

2008

FUTURE CHALLENGES



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It is a challenging time for infrastructure development in Thailand. Investments in major infrastructure projects stagnated after the 1997 financial crisis as demand for infrastructure services sharply decreased. Today with the economy back on track, demand is growing rapidly. Capacity shortages and bottlenecks are emerging in all subsectors, constraining economic upgrading as well as impeding public well-being. The need for large-scale investment to upgrade and introduce new infrastructure systems are fully recognized by the government, the private sector and the general public. There is common understanding among different parties involved on strategic directions and benefits of infrastructure projects such as urban mass transit, renewable energy, rail transport and water supply. The more critical question is how these projects should be realized to make the best use of limited resources of the country. Although challenges vary within each subsector, some common themes and cross-sectoral issues can be identified.

1. External Challenges

Global Energy Context

The future challenges in infrastructure development are greatly compounded by changes in the global environment. An external factor which is one of the most serious concerns for the Thai economy is international oil prices. Thai economy is deeply vulnerable to oil price volatility, and energy security is one of the highest priorities for the government. Separate sectoral responses may prove insufficient in dealing with cross-cutting issue such as energy security, and the rising issue of climate change. An integrated framework will be needed to address the issues more effectively. An integrated framework will require the energy and transport sectors to address issues not only from the supply side, that is, promotion of renewable energy and diversification of the supply sources, but also the demand side. The underlying question in formulating integrated responses is how to find the right balance among the notions of competitiveness, sustainability and supply security.

Competitiveness in the Global Economy

Another external factor which poses a challenge for infrastructure development is national competitiveness in the global economy. With globalization, which induces a free flow of people, commodities, and capital along with trade liberalization through various bilateral and multilateral trade agreements, how to maintain the competitiveness of the country vis-à-vis other countries is a major concern of every government. There is a challenge of how to develop an efficient infrastructure that can facilitate free movement of people, goods and services, attract quality FDI, and contribute to the country's economic competitiveness.

2. Internal Challenges

Policy Framework

In the past years, several infrastructure investments were expected to resume. However, with uncertainty in the political situation, only a few projects materialized. Without a sound policy framework, there is no continuity in policy and projects are unnecessarily delayed. A strong policy framework, both in terms of sector strategy and project implementation, can bring commitment and consistency critical to the success of infrastructure projects.

• *Prioritization*

With various demands competing for government budgets, financing remains challenging at the policy level. Challenges are twofold: how to prioritize projects and make the best use of available resources and how to best utilize off-budget financing? Prioritization of projects is crucial to ensure that limited resources are appropriately allocated, the most needed groups are served, and benefits are accrued to the most people. The challenge facing the government is to increase efficiency of the infrastructure service delivery system—but how to weigh benefits and costs, how to select the good projects, how to finance and implement the projects quickly and appropriately?

• *Private participation and new sources of funding*

As stronger emphasis is placed on maintaining macroeconomic and fiscal stability, off-budget financing for infrastructure will be increasingly relied upon. Private sector participation in infrastructure financing and service provision will be increasingly important as public resources will be insufficient to meet large and growing demands for infrastructure services in the coming years. Since the financial crisis, private sector investment in infrastructure has diminished. The readiness of the private sector to reenter the market will be another challenge for infrastructure investment. A survey undertaken for the East Asia infrastructure study³³ shows that private sector sentiment is contingent upon policy improvements and reduced risks.

Moreover, other innovative international or national sources of funding can be tapped to finance infrastructures and renewable energy projects. Sources can be found in national funds, such as the Energy Conservation Fund or the Oil Fund that has been recently cleared of indebtedness. Other alternatives include the growing Thai Bonds Markets through government-issued, long-term bonds.

³³ *Connecting East Asia—A New Framework for Infrastructure, ADB, JBIC, and World Bank (2005)*

Institutional Framework

Historically, major weaknesses in Thailand's infrastructure service delivery system have been the un-integrated infrastructure planning and provision, and lengthy approval and delivery processes. Institutional weaknesses in the sector are also characterized by the lack of an independent regulator, public sentiment against privatization, and public protests against new large-scale investment in hydro power, waste incineration plants, coal-fired power plants and new roads. To reduce obstacles in the delivery system, a number of institutional hurdles need to be overcome.

• *Legal Framework*

The first institutional arrangement that needs strengthening is the legal framework. To transform policy into practice, a strong legal framework is required that creates an enabling environment. A major problem in infrastructure sector in Thailand is the lack of a clear regulatory environment and specific subsector guidelines at national and local levels. Recently, some reforms of the legal framework, particularly the definition of clear guidelines in private public partnerships (PPP), have been undertaken. Other areas, which require a clear legal framework, such as the evaluation of projects and guidelines for the feasibility studies, are also under much-needed reform.

• *Public Participation Framework*

The second area which needs institutional strengthening is a sound public participation framework. A big challenge has resulted as public acceptance increasingly comes to determine feasibility of projects. In addition, according to the Article 57 and 67 of the Constitution of the Kingdom of Thailand B.E. 2550, the implementation of infrastructure projects, particularly mega projects, must be done with public consultation. The implementation agency must consult with stakeholders who will be impacted by the project, and public consensus must be sought prior to commencing construction. The implementing agency and relevant parties face the challenge of devising a framework and best practices, which will give the public confidence that environmental, social and community impact are carefully managed. The involvement of key stakeholders and project-affected people early in the project design process needs to be increased. In addition, institutional strengthening that results in greater transparency and independence of regulators is important to improve the institutional environment and increase public acceptance.

• *Difficult Reforms of State-Owned Enterprises*

Long-awaited reform of highly indebted state enterprises such as SRT and BMTA is another major challenge. These reforms are strategic to the overall infrastructure development as both organizations play central roles in passenger and freight transport and have considerable impact on the competitiveness of the economy and well-being of the population. At the same time,

their current operations have consumed a large portion of government resources. Reforms of SRT and BMTA are in any case a sensitive issue with a wide range of repercussions. Several efforts have been put in by previous governments to push a reform agenda but without clear success. Challenges must be addressed such as: reducing the massive outstanding debt, introducing organizational reform, finding new sources of finance and appropriately compensating groups that will lose out from the reform programs to minimize loss for all stakeholders.

3. Sustainability

Once projects are implemented, there is a remaining challenge of how the projects can be sustained; for example, concerning local infrastructure service delivery. A common problem is where responsibilities are delegated much further down the decentralization chain. Under fiscal decentralization, local governments, especially those at the Tambon level, increasingly assume responsibility for the delivery and management of local infrastructure services. Local agencies sometimes have weak implementation capacity and do not have sufficient experience or the technical skills required in running a project. Another obstacle to sustainable infrastructure provision is the lack of user fees or lower-than-desirable level of user fees. Although it could be politically sensitive, the government should determine how to break the political impasse in order to put the sector on a long term, financially-sustainable track. One good example would be a decision to gradually increase petroleum prices during the interim government in 2006-2008, where the pressure from rising oil prices is cushioned by demand adjustment.

Future challenges are how to make projects sustainable in the long-run, how to incorporate sustainability concerns into the project selection and design stages, how to build up local capacity, and how to institute user fees to reasonably reflect costs of operating and maintaining the facilities.