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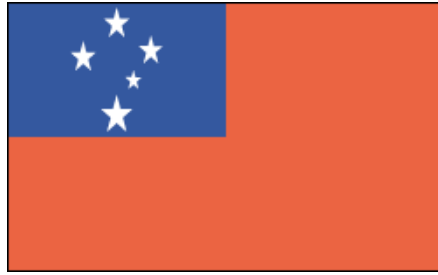
Samoa: Privatization Support – Main Report (Financed by the Technical Assistance Special Fund)

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For Ministry of Finance, Government of Samoa

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Asian Development Bank



**Ministry of Finance
Independent State of Samoa**

**ADB TA 4417 SAM
Privatisation Support**



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With regard to the three businesses approved for privatisation, the following points should be noted: 29

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Appendix 2: Cabinet Submission – February 2005

Appendix 3: Revised Scoping Studies for 3 SOEs

Appendix 4: Revised Cabinet Submission – December 2006

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Executive Summary

SOE Reform and Privatisation History

Privatisation of State Owned Enterprises has been a component of Government reform since the early 1980's, when the Ministry of Finance monitored over 40 enterprises.

With support, particularly from the Asian Development Bank (ADB), a renewed effort commenced in the late 1990's, culminating in the sale of 85% of Samoa Breweries Limited. In 2002, an ADB sponsored program of SOE reform commenced. Under this program a policy of state owned enterprise ownership was established. Commensurate with this was a commitment to divest ownership of other SOEs that did not need to be owned. It was agreed by Cabinet Decision in 2004 to divest Government interest in Samoa Broadcasting Corporation (SBC), Agriculture Stores Corporation (ASC) and Samoa Shipping Services Ltd (SSS).

The period 2004 to 2006 has seen further progress with SOE reform and privatisations and several minority owned SOEs have been divested. Of particular significance for Samoa was completion of efforts to sell and reform the national airline that led to the creation of Polynesian Blue in late 2005.

The 3 SOEs, Issues and Amendments to the Project

The three privatisation targets of this project, SBC, ASC and SSS were selected as privatisation candidates because at the time of establishing the policy on ownership and divestment, they appeared to represent the best opportunity for early divestment. Other non-strategic SOEs appeared to have greater legal and regulatory issues and restructuring constraints to achieve any early divestment.

Scoping studies were done to evaluate the potential to privatise the three enterprises. It emerged that each had its own particular issues that would require resolution prior to any sale. The attractiveness of each enterprise improved during the period 2003-2004 when several Cabinet resolutions favoured balance sheet re-structuring in each enterprise. This TA and a program of work to commence privatisation began in November 2004.

Despite publicity and consultations relating to the SOE ownership policy, it was evident that when it came to actually targeting an SOE many stakeholders were sceptical of the merit of the exercise and fearful of the consequences. Co-operation and support was muted. Management in ASC and SSS particularly, resisted total co-operation pending instructions from their Minister. This situation was exacerbated, when the first Cabinet Submission was not addressed quickly and indeed delayed. Eventually through early 2005, the Submission was not addressed and the project was formally postponed.

Following National elections in early 2006, the project was resumed commencing November 2006 without additional time inputs or budget. The project expiry date was simply extended. The postponement was over 20 months in terms of in-field inputs. With strong political will and hard work it was deemed possible to complete most of the work, within the remaining time and budget allocation. However, the first task on resuming the project was to update the scoping studies, revisiting each business and its environment.

Not only had much changed that impacted on the work to be done and potential outcome of privatisation, but it emerged that there was still doubt at Government level as to the merit and capacity to complete a divestment. SSS particularly was having operational difficulties and as a business was insolvent. The Board had taken initiatives to investigate key business contracts and this took critical energy and resources away from the privatisation agenda.

Further delays were experienced in achieving relevant decisions to proceed. Work with SSS could not practically proceed while decisions were made to investigate its contracts and operations and create a 'task force' to evaluate key national issues surrounding the viability of the Samoan seafarer industry or the need for Samoa to own a freight vessel.

The decision to proceed did not emerge until April 2007, only six months prior to project expiry and after two-thirds time and budget inputs. The decision was in favour of proceeding to divest SBC but not to proceed with ASC at this time.

While this decision reduced the critical outputs achievable under this project, too much time and budget inputs had been exhausted to achieve any substantive saving.

In addition the postponement impacted on the capacity and need for other assistance to SOEMD, as originally intended under the project terms of reference. Much assistance was given, in an efficient manner, by liaising with other consultants whose project terms of reference overlapped to some degree. Progress with SOE monitoring, reporting requirements and improvement in CSO procedures were dealt with in this manner.

Samoa Broadcasting Corporation

When the project resumed in November 2006, SBC in terms of its operating environment had experienced the most change. Critically two new TV licences had been issued and thus significantly the market was open with private sector participation in general TV broadcasting and SBC was, for the first time, experiencing direct competition. Work was also commissioned and began in early 2007 to review the broadcasting regulatory environment, leading to a new draft Broadcasting Act.

The financial performance of SBC had deteriorated from the up-turn seen in 2003 – 5. In addition the management results in the fiscal year to June 2007 were showing evidence of the impact of direct competition.

Nonetheless, in the final field visits effort was focused on SBC and preparation for sale. The consultants completed a business valuation for internal use and an information memorandum, as a key document to assist in the sale process. Other activities revolved around management of the sale process.

In the final field visit expressions of interest and indicative bids were received and evaluated and buyer due diligence was being prepared. SOEMD is briefed and able to complete the final stages of sale and negotiation with an approved bidder.

SOEMD Capacity

As an outcome of the project SOEMD skill and capacity has improved and the foundations are now strong with solid leadership for SOEMD to make a significant contribution to improved SOE results in the years ahead.

Work Plan and budget

Due to the multitude of delays and changes within the project, commitment to the work plan wavered. However, the essential component tasks were achieved where relevant.

A small budget surplus has been achieved against substantial impediments to implementation of this project.

Section 1.0: Introduction

This report is concerned with a programme of consulting assistance provided to the State Owned Enterprise Monitoring Division (SOEMD) of Ministry of Finance on behalf of ADB under TA 4417.

This assistance to support the Government of Samoa's privatisation programme follows the successful completion of TA 3768 in which significant reform of SOE accountability and performance was undertaken and the Government's strategy for ownership and divestment of state assets was formulated.

This project commenced on 22 November 2004 and was originally scheduled to incorporate 180 days of consulting inputs over an 18 month period. During this period some delays were experienced in achieving important Cabinet directives and specifically, the Government of Samoa requested a postponement of the project from mid-2005 until November 2006. The period of the TA was then officially extended through to 31 October 2007.

The delays and the consequences thereof are fully documented in this, the final project report.

This report should be read in conjunction with the following reports previously submitted under TA 4417:

- Inception Report – December 2004
- 2nd Field visit report – February 2005
- 3rd Field visit report – December 2006
- 4th Field visit report – April 2007
- Progress report (requested by ADB) – May 2007
- 5th Field visit report – July 2007
- 2nd Progress report (requested by ADB) – September 2007

This final report briefly details the history of SOE reform in Samoa as a background for the current privatisation strategy. It identifies the three SOEs that are the subject of this TA and documents the key challenges and issues arising during the TA period and the reasons for changes in scope of the project. The report also details the important steps taken intended to lead to a successful privatisation of Samoa Broadcasting Corporation. In addition a section of the report relates to SOE capacity building and the project budget and a series of appendices, as listed on the contents page, provide the detail to support the comments and conclusions in the body of this report.

Section 3.0: SOE Reform and Privatisation History

3.1 SOE Reform mandate

In 1984/85 SOEMD was responsible for over 40 SOEs including many deemed to be unsuitable for public ownership and better functioning within the private sector.

SOEMD prepared an ambitious privatisation programme that was impeded by a lack of resources and changing political environment. However in the period to 1999 over 20 SOEs, many that were technically insolvent or had operated consistently at a loss, were fully or partially privatised or wound up.

The following years to 2003 also saw substantial reforms in the Ministry of Works and the Financial Institutions sector and the corporatisation of Post and Telecom.

Privatisation was the Government of Samoa's key platform for private sector growth in the 96/97 Statement of Economic Strategy.

The SES 1996/97 stated the basis for privatisation is to:

- ❑ Enable government to focus on what it does best and what Government 'must do'
- ❑ Develop the private sector
- ❑ Eliminate government investment in non-performing companies
- ❑ Realise profits in performing companies in which it doesn't need to invest
- ❑ Eliminate budget support for activities which are supposed to be commercially viable

These elements remain the key rationale for continued privatisation of SOEs.

An ADB Financial Sector Loan of US\$7.5million was granted in February 1998 and this was conditional on further privatisations being carried out.

At this time no formal SOE ownership and privatisation strategy had been developed.

Efforts to fulfil the privatisation obligations were hampered by legal and technical difficulties and the original enterprises were changed in order for Government of Samoa to meet its obligations under the terms of the loan.

This led to the sale of 85% of Samoa Breweries Limited (SBL) completed in 1999, as the most successful privatisation to date, with the balance of shares sold in 2004 with the assistance of TA 3768.

The 2002-2004 Strategy for the Development of Samoa (SDS) specified:

The privatisation program will be continued consistent with the ongoing objective of redefining core government functions.

ADB TA 3768 SAM commenced in August 2002 to focus on implementation of the Public Bodies (Performance and Accountability) Act 2001, designed to strengthen reporting and monitoring criteria for SOEs.

TA 3768 finished in July 2004 with major reform underway. SOEMD continues with efforts to implement change and drive performance improvement. Recent additional TA's have complemented these efforts including a focus on Corporate Governance, with emphasis on SOEs; developments under the World Bank telecommunications sector loan, that have led to a

new telecommunications act, introduction of telecom competition and review of the privatisation potential of SamoaTel Limited, arguably the largest and best performing of Samoa's SOEs.

TA 3768 assisted with three further privatisations of minority shareholdings¹ and provided the framework for the current TA and the sale of the three fully owned enterprises (ASC, SSS and SBC).

3.2 Privatisation strategy

In 2003 under TA 3768, an Ownership and Divestment strategy was tabled and approved by Cabinet (FK 03/27 - 23 July 2003)

This strategy recognised the need for Government to continue to own SOEs that have 'strategic reasons, security and social importance'. These were identified as Airport Authority, Electric Power Corporation, Samoa Ports Authority, Samoa Water Authority and Samoa Shipping Corporation.

The strategy called for Government to divest all SOEs other than those named according to an agreed action plan. It was suggested the minority shareholdings should be sold first and the first phase of fully owned enterprises privatised within two years.

A further paper was then submitted and approved by Cabinet (FK 04/08 - 25 February 2004) detailing an action plan for the divestment of seven priority enterprises (4 minority shareholdings and 3 fully owned enterprises); relevant parts being:

- Samoa Shipping Services (SSS) should be restructured into viable units that can be sold as separate service lines. This will improve attractiveness and affordability for local potential buyers
- Agriculture Store Corporation (ASC) should be restructured by SOEMD to improve efficiency, focusing on its main service, and then sold using a tender process. The lack of competition for some services on Savaii is likely to resolve itself if subsidies are lifted
- If a rapid sale for Samoa Broadcasting Corporation (SBC) is still required, as endorsed by Cabinet, SBC should also be sold through trade sale and open tender. If Cabinet wish to investigate the use of a public sale (Mixed sale, Voucher or Unit Trust) a further feasibility study should be undertaken for SBC.
- Cabinet to approve proceeding with privatisation of the above enterprises, commencing as soon as practical

3.3 Privatisation Options

Both the SES in 1996/97 and the SDS in 2002 stipulated a preference for enabling wider community access to shares in privatised entities. Instruments to support this including Unit Trusts, Voucher schemes and others were discussed in the paper "Strategy and Options for Privatisation of 7 priority enterprises" in February 2004.

While the issue of wider community ownership should remain a goal of Government privatisation in the longer term, it was agreed that the current priority privatisations, SSS, ASC and SBC did not offer the best opportunity to introduce such instruments due to:

¹ The Government's remaining shares in Samoa Brewery Limited, Computer Services Limited and National Pacific Insurance were sold.

- The weak profitability history of each enterprise and thus risk of selling a poor performing asset into the wider community in its initial phase
- The relatively low capital base of each enterprise, such that costs of establishing such an instrument would be high relative to the underlying business values
- The comparatively high costs for each enterprise of maintaining share registers and similar
- The current lack of public understanding of SOE performance issues and values for privatisation and purchasing
- Weak support canvassed from financial institutions to support borrowing for such investment, and comparatively high costs involved if they were supported.

During TA 3768, scoping studies were prepared for the three SOEs targeted for privatisation, being Agriculture Stores Corporation (ASC), Samoa Shipping Services (SSS) and Samoa Broadcasting Corporation (SBC). These were prepared by Betham & Co, domestic consultants for the TA.

These studies provided the basis for a recommendation, that it would be most expedient under this TA to achieve divestment of these three enterprises by equivalent trade sale, and this was approved by Cabinet.

In putting a privatisation process into effect, the need for accountability and transparency of the process throughout is paramount. This has been achieved but at the cost of some efficiency in execution. Indeed a value for money process, weighing up the costs and benefits of full due diligence and probity, access to overseas marketing of the assets and other such costs was also taken into account.

Ultimately recommendations made to, and approved by Cabinet have reflected the overarching goal in terms of sale methodology, conditions of sale and preferred purchaser being based on *“what is best for Samoa”*

3.4 Other privatisations

The Inception report mentions the progress made in 2004 regarding the privatisations of minority shareholdings in Samoan companies. Since that report further progress has been made:

- Hellaby Samoa Limited, a meat processing business where the Government of Samoa held 9% of shares, has now been subject to privatisation and the 9% has been on-sold under pre-emptive rights to a larger shareholder. This follows efforts under TA 3768, when the buyer had withdrawn an initial offer, leaving the sale without bidders. Subsequently this buyer re-visited its offer and this has been processed by SOEMD and accepted by Government in 2006.
 - The deemed failure of this sale under TA 3768 was a concern because of the potential call on capital and the irritation of continued monitoring. Further investigation of options was an item under the original ToR of this TA, such that its subsequent sale is a satisfactory conclusion to this item.
- Telecom Cellular Samoa has also been sold, in conjunction with Government initiatives in the telecommunications sector. This company has been purchased by Digicel Limited, who has commenced operations in the provision of telephone services, as a competitor to SamoaTel Limited a major SOE.

- Polynesian Airlines. This privatisation was also detailed in the inception report. Since that time, the process has been completed, with the creation of a new business, called Polynesian Blue that is a partnership between Pacific Blue (a subsidiary of the Virgin Blue airline) and the Government of Samoa. Our understanding is that this new airline commenced operations in 3rd quarter 2005. It is also our understanding that this arrangement involved an investment by the Government into the new airline, while retaining responsibility for the debts and any obligations arising from the old airline business. Thus the Polynesian Airlines company remains as the local operator of inter-island services, and the holding company remains an SOE while debts are cleared, and any obligations resolved.

Section 4.0: 3 Fully Owned SOEs

This section provides brief background material on the three privatisation targets under this TA and the basis upon which at the commencement of the TA, it was deemed feasible to proceed to privatise.

4.1 Samoa Shipping Services Limited (SSS)

SSS was incorporated in 1978, its core business being the provision of crewing services for shipping vessels operating in regional and international waters. 50% of the shares are owned by Samoa Shipping Corporation, designated as a strategic SOE.

The company depends on the Maritime Training School at the Samoa Polytechnic for training seafarers. The low number of qualified officers and crew is a concern that requires attention and a strengthening of the relationship between SSS and Polytechnic.

The business also provides shipping agency and stevedoring services. These core activities are provided through contractual agreements with freight and shipping companies and international servicing organisations such as MSC.

Trading results have been erratic and the business has never provided satisfactory returns or dividends.

SSS also has a wholly owned subsidiary called Samoa Maritime Trust Limited (subsequently closed in December 2006). This was established to register international shipping companies as offshore companies under Samoa's International Companies legislation and also to act as agent for Samoa's Bareboat Registry. To date there is little evidence to support the revenue predictions that influenced its establishment.

Efforts to grow the business led to the investment in an option to purchase the MV Forum II. This was essentially a directive by Government but SSS see potential from ship charter earnings if the option is exercised in 2009, at US\$6m. In the meantime, the loan liability for the option fee has been taken over by Government due to the resulting cash constraints in SSS. Thus issues of vessel ownership, exercising the option and continued rights to supply the vessel will need resolution prior to divestment.

The audit report to the company financial statements has been qualified due to the non-consolidation and diminution in value of the subsidiary Samoa Maritime Trust.

The scoping study of SSS states that the company has a number of small business operations and some with potential. It may be economic to share overheads, but each business activity will need to be assessed on its own merit. In each case, if deemed commercially viable it is anticipated market forces will attract investors. For this reason it is considered appropriate to 'break up' SSS into component business units for sale

4.2 Agriculture Stores Corporation (ASC)

Established by the Agriculture Store Corporation Act 1975, the business retails supplies, equipment and chemicals for the local farming, agriculture and fisheries industries.

In support of agriculture the Japanese Government provided Aid in the late 1980's, whereby 2/3 FOB value of stocks purchased would be repaid to Ministry of Finance who would satisfy the Grant obligations. At June 2003, over \$4.2m was owed by ASC and this balance has been the

source of dispute for some years. A Cabinet decision (FK 04/15) approved the write-off of this debt.

The business competes on the main island of Upolu with other private suppliers of agricultural tools and equipment, but is considered to enjoy a monopoly as the only supplier with a presence in Sava'ii. ASC has procured one of only two licenses for the import and distribution of specialist pest and weedicides in Samoa.

ASC has also operated a plantation at Nuu that has periodically produced and sold bananas, taro and other crops and more recently attempted to increase crop exports, particularly to the Samoan community in New Zealand.

The years to 2004 have seen modest profits from the retail operations, although the plantation continued to incur losses. The write back of the \$4.2m has strengthened the balance sheet to create over \$7m of equity as per September 2004 quarterly results.

At this time the Corporate Plan identified some opportunities for product expansion and market growth, while recognising the need for continued efforts to improve internal operating efficiencies and costs.

ASC can be presented as a strong, albeit mature business and should appeal to buyers currently operating in Samoa in hardware and agricultural supplies. Government preference to minimise monopolistic tendencies could see a management/employee scheme as an attractive purchasing option.

4.3 Samoa Broadcasting Corporation (SBC)

Televise Samoa Corporation (TVS) was established to operate the Government's television network as a commercial SOE. Appropriate assets were transferred to the new corporation but limited operating capital.

In its former years the corporation struggled to achieve satisfactory financial results, with pressure to air religious services and other programmes for non-commercial returns. Government was forced to subsidise the corporation through operating loans.

In 2003 approval was given for the merger of TVS with Radio 2AP and this involved further transfer of operations and assets of the government controlled radio station. SBC was formed in the passing of the Samoa Broadcasting Corporation Act. In 2003 (FK 03/18) Cabinet approved the re-finance of its annual operating loans as equity and the balance sheet significantly improved. Also, under the Public Bodies (Performance and Accountability) Act, SBC was able to arrange for a contract for commercial payments to air government favoured religious and festival programming.

SBC is now the major voice media in Samoa and with a stronger financial base; it has greater capacity for extended advertising contracts and revenue growth. Further opportunities exist for increasing cable services and use of the existing fibre optic network in Samoa.

Government will need to determine ultimate ownership of the broadcasting delivery infrastructure, as part of the privatisation process. These assets require additional investment.

At present balanced TV programming is only available with support from overseas suppliers. Continuity of supply for live sporting events and current news as well as family programming will need to be reviewed as part of the critical business issues activity.

A purchase of SBC is likely to be attractive to a range of business owners. The regulatory environment (when finally agreed) will influence the extent of private interest and value attached to the business at the time of sale.

4.4 Restructure

The ToR called for relevant restructure of the entities in preparation for divestment.

As detailed above, during 2003-2004 each enterprise has benefited from favourable Cabinet decisions to improve its financial position.

In addition the earlier and ongoing reforms under TA 3768 and the introduction of the Public Bodies (Performance and Accountability) Act has also benefited each SOE resulting in a more commercial business approach with associated improvements in internal efficiencies. Thus, restructure in the context of privatisation is about positioning the enterprise for sale, rather than further financial or significant operational change.

Section 5.0: Issues, Impediments and Amendments to the Project

5.1 Project deferral

The Inception Report identified a work plan that allowed for the 180 days of consulting inputs to be spread over six field visits of approximately 30 days each.

After the second field visit in February 2005, it was agreed that the third visit originally scheduled for March/April 2005, would be delayed until approval of a relevant Cabinet Submission (appendix 2). This submission outlined key issues in each entity for which Cabinet support was necessary to implement appropriate investigation and due diligence.

When the submission was still not approved by June 2005, the consultants were in constant communication with SOEMD, in an effort to expedite a return and continue the project. At this time, the delay was likely to impact adversely on the ability to achieve the total ToR requirements in the allotted time.

The consultants were then notified by SOEMD in August 2005, that Cabinet had elected to defer a decision on the paper, effectively deferring the privatisation process. Neither SOEMD nor ADB then approved a return visit.

Elections in Samoa occurred in March 2006. Later in September 2006, communication resumed between Ministry of Finance, ADB, and the consultants with a view to continuing with the TA. The consultants negotiated with the new ADB project manager, and a revised ToR was agreed with a contractual period from 1 November 2006 until 31 October 2007. No additional time or budget inputs were allocated.

This delay had two key impacts:

1. From a project management perspective approx 30% of time and cost inputs had been incurred (in field visits one and two), that ultimately counted for very little as the delay lost momentum and much had changed in the business environment upon resumption
2. From a macro economic and socio-cultural perspective privatisation benefits from a continuity of decision and momentum, to assist achieve the best outcome and to address public perception of the process.
 - a. With hindsight it was probably inappropriate to commence the process so close to the 2006 elections, thus the deferral. But, privatisation requires political will, and with ministerial changes this created uncertainty and a "will we, won't we (privatise)" perception and a lot of political clout and social momentum was lost
 - b. While privatisation remains popular as a vehicle of economic reform, most jurisdictions tread warily now, following the slow down of mass privatisation in the developed world and indeed some reversals. Samoa is a small island state. It can never benefit from copying other models around the world as it has few similarities with other countries, in terms of size (in all respects) and socio-cultural diversity. Samoa must find its own model and that in itself is cause of doubt and uncertainty
 - c. The delay led to a dragging of the feet by other stakeholders, particularly public body management. While none directly obstructed the cabinet decision, although more than once a CEO refused a meeting with the consultant and SOEMD, they saw the deferral as justification to do nothing, carry on business as usual and generally ignore issues associated with the privatisation project.

5.2 Other project delays

In addition to the deferral of the project as explained in 5.1 above, other delays were experienced throughout the project, each that impeded efficient progress, although the consultants acknowledge that such delays are common in similar projects and generally are manageable. These are:

- Delay in reasonable response times for Cabinet Submissions
- Often days taken in arranging meetings with SOE management and other stakeholders to both explain the process and gain access to relevant information

It should be clear that the work program as detailed in the inception report, at the commencement of the project determined that 3 privatisations and assistance to SOEMD could be achieved despite the relatively small project budget and time inputs.

This determination was based on the premise that essential process exploratory work and sale management tasks would be similar for all entities and would be replicated, enabling task efficiency. It was recognised that there may be concerns arising on resolving some of the issues and queries during the sale process. Such matters are difficult to predict and it was calculated that there was some time available, if minimal, to resolve them. The overriding requirement was the political will to proceed. All issues, conditions and criteria can be resolved if there is the political will and recognition that they may be reflected in the buyers price and terms of purchase.

Even after the initial postponement in 5.1 above, it was determined that with political will and hard work, all three SOEs could have been prepared and completed to at least final offer stage, within the remaining TA budget. It became clear this could not be achieved when further delays with key decisions were experienced.

In fact the decision to exclude both ASC and SSS from the privatisation, so late in the TA and after two-thirds of the time inputs, prevented any capacity for corresponding time and budget savings.

While such delays are generally manageable, in most instances a delay of two or three weeks (usually longer) impeded the consultants work program in so far as the construct of the project only allowed for up to six field visits, of approximately four weeks. In field work was delayed, while progress was needed between consulting visits to keep on track for the project and sale deadline. As a result some communication and feedback was provided between visits, but equally some matters were not followed through effectively and some matters were not communicated with the consultant. A more flexible approach to consulting inputs might have assisted with this.

5.3 Samoa Shipping Services Limited (SSS)

During the first and second field visits in November 2004 and February 2005, SSS appeared to be the most accessible of the three SOEs and despite requiring re-assurances from the Responsible Minister, the CEO did co-operate in meetings and informal discussion to enable the commencement of identifying, evaluating and analysing the way forward with key business issues affecting potential privatisation.

These issues are detailed in the Cabinet Submissions and revised Scoping studies in Appendices 2, 3 and 4.

Each of these issues occupied substantial time to both understand and investigate.

Much was made by management of the relationship with freight agencies and crewing services contractors, such that any private sale might lead to a cessation of these effective business contracts. It was clear that management were keen to retain the status quo and saw privatisation as a damaging outcome for the business. Much effort was made to alleviate their fears and explain the options and potential for longer term benefits.

At the time of the deferment of the project, following the second field visit in February 2005, arrangements were in place for the Legal Officer, Ministry of Finance to commence a review of all contracts in place and examine their potential impact on privatisation. The delay in consideration of the Cabinet Submission, as a key authorisation of this work prevented it from proceeding.

On resumption of the project in November 2006, there was much concern within the Ministry of Finance as to the solvency of SSS. Initially privatisation was seen by Ministry of Finance as a solution and it was proposed that to expedite matters the crewing services business should be merged with Samoa Shipping Corporation (a wholly owned Government SOE and 50% owner of SSS).

Indeed, on 21 November 2006 the SSS Board sent a report to Ministry of Finance seeking financial support and identifying serious concerns regarding the financial position of the business.

Key points from the report are:

- The major business contract was a commitment by SSS to supply crewing services to the MV Forum Samoa II for a period of 10 years, to March 2009. Rates were agreed. Despite some minor amendment, it now appears that these rates were poorly negotiated. Some costs were not factored into the cost structure and route alterations have increased provision costs to SSS.
- Consequently SSS appears to be losing approximately \$500,000 per annum on the contract
- Request to Government for additional funding support in the form of \$2m to pay off current liabilities and over \$2m to fund ongoing operations including the above contract
- SSS had established a Board sub-committee headed by Hon. Misa Telefoni, deputy Prime Minister and Board Chairman to review all business operations and finances and report back to the main board.

Thus SSS requested over SAT\$4m further capital (in addition to the \$2.8m allocated in May 2004) without reference to:

- funding continued losses beyond the next year, if no change is made to the contract
- funding the purchase of the vessel (MV Forum Samoa II) – approx \$US6.2m is needed in March 2009

The consultant was asked to review this submission and advise accordingly. The main points of comment and advice were:

- It is clear SSS cannot maintain current operations without further cash-flow relief.
- It is also clear that the decision to purchase the vessel (by exercise of a purchase option) or otherwise, is critical, by virtue of the pending due date of the option, the need to resolve SSS current crisis and the proposed privatisation.

- The request omits to explain three key elements:
 - why is the current arrangement to supply crewing services so financially detrimental and what can be done to re-negotiate the arrangements
 - what benefits (profits/cash-flows) will accrue to SSS (and/or Samoa) if the option is exercised and SSS owns the vessel
 - Why does Samoa need to **own** a ship?
- A privatisation, and liquidation of the business as planned could generate approximately \$1m of surplus funds (assuming SSS realise the full value of the investment to Hartmann Group) based on current information.
- Due to the complexity of the contracts, it may not be feasible for SSS to exit the silent partnership (option contract) early, without substantial penalty, and this needs to be investigated further.
- Using rough calculations based on information informally provided by management it is doubtful that operation of the vessel as a charter boat, if purchased, would yield a satisfactory return on investment or sufficient positive cash-flow.
- A proper business appraisal for such an investment decision must be done before any sensible decision can be made.

Following this report and a review by Ministry of Finance a decision was made to extract SSS from the pending privatisation Cabinet paper, in November 2006.

Further initiatives occurred in the following months:

- Correspondence and meetings between the key parties involved in the operation of MV Forum Samoa II, namely, GoS/SSS, PFL and ISN. A proposal was made to increase the daily crew fees and agreement for SSS to explore with PFL, options to purchase the vessel in 2009.
- A Cabinet Submission endorsed by the SSS Board that requests a Government of Samoa (GoS) guarantee for SAT\$3.2m to Westpac bank to enable release of securities held by the bank for increased liquidity.
- The establishment of a "task force" comprised of a shipping industry expert, SSS and Ministry of Finance, to explore the best way forward in re-structuring the company, to include all operations, but specifically the issues associated with operating and potentially purchasing the MV Forum Samoa II.

The consultant again expressed concern that these developments still omitted to adequately differentiate the issue of 'does Samoa need to own a vessel' from the issue of the viability of SSS, a view that was documented in the original scoping study in mid 2004 and again in the revised version in late 2006.

The task force is clearly not independent of SSS. However the issue of objectivity is in part mitigated through the engagement of a Seafarer Training and SOE restructuring specialists as advisors to the task force and funded with assistance from ADB.

These advisors were engaged for a short-term consultancy in mid-2007 and filed a final report in early October 2007. The key recommendations of this report, which were fully endorsed by the Task Force, were to:

- (i) Renegotiate the terms of SSS's Crewing Management Agreement with Hartmann to reduce the estimated SAT2,000 daily losses that the contract now generates. If these negotiations are unsuccessful, SSS should investigate every option to terminate the agreement prior to the expiry date of 2009.

- (ii) Realize the option value on the FSII by selling the option rather than purchasing the vessel, even if the ultimate intention is to resell the vessel.
- (iii) Privatize the crewing and shipping services business lines of SSS through a fully contestable and transparent process.

Notwithstanding these recommendations in late October 2007 SOEMD expressed the following view *“that the Shipping and Crewing business lines of SSS will be privatised (jointly or separately), and the Board has endorsed this. The problem remains with the Forum Samoa II because it would be difficult to terminate the Silent Agreement now before 2009. The Shipping and Crewing businesses are subsidising losses incurred by the Forum Samoa, and Government is not in any position to take over the vessel operations and fund these losses. So, until the issue with the Forum Samoa II is resolved, Shipping and Crewing business could not be privatised immediately before 2009”*.

No specific developments have occurred pending completion of the task force report to the Board.

While these developments have prevented the fulfilment of work on the privatisation of SSS as originally intended, we anticipate that these further reviews have strengthened the understanding of the issues of vessel ownership and the relative need for SSS as a corporate entity. We continue to advocate that Samoa does not need to own such a vessel and that SSS can be privatised by sale of component business units and then liquidation of the shell company.

5.4 Agriculture Stores Corporation

During the first and second field visits in November 2004 and February 2005, discussions took place with ASC management detailing the privatisation process and requesting access to information. Key issues were identified with some recommendations as to how to proceed to pave the way for a successful sale.

These issues are detailed in the Cabinet Submissions and revised Scoping studies in Appendices 2, 3 and 4.

Management appeared ambivalent to privatisation and uncertain of its merit. This was especially so, in respect of the impact on farmers and the fear that private owners would increase prices and deter the ability of farmers to strengthen their agricultural enterprises. Much discussion took place to alleviate such fears.

Management also expressed concern at the potential requirement to shift location of the main business premises to accommodate the new Development Bank building on the same site. The proposed alternative location was considered inferior, with less passing customer traffic and thus detrimental to business prospects.

Nonetheless, the CEO expressed the intention that key management would endeavour to purchase the business if privatisation was to proceed. He also advised that he was making representations to his Minister and Government in this regard and about the merit of the process in general.

As detailed in 5.1 and 5.2 above the process stalled with postponement and delayed decisions. Management did not engage fully in assisting preparation, pending Cabinet decisions that would confirm or otherwise Cabinet intention to proceed with the sale.

On further discussion with management in November 2006, after the postponement, no substantial effort had been made conducive to privatisation.

However, and despite SOEMD recommendations to the contrary, management did exercise opportunities for expansion of the product range in 2005/6 to include some household products and furniture. The plantation, instead of being on-sold was transferred to cattle farming, but still without positive economic results.

These developments were documented in the revised Scoping Studies that were the major output during the third field visit in November 2006. Attempts to make substantial progress during the fourth visit in March 2007 were thwarted in the absence of the appropriate Cabinet decision following the revised scoping studies (appendix 4). Despite this Cabinet Submission recommending to proceed with the sale of ASC, when the Cabinet decision was finally handed-down in April 2007 Cabinet had elected not to implement the privatisation of ASC.

The Cabinet decision as handed down from the Cabinet Secretary did not offer explanation for this decision. It would be speculative to suggest reasons, however we understand a number of current Cabinet members were not Ministers at the time of the policy decision on privatisation in 2003.

Given the timing of the decision and the limited time and budget inputs remaining under this TA, no further effort was expended on completion of the privatisation of ASC.

5.5 Project amendments

During early June 2007 the consultant met with the project officer of the ADB and informally discussed the issues and impediments to the project. It was understood that the project should proceed, with the completion of the SBC sale as its outcome objective. It was pointed out that while there was every indication that a successful sale of SBC could be achieved the level of buyer interest was not formally known.

On 9 July 2007, a letter was sent to the project officer of the ADB, from the CEO Ministry of Finance to formally advise of the amendments to the project arising from the recent Cabinet decisions. This letter concluded with the following self-explanatory paragraph *“While it is regrettable that the TA is unable to achieve all of the originally desired outcomes, this reality is beyond the control of the Ministry of Finance or the TA consultant. Currently work is proceeding very well in terms of the sale of SBC and we expect a satisfactory completion of that divestment, upon which we will be able to conclude a successful TA.”*

We understand no comment or formal response was received from the ADB.

5.6 SOEMD Capacity Building

The original ToR called for further support to SOEMD (*as and when required and subject to budget availability*) to:

- Identify and cost Community Service Obligations (CSOs) and assist in the analysis and negotiation of such CSO claims.
- Develop performance monitoring mechanisms.

During the first field visit in November 2004, SOEMD continued to experience frustration in the management of the CSO process. Some SOEs failed to comply, others demonstrated confusion in identifying such CSOs, while others were unclear of relevant costs. Regardless of the express

directions of the Public Bodies (Performance and Accountability) Act, in many cases Ministers continued to support the SOE to receive amounts at least similar to those historically provided under budget support and prior to implementation of the Act.

Thus in practice, despite SOEMD efforts, the CSO process fell back to one of providing support to SOEs based on budget availability rather than firm analysis of provision of services at a fair price.

During the second field visit in February 2005 an approach was agreed to focus on the two major SOEs providing community services, Electric Power Company (EPC) and Samoa Water Authority (SWA). A letter was sent from Ministry of Finance requesting their co-operation in having the consultant assist and regulate their internal processes to identify and cost the CSO claims. This was to be followed up during subsequent field visits.

Due to the project delay, as per 5.1 above, subsequent field visits did not provide adequate time to really follow through with this. However, needs had also changed. The new TA 4513 concerned with corporate governance was under-way and this also targeted a review of the CSO process.

By November 2006, directed by the new Assistant CEO SOEMD plans were already in place to recommend legislative change and to focus CSO on those activities related to alleviating hardship. An appropriate Cabinet Submission was pending. There was no longer additional assistance required under TA 4417.

TA 4513 was a program of work targeting improvements in corporate governance and SOE performance. The work included a review of a number of provisions of the Public Bodies (Performance and Accountability) Act and SOE reporting structures.

Given the constraints of SOEMD capacity (see Section 7.0), the reduced time and budget availability under TA 4417 due to the delays (per 5.1 and 5.2 above) and the availability of resources under TA 4513 it was felt, on resumption of the project in November 2006 that inputs to develop performance monitoring mechanisms were best confined to working with the other TA consultants and advice to the Assistant CEO SOEMD. A number of discussions were held with the TA consultants, and advice was given to assist with:

- Information on the SOE reform process and application of the Act.
- Issues on specific SOEs – especially SBC and SSS targeted under this TA.
- Detailed matters relating to reporting structures and disclosures.
- Specific ratios required to be reported, their relevance and use in assessing performance and applicability to all SOEs or only particular businesses.

Section 6.0: Samoa Broadcasting Corporation (SBC)

6.1 Initial Review

The Inception Report and the early submission to Cabinet also identified key issues with regard to SBC. These were as follows:

- Ownership and upgrade of transmission towers.
- Establishment of independent censorship authority.
- Contractual commitment to air preferred Government programs, e.g. Religious services and national festivals.
- Potential for Government to issue new broadcasting licenses and create competition and/or to invoke a license fee on TV viewing.
- Ownership/Rent for operating premises.
- Review of existing supply agreements.

Work on SBC progressed evenly throughout the project, but was accelerated after resumption of the project in November 2006. In the first instance, this was in the manner of updating the scoping study, (appendix 3). This report was structured with the intent to sell rather than the original study which was prepared to address the issue of “whether to sell or not”.

Work then concentrated on specifically addressing the issues and preparing a sale process. But, it was not until April 2007 that the critical Cabinet decision was passed that approved the sale of SBC (and rejected the proposed sale of ASC) and this was after completion of the 4th field visit.

Even with only one entity to focus on, time was very limited and the intent was to ensure that the process was scripted to enable completion by the date of TA expiry, 31 October.

6.2 Industry changes

During the 20 months between February 2005 and November 2006 while the project was postponed much had changed in the Samoa broadcasting industry. While some such changes were obvious and highly visible, others came to light during the updated scoping report. Key changes during this period that have impacted on the privatisation process include:

- The granting of broadcasting licences to two new TV operators thus creating competition in the market, prior to privatisation.
- The decision to use the World Bank telecommunications sector support project to commission a review of the broadcasting regulatory environment leading to a revised broadcasting act.
- The introduction, under the same World Bank sector support project, of the office of the Telecom Regulator with powers to control broadcast spectrum and to ensure transmission towers on customary and government land are registered and leased.
- The acceptance of Chinese Aid to construct two new receiver/dishes on the SBC site at Mulinu'u.

It became evident that SBC had not enjoyed a continuation of its improved performance of 2003 – 2005 and the 2006 results showed a loss with 2007 results looking weaker under the threat of the new competing TV businesses, Lau TV and TV3.

Clearly, any picture of deteriorating results, no matter the reason, makes the process of positioning and marketing a business for sale, that much harder. To aggravate this, a number of housekeeping matters within SBC continued to frustrate progress including completion of the 2006 financial statements and audit, reconciliation of prior year tax returns and completion of relevant leasing and licencing necessary from the above changes.

The SBC board had recently appointed an audit committee – under the guidelines emerging from TA 4513. The committee raised a number of queries about the 2006 audit that took a lengthy period of time to resolve amicably.

The updated scoping report is included as appendix 3 to this report and it more fully details the issues arising and changes emerging during 2005/6 that affected the privatisation of SBC.

6.3 Consultant Activities

In addition to all activity noted in the rest of this report, specific work related to the privatisation of SBC in the later field visits includes the following:

- Examining management information, financials, forecasts, contracts and business operations.
- Observation and review of technical transmission sites and equipment
- Assistance to management to facilitate completion of relevant matters including audit for 2006, financial forecasts, taxation issues, building maintenance, and staff organisation.
- Discussions with and advice to management regarding the privatisation in its fullest and a presentation to the Board, outlining the privatisation process and agreed timetable.
- Discussion, review and analysis of the impact of the regulatory environment, broadcasting policy and codes and planned improvements to the Act and regulations.
- Discussions with Ministry of Finance officers to assist with legal process and the incorporation of SBC.
- Preparation of relevant papers for discussions with CEO Ministry of Finance to outline progress, evaluate issues and options and recommendations accordingly.
- Preparation of the Bidding process and relevant procedures.
- Supervision of Ministry of Finance officers in identifying documents and data relevant in preparation for buyer due diligence.
- Preparation of a Valuation Report.
- Preparation of an Information Memorandum.
- Preparation of a Cabinet Submission outlining the issues to be solved and identifying options. Discussions with Ministry of Finance and assistance in preparing recommendations.

6.4 SBC Board and Management

It should be stressed that the board and management of SBC have attempted to co-operate with the privatisation process. However, early in the project they were ill-prepared and were ambivalent about the merit of privatisation.

Following the project delay, a substantive effort was made in 2007 to engage with the board and management, most notably senior staff to assist to identify and resolve the key issues and prepare for relevant due diligence.

Only following the Cabinet directive in April 2007 was it evident that full co-operation and proactive preparation would be forthcoming. This then spurred some concerns about the process, the timing, and the effect on staff and on the quality of programming in a fully privatised market.

While we can argue that Government intentions were made clear and were made public as early as 2004, as explained in 5.1 and 5.2 above, the postponement and subsequent delays in authoritative decisions, hindered perceptions and endorsement of the privatisation.

The board felt justified in raising concerns, even if this clashed with the limited time-frame ahead to achieve the sale by 31 October 2007. On 9 July 2007 the board wrote to the Hon. Prime Minister & Cabinet members proffering their concerns about the impact of privatisation on jobs and 'control' of broadcast material.

Cabinet referred the matter back to the Ministry of Finance as the managing agency of the privatisation. Generally the concerns were being met through their own instigation of a redundancy package and relevant assessment of and recommendations for terms and conditions of sale.

Ideally the board may have been more pro-active in the process. But as explained, their response was late in context of the total time since inception of the privatisation; they were uncertain of their role, hindered by the uncertainty and delays in the decision-making; there were confidentiality concerns as it was known that management were organising themselves to arrange a bid.

The primary concern appeared to be protection of employees that feared redundancy and effort, late in the process, was given to developing a generous redundancy package, with a determination that it should be enforced as a condition of sale, to enable employees more time to consider its merit.

As mentioned above some internal issues were identified for management to resolve so as to assist with the smooth completion of the sale process. During June and July 2007, intense effort by SOEMD staff and the consultant was made to interact with SBC staff and urge them to follow through matters for completion. It is regrettable that even at drafting of this report in October most of these matters are yet to be fully completed, such that it is likely some additional negotiations will be required with the selected buyer to complete the sale. These matters include:

- Completion and sign-off of 2006 financial statements.
- Prompt completion and early preparation for June 2007 audit.
- Proper provision for debtor balances.
- Reconciliation of tax returns with the appropriate authorities.
- Completion of a suitable redundancy scheme for employees.
- Acquisition of relevant licences for broadcasting.

6.5 The Sale Process

The original decision in FK 04/08 - 25 February 2004 detailing an action plan for the divestment of seven priority enterprises (4 minority shareholdings and 3 fully owned enterprises) called for

a trade sale and open tender for the sale of SBC. This decision has not been challenged or changed.

Thus, the process followed, in simple terms has been to:

- Identify key issues affecting privatisation (*these have changed as the project progressed*).
- Propose and implement solutions to those issues.
- Advertise for Expressions of Interest.
- Invite indicative bids from qualified EoIs.
- Facilitate buyer due diligence.
- Receive final offers and negotiate with preferred bidder.

Following Cabinet decision FK (07) 31 in April 2007, the consultant prepared, at the request of Ministry of Finance, a roadmap of the way forward providing indicative target dates for each stage of the sale process. This was presented to the new Minister for Communications and Information Technology, along with a briefing note by the Ministry of Finance. A further follow up was presented a few weeks later; the SBC Board, of which the Minister is Chair, was addressed by the consultant on 23 June 2007 and the Minister was again briefed on progress in mid-July.

On or about 22 May 2007 the consultant prepared a more detailed roadmap identifying specific target dates. This was agreed with CEO Ministry of Finance, shortly thereafter and targeted 23 July 2007 to advertise and seek Expressions of Interest. The timetable allowed sufficient time for each stage of bidding and evaluation and an allowance for distraction while the SP Games was hosted in Samoa in early September.

On or about 26 June 2007 a further Cabinet Submission (appendix 5) was prepared to seek approval for the sale process and timetable and most importantly for agreement on key issues affecting the sale. A number of matters and recommendations were raised that dealt with terms and conditions of sale.

A key decision was to exclude foreigners and foreign owned entities from being eligible bidders.

Again a decision was not reached quickly and no decision had been handed down by the planned public notice date of 23 July. Given this delay in achieving Cabinet approval the preference of the Minister and board was to wait for such final decisions on the terms and conditions of sale, thus deferring the original time-table.

Requests for Expressions of Interest were publicised on 29 August 2007 and responses from 7 entities were received by 17 September 2007.

The evaluation and selection of bids process was done under the watchful eye of the Government Tender Board. In the absence of an expensive and formal probity process, this was deemed an acceptable and appropriate mechanism to monitor fairness and transparency in the sale process.

The Ministry of Finance selected an evaluation panel, comprising representatives from the Office of the Regulator, Ministry of Communications and Information Technology, the Office of the Attorney General and the Ministry of Finance.

The consultant prepared advice and guidelines for conduct of these oversight bodies, to ensure the integrity of the process. Beyond that it was appropriate for these official Government representatives to conduct their assessment independent of input from the consultant.

Expressions of Interest were evaluated by the panel on 20 September 2007 and four bidders were selected, in accordance with selection criteria to be invited to make an indicative offer. The Tenders board approved this selection process and the Information Memorandums were distributed after 1 October 2007.

The essential evaluation criteria are an assessment of:

- The bidders vision and capacity to develop broadcasting quality and accessibility in Samoa.
- Price.

Indicative offers were received from three of the four selected bidders on 16 October 2007 as requested, the fourth bidder electing not to proceed with their bid. The Evaluation Panel are completing their assessment of these bids at the time of preparation of this draft report.

On 11 October 2007 a law firm representing one of the ineligible bidders from the Expressions of Interest received, wrote to Ministry of Finance complaining at the exclusion of their client. They cite the exclusion on the basis of being a foreign owned entity as unfair, as this specific condition was not noted on the public Expression of Interest advertisement. The Ministry of Finance has argued that this was an administrative error, and a direct result of the delay in hand-down of the relevant Cabinet decision, and the consultant not being in country at the time of proceeding. However, the consultants argue too, that the Expression of Interest is **not** an invitation to bid under certain terms and conditions, but merely to seek those who are interested so that invitations to bid can be targeted. In this context an entity not meeting eligibility criteria was not invited to bid.

Advice was sought from the Office of the Attorney General and evaluation of indicative bids was deferred pending such advice. At the time of final review of this report the Office of the Attorney General has indicated that Ministry of Finance should proceed with the bidding process.

Preparation is in place for those invited to conduct buyer due diligence and complete the submission of a final offer. SOEMD are briefed and capable of controlling these remaining steps to reach a conclusion to the sale and the consultant will assist as required.

6.6 Terms and Conditions of Sale

The Information Memorandum is included as appendix 7 to this report. Section 6.0 of this document provides details of the sale process and terms and conditions under which Government has decided to negotiate a sale with a preferred bidder.

It is expected such negotiations will be complete and a sale contract signed during December 2007.

6.7 Impact of a bid from Management

The Cabinet directive from 2004 was that SBC would be sold by trade sale. This has not changed.

The fact that a company was registered in which some members of SBC management held shares and that entered an Expression of Interest was not known until the EoI's were received on 17 September 2007. This was, of course after the Information Memorandum was prepared.

Of course being a small country rumour abounds. It is difficult to control news and preserve confidentiality in some matters and MoF were advised accordingly.

There are many apparent and perceived conflicts within the economy and society. Yeoman Ward International has identified many of them during their work in Samoa, including the issue of Ministers and public servants acting as Board members. Despite follow up Governance technical assistance, still neither the Government nor the ADB have been able to influence this change. It is a limitation of a small island state with few skills and resources.

The most effective way to proceed was to adhere to the stipulated process and attempt to ensure its integrity. This was EoI, issue IM, indicative bids, and then due diligence and final bids.

The potential for management to subvert the process in their perceived favour was of course real. This is/was best dealt with by:

- An independent valuation and the right of GoS not to accept any bid (from the management bidder or other) that is considered insufficient.
- SBC management awareness that others were bidding in competition.
- Attempt to preserve confidentiality, avoid media hype and thus generally 'play-down' false or misleading perceptions.

The issue of management taking action to reduce value was a concern. This was protected by the completion of a valuation well before any decision to bid and as is evident from the valuation report, by reliance on independent determination of the future potential of a private entity as distinct from the performance of SBC as a public entity. Indeed this was somewhat complex as historic results were poor.

The issue of management saying things to "throw off" other bidders was real and their access to information was indeed real. Other bidders did question this fact. The onus always will be on other bidders to conduct their own due diligence and access the best advisers they can.

Throughout the process GoS reserved its rights and emphasized that bidders needed to assess their own risk.

The latest developments are that MoF invited two bidders to conduct due diligence and submit a final bid, including the company part owned by one or two members of SBC management.

As it transpired the due diligence process enabled the other bidders to examine in depth a vast array of SBC information and they elected to carefully examine all assets and equipment on the main premises and every transmission site throughout the country. MoF allowed a camera to record details, which is unconventional but was an attempt to assist the other bidder to capture relevant information.

Also the other bidder conducting due diligence was a Samoan resident company, active in the media industry and so were in a prime position to evaluate the current standing and value of SBC.

The consultant did express concern at the slowness of SBC and its inability to provide all requested information for due diligence. However, the rights are always with a bidder to determine what other information they require. All bidder questions were answered fairly and shared among bidders.

All this must be put in context. A management buyout is usually a negotiated bid between management and the owner, without a trade sale process and competitive bids. In this manner it is an agreed valuation between two parties.

The SBC sale process has thus **not** been a management buyout. This was a recommendation for the sale of Agricultural Store Corporation, which was agreed by Cabinet prior to them reversing the decision to sell. We suggest it may be a reasonable option for parts of SSS. This point was made in the original scoping study. The point is that Samoa is a small island state with limited capacity to attract investment, especially for under-performing state assets.

On 30 November MoF were informed from the other bidder that they would not be proceeding with a final bid. The explanation was one of high risk. On Monday 3 December only one bid was thus received, from the company owned in part by SBC management. The ACEO of MoF has advised that the final bid was at a lower value than the earlier indicative bid.

Obviously these latest developments are somewhat disappointing. However, the bid from the company owned in part by SBC management was substantially higher at indicative bid stage. At face value either bidder at the right price could be deemed a good outcome for the SBC privatisation.

It is unclear whether this company had knowledge of the withdrawal of the other bidder.

The ACEO MoF has now been advised that the integrity of the process rests with achieving a price at the higher level or in excess of the independent valuation. The final bid is just under this level, whereas the indicative bid was higher. The advice is therefore that the evaluation panel accept, (subject to all criteria being satisfied) the bid subject to a negotiation back up to the level of the indicative bid.

For future sales of small under-performing state assets, in small economies like Samoa, an independent valuation, substantiated by audited results and evaluating the future without the deterrents of state influence, is the basis of sale integrity and a proper management buy-out is an effective option if sufficient interest and finance is available.

Section 7.0: SOEMD Capacity Assessment

7.1 Current Staffing

Current staff levels within SOEMD are:

- o 1 Assistant CEO
- o 1 Principal Research Officer
- o 2 Senior Research Officer
- o 3 Research officers

This reflects recent additions to staff numbers during September 2007 such that for the first time in over five years, SOEMD appears to be at a full compliment of staff.

In the past we have commented that SOEMD is critically understaffed in comparison to other government monitoring agencies. The Crown Company Monitoring and Advisory Unit of New Zealand (CCMAU) has a staff ratio of approximately 1 person for every 2 enterprises monitored, while the Ministry for Public Enterprises and Public Sector Reform in Fiji, has a ratio of approximately 1 to 1.

SOEMD has over 20 enterprises within its portfolio of responsibility. Such responsibilities include the full gambit of monitoring duties and reforms as well as a focus on privatisation. Even though staff numbers are now higher, the balance of skills and experience is still limited and it will take time for new, junior staff to acquire necessary skills to add real value.

7.2 Skills

An objective of the TA was to help equip the staff of SOEMD with the toolkit of knowledge required to meet current privatisation plans and to provide experience to draw upon for future privatisations.

Project delays and changes, along with changes in staff roles and numbers have severely limited opportunities for substantial up-skilling of staff. However, all the senior officers have been closely involved in the process to some degree and have experienced the implementation of a privatisation process, the ability to assess each entity and its unique circumstances, and to modify the process and respond to the will of the stakeholders involved. In this respect valuable lessons have been learnt.

In addition, during the protracted time frame for the project implementation several senior officers have attended overseas training programs and all officers have attended home-based training that has covered a range of topics relevant to privatisation, public enterprise reform, community service obligations and SOE reporting and accountability.

These formal programs, alongside the hands-on learning as part of this and other SOE consulting projects in recent years, and the experience of further years of application of the Public Bodies (Performance and Accountability) Act has certainly strengthened SOEMD skills. Many skills have been gained since the early focus on SOE reform in 2002.

It is hoped that with additional numbers, several senior staff now with some longevity and real experience and a monitoring and SOE portfolio management process firmly in place, the future is bright for SOEMD to achieve real impact in improving the results of the SOE portfolio in Samoa.

Section 8.0: Work Plan and Project Budget reconciliation

8.1 Work Plan

A detailed work plan was included in the Inception Report, completed in November 2004.

As stated in the Introduction (section 2.0) above, this report should be read in conjunction with the Inception report and other progress reports. While the brief field reports generally maintained a tone of optimism that the project objectives could be completed, it was obvious that time constraints were becoming increasingly challenging and that the work plan was being revised continually to reflect the changes arising from project postponement, delays in decisions, changes to the SOE environment and issues arising.

At this, the conclusion of the project it is reasonable to state that a program of work has been completed that generally has accomplished those tasks in the original work plan, at least in so far as they remained relevant and were permissible in accordance with Cabinet decisions.

Given the above comments and issues and changes arising during the project, it is believed that work undertaken was reasonable to achieve project outcomes that remained relevant through the project.

8.2 Project Budget

	US\$	Project Budget	Invoiced to 31 October 2007		Final Invoice	Total Project Cost	Unused Budget
REMUNERATION		103,614	82,891		19,517	102,408	1,206
OUT OF POCKET EXPENSES							
Per Diem Allowance		26,815	21,855		4,960	26,815	-
International Travel		13,800	11,146		1,996	13,142	658
Miscellaneous Travel Expenses		900	750		150	900	-
Report Preparation/Production and Communications		2,000	421			421	1,579
SUB-TOTAL		147,129				143,686	3,443
CONTINGENCY		2,871					2,871
TOTAL MAXIMUM PAYMENT		150,000				143,686	6,314

On completion of the project there is a small surplus of unused funds remaining, as indicated in the table above.

Section 9.0: Conclusion

This report and the associated reports prepared during this project for submission to ADB, along with relevant papers and documents prepared in accordance with the work program and included here as appendices, demonstrate a commitment to a work program that has changed substantially from inception.

Critical impediments to achieving the original terms of reference within the project time-frame were the 20 month postponement of the project, delays in key decisions, changes to approval for privatisation candidates and decisions changing the business environment that impact on the nature of and capacity to sell.

Ultimately the project became all about the privatisation of SBC. At the conclusion of consultant inputs and expiry of the project, this privatisation is well advanced and close to completion. Successful completion will render the project a success and mark another significant milestone in Samoa's privatisation program.

The privatisation sceptics remain and it will be a continuing task for Government to educate and inform the public and key stakeholders of the relevant merits and long-term impact of different privatisations. Inevitably some people will be disaffected by privatisation. The challenge is to be decisive and sell the long-term as well as short-term advantages.

Samoa is now in a strong position to proceed with its reform and privatisation program and the Ministry of Finance and SOEMD in particular should be commended on their learning and diligence throughout this process. With improved skills, more experience and stronger leadership SOEMD is well positioned to take the reform agenda to new levels.

We take this opportunity to thank Ministry of Finance, and SOEMD personnel for the opportunity to work with them on this important reform project. We also register thanks to all other stakeholders, including but not limited to SOE management who have provided inputs and co-operation during this work.

Appendix 1: Terms of Reference

- A. Assist SOEMD with the privatisation of priority candidates as approved by Cabinet in the paper on 'Strategy and Options for privatisation of seven priority state owned enterprises'
1. With respect of each of three enterprises :
 - i. Samoa Broadcasting Corporation
 - ii. Samoa Shipping Services
 - iii. Agricultural Stores CorporationAssist SOEMD to restructure the enterprise in preparation for privatisation, by:
 - a. Identifying critical business and regulatory issues to be addressed
 - b. Implementing processes to enable change and/or legislation to address such issues
 - c. Identifying an appropriate strategy to sell
 - d. Implementing processes to attract potential buyers and manage the sale
 2. Assist SOEMD to complete the sale of the four minority owned enterprises, already in progress
- B. Provide input as required to support the continued development of the SOE performance monitoring mechanisms and assist SOEMD to strengthen their monitoring capacity through timely and effective reviews of corporate plans, quarterly reports and annual reports
- C. Assist with the completion of approval of Community Service Obligations by:
- a. Assisting relevant Public Bodies to identify and cost necessary CSOs and achieve formal approval
 - b. Assisting Ministry of Finance to evaluate and negotiate a sale and purchase agreement in respect of each CSO
 - c. Ensuring the Public Bodies and Ministry of Finance have an effective process in place to evaluate future CSOs such that approval and performance can be done efficiently