Success Stories

INFRASTRUCTURE ADVISORY

This series provides an overview of successful public-private partnerships in various infrastructure sectors, where IFC was the lead advisor.

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Samoa: Polynesian Blue

A joint venture between the government of Samoa and Australia's Virgin Blue, a low-cost carrier, turned an annual US$7.5 million government subsidy into a US$6.6 million profit in just two years. IFC served as the lead advisor for the innovative public-private partnership, which established a new national airline, Polynesian Blue, and restructured the existing flagship carrier. The agreement was signed in September 2005. By 2007, airfares were down an average 35 percent and tourism was growing by 15 percent a year.

The joint venture agreement allowed Polynesian Blue to take over the international routes and the restructured flagship carrier, Polynesian Airlines, to operate regional and local flights. Within two years, Samoa's tourism revenues increased from US$83 million to US$113 million. In addition, an estimated 2,000 new jobs were created by the expansion of the tourism and travel industries over the same period.

DevCo, a multi-donor program affiliated with the Private Infrastructure Development Group and supported by the UK's Department for International Development, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency and the Austrian Development Agency, funded the advisory work.

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DevCo Infrastructure Development Collaboration Partnership Fund

BACKGROUND

As a small, isolated country in the Pacific, Samoa is dependent on tourism for jobs and economic development. The government's objectives for the aviation industry included providing safe, efficient, and affordable international air transport to Samoa to support expansion of the tourism industry. Operating Polynesian Airlines in a commercially and financially sustainable manner was also a government priority.

Neither objective was being met. Polynesian Airlines' inappropriate route and fleet structure, expensive aircraft leases, overstaffing, and uneven demand levels contributed to a US$7.5 million loss (70 percent of the government's total budget deficit) in 2004. Tourism was growing only 4 percent a year, far below neighboring destinations such as Fiji.

Recognizing the seriousness of the situation, the government approached IFC to find an alternative to liquidating Polynesian Airlines.

IFC'S ROLE

IFC was mandated to conduct a review of Samoan aviation, analyze the performance of Polynesian Airlines, review options available to the government, and recommend an approach that would achieve the government's objectives. After recommending that the government implement a public-private partnership with an international aviation investor, IFC was asked to serve as lead advisor. IFC assisted in marketing the opportunity to potential investors, structuring the joint-venture agreement, evaluating business plans, negotiating contracts, and achieving financial closure.

TRANSACTION STRUCTURE

IFC designed an innovative public-private partnership model in consultation with the investors. Under the arrangement, the international aviation investor would manage and operate the new airline, providing the fleet capacity as well as commercial and managerial oversight. The government would provide traffic rights, operational support, flight operations personnel, and other productive assets. The government would also take the lead in negotiating local contracts, mobilizing stakeholder support, and championing the business.

The model was designed to take advantage of the international partner's cost structure, leverage marketing and distribution strengths, and maximize profitability. Significantly, the structure allowed a low-cost carrier to participate, a first in airline privatization.

BIDDING

At IFC's recommendation, three major regional carriers—Air New Zealand, Qantas, and Virgin Blue—were invited to compete. The winning proposal from Virgin Blue provided a business plan that required the smallest government subsidy, guaranteed air transport access to Samoa, and contributed to tourism development. The joint venture would be run on a profit-making commercial basis without government interference. If an unviable route or more frequent flights are required, the government would have to subsidize the additional costs.

POST-TENDER RESULTS

- An annual US$7.5 million government subsidy (70 percent of Samoa's budget deficit) became a US$6.6 million profit in 2007, including a US$1.2 million cash dividend to the government.
- Tourism growth jumped from 4 percent to 15 percent annually.
- Within two years, tourism revenues increased from US$83 million to US$113 million.
- An estimated 2,000 new jobs have been created as a result of the expansion of the tourism and travel industries.
- Air fares are down 35 percent, on average.

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