Macroeconomic management and aid policy

Many commentators have recently stressed the importance of the roles played by the recipient governments in making foreign aid effective. In particular, the role of the recipient government in taking the lead in the coordination of aid programs and the policy environment set by the government are seen as two very important contributors to the success of aid programs.

The two policy dialogue papers by Wendt and Cnossen are largely concerned with how to get the most out of the development assistance being given to two Pacific island countries: Samoa and Solomon Islands. They focus on these two roles of government, and contribute to this debate by examining in detail how aid is managed. They make useful recommendations about how to improve the aid relationship and the contribution of aid.

The Samoan experience

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The development community at large, as personified by the Development Assistance Committee (DAC of the OECD), has increasingly called on its members to design their respective aid programs through a deliberative process of dialogue, one that respects the ideas and opinions of developing countries. In its 1996 Development Cooperation Report, ‘Shaping the 21st Century: the contribution of development cooperation to a new century of shared human progress’, the DAC declared

[ ]ocally owned development strategies and targets should emerge from an open and collaborative dialogue by local authorities and civil society and with external partners about their shared objectives and their respective contributions to the common enterprise. Each donor’s programme and activities should then operate within the framework of that locally owned strategy in ways that respects and encourages strong local commitment, participation, capacity development and ownership (OECD 1996:14).

This change of emphasis has placed the burden of responsibility for development on developing countries themselves. They are
now being expected to produce their own development strategies, to assume the ‘driver’s seat’—exercising choice and setting their own objectives (Wolfensohn 1997). The intention of this is to end up with locally designed development strategies that reflect local circumstances, commitment and needs which donors can then support.

Simply coming in to support locally designed development initiatives is not enough to sustain the development process. Placing the burden of responsibility for development on developing countries themselves means that they must be prepared to commit their own resources to the development effort—their own earnings, savings and tax revenues are the most important source of investment that developing countries can make in their economic and social progress (OECD 1995). Aid can provide a needed complement to local resources, knowledge and effort but it must be accompanied by supporting policies.

Inquiries by the Development Research Group of the World Bank into ways of making development assistance more effective in promoting growth has found that When the policy environment is right, when countries follow prudent fiscal policy and maintain an open trading regime, when the public sector focuses only on those areas where it is needed, and where the state works in partnership with civil society to deliver the basic necessities to its citizens—the effects of aid can be dramatic (Stiglitz 1997).

Burnside and Dollar (1997), in examining the relationship between aid, policies and growth, found aid to be a much more effective investment when a recipient country’s economic policies were ‘sound’ before the aid was provided. The question that follows is ‘what constitutes a sound policy environment?’ According to Burnside and Dollar, ‘sound policies’ are measures that have been shown to promote growth—open trade regimes, fiscal discipline and avoiding high inflation. To this Stiglitz (1997) adds investment in human capital, stable macroeconomic policies, transparency, accountability and outward-oriented competitive markets. In current development terminology it is a call for better governance, internal structural change—commonly referred to as public sector reform—and an environment in which government and the private sector complement each other.

Samoa’s compliance with this prescribed formula for sustainable development has brought a welcome reprieve from the economic difficulties it found itself in at the beginning of the 1990s—the extent of this compliance is manifested in four years of consecutive economic growth since 1995. This can be attributed to the Government of Samoa’s unavering commitment to the ‘Vision’ for sustained economic growth on which it embarked four years ago, incorporating the principles of a sound and stable policy environment, an intensive program of public sector reform, increased investment in education and health, and an enabling environment to boost private sector growth.

A ‘Vision’ for sustained economic growth

The Government of Samoa in its first Statement of Economic Strategy (SES), which it released in 1996, was convinced that the key to sustained and sustainable economic growth lay in a partnership with the private sector. Entitled A New Partnership, the government’s economic strategy acknowledged the private sector as the future engine of growth and called for a slimmer, more productive and accountable public sector. It realised the need to increase resources to both education and health, while at the same time doing all it could to raise productivity in villages (Government of Samoa 1996:3).

To this end, substantial cutbacks in government expenditure were made and a tightening up of monetary policy to control
inflation was introduced. The government divested itself of its interests in agro-based manufacturing and has tried to create a supportive environment to encourage both local and foreign investment. Certain state-owned enterprises have been privatised and an intensive program of reform for the public sector, aimed at downsizing the public service and improving its performance, has begun.

In its second SES, Strengthening the Partnership, which it released in 1998, the government has reinforced this partnership, adamant that the key to sustained economic growth lies with a healthy and competitive private sector. Foremost to achieving this is the sound and stable policy environment advocated by the international development community. Paraphrasing the introductory remarks to the 1998 SES:

The role of Government in its partnership with the private sector is to establish the overall framework and policy setting—the enabling environment—which will allow business to prosper and grow, supporting greater economic diversification. Key elements of this enabling environment have been put in place. Policies to attract investment have been reviewed and the financial system has been liberalised to encourage greater lending for productive enterprises. A review of the tariff structure is well underway and the public sector is being transformed to improve efficiency and responsiveness.

We will continue to manage the economy in a prudent and responsible way. We will continue to build the enabling environment to support further private sector growth. We will enhance the competitiveness of Samoan business and we will continue with the important reforms in the public sector (Government of Samoa 1998).

Samoan’s ‘Vision’ for sustained economic growth as outlined in the two statements can be grouped into five strategic areas—agriculture, education, health, the private sector and public sector reform. Of these five, two ‘standouts’ have been identified, namely education and health. Backing these up are a number of complementing sectoral strategies—infrastructure, industry, tourism and the environment.

Samoan’s development priorities and the strategies for accomplishing these have been outlined in its SES. The challenge that has faced the Government of Samoa has been to come up with the resources required to pursue these objectives. This is where the contribution of aid to the pursuit of the ‘Vision’ has been most influential.

Aid’s contribution to the pursuit of the ‘Vision’

Over the period 1992–98, development assistance to Samoa increased from ST$68.7 (US$27.9) million to ST$98.4 (US$33.4) million. In the latest estimates provided by Treasury, aid coming into Samoa is expected to fall back to ST$83.4 (US$27.8) million over the next year (1999–2000) (Central Bank of Samoa 1999).

Nearly two-thirds of this assistance was in the form of grants, with the main sources being Japan (45 per cent), Australia (20 per cent), New Zealand (15 per cent), the European Union (10 per cent) and the UNDP (1 per cent). Treasury forecasts see external grants falling back to ST$56.6 (US$18.8) million for 1999/2000 from ST$85 (US$28.9) million in 1998.

The remaining one-third of development assistance to Samoa consists of concessional loans from the likes of the Asian Development Bank (ADB), the European Investment Bank and the World Bank. These also appear to be on the decline, falling from ST$34 (US$13.7) million in 1995 to ST$13 (US$4.4) million in 1998. However, there are a number of loan-financed projects in the
pipeline, which will in all likelihood cause the amount of external loan funds to rise.

Over the last seven years aid has made up 28 per cent of government revenue and accounted for 41 per cent of government development expenditure. Aid as a percentage of government revenue is declining, however, with estimates for 1999/2000 placing it at 22 per cent as compared to the 31 per cent estimated for 1998 and the high of 35 per cent recorded in 1995 (Figure 1). As a percentage of government development expenditure aid also appears to be on the decline. In 1998, 31 per cent of the government’s development expenditure was funded by aid as compared to 32 per cent for 1996 and the high of 55 per cent recorded in 1994.\(^3\)

Since 1990 there have been 69 donors providing aid—25 bilateral and 44 multilateral donors. Not included in this figure are the contributions made by overseas NGOs directly to their local counterparts, and one-off funding packages provided by various international groups for conference/seminar participation. The types of assistance provided include projects, technical assistance, training, small grant schemes and aid of various other types, for example, disaster relief and conference/meeting/seminar participation.

Australia, China, Japan and New Zealand are Samoa’s major bilateral donors. Australia has recently announced an allocation of A$14.5 (US$8.3) million to Samoa for 1999–2000. This is an increase of A$2.2 million over the A$12.3 (US$7.7) million that was allocated for 1998/99 and the A$11 (US$7.5) million that was received for 1997/98. There are four components in Australia’s Samoa aid program—public sector reform, health, education and training and natural resource management. In terms of percentages, 34 per cent of Australia’s aid budget to Samoa goes to education and training, 32 per cent to public sector reform,
14 per cent to environment and natural resources, 11 per cent to health, 3 per cent to private sector support and 6 per cent to others (AusAID 1998).

New Zealand provides an annual aid allocation around NZ$7 (US$3.7) million. There are five components in the current NZODA program—education and training, private sector support and income generation, health, public sector strengthening and social/community development. Education and training is the most important sector, utilising 66 per cent of New Zealand’s aid budget to Samoa.

Japan is Samoa’s largest bilateral aid donor, a position it has occupied since the late 1980s. During 1996–97 Japan provided a total of US$19.7 million. Japanese aid to Samoa comes in two types—grant aid and technical cooperation. Japan’s aid program is a request-based one—projects considered by Japan are identified by the Government of Samoa according to local need and a confidence in Japan’s willingness to support large-scale infrastructure-like projects. As a result the amount received for any one year will vary depending on the request. For example, in 1997 Samoa received US$19.7 million. From 1994 through to 1996 Samoa received US$22.7 million, US$14.6 million and US$14.3 million respectively. Given its request-based nature it is not possible to confine Japanese aid to any one particular sector. For example, over the past five years the sectors that have been supported by Japanese ODA include education (National University of Samoa—campus), health (Tuasivi Hospital), public utilities (seawall and foreshore protection), telecommunications (rural telecommunications program) and transport (replacement vessel—Lady Naomi).

China has been providing Samoa with development assistance since 1976. Like the Japanese, China’s aid program to Samoa is not confined to specific sectors. Rather, the nature of the assistance provided and the kinds of projects supported are based on the needs identified by government that are within China’s ability to provide. Over the past three years requests submitted to China have mainly been in infrastructure, sports development, health, agriculture and, most recently, in education. As there is no specific

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**Figure 2  Samoa: sectoral composition of external grants, 1988–89**

![Pie chart showing sectoral composition of external grants with Education at 40%, Agriculture at 10%, Public utilities at 19%, Environment at 2%, Health at 14%, Others at 4%, and P&M reform at 11%. Source: Government of Samoa, Ministry of Foreign Affairs, 1999, Apia, Samoa.](image)
allocation made the total amount of aid provided varies from one year to another. In 1998 China committed RMB$17.8 million yuan (US$2.16 million or ST$5.94 million) for development activities in Samoa.

Other notable bilateral donors include Canada, Germany, France and South Korea. The Netherlands, Thailand and Indonesia are consistent in the provision of training opportunities while the United States maintains a high profile in the area of technical assistance (Peace Corps). The sectoral breakdown of bilateral aid into Samoa highlights the importance given to education, agriculture, health, public utilities and the environment (Figure 2).

On the multilateral front Samoa’s major donors include the Asian Development Bank, the European Union, the United Nations Development Program (UNDP), other UN agencies (UNESCO, FAO and UNICEF), the World Health Organisation (WHO) and the World Bank. Samoa joined the Asian Development Bank in 1966 and since then it has received a total of 25 loans totaling US$89.9 million. According to its November 1998 Country Assistance Plan (CAP) the ADB’s overriding strategy for Samoa is to promote sustainable growth. This it intends doing by supporting structural changes to the economy as outlined in the 1998 SES. Four loans have been included in the ADB’s operational program for Samoa for 1999–2001 amounting to US$24.5 million. These loans include an urban infrastructure project (US$12.5 million), a skills development project for 2000 (US$4 million), power development for 2001 (US$4 million) and a micro-credit scheme also for 2001 (US$4 million).

Between 1995 and 2000 Samoa expected to receive a total of 11.5 million ecu (ST$34.5 million or US$11.5 million) from the European Union (European Commission 1997). These funds have been allocated to the development of economic and social infrastructure in rural areas, the specific objectives of which include improving the provision of rural water supply (10 million ecu) and support for small-scale economic and social infrastructure for local communities, particularly in the areas of health, education, agriculture and fisheries (1 million ecu). The remaining 0.5 million ecu is to go into human resource development and tourism.

Since the beginning of its first funding cycle in 1977, Samoa has received US$23.3 million from the UNDP. Under the UNDP’s current cycle (1997–2001) Samoa has been allocated a total of US$2.85 million, which is to go towards basic education and training, and job creation and sustainable livelihoods.

Other multilateral donors of note include UNESCO, UNICEF, UNFPA, FAO and WHO. There are also a number of regional organisations providing valuable technical assistance to Samoa—the Forum Secretariat, Forum Fisheries Organisation, the Pacific Community and SPREP.

Fifty four per cent of all aid currently coming into Samoa goes to education and health. According to the aid database kept by the Ministry of Foreign Affairs, estimates for the period 1998–99 show that 40 per cent of the aid received went into education and 14 per cent into health.

Public utilities—transport, water, energy, communications—presently accounting for 19 per cent, was the dominant sector in the reconstruction/rehabilitation years following the cyclones of 1990–91. It was also the leading sector in 1997 due to the ST$33 (US$12.9) million Japanese grant aid allocation used to purchase the Lady Naomi.

One of the final observations worth noting is that there are about 177 aid-related experts, volunteers, advisers and consultants currently on assignment in Samoa. Approximately 98 of these are associated with ten volunteer agencies—ASEOP, AVA, BESO, German Volunteer Service, JOCV/JICA, KOICA, Peace Corps, UNV and VSA (Figure 3). The remaining 79 are serving as
advisers/consultants in donor-funded projects. This number is expected to increase close to the 200 mark with the arrival of the first intake of Youth Ambassadors from Australia and the commencement of a number of pipeline projects that have yet to appoint their implementing agents.\textsuperscript{7}

In terms of its overall expenditure, aid has accounted for 37 per cent of the government’s budget since 1991. Though Samoa has managed to reduce its reliance on external assistance from a high of 46 per cent in 1992 to 33 per cent over the last two years, aid continues to play an important role in providing a sense of fiscal stability conducive to growth (Table 1). With the growth of imports continuing to outpace exports, aid provides a much-needed ‘top-up’ to the capital account. Net inflows of external capital on the capital account over the past four years have exceeded the current account deficit, resulting in a surplus on the balance of payments of ST$13.7 (US$5.6) million in 1996, ST$26.1 (US$10.2) million in 1997 and ST$18.9 (US$6.4) million in 1998.

The composition of external grants with their corresponding percentages is a reflection of the strategic needs that have been identified by the Government of Samoa (Figure 2). Education is by far the dominant sector, receiving an estimated ST$22.8 (US$8.3) million in aid over the 1998/99 year. As of the 1 July 1999 there were 91 projects being funded by overseas donors in the education sector—54 of these were small grant scheme projects directed at community groups. The government’s own contribution to the sector has grown considerably since 1992 from ST$18.9 (US$7.6) million to ST$36.7 (US$12.5) million in 1998. The most active donors in the education sector include Australia, New Zealand and the European Union.

Aid injected into the health sector over the past year amounts to ST$8.2 (US$2.7) million. There are a total of 28 projects currently underway; 10 of these are community-oriented projects. The most active
Policy dialogue

As for education, the government’s contribution to health has increased over the years from ST$14.5 (US$5.9) million in 1992 to ST$27.3 (US$9.3) million in 1998—stressing once again the priority that has been accorded the two sectors.

It is interesting to note the percentage of development assistance going towards policy and management reform (Figure 2). Estimates provided by the Ministry of Foreign Affairs aid database shows that 19 per cent of the total aid investment over the past year has gone to support public sector reform initiatives—approximately ST$10.5 (US$3.5) million. Eleven government department/agencies are undertaking institutional strengthening projects—Agriculture, Customs, Education, Immigration, Justice, Lands and Environment, the Public Service Commission, Treasury, Trade Commerce and Industry, Public Works and the Water Authority. Two more institutional strengthening projects are in the pipeline—for Inland Revenue and Police and Prisons.

The sheer number of donors actively involved in Samoa is a clear indication of the support they have given to the ‘Vision’. Samoa has made its development priorities clear. Donors are expected to tailor their aid programs to the reform agenda and sectoral policies that the Government of Samoa has identified.

Donor support has helped to instill a sense of confidence in the choice of direction that the Government of Samoa has chosen. It has also enabled the government to plan ahead knowing that donors will continue to provide the assistance required in order to bring about the structural changes necessary to sustain growth.

There is no denying that aid continues to play an influential role in nurturing and

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Table 1  Government finance, 1991/92–1998/99 (ST$ million)

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<tr>
<td>Revenue and grants</td>
<td>159.3</td>
<td>184.7</td>
<td>178.2</td>
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<td>254.3</td>
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<td>121.1</td>
<td>138.3</td>
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<td>165.8</td>
<td>166.2</td>
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<td>46.4</td>
<td>34.5</td>
<td>72.4</td>
<td>88.5</td>
<td>69.9</td>
<td>60.5</td>
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<td>Expenditure</td>
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<td>216.2</td>
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<td>246.6</td>
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<td>133.2</td>
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<td>Development</td>
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<td>114.9</td>
<td>71.3</td>
<td>83.6</td>
<td>100.9</td>
<td>79.4</td>
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<td>Other</td>
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Financing

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<th>96/97</th>
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<td>Net external borrowing</td>
<td>32.9</td>
<td>43.5</td>
<td>39.6</td>
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<td>2.7</td>
<td>3.1</td>
<td>3.9</td>
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<td>Domestic</td>
<td>14.2</td>
<td>23.4</td>
<td>-0.7</td>
<td>22.8</td>
<td>-13.2</td>
<td>-16.5</td>
<td>-16.0</td>
<td>-3.6</td>
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<tr>
<td>Overall deficit (per cent of GDP)</td>
<td>-16.5</td>
<td>-22.1</td>
<td>-10.0</td>
<td>-7.4</td>
<td>1.6</td>
<td>2.4</td>
<td>2.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>Current expenditure (per cent of GDP)</td>
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<td>..</td>
<td>30.1</td>
<td>24.0</td>
<td>26.6</td>
<td>24.4</td>
<td>22.8</td>
<td>25.7</td>
</tr>
<tr>
<td>Total expenditure (per cent of GDP)</td>
<td>72.5</td>
<td>83.0</td>
<td>56.4</td>
<td>49.2</td>
<td>49.2</td>
<td>39.5</td>
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complementing development in Samoa. However there are issues pertaining to aid effectiveness and management that need to be considered if aid is to continue to make an impact in sustaining development.

Challenges to aid’s sustaining capacity in Samoa

With 69 active donors involved in some 240 projects there is an increasing need to ensure that all donor inputs are coordinated to avoid duplication. Donor coordination needs to be a locally-driven exercise, the purpose of which should be to provide donors with an update as to developments taking place in the various sectors. Most importantly, it should give donors an indication as to where future aid requirements are to be directed.

With close to 200 advisers, consultants, volunteers and aid-related experts on assignment in Samoa there is a need to ensure that local skill levels are raised and that these individuals, once trained, are given the opportunity to serve. For far too long there has been a tendency to recruit volunteers simply because they are a cheap alternative to paying someone locally to do the job. The classic case is education where close to 65 per cent of all volunteers coming into Samoa have been going into teaching positions, despite the teachers graduating from the National University’s Faculty of Education, potential instructors from the Polytechnic, and returning graduates from overseas. Volunteer agencies need to temper their desire for placing recruits with the long-term sustainability needs of the requesting agencies.

Many of the volunteer agencies operating in Samoa can learn a lot from the joint effort that is being made by the Department of Education and the Peace Corps office. Peace Corps have temporarily replaced teachers in JSS and SSS while these teachers are enrolled in the Diploma Program at the National University; the intention being that once these teachers have graduated they will return to the teaching positions and the Peace Corps will go home.

With regards to the number of advisers, consultants and other project-related personnel, the training of local counterparts is a necessity if the outcomes from the projects are to continue once they have withdrawn. There are a number of points to consider. First, the justification for appointing external advisers and consultants because of a lack of locally qualified persons no longer carries the weight it once did. Given the amount of aid money that has been invested in education and human resource development over the years, there are sufficiently qualified local individuals who are now more than capable of filling adviser/consultant positions. Secondly, very few projects make any assessment of local counterpart training to see how effective counterparts have been prepared to assume the duties and responsibilities once the donor has withdrawn. Government also needs to make its own assessment as to how effective counterpart training has been.

Aid programs need to be tailored to Samoa’s ability to absorb and manage. Donors need to be careful when implementing projects, particularly at the community level to make sure the community can absorb and manage the investment it has been given. It is no use giving a school in outlying areas a photocopying machine if the school does not have the money to pay for electricity, paper and maintenance, let alone finding someone to service it when it breaks down—aid needs to be appropriate. In the case of community projects, donors need to ask themselves if it is fair to the community.

Local ownership of an aid project is vital to its sustainability. A study of 81 structural reform programs found that 44 per cent of the programs with satisfactory outcomes were those found to have a strong sense of local ownership—where local initiative, commitment and participation was high
(Johnston and Wasty 1993). The interaction of these three elements vis-à-vis ownership has been summed up by one local development worker as follows:

Ownership is a feeling that a project belongs to you, that you have consciously contributed to it and hope, in the long run, to benefit from it. Thus there is a commitment from you to maintain and sustain it (Feturi Elisaia, Director of the Hans Sidel Foundation, 1999).

It has been interesting to note that while many of Samoa’s donors talk about ownership and what they are doing to encourage it, many local stakeholders still have trouble acknowledging their ownership in the aid projects they are associated with. One reason for this ‘sense of isolation’ felt by some stakeholders is that projects are externally funded (observation made by Ms Noumea Simi, Assistant Secretary, Economic and Aid, Ministry of Foreign Affairs, Apia, 1998). Another has to do with the partnership mentality—that a project is a partnership between the donor and recipient and is therefore jointly-owned. The resulting sentiment is that ownership, particularly during the project cycle, will never be complete, as ownership perceptions and expectations between donors and local stakeholders are not always the same. The ‘more participation’ equals ‘greater ownership’ rationale being put forth by donors needs to be clarified. Participation is a process towards ownership, not ownership itself (comment made by Ms Matagialofi Moli, Secretary, Public Service Commission, 1999). Therefore the type of participation needs to be looked at.

Some concluding thoughts

The Oxford English Dictionary defines ‘sustaining’ as supporting, giving strength to, and encouraging, especially for a long period—to endure. Hence, assessing the role of aid in ‘sustaining development’ is a question of the influence that development assistance has had in supporting, encouraging and strengthening Samoa’s capacity to maintain economic growth. There is no denying that aid has provided a needed complement to local resources, knowledge and effort. In the push to maintain economic growth it is this complementary role that development assistance must continue to emphasise. Success will depend on the willingness of Samoa to commit its own resources to the development effort while continuing to ensure that a sound policy environment conducive for growth is maintained.

Notes

1 The Asian Development Bank places this estimate much higher at ST$90 million per annum. However figures provided by both Treasury and the Central Bank, along with information held in the Ministry of Foreign Affairs aid database, puts the average at ST$82 million per annum.


3 It is interesting to note that the Asian Development Bank in its Country Assistance Plan, 1999–2001 for Samoa believes that over 50 per cent of government development expenditure is aid-funded. However estimates provided in the government’s Approved Estimates of Receipts and Payments for the Financial Years 1992–98 give a more realistic estimate in the low 40s.

4 This figure does not include technical aid, disaster relief and the Japanese grassroots allocation.

5 See the statistical tables provided in Government of Japan (1998) and JICA (1998).

6 The Bank’s In-country Operational Strategy concentrates on strengthening public sector reform, liberalising the financial sector, encouraging the enabling environment
needed for private sector growth and strengthening the government’s institutional capacity in economic management, planning and resource allocation. Two sector strategies have been outlined: (1) economic management and governance and (2) physical and social infrastructure (ADB 1998).

7 For example the joint AusAID/World Bank Public Works Institutional Strengthening Project and the Infrastructure Asset Management Project also being funded by the World Bank. The Asian Development Bank has three major projects in the pipeline.

8 WHO’s current biennium (1998/99) of US$1.2 million has just been boosted by an additional US$300,000.

References


Record of Outcomes for the 1998 High Level Consultative Talks between Australia and Samoa that Apia.


Acknowledgements

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