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
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 (JRTT) / 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.
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

Administrative Reform Promotion Office (ARPO)
Head = Prime Minister
Every Minister joins.

1) Express opinions  06.11.21

2) Preliminary Recommendation

3) Review proposal  06.12.18

4) Ask for opinions  06.12.18

5) Opinions  06.12.19

6) Final decision after ARPO’s approval  06.12.24

CPIAA

Minister in charge makes a review proposal in line with CPIAA's Preliminary Recommendation. The proposal is decided after ARPO’s approval.

Advisory Council on Streamlining of Government (ACSG)
Established based on the decision of the head of ARPO

IAA

* The above dates are those of the Review 2006.
## Overall review #2

### Review process

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

<table>
<thead>
<tr>
<th>Final year of the MGP</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUG.</td>
<td>Minister in charge makes a preliminary review proposal as well as budget request.</td>
</tr>
<tr>
<td>NOV.</td>
<td>CPIAA of MIC makes <strong>Preliminary Recommendation</strong> to the Minister in charge</td>
</tr>
<tr>
<td>DEC.</td>
<td>The Minister in charge makes a review proposal in line with CPIAA's Preliminary Recommendation. / Budget-making based on the proposal</td>
</tr>
<tr>
<td>JAN. - MAR.</td>
<td>The Minister in charge submits the proposal to ARPO and resolves it after ARPO's approval.</td>
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</table>

**APR.**

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

**Overview**

- **56 IAAs**
  - **Designated IAAs** (23)
  - **Undesignated IAAs** (1)
- **42 IAAs**
  - **Designated IAAs** (2)
  - **Undesignated IAAs** (18, 20)

14 IAAs were reduced as a result of merger and abolition. Expecting synergy effect, streamlining of management, etc.

Change into an undesignated agency.

Efficient and effective business operation by promoting personnel interchange, flexible working style, etc.

Designated agency: An IAA whose executives and employees hold the status of a public official

Undesignated agency: An IAA other than designated ones
Status change to undesigned IAAs

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

[Benefits of change]
- **R&D or education agencies:** Personnel interchange with private corporations, universities, etc.
- **Others:** Flexible working style, etc.

Efficient and effective operation, organizational vitalization, etc.

The above numbers of personnel are as of January 2005.
3. Evaluation of Incorporated Administrative Agencies #2

- recent achievement -
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 tend 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

<table>
<thead>
<tr>
<th>Ministry in charge</th>
<th>IAAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabinet Office (1)</td>
<td>Northern Territories Issue Association</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs (2)</td>
<td>Japan International Cooperation Agency / Japan Foundation</td>
</tr>
<tr>
<td>Ministry of Education, Culture, Sports, Science and Technology (6)</td>
<td>National Center for Teachers' Development / Japan Science and Technology Agency / Japan Society for the Promotion of Science / Japan Student Services Organization / Center for National University Finance and Management / Promotion and Mutual Aid Corporation for Private Schools of Japan</td>
</tr>
<tr>
<td>Ministry of Health, Labour and Welfare (3)</td>
<td>Welfare and Medical Service Agency / Japan Institute for Labour Policy and Training / Employment and Human Resources Development Organization of Japan</td>
</tr>
<tr>
<td>Ministry of Agriculture, Forestry and Fisheries of Japan (1)</td>
<td>Agriculture, Forestry and Fisheries Credit Foundations</td>
</tr>
<tr>
<td>Ministry of Land, Infrastructure and Transport Japan (4)</td>
<td>National Agency of Vehicle Inspection / Japan Railway Construction, Transport and Technology Agency / National Agency for Automotive Safety and Victims' Aid / Fund for the Promotion and Development of the Amami Islands</td>
</tr>
</tbody>
</table>

**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.
Abolition and streamlining of services

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

<table>
<thead>
<tr>
<th>Employment and Human Resources Development Organization of Japan</th>
<th>Japan Science and Technology Agency (JST) / Japan Society for the Promotion of Science (JSPS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep cut in subsidies from Government by abolishing financial assistance services</td>
<td>Correction of the misallocation and misuse of research funds</td>
</tr>
<tr>
<td>Drastic review of the Vocational Museum, including the close of the facility</td>
<td>Japan International Cooperation Agency (JICA)</td>
</tr>
<tr>
<td></td>
<td>Cost reduction by comprehensive and verifiable goal-setting concerning the total amount of project cost</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Japan Foundation</th>
<th>Japan Student Services Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese-language education service for foreign diplomats posted in Japan</td>
<td>Operation of “Plaza HEISEI” (a facility for supporting foreign students) in Tokyo International Exchange Center</td>
</tr>
</tbody>
</table>

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.
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

Government

**Fiscal expenditure**
- Operational grant
- Subsidies
- Investments, etc.

**Targeted 23 IAAs**

Private Sector

**Public service**

**FILP**, etc.

**Fund**

**Financial services**
- Loan, investment
- Debt guarantee, etc.

**Return of surplus funds** ¥18 billion

**Cost reduction effect** ¥190 billion (Whole of the next MGP)

**Reduction in new loans** ¥180 billion (Annually)

*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)

<table>
<thead>
<tr>
<th></th>
<th>FY2005</th>
<th>FY2004</th>
<th>Growth</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head</td>
<td>18,409</td>
<td>18,396</td>
<td>13</td>
<td>0.1</td>
</tr>
<tr>
<td>Director</td>
<td>16,049</td>
<td>15,963</td>
<td>86</td>
<td>0.5</td>
</tr>
<tr>
<td>Auditor</td>
<td>13,892</td>
<td>14,064</td>
<td>-172</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

Salary of IAA's workers (average)

<table>
<thead>
<tr>
<th></th>
<th>Number of workers included</th>
<th>Avg. age</th>
<th>Average annual salary</th>
<th>Laspeyres index compared to national public employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>FY2005 (¥ thousand)</td>
<td>FY2004 (¥ thousand)</td>
</tr>
<tr>
<td>Clerical / technical staff</td>
<td>32,902</td>
<td>43.3</td>
<td>7,294</td>
<td>7,323</td>
</tr>
<tr>
<td>Research Staff</td>
<td>8,275</td>
<td>44.6</td>
<td>9,121</td>
<td>9,058</td>
</tr>
</tbody>
</table>

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.

- **Until Mar. 2002**
  - Monthly Salary × 0.36 × Tenure months
  - ¥17.7 million

- **From Apr. 2002 till Dec. 2003**
  - Monthly Salary × 0.28 × Tenure months
  - ¥13.3 million

- **From Jan. 2004**
  - Monthly Salary × 0.125 × Tenure months × Performance Coefficient (between 0.0 and 2.0)
  - ¥6.0 million (Performance Coefficient = 1.0)

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
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)**

**Ministry of Health, Labour and Welfare (14)**
**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)

**Ministry of Land, Infrastructure and Transport Japan** (20)

**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