



Cabinet Office, Government of Japan

Japanese Policy and Implementation on PFI

The 3rd Annual Meeting for PPP/PFI
Promotion between Japan and Korea

October 9th, 2008



History of PFI in Japan

History Chart

- Jul. 1999 Enactment of “PFI Law”
- Oct. 1999 Creation of “The Committee for Promotion of PFI” in the Prime Minister’s Office
- Mar. 2000 Drawing up “Policy Framework”
- Jan. 2001 Release of “Process Guideline” and “Risk Sharing Guideline”
- Jul. 2001 Release of “VFM Guideline”
- Dec. 2001 Revision of “PFI Law”
- Jun. 2003 Release of “Contract Guideline” and “Monitoring Guideline”
- Jun. 2004 Release of “Interim Report of the committee for promotion of PFI”
- Aug. 2005 Revision of “PFI Law”
- Nov. 2006 “Procedures for Selection of and Agreements with Private Companies for PFI Projects,” an arrangement paper by the directors of the PFI Liaison Committee of Relevant Ministries and Agencies
- Dec. 2006 Issue of Annual Report 2005(the 1st Annual Report)
- Jun. 2007 Revision of “VFM Guideline” and “Process Guideline”
- Nov. 2007 Release of “Report of the committee for promotion of PFI”
- Jul. 2008 Revision of “VFM Guideline”



Outline of the Act on Promotion of PFI (Purpose)

The Act on Promotion of Private Finance Initiative (PFI)

Enacted in July 1999, revised in December 2001 and in August 2005

Purpose (Article 1)

The purpose of this Act is to improve the social infrastructure efficiently and effectively and to ensure the provision of affordable and good service to the citizen by taking measures for promotion of provision etc. , of Public Facility etc. through utilization of private finance, management abilities and technical capabilities, thereby contributing healthy development of the national economy



Outline of the Act on Promotion of PFI (Definition)

Public Facility etc. (Article 2)

Roads, railways, ports and harbors, airports, rivers, parks, water services, sewage systems, and industrial water supplies;

Government buildings and accommodation;

Public housing, educational and cultural facilities, waste treatment facilities, medical facilities, social welfare facilities, offender rehabilitation facilities, parking, and underground malls;

Information and communications facilities, heat supply facilities, new energy facilities, recycling facilities (excluding waste treatment facilities), tourist facilities, and research facilities.

Administrator of Public Facility etc. (Article 2)

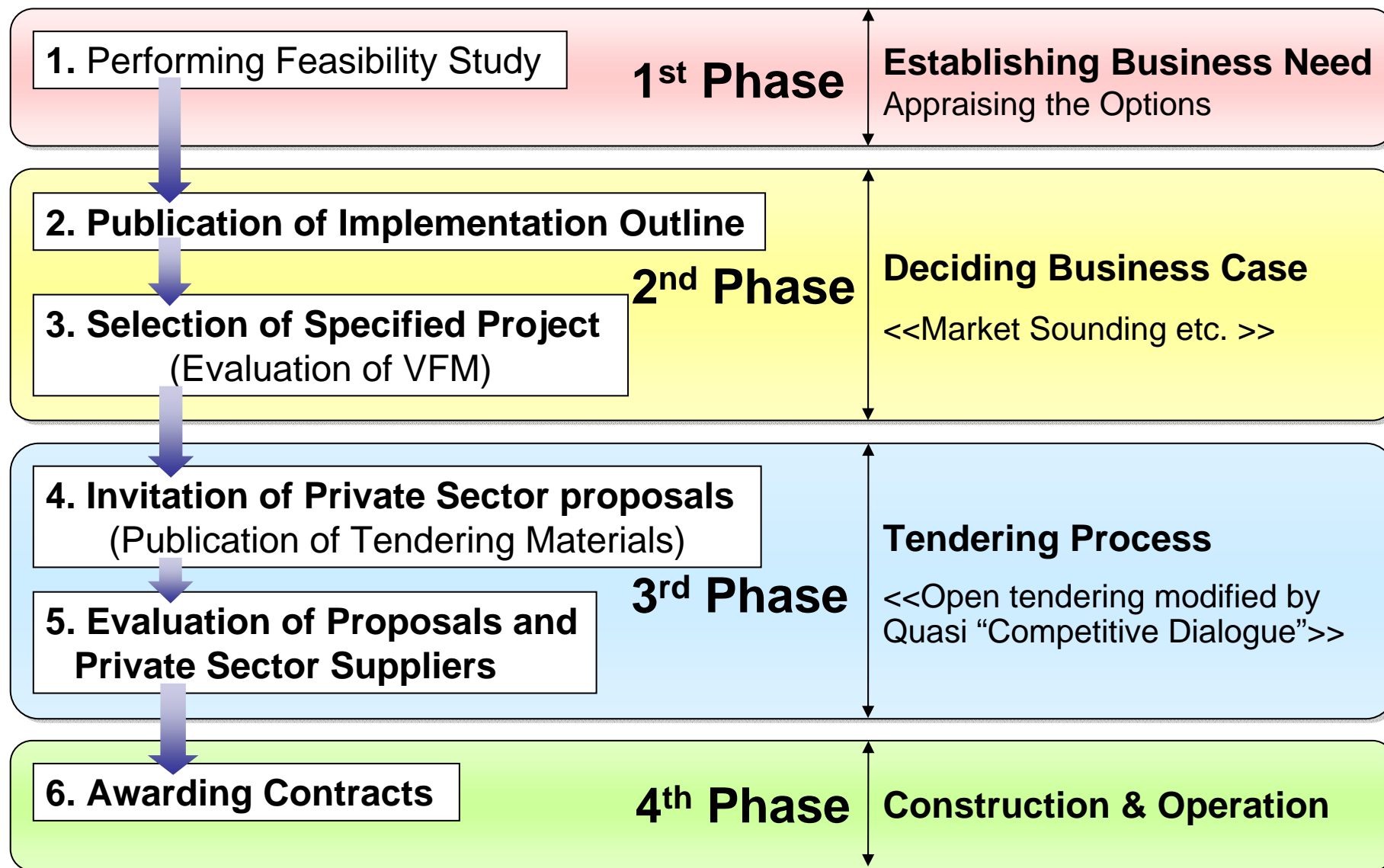
The Chairperson of the House of Representatives, the Chairperson of the House of Councilors, the Chief Justice of the Supreme Court, the President of the Board of Audit, and other ministers;

Heads of local governments;

An independent administrative agency, a corporation having a special status, and another public corporation.



Outline of PFI (Process)





Outline of the Act on Promotion of PFI (Supports)

Supports

Extend Government Debt Burden from 5 to 30 Years (Article 11)

Lease of Administrative Properties (Article 11-2, Article 11-3)

Free Use of National Property (Article 12)

Loan without Interest (Article 13)

Consideration to Secure Funds and Local Bonds (Article 14)

Consideration to Acquisition of Land (Article 15)

Supports (Article 16)

Deregulation (Article 17) etc.



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Outline of the Act on Promotion of PFI (Framework)

Basic Policy (Article 4)

Spells out the PFI principles and the methods to implement them.

Formulated by the Prime Minister following the approval by the Committee for Promotion of PFI

Carried in the March 2000 Prime Minister's Office bulletin

Guidelines

Practical guidelines for the implementation of PFI projects

1. **Process** (January 2001, revised June 2007)
2. **Risk Sharing** (January 2001)
3. **Value For Money (VFM)** (July 2001, revised June 2007 and July 2008)
4. **Contract** (June 2003)
5. **Monitoring** (June 2003)

The Committee for Promotion of PFI (Articles 21,22)

Established under the Cabinet Office.

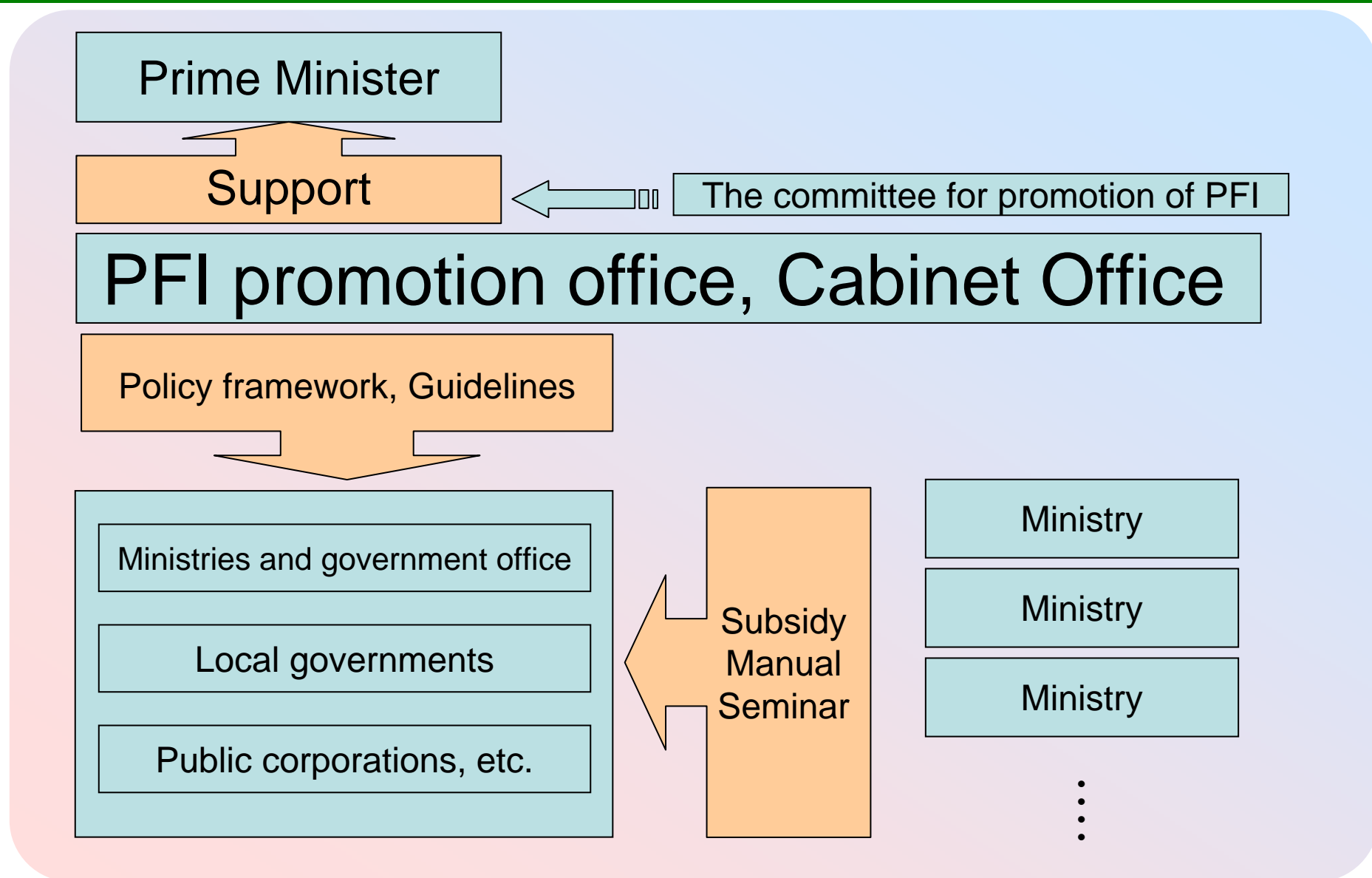
Prime Minister appoints members from academic experts and specialists.

Deliberates on basic policies and other matters.



Organization of Promotion of PFI in Japan

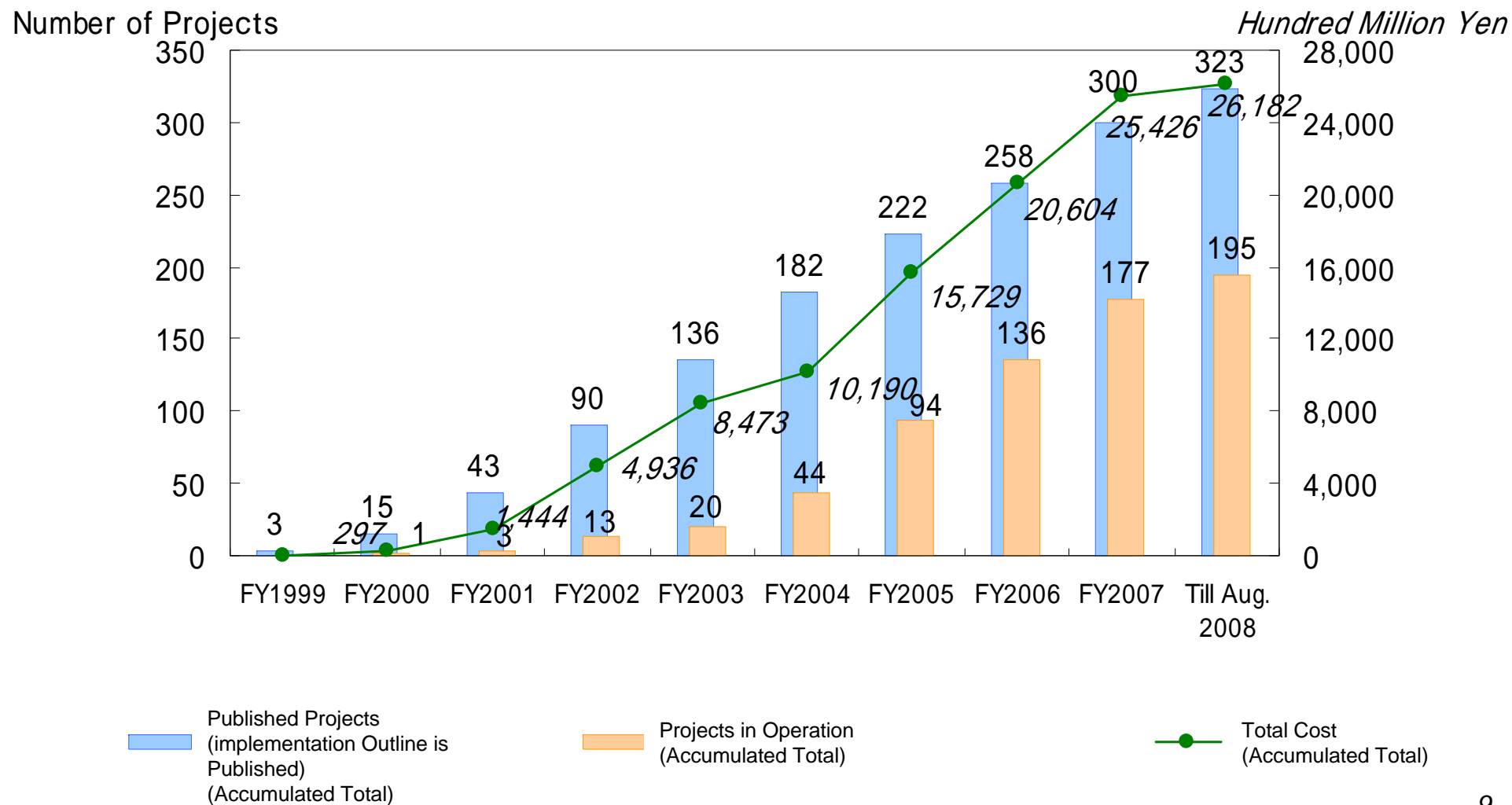
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Growth in Number and Cost of Projects

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Number of Projects in Each Fields

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Fields	Administrator			Total
	State	Local	Other	
Education and Culture (e.g. school, library, etc.)	1 (1)	75 (40)	28 (27)	104 (68)
Life and Welfare (e.g. facility for social welfare for aged, etc.)	0	15 (12)	0	15 (12)
Health and Environment (e.g. hospital, waste disposal facility, etc.)	0	54 (35)	2	56 (35)
Industry (sightseeing facility, etc.)	0	14 (7)	0	14 (7)
Town Development (parks, etc.)	6 (2)	30 (23)	0	36 (25)
Public Safety (police office, prison, etc.)	6 (4)	13 (5)	0	19 (9)
Government building and accommodation	39 (16)	4 (3)	1 (1)	44 (20)
Others (e.g. complex facilities, etc.)	2	33 (19)	0	35 (19)
Total	54 (23)	238 (144)	31 (28)	323 (195)

Number of facilities (number of projects in service)

(As of Aug. 31th, 2008)



(As of Aug. 31th, 2008)
Number of projects by prefecture
(projects by local government)

Projects in Each Prefecture

(As of Aug. 31th, 2008)
Number of projects by prefecture
(projects by local government)

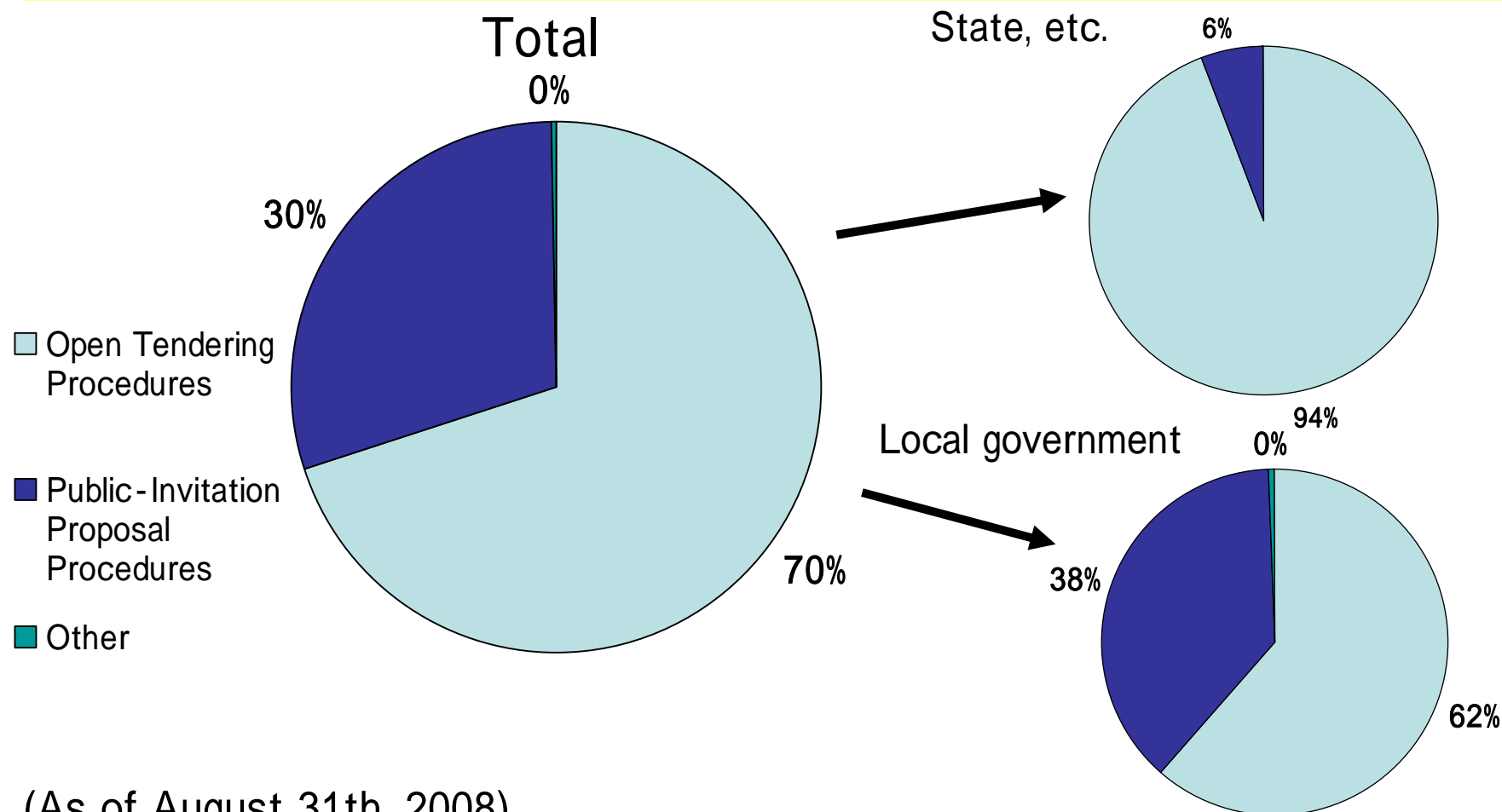
Foreign Country
1(0)

Prefecture	Total Projects	Projects by Local Government
Hokkaido	11	7
Aomori	0	0
Iwate	1	1
Miyagi	6	5
Akita	9	9
Yamagata	13	10
Fukushima	5	5
Ibaraki	1	1
Tochigi	2	1
Gunma	0	0
Saitama	17	16
Chiba	4	2
Tokyo	46	22
Kanagawa	21	16
Niigata	20	19
Toyama	11	11
Ishikawa	3	2
Fukui	4	3
Yamanashi	1	1
Nagano	5	5
Gifu	4	3
Shizuoka	4	2
Aichi	21	18
Mie	3	3
Shiga	0	0
Kyoto	20	13
Osaka	21	18
Hyogo	11	11
Nara	0	0
Wakayama	0	0
Tottori	11	6
Shimane	4	3
Okayama	12	9
Hiroshima	6	6
Yamaguchi	4	3
Tokushima	0	0
Kagawa	2	1
Ehime	1	1
Kochi	3	3
Fukuoka	11	6
Saga	4	3
Nagasaki	1	1
Kumamoto	5	2
Oita	3	3
Miyazaki	2	1
Kagoshima	1	1
Okinawa	11	6



Procurement Procedures

- In 70 percent of PFI projects, the contractor is selected through open tendering, while the remaining 30 percent use a public-invitation proposal system (one type of “negotiation”).



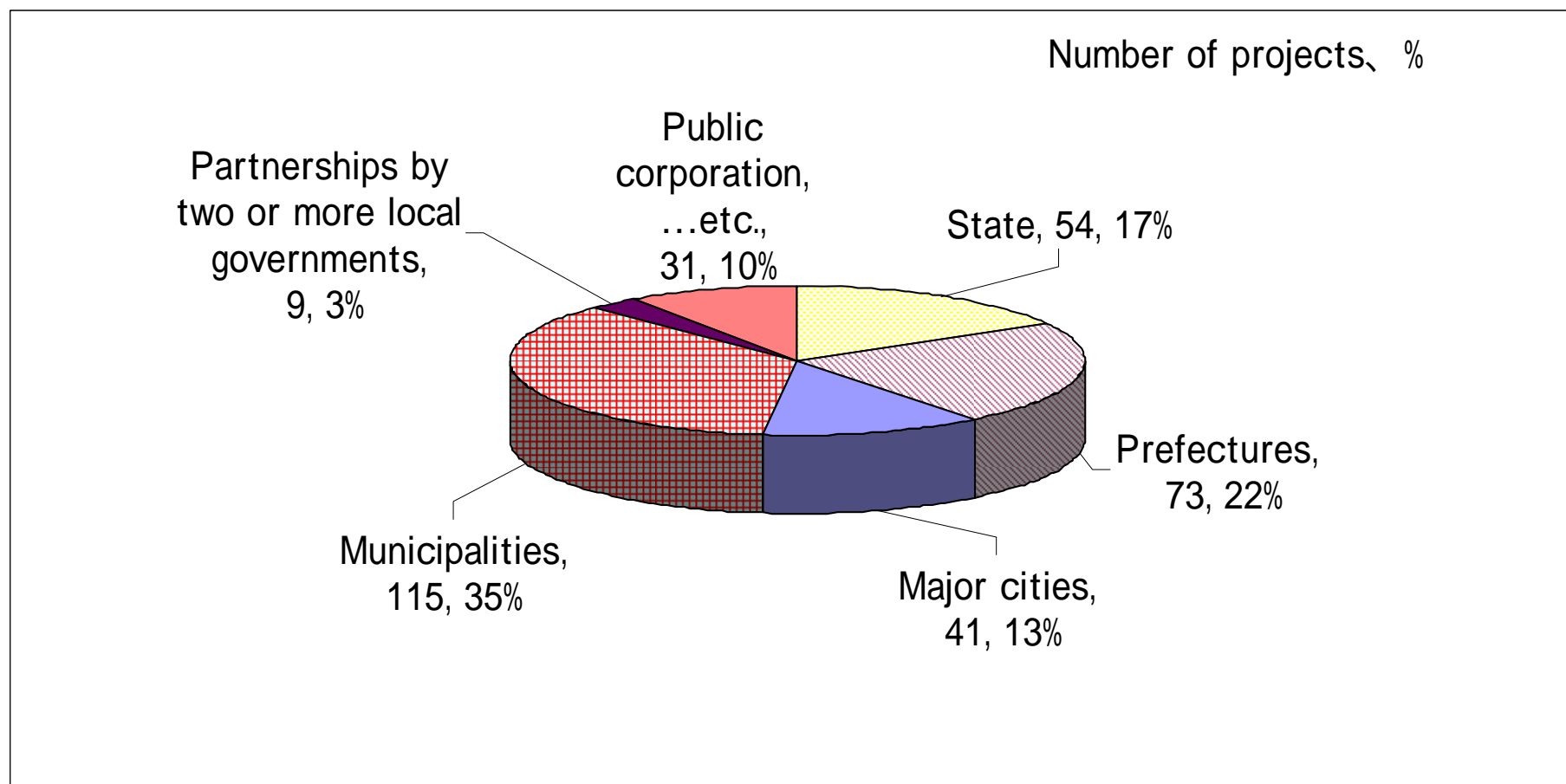
(As of August 31th, 2008)



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Administrator of Facilities

- Roughly 75 percent of PFI projects are administrated by local governments.



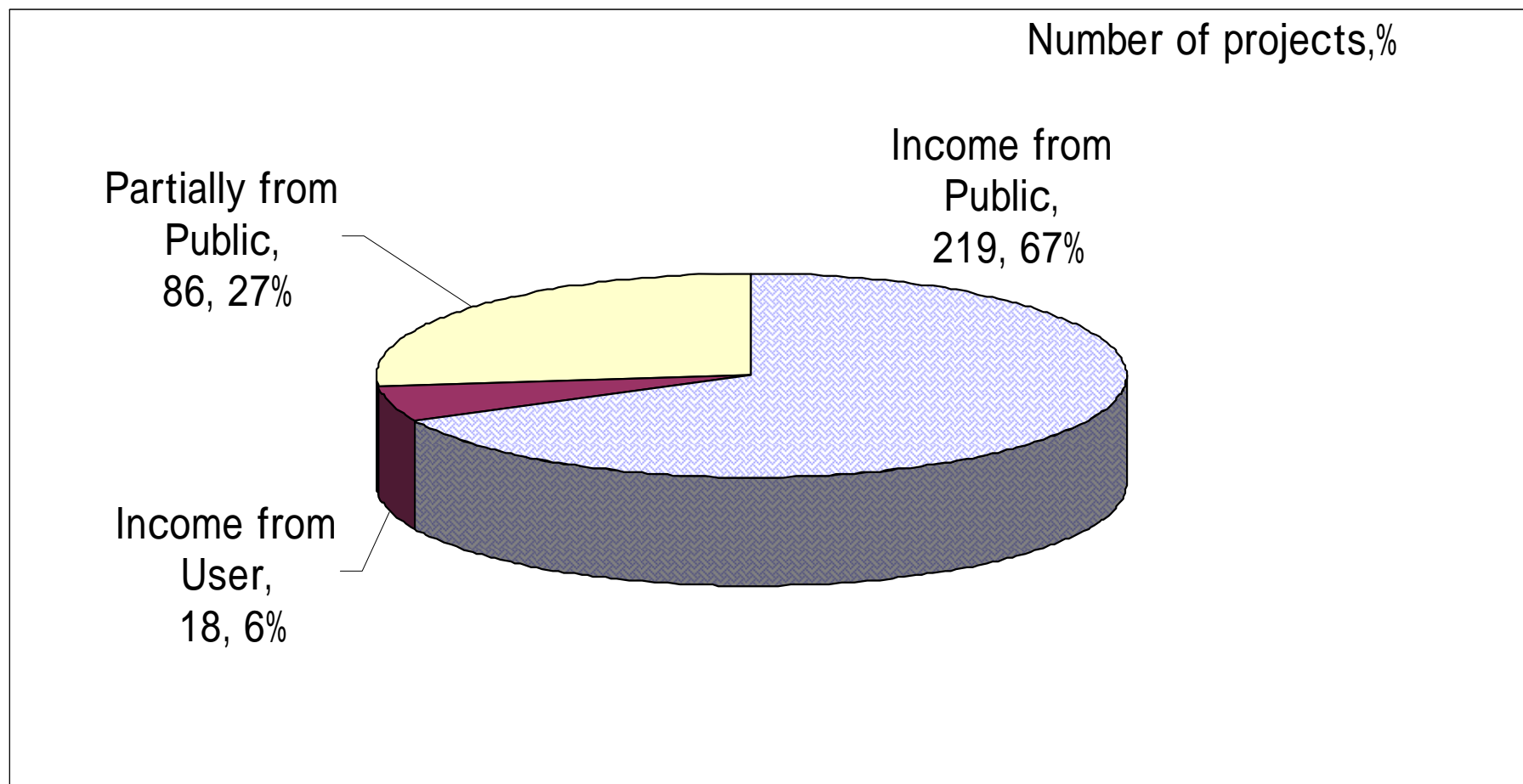
(As of Aug. 31th, 2008)



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Types of Gaining Income

- Income-from-Public projects represent nearly 70 percent of all projects.



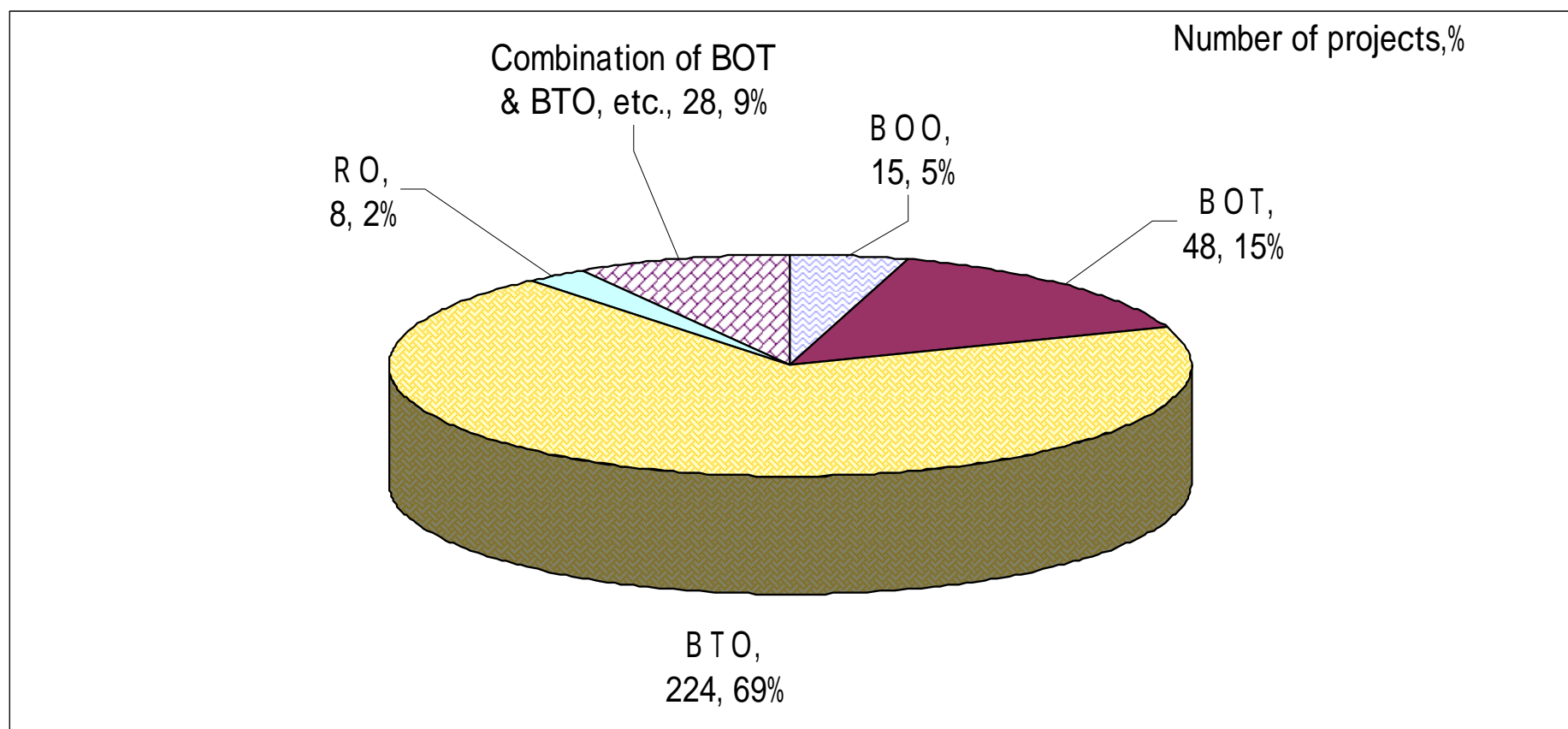
(As of Aug. 31th, 2008) 14



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Facility Ownership

- BTO projects account for almost 70 percent of all projects.

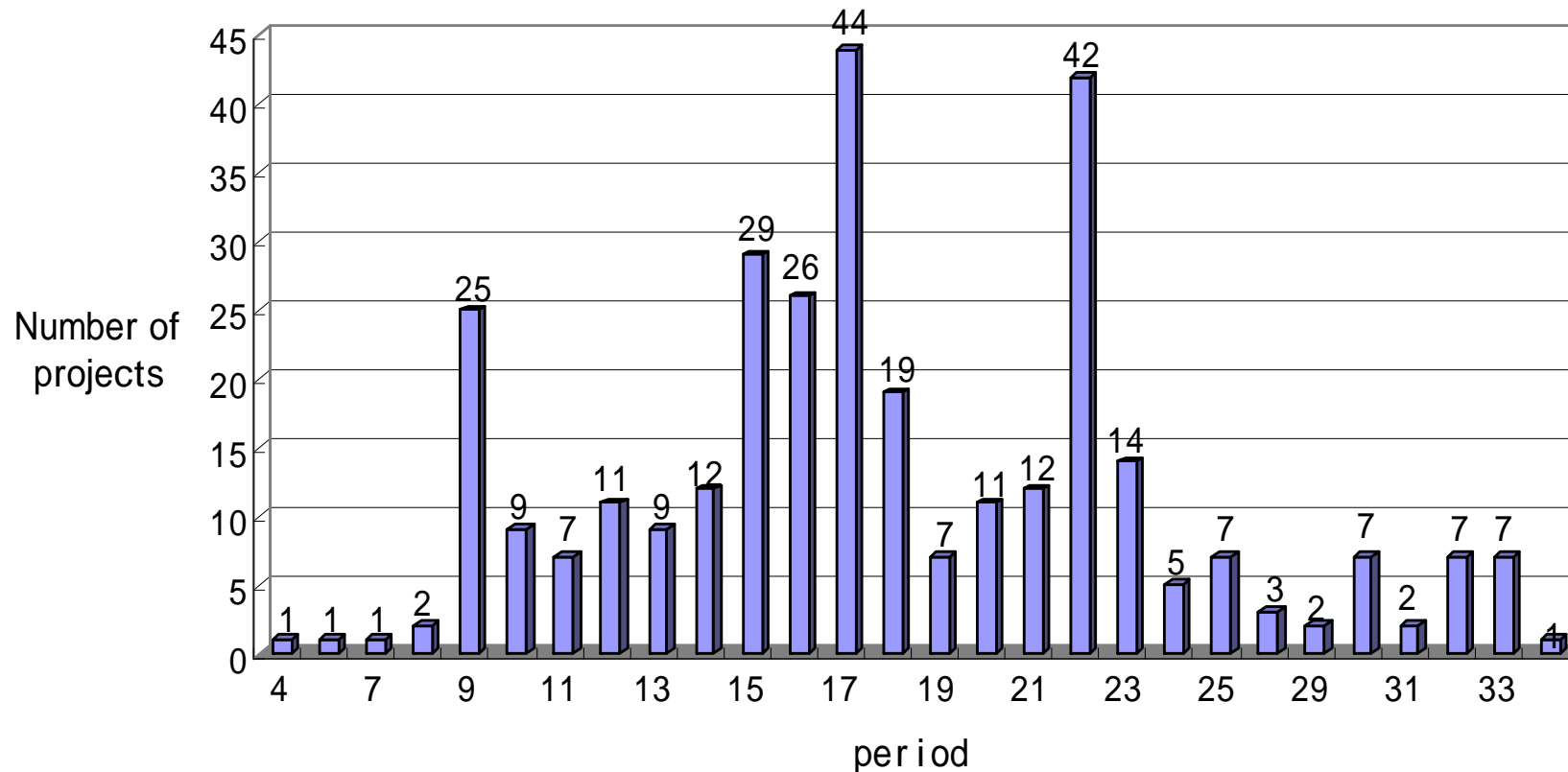


(As of Aug. 31th, 2008)



Period of PFI Projects

- Projects of 17 years (2 years-construction, 15years-operation) and 22 years (2years-construction, 20years-operation) in length are common.

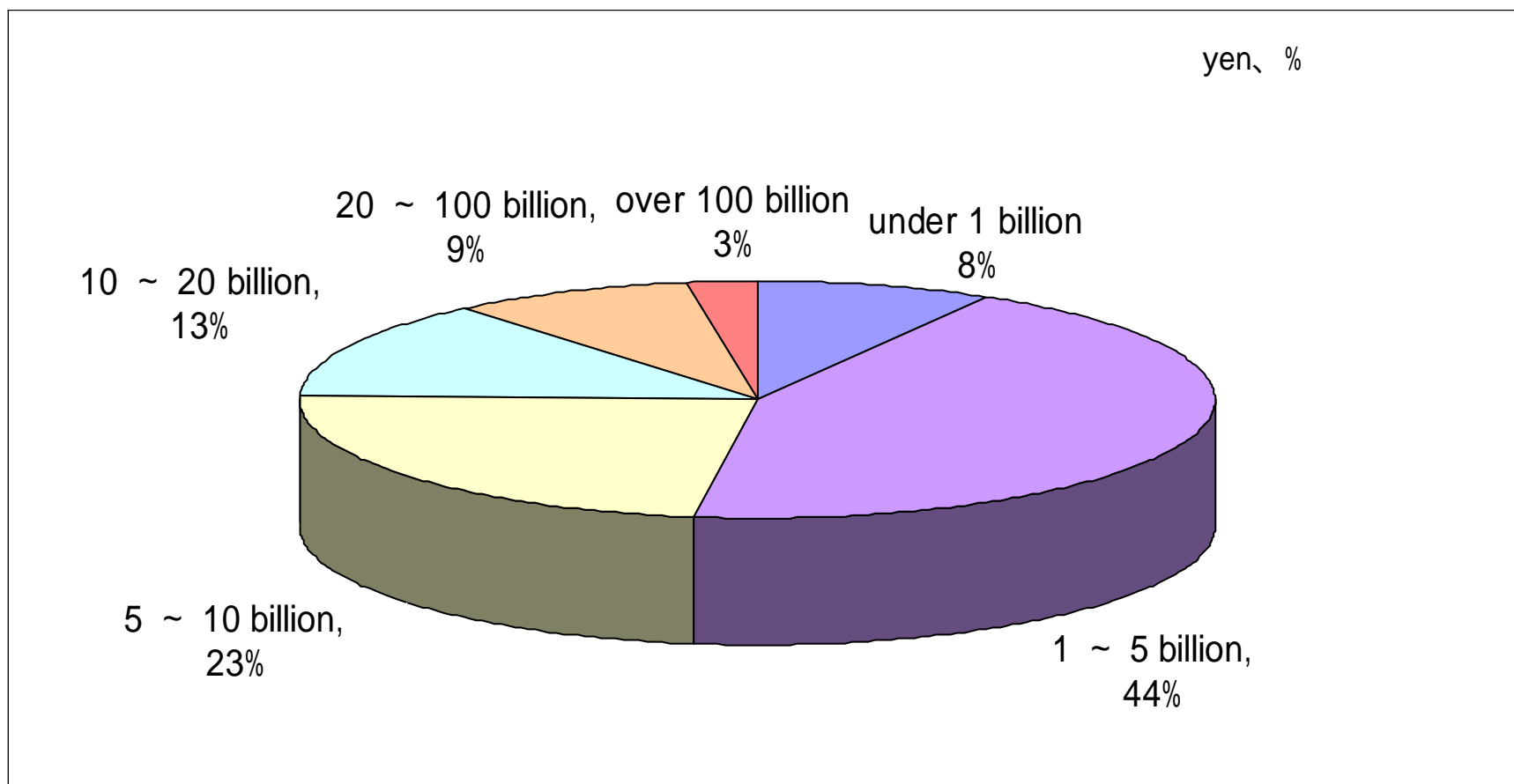


(As of Aug. 31th, 2008)



Cost of PFI Project

- About half of PFI projects are relatively small — under 5 billion yen — but large-scale projects over 100 billion yen have been appearing recently.



(As of Aug. 31th, 2008)



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Report of the committee for promotion of PFI *~ For realization of the true public-private partnership ~*

《Private Companies》

Private companies are not satisfied with current situation because, from their experiences of actual projects, government and private companies are not in equal positions.

《Governments》

Some governments are reluctant to use PFI because it is burdensome, and not a method that can be easily used, and furthermore its benefits is not easy to confirm

Realization of equal partnership
Improvement of the system by
standardization and sharing know-how

Report of the committee for promotion of PFI (11/15/2007)

Form 15 individual issues, and discussed the measures for each

- Realization of the true public-private partnership -



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Report of the committee for promotion of PFI

~ For realization of the true public-private partnership ~

Current 15 issues on PFI

< Issues that should be focused on, and have immediate measures taken for >

Individual issues

1
The need for guidance for risk analysis and risk management

2 Clarification of the output specifications

3 Realizing more transparent bidding process that can take advantage of the private creativity

4 Promotion of the standardization of agreements etc.

5 Appropriate handling of the issues at the operations stage

6 Share know how of, utilize, and make necessary adjustment with, other PPP methods

7 Steps for the prevention of global warming

8 The need for equal footing such as subsidies and taxes

< Issues that should be studied ongoing >

9 Ongoing study concerning VFM assessment

10 Study of financing

11 The need for further improvement in the roles of consultants

12 Study an efficient structure for sharing the know how between the public and private sectors

13 The need for expanding the players

14 Study for expanding the PFI market

15 Study on the disaster management and other current policy issues



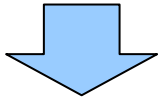
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Responses to Specific Individual Process Issues

Standardization of Contracts

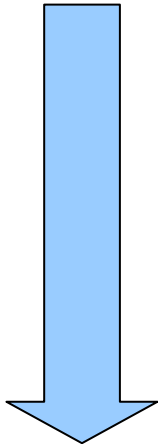
June 23, 2003

Guidelines on contracts



November 15, 2007

Report by the Committee for Promotion of PFI



Five Priority Examination Issues

1. Flexibility
2. Voluntary Termination by government
3. Dispute resolution mechanism that includes participation by a neutral third party
4. Change in Law
5. Enhancements to monitoring and payment mechanisms

July 2008

Basic Approach to and Commentary on PFI Project Contracts — Draft





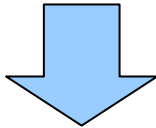
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Responses to Specific Individual Process Issues

Clarification of Required Performance Levels

November 15, 2007

Report by the Committee for Promotion of PFI



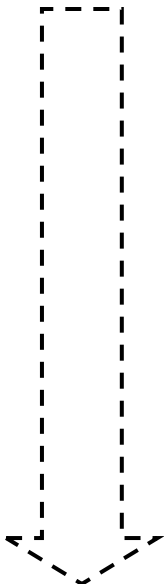
July 2008

Basic Approach to Required Performance Level Documentation Associated with PFI Project Contracts — Draft

Key points

1. Presents knowledge on creating required performance level documentation that is clearer, more specific, and more flexible in keeping with the end purpose.
2. Presents approaches to creating documentation and suggests checklists and outlines in the practical part.

→ Compiled in a format that governments which lack sufficient knowledge on PFI can use immediately.





Clarification of Required Performance Levels

Contents of Basic Approach to Required Performance Level Documentation Associated with PFI Project Contracts — Draft

Theoretical Part

- Foreword: Role of guidelines on preparing required performance level documentation
- I Role of required performance level documentation seen from PFI processes
- II What is necessary in required performance level documentation
- III Issues with required performance level documentation and the direction of responses
 - 1 Clarification of the government's intentions
 - 2 Greater specificity, clarity, and detail in required performance levels
 - 2-1 Greater clarity in required performance levels
 - 2-2 Greater clarify in criteria to be attained
 - 2-3 Unified examinations of required performance levels, monitoring, and payment mechanisms
 - 3 Other issues
- IV Requirements from the standpoint of countering global warming

Practical Part

- V Structure of required performance level documentation
- VI Preparation processes for required performance level documentation



Clarification of Required Performance Levels

Chapter VI presents practical checklists for preparing documentation. Below is a sample checklist.

Confirmation Period	Main Issue	Confirmation Item	Notes
Prior to feasibility study	Clarify the purpose for the project and required outcomes	The purpose for the government's project and the required outcomes are defined.	
		There is shared recognition within the government through, for example, distribution of the defined outcomes.	
		...	
	Assessment of the project's priority	The project's priority has been examined from the taxpayers' point of view.	
Feasibility study	Assurance of the examination system	The feasibility study is entrusted to an advisor with expertise in defining required performance levels in the relevant field.	
		Staffing is increased as needed for internal agency examinations.	



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VFM Guideline Revisions

(Assurance of transparency and objectivity)

In the interest of assuring the transparency and objectivity of VFM assessments, the *VFM Guidelines* were revised (July 15, 2008) to state that the government is to release not only VFM figures but also the VFM assessment process and assessment method.

Significance of releasing VFM assessment information

1. Fulfills the government's duty to give explanations to citizens (taxpayers).
2. Private companies can better understand the government's requirements (and as a result we can expect more appropriate proposals).
3. Raises awareness that the government tries to assess VFM properly.



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VFM Guideline Revisions

(Assurance of transparency and objectivity)

Information to be released

1. PSC, PFI-LCC, and VFM figures

- Discount rates
- Price escalation rates
- Risk-adjusted prices

2. Preconditions on VFM examinations

3. Calculation methods for project expenses

Expense items calculated for both PSC and PFI-LCC

- (1) Fee from Users, etc.
- (2) Facility construction expenses
- (3) Operating expenses
- (4) Maintenance expenses
- (5) Financing expenses and other expenses

4. VFM based on the project plan of the selected private company

- Information is released after the selection of the private company when releasing information ahead of time will negatively impact fair competition.
- Clear reasons will be given whenever any information is not released.



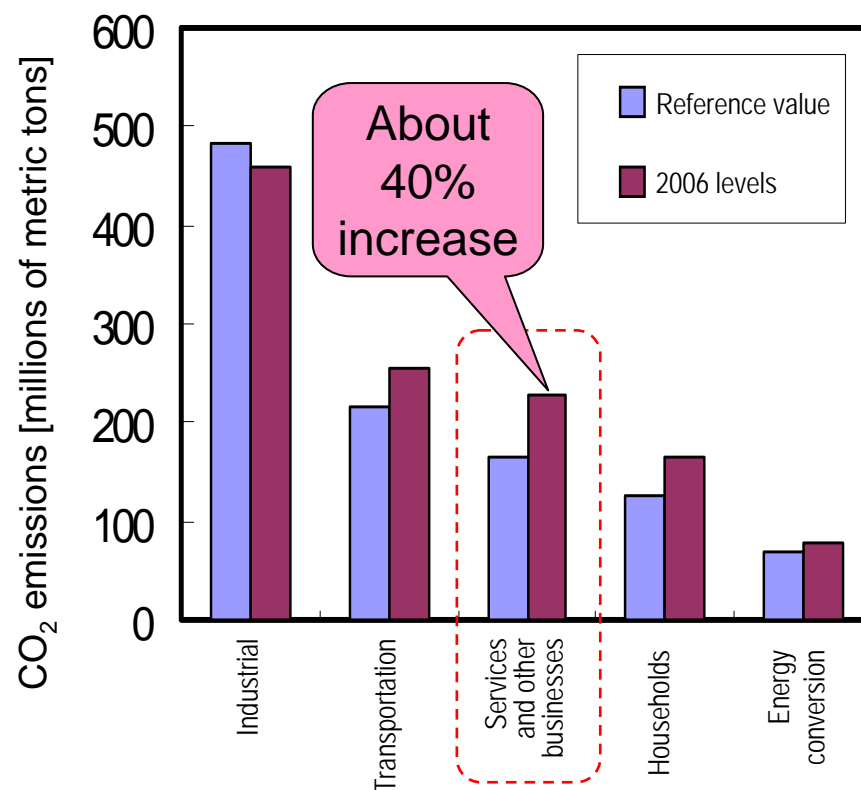
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Global Warming Prevention Measures in PFI Projects

To promote measures to cut greenhouse gas emissions in PFI projects, a basic approach was arranged (June 2008) on a project scheme based on economic principles that both saves energy and reduces lifecycle CO₂ emissions.

Current situation and issues

- Japan is committed under the Kyoto Protocol to reducing its greenhouse gas emissions by 6 percent.
- Despite this, emissions have risen by about 40 percent (in 2006) in the “services and other businesses” sector, which contains many PFI projects.
- A framework has not been completed that evokes the ingenuity of private companies regarding energy savings in PFI projects.



*Prepared by the Cabinet Office based on materials released by the Ministry of the Environment

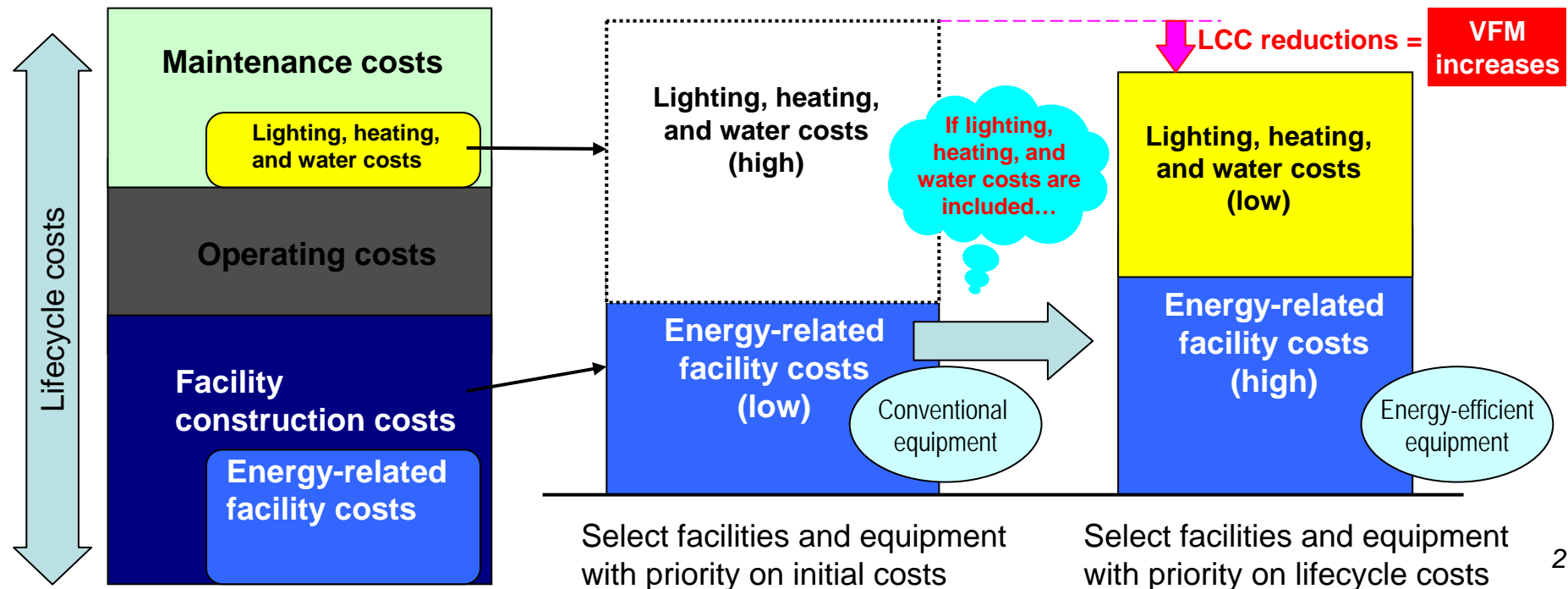


Global Warming Prevention Measures in PFI Projects

Key point

- The most effective way of embedding in programs incentives to save energy is to include lighting, heating, and water utility costs in the project expenses.

Thus, even if the initial costs are comparatively high, energy-saving equipment will be enthusiastically adopted if it is possible for such equipment to lower the overall project cost that include lighting, heating, and water utility costs.

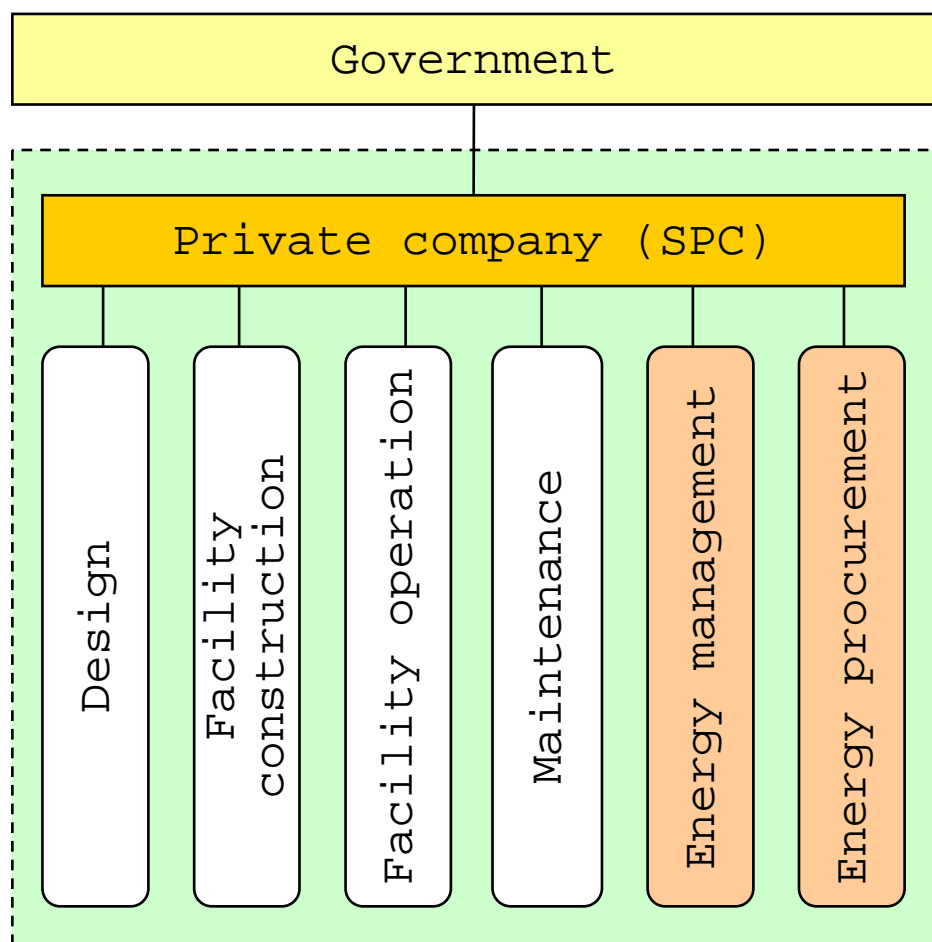




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Global Warming Prevention Measures in PFI Projects

Type 1



Assessment from an energy-savings standpoint

- Integrated energy optimization is possible from design through to operation and maintenance.
- Although the initial investment is comparatively high, we can expect private companies to enthusiastically adopt energy-efficient facilities and equipment that will cut lifecycle costs. We can also expect private companies to engage in proactive energy management.

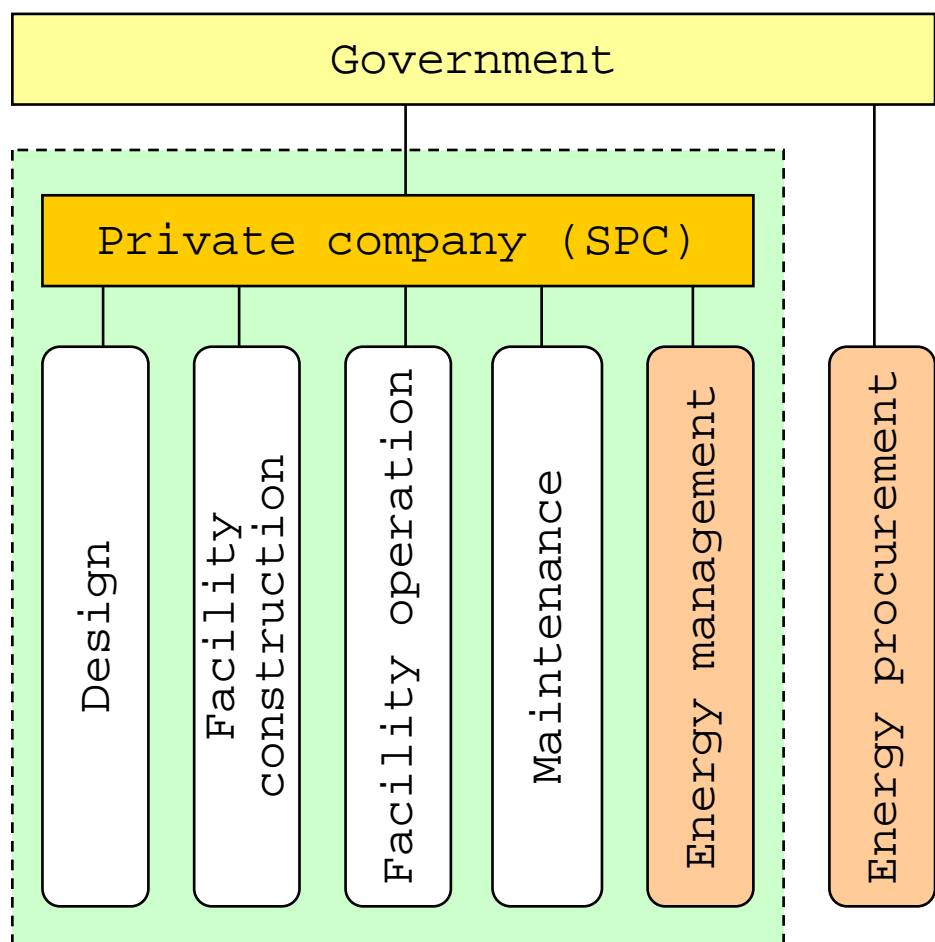
Energy-saving benefits:
(excellent)



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Global Warming Prevention Measures in PFI Projects

Type 2



Assessment from an energy-savings standpoint

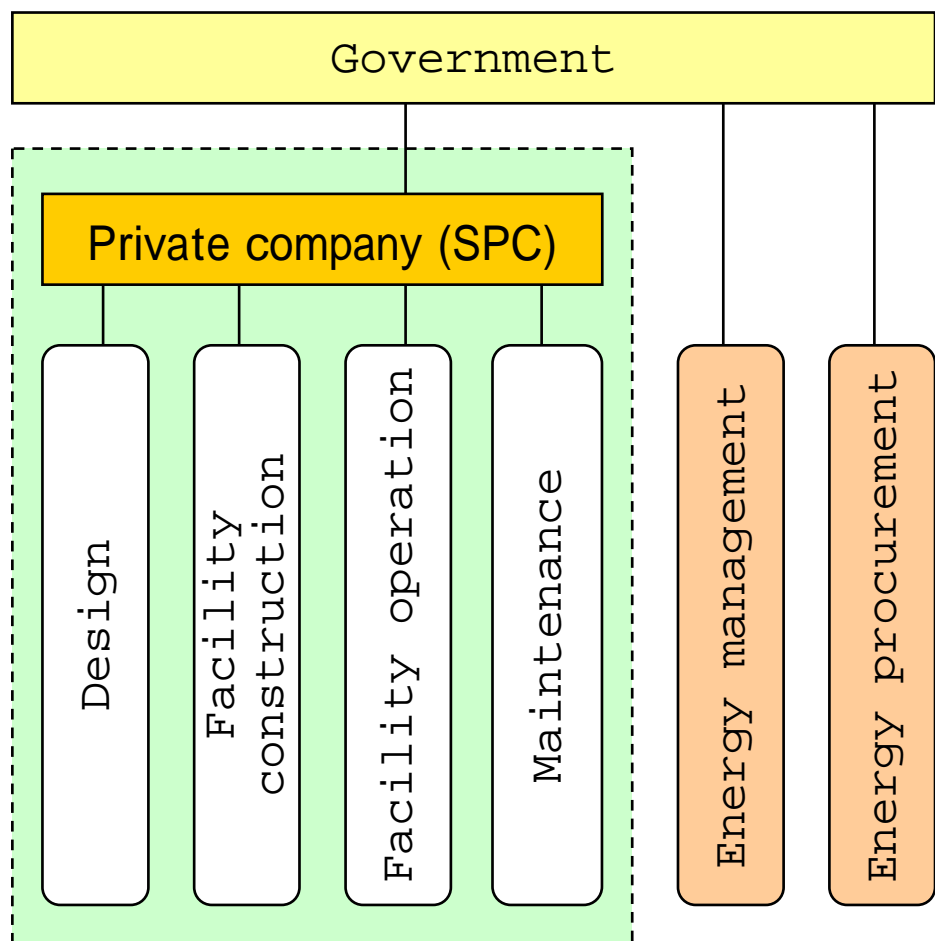
- This is second-best option when Type 1 cannot be used. Making energy management part of the private company's operations works as an incentive to save energy.
- Because lighting, heating, and water utility costs are not included in PFI-LCC, there is concern that private companies will not proactively adopt energy-efficient facilities at the proposal stage.

Energy-saving benefits:
(good)



Global Warming Prevention Measures in PFI Projects

Type 3



Assessment from an energy-savings standpoint

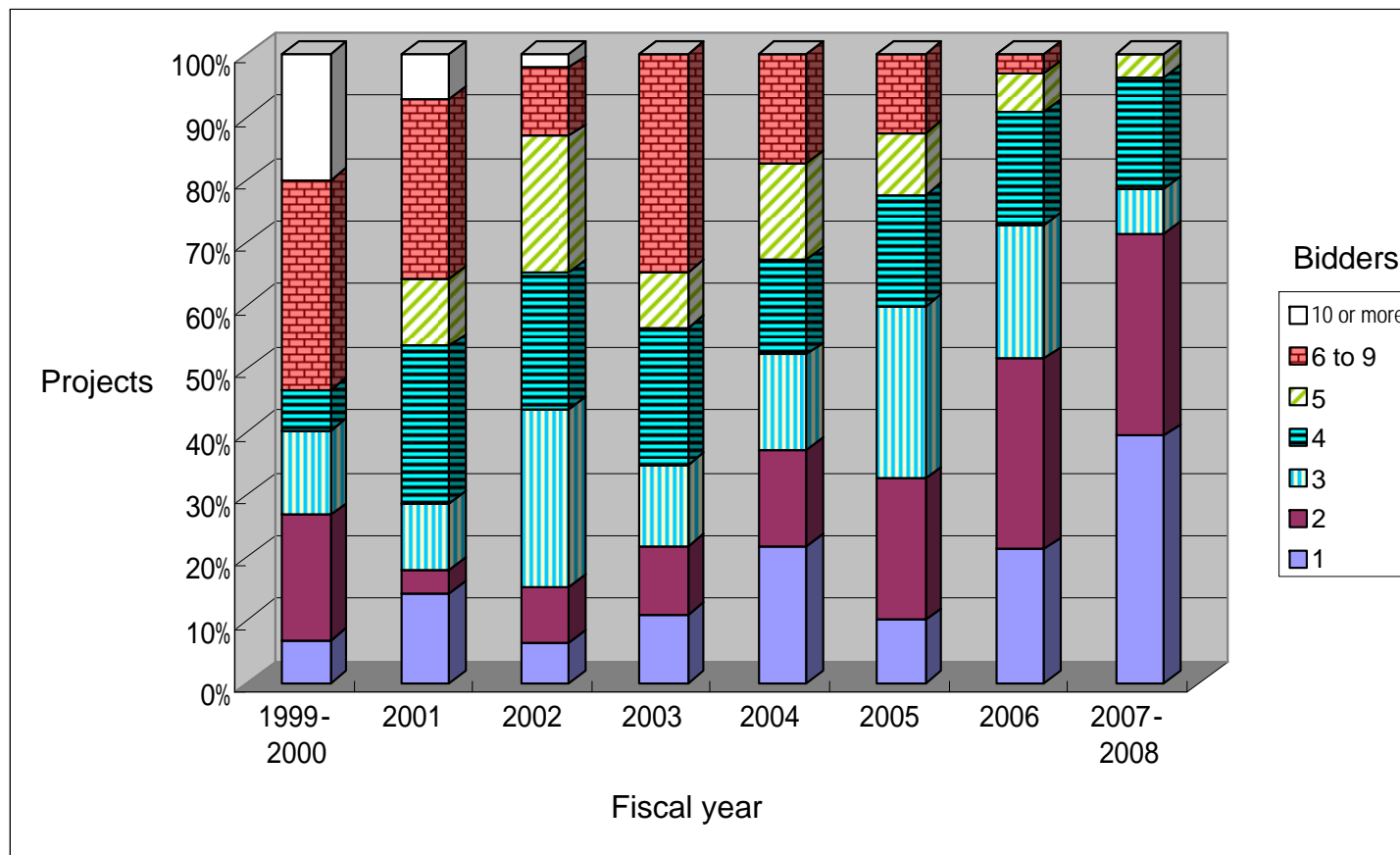
- This type gives little room for private companies to exercise their ingenuity with respect to energy. Consequently, compared to Type 1 and 2, energy-savings benefits are difficult to obtain.

Energy-saving benefits:
(moderate)



Numbers of bidders

- The number of bidders per project has been falling year by year, and recently almost all projects have four or less bidders.

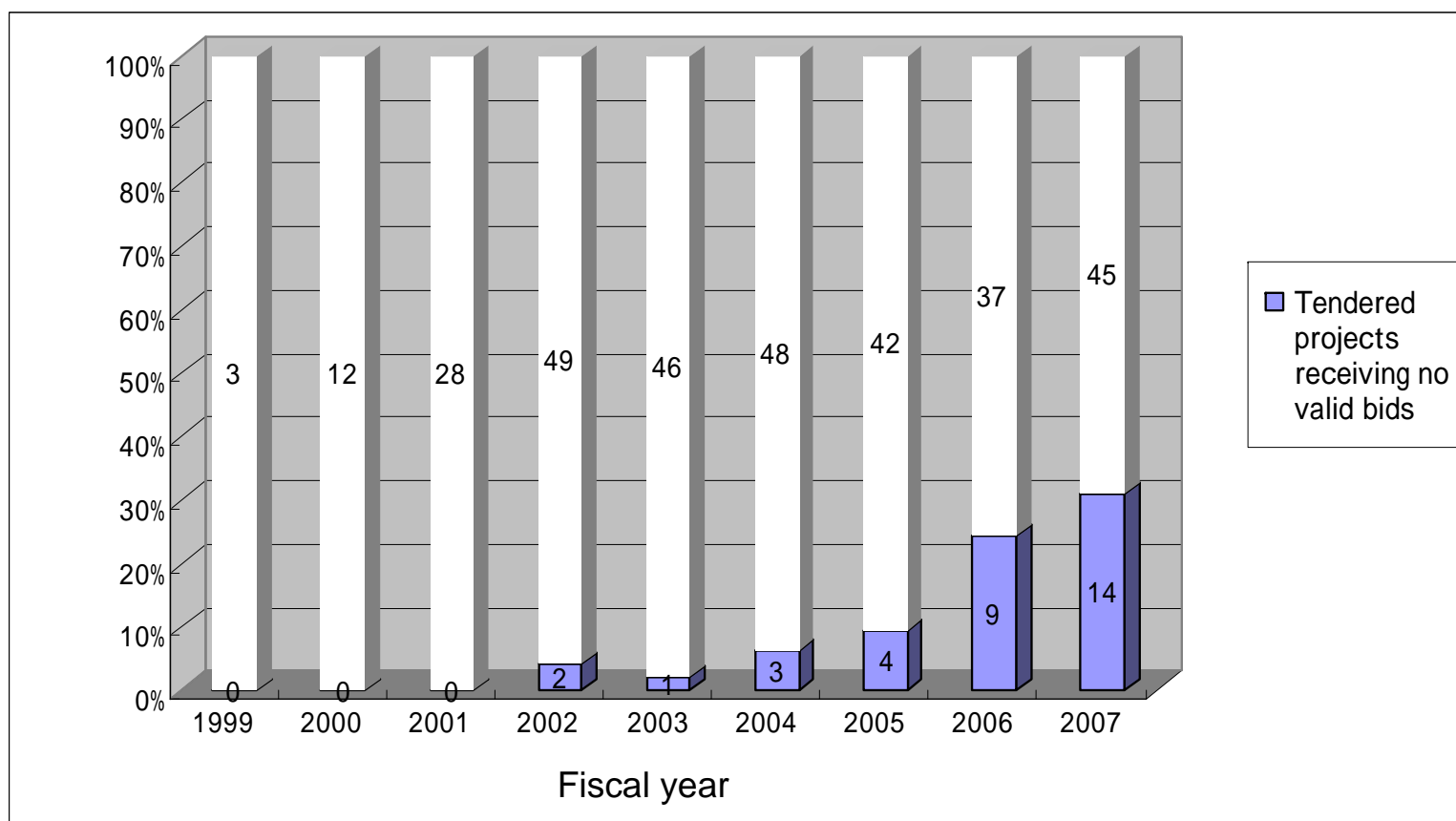


(As of Aug. 31th, 2008)



Tendered projects without bids

- The percentage of tendered projects receiving no valid bids has climbed year by year. In 2007, 30 percent of all tendered projects were not bid on.



*1. The announced number of planned projects includes projects canceled because a lack of valid bids.

*2. The figures for projects receiving no bids include projects that were later bid on when re-tendered.



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