

Japan's Asia PPP policy

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India – Japan Energy Forum

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1. Background of Study

What is a PPP?

Definition of PPP

A partnership for implementing a state-building project, which consists of the construction of infrastructure and development of administrative services, according to a fair sharing of cost and risk between the public sector and the private sector.

PFI and PPP

PFI

A PFI refers to a method by which a private enterprise implements the entire project through the market mechanism.

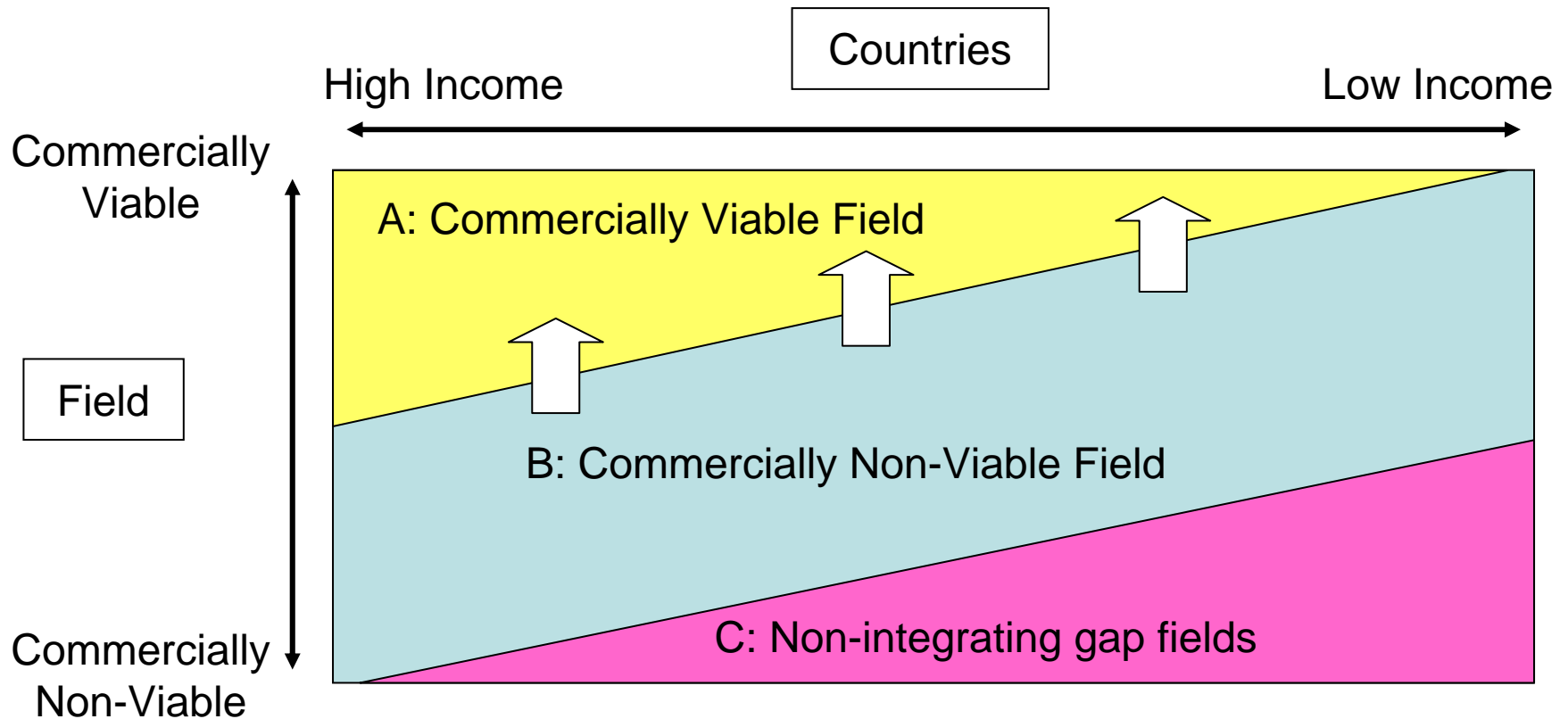
Because of the commercial viability of the project, the private enterprise can earn profits without any special involvement by the government.

PPP

A PPP is a method for enabling appropriate intervention by the government so as to ensure that the private enterprise is able to earn profits in projects that might cause losses without such intervention.

The Role Expected of a PPP

Commercial Viability in Public Service/Infrastructure



Measures

A: Commercially Viable Field

- > Make the most of the private sector.
e.g., Privatization, PFI, (+ Government Guarantee)

B: Commercially Non-Viable Field

- > Form the Market with PPP scheme.
e.g., PPP, (+ Government Guarantee, Viability Gap Funding)

C: Non-integrating gap fields

- > Pay all necessary expenses for the project from government funds.
e.g., ODA, loans from ECA or MDBs

1. Improve the industrial infrastructure of Asia.

- > The annual demand for infrastructure construction in East Asia from 2005 to 2010 was estimated at more than \$200 billion.

2. Lead the international trend of assistance.

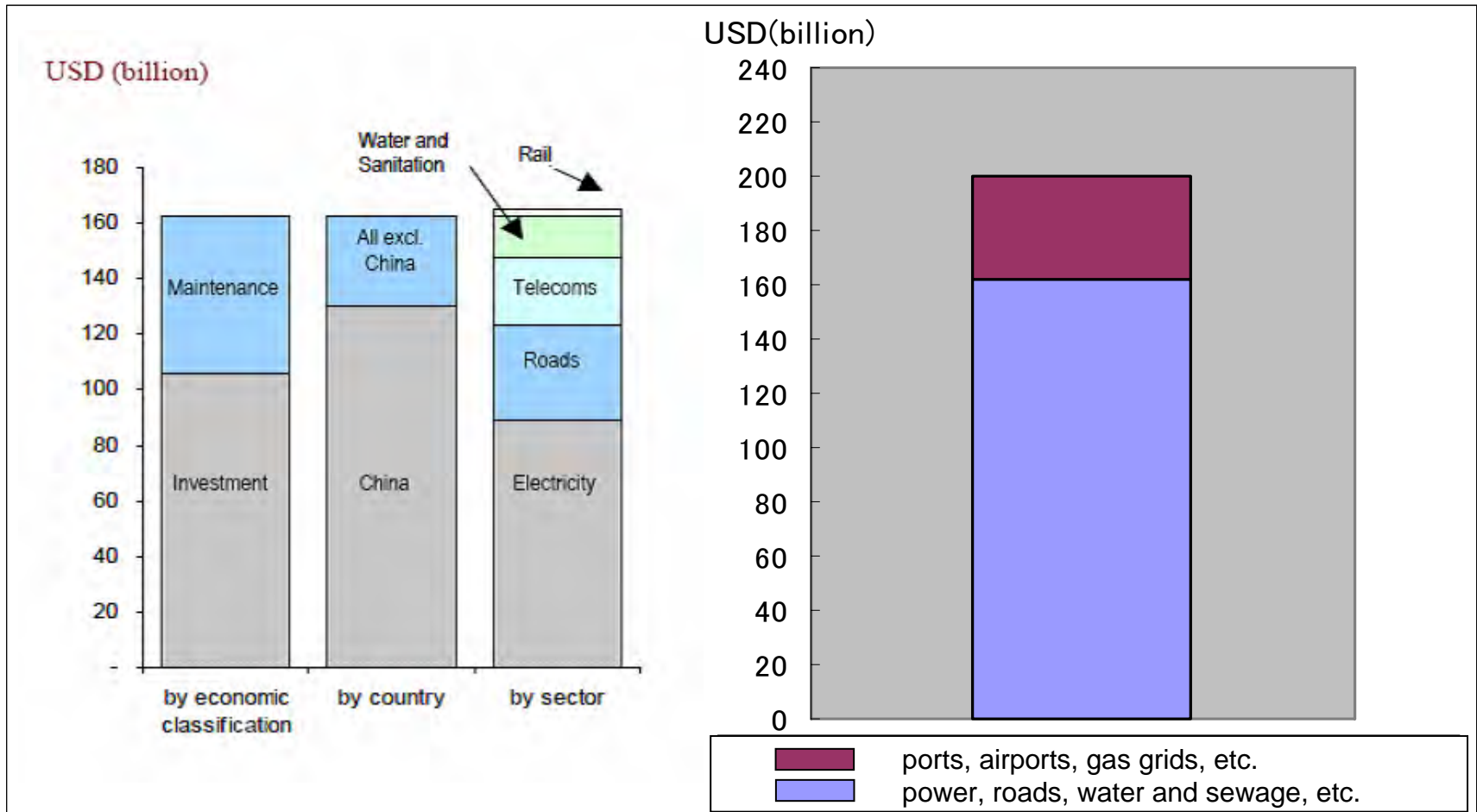
- > The infrastructure construction connects economic growth and poverty reduction.

3. Support the international expansion of Japanese Industries.

- > Make the most of Japanese advantages of industrial technologies and know-how.

Demand for Infrastructure Construction in Asia

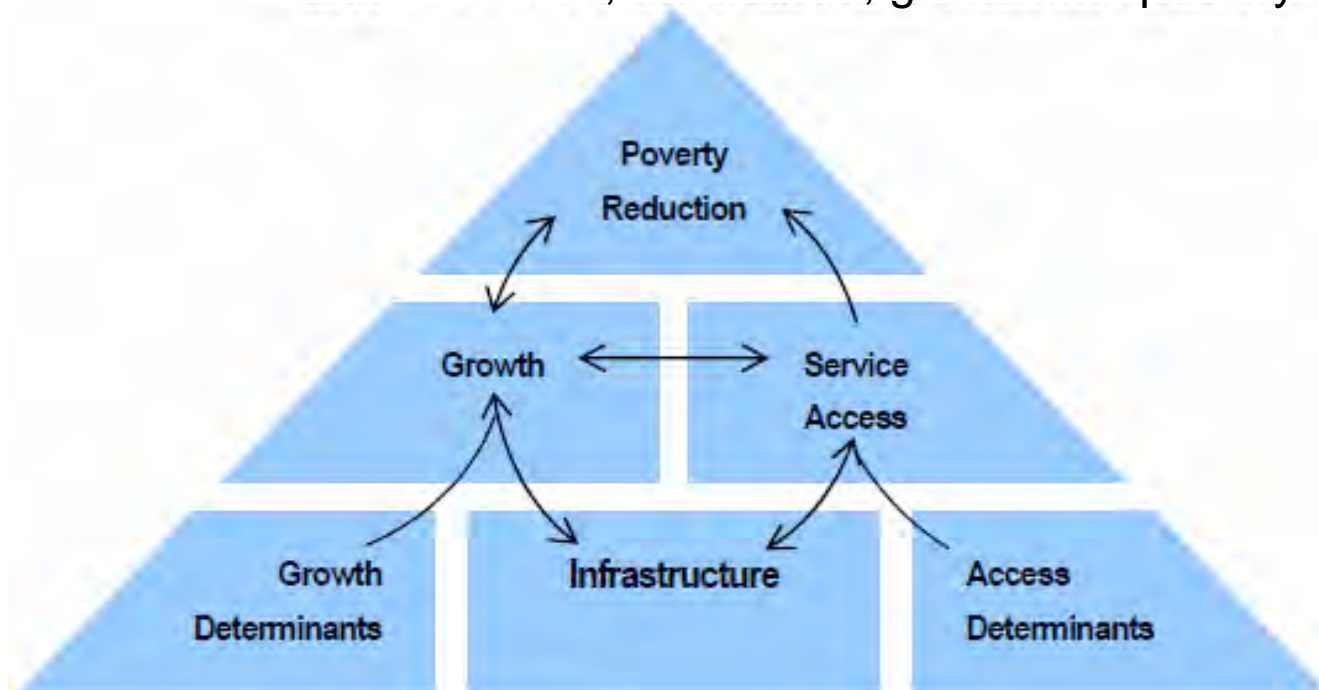
The World Bank estimates the annual demand for infrastructure construction (including maintenance and operation) in East Asia from 2005 to 2010 at more than \$200 billion.



Trends in International Assistance (World Bank)

- > With the objective of emphasizing the importance of infrastructure construction while maintaining its conventional poverty reduction policy, the World Bank launched the new concept of “inclusive development”.
- > The World Bank considers it extremely important to apply PPP to infrastructure development projects.

Interrelation between infrastructure, investment, growth and poverty reduction.

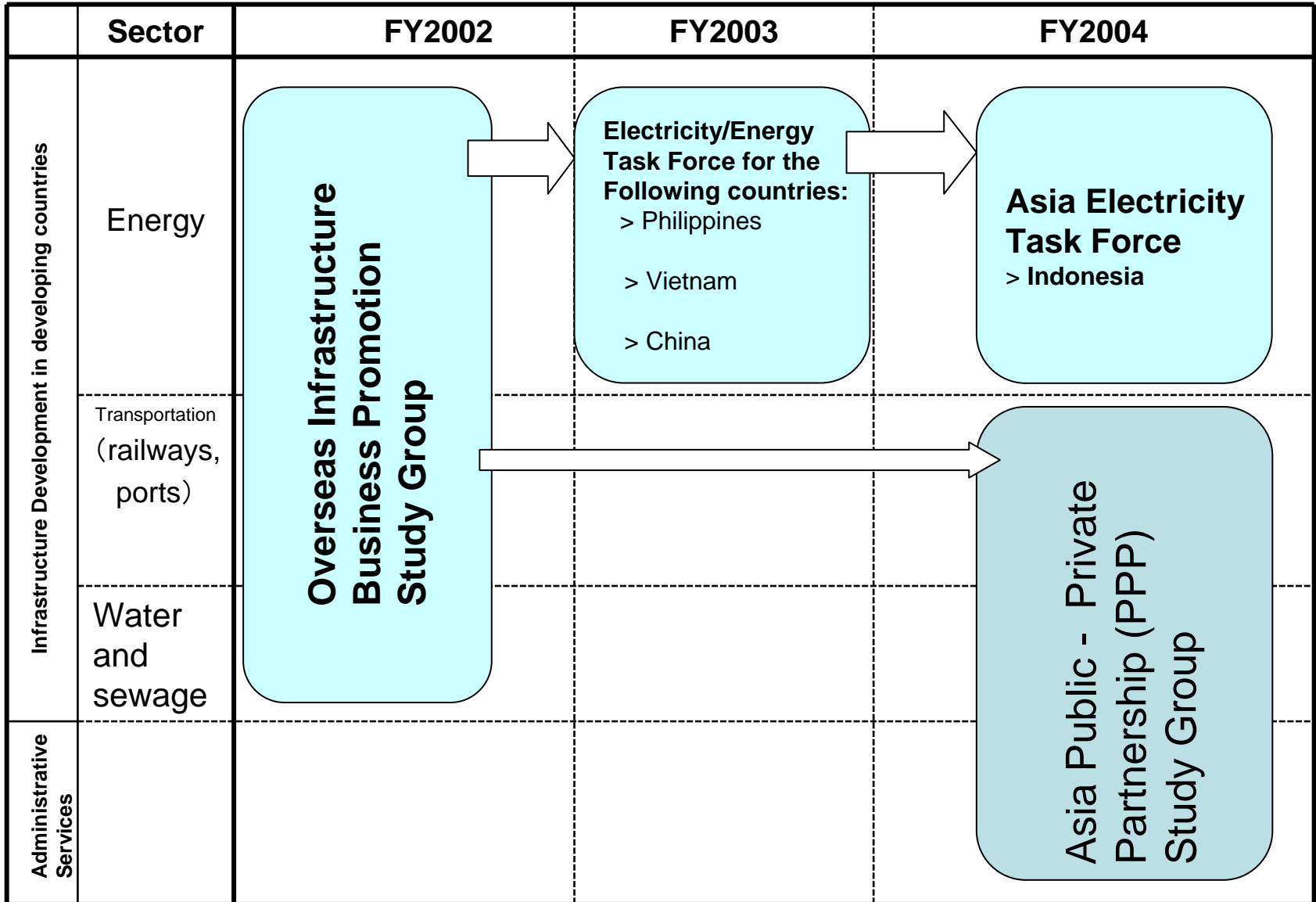


International Situation of PPP

- State governments and international organizations are promoting the application of PFI and PPP to many projects in the construction of infrastructure and development of administrative services.
- This trend is also seen in Asian states such as Singapore, Thailand, Malaysia, and Indonesia.
- Brazil has recently established a law for the promotion of PPP.

2. Details of Study

Recent METI Activities for Overseas' Infrastructure Promotion



- In FY 2002, we studied the possibility of PPP in construction of overseas infrastructure.

Output

> Government support is needed, as follows:

- Collecting more information
(Concentrate on specific countries and sectors)
- Promotion of bilateral policy dialogue
- Foundation of system to support PPP F/S
 - > In FY 2003, budgetary appropriation

- In FY 2003, we studied the strategy of international expansion of Japanese companies in the power sector.

Countries

- **Philippines**
 - **Vietnam**
 - **China**
- In FY 2004, we focused mainly on Indonesian power sector.
 - We started to study the Indian power sector, as “Indian Electricity Task Force”.

Indian Electricity Task Force

- In March 2007, a seminar on the Indian power sector will be held.

Purpose

- Promotion of Japanese companies by utilizing advanced industrial technologies and know-how
- Formulation of PPP projects
- Construction of power plants to achieve economic growth

Members

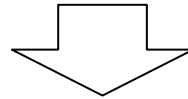
electric utilities, general trading houses, financial institutions, manufacturers, construction and engineering companies, research institutes, IFC, JBIC, NEXI, JETRO, JICA, etc.

Process of Project Formulation through the Asia Electricity Task Force

Identification of issues

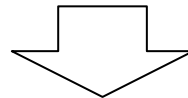
> **Improve the prospects for investors**

1. Transparent electricity institution, and its fair operation
2. Necessity of government participation, etc.



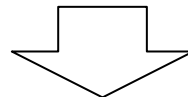
Proposal to recipients

EPA
Negotiation



Programs
Loans

Regulatory reform, Strengthening investment institutions

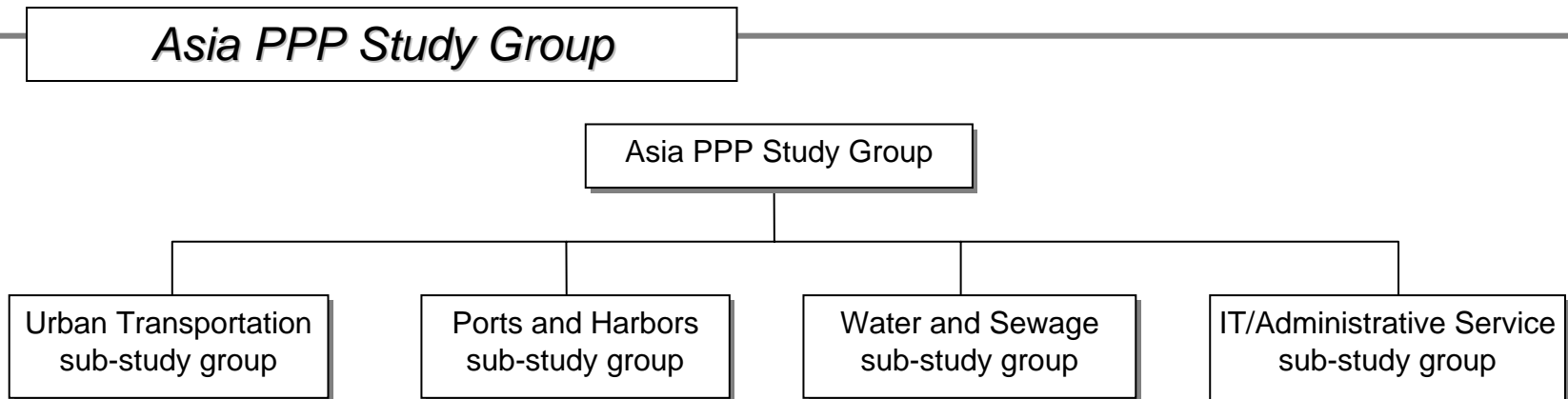


Project formulation

Asia Public Private Partnership (PPP) Study Group

➤ In Sept. 2004, we studied the possibility of international expansion of Japanese companies in four sectors as follows:

- Urban transportation
- Ports and harbors
- Water and sewage
- IT/administrative service



- **Strategic application of economic cooperation tools**
 - > Study by Overseas Economic Cooperation Council

- **Bilateral policy dialogue**
 - > Consider holding continuous bilateral policy dialogues between Japan-Thailand, and Japan-Indonesia

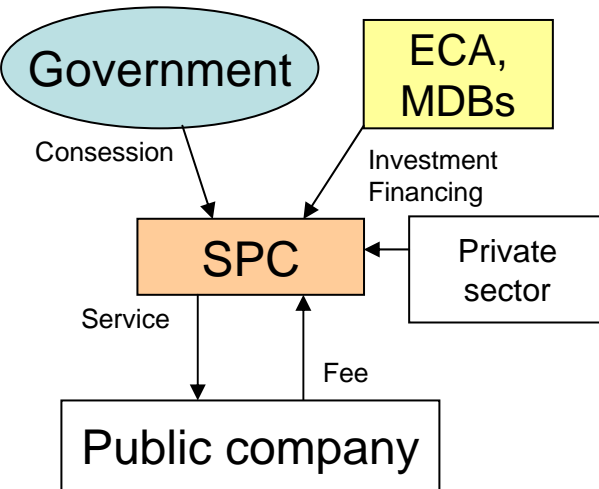
- **Foundation of platform by private sector**
 - > Foundation of Asia PPP promotion conference (Jan. 2006)

1. Strategic Application of Economic Cooperation Tools

- Using PPP scheme, in fields that would be commercially viable with “**market enhancement**”, the market would emerge.
- As a result, we could make the most of the private sector.

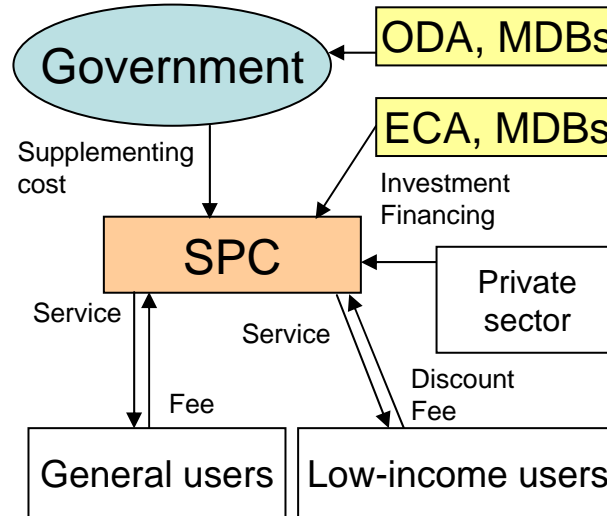
Collaboration with international finance

ECA, MDBs, and private sector join the investment or financing.



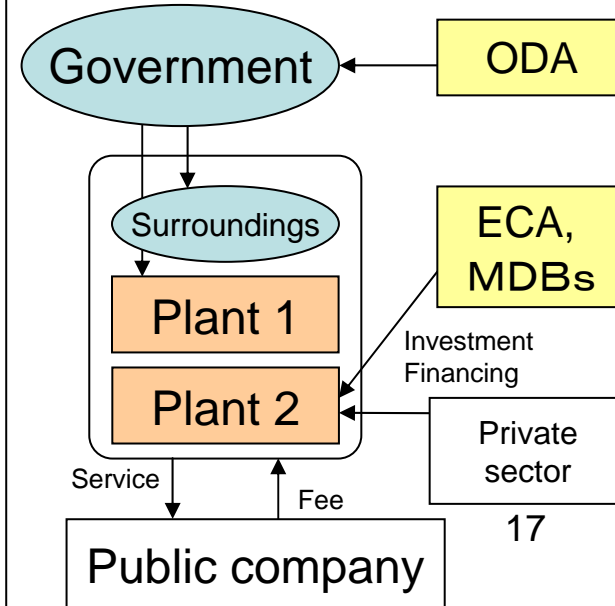
Collaboration with grant aid

Establish a fund with ODA (mainly grant aid), finance by MDBs for the SPC to supplement costs, e.g., VGF



Collaboration with yen loan aid

Construct the surroundings and Plant 1 with ODA (mainly yen loan aid), and ECA, MDBs, and private sector join the investment or financing to construct Plant 2.



2. Bilateral Policy Dialogue

Overview of Policy Dialogue

Commitments of the other country

General

- > Establishment of PPP headquarters
- > Equal treatment of domestic and foreign investors
- > Implementation of the privatization law, or the PPP law
- > Operation of fair competitive bids

Individual

- > Identify as a PPP project
- > Government guarantee
- > Financial support for public corporations

Track Record

- **Philippines, Vietnam, China Electricity Seminar (2003)**
- **Japan-Thailand (Bangkok) PPP Seminar (March 2005)**
- **Japan-Thailand Bilateral PPP Policy Dialogue (April 2005)**
- **Japan-Indonesia (Jakarta) PPP Seminar (March 2006)**

Schedule March 2007

- **India Electricity Seminar**
- **Japan-Vietnam (Hanoi) PPP Seminar**
- **The 2nd Japan-Indonesia (Bali) PPP Seminar**

Thank you.