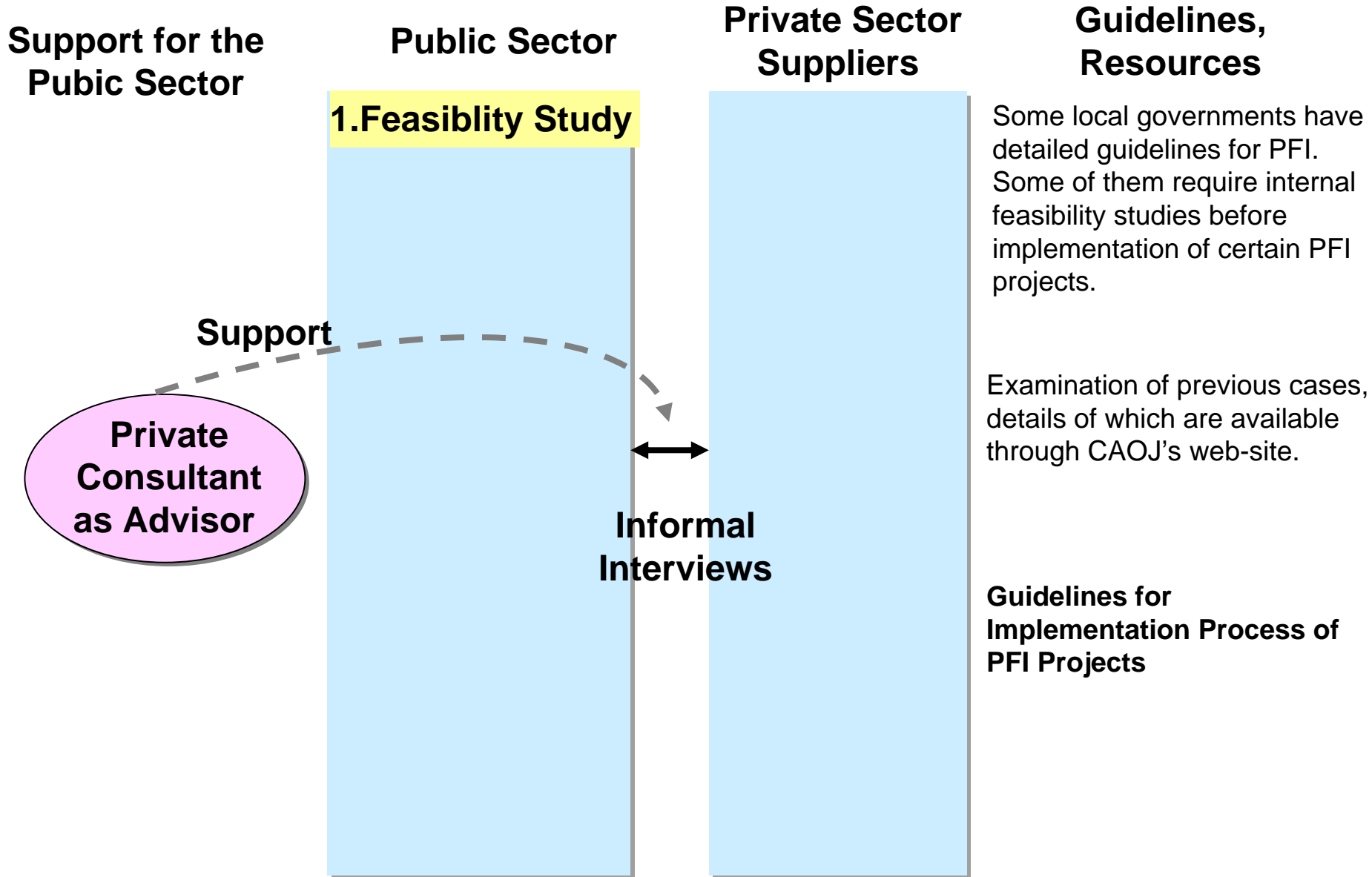
	Implementa tion outline	Selection of specified projects	Selection of supplier	Under construction	Service provision	Total
1999FY	0	0	0	0	3	3
2000FY	0	0	0	0	12	12
2001FY	0	0	0	0	28	28
2002FY	0	0	0	2	45	47
2003FY	0	0	0	13	33	46
2004FY	0	0	4	23	22	49
2005FY	1	0	4	26	10	41
2006FY	6	4	22	7	0	39
2007FY	9	3	7	0	0	19
Total	16	7	37	71	153	284

PPP/PFI in Japan

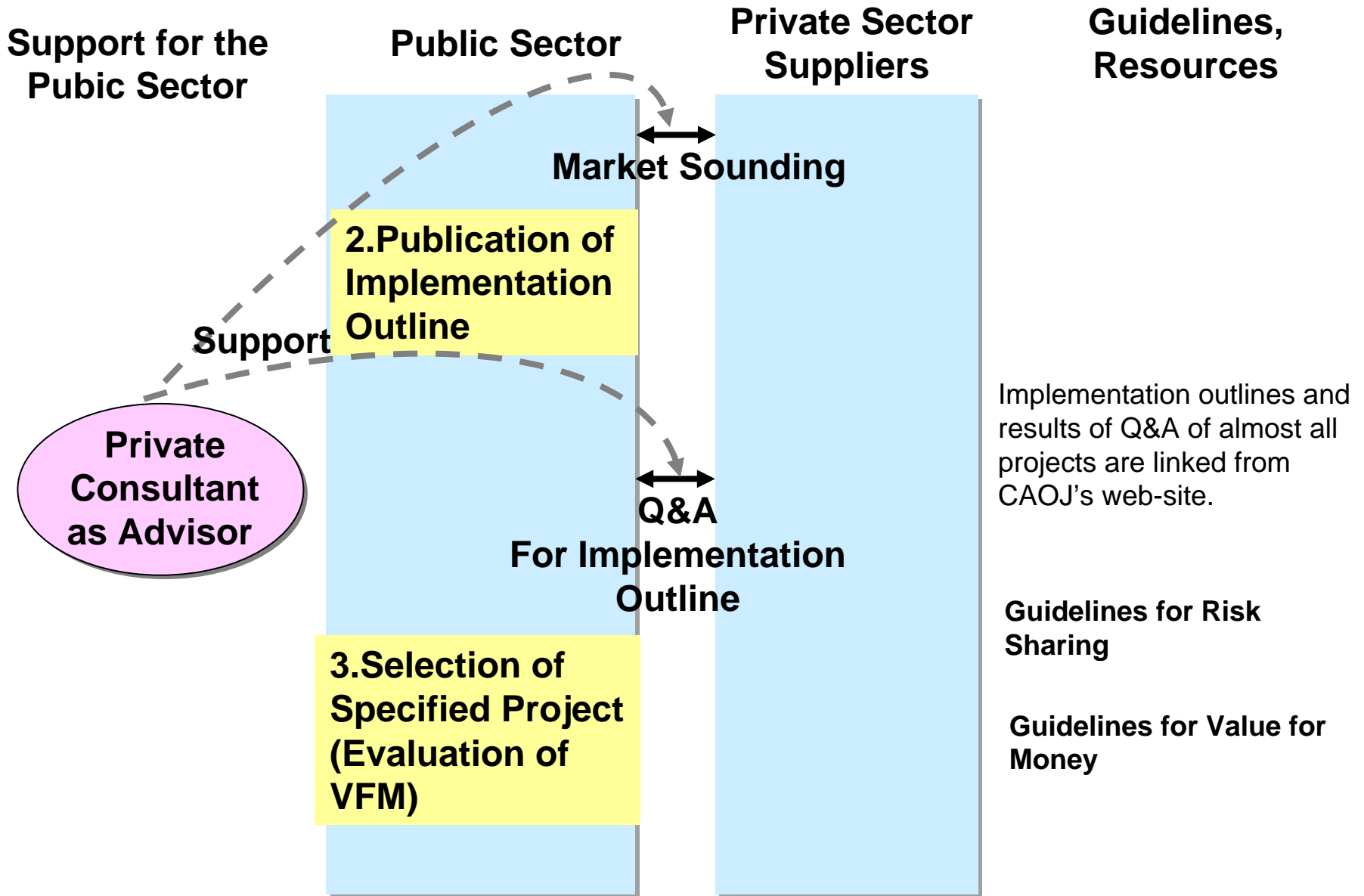
Implementation Process of PFI



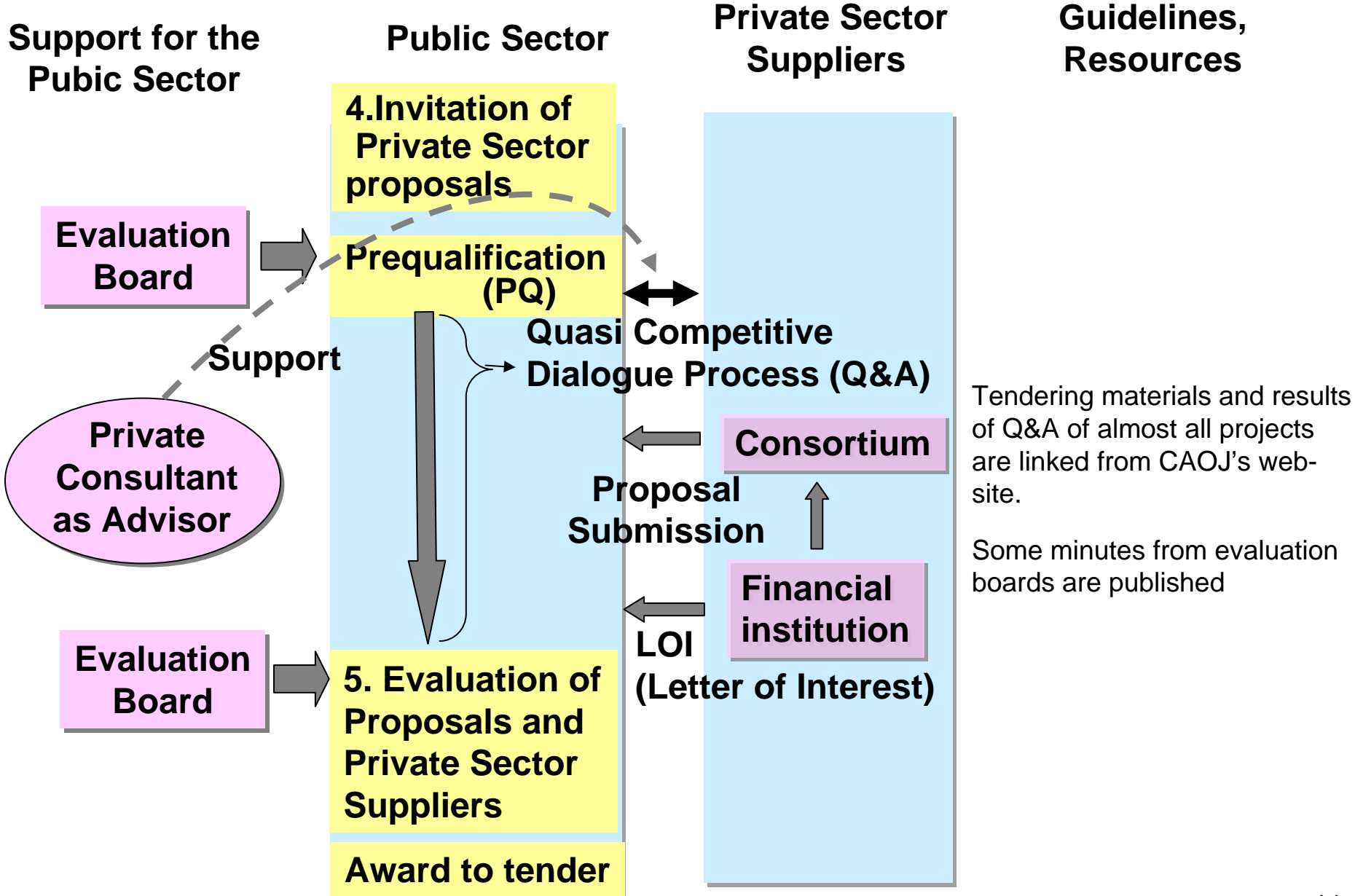
1st Phase: Establishing Business Needs



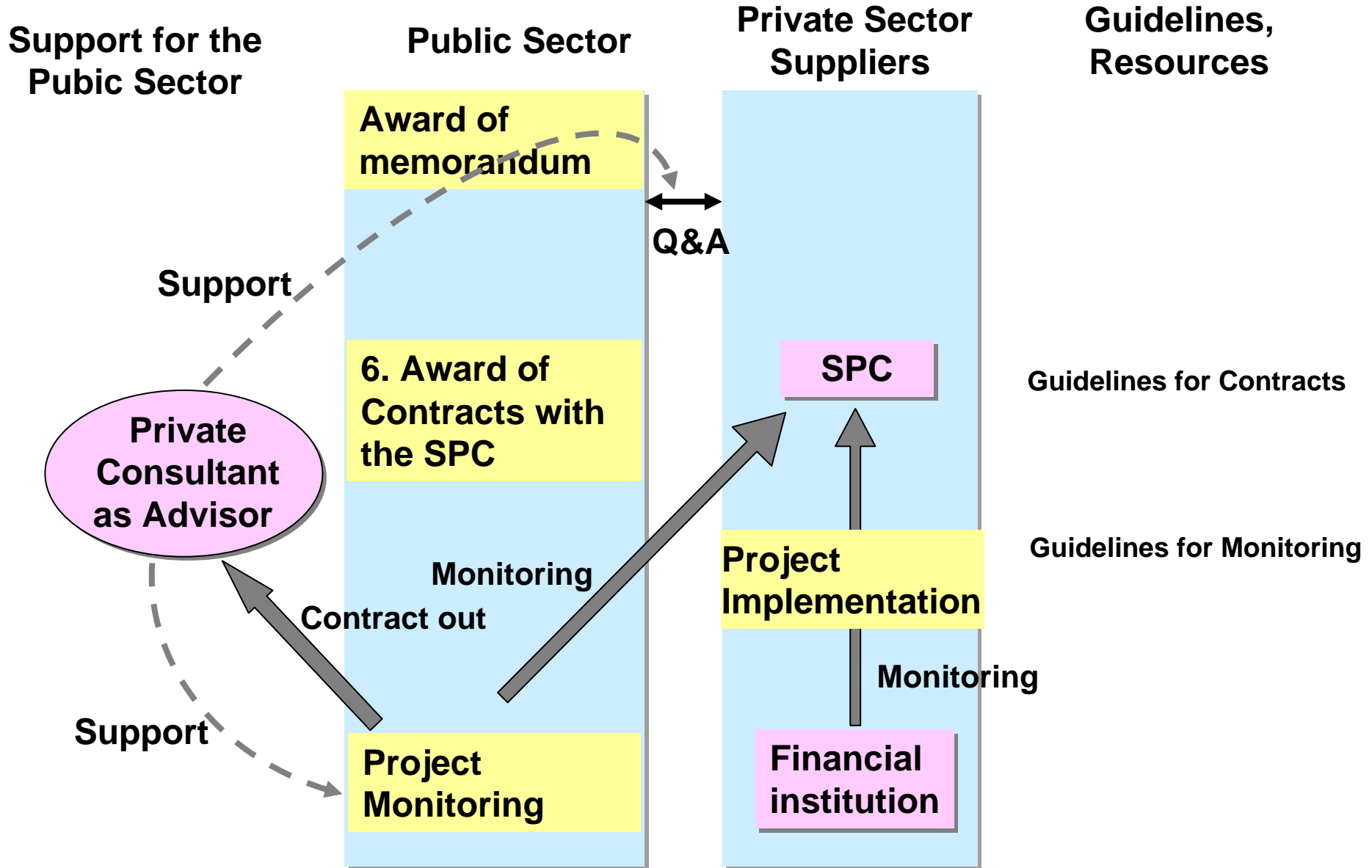
2nd Phase: Deciding Business Case



3rd Phase: Tendering Process



4th Phase: Construction and Operation

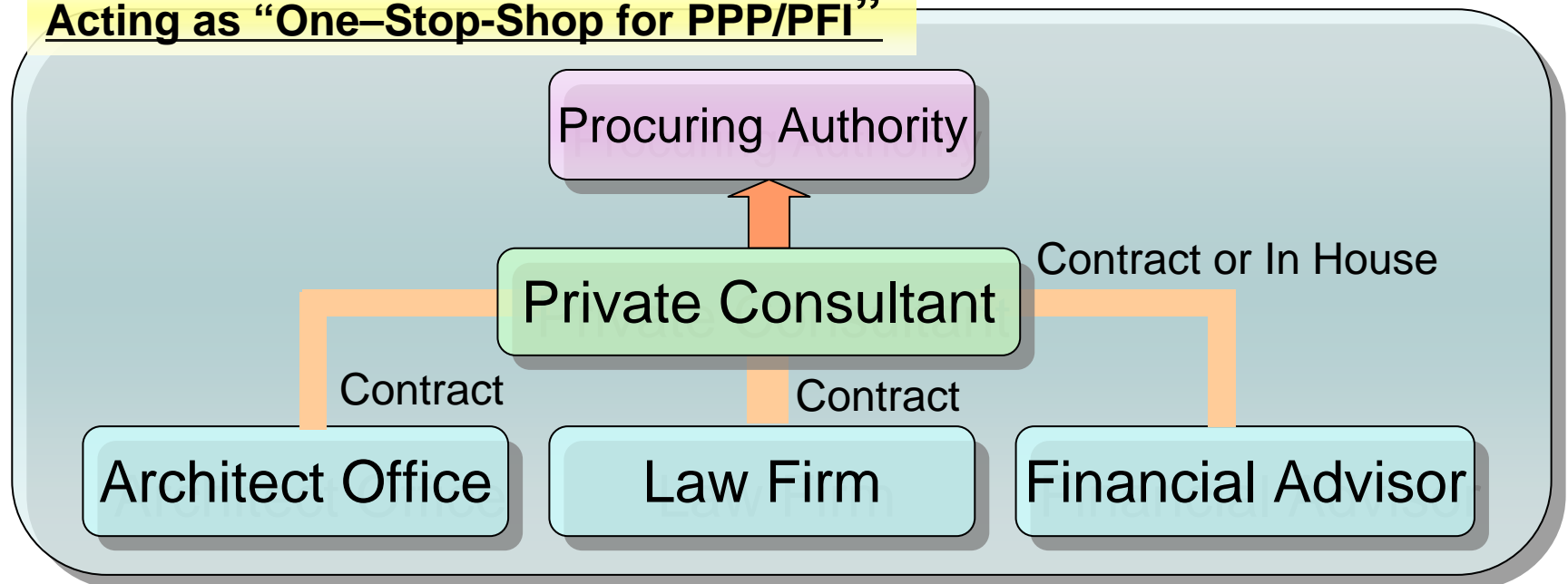


Specific Features of Implementation Process of PPP/PFI in Japan (1)

1. Key Role is played by “Private Consultant”

In many cases in the course of whole implementation process of PPP/PFI projects the procuring authority is advised by one single private consultant.

Acting as “One-Stop-Shop for PPP/PFI”



Specific Features of Implementation Process of PPP/PFI in Japan(2)

2. Know-How is shared, delivered and passed on by Private Sector Suppliers

Construction firms are playing a key role in consortium not only in the phase of construction but also in the operational phase by providing equity.

Consequently, firms are accumulating know-how through repeated experience.

Among 96 main companies of the commissioned consortia, only three companies performed more than 10 cases, and these were all construction firms.

Specific Features of PPP/PFI Implementation Process in Japan(3)

- 3. Financial Institutions are substantially involved from the early phase of the process by communicating with selected members of the consortium.**

Normally procuring authority requires LOI (Letter of Interests) from some financial institution for bidding consortia.

Compared with other countries, it is a specific feature of the financial institution that regional banks are quite active in this field. Money-center banks, are providing large amounts of accumulated know-how to regional banks acting as “arrangers.”

Japan's Government Procurement Procedures

- Japan is a party to the WTO Agreement on Government Procurement (GPA).
- Threshold Values of Construction Services (and equivalent values in Yen) in the GPA are as following:

	SDRs (mil)	YEN (mil)
Central Government Entities	4.5	720
Sub-central Government Entities	15	2,410
All Other Entities	4.5	720

(The construction service threshold is applied to PFI projects because PFI procurement is treated as construction service in Japan.)

-The WTO Agreement on Government Procurement contains provisions in the form of Article III, National Treatment and Non-discrimination and Article VIII, Qualification of Suppliers.

-Accordingly, if the value of the PPP/PFI projects is equal to or greater than threshold values of Construction Services, the WTO provisions mentioned above are applied.

-66% of PFI projects are implemented under Open Tendering Procedures

-Remaining 34% are implemented under public-invitation proposal procedures

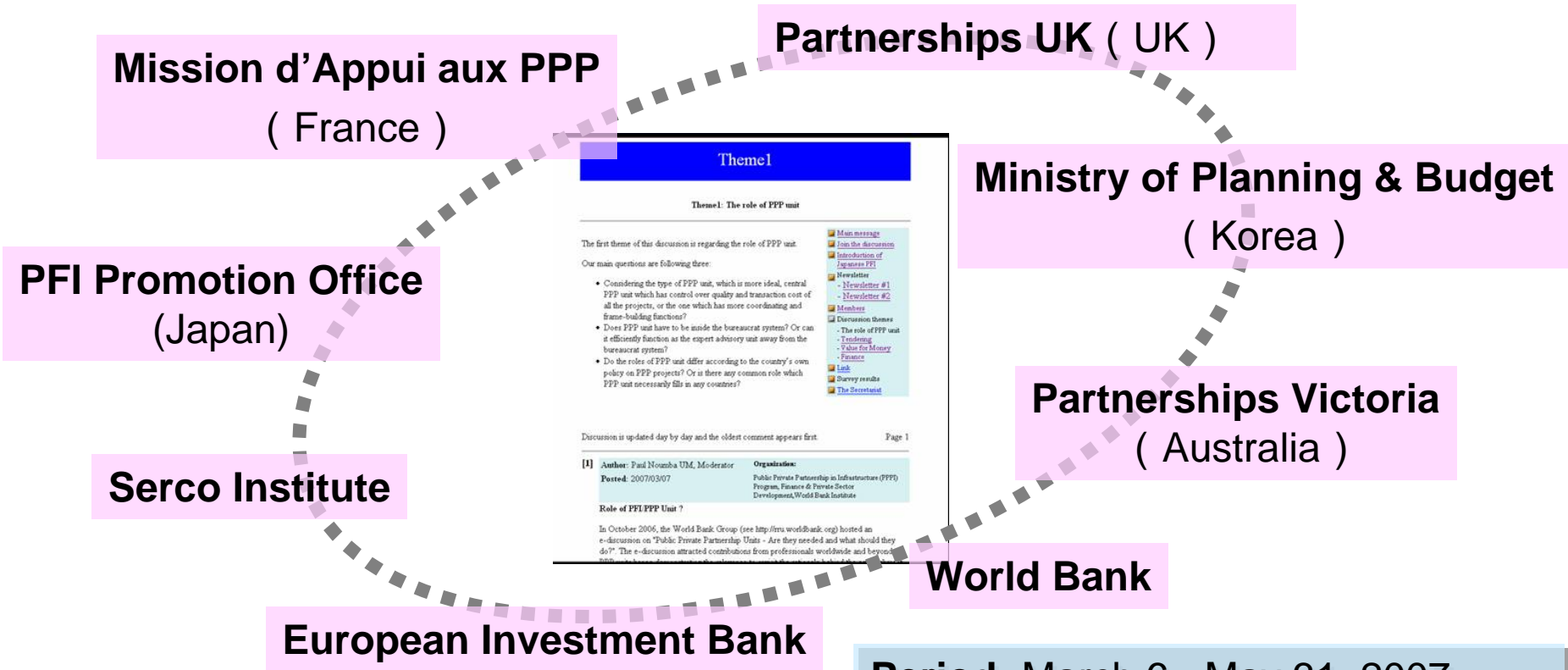
(May 31, 2006)

Recent Activity

PPP Web Tokyo Conference 2007 (1)

Purpose

To share their experiences about the common issues and the challenges arising from their own PPP/PFI programs among representatives from various countries



Period: March 6 - May 31, 2007
Discussion Style:
Mailing List and the exclusive website

Recent Activity

PPP Web Tokyo Conference 2007 (2)

Themes Discussed and Comments

Theme 1: Role of PPP Unit

Different roles of PPP Units by country
“One size does not fit all.”

Theme 2: Tendering

Management of Interactive Dialogue
“Managerial skills in the public sector and good understanding between bidders and the public sector are important.”

Theme 3: Value for Money

Drivers of VFM
“An important point -- is this issue of the asset/service combination as a driver to VfM”

Theme 4: Finance

Financial commitment and refinancing
“Innovation such as refinancing and secondary market in finance has been expanding because of the extended life cycle of the project.”

Recent Activity

PPP Web Tokyo Conference 2007 (3)

Results

- Practitioner participation and rewarding discussions about 4 themes
- Surveys and feedback communication for each theme
- 3 Newsletters introducing Japanese PPP/PFI

Future Development

- Need to keep exchanging information among practitioners in different countries which have common challenges
- Annual discussion to share the development hopefully
- Face to face conference in the future