

# Challenges facing public procurement and perspectives of national land management

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## 1. Introduction

The mission of the Research Center for Land and Construction Management (“the Center”) is to support the planning and proposal of policy related to the development and management of housing and social infrastructure under the jurisdiction of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). The Center fulfils this mission through research activities focused on the key phrases of “national land management” and “construction management”.

In the following report, I would like to introduce one of the main themes of research by the Center – the challenges currently facing the system of procurement in the public works sector and the status of initiatives aimed at solving them, including perspectives of national land management.

## 2. Challenges facing procurement in the public works sector

### (1) Ensuring and improving the quality of public works

To steadily promote the development and management of social infrastructure that supports a safe, comfortable and energetic national lifestyle, it goes without saying that expanding public trust and support for public works is a major requirement. To that end, as well as ensuring the transparency and competitiveness of procurement processes, a system for ensuring a certain level of quality is seen as necessary.

The “Act on Promoting Quality Assurance in Public Works” enacted in April 2005 was an epoch-making revision of the public procurement system, in that it initiated a shift from the conventional “procurement by competition based only on price” to “procurement based on combined excellence in price and quality”. The method of awarding bids based on overall evaluation, in which the winning bid is decided from a comprehensive evaluation of the content of the technical proposal combined with the bid price, has gradually been expanded in scope while its application has been continuously revised based on trials. This method was applied to almost all of about 11,100 works under the direct jurisdiction of MLIT in FY2009. Incidentally, the comprehensive evaluation method also became applicable to survey and design work in

FY2007, and was applied to about 20% of 17,400 cases in FY2009. Adding about 34% decided under the proposal method, this meant that around 54% of contract partners were decided in a form not based solely on price.

Every year, the Center compiles and publishes annual reports on the implementation status of the comprehensive evaluation method in public works and construction consultancy, etc.<sup>1)2)</sup>.

We also carry out research aimed at making adaptive improvements, considering discussions at the “Informal Discussion Group on Ensuring the Quality of Public Works under Direct Jurisdiction of MLIT” (chairman: Professor Kazumasa Ozawa, University of Tokyo). The ultimate aim is to create a system of contract bidding that effectively encourages efforts to improve technical ability among the bidders.

### (2) The role of construction industries in exhibiting local leadership

When considering the ideal shape of the construction industry in future, its role as a leader of regional society is also an important perspective. To appropriately maintain and repair aging social infrastructure stock and increase its longevity, the presence of construction companies with the necessary technical capability is essential. Undeniably, maintenance and repair works have until now tended to have a rather drab image compared to new works, including their budgetary treatment. However, considering that the weight of such works is inevitably going to increase in future, we need to form attractive markets in which companies with sufficient technical and business capabilities can continue corporate activities and reap the necessary profit to make further improvements to their technical capability. To this end, initiatives such as setting estimated prices based on small-scale, dispersed site conditions and flexible work processes, orders for combined maintenance inspection and repair works, continuous orders over several years for several works sites within a fixed area, and others have been started on a trial basis. Now, the time is right for efforts aimed at developing the market environment while ascertaining the effects of these measures.

The role of construction companies in the event of a

natural disaster should also not be forgotten, in that they take emergency measures and make other direct and indirect contributions, either autonomously or based on disaster response agreements with administrative bodies. In particular, locally-based companies often make tremendous contributions to their communities through swift emergency action using their own heavy equipment and materials, drawing on their close familiarity with the local terrain; they take responsibility for “protecting the nation” at grass roots level, as it were. To respond flexibly to disasters that could occur at any place and at any time, construction companies with business developments all over the country need to establish an environment in which they are always prepared for local disaster prevention activities.

### (3) Harmonizing with international public procurement processes

Global strategies by industries aimed at harnessing the economic growth of newly emerging markets in Asia and elsewhere, as an energy that will revitalize Japan’s economy, are cited as one mainstay of the Japanese government’s new growth strategy.

In pursuing the global expansion strategies of the construction industry sector, where production-to-order is the norm, mastery of the procurement rules of the country in question is also a major challenge under present conditions, in addition to responding to normal market risks.

Preparations are currently in progress to start trial contracts based on the standard contractual terms determined by the International Federation of Consulting Engineers (FIDIC) in some works under direct MLIT jurisdiction. Part of the aim in doing so is to contribute to the training of engineers and experts in contractual practicalities who can be active in international projects, thereby aiding the international development of the construction industry. Of course, the national infrastructure, society and economic conditions in western countries differ from those in Japan, and there is no need to apply internationally standardized contractual terms mainly formulated by engineers from those countries unconditionally to Japan. Nevertheless, it is expected that this will provide positive lessons on the best aspects of works contract rules that have gradually been brushed up through application in various countries. At the same time, it may provide hints for improving Japan’s system of construction production.

### (4) Contributing to the creation of a recycling society

The construction industry, where various materials are invested on a massive scale, has the role of encouraging market formation and technology development and guiding the creation of a recycling society. It does so not only by recycling and reusing construction by-products generated in the process of

works, but also, for example, by actively promoting the effective use of waste from other sectors where inside recycling is difficult.

Green procurement in the public works sector, based on the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities enacted in May 2000 (the “Green Purchasing Law”), has made steady progress over the last 8 years<sup>3)</sup>.

In the future, as well as further strengthening efforts from the design stage, it is hoped that the industry, by introducing life cycle assessment (LCA) and other related measures, will transmit information both in Japan and abroad as actual examples of the development of social infrastructure that can serve as models internationally, according to the demands of the times.

### 3. Summary

In the foregoing, I have cited the challenges facing procurement in the public works sector from a number of angles, and introduced directions for related research initiatives. These challenges are closely linked to each other. While making sure that in such cases the solution to one problem does not cause new problems or side effects (though this is by no means limited to public procurement), a holistic approach is required in order to find the best solutions for the problem as a whole<sup>4)</sup>. It might be fair to say that the role and targets of the Center’s activities lie in achieving this.

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