



**PACIFIC ISLANDS FORUM SECRETARIAT**

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**FORUM ECONOMIC OFFICIALS MEETING**

**FORUM ECONOMIC MINISTERS MEETING**

10-12 August 2022  
Port Vila, Vanuatu

**AGENDA ITEM 7A:  
PROPOSAL TO INCLUDE SOE MINISTERS IN THE FEMM MECHANISM AND  
MEETINGS**

**Purpose and Recommendations**

**Purpose**

This paper presents a proposal to FEMM to consider and endorse the inclusion of Ministers responsible for State-Owned Enterprise(SOE) in the FEMM mechanism and its meetings.

**Summary**

- i. Tonga's Public Enterprise portfolio is economically significant with an impact on both fiscal and monetary policies. In 2020 Tonga's Public Enterprise portfolio represented 23%-30% of the country's total capital stock and is estimated to contribute around 6% to GDP.
- ii. SOE concepts and principles are designed to combine the delivery of public goods and services with private sector efficiency and effectiveness. A key objective is to help ease budgetary burdens to Government and where possible generate dividends to help finance essential social services like education and health.
- iii. SOEs are a key platform in scaling up economic activity to become sustainable and competitive locally with a potential to go regional. For instance, the Government may identify a budget expenditure that could move into a revolving fund, once this revolving fund is established and functioning well, it could further transform via corporatization into an SOE and eventually be privatised or scaled up regionally.
- iv. SOEs can also be an option for inter-regional investment from regional and local financial institutions with excess liquidity such as Development Banks and Retirement funds. A key step toward greater regional cooperation and integration.
- v. Some examples of regional cooperation could be the development of a regional Institute of Directors to expand the pool of skilled Pacific Islands SOE directors, sharing knowledge and experiences between similar SOEs in different countries, sharing sectorial data and benchmarking information and monitoring practices, policies, and reporting templates.
- vi. Sharing experiences of how to improve SOE performance in Member countries through a forum meeting structure should accelerate the rate of reform and reduce reform costs. Tonga has twelve Public Enterprises (PEs) that are actively engaged in a range of commercial activities including utilities, transport, property management, and information & communications technology.

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- vii. COVID-19 decreased Tonga's SOE portfolio returns significantly in 2020, resulting in Tonga Power recording its first loss since 2009, the lack of tariff compensation from the government, and the decline in Tonga Communications ROE, also adversely impacted portfolio returns. Continuous border lockdowns also negatively hit the airline and hospitality industry with Tonga Airports Ltd's financial performance badly impacted by the crisis.

### A. Problem/Opportunity Identification

There are many challenges facing Tonga PEs. More than half of the portfolio's profits are generated by two PEs, 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.

2. While COVID-19 had a significant impact in the decline in portfolio returns in 2020, resulting in Tonga Power recording its first loss since 2009, the lack of tariff compensation from the government, and the decline in Tonga Communications ROE, also adversely impacted portfolio returns.

### B. Background (Context)

3. Tonga has twelve Public Enterprises (PEs) that are actively engaged in a range of commercial activities including utilities, transport, and communications. 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.

4. In Tonga, every \$T1.00 invested by the government in PE's fixed assets in 2020, contributed \$T0.15 to GDP. While average return on equity (ROE) and return on assets (ROA) was reasonably consistent through the period 2013-2018, returns declined significantly in 2019 and 2020. ROE averaged 3.1% and ROA averaged 1.6% over the period 2019-2020.

5. To meet the current challenges, and expected challenges, it is crucial that the government not only maintain diligent oversight and management of the PE portfolio but also learn from neighbouring Pacific Island Countries (PICs) that face similar challenges. It is noted that the SOE portfolios in the PICs have many similar characteristics, operate in similar economic sectors and face similar immediate challenges such as managing the impacts of the COVID-19 pandemic and climate change. Given our limited resources, there are benefits from sharing experiences and lessons learnt.

### C. Discussion

6. Sharing the experiences on how to improve SOE performance in Member countries through a forum meeting structure will enable Member countries to accelerate the rate of reform and reduce reform costs. Good performing SOEs contribute significantly to a country's economic development and improve people's standard of living.

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7. In the case of Tonga, SOEs are categorized into key sectors – i.e., transport, utilities, ICTs, Property Management, and financial sectors. Many PICs also have SOEs in these sectors. The SOEs, such as power, water, communication, home gas, sea-air-land transportation, banking, and waste management directly impact people’s daily lives.
8. SOEs issues should be considered together with the country’s financial, economic, social and even political issues, as SOEs play a huge role in these key areas.
9. 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 process. 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.
10. It may also be possible to develop regional solutions to some SOE reform challenges. 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 Islands SOE directors; sharing knowledge and experiences between similar SOEs in different countries, sharing sectorial data and benchmarking information and monitoring practices, policies, and reporting templates.

Pacific Islands Forum Secretariat  
28 July 2022