

## POLICY ANALYSIS

# The implementation of public-private partnership scheme of Bangkok Transit System (BTS) – Skytrain

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**ABSTRACT**

This paper looks at the implementation of Bangkok Skytrain from the perspective of public-private partnership perspective. It is found that the role of Bangkok Transit System Corporation or the BTSC as the provider of the project shows a shift from the government's unilateral approach in fulfilling public needs. Through a significant authority and rights granted by the government, the BTSC at first seemed to erode the role of the government. However, deeper inside of the implementation process, the government's role was not eroded but rather adjusted to maximize the utilization of available sources to achieve the maximum benefit for society and itself, both politically and economically.

The development of the mega-cities around the world has been a magnet for urbanization. It is believed that to live in the city means to get closer to the source of economy and therefore steps away from a better economy. One of the metropolitan cities with a high figure of urbanization and population growth is Bangkok, the capital of Thailand. According to the National Statistical Office of Thailand, in 1990, the population of Bangkok was 5,9 million, or on average, the density is 3.760 people per square kilometer (NSO 2000). This high-density figure has led to massive problems for the city, such as bad sanitation, expensive housing, transportation, and air pollution. The transportation problem has been one of the main aspects that people notice every day. In the 1990s, Bangkok was infamous for its traffic congestion (Tanariboriboon 1993).

The city had a public transportation system, but the existing system was not enough in contrast with population growth. As a result, people had no choice and, therefore, using personal car or motorcycle to commute. This problem has led to the pollution problem, time and energy inefficiency, and low productivity of the people. Regarding the situation, the Bangkok Metropolitan Administration (BMA) or the government of Bangkok believe a breakthrough in public transportation is needed.

Several studies had been conducted to find the best solution to the problem, which eventually led to the proposal of the rail-based transportation system. This proposal

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was forecasted to cost the government USD 1 billion and accommodate people's transit within the city center and those who commute from the suburb. Although this proposal was promising, the limited budget of BMA could not bear the cost of this system development. Therefore, the government invites the private sectors to invest in this project and create a partnership with the government. The BMA then proposed a Build-Operate-Transfer (BOT) scheme for thirty years (Verougstraete and Enders, 2014).

The decision to invite the private sector into a partnership with the government marked a new era of good governance practice for the government of Thailand. According to Tim Reddel, governance is a process of introducing a breakthrough in management process which includes a multi rather than a single actor in certain arrangement (2002). The government of Bangkok or BMA was aware that it was difficult, if not impossible, to implement this new transportation policy unilaterally.

Therefore, forming a partnership was the best choice as it was constitutionally mean that the government still did their job, and at the same time reduced the burden by lending over some of the duties to the private sector. Moreover, this process could also be called an engagement, where the government utilized extra sources from society to the governing process (Bell and Hindmoor 2009). This shape of partnership and engagement is theoretically called a Public-Private Partnership (PPP).

This research essay discusses the application of PPP principles in the Bangkok Transportation System's governance process (BTS). In the first part, I highlight the history of the Bangkok Transportation System, especially the background of the problem, the initial solution proposal, and the final decision made by the government. The second part of the essay explains the structure of BTS and the implementation process, including the feasibility study, contractor selection process, and the agreed business model.

The third and fourth parts of the essay explain the PPP principles and review the BTS governance process. It then highlights the category of the applied system in the lens of governance: the blurring boundary between the state and non-state actors. Although there is indeed a blur in the governance process, I argue that the whole controls are still in the hand of the government. The BMA is applying a practice of meta-governance where government utilizes the outsource for the sake of itself (Kettl 2002). In the end, the conclusion wraps up the discussion of the governance process of the BTS.

## **BACKGROUND OF BTS ESTABLISHMENT AND DEVELOPMENT**

The city of Bangkok has been notorious for its traffic congestion. As explained at the beginning of this essay, the traffic problem has led to various economic, social, and environmental issues. The potential problem of traffic congestion had been detected decades before the BTS project was planned. In the 1970s, the government of Thailand, particularly the Ministry of Transportation, provided a study to assess the traffic problems. The study was conducted in cooperation with the German government, which resulted in the Bangkok Transportation Study.

The initial recommendation by the study was to provide alternative public transportation systems such as the tram, elevated light rail, underground rail networks, or expanding the waterway transportation system (Pianuan, Kaosa-ard, and Pienchob 1994). The study was not recommended to extend the current existed road facility. However, despite the recommendation not to develop the road facility, the

government expanded the road networks by building massive highways and tollways. The government believed, at the time, that the expansion of road facilities was the most visible and reasonable option in terms of the budget and manpower capacity. In this stage, the government still possessed the traditional governing process, which was executing the power and authority unilaterally (Bell and Hindmoor 2009).

In contrast to the central government's decision, the BMA decided to follow the alternative way, particularly the elevated rail network. However, the BMA was aware that they did not have the financial, technical, and human resource capacity to implement the project. To overcome these obstacles, BMA decided to contract out the project. The contractor selection was done through an open bidding mechanism. The government then selected the Bangkok Transit System Corporation (BTSC) as the single contractor to implement the project (World Bank 2007; Verougstraete and Enders 2014). The project was, further, called the Skytrain project.

### **STRUCTURE OF AND BUSINESS PROCESS OF BTS**

As the selected contractor for the project, the Bangkok Transportation System Corporation (BTSC) held an exclusive right in the whole process of implementation: the feasibility study, the project erection, and the operation once the system was completed. This contract was called 'Build-Operate-Transfer,' which eligible for 30 years duration, started from the maiden operation of the Skytrain (Mandri-Perrot and Menzies 2010). Therefore, this business scheme was granted almost total independence for the BTSC on the whole management process. However, the government still played a significant role in the implementation process.

According to the agreement, there was a significant separation of roles between the government and the BTSC. The BTSC was responsible for the whole primary process, such as the design and engineering, financing, and operation. On the other hand, the government was responsible for the land acquisition for the project's railway. Furthermore, the government's main responsibility was to supervise the whole system so that it would work properly and accommodate the needs of society for safe and reliable public transportation.

Concerning the organizational structure, the clear picture of the system was simple. The idea, legal justification, and supervision were the realm of the government, while BTSC in the whole technical and business domain. However, the BTS system was a more complex structure. Even though the BTSC was recognized as the project builder, the role would not be in place without sufficient funding support. As mentioned previously, the government was not bearing any project cost, and the financing matter is wholly BTSC's responsibility. Following this condition, the BTSC received financing support from other non-state actors.

To finance the project, there were two sources of funds, namely equity and loan. The equity came from the internal financing of BTSC, while the loan came from development partners such as the International Finance Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW). Moreover, these organizations were not the only lenders. The government requires a share of financing from the local Thai banks, later called Siam Commercial Bank (Verougstraete and Enders 2014).

Furthermore, other companies, such as Siemens and ItalThai, acted as engineering, procurement, and construction company. The whole system of the project shows a complex relational process, denying a single dominance. In this context, at least, there were three major actors, namely the government-the supervisor, BTSC-the

right owner, and lenders-source of funding. These three parties held distinct roles which complement each other. The whole process of Skytrain could only work when the three parties execute their responsibility. There was no hierarchy but rather a partnership.

#### **PPP PRINCIPLE IN THE SKYTRAIN PROJECT**

In the context of Bangkok Skytrain, the applied basic principle of PPP was the BOT or built-operate-transfer scheme. This BOT scheme means the contractor build and operate the system for the agreed period before eventually transferring the whole management system to the government (Auriol and Picard 2013). Regarding the character of the scheme, the BOT is a common mechanism practiced in the PPP-based project. This scheme put the government as the constitutional owner of the project, although in practice, for the first 30 years, the ownership is invisible and intangible. Therefore, in this partnership, the benefit for the government is indirect.

There are at least two indirect benefits for the government. Firstly, the government was not doing the tiring and complicated process, and the government did not spend a single penny on this project, which means securing the budget. This can also be considered the main benefit of PPP, which provides a complete solution, where infrastructure and service delivery are provided (Hart 2003). The second benefit is that the government fulfills its constitutional duty: indirectly serving the people once the operation commenced.

In the context of this essay's case study, although the service was conducted by the BTSC, the government would always get credit for this project implementation. The successful process would also lead to political recognition, a good sign for the next election. In addition, the government also gained a small portion of the direct financial benefit from the license fee paid by BTSC as agreed.

On the other hand, this scheme of BOT will also benefit the private sector since this project is all about investment. As a private company, BTSC had conducted economical calculations of the risk and benefit of the project before joining the bidding process. Once the Skytrain operated, the BTSC started to collect the money. According to the agreement between BMA and BTSC, the revenue from the Skytrain operation would be the rights of BTSC during the 30 years of the contract (Verougstraete and Enders, 2014). The benefit of the economic values of the project was even higher, as the government granted the exemption for corporate and revenue taxes for the first eight years of operation (Mandri-Perrot and Menzies, 2010). Furthermore, this project also benefited the second layer actor, the lenders, as BTSC had to pay their debt back along with the portion of credit interest.

#### **REVIEW OF THE GOVERNANCE PROCESS**

In response to the case study, the Skytrain policy portrays two sides of the argument: the government lost its capacity and control towards public policy. On the opposite, it depicts a stronger influence and function of the government. Firstly, the project of Skytrain was showing the incapability of the government to provide an alternative way for public transportation and at the same time address the infamous traffic congestion of Bangkok. Such condition was inherent to the basic concept of shifting from government to governance. It is believed that the government is hollowing out because it lost its ability to govern unilaterally (Salomon 2002). This

incapability, therefore, imposed the government to invite non-state actors, especially the private sector, for a partnership to achieve its goals (Bell and Hindmoor 2009).

Furthermore, in BTS's context, the government granted a full process authority of business process, especially when the system operated. This stage the crucial one since it is the stage where the service is delivered directly to society. It is then picturing the private sector of serving the community in the public transportation system. This might also show a paradox, where public service, the government's responsibility, was conducted by the private actor. At some point, it is understandable to question the government's capacity, as there is a blurred picture of the ownership of the Skytrain.

Despite this picture of the government's lack of capacity to provide public service for society, more elements show the government's role in this project. The first is the legal justification. Although the Skytrain was built completely by the BTSC and the government did not include it in the daily business process, it is the role of the government to guarantee this model as legal and in accordance with the National Law. The BMA, as the local Bangkok government, in consultation with the central government, provides the legal framework so that the public transportation system takes place (Mandri-Perrot and Menzies 2010).

The other significant role of the government in the system was the physical existence of the project. As mentioned previously, it was the government's responsibility to procure the place to put the railway. As the system would lie above the ground, it would be crossing into people's properties and might be the government's property. The government granted this basic need for project development. The government provided land acquisition and the rights of the row of the way for the project (Verougstraete and Enders 2014).

Moreover, the government also exercised its role to maintain the healthy business process within the BTSC. Although the management process was completely independent, the government gave the incentive to stimulate a better business process within the BTSC. The government was providing tax exemption for both the corporate and the revenue of the BTSC (Mandri-Perrot and Menzies 2010). The healthier business process would impact the budget efficiency and provide the best and effective service for society.

The last evidence of the significant role of the government in this public service is about the fare of the service. While the BTSC owned the whole business process of the Skytrain, fare adjustment, especially the rising, it had to be consulted and approved by the government. This regulation ensured the rights of society to access affordable yet reliable and comfortable public transportation. Furthermore, it prevented a monopoly practice of the provider to gain more revenue by the fare adjustment.

Eventually, these facts above explain the paradox of mainstream contemporary governance belief, where the roles of the government are eroded and replaced by non-state actors. Physically and visually, this belief is visible in the context of Bangkok Skytrain.

However, the government was still in control of the service implementation. Arguably, the government was indirectly possessing its authority in the whole processes of the system: formulation, business management, and operation. Inherent to Jessop's argument (2003), the government set the rule and supervises its partners' compliance to pursue and achieve both government and partner's goals. It shows the element of meta-governance by the government where it steers the non-state actors on its behalf to achieve the determined objectives through a framework they set.

The other reason to see the Skytrain project as an example of meta-governance is through the lens of effectiveness. As Bell and Hindmoor argue, the government did not engage physically in governance but rather indirectly by supervising and evaluating to ensure the best performance. In the end, although the BTSC was the main decision-maker for the Skytrain affairs, the government was still a crucial actor in this system. The government possessed its meta-governance capacity by showing its ability to intervene and evaluate whenever needed, as it is the holder of legal and legitimacy justification of the process (Bell and Hindmoor 2009).

## CONCLUSION

The implementation of Bangkok Skytrain was indeed the idea of the government to provide a solution for the traffic problem in the city of Bangkok. A reliable, effective, and efficient way of transportation was proposed. However, the government could not implement it all alone with a limited technical and financial capacity. The solution was to contract the project out to the private sector.

The role of BTSC as the provider of the project shows a shift from the government's unilateral approach in fulfilling public needs. Through a significant authority and rights granted by the government, the BTSC at first seemed to erode the role of the government. However, deeper inside of the implementation process, the government still played a crucial role. The government supervised any decision made by BTSC. The fare provision was one significantly relevant indication, which is the most important aspect of the business. Moreover, all adjustments must be under approval by the government. In the end, the government's role was not eroded but rather adjusted to maximize the utilization of available sources to achieve the maximum benefit for society and itself, both politically and economically. (\*)

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