GOVERNMENT OF SAMOA

MEDIUM TERM DEBT MANAGEMENT STRATEGY
2016-2020

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SAMOA
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LIST OF ABBREVIATIONS

ADB  Asian Development Bank
CBS  Central Bank of Samoa
CNY  Chinese Yuan
CS-DRMS Commonwealth Secretariat-Debt Recording and Management System
DBS  Development Bank of Samoa
DEMPA Debt Management Performance Assessment
EIB  European Investment Bank
EPC  Electric Power Corporation
EXIM Bank of PRC Export Import Bank of People’s Republic of China
GDP  Gross Domestic Product
IDA  International Development Association
IFAD International Fund for Agricultural Development
IMF  International Monetary Fund
JICA Japan International Cooperation Agency
JPY  Japanese Yen
MTDS Medium Term Debt Management Strategy
OPEC Organisation for Petroleum Exporting Countries
PASAI Pacific Association of Supreme Audit Institutions
PFMA Public Finance Management Act
SAIP Samoa Aviation Investment Program
SBS  Samoa Bureau of Statistics
SDR  Special Drawing Rights
SDS  Strategy for the Development of Samoa
SLAC Samoa Life Assurance Corporation
SNPF  Samoa National Provident Fund
USD  United States Dollars
UTOS Unit Trust of Samoa
WB  World Bank
EXECUTIVE SUMMARY

The Medium Term Debt Management Strategy 2016-2020 aims to achieve the Government’s overall debt management objective “to ensure that the financing needs of the State are met at all times on a timely basis and that the borrowing costs of the State are as low as possible over the medium term, within a prudent risk level”.

The total public debt at end December 2015 was SAT1, 124.8 million, and about 56.7% of GDP. External debt dominates share of the public debt portfolio is 96%, exposing Government to high foreign currency risk. The main creditors are the EXIM Bank of PRC offering semi-concessional financing, and highly concessional financing from World Bank (WB) and Asian Development Bank (ADB). Government guarantees and on-lending are 8.9% and 10% of GDP at end December 2015, exposing Government to credit risk.

Review of the implementation experience under the previous MTDS between 2013 and 2015 highlights improvements made to improve debt management operations, but also raises concerns that hindered implementation during the period. There were improvements made in the legal framework by amending PFMA 2001, the procedures and guidelines for contracting Government new loans and issuing guarantees were approved by Cabinet, and the timely publication of the quarterly public debt bulletin. The main concerns noted that the approved procedures and guidelines were not followed in contracting a new loan during the period, and the concessional requirement of 35% grant element for any new external loan contracted was violated. A default Government guarantee in 2014 increased the debt stock and cost of debt, hence improved monitoring of Government guarantees is important.

Borrowing over the medium term should continue to prioritize external concessional borrowing by limiting approval for external loans to those with at least 35% grant element and that support projects with a minimum positive economic return sufficient to cover the interest and repayment costs. In addition, monitoring and management of the public debt portfolio will be improved via: implementation of the procedures and guidelines for contracting new loans and issuance of guarantees approved by Cabinet in 2014; submission of annual reporting to Cabinet and Parliament on MTDS implementation and debt management operations of Government; and setting of strategic indicators and targets to monitor the costs and risk exposure of the public debt portfolio. Effective implementation of the MTDS is also crucial to keep the country’s debt at sustainable level.

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1 Public Finance Management Act 2001
1. INTRODUCTION

1. The Public Finance Management Act 2001 (PFMA) provides the legal framework governing Government debt management.

2. Pursuant to Section 86B of the PFMA 2001, the Minister of Finance should have in place a debt management strategy, including the debt management objectives, assessment of macroeconomic framework and market conditions, cost and risk analysis of the Government debt portfolio, guideline for future borrowing by the State and any other information that the Financial Secretary considers necessary for the development of the strategy. The debt management strategy should be reviewed annually and updated (if required) by the Financial Secretary and submitted to Cabinet for approval. The State’s borrowing and other debt management operations are to be consistent with the Government’s debt management strategy. In addition, the Ministry of Finance’s annual reporting to Parliament should include review of the past year’s implementation of the debt management strategy.

3. The MTDS 2016-2020 is the second MTDS prepared by the Ministry of Finance, outlining the Government’s plans to guide its debt management activities in the next 5 years. It provides a systematic approach to decision-making on the appropriate composition of external and domestic borrowing to finance the Government’s financing needs, whilst ensuring fiscal targets are adhered to and overall Government debt management objectives are achieved.

2. EXISTING PUBLIC DEBT PORTFOLIO: 31 DECEMBER 2015

5. Total public debt\(^2\) at end December 2015 was SAT 1, 124.8 million, equivalent to 56.7% of GDP. The outstanding amount consisted of SAT 1, 081.7 million of public external debt and SAT 43.1 million of public domestic debt. The Public debt increased from 42.8% at end FY09/10 to 57.6% by end FY14/15, and has decreased slightly from June 2015 to December 2015. Increases were due to several factors: new budget support loans from external creditors to assist with the recovery efforts from 2009 tsunami and global economic crisis; and new semi-concessional external borrowing to fund the international airport terminal upgrade. Domestic debt was on a decreasing path from FY09/10 to FY12/13, then increased in FY13/14 due to a one-off loan guarantee default.

<table>
<thead>
<tr>
<th>Millions of SAT</th>
<th>FY09/10</th>
<th>FY10/11</th>
<th>FY11/12</th>
<th>FY12/13</th>
<th>FY13/14</th>
<th>FY14/15</th>
<th>FY15/16 (Dec2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Public Debt</strong></td>
<td>714.4</td>
<td>786.5</td>
<td>906.4</td>
<td>990.4</td>
<td>1,015.5</td>
<td>1,126.1</td>
<td>1,124.8</td>
</tr>
<tr>
<td><strong>External debt</strong></td>
<td>657.4</td>
<td>737.7</td>
<td>864.6</td>
<td>952.6</td>
<td>966.2</td>
<td>1,078.2</td>
<td>1,081.7</td>
</tr>
<tr>
<td><strong>Domestic Debt</strong></td>
<td>56.9</td>
<td>48.8</td>
<td>41.8</td>
<td>37.8</td>
<td>49.2</td>
<td>47.9</td>
<td>43.1</td>
</tr>
<tr>
<td><strong>Total Public Debt to GDP %</strong></td>
<td>42.8%</td>
<td>44.5%</td>
<td>49.2%</td>
<td>53.8%</td>
<td>54.4%</td>
<td>57.6%</td>
<td>56.7%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance (MoF), Samoa Bureau of Statistics (SBS)

6. **Debt to GDP ratio**: The level of public debt to GDP was above the fiscal target of 50%\(^3\) all throughout the period under review, with the highest at 57.6% at end of FY14/15.

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\(^2\)“Public debt means all liabilities of the State; but does not include liabilities where the State is trustee for another person, or the liabilities of any public body” PFMA 2001

\(^3\)Fiscal Strategy Statement Budget 2016/17
2.1. Composition of Total Public Debt

7. Instrument composition: The total public debt outstanding is 99.96% loans and 0.04% T-bonds. T-bonds are not currently issued, and the only remaining obligation at end December 2015 is repayment of SAT 400,000 issued in 2005.

8. Currency composition: Chart 2.2 shows that 48% of loans are denominated in Special Drawing Rights (SDR\(^4\)), 39% in Chinese yuan (CNY), 6% in Japanese yen (JPY), 4% in Samoan tala (SAT) and 2% in US dollars (USD). Breaking the SDR down into its current source currencies, Chart 2.3 shows that the main currency exposures at end 2015 were CNY (39%), USD (23%), EURO (18%) and JPY (11%). Exposure to the CNY increased recently due to the semi-concessional borrowing from the EXIM Bank of PRC. In addition, the CNY will be included in the SDR basket starting in October 2016 with a weight of 11%. This will further increase CNY exposure to representing close to half of the total public debt portfolio.

![Chart 2.2: Total debt by loan currencies (millions of Tala): 31-Dec-2015](chart1.png)

![Chart 2.3: Total debt by currency breakdown (millions of Tala): 31-Dec-2015](chart2.png)

9. Creditor composition: Chart 2.4 shows a notably increasing trend in the proportion of the debt stock with EXIM Bank of PRC over the years, whilst ADB and IDA proportions remain relatively stable. The domestic debt creditors are mainly Government SOEs namely Unit Trust Of Samoa (UTOS), Samoa National Provident Fund (SNPF) and Samoa Life Assurance Corporation (SLAC).

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\(^4\) Special Drawing Rights is a basket of 4 main currencies listed; USD41.9%, GBP11.3%, JPY9.4%, EUR 37.4%. The Chinese currency CNY will be included in the basket effective October 2016.
2.2. Total Debt Service

10. Debt service shows an increasing trend, especially since FY12/13 (Chart 2.5). This is due largely to increasing principal repayments (Chart 2.6) that started in the last several financial years. The annual percentage increases in debt service payments in FY12/13, FY13/14, FY14/15 and FY15/16 were 5.5%, 14% and 14.4%, 23% respectively.

11. Chart 2.7 shows the redemption profile (principal repayments only) based on the existing debt outstanding, separating longer maturity external debt from shorter maturity domestic debt. From FY17/18 to FY25/26, principal repayments will remain above SAT 60 million.
12. The total debt service requirements of Government (Chart 2.8) include the redemption profile in Chart 2.7 plus interest payments. This shows tremendous increase compared to historical level of around SAT 50 million, and will remain above SAT 60 million for the next 13 years.

13. Any new borrowing will elevate the debt service requirement further. The choice of debt instrument for any planned new borrowings is crucial in managing the increasing debt service requirements.
2.3. Government Guarantees and On-lending
14. The Government issues guarantees to its SOEs, but these are not included in the current definition of total public debt consistent with the PFMA 2001. However, these explicit contingent liabilities pose significant fiscal risk to the Government and need to be monitored and managed effectively. For example, these contingent liabilities are included in the DSA.
15. Total Government guarantees issued and outstanding at end December 2015 was SAT 176 million. As a share of GDP, outstanding guarantee was 8.9% at end December 2015. Most of the Government outstanding guarantees (Chart 2.9) are with CBS (58%), EIB (10%), SNPF (11%) and UTOS (7%).
16. There were five on-lending arrangements between Government and its SOEs (EPC, DBS, UTOS) active at end December 2015. The total amount on-lent and outstanding was SAT 190.6 million. The terms of Government on-lending to SOEs are on average, an interest rate of 6% p.a, maturity of 19 years, and grace period of 7 years.

Chart 2.9

Chart 2.10

Source: MoF, MPE
Table 2.2: Characteristics of debt instruments in the existing debt portfolio

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Category</th>
<th>Cost Characteristics</th>
<th>Main Risk Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-WB</td>
<td>Multilateral - Highly concessional</td>
<td>Interest rate: 0.75% -fixed Maturity: 40years including 10years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>Multilateral - Highly concessional</td>
<td>Interest rate: 1% p.a. during gp and 1.5% p.a. thereafter- fixed Maturity: 32years maturity including 8years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFAD</td>
<td>Multilateral – highly concessional</td>
<td>Interest rate: 1% p.a. Maturity 40years including 10years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JICA</td>
<td>Bilateral - concessional</td>
<td>Interest rate: 0.45% -fixed Commitment fee: 0.1% p.a., Maturity:30years including 10years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXIM Bank of PRC</td>
<td>Bilateral semi- concessional</td>
<td>Interest rate: 2% p.a.-fixed Commitment fee: 0.25% p.a. Management fee: 0.25% (upfront) Maturity:20years including 5years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPEC</td>
<td>Multilateral non concessional</td>
<td>3.6% p.a. (average rate of existing loans) 1% p.a. service fee 20years maturity including 5years gp</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-bonds -10years -15years</td>
<td>Domestic- commercial</td>
<td>Interest rates: 6.5% p.a., Maturity 10years including 9years gp Interest rates: 7% p.a. Maturity 15years including 14years gp</td>
<td>Interest rate risk and refinancing risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UTOS, SNPF</td>
<td>Domestic – commercial</td>
<td>Interest rate: 9% p.a. Maturity of 15years with no gp</td>
<td>Interest rate risk and refinancing risk</td>
</tr>
</tbody>
</table>

Source: MoF

2.4. Cost and risk indicators of existing debt portfolio

17. Table 2.3 shows that the overall cost and risks indicators in the total public portfolio are strongly driven by the external debt portfolio. For instance the low cost and low interest rate and refinancing risk in the external debt makes it more attractive compared to the domestic debt.

18. However the external debt exposes Government to high foreign currency risk, and this is important given movements in the Tala against the main loan currencies. It is important to diversify currencies to the extent feasible, to mitigate direct cross–rate movement.
<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>External debt</th>
<th>Domestic debt</th>
<th>Total debt</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount (in millions of SAT)</strong></td>
<td>1,081.7</td>
<td>43.1</td>
<td>1,124.8</td>
</tr>
<tr>
<td><strong>Nominal debt as % GDP</strong></td>
<td>54.6%</td>
<td>2.2%</td>
<td>56.7%</td>
</tr>
<tr>
<td><strong>Cost of debt</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Av. IR (%)</td>
<td>1.3%</td>
<td>8.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Refinancing risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM (years)</td>
<td>12.0</td>
<td>3.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>3.5%</td>
<td>19.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Interest rate risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>12.0</td>
<td>3.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>3.5%</td>
<td>19.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>FX risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt (% of total debt)</td>
<td>100%</td>
<td>0.0</td>
<td>96.2%</td>
</tr>
<tr>
<td>ST FX debt (% of reserves)</td>
<td>15.9%</td>
<td>0.0</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

Note: Av. IR - Average Interest Rate, ATM - Average Time To Maturity, ATR - Average Time to Refixing, FX - Foreign Currency, ST - Short Term

Source: MoF, SBS, CBS

19. This review covers the three years of implementation of the MTDS 2013-2015 (December 2013-December 2015). The review assesses and reports on the compliance of implementation to the approved MTDS, highlights positive and negative factors that have influenced implementation, and flags lessons for the new MTDS 2016-2020.

3.1. Evolution of cost and risk characteristics

20. Overall borrowing costs and the risk exposure of debt to the Government have increased. The three main contributing factors for this change were i) the semi-concessional external loan contracted with a 27% grant element which did not comply with the minimum 35% grant element for concessional borrowing stated in the MTDS, ii) the process followed in the contracting of this new loan was not consistent with the approved procedures and guideline for contracting new loans for Government; and iii) a default Government guarantee with commercial interest rates during the period.

21. Increased borrowing costs: (Table 3.1) Interest payments as a share of revenue increased from 3% in FY13/14 to 3.3% in FY14/15 and to 3.5% in FY15/16. Similarly, interest payments as a share of GDP increased from 0.80% in FY13/14 to 0.91% in FY14/15 and to 0.95% in FY15/16. The semi-concessional external loan contracted in 2014 carried an interest rate of 2% per annum, a management fee of 0.25% and a commitment fee of 0.25% per annum. The face value of the loan was CNY 340 million equivalent to USD 55 million, a maturity period of 20 years which includes 5 years grace period. The interest costs per annum on the disbursed amount increased total debt service requirements during the period. The default Government guarantee in 2014 was Pacific Forum Line (PFL) loan with UTOS .The amount was SAT 18.2 million, an interest rate of 9.5% per annum, and remaining maturity of 5 years. The interest rates for the semi concessional loan and the domestic default contributed to increase in cost and average interest rate of the portfolio. The average interest rate for the debt portfolio increased 3 basis points to 1.98% in December 2014 compared to 1.95% in December 2013, and rose 2 basis points in December 2015 to 2.0% compared to December 2014 (Table 3.2).
Table 3.1:

<table>
<thead>
<tr>
<th>Interest Costs</th>
<th>FY11/12</th>
<th>FY12/13</th>
<th>FY13/14</th>
<th>FY14/15</th>
<th>FY15/16$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest to GDP (%)</td>
<td>0.73%</td>
<td>0.79%</td>
<td>0.80%</td>
<td>0.91%</td>
<td>0.95%</td>
</tr>
<tr>
<td>Interest to Revenue (excluding grants) %</td>
<td>3.0%</td>
<td>3.1%</td>
<td>3.0%</td>
<td>3.3%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: MoF, SBS

22. **Level of risk**: The main risk in the public debt portfolio is the foreign currency risk, followed by the credit risk.

23. Foreign currency risk remained high and increased as the proportion of total public debt denominated in foreign currencies increased over the period.

24. Refinancing risks and interest rate risks are low driven by the external debt portfolio which is mainly on concessional interest rates and terms.

25. The credit risk is determined by the level of contingent liabilities of the Government. The total guarantees outstanding to GDP at the end of 2013, 2014 and 2015 were 8.2%, 9.1% and 8.9% respectively. Total on-lending outstanding over the same period was 10%, 11% and 10% of GDP.

26. Level of debt: Total public debt to GDP ratio remained above the fiscal target of 50%, increasing from 55% in December 2013, to 56% in December 2014 and 57% in December 2015. The findings of the joint DSA conducted by IMF/WB in 2015 concluded that Samoa was at moderate risk of debt distress, an improvement from the high risk of debt distress rating in the 2013 DSA. Samoa’s Country Policy and Institutional Assessment (CPIA) score in 2014 was 4.0, and the external debt indicators threshold and public debt benchmark for Samoa are also high, however these thresholds and benchmark were already breached.

Table 3.2

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$ Provisional figures
3.2. Implementation of the MTDS

27. The MTDS 2013-2015 comprises five main dimensions to achieve the overall debt management objective of the Government. This section summarizes implementation experience under each of these dimensions.

28. To minimise the cost of public debt by limiting approval for external loans to those with at least 35% grant element and with minimum positive economic return sufficient to cover the interest and repayment costs

- The approved procedures and guidelines for contracting new Government loans was not followed when contracting a semi-concessional external loan in November 2014, since there was no cost benefit analysis before the loan was signed. An economic analysis was subsequently prepared to determine the positive economic benefit of the project. The loan has a grant element of 27% and did not meet the minimum requirement of 35% grant element for new borrowing. The purpose of the loan was to finance the upgrade of the international airport terminal.

29. To introduce effective mechanisms for review of State guarantees before approval and to monitor the risk of default so as to avoid increases in public debt

- Procedures and guidelines for issuing Government guarantees were approved by Cabinet in August 2014, together with the procedures for contracting new Government loans. These were developed with the assistance of the World Bank technical assistance debt reform plan mission in February 2014. Subsequent requests for Government guarantees...
have followed the approved guidelines, with risk assessments prepared by Debt Management Unit (DMU) accompanying the submissions to Cabinet.

- The PFL defaulted on a loan that was guaranteed by Government during the review period. The amount transferred to Government to settle and approved by Cabinet in the amount of SAT 18.2 million, with an interest rate of 9.5% per annum, a late payment fee of 2.5% per annum and remaining maturity of 5 years.
- Data on loan guarantee is sourced from MPE which receives quarterly SOE reports for monitoring and reporting to Cabinet. However these reports are sometimes delayed 2-3 months after the quarter.

30. To monitor the composition of the public debt portfolio, identify potential financial risks and actions required to keep risks to a prudent level with annual targets and reports on performance

- The financial risks in the debt portfolio are foreign currency risk, credit risk, refinancing risk and interest rate risk. The MTDS 2013-2015 did not develop indicators of these risks nor set targets to monitor and manage cost and risks exposure in the Government debt portfolio.
- The DMU initiated quarterly reporting on the debt portfolio with the first public debt bulletin issue for June 2012 quarter, published and posted on MoF website. Improvements made to the public debt bulletins starting September 2014 quarter, to include cost and risk indicators of the total public debt, but do not cover the Government’s overdraft (OD) facilities.
- The first consolidated public debt report prepared by DMU and submitted to Cabinet was for March 2014 quarter, and DMU continued to report debt matters to Cabinet through the submissions of risk assessment on request for new Government guarantees and new borrowing during the period under review.
- The exchange of information has improved between the MoF and CBS, MPE and SBS. This includes timely receipt of CBS bank statements, daily exchange rates, foreign reserves data, GDP figures and guarantee data, and has improved the quality of debt reporting and timely publication.
- The DMU has received technical assistance form the World Bank to review implementation and update the Debt Management Reform plan, originally developed in 2012. Also, a performance audit on Government debt management was conducted by the
Samoa Audit Office in 2014 as part of the Pacific Association of Supreme Audit Institutions (PASAI) initiative.

31. **To develop the domestic debt market by introduction of T-bills program.**

- There has not been any significant progress in the T-bills program in the last three years. The Debt Management Reform Plan sets out suggested stages for developing the T-bills program, though none have been implemented. T-bills issuance is mainly for cash management purposes, and with the existing OD facilities and the reforms in the cash management areas to be implemented, the T-bills program was not a priority. A domestic market development committee was set up in 2010 but never activated.

32. **To comply with the legislative requirements of Government in publication of MTDMS and debt reporting to Government annually.**

- Amendments to the PFMA 2001 were passed by Parliament in March 2015 to include the Government debt management objectives, the borrowing purposes of Government, the requirement for a debt management strategy, and the requirement for Government to report annually on its debt management activities as part of the overall annual report of the MoF to Parliament. The next debt report to Parliament would be the next MoF annual reporting to Parliament for FY1516.

3.3. **Highlights of the Implementation of MTDS 2013-2015.**

33. The overall Government debt management objectives were not achieved. Borrowing costs and risk exposure increased as a result of new semi-concessional external borrowing and a loan default at commercial rates during the period.

34. The approved procedures and guidelines for contracting new loans were not followed, the concessional external borrowing minimum grant element of 35% requirement was violated, and the economic analysis for the project funded was done after the loan was signed.

35. The approved procedures and guidelines for issuance of Government guarantees guided the issuance of new guarantees during the period.

36. Monitoring and reporting on Government debt management activities continued through the publication of quarterly public debt bulletin. Information flows improved between
MoF, CBS, MPE and SBS. A performance audit on debt management was conducted by Samoa Audit Office in 2014, and follow up technical assistance was received by the World Bank in 2014 to review implementation and update of the Debt Management Reform Plan.

37. The Parliament approved the amendments to the PFMA 2001 in 2015 to strengthen the legal framework to govern Government debt management operations and activities.

38. Continuous capacity building for staff for increased awareness on debt management and improved technical capacity in risk and cost risk assessment, conducting DSA and evaluation of debt management operations.

39. No development in the domestic debt market

3.4. Lessons learned

40. Enhancing the quality of the debt management strategy: The MTDS can be improved via quantitative analysis and forward-looking scenario analysis that provides a systematic approach to decide on the appropriate composition of external and domestic borrowing to cover Government financing needs. In addition, it is important to set strategic targets and indicators to monitor the implementation of the MTDS and manage risks and costs in the portfolio. The new MTDS also needs to identify the potential financing sources and any tentative borrowings of the Government in the medium term.

41. Improved monitoring and reporting in debt management: The procedures and guidelines for contracting new loans and issuance of Government guarantees are crucial in monitoring and managing Government debt portfolio. Workshops and training on debt management activities and operations within MoF and across Government should be conducted to improve and increase awareness, and continue to build capacities within Government. Quarterly public debt portfolio analysis and reporting to Cabinet, annual review of the MTDS to be submitted to Cabinet, and annual reporting to Parliament on public debt management activities and MTDS implementation.

42. Improved monitoring and management of Government contingent liabilities—Government Guarantees and On-lending: Continue the implementation of the procedures and guidelines for issuance of Government guarantees. MoF to develop a formal on-lending policy to guide Government’s on-lending operations, and schematics of process on the payment of Government default guarantees.
43. **Improved cash flow management**: Regular dissemination of cash flow report, including analytical review of previous period, terms and conditions and balances of all OD facility from time to time and the associated costs. A review of all the Government OD facilities is recommended, to determine costs and risks, as well an appropriate cash buffer to minimize liquidity risk exposure. Reactivate cash management committee meetings to review cash flow performance monthly.
4. MEDIUM TERM DEBT MANAGEMENT STRATEGY 2016-2020

4.1. Debt Management Objective
44. “To ensure that the financing needs of the State are met at all times on a timely basis, and that the borrowing costs of the State are as low as possible over the medium term, within a prudent risk level” (PFMA 2001).

4.2. Borrowing Purposes
45. The Government borrowing purposes in Section 78A of the PFMA 2001 are as follows;
   i. to finance any deficit in the approved budget of the State;
   ii. to maintain a cash balance at a level or range determined by the Minister;
   iii. to lend money in accordance with the Act;
   iv. to honour obligations under outstanding State guarantees;
   v. to refinance outstanding State debt, including repayment of a loan prior to its maturity date, and repurchase of State debt securities;
   vi. to immediately protect or eliminate effects caused by a natural or environmental disaster or any other national emergency;
   vii. to meet requests by the Central Bank to issue Treasury bills for the sole purposes of supporting monetary policy objectives; and
   viii. any other purposes as may be approved by the Cabinet.

4.3. Scope of Coverage
46. The scope of Government debt management covers the total public debt including external public debt and domestic public debt. In addition, the loans guaranteed by the Government and Government on-lending.

4.4. Macroeconomic and fiscal context
47. The MTDS 2016-2020 is based on the financial and macroeconomic forecasts in the Fiscal Strategy and Budget Statement for FY16/17. GDP growth in nominal terms is projected around 5.1% in FY16/17, increased from 4.3% in FY15/16. Inflation is forecast to remain relatively subdued with CPI growth estimated to increase to 2.1%. The country remains vulnerable to natural disasters and external factors such as appreciation of the
USD, slow recovery in China and Europe, and more expensive market lending terms in external markets.

48. The theme of the FY16/17 Budget theme is “strengthening the foundations and building for tomorrow”, and stresses the importance of fiscal discipline and Government commitment in its fiscal consolidation program. The Budget supports a number of structural reforms including import substitution in the agriculture sector, improved governance in SOEs, improved access to credit for businesses and assistance to promote growth in small and medium sized businesses in communities. Key initiatives on the revenue side include increases in the petrol levy, terminal fees, and excise taxes on tobacco and alcohol. In addition, a new health excise will be introduced on select food products. A tightening expenditure program for FY16/17 and next 2 years, and impose quality spending on priority areas, and reprioritize spending to areas that generate high returns and more employment.

49. The Fiscal Strategy FY16/17 targets an overall fiscal deficit of 3.5% of GDP. This target will be effectively met, with an expected deficit in the FY16/17 Budget of 3.55% of GDP. Total revenues including grants will be 38.4% of GDP and expenditures 41.9% of GDP. External grants to finance development expenditures is expected to be around 29% of total revenue, which is in line with previous years. Capital expenditures continued to dominate the overall expenditure program which are needed to address the rehabilitation needs following Cyclone Evan.

50. Cumulative borrowing following the global crisis, 2009 tsunami and Cyclone Evan have pushed the total public debt to GDP ratio above the Fiscal Strategy target of 50% since FY12/13. The total public debt to GDP ratio for FY15/16 is estimated to be 58%, however the ratio is expected to decline and meet the target over the medium term.

4.5. Potential funding sources and Government planned borrowings 2016-2020

51. To meet its financing needs, Government borrowing should continue to prioritize highly concessional external financing, maximising on the potential allocation available from the multilateral financial institutions. Access to highly concessional financing is subject to the Non Concessional Borrowing Policy (NCPB) and Samoa’s DSA risk rating of the WB, and similar restrictions with other multilateral institutions.

52. Four loans have been identified as Government planned borrowings in its development programs for 2016-2020. The terms and conditions for these loans are expected to be the
same as contracted with these creditors in the past. Thus this planned borrowing meets the concessionality criteria under the MTDS.

i. IDA-WB: Samoa Aviation Investment Project (additional financing) USD16.62m
ii. IDA-WB: Public Finance Management USD5m
iii. ADB: Climate Resilient West Coast Road (additional financing) USD12.5m
iv. ADB: Port infrastructure Development Project: USD 11m

4.6. Assessment of debt management strategies: cost risk trade off

53. To inform and formulate the MTDS 2016-2020, quantitative analysis of the cost and risks implications of alternative strategies for future borrowing was conducted. Specifically, analysis was carried out to compare the expected cost and risk characteristics of the public debt portfolio after undertaking four alternative borrowing strategies for next 5 years. This analysis was conducted using the WB/IMF MTDS toolkit.

54. The four alternative strategies considered are based on the varying assumptions for securing concessional financing as well as consideration of Government’s goal of developing the domestic debt market. Macroeconomic and fiscal projections used for the analysis are consistent with the latest Fiscal Strategy Statement Budget 2016-17. The four strategies are as follows:

i. **Strategy 1 (S1):** Status quo strategy
ii. **Strategy 2 (S2):** Maximum concessional external borrowing
iii. **Strategy 3 (S3):** Some semi-concessional and non-concessional borrowing
iv. **Strategy 4 (S4):** Domestic debt market development

55. **Description of baseline and alternative scenarios**

Baseline assumptions of market variables is as follows (see Table 4.2). The main foreign currencies in the public debt portfolio (USD and CNY) are assumed to depreciate by 2% per annum, and remaining currencies are assumed to depreciate by 1%. Baseline interest rates assumptions are based on the average effective interest rates for the existing public debt portfolio. The baseline interest rate for T-bills is 0.16% based on the weighted average yield on 28day CBS securities. In addition to running a baseline, each alternative strategy was subjected to shocks to the market variables to test robustness and risk.

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6 Debt Management Reform Plan 2014
Shocks to exchange rates are especially relevant given that 96% of the total public debt is denominated in foreign currencies. Interest rates shocks are also relevant to semi-concessional and commercial rates domestic borrowing.

**Table 4.2: Baseline scenario and shocks**

<table>
<thead>
<tr>
<th>Shocks</th>
<th>Description</th>
<th>Baseline</th>
<th>Moderate shock</th>
<th>Extreme shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Rate</td>
<td>All the foreign currencies in the portfolio</td>
<td>2% depreciation for main currencies in the portfolio USD, CNY 1% depreciation for all others</td>
<td>15% depreciation shock to baseline in 2018</td>
<td>30% depreciation shock to baseline in 2018</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Semi-concessional, non-concessional and commercial interest rates</td>
<td>existing debt portfolio instruments rates</td>
<td>100% increase to baseline</td>
<td>200% increase to baseline</td>
</tr>
<tr>
<td>Combined shock</td>
<td></td>
<td>15% depreciation shock plus moderate shock interest rate</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

56. **Description of alternative strategies**

i. **Strategy 1 (S1): Status quo strategy.** This strategy continues the external/domestic and creditor proportions of the existing portfolio. Future external financing is 96% of total financing needs, with creditor shares the same as the existing public debt portfolio at end June 2015: 41% - EXIM Bank of PRC, 27% - ADB, 24% - IDA, 6% - JICA, and 2% - OPEC for the next five years. The remaining 4% of financing needs are assumed to be met by domestic creditors, with 99% commercial loans and 1% -T-bonds.

ii. **Strategy 2 (S2): Maximum external concessional borrowing.** This strategy prioritizes financing from multilateral creditors. All Government financing needs are met by this highly concessional financing-100% external financing. In FY17/18: IDA-55%, ADB-35%, EXIM Bank-5% and JICA -5% as the both international airport project and power sector project expected to complete. In FY18/19 and FY19/20: IDA-65% and ADB-35%.

iii. **Strategy 3 (S3): Some external semi and non-concessional borrowing.** This strategy recognizes constraints in the highly concessional funding that can be provided by multilateral creditors. Government financing needs is 100% external financed for first 2 years and starting FY17/18, 96% is externally financed and 4%
from domestic sources. With regards to shares of creditors and instruments, from FY17/18-FY19/20: concessional sources -20%, semi-concessional borrowing-60% and non-concessional non concessional and 20%. The concessional financing are from multilaterals IDA and ADB, the semi-concessional financing is from EXIM Bank of PRC, and non-concessional financing is combination of OPEC external financing and domestic T-bonds.

iv. **Strategy 4 (S4): Domestic debt market development.** This strategy assumes development of a domestic T-bond issuance program starting in FY17/18, with T-bills issued in later years. During FY17/18-FY19/20, domestic financing covers 15% of Government’s financing needs through a mixture of 10 and 15year maturity T-bonds, T-bills are introduced in the last 2 years of the 5 year horizon. External financing is assumed to follow creditor proportions as in S2.

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57. **Analysis of strategies & outcomes of the analysis**

58. The cost risk trade off charts (Charts 4.1 – 4.5) illustrate the performance of the alternative strategies with respect to four debt burden indicators.

i. Overall as expected, for a similar level of risk, S2 is the least costly compared to S1, S3 and S4. S2 prioritizes highly concessional external borrowing to manage and reduce costs and maintain risk at prudent level to meet financing needs of Government. Due to lower relative costs, this strategy also helps improve overall debt sustainability and external debt risk rating of distress.

ii. **Nominal debt to GDP (Chart 4.1):** For a similar level of risk, S2 is the least costly compared to S1, S3 and S4. S4 is the most costly and most risky, as this strategy includes aggressive domestic debt market development, with a T-bonds and T-bills issuance program at market rates.

iii. **PV of Debt to GDP (Chart 4.2).** Analysis using this debt indicator shows that S2 is the least costly at 35.5% compared to S1 and S4. S1, S2, and S4 assumed a moderate to high proportion of concessional external borrowings therefore the low cost in PV terms. On the other hand, S3 is the most costly and risky strategy as this concentrated on more semi concessional external and non-concessional borrowings with little proportion of domestic debt financing introduced in the last 3years of MTDS.

iv. **Total debt service to GDP (Chart 4.3).** This chart shows that at end of FY20, S2 has the lowest cost at 3.1% of GDP. S4 is the most costly as the domestic debt financing assumed are on commercial interest rates. S1 and S3 attract similar cost, but S3 being
the most risky as interest rates for semi-concessional and non-concessional borrowings assumed.

v. Interest to Revenue (Chart 4.4). This chart also shows that S2 is the least costly with regards to Government revenues, whilst S3 is the most risky strategy.

vi. External Debt Service to International Reserves (Chart 4.5): The chart shows that S4 yield the lowest risk and cost due to high domestic financing assumed in S4. Whilst S1, S2 and S3 all have similar degree of high external financing, S2 shows the lowest cost as external debt service requirement for S2 are low due to low interest rate, longer maturity and grace period in concessional external financing. S3 is the most costly and risky strategy.

59. Cost Risk Trade off

Chart 4.1:

Chart 4.2:

Chart 4.3:

Chart 4.4:

Chart 4.5:
60. Risk Indicators (Table 4.3): S2 entails low refinancing risk and interest rate risk compared to S1, S3 and S4. The ATM and ATR are longer at 12.7 years each, and the debt maturing and refixing in 1 year is 4.4% of total public debt.

61. S2 has the lowest interest payment as a share of GDP at 0.7% and an implied interest rate of 1.3% compared to S1, S3 and S4.

62. However, S2 has the highest exposure to foreign currency risks, as it raises the share of foreign currency debt as a share of the total portfolio from 95.7% in FY14/15 to 99.5% at end of FY19/20. The foreign currency debt due in 1 year as a ratio of available foreign reserves is the same for all the four strategies.

Table 4.3:

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>2015</th>
<th>As at end 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>S1</td>
</tr>
<tr>
<td>Nominal debt as % of GDP</td>
<td>57.6</td>
<td>53.5</td>
</tr>
<tr>
<td>Present value debt as % of GDP</td>
<td>41.6</td>
<td>37.9</td>
</tr>
<tr>
<td>Interest payment as % of GDP</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Implied interest rate (%)</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>ATM External Portfolio (years)</td>
<td>10.7</td>
<td>11.3</td>
</tr>
<tr>
<td>ATM Domestic Portfolio (years)</td>
<td>3.0</td>
<td>5.5</td>
</tr>
<tr>
<td>ATM Total Portfolio (years)</td>
<td>10.4</td>
<td>11.2</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>10.4</td>
<td>11.2</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt as % of total</td>
<td>95.7</td>
<td>98.1</td>
</tr>
<tr>
<td>ST FX debt as % of reserves</td>
<td>14.0</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Source: MoF, SBS, CBS

4.7. Managing Financial Risks
63. The financial risks in the Government debt portfolio are the foreign currency risks, credit risk, interest rate risk and refinancing risk. The Government is exposed to high foreign currency risks and credit risks.

64. **Foreign currency risk** ‘relates to the vulnerability of the debt portfolio, and the Government’s debt cost, to a depreciation and devaluation in the external value of the domestic currency’. The public debt portfolio is 96% denominated in foreign currencies; CNY, USD, JPY and EUR and the depreciation of the Tala against these currencies require more Tala to service the debt. The preferred strategy to prioritize concessional external borrowings to meet Government financing needs, and the exposure of the Government to the foreign currency risk remains high, and there is little the Government can do to mitigate or manage this risk. To minimize foreign currency risk, the Government will constrain new borrowings and to enter into new foreign currency loans that are highly concessional with a grant element of at least 35%, and restrict borrowings in currencies that are not favourable to the local currency.

65. **Interest rate risk** ‘refers to the risk of increases in the cost of the debt arising from changes in interest rates’. All loans in the portfolio have fixed interest rates and are mostly at concessional terms, thus interest rate risk is low. The ATR is 10 years and debt refixing in one year is about 4.1% of the total debt outstanding. To manage interest rate risk, concessional external borrowings at fixed and low interest rates as domestic debt instruments attracts variable and high interest rates.

66. **Refinancing risk** is ‘the risk that debt will have to be refinanced at an unusually high cost or, in extreme cases, cannot be refinanced at all’. The ATM for Government existing public debt portfolio is long at 10 years, the debt matured within one year is 4.1% of total debt outstanding. This low refinancing risks exposure is a result of external concessional long maturity debt and terms. To maintain or manage the refinancing risk in the portfolio, the Government should limit the approval of new loans to concessional borrowings.

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7 WB/IMF, “Revised Guidelines for Public Debt Management”
8 WB/IMF, “Developing a MTDS-Guidance Note for Country Authorities”
67. **Credit risk** is “the risk of non-performance by borrowers on loans or other financial assets or by a counterparty on financial contracts”. The Government explicit contingent liabilities pose a credit risk to Government. The Government guarantees outstanding at end December 2015 was about 8.9% of GDP and the average ratio in the last 3 years was around 9% of GDP. In the event of an SOE defaulting on a guarantee, the amount would increase debt stock and Government debt service payments. Similarly, on-lending poses credit risk. In the event the final borrower fails to make repayment to Government, the full cost of servicing and risk is borne by the Government. To manage credit risk exposure, the Government would continue to implement the procedures and guidelines for Government guarantees to analyse cost and risks any new guarantees to the Government before issuance; develop a formal on-lending policy to guide on-lending operations of Government, improved in the timely reporting of Government guarantees. In addition, the Government to keep total guarantees outstanding at 10% of GDP annually.

68. **Operational risk** “refers to a range of different types of risks, including transaction errors in various stages of executive and recording transactions, inadequacies or failures in internal controls, or in systems and services, reputation risk, legal risk, security breaches or natural disasters that affect the debt manager’s ability to pursue activities required to meet debt management objectives”. The operational risk face by MoF is staff capacity constraints and retaining staff with technical capacity in debt management. There is limited awareness of debt management operations across Government and stakeholders and the absence of operational manual and continuity plan to ensure that the Government has the ability to operate on an ongoing basis and limit losses in the event of severe business disruption. To manage operational risks, MoF to finalise the operational manual for key Government debt management operations and activities, and develop a continuity plan, conduct on-going workshop on debt management and capacity building for staff.

4.8. **Targets and key Initiatives for FY2016-FY2020**

69. The MTDS 2016-2020 is the first to include monitoring indicators and strategic targets. The rationale is to provide more rigor for monitoring MTDS implementation and more
clarity on the desired and feasible change in the cost and risk of the debt portfolio. It also provide measurable and quantifiable targets to monitor costs and risk exposure, as well as compliance of debt management objectives to the approved MTDS.

70. The FX debt % of total debt at December 2015 was 96%, and with the preferred strategy of prioritizing concessional external borrowing, this is foreseeable to increase. As well, credit risk pose by Government guarantees was determined from the average ratio of 9% of Government guarantees to GDP over the last 3years.

71. The procedures and guidelines for contracting new loans and issuance of new Government guarantees are crucial in the implementation of the MTDS and to achieve Government debt management objectives and keep total debt at sustainable level.

Table 4.4:

<table>
<thead>
<tr>
<th>Risk Exposure</th>
<th>Indicators</th>
<th>Target (annual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage cost</td>
<td>i. Implied interest rate</td>
<td>≤1.4%</td>
</tr>
<tr>
<td></td>
<td>ii. Number of new loans approved below minimum concessionality</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>iii. Number of new loans approved without compliance to procedures and guidelines</td>
<td>0</td>
</tr>
<tr>
<td>Foreign currency risk</td>
<td>iv. FX debt % of total debt</td>
<td>≤98%</td>
</tr>
<tr>
<td></td>
<td>v. Short term FX debt % reserves</td>
<td>&lt;15%</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td>vi. % of total public debt maturing in 1 year</td>
<td>&lt;5%</td>
</tr>
<tr>
<td></td>
<td>vii. Total ATR</td>
<td>&gt;13years</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>iii. % of total debt in variable interest rates</td>
<td>&lt;2%</td>
</tr>
<tr>
<td>Credit risk</td>
<td>ix. Total Guarantees % of GDP</td>
<td>≤10%</td>
</tr>
<tr>
<td></td>
<td>x. Number of new guarantees issued without compliance to procedures and guidelines</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: MoF

72. The following initiatives under the MTDS are planned to commence in FY2016/17

73. Contracting new borrowings:
   - To minimise the cost of public debt, the Government will only contract new loans that are concessional with a minimum 35% grant element. The loans will only be
considered for projects with positive economic return, at least sufficient to meet the interest and repayments costs.

- The Government will aim to limit and constrain the new loans approved within the period of this MTDS, to the loans listed in Section 4.5, to assist in its fiscal consolidation programs and keep debt at sustainable level.
- Ministry of Finance will continue to implement the procedures and guidelines for contracting new loans, to ensure compliance to the MTDS and achievement of Government debt management objectives.

74. Monitoring and Reporting: Ministry of Finance will:

- Conduct annual review of the MTDS and submit to Cabinet for approval within the first quarter after the Fiscal year end as required in the PFMA.
- Submit its annual report to Parliament including debt management operations and MTDS implementation as per requirement of the PFMA.
- Continue timely dissemination and publication of the quarterly debt bulletin on the ministry’s website.
- Arrange to have a performance audit for Government debt management operations within the period of the MTDS.
- Complete the debt database consolidation for all Government debt including the guarantees and on-lending using the CS-DRMS.

75. Monitor and manage contingent liabilities:

- Ministry of Finance in collaboration with the Ministry of Public Enterprises will continue implementing procedures and guidelines for issuance of new Government guarantees and to develop a formal on-lending policy to guide Government on-lending operations.

76. Improved cash management:

- Ministry of Finance will continue to strengthen Government cash management by reactivating the cash management committee meetings and improved cash flow reporting.

77. Capacity building:

- Ministry of Finance will arrange to build capacity of staff within the ministry and across Government to improve awareness on debt management operations and increased monitoring and management of Government debt portfolio. Capacity building needs identified includes analytical skills, conducting DSA, DeMPA and
evaluation of debt management operations, CS-DRMS training, and develop and review MTDS.