



# **Thailand's Infrastructure Fund**

## **in promoting infrastructure projects**

Speech by Dr. Vorapol Socratyanurak, Secretary-General, Securities and Exchange Commission, Thailand, in International Conference on Asian Regional Cooperation: Mega-Infrastructure Investment in Asia amid Global Uncertainties, Bangkok, 7 February 2012

### **Necessity of Infrastructure**

Infrastructure plays an essential role in facilitating economic growth, enhancing long-term national competitiveness as well as improving living standards of the public. However, as a developing country, Thailand has been facing challenges to meet the demand for infrastructure availability. Because of the government's financial constraints, private sectors have been encouraged to participate in infrastructure investment through public – private sectors partnership policy (PPP). With such a magnitude of investment, the capital market is able to give a funding access to private sectors participating in infrastructure projects.

### **Background**

Securities issuance in the form of share or debenture has always been used as a financial tool to mobilize funds for new projects. Today, the SEC Thailand has introduced a new product called “Infrastructure Fund,” as another financial tool to raise funds and investment in infrastructure projects. With this new tool, private sectors or state enterprises can mobilize funds to develop infrastructure projects while easing the government’s budgeting burdens and public debts. In a nutshell, both the public

and private sectors can participate in the development of the country's infrastructure by investing in infrastructure fund.

### **Key features**

Key provisions of the regulations on establishment and management of infrastructure fund are as follows:

- (1) Infrastructure fund is a closed-end fund with the minimum size of THB2 billion ( at least THB1 billion per project, except for electricity type, only THB500 million per project is required);
- (2) Minimum 75% of the total assets must be invested in infrastructure asset within 6 months since the fund registration or capital raising;
- (3) Infrastructure fund may invest in the following types of infrastructure: rail transportation, toll way, electricity, water supply, airport, deep seaport, telecommunication and alternative energy;

However, the abovementioned infrastructure projects must be operated for the benefit of the Thai public, and must not provide services to any customers and/or group more than 1/3 of the total capacity;

- (4) Maximum gearing ratio of 3 times;
- (5) The fund shall distribute at least 90% of the net profit to the unitholders;
- (6) Investment in a greenfield project is permissible on the following conditions:
  - if a greenfield project  $\leq$  30% of the total assets, the fund must have minimum 500 unit holders and be listed on the Stock Exchange of Thailand (the SET);
  - if a greenfield project  $>$  30% of the total assets, the fund must have minimum 35 unit holders with a minimum subscription of THB10 million baht each,

and must not be listed on the SET. However, once a greenfield project is completed and can generate income, the fund must be listed within 3 years;

(7) The fund can invest directly in infrastructure project/ future cash flow or indirectly by holding shares of an infrastructure company for more than 75 percent of the outstanding shares of each company.

(8) Multi-tranche is allowed;

(9) Certain limits on the unitholding are:

- Any person or persons in the same group is entitled to hold investment units not exceeding one-third of the total amount of the units sold, with an exemption for such entities as the Government Pension Fund and Social Security Fund.

- Unitholder or/and the group whose unitholding exceeds the one-third limit has no rights for either distribution or voting for the excessive portion;

- Foreign unitholding limit must be consistent with that prescribed by the law governing infrastructure in which the fund invests.

### **Tax benefits**

The SEC has requested the Revenue Department and the Department of Land to consider giving tax benefits for the fund and unitholders as well as reducing relevant registration fees for the fund. As a result, the Cabinet's resolutions on November 15, 2011 were:

(1) Tax exemption on distribution for individual investors: 10 years since the establishment of the fund (as opposed to the current rate of 10%);

(2) VAT / SBT / stamp duty exemption (with certain conditions);

(3) Transfer fee / mortgage fee / rent register fee: reduced to 0.01% of the transaction amount (maximum THB100,000 each).

### **Potential infrastructure projects**

During the process of drafting rules and regulations, the SEC studied and consulted with the Ministry of Finance to ensure that infrastructure fund will be in line with the government policy on promotion of infrastructure development. The governing regulations have already been effective since September 2011. We are communicating with private sectors to promote this new vehicle. Asset management companies, financial advisers, private sectors and state enterprises producing electricity, water supply and alternative energy, for instance, are also taking part in the brainstorming to materialize the possibility of infrastructure fund.

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