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# Development Outcomes and Challenges

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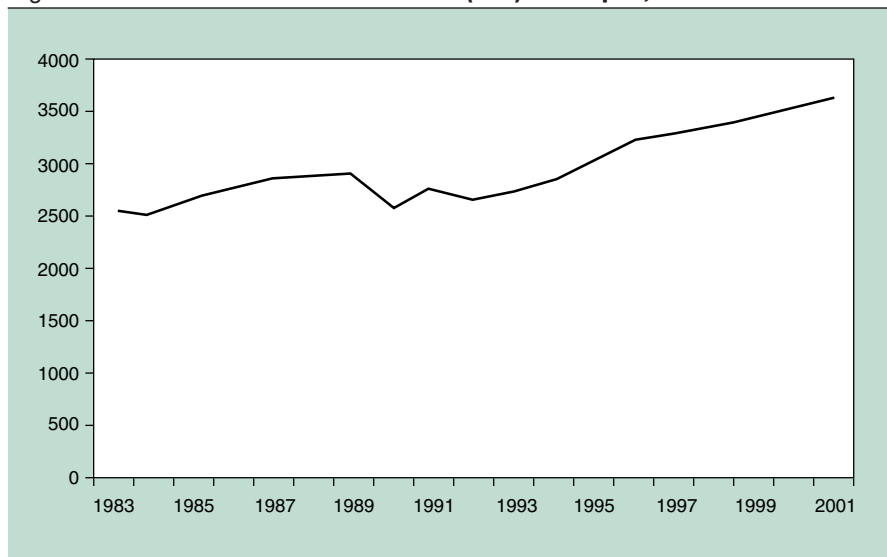
## Overview of Development Outcomes

In the past two decades Samoa has made reasonable progress in terms of economic and social outcomes. In the early 1990s two cyclones wreaked major devastation on the economy, but infrastructure has been restored, macroeconomic stability has been achieved, and important reforms undertaken in the public sector and the finance sector and to the tax and tariff system. The economy is now benefiting from strong economic growth. Social indicators have improved and a host of activities are presently directed to improving health and education. However, challenges remain, including improvements to the quality of primary education, the scope and effectiveness of preventive health care, and the situation and prospects of poorer people in society.

For most of the 1980s, Samoa achieved modest economic growth averaging about 1.7 percent per year. Although the natural rate of population growth is over 2 percent, a high rate of emigration to New Zealand, and to a lesser extent Australia and the United States, has meant that population growth averaged only about 0.3 percent in the 1980s and about 0.5 percent in the past decade. Even with modest economic growth, this low level of population growth meant a small increase in average per capita incomes in the 1980s (Figure 1.1).

Real incomes weakened in the early 1990s, reflecting the devastation caused by the cyclones in early 1990 and late 1991 and the impact of taro leaf blight disease in 1993–94. However, the economy has subsequently recovered strongly, reflecting the impact of generous aid in supporting infrastructure rehabilitation, the recovery of agriculture, modest tourism growth, very rapid growth of a new commercial fishing industry, and the initial benefits of economic reforms.

The most important and most stable source of income in the economy is remittances from Samoans working in New Zealand, Australia, and the United States. Remittances have grown substantially since the early

**Figure 1.1 Real Gross Domestic Product (GDP) Per Capita, 1983–2001**

Sources: World Bank (1983); Samoa Treasury Department.

1980s and, together with external aid, are a very important factor in offsetting the country's vulnerability to the effects of the weather, crop diseases, and the vagaries of world markets.

The social indicators have been relatively good since the early 1980s and have generally shown improvement. Life expectancy at birth in the early 1980s was reported to be around 63 and is estimated to be around 69 today; access to health services has also been very good for at least the past two decades.

Samoa has a long history of relatively high educational attainment relative to other developing countries. In the early 1980s adult literacy of 98 percent, a primary school enrollment ratio of 100 percent, and nine mean years of schooling were reported. However, closer examination of educational indicators suggests there are major functional literacy and numeracy weaknesses for a large segment of the population. There is, for example, quite a division in the educational attainment of those in rural communities and those who are better placed to have access to and to benefit from the main primary school in Apia. In the area of health, the most important problem is the increasing risks that are a result of excess weight.

A high rate of youth suicide is also a disturbing characteristic; it was identified by young people in a recent Apia survey as the most serious problem facing youth today (Department of Statistics and Min-

istry of Youth Sports and Cultural Affairs 1997). There is also recent evidence of a rise in reported crime in the past three years, perhaps reflecting growing dissatisfaction about economic opportunities.

As to the economy, there are several inherently unstable factors affecting growth. Tourism growth has been variable in the past, reflecting the impact of changes in flight availability and economic conditions in major tourist and visitor source markets. More than one third of all visitors are Samoans returning to visit family and friends. Commodity exports can be affected by the weather and local plant diseases; manufacturing export performance depends on economic conditions and trade policy developments in major trading partners. An important recent development is the emergence of long-line tuna fishing as a substantial economic sector over the past three years, with further rapid growth expected in the next two years.

The situation of those who are less well off is not well documented, despite a recent household and income expenditure survey. It is also important to recognize that since many people are supported by a mix of traditional subsistence activity and modest cash income activities and remittances, the definition and interpretation of poverty can be difficult. However, the economy is highly dualistic and the growth of the formal economy, which is important for securing higher living standards, has meant an increasing concentration of income since the early 1970s. This has raised concerns that the benefits of growth and economic reforms need to be more widely dispersed so that all Samoans receive a fair share of the gain. Such concerns have motivated the theme of the Government's Statement of Economic Strategy 2000–01— "Partnership for a Prosperous Society" (Government of Samoa 2000). The strategy is to ensure that the benefits of reform are spread throughout the economy.

## **Socioeconomic Environment**

Samoa comprises two main islands, Upolu and Savai'i, where the bulk of the population resides, and seven small islands. In 2000 the total population was around 170,000. The total land area is 2,820 km<sup>2</sup> with an exclusive economic zone of 98,500 km<sup>2</sup>, the smallest in the Pacific. It is about four hours' flying time to New Zealand and nine hours' to the west coast of the United States. The country is mountainous and about 98 percent of the population is spread along the narrow coastal plains, living in small villages and in or around greater Apia, the capital and only urban complex. The geographically compact nature of the country and its road and shipping network makes transport between and within islands relatively easy and facilitates access to government services.

Some 43 percent of the land is classified as arable and three quarters of the people still depend on the land and the sea to provide their main or a supplementary source of income. However, Samoa is ecologically fragile and vulnerable to environmental degradation and to the impact of cyclones. It is estimated that more than 30 percent of agricultural production is carried out in areas with severe soil limitation; steeper slopes are being cleared, increasing the vulnerability to erosion.

The traditional culture is the foundation for social and political life and is regarded by most Samoans as a vital source of national stability. The traditional chieftaincy (*matai*)<sup>1</sup> system still plays a dominant role both at the village level and in national politics. More than 80 percent of the land is under traditional matai control. However, it is notable that succession to matai titles is by election rather than by any fixed mode of inheritance. The national system of government combines traditional and democratic features. Universal suffrage has applied since 1991, but, with the exception of two seats reserved for voters considered to be outside the governance of the matai system (out of a total of 49 seats), only matai can stand for parliament. The present government has been in power continuously for about 18 years.

The traditional matai system is a major factor in explaining remittances, which are the single most important source of monetary income at the village level. One factor that helps to explain the scale and stability of the remittances is that emigrants with titles have cultural obligations and emigrants without titles can be granted titles if they have been diligent in sending remittances and maintaining contact.

The economy is very small, with aggregate GDP in tala<sup>2</sup> in 1998 of only about US\$200 million, implying a per capita income of about US\$1,200. Economic performance is constrained by distance to major markets, the small local market, a skill base that finds it difficult to compete with Asian countries in labor-intensive production, and vulnerability to cyclones.

## Poverty and Income Distribution Issues

As noted, interpretation and measurement of poverty are difficult in a compact society with access to subsistence resources and substantial

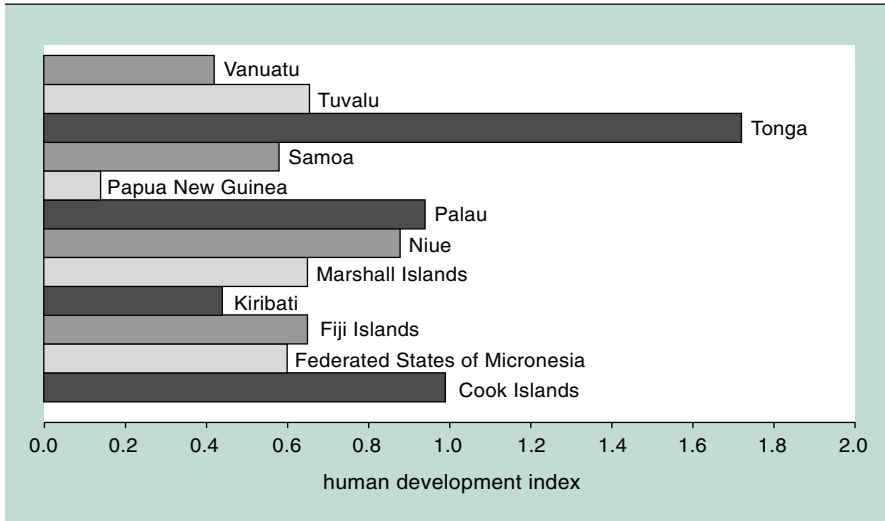
<sup>1</sup> "Matai" is a chiefly title to which a person is elected by a defined sociocultural group known as an aiga. There were about 20,000 matai titles in 1990, more than 95 percent of them held by men (Hooper 1998).

<sup>2</sup> The local currency is the Samoan *tala*, which exchanged in 1999 at about three to the US dollar. All figures in this report, unless otherwise noted, are in tala (SAT\$).

remittances. The general impression from economic and social indicators is of relatively good and improving quality of life, especially by developing-country standards. There are no slums and the abject poverty that is common in many parts of Asia is not evident in Samoa.

In 1994 Samoa ranked 88th out of 174 countries in the Human Development Index. The index measure was slightly less than that of Fiji, well below that of Tonga but well above that of Papua New Guinea (Figure 1.2). The Human Development Index has three components: health as measured by life expectancy, education as measured by adult literacy and mean years of schooling, and income as measured by GDP per capita at purchasing power parity. The Human Development Index for Samoa shows good performance in health and education but weaker performance in output. This probably reflects the high dependence on remittances and aid, which are not captured in GDP.

Figure 1.2 **Human Development Index for Pacific Islands Countries**



Source: UNDP (1998).

With excess labor readily absorbed into subsistence activity, formal unemployment rates are very low. The 1991 census showed that 3.2 percent of the female workforce and 1.5 percent of the male workforce were unemployed and looking for work. It is considered, however, that there is significant underemployment, in the sense that there are many people capable of undertaking higher-value-added activity if the opportunities were available.

There are four levels of socioeconomic status in Samoa (Hooper 1998):

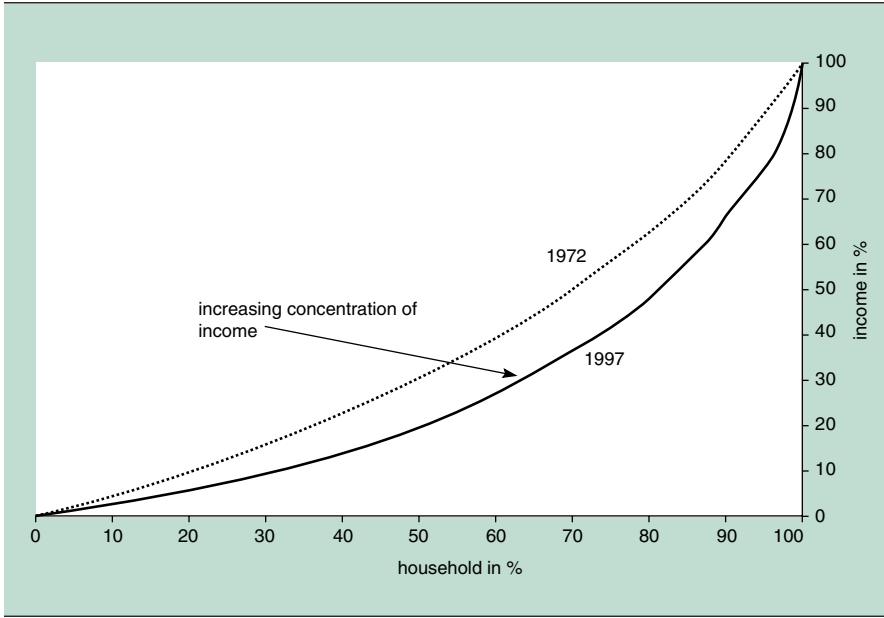
- Those who derive their livelihoods from land resources supplemented by remittances;
- Unskilled and semi-skilled labor, mainly in the towns;
- A middle-class group distinguished by their levels of formal education and employed in managerial and professional positions (largely in government positions); and
- A relatively small but influential power elite, entry into which depends heavily on political and family connections, education, and wealth.

The bulk of the population (about 70 percent) is village-based, living mainly on the resources provided from customary land in the form of subsistence crops and small cash crops, supplemented by remittances. Money and purchased goods have been used in traditional exchanges for more than 100 years, but the formal economy has grown more rapidly in the past 20 years, creating both economic opportunities and social pressures.

The growth of the formal economy has been reflected in a growing concentration of income since the early 1970s (Figure 1.3). It is important to assess carefully the income distribution data presented in Figure 1.3. As an economy develops, it is usually not possible for everyone to share equally in the gains; in the initial stages of the development of an urban-based economy there will often be growing income inequality. However, where growth is achieved on a sustained basis, there is compelling evidence that generally poverty will be reduced and most people will benefit from a higher standard of living. Seen in these terms, the growing income concentration from 1972 to 1997 is related to the growth of the formal and urban sector in Samoa and is an important precondition for a higher general standard of living.

Box 1.1 provides a summary of the relationship between economic growth and poverty alleviation based on worldwide experience.

The wage-earning sector makes up less than half of those who are classified as economically active. In 1996 the national average wage in the formal sector was about SAT\$5,000, with 60 percent of wage earners earning less than the average and around 86 percent earning less than SAT\$10,000 (UNDP 1998). Urban villages are much more likely to have a wage-earning worker than are periurban and rural villages. Villages studies have shown that 78 percent of families in an urban village had at least one wage-earning worker compared with 37 percent in a periurban village and 33 percent in rural villages (Fairbairn-Dunlop 1991).

Figure 1.3 **Income Distribution, 1972 and 1997**

Source: Department of Statistics (1972, 1997).

At the village level the economic differences between families are not great and the main differences relate to rank in accordance with the matai system. Within the traditional domain both pastors and local entrepreneurs have higher economic standing. However, entrepreneurs must redistribute considerable income to traditional causes to maintain their ability to operate effectively as entrepreneurs.

The two main groups that are likely to be vulnerable to poverty are urban villagers with limited land for subsistence production and rural villagers with limited opportunities for earning cash. Other vulnerable groups include young people, particularly those with less formal education; women-headed households; the elderly; and disabled people.

As noted, the major problem for youth is the high suicide rate, which seems to have been first formally recognized during the 1970s and remains a significant problem. During the 1980s, the rate of male suicide in the 15–34 age group was one of the highest in the world. It continued to rise until 1994 before declining in recent years. The recent decline may reflect the effects of an awareness campaign instituted by the main nongovernment organization dealing specifically with the problem. The most common explanation for the high youth suicide rate is the clash between the raised expectations of youth from education and exposure

**Box 1.1 Economic Growth and Poverty Alleviation – Worldwide Experience**

Rapid economic growth is normally associated with a rise in per capita incomes. When this growth is achieved over a long time frame it will normally create jobs and income opportunities for a wide group of people. Sustained growth in per capita incomes also provides resources that governments can access through the tax system to provide opportunities to the most impoverished groups. Countries that are not achieving economic growth usually find it extremely difficult to alleviate poverty. For countries that are not achieving growth in per capita terms, poverty alleviation becomes a zero-sum game where one group can only benefit at the expense of another.

The best-known economic thesis about the relationship between growth and income distribution was formulated by Kuznets (1955). Kuznets argued that inequality would increase in the early stages of growth in a developing country, but after some point inequality would fall. This effect is related to the tendency for labor to migrate from a low-income, low-inequality rural sector to a higher-income, high-inequality urban sector. Most of the evidence in support of the theory was based on cross-sectional data; studies showed that while the pattern was plausible, it was not inevitable.

There is now compelling evidence that growth reduces poverty but does so more effectively if pro-growth policies are accompanied by pro-poor measures (Bruno, Ravallion, and Squire 1997). Comprehensive measurement of income distribution in 45 countries from the 1960s to the 1990s found that growth was “distribution neutral,” benefiting all layers of society roughly in proportion to their initial levels of living. Sustained rapid growth was virtually always found to reduce poverty and even modest growth often generated significant reductions in the proportion of people in absolute poverty. It was further found that growth reduces poverty more rapidly in countries with comparatively equal income distributions.

The key pro-poor measures are those focused on improving employment prospects and access to basic social services, especially health and education (see also World Bank 1990). Emphasis on health and education will directly enhance personal well-being, improve the income distribution, and contribute to higher average incomes over the long term.

Despite the statistical evidence noted above, it is possible that a rise in per capita income could be associated with greater poverty and/or environmental deterioration. Thus, it is important to be sure that economic growth is broad-based and sustainable. The prospects for this will be maximized if, while ensuring an environment that facilitates private-sector development, an appropriate role for the Government in terms of setting the full range of economic, social, and environmental policies is defined and appropriate institutions and governance arrangements are established.

to the modern world and the oppressive aspects of the traditional system (Hooper 1998).

The Government has demonstrated a strong commitment to social development. This is reflected in the priority given to education, health, and basic infrastructure. However, as the formal economy continues to grow there will continue to be growing social pressures, with urban drift possibly resulting in higher crime and environmental pressures and a weakening of traditional cultural norms and outcomes. As demonstrated in Box 1.1, it is important for economic growth to continue

and for government to develop and implement policies that are pro-growth and pro-poor. The theme of this report is that the best way to do this is to focus on the basic or core functions of Government. Improving basic education and making it easier for the private sector to operate in a nondistorting economic environment are critical. Growth of employment in the formal sector will obviously be a key outcome that the Government will be concerned about. However it is important to recognize that it is not the role of Government to create jobs directly. This can only be done effectively by the private sector. In this respect it is, however, the role of Government to do its best to create the conditions under which the private sector will thrive on a sustained basis, which will in turn lead to desirable growth in jobs and incomes.

## Development Challenges

Despite the constraints of isolation and a small local market, Samoa does have relatively good economic prospects compared to many other small Pacific Island countries. Public security is very good, as is the potential for human resource development, providing important foundations for good economic growth and higher living standards. There are immediate opportunities in commercial fishing, longer-term opportunities in tourism, ongoing opportunities from migration, and potential opportunities from taking advantage of communications technology.

The immediate challenge for the Government is to continue the momentum of the economic reforms that have recently been undertaken and, in particular, to make more effective progress with the reform of various public enterprises to improve their efficiency and effectiveness. There is still much work to be done in defining an appropriate role for Government with respect to its involvement in commercial activities and in relation to the governance and performance of public enterprises. In the public sector, a good start has been made with respect to performance-oriented budgeting and strategic planning, but roles and responsibilities need to be much more tightly defined and balanced by appropriate management autonomy and accountability.

In economic development, the most urgent problems relate to the rapid growth of the fishing sector. The Government needs to develop a package that includes the provision of appropriate berthing and refueling infrastructure in conjunction with adequate infrastructure usage and resource rental charges. Measures to manage the fisheries and its participants equitably and efficiently are also needed.

Looking to the longer term, the most important issue is considered to be human resource development. In recent years the focus has been

on the tertiary education sector, but attention now needs to be focused on improving the quality of primary education and reducing the number of early school leavers. The education system must prepare people better for workforce opportunities, including opportunities in other countries. The preservation of traditional social safety nets and other measures to assist those who do not have good opportunities in the formal sector are also key challenges for effective economic and social development.