UPDATE: SAMOA ECONOMY

Aramamo Sialaoa
KVA Consult Limited

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Hosted by
Asia Pacific School of Economics and Government
The Australian National University, Canberra
## UPDATE: SAMOA ECONOMY

### Objectives

<table>
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<tr>
<th>1. Provide overview of recent economic and social indicators.</th>
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<td>2. View of selected issues for economic management and reforms.</td>
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### Process

<table>
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<th>1. Latest social and economic indicators of Samoa economy.</th>
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<td>2. Discussion of selected issues on economic reform and management.</td>
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<td>3. Samoa Perspective.</td>
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### Outcome

| Information and Debate |

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# 1. CHARACTERISTICS OF THE SAMOA ECONOMY

Overview of Economic and Social Indicators

**Table 1: Overview of Samoa Social Indicators**

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

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

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<tbody>
<tr>
<td>1. Public Sector</td>
<td>Large and Inefficient</td>
</tr>
<tr>
<td>2. SOEs</td>
<td>Large and Inefficient</td>
</tr>
<tr>
<td>4. Financial Sector</td>
<td>Low National Savings, Distorted Market Prices</td>
</tr>
<tr>
<td>5. Trade and Taxes</td>
<td>Complicated, High Rates, Evasion and Avoidance</td>
</tr>
<tr>
<td>6. Health and Education</td>
<td>Quality and Equity</td>
</tr>
<tr>
<td>7. Private Sector Investment</td>
<td>Absence of clear policy on Investment and Trade, High Transaction Costs</td>
</tr>
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</table>

5/6/2004 KVA Consult Limited, Apia
http://www.kvaconsult.com
## 2. OVERVIEW OF ECONOMIC REFORMS UNDERAKEN

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

![Graph showing recent economic indicators, specifically the balance of payments from 1982 to 1998. The graph includes lines for current account balance and overall balance, expressed as a percentage of GDP.]
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

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<tbody>
<tr>
<td>Total number of customers (fixed and mobile)</td>
<td>10,600</td>
<td>15,000 (20,050)</td>
<td>46,000</td>
</tr>
<tr>
<td>Number of Internet Subscribers</td>
<td>1,800</td>
<td>3,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Number of telecom customers in rural areas</td>
<td>1,450</td>
<td>1,800</td>
<td>6,000</td>
</tr>
<tr>
<td>Number of post office mail boxes per 100 inhabitants</td>
<td>4.05</td>
<td>5.53</td>
<td>10.59</td>
</tr>
<tr>
<td>Number of inhabitant/full postal service outlet</td>
<td>n.a.</td>
<td>17,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Number of letter item/inhabitant</td>
<td>4.5</td>
<td>6.9</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Communications and Information Technology, Government of Samoa
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'.
Faafetai tele: Ladies and Gentlemen