

## **PPP (Public Private Partnership) Frontier; A Study on Local Abenomics driven Social Innovation**

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Professor(Visiting) Toyo University PPP Graduated Course

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## **Outline of the Paper**

**Creation and Development of Social Innovation**

- 1. Problem Setting :Local Abenomics**
- 2. Problem Solving Methods**
- 3. Cases; Local 10,000 Projects**
- 4. Discussion and Conclusion**
- 5. References**

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### **Abstract:**

**Local Abenomics vitalizing local economy is one of the most important political issues in Japan. SMEs and micro enterprises have supported the local economy until today. They have rooted in the community and provided employment basis.**

**Job creation in rural areas was chosen as the key problem to be solved, while strengthening “earning power” of regional industries is essential to promote a virtuous cycle between communities, people and work. From this stand point, we studied local 10,000 projects and proposed problem solving methods as PPPs and local innovation ecosystem.**

**287 projects have been started by Ministry of Internal Affairs and Communications. Four performance indexes as financing amount, local job creation, local resources utilization, and cash flow creation were selected and evaluated. We analyzed some of 287 projects by MOT tools (innovation ecosystem, business model) and report validity and effectiveness of policy making contents.**

**This study has been done in a group of SMECA (Japan Small and Medium Enterprise Management Consultant Association) since 2015 summer.**

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## **1. Problem Setting**

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**1-1. Policy Challenges**

**1-2. As Is : Present situations**

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## 1-1. Policy Challenges

**Local Abenomics vitalizing local economy** is one of the most important political issues in Japan.

**To Be (Targeting)** is to maintain an affluent Japanese society and the population at 100 million by 2060.

**Policy Challenges**

**As Is (Present situation)**

1. Japan becomes **super-aging societies with** a rapid **population decline**.
2. A decrease in consumption and manpower places a heavy burden on the Japanese economy.
3. **Reasons behind the population decline :**
  - The Japanese population is decline because more young people are moving from rural to urban areas.
  - And in urban areas the total fertility rate is generally lower.
  - This generates a vicious cycle in which the population in regional areas is declining, and therefore the population of Japan as a whole also declines.

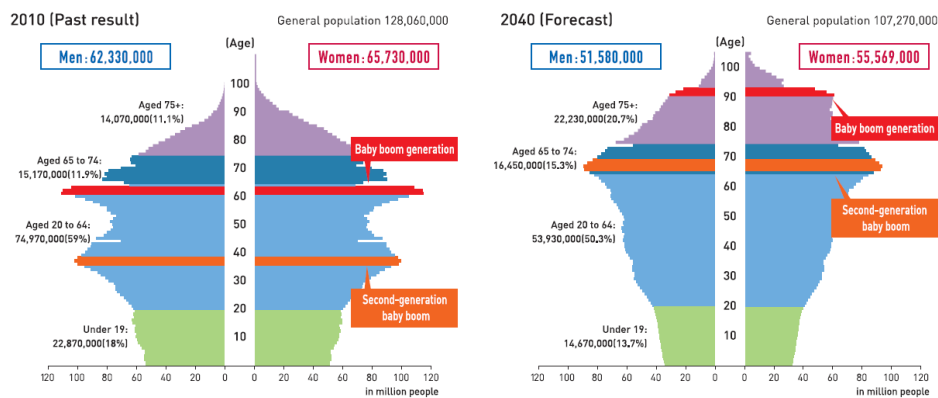
### Basic approach

1. Overcome population decline and economic contraction
2. Establish a **virtuous circle** where **work attracts people** and people attract work, and reenergized the communities that support this virtuous circle.

**Solution: Job Creation in rural areas in Japan.**

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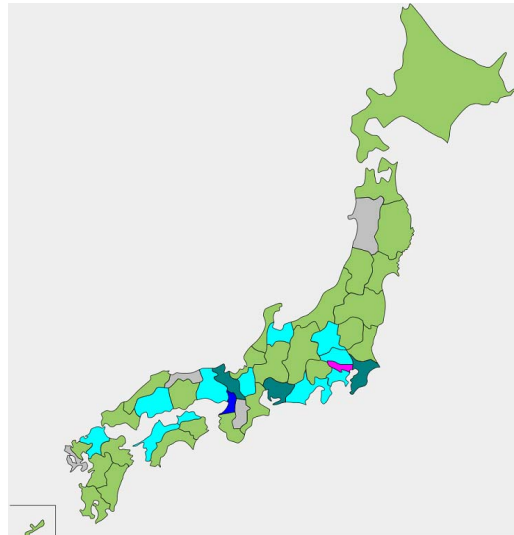
## As Is : Change in the Population Pyramid



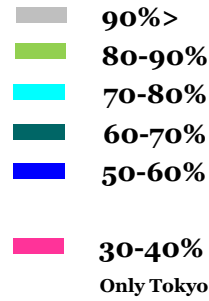
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## As Is : More than 80% work at SME in rural

SME plays important roles for job creation in rural areas.



### Regional SME Employment Ratio



SME: Small and Medium Enterprise

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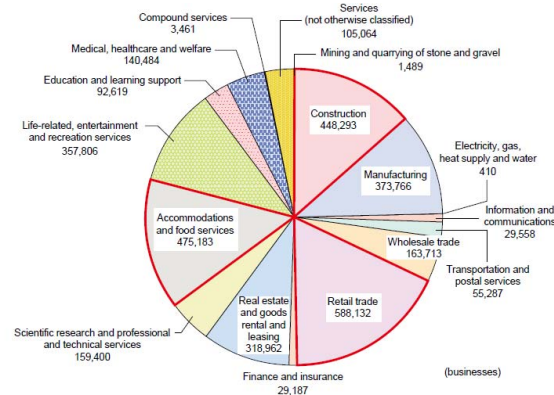
## As Is : micro businesses supporting local economies, societies, and employment.

	No of Enterprises		No of Workers	
Large	10,000	0.3%	13,970,000	30.3%
Medium	510,000	13.2%	20,240,000	43.9%
Micro	3,340,000	86.5%	11,920,000	25.8%

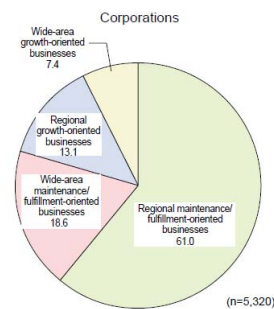
Of the 3.85 million SMEs in Japan, about 90%, or 3.34 million, are **micro businesses**. They have a key role to play supporting **local economies, societies, and employment**. They also have the potential to grow into businesses that will pull Japan forward in the future.

### Number of enterprises and workers by size of business

#### Industry sectors of micro businesses



#### Categories of micro businesses



Most micro businesses take their own region as their market.

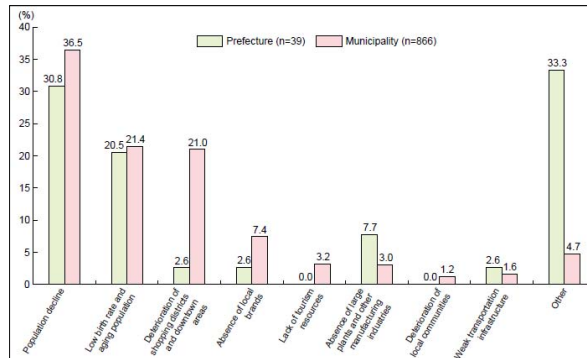
Ref: 2014 White Paper on Small and Medium Enterprises in Japan

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**As Is : Issues facing local communities and local governments approaches**

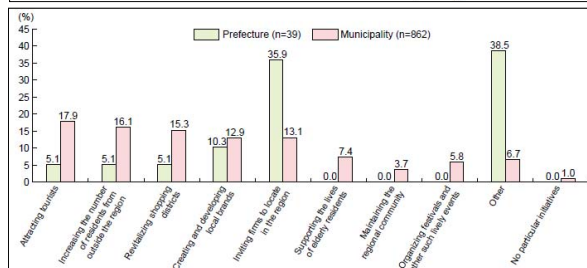
**Issues facing local communities (local governments)**

1. Population decline
2. Low birthrate and aging population
3. Deterioration of shopping districts and down town areas
4. Absence of local brands
5. Lack of tourism resources
6. Absence of large plants and other manufacturing industries
7. Deterioration of local communities
8. Weak transportation infrastructure
9. Other



**Local government approaches to issues facing their local community**

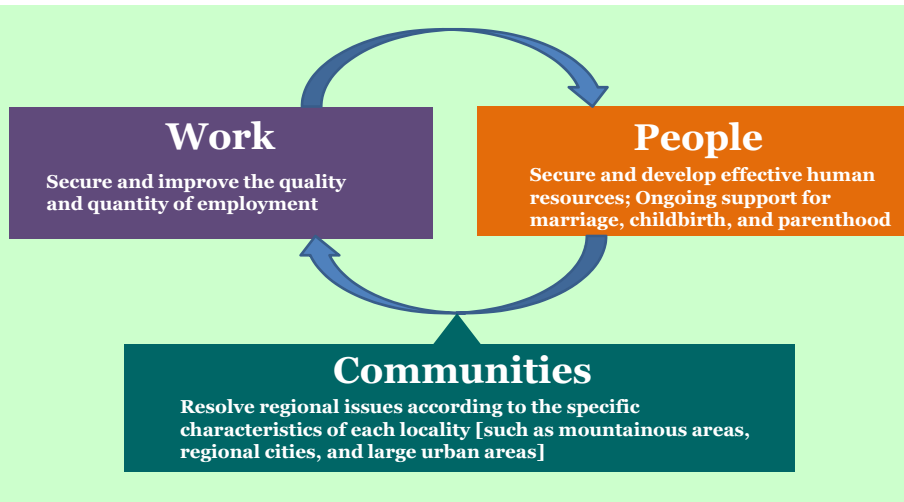
1. Attracting tourists
2. Increasing the number of residents from outside the region
3. Revitalizing shopping districts
4. Inviting firms to locate in the region
5. Supporting the lives of elderly residents
6. Maintaining the regional community
7. Organizing festivals and other such lively events
8. Other



Ref: 2014 White Paper on Small and Medium Enterprises in Japan

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**Policy Challenges : Virtuous circle of “work” and “people”, and the revitalization of the communities**



**Solution: Job Creation in rural areas in Japan.**

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## 2. Problem Solving Methods

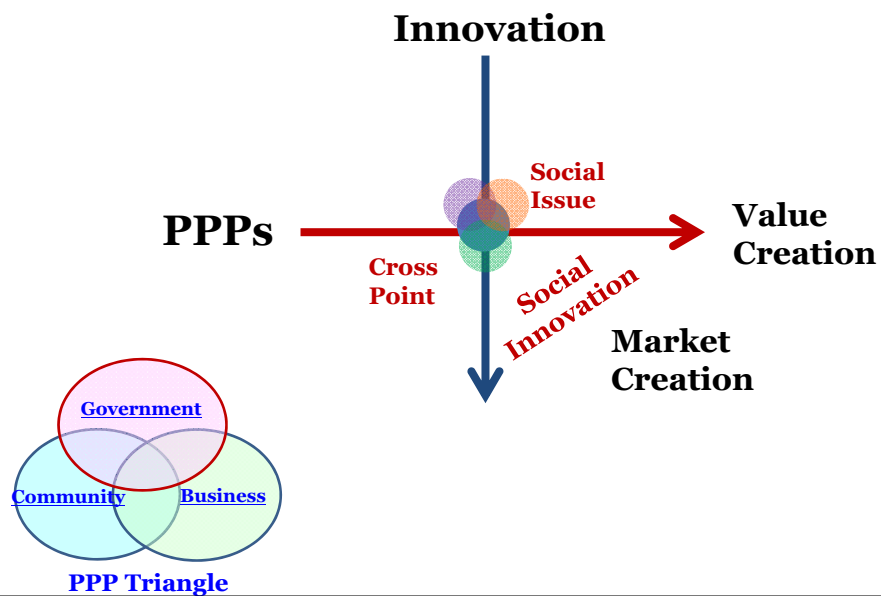
2-1. Cross Point of PPPs and Innovation

2-2. Local Innovation Ecosystem

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### 2-1. Cross Point of PPPs and Innovation

PPP : Public Private Partnership



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## PPPs play important roles in public space.

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**Public Service Demand is increasing due to social challenges.**

**Public Space**

**Government Activity**

**PPPs play important roles in public space.**

↓ ↑

**Job Creation in rural areas**

**PPPs Biz.**  
**Social Biz.**  
**Community Biz.**  
**Micro Biz.**

**Government Activity is shrinking due to financial burden.**

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## History of PPPs and Innovation

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**Innovative Public-Private Partnerships**  
 Pathway to Effectively Solving Problems

July 2010

**Homeland Security**

Editor:  
Thomas A. Dellucci, Ph.D., MBA  
Chief Commercialization Officer

The United States Department of Homeland Security (DHS)  
 Employees 240,000 (2015) Annual budget \$55.1 billion (2010)  
 Formed: November 25, 2002

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President Thomas Jefferson in 1802,,

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## Public-Private Partnerships Defined

A Public-Private Partnership (P3) is a **contractual arrangement** between a public agency (federal, state or local) and a private sector entity. Through this agreement, the **skills and assets** of each sector (public and private) are **shared** in delivering a service or facility **for the use** of the general public. In addition to the **sharing of resources**, each party shares in the **risks and rewards** potential in the delivery of **the service and/or facility**.

### 7 Keys to Successful P3s

The following are to be considered “best practices” in the development of Public-Private Partnerships (P3s). It is recognized that the methodology for implementation of P3s can vary, depending on the nature of a given project and local concerns. Given this, it is the position of the NCPPP that these are “best practices”:

- 1) **PUBLIC SECTOR CHAMPION:**
- 2) **STATUTORY ENVIRONMENT:**
- 3) **PUBLIC SECTOR’S ORGANIZED STRUCTURE:**
  - 4) The public sector should have a dedicated team for P3 projects or programs. This unit should be involved from conceptualization to negotiation, through final monitoring of the execution of the partnership. This unit should develop Requests For Proposals (RFPs) that include performance goals, not design specifications. Consideration of proposals should be based on best value, not lowest prices. Thorough, inclusive Value for Money (VfM) calculations provide a powerful tool for evaluating overall economic value.
- 4) **DETAILED CONTRACT (BUSINESS PLAN):**
- 5) **CLEARLY DEFINED REVENUE STREAM:**
- 6) **STAKEHOLDER SUPPORT:**
- 7) **PICK YOUR PARTNER CAREFULLY:**

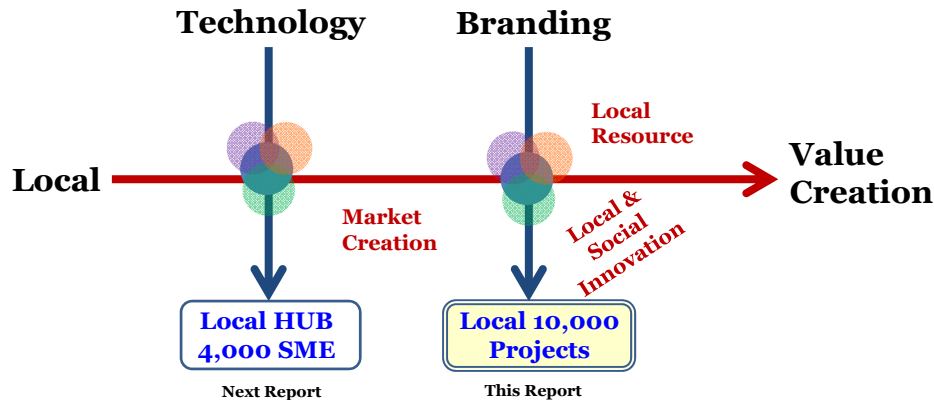


<http://www.ncppp.org/>

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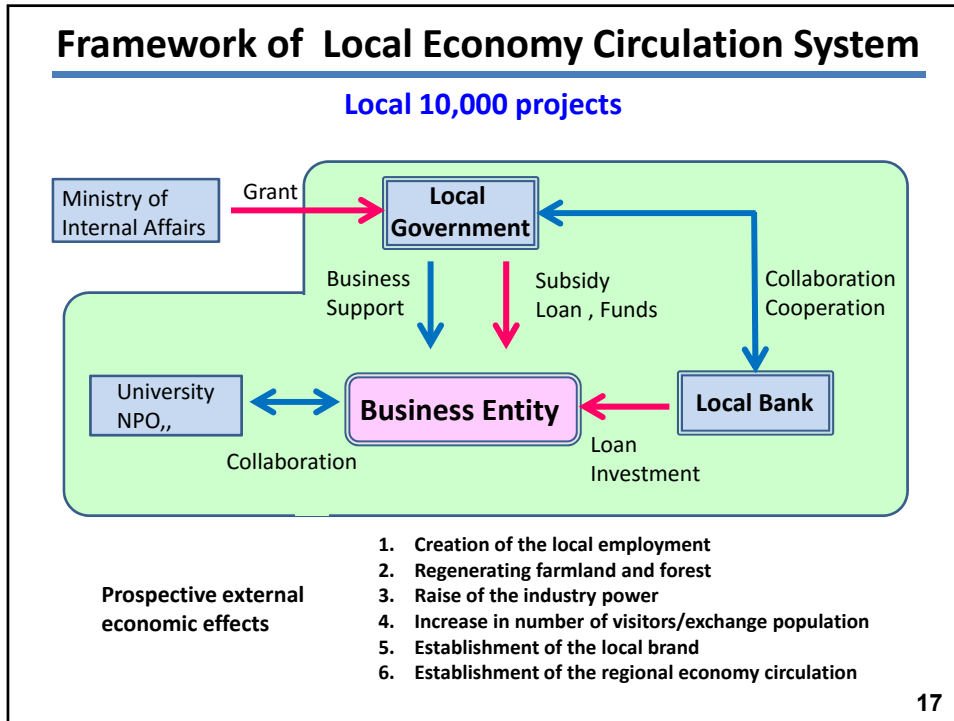
## 2-2. Local Innovation Ecosystem

Many Innovation Ecosystems have been proposed and implemented. Local 10,000 Projects focusing **branding** rather than **technology**, were driven by Ministry of Internal Affairs and Communications.



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### Policy Challenges : Revitalization of the local economics and communities

**Regional resources** are the resources (industrial resources) unique to a region. The term refers to specialty products and tourist attractions. **The Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Regional Resources, enacted in June 2007**, has led to the spread of this concept.

Regional economies are invigorated by developing new products and services utilizing regional resources, and by increasing transactions and expanding job opportunities. In this mechanism, prefectural governments first **categorize** the regional industrial resources into one of three types, namely

- (i) agricultural/forestry/fishery products,
- (ii) industrial products and technology, and
- (iii) tourist resources.

METI is currently considering the expansion of support measures, including legal revisions, in order to add a new framework to **the Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Regional Resources**.

“**Local Abenomics**” gives regional communities the principal role in growth. Regional resources should play an important role in boosting activities in various regions.

**Local 10,000 Projects are characterized with**

- (1) Financing from the local banks
- (2) Powerful employments in the region
- (3) Utilizing regional resources

In 2016 additional requirements are added,

1. The project should offer the substitute of the direct solution to the public local problem which actually local government resolve by own burden.
2. The project shows high novelty and model characteristics for the local governments with other similar public area problems.

→PPP schema

287 PJ in prefecture at present (2016.12.25) **18**

### 3. Cases

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**Case A : Inhabitants Growth Strategy of  
Kamiyama-Machi**

**Case B : Yubari Renewable Energy Creation  
Business from Local Resources "goaf"**

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#### Case A: Inhabitants Growth Strategy of Kamiyama-Machi in Tokushima Prefecture in Japan

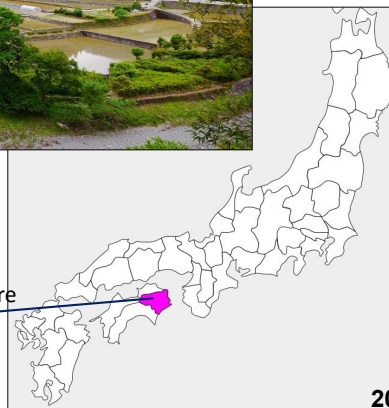
Typical Japanese  
depopulated areas



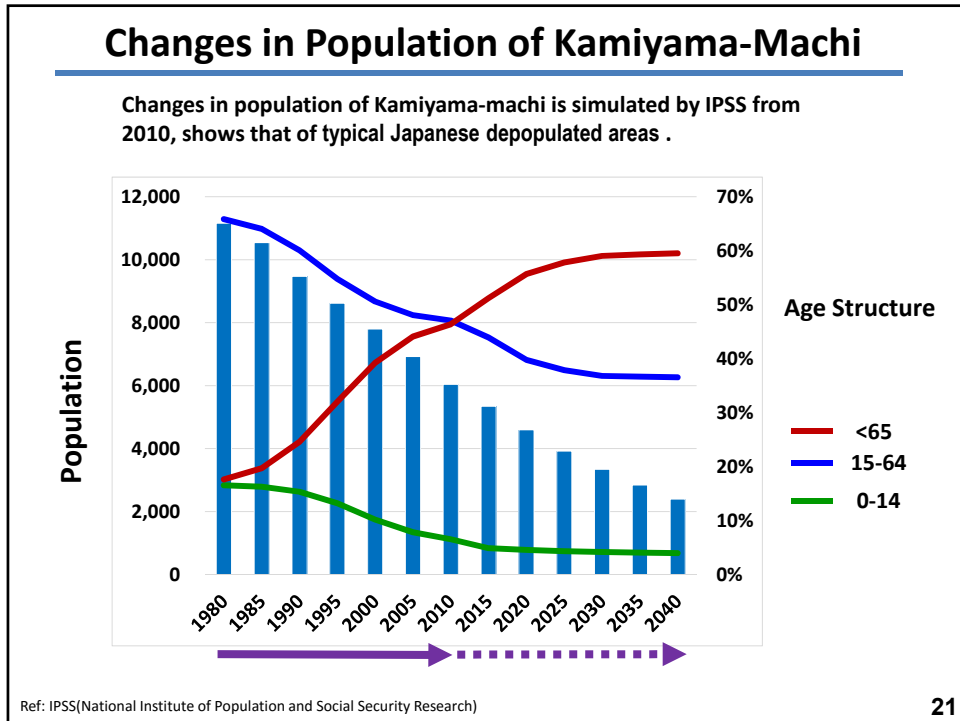
Kamiyama -Machi



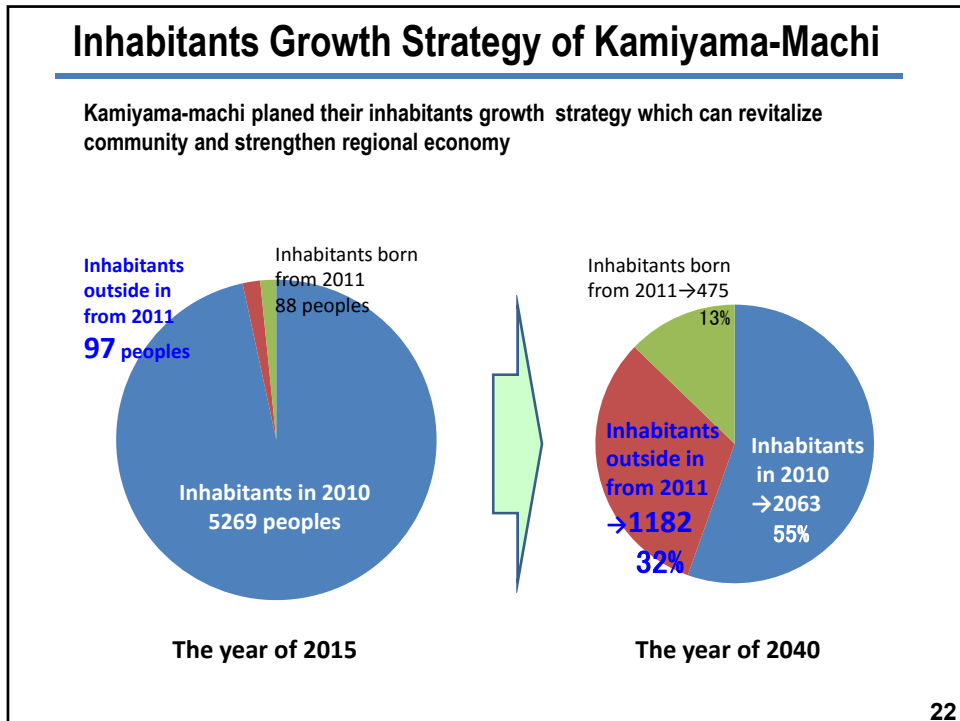
Tokushima prefecture



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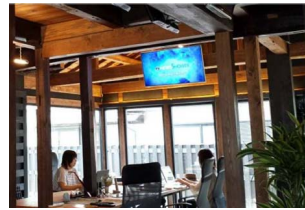
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## Revitalizes Community and Strengthens Regional Economy

Kamiyama-machi (local government) provided high-tech **working environments** such as,

1. **High speed broadband** networking services
2. **Office renovated from traditional Japanese houses**

The world's most advanced work can be realized in the depopulated areas . **Satellite office functions for big city located companies and incubation supports for start ups are provided.**



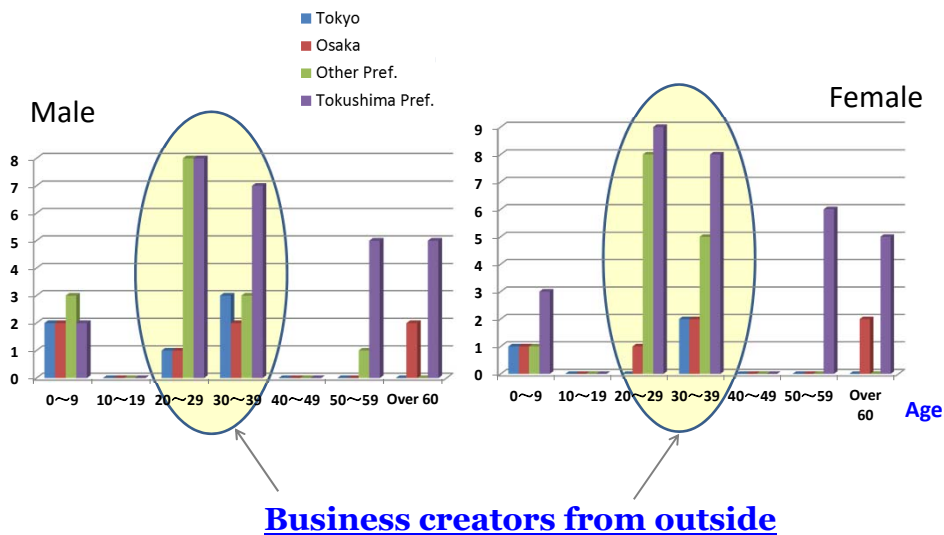
Kamiyama-machi owns rich natural environment . Entrepreneur and new residents from outside including Tokyo or Osaka areas, **enjoy** new workstyle and lifestyle with good work and life balance.

Productive co-working between students in big cities and elder peoples in the depopulated areas has been done, which enhanced exchange of young and elder, and local and city residents for **new type tourism.**



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## Output : New Residents from Outside in 2014



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## Case B : Yubari Renewable Energy Creation Business from Local Resources "goaf"

### Outline of the Project

**Yubari-City is the representative city in Japan that developed with a coal mine from 1930 to 1990, because high quality coal was mined.**

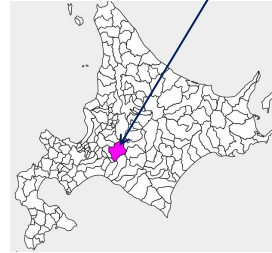
Many goaf mountains (Mt. Botha) formed by a coal mine are located in the city. **The goaf mountain was the waste product** which is one of the assets Yubari-City succeeded with the closing a mountain of the coal mines. Now days, that is **spot-lighted as local resource.**

The largest goaf mountain accumulated from 1953 through 1987 has 22 million cubic meters, quantity of approximately 300 million tons. The goaf contains coal approximately 30%, so can be used as a **low-caloric coal**. This low caloric coal is **blended** with the high caloric imported coal and used for **heat adjustment** in the power generation. **Demands for coal heat** after the **East Japan great earthquake** increased rapidly and are expected to exist for a long term.

**10 years business plan** was made to get of the cash flow from 183 million yen of total business expense including new facilities which could process 90,000 tons a year. The water choice charcoal facilities can take relatively light coal from goaf by separating in sedimentation tank after stirring mixed goaf with water.

Ref: <https://www.city.yubari.lg.jp/contents/mayor/happyo/h26/141021/index.html>

Yubari-City



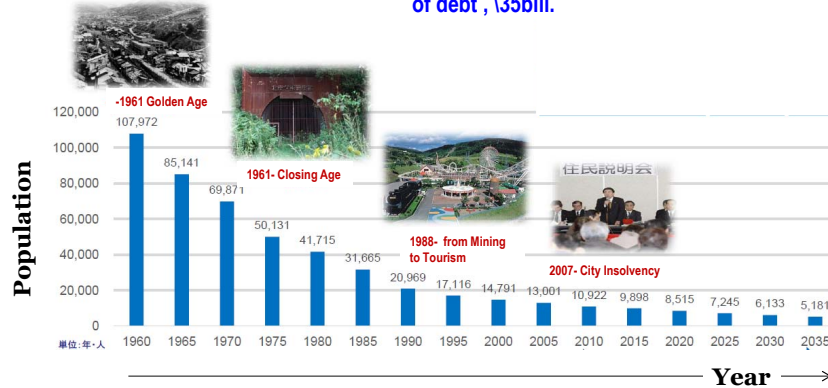
Goaf mountains (Mt. Botha)

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## Outlook of Yubari City



1. Yubari-City was the **representative coal mine city in Japan.**
2. Yubari-City failed in business structure transformation from the **coal mining industry to a tourist industry.**
3. Yubari-City was driven into the finance reform in terms of debt , **135bill.**



Ref: IPSS(National Institute of Population and Social Security Research)

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## Yubari City Government facing Two Problems

(1) Creation of profitable business, (2) Disaster prevention public work driven by “goaf”



City government has been planning to transform local resource “goaf” into profitable business. However, no enterprise, no business funds, no promising business plan.

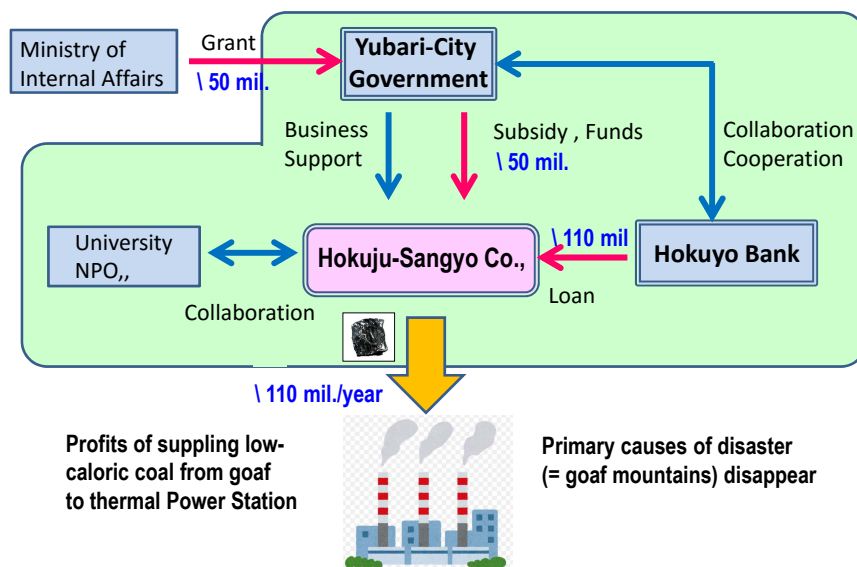


Public work must be done for natural disaster prevention of goaf landslide triggered by strong rain like typhoon. Substitute of the correspondence to the public area problem that should be settled by the burden on local government directly. However, no budget.

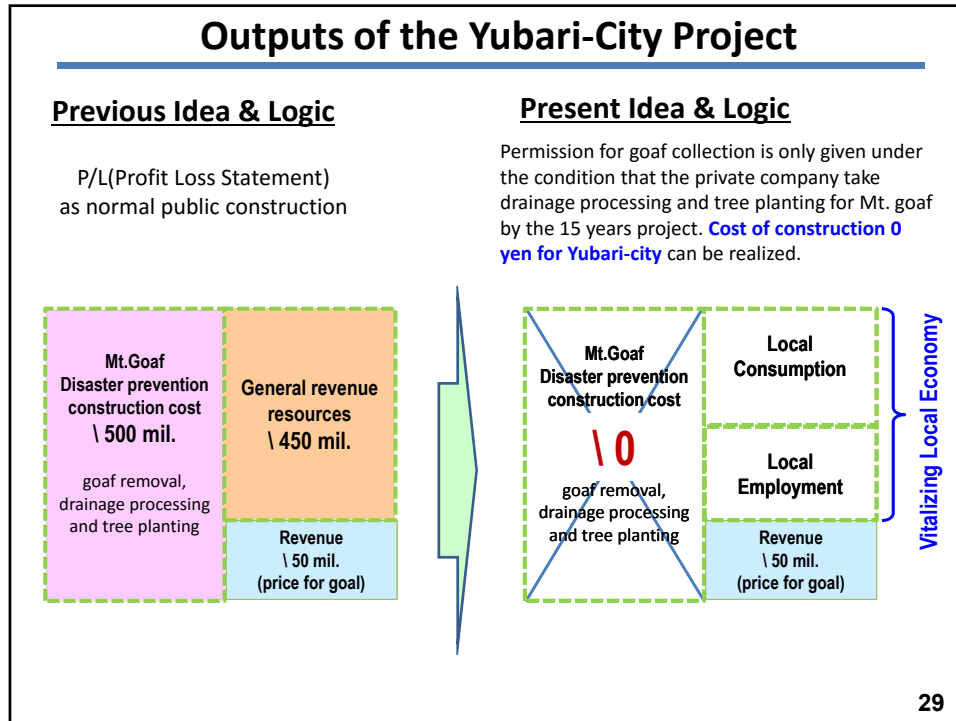
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## Solution for Two Problems

Solution for (1) Creation of profitable business, (2) Disaster prevention public work is given by PPPs (Public Private Partnership).



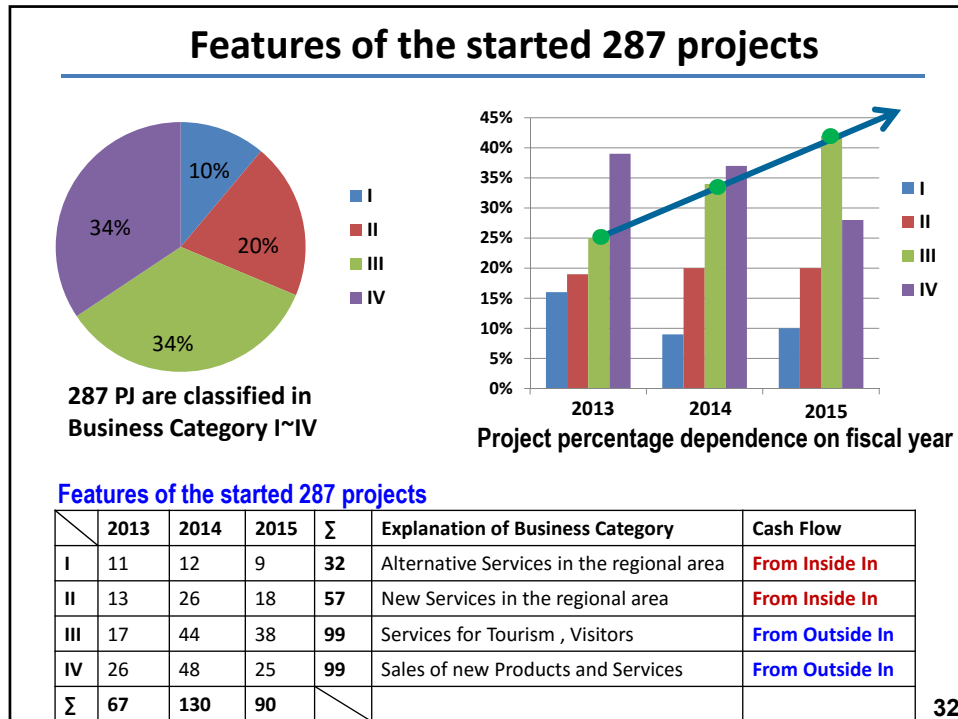
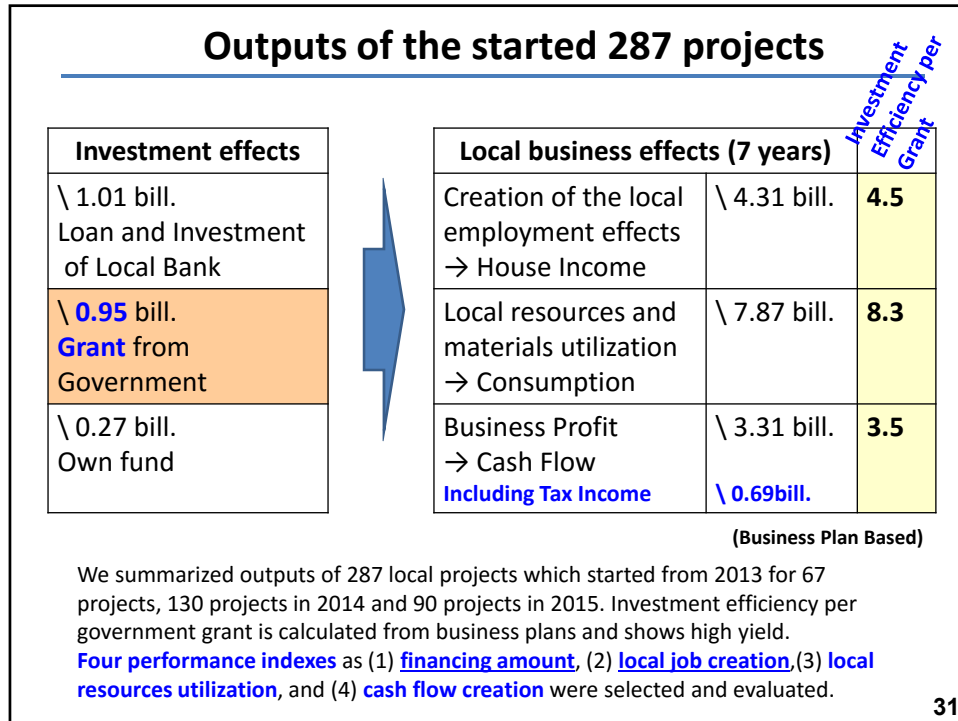
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## 4. Discussion and Conclusion

1. Outputs of the started 287 projects
2. Business Model
3. Innovation Ecosystem : Crossing the Death Valley to Create Jobs in Rural Areas
4. Key Success Factor of local 10,000 PJ

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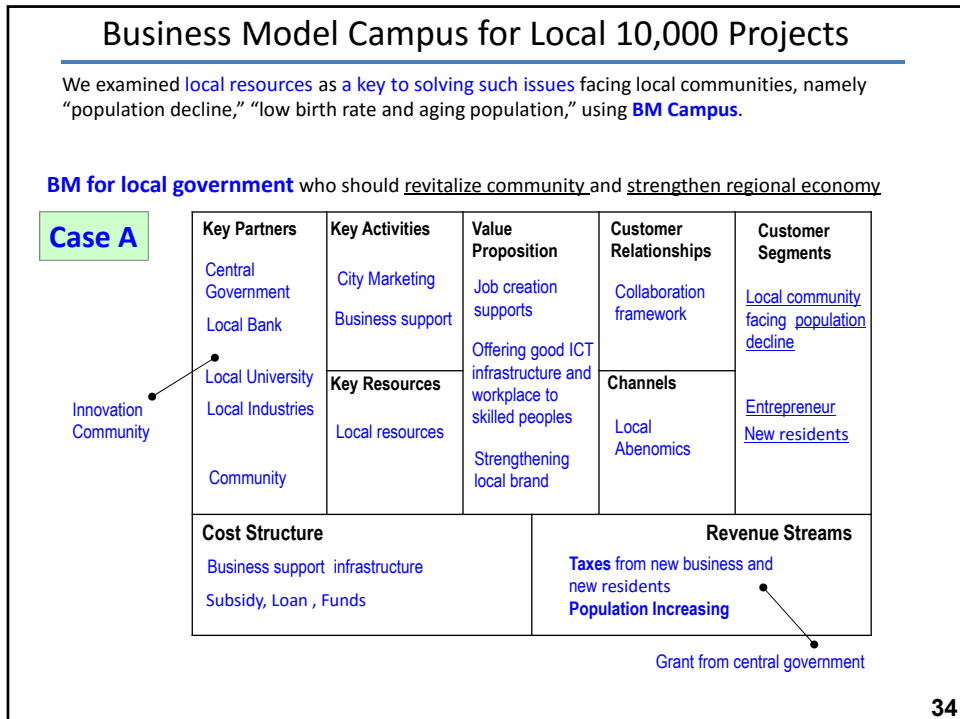


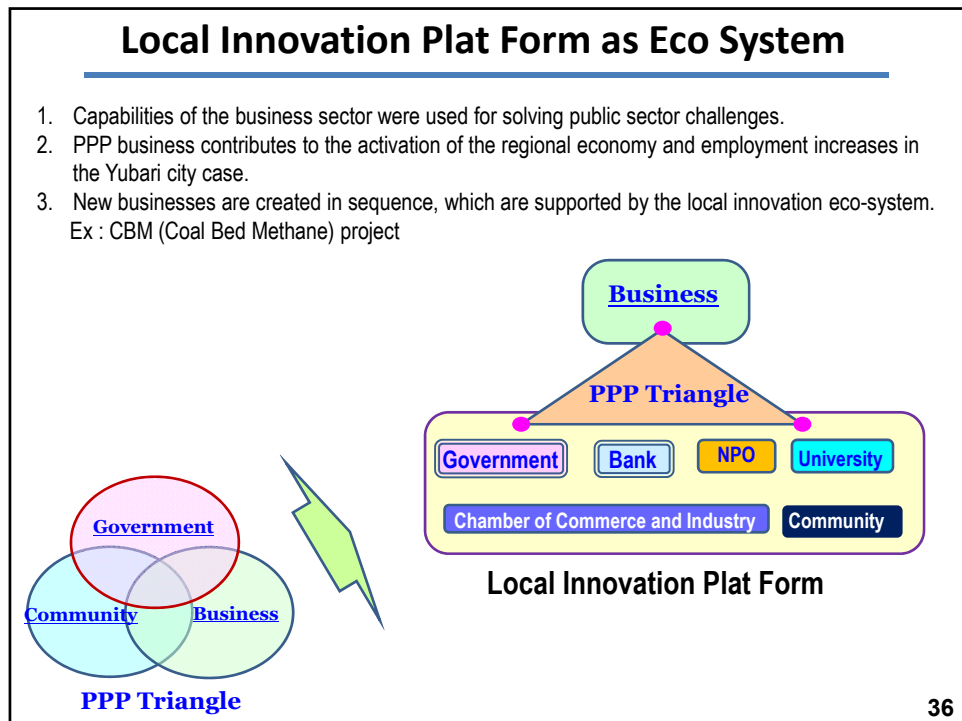
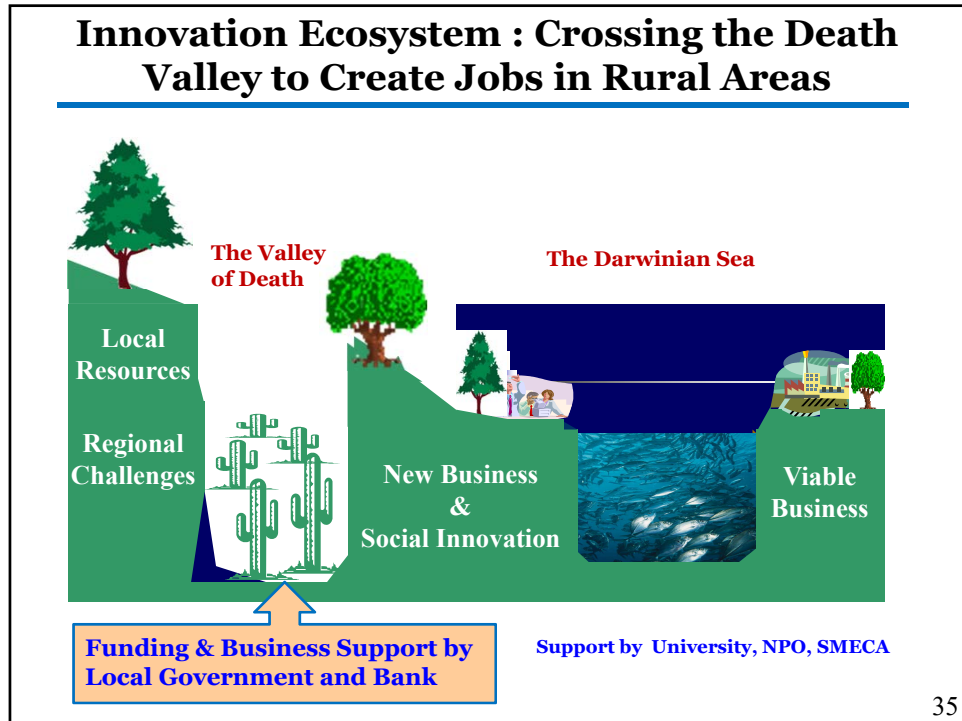


### Business Model of local 10,000 projects

	BM1	BM2	BM3
Market Customer	Inside Region	Tourists from Outside to Inside	Outside Region
Value Proposition	Service (Alternative, New)	Tourist business	New Service and Products
Business System	Using Local Resources		
	Service Development Marketing	Service Development Marketing	Product Development Marketing Selling Management
Money Flow	Circulated inside	From out to inside	From out to inside
Features	Low Risk		Middle Risk
Cases(287)	89(31%) I, II	99(34%) III	99(34%) IV
This Study		CASE A	CASE B

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### Key Success Factor of local 10,000 PJ→Bank Loan Style

Key Success Factor of local 10,000 PJ is summarized in the Table. Bank loan style was radically changed from the previous to the present, namely, severe evaluation of business plan, project finance style and business consulting style.

	Previous Style	Present Style
<b>[1] Severe Evaluation of Business Plan</b>	<ul style="list-style-type: none"> <li>Local banks evaluate the business plan, income and expenditure plan and analyze a business risk.</li> <li>Improved plans are not often proposed.</li> </ul>	<ul style="list-style-type: none"> <li>Local banks evaluate the business plan, income and expenditure plan and analyze a business risk. Improved plans are proposed.</li> <li>In addition, based on the business relationship with a large number of organizations, Local banks introduce the supplier and customer, and support sales.</li> </ul>
<b>[2] Project Finance Style</b>	<ul style="list-style-type: none"> <li>Secured loan system</li> <li>Decision on the financing was executed by the security loan system.</li> <li>Local banks have not enough project finance skills.</li> </ul>	<ul style="list-style-type: none"> <li>Un- Secured loan system</li> <li>Decision on the financing was executed by only the examination of cash flow of the business without the security loan system.</li> <li>Local banks start to learn and capture the skills for project finance.</li> </ul>
<b>[3] Business Consulting</b>	<ul style="list-style-type: none"> <li>Local banks have a waiting style, and actively do little business consulting.</li> </ul>	<ul style="list-style-type: none"> <li>Local banks are carefully watching cash flow of the business and propose actively and timely advices like business consultants.</li> </ul>

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## Conclusion

1. Local Abenomics vitalizing local economy is one of the most important political issues in Japan.
2. SMEs and micro enterprises have supported the local economy until today. They have rooted in the community and provided employment basis.
3. Job Creation in rural areas is essential to create a virtuous cycle between communities, people and work.
4. We proposed problem solving methods as PPPs and Local Innovation Ecosystem namely, local government and local banks which play essential roles.
5. Local 10,000 Projects focusing branding rather than technology , were successfully promoted by local government and local bank.
6. We analyze some of 287 projects by MOT tools, innovation ecosystem and business model to show validity and effectiveness of policy making contents.
7. Good performances are estimated as a result of bank loan style change, from the previous waiting and secured style to the project finance style.
8. This business creation framework in rural areas could be applied for other countries (Asian , European etc.,)

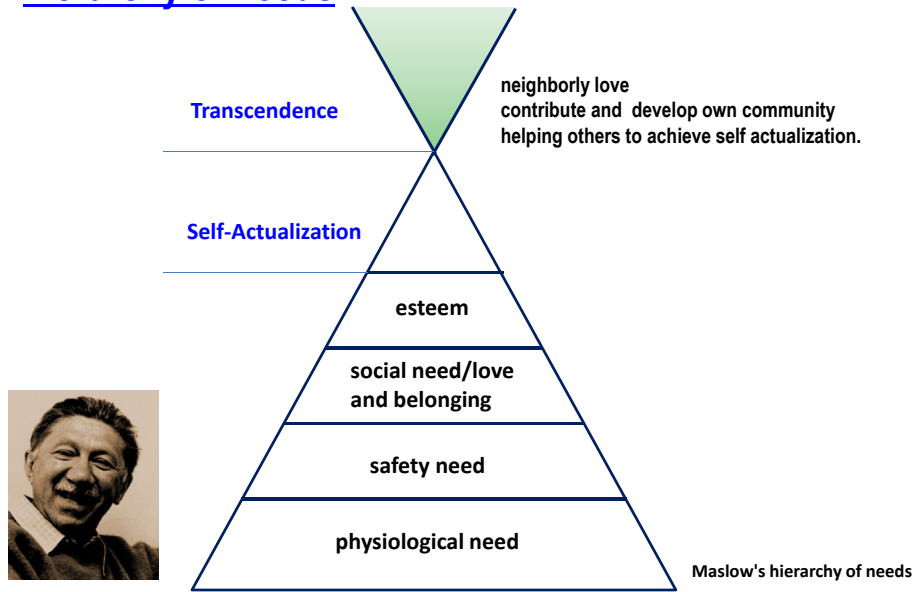
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## 5. References

1. 2014 White Paper on Small and Medium Enterprises in Japan, [http://www.meti.go.jp/english/press/2014/0425\\_01.html](http://www.meti.go.jp/english/press/2014/0425_01.html)
2. Local Abenomics, Regional Empowerment for Japan's Growth "Overcoming Population Decline and Revitalizing Local Economies: Japan's Long-term Vision and Comprehensive Strategy" [https://www.kantei.go.jp/jp/singi/sousei/info/pdf/panf\\_eng.pdf](https://www.kantei.go.jp/jp/singi/sousei/info/pdf/panf_eng.pdf)
3. "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers" Alexander Osterwalder, and Yves Pigneur, published by John Wiley and Sons ( July 13, 2010 )
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## Motivation for local innovation is beyond Maslow's hierarchy of needs



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