

UPDATE: SAMOA ECONOMY

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UPDATE: SAMOA ECONOMY

Objectives

Process

1. Provide overview of recent economic and social indicators.

1. Latest social and economic indicators of Samoa economy.

2. View of selected issues for economic management and reforms.

2. Discussion of selected issues on economic reform and management.
3. Samoa Perspective.

Outcome

Information and Debate

1. CHARACTERISTICS OF THE SAMOA ECONOMY

Overview of Economic and Social Indicators

Table 1: Overview of Samoa Social Indicators

Total Area (sq. kms)	130	
o/w Land Area sq. kms	2.9	
Population	172,092 (2001)	
Population Growth (annual growth rate)	0.5-1 (1990-1998)	
Density - population per sq. km of land area	60 (1991)	
GDP per capita (\$US)	1,140 (1999)	
Human Development Index (HDI)	.590 (1999)	Rank 117
Adult Literacy Rate (per cent)	98 (1995)	
Population below Basic Need Poverty Line	32% (1998)	
Human Poverty Index	8.6 (1999)	Rank 6

Source: UNDP: Human Development Report, 1999; World Bank: World Atlas, 1999

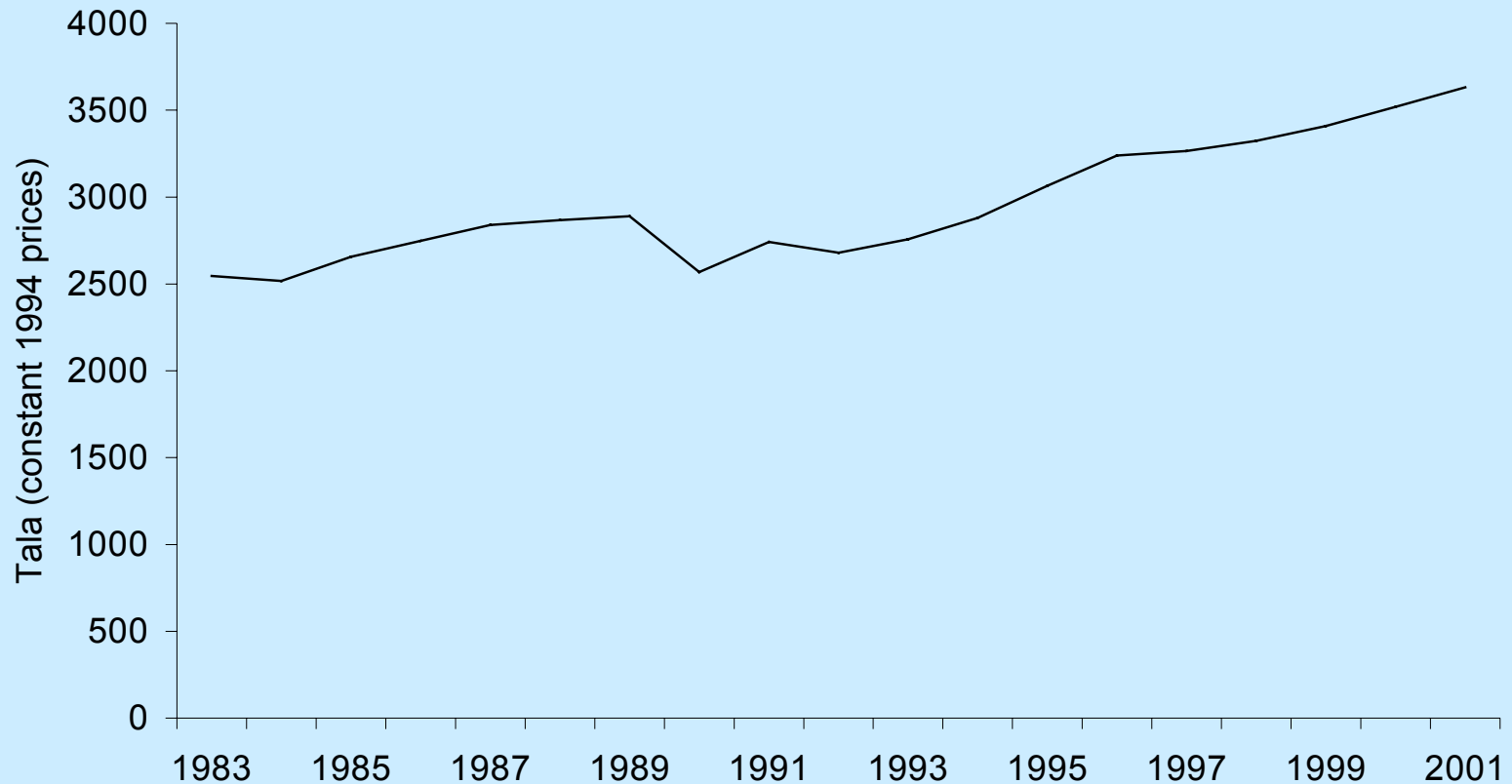
1. CHARACTERISTICS OF THE SAMOA ECONOMY

Overview of Economic and Social Indicators

- Samoa is an LDC under UN Classification
- HDI .59 global rank of 117: UN Classification
- HPI 8.6 rank 6 amongst 12 PICs and 75 DCs
- Poverty of opportunity – unemployment, net emigration, youth suicide rates,
- Poor past economic performance

1. CHARACTERISTICS OF THE SAMOAN ECONOMY

Per capita GDP growth



Source: Samoa Ministry of Finance

1. CHARACTERISTICS OF THE SAMOAN ECONOMY

Key Development Constraints

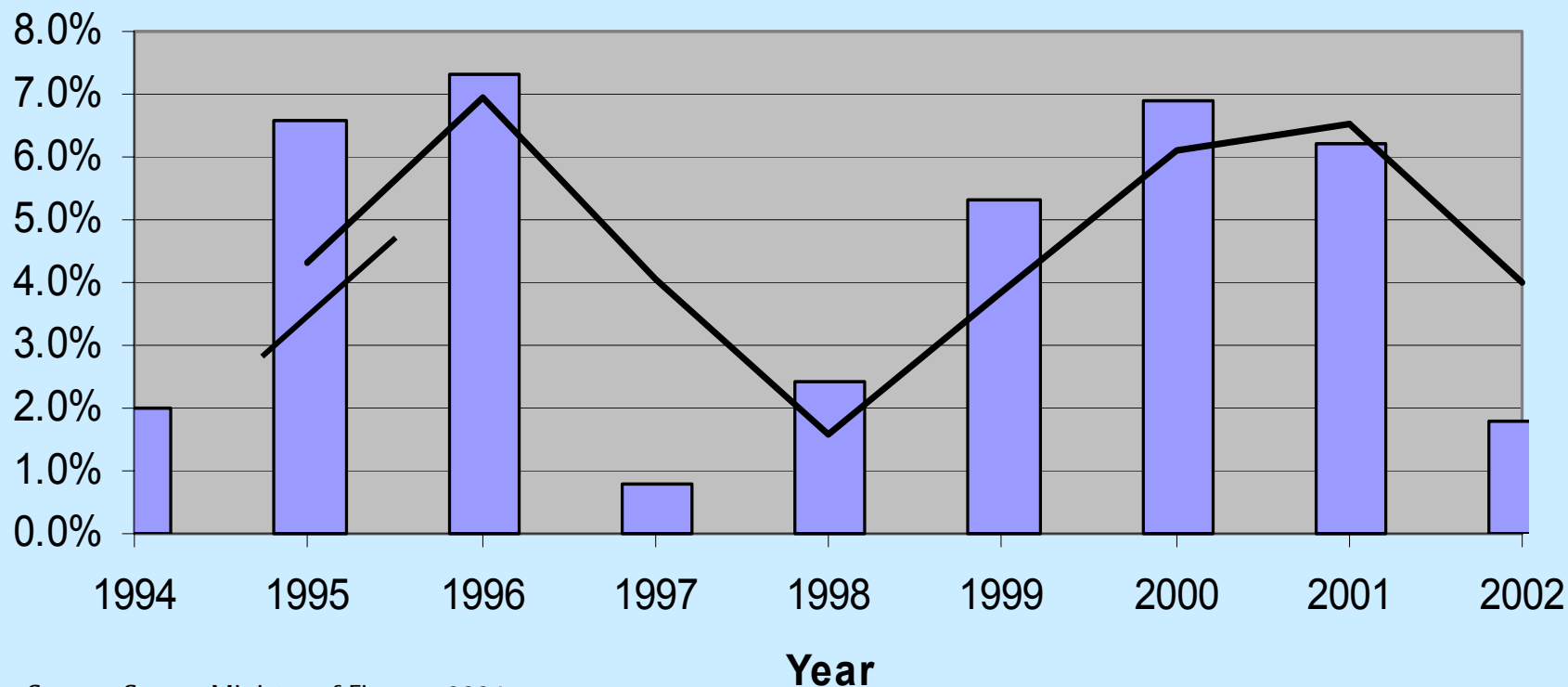
1. Public Sector	Large and Inefficient
2. SOEs	Large and Inefficient
3. Government Budgeting and Planning	Lack Vision, Goals, Input Budget
4. Financial Sector	Low National Savings, Distorted Market Prices
5. Trade and Taxes	Complicated, High Rates, Evasion and Avoidance
6. Health and Education	Quality and Equity
7. Private Sector Investment	Absence of clear policy on Investment and Trade, High Transaction Costs

2. OVERVIEW OF ECONOMIC REFORMS UNDERAKEN

1. Public Sector	Public Sector Reforms - Institutional Strengthening
2. SOEs	Privatization and Governance
3. Budgeting and Planning	SES, SP, CP and Performance Budgeting
4. Financial Sector Reforms	Deregulation, Prudential Supervision, Micro Credit and Venture Capital
5. Trade and Taxes	Tax and Tariff Reforms
6. Health and Education	ISPs and Infrastructure
7. Private Sector Investment	New Investment Laws, New Companies Act, Corporate Governance Framework

3. RECENT ECONOMIC INDICATORS

Real GDP (annual growth)



Source: Samoa Ministry of Finance 2004

3. RECENT ECONOMIC INDICATORS

Industry Contributions

Significant Impact

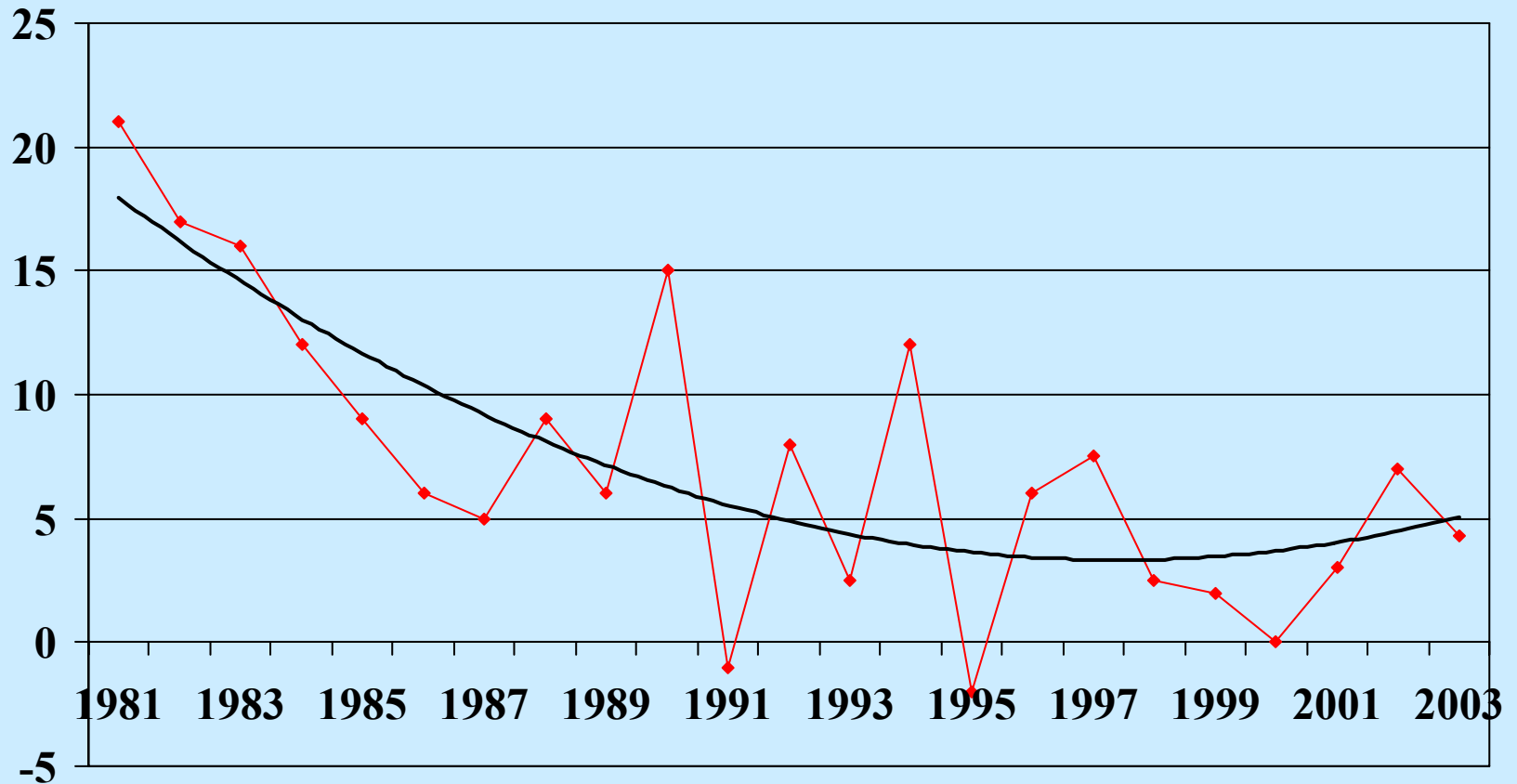
- Construction, Agriculture, **particularly Fishing**;
(Commerce, Other Manufacturing, Transport and Communications)

Static

- Electricity, Water, Food Beverages Manufacturing, Public Administration
- Subsistence vs. Formal Economy Contributions

3. RECENT ECONOMIC INDICATORS

Inflation (annual average %)



Source: Central Bank of Samoa

5/6/2004

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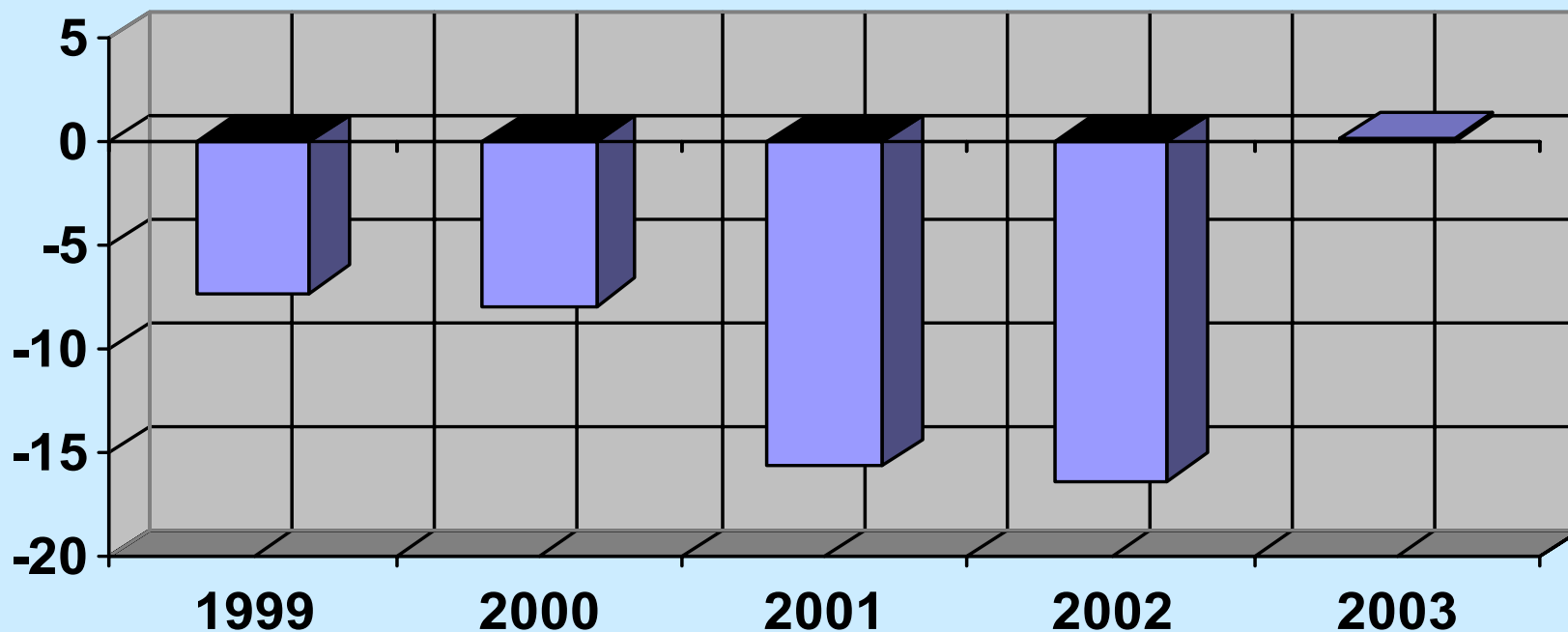
3. RECENT ECONOMIC INDICATORS

Inflation

- Significant decline over last 2 decades
- Around 20% in 1981 to “Nil” in 2000; Up to around 7% Sept 2002; down to around 4% June 2003; back-up following Cyclone Heta in early 2004!
- Both local (food and transport/communications) and import component (food and clothing) of CPI declined prior to recent cyclone
- For both components ‘Housing and Household’ ‘Alcohol/Tobacco’ and ‘Transport and Communications’ increased
- Modest depreciation (long-term) and supply of local commodities (short-term fluctuations).

3. RECENT ECONOMIC INDICATORS Government Budget (Tala million)

Budget Cash Deficit



Note: 2003/2004 Budget Estimate
Source: Samoa Ministry of Finance 2004

3. RECENT ECONOMIC INDICATORS

Government Budget

- Recent trend deteriorating; Budget pressure from 'old' sources
- Subsidies/grants and Services provided by Third Parties
- Revenues generally flat: income from investments a worry: non-tax revenues static
- Some draw-down of deposits; no local borrowing!
- Budget Reforms, but not a System of Hard Budget Constraints!

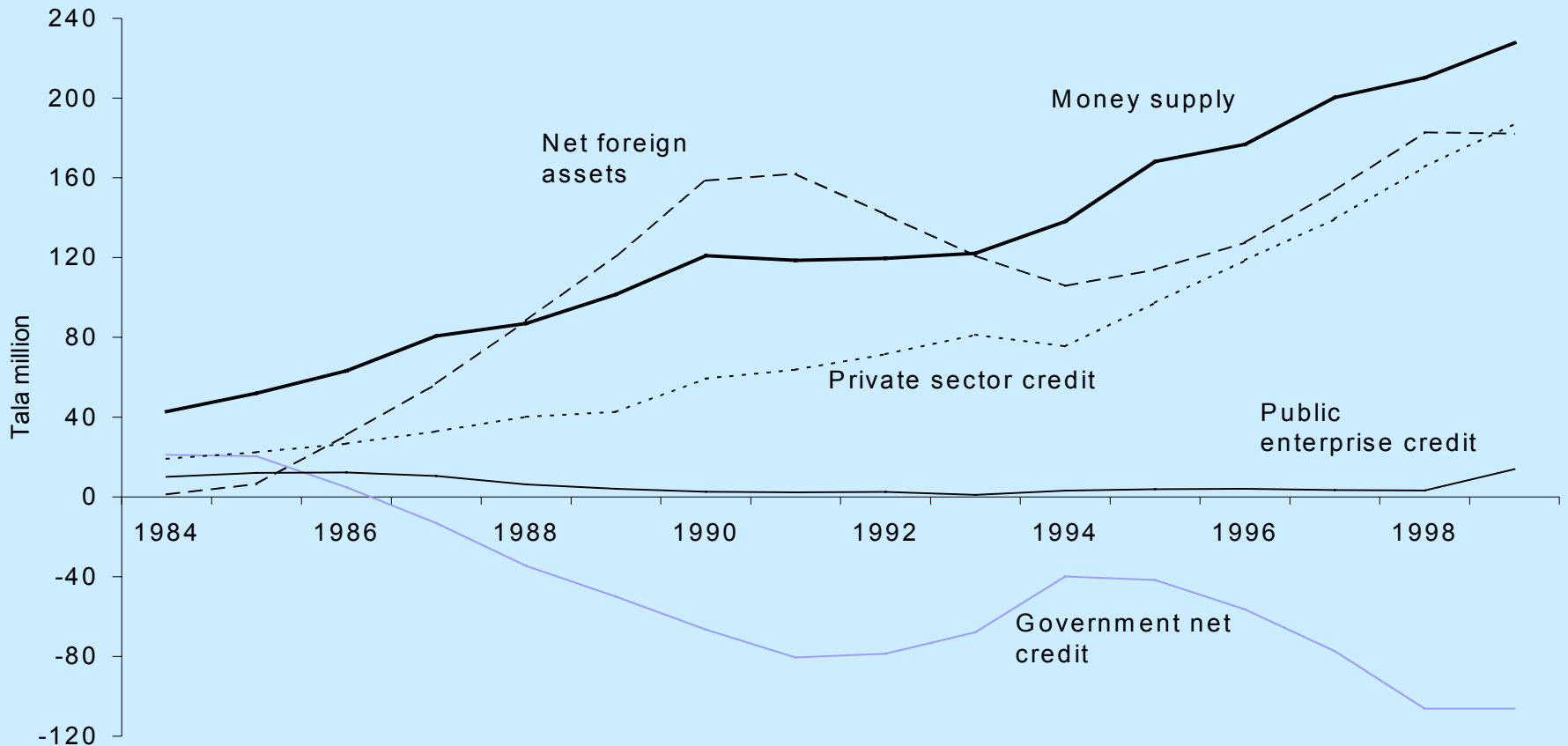
3. RECENT ECONOMIC INDICATORS

Government Budget: Medium term

- Significant commitments over the next 3 years include 2007 SPG, other public sector investments, costs of reforms and subsidies
- Revenues from SOE's and government charges: uncertain
- On balance, trend in budget outcome likely to continue/worsen

3. RECENT ECONOMIC INDICATORS

Money and Credit



Source: Central Bank of Samoa 2004

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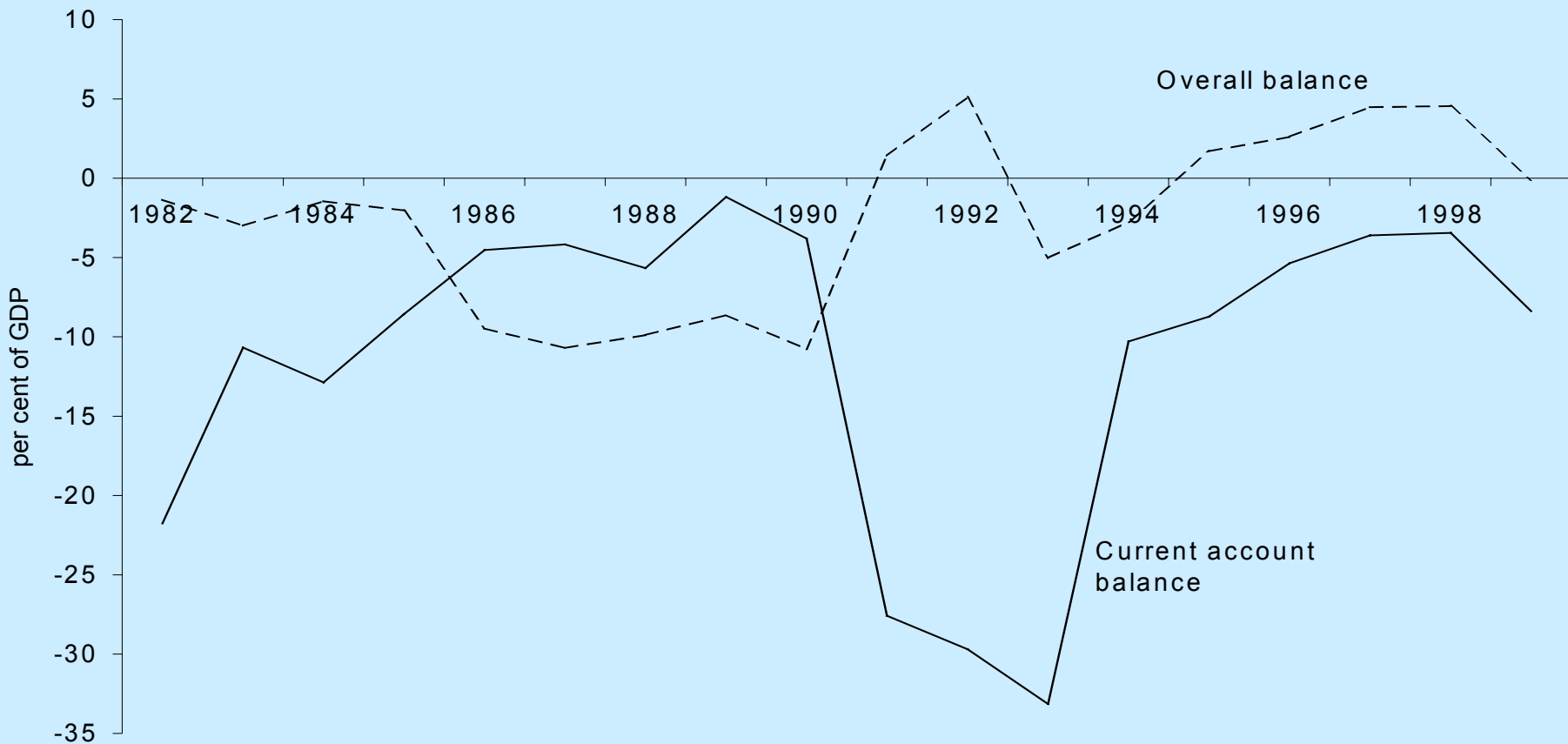
3. RECENT ECONOMIC INDICATORS

Money and Credit

- M2 decline 22% (1995) to around 11% since 1999
- Modest growth linked to the build-up of Government deposits/financial sector reform (late 1990s)
- Private sector credit 13% compared to 17-18% (1996-2000): credit declined for agriculture/forestry/fisheries sector over last 12 months
- A small decline in interest rates since reforms: spread relatively unchanged.

3. RECENT ECONOMIC INDICATORS

Balance of Payments



Source Central Bank of Samoa

3. RECENT ECONOMIC INDICATORS

Balance of Payments

- Overall balance in BOP maintained (June 2003); but extremely fragile!
- Trade account characterized by narrow range of exports, **fish**, garments, beer, coconut cream and **kava**: Trade Balance approaching 50% GDP
- FX from tourist earning and private remittances are crucial;
- NFA around 4-6 months in imports: sustainable.

3. RECENT ECONOMIC INDICATORS

External Debt

- Increased to \$500 million in 2001, up from around \$380 million in 1995
- Amount outstanding fallen as %GDP: 80% to 60%
- External debt servicing down 5% from about 6.5% of exports of goods and services
- Mostly soft debt, nevertheless a concern!

3. RECENT ECONOMIC INDICATORS

Employment and Wages

- Overall static: mostly in agriculture and fisheries
- Decline in share of subsistence sector in GDP
- A major concern! Linked to hardship: majority in subsistence sector
- About 50% of 'economically active' engaged in formal employment mostly in public sector: the rest either unemployed or 'not economically active'
- Of the 15-24 age group, those 'not economically active' increased to 60% (2001) from 54% (1991).

3. RECENT ECONOMIC INDICATORS

Short Term Prospects: Selected Indicators

- Contain inflation: fiscal outcome and monetary policy response
- Government Budget likely to come under increased pressure from both 'old' sources and commitments in the pipeline
- Positive outlook for private sector activities! (Mulifanua Resort/2007 SPG/DBS Office Complex/private sector credit/tourism; possibly dampened somewhat by fishing, regional trade agreements)
- PSIP: Infrastructure/Sanitation/SPG 2007
- ICT: first major investments/reforms in this sector
- Survey of Business Confidence and continuing partnership.

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM

Economic Reform Strategy and Actions

- SDS 2002/04 continues theme of partnership with emphasis on sharing the benefits of reforms
- Reforms a token gesture? The most significant reforms over the last 12 months has been restructuring of Departments
- Core government reforms to improve services and efficiency should continue on top of reform agenda
- Stagnant local and foreign investment!

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM Income Distribution and Hardship Reduction

- Significant variations in incomes: rural and urban
- Subsistence living and programmes in agriculture
- Efforts in other sectors are important: education, health, ICT
- Indicative poverty assessment: 20% below 'basic needs' compares well to international estimates
- Government finalizing hardship strategy: recognizes need for restoring macroeconomic stability, fostering employment, improving basic services/needs

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM MAFF Institutional Strengthening and Commodity Exports

- The decline in share of subsistence sector in GDP; increased concentration of incomes and relative poverty between rural and urban society elevates the significance of ISP currently undertaken in agriculture
- Short-term prospects for the sector is uncertain: decline fish production, ban on kava, TLB resistant and export quality
- For kava, high level political intervention and urgent scientific research is needed (ACP Council of Ministers' Resolution).

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM Fishing Industry: Salvaging a success story

- Fish production has been on the decline since mid-2002
- Small scale operators quickly closing business
- Industry has put forward 'salvaging' proposal to government
- Decisive action from government is needed

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM

Public Sector Reforms and Realignment

- Realignment of Ministries underlined by the goals of efficiency, effectiveness and to save money
- In the short-term, realization of goals may depend on operational issues: organizational structures, redefinition of outputs; physical locations
- Depend also on management performance of re-designated CEOs to pursue goals and demonstrate real efficiency and value for money
- Sustaining institutional capacity post TA!

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM

Ministry of Public Works Reform: A Success?

- Began in 1999; re-focusing on policy, project management and supervision, privatization of commercial services
- Outcomes: Unit costs of road construction and maintenance slashed by 50%; marked improvement in road maintenance; budget savings; increased private ventures/employment; momentum for reforms in other departments and also utilities
- Need for swift action to maintain long-term sustainability.

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM SOE Governance

- Reform policy framework reflects best practice and tailored for Samoa
- New initiatives (Voluntary exit of senior public servants from Boards; CSO; SCO; clarifying responsibilities of Boards) to be applauded
- New legislation yet to come to force
- Largest and fully owned SOEs still a significant drain on Budget
- No return financial flows to budget
- Small minority shareholding yet to be fully privatized
- Pursue options for opening up utilities especially electricity.

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM

ICT Reforms

- Current indicators show low connectivity and poor yet high cost of telecommunications and postal services
- The goals set in ICT reforms signals intention of government for drastic improvements

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 mail boxes per 100 inhabitants	4.05	5.53	10.59
Number of inhabitant/full postal service outlet	n.a.	17,000	10,000
Number of letter item/inhabitant	4.5	6.9	12.2

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM ICT Reforms

- As with reforms in other sectors, the policy framework needs to be followed through
- Whilst improved connectivity is one of the top goals, reduction in prices cannot be overemphasized
- In the context of hardship reduction ICT reforms has the potential to enhance linkages between rural and urban; with Samoans overseas and global economy.

4. ISSUES ON ECONOMIC MANAGEMENT AND REFORM

Balancing Strategic Investment and Financial Stability

- The budget is expected to continue subsidies to SOEs, especially commitment to turnaround PAL
- The Government budget is expected to come under additional pressure from PSI, 2007 SPG
- Strategic investment in tourism sector, albeit indirectly via NPF, may impact on private sector credit
- Need to forward plan, prioritize, sequence expenditures to ensure macro stability

5. CONCLUSIONS

- Signs of economic slowdown
- Real challenge over short to medium term on Government budget
- Onus on government to speed up reforms of core government services to underpin improved growth
- Commitment and implementation of economic reform?
- Government to speed up reaction time on investment policy matter: investment and employment crucial
- Above in addition to transparency and accountability at highest level will be crucial in respect of government goals of improving income distribution and hardship
- The Samoa economy needs more than its natural 'resilience'.

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*Faafetai tele: Ladies and
Gentlemen*

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