

## Government forges ahead with public-private fund for infrastructure projects

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### Speedread

The Japanese government is under pressure to cut public expenditures while at the same time, many Japanese banks, companies and investors are building up surplus cash reserves as a buffer against future market turmoil due to a perceived dearth of attractive investment opportunities in the domestic market. This article outlines how the public private fund structure will allow the government to reduce budget expenditures on developing and maintaining public infrastructure.

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Facing dwindling tax revenues, the Japanese government is under pressure to cut public expenditures, while at the same time, many Japanese banks, companies and investors are building up surplus cash reserves as a buffer against future market turmoil and also due to a perceived dearth of attractive investment opportunities in the domestic market.

The Nikkei newspaper recently reported that the Cabinet Office in August 2010 began working on the formation of a new public-private fund for infrastructure projects, to be open to investment from the private sector, including banks, as well as the government. The Cabinet Office is also aiming to prepare a bill to revise the PFI (Private Finance Initiative) Act. In May 2010, the Cabinet Office published an interim report regarding PFI proposing greater structural flexibility with fund-raising, so the new public-private fund is expected to be included in the bill. It is hoped that a public-private fund structure will allow the government to reduce budget expenditures on developing and maintaining public infrastructure while still completing projects, and at the same time be attractive to private sector investors given the perceived lower risk resulting from government involvement.

Interestingly, there is a possibility that the public-private fund may also target infrastructure projects overseas. In June 2010, the Cabinet, headed by the new Prime Minister, Naoto Kan, announced its "New Growth Strategies" which include the suggestion of efforts to support Japanese companies working on infrastructure overseas. In July 2010, the Ministry of Land, Infrastructure, Transport and Tourism launched a committee aimed at supporting PPP (public-private partnership) projects for water infrastructures overseas.

On August 28, 2010, the Prime Minister then made a public statement regarding the need for the government to introduce a program for promoting domestic investment to help facilitate the reinvestment of large cash reserves stored in private companies back into the domestic economy. The public-private fund plan is likely to be an important platform for achieving this goal.

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