



Overview of PPP/PFI in Japan

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Outline

1. Background
2. Definition of PPP/PFI in Japan
3. Legal and institutional framework
4. Status of PFI in Japan
5. Right to operate public facility (Concession)
6. Action Plan for PPP/PFI Promotion

1. Background

Social and economic challenges in Japan

The PFI (Private Finance Initiative) method in Japan was introduced by the enactment of the PFI Act in 1999, to overcome the difficulties during the economic stagnation. This method was a new business model that could develop public facilities effectively and efficiently by utilizing the ingenuity of the private sector.

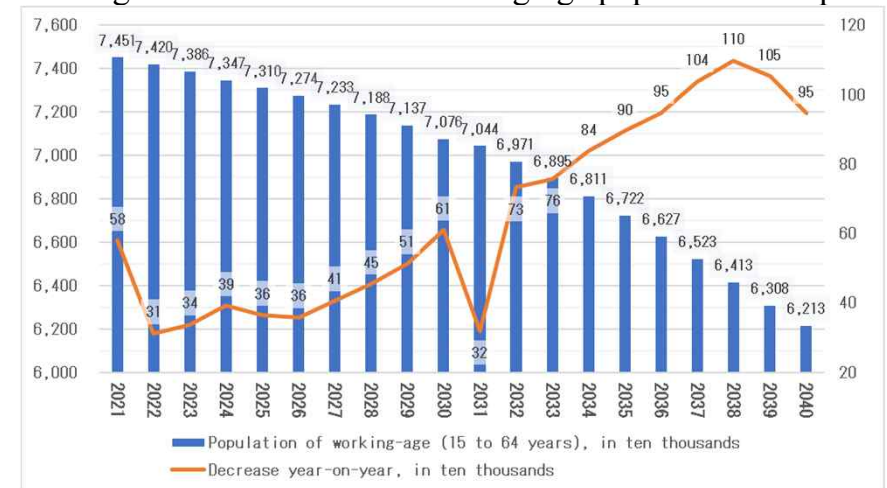
In Japan, finances of national and local governments have become increasingly severe because of declining tax revenues due to a shrinking population (Figure 1) and increasing social security costs due to the aging of the population.

Additionally, the social infrastructure developed around the period of high economic growth (1955-1973) is rapidly aging. Over the next 20 years, the percentage of social infrastructure that is 50 years old or more after construction will increase at an accelerating rate (Figure 2).

With an aim to balance the development of social infrastructure and the fiscal soundness under these challenging environments, the Japanese government accelerates efforts to adopt PPP/PFI methods to maintain and renovate aged infrastructure, to reduce the fiscal burden, and to realize a virtuous cycle of economic growth.

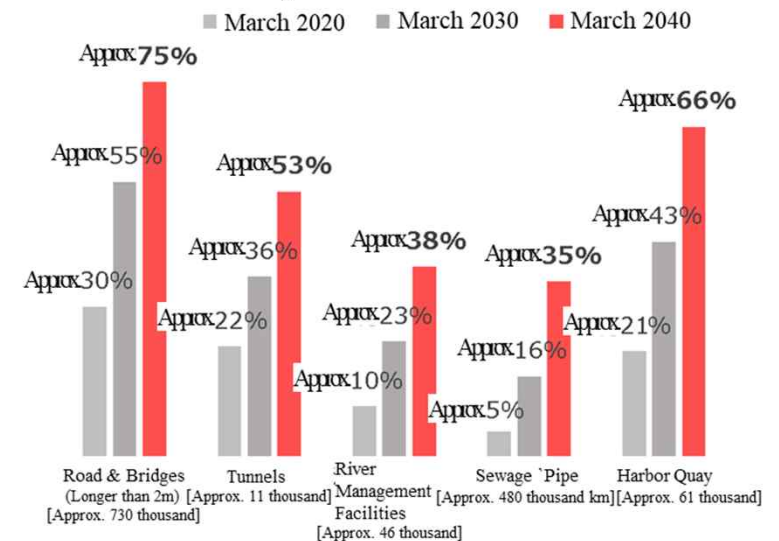
In 2022, the government set a 10-year PPP/PFI project scale target of 30 trillion yen starting from FY2022. Most recently, the new Action Plan for PPP/PFI Promotion was decided in June 2023, to further promote PPP/PFI by setting a 10-year target of number of projects.

Figure 1: Estimation of working-age population in Japan



Source: Ministry of Land, Infrastructure, Transport and Tourism

Figure 2: Percentage of social infrastructure that is 50 years old or more after construction



Source: National Institute of Population and Social Security Research

2. Definition of PPP/PFI in Japan

PFI is defined as a project implemented pursuant to the PFI Act.

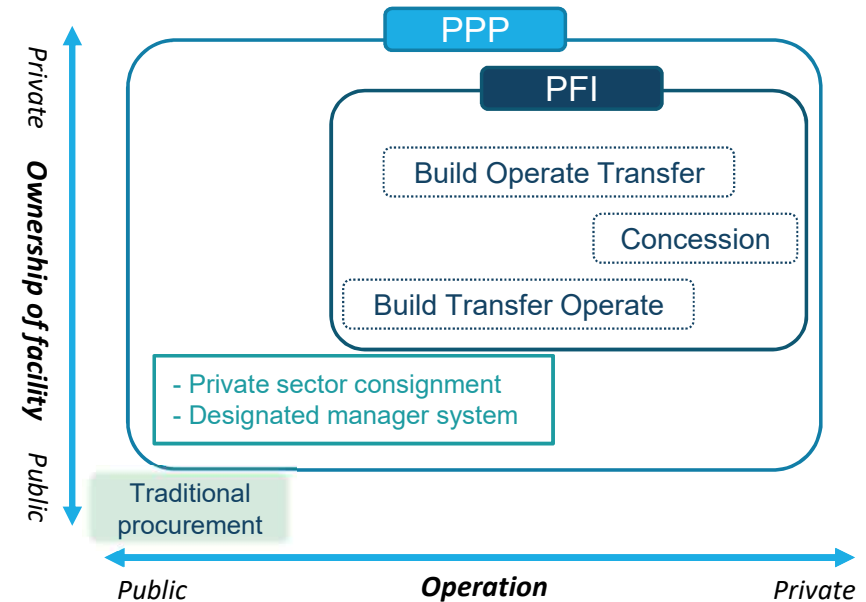
PPP (Public Private Partnership)

PPP means the partnerships between public institutions and the private sector, in which national or local governments and private business operators collaborate in design, construction, maintenance, management, and operation of public facilities to provide better public services through the efficient use of private resources.

There are many types of PPP methods used in Japan, such as the designated manager system, comprehensive private-sector consignment, and leasing of public land to the private sector.

PFI (Private Finance Initiative)

PFI is defined as a project implemented pursuant to the PFI Act. PFI is a form of PPP in which all or part of design, construction, maintenance, management, and operation of public facilities is carried out by utilizing private-sector finance, management and technical capabilities. Instead of placing orders separately, a comprehensive, multi-year, and long-term contract is established based on the concept of performance-based contract, which enables the private sector to maximize its capabilities and to provide public services at a lower cost and with better quality.



(Note) The above diagram is a concept illustration. Risk sharing between the public and private sectors will differ for each project.

PPP/PFI creates new business opportunities and a virtuous circle in the local economy, while reducing the public burden and restoring fiscal soundness. It contributes to the integrated economic and fiscal reforms aimed at achieving a surplus in the primary balance of government finances.

1) Cost reductions

Comprehensive contract of design, construction, maintenance, management, and operation provides the private sector broad discretion which allows for greater creativity and ingenuity, and thus results in cost reductions.

2) Improving quality of public services

By leveraging the management and technical capabilities unique to the private sector through performance-based contract, the service quality of public facilities is expected to improve.

3) Revitalization of the local economy

Deep engagement of the private sector will create new business opportunities and new jobs in the region. As a result, PPP/PFI not only alleviates financial burdens but also contributes to revitalization of the local economy.

3. Legal and institutional framework (1)

Act on Promotion of Private Finance Initiative (PFI Act)

The PFI Act was enacted in July 1999. The Act stipulates the basic principles and procedures for sound implementation of PFI projects, as well as special measures for lending national public property, and financial support.

Purpose (Article 1)

“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.”

Administrator of Public Facility (Article 2)

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.

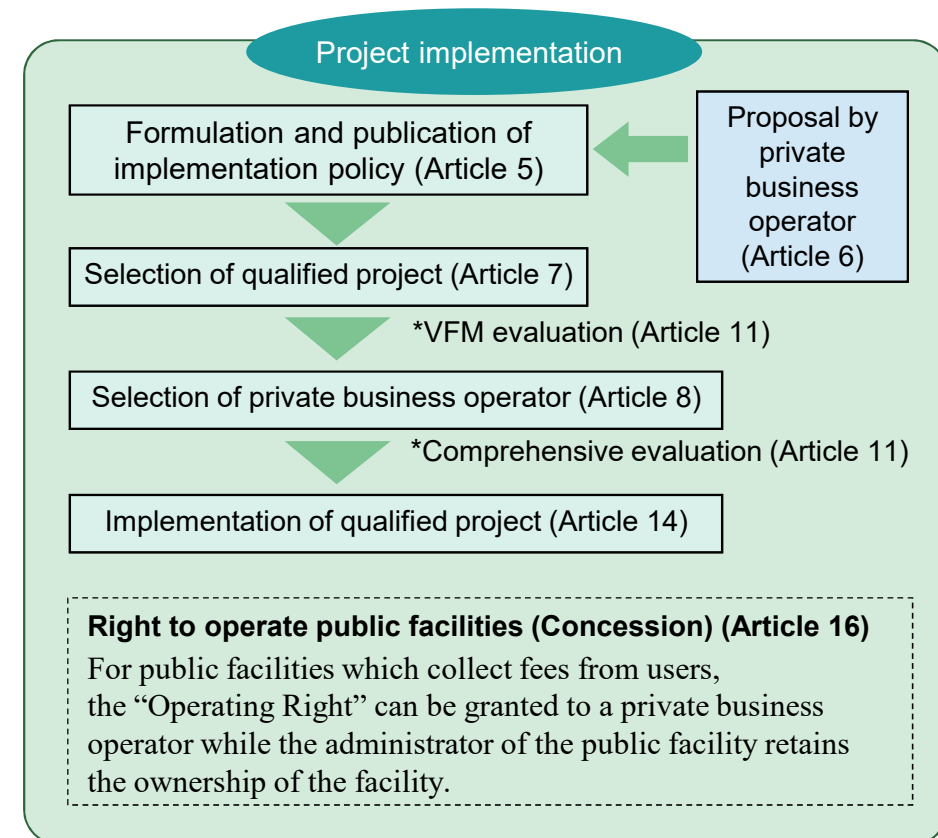
Public Facility (Article 2)

The term "public facility, etc." refers to the following facilities:

- 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:** educational and cultural facilities, sports facilities, assembly facilities, waste treatment facilities, medical facilities, social welfare facilities, offender rehabilitation facilities, parking, underground malls, and leased housing
- 4.Other facilities:** information and communication facilities, heat supply facilities, new energy facilities, recycling facilities, tourist facilities, and research facilities; transportation facilities such as vessels, aircraft, and artificial satellites

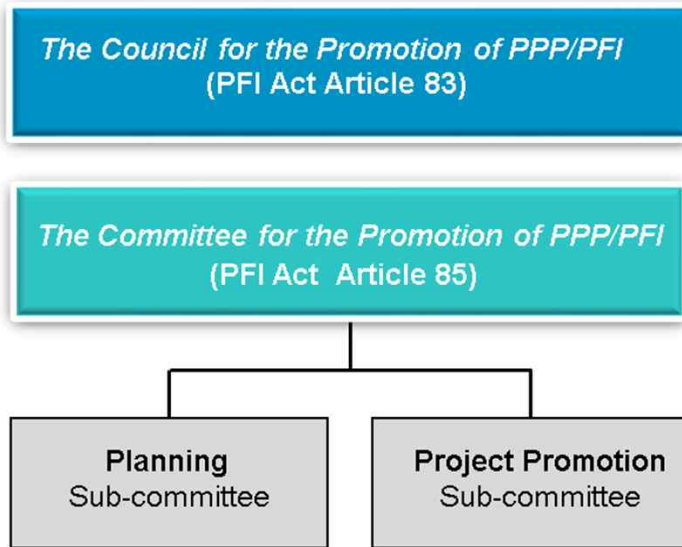
Basic Policy (Article 4)

Basic policy for the implementation of qualified projects



3. Legal and institutional framework (2)

Council and Committees



The Council for the Promotion of PFI (Article 83)

The Council for the Promotion of PFI is a special body established within the Cabinet Office to deliberate on important matters related to PPP/PFI promotion. The council sets forth basic policies and brings coordination among relevant administrative agencies.

The Council decides the “Action Plan for PPP/PFI Promotion” every year.

Chairman	: Prime Minister
Members	: All Ministers

The Committee for the Promotion of PFI (Article 85)

The Committee for the Promotion of PFI consists of members from academia and business experts in the relevant fields. The committee collects information that contributes to the sound promotion of PFI, provides advice from a professional standpoint, and discusses important matters related to PPP/PFI promotion.

The committee establishes sub-committees, as necessary.

The PFI Promotion Office

The PFI Promotion Office, being responsible for the PFI Act, serves to promote PPP/PFI in Japan. The office develops drafts of “Action Plans” and coordinates the Council and the Committee. The office also provides support to local governments to facilitate PPP/PFI projects in each region and conducts various studies on improvement of PPP/PFI methods.

Implementing agencies

Agencies within national and local governments who serve as administrators of public facilities are responsible for carrying out the entire process of each project from planning, feasibility studies to closing of the project contracts and monitoring of private business operators.

3. Legal and institutional framework (3)

Amendments to the PFI Act

It is important to properly identify issues that have become apparent in each project or obstacles that have been raised by local governments or private business operators. The PFI Act has been revised seven times since the enactment in 1999, to appropriately respond to the issues and to overcome the obstacles.

- **1999 Enactment of the “ The Act on Promotion of PFI”**
- **2001 Amendments to the PFI Act**
 - Allowing lease of administrative assets.
 - Expansion of scope of administrators of public facilities specified by the Act.
- **2005 Amendments to the PFI Act**
 - Broadening the allowance of lease of administrative assets.
 - Clarifying that PFI projects provide sound public services.
- **2011 Amendments to the PFI Act**
 - Introduction of the “concession” method which allows the administrators to grant the operating rights to private business operators.
 - Expansion of types of public facilities specified by the Act.
- **2013 Amendments to the PFI Act**
 - Establishment of the “PFI Promotion Corporation,” which lends loan to private business operators in profit-generating projects.
- **2015 Amendments to the PFI Act**
 - Enabling public officials to work at private business operators (concessionaires) to share the expertise of the public sector.
- **2018 Amendments to the PFI Act**
 - Incentive measures to promote concession projects in the water and sewage field.
- **2022 Amendments to the PFI Act**
 - Expansion of types of public facilities specified by the Act. (Explicitly stating “sports facilities” and “assembly facilities.”)
 - Procedures for changing the implementation policies in concession projects.
 - Extension of the deadline for disposing the shareholdings of the PFI Promotion Corporation.

3. Legal and institutional framework (4)

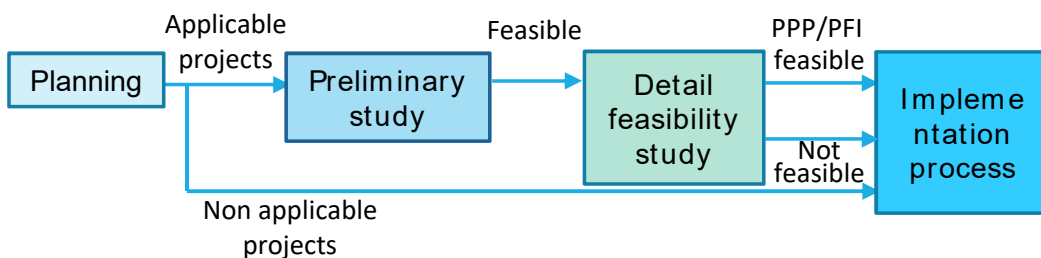
Support measures for promotion

To facilitate the use of PPP/PFI methods, the national government implements various support measures for local governments.

- **Rules for Preferential Consideration**

“Rules for Preferential Consideration” stipulate that local governments should preferentially examine the adoption of PPP/PFI methods over traditional procurement methods when planning the development of public facilities above a certain size.

The rules serve as the basic framework for promoting PPP/PFI projects, enabling local government agencies to identify optimal methods. The results of such consideration go public, ensuring objectivity and accountability to the citizens.



- **Regional Platforms**

To enhance the ability to form PPP/PFI projects in each region, the national government supports the establishment and operation of regional platforms where local government agencies, financial institutions, companies, and other related parties gather to acquire know-how and to exchange information about PPP/PFI projects.

These platforms enable local government agencies to reflect the opinions of local private business operators through public-private dialogues at an early stage of project planning.

- **Dispatch of Experts**

The national government dispatches experts with advanced expertise in law, accounting, taxation, or finance to local government agencies that are planning PPP/PFI projects.

- **Guidelines and Manuals**

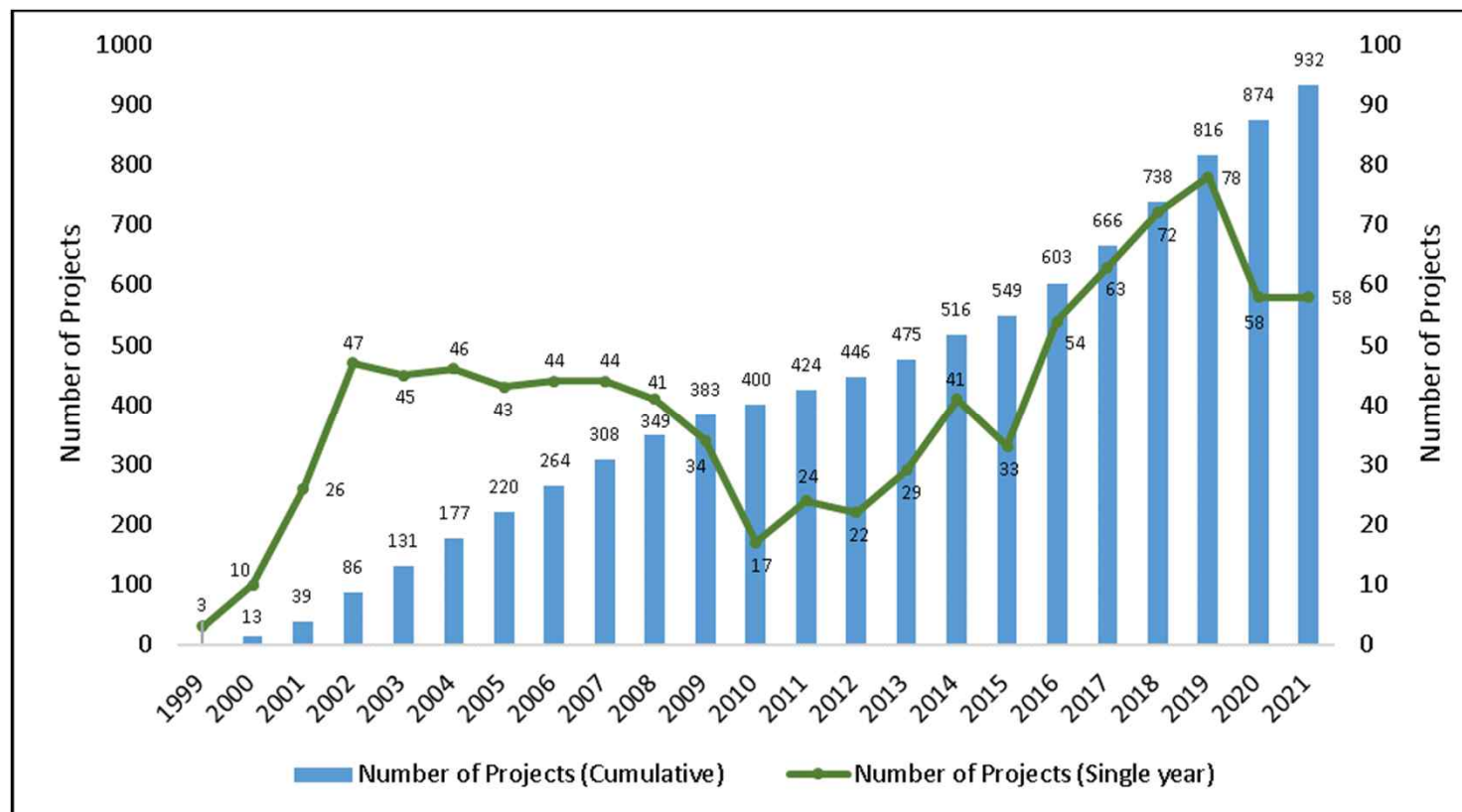
Guidelines and Manuals	Date of Revision
Guidelines on Implementation Process of PFI Projects	2023/6
Guidelines on Risk Allocation in PFI Projects	2021/6
Guidelines on VFM(Value For Money)	2023/6
Guidelines on PFI Contract	2023/6
Guidelines on Monitoring	2018/10
Guidelines on Concession Projects	2023/6
Manual for Feasibility Study Simplification for PPP/PFI	2019/3
Simplified 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 Operation of Regional Platform	2017/3
Guidance on PFI Project Introduction in Local Governments	2023/3
Rules for Preferential Consideration for the Introduction of PPP/PFI Methods	2021/6
Basic Approach to Non-Ownership Methods for Public Facilities	2021/4

4. Status of PFI in Japan (1)

Number of PFI projects

As of March 2022, the cumulative number of PFI projects implemented under the PFI Act is 932.

Although the single year numbers in 2020 and 2021 were relatively small due to the COVID-19 pandemic, the cumulative number has increased steadily over the last 20 years, showing that PFI is recognized as one of the effective methods of developing and operating public facilities.



(Note)

-The number of PFI projects is the total number of projects announced to be implemented under the PFI Act.

-The figure does not include projects which were canceled or discontinued during the service provision period or projects that have been withdrawn after the announcement of the implementation policy.

4. Status of PFI in Japan (2)

Sectors and Fields of PFI projects

In recent years, PFI projects have increased in the sectors of "education and culture" such as schools and sports facilities, and "urban development" such as public housing, airports, and parks.

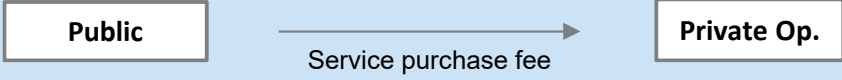
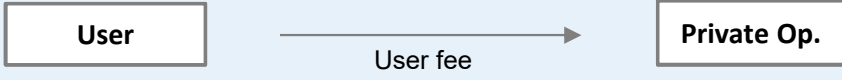

Sectors & Fields	Authorities			Total
	National Gov.	Local Gov.	Others	
Education and Culture (School, Sport facility, Educational and cultural facility, etc.)	4	268(21)	48(5)	320(26)
Urban Development (Public housing, Road, Park, Port, Airport, Sewerage, etc.)	24(1)	207(13)	2	233(14)
Health and Environment (Waste disposal facility, Funeral halls, Hospital, etc.)	0	134(7)	3	137(7)
Government Buildings and Civil Servant Dormitories	49	21	5	75
Industrial Facilities (Tourist facility, Agricultural facility, etc.)	0	31(4)	0	31(4)
Security and Defense (Police/fire Station, Prison, etc.)	8	18	0	26
Life and Welfare (Social welfare facility, etc.)	0	25	0	25
Others (Commercial complex, etc.)	7	76(7)	2	85(7)
Total	92(1)	780(52)	60(5)	932(58)

(Note) The number in parentheses indicates the number of projects announced in FY2021.

4. Status of PFI in Japan (3)

Type of payment

In many PFI projects, the private business operator makes revenue only from the “service purchase fee” paid by the public. The government promotes profit-generating projects in which the private business operator makes revenue also from the user fees, so that such PFI projects would further alleviate financial burdens and contribute to regional revitalization.

Type		#
Service Purchase (Gov. Pay)	<p>The public pays a “service purchase fee” as a compensation for the public service provided by the PFI operator. This type is often used in the construction of public facilities where it is difficult to make revenue from the operation of those facilities.</p> 	650
Self-Support Accounting (User Pay)	<p>The PFI operator makes revenue from the “user fees” paid by the users of the public facilities.</p> 	67
Mixed	<p>The PFI operator makes revenue both from the service purchase fee paid by the public and the user fees paid by the users of the public facility. In typical cases, the compensation for the construction is paid by the public as a service purchase fee, and the PFI operator makes revenue from the user fees during the operation period.</p> 	155
Other		3

Note) Figure as of the end of FY2020

5. Right to operate public facility (Concession) (1)

Background of introducing concession

As mentioned above, many PFI projects are the service purchase type, in which the private business operator makes revenue only from the “service purchase fee” paid by the public.

Due to the population decline and the rapid aging of social infrastructure, a shift in emphasis from “building new” to “using wisely” has led the government to boost the self-support accounting type or the mixed type, in which the private business operator makes revenue also from the user fees.

With this background, the “concession” method was introduced by the 2011 revision of the PFI Act.

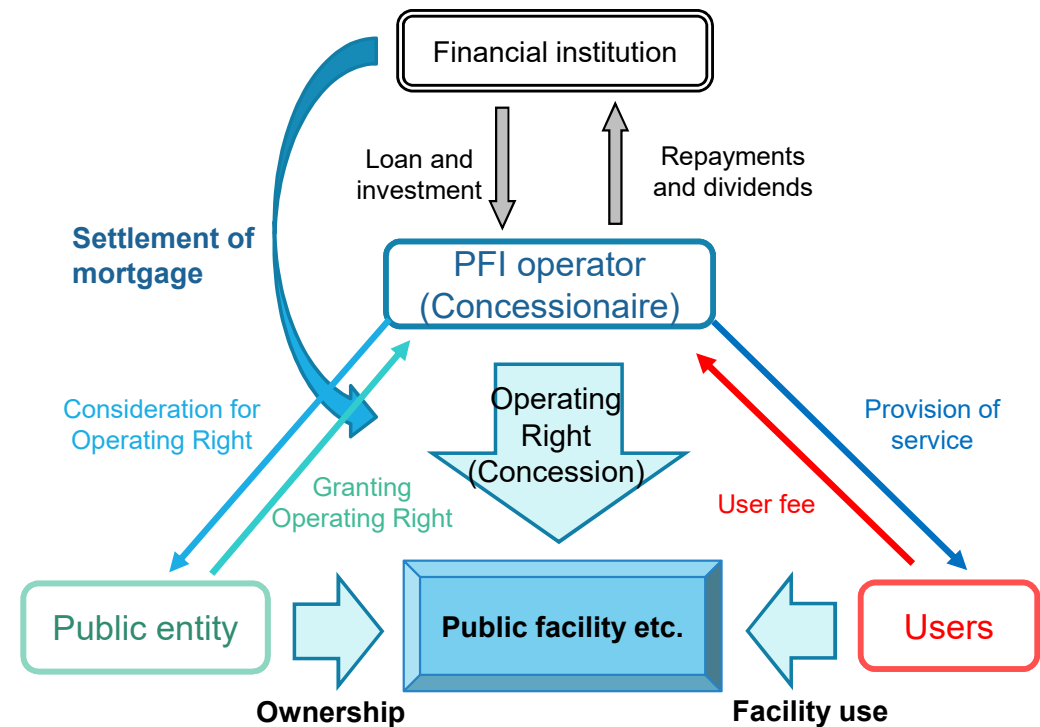
The right to operate public facility (Concession)

Pursuant to the revised PFI Act, the public may grant the right to operate public facility (concession) of existing public facilities to the private business operator (concessionaire), while the public retains the ownership of the facility.

The public delegates the management and operation of the facility to the concessionaire with broad discretion including the determination of usage fees.

In return, the public often receives consideration for granting the operating right from the concessionaire. The concessionaire receives the user fees which become the direct income of the concessionaire.

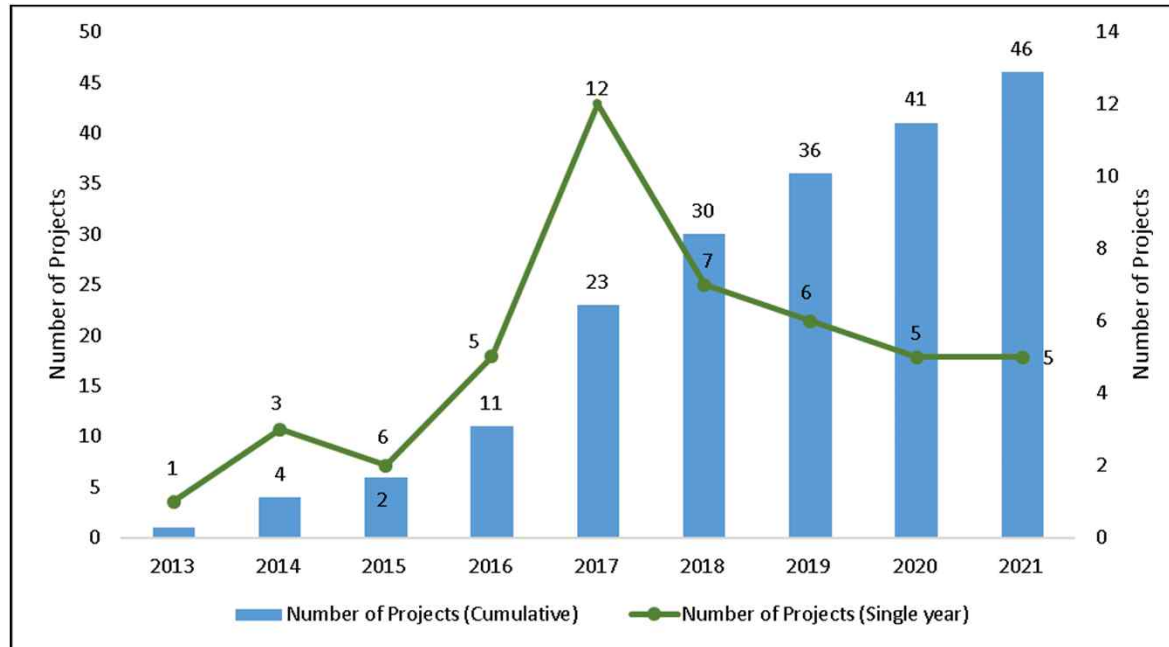
Taxes associated with the ownership of a public facility will not be imposed on the concessionaire, as the public retains the ownership. And the concession right is deemed as a property right which can be mortgaged, thereby giving the concessionaire the advantage in project finance.



5. Right to operate public facility (Concession) (2)

Concession project status

Intensive government efforts to promote concession projects have resulted in the implementation of 46 projects in many fields, including airports, educational facilities, sewerage, etc.



Facilities	Number of Project	Project Location
Airports	15	Tajima, Sendai, Kansai, Kobe, Takamatsu, Nannki Shirahama, Fukuoka, Shizuoka, Tottori, Kumamoto, Hokkaido (4 Airports), Memanbetsu, Asahikawa, Obihiro, Hiroshima
Water supply	2	Miyagi, Osaka city
Sewerage	4	Hamamatsu city, Suzaki city, Miyagi
Industrial water System	3	Kumamoto, Oosaka city, Miyagi
Road	1	Aichi
Educational Facility	7	Nara, Okinawa, Oosaka, Aichi, Tsuyama, Ariake
MICE	2	Aichi, Yokohama, Fukuoka, Okinawa
Public hydroelectricity	1	Tottori
Others	11	fukuoka, Ootsu, Miyazaki, tagawa, tsuyama
Total	46	

To develop new fields for concession projects, the Action Plan in 2022 placed an emphasis on promoting projects in;

- New fields to be explored: sports, educational and cultural facilities, roads (bus terminals and service areas), and parks
- Existing fields: airports, water and sewage system, industrial water systems, MICE, public housing, passenger terminals for cruise ships, and hydroelectric power generation facilities

5. Right to operate public facility (Concession) (3)

Advantages of the concession method

Public Sector

- **Consideration for the operating right**

When the public grants the "operating right (concession)" to the private business operator (concessionaire), it often receives the "consideration for the operating right" from the concessionaire to reduce the debts associated with the public facility.

- **Efficiency improvement through utilizing private capabilities while ensuring public involvement**

As the concessionaire has broad discretion over the operation, it can improve the operational efficiency by utilizing its capabilities. Meanwhile, the public retains the ownership of the facility and maintains its involvement in the project, so that it can prevent possible degradation of the service quality.

- **Risk transfer to the private business operator**

In principle, the concessionaire is responsible for the risk associated with the project, including demand risk.

PFI operator

- **New business opportunities**

Compared to traditional procurement methods, concession projects create new business opportunities related to the operation of public facilities.

- **Broad discretion over the operation**

Broad discretion over the operation gives the concessionaire a greater chance to utilize its capabilities, thereby reducing costs and maximizing profits.

- **Advantage in project finance**

The operating right can be mortgaged and used as collateral to raise funds from banks and securities markets, thereby giving the concessionaire the advantage in project finance.

Citizens

- **Affordable and better public services**

Broad discretion over the operation gives the concessionaire a greater chance to improve the service quality of the public facility.

5. Right to operate public facility (4) – *Public Sewage Treatment Plant in Hamamatsu*

Project Overview

- Hamamatsu City in Shizuoka Prefecture, which is located near Mt Fuji, was faced with increasing demand for renewal and reinforcement of sewerage and decreasing sewage fee revenues due to the population decline.
- Hamamatsu City granted a 20-year operation right (concession) for a sewage treatment center and pumping stations to a private business operator (concessionaire*). The concessionaire carries out the operation and maintenance of those facilities including the renovation of mechanical and electrical equipment.
- *Special Purpose Company led by Veolia Japan K.K.
- This project is the first sewerage project utilizing the concession method in Japan.

Project period : 20 years (2018.4 – 2038.3)

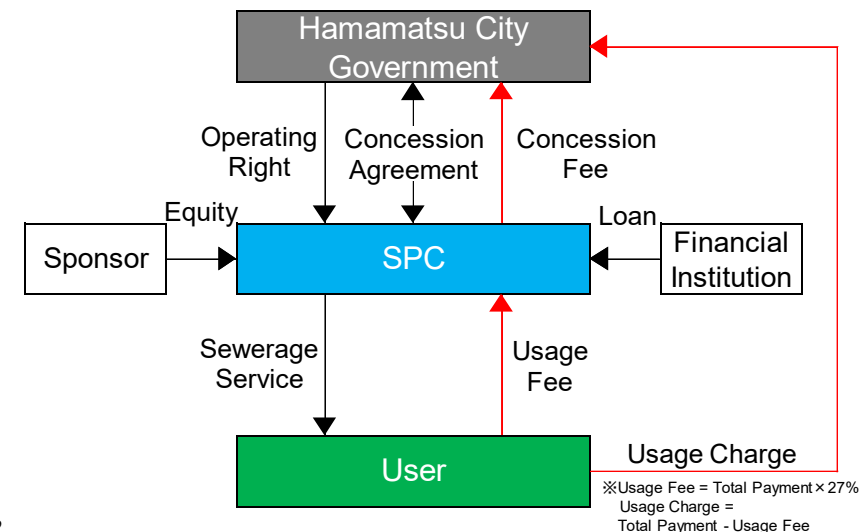
Scope of work : Operation, management, and renovation of the mechanical and electrical equipment (Excluding civil engineering and building renovation)

Project Value : Winning bids: 25 billion yen (USD 221 million)
Consideration for the operating right: 2.5 billion yen (USD 22.1 million)



Key features

- Expected cost reduction amounts to approximately USD\$76.5 million over the next 20 years. It will be achieved by;
 - combining renovation and maintenance;
 - utilizing world-class expertise in sewage treatment operation;
 - improving operational efficiency through cutting-edge information technology and tools.
- Although the pipelines are not included in the scope of work, the concessionaire is given broad discretion over the maintenance and management operations, thereby being able to reduce costs, as mentioned above.



6. Action Plan for PPP/PFI Promotion

Action Plan for PPP/PFI Promotion (2023 revised version)

• On June 2, 2023, the new Action Plan for PPP/PFI Promotion was decided at the Council for the Promotion of PFI, which is headed by the Prime Minister and composed of all ministers.

- The government aims to achieve a PPP/PFI project scale* of 30 trillion yen in 10 years starting from FY2022.
- The government expands and prioritizes support measures during the five-year period as a priority execution period.
- The government sets a target of 575 projects in 13 priority fields over the 10 years.

*The PPP/PFI project scale is measured by the total revenue of the private business operators expected from the entire duration of the contract period.



The Prime Minister's comments on the revised Action Plan

- Strongly promote PPP/PFI as a pillar of public-private collaboration, the core of “New Capitalism” advocated by the Prime Minister
- Drastically expand target number of projects, as mentioned above
- Strengthen initiatives in the field of water related facilities*
- Expand the fields that utilize PPP/PFI (Hydroelectric power generation, Self-Defense Force facilities, etc.)

*In the fields of water supply, sewage and industrial water, in addition to concession, the government will promote a new PPP method called “water PPP,” in which the operating right (concession) is not granted.