

3. Institutional framework

(1) Summary of the “Act on Promotion of Private Finance Initiative” (PFI Act)

The PFI Act is a Japanese law that stipulates PFI projects that introduce a method of entrusting the design, construction, maintenance, management, and operation of public facilities to the private sector.

The Law was enacted in July 1999 and stipulates procedures and regulations for the smooth implementation of PFI projects, including the basic principles and implementation policies of PFI, special measures for lending of national and public property, fiscal and financial support, matters related to the “committee for the promotion of PFI,” and the introduction of the “right to operate the public facility, etc.”

Purpose (Article 1 of the PFI Act)

“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 citizens by taking measures for promotion of provision etc., of the public facility, etc., through utilization of private finance, management abilities and technical capabilities, thereby contributing healthy development of the national economy.”

Facilities (Article 2 of the PFI Act)

The term “public facility, etc.” as used in the PFI Act means the following facilities (including equipment):

1. **Public facilities:** roads, railways, ports and harbors, airports, rivers, parks, water services, sewage systems, and industrial water supplies.
2. **Official facilities:** government buildings and accommodations.
3. **Public interest facilities and leased housing:** leased housing, educational and cultural facilities, waste treatment facilities, medical facilities, social welfare facilities, offender rehabilitation facilities, parking, and underground malls.
4. **Other facilities:** Information and communications facilities, heat supply facilities, new energy facilities, recycling facilities, tourist facilities, research facilities, transportation facilities such as vessels, aircraft, etc., and artificial satellites.

The administrator of Public Facility (Article 2 of the PFI Law)

In the PFI Act, the term “Administrator of Public Facility, etc.” refers to the national government (heads of ministries and agencies), authorities of local governments (prefectural governors, mayors of municipalities, etc.), independent administrative agencies, special corporations, and other public corporations.

Basic Principles (Article 3 of the PFI Act)

“In implementing a project for the provision, etc. of a public facility, etc., its implementation is to be entrusted to private businesses as much as possible, if the project is suitable for entrustment. In deciding the suitability of entrusting those projects, consideration is to be given to factors such as appropriate division of roles between the national government and local governments, efficient use of public funds; improvement in efficiency of public administration, or efficient utilization of assets owned by the national and local governments, and; whether the revenue generated by the project will prove sufficient to pay the costs involved.”

Utilization of the Private Finance Initiative Promotion Corporation of Japan

The Private Finance Initiative Promotion Corporation of Japan, which functions as an infrastructure fund formed through public-private partnerships, was established in October 2013 with government and private sector investments to disseminate and promote PFI projects, specifically the self-supporting accounting type. In Japan, a full-fledged market for the supply of risk money for infrastructure development has not yet been established and this has been an obstacle to the financing of self-supporting accounting type projects. The Private Finance Initiative Promotion Corporation of Japan promotes PFI projects by providing risk money (acquisition of preferred stock, subordinated bonds, etc.) as a stimulus to attract private sector investment in infrastructure projects.



General gymnasium development & operation project (Fukuoka, Fukuoka)

Promotion and implementation structure

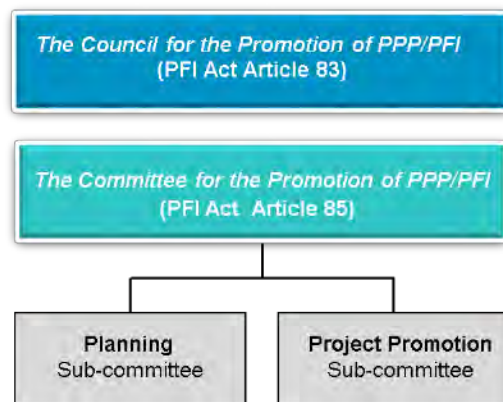
- The PPP/PFI Promotion Office, Cabinet Office, Government of Japan, has jurisdiction over the PFI Act and is responsible for promoting PPP/PFI in Japan. The office develops specific measures for promoting PPP/PFI, such as the “Action Plan for PPP/PFI promotion,” organizing the “Committee for the promotion of PFI,” and other committees that deliberate on essential measures related to PFI, supporting local governments’ initiatives, and work on revisions to the PFI Act.
- In implementing PPP/PFI projects, departments within the ministries, agencies, local governments, and public corporations with jurisdiction over the facilities will carry out everything from feasibility studies to the closing of project contracts as an implementing agency.

The Council for the Promotion of PFI

The Council for the Promotion of PFI is a special body established within the Cabinet Office under the PFI Act to deliberate on important matters related to PFI, including the drafting of basic policies for PFI projects implementation, mutual coordination among related administrative agencies, deliberation on other essential issues associated with PFI measures.

Chairman: Prime Minister

Members: Ministers of State other than the Chairman, designated by the Prime Minister (all Ministers of State)



The Committee for the Promotion of PFI

The Committee for the Promotion of PFI is a committee consist of academia and people with practical experiences established to collect information from the expert perspective that will contribute to the sound promotion of PFI projects, and conducting the necessary research and deliberation and overall coordination with the government on the implementation status and opinions from private sectors.

Planning Sub-committee:

The Planning Sub-committee monitors the progress of the “Action Plan,” etc., and investigates and deliberates on necessary revisions to ensure the reliable implementation of the plan.

Project Promotion Sub-committee:

Project Promotion Sub-committee investigates and deliberates on measures and systems necessary for promoting PFI, etc.



Wide area administrative union incineration plant development & operation project (Gotemba, Oyama, Shizuoka)

(2) Project Types and Project Methods

Project Types

In this section, two classifications will be explained: one from the perspective of how the PFI operator generates revenue from the development and the provision of public services (recovery method), and the other from the classification based on the “Action Plan for PPP/PFI Promotion” which is used to monitor the numerical targets of each category.

➤ Classification based on the cost recovery method

(1) Service Purchase type

Service purchase type is a type in which the national or local government pays a “service purchase fee” as compensation for the public service provided by the PFI operator, and this fee becomes the PFI operator's revenue. This type of PFI is the most widely used in Japan and often applied for constructing public facilities such as government buildings, schools, and public housing, etc., where it is difficult to generate revenue from the project. The PFI operator recovers the construction cost through the “services purchase fee” paid by the public.



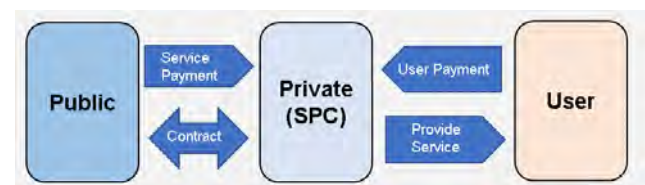
(2) Self-Supporting Accounting Type

The self-supporting accounting type is a type in which the PFI operator recovers the cost of construction, maintenance, and operation through revenues from “user fees” collected from the users of the public services provided by the PFI operator. This type of PFI is used in constructing airport passenger terminal buildings, public parking, etc., and in the case of the airports, the revenue from the project comes from airport charges collected from airline passengers, etc.



(3) Mixed type

A mixed type is a form of PFI that mixes the “service purchase type” and the “self-supporting accounting type,” in which the PFI operator's business revenue is derived from both the service purchase fee paid by the public and the user fee paid by the users of the public service. This type of PFI is applied for facilities such as lodging facilities, hot springs, athletic facilities, etc., which are operated by collecting user fees from the users. Compensation for the construction and maintenance of the public facility is paid by the public in the form of a service purchase fee, and during the operation period, the revenue is generated from the user fees.



“Michino-eki,” “Kawano-eki” PFI project (Kannami, Shizuoka)



Yanagishima sports park development project (Chigasaki, Kanagawa)

➤ **Categorization based on the “Action Plan for PPP/PFI Promotion”**

The project categories based on the “Action Plan for PPP/PFI Promotion” is a classification unique to Japan used to monitor numerical targets for each categories in the Action Plan, and is revised every year. The priority of initiatives is determined for each of the four categories every year, and the scale of projects to be pursued is set to manage numerical targets.

(1) PFI Projects utilizing the Right to Operate the Public Facility, etc. System (Concession) (Category I)

The Right to Operate the Public Facility, etc. System (concession) is a system in which the public entity retains ownership of public facilities, while the private operator is given the right to manage the facilities. It is often applied for airports, water and sewage systems, MICE facilities, and other public facilities that collect usage fees. By entrusting the facility's operation to the private operator, including determining usage fees, allows the public operator to operate the business with a high degree of freedom.

(4) Other PPP/PFI projects (Category IV)

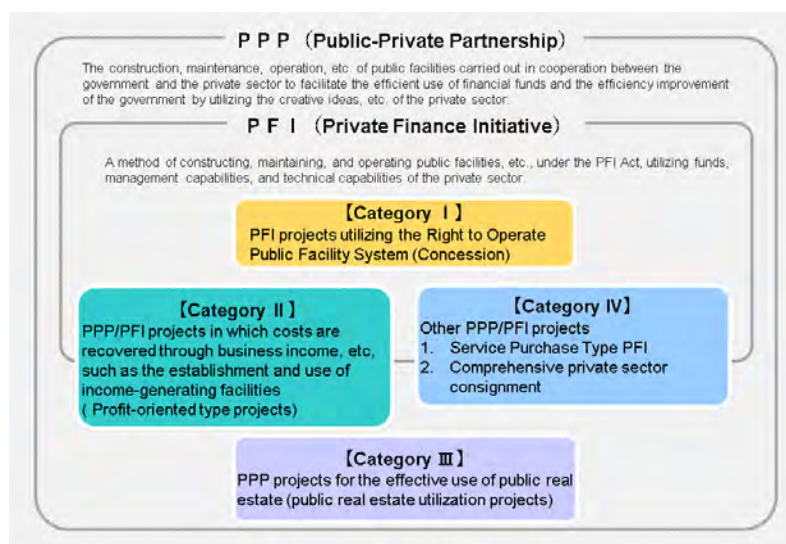
Traditional PPPs such as the “designated manager systems” and “comprehensive private sector consignment,” which belongs to this category, are being encouraged to promote as they are expected to play a role as the first step in the adoption of PPP/PFI methods for local governments that have no experience in PPP/PFI projects, and also because they have the potential to develop into “right to operate public facility projects” in the future. As for the “service purchase type PFI,” which is the most widely used type in Japan, has been implemented mainly in the field of “hakomono” (public buildings), but as we move on, the scope of its use is to be expanded from "hakomono" to the infrastructure projects.

(2) PPP/PFI projects which costs are recovered through business income, such as the Co-location and use of revenue-generating facilities ("Profit – oriented type projects") (Category II)

There are mainly two types of revenue-generating projects: the “user fee revenue type,” which recovers costs through the revenue from public facilities, and the “private facility attached type,” which adds private facilities to public facilities. The revenue potential of facilities varies, ranging from those that can recover all of their maintenance and operation costs through user fees and revenue-generating projects to those that can recover only some of their operating costs. However, even if only a portion of the costs can be retrieved, revenue-generating projects are to be actively promoted from the perspective of contributing to the reduction of public burdens.

(3) PPP projects for the effective use of public real estate (public real estate utilization projects) (Category III)

By effectively using underutilized public real estate, it is expected that public-private partnerships will create more vitality in the city, enhance the "value" of the region, and create new investment and business opportunities. In recent years, there have been many examples of projects in which surplus land is created by the reorganization and consolidation of public facilities by the private operator in conjunction with the development of public facilities.

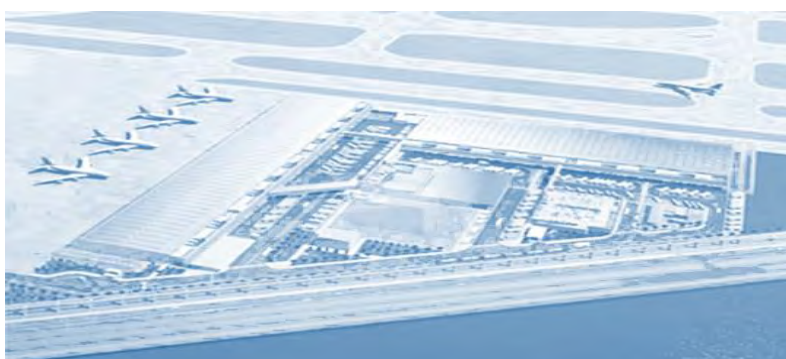
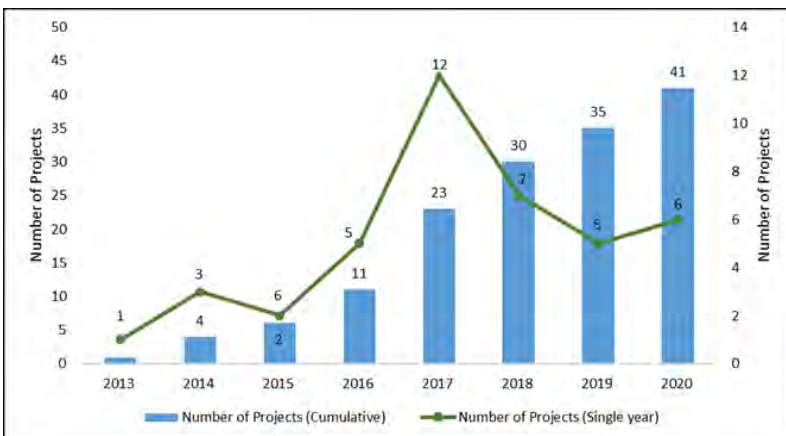


Project Methods

There are several PFI project methods, such as BTO, BOT, BOO, and RO etc., depending on the ownership of the facility and the scope of the contract.

<p>BTO method (Build Transfer and Operate)</p>	<p>The “BTO” is a method in which the private sector designs and constructs a facility (Build) and then transfers ownership (Transfer) to the public immediately after completion. Then the private sector maintains and operates the facility (Operate).</p>
<p>BOT method (Build Operate and Transfer)</p>	<p>In the “BOT” method, the private sector retains ownership of the facility from the design and construction (Build) to the maintenance, management, and operation (Operate) of the facility and transfers ownership to the public after the project (Transfer) is completed. Since the private operator retains ownership of the facility throughout the project period, it has the advantage of allowing flexible management of the facility.</p>
<p>BOO method (Build Operate and Own)</p>	<p>Unlike the “BOT” method, the facility’s ownership is not transferred to the public after completing the project, and the project is either continued or terminated by removing the facility.</p>
<p>RO method (Rehabilitate Operate)</p>	<p>“RO” is a method in which the private sector raises its funds, renovates and repairs the existing facilities, and operates them.</p>

The Right to Operate Public Facilities, etc., method



“The Right to Operate Public Facilities, etc. method” is a method in which the public entity retains ownership of the facility, while the private operator is given the right to operate the facility. The public entity delegates the facility’s management, including the determination of usage fees, to the private operator, allowing the private operator to operate the facility with a high degree of freedom. Operating rights can be established for both existing and new facilities. The operating rights are recognized as property rights that can be transferred, and the financial institutions can establish mortgages on the operating rights for public facilities, which has the benefit of facilitating financing. In Japan, “the right to operate public facilities system” was introduced in 2011 with the revision of the PFI Act. To date, 41 projects have been successfully implemented in various sectors, including airports, sewerage plants, etc., as a result of intensive efforts to promote the system as a priority area in the Action Plan.

(3) Action Plan for PPP/PFI Promotion

The "Action Plan for PPP/PFI Promotion" has its origin in the "Action Plan for Fundamental Reform of PPP/PFI" determined by the Council for the PFI in June 2013. It is a comprehensive plan for the government's effort to improve the necessary environmental arrangements, provide support to local governments, and develop systems by compiling the necessity of institutional responses and specific measures to be newly implemented as an action plan. Every fiscal year, the PPP/PFI Promotion Office reviews and improves the priorities according to the progress made with the major measures that were taken previously.

(4) Guidelines, Manuals, etc.

The PPP/PFI Promotion Office prepares guidelines, manuals, case studies, etc., as tools to support the introduction and smooth implementation of PPP/PFI methods and provides the information widely through its website. (<https://www8.cao.go.jp/pfi/>) Each ministry, agency, prefecture, and ordinance-designated city also prepares its own guidelines to provide guiding principles, etc., to promote the use of PPP/PFI methods.

<Guidelines and manuals etc., published by the PPP/PFI Promotion Office, Cabinet Office>

Guidelines and Manuals	Date of Revision
Guidelines on PFI Projects Implementation Process	2021/6
Guidelines on Risk Allocation, etc. in PFI Projects	2021/6
The Guidelines on Value for Money (the VFM)	2018/10
Contract Guidelines - Key Points on PFI Project Contracts	2021/6
A Guideline for Monitoring	2018/10
Guidelines on the Right to Operate the Public Facility, etc. and the Public Facility, etc., Operating Project	2021/6
Manual for feasibility study simplification for PPP/PFI	2019/3
Manual for Simplifying Procedures for Implementing Service Purchase-Type PFI projects for local governments	2014/6
Manual for Private Sector Proposal for PPP/PFI Projects	2021/4
Ex-post evaluation manual for PFI projects	2021/4
Manual for Regional Platform Operation	2017/3
Guidance on PFI Project Introduction	2003/3
Guidance on Developing Rules for Priority Consideration for the Introduction of PPP/PFI Methods	2016/3
Guidance on Operating Rules for Priority Consideration for the Introduction of PPP/PFI Methods	2017/1
Basic approach to non-ownership methods for public facilities	2021/4



Former Kanda Family attached townhouses project (concession)
(Tsuayama, Okayama)

(5) Support measures for promotion

To promote PPP/PFI methods, the government implements various support measures for local governments. This section explains the main support measures provided by the PPP/PFI Promotion Office.

1. Operational Support for the “Rules for Priority Consideration.”

“Rules for Priority Consideration” stipulate that PPP/PFI methods shall be considered over conventional methods when developing public facilities, etc. The rules serve as the basic framework for promoting PPP/PFI projects in local governments, enabling verification of the optimal methods by comparing PPP/PFI methods with conventional methods for projects above a certain size. In addition, evaluation details are made public, ensuring objectivity and accountability to the public. The PPP/PFI Promotion Office continuously supports developing specific projects through the formulation and the application of the rules to promote practical priority studies, including follow-up on the status of formulation and sharing good practices carried out by local governments.

2. Support for the formation of “Regional Platforms.”

“Regional platforms” is a framework that enables local private sector operators, local financial institutions, local governments, experts, and other parties familiar with the issues and conditions of the region to gather, acquire know-how, and exchange information to improve the ability to form PPP/PFI projects. In addition to training and study sessions to acquire know-how, the regional platforms reflect the opinions of local private sector businesses by holding public-private dialogues on specific projects. By sharing information on projects in the pipeline at an early stage, the platform is effectively used to draw out the planning, proposal, and project execution capabilities of private sectors.

3. Support for Dispatching PPP/PFI Experts

To promote the autonomous formation of PPP/PFI projects in local governments, the PPP/PFI Promotion Office implements a system to dispatch experts with specialized knowledge, know-how, and experience to support local governments and other organizations engaged in PPP/PFI projects. The office holds seminars to study the basic concepts and approaches of PPP/PFI methods, introduces case studies of projects that have been implemented in the past, and provides consultation on questions and issues related to the introduction of PPP/PFI methods for the projects under consideration.

Other Supports

- A system to dispatch PPP/PFI administrative experts to local governments by certifying and registering local government officials as “PPP/PFI administrative practice experts” who possess extensive practical experience and achievements in administrative practices, such as the establishment of internal promotion systems and rules for consideration, budgetary responses, parliamentary responses, and internal consensus building.
- Financial support for PPP/PFI consideration studies covering initial costs of feasibility studies, etc., required when implementing the PPP/PFI projects.
- The “One-Stop Window System” established in the fiscal year 2018 with the revision of the PFI Act is a system that allows the administrator of public facilities, etc. and a private business operator seeking to implement a PPP/PFI project to collectively inquire and confirm the details of support measures and the applicability of regulations via the One-Stop Window established within the PPP/PFI Promotion Office.



4. Supporting Public Agencies in overseas business

JICA - Japan International Cooperation Agency -



JICA, as the centralized agency for Japan's official development assistance, has 15 offices in Japan and about 100 overseas and is currently implementing ODA projects in more than 150 countries and regions. Utilizing the local information and extensive network accumulated through ODA projects, JICA continuously provides support from upstream including the development of PPP-related laws in developing countries, as well as support through feasibility studies and financing for the implementation of overseas PPP projects executed by local government and private companies. Specifically, JICA has developed comprehensive schemes to support developing countries through Overseas Investment Loans for projects with high economic impact executed by private companies and yen loans such as Equity Back Finance (EBF) loans, Viability Gap Finance (VGF) loans, and PPP infrastructure credit enhancement stand-by loans for PPP projects implemented by governments of developing countries. JICA also provides support for the implementation of preparatory studies, which assist in the development of business plans based on proposals from companies that plan to implement projects utilizing Overseas Investment Loans.

■URL <https://www.jica.go.jp/english/index.html>

JBIC - Japan Bank for International Cooperation -



JBIC, a public institution wholly owned by the Japanese government, aims to complement the financing provided by private-sector financial institutions, while 1) promoting the overseas development and securement of resources which are important to Japan, 2) maintaining and improving the international competitiveness of Japanese industries, 3) promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming, and 4) preventing disruptions to international financial order or taking appropriate measures with respect to damages caused by such disruptions. JBIC's objective is to contribute to the sound development of Japan and the international economy and society by conducting its operations in the four areas mentioned above. To achieve its objectives, JBIC provides support for the overseas development of Japanese companies and for the improvement of the business environment in host countries through a menu of financial services, including export loans, import loans, overseas investment loans, untied loans, and equity participations.

■URL <https://www.jbic.go.jp/en/index.html>

NEXI - Nippon Export and Investment Insurance -



NEXI is a 100% government-owned special stock company, and is the only public agency in Japan responsible for trade insurance. NEXI's trade and investment insurance covers risks associated with international trade and other overseas transactions that cannot be covered by private-sector insurance. The purpose of trade and investment insurance is to support and promote companies on overseas business development by mitigating the risks associated with foreign trade and overseas investment. The main types of NEXI's trade and investment insurance are 1) Export Credit Insurance, which covers losses resulting from inability to collect payment after the cargoes have been shipped or after the technology has been provided, 2) Overseas Investment Insurance, which covers losses incurred by Japanese companies with a subsidiary or a joint venture in a foreign country if the subsidiary or joint venture is forced to discontinue business due to force majeure and 3) Loan Insurance, which covers losses incurred by Japanese companies, banks, and other institutions, that provide a foreign government or company with business funds for overseas projects, if they are unable to collect the loans. In December 2020, in response to the Covid-19 pandemic and its consequences, NEXI launched a new business strategy called "LEAD Initiative". It aims to proactively support financing projects that will contribute to achieving carbon neutrality and SDGs.

■URL <https://www.nexi.go.jp/en/index.html>

JOIN - Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development -



JOIN is a public-private infrastructure investment fund company established in 2014, specialized in overseas infrastructure projects such as transportation and urban development. JOIN's aim is to promote active entry of Japanese companies into overseas markets for projects that utilize Japanese knowledge, technology and experience, and contributing to the sustainable growth of the Japanese economy. JOIN not only provides equity, but also provides supports such as dispatching executives to the projects. There is no limitation on the areas and countries (developed or emerging) and JOIN can provide consistent support to projects, from the project development stage (greenfield) to the business operation stage, O&M (brownfield). JOIN aims to actively promote support not only for typical transportation and urban development projects, but also for new technology fields such as smart cities, TOD/public transport-oriented development and MaaS, as well as for a wide range of infrastructure fields that support these projects.

■URL <https://www.join-future.co.jp/english/>

JICT - Fund Corporation for the Overseas Development of Japan's ICT and Postal Services –

JICT is a public-private fund established in 2015 with investments from the Japanese government and private businesses. While considering the subsidiarity nature with the private businesses, JICT supports those who are engaged in doing business overseas in telecommunications, broadcasting, postal services, and to those who support these businesses, and as of the end of December 2021, a cumulative total of 78.4 billion yen has been provided in support as funds and loans. Telecommunications, broadcasting, and postal services are regulated sectors, and there are various risks involved in conducting these businesses overseas. To achieve its objective of contributing to the sustainable growth of the Japanese economy by improving the profitability of Japanese businesses, JICT bears a portion of the risk and provides investment and hands-on support from the stage of project identification and formation to post-investment business operations, in cooperation with related organizations, and promotes the overseas development of Quality Infrastructure through the expansion of the supply of risk capital.

■URL <https://www.jictfund.co.jp/en/>



Moray East Offshore Wind Power Generation Project (UK)

Section 2

Project Profile



Domestic Projects

01	Public Sewage Treatment Plant in Hamamatsu	SEWERAGE
02	Effective use of Sewage Sludge at the Southern Sludge Recycling Center in Yokohama	SEWERAGE
03	Biomass Recycling Facility in Kurobe Sewage Treatment Plant	SEWERAGE
04	Composite-type Biomass Facilities in Toyohashi City	SEWERAGE
05	Kitanagoya Waste Treatment Plant Project	WASTE MANAGEMENT
06	Tokyo International Airport International Zone Development	AIRPORT
07	Sendai Airport Operation Project	AIRPORT
08	Sawara Wide-area Exchange Center PFI Project	RIVER
09	Tama Regional Core Hospital and Children's Medical Center	HOSPITAL
10	Takeshiba District Urban Renewal Step-up Project	URBAN DEVELOPMENT
11	Minato Mirai 21 Central District 20 City Blocks Meeting & Event Facility Development Project	MICE
12	Central Government Building No.7 Development	GOVERNMENT BUILDING
13	Osaka Toyonaka Shin-Senri Higashi Housing Project	HOUSING

Overseas Projects

14	Nam Ngiep 1 Hydropower Project	ENERGY
15	Dariali Hydropower Plant	ENERGY
16	Meghnaghat Natural Gas-Fired Combined Cycle Power Plant	ENERGY
17	Dubai Energy-from-Waste Project	WASTE MANAGEMENT
18	Water Purification Plant in Cambodia	WATER
19	Chinggis Khaan International Airport Construction and Operation Project	AIRPORT
20	Toll Road Business in India	ROAD
21	Toll Road Business in Indonesia	ROAD
22	Lach Huyen Port Construction Project	PORT
23	Intercity Express Programme	TRANSPORTATION RAIL
24	The Başakşehir Çam & Sakura City Hospital PPP Project	HOSPITAL