

# Kiribati SOE Reform Experience



# Kietau Tabwebweiti National SOE Reform Specialist ADB TA No. 8478-KIR: Enhancing Economic Competitiveness through State Owned Enterprise Reform

ADB Pacific Update Conference 18 – 19 July 2016 Suva, Fiji

# Agenda

- 1. Brief background PFM and SOE issues
- 2. TA Objectives Phase I and II
- 3. Phase I Activities
- 4. Phase II Activities
- 5. Observations and Lessons learnt
- 6. Challenges

# Background

#### **Broad PFM issues**

- Stagnant economy, Recurring budget deficits
- Unsustainable RERF Drawdowns Averaging \$20m p.a.
- Uncoordinated borrowing, Large Non-concessional debt

#### **Poor SOE performance**

- Ineffective governance and accountability systems, No systematic planning or business strategy
- Ministerial directives without financial support dismissal of non-complying boards
- Some SOEs competing with Private business Poor profitability, Unpaid CSOs, Ad hoc subsidies
- Unserviced bank overdraft/loans \$20m bailouts, 4 yrs

# **Objectives**

- Phase I: 2009 2013 ADB TA No 7166-KIR
   "Economic Management & Public sector reform"
- Phase II: 2014 2017 ADB TA No 8478-KIR
   "Enhancing Economic competitiveness through State Owned Enterprise Reform"
- Main objective: Improve efficiency & effectiveness of SOEs – Governance, Accountability
  - Cost effective services, Profitability, Tax, Dividends
  - Create "level playing field" to attract Private-sector investment with Increased employment
  - Reduced focus on SOEs More focus on core sectors Law & Order, Health, Education

#### **Phase I Activities**

- SOE Reform Steering Committee (SRSC) + seed fund \$0.5m - "bridge" to Cabinet, timely reform actions
- Set up SOEMAU in MFED ongoing SOE oversight
- SOE stocktake & Reform Plan
- SOE Retain/Exit policy and Staff redundancy policy
- Business Improvement Plan for 4 problem SOEs
- Updating Financial statements and audits
- Structural reform for 4 SOEs- KSCL, BKL, OHL, BSL
- 2 closures due to Insolvency TKL, KHLP

#### Phase II Activities

- SOE Act 2013 Legal framework for Governance and Accountability reforms
  - Statement of Intent (SOI) principal planning and accountability document
  - Half-Year and Annual Progress reports based on SOI
  - Community Service Obligation (CSO) policy
- SOE workshops for Directors/Senior Managers
- Individual SOE reform transactions
  - Sale of Telecoms and Captain Cook Hotel
  - Merger of 2 Copra SOEs
  - Institutional reforms: Shipping, PVU and PUB (Electricity, Water, and Sanitation)

#### **Observations and Lessons learnt**

- Reform success requires Commitment and Trust by all stakeholders – Donors, Cabinet, Officials, TA
  - SOE Reform Steering Committee (SRSC) chaired by Chief Secretary became "bridge" and "fast track"
  - Initial funding approved of \$0.5m supplemented by Reform income
  - Consultative and consensus approach
- 2. Effective Framework and Structure to manage SOEs:
  - SOE Act passed 2013 Legal authority, processes
  - SOE Monitoring & Advisory Unit within Ministry of Finance responsible for SOE oversight

# Observations & Lessons learnt (cont'd)

- 3. Issues identified at outset evolve as work progresses
  - New aspects and dimensions added with new data
  - Donor flexibility needed for ToR, timing, funding, etc
  - Flexible and practical TA approach to issues requires competent personnel with best-practice experience
- 4. Social issues can delay or destabilize reform
  - Complicated land tenure needs early resolution
  - Redundancy creates hardship and Anti-reform sentiments - toned down by changes to Redundancy policy

# Observations & Lessons learnt (cont'd)

- 5. Aftermath to SOE reform needs cleaning-up
  - Relates mostly to staff issues and creditor claims highly susceptible to politicization
  - Should be standard part of reform program
  - Sale of shares is simplest and cleanest reform but not always available or desirable – e.g. Concessions
  - Try and resolve staff claims and Creditors as soon as possible, retaining essential documentation
  - Retain Board (minimum members), OIC, Accountant to handle claims

# Challenges

#### Progressive Institutional reforms - No back-sliding

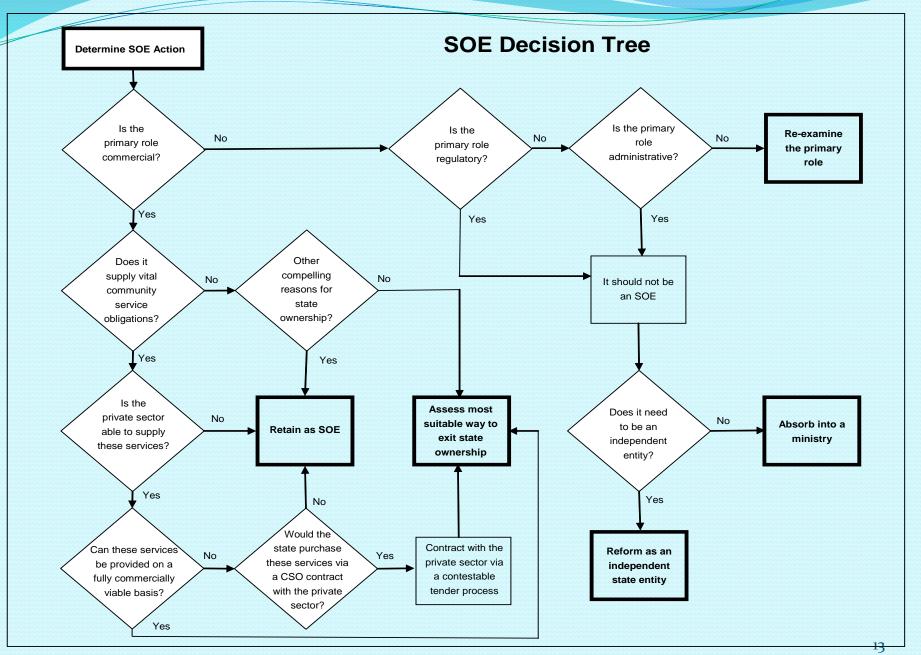
- New Government's awareness of new concepts
- High turnover of SOEMAU staff and Training needs
- CSO concept needs further work for increased acceptance and implementation
- Further improve SOE profitability to pay dividends
- Improve Audit office capacity for timely audits

#### **Complete Remaining SOE transactions**

- PUB, Shipping, Copra merger, PVU
- New transaction (Captain Cook Hotel)
- Support of new Government is crucial

# vinaka vakalevu

#### **SOE Retain/Exit Decision Tree**



#### Workstream 2: SOE-specific transactions

#### **Exits or Divestments**

- 1. Kiribati Supply Co Ltd insolvent hardware, shares sold Apr 2011– redeveloped as shopping mall, rental shops/offices, Hotel, restaurant, etc
- 2. Bobotin Kiribati Ltd insolvent Food importer, Sale of shares tender rejected Aug 2013 and BKL closed down, Govt retained sites, other assets auctioned
- 3. Otintaai Hotel Ltd PPP Concession awarded July 2013 to local businessman, Deferred Milestones
- 4. Telecom Services Kiribati Ltd Sale of Business to ATHKL May 2015
- 5. Betio Shipyard Ltd Insolvent shipyard, PPP Concession awarded June 2015, Foreign partner to fulfil Insurance terms

#### Workstream 2: (Cont'd)

#### **Closed due to Insolvency:**

- 1. Television Kiribati Ltd –Oct 2012
- 2. Kiribati Handicrafts & Local Produce 2013

#### **Work-In-Progress**

- Complete Merger for Kiribati Copra Coop Society and Kiribati Copra Mill Ltd
- Kiribati Shipping Services Ltd Likely proposal for Management contracting
- 3. Plant & Vehicle Unit to be absorbed under MPWU
- 4. Capt Cook Hotel (Kiritimati) Joint venture or sale

#### Workstream 1: Institutional reform

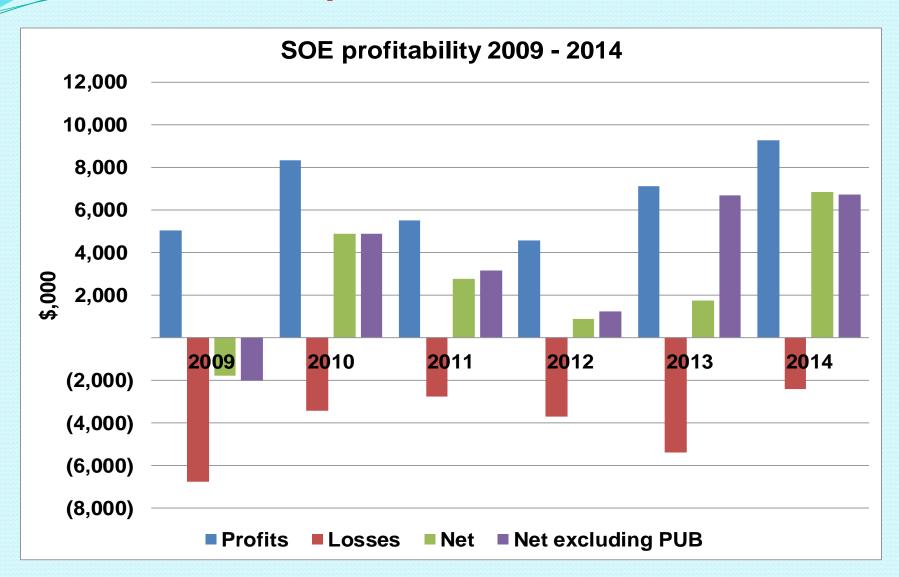
#### Major components (Cont'd)

- SOE Act 2013 Legal authority and framework for reforms - governance & accountability systems
- Statement of Intent (SOI) Introduced by SOE Act as principal planning and accountability document
- Cabinet approval for CSO policy + Business Improvement Plans as condition for bailouts
- Updating Financial statements and audits
- SOE workshops held for Directors, CEOs, FMs, HRMs – SOE Act requirements, Director responsibilities, Planning and accountability using SOI, Financial modelling, HR issues, etc.

# **Outstanding Financial Statements**

SOEs (16 currently	No. of years in arrears		
operating)	2009	2015	
Air Kiribati Ltd	3		
BPA (Broadcasting)	4		
Capt Cook Hotel Ltd	1	1	
CPPL (Seaweed etc)	2		
Dev Bank of Kiribati	2		
Kiribati Copra Coop Soc	2		
Kiribati Copra Mill	1		
Kiribati Housing Corp	2		
Kiribati Insurance Corp	3		
Kiribati Oil Co. Ltd			
Kiribati Ports Authority			
Kiribati Shipping Services	1		
Kiribati Solar Energy Co			
Plant and Vehicle Unit	3		
Public Utilities Board	3		
TACL (Aggregate Co)			

# SOE Profitability 2009 - 2014



# **Summary of SOE Transactions**

SOE Reform complete	SOE main business	Transaction	Year
Kiribati Supplies Co Ltd	Hardware import	Sale of shares	2011
Bobotin Kiribati Ltd	Food wholesale	Sale of assets	2013
Otintaai Hotel Ltd	Hotel (South Tarawa)	PPP Concession	2013
Telecom Services Kiribati Ltd	Telecoms	Sale of business	2015
Betio Shipyard Ltd	Slipway, Boat building	PPP Concession	2015
<b>SOE Reform under WIP</b>	SOE main business	Transaction	Year
Kiribati Copra Cooperative	Copra marketing	Merge with Mill	
Kiribati Shipping Services Ltd	Domestic Shipping	Contracted CSO	
Plant and Vehicle Unit	Govt vehicles admin	Absorb into GoK	
Captain Cook Hotel Ltd	Hotel (Kiritimati)	Sale or PPP	
SOE Insolvent & closed down	SOE main business	Transaction	Year
Television Kiribati Ltd	TV, Electronic retail	Closed down	2012
Kiribati Handicraft Loc Produce	Handicrafts, local produce	Closed down	2013

### **Summary of SOE Transactions**

- Initially 23 SOEs in 2009, 5 completed Exits + 2
   Closures = 16 Current SOEs
- WIP 4 Transactions, so 12 SOEs expected by end of reform program
- SOE Business Improvement Plans Completed for 5 SOEs (including PUB)

#### **Summary Profile – 16 Current SOEs**

- Represent \$176m assets(18% of Total stock)
- Contributed around 12% to GDP in 2014
- Achieved Average ROE and ROA of 3.8% & 2.9% over 2010 – 2014 period

#### **SOEs** to be Retained and improved

- 1. Air Kiribati Domestic air services
- 2. BPA Radio broadcasting & Newspaper
- 3. CPPL Fish/Seaweed retail, maritime services
- 4. Development Bank Loans & business services
- 5. Housing Civil servant housing
- 6. Insurance Life & General insurance
- 7. KOIL Fuel import & wholesale
- 8. KCML Copra Purchase, milling, and marketing
- 9. KPA Ports Authority
- 10. KSEC Solar Utility for outer islands, Retailing
- 11. PUB Electricity, water, sewage
- 12. TACL Lagoon dredging for aggregates