

## Economic survey

# Recent economic developments in Samoa

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The combination of reforms to open up the financial sector, lowering of tariffs and taxes, privatisation and responsible fiscal and monetary management have provided a good environment for change in the early phases of Samoa's reform program. The return of the Human Rights Protection Party to government has provided a background of political consistency for the reforms. However, a continuation of the recent fiscal results and the associated monetary response could undermine these gains, both in terms of economic prospects and the sustainability of the reform program.

This economic update is built on the findings and recommendations of the Asian Development Bank report *Samoa 2000* and provides an update of the most recent economic and social indicators of the performance of the Samoa economy.

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Samoa is a small open economy highly dependent on a narrow resource base—agriculture, tourism, small-scale manufacturing and fisheries. Samoa's macroeconomic performance is highly dependent on external factors in the form of commodity pricing, crop disease and weather-related shocks. Samoa's economic performance, as measured by GDP, has improved significantly over the past five years—GDP increased by 6.7 per cent in 2000 following a 5.2 per cent growth in 1999. The share of the tertiary sector in GDP has increased steadily since 1997. Agriculture and fishing account for the largest share of GDP, at around 20 per cent, followed by commerce, transport and public administration. Per capita GDP in 1999 is estimated at US\$1,100.

Based on the UNDP Human Development Index the levels of social development in Samoa are relatively high, including overall health and education standards, compared to other Pacific island countries. Emigration, mainly to New Zealand, Australia and the United States, keeps the population growth rate below one per cent. Tertiary qualified citizens tend to be internationally mobile, resulting in shortages of experienced technical and managerial skills.

In recent years the Government of Samoa has embarked on a program of structural reform. The aim of the reforms is to develop a more efficient and open economy, focusing on reforms within the public sector and for the development of the private sector. These reforms are crucial for Samoa in the pursuit

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of government goals to improve the living standards and welfare of its people.

The Asian Development Bank was commissioned in 2000 by the Government of Samoa to review the economic performance and status of the reforms (ADB 2000). Following is a summary of the findings and recommendations of this report.

### The ADB's key findings and recommendations

#### Key developments and challenges

- To continue the momentum of economic reforms, particularly in state-owned enterprises, to improve efficiency and effectiveness
- To make further progress in budget reforms, taxation, fishing industry infrastructure, and improving primary education as well as the scope and effectiveness of health care and prospects for those less well off.

#### Economic performance

- Following the rehabilitation program in response to external and internal shocks of the early 1990s, economic activity has rebounded, driven by recovery in agriculture, fisheries and tourism activities. GDP grew by 3 per cent in 1998 and was expected to grow by 3–4 per cent in 1999. The outlook for economic growth is for continuing strong growth reflecting a substantial public investment program and continuing expansion in the fishing sector, as well as the expected positive impact of ongoing economic reforms.
- The turnaround in inflation to low levels since the mid 1990s is expected to continue in view of the more modest policy on exchange rate depreciation as well as lower import prices resulting from recent reductions in tariffs.
- The recent growth performance has been driven mainly by the fisheries sector. The magnitude of growth resulting from

broad economic reforms cannot be substantiated. However, the main direct impacts of the tariff and tax reforms have been the increased activities in the retail and wholesale sectors and decreases activity in the manufacturing sector.

- The balance of payments continue to be dominated by remittances from Samoans living abroad and aid flows; however, the former source of external income show signs of diminishing relative importance while aid flows continue at around 10–15 per cent of GDP. Exports have shown some improvement in recent years as a result of the growth in fish and garments exports.
- Real wages have declined significantly since 1980 and minimum wages are amongst the lowest in the Pacific region.
- The growth of formal employment has yet to pick-up despite recent good economic performance. Most of the labour force is employed in the agriculture and fisheries sector, reflecting the importance of the subsistence sector, but the share of the subsistence sector show signs of declining.

#### Reform strategies

- The latest Statement of Economic Strategy continues with the emphasis on macroeconomic stability, public sector efficiency, improved education and health standards and development of the private sector.
- In addition, it also places emphasis on re-invigorating primary sector activities, tourism and the village economy in achieving better economic and social outcomes.

#### Tax and tariff reform

- Significant reforms of the taxation and tariff system were undertaken over 1998–2000 in line with the objectives of a more open trade environment and a more efficient tax system. The earlier tax system was characterised by extensive tax and tariff incentives.

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- Whereas some sectors, for instance agriculture, enjoyed tax and tariff concessions in the old system, under the new framework they are now liable to taxation on certain business inputs; it is argued, on efficiency reasons, that certain business inputs should be exempted, however.
- The tax base should be broadened to capture those sectors which do not pay taxes under current laws, such as primary producers, especially commercial farming and fishing.
- Options are available to government to increase taxes on products that are not considered to be a component of a healthy diet. Such a strategy is seen as consistent with the policy objectives of improving health standards as well as being a revenue measure.
- Broadening of the tax base would also allow for an immediate write-off of business inputs as opposed to the more rapid depreciation introduced in the recent reforms.
- Fringe benefit taxes should be enforced more rigorously with potential for increased revenues.

### Financial liberalisation

- The financial reforms which began in 1998 have led to the removal of controls on credit and interest rates and use of Central Bank auctions as a primary instrument for monetary policy, as well as the strengthening of the Central Bank.
- Indicators of monetary conditions following the financial reforms show a pick-up of private sector credit.
- Inflation has fallen significantly.
- Interest rate margins have increased slightly in contrast to what was expected from the reforms.
- The main developments at the sectoral level have been increased lending for retail and wholesale activities, purchase of land, and construction, while there has been a decrease in lending to manufacturing.

### Impediments to business, and government policy responses

- The under-developed market structures as manifested in insecure land tenure, inefficient public enterprises and regulations that constrain domestic and international business.
- A new governance framework has been developed for corporate (revised Private Companies Act 2000) and state-owned enterprises (SOE Umbrella Bill 2000).

### Public sector reform

- There is a need for further reform in the planning and budgeting area, particularly in the development of performance monitoring and evaluation of senior managers and departments.
- There is a need to improve the oversight and performance of state-owned enterprises. The new governance framework encapsulates the required reforms and should be implemented as soon as possible.

### Population

- Emigration, mainly to New Zealand, Australia and United States, keeps the annual population growth below 1 per cent.
- The Household Income and Expenditure Survey planned for 2001 will be an important source of information on the country's demographics, and social and economic indicators such employment categories and immigration.

### Education and health

- The current infant under-five mortality rate of 27 per 1000 compares well with 210 in 1960.
- 98 per cent of adults have attended primary school while 70 per cent have attended secondary school.
- There is a need for greater devolution of management and leadership responsibilities to clearly identified local-level authorities where outcomes such as

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functional literacy or infant mortality can be measured, understood and responded to locally.

The key challenges in education include

- the low levels of functional literacy and numeracy
- improving teacher qualities and reducing the high turnover of teachers
- improvement in resources directed at primary education
- the lack of enforcement for improving literacy and numeracy beyond primary schools
- issues of access and equity.

The key issues for health include

- attacking the growing lifestyle diseases
- strengthening primary health care
- ensuring sufficient resources for health prevention programs directed at the causes of lifestyle diseases.

### Agriculture

- Around two-thirds of households rely on a mixture of subsistence and cash income, with subsistence production comprising around half of agricultural output.
- The agriculture sub-sector comprises around 30 per cent of total export revenue.
- There is a need to streamline the taxation of agricultural inputs and incomes in line with overall tax and tariff reform.
- There is a need to refocus the activities of the Ministry of Agriculture, Forestry and Fisheries to its core functions and activities.
- It is recommended that the government divest itself of various commercial activities including the Samoa Trust Estate Corporation, Samoa Land Corporation, the Agriculture Store and the Oilseed Crushing Company Limited.
- The Ministry should continue to support quality control initiatives through the preparation of the Hazards Analysis of Critical Points plan.

### Forestry

- The forestry sector has played a small and declining role in the Samoan economy with declining stock and timber-cutting almost exclusive for the local market.
- In view of the small remaining merchantable forest, it is recommended that licensing should be placed on a volume basis as opposed to an area basis and transitional arrangements considered to allow the industry to adjust to a reduced allowable harvest.
- The government to divest itself of its investment in the sawmilling company Samoa Forest Corporation.

### Fisheries

- Fisheries are likely to become the leading export industry in Samoa.
- Exports are estimated at T\$45 million in 1999 (US\$1=T\$3.3).
- Government should focus on its role of servicing and on regulations as well as ensuring that the needed infrastructure is put in place.
- A resource fee rental should be introduced on fish landings.
- A Vessel Monitoring System should be introduced to properly manage the fishery.
- Registration and licensing needs to be reviewed.

### Environment and conservation

- The National Environment Management Strategy (NEMS) has been activated as an important element of Samoa's economic and social development.
- Environmental Impact Assessment (EIA) legislation has been developed and should be promoted to Parliament as soon as possible.

### Tourism

- The development of an internationally managed boutique resort of about 100

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rooms should be encouraged to raise operational standards, improved confidence and local opportunities.

- Constraints to tourism development lie in the high costs of tourism, the reluctance of financial institutions to lend to what is seen as high-risk activities and low levels of demand by tourists to visit Samoa.
- Infrastructure development, including water, telecommunications, power, land zoning, as well as industry training, are needed to support tourism and other industries.

### Recent economic performance

#### Gross domestic product

Real GDP increased by 6.7 per cent in 2000, following growth rates of 5.2 per cent in 1999 and 2.6 per cent in 1998, continuing a trend of positive real growth that began in 1995. Underlying the recent growth indicators were good performance from fishing, construction, commerce, and public administration. The recent phase of good economic performance follows a period of disappointing growth over the 1980s and early 1990s caused by external and internal shocks and inherent inefficiencies within the public sector. Cyclones Ofa and Val in 1990 and 1991 devastated the agricultural sector, severely damaged economic infrastructure. In 1994, the taro blight almost wiped out production of Samoa's primary agricultural and export crop. In 1994 the government-owned airline ran into financial problems, resulting in total external debts of about 20 per cent of GDP to be funded from the government budget.

The combination of both internal and external shocks led to negative growth in real output, a substantial reduction in foreign exchange reserves and increased external debt. The mid 1990s was characterised by a tightening of macroeconomic policies and the introduction of important and significant economic policy reforms. In 1996 the

government introduced important reforms to taxation and trade, as well as in the financial and public sectors. Sound fiscal and monetary policies were put in place, contributing to a relatively smooth adjustment period for the economy.

However, the growth resulting directly from economic reforms of recent years is somewhat unclear. Although, as expected, the initial impetus from lower import tariffs has led to a rapid expansion in the wholesale and retail sectors and to containing prices at lower levels.

The ADB report included an analysis of the distribution of income, using data from the Household Income and Expenditure Surveys of 1991 and 1997. It was found that income distribution has become more concentrated over this period. Also noted was the declining importance of the subsistence sector but with that sector employing the largest proportion of those less well-off and within the working-age population. While economic growth is a necessary condition for the creation of wealth and opportunities, the government has recognised the importance of ensuring that economic and social policies are directed at improving opportunities for those less well-off in society. The Government's latest Statement of Economic Strategy (Samoa 2000) has focused on the need for sharing the benefits of growth and reform and have attempted to identify specific strategies towards this goal. The completion of the 2001 Population Census but also a Poverty Strategy study to be carried out in early 2002 will assist in establishing a comprehensive database on social indicators.

### Government finance

The government budget for 2000 and 1999 resulted in deficits of around 1.4 per cent of GDP, reversing the trend of the previous three financial years, during which surpluses were recorded. The key factors underlying the recent fiscal outcome include the deferral

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of loan credit from the Asian Development Bank and one-off government counterpart costs for infrastructure projects being funded by the IDA. Also important was the lower than expected revenues from the newly corporatised Samoa Communications Limited (Table 1).

Since the mid 1990s Samoa has strengthened fiscal policy through expenditure restraint. As a result of the 1996–98 surpluses, the government increased its net deposits in the banking system, complementing monetary policy targets of low inflation and facilitating credit to the private sector.

The more recent fiscal deficits have been financed from drawing down government deposits with the banking system. Consequently, the growth of government deposits with the banking system has been somewhat constrained. The budget estimates for FY2001 indicate an increasing budget deficit with the continuing delay in the availability of loan credit as the key constraint. A continuation of this trend on the fiscal front is not conducive to economic prospects and may impact on the momentum of government plans for continuing economic reforms.

Despite the somewhat expansionary budgets over recent years, a return to more sustainable levels can be achieved relatively quickly once the government finalises outstanding arrangements under its Financial Sector Program Loan with the Asian Development Bank for the release of loan credits, as well as the scaling back of one-off counterpart costs for infrastructure projects already completed. Also important will be the phasing-out of the repayments of the national airline debt expected to be completed within two years. While tax revenues and cost recoveries are expected to grow in line with economic performance, future revenues would be assisted by an improvement in the provision of services and revenue performance of Samoa Communications Limited.

On the expenditure side, the full cost of the 5 per cent salary and wage increase introduced in January 2001 should now be factored into future budgets as well as any additional counterpart costs for institutional strengthening projects, particularly for health and education. Subsidies to state-owned enterprises and other services provided by third parties (non-core department activities), which constitute

Table 1 Samoa: budget indicators, 1998–2001

|                                    | 1998/1999 | 1999/2000 | 2000/2001 <sup>a</sup> |
|------------------------------------|-----------|-----------|------------------------|
| Revenues                           | 326.0     | 284.6     | 298.9                  |
| Expenditures (including statutory) | 338.6     | 319.2     | 343.4                  |
| Overall deficit                    | (12.6)    | (34.6)    | (44.5)                 |
| Financed by                        |           |           |                        |
| Soft loans                         | 5.3       | 26.7      | 28.9                   |
| Domestic borrowing                 |           |           |                        |
| Cash surplus(deficit)              | (7.3)     | (7.9)     | (15.6)                 |

<sup>a</sup> Budget estimates including first supplementary.

**Note:** The fiscal results reported include actual domestic revenues and expenditures for 1998/99 and 1999/2000, but not the actuals for aid and loan proceeds.

**Source:** Government of Samoa, 2000. *Public Accounts For The Year Ended 30 June 1999–2000*, Apia; Government of Samoa, 2000. *Budget Estimates 2000/2001*, Treasury Department, Apia.

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around 30 per cent of total domestic expenditures, continue to be a risk to the budget outcomes. Also important will be government efforts to cut back on supplementary budget expenditures unless these expenditures can be matched against additional revenues. Adopting a framework of hard budget constraints within which departments are made accountable will help.

**Money and credit**

For the year ending December 2000, the annual change in monetary growth (M2) remained steady at 11.4 per cent following a 12.5 per cent increase in 1999. The monetary growth rate has declined steadily from around 22 per cent in 1995, partly reflecting a build-up of government net deposits in the banking sector and also coinciding with the period of financial system reform. The growth in credit to the private sector increased by around 18 per cent per annum between 1996 and 1999 without a large increase in the money supply. During 2000 the annual average growth of credit to the private sector (including public institutions) and the money supply grew by 17 per cent and 12.4 per cent respectively. A continuation of these rates of growth in the monetary aggregates and credit to the private sector, in light of the recent budget results, poses some threat to inflation stability and the balance of payments.

Commercial banks' weighted-average lending and deposit rates were around 12.53 per cent and 5.01 per cent, respectively, at end of 1999, and declined gradually to 12 and 4.34 per cent during 2000. However, the interest rate spread remained almost unchanged over the period.

The Government of Samoa introduced measures in January 1998 to liberalise the financial sector; moving away from a financial sector that was highly regulated with direct monetary and credit controls. The financial system reforms were supported by a credit facility from the Asian Development Bank with conditions linked to the implementation

of a detailed plan of financial reform, and including the privatisation of selected state-owned enterprises. While key components of the reforms, such as strengthening of Central Bank management and development of deeper secondary financial markets, have yet to be fully developed, the financial sector reforms are being implemented in a relatively stable macroeconomic environment. This financial stability has been important to the transition to a more market-oriented financial sector.

**Inflation**

Inflation recorded negative growth rates over the first half of 2000 before edging back up to 1 per cent in December 2000, reflecting price increases in the 'Housing and Household Operations' and 'Transport and Communications' categories. The most recent indicators available (for January 2001) indicate the annual average inflation rate dropping back slightly to 0.6 per cent. The Central Bank market survey for February 2001 indicates a significant increase in the volume of production matched by a decline in prices. The combination of lower prices resulting from the reductions in tariffs as well as the favourable conditions in domestic supplies has enabled the economy to absorb the recent price hikes in petroleum products.

The government's balanced fiscal results over the period 1996–98 was complemented by the monetary policy targets of low inflation and by adequate credit availability to the private sector. The annual average inflation rate fell to 2.2 per cent in 1998 and 0.3 per cent in 1999. The fiscal deficits of the last two years, and the expected deficit for the current financial year, has undermined macroeconomic policy consistency somewhat.

Over the past two decades, inflation has declined substantially. The improved performance of the 1990s, compared with the 1980s, has been reflected in the modest depreciation of the currency. The recovery of food supplies, especially in the main crop, taro, is important in containing short-term

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price fluctuations; however Samoa experienced an extended period of wet weather in early 2001 which may affect food production and thus domestic prices over the next 12 month period.

### Balance of payments

The balance of payments recorded a surplus in 2000, continuing the good performance of the previous two years. Exports for 2000 of US\$13.7 million were dominated by fresh fish, garments, beer, coconut cream and kava. The total value of imports was US\$105.7 million. The trade balance increased by 3.4 per cent over 1999/2000 following an increase of 28 per cent over 1998/1999. The rapid increase in the trade balance in 1999 partly reflected the arrival of an inter-island vessel funded under grant aid and high government imports for infrastructure projects. Tourist earnings and private remittances reached US\$40.3 million and US\$47.6 million, respectively, in 2000 compared to US\$35 million and US\$38 million in 1999. For 2000, net foreign assets stood at US\$56.4 million, representing import cover of 6.4 months, close to the official target figure.

The balance of payments continues to be dominated by private and official transfers which make up for the small export earnings. Private investment inflows remain negligible, however. The current account has been in surplus since 1994 due to earnings from tourist receipts, private remittances and official grants. Remittances have traditionally been the major source of external income but have declined in importance in recent years. Aid has also been very important, averaging over 10 per cent of GDP for the past two decades. Tourism receipts have grown from 5 per cent of GDP in the early 1980s to 10–15 per cent of GDP in recent years. In contrast, merchandise exports have declined substantially from the early 1980s to the mid 1990s, but recently have shown improvement.

### Employment and wages

Despite the good economic growth performance in recent years, growth of formal sector employment has been relatively weak. The majority of the workforce is still employed in the agriculture and fisheries sector, reflecting the importance of subsistence activity. However, recent indicators of GDP also point to a decline in the share of subsistence activity. This trend, together with the overall increase in formal employment, while not an entirely new feature of the Samoan economy, is of concern. The Household Income and Expenditure Survey of 1997 indicates two-thirds of households in food poverty, the majority of whom live in the subsistence sector.

### Status of reforms and key policy issues

#### Strategies

The period 1996–2000 presented a window of opportunity for economic reform. During this period there were no severe internal or external shocks which stunned economic progress in the first half of the 1990s. More importantly, the reform program implemented throughout this period has been driven and championed from within the government with the strong political commitment and the support of key policy advisory bodies and departments. The consultative approach taken by the government has led to a greater awareness of the importance of the reforms and active involvement and support from the private sector and the general public. With the return of the Human Rights Protection Party (HRPP) to lead Samoa for another five years, it is expected that the reform agenda will continue. The HRPP 2001 Election Manifesto promises to press forward with the reform agenda. In particular, it recognises the central role of education and health in the development of the economy and includes

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strategies for improving basic standards and equity in the development and provision of services. The balance of the development platform focuses on further improvement of essential infrastructure (roads, water, electricity, ports and telecommunications), the development of agriculture and export market opportunities, environmental protection, tourism infrastructure, sports facilities, women's activities, budget management, and institutional strengthening programs aimed at improving the performance of the public service. Towards the creation of opportunities, the Manifesto recognises the role of the government in putting in place a conducive environment and encourages the private sector and general public to play its part.

**Tax and financial reforms**

There are some outstanding issues in the area of financial sector reform to be resolved. Specifically, a formal agreement should now be established between the Central Bank and the Treasury on the issue of strengthening the ability of the Central Bank to meet the costs of monetary policy, promoting legislation to include all other financial institutions under the prudential supervision framework of the Central Bank, and the strengthening of the Bank's internal management capacities and systems.

On the taxation front, the challenge is for the government to consider further reforms aimed at broadening the tax base and improving equity in the tax system by subjecting all commercial activities, particularly in agriculture and fishing, to taxation. Measures to improve enforcement and efficiencies should be pursued more vigorously. These policies are also important to the pursuit of budget objectives. Further reviews of efforts to reduce tariffs are desirable in the near future in light of the APEC goal of free trade by 2010, as well as possible obligations resulting from Samoa's membership of the World Trade Organization.

The government's plans to introduce microfinance for small business ventures and a venture capital fund for medium-scale enterprises will provide welcome opportunities for further development of private enterprise. The continuing divestment of government involvement in commercial enterprises is consistent with the objectives of developing the private sector and providing a level playing field between private and public activities. The new Companies Act is planned for introduction in the current fiscal year. There are no plans known for the removal or phasing out of the limited price controls, however. The government is continuing to explore options for utilising traditional land for development and investment purposes. This is recognised as an important area for the development of the private sector.

**Public sector reform**

The immediate priority is to improve the management and accountability framework for the public service and state-owned enterprises. This is particularly so given the relative size and impact of these sectors on the rest of the economy. Subsidies and grants to state-owned enterprises and non-core departmental activities constitute around one third of domestic expenditures, with state-owned enterprises often requiring additional funding over original budget provisions. Similarly, government departments often seek additional expenditure appropriations to meet overspending or to cover additional programs not budgeted for in the main appropriations. In both cases, there is no apparent accountability mechanism in place. The government's continuing involvement with the national airline, although recognised as crucial for the development of the tourist industry, presents a high-risk financial investment with the potential to undermine the economy's fiscal stability in the event of a major downturn in the tourism industry.

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On enterprise restructuring and re-engineering a governance framework that encourages fair competition, and strengthens transparency and accountability mechanisms is being promoted by the government for state-owned enterprises and the private sector. Given the synergies encapsulated in the development of the governance framework for state-owned enterprises and private/corporate companies, the two legislations should be introduced concurrently. Further, to maintain policy consistency with the proposed new governance framework, appropriate amendments to the Public Moneys Act should be enacted at the earliest opportunity.

The government continues to be supported by a number of development partners and donors in the implementation of public service reform via institutional strengthening projects aimed at clarifying the core business of departments and refocusing of their functions and responsibilities. These programs are also designed to provide essential management and staff training, development of policies, systems and procedures. Up to 11 departments are now undergoing institutional strengthening projects—Treasury, Customs, Inland Revenue, Justice, Public Works, Water Authority, Police, Education, Public Service Commission, Agriculture and Health. The proper coordination of these projects to ensure consistency with Government reform agenda and to meet their expected outcomes presents a considerable challenge to the public service.

The restructuring of the telecommunications sector, which led to the corporatisation of the commercial operations of the former Post and Telecommunication Department and the proposed separation of policy and regulatory responsibilities, has yet to become fully operational. Similarly a new governance framework that addresses the key issues of industry competition, service standards and pricing needs to be developed and implemented. These, together with the efforts of government to introduce improve-

ments in the management and service performance of the newly corporatised Samoa Communications Limited, are central to the development of this important sector.

### Education and health

In recognising the key roles of education and health for increased opportunities and for a wider sharing of the benefits from economic development, the government has moved quickly to institute significant strengthening projects dealing with both infrastructure and management within relevant departments. The same departments have been recipients of a significant proportion of grant aid projects. The multifaceted approach taken to address these issues will place a significant amount of additional responsibilities on both staff and management and could present a real risk to the achievement of objectives and goals within the target timeframes. The completion of the 2001 Household Income Expenditure Survey will provide up-to-date information for the setting of quantifiable goals and for monitoring progress.

### Agriculture, forestry and fisheries

Agriculture continues to provide the livelihood of the majority of the population of Samoa. With its institutional strengthening project now begun, plans for a refocusing of the Department of the Agriculture's functions and responsibilities is a priority. Similarly, the government needs to review its involvement in commercial enterprises in this sector.

In the fisheries sub-sector the Government has now included in its investment program a provision for the development of a Marina to provide sheltered mooring and other facilities for fishing vessels. Also important will be the result of the plan to review the structure of vessel licensing and charges.

### Environment and tourism

The Environment Impact Assessment (EIA) legislation is now planned for introduction

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in 2001. An environmental code for infrastructure projects is being developed.

The tourism sector remains somewhat underdeveloped in Samoa, although it is recognised to have potential in the medium to long term. Future success in attracting tourists will be dependent on the efforts of government in addressing the constraints to the development of this sector which include the high cost of tourism, lack of quality standards, and availability of investment capital. More frequent and direct air flights to Samoa will be assisted with the delivery of Polynesian Airlines' second Boeing 737-800 in the second half of 2001 and the expansion of services to new tourist markets.

### Conclusion

Samoa recognises the important contribution to economic stability and economic growth from determined efforts to put in place crucial structural economic reforms, while at the same time maintaining a stable macro-economic environment and encouraging the private sector to play the lead role in economic growth. The combination of reforms to open up the financial sector, lowering of tariffs and taxes, privatisation, and responsible fiscal and monetary management have provided a conducive environment for a relatively smooth adjustment path for the economy in the early phases of Samoa's reform program.

However, a continuation of the recent results on the fiscal front and the accommodating monetary response could undermine both economic prospects and the sustainability of the reform program. The design of the 2001/2002 Budget and supporting policies are likely to reflect a concerted effort by the Government to arrest the fiscal trends of the past two years. The authorities are also likely to press on with plans to address other key areas of policy reform aimed at improving the governance

framework for both corporate and state-owned enterprises, public service reform, and strengthening of the private sector investment environment.

Increased recognition of the need to pursue strategies to attain more equitable distribution of benefits from economic growth is reflected in the government's agenda and the emphasis being placed on social issues by the donor community. The completion of the 2001 Population Census and Household Income and Expenditure Survey planned for 2002 will provide the necessary information on social indicators and patterns needed for monitoring performance in this area. The planned Samoa Poverty Strategy research and survey to be conducted in early 2002 will provide further critical information for updating of economic and social strategies and policy options for the medium term.

The prospects for the Samoan economy in the medium term remain positive as the strategies pursued in the last 12 months have sustained the momentum of the economic and financial reforms initiated in the 1990s.

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