

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: POHQ

TA NO./NAME: TA 3201-FSM: Privatization of Public Enterprises and Corporate Governance Reform				TA AMOUNT APPROVED: \$450,000.00		SOURCE: TASF
				REVISED AMOUNT: ---		
EXECUTING AGENCY: Department of Economic Affairs				TA AMOUNT UNDISBURSED: \$242.58		TA AMOUNT UTILIZED: \$446,257.42
DATES:	APPROVAL: 9 June 1999	SIGNING: 17 Aug 1999	FIELD: 15 Jan 2000	CLOSING : ORIGINAL: 30 Oct 2000		ACTUAL: 15 January 2001 ¹

TA DESCRIPTION

This TA was designed to support the Government's reform program in the area of public sector enterprises (PSE). The Bank, through the Public Sector Reform Program (PSRP) loan and associated TA has been supporting these reforms. As a part of the PSRP, the Government has initiated measures to: (i) reduce the size and operating cost of the civil service; (ii) increase domestic revenue generation; (iii) restructure government operations and public sector enterprises; (iv) mitigate the social and economic impact of such public expenditure adjustment, and (v) foster private sector development. The Bank-financed Economic Management Policy Advisory Team (EMPAT) I has been providing some ad hoc assistance by reviewing PSE operations and providing a broad outline of directions for PSE reforms. However, while the PSRP has concentrated on the issues related to the retrenchment of public servants and the restructuring of Government operations, the reforms related to the privatization of PSEs were yet to be adequately attended to. To facilitate this process, during the 1998 Country Programming Mission, the Government requested further TA for reforming public sector enterprises through privatization and corporate governance reform. The TA was to compliment work undertaken by TA 3024-FSM: Economic Management Policy Advisory Team (EMPAT) II, which was to formulate a strategic economic management framework.

TA OBJECTIVES AND SCOPE

The principal purpose of the TA was to assist the Government to formulate an overall privatization strategy and initiate effective, smooth, and transparent PSE-related reforms. Such reforms would constitute an integral part of the broader public sector reforms initiated under the PSRP. The PSE reforms would also provide impetus to increase the efficiency and profitability of PSEs by introducing new best corporate governance and management practices. The TA included the following components: (a) assistance to the national and state governments in formulating the PSE reform strategy, (b) technical advice on corporatization and privatization of individual PSEs on a pilot basis, (c) advice on strengthening the management framework and corporate governance of PSEs, (d) capacity building of the proposed Public Enterprises Reform Unit (PERU), and (e) advice on consensus building and increasing awareness of stakeholders about issues related to PSE reforms. The consultants were expected to provide a comprehensive set of policy and strategy recommendations on PSE reforms. Consultants would (i) prepare recommendations on establishing the PERU, (ii) prepare a draft privatization strategy, (iii) review and analyze the information collected on PSEs, (iv) select PSEs to be studied in detail for the pilot privatization, and (v) prepare a Master Plan for reformation of the PSEs. The consultants would also prepare procedures for corporatization and privatization, initiate a public awareness program and prepare detailed plans for corporatization and privatization of selected PSEs. Finally, the consultants would help implement the PSE restructuring program under the TA and assess the need for a follow-up TA.

TA INPUTS EVALUATION

Considering the distances between the five States and the difficulties inherent in traveling between the State, the TA resources and, consequently, inputs in any one state, were hardly sufficient; nevertheless, the consultants managed to complete the tasks outlined in the terms of reference and meet the objectives of the TA. However, on hindsight, the TA effectiveness could have also increased with more prior attention to the development of the policy and legal framework and capacity building and closer coordination of activities with the EMPAT II TA. The TA provided the following expertise. (i) Public Enterprise Reform Specialist/Team Leader (5.875 person-months), (ii) Legal Specialist (2.625 person-months), (iii) Financial Advisor (2.875 person-months), (iv) Engagement Principal/Privatization Specialist (1.265 person-months), (v) Domestic Financial Analyst/Accountant (3 person-months), and (vi) domestic Legal Expert (3 person-months). The TA commenced in Mid-January 2000. The inputs of the consultants were divided into three phases, with the fieldwork completed in September 2000, and home-office work completed in January 2001.

¹ Refers to date of consultants' final report.

TA OUTPUTS EVALUATION

In terms of reports, the TA produced the following outputs: (i) Inception Report; (ii) Interim Report; (iii) Draft Final Report, and (iv) Final Report. In addition, the TA conducted four public awareness and privatization workshops and contributed to the National Public Sector Reform Conference held in Pohnpei on 25-27 September 2000. Review of the TA was carried out in January 2000. The Final Report was tabled in January 2001. The quality of the outputs was generally acceptable. The Executing Agency provided necessary logistical and counterpart support. In terms of the status of the outputs specified in the TA Terms of Reference, the following have been achieved. (i) The consultants prepared a complete inventory of Public Sector Enterprises (PSEs) with preliminary diagnosis of their operation; (ii) prepared a legal framework for privatization and corporatization of the PSEs, including proposed model corporate by-laws and proposed amendment to Presidential Order; (iii) prepared a legal setting for privatization and corporate governance, recommending measures for improving corporate governance practices; (iv) established financial baseline of the public enterprise sector, developed databases, and assisted in building of domestic capacity for undertake analysis, through training workshops; (v) Selected and undertook an in-depth diagnostic review of ten pilot PSEs, two from each State, presenting detailed analysis and recommendations for action; (vi) prepared a model Master Plan for the reform of the PSEs, and; (vii) prepared a document for "Public Sector Enterprise Reform Strategy and Implementation Plan".

TA OVERALL ASSESSMENT/RATING

The TA can be rated as successful, as the main stated TA objectives have been met. As envisioned, the core activity under the TA – assisting the Government to formulate privatization strategy and initiating a plan for public sector reformation; providing technical advice on corporitization and privatization of PSEs on pilot basis; advising the Government on capacity building of PERU and assisting the Government in their plans for public awareness programs and consensus building, through workshops and seminars, have been achieved. The TA has documented a road map for reformation of the PSEs, either in the form of privatization, corporatization or corporate governance, e. g. establishing best corporate governance practices. It has provided an in-depth analysis and detailed course of action for the reformation of the ten selected pilot PSEs, two from each State, and has documented a model five years rolling Master Plan, which should be revisited, reviewed and updated periodically by PERU.

MAJOR LESSONS LEARNED

(1) In order to be effective and ensure long-term success in FSM's privatization program, PERU should have a much greater level of authority and responsibility. It should be headed by a high level position reporting to the President, or a high level presidential committee appointed specifically for the PSE reform program. (2) Any TA design in this area should incorporate a substantial capacity building and training component for PERU. (3) Political commitment, both administrative and legislative, is an essential prerequisite to the actual privatization and/or reformation of the PSEs. It is therefore essential that appropriate policies supported by legislature is given priority in this program.

FOLLOW-UP ACTION AND RECOMMENDATIONS

The Bank, through its previous TAs, aimed at improving public finance management in general. This TA was the first one that dealt directly with privatization and corporate governance of public sector enterprises. This TA should be followed up with an action oriented TA focusing on the actual privatization of the ten pilot PSEs which were identified under this TA. A need for corporate governance reform is almost universal amongst PSEs. While the office of the PERU has been put in place, there is a need for continuing capacity building. Once the full political commitment, including both policy and legislative, is in place in early/mid 2002, the new TA could go a long way to achieve actual privatization and reformation objectives.

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