

# Project Profile

**JAPAN**



## Public-Private Partnership Private Finance Initiative



# Contents

<b>Introduction</b>	<b>2</b>
<b>Section 1: Overview of PPP/PFI in Japan</b>	
What are PPPs/PFIs	4
Project Experiences	6
Institutional Framework	7
Supporting Public Agencies in overseas business	14
<b>Section 2: Project Profile</b>	
Projects in Japan	19
Projects Overseas	32

# Introduction

Japan's national and local governments are facing severe financial conditions, a declining population, an aging society with a low birthrate, and an aging public infrastructure. To respond appropriately to these economic and social challenges while striking a balance between the development of social infrastructure and fiscal soundness, public-private partnerships that utilize the funds and ingenuity of the private sector must be considered as an effective way of revitalizing the economy and improving administrative efficiency.

The “Act on Promotion of Private Finance Initiative” (PFI Act) was enacted in Japan in July 1999. In March 2000, the following year, the “Basic Policy” was published, which sets forth the basic principles of PFI projects and policies to promote its smooth implementation, laying out the legal and institutional framework for the promotion of PFI projects.

Between 1999, when the PFI Law was enacted, and 2020, the total number of PFI projects implemented in Japan reached a cumulative total of 875, with a total contract value of approximately USD 61 billion. Although the number of projects implemented decreased last year due to the spread of the novel coronavirus infection, PFI has become one of the preferred methods of developing social infrastructure and is steadily gaining traction.

Meanwhile, in overseas markets, due to the huge demand for funds for infrastructure development and the reluctance of governments in emerging countries to accept foreign loans, PPP methods for infrastructure development and operation have become an increasingly important topic. Based on the “2025 Policy Program for Promotion of Overseas Infrastructure Systems” formulated in December 2020, the Japanese government is actively involved in forming PPPs from the upstream, including support for the establishment of the system and awarding projects to receiving orders for PPP projects in which Japanese companies can participate. The government is working to build a unified public-private partnership system based on intergovernmental approaches, including yen loans for O&M, Overseas Investment Loans, support from public financial institutions, and building relationships with local partners.

This Project Profile introduces the institutional framework of PPP/PFI in Japan and PPP/PFI project experiences by Japanese companies in Japan and abroad to foreign governments, public institutions, and other parties involved in PPPs around the world.

We hope that this Project Profile will deepen your understanding of Japan's efforts in PPP/PFI and be actively used in your countries, as you consider partnering with our government and private institutions.

# Section 1

## PPP/PFI in Japan





# 1. What are PPPs/PFIs

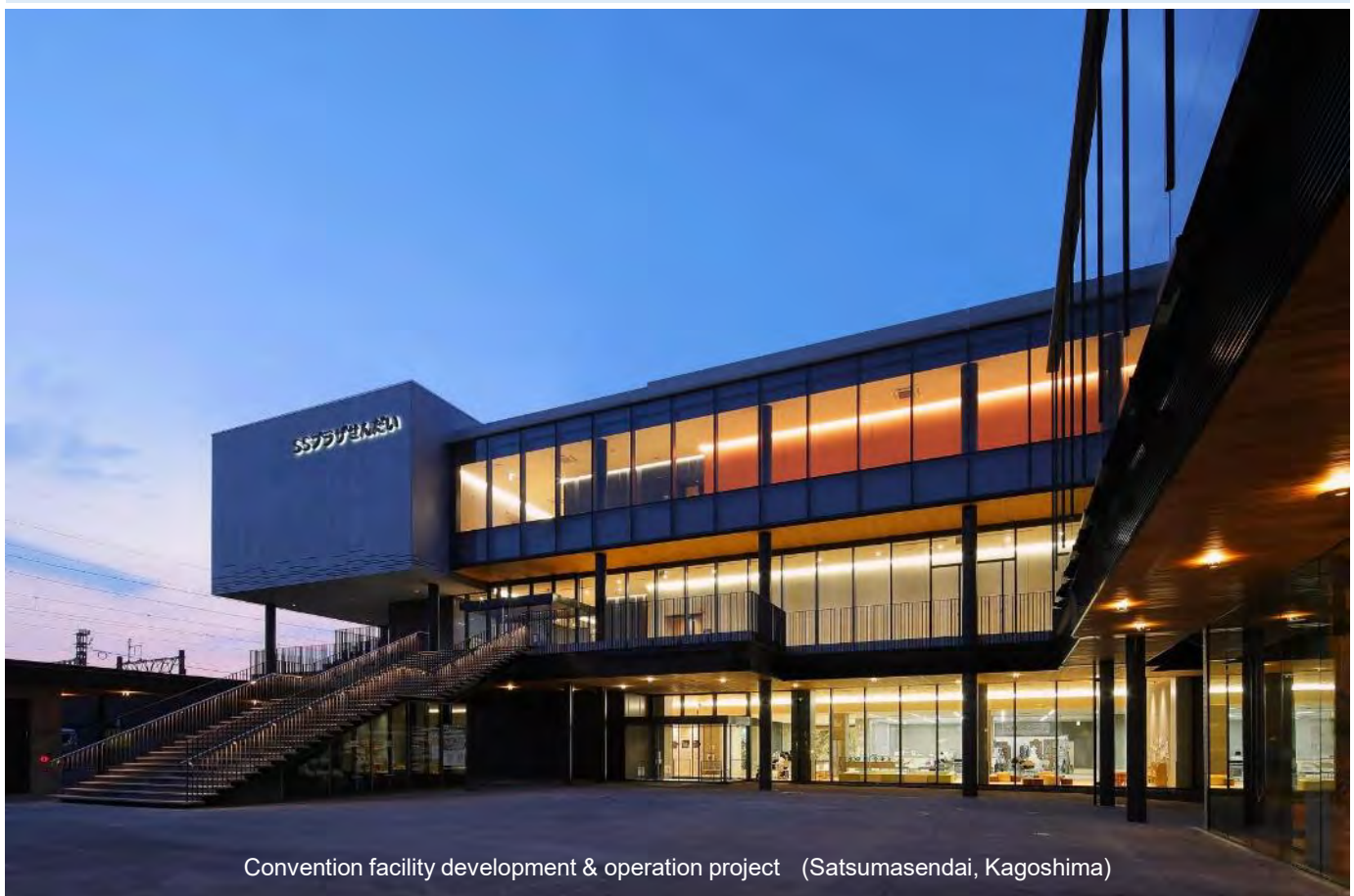
## ▶ PPP < Public-Private Partnership >

PPP (Public-Private Partnership) is a generic term for the partnerships formed between the private sector and public institutions, in which the government and the private sector collaborate in the design, construction, maintenance, management, and operation of public facilities, etc., to provide better public services through the efficient use of financial resources and improved administrative efficiency. There are many types of PPPs depending on the scope of work undertaken by the private sector, and PFI is one type of PPP. Besides PFI, many PPP methods are used in Japan, such as the designated manager system, comprehensive private-sector consignment, leasing of public land to private sectors, etc.

## ▶ PFI < Private Finance Initiative >

**Basis Laws: Act on Promotion of Private Finance Initiative (PFI Act)**

PFI is a type of public procurement method in which all or part of the construction, maintenance, management, and operation of public facilities, etc., is carried out by utilizing private sector funds, management, and technical capabilities implemented under the PFI Act. In the development of public facilities, instead of ordering design, construction, maintenance, management, operation, separately, these tasks are carried out under a comprehensive, multi-year, long-term contract based on the concept of a performance-based ordering, which maximizes the capabilities of the private sector to provide public services of superior quality at a lower cost. In Japan, since the enactment of the PFI Act in July 1999, many PFI projects have been implemented in compliance with this law.



Convention facility development & operation project (Satsumasendai, Kagoshima)

## Expected effects of the PPP/PFI

PPP/PFI projects create new business opportunities by utilizing private sector funding, managerial know-how, and technical capabilities, thereby creating a virtuous cycle in the local economy and contributing to reducing public burdens and achieving fiscal soundness. The effects of introducing PPP/PFI vary depending on the project's nature, but mainly, the following effects are expected.

### *(1) Cost reduction effect*

By placing a comprehensive order that integrates all or part of a project's design, construction, maintenance, management, and operation, the private sector is given more discretion, allowing more room for creativity, and is expected to reduce costs. During the course of a project, there is a possibility that losses may occur due to various unpredictable events such as fluctuation in demand, changes in economic conditions, including price and interest rate fluctuations, and natural disasters, etc. However, having proper risk management in place for the entire business based on the principle of PFI that the person who can best manage these risks bears the risk can have the effect of lowering the overall costs.

### *(2) Improvement of the quality of public services*

By placing performance-based orders, the quality of services is expected to be improved by allowing the private sector more room for creativity that applies the unique experience of the private sector. For example, in the case of facilities that attract visitors, it is more likely that the quality of services will be improved if the design, construction, maintenance, management, and operation are outsourced to private sectors that have sufficient know-how in the operation of the facilities, rather than the public sectors implementing the projects themselves. The new forms of partnership between the public and private sectors, with an appropriate division of roles, will lead to better public services as a whole.

### *(3) Revitalization of the local economy (regional revitalization)*

By handing over projects traditionally carried out by the national or local governments to the private sector, new business opportunities and job-creation effects will be created. Additionally, by maximizing the use of the ideas and knowledge of local companies in the development and operation of public facilities, it will become possible to develop facilities and provide public services that meet the specific needs of local residents.

Furthermore, PPP/PFI projects are expected to promote regional economic development and the creation of new local communities by increasing the value of surrounding areas through the utilization of surplus land.

## Main features of PPP/PFI

### **Comprehensive ordering:**

In contrast to the conventional approach, which in principle “separates and divides work by task and places orders in a single year,” the PPP/PFI method generally “places an order in multiple years that encompasses multiple tasks.” In most PFI projects, the design, construction, maintenance, management, and operation are comprehensively ordered over multiple fiscal years.

### **Performance-based ordering:**

In performance-based ordering, the client does not place an order based on detailed specifications and conditions of the project but rather by specifying the obligations to be fulfilled by the private business operator (work requirement level), focusing on the output (performance). In implementing the project, the method proposed by the private sector is adopted on the premise that the conditions stipulated in the required level of work are satisfied, thus allowing the private sector more room for creativity and ingenuity than the conventional method.



Public culture facility development project  
(Higashine, Yamagata)

## 2. Project Experiences

As of March 2021, the cumulative number of PFI projects implemented under the PFI Act is 875, and the cumulative contract value has reached approximately USD 61billion<sup>1</sup> (7 trillion yen)<sup>2</sup>. In Japan, the PFI method is used in various business sectors, as per the following breakdown.

292 projects for educational and cultural facilities (social education facilities, cultural facilities, etc.), 220 projects for urban development (roads, parks, sewerage facilities, port facilities, etc.), 131 projects for health and environment (medical facilities, waste disposal facilities, funeral halls, etc.), 76 projects for government buildings and dormitories (office buildings, civil servants' dormitories, etc.), 27 projects for industry (tourism facilities, agricultural development facilities, etc.), 26 projects for security (police, firefighters, etc.), 25 projects for living and welfare (welfare facilities, etc.) and 78 projects for other fields (complex facilities, etc.)

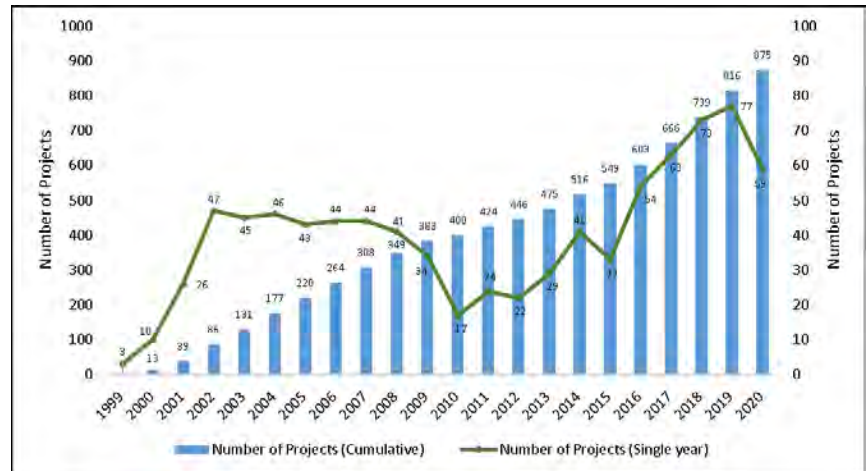
<sup>1</sup> The figures shown are different from the project scale used in the “Action Plan for PPP/PFI Promotion.”

<sup>2</sup> Exchange rate: 113.36yen/\$ (2021/12/08)

### VFM (Value for Money):

Based on the results of a survey of VFM trends for projects in which implementation policies were announced between 1999 (enactment of the PFI Law) and fiscal year 2015, shows that VFM at the time of award of the projects were around 17.9% for the “services purchase type” and 23.1% for the “mixed type.”

### Number of PFI Projects 875



(Note)

The number of projects indicated is the number of projects implemented under the PFI Act as identified by the Cabinet Office survey through the publication of the implementation policy and does not include projects which were canceled or discontinued during the service provision period or projects that were abandoned after the announcement of the implementation policy.

### Contract Value of PFI Projects USD 61billion (JPY 7 trillion)



(Note)

The contract value is the total of the initial contract amount for projects in which the implementation policy was made public and for which public expenditure was determined for the relevant fiscal year, as ascertained by the Cabinet Office survey. The contract amount does not include the compensation for operating right under the “the right to operate public facilities system,” which is a different indicator from the project scale in the “Action Plan for PPP/PFI Promotion.”