Obstacles to Private Sector Infrastructure Investment in Thailand

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Outline

1. Overview of private participation in infrastructure in Thailand
2. Contract modalities
3. Analysis of outcomes of the contracts
4. Major obstacles
5. Lessons learned

1. Overview

1. Private sector participation mainly in terms of BTO contracts began in 1988 and peaked in 1992.
2. Transport and telecommunications are 2 sectors with most contracts.
3. Transport projects are concentrated in toll roads and mass transit system in Bangkok and the vicinity.
3. Very few private-public joint-investment

2. Contract modalities

- long-term BTO *concessions* are most common in Thailand with a few exceptions of BOT (ports)
- *management and lease contracts* are not as common (ports, BKK subway, perhaps regional airports)
- *privatization:* Airport Authority of Thailand

2. Review of Contracts in the Transport sector

- Revenue sharing
  - most transport contracts serve to ensure that state entity shares rents from concessions
  - except those that are deemed not profitable

2. Review of Contracts in the Transport Sector (2)

- Cost sharing
  - the government shares investment cost in very few transport contracts (port and BKK subway).
  - Most state subsidies are “in kind” (interconnection fee, acquisition of land, etc.)

2. Review of Contracts in the Transport sector (3)

- Risk sharing
  - Private sector bears all investment and operational risks.
  - However, the state provides some “market protection” to ensure commercial viability of the private project
  - *de jure* protection is sometimes *de facto* “ineffective”

2. Review of Contracts in the Transport sector (4)

- Risk sharing
  - certain contracts have more protection than others.
  - Over-protection (in case of broadcast) or under-protection (in case of Don Muang Tollway) can be detrimental

2. Review of Contracts in the Transport sector (5)

- Pricing
  - In transport, tariffs are adjusted according to the CPI, with some contracts allowing for special adjustment in case of high inflation/unexpected economic condition.

2. Review of Contracts in the Transport sector (6)

- Commercial viability

  Major factors determining the commercial viability of a private infrastructure project are:

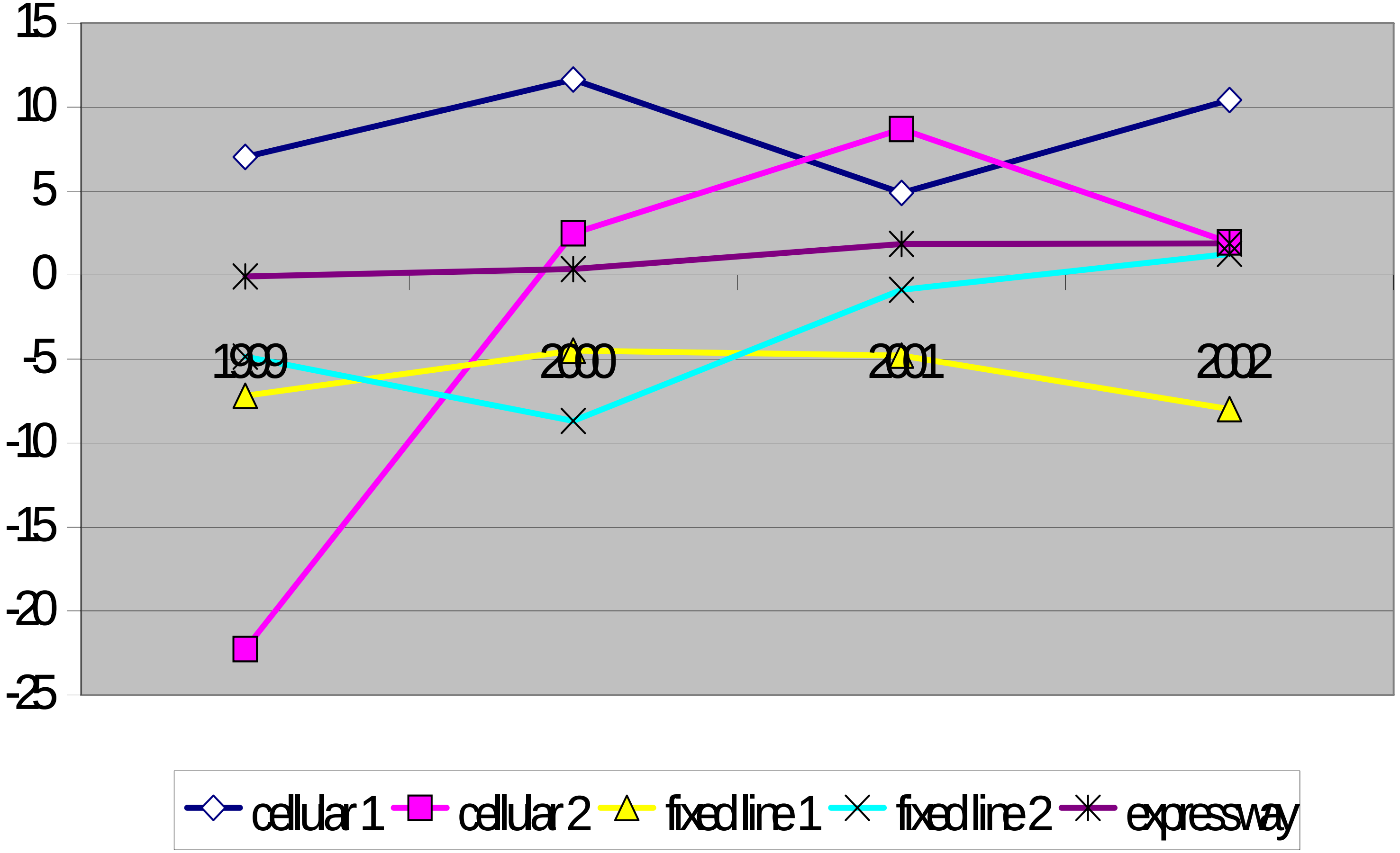
  - safeguards provided in the contract (pricing)
  - market protection provided in the contract
  - off-balance sheet revenues
  - quality of the financial feasibility study (accuracy of demand estimation and stability of main sources of revenue)

2. Review of Contracts in the Transport sector (7)

- Scope of Regulation
  - regulations in transport contracts are reasonable

3. Outcome of contracts

- Return on investment (ROA)



3. Outcome of contracts (2)

- **_Price and competition impact of regulation**

  prices are in general reasonable and properly regulated

- **Quality of Service**

  not a major problem

- **Investment impact of regulation**

  inconsistent pricing schemes.

4. Major Obstacles to Private Participation in Infrastructure

- Lack of a uniform regulatory approach across modes
- Ineffective market protection clauses.

5. Conclusion

- Despite these obstacles, however, Thailand remains an attractive place to invest simply because of the ability to generate satisfactory investment returns, relatively sound contract compliance and the nature of the obstacles are “contract specific”, rather than “inherent” to the country’s investment regime.