

## CHAPTER 5

### CO-INVESTMENT ORGANIZATION

#### **5.1 Introduction**

In the past more than a decade ago, bus transit was once operated in Chiang Mai. There were 2 routes, but they both covered the exact same area since they ran on the same route only in different direction. Bus transit was provided by government as social service, therefore they did not try to make profit. During the economic crisis, the central government was forced to cut the budget and so as the municipal government. Undoubtedly one of the very first areas that the municipal government saw as potential contender for budget reduction was bus transit service. Due to the lack of profit and even worse when the system only generated only loss, the municipal government had no choice but to terminate the service.

The failure of the system is probably caused by a combination of factors such as small coverage area, poor service, lack of fund, and etc. Looking back on these factors, the lack of fund and poor management could be considered as the major sources of the problems. Therefore, with co-investment on the new bus transit system in Chiang Mai municipal area between government and private investors the true sources of problem can be solve.

In this chapter, the co-investment manner, organization structure, the duties and risks of each function in the organization, and the benefits to be provided for transit system is discussed.

The result from discussion leads to the guideline for government enterprise establishment in the conclusion.

#### **5.2 Idea on Public Transport Organization**

Saowapol and Therarattanaket (2003) suggested that Chiang Mai public transportation organization should be establish where government and private investors are closely working together. The organization should be responsible for management of all means of public transit. For the public transit to success, the government should provide some benefits and advantages to attract more passengers. At the same time the private investors would improve the management of the project as well as ease the budget difficulty of the

government. However, public transit must base on the idea of social service to serve the people of Chiang Mai at reasonable price and best service quality must be provided.

The researchers suggested further that at the beginning the organization should be an independent sector under municipal government's control. The main source of budget is from the government. However, the organization will gradually turn to government enterprise and finally becoming public company.

In the first 3 years, although the organization is independent but the budget mainly come from the government. The investors in this case are the central government, the municipal government, and private investors. The investment proportions are 70% central government, 20 % municipal government, and 10% from private investor. Profit is not expected in this beginning period since this is the period where the transit system will be tested and adjusted. The main sources of income are from the fare and the advertisement fee which are expected to be about 50% to 70% of the expense. The aim of this project is to become a government enterprise which, in the future, would become a public company. The future government enterprise would have 3 main investors which are municipal government with 50% share, private investors with 40%, and central government with 10%. Hopefully by that time the manner of transportation selection of the people will shift toward public transit to generate the profit for the enterprise.

The aim of becoming a public company may not be such a good idea since this type of company is profit driven. Public transit must always be considered as social service, although it does have to generate some profit to survive. Mr. Panyapol suggested during an interview that the municipal government do not want to involve central government with the city's public transit system. He continued, from Saowapol and Therarattanaket (2003) suggestion it is a good idea to be an independent sector under local governmental control at the beginning and then gradually turn into a government enterprise. However, the total privatization of the company is not recommended. He also commented on the investment proportion by referring to the Municipal Act number 57.C that more than 50% of all share of a government enterprise must be owned by government or government related organization. Therefore the suggestion by the two ITSC researchers could not be applied. However, the suggestion is used as a guideline for construction of co-investment manner.

### **5.3 Suggestion on Co-investment Manner**

From the suggestion of ITSC researchers and of Mr. Panyapol, it can be concluded that the suitable manner of co-investment and management of one single route is to create the contractual agreement between the government and private investor. However, in the future if the number of route is expanding, contractual agreement would no longer be suitable. In that case, the government enterprise would be set up to manage the expanded bus transit organization.

#### **5.3.1 Contractual Agreement**

From the previous chapter, Route 9 is the selected route after consideration of the four constrains. As a result, the contractual agreement to be discussed later on in this part covers the investment and the management aspects of only Route 9 by the government and private investor.

The capital cost for the proposed project is determined to be 39 million Baht, the capital cost are presented in detail later in Chapter 6. Based on the interview with Mr. Panyapol, the government is willing to attract private investors to operate the bus transit system. The government could provide number of buses as well as the construction of facilities along the selected route such as stops, ticket machines, and bus station. The capital cost of 39 million Baht from the government is coming from the municipal development budget, therefore the amount of money could be given away. However, the operation should at least give something in return for the government.

The project life is determined to be 15 years, as the bus that runs for average 30,000 kilometer per year would last no longer than 15 years. The contractual agreement would be divided into 2 phases. The first phase is from the beginning to the end of year 5. This phase can be considered to be the adjustment phase, as the operation is needed to be adjusted and improve for smooth operation and to most fit with the passengers' needs. The second phase is from year 5 to the end of the project. In the second phase if the operation has proved to be profitable, it should give some of the profit back to the government. However, if the project does not generate enough profit, then the private investor could still keep all the profit.

In the first stage, the adjustment phase, the operation related issues such as time to operate, waiting time interval, and number of stops is subjected to be adjusted. Any

improvement and adjustment to the project require the approval of the municipal government. In this first phase, as it is the beginning of the project, the profit from the operation from the fare and the advertisement is all given to the private investor.

In the second phase, the minor change to the operation could still be done also with the approval from the municipal government. If during the first phase the project has proved to be profitable, some of the profit should be given back to the government. For example, when the project has shown to be financially strong the money the advertisement fee is given to the government instead of private investor.

For the management during the 15 years of the project, the director and management personnel are selected by the government and private investor. The director should be resident of Chiang Mai and be independent from both parties. The management personnel could be governmental personnel, private investor's personnel, or independent experts on public transit system management and financial management. The administration officers and other labors are considered as non-government workers. However, the drivers and hostesses must pass the governmental standard.

As stated earlier, the government is willing to provide number of buses, as well as being responsible for construction of stops and land improvement. On the other hand, private investor is responsible for the operation cost which includes the fuel cost, maintenance cost, labor cost, and administration officers' salary. For the independent experts, their expenses are under the responsibility of the private investor. The marketing expenses for the project are also included in the operation cost paid by the investor.

The government has full right to terminate the contract if the contractor violated the agreement or the law seriously. In case of accident the government would have no part in pay compensation for other parties, the contractor has fully responsibility for any compensation. In case of serious accident that harm the image of the organization, the government has the right to terminate the contract immediately.

### **5.3.2 The returns from the project**

Although the government has stated that they are willing to invest the 39 million Baht with out wanting anything in return, the project should shows that it has some returns for the government. In this part, the return from the project to the three parties involve with the project, the government, the private investor and the people of Chiang Mai, will be discussed.

The government pays for all the capital cost to set up the bus operation which includes the purchase of the buses, the ticket machines, the office equipments, the land, the construction of the building, the construction of all the stops, and the improvement of road condition. In return to their investment, the government would be received the amount of money every year equivalent to the depreciation cost of all the above items except for the land. The government could gain more money in the second phase of the project if it has proven to be financially strong.

The return for private investor is very straight forward which is the entire profit from the operation in the first phase. Another benefit that the private investor would receive is the right to extend and expand the route.

For the people of Chiang Mai, they would receive the public transport that is more reliable, cheaper, as well as satisfy their needs better. If more and more people are turn to public transport, the traffic problems could be eased which could also decrease the level of pollution cause by traffic.

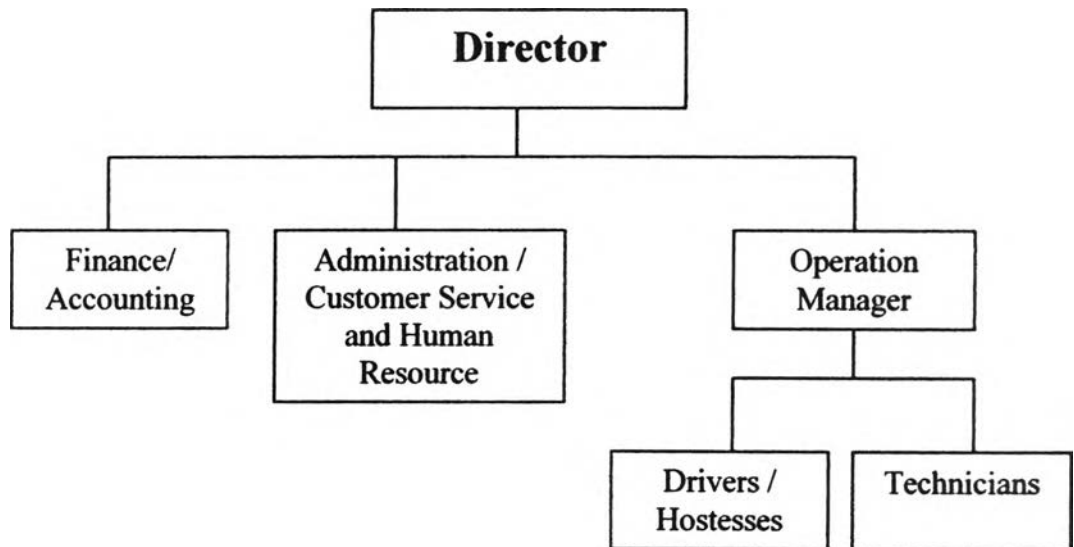
### **5.3.3 Summary of the co-investment contract**

1. In the actual co-investment contract, the following points must be stated that
2. The contract provider is the government.
3. The contractor is the private investor
4. The length of the contract is 15 years
5. The capital cost is paid by the government
6. The operation cost is paid by the private investor

7. In return the government would receive the depreciation cost of the buses, building, and for all those purchased equipments. The private investor would keep all the income from the operation which includes the bus fare and the advertisement fee for the first five years. In the following ten years, if the project is financially strong, the private investor would keep all the income from bus fare while the profit from advertisement fee is given to the government. If the project does not show strength financially, the private investor would still keep the profit from advertisement.
8. In case of serious agreement and law violation, the government has every right to terminate the contract without and compensation payment.

### **5.4 Organization Structure.**

The organization structure presented in **Figure 5.1** is based on organization structure of government enterprises such as Thai Airway, EGAT, and Airport Of Thailand, as well as other organization such as BMTA. Some modifications are made for the suitable of smaller organization and type of business of the organization.



**Figure 5.1: Organization Structure**

The organization for managing the proposed bus transit project would be only small organization since it only has one route to manage. As it is the small organization, the personnel within the organization may have to perform more than one job.

The director is the head of the project who controls and manages every aspects related to the bus operation on route 9. The director overlooks 3 departments which are Finance and Accounting Department, Administration and Customer service Department, and Operation Department.

#### **5.4.1 General duties of Director**

The Director must be appointed by the municipal government resolution. The director must have full freedom in expressing opinion and making decision. He/she shall discharge his/her duties and responsibilities effectively with complete honesty. The director shall review and approve the corporate plans, objectives, goals, and strategic plans of the company to ensure successful investment in public transportation system of the city in the short and long run. The responsible also covers for ensuring the company's systematic business management and development, efficient and transparent business operation. He/she shall review and solve the problem in the company's operations, review operational plans and closely monitor its operation.

#### **5.4.2 General duties of each department**

**Financial and Accounting Department:** Monitoring the financial situation of the enterprise. Provide financial advice for every department.

**Administration, Customer Service, and Human Resource Department:** Ensure smooth operation on regard of safety and security. Identify the potential risks and create plans for risk management. Plan, monitoring, and evaluate a customer satisfaction improvement plan. Including study the ever changing needs of customer, and adjust the bus service accordingly to serve those needs. Design training for all personnel. Carefully monitoring the enterprise's turnover rate and adjusting it properly. Study the needs of enterprise's employees and find the best possible way to serve those needs.

**Operation Department:** Ensure the smooth operation, plan for extension of routes, and provide training for drivers, hostesses, and administration officers for continuous improvement of the system operation.



### **5.4.3 Director and management executives appointment method**

#### **5.4.3.1 Director**

The Directors must be resident in Chiang Mai. He/she must possess qualifications and not be under prohibition by any law. Director is appointed by a majority vote of the shareholders in the shareholders' meeting in accordance with the following rules and procedures:

1. One share is representing one vote for each shareholder.
2. Shareholders must use all their votes to select one or several directors.
3. Shareholders may not divide their votes in any way
4. The persons with most in descending order will be appointed as directors according to the number of directors to be elected.
5. If there is a tie for the last director, the lots will be drawn to determine the last member.
6. In the case of vacancy due to a cause other than end of term, the Board of Directors shall elect any person who has the qualifications and is not subject to prohibition under the law with the majority vote of more than half of the remaining directors.
7. At the shareholders' meeting, shareholders may pass resolution to remove any directors before the end of term, through a majority vote of not less than three quarters of shareholders present and eligible to vote, and total number of shares shall not less than half of shares held by shareholders present at the meeting and entitled to vote.

#### **5.4.3.2 Management**

The management personnel is appointed by the director. The director would draw up qualifications and screens candidates according to the Act of Standard Qualifications of the State Enterprise Directors and Staff B.E. 2518 (amended in B.E. 2543). The director will select persons with required qualifications and appoint him/her for the position.

## **5.5 Risks**

Risks are categorized into 2 types: Enterprise's risks and Departmental risks. The risks of both types are shown below.

### **5.5.1 Enterprise's Risks**

There are 3 potential enterprise's risks which are:

1. Risk from fuel fluctuation: Fuel cost is very significant to the operation. The fluctuation in fuel price can cause direct and severe impact on the enterprise's financial situation. The risk could be ease by adopting the fuel price hedging.
2. Risk malfunction of buses: The existing fleet has only 20 buses for the operation where 2 of them are spares. In worse case scenario, if more than 2 buses should not be able to run, the existence fleet could not cope with the schedule. This could cause customers unsatisfactory and badly affect the business in the long run if the incident keeps happening. Carefully maintenance according to the Department of Transportation's standard as well as following the suggestion from the manufacturing strictly, should reduce the risk of malfunction.
3. Risk from resistance of minibus: According to the research, bus transit system would serve the current needs of public transit users better than minibus. If that is really the case, minibuses could loose many of their customers. The protest from minibus drivers did occur when the municipal government announced the plan for launching bus transit system. The plan was delayed for months due to the resistance. Arranging the meeting with minibus drivers to help them improve their service and sharing the route with them may ease the resistance force.

### **5.5.2 Departmental Risks**

Major departmental risks are concern with the conflict in their operation. Integration is the solution to solve the conflict problem. Useful information should be shared throughout the enterprise. Creating the sense of ownership would ease the conflict problems.

## **5.6 Benefits for Public Transit**

Isarasena Na Ayuthaya, Sirisopolsil, and Narupiti (1999) suggested that numbers of benefit should be provided to public transit by the government to improve the service of the system. Level of service quality is significant for public transit. The public transit should have some advantages to private transportation, to create motivation of travelers to shift to public transit. The benefits given to public transit could be the usage of the road such as providing the bus lane or the bus way, where the route is dedicated totally for bus usage.

## **5.7 Conclusion**

Co-investment is the suitable solution to ensure the successful of bus transit project. However, the public transit project is highly risky with the major problem of low profit or even a loss. To attract private investor to co-invest in the project, some benefits and attractive offers must be provided. Offers that presented above are only some of the possibilities that can be provided by the government. Other offers and benefits are subjected to discussion.

The co-investment is according to the contractual agreement between government and private investor. The contract lasts for 15 years, as it is the recommended life time of the bus. The main subjects in contractual period are that private investor would only pay for operation cost while the buses and other facilities are provided by municipal government. Since during the beginning period income is expected to be only 50%-70% of total expense, therefore if there should be any profit, all will belong to private investor. After the first 5 year the government have the right to earn some money from the advertisement, if the project has shown the financial strength.

During the life time of the project, the government would be paid the depreciation of the buses, building and equipments. The private investor would take all profit form operation. The people of Chiang Mai would get a more reliable public transport which is more suitable to their needs.

There are some risks associates with bus transit project, the 3 major risks are fuel price fluctuation, malfunction of buses, and resistance from minibus. The working conflict issues can cause problem between departments. Integration is the way to solve the problem between and within departments.

Finally some benefits for public transit project should be provided by the government to create advantages of the system, hence increase number of riders. The benefits that can be given are road usage benefit and exempt on fees and charges related to operation to reduce the cost of the project.