

# 4

## Public-Sector Reform

---

### Introduction

The Samoan public sector is one of the main drivers of the economy, with total government expenditure in the order of 40 percent of GDP and government agencies accounting for approximately 40 percent of formal employment. There are 27 government departments, 21 fully-owned State-Owned Enterprises (SOEs), and another nine corporations in which the Government is a significant investor.

Samoa has adopted a wide-ranging program of public-sector reforms. The introduction of output budgeting, a greater emphasis on strategic planning, the refinement of accounting systems, the provision of increased autonomy for line agencies, and a privatization and corporatization program have seen modern public-sector management practices pursued. Substantial improvements have been made in a relatively short period and further initiatives are being introduced.

This chapter describes recent developments in the public sector, reviews the design and implementation of public-sector reforms and explores options for further improving the performance of the public sector. A specific concern is the state of the four “pillars” of good governance: accountability, predictability, transparency and participation.

### Recent Developments in the Public Sector

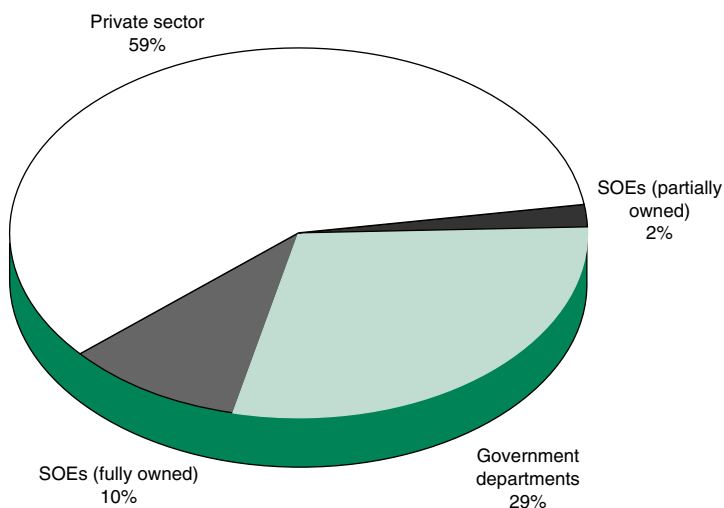
The need to rebuild the Samoan economy after the cyclones of the early 1990s saw the ratio of government expenditure to GDP peak at more than 80 percent in 1992–93. The cost of funding losses by Polynesian Airlines and difficult economic conditions triggered by the taro leaf blight helped keep government expenditure high through the mid-1990s, but government expenditure subsequently declined to as little as 35 percent of GDP. The planned increase in expenditure under the 2000 budget is forecast to again lift the ratio of government expenditure to GDP, but only to around 40 percent.

Employment in the public sector has been reasonably stable for some time.<sup>1</sup> Employment by government departments ranged between 6,000 and 6,500 persons throughout the 1990s. At the end of 1999, employment was estimated at just over 6,000 persons, about 70 percent of whom were permanent employees; the remainder were employed as casuals (see Table A11). Fully-owned and partially-owned SOEs are estimated to employ an additional 2,400 persons (latest estimate). In all, the public sector accounts for approximately 40 percent of formal employment (see Figure 4.1).

The Samoan public sector is notable for the large number of government departments and SOEs. The number of departments grew slightly from 25 in 1989 to 27 in 2000, and SOEs are spread throughout the economy. The SOEs include utilities, banking and shipping operations, an airline, a brewery, a cigarette supplier, and computer companies (see Table 4.1).

Recent public-sector reforms have emphasized improving the budget and the supporting strategic planning system. Output budgeting was adopted on a trial basis in three departments in 1995–96 and applied to

Figure 4.1 **The Distribution of Formal Employment**



*Note:* Estimates are based on data for the latest year.

*Sources:* Consultants' estimates based on data supplied by the National Provident Fund and SOEME.

<sup>1</sup> A reliance on contracting out for capital projects and the need to fund the losses of Polynesian Airlines explain the stability of public-sector employment despite the large increases seen in expenditure.

Table 4.1 **Government Agencies as of January 2000**

Departments	Government enterprises
1 Attorney General's Office	<i>Fully owned enterprises</i>
2 Audit Office	1 Accident Compensation Board
3 Broadcasting Department	2 Agriculture Store Corporation
4 Customs Department	3 Apia Park Board
5 Department of Internal Affairs	4 Development Bank of Samoa
6 Department of Lands, Survey & Environment	5 Electric Power Corporation
7 Department of Statistics	6 Housing Corporation of Samoa
8 Department of Trade, Commerce & Industry	7 National University of Samoa
9 Education Department	8 Polynesian Airlines (Holding) Ltd
10 Health Department	9 Polynesian Airlines Investments Ltd
11 Inland Revenue Department	10 Polynesian Ltd
12 Justice Department	11 Samoa Airport Authority
13 Labor Department	12 Samoa Communications Limited
14 Lands & Titles Court	13 Samoa Land Corporation
15 Legislative Department	14 Samoa Life Assurance Corporation
16 Ministry of Agriculture, Forestry & Fisheries	15 Samoa National Provident Fund
17 Ministry of Foreign Affairs	16 Samoa Polytechnic
18 Ministry of Post & Telecommunications	17 Samoa Shipping Corporation
19 Ministry of Transport	18 Samoa Shipping Services
20 Ministry of Women's Affairs	19 Samoa Trust Estates Corporation
21 Ministry of Youth, Sport & Culture	20 Samoa Water Authority
22 Ombudsman	21 Televis Samoa Propriety Limited
23 Police & Prisons Department	<i>Partly owned companies</i>
24 Prime Minister's Department	1 Brugger Industries Limited
25 Public Service Commission	2 Computer Services Limited
26 Public Works Department	3 Hellaby's Samoa Limited
27 Treasury Department	4 National Pacific Insurance
	5 Rothmans Tobacco Company Limited
	6 Samoa Breweries Limited
	7 Samoa Forest Corporation
	8 Samoa.net Limited
	9 Telecom Samoa Cellular

all departments the following year. As a result, line budgets that provided little information on the activities of agencies have been replaced. Budgets now provide considerable detail on outputs and performance measures relating to timeliness, quantity, and quality. The output budget initially introduced proved to be too complicated and has been simplified over time to better suit local needs and capacities.

A feature of the recent changes has been the devolution of some responsibilities to line agencies, notably for personnel and financial management. Heads of agencies and their deputies have been placed on performance-based contracts, where performance is to be assessed in relation to the budget outputs and performance measures. Heads of agencies are effectively contracted to the relevant Minister to supply the budgeted outputs, while deputies are effectively contracted to the head

of the agency. In terms of financial devolution, the key initiatives have been the provision of the authority to shift expenditure among cost items (i.e., among operating, overhead, and capital costs, but not personnel costs), increased ceilings on the level of expenditure that can be approved by a line agency, and the trial of revenue retention arrangements.

Other features of the recent budget reforms include

- the establishment of an improved budget planning cycle;
- the (partial) inclusion in the budget of donor-funded projects;
- the regular preparation of a Public Sector Investment Program (PSIP);
- the adoption of a simple system of forward estimates;
- the drafting of a Treasury Budget manual to help clarify the rules applying to departments; and
- the enhancement of accounting systems (resulting in audited public accounts for the three years to 1997–98 being tabled in Parliament in late 1999 and early 2000).

A major effort has been made to improve the Government's strategic planning. The main planning document is the biennial Statement of Economic Strategy (SES): "*A New Partnership*" (1996–97), "*Strengthening the Partnership*" (1998–99), and "*Partnership for a Prosperous Society*" (2000–01). The SESs present the Government's vision for national development, outline the key issues facing the economy, and describe key strategies and priorities being pursued by the Government. The SES can be seen as the main policy document that outlines the targets and objectives of departments and agencies and is a key complement to the budget documents. As a result of a recent initiative, the SES has been prepared by drawing on a formal program of community consultation.

At an agency level, each department and ministry is required to prepare a corporate plan. Initial efforts were overseen by the Treasury Department. Treasury, for example, had prepared a biennial corporate plan featuring a statement of vision; business statement; and outline of long-term goals, strategies, and performance indicators. This was complemented by a management plan that was to be revised annually and was geared to provide more detail on outputs and performance indicators. Some agencies had also prepared additional supporting internal planning documents. The centralized planning system was subsequently simplified and responsibility transferred to the Public Service Commission. All departments and ministries were required to have a corporate plan completed by March 2000.

It has also been proposed that sectoral plans be introduced as a layer between the SES and the departmental corporate plans. A Sectoral Plan-

ning Manual was finalized by the Treasury Department in October 1999 and 15 sectoral plans are envisaged. They are to differ from the SES by presenting the detailed sectoral development objectives, policies, and strategies that are only summarized in the SES and differ from the corporate plans that are internal strategies designed to improve the functioning of a department. The preparation of sectoral plans is also intended to help explain and justify the departmental budget and to provide the private sector with additional opportunities to participate in decision making.

The other major focus of recent public-sector reform has been the privatization and corporatization of public-sector enterprises. Such reforms have been high on the Government's policy agenda since 1986, with 21 SOEs liquidated or privatized between 1987 and 1996 (Knapman and Saldanha 1999). However, recent progress has generally been slower than planned. For example, to help fund the losses of Polynesian Airlines, the Government in 1994–95 planned to sell its shares in the Bank of Western Samoa, Western Samoa Breweries, the Special Projects Development Corporation, and the Agricultural Store Corporation.<sup>2</sup> The first of these to take place was the sale of the Bank of Western Samoa, which was completed in 1996–97. A summary of recent initiatives is provided in Table 4.2.

A government minister or senior official is on the board of each fully- or partly-owned SOE (in some cases as the Chair) and government

Table 4.2 **Recent Privatization and Corporatization Initiatives**

<b>Enterprise</b>	<b>Recent initiatives</b>
Bank of Western Samoa	The sale of the Government's 25-percent holding was completed in 1996–97.
BOC-Samoa Industrial Gases	The Government divested its 17-percent holding in August 1999.
MV Forum	Wound-up in 1999
Post and Telecommunications Department	Corporatized as Samoa Communications Limited in July 1999
Samoa Breweries Limited	The Government reduced its holding from 66 percent to 15.5 percent in 1999.
Samoa Iron and Steel Fabrication	The Government divested its 4-percent holding in November 1998.
Special Projects Development Corporation	Wound-up in 1999 and assets tendered
Telecom Samoa Cellular	The Government purchased a 10-percent share when the firm was established.

<sup>2</sup> For a discussion of reforms since the late 1980s and early 1990s, see Fairbairn and Vaai (1994).

representatives appear to hold the majority voting rights in nine of the fully-owned SOEs (Kolone Vaai & Associates and Goddard 1999). External scrutiny of the SOEs is provided by the Auditor-General and the State-Owned Enterprises Monitoring Unit (SOEMU) within the Treasury Department. The role of SOEMU and the general framework for overseeing SOEs are to be enhanced with the passage of a planned Samoa SOE Act. Features of the planned legislation are a more precise definition of the principles of corporatization, a clarification of the role of ministers, the provision of increased powers to SOEMU, and an improved system for public reporting by SOEs.

Other important public-sector reform initiatives outlined in the SES 2000–2001 include

- the right-sizing of the public service;
- the continual refinement of the output budget, including the right-sizing of outputs and their definition;
- the further strengthening of accounting staff and systems to ensure the provision of timely accounts;
- acceleration of the process of devolving responsibilities to departments;
- streamlining of procurement and tender procedures;
- revision of the Public Monies Act (the main public finance legislation) to ensure that it supports output budgeting and other reforms;
- privatization of the Agricultural Stores Corporation;
- divestment of the Government's interest in Samoa Coconut Oil and Products Limited (a subsidiary of the Samoa Trust Estate Corporation) and all partly-owned enterprises other than National Pacific Insurance and Telecom Samoa Cellular.

## A Framework for Analysis

Modern approaches to public-sector management place a heavy emphasis on seeking a balance between placing appropriate controls on agencies and providing autonomy to “let the managers manage.” Agencies and individuals cannot always be relied upon to pursue the public interest, so systems need to be put in place to direct their activities and monitor their performance. At the same time, agencies are often the best placed to identify how to achieve outcomes efficiently, so it is important to provide an appropriate degree of autonomy. The required systems can be difficult and costly to design and implement, however. Box 4.1 discusses these problems further in an economic context.

**Box 4.1 Economic Theory and Public Sector Management**

Economic theory provides useful insights into the problems facing public-sector management and potential solutions. Such theory is often used in helping develop the “policy fundamentals,” such as was done in developing the budget and SOE reforms of the 1980s and 1990s in New Zealand and Australia.

Economics suggest some key concerns:

- The potential for the incentives of politicians, bureaucrats, and interest groups to diverge from what the community requires. For example, bureaucrats have a tendency to enlarge their departments, politicians may pursue their own priorities rather than the community's, and interest groups will tend to press for increased budget allocations to their particular sector or cause. These observations draw on what is known as public choice theory.
- The presence of transaction costs. The key concern is the cost to a decision-maker of planning, adapting, and monitoring the agencies for which they are responsible. It is important for decision makers to minimize the transaction costs incurred in gaining the required information and implementing their decisions, while agencies have an incentive to avoid providing the necessary information. This provides insights into the appropriate structure of an organization. For example, contracting out or devolution makes most sense when transaction costs are small; in-house provision makes most sense when there is a high risk of self-interest, conflicts of interest, substantial uncertainty, and repeated, complex transactions.
- The principal-agent problem. This is concerned with the best way to construct and monitor contracts or agreements between parties (e.g., between a minister and head of department). This emphasizes the importance of aligning the self-interest of all parties as a way of minimizing conflict.

*Source:* Bale and Dale (1998); Shirley and Xu (1998).

There are common elements in the required management regime for both government departments and government enterprises. For example, whether an agency is a department or an enterprise, there is a need to clearly define its purpose, to monitor performance in an objective and transparent way, and to provide for rewards and sanctions. But the approaches taken to meet these needs are quite different. For government departments, the emphasis is on improving budget, strategic planning, and administration systems. For enterprises, the emphasis is on separating the enterprise from the core Government, subject to a commercially-oriented performance contract or agreement being put in place. To a large extent, these differences reflect the fact that the objectives, output, and performance of an enterprise are typically easier to define and assess than those of a government department. This means, therefore, that a contract-based, “hands-off” management system makes more sense for an enterprise than for a government department.

The management of government enterprises is fairly standardized across countries. Privatization is of course one way to remove the involvement of Government, while common alternatives are corporatization

(i.e., transforming an enterprise into a corporation such as those typical of the private sector) or commercialization (i.e., a more limited adoption of the “private sector model”). There is much more diversity in the management of government departments. For example, one of the simplest budget systems used is the line-item budget. A typical line-item budget simply defines the types of expenditures departments can make, for example on wages, equipment, or materials. Alternatively, program budgeting provides an explanation of the activities of a department and their relationship with a Government’s objectives, while maintaining fairly tight controls over how funds are spent. Output budgeting relaxes the controls on how funds are spent, giving managers more flexibility but also more responsibility for meeting defined outputs. Output budgeting is often referred to as a form of performance budgeting.

The different approaches taken by New Zealand and Australia in improving budget systems over the 1980s and 1990s is also informative. The New Zealand reforms have been characterized as focusing on improving the efficiency of departments (i.e., minimizing the cost of delivering outputs), while Australia’s have been characterized as focusing on strategic policy setting (i.e., putting resources in the right area and targeting cost effectiveness in the delivery of outcomes).<sup>3</sup> One of the key tools in New Zealand was the output budget, while Australia used program budgeting for much of the period, but with a heavy emphasis on policy reviews and a medium-term expenditure framework. See for example Campos and Pradham (1997). There is no uniquely superior budget system and the appropriate system depends very much on the capacity and priorities of local institutions.

## A Review of Budget Reforms

### *Key Issues*

To help clarify the impact of the budget reforms, an informal survey was conducted of a number of senior officers in central and line agencies. Five questions were asked:

- whether the reforms had provided benefits;
- whether benefits were yet to be realized;

<sup>3</sup> An output is a service or product produced by an agency, while an outcome is an effect or consequence for the community of producing the good or service. The performance criterion corresponding to outputs is normally efficiency (e.g., minimizing unit costs), while for outputs it is effectiveness (e.g., maximizing outcomes).

- whether the form of reform was appropriate, particularly with respect to the pace;
- what was the key source of any benefits seen; and
- whether the reforms had changed community attitudes toward Government.

While the interpretation of the “results” was subjective, the survey was seen to provide useful insights into the internal view of the reforms.

Strong support was found for the budget reforms, with all officers consulted advising that benefits were already evident. The reform process was seen as young and evolving, with the full benefits yet to be realized. Most consulted felt the pace of change was appropriate, providing departments with time to adapt to change, in particular by building the required skills and systems. In this respect, considerable emphasis was placed on the support provided by donor-funded institutional strengthening projects. The gradual approach to reform was seen by some as sympathetic to the “Samoan way,” which was described as requiring changes to be brought about in a steady and consultative manner.

Three possible sources, or “drivers,” of change were presented to those consulted. They were first, the setting of outputs and performance measures in the budget; second, the increased emphasis on strategic planning and community consultation; and third, the provision of increased autonomy and incentives for agencies. The emphasis amongst those consulted tended to be on the first driver, that is, the benefits of defining outputs and performance measures. This was seen to clarify the responsibilities of a department and the obligations of its staff and to provide a better separation of the role of the department and of the minister.

The importance of separating the role and responsibilities of the department from that of the minister requires some elaboration. There were indications that in the past some ministers had tended to assume the role of a chief executive officer, with substantial involvement in the day-to-day operations of a department. One consequence of this was that work plans and priorities tended to be set as the year progressed with a heavy emphasis on ministerial involvement. But this was seen to have changed under output budgeting. The need to set detailed outputs and performance measures at the start of the year has required a more open and predictable approach to planning departmental activities. For example, if a minister requests a department to undertake a new, unfunded initiative during the year, the head of the department (which is contracted only to deliver the outputs approved in the budget) is entitled to decline the request unless other activities are scaled back and the performance measures modified. These changes were seen

to aid efficiency by strengthening a department's capacity to plan and manage its resources.

It appears that to date the benefits of the budget reforms have largely been internal to Government. The operating environment for departments appears to have improved significantly over the late 1990s, with numerous anecdotes pointing to improved staff morale and commitment. However, it was harder to establish from discussion with officers the benefits provided to date to the community (e.g., examples of an increase in output quantity and/or quality). Such benefits were also difficult to establish in consultation with some of the leading nongovernment organizations and representatives of the private sector. A low awareness of the budget reforms found among such groups was consistent with the interpretation that the budget reforms have to date largely generated internal benefits.

A further useful perspective on the current state of the budget reforms can be gauged through a comparison with the classification in Table 4.3 of the desirable features of a budget system. Governments are inevitably under pressure to increase expenditure on the one hand and to reduce taxes and charges on the other. Unless such pressure is curbed, unsustainable budget deficits can emerge and undermine economic growth. Perhaps the most basic function of a desirable budget system, therefore, is that it provides for fiscal discipline. It must also ensure value for money from government expenditure. This requires a process of prioritization to see that funds are allocated to the correct use and that efficiency is achieved, so the cost of delivering priority government services is minimized. Table 4.3 provides a checklist of institutional arrangements and accountability and transparency mechanisms that are important for ensuring aggregate fiscal discipline, prioritization, and technical efficiency.

Samoa did well to achieve fiscal discipline during the late 1990s following the shocks of the early and mid-1990s. Perhaps more important, the Treasury has been successful in setting an overall budget constraint that has proven to be sustainable. The macroeconomic framework has been soundly managed, expenditure controls appear to have been effective in limiting total expenditure, and the public disclosure of projected and actual deficits has been greatly improved. Moreover, this stability has been achieved without the need for legislated constraints on expenditure (such as were adopted, for example, in the neighboring Cook Islands). On a regional scale, Samoa ranks high in terms of fiscal discipline, while a number of other Forum Island Countries continued to risk economic instability during the late 1990s because of fiscal excess.

Table 4.3 **Desirable Features of a Budget System**

	<b>Institutional arrangements</b>	<b>Accountability mechanisms</b>	<b>Transparency mechanisms</b>
I	AGGREGATE FISCAL DISCIPLINE Macro framework and coordination mechanisms Dominance of central ministries Formal constraints Hard budget constraints Comprehensiveness of the budget	Ex-post reconciliation Sanctions Openness of financial markets	Made public Freedom of the press
II	PRIORITIZATION Forward estimates Comprehensiveness of the budget Flexibility of line agencies Breadth of consultations Use of objective criteria	Reporting on outcomes Ex-post evaluations Technical capacity of Parliament Hard budget constraints	Published Freedom of the press Made public Comprehensible
III	TECHNICAL EFFICIENCY Merit-based civil-service pay and recruitment/promotion Managerial autonomy of line agencies Predicability of resource flows	Clarity of purpose/task Chief executive tenure Financial accounts, audits Client surveys Contestability in service delivery	Published Made public Freedom of the press

Source: Campos and Pradham (1997).

The Polynesian Airlines experience highlighted the importance of a comprehensive budget that identified all potential demands on the Government's resources. However, as discussed below, the off-budget SOEs remain a significant risk factor for the budget because the systems of oversight are weak.<sup>4</sup>

Improving the prioritization and technical efficiency of government expenditure is harder to achieve than fiscal discipline. Important progress has been made, notably in terms of ensuring that the fundamentals are in place, such as

- the establishment of a simple system of forward estimates, providing for merit-based public-service appointments;
- the provision of more autonomy to line agencies;

<sup>4</sup> An agency is "off budget" when not all revenues and expenditure are recorded in the budget, although net transfers to/from the agency are (e.g., a subsidy or payment of dividend).

- an increased reliance on community consultation;
- clearer statements of departmental activities;
- more up-to-date financial accounts;
- an established practice of relying on private-sector service providers (e.g., in the provision of education and construction works);
- the public disclosure of detailed budgets; and
- an active (though small) press.

However, there is considerably more work to do. As yet there has been little reporting on outcomes or the evaluation of performance (this point is discussed in more detail below). As a consequence, it is difficult to establish the extent to which the budget reforms are providing better value for money. And while steps have been taken to broaden the coverage of the budget, most donor-funded projects are yet to be fully integrated into the output structure (donor-funded projects account for around 25 percent of expenditure). This could undermine the potential contribution of donor-funded projects and complicate the task of assessing their contribution to overall economic and social performance.

In summary, Samoa's consolidated fiscal position is sound and the broad direction of the budget reforms is justifiable. Given that the reforms are only in their fifth year, it is not surprising that the emphasis to date has been on the fundamentals and that there is a considerable way to go. Some may criticize the reforms as being too slow and not ambitious enough, but Samoa was not forced to reform by fiscal crisis and does not have the overloaded public service that has required wrenching changes in some other countries in the region. The Treasury as the lead agency of the budget reforms has consciously sought to pace reform so as to build up capacity (e.g., by training and through institutional strengthening projects) to meet the new demands and the support for the recent reforms from within agencies suggests this approach has been successful.

### ***Performance Monitoring and Evaluation***

An external process of performance monitoring is important for two reasons. First, it is required to assess whether departments are offering value for money. Second, it is important as a balance and check on the autonomy provided to departments under the output budget, where this has included placing senior staff on performance-based contracts.

A performance monitoring system can be defined as a series of processes related to

- setting performance objectives and targets for programs;
- giving managers responsible for each program the freedom to implement processes to achieve their objectives and targets;
- measuring and reporting the actual level of performance against those objectives and targets;
- channeling information about performance level into decisions about future program funding, changes to program content or design, and the provision of organization or individual rewards or penalties; and
- providing information for ex post review bodies such as legislative committees and the external auditor, whose views may also feed into the above decisions (OECD 1995).

Systems for the performance monitoring of the Samoan budget are in their infancy. The current intention is that Treasury will assess performance against the budget's performance measures at a mid-year review and at the end of the financial year. But the Treasury's focus at the mid-year review has been on the level of expenditure and the end-of-year review has tended to be overtaken by the need to finalize the new year's budget. The result is that checks on whether a department has delivered budgeted outputs are largely undertaken by the department itself and the responsible minister. Clearly departments face a conflict of interest in monitoring their own performance and ministers would normally not have the technical skills or resources to provide an effective check (by themselves).

One of the challenges facing the Treasury is the sheer size of the monitoring task. The 2000 budget identified almost 300 outputs across all agencies; the number of performance measures was far greater. For example, around 160 performance measures were specified for the Education Department, 330 for the Health Department, and 150 for the Department of Public Works. It is difficult to envisage the Treasury having the resources to review all outputs and performance indicators (the relevant section is staffed by around 15 people and is also responsible for processing expenditure claims and preparing the budget).

Some observers question whether the performance monitoring systems required by output budgeting can be applied in developing countries. For example, Schiavo-Campo and Tommasi (1999) summarize the international experience as follows:

... The data, administrative, and transaction requirements of implementing an output-budgeting system are heavy, and include an accrual budgeting system, cost measurements, contract negotiations between ministers and managers, [and] an intensive monitoring of results,

including the elusive factor of output quality. The benefits could be substantial in theory, but there is little evidence of a positive across-the-board impact of the approach, even in New Zealand.

The Ministry of Finance officials in most developed countries have considered output budgeting and concluded against recommending it. As for developing countries, the international consensus is that the approach is wholly unsuitable, although a few exceptions are conceivable (Schiavo-Campo and Tommasi 1999, Section 3.4).

The OECD provided this summary of the experience of member countries with performance evaluation:

A focus on results is a central element in recent public sector reforms in OECD countries. Evaluation is important in a results-orientated environment because it provides feedback on the efficiency, effectiveness and performance of public policies and can be critical to policy improvement and innovation. In essence, it contributes to accountable governance.

The objective of evaluation is to improve decision-making at all levels. Yet its actual use has often proved to be limited, especially in relation to key policy decisions and budget reallocations. (OECD 1999, p. 1).<sup>5</sup>

The challenge for Samoa is to develop a workable system for performance monitoring that establishes that departments are providing value for money and justifies the autonomy they have been provided. The development of such a system will benefit from careful and explicit planning.

For example, consider the pitfalls of a partial or "light" performance monitoring system. Outputs need to be clear and simple to monitor and their satisfaction should have an obvious link with the desired outcomes. But one of the easiest ways for a department to meet an output is to drop quality. The Samoan output budget sensibly seeks to avoid this problem by specifying performance measures in terms of quantity, quality, and timeliness, but it is still exposed to the problem. Table 4.4 presents some illustrations (intentionally pessimistic) of the potential for unintended consequences if the external scrutiny is incomplete.

A further difficulty to be faced by an external reviewer is the technical nature of performance measures. For example, many of the performance measures of the Department of Public Works road maintenance program involve restoring road pavements to preexisting conditions, to a new condition, or to Public Works standards. An adequate assessment

<sup>5</sup> The review of the experience of a number of countries in OECD (1999) also provides useful insights.

**Table 4.4 The Potential for Unintended Consequences Under the 1999–2000 Budget**

<b>Output</b>	<b>Performance Measure<sup>a</sup></b>	<b>Potential unintended Consequence</b>
<i>Department of Police and Prisons—Criminal investigations</i>	<p><i>Quantity:</i> All complaints to be investigated and report/information files prepared. All requests for police assistance to be answered.</p> <p><i>Quality:</i> Information files on all cases are completed, and no more than 10 percent are dismissed due to incomplete investigations. Requests for police assistance are responded to in minimum time. A high proportion of disputes requiring police assistance settled without violence.</p> <p><i>Timeliness:</i> Government complaints to be investigated and a report submitted within two weeks of lodgement, determining investigation status. All other complaints must be investigated and progress results reported within three weeks from date of lodgement of complaint.</p>	<p>The satisfaction of the performance measures could be made easier by not reporting all crime. Confirming that this is not occurring will require someone outside the Department interviewing or surveying the public, or “shadowing” officers on duty. There would also be a need to assess the extent to which some crimes are not reported in the expectation that they won’t be dealt with appropriately. A review of the department’s files would fail to reveal the required information, and in any event would rely on the full and accurate recording of all dealings by the department.</p>
<i>Department of Health—Operating theatres</i>	<p><i>Quantity:</i> Total no. of operations per annum, no. of operations by type, no. of operations per surgeon, no. of postoperative infections, no. of clients on waiting list per month by type of operation, and no. and type of operations by private physicians.</p> <p><i>Quality:</i> Services are managed within the approved budget. Quality standards are developed for operating theatres. Outcome of operations (alive, dead, or complications). Client satisfaction evaluation completed. All staff have annual peer review. All staff to attend at least 40 hours of in-service education.</p> <p><i>Timeliness:</i> Peer review report submitted to Director Clinical Services and DOH. Report on client satisfaction submitted every 6 months.</p>	<p>The required number of operations and budget constraints could be met by avoiding treatment of the more difficult and expensive cases, for example, by urging patients to seek overseas care (many Samoans have the right to seek care in New Zealand and Australia). Checks would be required of those lower-risk patients who do not enter the system (e.g., women with difficult labor) and a view would need to be formed on what the local hospital should reasonably refer to a higher-level health facility.</p> <p>The absence of any target level of operations, etc., means that the performance measures are satisfied by any number of operations, etc. There is no requirement to increase efficiency.</p>

*Note:* a. Sourced from the Government of Samoa, 2000 Budget Papers, Volume 1.

of the satisfaction of such conditions would require an experienced road engineer (e.g., to identify the appropriate standard and to test the quality of road materials and the work undertaken). Considerable skills are also required within the Treasury to assess the worth of proposed performance measures. The Treasury would face some difficulty in ensuring the availability of the full range of professional skills required to review all departments effectively.

It is also important to note that correctly monitoring performance can provide few benefits if an agency is not adequately funded or is undertaking the wrong activities. To be effective, a budget system must build on sound policy planning. The introduction of a sophisticated performance monitoring system may be a low priority until a department is in a position where it can work effectively (see Box 4.2 for an illustration of this point). A related point is that the performance monitoring task cannot be so extensive as to burden a department with administration that distracts it from its core activities.

It is now sensible for the Government to take stock and review and refine its current approach to performance monitoring and evaluation. Alternatives that it may wish to consider include the following:

- Planning to review selected departments each year on a rolling basis, rather than reviewing each department every year.
- Establishing a system of self-assessments, whereby departments are only required to report to the Treasury when they do not meet their performance measures rather than reporting on the status of every measure. A program of infrequent audits supported by the threat of strong sanctions could be used to help ensure compliance.
- Involving other agencies in the process of checking departmental performance. For example, the Auditor-General could be required to undertake performance audits, an independent body could be established to undertake regular reviews (similar to the Public Expenditure Review Committee of the Cook Islands), or irregular, external reviews could be undertaken on an as-needed basis.<sup>6</sup>
- Revisiting the setting of outputs and performance measures to simplify performance monitoring. One option is to group outputs to bring the budget closer to a more traditional program budget than an output budget. Another option is to simplify the setting of measures by requiring all departments to lift their output by, say,  $x$

<sup>6</sup> The Auditor-General indicated that his office expects to commence performance audits during 2000.

**Box 4.2 Efficiency and Effectiveness in Road Maintenance**

The provision of an efficient road network is one of the core functions of government. The annual expenditure on roadwork in Samoa is approximately SAT\$12 million and accounts for about 5 percent of domestically funded government expenditure. Approximately 70 percent of the funds for roadwork are allocated to road maintenance and reconstruction, with the remainder spent on new capital works.

The length of the road network in Samoa is still being determined. The latest estimate puts it in at around 1,100 kilometers, with around 500 kilometers of this paved. A good paved road needs to be paved every five to ten years, depending on the quality of construction and the level of use, while gravel roads normally need regravelling on a more frequent basis. If a road is not properly maintained, it can deteriorate quickly, with the cost to vehicles (e.g., in terms of tire wear on sharp edges of sealed road) and the cost of rehabilitation increasing at a rapid rate the longer maintenance is delayed. There is ample international evidence that regular maintenance provides high benefit-to-cost ratios for funds spent.

An optimal road maintenance strategy would probably see more than 50 kilometers of roads repaved each year and well in excess of 50 kilometers regravelled each year. The 2000 budget has provided for the repaving of around three kilometers of road in Apia and on the order of 15 kilometers in rural areas. There are funds to pave or regravell around ten kilometers of gravel road in 2000. Maintenance funding is clearly below an optimal level.

The situation in Apia is even more worrying than these figures suggest. There are approximately 24 kilometers of roadways in Apia township. Poor construction in the early 1990s means that most of the roads in Apia township now require full reconstruction rather than just repaving. The current level of funding is providing for reconstruction at only two to three kilometers per year.

Much of the plant and equipment used by Public Works was obtained during the period of cyclone reconstruction and is approaching the end of its economic life. There are insufficient funds to replace this equipment and by January 2000 the annual budget allocation for spare parts had been used up.

One option is to contract out road maintenance work, such as was proposed in SES 1998–1999. All new construction work is currently contracted out and this practice could be extended to maintenance. However, contracting out road maintenance is problematic, even in a developed economy such as Australia. The difficulty is establishing the quality of the road prior to the commencement of work and setting and enforcing the required future quality. The potential for contractors to use substandard material or maintenance techniques and Samoa's reliance on visual road inspection techniques (rather than the use of electronic instruments) suggests that extensive contracting out of road maintenance would be difficult.

An added problem is that Public Works does not have the flexibility to right-size its work force. The result is that the department often has insufficient funds available for materials (e.g., paint for line marking) and is employing labor that can't be used effectively.

*Source:* Based on information supplied by the Department of Public Works and from Government of Samoa 2000b.

percent per year for a given level of resources, or alternatively to reduce the cost of achieving a given output by, say,  $y$  percent per year. Such an approach has been experimented with in New Zealand (Bale and Dale, 1998).

- Shifting the emphasis to strategic planning as a means of improving service delivery, rather than the definition and monitoring of outputs. Thanks to the SESs, good strategic planning has become a feature of the public sector and the obligation for departments to prepare corporate plans and, more recently, sectoral plans has further expanded planning systems. At the same time, a functional review of departments is planned under the auspices of the Public Service Commission to examine the right size of the public service and the need for 27 departments and the activities they undertake. In broad terms these initiatives have the potential to improve the allocation of government funds and ensure that the responsible agency is equipped to operate appropriately.

### ***Revenue and Expenditure Administration***

Substantial improvements have been made in revenue administration, with a key factor being the adoption of improved tax design. The reform of the tariff system has been a particularly important initiative. High rates and extensive exemptions provided for personal effects and returning citizens led to reports of a high rate of smuggling and tax evasion. For example, Samoans living in American Samoa were able to “move back” to Samoa with the benefit of a duty exemption on their vehicle, then to return to American Samoa having sold the vehicle or left it with their family. Such abuses of the tax system undermined the revenue effort generally, but lower tariff rates and a narrowing of exemptions are understood to have largely removed these problems. The heavy reliance on the VAGST, which provides about half of total tax revenue, has also been beneficial given the self-enforcing nature of the tax and the low rate of arrears borne by Inland Revenue in its collection.

The SESs have sought to increase user charges, with the SES 2000–2001, for example, containing a commitment to revise fees and charges to reflect service delivery costs. A trial revenue retention arrangement has been introduced to increase the incentive for departments to raise their own revenue. While user charges can have adverse social impacts that need to be managed, they are an important way of ensuring that users value the services they receive (because they are unlikely to pay for services they don’t value) and thereby provide signals as to which services should be provided. An issue yet to be tested is whether departments will have an incentive to raise user charges or whether they will expect the Treasury to indirectly take back any revenue raised (e.g., by reducing funding levels).

The absence of effective performance monitoring calls into question the devolution to line agencies of expenditure administration, in particular the ability to switch expenditure between operating, capital, and overhead items. Increased autonomy for line agencies is important for improving service delivery, but it should be accompanied by appropriate checks and balances. One check required is that budget documents be modified to report on actual expenditure by output and by type of expenditure (at both the output and aggregate level).<sup>7</sup> At present the budget presents the appropriation of domestic funds for the current and previous financial year, but not the actual outcome.

The budget documents would also be improved by fully integrating donor-funded programs, which account for around 25 of total expenditure. At present donor funds are allocated to outputs where there is an obvious link, but the large majority of donor funds are only allocated broadly to the relevant portfolio. The actual expenditure of donor funds is not reported. While the donors usually have systems in place to monitor their programs, it is more appropriate that this be undertaken from a whole-government perspective through the budget system. To improve the efficiency and effectiveness of the budgetary process, it is important that national budgets constitute a consolidated set of accounts.

The Treasury has plans to further devolve responsibilities for expenditure administration. For example, the threshold level of expenditure at which a department must seek Treasury approval is to be increased over time. But the Treasury is also conscious of the constraint imposed by the need to develop departmental accounting systems and skills. In certifying the public accounts for 1997–98, the Treasury noted that certain internal controls, accounting procedures, and records maintained by the Treasury and by some government departments had been deficient. Remedial action has been taken and future accounts are expected to be more reliable. One of the indicators of the robustness of the accounting systems will be whether future public accounts can be tabled in Parliament within a reasonable time frame and free of qualification.

There has been some consideration within the Treasury of extending the scope of the medium-term budget framework so as to provide more certainty for departments. Such an initiative, provided it is not too resource-intensive, would be important in clarifying the medium-term costs of government programs and providing departments more flexibility

<sup>7</sup> Kolone Vaai & Associates (1999) indicates that such changes are planned by the Government.

to find the most efficient delivery mechanism.<sup>8</sup> The adoption of accrual accounting has also been debated within some sections of the Treasury, but it is seen to be beyond the current capacity of departments and a low priority. Such caution in the adoption of accrual accounting is supported (See Knapman and Saldanha 1999, p. 119)

## A Review of Public Enterprises

### *The Performance of Public Enterprises*

Total profits from the public-enterprise sector were about SAT\$15 million in 1996–97 and 1997–98 (see Figure 4.2). However, this represents a poor rate of return and large total losses were recorded in earlier years. The service quality of some of the main utilities has been widely criticized (notably water, electricity, and telecommunications), while sustained losses and poor financial management have eroded the financial

Figure 4.2 **Estimated Net Profits from SOEs, 1992–1998**



*Source:* Consultants' estimates based on available data for all government enterprises (fully and partially owned) as supplied by SOEMU and drawn from relevant financial statements. The estimates exclude data from those enterprises that had not prepared accounts, so not all SOEs are included in the estimates.

<sup>8</sup> Knapman and Saldanha (1999, p. 118), on the other hand, raise the concern that medium-term expenditure planning may be inconsistent with output budgeting.

position of a number of the SOEs (e.g., low cash reserves, negative working capital). Overall, the recent performance of the SOEs has been disappointing.<sup>9</sup>

There appear to have been some good individual performers amongst the SOEs, however. The two shipping-based operations are providing a reasonable rate of return and all SOEs in the finance sector were profitable according to the latest estimates. Polynesian Limited, the operator of the airline, is also running at a profit (although the presence of transactions between the three related airline companies and the absence of consolidated accounts creates uncertainty about the fundamental position of the airline as a whole [see below]).

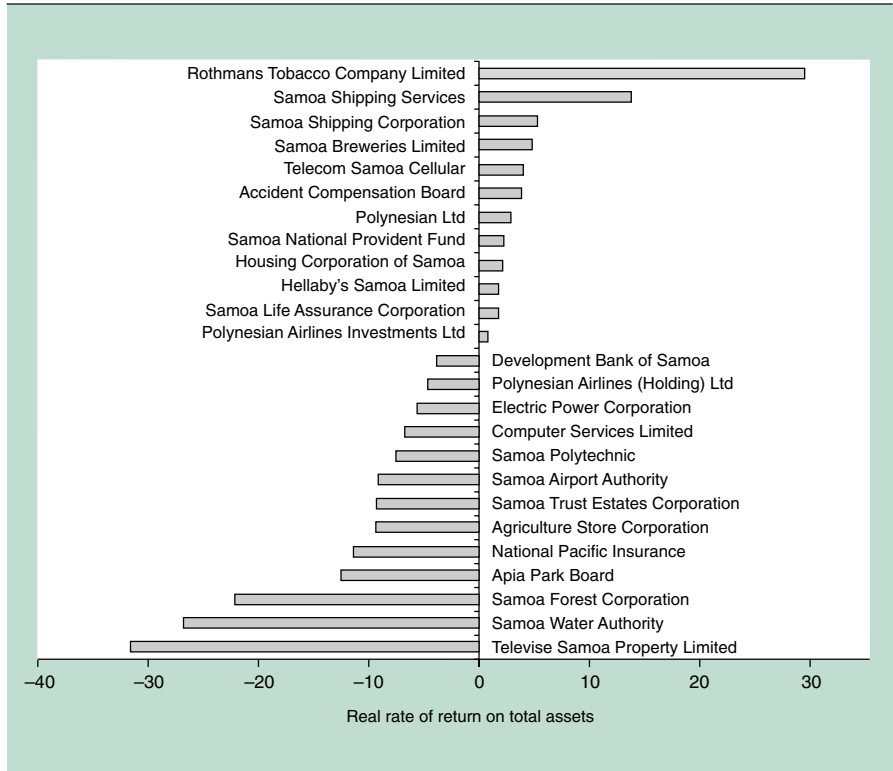
The considerable variability in performance among the SOEs is shown by their rate of return. For fully owned SOEs, the latest estimate of the real rate of return on total assets varies from 14 percent to -30 percent. The latest estimate of the return on those enterprises that are partly owned with the private sector is as high as 30 per cent (see Figure 4.3).

The main shock to the SOE sector over the 1990s was the need for the Government to support Polynesian Airlines. The Government took over all company debts and established one company to hold the debt, another company to hold the airline's largest plane, and a third company to continue to operate the airline. As of the end of 1997-98 the accumulated losses from the airline were reported as more than SAT\$100 million. Other important loss makers have been the Electric Power Corporation (accumulated losses of SAT\$34 million by the end of 1996-97), the Samoa Airport Authority (accumulated losses of SAT\$18 million by the end of 1996-97), the Samoa Water Authority, the Samoa Trusts Corporation, Televis Samoa and the Agricultural Stores Corporation.<sup>10</sup> Total grants and subsidies to SOEs account for around 10 percent of total government expenditure.

The large losses incurred by many of the SOEs are attributable to a range of factors. Poor commercial practices are undoubtedly a contributing factor, but losses can also be explained by factors outside the SOEs' control: for example, government controls on prices, the pursuit of noncommercial activities at the Government's request, inappropriate

<sup>9</sup> A description of SOEs and details on their financial performance is provided in Appendix Tables A15 to A18.

<sup>10</sup> The accounts of the Samoa Water Authority have reported profits or small losses over recent years. However, it has also received a large operating subsidy over the period (totaling more than SAT\$20 million in the four years to the end of 1999-00), without which large losses would have occurred. Profit excluding this subsidy is seen as the more relevant performance indicator.

Figure 4.3 **Real Rate of Return for SOEs**

*Note:* Calculated for the latest year after deducting government current grants and subsidies (excludes Bragger Industries, which earned an unusually low rate of return of -80 percent in 1997-98).

*Source:* Consultants' estimates based on data supplied by SOEMU and drawn from relevant financial statements.

facilities, poor-quality plant and equipment, and problems faced in ensuring the payment of bills (e.g., cultural constraints). By way of illustration, the rural electrification program has imposed large losses on the Electric Power Corporation; the Electric Power Corporation's tariffs were so low they required a 30 to 40 percent increase in 1998-99 to avoid a severe financial crisis; the low level of usage of the international airport makes it difficult for the Airport Corporation to operate at a profit without imposing very high charges; and one SOE has been directed to develop a 162-ha sport and recreational complex that will include Apia's second 18-hole golf course.

The only SOE that is called on to provide a financial return to the Government (e.g., through dividends) is Samoa Communications Limited.

The corporation was created from the Post and Telecommunications Department in mid-1999. In the 1998–99 financial year, the department's reported revenue of SAT\$26 million against operating costs of SAT\$7 million. The difference of SAT\$19 million was retained by the Treasury, and substantial dividends are projected for 1999–2000 and beyond. Although the financial structure of the corporation was still to be finalized at the time of writing, there were indications that Samoa Communications Limited was earning an above-normal rate of return and a case could be made for lowering telecommunication charges.

### ***The Oversight of SOEs***

SOEs are subject to a weaker system of oversight than departments, yet SOEs have far more autonomy. Autonomy for SOEs is important but, as with departments, it can only be justified when there are appropriate checks and balances. It is very likely that the adoption of even simple reforms to the system of oversight could substantially improve the performance of many of the SOEs and raise their contribution to the economy.

One of the more basic features of a sensible system of oversight for SOEs is adequate reporting. There are examples amongst the SOEs of good reporting. For example, the Accident Compensation Board, the Samoa National Provident Fund, and the Samoa Shipping Corporation prepare annual reports that explain their activities in some detail and allow external scrutiny of their operations. Both the Accident Compensation Board and the National Provident Fund publicly report on the return on members' funds managed, a key indicator of performance. As part of a business planning exercise, the National Provident Fund has calculated a number of other useful ratios (e.g., assets per employee, operating expenses to total income, interest income per employee) and developed annual targets and plans to publicly report on actual performance against these targets. The Samoa Water Authority and Samoa Communications Limited have also recently taken steps to establish a suite of performance indicators.

However, there is a general problem with the timeliness of reporting. For example, as of January 2000, SOEMU had no accounts for 1998–99 for the fully-owned SOEs, with the latest accounts for 14 of the fully-owned SOEs being 1997–98. Of these, only five received a nonqualified audit opinion, four were audited but there was no record of the opinion, and another five accounts were in draft form. The latest accounts for four of the fully-owned SOEs were for 1996–97, with another two having only submitted 1995–96 accounts. A further issue

is that most annual reports are very brief and do not explain the activities of the SOE, key issues facing it, or nonfinancial performance measures.

A consequence is that SOEMU is poorly placed to oversee the SOEs, a problem aggravated by its small staff (which was limited to one or two persons for much of 1999). There is little information available to the public on the activities of the SOEs, with public reporting limited to those accounts tabled in Parliament or with the companies registry. Poor reporting was one of the important contributing factors to the problems faced in the mid-1990s with Polynesian Airlines, because it handicapped both the board and the Government in responding to the financial crisis. (See Fairbairn and K. Vaai & Associates 1994, p. 46). Given this experience, and the Government's large investment in the SOEs of more than SAT\$400 million, it is surprising that monitoring appears to have been accorded such a low priority.

SOE monitoring needs to look beyond financial performance to indicators of productivity or service quality. Simple indicators can be derived to both increase public accountability and stimulate an organization to improve its operation. For example, the business plan for Samoa Communications Limited for 2000–2002 stated that performance indicators would be developed for productivity, service performance, customer satisfaction, public attitudes, employee satisfaction, safety, and business growth. The Samoa Water Authority does not know how many customers it has and has a very high level of arrears (more than SAT\$4 million in 1997–98), in which case useful indicators would be for the Authority to identify its customer base and to collect a given percentage of arrears within a set period. One of the simplest approaches is to require a set percentage improvement in physical performance indicators every year. More sophisticated systems can be put in place over time, for example, by drawing on benchmarking studies or analyzing an organization's productivity (see Box 4.3 for a simple illustration of benchmarking). The key is to establish at least some objective measures of performance.

### ***The Sequencing of SOE Reform***

The SOE reform efforts of the 1990s have focused on privatization. There has also been one significant enterprise corporatized, the Post and Telecommunications Department. These reforms have been desirable, but it has been a lengthy process requiring significant external assistance. A consequence is that most SOEs appear to have received little attention,

**Box 4.3 Benchmarking Samoa's Postal Service**

The Samoan postal service was corporatized in July 1999 as part of Samoa Communications Limited. Little attention was paid to improving the quality of the service when it was operated as a department, but corporatization has created some interest. As of January 2000 there were no accounts for the service, so its financial performance was unclear. But simple productivity indicators can be used to assess the state of the service. The number of articles of post handled per capita per day is generally a good indicator of the state of development of a postal service. A benchmark of 34 articles per capita per day was calculated for a group of 13 developing countries (Indonesia, Republic of Korea, Malaysia, Mexico, Philippines, Saudi Arabia, Sri Lanka, Swaziland, Thailand, Tunisia, United Arab Emirates, Venezuela, and Zimbabwe); the figure derived for Samoa was found to be 6. The number of articles handled per employee per year for the benchmark group was calculated to be 79,000, compared to 18,000 for Samoa. And the number of articles handled per post office per day by the benchmark group was calculated to be more than 500; the figure for Samoa was found to be 27.

Although the countries of the benchmark group tended to be more developed than Samoa and, in this sense, may constitute too high a standard, the difference was so great as to indicate a need for substantial reform. The low level of usage of the postal service in Samoa is generally an indication that prolonged periods of poor service have deterred the community from using the service. And the low productivity indicators pointed to an overmanned service with too many post offices.

*Source:* Based on information supplied by Dr. David Smyth, consultant to the Universal Postal Union.

while some of these neglected SOEs were probably those most in need of reform.

A comparison of asset values helps illustrate this point. The total value of the Government's equity in recent privatizations (from 1996–97 to the present) was recorded in the financial accounts as around SAT\$20 million. In contrast, the value of the Government's equity in other SOEs is valued at more than SAT\$400 million (excluding Samoa Communications Limited). Further, most reformed enterprises were among the better operators. Some were partly privately owned, and because the private partner has a strong incentive to manage the organization profitably, the potential improvement in performance from such privatizations was probably relatively low.

Current plans are to continue the privatization of the partly-owned enterprises. Although this initiative in itself is warranted, there is a risk that such efforts will continue to be at the expense of the badly needed reform of fully-owned SOEs. The government investment in the remaining partly-owned enterprises is valued at SAT\$7 million, compared to the more than SAT\$400 million invested in fully-owned enterprises.

Table 4.5 **A Comparison of Fully- and Partly-Owned Government Enterprises**

	Value of Government <sup>a</sup>		Real rate of return <sup>a,b</sup>	
	Assets	Equity	On assets	On equity (after tax)
	Tala million		percent	
<i>Latest estimates for:</i>				
Fully-owned enterprises	812	420	-2.7	-4.4
Partly-owned enterprises	13	7	2.2	4.0
All enterprises	825	427	-1.3	-3.7

Notes: a. Calculated based on data for the latest year.

b. A weighted average (based on total assets and total equity as relevant) calculated after deducting Government current grants and subsidies.

Source: Consultants' estimates based on data supplied by SOEMU and drawn from relevant financial statements.

And in total the partly-owned enterprises are already profitable, whereas the average real rate of return on fully-owned SOEs has been negative (see Table 4.5). As the resources available to manage reform efforts are limited, it could be argued that the highest priority should be placed on the larger, poorly-performing SOEs (which are mainly the utilities).

### ***Features of the Proposed Policy Framework***

The proposed SOE Act offers an opportunity to substantially improve the oversight framework for SOEs. The draft bill includes the following features:

- A principal objective for every SOE to operate as a successful business, including an obligation for each SOE to be as profitable and efficient as comparable businesses that are not owned by the State;
- A requirement that Statements of Corporate Objective and corporate plans be prepared to document the activities of SOEs and that such material be tabled in Parliament;
- An obligation for ministerial directions to an SOE to be tabled in Parliament;
- The provision of increased powers to SOEMU to ensure that SOEs report in a timely manner;
- A provision that directors be only persons who will assist the SOE to achieve its principal objective;
- The establishment of shareholding ministers with overall responsibility to Parliament for the performance of the SOE; and
- An obligation for the Government to fund noncommercial activities of SOEs.

These provisions have the potential to lift the standard of oversight and open the SOEs to a high degree of public scrutiny. But as of early 2000, it was unclear when the draft bill would be passed or implemented, whether it would cover all SOEs, and whether partial exemptions would be provided to some SOEs. One of the sticking points likely to be faced in the adoption of the draft bill is the composition of SOE boards.

At present most SOE boards are chaired by a minister, with senior public servants frequently acting as board members. It can be argued that such involvement compensates for the lack of suitable external oversight; that is, ministers and public servants may demand a significant involvement in the operations of SOEs in order to ensure that they undertake the right activities and that there are some pressures and checks on performance. However, the involvement of government representatives on a board creates a conflict of interest in ensuring accountability and creating the right pressures on a board to perform. Further, it may result in boards lacking suitable business skills. Some concerns have been expressed within Samoa about the lack of suitable board candidates should ministers and public servants be excluded from boards. If this proves to be a problem, it would appear necessary to draw on overseas expertise, where overseas-based directors could sit on more than one board.

If ministers and public officials are not to be excluded from SOE boards, it would be highly desirable to give SOEMU independence from the Government. This would obviate the situation where SOEMU was required to report to the Finance Minister on the performance of ministers and senior public servants. Options include moving SOEMU to the Auditor-General's office or requiring it to report directly to Parliament.<sup>11</sup>

The Treasury has noted that a key issue to be considered in adopting the draft SOE Bill is its coverage. A case could be made for the initial application of the proposed Act to only some SOEs. This would give the SOEs and SOEMU time to familiarize themselves with the new systems introduced by the Act and to develop workable approaches to be applied more broadly. It would also prevent the possibility of the reform process becoming bogged down in the negotiation of a large number of Statements of Corporate Objectives, asset valuations, etc., where this process could make much-needed early gains hard to achieve.

<sup>11</sup> A number of other issues facing the boards of SOEs are discussed in Kolone Vaai & Associates and Goddard 1999, pp. 83–87.

The most likely priorities for early action would be the utilities, given their size, importance to economic activity, and generally poor performance. One option might be to initially apply a “paper trial” to the smaller or less troublesome SOEs, whereby the provisions of the Act are mimicked but not applied in full.

The creation of Samoa Communications Limited has led to calls for a telecommunications regulator. As discussed elsewhere in this report, any economic regulator created should probably have responsibility for all sectors of the economy. Given the shortage in Samoa of the required skills in economic regulation, it would make sense for the regulator to also absorb the responsibilities of SOEMU (or alternatively for the role of SOEMU to be broadened to encompass all economic regulation). Regardless of the form of such a regulator, it is unlikely that privatization of government monopolies such as the utilities would be sensible for the foreseeable future, given the high degree of difficulty that would be faced in preventing the abuse of monopoly power.

An issue is the future of noncorporatized enterprises within government departments. These include the government printeries (e.g., within the Prime Minister’s and Education Departments), sections of Public Works (e.g., road maintenance), the government stores within the Treasury Department, and the Port Authority. In some cases privatization may be suitable, notably for the printing operations. However, corporatization is unlikely to be suitable at this stage for two reasons. First, the enterprises are probably too small to warrant the administration cost. Second and more important, the general government sector is subject to a more transparent and accountable management framework than currently applies to SOEs, so in this sense corporatization at this stage would be a backward step. Commercialization, which is essentially a simple form of corporatization, is an alternative that could create an improved operating environment for such activities while maintaining them within departments.

A related matter is the treatment of a number of essentially non-commercial enterprises currently classified as SOEs. The enterprises of concern are the National University of Samoa, the Samoa Polytechnic and the Apia Park Board. These enterprises are not suited to the full corporatization framework, as they have little prospect of being run as commercially viable activities. There may be value in treating the enterprises as a normal department rather than seeking to subject them to the framework to be implemented under the SOE Act.

## The Quality of Governance

A key concern is the extent to which good governance has been promoted by recent reforms. Governance can be defined as “the manner in which power is exercised in the management of a country’s economic and social resources for development” (ADB 1995a). The main elements of good governance are accountability, transparency, predictability, and participation. Accountability is concerned with ensuring that individuals and organizations are responsible for their actions. Transparency is achieved when relevant information on activities and performance can be readily accessed at low cost. Predictability requires rules that are clear, known in advance, and enforced uniformly and effectively. Participation of those outside Government in government decision-making is required to ensure well-informed decisions.

Important progress has been made in improving governance in Samoa and the Government remains committed to achieving further gains. For example, SES 2000–2001 contains a commitment to ensure full compliance by the end of the SES period with the Accountability Agenda agreed to at the 1997 economic ministers meeting (FEMM) of the South Pacific Forum<sup>12</sup> (see Table 4.6 for a summary of recent progress).

Enhancing accountability and transparency will require continuing to open the public sector to external scrutiny through improved public reporting. The approach adopted by public-sector management in Samoa is performance based and this requires the provision of both rewards and penalties. But at present nonperformance does not appear to trigger sanctions and stronger action appears essential. In this respect, the priority is the SOE sector.

Predictability has been greatly enhanced by

- the clarification in the output budget of each department’s activities;
- the preparation of forward estimates;
- the preparation of the three SESs;
- the corporate and sectoral planning process; and
- the various guidelines and manuals on the “rules” of public administration.

This has built on a reasonably comprehensive legislative base and an independent judiciary and central bank (with respect to prudential supervision). Predictability can be expected to further improve as informal

<sup>12</sup> The South Pacific Forum, formed in 1971, represents the heads of Government of all Pacific Island countries, plus Australia and New Zealand.

Table 4.6 **The Status of the FEMM Accountability Agenda in Samoa**

<b>FEMM Public Accountability Principle</b>	<b>Relevant Feature of the Samoan System</b>
<p><i>Principle 1</i> Budgetary processes, including multi-year frameworks, to ensure Parliament is sufficiently informed to understand the long-term implications of appropriation decisions</p>	<p>The budget is accompanied by an Economic Statement that sets out the current and expected economic environment and forward estimates are prepared for the next three years. A Public Accounts Committee receives detailed briefings on the budget documents and estimates and can summon relevant officials.</p>
<p><i>Principle 2</i> The accounts of government, state-owned enterprises, and statutory corporations to be promptly and fully audited and the audit reports published where they can be read by the general public</p>	<p>Audited public accounts of the SOEs are normally submitted late. However, as of January 2000, audited public accounts for the financial years to June 1998 had been tabled in Parliament and audited accounts for most SOEs had been made public (via tabling in Parliament) for the financial years to June 1998. The Public Monies Act is to be strengthened and the planned SOE Act is intended to improve the disclosure of SOE accounts.</p>
<p><i>Principle 3</i> Loan Agreements or Guarantees entered into by Government to be presented to Parliament with sufficient information to enable Parliament to understand the longer-term implications</p>	<p>Most loans are sourced from donors and documented through publicly available loan documents. A Bills Committee of Parliament reviews any Loan Authorization Bills submitted to Parliament. There is no other general obligation for disclosure of loan agreements or guarantees.</p>
<p><i>Principle 4</i> All Government and public-sector contracts to be openly advertised, competitively awarded, and publicly reported</p>	<p>Significant public service contracts are to be advertised and awarded on merit and bids are to be opened publicly. Significant contracts are issued through the Tender Board. This follows a general relaxation of checks and balances during the cyclone reconstruction.</p>
<p><i>Principle 5</i> Contravention of financial regulations to be promptly disciplined</p>	<p>Few contraventions have been disciplined.</p>
<p><i>Principle 6</i> Public Accounts Committee of Parliament to be empowered to require disclosure</p>	<p>This condition applies.</p>

*Principle 7*

Auditor-General and Ombudsman to be provided with adequate fiscal resources and independent reporting rights to Parliament

Both agencies hold independent reporting rights. The Auditor-General in particular is in need of additional resources and an increase can be expected given a government commitment to strengthen the agency.

*Principle 8*

Central Bank with statutory responsibility for nonpartisan monitoring and advice and regular and independent publication of informative reports

These conditions apply.

---

*Source: Kolone Vaai & Associates 1999 and consultation with Government agencies.*

systems are formalized and the public and private sectors gain confidence that rules will be adhered to.

The extent of participation is difficult to assess. The increased transparency of government activities, an explicit attempt to involve the community in the preparation of government strategies (for example in preparing the latest SES and recent reviews of sector plans for health and education), and attempts to increase the capacity of nongovernment organizations (NGOs) (e.g., through the creation of SUNGO, the umbrella NGO group) all point to an attempt by the Government to support participation. However, the potential for participation needs to be seen in the context of the ordered nature of Samoan society, and in particular the position of the matai. Hooper pointed to

a power elite made up of cabinet members, the “royal sons,” very wealthy business people and the managers of public corporations. Entry into this group depends heavily on political and family connection, education and wealth. While it is possible to be one of this elite without having a matai title . . . , the great majority do have titles of middle to high rank and contribute conspicuously to public causes and to traditional ceremonies and events. Rank and power have a definite tendency to coalesce. (Hooper 1998, p. 47).

A threshold issue for Samoa is the treatment of the potential for corruption within the public sector. Corruption normally emerges where distortions in the policy and regulatory regime coexist with weak institutional restraints. Small-scale corruption may not seem to be a serious problem in itself, but such corruption can still raise the costs of economic activity and if left unchecked can become entrenched. Entrenched corruption can be very damaging and can prevent the emergence of a Government capable of developing and implementing policies that promote economic and social welfare. It can also lead to a loss of faith by

the public in constitutional government and can thereby provoke political instability. Another worrying aspect of corruption is that it can be a symptom of a much wider and more damaging problem: a breakdown in or lack of social norms that are important for providing informal support for formal governance mechanisms.

Samoa does not appear to suffer from the same corruption problems as some countries in the region. But anti-corruption bodies can be justified even in a corruption-free environment, because they can act as a deterrent to corruption. In this fundamental area of governance, prevention appears to be far more effective than attempts to cure corruption once entrenched. Options for an anti-corruption agency include the creation of a separate body reporting to Parliament (e.g., as adopted by the Queensland and New South Wales states of Australia) or to extend the powers of the existing Ombudsman, as in Vanuatu and Papua New Guinea. It is understood that a proposal to extend the powers of the Ombudsman was first developed in Samoa in the late 1980s.

### **Future Directions—Options for Further Improvement**

The public-sector reform effort in Samoa has placed a heavy reliance on trust. The adoption of output budgeting has provided government departments more autonomy to manage their own affairs, while the SOEs have been reasonably autonomous for some time. External checks in place on the performance of both departments and SOEs are weaker than they should be, particularly for the SOEs. Under such conditions, a heavy reliance is placed on the commitment of staff and internal checks on performance. This may be sufficient to ensure the best use of public resources, but it is very difficult for those outside any individual agency to assess whether value for money is being provided. The result is a weakening of accountability and transparency. At the extreme, the system is open to misuse by individuals. Therefore one of the key improvements to be considered is putting the required external checks in place.

The process of putting these external checks in place for government departments is difficult and will require a conscious strategy. It appears that some simplifications are required of the current performance monitoring system. A desirable option is the adoption of a multiyear plan of performance monitoring and evaluation rather than the annual process currently envisaged. Until these checks are in place, further devolution of expenditure and personnel controls are unwise.

The appropriate systems for SOEs are largely embodied in the proposed SOE Act. The main issue to be considered in the near term is

how to implement the proposed act's provisions. An immediate and comprehensive application to all SOEs may look good on paper, but may have minimal impact in practice; some prioritization or staging of reform appears warranted. A case can be made for paying most attention to the utilities, since they are probably the most important SOEs to the economy but have the greatest problems.

Modern public-sector management is a continual process of change and refinement. The term "reform" can imply a one-off program that, once done, can be stopped, and this appears to have been the initial expectation in Samoa. It is now clear that Samoa must maintain the momentum it has built up in recent years if the full benefits of past efforts are to be realized. It is important not to forget that the potential gains that could be achieved from a more efficient and effective public service are high, both in terms of economic and social development.