

## Report on the PPP Days 2012

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### Overview

In last two decades, Public Private Partnerships have been gaining publicity and popularity across the world. However, many issues—governance, finance, capacity building and etc.—have arose, and there should be joint efforts to tackle these obstacles.

The PPP Days 2012, a premier networking event for PPP practitioners attracted some 700 people from over 80 countries. The event was jointly hosted by the UNECE, World Bank Institute, and Asian Development Bank from 21 through 24 February, 2012. Since 2006, PPP Days has been the place for practitioners to network and learn from peers and counterparts from other countries. For the first two days, government officials discussed the issues and challenges for promoting PPP, followed by a full-day business forum and a site visit day.

Without a question, developing countries are in desperate needs to utilize the private capital to meet their needs for basic services and infrastructure development driven by the economic growth. Public Private Partnerships are expected to close the gap between the financial needs and public finance capability, but in the reality, private sectors are hesitant to participate in many cases. Furthermore, weakening economic conditions have added reluctance among financial institutions in providing long-term debts. According to the Private Participation in Infrastructure database of the World Bank, the number of developing countries with new

infrastructure PPP (PPI) projects in the first half of 2011 was the lowest since the early 1990s. Besides the steady growth in some countries such as India and Brazil, PPI investments, excluding these two countries, have fallen to 2/3 of the same period in 2010.



Many countries have a lot to do in order to win a confidence from private sectors by building public governance—legislative support, organized structure, sound budgeting, and transparent and accountable business environment. Thus the first two days of the event were devoted to how to establish the governance frameworks in order to make PPP projects financially viable. The frameworks should support a project throughout its lifecycle, from project identification and selection, development, tendering, contracting, and management.

## Current Issues

### **Value for Money testing**

One big debate came from Value for Money (VfM) testing. PPP markets around the world are being challenged by the present turmoil in global financial markets. Private sectors are expected to overcome higher financing cost of PPPs by their innovative and efficient development and management methods, but in the recent markets, it has become harder for PPPs to produce VfM. While some take this as a natural consequence of recent financial turmoil, others have pointed out that the Public Sector Comparator often disregards the public sectors' overall financial health and sustainability. With this regard, there was a question raised whether to adjust the VfM testing model and standardize the procedures. This certainly cannot be done by a single country's effort, therefore international organizations and multilateral development banks (MDBs) are expected to play a key role to bring this issue for further discussion, and come up with a solution.

### **Governance in PPP**

United Nations Economic Council for Europe (UNECE) is underway of revising its most downloaded publication, "*Guidebook on Promoting Good Governance in Public-Private*

*Partnerships.*” Although its seven principles—PPP policy, capacity building, legal framework, risk, procurement, putting people first, and environment—remain important after its first publication in 2008, especially in many countries where PPP programs are still developing, many questions and proposals were made during the discussions. For many developing countries, following these principles is a key to create an accountable business environment for PPPs. However, many countries still cannot define ‘PPP’ nor clarify objectives in their PPP policies, and struggle to develop attractive PPP projects i.e. economically viable and financially profitable projects. Many still cannot hammer out a course of PPP legal framework. Even though the guidebook says “fewer, better, simpler” legal framework encourages both public and private sectors to implement and participate in PPP projects, it is now widely recognized that increased regulation is required in relation to the use of public money rather than over-de-regulation in the post-financial crisis world.

Lack of transparency in procurement especially in transition economies is a huge concern. While VfM is optimized by the service quality and prices, there are no clear procurement methods to follow in many countries to select a private sector that can provide the best value. EU competitive dialogue is often considered as a good practice for identifying the best partner; in a reality, it results in a prolonged and very expensive procurement that acts as a deterrent to bidders. Competitive dialogue is also considered unsuited to most developing countries where the transparency, legal consistency and political stability are lacking. Actual procedures for transparent and optimized procurement should be clarified by international community.

MDBs can help identify good practices in disclosing information on PPP contracts and engage stakeholders such as parliamentarians and national audit authorities. They can play an effective role in the oversight of PPPs, as well as enhancing their performance by undertaking performance reviews.

### **PPPs in Sub-national level**

While many countries’ focuses are on PPPs in large-scale infrastructure development, important service delivery responsibilities remain in sub-national level (i.e. regional and local governments). There is a considerable lack of knowledge, experiences, and institutional supports for promotion of PPPs in sub-national level, with regards to developing PPP programs, identifying suitable projects, ensuring good governance mechanisms, and effective monitoring

of the projects. Most countries do not have training programs or tools to share information and knowledge of good practices in PPPs within the country.

PPP units in national level may play important roles in PPP promotion in sub-national governments. There is a notion that a PPP unit ‘evolves’ with the country’s state of PPP practices. First, when both public and private sectors are still in the infancy of PPP practices, a PPP unit serves in developing PPP policies, establishing legal framework and building capacity in national government. As the PPP market matures in the country, PPP unit then act as an engine for promoting PPPs in sub-national levels, by transferring knowledge, building capacity, providing subsidies, and supporting with regulations/de-regulations. UNECE is trying to identify the issues in promoting PPPs in sub-national level, and share the knowledge for better course of actions.

### **Sharing of knowledge worldwide**

Another issue raised during the event was an insufficient stockpile of knowledge of good practices in PPP. Even with a questionnaire conducted worldwide by UNECE Team of Specialists on PPP, not many cases are referred to as good practices. Sometimes, a MDB dispatchs a team of specialists in a developing country and develops a PPP project, which is suitable for them to finance, but leaves without transferring or sharing the knowledge to the country. UNECE intends to establish the International Center of Excellence in PPP, as a hub of knowledge sharing. UNECE proposes its member countries and countries under the other regional committees of UN to host a ‘specialist center’ or ‘regional training center.’ A specialist center focuses on a certain sector e.g. roads, water/sewer, power, education, health, or others, and collect information and case studies in that sector. The information collected is gathered to the COE in Geneva, and made available to the international community. A regional training center provides capacity building trainings using standardized training materials/toolkits approved by the COE.

## **The Japan Session**

### **Private Participations in Disaster Risk Reduction**

Private sectors were invited for the third and fourth day of the event, where many countries presented opportunities within their countries to the prospective investors or participants to the projects. In the venue, the special session on Japan and the role of PPPs in

disaster risk reduction (DRR) and post disaster reconstruction was held. In 2011, following the tragic mega disaster in the northeastern part of Japan, UNECE and the United Nations International Strategy for Disaster Reduction (UNISDR) dispatched observation missions to the devastated area in search of the ways to use PPPs in DRR and reconstruction. This session was intended to present the findings of these missions and discuss the further possibilities of private participation in disaster risk reduction. With the progress of the globalization, the economic losses resulting from massive disasters are becoming growing concern among business community. While the private sectors' interests and motivations to participate in the discussions are high, actual involvements have been limited.

At the opening of the session, H.E. Mr. Kenichi Suganuma, Ambassador of The Permanent Mission of Japan to the United Nations and Other International Organizations in Geneva, said that the outcome of "today's discussions must be used in future reconstruction plans, stressing that private sector knowledge and initiatives help national efforts and stimulate the economy." He recalled that during the relief period following the earthquake last year, over 44,000 convenience stores became community lifelines.

In the keynote address, Ms. Margareta Wahlstrom, Chief of UNISDR emphasized that the private sector's participation in both discussions and contributions in DRR is too small. UNISDR created a Disaster Risk Reduction Private Sector Partnership (DRR-PSP) Working Group in 2011, to increasingly involve the private sector in disaster risk reduction by mobilizing resources through core business arrangements for joint actions, sustainability, philanthropy and knowledge transfer. Private participation in DRR is perceived in many dimensions; maintaining business continuity, increasing safety of the employees and the community, improving corporate social responsibility (CSR) and corporate brand image, reducing the cost and loss of disasters and creating new business opportunities. Yet private sectors are often excluded in the policy discussion in DRR.

Toyo University, one of the organizers of the observation missions to the devastated area pointed out key issues in private participation in disaster relief/reaction and reconstruction. The devastation—loss of buildings and facilities, workforce and decision making structure, communication, and basic service data—was the most significant characteristic of the earthquake and tsunami last year. Because of the devastation and overwhelming workload

among local governments in the affected area, many municipalities got paralyzed in the relief/response phase. Thus unless prepared, it was impossible to call upon the private sectors promptly. Even while some sectors e.g. infrastructure, transportation/logistics, and construction/engineering sectors were mobilized in a system called ‘disaster agreements,’ many other sectors remained slow in first reactions, and many service needs that could have been provided by private entities were left unmet.

In the relief period, it was other municipalities which became very active and provided effective supports to these devastated municipalities. City of Tono in Iwate Prefecture was a distinguished example. Located within one hour from many devastated coastal cities, Tono prepared a plan to act as a remote logistic support base during this type of massive disaster. The city provided open spaces e.g. soccer fields and gymnasiums for police, rescue, DMATs, and Self Defense Force for stationing during their rescue activities. The city also provided accommodations for other municipalities and volunteers, thus they could efficiently help the victims. There were many municipalities provided voluntary and innovative supports to the devastated cities/towns. This clearly indicates that there should be strategic planning for partnering with other municipalities as well as private sectors in order to take advantages of the entities’ characteristics and strengths during the disaster relief.

Issues in using PPPs in the reconstruction phase come from the lack of capacity in both public and private sectors in the area. Almost no municipalities have committed PPP procurement, therefore, municipalities lack knowledge and experience, and it is hard to implement time-consuming and tiresome PPP projects. At the same time, because of lack of experience and understanding, there are negative perceptions of PPP amongst the local industries and general public. Even large companies which have experiences with PPPs, seem to be reluctant to participate in PPP in rural areas, with the question of economic efficiency and profitability.

#### Key Recommendations

- 1 Better Use of PPP and Outsource
- 2 Better Finance  
(Infrastructure Funds)
- 3 Better National Coordination
- 4 Improved Resilience of Hardware  
and Software
- 5 Local Governance and Capacity
- 6 Remote Logistic Support Center  
(Story of Tono City)
- 7 Regional Economic Development  
and Biomass Industry

The missions observed these situations, and concluded there are ways for Japan to improve its preparedness for future disasters or boosting reconstruction with private

participations. Key recommendations<sup>1</sup>, which were presented by Dr. Geoffrey Hamilton, Chief of Economic Cooperation and Integration Division and Prof. Sam Tabuchi of Toyo University refer to wide range of partnerships in pre-emptive, response and reconstruction phases, i.e. from planning and preparation to creating new industries using private participation.

### **Further Issues Raised**

Following the Japan session, a discussion meeting was held for interested audiences. In this meeting, there were many interesting issues raised by the participants. While it was proved that there were extremely successful practices in educating and training escape drills among children in some cities in Japan, many participants confessed the concern of incapability of the governments in convincing residents to evacuate, because of the lack of trust in the governmental bodies and protection of properties. Some questioned how to share the cost and role in training and education between public and private entities. Also insurance issues and motivations for private sector participation were discussed.

There was consensus in recognizing a need for an international effort to assess disaster preparedness of each country and even sub-national governments. The idea was that there should be a common approach to assess the disaster risks and preparedness/willingness, and multilateral development banks should take this kind of measure in to account when financing future infrastructure developments. This will lead to more awareness towards disaster risk management and reduction, and also establish the financial and political discipline in infrastructure spending.

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<sup>1</sup> Executive Summary of the Report prepared by the organizers is attached in the end.

## Executive Summary

What has happened on March 11, 2011 was a sad tragedy for Japan, especially for northern Japan.

The United Nations Economic Commission for Europe (UNECE) with the support of Toyo University PPP Graduate School dispatched its first observation mission to Sendai, Miyagi Prefecture (Capital Sendai) in July, 2011. Second mission was joined by the United Nations International Strategy for Disaster Reduction (UNISDR) and Toyo University PPP Graduate School on 15-18 November 2011 and visited the coastal areas of Iwate Prefecture, most severely affected by tsunami to observe what has happened and to explore the possible role of PPP in the process in disaster recovery and how PPP practically can be used in the Japanese recovery process.

As Toyo PPP School as the guide and coordinator, the mission has visited and researched the major facts and the numbers on the disaster. The mission has discovered that other parts (Tokai, Nankai and Tokyo Metro area have the possibility of the significant size of earthquake and followed by tsunami in similar and maybe even bigger incidents in the near future.

During and after the visit to the tsunami hit areas, the mission members have examined the possibility of the role of and the way forward for Tohoku with the use of PPP.

The mission members have looked into:

- 1) The overall policy that offers vision, leadership, effective coordination and implementation
- 2) Building safer and more resilient infrastructure
- 3) Sustainable development (renewable and smart cities) and green growth
- 4) Forging regional economic competitiveness
- 5) PPP and building local and national PPP capabilities.

In the end, the mission members have made several key recommendations to the countries with threat of earthquake and tsunami including Japan and other nations, which have similar threats.

The recommendations are bold and aggressive but the members all felt these recommendations could save the lives and assets of the citizens of the countries and can better prepare for the future disasters.

The country of Japan was prepared for disaster and has done a significant work toward fukkyu (recovery) and fukko (redevelopment) after the disaster for the citizens of Tohoku. However, the mission has examined what other methods and systems using PPP could better prepare for the disaster, save more lives and properties of citizens in times of disaster and assist the recovery and re-development post disaster.

Unfortunately, the disasters will happen. It was fourth significant tsunami disaster in 107 years in Tohoku. It will happen again more so with the global weather change. We sincerely hope that this report provides some useful recommendations for not only Japan but also for the countries, which have such possibilities of earthquake and tsunami to be better prepared for future possibilities.

The report is intended to support the future actions of the countries to consider against disasters and not intended to offend the actions and measures taken by the country of Japan, which were very significant.

### **Key Recommendations**

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| Major Considerations | <ol style="list-style-type: none"><li>1) Better Use of PPP and Greater use of outsourcing</li><li>2) Better National coordination</li><li>3) Better financing (e.g. infrastructure funds)</li><li>4) Improved resilience of hardware and software in disaster recovery and risk mitigation</li><li>5) Local governance and capacity</li><li>6) Economic Development with biomass industry creation</li></ol> |
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#### **1) Better Use of PPP and Greater Use of Outsourcing**

- Present state of public organizations' collaboration with private sector
  - Public organizations procure goods and services and outsource operations through bid and fair procedures
  - Factors that keep organizations from outsourcing their tasks (upstream tasks and mission Problems: Short time perspective resulting from single year budget system critical tasks  
Sectionalism within the government
- Sectionalism and its downsides
  - Vertical division of government leads to sectionalism, which causes inflexibility and less

cross-section effort

Result in excessive numbers of public facilities; airports, seaports and other public assets

- Problems and issues pertaining to collaboration with private enterprises
  - Lack of knowhow to fix
  - Dependence on precedents
  - Lack of skills to manage public projects
- Proposal of corrective measures
  - Special division to manage public organizations
  - Outsource external experts
- Trends reconstruction demands from Great East Japan Earthquake
  - Basic Reconstruction Plan yet to secure its funding
  - Government needs to broaden the financial resource

## **2) Better National Coordination**

Consideration of National Emergency Management Organization

Emergency management is a responsibility of local government, which is true with most countries of the world. But when major disasters such as the tsunami of March 11, 2011 and others strike, which are beyond the capability of local government, there has to be a national emergency management agency and its plan to mitigate the risks of such disasters.

The study group of Toyo PPP School believes that establishment of such divisions within the public organizations will enable them to formulate effective plans based on their high-level future visions, policies and schemes, identify external capabilities required for executing plans in consideration of the conditions unique to the individual public organizations, ensure the consistency of procurement activities comprehensively and broadly, and perform project management responsibly.

## **3) Better financing (e.g. infrastructure funds)**

- Present state of funding for public infrastructure investment
  - Japan holds massive public debt and still needs infrastructure investment
  - PPP is utilized in some extent but there are more opportunities
  - Amended PFI Law for some flexibility
- Issues pertaining to the promotion of PPP/PFI schemes

- Shortage of personnel with skills and experiences
- Economic rationality and restriction established
- Limited investors in public infrastructure

#### **4) Improved resilience of hardware and software in disaster recovery and risk mitigation**

Improved resilience of the hardware and the software in disaster recovery. Even with the massive loss, more than 95% of residents escaped overall. This came from the education and evacuation drills amongst residents. Even though infrastructures such as breakwaters and sea walls succeeded to delay and lessen the severity of the tsunami, by the same token, it gave false sense of security to residents. Early warning systems and hazard maps were also misleading in some cases. Though infrastructures in the affected area were well prepared for the earthquake itself, but not sufficient for resisting to the tsunami. Hardware or equipments/tools always have limitations and downsides, and sometimes work in totally opposite way to its intention. Thus software, including education and training among youth and adults should be improved.

- 1) Spending more tax revenues in creating a false sense of security must be re-examined.
- 2) Escape plan to be established and training of residents to escape have to be drilled.
- 3) Rescue teams to be trained accordingly

#### **5) Local governance and capacity**

In Japan, each local government has their own emergency management program following the national guidelines. For smaller emergency occasions, they should be prepared with their own responsibility and preparation. However, in enormous emergency occasions, demands to municipal governments easily overwhelm the capacity. In this earthquake and tsunami, local government officers were overwhelmed and exhausted with the continuous heavy workloads.

In emergency situations, some functions, such as logistics and supply of goods, examinations of damaged structures, providing shelters and housings, and other citizen-related services can be provided by the private sectors as supplemental roles for local governments. Meanwhile, for national scale disasters, there are certain needs for local-government assistance by other municipality officials in administrative works, because local government officials can easily and

quickly take parts of officials in these affected municipalities. Therefore, local governments should have their own public - public partnership in emergency management. But as it has been proved in this disaster, public – public partnership works well if it is planned and trained. With this regard, local governments should strategically develop partnerships with other municipalities and private sectors, who can provide the necessary roles in timely manner.

The guidance, training and coordination should come from the national coordination office such as JEMA (recommended in the report). For implementation of JEMA, each local authority should designate its emergency managers 2 – 5 at each municipality. This will create 1800 – 5000 experts nationwide.

#### **6) Economic Development with biomass industry creation**

Tohoku area needs strong economic development programs. The area needs jobs lost by tsunami: fisheries, agriculture and industries. There is debris with 20 year volume, which can be converted to electricity. This is about to start. There are forests to produce biomass products, which can be used to generate electricity with the same method. Simple biomass recommendation but creates jobs: collect debris, take them to power stations, stations needs workers. Biomass from forest requires: people cutting trees, taking them to factories, some to take roots out, some to replant, others to take them to the factories, etc. There will be shortage of powers for Tohoku. The area does not have to go to fossil, nuclear power source, which they import. They have their own resource to produce power with less environmental concerns.

This Executive Summary is revised for publication in this *Collected Papers of the Research Center for Public Private Partnership in Toyo University*.

Mr. Nobuyuki Nagata of Deloitte Japan contributed to the report and the Session. The Japan Session was also joined by Kokusai Kogyo, and IBM as members of UNISDR's DRR-PSP.