

Evaluation of Incorporated Administrative Agencies

<Tentative Translation>

2007.6

Administrative Evaluation Bureau
Ministry of Internal Affairs and Communication
Government of Japan

1. Incorporated Administrative Agency System in Japan


2. Evaluation of Incorporated Administrative Agencies #1

- system and the past major achievement -

3. Evaluation of Incorporated Administrative Agencies #2

- recent achievement -

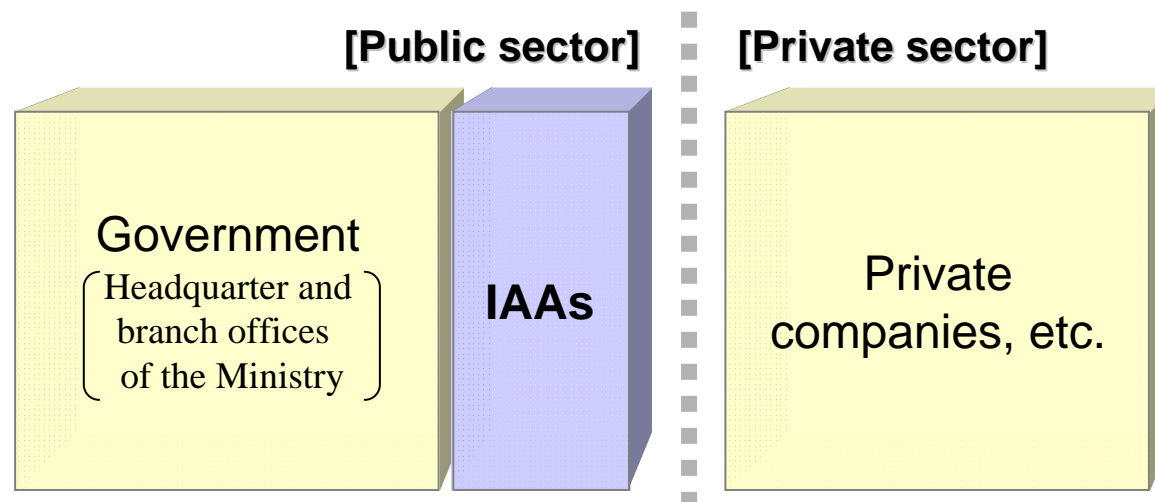
4. Other Topics



1. Incorporated Administrative Agency System in Japan

What are IAAs?

- An **Incorporated Administrative Agency (IAA)** is an organization responsible for indispensable public services Government does not have to do by itself but the private sector is likely to neglect for various reasons.
- The IAA system was **introduced in 2001** as a part of central government reform based on the idea that **the planning sectors and the implementing sectors should be separated.**



Background of introducing the IAA system

● Problems of the public corporation system

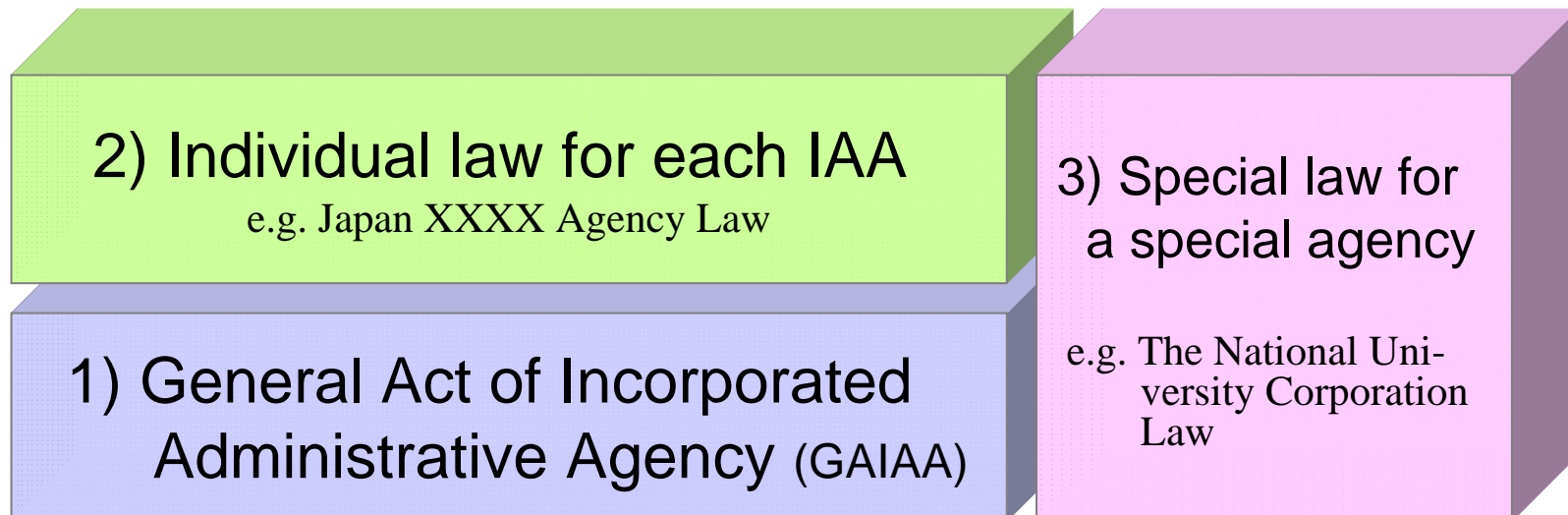
- Unclearness of management responsibility
- Inefficiency and opaqueness of business operation
- Self-propagation of services and internal organizations
- Lack of autonomy concerning governance

Necessary to introduce a new system

Designing the IAA system
to overcome the above problems

Legislative system for IAAs

- The legislative system for IAAs has **two-tiered structure**;
 - 1) “General Act of Incorporated Administrative Agency (GAIAA)” provides general rules of IAA’s governance,
 - 2) **individual law** provides specific matters for each IAA.
- Exceptionally, 3) some special agencies are provided by **single special law**.



The Number of IAAs

- There are **101 IAAs*** as of today. (Originally 57 agencies in 2001.) *See Appendix
- In addition, as quasi-IAAs, the **National University Corporation** was established in 2004, and the **Japan Legal Support Center**, which involves not only the executive branch but also the judicial branch of the government, was formed in 2006.
- On the other hand, some agencies could be merged or abolished in the course of overall review at the end of the medium-term goal period (MGP).
e.g. 56 agencies are reorganized into 42 as a result of review in 2004 and 2005.

Classification of IAAs #1 based on services

1) Research and development (R&D)

e.g. National Institute of Information and Communications Technology (NICT) / National Research Institute of Brewing (NRIB) / Japan Aerospace Exploration Agency (JAXA) / National Institute of Health and Nutrition / National Institute of Agrobiological Sciences (NIAS) / National Institute of Advanced Industrial Science and Technology (AIST) / Public Works Research Institute (PWRI) / National Institute of Environmental Studies, etc.

2) Education / Instruction

e.g. National Fisheries University / National Center for Teachers' Development / Employment and Human Resources Development Organization of Japan, etc.

3) Management of public facilities

e.g. Japan Green Resources Agency (J-Green) / Japan Railway Construction, Transport and Technology Agency (JRRT) / National Museum of Art / National Museum / Japan Arts Council / National Agency for the Advanced of Sports and Health (NAASH), etc.

4) Financial aid

e.g. Japan Student Services Organization / Welfare And Medical Service Agency / Agriculture, Forestry and Fisheries Credit Foundations / Organization for Small and Medium Enterprises and Regional Innovation, Japan (SMRJ), etc.

* The above classification is not mutually exclusive.

Classification of IAAs #2

- Original IAA / Transition IAA

Original IAA: An IAA mainly separated from Government as a part of the government reorganization in 2001. The first MGPs of most original IAAs come to an end at the end of FY2005.

Transition IAA: An IAA newly established by converting a public corporation, etc.

- Designated IAA / Undesignated IAA

Designated IAA: An IAA whose executives and employees hold the status of a public official in the nature of the objective or services of the agency. To make an IAA designated, a specific provision of law is needed.

Undesignated IAA: An IAA other than designated ones

Features of IAAs #1

1) Improvement of the efficiency and quality of public services

- Medium-term goal management, ex-post evaluation by third-party committees

Goal-setting for 3 to 5 years / Evaluation by the commission of the Ministry / Cross-cutting second evaluation by the Commission on Policy Evaluation and Incorporated Administrative Agency Evaluation (CPIAA) established in the Ministry of Internal Affairs and Communications (MIC)

- Periodical review of organization and business operations

Overall review by the Minister in charge at the end of the MGP / The CPIAA of the MIC makes recommendations on improvement or elimination of each agency's primary administrative services.

- Conformity to corporate governance standards

Book-keeping based on corporate accounting principles / Financial audit by accounting auditors

- Minimum executives

The number of executives is limited by law for each agency

Features of IAAs #2

2) Autonomous management

- Centralization of authority in the head of an IAA
Only a head of an IAA has the power and authority of appointing or dismissing executives. / The head also governs the IAA in line with its medium-term goal and plan.
- Exclusion of excessive involvement of the Minister in charge
The Minister's involvement is regulated by law. /
Financial management by an "operational grant" as unrestricted fund
- Appointment of executives on a "right-person-in-the-right-place" basis (e.g. recruitment from the private sector)

Features of IAAs #3

3) Transparency

- Public announcement of broad information about governance and finance

Financial statements (e.g. balance sheet (BS), profit-and-loss statement (PL), statement of operational cost for public service) / Evaluation results of the third-party commission / Baseline for executive salaries

- Disclosure of internal document

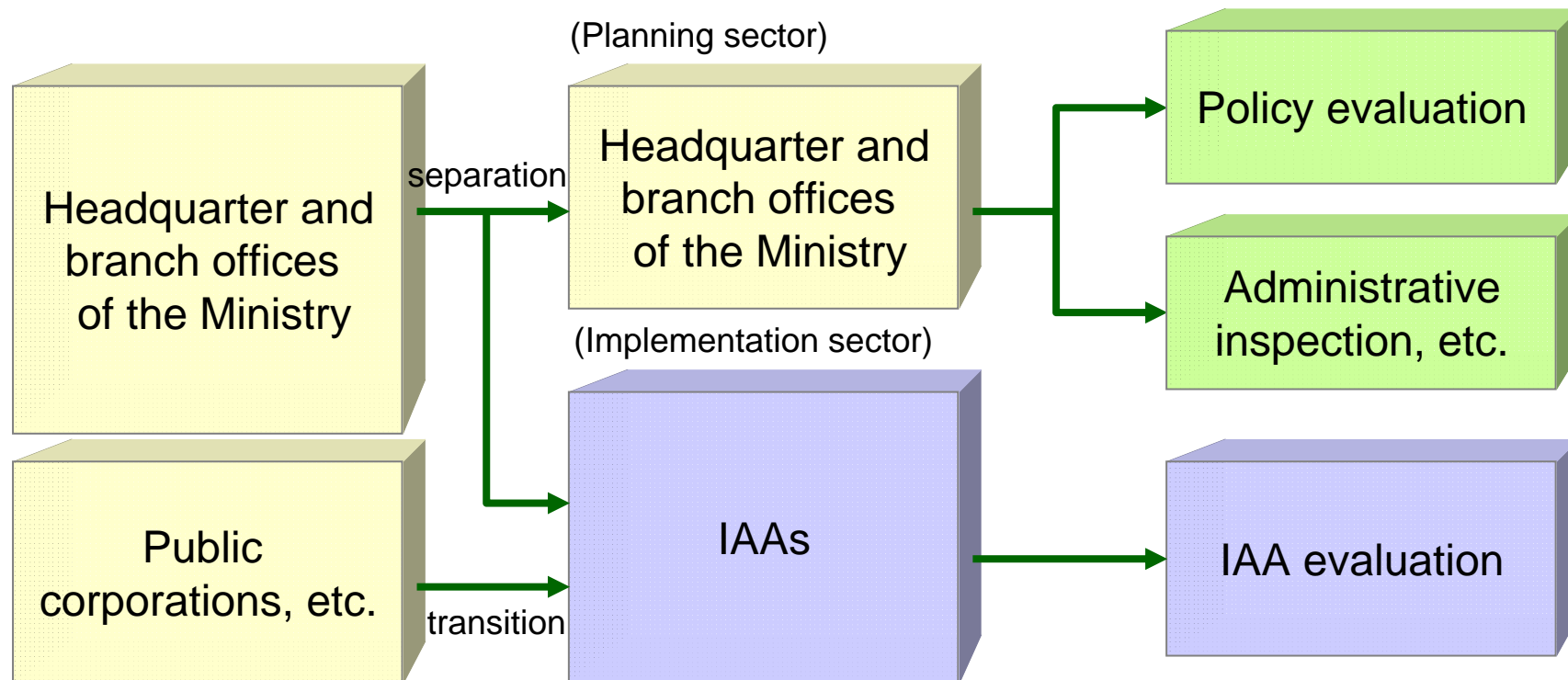
Disclosure of internal information based on the “Act on Access to Information held by Incorporated Administrative Agencies”

2. Evaluation of Incorporated Administrative Agencies #1

- system and the past major achievement -

IAA evaluation's position

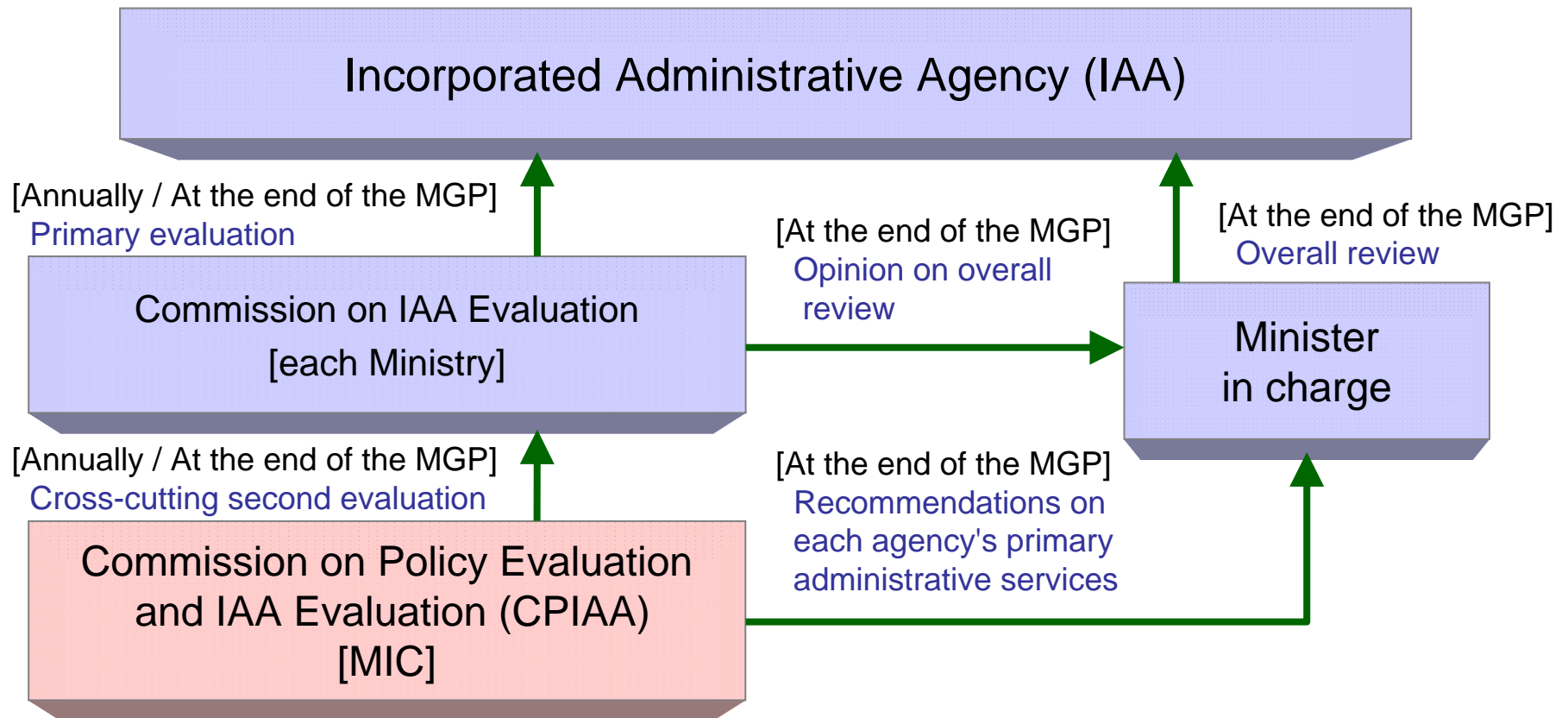
- IAA evaluation targets the implementation sector of the government separated from the planning sector.
- The planning sector is covered by policy evaluation, administrative inspection, etc.



Structure of IAA evaluation

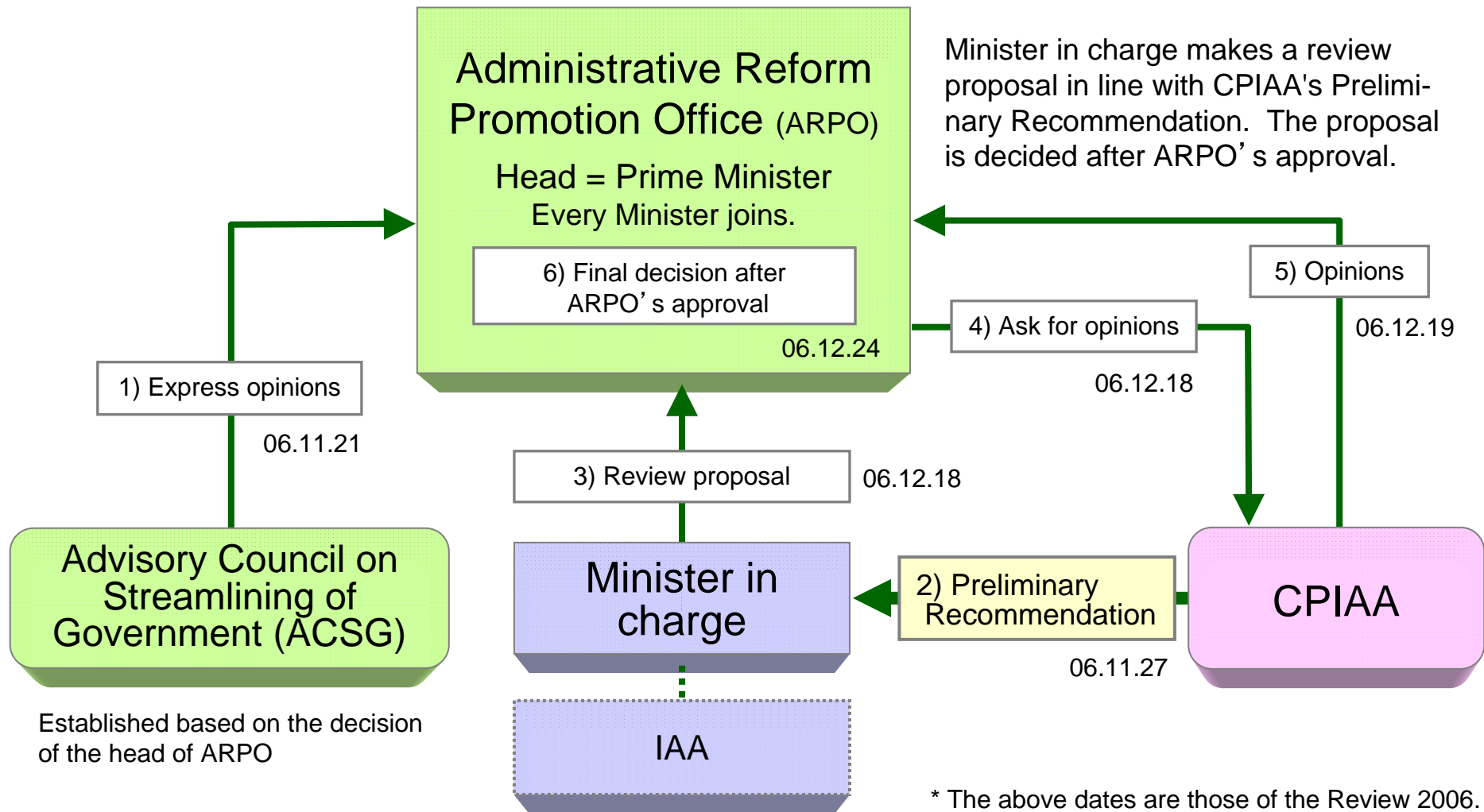
IAA evaluation is carried out by 1) Commission on IAA Evaluation of each Ministry and 2) Commission on Policy Evaluation and IAA Evaluation (CPIAA) of MIC.

Notice: Neither MIC nor each Ministry is not the performer.



Overall review #1 Implementation structure

● Implementation structure of overall review at the end of the MGP



Overall review #2

Review process

● Typical process of overall review at the end of the MGP

Final year of
the MGP

AUG.

Minister in charge makes a preliminary review proposal as well as budget request.

NOV.

CPIAA of MIC makes **Preliminary Recommendation** to the Minister in charge

The Minister in charge makes a review proposal in line with CPIAA's Preliminary Recommendation. / Budget-making based on the proposal

DEC.

The Minister in charge submits the proposal to ARPO and resolves it after ARPO's approval.

JAN.
- MAR.

The Minister in charge and each IAA makes the next medium-term goal and plan. If needed, legislation is prepared.

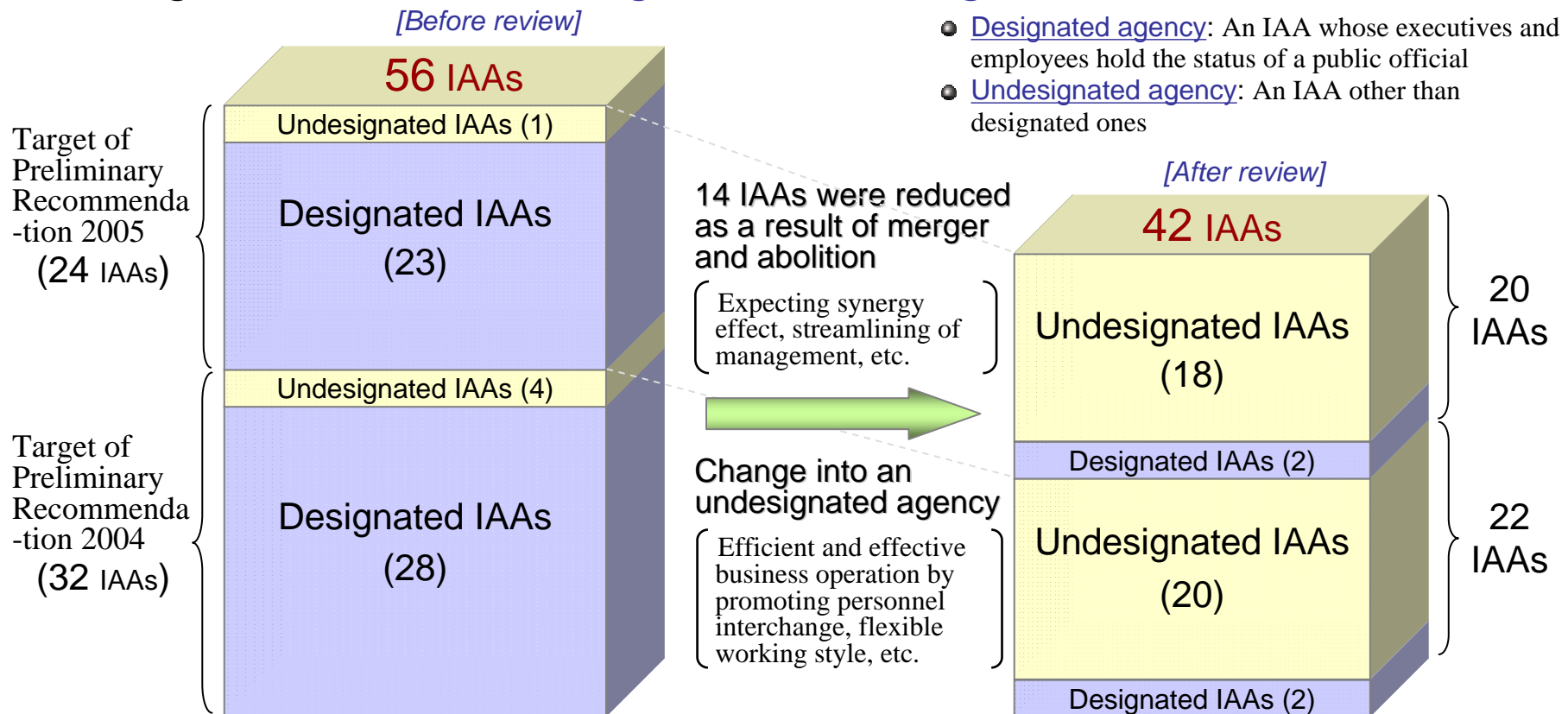
APR.

The next MGP begins.

Preliminary Recommendation 2004,2005 #1

Overview

56 IAAs whose MGP ends in 2004 or 2005 were reorganized into 42 IAAs. In addition, most designated agencies were changed to undesignated ones.



Preliminary Recommendation 2004,2005 #2

● Status change to undesignated IAAs

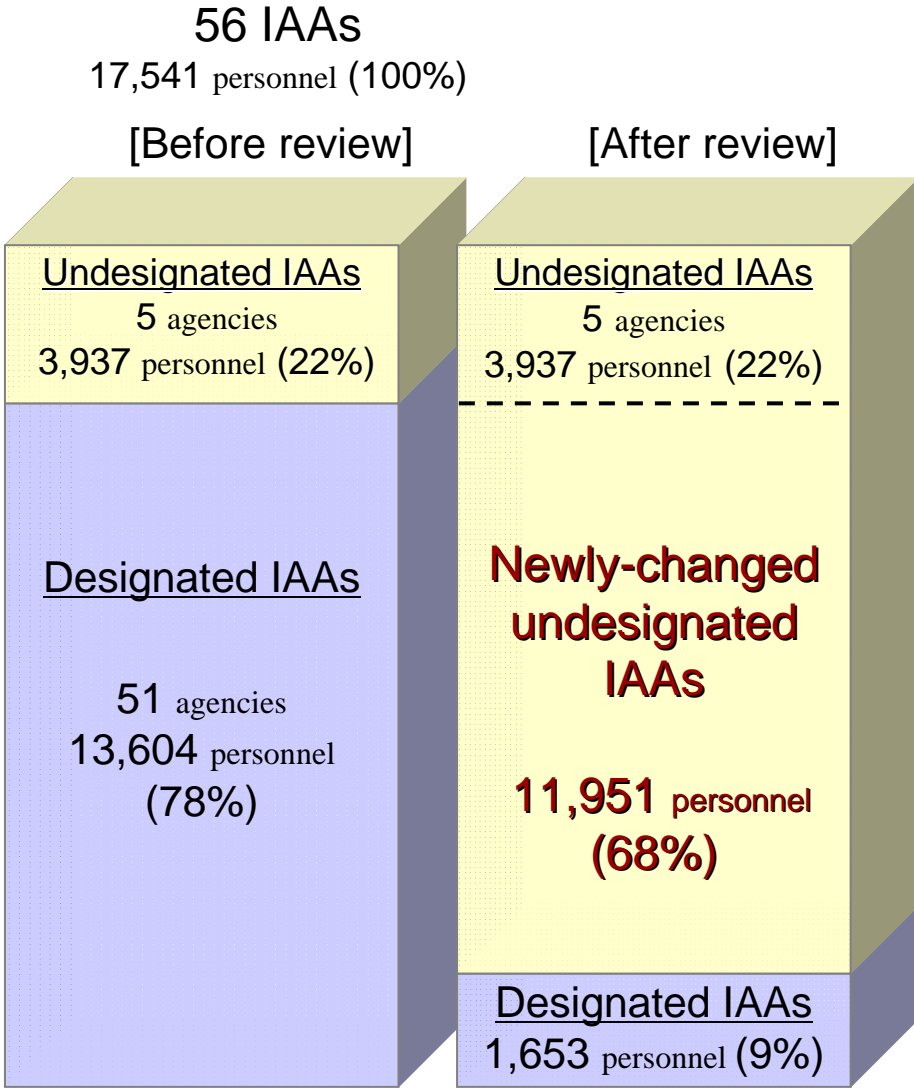
As a result of the Review 2004 and 2005, **44*** designated IAAs (about **12,000 personnel**) turned into undesignated ones.
 (* Before-review-basis.)

[Benefits of change]

- R&D or education agencies: Personnel interchange with private corporations, universities, etc.
- Others: Flexible working style, etc.

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Efficient and effective operation, organizational vitalization, etc.



The above numbers of personnel are as of January 2005.

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3. Evaluation of Incorporated Administrative Agencies #2

- recent achievement -

Background of the Review 2006

The Review 2006 is different from the previous review for the following reasons; 1) **transition IAAs** are targeted for the first time, 2) **financial services** of IAAs must be reviewed in FY2006 along with the reform of policy-based finance.

■ Features of transition IAAs

- Compared to original IAAs, transition IAAs tends to be **large in terms of the amount of budget and the number of personnel**. Also, they engage in a variety of projects that directly link to government policies.
- Streamlining of organization and business operation has been conducted based on the “Reorganization and Rationalization Plan for Public Corporations” in 2001.
- Transition IAAs are basically undesignated agencies.

■ Main principles for reviewing transition IAAs

- Reviewing government policies from the viewpoint of reducing fiscal expenditure
- Downsizing IAA's financial services to realize a “small and efficient government”

Targeted IAAs of the Review 2006 23 IAAs

Ministry in charge	IAAs
Cabinet Office (1)	<u>Northern Territories Issue Association</u>
Ministry of Foreign Affairs (2)	Japan International Cooperation Agency / Japan Foundation
Ministry of Education, Culture, Sports, Science and Technology (6)	National Center for Teachers' Development / Japan Science and Technology Agency / Japan Society for the Promotion of Science / <u>Japan Student Services Organization</u> / <u>Center for National University Finance and Management</u> / <u>Promotion and Mutual Aid Corporation for Private Schools of Japan</u>
Ministry of Health, Labour and Welfare (3)	<u>Welfare and Medical Service Agency</u> / Japan Institute for Labour Policy and Training / <u>Employment and Human Resources Development Organization of Japan</u>
Ministry of Agriculture, Forestry and Fisheries of Japan (1)	<u>Agriculture, Forestry and Fisheries Credit Foundations</u>
Ministry of Economy, Trade and Industry (6)	<i>New Energy and Industrial Technology Development Organization</i> / Japan External Trade Organization / Japan Nuclear Energy Safety Organization / <u>Information-Technology Promotion Agency, Japan</u> / <u>Japan Oil, Gas and Metals National Corporation</u> / <u>Organization for Small and Medium Enterprises and Regional Innovation, Japan</u>
Ministry of Land, Infrastructure and Transport Japan (4)	National Agency of Vehicle Inspection / <u>Japan Railway Construction, Transport and Technology Agency</u> / <u>National Agency for Automotive Safety and Victims' Aid</u> / <u>Fund for the Promotion and Development of the Amami Islands</u>

Notice: Underlined agencies provide financial services similar to those of policy finance institutions. Regarding *Italic agencies*, only financial services are to be reviewed in the course of the Review 2006.

Preliminary Recommendation 2006 #1

● Abolition and streamlining of services

- All of 23 agencies are reviewed from the perspective of reducing fiscal expenditures.

Employment and Human Resources Development Organization of Japan

- Deep cut in subsidies from Government by abolishing financial assistance services
- Drastic review of the Vocational Museum, including the close of the facility

Japan Science and Technology Agency (JST) / Japan Society for the Promotion of Science (JSPS)

- Correction of the misallocation and misuse of research funds
- ### Japan International Cooperation Agency (JICA)
- Cost reduction by comprehensive and verifiable goal-setting concerning the total amount of project cost

- 13 services of 6 agencies are to be newly exposed to market testing

Japan Foundation

- Japanese-language education service for foreign diplomats posted in Japan

Japan Student Services Organization

- Operation of “Plaza HEISEI” (a facility for supporting foreign students) in Tokyo International Exchange Center

● Status change to an undesignated agency

- Change the status of the **National Agency of Vehicle Inspection*** (the only designated agency out of 23) to an undesignated IAA * 875 personnel as of Jan. 2006

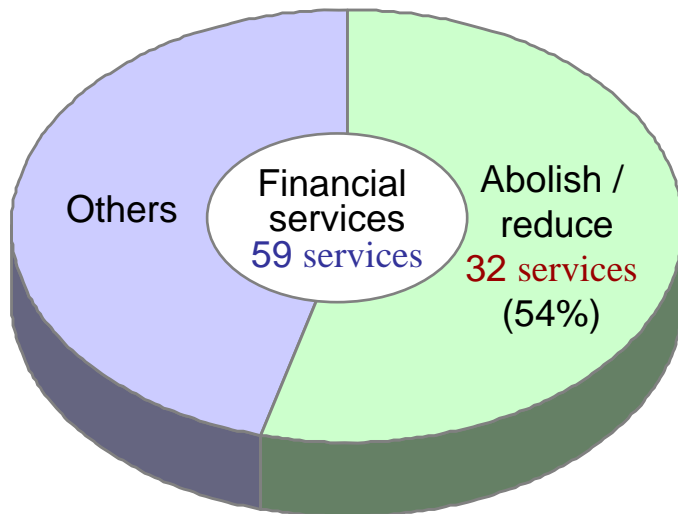
● Common efforts

1) Specific goal-setting for reducing general administrative costs and project costs, 2) total personnel cost reduction, 3) review of optional contracts, 4) effective utilization of agency's property, 5) improvement in financial statement and segment information, etc.

Preliminary Recommendation 2006 #2

● Review of IAAs' financial services

- Abolition, streamlining or operational improvement of all financial services done by the targeted IAAs
- As a result, 32 out of 59 services (54%) were decided to abolish or reduce



Welfare and Medical Service Agency

- Significant reduction in new loans of the Welfare and Medical Loan Service

New Energy and Industrial Technology Development Organization

- Abolition of debt guarantee for energy conservation promotion projects and resultant return of the related fund

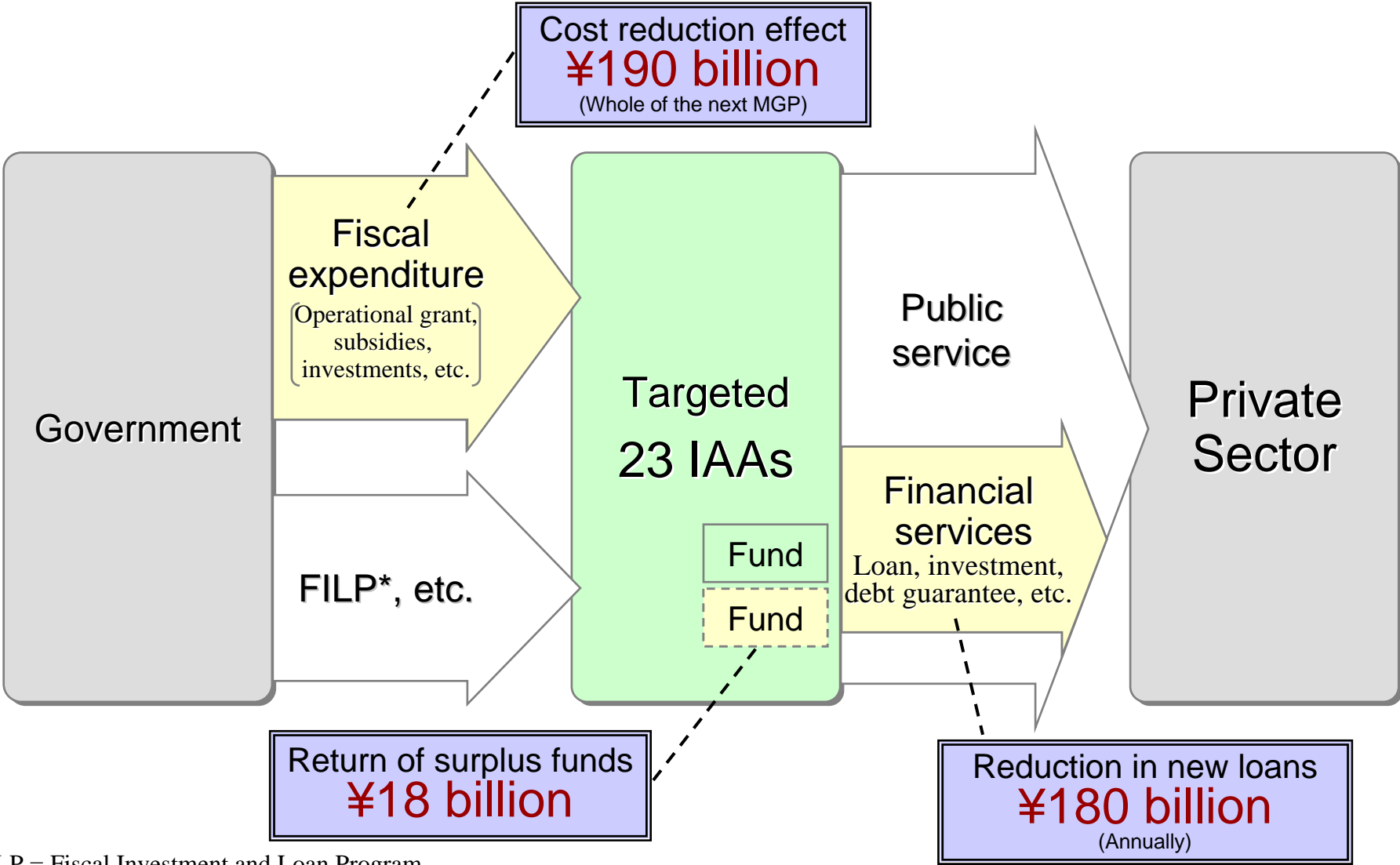
Organization for Small and Medium Enterprises and Regional Innovation, Japan

- Abolition of 5 services of investment and debt guarantee based on individual laws

Japan Student Services Organization

- Enhancement of collecting scholarship loans

Estimated outcome of the Review 2006



*FILP = Fiscal Investment and Loan Program



4. Other topics

Personnel expenses reform

● Current situation of IAA's personnel expenses

● Salary of IAA's executives (average) (¥ thousand)

	FY2005	FY2004	Growth	Growth rate (%)
Head	18,409	18,396	13	0.1
Director	16,049	15,963	86	0.5
Auditor	13,892	14,064	- 172	- 1.2

● Salary of IAA's workers (average)

	Number of workers included	Avg. age	Average annual salary			Laspeyres index compared to national public employees		
			FY2005 (¥ thousand)	FY2004 (¥ thousand)	Growth (¥ thousand)	FY2005	FY2004	Growth
Clerical / technical staff	32,902	43.3	7,294	7,323	- 29	106.4	107.1	- 0.7
Research Staff	8,275	44.6	9,121	9,058	63	102.0	103.2	- 1.2

● Reform principles

- Reducing personnel expenses by 5% over the 5 years from 2006
- Rationalizing IAA's salary level (decreasing the Laspeyres index)

Retirement allowances

- The level of retirement allowances for IAA's executives is constantly reviewed to restrain the amount.



- The CI of each Ministry beforehand proposes the performance coefficient for each expected retirees to CPIAA. CPIAA takes it into consideration on the basis of “PC = 1.0.” (CPIAA can express opinions to CI, if need be.)
 → Performance coefficients have been set at 1.0 in most cases, 0.9 or 1.1 in some cases.

Revision of accounting standards

- IAA's accounting standards have been revised to address the diversification of IAA's objectives and to keep up with corporate accounting.

Revision of “IAA Accounting Standards” (2003.3.3)

Valuation of securities / Recognition of retirement allowance debt /
Handling of the diversification of budgetary steps of Government /
Consolidated financial statement

Revision of “Audit Report on IAAs” (2003.7.4)

Updating along with corporate audit standards / Establishment of standards
adapted to the nature of IAAs

Revision of “IAA Accounting Standards” (2005.6.29)

Establishment of accounting standards for impairment loss on fixed assets



Updating

Appendix: List of 101 IAAs

Cabinet Office (4)

National Archives of Japan / National Consumer Affairs Center of Japan / Northern Territories Issue Association / Okinawa Institute of Science and Technology

Ministry of Internal Affairs and Communications (3)

National Institute of Information and Communications Technology / National Statistics Center / Public Foundation for Peace and Consolation

Ministry of Foreign Affairs (2)

Japan International Cooperation Agency / Japan Foundation

Ministry of Finance (5)

National Research Institute of Brewing / Japan Mint / National Printing Bureau / Nippon Automated Cargo Clearance System Operations Organization / Commemorative organization for the Japan World Exposition '70

Ministry of Education, Culture, Sports, Science and Technology (25)

National Institute of Special Education / National Center for University Entrance Examinations / National Institution For Youth Education / National Women's Education Center / National Institute for Japanese Language / National Science Museum / National Institute for Materials Science / National Research Institute for Earth Science and Disaster Prevention / National Institute of Radiological Sciences / National Museum of Art / National Institutes for Cultural Heritage / National Center for Teachers' Development / Japan Science and Technology Agency / Japan Society for the Promotion of Science / RIKEN / Japan Aerospace Exploration Agency / National Agency for the Advancement of Sports and Health / Japan Arts Council / Japan Student Services Organization / Japan Agency for Marine-Earth Science and Technology / Institute of National Colleges of Technology / National Institution for Academic Degrees and University Evaluation / Center for National University Finance and Management / National Institute of Multimedia Education / Japan Atomic Energy Agency

Ministry of Health, Labour and Welfare (14)

National Institute of Health and Nutrition / National Institute of Occupational Safety and Health / Organization worker's Retirement Allowance Mutual Aid / Japan Organization for Employment of the Elderly and Persons with Disabilities / Welfare and Medical Service Agency / National Center for Persons with Severe Intellectual Disabilities, Nozominosono / Japan Institute for Labour Policy and Training / Employment and Human Resources Development Organization of Japan / Japan Labour Health and Welfare Organization / National Hospital Organization / Pharmaceuticals and Medical Devices Agency / National Institute of Biomedical Innovation / Readjustment of Facilities for insured persons and beneficiaries Organization / Government Pension Investment Fund

Ministry of Agriculture, Forestry and Fisheries of Japan (14)

Food and Agricultural Materials Inspection Center / National Center for Seeds and Seedlings / National Livestock Breeding Center / National Fisheries University / National Agriculture and Food Research Organization / National Institute of Agrobiological Sciences / National Institute for Agro-Environmental Sciences / Japan International Research Center for Agricultural Sciences / Forestry and Forest Products Research Institute / Fisheries Research Agency / Agriculture and Livestock Industries Corporation / Farmers Pension Fund / Agriculture, Forestry and Fisheries Credit Foundations / Japan Green Resources Agency

Ministry of Economy, Trade and Industry (11)

Research Institute of Economy, Trade and Industry / National Center for Industrial Property Information and Training / Nippon Export and Investment Insurance / Advanced Industrial Science and Technology / National Institute of Technology and Evaluation / New Energy and Industrial Technology Development Organization / Japan External Trade Organization / Japan Nuclear Energy Safety Organization / Information-Technology Promotion Agency, Japan / Japan Oil, Gas and Metals National Corporation / Organization for Small and Medium Enterprises and Regional Innovation, Japan

Ministry of Land, Infrastructure and Transport Japan (20)

Public Works Research Institute / Building Research Institute / National Traffic and Environment Laboratory / National Maritime Research Institute / Port and Airport Research Institute / Electronic Navigation Research Institute / National Institute for Sea Training / Marine Technical Education Agency / Civil Aviation College / National Agency of Vehicle Inspection / Japan Railway Construction, Transport and Technology Agency / Japan National Tourist Organization / Japan Water Agency / National Agency for Automotive Safety and Victims' Aid / Organization for Environment Improvement around International Airport / Maritime Disaster Prevention Center / Urban Renaissance Agency / Fund for the Promotion and Development of the Amami Islands / Japan Expressway Holding and Debt Repayment Agency / Japan Housing Finance Agency

Ministry of the Environment (2)

National Institute for Environmental Studies / Environmental Restoration and Conservation Agency

Ministry of Defense (1)

The Labor Management Organization for USFJ Employees