

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: PARD

TA No. Country and Name			Amount Approved: \$400,000	
TA4899-TON: Rationalization of Public Enterprises Phase III			Revised Amount: n/a	
Executing Agency Ministry of Finance		Source of Funding JSF	Amount Undisbursed: \$21,730	Amount Utilized: \$378,270
TA Approval Date: 18 December 2006	TA Signing Date: 9 January 2007	Fielding of First Consultants: October 2007	TA Completion Date Original: 31 May 2008	Actual: 31 December 2008
			Account Closing Date Original: 31 May 2008	Actual: 15 May 2009
<p>Description: A Public Enterprises Act was enacted in 2002 as part of the Asian Development Bank's (ADB) assistance under the Economic and Public Sector Reform Program (EPSRP) loan. Through the implementation of this Act, the Government of Tonga initiated a public enterprise reform program in 2003 with a fundamental reexamination of the role of the state and its engagement in business activities that, under normal circumstances, are better left to the private sector. Since 2003, ADB has supported the Government through technical assistance projects to help (i) institute changes to corporate governance of public enterprises, (ii) implement a financial performance monitoring framework, (iii) train directors and senior officials on requirements of the Public Enterprises Act, and (iv) build the capacity of the Public Enterprise Division (PED)² of the Ministry of Finance (MOF) in providing policy advice and in analyzing the performance of enterprises. TA4111³ identified the main elements needed to support a continuing reform program. However, it did not establish a rigid timetable to enable flexibility in acting on particular public enterprises. The final report provides a comprehensive review of the public enterprise sector, the legislative framework, and Government management of its investment, as well as each enterprise and significant trading activity of Government. The TA also concluded that future external support should be targeted tightly, locally managed, and accompanied by skills transfer. To achieve good results consistently from public enterprise reforms, sound commercial processes were urgently needed. These should be backed by more expert commercial, financial and legal advice than is available within the Government or the Tongan private sector. A small-scale TA⁴ followed to assist with the privatization of Sea Star Fishing Company and to build the capacity of the Ministry of Public Enterprises and Information (MPEI) to manage the public enterprise portfolio. Improving corporate governance of public enterprises, including corporatizing and privatizing, is an integral component of the economic and public sector reform. Reducing Government expenditure through divestment, particularly raising revenue through asset sales could contribute significantly to the fiscal adjustment.</p> <p>TA4899 continued the progress developed under previous ADB-funded TA projects and aimed at rationalizing the performance of selected public enterprises. On 30 August 2006, the Government provided the following list of public enterprises (PEs) to be rationalized with the assistance of the proposed TA: (i) International Dateline Hotel, (ii) Leiola Duty Free Limited, (iii) Shipping Corporate of Polynesia, (iv) Tonga Machinery Pool, and (v) Tonga Timber. The TA provided expert skills to develop an application of options to improve the performance of the enterprises including through outsourcing, performance-based contracting, concessions, as well as the preferred option of disengagement from public enterprises through privatization.</p>				
<p>Expected Impact, Outcome and Outputs: The overall expected impact of the TA was to improve fiscal governance releasing fiscal resources from public enterprises, and increase private sector investment in service provision. The expected outcome was improved public sector governance through the rationalization of the public enterprise portfolio, preferably through divestiture, but also through public private partnership options of concessions, performance-based contracts, and outsourcing. The TA outputs included (i) the rationalization and/or privatization of at least four public enterprises, and (ii) enhanced technical, management, and regulatory capacity in MPEI. The TA</p>				

¹ In preparing any country program or strategy, financing and project, or by making any destination of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgements as to the legal or other status of any territory or area.

² Following a public service restructuring in 2006, a new Ministry of Public Enterprises and Information (MPEI) was established in 2007 tasked with leading the public enterprises reforms.

³ ADB. 2003. Technical Assistance to Tonga for Rationalization of Public Enterprises. Manila (TA4111-TON approved in May for \$515,000)

⁴ ADB. 2004. Technical Assistance to Tonga for Rationalization of Public Enterprises Phase II. Manila (TA4514-TON approved in December for \$150,000)

was complemented by ongoing activities under ADB's Private Sector Development Initiative (PSDI) including the comparative study⁵ of state-owned enterprises performance in Fiji Islands, Samoa and Tonga. The study found that Tonga currently enjoys strong political commitment to SOE reform at the highest levels, resulting in an ambitious SOE rationalization program and the adoption of governance practices that go beyond the minimum standards prescribed by law. The study also confirmed that Tonga's SOEs have outperformed those of Samoa and Fiji Islands for the past 5 years. Hence, this confirmed that the TA design was appropriate and the rationale was aligned with the national strategies and ADB's strategic objective to develop private sector. Overall, the TA rationale, formulation, including the extent of the stakeholder consultation, were adequate and appropriate, and TA objectives, terms of reference, executing arrangements, and implementation schedule were deemed satisfactory and appropriate.

Delivery of Inputs and Conduct of Activities: The TA included 13 person-months of international consultants comprising public sector reforms and financial analysis expertise, and 15 person-months of national consultants including financial analysis and legal expertise mobilized over 15 months. With respect to the rationalization TA component, the TA recommended various rationalization strategies for the 5 selected PEs. In addition, the TA also offered support in finalizing the sale of assets of Sea Star Fishing Company and prepared a situation assessment of Waste Authority Limited. With respect to enhanced technical management and regulatory capacity of MPEI, the TA conducted two Directors' Training courses as well as a reporting workshop for public enterprises. Throughout the TA, on the job training was provided to MPEI staff who participated in all aspects of the TA. The terms of reference were fulfilled and the consultant inputs were deemed of high quality. Progress and final reports were of good quality. There was no change of TA scope during the implementation. All activities were carried out. ADB's reviews were conducted by the South Pacific Subregional Office, supported by the private sector focal point in the Pacific Liaison and Coordination Office. ADB's TA administration involved four missions and was deemed satisfactory. The performance of MPEI was deemed satisfactory as it was focused on the TA management and progress and provided the necessary support as well as committed counterpart staff and trainees for the TA. The executing agency was highly satisfied with the results of the TA.

Evaluation of Outputs and Achievement of Outcome: The TA successfully achieved the outcome based on delivery of the outputs.

Output 1 – Rationalization and/or privatization of at least four public enterprises: It was clear during the TA inception that rationalization would take time beyond the TA timeframe given the varying state and issues relating to the selected PEs. The focus therefore was on developing strategies, the implementation of which started under TA4899 and the rest to continue under follow on TA support. The TA recommended and employed various rationalization methods for the 5 selected PEs. The sale of Government's 75% shareholding in Leiola Duty Free Shop was successfully closed in August 2008, the first tender privatization in Tonga. A sale of assets to be followed by liquidation of the corporate entity was adopted for Tongatapu Machinery Pool, however, not having attracted offers for the assets offered as a block, the assets were then offered for sale individually which is ongoing. The TA facilitated the discussion of major contractual, governance and compliance issues with the joint venture partner for International Dateline Hotel. If satisfactorily resolved, introduction of a private operator and eventual tender of the hotel will be contemplated and TA support is continuing under the ongoing TA7271.⁶ TA4899 also offered limited support on the sale of Sea Star Fishing assets, and prepared a situation assessment for Waste Authority Limited with rationalization to continue under the ongoing TA7271.

Output 2 – Enhanced technical, management and regulatory capacity in Public Enterprise Division (later Ministry of Public Enterprises and Information) – The TA training activities had formal and on-the-job components. The counterpart to the TA team was the Reporting and Monitoring Unit of MPEI which initially had a staff of 4 (later increased to 5). All staff of the unit worked with the TA team and were involved in reviewing financial information, preparing privatization memorandum information, and marketing to potential investors. The formal training addressed primarily corporate governance where two Directors' training courses were conducted, the first targeting private sector candidates to replace government directors and the second for private sector persons already serving on public enterprise boards. All relevant MPEI staff participated in the trainings and gained better understanding of corporate governance practices. A Reporting Workshop for Public Enterprises was held near the end of the TA covering reporting requirements, financial reporting, business planning and creation of shareholder value. The training was again attended by all the relevant MPEI staff. The trainings addressed the need to improve the quality of public enterprise governance to ensure that it follows commercial principles and reflects the objectives of the shareholder. MPEI staff attended the formal trainings and also benefited from on-the-job training. The MPEI staff have enhanced their technical skills in developing and implementing different rationalization strategies.

⁵ ADB. 2009. *Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa and Tonga*. Manila.

⁶ ADB. 2009. Technical Assistance to Tonga for Reforming Public Enterprises. Manila (TA7271-TON approved on 14 April for \$500,000)

Evaluations by the participants judged the courses to be very useful. Tonga now has a trained pool of potential private sector directors to replace Ministers and government officials on boards. Three boards have already had these persons replaced, and the Government is scheduled to conclude this process by December 2010. The MPEI staff rated the capacity development aspect of the TA to be very inclusive and supportive.

Overall Assessment and Rating: The TA is rated as partly successful. The TA inputs were provided satisfactorily, however, of the 5 PEs selected for rationalization, one was completed during the TA duration while three are continuing under TA7271. Nonetheless, the TA had helped continue the momentum in SOE reforms and develop awareness and understanding of sound corporate governance practices. The Government continues to show its commitment to SOE reforms through implementation of the recommended rationalization strategies, identification of further public enterprises to be rationalized, and establishing fully private sector SOE Boards with three completed to date. The staff of MPEI has also shown their commitment through enhancement of their capacities in the various aspects of rationalization.

Major Lessons: The following lessons can be learned from this TA: (i) the objectives should be clear, concise, and realistic, (ii) detailed rules and procedures for reform should be firmly resisted, while the emphasis must be on innovation and flexibility, (iii) the presence in government of one or more strong advocates of the reform process is essential if actions are to be implemented efficiently as displayed by the Government of Tonga, (iv) enthusiastic and well-educated staff who are eager to learn more and to apply their knowledge is important at all stages of the reform process and helps to ensure continuity after the TA is complete, (v) any country can benefit from knowledge of techniques and practices applied in other countries, and (vi) the implementation of rationalization strategies sometimes require a longer timeframe, hence, this should be considered during TA design and planning.

Recommendations and Follow-Up Actions: ADB is building on the positive results of this TA by keeping the current momentum going and taking advantage of the strong Government commitment to the reforms. TA7271 is Phase IV of the series of support to the rationalization of public enterprises. In addition to completing outstanding elements of Phase III, the new TA will also strengthen strategic public enterprises, not targeted for sale but with the aim of attracting greater level of private sector involvement.

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