Political Commitment and Governance – 2
Drivers of State Owned Enterprises Reform.

The Tongan Perspective

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Presentation Outline

• Brief history of the Public Enterprises in Tonga.
• List of Public Enterprises.
• TWO Drivers of SOEs/PEs Reform in Tonga:
  • Strong Political Commitments with Good Leadership (Positive Attitude).
  • Good Governance.
• Impact of the Reform.
• Outcomes of Reform programs on Public Enterprises.
• Questions.
Brief reflection on Public Enterprises History:

• **Minimal awareness on the importance of PEs.** Prior to 2007 Tonga’s 12 Public Enterprises (SOEs) were monitored by the Ministry of Finance.

• **Unsteady and inconsistent in financial performances of PEs.** While the financial performance of the PE portfolio has had its ups and downs, generally financial and operational performance has strengthened.

• **Appointing of a sole Minister and establishment of a Ministry for Public Enterprises.** The appointment of a minister solely responsible for PEs triggered a reform program that has lasted almost 10 years. In 2007 the Ministry of Public Enterprises was established and a Minister of Public Enterprises appointed solely responsible for the PE portfolio.

• **Amendment of the PE Act (2010).** The amendments enhanced the principal objective of the PEs and Subsidiaries to be successful, in term of profitable and deliver best services to the people of Tonga.

• **Outcomes of Reform programs on Public Enterprises.** Today portfolio comprises 14 PEs; total assets of T$284 million involved in banking, power, ports, airports, communications, property, shipping, post, agriculture and waste. Continue positive contribution to the Tonga GDP.
List of the Public Enterprises in Tonga

1. Ports Authority Tonga (PAT)
2. Tonga Airports Limited (TAL)
3. Tonga Broadcasting Commission (TBC)
4. Tonga Communications Corporation (TCC)
5. Tonga Development Bank (TDB)
6. Tonga Market Corporation Limited (TMCL)
7. Tonga Post & Fast Print Limited (TPFPL)
8. Waste Authority Limited (WAL)
9. Tonga Water Board (TWB)
10. Tonga Power Limited (TPL)
11. Tonga Export Quality Management Limited (TEQML)
12. Tonga Asset Managers & Associates Limited (TAMAL)
13. Tonga Cable Limited (TCL)
14. Friendly Islands Shipping Agency (FISA)
Portfolio Performance: FY 2002/03 – to FY2014/15

SOE Portfolio ROE and ROA
2002 - 2014

Return on Equity
Return on Assets
1. Strong Political Commitments with Good Leadership (*Positive Attitude*).

- Privatization, rationalization and liquidation of PEs as appropriate
- **Strengthened legal framework – Amendment of the PE Act (2010):**
  - Principal objective to be a successful PEs & Subsidiaries (i.e. profitable and deliver best services)
  - Community Service Obligation framework
  - Codified directors’ duties
  - Improved planning and reporting leads to greater transparency and accountability
  - Governance reforms – all ministers and parliament representatives were removed from PE board
  - Introduced a competitive selection process for appointing of the directors to a PE board
- **Summary of all PE’s annual reports and performance published in local newspapers**
- Boards held accountable for performance
- **Introduction of PE specific required rates of return**
2. Good Governance

- **Objective** – improve corporate governance, encourage sharing of good practice, improve efficiency and reduce duplicated costs

- **For Instance** –
  - ‘Shared Directors’ approach was introduced in October 2015 and continued to 2016
    - Utilities Group – Power, Water and Waste
    - ICT Group – Telecommunications, Broadcasting and Post
    - Transport Group – Ports, Airports, and Shipping
  - Directors remain responsible for individual PEs, but are shared across the three PEs
  - Benefits achieved in less than a year in Utilities Group
    - Good practice shared across PEs – no need to reinvent the wheel
    - Strengthened board oversight
    - Joint CEO committee established to identify cost savings and operational efficiencies – introduced joint-billing system, accountancy support, customer services
    - Realized and anticipated savings over T$1 million per annum
    - Development of new shared head office
Impact of the Reforms

• Financial Performance has improved.

<table>
<thead>
<tr>
<th>Period</th>
<th>Return on Equity</th>
<th>Return on Assets</th>
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<tbody>
<tr>
<td>2010-2014</td>
<td>3.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2014</td>
<td>6.0%</td>
<td>3.7%</td>
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• Increased opportunities for private sector involvement in PEs.
• Strengthened good Governance.
• Stronger and better working relationships between the shareholder and the PE boards.
• Improved PEs compliances with the PE Act and Policies requirements
• Adoption of SOE ownership & divestment policy that establishes reform and/or privatization strategy for all PEs.
• Positive contribution to the Tonga GDP.
Outcomes:

• Require PEs to operate within a tight commercial mandate and to hold boards accountable for results

• Sometimes a lag between reform and result – significant external factors can have an impact. *Don’t lose faith!*

• Reform need not be costly or complex: shared board, basic idea – profound impact

• Robust and Effective board leads to improved PE performances

• Sustained reform is only possible with sustained political commitment. Ministers have to plan/sell/explain/defend PE reforms

• Having a dedicated Minister with a solely ministry/department to closely monitor and look after the PEs portfolio is paramount
THANK YOU

Q & A