Tonga SOEs outperform those of the rest of the Pacific: where does PNG stand?

On May 25 2011, the Post Courier reported that a new study had just been released by the Asian Development Bank which compared the performance of state-owned enterprises in Fiji, Samoa, Tonga, Solomon Islands and Marshall Islands over the 2002-2009 period. The study reveals the consistently poor financial performance of the SOEs in these countries and the significant strain which they place on the economies of their respective countries.

Conspicuously absent from the study is PNG. Why? Because the Department of Public Enterprises of PNG declined to participate. Unlike the other countries participating in the study, who recognize that SOE performance must be improved and consider full financial disclosure as not only a fundamental obligation of the state, but also the first step in fundamental reform, the Department of Public Enterprises and IPBC refuse to make the financial results of the SOEs publicly available. As a result it is not known how well or how poorly the SOEs are doing, and the people of PNG cannot hold DPE or IPBC accountable for their performance. Had PNG agreed to participate in the study, the performance of the SOEs would have been publicly disclosed for the first time, and a benchmark for improvement could have been established. It is a pity that this opportunity has been missed, but we can hope that the next time that the study is conducted, the DPE and IPBC will have the courage to participate.

The study, entitled Finding Balance: Benchmarking the Performance of SOEs in Fiji, Marshall Islands, Samoa, Solomon Islands and Tonga, holds important lessons for PNG. It reveals that Tonga's state-owned enterprises (SOEs) continue to be among the best performing in the Pacific, largely due to the Tongan government's eforts in restructuring its SOEs, exposing them to competition, introducing robust governance practices and adopting a regime of transparency and accountability for results. This is a remarkable achievement in such a small country, and shows what can be achieved when the political will for substantive SOE reform exists.

Over the FY2002-09 period, Tonga's SOEs have returned an average of 6% on investment, compared to 0.7% for Fiji, 0.2% for Samoa, -13% for Marshall Islands and -14% for Solomon Islands. Why does strong SOE performance matter? Because SOEs absorb large amounts of scarce investment capital, and when the returns on that capital are low, the economy as a whole suffers. This is the case throughout the Pacific, including in PNG. While some SOEs in the region provide essential public services, many others operate as purely commercial ventures and crowd out the private sector. Almost all have performed poorly, and are in need of wholesale reform. As governments face increasing demands on their scarce resources, they will have to make the choice between propping up inefficient SOEs or spending scarce resources on more vital investments such as health and education.

The first step to improved SOE performance is transparency and accountability. In Tonga, highlights of the annual financial and operational results of the SOEs are published in local newspapers. This is also a legal requirement in Solomon Islands. In PNG, no such practice exists and as a result neither the public nor most members of parliament are aware of the financial condition of the SOEs, and a result no performance targets can be set. This practice must change if SOE performance is to improve.

The PNG government's efforts to develop a community service obligation policy for its SOEs is an important step in this direction. The policy will provide a framework for transparently identifying, costing, contracting and financing CSOs. Once this policy is in place, the SOEs will be able to receive compensation for their CSOs, and in return will be held accountable for improved financial and operational performance. The Government, in return, will be able to assess the cost/benefit of CSO provision, thereby facilitating improved resource allocation and opening the door to increased competition. If the government fully implements the future CSO policy, it will take an important step towards placing the SOEs on a commercial and accountable footing, and in so doing create the needed incentives for improved performance. We urge the Government to pursue these reforms which are currently stalled.

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