

SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT¹

1. Sector Performance, Problems, and Opportunities

a. Role of the State

1. The public sector accounts for a substantial portion of overall expenditure in Samoa, with government spending about 35% of gross domestic product (GDP) over FY2005–FY2009. The state continues to play a substantial role in the Samoan economy through its state-owned enterprises (SOEs). The 26 SOEs encompass a large range of commercial businesses that employ 10% of the workforce. The government supplies most infrastructure-related public services, has a substantial role in agriculture, and runs a number of businesses. Financial returns are generally low or negative. More generally, the high cost and poor quality of public services that are provided either directly by the state or by SOEs present obstacles to private sector development. Electricity costs are among the highest in the Pacific, reflecting the rising cost of fuel inputs, inefficient tariff structure, and management shortfalls of these SOEs (most of which are monopolies). Lack of reliability in power provision is a common complaint by the business community. While treated water charges are comparatively low, service remains erratic. These costs depress the competitiveness of export industries, while the capacity constraints of the SOEs restrain investment growth in productive sectors.

2. Operation and maintenance of infrastructure presents scope for greater private sector involvement. Furthermore, past acceptance by the government of noncommercial stewardship of large parts of the public enterprise portfolio, particularly the public trading bodies, crowded out the private sector as well as exposing the government to significant risk and direct costs.

b. The Quality of Public Expenditure

3. Government policies and priorities are broadly reflected in the budget, as it is explicitly linked to medium-term priorities identified in the Strategy for the Development of Samoa (SDS) and sector plans. The budget is prepared in consultation with line ministries from an early stage of budget preparation. The Public Financial Management Act, 2001, is the key legislation relating to budget preparation and execution. It provides a comprehensive framework for effective fiscal management and requires the preparation and presentation of the budget in a multiyear framework involving forward estimates for 3 years within a medium-term expenditure framework (MTEF). The forward estimates within the 3-year rolling MTEF were successfully introduced in the FY2009 budget and have been consolidated in subsequent years. However, strengthening the quality of the forward estimates and developing closer linkages between the budget and the national and sector strategies and plans is work in progress.

4. The budget covers all government expenditures and provides information on off-budget government expenditures financed directly by development partners. There are no off-budget funds controlled by the executive and few donor projects bypass the budget formulation process. Government finance statistics (GFS) based on the 1986 GFS manual² are published quarterly. Samoa makes the primary presentation of budget estimates in its annual budget statement on a

¹ This summary is based on ADB. Samoa 2009 Social and Economic Report: Continuing Growth and Stability and Managing Development Risk. Draft. Manila. Available on request. Additional information has been drawn from ADB. 2011. Finding Balance 2011: Benchmarking the Performance of State-Owned Enterprises in Fiji, the Marshall Islands, Samoa, Solomon Islands, and Tonga. Manila, available from <http://www.adb.org/Documents/Studies/Finding-Balance/2011/default.asp>; and Government of Samoa. 2010. Samoa Public Financial Management Performance Report. Apia, available from <http://www.mof.gov.ws/AboutUs/PublicFinanceManagementReforms/tabid/6008/language/en-US/Default.aspx>.

² International Monetary Fund (IMF). 1986. *A Manual on Government Finance Statistics*. Washington: IMF.

GFS basis. Samoa is improving its employment of the GFS classification system, including coding the underlying budgetary system according to GFS headings. This will help to tackle problems Samoa has experienced in the past, for example with misclassification of accounts.

5. In Samoa, actual expenditures are typically quite close to the amounts budgeted. Actual current expenditures for FY2009 deviated from the budget projections by less than 1%, with Samoa presenting two supplementary budgets during the FY2009, which served the purpose of keeping actual and budgeted expenditures in line. The constitutionally-mandated provision of a budget allocation for unforeseen expenditures also provides Samoa with flexibility that helps keep actual and budgeted expenditures in line. Budget monitoring and control systems exist, with a clear line of accountability for budget appropriations to individual government ministries and departments. Both the Office of the Controller and Chief Auditor; and the Ministry of Finance play such a role, and the same information is shared with line ministries with strong control systems in place. Nonetheless, the financial Management System has backlogs and efforts are being made to address this. The payment of arrears do exist from infrastructure contract payments, however, these are estimated at just 1% of total expenditures.

c. The Quality of the Revenue System

6. The share of taxation revenue is VAGST (value added goods and services tax) (34%), excises (27%), import tariffs (14%), corporate taxation (13%), and personal income taxation (11%). Samoa's import tariffs are low and relatively uniform (averaging about 12%, with only three bands and a maximum rate of 20%). The tax bases for the major taxes are relatively broad, except excises (which focus on vice and highly inelastic goods, such as alcohol, tobacco, and fuel). Agriculture is exempted from all taxation, while tourism and manufacturing enjoy time-bound tax exemptions to provide investment incentives. The bulk of revenues (9% of GDP) is generated from the VAGST, which increased from 12.5% to 15.0% in October 2006 (although the impact on the poor is cushioned by the exclusion of essential items from VAGST).

2. Government's Sector Strategy

7. There has been a strong downward trend in the involvement of the state in the economy. The government's stated policy intent is to gradually reduce the size of the public sector, and progressively introduce competition through contracting out. Although the government's intention is to retain 100% ownership of the major infrastructure SOEs, the policy has been directed toward allowing private sector participation in partnership with selected SOEs.³

8. The government is also bringing SOEs into compliance with the Public Bodies (Performance and Accountability) Act, 2011, on the appointment of board members. The boards of 16 SOEs were dismissed in late 2010 and a rigorous and transparent process was gone through to identify and appoint new directors. This was done through the Independent Selection Committee, making use of clear and transparent selection guidelines. New boards were appointed for the 16 SOEs in late August 2011 and work will commence on the boards of the 10 remaining SOEs in late 2011.

9. The benefits of lessening the engagement of the state in business activities have been shown in the returns from reform of telecommunications and transport, where Samoa has been one of the leaders in the region. The sale of the international routes of Polynesian Air was completed in October 2004, lowering the cost of air travel to Samoa overnight, and the number of tourists has increased dramatically. Efforts to open the economy have also arisen from the arrival

³ Samoa Water Authority, Electric Power Corporation, Samoa Port Authority, Samoa Airport Authority, and Samoa Shipping Corporation. Samoa Land Transport Authority is also expected to have strategic status.

of the mobile telephone service-provider, Digicel, having a dramatic impact on the cost of telecommunications. Privatization is continuing, with the sale of SamoaTel in March 2011, when the government sold 75% of its shareholding and placed the remaining 25% in the Samoa Unit Trust. The government intends to privatize the Agriculture Stores Corporation in 2012, having allocated funds for this as well as for completing the privatization of Polynesian Blue (airline). However, beyond this, much remains to be done.

10. Government has recognized its essential role in creating the appropriate legislative and regulatory setting for improvement in the business environment. Guided by the SDS 2008-2012 Government is addressing weaknesses through:

- developing the economic use of lands under customary ownership.⁴ Land issues lie at the core of the Samoan way of life, and the government has moved cautiously on addressing them. The current system of customary tenure, however, has a strong and deleterious impact on investment. Discussion of land issues is moving forward toward a system that will allow those wishing to lease their land to identify themselves to the government, who will keep a database for investors.
- developing a new framework for secured transactions which is expected to increase credit to the private sector. A well functioning collateral framework will provide a stronger foundation for bank lending and the range of potential clients should increase. The embryonic credit bureau and the debt collection company are making progress, and could provide an additional building block for financial market development.
- embarking on a number of initiatives to modernize its commercial legal framework, is a mixture of antiquated legislation, some of which dates back to the beginning of the twentieth century, and new legislation that reflects modern business law. The passage of a new Companies Act, 2001, and its implementing regulations is notable.
- improvement in the climate for foreign investment by the August 2011 amendments to the Foreign Investment Act. The amendments are designed to create greater clarity in the scope of both reserved and restricted business areas as well as putting in place clear criteria for adding to, or removing from, either of these lists. The amendments are compliant with Samoa's accession to the World Trade Organization and were subject to widespread stakeholder consultation. Foreign investment regulations supporting the amended act have also been approved.

11. Following independent assessments of the government's public financial management systems in 2006 and 2009 (using the Public Expenditure and Financial Accountability methodology), the Ministry of Finance developed a Public Finance Management Reform Plan. The first phase of this plan, which was completed in early 2011, focused on the achievement of basic fiscal discipline, and the strengthening of core systems for effective financial management. Core processes that were strengthened include

- (i) timely preparation and submission of public accounts;
- (ii) regular reconciliation of bank accounts and cash flow management and monitoring to ensure predictability of funds for commitment of expenditure;
- (iii) the monitoring, management, and timely payment of arrears (especially VAGST refunds);

⁴ Customary land is controlled and used according to traditional Samoan custom. It has never been alienated through a formal government land tenure system. A key feature of the customary arrangement is that the person currently using the land only continues to use the land with permission from the chief (*matai*) whose Samoan title brings land stewardship responsibilities.

- (iv) an improved internal control framework for the management of public finances supported by regular internal audit of financial systems and risk analysis;
- (v) development of user-friendly procedures manuals for public accounting and budgeting at a division level and for Treasury; and
- (vi) strengthening the MTEF process and transition to sector-wide programs along with improved monitoring of performance with key indicators.

Phase 2 of the reform plan commenced implementation in January 2011.

12. Revenue generation is generally aligned with national poverty reduction priorities. Tax administration has improved (reduced cost of revenue generation, efficiency of tax administration) as a result of institutional strengthening projects in Internal Revenue and Customs. There has also been overall progress on simplifying administrative systems for major taxes and on improving tax compliance. Eligibility criteria for tax exemptions are clearly established and transparent. Businesses have a VAGST registration number, but the absence of a single tax identification number for individuals hampers cross-checking. The Ministry of Revenue website provides needed information for taxpayers to comply with tax laws and regulations. Inland Revenue officers have been trained on technical audits, investigation skills, and case selection methods. There are few cases of corruption and political interference in tax administration and an internal auditor is responsible for monitoring the internal control environment within the revenue collection authorities. In *Doing Business 2010*, Samoa was rated favorably on the total tax rate indicator under “paying taxes,” relative to the region.⁵ The total tax rate indicator (as percentage of profit) for Samoa was about 19%, compared to nearly 40% for the East Asia and Pacific region.

13. Major tariff reforms were undertaken in the FY1999 and FY2000 budgets. In April 2007, the Sub-Committee on Tariffs recommended the removal of tariffs on a range of business inputs. These recommendations were consistent with the SDS goals for the removal of anomalies in the tariff system.

3. ADB Sector Experience and Assistance Program

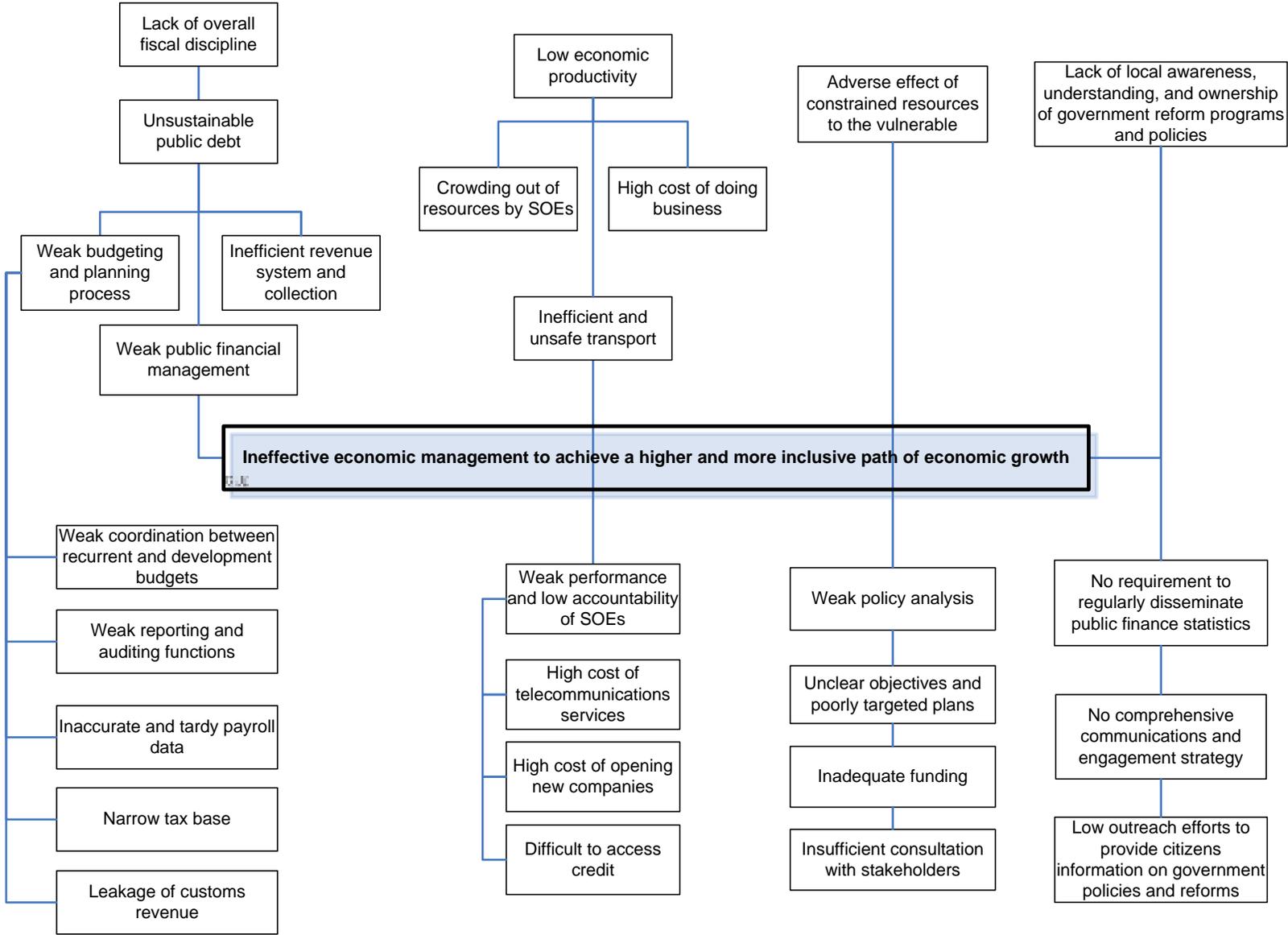
14. In support of the SDS, 2008–2012, ADB’s Country Partnership Strategy, 2008–2012 targets the improvement of growth prospects and living standards, especially for disadvantaged members of the community. ADB has provided much-needed support for the government’s private sector development efforts. Notable improvements to the policy and legislative environment have been achieved through the support of economic, financial, and public sector reforms, typically in cooperation with other development partners. ADB support has also complemented government efforts to widen access and improve the delivery of basic social services.

15. Subprogram 1 of the Economic Recovery Support Program, approved in 2010, supported Samoa to recover from the combined impact of the global financial crisis and the 2009 tsunami.⁶ Policy actions undertaken by government improved public financial management and continued SOE reform activities. Counterpart funds generated by the loan have allowed government to maintain spending on social services, in order to protect vulnerable groups, such as women and the unemployed, and to make essential infrastructure investments.

⁵ Doing Business. 2009. *Doing Business 2010 Reforming through difficult times*. Washington: International Finance Corporation and World Bank Group.

⁶ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 1 to the Independent State of Samoa: Economic Recovery Support Program*. Manila.

Problem Tree for Public Sector Management



SOEs = state-owned enterprises.

Sector Results Framework (Public Sector Management, 2012–2014)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Sector Outcomes with ADB Contribution	Indicators with Targets and Baselines	Sector Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
The enabling environment for doing business will be improved through implementation of a range of legal and regulatory reforms.	Growing economic contribution from the private sector	Updated legislative environment for businesses Development of the Customary Land Advisory Commission and associated land reforms	Increase access to customary land <ul style="list-style-type: none"> Increase in volume of land leased to private investors Database on leasable land available 	Planned key activity areas Land reform (50% of funds) Improve business environment (50% of funds) Pipeline project with estimated amount ERSP, Subprogram 2 (\$10.82 million) Ongoing projects with approved amount Pacific Private Sector Development Initiative, Phase 2 (\$12.7 million) Promoting Economic Use of Customary Land, Phase 2 (\$0.5 million)	Planned key activity areas Support for economic development of customary land Improve implementation of Companies Act 2001. Pipeline project Implementation of public financial management reform plan Strengthening of legislative environment Ongoing projects Development and implementation of a personal property securities legislation. Customary Land Advisory Commission is effective
Continue to implement the privatization program, ensuring the appropriate regulatory frameworks are in place to ensure maintenance of service quality and affordability.	Increased number (and value) of private sector participation transactions in activities undertaken by the public sector. Improved return on assets of the SOE portfolio.	Improved return on assets of the SOE portfolio	Government target: 10% return on SOE equity Average return on equity 2002-2009: 0.1% Average return on assets 2002-2009: 0.1%	Pipeline project with estimated amount ERSP, Subprogram 2 (\$10.82 million) Ongoing project with approved amount Pacific Private Sector Development Initiative, Phase 2 (\$12.7 million)	Pipeline project Strengthened implementation of SOE reform program. Ongoing project Public reporting of comparative performance of Samoa's SOE. Capacity building in governance of SOE.

ADB = Asian Development Bank, ERSP = Economic Recovery Support Program, SOE = state-owned enterprise.

Source: Asian Development Bank.