

The Samoa economy

Amaramo Sialaoa

This economic update provides an overview of recent economic and social indicators of the Samoan economy, including commentary on some of the key economic and social reform issues facing the Samoan government. It provides data on the most recent economic and social indicators of the performance of the Samoa economy, and a general assessment of some of the important challenges (and areas of potential risks) to economic (institutional, financial) and social reforms currently being undertaken.

Amaramo Sialaoa is a consultant with KVA Consult, Apia. He is a former Assistant Secretary for Finance with the Government of Samoa.

Samoa is a small open economy, highly dependent on a narrow resource base that is limited to agriculture, tourism, small-scale manufacturing and fisheries. Samoa's macroeconomic economic performance is highly dependent on external factors in the form of commodity export prices, crop disease, tourism demand and weather-related shocks. Since 1997, Samoa has undertaken important economic reforms aimed at improving the efficiency of the public sector, opening up the economy and developing its small private sector. The reforms have been underpinned by sustained economic growth and have been strongly supported by the Samoan public, but also by Samoa's development partners and the international community generally.

The performance of the economy, as measured by GDP, has improved consistently since 1995, but is showing signs of a marked

slowdown over the last twelve months (since mid 2002). The average real rate of GDP growth over the period 1995–2001 has been 4.7 per cent. This has fallen to around 2 per cent in 2002, following growth rates of 6.9 and 6.2 per cent reported for 2000 and 2001. Economic indicators for the first quarter of 2003 indicate the seasonal drop in growth when compared to the December 2002 quarter; however, is around 6 per cent higher than the first quarter in 2002.

Reflecting the relative significance of economic/productive activities, the share of the tertiary sector in GDP has grown significantly since 1997 while that of the secondary and primary sectors has remained stable or decreasing. Agriculture and fishing still account for the largest share at around 20 per cent of GDP, followed by commerce, transport and public administration.

Economic survey

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. However, much needs to be done to improve basic health education services. Emigration mainly to New Zealand, Australia and United States, maintains population growth below 1 per cent. Those with tertiary qualifications tend to be the most mobile, resulting in the shortage of experienced technical and managerial skills. The total population increased from 161,298 in 1991 to 176,848 in 2001, an annual average rate of around 0.9 per cent, up from 0.5 per cent per annum in the previous inter-censal period from 1985–91. Reflecting sustained economic growth in recent years, per capita GDP has increased slightly to around US\$1,140 in 2001, up from around US\$1,000 in 1995.

As with most of the Pacific island countries, economic growth is centred on the main island and in the urban area. In Samoa it has been estimated that 40 per cent of the total population live, and 70 per cent of GDP generated, in and around the capital, Apia (Asian Development Bank 2001a).

Mindful of the absorptive capacity of its fragile institutions, the Government of Samoa has endeavoured to maintain the momentum of important structural (economic and social) reforms introduced following the devastation of the Samoan economy by Cyclones Ofa and Val in the early 1990s. 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. Some of the central economic and public sector reforms introduced by government include

- tax and tariff reforms
- financial sector liberalisation
- introduction of performance budgeting and strategic budgeting and planning

framework and devolution of financial management

- new governance framework for public sector budget/financial management
- new governance framework for state-owned enterprises
- privatisation of government services and state-owned enterprises
- new corporate governance framework (Private Companies Act)
- realignment of government departments and devolution of responsibility for human resource management and development
- institutional strengthening of government departments and state-owned enterprises
- health sector reform
- education sector reform
- telecommunications and postal sector reforms.

These economic and institutional reforms are vitally important in the pursuit of government goals to improve the living standards and welfare of Samoa's people. Whilst government has done well to continue the momentum of reforms generally, the pace has slowed somewhat since 2000/2001; also some of the most pressing issues, particularly the poor performance of state-owned enterprises, although they have always been part of the overall development commitment and strategy of government, have yet to be fully implemented.

Recent economic performance

GDP

The growth in real GDP has fallen just below 2 per cent over 2002, down from 6.2 per cent and 6.7 per cent in 2001 and 2000, indicating the most significant sign of economic slowdown, and reversing the trend of

Economic survey

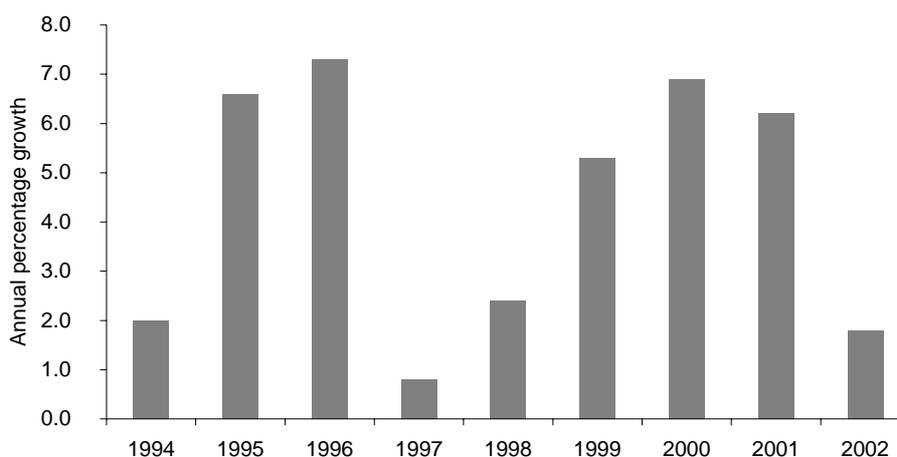
excellent real growth that began in 1995. The unusually low fish catches, perhaps affected by seasonal variation, which have persisted since mid 2002, underlie the rapid decline in economic growth in 2002. In addition, contribution to GDP from the agriculture sector, other manufacturing and construction sectors also fell during the year. The commerce sector, on the other hand, recorded the strongest contribution to GDP over 2002. Preliminary estimates for GDP for the first quarter of 2003 show a continuing decline in total fish production by around 13 per cent compared to levels for the December 2002 quarter. Similarly, negative growth was also recorded in the quarter for the construction industry, making it the seventh consecutive quarterly year-on-year decline reported for the fishing industry. The tertiary sector,¹ particularly commerce, transport and communications industries, reported overall positive real growth over the quarter.

Sustaining and improving economic growth will be a priority for government in the short term. This is particularly important, not only to maintain the momentum for

continuing reforms, but also given the increased emphasis now placed by government on issues of income distribution, equity and the plans by government to develop and implement targeted hardship reduction strategies.

The good economic performance enjoyed by the Samoa economy since the mid 1990s to early years of the current century, also brought to the government and public greater focus on income distribution and reassessment of economic and social hardship.² With the completion of the 2001 Population Census and subsequent Household Income and Expenditure Surveys in 2002, the government now has access to updated and improved demographic data base and is finalising its participatory assessment on poverty/hardship including developing appropriate hardship-reduction strategies over the medium term. There is evidence of increasing inequality/hardship as rural areas, particularly on the main island Savaii, gain a disproportionately smaller share of economic benefits in comparison to Upolu and particularly the urban-based population.

Figure 1 Samoa: real GDP growth, 1994–2002 (per cent)



Source: Ministry of Finance, Government of Samoa, Apia.

Economic survey

The greater Apia urban area containing the bulk of Samoa's population is estimated to generate more than 70 per cent of its national income. In the five years to end 2001 with the completion of the road sealing over most of Upolu, the island has become much more integrated into a single catchment/commuter region for Apia. Better roads have also encouraged the development of tourist facilities around the island, helping to generate employment in rural Upolu. These developments have helped to ensure a more even distribution of income throughout Upolu but has tended to increase the gap with Savaii. Growth in the urban sector, coupled with the rapid growth of the formal economy, has thus been reflected in a growing concentration of income since the early 1970s. The goal of hardship reduction will be a challenging one in view of the recent slump in fishing industry production, and the gradual decline in the share of the subsistence sector in GDP. In the short term, sustaining rural societies will require a steady flow of remittances, and continuing population mobility between urban and rural areas.

Government finance

Since 2000, there has been a loosening in macroeconomic policies and a slowing down of the implementation of economic reforms. In contrast, the mid 1990s was characterised by a tightening of macroeconomic policies and the rapid introduction of important and significant economic policy reforms. The introduction of important reform on taxes and trade, financial and public sector during the mid 1990s, coupled with sound fiscal and monetary policies, contributed to a relatively smooth adjustment period for the economy. Since 2000, however, the budget appears to be coming under increasing pressure, particularly towards funding operations of state-owned enterprises, government department overspending (unauthorised expenditures),

cost of adjustment to the restructuring of government departments, and public sector investment. Over the next four years, the government is expected to identify the necessary funding³ for both new facilities and upgrading of existing sports facilities/infrastructures in preparation for hosting of the 2007 South Pacific Games. In the absence of any significant grant aid, the government will have to consider options for additional debt to help finance its commitments for the 2007 South Pacific Games.

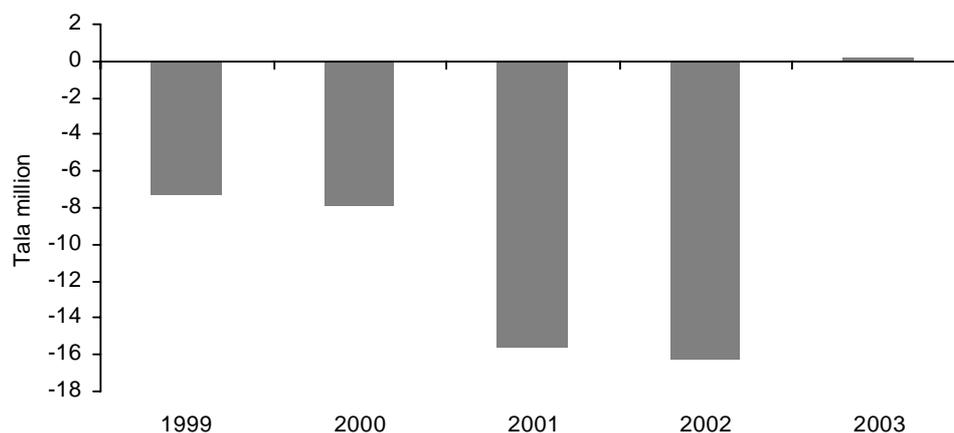
The government budget outcomes have shown increasing deficits since 1999, reversing the trend of the previous three financial years during which the budget results recorded consistent fiscal surplus. Relative to GDP, the budget cash deficit has increased from around 1.4 per cent in 1999 and 2000 to around 2 per cent in 2002.

In 2002, the key factors underlying the fiscal outcome include a significant drop in revenues from government investment;⁴ lower than expected revenues from value-added GST and income tax; government counterpart costs for a number of institutional strengthening and infrastructure projects; increasing grants and subsidies to state-owned enterprises; the rapid increase in cost of overseas medical treatment.

The fiscal deficits of recent years have been financed from drawing-down of government deposits with the banking system. Consequently, the growth of government deposits with the banking system has been constrained somewhat, however, it is noted that government has yet to resort to direct borrowing from the domestic financial market. In the absence of more stringent expenditure management, the budget estimates for the 2003/2004 financial year indicate a continuation of the current trend in fiscal outturn. In the short term, a continuation of this trend on the fiscal front could undermine economic growth; the momentum to continuing with economic

Economic survey

Figure 2 Samoa: budget cash deficit, 1999–2003 (tala million)



Source: Ministry of Finance, Government of Samoa, Apia.

reforms and availability of credit to the private sector. Over the next four years, the development of the 2007 South Pacific Games facilities and infrastructure will provide the greatest challenge for the budget, constraining a return to more sustainable budget outcomes. Also important will be the impact of any relatively pro-spending budgets leading to the 2006 General Election.

Whilst tax revenues and cost recoveries are expected to grow in line with overall economic performance, future revenue potential would be assisted by an improvement in the provision of services and revenue performance of state-owned enterprises under the new governance framework, in particular the newly corporatised SamoaTel, and other government-owned utilities (Samoa Water Authority, Electric Power Corporation, Samoa Shipping Corporation) and relatively large state-owned enterprises (such as Polynesian Airlines). On the expenditure side, the budget is likely to come under pressure for additional adjustment to salaries and wages on account of the last

general increase instituted in 2000/2001. The recent restructuring of government departments is not expected to result in short-term budget savings pending the completion of operational logistics with management, staffing, operating and capital structures and physical locations. Counterpart costs for ongoing and new institutional strengthening projects and sector reforms will continue. Subsidies to state-owned enterprises and other services provided by third parties (non-core department activities) who constitute around 30 per cent of total domestic expenditures will continue to undermine the budget outcomes. But also important will be the efforts of government to cut back on supplementary budget expenditures unless supported by adequate revenue, and adopting a framework of hard budget constraints within which departments are made accountable.

Inflation

Inflation averaged just under 3 per cent per annum over the period 1995–2001. The

Economic survey

combination of lower prices resulting from the reductions in tariffs and duties, modest depreciation of the currency, as well as the favourable conditions in domestic supplies has enabled the economy to absorb price fluctuations, especially of imports (for example, petroleum). Since 1999, however, there has been an upward trend. The annual average inflation rate at end March 2003 stood at 6.3 per cent, up 0.8 per cent from the inflation rate at end March 2002 and 4.7 per cent at end December 2001. The 2.5 per cent increase in the VAGST is partly reflected in the latest result with overall inflation outcome expected to remain at current level in the short term. The Central Bank target has been to contain the average rate below 3 per cent per annum appear to have revised its target upwards (below 6 per cent) in light of more recent developments. The main factors contributing to rising general prices include

- strengthening of major trading partner currencies and price movements in major trading partners
- price movements in global markets for petroleum
- supply conditions of local produce
- the recent trend in government fiscal deficits and sustained growth of money supply and credit to the private sector.

The recovery of local produce supplies, especially the slow progress in developing suitable taro leaf blight resistant varieties of the main staple crop taro, is important in containing short-term price fluctuations. Over the past twelve months, Samoa has been experiencing an extended period of both dry and wet weather which has affected local production of staple foods and vegetables and thus domestic price fluctuations.

Money and credit

For the 12 months ending March 2003, the annual change in total money supply increased by 11 per cent over the same quarter

in 2002, about the same rate of growth since 1999. Partly reflecting a build up of government net deposits in the banking during the mid to late 1990s, and also coinciding with the period of financial system reform, the monetary growth rate has declined steadily from around 22 per cent in 1995.

For the 12 months ending March 2003, total domestic credit grew by 19 per cent; about the same rate of expansion since 1996. For the same period, credit to the private sector increased by 13 per cent; sustaining the steady growth of credit to the private sector since 1996. During the 12 months ending March 2003, most economic sectors received increases in commercial bank credit with the exception of agriculture, forestry and fisheries which actually registered a decline. A continuation of these rates of growth in the monetary aggregates and credit to the private sector, in light of the recent trend in government budget outcomes poses some threat to inflation stability and the fragile balance of payments. The Central Bank of Samoa, however, has announced its intention to relax monetary policy,⁵ citing the need to support the availability of private sector credit and on the basis of expected decline in inflation in the short to medium term. The foreign exchange cover has been reported at around four months which is considered by the Central Bank to be sustainable.

Commercial banks weighted average lending and deposit rates were at around 12 per cent and 5 per cent at end of March 2003, relatively unchanged from levels in 2000/2001. Similarly, the interest rate spread has remained almost unchanged over the last 3 years. The commercial banking sector is dominated by ANZ and Westpac with established national and international banking facilities/services. In early 2003, Samoa's newest and fourth commercial bank, Samoa Commercial Bank, began trading.

In 1988 the Government of Samoa introduced measures to liberalise the

Economic survey

financial sector; moving away from a regime that was highly regulated and direct monetary policy and credit controls. Some of the key components of the reform, such as the strengthening of the Central Bank management, a funding arrangement for the operations of the Central Bank, management of foreign exchange and development of deeper secondary financial markets have yet to be fully implemented.

To facilitate access of rural-based income-generation projects and small and medium enterprises to finance, the government, with support from international financial institutions and bilateral aid donors, has established a micro-credit scheme through the Development Bank of Samoa and guarantee and training schemes through the Small Business Enterprise Centre. To cater for the expansion of existing small to medium enterprises, implementation of a Venture Capital Fund is planned for 2003/2004.

External debt

The nominal value of official external debt increased from SAT\$380 million to SAT\$500 million between 1995 and 2001, however, the amount outstanding has fallen as a proportion of GDP from 80 per cent to 59 per cent over the period. External debt-servicing obligations fell from 6.5 per cent of exports of goods and services to 4.7 per cent over the same period. These favourable trends in external debt and debt servicing reflect the concessionary nature of the debt portfolio⁶ and the growth in exports of goods and services.

Balance of payments

Trade openness (the average of exports and imports as a percentage of GDP) averaged around 56 per cent over the three years 1999–2001. Imports exceeded exports by a ratio of about eight times in 2000 and 2001. Revenues from tourism, remittances and foreign aid flows are important sources of foreign

exchange supporting the overall balance of payments.

Overall exports grew strongly over 2001–2003; however, the balance of payments recorded deficits in 2001 and 2002 reflecting a surge in imports, and slight decline in tourism earnings. The balance of payments for 2003 is expected to reflect the continuing depressed earnings from the fishing industry. The re-opening of the coconut oil mill will cushion the decline in export earnings from fish exports somewhat. The foreign reserves import cover has been maintained at around 4–6 months over the last three years.

The balance of payments continues to be dominated by private and official transfers which make up for the small export earnings of the Samoan economy. Private investment inflows are negligible. 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 relative importance in recent years. Aid has also been very important, averaging over 10 per cent of gross domestic product (GDP) for the past two decades. Tourism receipts have grown from 5 per cent of GDP in the early 1980s to around 10–15 per cent of GDP in recent years. In contrast, merchandise exports declined substantially from early 1980s to the mid 1990s. Since then, fish exports have been the main revenue earner, albeit, the recent downturn in fish production and fish exports.

Fish exports have become the largest export industry of Samoa, having grown from US\$60,000 (SAT\$150,000) in 1993 to about US\$11 million (SAT\$36 million) in 2001 and 2002. The significant growth in the fisheries sector has been due to the rapid expansion of the offshore longline fishery. Since mid 2002, however, the industry has experienced a significant slump leading to significant revenue loss and rapid closure of, particularly, small-scale operations.

Economic survey

To ensure the longer-term sustainability of the fishing industry and to support the contribution of the fisheries sector to the social and economic development of Samoa, the government agencies are reviewing their support and regulatory functions to assist the industry to deal with resources management and policy issues that have been viewed as constraining industry growth, and on ensuring that the required infrastructure is in place to support future development of the industry. The priority for government now is to provide specific policy interventions to assist the industry in its current depressed state. The intervention package under consideration aims to provide time-bound tax relief, further review of import taxes and tariff on fishing boat and specialised fishing equipment and other indirect fiscal incentives.

Tourism

Gross tourism revenues were buoyant over the last 3 years, increasing by more than 19 per cent, between 2000 and 2002. There was a slight reversal of the growth trend in tourist arrivals and revenues after the events of September 2001, but picked up strongly in 2002. The government is committed to implementing policies that will promote continued growth in the tourism sector. Indeed, the government has made it clear that its continued direct involvement in turning around the loss-making national airline into a commercially viable investment in the medium term is premised on the development of tourism as the key sectors of the economy in years to come. Having set the national goal for its tourism sector of increasing the stock of first-class hotel accommodation by at least 350 rooms by 2007, the government has, in 2003, introduced the 2003 Tourism and Hotel Development Incentives Act offering investment tax credits during 2003 to 2007; income-tax holidays depending on the level of capital investment; and import-duty drawbacks which are

intended to encourage and support accelerated investments in the tourism sector over the next five years.

To trigger the proposed investments in first-class hotel accommodation, the government has decided to play a strategic role, thereby demonstrating to potential investors by approving participation and guaranteeing, albeit indirectly, through the National Provident Fund and the Development Bank (in total equity funding of around SAT\$20 million) in a new four-star resort development.

Employment and wages

Despite the good overall 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 and the present lack of employment opportunities in other sectors. However, recent indicators of GDP also indicate a relative decline in the share of subsistence activity in GDP. This trend in economic activity together with little increase in formal employment—while not an entirely new feature of the Samoan economy—continues to be of major concern. The Household Income and Expenditure Survey of 1997 and 2001 show the majority of households in basic needs hardship, live in the subsistence sector.

Total formal or paid employment recorded in the 2001 Census was estimated at around 26,900 persons, about 51 per cent of the economically active labour force. A further 23,433 were employed in unpaid family work activities. Between the 1991 and 2001 Census the number of people claiming to be employers, employees or self-employed increased by 42.6 per cent (from 18,900). Total public sector employment accounted for 32 per cent of this formal employment with government departments being 22 per cent and state-owned enterprises 10 per cent. The

Economic survey

private sector accounted for 26.8 per cent of formal employment. Yazaki EDS, manufacturing automotive wiring harnesses for export, is the largest single private sector employer and the fluctuation in its number of employees has a major impact on the economy. At its high point in 1996 the company employed around 4,000, more recently the number has been around 2,000–2,500.

About 50 per cent of the economically active workforce is engaged in the agriculture, fisheries and forestry sector. Almost all are engaged primarily in subsistence farming. This reflects the continuing importance of rural activities even though their relative importance in the total economy has declined.

Unemployment is difficult to measure in Samoa as those without formal employment are generally absorbed into the informal or subsistence sectors. The 2001 census records that about two-third of those in the 15–24 age group were either unemployed (around 5 per cent) or 'not economically active' (about 60 per cent); this compares with about 56 per cent who were either unemployed (around 3 per cent) and not economically active (about 54 per cent) in the same age group in 1991. For the whole labour force the unemployment rate in 2001 was recorded at 2.5 per cent (males with a slightly higher rate than females) and those not economically active 49 per cent (with male unemployment at 32 per cent and females at 68 per cent). These high numbers of 'economically inactive' mainly youth population suggests that there is considerable potential for increased rural output.

Short-term prospects

The prospects for the medium term will depend on external and internal shocks but critically on the performance of the public and private sector. Cyclones Ofa and Val in 1990 and 1991 devastated the agricultural sector, severely damaged the economic infrastructure and interrupted economic reform program. In 1994 the taro blight

almost wiped out production of the primary agricultural and export crop. The large proportion of total government financial resources granted to support state-owned enterprises has continued to replace funding for other sectors, including basic health and education services and agriculture. Despite the increasing overall budget deficits, the bulk of public sector investment in recent years has been in the form of technical assistance. The recent restructuring of government departments, including privatisation of some commercial operations, has resulted in the reduction in the number of government departments to 14 (50 per cent) and is seen by government as necessary to underpin improved efficiency and cost effectiveness of government services. A prolonged depression in the fishing industry will dampen medium-term prospects. On the other hand, the recent approval of relatively large-scale tourism development, other public infrastructure projects, including preparation for the 2007 South Pacific Games, are all expected to assist private sector activity and economic growth in the medium term.

Generally, the economic prospects for Samoa's economy are likely to be driven by several factors over the short to medium term (Table 1).

Recent initiatives and selected key issues

Economic reform strategy and actions

The current *Statement for Development of Samoa 2002–2004* (Samoa 2002) was introduced in 2002 as a refinement of the previous *Statements of Economic Strategy* (2000–2002) with increased emphasis on the consultative processes with the various levels of national stakeholders, to enhance ownership of the national development strategies.

The reforms introduced by government include tariff reductions, taxation

Economic survey

Table 1 Factors affecting the Samoan economy in the short to medium term

Inflation	Recent surge in inflation.
Exports	Medium-term prospects in fish production and exports. The impact of ban on exports of kava to Europe on health reasons.
Government budget	The government budget will be under increasing pressure from ongoing public sector investment program, cost of restructuring government departments, salaries and other operating expenses, but also for financing of the 2007 South Pacific Games infrastructure. Also important will be the need to monitor subsidies closely for community services obligations and advances to state-owned enterprises.
Private sector credit and investment	Government participation in a new four-star resort and new office complex for the Development Bank as well as funding for the 2007 South Pacific Games would restrict availability of commercial bank credit to other investments of the private sector. Timing of a decisive response from the government to provide assistance to the fishing industry. Some impetus in the construction industry can be expected to result from the construction of the new four-star resort and Development Bank office complex. The impact of PICTA and PACER will be felt with increased competition in the import and export markets among regionally based enterprises.
Public sector investment programs	The trend of the past 5 years in which the bulk of public sector investment programs comprises of technical assistance is likely to continue. Most grant aid projects are funded and sourced from donor countries with minimum impact on the domestic economy. Upgrading of sports facilities and building of new facilities to be completed prior to 2007.
Information and communication technology	Major investments by SamoaTel and World Bank are expected to increase the number of clients with land and mobile phones by at least a multiple of 4 by 2008. Access to internet is expected to increase by a multiple of 5 by 2008. Increasing use of the internet/teleconferencing facilities by medical and educational institutions for telemedicine and distant learning. E-commerce introduction to the commerce sector led by the commercial banks and the tourism facilities.
Business confidence	Recent surveys (Agriculture Survey 2003, Business Confidence Surveys 2003) show <ul style="list-style-type: none"> • overall improved confidence for economic growth in the medium term • improved outlook from the construction sector (new projects commencing and in the pipeline) and manufacturing sector • overall expectation of increased costs mainly on the import components arising from a relative decline in the tala exchange rate.
Government and private sector partnership	The close partnership approach and open dialogue to economic development established between government and private sector (through the Chamber of Commerce and the Manufacturers Association) is expected to provide ongoing exchanges on policy measures, outcomes and momentum for ongoing reforms.

Economic survey

restructuring, financial sector liberalisation, and public sector reform. While reform processes are ongoing, reform of state-owned enterprises is still relatively incomplete. A number of high-profile state-owned enterprises continue to be loss making in terms of real rates of return on total assets, and continue to be a drain on scarce government resources for social investment. In the period between 1998/99–2000/01, the average percentage of government current expenditure allocated to state-owned enterprises as grants or subsidies was 10.4 per cent (equivalent to 2.5 per cent of GDP). This was equivalent to about 60 per cent of the regular health budget. Equally and critically important will be the realisation of improved performance and increased efficiency expected from core government services to result from the range of public sector reform initiatives already undertaken by government.

Other key areas for strategic planning would include the need to review investment (including foreign direct investment) policy and the legislative framework because of the continuing slow growth in both national and foreign investment.

Relative to other neighbouring Pacific island countries, the growth of private sector investment has been very slow. Similarly, Samoa has not been successful in attracting foreign direct investment despite its relatively stable political environment and efforts in reforming its economy. In this context, forward momentum in the area of land-law reform and more aggressive marketing of Samoa to targeted foreign investors will be important.

Income distribution and hardship reduction strategy

Although the Samoan economy has performed strongly in recent years there still remain significant variations in incomes and standards of living between the urban and rural areas. Subsistence and semi-subsistence agriculture is still a core activity

for the majority of the population, especially those living in Savaii and rural Upolu but investment in agriculture has been low (Asian Development Bank 2001b). Despite the role of agriculture in the lives of many Samoans, the Ministry of Agriculture, Fisheries and Forests has received an average of only around 6 per cent of current expenditure for the last 5 years—about half of the amount allocated to state-owned enterprises as grants and subsidies. The outcomes sought by government through reforms in other key sectors, especially education, health, telecommunications and postal are expected to be important catalysts in improving the distribution of national incomes.

The government is now finalising its strategy aimed at promoting equitable growth and hardship alleviation. This has been facilitated through a consultative process to analyse available hardship or poverty indicators to provide government with a basis for monitoring progress towards the achievement of the Millennium Development Goals. In order to quantify the extent to which households might be experiencing hardship, national and regional poverty lines⁷ based on the 2002 Household Income and Expenditure Survey have been calculated. The analysis, which is yet to be officiated by government, indicates that in 2002, 20 per cent of households nationally had incomes below the basic needs poverty line and therefore were experiencing some degree of financial hardship on a daily or weekly basis. Generally, to many, hardship is characterised more accurately by poor access to quality services and opportunities, or the ability to realise their potential and aspirations. The youth and elderly in rural areas are being identified as the most vulnerable groups. The government recognises the need to address both macro and micro-level issues to alleviate hardship. This would mean maintaining macroeconomic stability and economic growth, pressing on with reforms in health

Economic survey

and education (including increased emphasis on vocational training), creation of an investment-friendly environment, responding to village and community needs such as in developing village income-generating enterprises. In the social area, small-scale hardship alleviation projects for improving water supplies, health services, transport and communications are needed. Improving the quality of basic services delivery will also be important through better training for teachers, better staffing of schools and clinics, better maintenance for health and education facilities and infrastructure and improving the availability of essential teaching materials and medical supplies.

Budget and forward planning

The trend of fiscal outcome in recent years, which shows a rapid reversal of the surpluses achieved over the mid 1990s, is likely to continue given the budgetary pressures over the medium term from government commitments, particularly infrastructure developments for the 2007 South Pacific Games, ongoing public investment, salaries and wages and the cost of a recent department realignment. This potential outcome will continue to put pressure on government's budget outcome. The challenge is for government to map out its budgetary commitments carefully over the short to medium term and to design an appropriate investment plan that would best serve its objective of stable macroeconomic environment and real support for the development of the private sector. With the re-alignment of government departments now enforced, government is now moving forward with its plans to refine government outputs and to introduce forward estimates of expenditures and revenues.

Institutional reforms and realignment of government departments

The institutional strengthening projects for a wide range of government departments and

the overall reforms for the Public Service Commission have enhanced the capacity of most departments to undertake setting up their own strategic plans and management plans linked to their budgets.

New legislation introduced in 2003 to realign departmental and state-owned enterprise functions/outputs has resulted in the significant reduction (50 per cent) in the number of government departments to fourteen. The policy objective is to improve efficiency and effectiveness and to save costs. However, these objectives are unlikely to be realised until operational issues such as the redefinition of outputs, new organisational structures and physical location are bedded down. Significantly, the key challenge is for the re-designated band of Chief Executives to respond to the changes and for government departments to demonstrate real improved and effective services to the public and private sector. Also important will be the need to retain institutional capacity to ensure long-term sustainability of public sector reforms.

Agriculture institutional strengthening and investment

Recognising the critical role played by the agriculture sector in the Samoan economy, the government has commissioned technical assistance with the objective of strengthening the management of programs of the Ministry of Agriculture, Forestry and Fisheries. A recent assessment has pointed to the relatively low levels of past investment in this sector and minimal impact of government programs on agriculture output and particularly on the welfare of rural societies. The main approach adopted by government under these strengthening programs include outsourcing of selected activities, strengthening extension services, and improving internal management systems and processes. The short-term prospects for the sector remain somewhat uncertain in light of the recent downturn in fisheries production, the ban on exports of

Economic survey

kava and slow progress in developing taro leaf blight-resistant varieties with export qualities. For the kava industry, a failure to address the current ban within the next 12–24 months would mean a total waste of the existing crop. In view of its gestation period, such a scenario would lead to the absence of any kava output over a 5–7 year period. Clearly, high-level political intervention will be necessary, as well as the need to undertake urgent scientific research to support the industry.

Institutional reforms in the Ministry of Public Works: a success story

In 1999, the government commenced its reforms in the management and operation of public works focusing on outsourcing selected commercial services and redefining the role of the Ministry to strengthen its policy and project management and monitoring capacity (see box). In 2003, as part of the overall realignment of government departments, the policy and administrative responsibility for public works, transport and maritime services were merged. The objective of the reforms included improving efficiency and value for money, improved budget savings, creation of employment through privately owned commercial activities and strengthening policy and capacity to supervise. This has led to the outsourcing or privatising of road construction and maintenance, outsourcing maintenance of the government housing and carpentry workshop, outsourcing architectural design, strengthening project supervision and contract management and strengthening sector and corporate planning.

In terms of outcomes and impact, the reforms are seen as very effective, resulting in significant reductions in unit costs of new road construction and maintenance (slashed to around half of pre-reform costs); a marked improvement in road maintenance; contractual arrangements have meant more

certain and more controlled budgeting (including some savings); increased levels of private sector activities including employment; increased focus on strategic development issues by the Ministry; and success of the reforms has provided impetus for further reforms in other areas of public works, other utilities and other departments more generally. The sustainability of these gains in the long term including the need for swift government responses to any changed circumstances, will be key challenges.

The 2000/01 Public Bodies Performance and Accountability Act and corporate governance

Government efforts to introduce reforms to the management, accountability and transparency of state-owned enterprises activities is to be applauded. These policy objectives are been encapsulated in the new governance framework for state-owned enterprises (2000/01 Public Bodies Performance and Accountability Legislation) as well as a range of government-sponsored public forums/workshopping/consultation on corporate governance.

Some of the key changes to policy and legislative framework for state-owned enterprises include the enforcement of each enterprise to publish a Statement of Corporate Objectives and to identify Community Services Obligations as well as clarifying the roles and responsibilities of Boards of Directors. These changes are seen as important in improving accountability and tightening of control of state-owned enterprises including executive management but also in supporting the financing of social objectives from government budget. However, the new legislation has yet to come into force, pending the completion of drafting and Parliament review of supporting regulations. The recent moves by Cabinet Ministers to relinquish their official designation on the Boards of Directors of state-owned enterprises is an initial step

The Public Works Institutional Reform and Asset Management Services (PIRAMS)

PIRAMS was funded by the Government of Samoa, AusAID and the World Bank and commenced in March 2001. The goal of PIRAMS was to support Samoa's economic growth by improving the management of the country's infrastructure assets through

- reform of the role, function and responsibilities of the Public Works Department
- development of a partnership with the private sector for the efficient delivery of public works and services
- establishment of long-term plans for improved management of public infrastructure assets.

By March 2002, legislation establishing the Ministry of Works was passed by Parliament. The new Act contains comprehensive provisions to support changes to the role and structure of the Ministry and to assist the reform process supported by the PIRAMS project. By December 2002, all maintenance-related services of the Ministry of Works for which it had an ongoing responsibility—such as routine road maintenance in Upolu and Savaii, carpentry, painting and plumbing services, grounds maintenance and electrical services—were contracted out to the private sector including to the contracting business comprising former Ministry employees. The Ministry operations—incorporating the Alafua quarry, hot mix manufacturer and cold pre-mix manufacturer—have been established as a business unit within the Ministry as its privatisation now would create a monopoly in the private sector. As part of the reform process, Ministry employees were given the following options

- remain with the Ministry
- establish private contracting businesses relative to further functions and activities of the Ministry
- redundancy
- retire/transfer to other government departments.

The outcome resulted in 18 per cent of employees opting to remain with the Ministry, 25 per cent established or joined contracting businesses, 50 per cent took a redundancy and the remainder transferred to other government departments.

Outcomes

- The Ministry of Works has new Legislation to support its core role as a policy advisor, regulator agency and asset manager.
- All non-core functions have been outsourced to the private sector.
- The Ministry has an asset-management system which helps identify maintenance and upgrading priorities.
- The Ministry now has a road sector plan which identifies the priority road infrastructure assets for the next 10 years.

Economic survey

Benefits to the Samoan economy

- The cost of road construction and maintenance has on average been reduced by about 50 per cent compared to the costs prior to the reforms meaning there is a lot more competition among private contractors that is driving costs down and government is getting more value for the limited budgetary funds.
- There are more private contractors and consultants now than before the reforms as government outsources the design and contracts supervision to the private sector.
- Several contractors have been recruiting additional workers in recent months including former employees of the Ministry of Works who opted for redundancy in 2002, thereby increasing employment.
- Contract management and supervision by the Ministry of Works has been strengthened.
- There is now a ten-year road sector plan which will guide the development of Samoa's road network in the future and which will ensure that such development takes into account economic and social impacts, safety and impact on the environment.

The success of PIRAMS can be attributed to the following key factors

- strong political commitment and leadership throughout the reform process
- strong commitment to the reform and to make difficult decisions to support changes at management level
- a very robust consultation process involving all stakeholders within the Ministry throughout all stages of the reform: external stakeholders in central government agencies and with the private sector
- willingness of funding agencies to be flexible with the design and implementation of the reform strategy to account for the priorities of government and for the capacity constraints within the Ministry
- a team of professional and experienced consultants made up of local and international people who shared the view that the government and people of Samoa should own and lead the reform process and that their role as advisors was to provide advice that would help government achieve its reform objectives.

towards a commitment to remove all Ministers of Cabinet and public servants from Boards of Directors by 2008. This step is seen as a welcome sign of the government's intention to divest itself of the day-to-day management of state-owned enterprises and to increase participation of appropriately skilled personnel in their management.

The delay in the implementation of the new legislation and the continuing poor performance of mostly the large and fully government owned state-owned enterprises has meant that thus far, little, if any, real gains

in terms of service improvement or financial returns can be substantiated. Indeed, whilst there are arguments (mainly on social and strategic grounds) justifying continuing government support (via subsidies, grants and so on) to state-owned enterprises, it is noted that the reforms in corporate governance (through the introduction of the new Public Bodies Performance and Accountability Act, privatisation and corporatisation) has yet to return any positive financial contribution to the government budget. This has been a difficult area of government policy which the

Economic survey

government is working to improve and will necessarily call for more transparency and accountability on the part of government and state-owned enterprises.

In addition to moving forward quickly to implement and enforce the new governance legislation, the government would do well to consider opportunities for opening up utilities, particularly electric power services to private participation where appropriate. Although the government has over the last 10 years indicated a commitment to privatisation of state-owned enterprises with minor government equity, this has yet to be done.

Information and communications technology reforms

In 2003, the government, through its newly established Ministry of Information and Communications and Technology, commenced a 4-year reform program in the telecommunications and postal sector. The objective is to drastically improve services and connectivity and lower prices through bedding-down of government policy, re-enacting new governance legislation and regulations, telecommunications and postal infrastructure development in selected areas

and opening-up both fixed and mobile services to increased competition. The current indicators of connectivity for Samoa show the relatively few, and poor standard, of both telecommunications and postal services and highlight the importance of government policy objectives pursued in the reforms (Table 1). The broad targets sought by government via the reforms, indicate a keen interest to drastically improve 'access' to telecommunications and postal services. But equally important will be the realisation of significant reduction in costs of key basic telecommunications and postal services, also a critical component of outcomes sought by government through the reforms. Improving connectivity has the potential to provide a most efficient and effective means to facilitate more fluid mobility between rural and urban areas, to expatriate Samoans and the global economy. This is very important given the concentration of employment and incomes in urban areas and the role of remittances in supporting rural incomes. The poor accessibility of communications facilities, particularly in the rural areas, has been cited as one of the major hardships being faced by rural communities.

Table 1 **Samoa: telecommunications and postal sector reform indicators and targets, 2003–2008**

Indicator	2000 Actual	2003 Forecast (actual)	Broad targets: 2008
Total number of customers (fixed and mobile)	10,600	15,000 (20,050)	46,000
Number of internet subscribers	1,800	3,500	10,000
Number of telecom customers in rural areas	1,450	1,800	6,000
Number of post office mailboxes per 100 inhabitants	4.05	5.53	10.59
Number of inhabitants/full postal service outlet	n.a.	17,000	10,000
Number of letter items/inhabitants	4.5	6.9	12.2

Source: Ministry of Communications and Information Technology, Government of Samoa, Apia.

Economic survey

The fishing industry and fish exports: salvaging a previous success story

Total fish production has been on the decline since mid 2002 with total fish production (value added) reported at SAT\$11.21 million for the March 2003 quarter, down from SAT\$11.58 million in 2002.

The main reasons are the rapid decline in fish catch per voyage coupled with declining prices, making it quickly unprofitable particularly for small fishermen enterprises. Reflecting economies of scale, the surviving enterprises are the relatively large-scale commercial vessels and fish-processing operations. It is understood that the industry is making a formal approach to seek the support of government to implement short-term fiscal measures to help reinvigorate the industry. In essence, the industry is seeking support from government to put in place effective and well-targeted fiscal incentives to minimise adverse effects of a sudden fall in industry revenue. The package of incentives may include

- exemption from paying 10 per cent withholding taxes
- exemption from paying customs duties and VAGST on imported fishing boats and specialised fishing tools and equipment
- improving essential infrastructure such as berthing areas and onshore servicing facilities ice-making plants, and provision of services like fuel, water and power.

The authorities recognise that given the economic significance of the fishing industry and the relatively attractive incentives offered in the industry in other parts of the region, commercial operators may find it more profitable to move operations to more commercially friendly locations.

Balancing of strategic investment initiatives and maintenance of financial stability

The recent move by the government to take an active strategic role in the development of a new 140 room four-star resort is seen as one of the key investment initiatives to spearhead the development of higher quality tourist and visitor accommodation. These investment initiatives have been designed not only to position Samoa as a competitive location in the Pacific islands for investors but also to minimise any likely adverse impact on the current government strategy to strengthen its revenue base and to maintain the momentum of the privatisation and outsourcing policies.

In addition, the government has clearly indicated its commitment to continue its support to turn around the loss-making national airline into a commercially viable entity to sustain and develop the tourism sector. Given the government's pronouncement that it will ensure adequate available credit to the private sector, the ongoing commitments to the national carrier and other non-performing state-owned enterprises, coupled with financial commitments to relatively large-scale investments in the pipeline (the four-star hotel development, new Development Bank offices, 2007 South Pacific Games infrastructure developments) would need to be closely monitored and sequenced to minimise any likely disruptive impact on availability of credit to the private sector and the net position of government deposits in the banking system.

Conclusion

The authorities should press on with the necessary reforms and should be prepared to act swiftly to target key areas or intervene using carefully targeted policy interventions aimed at supporting sectors or industries that

Economic survey

may be showing signs of fatigue. The following key policy issues should be accorded some priority in the short to medium term

- containing the budget deficits through careful management and allocation of public expenditures, including proper forward planning for financing of sports facilities for the upcoming 2007 South Pacific Games
- a significant scaling-back of advances and subsidies to state-owned enterprises and pressing on to implement and enforce the new Public Bodies Accountability Legislation
- move quickly to privatise more state-owned enterprises and outsource, where appropriate, strategic services currently undertaken by government departments
- speed up the reforms in the telecommunications and postal sector as primary vehicle for advancing greater networking between rural and urban areas, and to expatriate Samoans as well as regional and global services. This will be an important supporting strategy for hardship reduction
- introduce well-targeted incentives to support the development of strategic industries, particularly fisheries, manufacturing, agriculture, tourism and other information and communications technology-based services
- continue with reforms in the education and health sectors and accord these sectors increased budgetary resources
- press on with the law reforms with a particular focus on suitable vehicles for the divestment of customary land and tighten security of land for investment purposes.

Despite the pressure likely to be exerted on the budget over the next four years, the outlook for the Samoan economy is positive.

The government can take encouragement from the gains it has made through its reform program, particularly in public works, telecommunications, education and health and should maintain the momentum in these areas, but also speed up reforms in other key sectors particularly state-owned enterprises and agriculture.

The recent apparent weakening in the fiscal situation needs careful monitoring to ensure that fiscal discipline is maintained. Continued economic growth needs to be sustained through an appropriate investment enabling environment and improving governance standards.

Notes

- ¹ The construction, commerce, and public administration grew strong underpinning growth over 1997–2001 period.
- ² Hardship has been defined to reflect access to basic services, opportunities to participate in socioeconomic and community life and adequacy of resources (including cash) to meet basic needs and obligations.
- ³ Preliminary estimates, based on the assumption of the development of mostly new facilities for the 2007 South Pacific Games has been placed at around SAT\$150 million; about 50 per cent of total government revenue estimate for 2003/2004.
- ⁴ These mainly include transfers from state-owned enterprises.
- ⁵ Monetary policy has four main objectives: keeping inflation below 3 per cent; maintaining adequate foreign reserves (from 2001 the target has been four months import cover); facilitating adequate lending to the private sector; and more or less maintaining a constant real exchange rate to preserve international competitiveness.
- ⁶ At the end of 2001 around 95 per cent of external debt was official government debt, most of which was on concessionary terms from international finance agencies, and consequently the external debt burden has not been a problem in Samoa.

⁷ Defined as income to meet average expenditure needs for a 'basic' diet plus the costs of other non-food items.

References

- Asian Development Bank, 2001a. *An integrated planning and urban management system for Samoa*, Working Paper No 6, Economic Background, Finance and Budget Issues, ADB TA 3566-SAM, Apia.
- , 2001b. *Strengthening Capacity for Macroeconomic Analysis, Planning and Policy Formulation*, Phase IV, Agriculture Sector Policy Report, ADB TA 3311-SAM, Apia.
- , 2003. Consultative workshops for poverty reduction strategies in selected PDMCs, Samoa Hardship and Poverty Status, Discussion Paper (draft), ADB TA 6002-REG, Apia.
- Central Bank of Samoa, 2003. *Monetary Survey*, March, Central Bank of Samoa, Apia.
- KVA Consult, 2002. *E-Commerce Readiness: a survey of selected Pacific island countries*, KVA Consult, Apia.
- , 2002. *Samoa Poverty Profile*, KVA Consult, Apia.
- , 2003. *Samoa Tourism Sector Review*, KVA Consult, Apia.
- , 2003. *Samoa Fishing Industry Review*, KVA Consult, Apia.
- KVA Consult WTO/PICTA Accession Assessments, 2003. *Pacific Island Countries*, KVA Consult, Apia.
- Samoa, 2000. *Statement of Economic Strategy 2000–2001: partnership for a prosperous society*, Treasury Department, Economic Policy and Planning Division, Government of Samoa, Apia.
- , 2002. *Strategy for the Development of Samoa 2002–2004: opportunities for all*, Treasury Department, Economic Policy and Planning Division, Government of Samoa, Apia.
- Samoa, Treasury Department, Economic Planning and Policy Division, 2003. *Quarterly Economic Review*, March, Apia.
- , 2003. *Quarterly Economic Review*, November, Apia.
- Sialaoa, A. (KVA Consult), 2001. 'Recent economic developments in Samoa', *Pacific Economic Bulletin*, 16(1):44–54.