# Privatisation in Samoa: a promise or a fallacy?

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This article examines the privatisation of nine government enterprises in Samoa with respect to the objectives set by government. Substantial revenues have been realised by the government, there is considerable improvement in the provision of services and products, and some reductions have been achieved in consumer price levels. Further, in the three enterprises studied in some depth—the Bank of Samoa, BOC Gases and Samoa Breweries Ltd—management practices have been overhauled in the search for efficiency and effectiveness. Improvements in the privatisation process are discussed.

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Privatisation was widely perceived as the panacea for crippling economic conditions and oversized governments in developing economies in the 1990s. At least, that was the perception of the governments of Pacific island countries at the time, perhaps because of the success of privatisation in Australia and New Zealand and other industrialised countries, and perhaps it was because of widespread support for privatisation from international financial institutions such as the International Monetary Fund and the World Bank.

In Samoa, much had been said and written within government about the anticipated benefits of privatisation, but very little is known about the actual benefits. The meagre account of the impact of privatisation has caused scepticism amongst the public and, in particular, the parliamentarians. As one Member of Parliament said, in complaining about the government's attempt to privatise more state-owned enterprises in the mid 1990s, 'why don't we privatise the whole country?'.

This paper attempts to contribute to the debate on privatisation in Samoa by examining the objectives and the results of privatisation during the period 1994 to 2004. Of particular interest is the sale of government shares to private operators. The central question in this analysis is whether privatisation has improved the performance of enterprises in terms of profitability, efficiency and productivity?

Three enterprises from different industries are scrutinised in order to examine the effects of privatisation on their operations. These are the Bank of Samoa (now ANZ), Samoa Breweries Ltd, and Samoa Industrial Gas (now BOC Gases). Prior to their sale, the government was the major shareholder in the Bank of Samoa and Samoa Breweries, and held a minority of shares in Samoa Industrial Gas.

## Background

In the 1970s, the government of Samoa established several state-owned enterprises, mainly to provide commercial goods and services to supplement an underdeveloped private sector. For instance, government became involved in the production of commercial products such as soap, beer, cigarettes, beverages and meat. This was the trend until the late 1980s, when the government encountered major demands on its financial resources from most of its commercial operations.

Although initially pursued in 1987, the government mainly promulgated its privatisation intentions in its development plan for the period 1992 to 1994 (Samoa 1992). The plan stated that the government in recent years had committed itself to a major withdrawal from the direct provision of goods and services through a program of commercialisation, corporatisation, and privatisation. The private sector (domestic or foreign) would be given further opportunities to take over public enterprises and appropriate elements of services provided by government. In principle, all government activities that generated non-tax revenue were candidates for privatisation (Samoa 1992).

Since its inception in 1987, privatisation in Samoa has been primarily perceived as the transfer of control of state-owned enterprises to the private sector (Samoa n.d.). This view increased in currency as the government engaged actively in privatisation in the mid 1990s. For instance, in 1996, the government stated that privatisation embraced the

- sale of physical assets to people who can make more productive use of them
- leasing of assets
- public sector withdrawal to allow the private sector to become active
- contracting out of public services to efficient suppliers (Samoa 1996).

Figure 1 **Privatisation strategic overview**

Phase 1
12–18 months
- Generate revenue
- Foreign exchange

→

Phase 2
18–36 months
- Develop a capital market
- Attract foreign investment

→

Phase 3
3–10 years
- Fund infrastructure
- Improve efficiency

**Source:** Samoa, n.d. Privatisation strategic plan overview, Treasury Department, Government of Samoa, Apia (unpublished).

Table 1 **State-owned enterprises earmarked for privatisation**

| | |
|---|---|
| Bank of Samoa | Samoa Breweries Ltd |
| Special Projects Development Corporation | Agriculture Store Corporation |
| Computer Services Ltd | Samoa Iron and Steel |
| Samoa Industrial Gas | Hellaby Samoa Ltd |
| Brugger Industries | Samoa Shipping Services |
| Samoa Forest Corporation | |

**Source:** Samoa, 1995. 'Privatisation process', notes prepared for the seminar 'Passing the Ball to the Private Sector', Treasury Department, Government of Samoa, Apia, 12 October.

A blueprint was devised by the Treasury Department to ensure that the intentions of the government underpinning privatisation would be fully materialised. This three-phase strategy (Figure 1) extended over a ten-year period, during which the initial phase generated revenue and foreign exchange to meet hard currency obligations (Samoa n.d.). Eleven state-owned enterprises were earmarked to meet this immediate need of government (Table 1).

The second phase of the strategy aimed to develop a capital market and an investment climate attractive to domestic and foreign investors. A unit trust was proposed, with a portion of government shares to be transferred to it from seven profitable state-owned enterprises. Treasury anticipated a number of social and economic benefits and advantages accruing from phase two through the unit trust, including

- improving opportunities for small investors to invest in large-scale enterprises
- moving towards fair socioeconomic opportunities
- giving Samoans living overseas an opportunity to invest in Samoa
- increasing foreign exchange inflows
- improving Samoa's exposure to the international investment community.

The final phase of the program focused on improving economic efficiency and raising funds for infrastructure development, including areas such as power generation and distribution, telecommunications, water utilities, and the port authority. To facilitate this final phase, the government selected six candidates for privatisation: the Electric Power Corporation, Water Authority, Telecommunications, Western Samoa Shipping Corporation, Development Bank of Samoa and the Airport Authority.

## Rationale

Several factors prompted the government to privatise the state-owned enterprises, in particular, the relatively poor financial performance of most of these enterprises, especially in the first half of the 1990s. Several state-owned enterprises consistently had net losses. Further, the financial and operational performances of natural monopolies were lower than their counterparts in the region (Clarke and Melei 1996).

The operations of poorly performing state-owned enterprises were mainly supported by direct cash injections, overdrafts, and debt facilities guaranteed by government. The dismal performance of most state-owned enterprises (with a few exceptions) was a continuous burden on the government's budget in the late 1980s and early 1990s. In 1990, for instance, the government enacted legislation to write off SAT$26.7 million of debt incurred by several state-owned enterprises. The following were the main contributors (Clarke and Melei 1996).

- Samoa Coconut Products Ltd (SAT$3.3 million)
- Copra Board (SAT$5.3 million)
- Special Project Development Corporation (SAT$4.3 million)
- Polynesian Airlines (SAT$8.5 million)

The poor management of state-owned enterprises in the 1990s was also a pressing concern. Political intrusion was the main reason given for the lack of sound management practices and good decision making. These state-owned enterprises were providing commercial services and operating in a competitive business environment and, while the claim of political intervention may have some credence, it was apparent that good management practices were not in place, or being initiated, in most state-owned enterprises. For instance, there was a lack of clear definition of the roles of government ministers in their capacities as chairpersons of the boards (AIDAB 1994). In addition, most state-owned enterprises failed to produce clear commercial objectives to underpin a strict system of accountability, and had weak financial systems and a lack of managerial skills (AIDAB 1994). These problems, coupled with the reliance on government to bail out state-owned enterprises when facing financial difficulties, over-rode any plausible initiative to establish good management practices.

The substantial economic gains to be derived from exposing these enterprises to a competitive environment were also seen as a major factor driving the government's privatisation agenda. Privatisation was seen as a way of exposing state-owned enterprises to serious competition by removing protection and financial backing.

Further, authorities in the mid 1990s cited privatisation as one of the integral components of an extensive public sector reform initiated in the same period. Privatisation was perceived as the primary means of reducing the size of government. This idea complemented the objectives pursued under the financial and human resource management reforms conducted by Treasury and the Public Service Commission, which incorporated the objective of a slim, effective and efficient public sector.

Finally, privatisation was seen as the means by which the private sector could be strengthened and, with the government, raise economic growth: an initiative that followed the World Bank agenda for other developing economies. After years of substantial public investment in state-owned enterprises, the economic performance of the country was still moderate; therefore, the private sector was targeted as the engine for economic growth (Samoa 1996).

## Privatisation objectives

Three objectives were predominant from the commencement of the program. These were to

- generate revenue
- reduce budgetary stress
- increase economic efficiency and competition (Samoa 1995).

These objectives were parallel to the broad objectives of government, which were to develop the economy into a dynamic business environment with competition and efficiency as important ingredients. The main strategy was to minimise or totally withdraw government involvement or ownership from activities that could be undertaken more efficiently by the private sector.

The key objectives of privatisation were framed within the context of a number of strategies introduced by the government in 1996. These were to ensure the

- widest possible access to share ownership
- autonomy of privatised state-owned enterprises from political force (i.e. the freedom to dispose of assets and/or terminate unprofitable activities), and
- removal of any distortion prior to privatisation (that is, monopoly status and other traditional privileges associated with some state-owned enterprises (Samoa 1996).

Following the above strategies, nine state-owned enterprises were privatised between 1994 and 2004 through the sale of shares (Table 2).

Most of these state-owned enterprises were stripped of their special privileges as part of the government's strategy. For instance, the monopoly status of BOC Gases was removed following privatisation. The same policy was applied to the other privatised enterprises, except for Samoa Breweries and Rothmans Tobacco, which continued to receive protection from the government in the form of duty concessions for imported raw materials and higher excise taxes for imported beers and cigarettes, respectively.

## Assessing the 1994–2004 privatisation program

### Generation of revenue

The revenue generated from the outright sale of government shares amounted to SAT$35.1 million (Table 3). The sale of the Bank of Samoa, Rothmans Tobacco Co. and Samoa Breweries Ltd produced substantial revenues as a result of the government's major shareholdings.

With the exception of the Special Project Development Corporation, all state-owned enterprises sold within the ten-year period were commercially feasible at the time of sale (perhaps because many were continuing to enjoy monopoly privileges from the

Table 2 **Privatised state-owned enterprises, 1994–2004** (SAT$ million)

| State-owned enterprises | Buyers | Total proceeds (SAT$ million) |
|---|---|---|
| Bank of Samoa | ANZ Banking Group | 7.50 |
| Bruggers Industries | Shipping Corporation | 0.01 |
| Computer Services Ltd | National Provident Fund | 0.90 |
| NPI | Tower Insurance | 3.60 |
| Rothmans Tobacco | British American Tobacco Australasia Ltd | 2.80 |
| Samoa Breweries Ltd | Carlton Breweries | 19.90 |
| Samoa Industrial Gas | BOC Holdings UK | 0.30 |
| Samoa Iron and Steel | Retzlaff | 0.08 |
| Special Project Development Corporation (SPDC) | Liquidated | - |
| Total | | 35.10 |

**Source:** State-owned Enterprise Monitoring Division, Ministry of Finance, Government of Samoa, Apia.

Table 3 **Government grants and subsidies to state-owned enterprises, 1994–2003** (SAT$ million)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Subsidies and grants | 60.1 | 14.5 | 16.2 | 16.0 | 14.2 | 24.2 | 18.9 | 19.6 | 18.2 | 17.2 |
| Capital and advances to Polynesian Airlines | 17.5 | 13.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 8.8 | 15.0 | - |

**Source:** State-owned Enterprise Monitoring Division, Ministry of Finance, Government of Samoa, Apia.

government). As regards the argument that the government could have gained more financially from the sales, this is difficult to support as the sales of shares were carried out via public tender.

There is a question about the manner in which some of the shareholdings were sold, in particular, those of the Bank of Samoa and Samoa Breweries Ltd. In the case of the Bank of Samoa, 75 per cent of the government's shares were sold in the early 1990s, while the remaining portion was transferred in 1995. In the case of Samoa Breweries, 51 per cent of its shares were sold in 1999 for SAT$13.1 million and SAT$6.8 million was collected for the 15.5 per cent sold in late 2004.

Perhaps the relatively substantial amount collected for the minority shareholding of government transferred recently to Carlton Breweries was a result of the two-phased sale approach. The idea was to entice a credible buyer such as Carlton Breweries to commit to the operation of Samoa Breweries Ltd by purchasing the majority of government shares up front. The second phase of the approach was based on the assumption that the buyer would find it commercially infeasible to have a significant portion of its company's shares transferred, relieving the financial and administrative burdens on government. One of the objectives of the privatisation program was to reduce the financial and administrative burden on government by reducing its subsidies and transfers to state-owned enterprises. Table 3 summarises government subsidies and grants to all state-owned enterprises receiving financial assistance over the period from 1994 to 2003.

Despite the significant reduction in government subsidies to state-owned enterprises after 1994, Polynesian Airlines' loss in 1993/94 of around SAT$125 million thwarted the government's intention to ease the financial stress on its budget through privatisation. Treasury's attempt to dilute the repercussions of Polynesian Airlines' financial crisis on the budget by requesting a liquidation of the company was met by the government's dictum to 'soldier on' with the airline. As a result, the government has injected SAT$104.3 million over a ten-year period since 1994. (Early in 2005, the government announced a merger between Polynesian Airlines and Virgin Blue.)

Polynesian Airlines' financial disaster sidetracked the government's initiative to relieve financial pressure on its budget from state-owned enterprises. While privatisation from 1994 to 2004 generated total proceeds of SAT$35.1 million, this amount is equivalent to only 34 per cent of the total amount of SAT$104.3 million paid by government to Polynesian Airlines alone. One hopes that the merger with Virgin Blue will bring a quick end to such subsidies.

### Promoting competition, raising efficiency and productivity

The privatisation of the nine state-owned enterprises between 1994 and 2004 generally triggered more competition and productivity. Amongst the most impressive performers are the ANZ, BOC Gases, and Samoa Breweries Ltd. In order to improve customer services, the ANZ introduced the latest technology in the form of automatic teller machines, EFTPOS, credit cards and a variety of loan packages not previously available. The bank has also recorded significant increases in its after-tax profits since 1993; profits have increased by almost 100 per cent since its privatisation in 1994 (Table 4).

While the ANZ shows good progress since privatisation, there was a price to be paid by consumers and employees: three branches were closed, transaction fees have been introduced, and work benefits for employees have been reduced.

BOC Gases has been commercially stable since the sale of government shares in 1994 and the removal of its monopoly status. While it is in strong competition with Origin Energy for the provision of cooking gas, it remains the sole provider for industrial gas. In terms of service, BOC Gases has improved access to its products via an increased number of outlets (prior to privatisation, only a single outlet for obtaining gas was available). That said, BOC Gases ceased supplying gas to the island of Savaii in the second half of 2004 due to high transportation and safety costs. In community terms, the company contributes to society in the form of corporate sponsorship for the AIDS Foundation, youth development, and sports.

A comparison of prices (for cooking gas) for the pre- and post-privatisation periods is hampered by poor record keeping. Nonetheless, Table 5 shows the impact of competition on the price level when newcomer Origin Energy entered the market in 1996. A significant drop in price per kilogram of gas from SAT$4.77 in 1996 to SAT$3.48 in 1999 was experienced. The gradual increase in price in the five years since 2000 is mainly due to the rise in the world price of oil.

Despite the benefits arising from competition as a result of privatising BOC Gases, several issues need further attention. Of particular interest is the continued domination of the industrial gas market by BOC Gases despite the absence of restrictions on potential competitors. Top officials at the

Table 4 **ANZ annual operating profit after income tax, 1993–2003** (SAT$ million)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Profit | 6.7 | 5.6 | 5.3 | 5.9 | 6.0 | 7.6 | 8.5 | 9.9 | 11.9 | 12.9 | 13.1 |

**Source:** ANZ Banking Group; Central Bank of Samoa, Apia.

Table 5 **Price of LPG, exclusive of VAGST** (SAT$/kg)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|
| Price (SAT$/kg) | 4.77 | 4.13 | 3.48 | 3.48 | 3.86 | 4.16 | 4.34 | 4.34 | 4.30 |

**Source:** BOC Gases; Ministry of Commerce and Labour, Government of Samoa, Apia.

company cite the small size of the market as the reason for the lack of competitors. The market may be too small for two or more suppliers given the high operational costs involved in this type of business.

Second, the suspension of gas supplies to Savaii compromised the government's expectations of better customer service from privatisation. The management of BOC Gases blamed the regulation of the gas market prices by the government for the cutback of its service to Savaii and argued that the current price level set by the Price Control Board does not cover such costs. This leads to the question of why the government is engaged in price regulation, given its commitment to competition through a market model.

Samoa Breweries Ltd, through its new Australian owner, also shows signs of stable growth. Since privatisation, the company has introduced its product (mainly beer) to new overseas markets and has contributed significantly to the country's export sector since 1999, where it reached nine per cent of total exports in 2003 compared to an average of four per cent prior to privatisation in 1999 (Table 6).

In terms of profitability, Samoa Breweries Ltd has done well during the past three years, recording a profit of SAT$4.9 million in 2002, SAT$5.7 million in 2003, and SAT$4.3 million in 2004.

Under its new management, Samoa Breweries Ltd took swift action to control its costs through cutbacks in staff entitlements and benefits, a strategy considered long overdue. The changes were met with criticism from employees and may have contributed significantly to the resignation of 62 personnel between 2001 and 2004.

**Other outcomes of privatisation**

While privatisation may have the impacts intended by government, it may also have some indirect influences on other strategic interests of government. For instance, the presence of government in the economy in terms of government expenditure as a percentage of GDP has fallen from 54.8 per cent in the 1994/95 period to 38.8 per cent in 2003/04 (Table 7). The government's intention to strengthen the private sector also gains from privatisation, with several actors in the business community now in command

Table 6 **Samoa Breweries Ltd beer exports, 1995–2003**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|
| Volume ('000 litres) | 180 | 284 | 503 | 1,335 | 1,458 | 1,505 | 1,692 | 1,900 | 1,824 |
| Value (SAT$ million) | 1.1 | 1.1 | 1.6 | 2.1 | 2.8 | 2.7 | 3.9 | 3.9 | 3.8 |
| Percentage of exports | 5.0 | 4.0 | 4.0 | 4.0 | 5.0 | 6.0 | 6.0 | 8.0 | 9.0 |

**Source:** Central Bank of Samoa, Apia.

Table 7 **Samoa: government expenditure, 1994–2004** (per cent of GDP)

| | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 2000/01 | 2001/02 | 2002/03 | 2003/04 |
|---|---|---|---|---|---|---|---|---|---|
| Expenditure (% of GDP) | 54.8 | 49.2 | 41.7 | 34.9 | 39.9 | 38.9 | 34.9 | 36.0 | 33.8 |

**Source:** Planning and Policy Division, Ministry of Finance, Government of Samoa, Apia.

of the operations and benefits generated from those enterprises previously owned by the government.

On the other hand, privatisation could be perceived as a force fuelling the expansion of multinational companies worldwide—especially in developing economies. Despite the government's intention to place enterprises in the hands of local business operators, only three of the nine corporations privatised between 1994 and 2004 are locally owned, while the rest are owned by multinational companies such as the ANZ Banking Group, Carlton Breweries, BOC Holdings UK, and British American Tobacco Australasia Ltd.

Given the debate over the impacts of multinational companies on developing economies, this is an issue the government cannot afford to ignore. While government reforms have broken up local monopolies to increase competition within the economy, these policies could contribute to global monopolies that reduce competition by expanding via mergers and takeovers (Chossudovsky 1997; Parker 2003; World Bank 2002).

## Conclusion

This article has examined the impacts of privatisation on its objectives as well as some other effects on the strategic interests of the government. A range of benefits has flowed to government and to various sectors of the economy following the privatisation of nine government enterprises in Samoa over the past decade. Substantial revenues have been transferred to the government; there is considerable improvement in the provision of services and products; and some reductions in consumer price levels have been noticed. Further, the three enterprises studied in some detail have undergone a major overhaul in their management practices in the search for efficiency and effectiveness—something that was only superficially carried out in the pre-privatisation period.

That said, issues have arisen in some areas that have tended to confuse if not undermine the government's initial intentions for privatisation, and these deserve further attention. The first question concerns the overlooking of Polynesian Airlines as the top priority for privatisation, when it was seen as the greatest potential threat to the government's limited financial resources. The receipts generated from the sale of government shares in the nine state-owned enterprises sold covered only 34 per cent of the amount paid by the government to cover the losses accrued by Polynesian Airlines in the early 1990s.

Second is the issue of the small domestic market, which stands in the way of the much anticipated competition and resulting benefits from privatisation. BOC Gases continues to dominate the supply of industrial gas, despite the absence of any form of government protection. While its rival, Origin Energy, is competitive in the provision of cooking gas, there is no sign of attempting to compete in the supply of industrial gas market due to limited market capacity. This issue demands further investigation on the relevance of economies of scale to small developing economies and how technology and telecommunications could be effectively utilised to their benefit.

Third is the question of whether the government is doing enough in terms of policy intelligence to complement its privatisation initiative. Of particular concern is the continuing interest of government in regulating the price of cooking gas. While price control is sometimes a useful mechanism to protect the welfare of the poor, it is largely proven to do more damage than good. This is manifested in BOC Gases' cessation of the supply of cooking gas to

Savaii. The majority of low-income families reside in Savaii, and the decision by BOC Gases to terminate the supply of cooking gas has worsened the welfare of these families.

In addition, the government continues to maintain its protection for Samoa Breweries Ltd in the form of duty concessions and higher excise taxes for imported beers. This undermines a 'level playing field' for competition in the industry and to a large extent inhibits the anticipated benefits. Perhaps the recent developments in the Pacific Island Countries Trade Agreement (PICTA) and Samoa's accession to the World Trade Organization will eventually resolve this particular issue.

While this analysis focuses only on the one-third of public enterprises privatised in the 1994–2004 period, it has to some extent presented some of the realities of privatisation in small developing economies. It has highlighted the fact that some of the benefits enjoyed by developed economies from privatisation are not always present in small societies like Samoa. Of particular concern is the poor policy coordination within the administrative arm of government.

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