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Public-Private Partnership Impact Stories

Samoa: Virgin Samoa Airlines

A joint venture between the government of Samoa and Australia's Virgin Blue, a low-cost carrier, turned an annual $7.5 million government subsidy into a $6.9 million profit in just two years. IFC served as the lead advisor for the innovative public-private partnership, which established a new national airline, Virgin Samoa (formerly Polynesian Blue), and restructured the existing flagship carrier. The agreement was signed in September 2005. By 2009, 243,000 people received improved airline service, and consumers saved $57.7 million in reduced airfares between 2005 and 2009.

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.

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

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The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

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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 $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.

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 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 is run on a profit-making commercial basis without government interference. If an unviable route or more frequent flights are required, the government is required to subsidize the additional costs. The joint-venture took on long-haul international jet operations, and the fully owned Government entity retained the short-haul international services from Samoa to Tonga and America Samoa as well as domestic services. It also retained responsibility for ground handling operations. The joint venture shareholders are the Government of Samoa and Virgin Blue Invest Co Pty Ltd, with the majority shares, and a minor holding by Aggie Grey's Hotel Ltd. In December 2011, it was announced that Polynesian Blue would be rebranded as Virgin Samoa.

POST-TENDER RESULTS

- As of 2009, private sector investment was $10.6 million, greater than the expected $5 million over the life of the project.
- A 130 percent increase in inbound seat capacity from prior to the joint venture.
- Since 2005, indirect tax collection from additional tourist arrivals is estimated at $1.86 million, and the total positive fiscal impact over the life of the project is $6.9 million.
- From 2005-2009, 243,000 people received improved airline service, far exceeding the estimate of 80,000 beneficiaries.
- Consumers have saved $57.7 million in reduced airfares between 2005 and 2009 (reflecting reduced airfares of between 30 and 45 percent.
- Indirect benefits of resulting expansion in tourist facilities created 671 jobs and increased national salaries and wages by $1.4 million.

** Unless otherwise stated, monetary values are presented in 2009 US dollars. Results are from a post-completion evaluation completed January 2010.*

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