

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 4111-TON: Rationalization of Public Enterprises			Amount Approved: \$515,000	
			Revised Amount: \$515,000	
Executing Agency Ministry of Finance	Source of Funding: TASF		TA Amount Undisbursed \$70,419	TA Amount Utilized \$444,581
Date			Completion Date	
Approval 09 May 2003	Signing 02 June 2003	Fielding of Consultants 6 October 2003	Original 30 June 2004	Actual 31 October 2004
			Account Closing Date	
			Original 30 June 2004	Actual 31 May 2005
Description				
<p>In 2002, the Government of Tonga requested the Asian Development Bank for a technical assistance (TA) to speed up the reform process of government commercial activities, especially public enterprises (PEs). The reform is an important element of the comprehensive economic and public sector reform program (EPSRP) initiated in 2001. The Government wished to accelerate reforms in state-owned enterprises to reduce the increasing subsidy burden on the budget and, where appropriate, to transfer some of these enterprises and activities to the private sector.</p>				
Objectives and Scope				
<p>The project preparatory technical assistance (TA) was intended to assist the Government to (i) formulate a comprehensive policy framework including competition and regulatory arrangements, (ii) review all existing government commercial investments and activities, and (iii) prepare a sequenced set of processes and a timetable for implementing PE reforms. The TA aimed to provide impetus to improve efficiency and financial performance of PEs through (i) introducing clear accountability of ministers, board of directors, and chief executives, and (ii) operational and financial autonomy and better practices.</p> <p>The key components of the TA included (i) assistance to the Government in defining the "public interest" criteria to guide decisions on rationalization and privatization, and in preparing a detailed action plan to restructure/privatize PEs and government commercial activities as appropriate, (ii) advice on the formulation of a competition and regulatory policy framework for PE reforms, (iii) detailed technical advice on rationalization or privatization of selected PEs including corporate and financial restructuring, asset valuation methodology, legal status, taxation treatment, regulatory arrangements, and associated labor issues, (iv) advice on strengthening management of individual PEs that are to remain under government ownership in the short/medium term, as well as specific proposals for improved performance, (v) capacity building of the government investment unit (GIU), and (vi) advice on consensus building and increasing awareness of stakeholders about issues related to PE reforms.</p> <p>The objectives and scope were relevant and appropriate. Participation of government officials and other stakeholders was satisfactory.</p>				
Evaluation of Inputs				
<p>The TA required 18 person-months of international and domestic consultant services. The team included a public enterprise reform expert; specialists with experience in corporatization and privatization in telecommunication, electricity, water and shipping; a financial analyst and adviser; and a communication adviser with experience in the participatory process and public information campaigns. The consultants selected were highly qualified, experienced and seasoned professionals. Tenders were called for the TA in June 2003, and the contract was awarded to Vinstar in October 2003.</p> <p>In addition to the work envisaged in the original TOR, at the request of Government and with support from ADB, the work of the consultant was extended to support privatization of four PEs approved by Cabinet. This extension was very useful as it provided an opportunity to demonstrate the practical application of the recommended approach to the four transactions. The flexibility of the TA to respond to requests from the Government enabled reasonable contract extension within budget.</p> <p>The consultants prepared and submitted Inception, Mid-term, and Draft Final Reports. The Final Report was submitted in September 2004. The Vinstar team of consultants did a sound job, which was much appreciated by the Government and ADB task manager.</p>				

The TORs were well covered. The TA was able to get Cabinet's approval for privatization of 4 selected PEs. The economy and productivity of the input provisions were satisfactory; client response on the inputs provided was satisfactory, as confirmed by the performance evaluation reports (PERs) for the consultants.

Evaluation of Outputs

The TA was expected to provide the basis for a loan to provide funds for an ongoing program of privatization and financial reconstruction of PEs. During the course of the project, it became apparent that a loan was not necessary as the government was fully committed to the PE reform program and that the costs associated with rationalization/privatization could be met within the available budgeted resources and expected proceeds from the initial sale transactions.

The Government was satisfied with the quality and timeliness of the outputs. The PE directors and managers have been very positive about acquiring new skills, adopting new procedures, and generally playing their part in performance improvements. This was reflected in the high level of attendance and enthusiastic support for training seminars.

Overall Assessment and Rating

Overall, the TA is rated successful in that it achieved its planned outputs. However, it did not lead to a loan agreement because the Government decided to proceed with the reform program using its own resources (financial and human), with specialist support from the major donors as and when the specific needs are identified.

Major Lessons Learned

The PPTA put in place the framework for rationalization of the PEs, and a Phase II SSTA was approved to help implement the recommendations of Phase I.

Recommendations

A small scale TA was approved as Phase II to assist the Government in the privatization of the initial four PEs. It will provide technical assistance for privatization of selected priority PEs, and support capacity building of local counterparts through on-the-job training during the sale processes.

The enthusiastic support for training seminars needs to be built upon and supported by further training. To strengthen public sector capability to manage PEs and monitor PEs' performance, advisory TAs in support of PE reform should include skills transfer to local staff as a key objective and target outcome, and, as such, should be included as a 'deliverable' in consultants' contracts.

Future external support should be tightly targeted, locally managed and accompanied by skills transfer.

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