

Leaders Retreat: State-Owned Enterprise Reform in Fiji, Marshall Islands, Samoa, Solomon Islands and Tonga

25-27 March 2011 Nadi, Fiji

Proceedings

INTRODUCTION

The Leaders Retreat was held on the 25th to 27th March in Nadi, Fiji, to provide stakeholders from the participating countries an opportunity to discuss the key findings and outcomes of the comparative SOE Study *Finding Balance 2011: Benchmarking the performance of SOEs in Fiji, RMI, Samoa, Solomon Islands and Tonga*. The Director General of the ADB's Pacific Department, Robert Wihtol, chaired the Retreat.

A list of persons attending the Retreat and their contact information is attached in Appendix 1. The Retreat Agenda is attached in Appendix 2. A copy of the workshop presentations is attached as Appendix 3.

Ten senior officials attended the Retreat from the Ministries of Finance and Public Enterprises of the five countries participating in the study: Fiji, RMI, Samoa, Solomon Islands and Tonga. The Minister of Finance of Solomon Islands also participated in the Retreat and announced his renewed commitment to SOE reform as an integral component of his Government's private sector development strategy. Two resource speakers participated in and facilitated the discussions: Hon Richard Prebble, former Minister of Public Enterprises of New Zealand and Hinauri Petana, former CEO of the Ministry of Finance of Samoa.

OBJECTIVE AND DISCUSSIONS

The objective of the Retreat was to (i) present the findings of the comparative SOE study, (ii) solicit frank discussion regarding each country's experience and current challenges in implementing SOE reform and (iii) identify next steps for progressing SOE reforms, including those that can be supported with ADB TA. The presentations outlined the key findings of the comparative SOE study that showed that Tonga's SOE portfolio outperformed the SOE portfolios of Samoa, Fiji, RMI and Solomon Islands during the FY2002-09 period, but that none of the SOE portfolios were producing returns sufficient to cover their cost of capital. The key drivers of the poor SOE performance were their weak governance arrangements; conflicting mandates; absence of hard budget constraints; and lack of accountability. Despite robust SOE legislative frameworks in at least 3 of the 5 countries surveyed, weak enforcement of the legislation renders it ineffective. Renewed political leadership to implement existing legislation, restructure poorly performing SOEs and create an effective accountability framework are necessary to improve SOE performance and reduce their strain on state budgets.

Participants at the workshop readily acknowledged that improvements must be made to the performance of the SOEs, and agreed that strengthened governance (i.e. improved quality of directors and reduced political interference) would be essential to achieving results. Participants also suggested that the five countries should share knowledge and experiences, such as SOE legislation, regulations, guidelines, director performance evaluation frameworks, templates and reform approaches to create a "community of practice". It was also suggested that a roster of qualified SOE directors be maintained and shared across the region. ADB could help to facilitate these and other initiatives.

CHALLENGES AHEAD

While all five countries agreed on the need to place SOEs on a commercial footing, the essential role of the boards of directors in achieving this goal and the political leadership required to support it, each country provided specific views on the challenges ahead:

- **Fiji:** Travel bans imposed on SOE directors has limited the pool of potential directors. This has led to increasing numbers of civil servants on boards and difficulties in achieving commercial goals outlined in SOE corporate plans. Fiji has a Strategic Framework for Change that supports improved SOE performance. Fiji is currently amending its Companies Act and intends to also strengthen its SOE Act in 2011 with specific provisions relating to director selection, community service obligations (CSOs) and SOE divestiture. The hiring of 16 new staff at the MPE will support implementation of the improved legislative frameworks, but ongoing TA support will be needed to train up new staff, disseminate best practices and support advocacy efforts to address a general climate of resistance to change among SOEs. The government is also looking to develop mechanisms to facilitate employee buy-outs of SOEs so as to encourage entrepreneurship and reduce the cost of redundancy payments. To improve monitoring performance, the government will examine the benefits of merging the SOE monitoring functions within the MPE and Ministry of Finance.
- **RMI:** RMI is the only country in the 5 surveyed that does not have a policy and legislative framework for its SOEs, but this is now under development. It is keen to learn from the experiences of the other countries in the Pacific, develop an SOE reform strategy, and recognizes that this represents a departure from years of considering SOEs as non-commercial entities. The success of these efforts will require sustained advocacy initiatives and political will. A particular challenge in RMI will be sourcing qualified directors from the private sector, given the small size of the country.
- **Samoa¹:** Reform momentum in Samoa has waned over recent years, as stated in the comparative study. Progress is being made with the restructuring of the Electric Power Corporation, the appointment of an independent director selection committee in July 2010 and the restructuring of SOE boards to remove Ministers and civil servants, but the pace is quite slow as the government struggles to identify suitable private sector directors. Little is being done to restructure chronically loss-making SOEs. It is recommended that increased advocacy is conducted with the new Government to disseminate the findings of the study and raise awareness of the costs of not reforming. It was noted that the government may be considering establishing the SOE monitoring unit as a separate ministry. While the study found that the institutional structure of the monitoring unit did not have a significant impact on SOE performance, if the proposed move represented a renewed level of political commitment and focus on SOE reform, it could support improved performance.
- **Solomon Islands:** The Minister of Finance indicated that SOE reform is a central tenet in the new Government's private sector development strategy. While the Minister stressed the need for "reform realism", he also said that privatization/liquidation of loss-making SOEs would be necessary to alleviate their strain on the budget. As 80% of the MPs are new, there is a need for sustained advocacy efforts on SOE reform, in particular on the need to apply the existing regulations concerning director selection and appointment. The Minister expressed his commitment to implementing the 2007 SOE Act and 2010 Regulations and welcomed continued RAMSI, PIAC and ADB support in this area.

¹ as no Government representatives from Samoa attended the Retreat, comments on Samoa were made by the former CEO of the Ministry of Finance, Hinauri Petana; these comments do not represent the official views of the Government

- **Tonga:** The new Minister of Public Enterprises in Tonga has expressed a commitment to improving the performance of his SOEs through a continuation of the SOE rationalization program and rapid restructuring of non-performing boards. As is the case in Samoa and Solomon Islands, it is recommended that advocacy efforts be stepped up so that the findings of the SOE study can be communicated to the newly elected Government. In addition to this support, Tonga welcomes continued ADB TA to implement SOE rationalization strategies and look for further opportunities to develop public-private partnership contracts for the delivery of infrastructure and related public services.

Resource speaker Richard Prebble provided some perspective from his experience as Minister of Public Enterprises in New Zealand, when he oversaw one of the most comprehensive SOE reform programs in the region's history. Among his key messages was that competition was the best form of regulation and that privatization provides better outcomes than continued Government ownership. He indicated that once bureaucrats realized how difficult it was to place and maintain SOEs on a commercial footing, they would themselves realize that privatization was a sensible option. He commended the comparative study for highlighting the issues of poor governance and inherent flaws on the SOE model, and suggested that continued advocacy was essential to secure political commitment to change. A copy of Mr. Prebble's speaking notes is attached as Appendix 4.

NEXT STEPS

All countries participating in the Retreat encouraged continued ADB support for SOE reforms, in particular in the following areas:

- *Advocacy:* additional presentations of the findings of the study in the participating countries, dialogue with senior policymakers and members of the legislature, civil society, etc
- *Legal and regulatory:* support for developing and amending SOE Acts (RMI and Fiji), for developing guidelines for CSOs, director selection and performance evaluation, corporate plans, etc
- *SOE restructuring and privatization:* support for the privatization of Solomon Print and Tonga Print, continued rationalization of Tonga SOEs, development of shared accounting services for Solomon SOEs, support for restructuring SOEs in Solomon Islands and possibly Samoa
- *Training and capacity building:* support for capacity building of monitoring unit staff in Solomon Islands, Tonga and Fiji. Director training and induction programs for all 5 countries
- *Knowledge sharing:* development of “community of practice” on SOE reform whereby countries can share knowledge and experiences, such as SOE legislation, regulations, guidelines, director performance evaluation frameworks, templates and reform approaches. A roster of qualified SOE directors could also be maintained by this group

ADB is already programming TA support to each of the 5 participating countries in response to the requests cited above, and will look to facilitate a community of practice so that the growing body of SOE reform knowledge can be effectively shared.

Appendix 1

Leaders Retreat on SOE Reform; Nadi, Fiji, March 25-27 2011

PARTICIPANT	COUNTRY	ORGANIZATION	POSITION	Email
Maciusela Lumelume	Fiji	Ministry of Finance	Director, Asset Management Unit	MLumelume@govnet.gov.fj
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Alfred Alfred, Jr.	Marshall Islands	Ministry of Finance	Secretary of Finance	finsec@ntamar.net
Richard Prebble	New Zealand	Resource Speaker	Former Minister of State-Owned Enterprises	prebble@xtra.co.nz
Hinauri Petana	Samoa	Resource Speaker	Former CEO, Ministry of Finance	hinauri.petana@mof.gov.ws
Laure Darcy		ADB	SEO Reform Advisor	ldarcy.consultant@adb.org
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Appendix 2

Leaders Retreat State-Owned Enterprise Reform in Fiji, Marshall Islands, Samoa, Solomon Islands and Tonga

Sofitel Denarau Island, Fiji
25-27 March 2011

Objectives

- Present and discuss the findings of the 2011 ADB publication *Finding Balance 2011: Benchmarking the Performance of State-owned Enterprises in Fiji, Marshall Islands, Samoa, Solomon Islands and Tonga*
- Discuss experiences with SOE reform in the five study countries and in the region, identify opportunities for and obstacles to improving the performance of SOEs, and discuss SOE reform strategies going forward

Agenda

FRIDAY, 25 MARCH 2011		
TIMING	PRESENTATION / DISCUSSION TOPIC	SPEAKER
1900-2030	Welcome Reception and Dinner	Welcome Remarks by Robert Wihtol (Director General, ADB Pacific Department)

SATURDAY, 26 MARCH 2011		
TIMING	PRESENTATION / DISCUSSION TOPIC	SPEAKER
0900-0915	Opening Remarks	Robert Wihtol
0915-1000	Summary of Key Findings from ADB Study <i>Finding Balance 2011: Financial Impact of SOEs</i>	Laure Darcy (Co-author)
1000-1045	Summary of Key Findings from ADB Study <i>Finding Balance 2011: Impact of Legislative, Governance and Monitoring Frameworks</i>	Christopher Russell (Co-author)

1045-1115	Morning Tea							
1115-1300	<p>Discussion: Comments on the findings of the ADB Study</p> <ul style="list-style-type: none"> ▪ Does the ADB Study accurately reflect the experience, status and challenges of SOE reform in Fiji, Marshall Islands, Samoa, Solomon Islands and Tonga? ▪ What accounts for the different pace of reform in each of the three countries? 							
1300-1400	Lunch							
1400-1600	<p>SOE Reform Experience: Perspectives from the Region</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">- New Zealand</td> <td style="width: 50%;">- Fiji</td> </tr> <tr> <td>- Samoa</td> <td>- Marshall Islands</td> </tr> <tr> <td>- Tonga</td> <td>- Solomon Islands</td> </tr> </table>	- New Zealand	- Fiji	- Samoa	- Marshall Islands	- Tonga	- Solomon Islands	Richard Prebble (NZ) and respective country delegations
- New Zealand	- Fiji							
- Samoa	- Marshall Islands							
- Tonga	- Solomon Islands							
1900-2100	Dinner							

SUNDAY, 27 MARCH 2011

TIMING	PRESENTATION / DISCUSSION TOPIC	SPEAKER
0830-0930	Discussion: SOE Reform Options	Richard Prebble
0930-1100	<p>Discussion: What path forward for SOE reform in the Pacific?</p> <ul style="list-style-type: none"> ▪ Comments from each country delegation on proposed approaches to SOE reform ▪ Role of development partners 	
1100-1130	Closing Summary	Robert Wihtol
1130-1230	Lunch	