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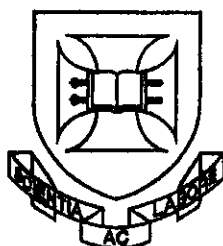
Working Paper No. 8

**The Development of Samoa:
An Analysis of Trends, Issues and Policies**

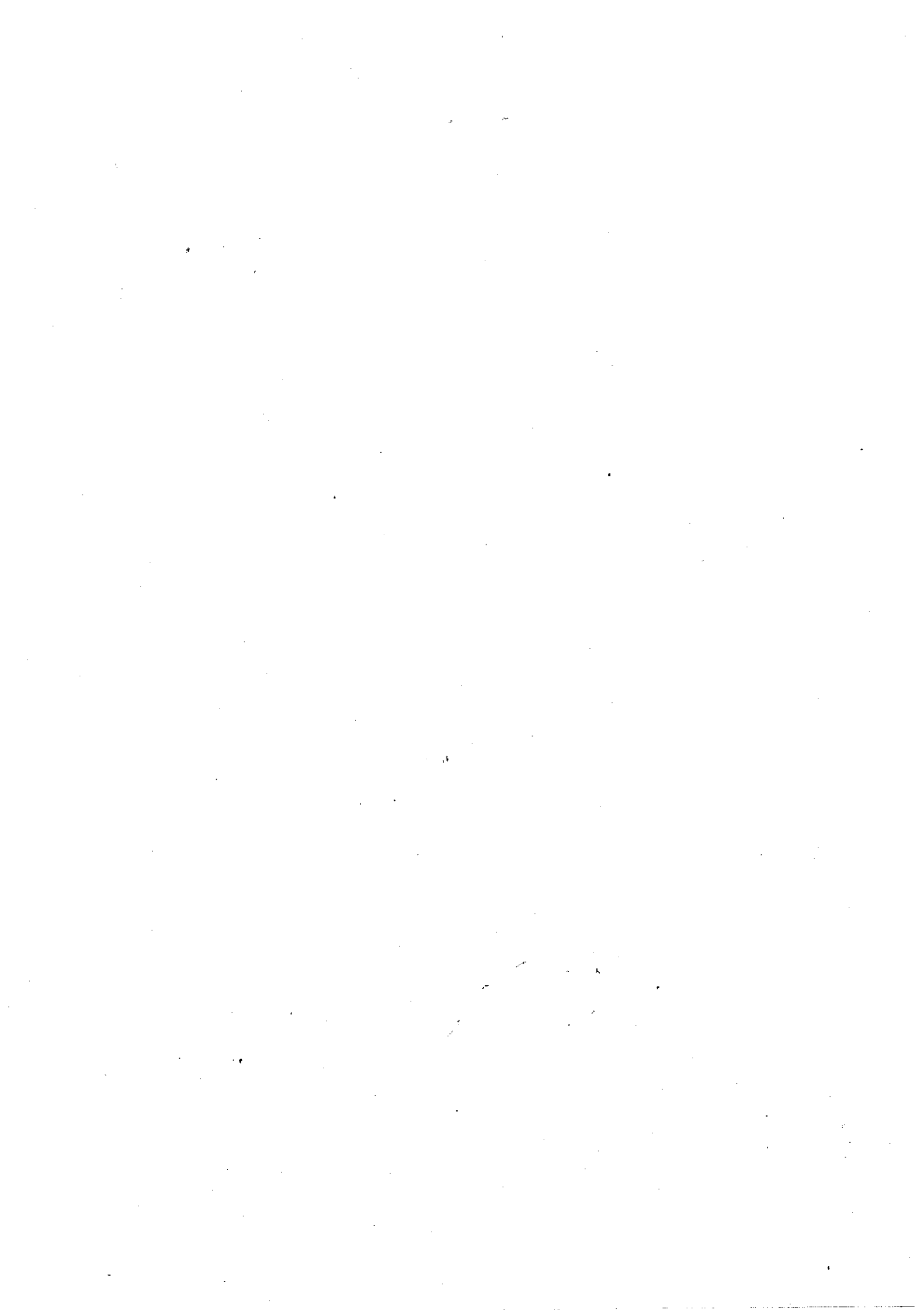
by

Clem Tisdell

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**The Development of Samoa:
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Clem Tisdell†

May 2000

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* This is a background paper used by the author as an input in preparing a report for the UN on the least developed Pacific island nations in relation to the UN "Final Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s". The views expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations.

† I sincerely wish to thank all those interviewed in Samoa (see appendix) for their assistance as well as many outside of Samoa who gave assistance. The usual *caveat* applies.

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For more information write to Professor Clem Tisdell, Department of Economics, University of Queensland, Brisbane 4072, Australia. (e-mail: c.tisdell@economics.uq.edu.au)

Abstract

Samoa is one of the five least developed Pacific island nations according to the classification of the United Nations. This article reviews the situation of Samoa in relation to its development generally but paying particular attention to

- public and private finance;
- social issues such as education and health;
- its trade and external balance and
- economic infrastructure.

Policy suggestions are made in relation to each of these matters and an assessment given of the development status of Samoa.

1 BACKGROUND

Amongst the least developed Pacific nations, Samoa has a rather special (and in some respects fortunate) economic situation. During the 1990s it was able to retain its position as a MIRAB economy (Bertram and Watters, 1985; Bertram, 1986) while at the same time engaging in economic restructuring to increase economic efficiency. Note that MIRAB is an acronym derived from migration, remittances, aid and (government) bureaucracy. It describes economies which have experienced considerable migration to overseas countries, for which net private remittances from migrants are a substantial source of income in the mother country. Furthermore, foreign aid is significant and usually distributed through employment in the public sector.

As can be seen from Table 1, Samoa experienced an increase in the level of its external grants in the 1990s when expensive in Tala. At the same time, its level of net private remittances grew and increased in comparison to the level of its external grants. The importance of its private remittances ought to be noted. They are considerably higher in total amount than official external grants. In addition, as discussed later, recorded private remittances significantly understate total remittances. Hence, the importance of remittances for the Samoan economy is greater than indicated by official sources.

INSERT TABLE 1

Samoa's favourable position in the 1990s as far as official external grants and private remittances are concerned, meant that its economy was not placed under severe financial strain in the 1990s requiring crisis economic management as in the case of some other Pacific island nations. This was so despite its relatively low level of exports (discussed later), large trade deficits and occurrence of natural disasters (cyclones and the taro blight) in the early 1990s. Fairbairn Dunlop (1998, p. 3) sums up Samoa's economic situation as follows: 'Samoa's comparatively stable financial situation (including solid foreign reserve base, budget balance and balance of payment equilibrium) means that Samoa did not experience the extreme crisis position of some Pacific nations, but has been in a position to adopt long-term economic measures aimed at building up

KIRIBATI

Table 1
Central Government Development Fund Revenue for Kiribati, 1995-1999,
External Grants and Loans and Aid-in-kind \$Am

Item	1995	1996	1997	1998	1999
External Grants	2.2 (11.2)	1.4 (5.8)	1.1 (4.2)	7.3 (20.1)	7.6 (18.7)
Loans	-	-	-	-	6.1 (15.0)
Sub-total	2.2 (11.2)	1.4 (5.8)	1.1 (4.4)	7.3 (10.4)	13.7 (33.7)
Aid-in-kind	15.0 (76.5)	19.0 (78.2)	23.6 (89.4)	13.7 (66.2)	21.9 (53.9)
Sub-total	17.2 (87.6)	20.4 (84.0)	24.7 (93.6)	31.0 (86.6)	35.6 (87.7)
Other (internal)	2.4 (12.4)	3.9 (16)	1.7 (6.4)	4.8 (13.4)	5.0 (12.3)
TOTAL	19.6 (100)	24.3 (100)	26.4 (100)	35.8 (100)	40.6 (100)

Notes: Figures in brackets are percentages of total Development Fund Revenue. Because of rounding additions are not all exact.

Source: Based on data in Table 6, Government of Kiribati, Economics Statement 1998, National Economic Planning Office, March, 1999

confidence in the economy and establishing the systems for more efficient and effective economic development.’

In summary, the observations from Table 1 are:

- (1) External grants have not declined since the early 1990s. On the contrary, although variable, they show an upward trend. Those interviewed in Samoa did not foresee a decline in the near future.
- (2) Samoa’s external debt is on the whole rising. At the same time, the government’s internally held debt is falling and a negligible proportion is now held internally.
- (3) The value of its net private remittances grew consistently in the 1990s. They exceed external grants substantially and increased in proportion to such grants. Remittances play an important role in stabilizing the Samoan economy and are of major importance in maintaining domestic incomes and in financing its trade deficit.
- (4) There appears to have been some increase in Samoa’s relative reliance on external loans compared to grants in the 1990s but this ratio is variable and a major shift has not occurred in external loans relative to grants.

It has long been recognized that remittances play a significant part in the functioning of many Polynesian economies (Cf. Connell and Brown, 1995). Their importance is clear from official data. However, in most cases, official data understate considerably the size of actual transfers of cash and income involved. For example, Brown (1995, p. 47) reports, on the basis of surveys conducted in the early 1990s, that 60 per cent of transfers to W. Samoan households are not recorded. This implies that actual transfers are around 2.5 times recorded transfers to W. Samoan households. He stresses that “reported ‘transfers from overseas’ components of household income understate the actual value of total remittances where the latter are defined to include not only money transfers, but also remittances in kind, and payments made on behalf of the household by the migrant overseas” (Brown, 1995b, p. 42). In the case of W. Samoa, remittances in kind to Samoan households and payments on their behalf by migrants are both large components of remittances (Brown and Walker, 1998, pp. 40-41).

However not all estimates of unrecorded remittances for Samoa are as high as those of Brown and co-researchers. Fairbairn-Dunlop (1998, p. 7) indicates that “in 1996, a total of 88 million tala was remitted through official channels, and at least one third more through unofficial channels (as goods, hand carried cash and paid air passengers)”. This is a similar divergence to that suggested by Connell (1980), Loomis (1980) and Ahlburg (1991) but well below upper and lower bounds suggested by Brown (1995a). See Brown (1995b, p. 80) for more details. Brown’s estimates suggest that unrecorded remittances range between two-thirds of recorded remittances to one and half times recorded remittances in the case of W. Samoa. Given the available evidence, the significance of the value of unrecorded element must be accepted. It implies that the contribution of net remittances to functioning of the Samoan economy is even higher than official statistics indicate.

In addition, the level of these remittances show a high degree of persistence. This is both because new migrants are continually adding to the number of Samoans overseas and not only do initial immigrants display a sustained propensity to provide remittances but also succeeding generations born overseas do likewise (Brown and Walker, 1995). It appears that a high proportion of remittances may be used by Samoan households for consumption rather than investment purposes (Brown and Connell, 1995) but more research is required on this subject e.g., some remittances may be used to assist with educational expenses.

2 FINANCES AND RESOURCES FOR DEVELOPMENT IN SAMOA

2.1 NATIONAL DEVELOPMENT PLANS AND RESOURCE GAPS

With its adoption of economic reforms, Samoa has discontinued comprehensive national development plans. The reason appears to be that they primarily represented a list of wishes rather than operational plans. Possibly also it seems that a more flexible approach to economic management was needed. In any case, economic reforms have come to the forefront of Samoa’s development agenda and comprehensive national planning no longer plays a role in the management of Samoa’s economy.

The economic reforms of Samoa are designed to increase economic efficiency in the use of its domestic resources as well as resources supplied for external sources. The reforms adopted have generally been in line with those recommended by advocates of structural adjustment policies. Most countries and multinational organizations providing official development assistance have been keen to see such reforms adopted so as to increase economic efficiency (productivity) in the use of official aid and reduce the need for such support due to a more effectively operating domestic economy. In particular, overseas donors have been keen to promote improved governance and efficiency in the public service as a means to increase economic performance. Economic reforms are seen as a package.

Australia (one of the major donors in the region) has for example indicated that 'the goal of Australia's aid program is to assist island countries to achieve the maximum possible degree of self reliance', (AusAID, 1998a, p. 3) and it sees economic reform in these countries as a key requirement for this. Better governance is said to depend on the 'widespread adoption of the policy, legislative and administrative frameworks required for an efficient, accountable and service-oriented public sector' (AusAID, 1998b, p. 3).

Samoa has been well aware of the expectations of overseas aid bodies and has developed its economic reforms along lines sensitive to these requirements. As observed above, it has been able to bring about reforms while in a relatively strong financial situation compared to several other Pacific island nations, such as the Solomon Islands and Vanuatu, partly due to its high level of remittances and its reasonably favourable situation in relation to external grants.

2.2 Samoa's Economic Reforms including Fiscal Reforms

Samoa's fiscal reforms began in as early as January 1994 when the Value Added Goods and Services Tax was introduced thereby widening Samoa's tax base. In July 1996, a tariff review was completed for the purpose of removing anomalies and reducing the tariff level. By mid-1998, its average tariff on imports was reduced to about 15 per cent.

Beginning in 1996, plans to bring about significant public sector reforms were announced. Performance Budgeting for Government Departments was announced and a Statement of Economic Strategy was published. This document provides a blueprint for Government policies and has subsequently been updated.

Privatization of state owned enterprises began as early as 1987 with the sale of several interests of the Special Projects Development Corporation (SPDC). This process has continued regularly but slowly since then with sales being mostly of enterprises other than public utilities. As for posts and telecommunications, these have been corporatised but not privatized. Both electricity and reticulated water continue to be supplied by the government.

A part of the reform package promoted by some overseas donors is the greater use of contracting out of the provision of goods and services financed by the public sector. Donors believe that this is likely to make for greater efficiency in the supply of such commodities. Samoa has been moving towards this goal, especially in relation to public works where the aim is to have around 80 per cent of work contracted out. Furthermore, many donors want more attention to be given to the principle of user-pays and to cost recovery in relation to saleable commodities supplied by the public sector. Sharing arrangements with local communities in meeting costs of the provision of publicly provided commodities are also often viewed positively. Since education and health are the two major public sectors in terms of government outlays, particular attention has been given to the possibilities for adopting these policies in these sectors. As discussed later, Samoa already has some local community sharing in education provision and to some extent, health service provision. User-pays is expected to be adopted in relation to use of piped (reticulated) water in Samoa despite some political and social resistance.

2.3 Domestic Finance and Financial Markets

Financial sector reforms have accelerated since 1996. Commencing as early as 1990, the Government began to reduce its investment in the banking sector by selling half of its share in the Bank of Samoa. It sold its remaining shares in late 1995. In 1995, it

privatized the Post Office Savings Bank. However, the Government still is the owner of the Samoan Development Bank.

Since 1996, the Central Bank of Samoa (CBS) has increased its prudential supervision of the commercial banks and simultaneously financial markets have been allowed to operate more freely. The importance of adequate prudential supervision of financial institutions in a situation of market deregulation of banks and finance was underlined by the Asian Financial Crisis and made a part of the Forum Economic Action Plan (Forum Secretariat, 1998, p.5). Up until August 1999, prudential supervision of the commercial banks by the CBS has been at "arm's length" but in the future direct auditing is anticipated. The CSB does not have prudential supervision of financial institutions other than the commercial banks. In particular, it has no control over the National Provident Fund supervision of which is assigned to Treasury.

Bank interest rates are no longer subject to control. There appear to be no foreign exchange controls. Since the deregulation of bank interest rates, these interest rates have risen. It is possible that financial markets have become more segmented with the commercial banks concentrating more on established (urban) customers with collateral and with credit unions and the Development Bank of Samoa catering for other clients. Such increase specialization may of course make for greater efficiency in the distribution of finance.

The dichotomy of the financial system can be illustrated by the willingness of different financial institutions to engage in micro-financing. The International Fund for Agricultural Development (IFAD) provided SDRs 150,000 in 1996 for a pilot micro-credit scheme managed by the CBS. Only the Samoan Development Bank and the Samoa Credit Union were prepared to accept a loan for on-lending to micro-finance clients. The commercial banks were not prepared to accept this type of financing.

In a personal communication (August 19, 1999), a member of the CSB indicated:

“Until recently, the commercial banks had lent only against the security of real property, leaving many would-be borrowers unable to access finance. This has changed a little with liberalisation, and some lending against cash flow now takes place.

The major result of this has been the inability of small entrepreneurs to obtain loan funds either for start up or expansion.....This is being addressed by a number of organizations at a number of levels. The proposals include micro-finance, venture capital proposals and even a stock exchange, though whether any will proceed to fruition is yet to be seen. However, any schemes that can assist in financing at the bottom end of the market will be useful”.

Discussions with a major manufacturer in Samoa indicated that even for larger business constraints on sources for equity financing are limiting factors. As a result, greater reliance on loan capital than desired is frequently needed for launching and expanding businesses. This adds to business risks and can add to the cost of financing a business.

The Samoan economy is probably too small to support a stock exchange economically. In the Pacific Islands, Fiji has a stock exchange, but the Suva Stock Exchange has only about 9 listed stocks. Possibly if appropriate arrangements could be made, Pacific Island countries (PICs) could use the Fijian Stock Exchange. There have also been suggestions that bodies such as the Samoan Development Bank could in certain cases, supply equity capital to businesses. However, care would need to be exercised from a prudential point of view. Other sources of equity funds are bodies like the National Provident Fund. Again, unless care is exercised, returns on the funds of members can be jeopardized by unwise (possibly politically motivated) equity investment. It seems reasonable to argue that prime responsibility of national provident funds is to pursue the economic interest of their members.

2.4 Government Finance – Current and Development Budgets

The Treasury of Samoa has adopted careful financial (fiscal) policies in recent years. Like most under developed countries, Samoa has had to face limits on its taxable capacity

because of low per capita incomes and the presence of a non-monetary sector of significant size. Samoa was able in the 1990s to expand its taxable base by the introduction of The Value Added Goods and Services Tax (VAGST) in January 1994. This has meant that Samoa has been able to reduce its reliance on import duties as a source of public revenue, broaden its sources of its tax receipts and reduce some taxation rates.

For a country, such as Samoa, which receives substantial cash remittances, VAGST can considerably widen its tax base. Gifts are not taxed but when VAGST is introduced they become subject to tax when spent initially.

Company taxes have been reduced in Samoa and now are at the rate of 29 per cent. Tariff levels have been reduced to an average rate of 15% and the system of import duties has been simplified. Despite the reduction in import duties, revenue from tariffs has risen. The Treasury (pers. comm.) suggests that with lower tariffs there is now less incentive to avoid paying tariffs. Nevertheless, a contributing factor has been a recent rise in Samoa's imports, presumably in response to reduced prices of imports. Samoa aims to reduce import duties in the long-term to avoid 5 per cent and to carry out reforms to enable it to obtain membership of the WTO.

As one would expect, the reactions of Samoan businessmen to reduced import duties are mixed. Some manufacturers feel that the reduction in tariffs has been too rapid. Presumably these manufacturers are in import-competing industries. On the other hand, wholesalers, retailers and exporters appear to welcome these economic changes. Naturally, such reforms do have income distributional consequences.

The Samoan Government has been able to maintain its current revenues while at the same time reforming its taxation system. It has in fact in recent years been able to maintain a small budget surplus while increasing total government expenditure. It has not been forced to reduce significantly its employment in its public sector although reduction in employment has occurred in the Ministry of Works due to increased contracting out of

work, a process that is expected to continue. With an anticipated increase in contracting out by most Samoan government departments, total employment in Samoa's public sector can be expected to show gradual decline. However, total employment dependent on public expenditure may show little decline. Nevertheless, future public expenditure is unlikely to provide significant increases in employment opportunities. Whether or not the private sector as a result of the heralding of a more favourable business environment will be able to provide sufficient employment opportunities to absorb Samoa's growing labour force remains to be seen. In the Pacific Islands generally "young people are especially at risk of unemployment. In some countries, there are up to seven times as many young people seeking work as there are new jobs available" (UNDP, 1999, p.79).

Table 2 summarises the government finances of Samoa in recent years. Its current account balance has remained in surplus and in most years it has had an overall positive balance. Although since 1995/96 total government expenditure has risen, it has fallen as a percentage of Samoa's GDP.

It might be noted that although Samoa's current government expenditure has risen since 1995/96, its development expenditure has shown a decline since then in current prices, (a decline which will be greater in constant prices).

Since 1991/92 Samoan current public expenditure on social services (education, health and senior citizen pensions) have increased as a percentage of total public expenditure whereas expenditure on public works has shown a major decline. Table 3 summarises Samoa's expenditure from its national budget in the period 91/92 to 97/98 by function. In this period, Samoa's percentage allocation of its budget to social services almost doubled. The percentage allocated to pensions rose most rapidly, followed by the allocation to health and then education.

INSERT TABLE 3

Table 2

Estimates of Recurrent Budget Revenue for 1999 for Government of Kiribati by Source in A\$ '000 and as a Percentage of Government Total Revenue

	S'000	%
Company Taxation	2,700	5.7
Hotel Tax	300	0.6
Import Duty	12,091	25.4
Dividends from Shares	700	1.5
Fishing License Revenues	12,800	26.9
Interest on Consolidated Fund Investments	75	0.2
Green Passport Investment Programme	1,350	2.8
NASDA Fees	1,560	3.3
RERF Drawdown	12,600	26.5
Personal Taxation	3,200	6.7
Chinese Tracking Station	220	0.5
Government of Kiribati Revenue	47,596	100
Appropriation from previous year Surplus	10,718	-
Ministerial Revenue	5,299	-
TOTAL	63,613	-

Source: Based on Republic of Kiribati (1999, Table 2, p.3)

Note: Due to rounding sums may not total exactly.

Table 3

Recurrent Expenditure of Government of Kiribati as for 1999 Budget Estimates by Authority and Other Purposes in A\$'000 and as a Percentage of the Total

	Operating Expenditure to 31st December 1999	
	\$A'000	%
Contributions to Development Fund	5,000	7.8
Contributions to the RERF	5,000	7.8
Office of the Beretitenti	1,046	1.6
Judiciary	685	1.1
Police and Prisons	3,425	5.4
Public Service Commission	99	0.2
Ministry of Foreign Affairs	597	0.9
Ministry of Home Affairs and Rural Development	1,465	2.3
Ministry of Environment an Social Development	856	1.3
Maneaba ni Maungatabu	1,136	1.8
Ministry of Commerce, Industry and Tourism	843	1.3
Kiribati National Audit Office	535	0.8
Office of the Attorney General	291	0.5
Ministry of Natural Resource Development	2,448	3.8
Ministry of Health	7,886	12.4
Ministry of Education, Training and Technology	11,608	18.2
Ministry of Information, Communications and Transport	1,910	3.0
Ministry of Finance and Economic Planning	1,712	2.7
Ministry of Works and Energy	2,248	3.5
Ministry of Labour, Employment and Cooperatives	1,514	2.4
Ministry of Line and Phoenix Group	2,228	3.5
Debt Servicing	200	0.3
Other Expenses	10,880	17.1
Total	63,613	100

Source: Based on Government of Kiribati (1999, p.1)

Note: Sums may not add exactly due to rounding.

2.5 Samoa's Public Debt

The Government of Samoa virtually has no public debt held domestically. It has been reducing the domestically held debt in recent years. Some increase in Samoa's external debt has occurred but not a substantial increase. Possibly switching from domestically held debt to foreign public debt has occurred in response to lower interest rates payable on the latter than domestically, and the availability of loans in hard currency from overseas institutional lenders. Although some of Samoa's foreign public debt was held for a time by private investors, it is now all held by institutions (mostly multilateral ones such as the ADB and the World Bank) lending to Samoa at concessional rates and on concessional terms.

The public debt of Samoa as a percentage of its ADP is relatively low. Recent percentages as given in Table 4. In 1992, it was almost 110 per cent of GDP and has declined significantly since then.

INSERT TABLE 4

2.6 Measures To Encourage Direct Foreign Investment

Samoa is endeavoring to encourage foreign direct investment without giving special tax exemptions or tax reductions to foreign investors. It believes that its current economic reforms will provide a supportive environment for business. For example, the Treasurer is introducing the Budget for the financial year 1999/2000 stated:

“Given the very competitive income tax regime for business that will be brought about by the changes that I have outlined, the Government will abolish new income tax holidays. However, existing tax holidays will be honoured until they expire.”

The Department of Trade, Commerce and Industry has instituted a one-stop advisory scheme for foreign investors.

While sufficient freehold land is available for a variety of foreign investments, investments in tourism and agricultural development can encounter constraints due to

Table 4
Budget Summary for Kiribati 1987-1997
in A\$million at current prices

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 (budget)	1997 (budget)
Revenue	26.0	24.9	29.3	29.5	43.2	47.1	52.0	51.1	60.7	48.9	55.6
Tax	8.5	8.5	9.3	10.2	11.5	11.3	12.9	12.9	16.9	13.5	16.1
Direct Tax	2.5	2.4	3.2	3.7	4.1	3.4	3.9	3.5	5.4	4.7	5.4
Indirect Tax	6.0	6.0	6.1	6.5	7.3	7.9	9.0	9.4	11.5	8.8	10.8
Non Tax ¹	17.5	16.4	20.0	19.3	31.8	35.8	39.1	38.2	43.8	35.4	39.5
Entrepreneurial Income	0.0	0.0	1.3	1.8	1.0	0.9	0.1	0.1	0.1	0.2	0.2
RERF Interest and Dividend	10.0	11.6	11.5	13.5	14.7	17.1	16.8	16.3	17.4	15.0	17.0
Fishing Royalties	2.1	2.2	2.9	4.0	11.9	13.0	14.1	18.4	18.2	11.0	16.3
Other	5.3	2.5	4.2	5.9	4.1	4.8	8.1	3.5	8.2	9.3	6.0
External Development Grants ²	18.4	19.4	20.5	25.9	22.4	34.7	20.5	4.3	4.6	3.5	10.4
Total Revenue and Other Grants	44.3	44.2	49.8	55.4	65.7	81.8	72.5	55.4	65.4	52.4	66.0
Current Expenditure ³	26.7	31.2	36.5	35.4	42.8	41.5	45.1	42.2	55.0	49.2	48.4
Development Expenditure ⁴	10.1	9.2	8.6	16.0	7.9	22.5	7.1	5.7	8.5	6.3	12.2
Total Expenditure	36.8	40.3	45.1	51.4	50.7	63.9	52.2	47.9	63.6	55.6	60.5
Overall Balance (-deficit)	7.5	3.9	4.7	4.1	15.0	17.9	20.3	7.5	1.8	(3.1)	5.5
Reinvested from RERF	3.4	8.0	8.6	12.0	12.7	10.6	11.3	11.9	9.9	1.4	4.4
STABEX Transactions ⁵	0.5	0.2	(0.2)	(0.3)	(0.3)	(0.7)	0.8	(0.4)	(0.3)	(1.1)	(1.1)
Adjusted Overall Balance⁶	11.3	12.1	13.0	15.8	27.4	27.8	32.3	19.0	11.4	(2.9)	8.8

Source: ADB 1998 (Table A-3, p.201)

suitable land being subject to customary ownership. In relation to foreign investment in tourist resorts, the government is planning to act as an intermediary in the rental process. Customary land would be rented to the government which then would sub-lease to a foreign investor. It is hoped that this would provide greater security for foreign investors, especially in the development of tourist resorts.

There may be some preference for joint ventures. This is likely to be so in contracting out government work where no suitable local contractor is available to carry out the work. But if joint ventures are “forced” this can deter foreign investment, particularly if the prime motive of the local investor is to collect “rent”. Questions raised by the benefits of joint ventures to a country are complex (Tisdell, 1993, CL.,4).

2.7 Economic Welfare and Development Situation of Samoa

In terms of UNDP’s Human Development Index (HDI), Samoa has the highest HDI of the five best developed nations in this study being ranked globally just ahead of Tuvalu (UNDP, 1999, p.13). However Samoa’s GDP per capita in \$US was only \$1,060, below that of Vanuatu on \$1,231 and Tuvalu on \$1,157. But GDP per capita is an inadequate guide to economic welfare. Furthermore, it may be especially deficient in the Pacific for those countries such as Samoa which obtain considerable remittances. Levels of domestic income inclusive of such transfers may provide an improved indicator.

Furthermore GDP per capita takes no account of vulnerability. The economic vulnerability of the least developed Pacific Island nations is high both on account of the likelihood of ecological and environmental disasters, lack of export product diversification, considerable instability of prices for exported products, and limited scope for economic substitution, that is limitations to structural adjustment. Although the UN has developed vulnerability indices, there are still concerns about the adequacy of existing measures (UNDP, 1999, p.26). In the 1990s Samoa suffered two severe cyclones. Cyclone Ota in 1990 and cyclone Val in 1992 which caused serious property damage and adversely affected about half of its population directly. Also in 1990, introduction of taro blight wiped out its taro export crop. So its vulnerability index seems to be high.

2.8 Recommendations regarding Samoa's Economic and Financial Situation

- Samoa would be wise to continue a conservative policy in relation to limiting the size of its public debt, particularly its foreign indebtedness given the high vulnerability of its economy.
- Samoa has been able to implement its economic reforms gradually. Normally gradualism is a preferable approach to economic reform. Nevertheless, Samoa seems to have been especially slow in privatising its public utilities. There may be good reasons for this some of which will be discussed in the infrastructure section. Some public utilities have not been subject to regular audit e.g. the Samoan Electricity Corporation. Good governance calls for regular independent audits. Presumably Samoa is moving in this direction.
- Samoa has and will further increase its prudential supervision of its commercial banks. This raises the question of whether there is adequate prudential supervision of other major financial bodies such as the Samoan National Provident Fund.
- The introduction of performance budgeting for public bodies and requirements on accountability and transparency should continue to be vigorously pursued.
- Three gaps at least can be identified in the private financial system:
 - (a) A market for equity capital does not exist. This may be an impediment to the establishment of some businesses and restrict the expansion of others. Furthermore, it is to some extent an impediment to the privatisation of public utilities because a ready market would not exist locally for sales of shares in such enterprises.
 - (b) Funds for micro-finance are said to be in short supply. CBs clearly welcomed the supply of some funds from IFAD for micro-finance.
 - (c) The presence of a considerable amount of communally owned land limits lending by commercial banks because of their normal collateral requirements. Bodies such as the Samoan Development Bank and credit unions play a role in helping to fill this gap.
- Given that the Samoan financial market is so small, it may be that a Samoan stock exchange cannot be established economically. The possibility of using the Fijian or a similar stock exchange might be explored.

- Institutions appear to exist for the efficient allocating of micro-finance. The League of Credit Unions seems to be well placed to distribute such finance.
- Further study is required of Samoa's policies on joint ventures and their likely impact on foreign investment
- The state of economic welfare and of development of Samoa cannot be judged purely by reference to its GDP per capita. Its vulnerability and other factors must be taken into account. Its GNP is likely to exceed its GDP by a wide margin.

3 SOCIAL ISSUES

3.1 Introduction

UNDP estimated the Human Development Index (HDI) of Samoa for 1998 to be 0.590. This places it ahead of Tuvalu with a HDI of 0.583, and significantly ahead of Kiribati (0.515), Vanuatu (0.425) and Solomon Is. (0.371) (UNDP, 1999, p.13). Nevertheless, globally 110 countries had a higher HDI than Samoa and the HDI of the Solomon Islands was comparable to that for some of the poorest countries in Africa.

Compared to the other poorest Pacific island nations in this review, Samoa has a higher rate of adult literacy (95.7%), the highest combined gross school enrolment (85.7%), a life expectancy (66.6 years) which is amongst the highest in this group and a GDP per capita (1998) of \$US1,067 only exceeded by Tuvalu with a GDP per capita of \$US1,157. When remittances are allowed for, the per capita income of Samoans is in all probability in the highest in this group of poor nations. Taking into account the available resource-base and other factors, the socio-economic position of Samoa would appear to be distinctly superior to that of Tuvalu even though the HDI for Tuvalu is almost as high as that of Samoa.

The provision of social services and the occurrence of social issues are affected by the structure of Samoan society. A social service system has evolved involving joint responsibility for social services by the Government, the extended family and the village.

“The basic unit of social organisation is the extended family, at the head of which sits the family matai (chief), appointed by family consensus. The family matai

are responsible for looking after the interests and welfare of family members, maintaining peace and harmony within the family, upholding the family name and directing use of family land and other assets.” (Fairbairn Dunlop, 1998, p.7).

Two bodies are responsible for village government, namely the Village Council consisting of the matai from every family and the Women’s Committee to which all women are expected to belong.

“The Village Councils are responsible for village lands, law and order and village economic development generally, while health, education and other concerns are the responsibility of the Women’s Committees.” (Fairbairn, Dunlop, 1998, p.7).

This shared system of government has both advantages and disadvantages. Advantages include social responsibility and self reliance at the local level with local communities being able to register their needs effectively. On the other hand, disadvantages can arise when village pride and rivalry lead to duplication of schools and medical facilities which could be more effectively shared by more than one village. Furthermore, some villages may be poorer than others, for example due to a lesser endowment of resources. This can lead to significant differences in the public service contributions made by different villages.

Let us in turn consider the topics of education, health welfare support and miscellaneous social issues, poverty and regional considerations in Samoa, in some cases briefly.

3.2 Education

Samoa’s economic strategy for 1998-1999 puts considerable emphasis on education as a vehicle for economic betterment although no quantitative study appears to have been done of the likely returns from such investment. The Government’s economic strategy states for example that

“Greater emphasis must be placed on cost-effective vocational and technical training at both secondary and post-secondary levels. This will help to minimise structural unemployment and to ensure a supply of the skilled labour needed to facilitate

private sector development and growth in employment” (Government of Samoa, 1988, p.6).

This suggests that lack of supply of skilled labour is a major constraint on economic growth rather than say lack of other resources or market potential. However, it is possible that the capacity of the Samoan economy to absorb skilled labour is limited. For example, it is pertinent to note that the Samoan education and Policy Planning Committee (1995, p.7) points out that “evidence suggests that there will soon be a teacher surplus”.

On the other hand, enhanced human resource development in Samoa may make it easier for Samoans to migrate. Hence, education can be an element helping to sustain remittances for Samoa and may benefit countries receiving Samoan immigrants, such as New Zealand.

As mentioned above, education accounts for a high proportion of Samoan Government expenditure. It amounted to 20.4% of budgeted recurrent expenditure in 1996-97, being the major outlay by function. Furthermore, the literacy rate for Samoa is estimated to be 96% (UNDP, 1999, p.105) in 1999. 93.6 per cent of those in the 5-14 years group were estimated to be at school. In this group, the participation rate by males (95.2%) was slightly higher than for females (91.8%). However in the 15-19 years group, participation rates by females (70.8% in 1999) significantly exceeds that of males (57.4%) with the total participation rate being 63.5% (Government of Samoa, 1999).

Education is compulsory to Year 8 but participation rates indicate that some students do not attend school and complete Year 8. The reasons are not entirely clear. However, school fees may be a factor for some families, even though these may seem low to individuals in higher income countries. Fairbairn Dunlop (1998, p. 35) reports:

“The Education Department has asked Village Education Committees to establish procedures to enforce compulsory education. They have even advised that if families cannot afford school fees, Village School Committees should notify the Department and the Department will assist. Nobody has – and nobody will because that is the faaSamoa”.

In these circumstances any tendency to employ user-pays to increase cost recovery up to Year 8 is likely to undermine objectives for universal education and further add to inequality of opportunity. At this juncture, Samoa's economic strategy does not make increased cost recovery in education at lower levels an objective, and this seems appropriate.

Up to Year 8, the overwhelming majority of students are enrolled in Government schools rather than in non-Government ones, but after Year 8 the proportion enrolled in non-government schools rises significantly and in Year 12 and 13 the majority of students are enrolled in non-government schools. This situation is apparent from Table 5.

INSERT TABLE 5

The majority of primary schools are village schools and so are a significant number of junior secondary schools. In these cases the villages provide the school buildings and are responsible for their maintenance. Villages may obtain some assistance from NGOs with building funds or they may take a loan from the Samoan Development Bank with interest on the loan being paid by the Department of Education. The Education Department provides teachers for village schools and teaching materials. It has no control over the fees charged by village school committees which may vary from \$5 to \$50 per term depending on the particular school. For instance, if a building loan is to be repaid fees may be on the higher side.

Within Apia, government primary schools are provided by the Department of Education and no fees are charged. However, book fees apply of around \$20 annually for primary schools. Government secondary school fees in Apia inclusive of books vary from \$150 - \$300 p.a. depending on school and form. Private school fees p.a. are \$2400 for primary school and in secondary school are in the range \$2600 – 3000 depending on form. The government provides only modest financial support to private and church schools.

Table 5
Contributions to Development Fund of Kiribati 1997 to 1999
by General Sources in A\$'000 (rounded)

General Source	1997 Actual Revenue	1998 Estimated Revenue	1998 Revised Revenue	1999 Budget Revenue
Kiribati Government	1,617	3,000	4,850	5,000
ADB Loan	0	5,000	0	6,118
Other Contributions	1,134	7,261	7,261	7,583
Aid in Kind	23,637	22,924	23,694	21,903
Total	16,588	38,185	36,005	40,903

Source: Based on Government of Kiribati (March 1999, Table 2, P.3)

Sometimes village school committees have difficulties in meeting the building standards and requirements of the Department of Education. An attempt has been made to remedy the situation by a school charter to be drawn up for each village school and to agreed between the Department of Education and each village school committee (Education and Policy Planning Committee, 1995 a, p.8). The extent, however, to which this will help will depend to some extent on the resources available to individual villages to implement their charter.

Student-teacher ratios are higher in urban Apia than elsewhere in the country. The following factors contribute to this:

- There is a strong drift of population to Apia and the island of Upolu where it is located
- Many Samoans believe that education of superior quality is provided in Apia to elsewhere
- The fact that government primary schools in Apia charge no school fees is an additional attraction
- Adequate transport exists for travel to Apia from nearby areas
- Some parents from nearby areas work in Apia and find it convenient to ferry their children to and from school in Apia.

There is a need to reduce student-staff ratios at government schools in Apia. Government school availability in Apia and quality needs to be improved. This is addressed in *Western Samoan Education Strategies 1995 – 2005* (Education and Policy Planning Committee, 1995, b. p. 12). For example in relation to the Malifa government school compound in Apia this strategy states:

“Responsibility for school management is to be devolved from the department to a formally constituted school committee; this will free the school from centralised control allowing the committee to set budgets, levy fees and be fully accountable for the

management and administration of physical facilities.” (Education and Policy Planning Committee, 1995 b. p. 12).

This change had however not been implemented by August 1999 but planning for a World Bank loan to upgrade government schools in Apia was underway.

It was noted in the strategy document that about two-thirds of the students enrolled at government schools in the Malifa came from the other areas served by government schools. Given the continuing population drift to Apia, demand for government schooling in Apia can be expected to grow and there may be little point in trying to stem that demand. Rather it may be better to accept this changed demand pattern and adjust supply accordingly.

Despite the relatively favourable impression given by UNDP statistics about the level of literacy in Samoa, *Western Samoa Education Policies 1995 – 2005* (Education and Policy Planning Committee, 1995 a. p. 5) states that:

“Primary school facilities are generally poor with equipment either non-existent or very run down. Curriculum materials and textbooks, particularly those written in the Samoan language, are not readily available or obtainable in the quantities required. An over-reliance on rote learning methods, and a general lack of creativity in classroom approaches, limit possibilities for teaching and learning in most subject areas. Literacy and numeracy skills – in both Samoan and English – are low. An overall teach-student ratio of 1:27 conceals extremes as low as 1:10 and as high as 1:70.”

These problems are being addressed. Overseas donors are providing grants for preparation of and production of more school material in Samoan. There is also a need to upgrade the qualifications of teachers and this is being addressed.

The Education Department has also adopted performance budgeting, and training schemes to improve departmental management and efficiency have been implemented with donor assistance.

Samoa, given its small size, has allocated a substantial proportion of its education budget to tertiary education. It is supporting the National University of Samoa (NUS) and the West Samoan Polytechnic. In 1999, NUS only had an enrolment of 218 and WS Polytechnic 454. NUS is therefore well below a minimum economic scale. Education cost per capita for tertiary education for NUS and the Polytechnic were reported to be \$6,553 (Fairbairn Dunlop, 1998, p. 32). This is lower than would have been the cost of similar training outside Samoa. The question, however, remains of whether greater resources at the tertiary level could be achieved by more cooperation with the University of the South Pacific, which also has a presence in W. Samoa. Possibly more attention should be given to costs recovery (user-pays) at the tertiary level. A loan scheme similar to that used for Australian University students could be considered for example.

3.3 Health

UN statistics indicate that the life expectancy at birth in Samoa is 66.6 years and is slightly higher for females than males (UNDP, 1999, pp. 105, 106) and indications are that life expectancy has increased in the last two decades. Infant mortality rates (22) are the lowest of all the least developed Pacific nations reviewed here. Furthermore, deaths per 1,000 live births of children under 5 years (35) are the lowest of countries in this group (UNDP, 1999, p. 106). Various statistics on health and mortality in Pacific island countries can be found in UNDP (1999, p. 106) but they need to be interpreted with caution. For example, population per doctor or per nurse in a country with a low population may not reflect the *range* of medical services available. The range of medical services may be limited even when these ratios seem reasonable.

In the 1990s health expenditure as a percentage of Samoan government current expenditure rose. In 1991/92 it accounted for 10.3% of total current expenditure but for 97/98 was provisionally estimated to be 15.2% of total current expenditure. For 1997/98, health expenditure is estimated to be the largest item of current public outlay after education. Thus priorities as stated in *Samoa's Statement of Economic Strategy 1998-1999* are reflected in the Government's current outlays. Being a large component of the

Government's current expenditure, health delivery is a significant focus for economic reforms.

The country is served by five government hospitals. The major one is located in Apia and another important one on the island of Savaii. However, it is proving difficult to keep the latter hospital permanently staffed with medical doctors and doctors are periodically flown in from Apia to attend to patients. Presently a private hospital is under construction in Apia in which the shareholders are a group of private doctors in Apia and the National Provident Fund of Samoa.

In addition to the hospitals, there are village clinics (Health Centres and Subcentres) under the control of the village women's committees. These provide basic medical services and are staffed by nurses supplied by the Department of Health and provided also with some supplies by the Department. Village Health Centres are built and maintained by the women's committees.

“Fees are set collected and used by the committees. There are no data on the actual value of community contribution to health care facilities, but this is substantial.” (Fairbairn-Dunlop, 1998, p. 25).

Although local community participation in the provision of public services has much to recommend it, similar problems arise for village health centres as for village schools. These include:

- Loss of economies of size and quality due to each village wanting its own health clinic
- By-passing of village health clinics by patients to go to a government hospital because of lower charges and a belief that the quality of health care there may be higher. This further exacerbates the economic problem
- Sealed roads in Samoa make it much easier than in the past for many patients to reach government hospitals.

Note that improved infrastructure and increased quality of facilities at central locations tends to undermine the power and traditional forms of governance of local communities. Samoa is unlikely to be an exception.

The Health Sector Strategic Plan 1998 – 2003 (Government of Samoa, 1998, Annex p. viii) comments on this matter as follows:

“There is [are] currently too many health facilities in the rural areas and insufficient accompanying operational resources to sustain quality and sustainable health care services. Charges made by Women’s Committees are variable and in some cases may be affecting equity of access to health care. While rural villages have traditionally played an important role in building and maintaining rural health facilities this role is becoming less clear and there is an urgent need to clarify and clearly define the role of the Women’s Committees in rural health services.”

Overall there is little cost recovery in the public health system. Fairbairn-Dunlop (1998, p. 28) reports that the cost to an outpatient for a visit to the National Hospital in Apia is 50c, \$4 per day for an in-patient in a public ward and \$12 per day for a private room. Pharmaceuticals are provided free when needed. Furthermore, fees often remain unpaid. *The Health Sector Strategic Plan 1998 – 2003* reports:

“Options for decreasing the cost of treatment services, including overseas treatment services, need to be found. Currently user charges for hospital services are minimal and do not cover the cost of collection. User charges could be increased without a significant effect on access (Government of Samoa, 1998b, Annex p. viii).

It is also mentioned that some non-essential services such as medical examinations for migration could be left to the private sector. The scope for this is likely to increase once the private hospital is operating in Apia.

Equity and user-pays for health services remains a political concern in Samoa. In this context some doubts have been expressed about the potential role of private health insurance. The health strategy document mentions:

“Private health insurance, for those who can afford it, has the potential to free up funds. The introduction of health insurance in other developing countries has often resulted in an increase in spending on health for those least in need (Government of Samoa, 1998 b, Annex p. ix).

However, the new private hospital is planning to operate an insurance scheme.

The equity of insurance schemes can be complex. The possibility of health insurance levy along similar lines to the NPF levy has been canvassed. However, fund contributors are probably already the principal contributors to government tax revenue used in part to pay for public health services. In turn they may be the prime users of such services. Nevertheless they subsidise these services for the less well off community members because of their higher taxation contributions.

It is anticipated that the Health Department will cooperate with the new private hospital and may contract out some services to it if this will overcome bottlenecks or increase efficiency of supply. Presently the Health Department is placing major emphasis on means to increase efficiency in its supply of health services. It is to increase its contracting out. It is for example intended to contract out maintenance services at the National Hospital in Apia e.g. plumbing, electrical, painting, carpentry keeping only a skeleton staff for emergencies.

It is also believed that performance budgeting and devolution of control to output managers away from the Treasury and the Public Service Commission will increase efficiency and the quality of services. Under the economic reforms, output managers will have greater responsibility and flexibility. They will be accountable for the quality and volumes of output and their performance will be monitored according to their achievement of performance indicators.

However, this all assumes that the performance indicators are appropriate and operational. For example, perusal of the *Health Sector Strategic Plan 1998-2003* indicates that many of the objectives mentioned are of a qualitative nature and do not

lend themselves easily to assessment of performance. Political considerations may still influence the wording of such documents.

UNDP (1998, P.49) states that the data shows that Samoa has a sound health basis which SHD [sustainable human development] requires - low infant mortality rates, relatively high life expectancies, and almost universal rates of immunization cover". This, however, is not to say that there are no health concerns. Tuberculosis and leprosy still occur although a primary goal is to eliminate these diseases by 2000 and filariasis continues to recur in pockets. UNDP (1998, p.51) reports that "noncommunicable and lifestyle-related diseases such as diabetes and hypertension are an increasing cause of mortality and the leading cause of death amongst inpatients". These partly depend on changes in diet, exercise, stress, and the widespread use of tobacco and alcohol. Obesity has become a problem for some and it may be that Polynesians are genetically prone to diabetes. The fact too that the population is living to an older age on average would also have an influence.

There is a need for greater attention to aspects of environmental health and improved food handling practices, as for example mentioned in Government of Samoa (1998 b, Annex, p.iv).

Many of the diseases which require treatment are preventable if appropriate precautions are taken. Furthermore, early intervention can be cost-effective. These are reflections of the old adages that "prevention is better than cure" and a "stitch in time saves nine". This raises the question of whether the Health Department's funds would be better spent (or a greater share of that) by promoting healthy living and disease prevention and facilitating primary health care.

The reaction of the Samoan Health Department to this viewpoint is interesting:

"While international organisations including WHO suggest that primary health care including first line treatment services, health promotion, disease prevention activities and public lecture services are more effective in changing health status than treatment

services; political, and logistic factors make it unrealistic in the short term to reduce resources from treatment services in order to increase funding to primary health care. However, a long term strategy is required if Samoa is to avoid the problems facing developed countries relative to uncontrolled demand and supply for high cost, high technology, and of life treatment services". (Government of Samoa, 1998b, Annex p.viii).

It is, of course, possible for expenditure on health promotion to be relatively ineffective from an economic perspective if the response rate of the targeted audience is low, as it can be for some anti-smoking campaigns and campaigns against alcohol abuse. Any campaign would need to be considered carefully from an economic point of view. This may, however, often be difficult because of uncertainty about the responses of the target group.

Samoa has a perceived shortage of medical personnel. According to UNDP (1999, p.106) it had 2,688 persons per doctor and 541 persons per nurse, ratios similar to those for Fiji and on the whole more favourable than for most least developed countries in the group being reviewed here. However, its available health personnel in the public sector declined between 1992 and 1996 in all categories including medical officers and nurses (see UNDP, 1998 Table 31 p.53) probably because of unfavourable salaries and conditions of work. This is a matter which needs to be addressed.

3.4 Welfare Support and Miscellaneous Social Services

As mentioned earlier, there is a strong belief that family networks and community links should take care of the welfare and social security of all in Samoa. However, this seems to be too optimistic an expectation given the changing socio-economic fabric of Samoa. Families themselves are often under economic pressure to give to churches and to support community activities. According to Fairbairn-Dunlop (1998, p.37) "It is very clear that family systems are being eroded by the combined impact of commercialisation, migration to cities and breakdown of traditional forms of social organisation". Charitable organizations are therefore active in providing social services. Social services provided

by the Government are patchy but it heavily subsidises basic needs such as health care, water supply and educational services to assist the poor.

Samoa is unusual as a developing country in providing a small pension to all citizens over 65 years who also receive free medical services and supplies. Furthermore the National Provident Fund provides a guaranteed retirement income for wage earners and accident insurance provides cover to many Samoans at risk. Public servants are entitled to a retirement payment. Maternity and parental leave is available in the public service with such leave also available in the private sector but on a less generous basis.

Nevertheless, not all groups are able to obtain adequate social support in Samoa as indicated by poverty studies discussed below. It has been suggested that youth are especially vulnerable. "Their lack of access to employment and other livelihood creation opportunities is a factor in increase in youthful petty crime, substance abuse and is a factor in the high rates of suicide" (Fairbairn –Dunlop, 1998, p.38).

The comparative socio-economic status of females in relation to males is better in Samoa than in many developing countries. The average life expectancy of females exceeds that of males. Female students outnumber males in senior secondary school classes and at the National University of Samoa. At the village level, women's committees are quite powerful particularly in relation to education and health. This is not to say that females are 'fully' empowered. They are for example considerably under represented in Parliament. Some of the difficulties faced by Samoan females are outlined in UNDP (1998, pp.86-89).

3.5 Poverty, Subsistence Activities and Regional Considerations

Aggregate statistics of national well-being and welfare often conceal significant individual and regional differences. This is so for Samoa, as it is for all the countries under review in this study. Although poverty surveys have to be interpreted cautiously, it is clear that significant pockets of poverty exist in Samoa.

The Government of Samoa, *Household Income and Expenditure Survey 1997* found that 55% of households in Savaii had a food deficit, 39% in Apia and between 48-49% had a deficit in the remainder of Upolu. It was from that 54% of those households where the household head was a farmer, planter or fisherman had a daily food expenditure deficit (food produced and consumed in the home was included in daily food expenditure. This indicates that “ subsistence affluence is not as prevalent as it once was (or was thought to be) in Samoa” (Government of Samoa, 1997, p.3). Food poverty was less likely when the household head was in paid employment (full-time or part-time) or when the household head was a female. However, younger females with children are highly likely to be in poverty when they head households (UNDP, 1998, p.88) and their children are likely to suffer from malnutrition. According to UNDP (1998, p.85), “groups likely to be vulnerable to cash poverty today: 1. Urban villagers with limited land for subsistence production. 2. Rural families who may have enough food to eat, but have few cash earning opportunities or chances to market their goods for cash”.

The question of food security in Samoa remains important in relation to the economic welfare of individuals and families as is clear from studies of poverty in Samoa. So far however there appears to have been little success in convincing Samoa and other Pacific island countries to adopt programmes on food security such as those suggested by the FAO (Bonin, 1999). In fact, subsistence type diversified agriculture seems to be under continuing threat due to the forces of economic globalisation even though subsistence farming has been a major contributor to economic security in Western Samoa (Paulson and Rogers, 1997). While in the past Western Samoa had been able to maintain subsistence security, present economic reforms may erode this security base.

Paulson and Rogers (1997 p.182) found that “national-level policies in Western Samoa strongly favour an emphasis on greater export production” with traditional farming systems being given little attention. They found that key Samoan government personnel “held a vision of a much more export-oriented, commercialized agricultural system modelled on those of industrialized countries”.

The development of Samoan agriculture possibly needs to be re-examined (in depth) in the light of the Samoan poverty surveys and Samoa's economic security needs. The Ministry of Agriculture, Forestry and Fisheries *Corporate Plan 1999-2001* does not appear to give particular attention to this issue.

In many respects this issue is increasing in urgency given the economic reforms. The non-monetary sectors contribution to Samoa's GDP shrank during the 1990s both in absolute and relative terms. Real output of the non-monetary sector fell by at least 6% between 1994 and 1998, and from 22% of GDP at market prices to 17% in the period as calculated from Table 2.1. Economic Planning and Policy Division, Treasury Department (1999). Relationships between the non-monetary and monetary sectors of the economy require greater attention given the current economic reforms.

In this respect it is useful to keep Fairbairn-Dunlop's (1998 p.6) observation in mind: "Samoa's dual economy sees the heavy interplay between the semi-subsistence and urban sector. Land and sea are the major resources, there being no minerals and little likelihood of large scale industrialisation. Eighty two per cent of land is held in customary tenure and accessed through family systems. Smallholder units are the major producers of goods for home use, sale and exchange purposes, ... almost two-thirds of the population rely on agriculture and agriculture-related business for their livelihood".

The process of displacement of the non-monetary sector by the monetary sector is a cumulative one. It has the potential to create considerable conflict when it accelerates rapidly. This is another reason why special attention should be given to the semi-subsistence and non-monetary sectors in transition. Increased use of user-pays for the provision of public services such as education and health can be expected to promote 'commodification' and favour the growth of the cash economy, but not without social costs.

Regional aspects are also relevant in the Samoan context. The population drift to Apia and areas nearby is likely to continue and if anything, to be accelerated by the economic

reforms. This clearly has implications for the regional supply of public monies. Regional aspects of economic development require special attention in all the Pacific island countries under review here. The regional development problems of Samoa unlike less severe than those of many other Pacific island countries (mainly because the country consists basically of two substantial volcanic islands in relatively close proximity to one another) are still very important as the above review of poverty and provision of education and health services indicates.

3.1 Recommendations

Concerning education:

- Care should be taken to avoid increases in fees and school costs imposed on parents for years in which compulsory schooling applies. This is principally at the primary level. It seems that some parents are too poor to pay such fees.
- Greater cost recovery from higher education seems appropriate. In the interest of equality of opportunity this could be obtained through a loan scheme repayable by the individual through a future income tax surcharge.
- The National University of Samoa (NUS) is of a very small size which adds to per unit costs. This is further complicated by the fact that The University of the South Pacific also has a campus in Apia. While USP concentrates on different areas to NUS there appears to be scope for economies by amalgamation or joint provision of overheads.
- Possibilities for rationalizing village schools on economic grounds need to be explored further e.g. incentives for amalgamations might be considered.
- Present programs for upgrading trade qualifications, curriculum should continue and quality of education with foreign aid should continue to be pursued, as well as management reforms designed to increase the efficiency of the administration of education.

In relation to health:

- Points made about rapid switching of funds from curative to preventative medicine seem valid. A degree of caution is warranted on economic and political grounds. Individual changes in direction will need to be assessed independently.
- A reduction in the number of village health centres may lead to economies given that Samoa has a much improved transport system compared with earlier times. Economic incentives to villagers for agreements in this regard might be considered, as in the case of village schools.
- The adoption of user-pays for basic health care should be approached cautiously given the substantial number of Samoans in food poverty and the cash-poor status of many.
- The presence of a private hospital in Apia will provide increased flexibility in the provision of health care by the public sector.
- The question of health insurance is complex. A concern however is that the adoption of such insurance be not used as a vehicle for denying the poor access to basic health care. For example, if a compulsory insurance levy was to be imposed on wage-earners, it would probably be inappropriate to restrict the benefits to them and their immediate families. Otherwise, health coverage could be quite restricted in Samoa.
- There is no intention to introduce user charges for immunization and similar programs involving public goods and this is appropriate.
- Emphasis on reducing the cost of supply of public health services via greater efficiency in supply is in a promising reform. Changes in public administration such as performance budgeting and decentralised decision-making should have a positive impact. Up to a point increased contracting out can also result in economic gains.

In relation to welfare support:

- It is clear from poverty surveys and other sources that a significant number of Samoans are not adequately covered by social safety nets. Food poverty appears to be widespread.

- Although a modest pension is available to senior citizens, safety nets for youth seem to be less adequate. But there is some evidence (the existence of a home for the aged) that even social support for the elderly is declining.
- Further research is required to identify those at risk of not being covered by social safety nets taking into account economic reforms and structural change in the economy.
- Regional aspects of economic development are worthy of further study particularly as they relate to income distribution and the incidence of poverty and their implications for the supply of public services.
- The role of the subsistence sector (the non-monetary sector) in providing social security and alleviating poverty needs to be kept under review. Policies for improving the productivity and efficiency of the sector are worthy of more attention than in the past.

This is just a sample of points raised by the review of social issues in Samoa. The structure and curricula for secondary education and tertiary education have not been discussed to any great extent. A current Samoan objective is to make education at this level more relevant vocationally. This could be quite a major planning task in itself because to be done effectively it requires predictions to be made about the nation's future demands for skilled manpower. But no such projections appear to have been done.

4 EXTERNAL TRADE PERFORMANCE

4.1 Introduction

Samoa is very reliant on imports. In the 1990s, these amounted to about 40 per cent of its GDP. Furthermore it has a large trade deficit, largely financed by a positive balance on its invisibles account, private remittances and capital transfers. In the 1990s, its export position improved. Between 1994 and 1998 the value of its exports as a percentage of its imports rose from 4.4 per cent to 19.6 per cent, the sale of the Forum Samoa vessel in 1998 being excluded from the figures. However, it is unlikely that this improvement can be attributed to the current economic reforms. In fact, with the tariff reductions in 1998 this trend has at least temporarily reversed itself.

As can be seen from Table 6. Samoa's net surplus on account of travel is positive and has shown strong growth in the 1990s. Although many Samoans travel abroad, their tickets are often purchased by their relatives overseas and there has been some expansion in travel to Samoa. The balance of returns on investments has been variable but was positive in 1998.

INSERT TABLE 6

When the positive balance on invisibles is combined with private income transfers, Samoa's deficit in its balance of trade is almost covered. The outstanding deficit has in the later portion of the 1990s been comfortably covered by its surplus on the capital account. Consequently, in recent years (since 1995) Samoa has had a Balance of Payments surplus and has been able to add to its international reserves.

Despite the relatively favourable balance of payments situation achieved by Samoa, its external balance remains vulnerable. Its import income can be highly variable because it relies for imports mainly on a few agricultural or primary products which even in a short period have fluctuated considerably in relative importance as components of exports. Coconut-related products were the main exports in value of exports in the period 1994-97 but fish (fresh and frozen) was the main component of exports in 1998 accounting for more than 50 per cent of the value of domestic exports whereas in 1994 fish accounted only for a little over 3 per cent of exports. Early in the 1990s, taro was an important export but after the occurrence of the taro blight in the early 1990s taro imports fell to negligible proportions. Some recovery in these exports may now occur with the introduction of blight-resistant taro stock. In the latter part of the 1990s, the closure of the coconut processing mill on Upolu adversely impacted on exports of coconut products. With the recent re-opening of the mill (mid-1999) the value of those exports should increase. Kava is another significant agricultural export and has increased in relative importance as an export.

Table 6
Estimated and Projected Contributions to the Kiribati Development Fund for 1995-2001 in
A\$ '000 by Detailed Source

Donor	Estimate 1995-98				Projection 1999-2001		
	1995	1996	1997	1998	1999	2000	2001
United Kingdom	1,500	1,500	1,500	1,448	1,127	1,200	1,200
Australia	4,718	4,345	4,686	6,800	6,800	6,800	6,800
New Zealand	2,700	2,568	2,672	2,800	2,800	2,800	2,800
Japan	376	800	3,200	8,500	9,558	9,000	5,000
European Community	3,550	6,500	6,500	6,500	3,400	3,400	3,400
Asian Development Bank	550	3,000	2,730	6,540	8,413	9,157	2,757
China	160	170	170	500	600	600	600
SPC/SPREP/CFTC	150	150	200	300	400	400	400
UNICEF	0	0	0	0	139	139	139
UNDP/UNFPA	700	900	1,200	1,300	1,800	2,000	2,000
USAID/Peace Corps	400	400	400	400	400	400	400
Canada Fund	200	200	200	200	225	225	225
Germany	40	40	40	40	40	50	50
South Korea	65	65	65	65	65	65	65
ESCAP	30	40	40	50	50	50	50
France	400	100	200	200	200	200	200
WHO	200	300	392	469	469	489	489
Forum Secretariat/SIS	89	92	86	90	90	90	90
USP/Regional Org.	10	120	90	100	100	100	100
Kiribati	3,800	3,000	2,017	3,000	5,000	2,500	2,500
Total	19,638	24,290	26,388	39,302	41,676	39,665	29,265

Source: Government of Kiribati (1999, p.222)

Beer was a relatively important export in 1994. It has fallen in relative importance since then but not in total value of exports. Samoa's brewery which was a government corporation has recently been privatised. Some clothing exports to the USA are expected from Chinese direct investment in processing of mohair garments. Table 7 indicates the relative components of Samoa's exports.

INSERT TABLE 7

The volatility of Samoa's exports arise because of its dependence on a narrow range of agricultural and fishery exports. The value of its exports are vulnerable to

- price fluctuations
- variations in yield, according to weather conditions e.g. occurrence of cyclones
- ecological disasters such as the taro blight
- variations in global trading conditions e.g. Asia's financial crisis
- difficulties arising from the closure of limited processing facilities such as the coconut processing mill.

In 1996, capital goods amounted to 11.5 per cent of Samoa's imports, intermediate goods 50.5 per cent and consumption goods 38 per cent. In 1996, food and beverages accounted for 26 per cent of Samoa's imports. Fuel and lubricants amounted to 11.8 per cent of imports. Although some hydro-electricity is produced locally, Samoa depends heavily on imported fossil fuel for its energy needed and for lubricants.

4.2 Policies relating to exports, trade liberalisation and trade cooperation

After pursuing a more inward-oriented development policy, Samoa through its economic reforms and trade liberalisation policies is now following a more open policy. No special incentives are being provided for exporters but Samoa does not impose export taxes. The government hopes to stimulate exports as a response to its economic reforms generally which are intended to provide an economic environment more conducive to business. Reduced tariffs on imported producer goods should be an advantage to those producers with a comparative advantage in exports. As mentioned earlier, the tariff system has

Table 7
Summary of Ministry of Education, Training and Technology
Expenditure and Funding, Kiribati

	1997 Actual (\$)	1998 Revised Est. (\$)	1999 Estimate (\$)
Recurrent Expenditure	8,970,750	11,170,556	11,608,003
<i>Funded from:</i>			
Fees and charges	227,303	290,320	284,821
Taxpayer contribution	8,743,447	10,880,236	11,323,182
Development Expenditure	2,837,747	3,518,600	5,524,328
<i>Funded from:</i>			
Development Fund	461,939	758,265	3,834,328
Aid-in-Kind	2,375,808	2,760,335	1,690,000
Total Expenditure	11,808,497	14,689,156	17,132,331

Source: Government of Kiribati (March, 1999, p.111)

been simplified and the average tariff rate has been reduced to 15 per cent. Further reductions may occur in the future.

While producers with a comparative advantage in exports are likely to gain, those exporters and producers who relied on tariff protection for local market share are likely to be disadvantaged. These include some manufacturers. So some structural change can be expected.

While reduced tariffs will increase competition in some industries in Samoa, non-traded commodities internationally, such as electricity, are not subjected to increased competition by this strategy, and the high price of electricity in Samoa is of concern to some business people.

No specific policies appear to be in place for diversification of exports. However, various government departments through their policies do help to promote such diversification. For example, the Ministry of Agriculture, Forestry and Fisheries is continually exploring new products which may be suitable for export and examining methods to increase productivity. But agricultural production for exports and for markets may undermine traditional subsistence systems of mixed agricultural production by encouraging specialisation in production. This problem has been mentioned in discussing social issues. Greater reliance on agricultural exports even if well diversified at the aggregate level may be associated with greater specialisation in agricultural production and reliance on markets at the village level which can have adverse consequences for economic security, including food security. There is a need to examine the economic vulnerability issue in a holistic manner and not rely on diversification of imports as the sole indicator of such diversity.

The Department of Trade, Commerce and Industry provides some assistance and information to potential importers seeking overseas markets, as well as overseas markets, as well as to overseas exporters wishing to export to Samoa. It also provides general information on direct investment opportunities in Samoa, some of which could add to

Samoa's exports. The Trade and Investment Promotion Unit (TIPU) with the Department of Trade, Commerce and Industry is designed to facilitate foreign direct investment in Samoa.

It is possible for new export possibilities to have adverse environmental impacts. The Secretary of MAFF reported for example that at the height of the taro export-boom considerable forest clearing had occurred to supply exports of taro. It is too early to say what the environmental impacts of the recent trade liberalisation measures will be. As for labour issues, the economic reforms as a whole are likely to make for reduced job security. The impact on child labour is unclear. However, Fairbairn-Dunlop (1998) mentions that in some poor families children must work after school e.g. in agricultural and household activities, and this can interfere with their studies. In some economies, it has also been observed that when cash production replaces subsistence that males appropriate the money and the diets of women and children suffer. Some issues may be worthy of study in the Samoan context.

Samoa is aiming to join WTO and has been carrying out economic reforms systematically with this in mind. It is also a Forum Secretariat country and supports policies being promoted by the Secretariat for freer trade between Pacific island nations.

Samoa obtains preferential access for its exports to Australia and New Zealand under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), to Europe under the LOME IV Convention and to the USA and Japan under the Generalised Systems of Preferences (GSP) reforms (Government of Samoa, 1998, p.1). However, the LOME Convention is being renegotiated.

4.1 Challenges and Recommendations

Although Samoa is in a more fortunate position than the least developed atoll countries in the Pacific in terms of its resource endowments and external links, it is still a small nation (population about 170,000) and therefore suffers from diseconomies of scale and scope. It is also relatively isolated.

In many respects, outward migration has been a lifeline for the nation. It has provided an important source of income via remittances, has been a source of new ideas, and has provided an import market for some Samoan products. Hopefully, opportunities for migration will continue in the future. It is true that there are some negative consequences from migration but on the whole it seems to have been economically beneficial for Samoa.

It was noted that travel to Samoa makes a substantial contribution to Samoa's balance of payments. Many of the visitors are Samoans or descendants of Samoans returning home on holidays. Considerable scope exists for expanding tourism to Samoa. So far, secure access to customary land has been a constraint on resort development but the Samoan government plans to lease such land and sub-lease it to developers may overcome that constraint. In any case, in developing the tourist industry Samoa must give careful attention to the type of tourism which it wishes to encourage and be aware that it also has many competitors in the Pacific region.

5 ECONOMIC INFRASTRUCTURE

5.1 Overview

Samoa is relatively well provided with economic infrastructure. The fact that the country consists primarily of two major islands assists. This is certainly an advantage compared to those Pacific island nations which are archipelagic, consisting of a series of scattered small islands, as in the case of Kiribati and Tuvalu.

Samoa is well served by sealed roads especially on the island of Upolu and Savaii has a coastal road which is for the most part sealed while roads in Upolu are basically all sealed roads but in some places there are risks from sea erosion. Following major cyclones in the early 1990s, major investment was undertaken to improve Samoa's road network. The main emphasis at present is on maintaining existing roads and upgrading these.

Samoa is well served by maritime connections and facilities. Administration of the ports is the responsibility of the Ministry of Transport which is financially self-supporting. Cargo loading and stevedoring services at ports are provided by private companies. Apia is the main overseas port and is well equipped. Apart from this, local cargo ports exist at Maclifanua on Upolu and at Salelologa on Savaii, and a regular inter-island service exists for passengers, vehicles and freight between these two islands.

Samoa has a large international airport (Faleolo International Airport) on Upolu and two smaller airports, Fagalii close to Apia and Moata on Savaii. Flights from both airports operate to American Samoa as well as catering for inter-island flights. They are only capable of taking small aircraft but have night landing facilities.

Samoa Telekom (a recently corporatised section of The Post and Telecommunication Department) operates telephone services to all areas. However, Telecom Samoa Cellular Limited (held 90% by Telecom New Zealand and 10% by the Samoan Government) operates the mobile phone system which provides coverage in Apia and some other areas. In addition, Samoa is provided with a full range of internet and e-mail services.

An industrial estate has been developed at Vaitele near Apia. This is serviced by water and electricity and sites are said to be available to industrialists for long-term rental at low rates.

Electricity is supplied both by hydro schemes and by oil powered generators. Businessmen consider Samoa's electricity charges to be relatively high. In 1998, electricity cost \$SAT 0.60 per kwh with no reduction for volume or for businesses (Government of Samoa, (1998)).

Although some parts of Samoa do not have access to electricity, coverage appears to be widespread. Nevertheless, some poor families cannot afford to use electricity and rely on biomass and kerosene for cooking.

While most of Samoa receives regular rainfall, a few parts are in a rain shadow, and in the latter cases water shortages often exist.

Apia's water supplies are becoming inadequate to meet its demands. This is partly because water metering and charging for water is not widespread, and water mains do not seem to be well maintained by the water authority. Therefore, a considerable amount of water appears to be wasted in Apia. The EU will provide funds to develop a new enlarged water supply system for Apia but has made it a condition that a user-pays principle should be adopted.

At least 10 per cent of Samoans do not have access to safe water (UNDP, 1998, p. 106). Although Samoa is rated highly in the Pacific for access to sanitation by the UNDP (1998, p.106), 97% access, pit toilets and septic tanks are still widely used. Both can be sources of pollution.

As for the disposal of wastes, this could not be investigated during my visit. However, rubbish collection in Apia is not very hygienic. Rubbish is left out for collection in assorted receptacles and not protected from flies. In 1999, the government decided to introduced a deposit scheme for bottles and place a tax on plastic shopping bags.

The Department of Public Works is responsible for the major part of the Government's expenditure on economic infrastructure, but not all of it. This Department is already active in contracting out work, and plans to contract out around 80 per cent of its work. Items involving substantial regulation must be tendered for and evaluated by the Public Tender Board.

The points system of allocating contracts provides some preference for local contractors, and for joint ventures which include a local contractor. Sufficient local expertise is said to exist to carry out many jobs, especially maintenance jobs.

The aim of contracting out is to reduce the cost of supplying public services. Whether or not this happens will depend on the degree of competition between potential suppliers and market transaction costs. So it does not follow automatically that contracting out is always the best cost alternative.

5.2 Recommendations

- Measures to reduce the cost of electricity need to be actively explored. Several possibilities need to be considered. Whether separating the power supply and distribution functions would achieve this could be explored.
- Scope for privatising the telephone service, which has now been corporatised, needs to be explored and its costs and benefits assessed. Experience with Telecom Samoa Cellular Limited may provide some guidance.
- The process of contracting out government work is worthwhile pursuing provided it can be shown to reduce cost of supply without lowering the quality of the services to be provided. A cautious approach to contracting out may be warranted.
- Further examination of 'social' infrastructure such as waste disposal, sewerage disposal and water supplies would be useful.
- While the transport systems of Samoa appear to be relatively adequate, they need to be maintained and prevention of erosion is an issue in some sections of road.
- In air transport, the status of Polynesian Airways may need to be considered and the possibility of privatising airport operations may be worthy of study.

6 CONCLUDING COMMENTS

While the GDP per capita of Samoa is low enough to put it in the least developed nation category when it is combined with other considerations, it is well below income per capita in Samoa due to the high level of private remittances received by Samoan

residents. The level of such remittances appears to be considerably in excess of official estimates. During the 1990s, Samoa was relatively fortunate in maintaining its level of overseas assistance (which may nevertheless have been at a lower level than in the 1980s) and also its level of private remittances rose steadily. The government followed a balanced budget policy in the 1990s. This, together with the factors just mentioned, meant that Samoa has not been under pressure to carry out its economic reforms.

Nevertheless, it started undertaking structural reforms as early as 1987 when it began to divest itself of some of its public enterprises. Reforms include the introduction of performance accounting in public bodies, increased contracting out of public works and activities, significant reductions in tariff levels and the introduction of a Value Added Goods and Services Tax (VAGST). Measures to encourage foreign direct investment are being implemented.

In relation to access to education and health services, Samoa provides greater access than any other least developed Pacific island nation. It also has the highest literacy rate. But there is reason to be concerned by food poverty amongst some sections of its population. Moreover, a declining subsistence sector may result in decreased social security in the future.

Although there are some deficiencies in the infrastructure of Samoa (these are most noticeable on Savaii), Samoa is better placed in relation to infrastructure than the other least developed Pacific island nations. This is partly so for geographical reasons. These also contribute to better access to educational and health services in Samoa compared to the other least developed Pacific island nations.

Merchandise exports account for a relatively small proportion of Samoa's receipts of foreign exchange but a higher proportion than in the case of Kiribati and Tuvalu. Private remittances, foreign and income from tourism are all important sources of foreign income. Scope exists for increasing tourism receipts. The main constraint on expansion of

tourism appears to be problems involving land rights, arising from the existence of customary land ownership.

When the GDP per capita of Samoa is adjusted for its high degree of vulnerability on account of economic and environmental factors, its computed or adjusted GDP is lowered considerably. This factor helps it retain its classification as a least developed nation.

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APPENDIX

Interviews in Samoa Conducted Monday 2nd August to Friday 6th August, 1999 inclusive

1. Mr Sergei Ducasse, UNDP Resident Representative and UN Coordinator
2. Mr Fiu Mata'ese Elisara-Laulu, National Assistant Resident Representative, UNDP
3. Ms Muliagatele Georgiana M.S. Bonin, National Professional Officer (Programme)
4. Mr Falani Chan Tung, Secretary, Department of Trade, Commerce and Industry
5. Mr Eddie Wilson, President, Western Samoa Manufacturer's Association and Managing Director of Willex Ltd
6. Mr Iulai Lavea, Assistant Financial Secretary, Economic Policy and Planning Division, Treasury Department
7. Ms Frances Brebner, Economic Policy and Planning Division, Treasury Department
8. Mr Tupae Esera, Director of Education, Department of Education
9. Mr Tuisugaletaua A. Sofaara Aveau, Director of Agriculture, Forests, Fisheries and Meteorology.
10. Mr Philip Penn, Deputy Chief Executive – Policy (Deputy Governor), Central Bank of Samoa
11. Mr David Meader, Advisor to the Central Bank of Samoa
12. Mr Ronald Wolters, Associate Professional Officer, Environmental Health, WHO
13. Mr Leiataua Isikuki Punivalu, Director of Works, Public Works Department
14. Dr J. AINU'U, Acting Director - General of Health, Ministry of Health
15. Dr Vili A. Fuavao, Sub-Regional Representative to the Pacific, FAO
16. Mr Muliagatele Mark Paul, Managing Director, Gold Star Co Ltd and President of Samoa Chamber of Commerce and Industry, Inc.
17. Ms Peggy Fairbairn Dunlop, Consultant, Fairbairn Dunlop and Associates Ltd and academic staff member, Extension Services, University of South Pacific, Samoan Campus, Apia.
18. Mr Jim Dunlop, Business Consultant, Fairbairn Dunlop and Associates Ltd, Accountant and Advisor to the Samoan copra mill.

Advice on Aspects of Samoan Data and Economy

1. Dr Jon Stanford, Senior Lecturer, Department of Economics, The University of Queensland.
2. Dr Richard Brown, Senior Lecturer, Department of Economics, The University of Queensland.
3. Dr T'eo Ian Fairbairn, Fairbairn Pacific Consultants Pty Ltd., Newcastle, NSW.

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