

# **The Public Private Partnerships / Private Finance Initiatives Market in Japan**

**October 8th, 2018**

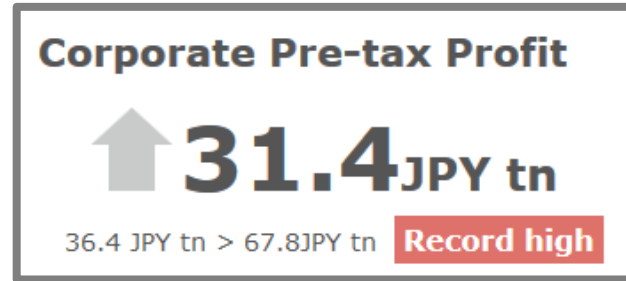


**Cabinet Office, Government of Japan**

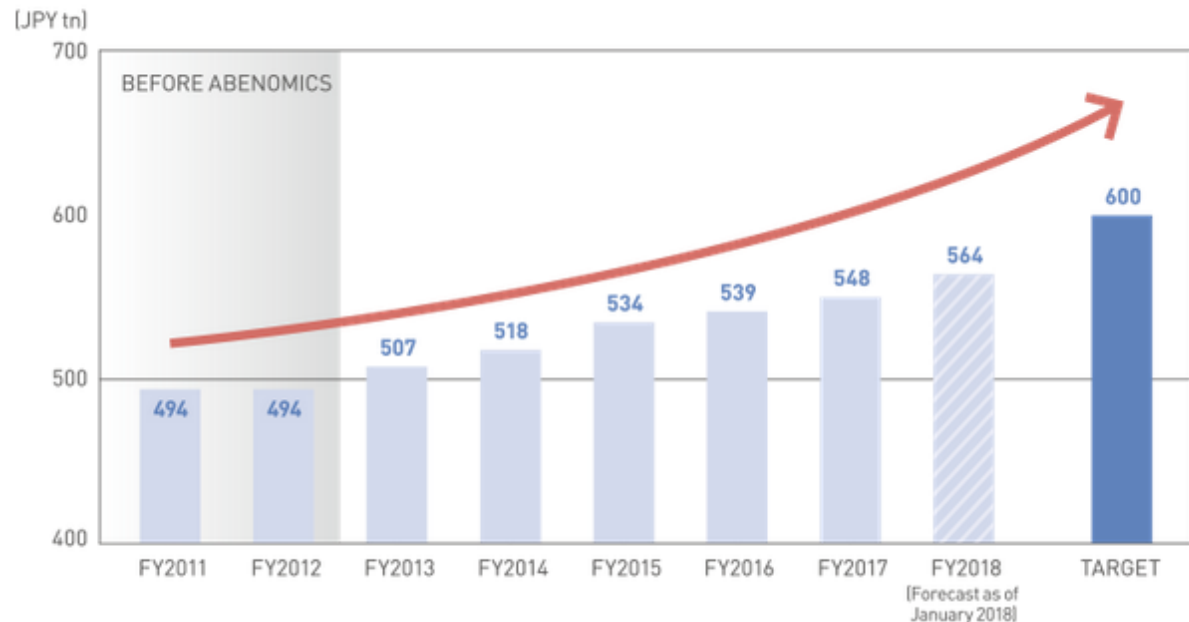
**Public Private Partnership / Private Finance Initiative Promotion Office**

# The Growing Economy

Japan, the world's third largest economy is actively opening its doors to foreign business.



## Nominal GDP



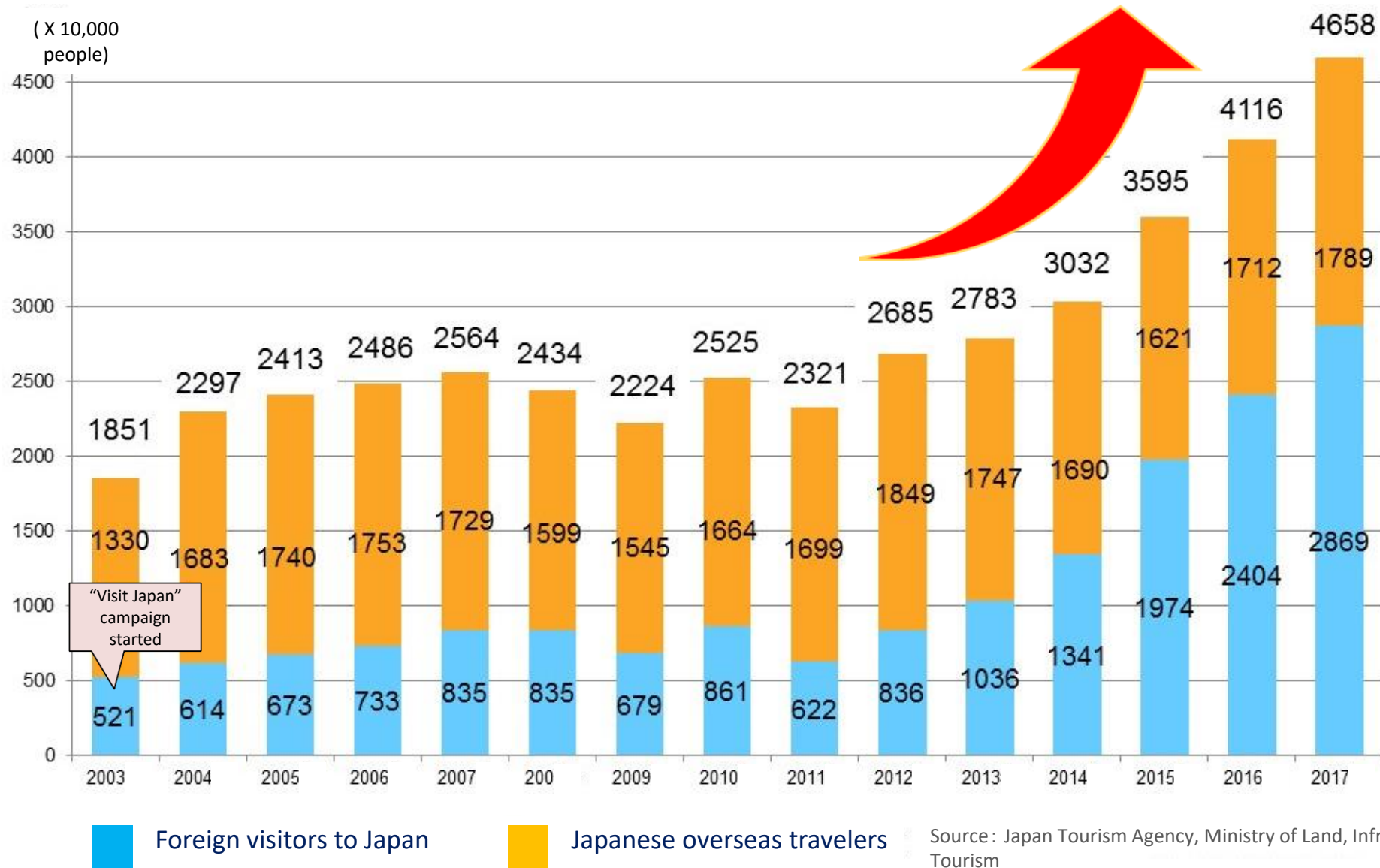
\*Average exchange rate for July 2018: USD = JPY 111

\*\*The Japanese fiscal year starts in April and concludes in March of the following year.

\*\*\*Pre-Abenomics vs. Post-Abenomics; nominal GDP = 3Q FY2012 vs. 1Q, corporate pre-tax profit = FY2012 vs. FY2016  
Source: Cabinet Office “National Accounts,” “Fiscal 2018 Economic Outlook and Basic Stance for Economic and Fiscal Management”

# Market Potential

## The number of visitors to Japan is rapidly increasing



## “Society 5.0” – Changes brought by Fourth Industrial Revolution Technologies.

3. Priority areas to be addressed for the realization of “Society 5.0” and Flagship Project as a driving force for change.

✓ Introduction of PPP and PFI

《KPI》” *Expand service scale\* of PPP / PFI to **21 trillion yen** in 10 years (FY 2013 - 2022).*

*Among them, concession projects which aims at 7 trillion yen.”*

>> Scale of the service (FY2013 – 2016)

- PPP/PFI service: About 11.5 trillion yen

- Concession type PFI service: About 5.6 trillion yen

“ *In addition to conventional concession priority fields such as **airports, water supply, sewerage, roads, educational institutions, public housing, cruise terminals, and MICE facilities**, we strengthen promotion to achieve numerical targets, regarding public **hydro power generation plants** and **industrial waterworks** that are regarded as new priority fields in “The PPP / PFI Action Plan (Revised ver. as of FY2018) (15<sup>th</sup> June, 2018: Approved at committee of PPP/PFI Promotion).”*

# The PPP / PFI Action Plan (Revised Ver. as of 2018)

## Policies for Promoting PPP / PFI

### 1. Promotion of concession projects

### 2. Promotion of public-private partnership in public real estate

- Promote public-private partnerships to improve each local potential values and residents' satisfaction and to create new investments and business opportunities

### 3. Promotion of effective framework to prioritize PPP/PFI

- Support the central and local government to establish and operate the framework to prioritize PPP/PFI

### 4. Strengthening regional capacity for PPP/PFI

- Expand the utilization of PPP/PFI in infrastructure sectors
- Provide more support for local governments

## Primary Sector of Concessions

**Airport** (6 projects achieved), **Water Supply** (6 projects by FY2018), **Sewerage** (6 projects by FY2019), **Road** (1 project achieved), **Educational Facilities** ( 3 projects by FY2018), **Public Housing** (6 projects by FY2018), **Cruise Terminal** ( 3 projects by FY2019), **MICE Facilities** ( 6 projects by FY2019), **Public Hydro Power Generation Plants** (3 projects by FY2020), **Industrial Waterworks** (3 projects by FY2020)

## <KPI> Target of Market Size

**21 trillion yen** (in 10 years : FY2013 – 2022)

>Concession Projects: **7** trillion yen

>Public Real Estate: **4** trillion yen

>Revenue Generating Projects: **5** trillion yen

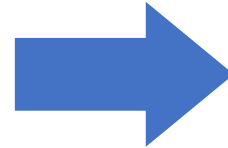
>Others: **5** trillion yen

# Overview of the Act on Promotion of PFI

In order to achieve the KPI, 21 trillion yen in 10 years, the PFI Act was amended this year

**1999**

**Enactment of  
the PFI Act**



**2011**

**Introduction of  
Concession Scheme  
with the PFI  
Amendment Act**



**2018 The PFI Amendment Act**

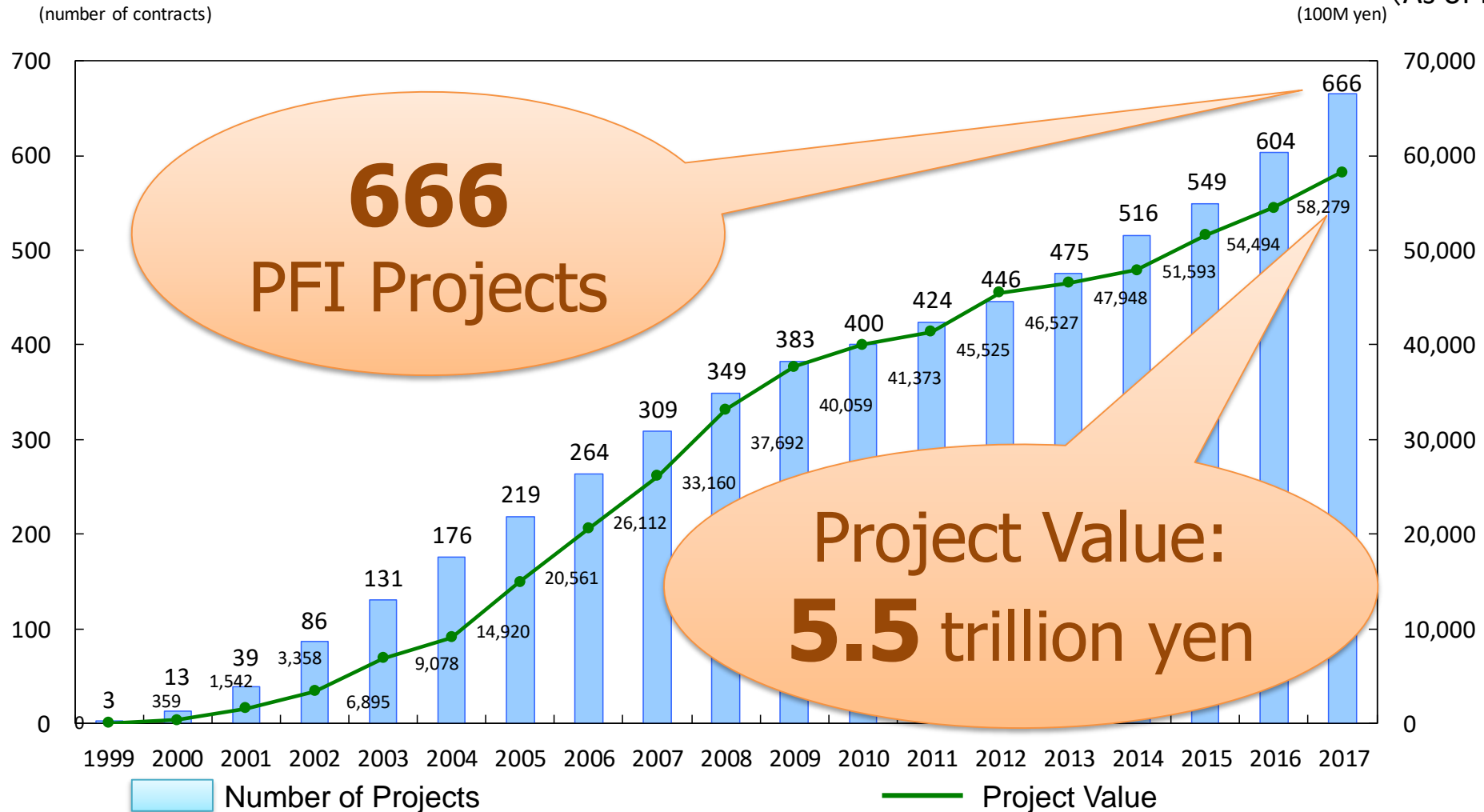
- 1. Strengthen national support functions for administrators of public facilities and private enterprises**
- 2. Set up exception for the local autonomy act on the case that concessionaire also serve as a designated manager of public facilities \***
- 3. Introduce reduction or exemption of compensation for advanced redemption of loan from the former fund management department to public water and sewerage utilities which introduced concession projects**

\* For facilities of International Conference Center, Music Hall, etc.

# Current Situation of PFI Projects

## The Number of Projects and Project Value (cumulative)

(As of March 31, FY2018 )



\* The number of projects is the number of projects based on the PFI act which the Cabinet Office Survey grasps the announcement of the tender documents, it does not include the projects that have not provide services because of having been terminated after the publication of the projects and tender documents and the projects that were canceled or terminated in middle of contract period.

\*\* The amount of contracts: the sum of total projects which the Cabinet Office Survey grasps the amount of initial contracts that public contribution amount was determined during the fiscal year among the projects that the implementation policy was announced.

# Current Situation of PFI Projects

## Project Number in Each Sector

(As of March 31, FY2018 )

Sector	Authorities			Total
	Central Gov.	Local Gov.	Others	
Education and Culture	3	179	38	220
Life and Welfare	0	23	0	23
Health and Environment	0	105	2	107
Industrial Facilities	0	12	0	12
Urban Development (roads, parks, sewerage facilities, harbors, etc.)	18	129	1	148
Security and Defense	8	18	0	26
Government Building and Housing	43	15	4	62
Others	7	60	1	68
<b>Total</b>	<b>79</b>	<b>541</b>	<b>46</b>	<b>666</b>

\* The number of projects is the number of projects based on the PFI Act that the Cabinet Office Survey grasps the announcement of the implementation policies, which excludes the projects which were terminated after the publication of the tender documents and have not launched services, and the projects which were canceled or terminated in middle of contract period.

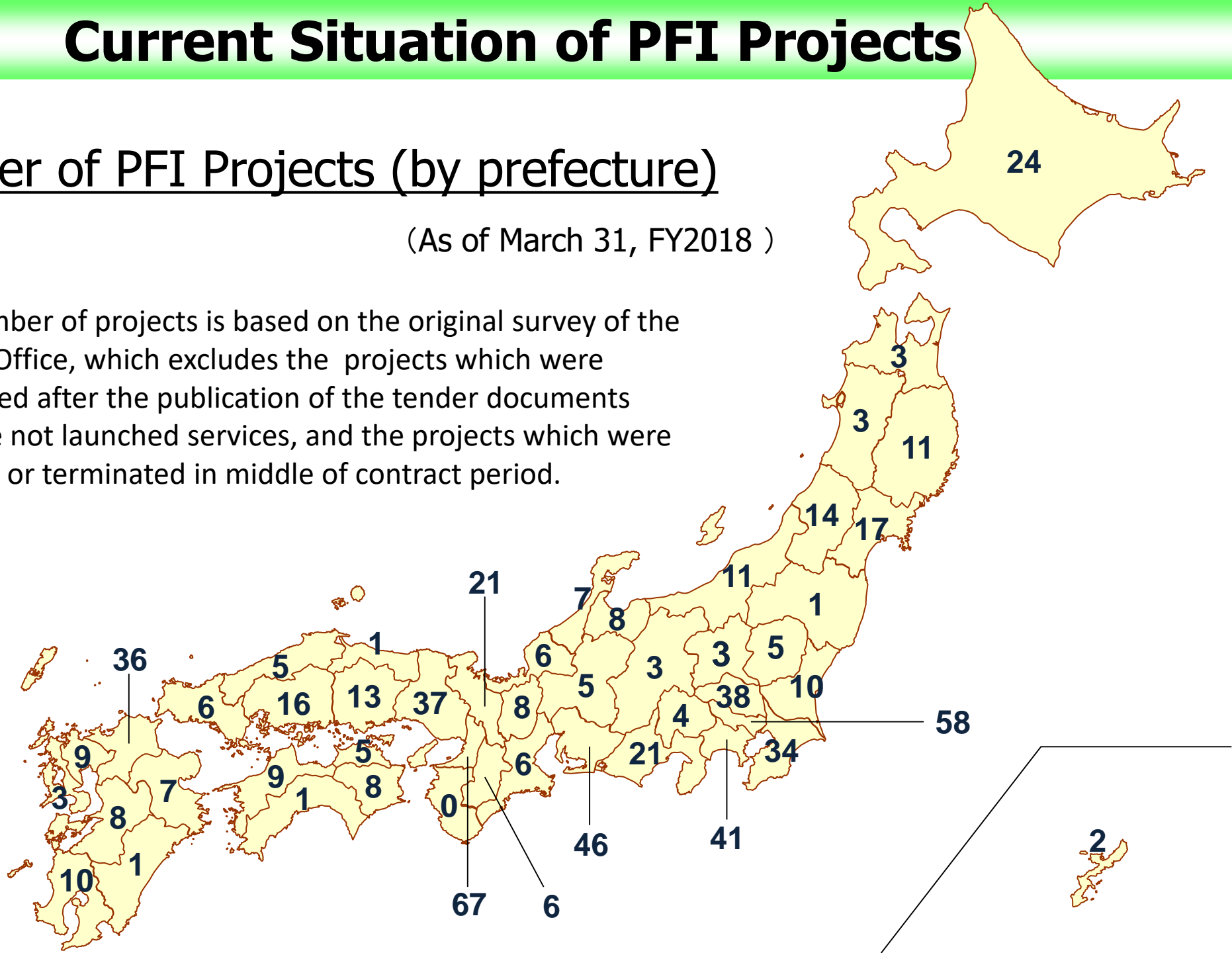


# Current Situation of PFI Projects

## Number of PFI Projects (by prefecture)

(As of March 31, FY2018 )

\* The number of projects is based on the original survey of the Cabinet Office, which excludes the projects which were terminated after the publication of the tender documents and have not launched services, and the projects which were canceled or terminated in middle of contract period.



# Market Size of PPP/PFI Projects

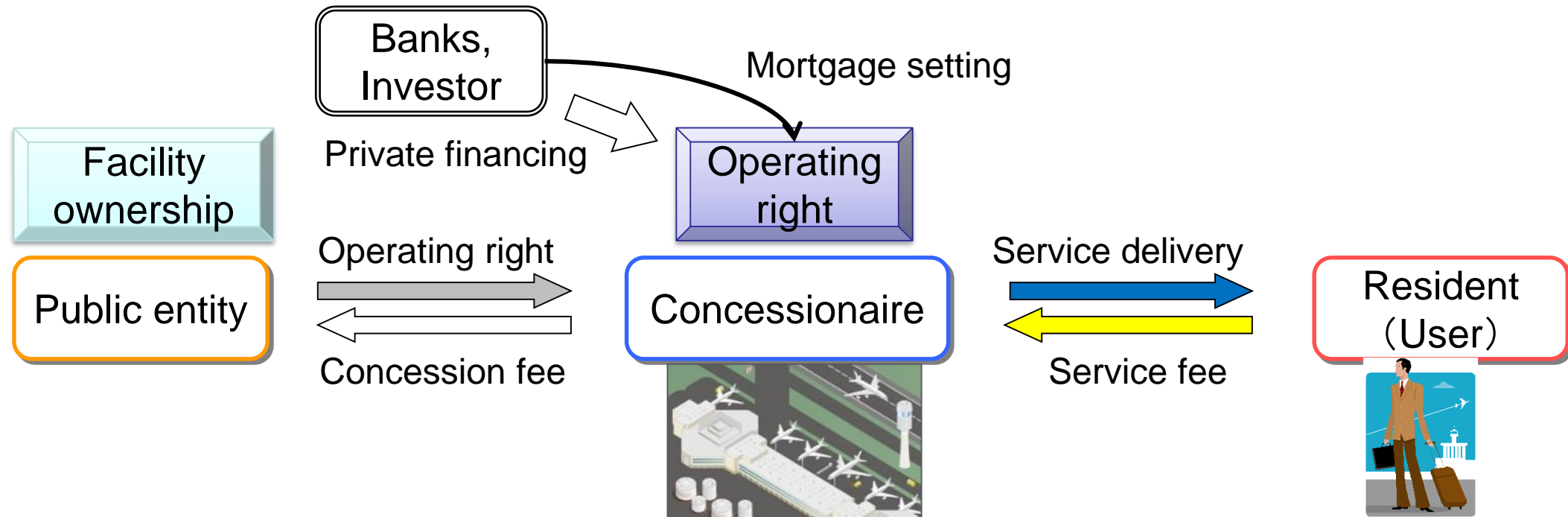
(Trillion Japanese Yen)

Targeted market size for 2015 to 2022 on PPP/PFI Action Plan		2013	2014	2015	2016	Total
<b>I: Concession Projects</b>	7	—	0	5.1	0.5	5.6
<b>II: Projects with Profitable Facility</b>	5	0.4	0.3	0.9	0.8	2.4
<b>III: Public Real Estate</b>	4	0.3	0.3	0.3	0.5	1.3
<b>IV: Other PPP/PFI</b>	5	0.6	0.5	0.5	0.6	2.2
<b>Total</b>	21	1.3	1	6.7	2.4	11.5

- ✓ Market size is a total expected revenue of the project during the contract periods.
- ✓ In FY2016, two projects were launched as category I (Aichi prefecture highway concession and MICE facility concession in Yokohama Minato Mirai 21 central district project).
- ✓ 5.0 trillion yen of 5.1 trillion yen in 2015 is by the concession of Kansai and Osaka International Airport.

# Concession in Japan

- ✓ A contract scheme giving the operating right of the public facility to a concessionaire while the public entity keeps ownership of the facility. (Introduced at the PFI amendment Act in 2011)
- ✓ Concession is expected to provide high-quality services reflecting users' needs and to enable stable and flexible operation by private enterprises



# Track Records of Concession Project

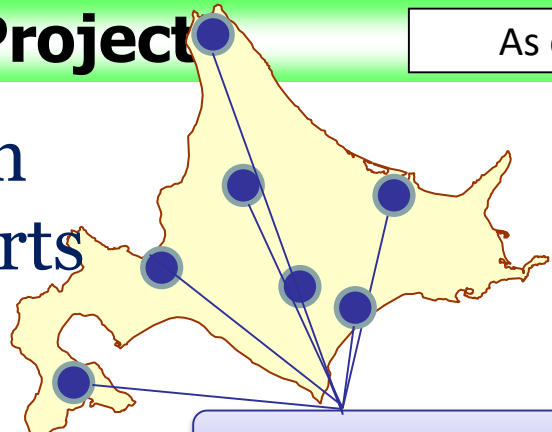
As of July 1, 2018

## Airports : Operation started at 7 airports, and in preparation for concession at 12 airports

### Kansai International Airport · Osaka International Airport

Airport management project at Kansai International Airport / Osaka International Airport

Authority: Shin-Kansai International Airport Co., Ltd.  
Project duration: 44 years (from April 1, 2016)  
Concession fee: 49 billion yen \*  
Concessionaire: Kansai Airport Co., Ltd. (invested by ORIX and VINCI Airports)  
\* including estimated amount of fixed asset tax, including equivalent amounts of each fiscal year of transferring assets provision targeting transferring to operation right owners & and effects of interest rates of money for performance guarantee



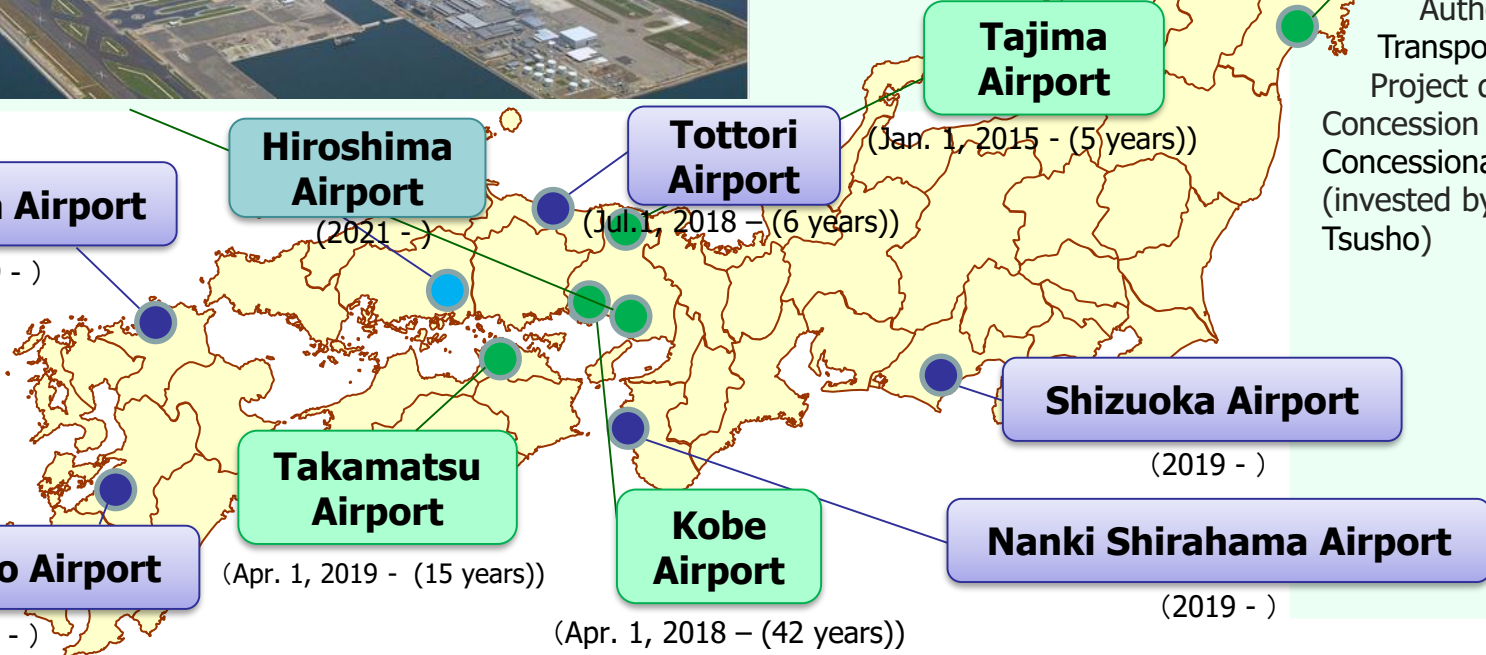
### 7 Airports in Hokkaido

(FY2020 - )

### Sendai Airport

Airport management project at Sendai Airport

Authority: Ministry of Land, Infrastructure, Transport and Tourism  
Project duration : 30 years (from Jul. 1, 2016)  
Concession fee: 22 billion yen  
Concessionaire: Sendai International Airport Co.,Ltd. (invested by Tokyu, Maeda Corp., and Toyota Tsusho)

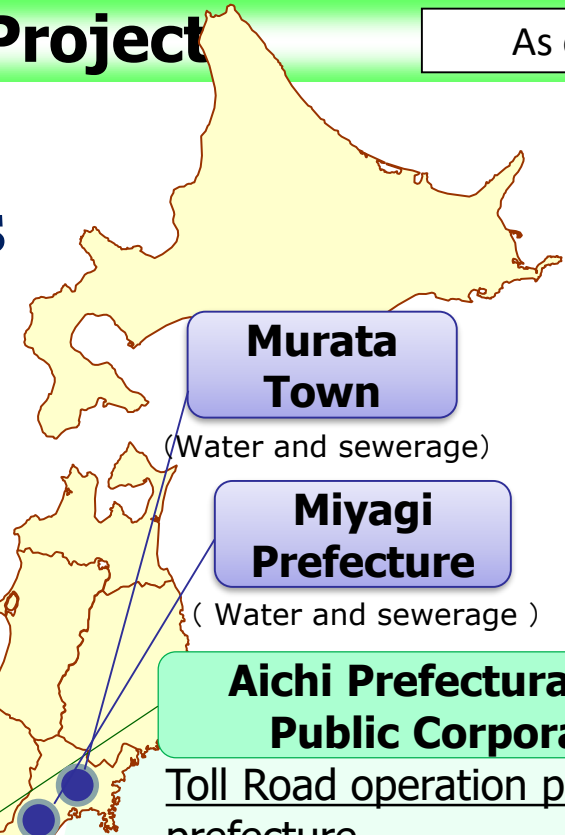
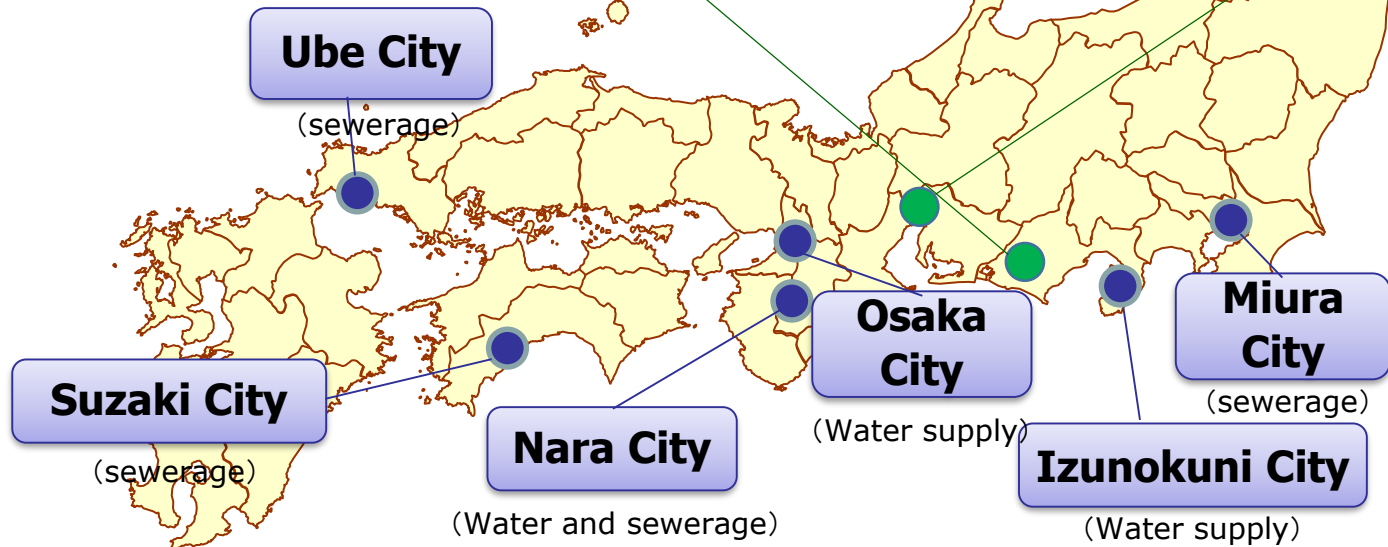


Road: Started operation at 1 place,  
 Water supply: Under consideration at 6 places  
 Sewerage: Started operation at 1 place, under  
 consideration at 5 other places

## Hamamatsu City

Hamamatsu city sewerage treatment plant (Seien district) operation project

Implementing agency: Hamamatsu city  
 Project duration : 20 years (from Apr. 1, 2018)  
 Concession fee: 25 billion yen  
 Concessionaire: Hamamatsu Water Symphony Co., Ltd  
 (invested by Veolia Japan, JFE Engineering,  
 ORIX, Tokyu Construction, Suyama Construction)



## Aichi Prefectural Road Public Corporation

Toll Road operation project in Aichi prefecture

Implementing agency : Aichi Prefectural Road Public Corporation  
 Project duration : Max 30years (from Oct. 1, 2016)  
 Concession fee: 1,377 million yen  
 Concessionaire: Aichi Road Concession Co.,Ltd  
 (Invested by Maeda corp., Mori trust, Daiwa House Industry, Daiwa lease, Central Highway, Macquarie)



# Track Records of Concession Project

As of July 1, 2018

**Educational Facilities:** Awarded a contract at 1 facility, feasibility study phase at 2 other places

**MICE Facilities:** Awarded contracts at 2 places

**Public Housing\*:** Awarded contracts at 6 places, feasibility study phase at 2 other places

\* Includes the projects with profitable facilities and public real estate projects.

## Nara Former Prison

Project for preservation and utilization of the Nara former prison

Authority: Ministry of Justice

Project duration : 32 years (from Oct. 31, 2019)

Concession fee: 0.6 billion yen

Concessionaire: Preservation and utilization of the former Nara prison Co.,Ltd

(invested by Solare Hotels and Resorts, Shimizu corp., Japan Diagnostic Design, Tokyu Community, Shogakukan-Shueisha Production, Kinki Nihon TouristCo.,Ltd., Seitaro Design, JAG International Energy)



**Okayama city  
(North Nagase)**

(Public Housing)

**Kobe city  
(East Tamon dai)**

(Public Housing)

**Osaka prefecture  
(Suita satakedai/ Suita takanodai)**

(Public Housing)

**Ikeda city  
(Ishibashi)**

(Public Housing)

**Aichi prefecture**

(MICE)

**Aichi prefecture  
(Higashiura)**

(Public Housing)

**Osaka New Art Museum**

(Educational Facility)

**Tokyo  
(Kita Aoyama)**

(Public Housing)

**Saitama prefecture  
(Omiya Uetake)**

(Public Housing)

**Ariake Arena**

(Educational Facility)

**Yokohama city**

(MICE)

**Kyoto city  
(Hachijo)**

(Public Housing)

Concession guideline prescribes appropriate risk allocation between public and private sectors

## Guideline for Operating Right and Concession Project of Public Service

### 4. Risk allocation

*(4) Regarding risks caused by force majeure, the risk shall be analyzed and allocated appropriately through mutual consultation between public and private sectors will be held in accordance with the characteristics of the project. Here, it may be considered that the range of force majeure risk covered by insurance, it would be within the burden of private enterprises.*

*(Reference) An example of risk allocation between public and private sectors: when the administrators oblige the concessionaire to purchase insurance such as earthquake and it is insufficient to compensate for damages related to the concession project, it is supposed that implementing agency will take measures such as restoration of the public facilities.*

*(7) Regardless of any risks, based on the idea that "those who can manage risks best will take the risk", appropriate risk allocation shall be set according to the characteristics of the project and the capabilities of both public and private sectors.*



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