

# TONGA PROPOSAL

**TO INCLUDE THE MINISTERS RESPONSIBLE FOR  
THE STATE-OWNED ENTERPRISES AND OFFICIALS  
IN THE FORUM OF THE ECONOMIC MINISTERS'  
MEETING (FEMM)**

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# **INCLUSION OF THE STATE-OWNED ENTERPRISES (SOE) MINISTERS IN THE FORUM OF THE ECONOMIC MINISTERS MEETING (FEMM)**

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## **1. PURPOSE**

For the Pacific Islands Forum Secretariat and the Forum of the Economic Ministers Meeting to consider the Tonga Government proposal to include the State-owned Enterprise Ministers in the FEMM and its meetings. The proposal is to be submitted in the FEMM Meetings which will be held from 10-12 August in Port Vila, Vanuatu.

This proposal was discussed with the PIFs official on the 51<sup>st</sup> PIFL meeting in Suva, Fiji from 11 – 14 July 2022, and it was suggested that it be submitted to the FEM Meeting for consideration, which will be held in Port Vila, Vanuatu on the 10 – 12 August 2022.

## **2. BACKGROUND**

### ***Tonga Profile:***

Tonga has twelve Public Enterprises (PEs)<sup>1</sup> that are actively engaged in a range of commercial activities including utilities, transport, and communications<sup>2</sup>. The PE portfolio is economically significant; in 2020 the portfolio represented 23%-30% of the country's total capital stock and contributed 6% to GDP.

In 2020 every \$T1.00 that the government has invested in PE's fixed assets contributed \$T0.15 to GDP. While average return on equity (ROE) and return on assets (ROA) were reasonably consistent through the period 2013-2018, with ROE ranging between 5% to just over 6% and ROA ranging between 3.2% to 3%, returns declined significantly in 2019 and 2020. ROE averaged 3.1% and ROA averaged 1.6% over the period 2019-2020. While the impact of COVID was a significant factor in the decline in portfolio returns, the sharp fall in Tonga Power profitability in 2020 where the PE recorded its first loss since 2009, due in part to the lack of tariff compensation from government, and the decline in Tonga Communications ROE from 7% in 2019 to 0.3% in 2020, also adversely impacted portfolio returns.

There are many challenges facing Tonga PEs. More than 50% of the portfolio's profits from 2015-2020 were generated by Tonga Power Limited and Ports Authority Tonga. Many of the smaller PEs continue to struggle with marginal profitability. Asset utilization remains low, averaging just 34% over the 2010-2020 period and cash to current assets declined from 2.13 in the five years 2010-2014 to 0.74 in the period 2015-2020.

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<sup>1</sup> Tonga labels its State-owned enterprises "Public Enterprises"

<sup>2</sup> Tonga Power Limited, Tonga Communications Corporation, Tonga Airports Limited, Tonga Cable Limited, Tonga Assets Managers & associates Limited, Tonga Post Limited, Tonga Broadcasting Commission, Tonga Water Board, Waste Authority Limited, Friendly Island Shipping Agency, Ports Authority Tonga, and Tonga Market Corporation Limited,

To meet the current challenges, and challenges that have yet to be identified, it is crucial that the Ministry of Public Enterprises, Minister of Public Enterprises, and the government not only maintain diligent oversight and management of the PE portfolio but learn from countries that face similar challenges, and also importantly, share what Tonga has learned and experienced with our neighbouring Pacific Island Countries (PICs) and vice versa. It is noted that the SOE portfolios in the PICs have many similar characteristics and operate in similar economic sectors. Furthermore, PIC SOEs faces similar immediate challenges such as managing the impacts of the covid19 pandemic and climate change. Given limited resources, there are benefits sharing experiences and lessons learnt.

***Brief Example of the development of the Ministry of Public Enterprises, responsible the ownership monitoring of Tonga's PEs:***

***Prior to 2002:*** Ministry of Finance managed the Public Companies, Commissions, and Statutory Boards.

***2002 – 2006:*** Introduced the State-Owned Enterprises/ Public Enterprises Concept. Mostly in this period, PEs were managed under the Ministry of Finance.

***2006 - 2007:*** Government of the day recognized the importance of the PEs in terms of the services they delivered to the People and also the value of the assets invested. Government decided to establish the Ministry of Public Enterprises and also appointed a responsible Minister of Public Enterprises to represent the Shareholder's (government) ownership interest in the businesses, and also to be responsible for the administration of the PE Act.

***2011:*** Government amended the PE Act to emphasise the commercial objective of all PEs, enhance the community service obligation framework, improve governance and strengthen transparency and accountability.

***2021 – 2022:*** A Bill amending the PE Act has been drafted to cater for the changes in the PEs' business environment, clarify reporting arrangements, and to include Regulations supporting implementation of the Act.

### **3. PROPOSAL**

**RECOMMEND TO THE PACIFIC ISLANDS FORUM OF THE ECONOMIC MINISTERS MEETING THROUGH THE PACIFIC ISLANDS FORUM SECRETARIAT OFFICE THAT THE MINISTERS RESPONSIBLE FOR STATE-OWNED ENTERPRISES BE INCLUDED IN THE FEM FORUM AND ITS MEETINGS.**

This initiative was discussed in the Leaders Seminar on State-Owned Enterprise Reform in the Island Economies held in the Asian Development Bank Offices in Sydney, Australia from 30 – 31 March 2016. The Ministers responsible for the SOEs in the Pacific Islands Forum members, CEOs, Permanent Secretaries, and other senior officials were invited to this seminar. The seminar program is attached for ease of reference to demonstrate the nature of the important matters that can usefully be discussed and shared in such a forum where Ministers responsible or PIC SOEs are present. At the

March 2016 meeting there was general agreement that a regular gathering of Ministers responsible for PIC SOEs would add significant value.

Sharing the Government's experience with PE ownership, oversight, and management with that of our Pacific Island neighbours, and learning from their experiences, has been an important focus for the Ministry of Public Enterprises and Government of Tonga. Tonga was one of the first countries in the Pacific to participate in the Asian Development Bank's Finding Balance studies when it was first published in 2009 along with Fiji and Samoa. The Finding Balance studies are a comparative review and benchmarking report comparing the management and performance of State-owned Enterprises (SOEs)<sup>3</sup> in island countries.

Tonga has participated in all six editions of the Finding Balance studies, with the most recent one to be published in Q3 2022. As a result of this participation, Tonga has a database of financial performance on its SOEs for fiscal years 2002-2020.

The information and data available to Tonga as a result of participating in the study, not only on its own portfolio but on the portfolios and experiences of other participating countries, has significantly informed Tonga's PE reform program. Island countries that have participated in the Finding Balance studies include Fiji, Kiribati, Marshall Islands, PNG, Solomon Islands, Samoa, Vanuatu and Palau. In some publications benchmark country studies were also included for New Zealand, Singapore, Mauritius, and Jamaica. On several occasions, the ADB, through the Private Sector Development Initiative, has organized high-level seminars to gather SOE Ministers from the Pacific to discuss SOE reform issues and share experiences. These seminars were highly valued by the participating delegations.

It is through participation in the Finding Balance studies as well as the Ministry of Public Enterprises' direct engagement with other SOE ownership monitoring agencies in the Pacific, and the Minister of Public Enterprises direct engagement with Pacific Island SOE Ministers, that the Ministry and Minister have concluded that there would be significant benefit in having regular ongoing dialogue and engagement at a ministerial level. There is much that Tonga can learn from other countries' experience and much Tonga can share.

This proposal has been shared and discussed with the CEOs of the Pacific Islands Member Countries of PIFs and the following countries have expressed their support for the proposal–

- i. Western Samoa,
- ii. Cook Islands (Rarotonga),
- iii. Marshall Islands,
- iv. Fiji, and
- v. Vanuatu.

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<sup>3</sup> State-owned Enterprise is the usual international label for government owned commercial entities. In Tonga they are called Public Enterprises.

The other countries are still considering their responses which have been delayed due to changes in CEO contact information and/or changes in the CEO.

#### **4. FINANCIAL & ECONOMIC IMPLICATION**

If the proposal is supported by PIF, FEMM, and Member countries, then Tonga would be glad to assist the PIF Secretariat office seek funding from the Asian Development Bank, World Bank, and other donor partners.

Sharing the experiences of how, when, why, and what has been done to improve SOE performance in member countries through a forum meeting structure will share learnings throughout members countries which should accelerate the rate of reform and reduce reform costs. As we are all aware, good performing SOEs contribute significantly to a country's economic development and improve people's standard of living.

In the case of Tonga, the SOEs are categorized into key sectors – i.e., transport, utilities, ICTs, Property Management, and financial sectors. Many PIC's also have SOEs dominant in these sectors. The SOEs, such as power, water, communication, home gas, sea-air-land transportation, banking, and waste management directly impacting on people's daily lives.

The SOEs should be considered together with the country's financial, economic, social and even political issues, due to SOEs playing such a huge role in these key areas.

#### **5. CONCLUSION**

SOE reform is a major policy imperative in all Pacific Island countries and regular ministerial engagement will be beneficial for all countries participating in the engagement. It will accelerate the sharing of lessons learned and good practice, while also creating opportunities to develop supporting communication messages that could assist in explaining the benefits of reform on a regional and country basis.

It may also be possible to develop regional solutions to some SOE reform challenges. The SOE portfolios in Pacific Island countries are very similar, including ports, airports, power and water utilities, communication service providers, shipping services, and postal services. Many SOEs are small and struggling and lack economies of scale and scope. Some examples of regional cooperation could be the development of a regional institute of directors to expand the pool of skilled Pacific Island SOE directors; sharing knowledge and experiences between similar SOEs in different countries such as airports and ports or water and power utilities; sharing sectorial data and benchmarking information; and sharing SOE monitoring practices, policies, and reporting templates.

#### **6. RECOMMENDATION**

For these reasons stated above, it is proposed that the Forum of the Economic Ministers of member Countries consider and endorse the proposal from Tonga to include the

Ministers from member countries that have responsibility for the respective country's State-Owned Enterprises portfolio in the FEMM and its meetings.

From a technical and practical viewpoint, if the proposal is approved by the FEM Forum, then the program and agenda of the FEMM Meetings may expand to have combined meetings for Finance, Economic, and SOE Ministers with agenda items that include common interests. This would then be followed by separate meetings for SOE Ministers which will discuss specific SOE related agenda items.