



GOVERNMENT OF SAMOA

2017/18 BUDGET ADDRESS

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MINISTER OF FINANCE

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TABLE OF CONTENTS

I. BUDGET SETTING	1
II. OUTLOOK.....	3
III. BUDGET STRATEGY.....	4
IV. BUDGET AGGREGATES	7
VI. EXPENDITURE PRIORITIES.....	10
1. <i>Education</i>	10
2. <i>Health</i>	10
3. <i>Infrastructure</i>	11
4. <i>Tourism</i>	13
5. <i>Commerce</i>	14
6. <i>Agriculture and Fisheries</i>	14
VII.UNFORESEEN EXPENDITURES.....	14
VIII. SUPPLEMENTARY ESTIMATES 2016/17.....	14
IX. CONCLUSION.....	15

2017/18 BUDGET ADDRESS
Equity and Fairness

Mr. Speaker,

As required under Standing Order 131, it is my pleasure to present on behalf of the Government, the Statement on the Estimates for the fiscal year 2017/18.

I. BUDGET SETTING

Mr Speaker

Twelve months ago, the Government announced a budget that was framed to set a coherent and affordable agenda for the government as a whole and which aimed to maintain stable and sustainable macroeconomic growth, create employment opportunities for our young people and continue to deliver improved programs and services in areas vital to our continued progress.

The 2016/2017 budget was given the theme 'Strengthening the Foundations: Building for Tomorrow' to make it clear that we have work to do if we wanted to continue to strengthen the economy and improve opportunities for our people; and second that this was a process that would require on-going energy and commitment into the future. We wanted to build a strong and resilient foundation for sustainable growth in the years ahead for a better and equitable tomorrow for our people.

The budget strategy last year was designed to do the following;

- to consolidate our public finances and keeping expenditure under control
- to ensure we continue to provide the best possible access to quality essential education and health services
- to continue to build the enabling environment needed to support sustainable economic growth.

The Government then announced it would undertake a broad ranging review of revenue, covering all tax and non-tax revenues to ensure that we are not only collecting the revenue we need to maintain fiscal responsibility, and provide improved services and infrastructure, but that we are doing so with fairness and efficiency. The review recommendations provide a sound basis for us to move forward to provide the additional revenue the Government can reasonably expect without imposing unreasonable burdens on individual taxpayers or undermining the competitiveness of Samoan businesses. Importantly, they will also enable Government to provide some additional spending on priorities in infrastructure, education and health, while maintaining fiscal responsibility. Strengthening compliance and improving the equity of the tax system are central to the Review recommendations.

The theme for the 2017/2018 budget therefore is Equity and Fairness to align with the SDS 2016-2020 theme of 'Accelerating Sustainable Development and Creating Opportunities for All' and to ensure that everyone who should be contributing to tax revenues must do so. We also announced the intention to review the public service with a view to lifting its performance and responsiveness to the delivery of efficient quality services required by our people.

Mr Speaker

I am pleased to say we have completed the public expenditure reviews of the health and education sectors which are key priority sectors in our development agenda. These reviews have raised a number of important pointers that the government will take into account in the design of future programs for these key sectors to ensure the government provides the best health and education service for our people. Preparatory work on the review of the public service is ongoing and we expect this exercise to continue into the next financial year. On the productivity dividend, I am pleased to say that we have been able to implement it without any compromise on the services being provided which suggests that efficiency gains have been achieved in the way Ministries have spent their budgets.

II. OUTLOOK

Mr Speaker,

I am pleased to inform Honorable Members that our economy has continued to perform well in recent years. This was confirmed by the IMF in their Article IV consultation with the government in February this year.

Economic growth was strong in 2015/16 growing at over 6% largely driven by the fishing industry, tourism, lower fuel prices, and further boosted by two major sporting events and infrastructure projects. Inflation remains subdued. The near-term growth outlook is positive. Barring any natural disasters, GDP is expected to grow at around 2 percent per year. Growth will be driven by improvements in the business climate, tourism, and construction, including infrastructure projects. The performance of the tourism sector is expected to further improve in the medium-term with increased funding to support targeted destination marketing in Australia and New Zealand and expected increased air services into the country in the latter part of 2018. The closure of Yazaki the largest manufacturing employer is estimated to reduce growth by about 0.9 percentage points for 2017/18 with a further reduction of about 0.1 percentage points in 2018/19. Average inflation is expected to pick up with increasing commodity prices but remain around 3.0 percent over the medium term.

Mr Speaker,

This is a remarkable performance given the many challenges we have faced in the past few years. But we cannot afford to be complacent. We continue to face downside risks which underscores the need to press ahead with appropriate reforms to improve efficiency within the public sector, improve timeliness and quality of project implementation and to build business confidence.

The policy settings of fiscal consolidation and public sector reform combined with accommodative monetary policy will provide a sound platform to support a resilient economy going forward.

III. BUDGET STRATEGY

Mr Speaker,

This Budget is about making the right choices to secure a better tomorrow. These choices must be based on the principles of equity and fairness. We must choose to focus on growing our economy to provide more jobs and build a solid foundation for a better quality of life for everyone. We must choose to contribute to financing our development in a fair and equitable way. We must choose to guarantee the essential services that all Samoans demand.

These are the principles that shape the **Equity and Fairness** theme of this budget. Every eligible person should contribute to the development of our country. At the same time the fruits of our development must be shared across to benefit everyone.

Mr Speaker,

The Revenue Review that was announced at the 2016/17 Budget Statement was tasked to examine Samoa's current taxation arrangements, including:

- Examining current tax bases and rates and providing advice on the extent to which they reflect reasonable contributions by tax payers;
- Identifying anomalies in current tax bases, tax rates and tax exemptions;
- The efficiency and effectiveness of tax collection and tax enforcement.

The Review was also asked to examine current taxation procedures and recommend improvements it considers will support the purpose and objectives of the review including:

- Reviewing the current arrangements for the granting of exemptions and concessions;
- Improving procedures for dealing with arrears;
- The use of tax holidays or other concessions;
- The use of tax credits;

Mr Speaker,

The main features of the Review recommendations are:

- Strengthening compliance with existing tax requirements, including compliance by taxpayers and improving the effectiveness of the revenue collecting agencies, including the Ministry for Revenue;
- Removing a number of exemptions and concessions to improve the equity of the tax system;
- Increasing non-tax fees and charges and indexing these fees and charges to ensure that the revenue raised more accurately reflects the costs of providing the services to which these fees and charges relate;
- Increasing a number of duty and excise rates;
- Introducing an equalization charge on EPC; and
- Introducing a Telecommunications levy.

The Review has also recommended changes in current taxation arrangements designed to:

- Ease the income tax burden on lower paid employees and sole traders; and
- Lower export taxes and some duty and excise rates to support the competitiveness of Samoan businesses.

Mr Speaker,

These changes would be introduced over the next financial year with timing dependent on changes to legislation and administrative procedures which would be required. The net anticipated revenue gains from this package of reforms are estimated to be \$14.1 million in 2017/18, increasing to \$30.6 million in 2020/21.

Mr Speaker,

The Review recommendations strike the right balance between raising the revenue we need to continue to strengthen and improve the services and infrastructure which Samoans rightfully expect, but at the same time recognizing that we need to ensure we do not place an unreasonable burden

on taxpayers or prejudice business growth and hence employment opportunities.

The findings also highlighted what we have known for some time. Not everyone has been paying their fair share. By removing concessions for which there is no clear justification, and strengthening our compliance mechanisms we can raise additional revenue without increasing the tax burden on ordinary taxpayers. In fact, by doing these things we can provide some modest but important and no doubt welcome tax relief for our lower paid citizens.

Government is pleased to announce that there will be no increase in the rate of VAGST in this budget. But Government is continuing to review ways, including introducing changes to legislation to ensure full VAGST compliance by businesses at customs point of entry and at points of sale.

With the consequential revenue increase as a result of the Review, the Government will be in a strong position to honour its long-standing commitment to fiscal responsibility and provide some for additional spending on key priority areas consistent with the priority outcomes in the SDS 2016-2020. Secondly, by strengthening compliance the recommendations greatly improve the equity of our taxation arrangements and demonstrate our resolve that everyone should contribute their fair share.

IV. BUDGET AGGREGATES

Mr. Speaker,

I would now like to highlight the key components of the 2017/18 budget.

<u>Revenues</u>		<u>\$852.3m</u>
Ordinary Receipts	\$614.9m	
External Grants	\$237.4m	
<u>Expenditures</u>		<u>\$934.2m</u>
Statutory Expenditures	\$120.9m	
Expenditure Programs	\$511.8m	
Development Expenditures	\$286.2m	
Unforeseen Expenditures	\$15.4m	
<u>Overall Budget Deficit</u>		<u>-\$81.9m</u>
<i>Financed By:</i>		
Soft Term Financing	\$90.3m	
Credit Budget Support	\$12.9m	
<u>Cash Surplus after Borrowing</u>		<u>\$21.3m</u>

The 2017/18 financial year Main Estimates is expected to record an overall fiscal deficit of approximately \$81.9 million which is equivalent to 3.5% of the anticipated level of GDP. Government will continue to introduce and implement appropriate measures and revenue reforms to pave the way towards achieving its fiscal target of 2% of GDP over the medium term.

V. REVENUE MEASURES

Mr. Speaker,

Total Domestic Revenue is expected to increase by 6.3%. Total grants is expected to decline slightly by 1.9% as a result of donor funded project tailing off. It is envisaged that these levels will be sustained over the medium term as a result of the implementation of the Revenue Review recommendations summarized below.

These reforms measures include:

- i. Strengthen the Ministry for Revenue capacity in order to improve revenue collection compliance; This is expected to generate \$4.5m in 2017/18;
- ii. Improved compliance by the Ministry for Natural Resources and Environment in collecting land leases owing to the Government;(\$500,000 for 2017/18)
- iii. Index fixed excise rates which includes revisiting import duties and excise on certain imported products; (\$2.53m for 2017/18)
- iv. Cease Income Tax Holidays, Income Tax Credits and Import Duty exemptions. This will not generate any income in 2017/18.
- v. Increase Non-tax fees and charges for Government Services; (\$3.1m for 2017/18)
- vi. Remove certain income tax exemptions so that all eligible tax payers do contribute to the development of Samoa (\$2.0m for 2017/18);
- vii. Impose an equalization charge on EPC;(\$2.0m)
- viii. Impose a Telecommunications Levy on the call charges incurred by users; (\$479,167)

- ix. Raise excise on tobacco, alcoholic and sweetened beverages and petroleum fuels (\$2.5m)

In line with the Budget theme, the Government is supporting the Revenue Review Recommendations in current taxation arrangements designed to ease the income tax burden on lower paid employees as well as lowering export taxes, duty and excise taxes to support exporting industries.

The assistance package will see the marginal tax rates adjusted by raising the tax free threshold from the current level of \$12,000 to \$15,000. This would see an extra 1,852 employees no longer required to pay income tax, saving them up to \$300 pa each. It would also mean an estimated 14,199 workers in formal employment would not be required to pay income tax. Salary levels between \$15,001 and \$25,000 will be taxed at 20% and over \$25,000 at 27%.

Moreover, to support the drive to expand exports, businesses that export goods and services, (excluding re-exports), get a tax deduction equal to 50% of the profits made on those exports. This effectively halves the tax otherwise payable on those profits. The deduction would only be permitted where the CEO MfR is satisfied that the export sale proceeds will be remitted back to Samoa.

Mr. Speaker,

It is the Government's belief that the two offsetting measures will trigger increased economic activity which in turn raise commercial activity and eventually raise tax collection.

The additional revenue expected as a result of the Revenue Review to assist with funding the 2017/18 budget is \$14.1 million tala.

VI. EXPENDITURE PRIORITIES

Mr. Speaker and Honourable Members,

The Total Expenditures for 2017/18 is expected to be \$934,244,759 which is 4.4% higher than the current financial year.

This increase in expenditure results from continuing efforts by Government to develop key priority areas which I will now highlight:

1. Education

The total budget allocation for Education is approximately \$100.3million and is equivalent to 19.6% of total Government expenditure programs for the financial year 2017/18. This is allocated as follows:

- \$80.7million is allocated to the Ministry of Education, Sports and Culture which includes financing for key items that include:
 - financing to continue towards the School Fee Grant Scheme for Primary Schools and Secondary School classes Years 9 to Year 11;
 - re-instatement of School Review Officers;
 - appropriations for teacher upgrade scholarships;
- \$12.6million allocated for the National University of Samoa;
- \$5.3million for the Samoa Qualifications Authority;
- \$1.7million for the operations of the Samoa Sports Facility Authority;

Additionally, there are also development projects for the sector funded by development partners amounting to \$2.4million.

2. Health

\$88.5million has been allocated to the Health Sector which represents approximately 17.3% of the total expenditure programs of Government and is allocated as follows:

- \$69.3million has been allocated to the National Health Services which include the following:
 - \$6million for the Overseas Medical Treatment Scheme;

- \$4million allocated for the procurement of pharmaceutical drugs;
- \$3.9million for the procurement of pathology lab re-agents and consumables;
- \$1.6million for catering services for the hospital;
- \$1.5million for procurement of medical consumables required for the hospital.
- \$12.2million for the Ministry of Health which includes \$3.3million for the orientation program of new nursing and doctor graduates as well as \$1million for continuing the nurses scholarship program;
- \$6.9million for National Kidney Foundation which includes \$2.5million for medical supplies as well as \$300,000 to assist in the renovations and extension of the existing buildings;

The Health Sector also has proposed development programs to be implemented with the assistance of development partners and these amount to approximately \$5.5million.

3. Infrastructure

The total appropriation for Infrastructure is \$46.99million which accounts for 9.18% of Government's total expenditure programs and includes the following.

Transport and Infrastructure

\$26.7million has been allocated to the Transport and Infrastructure sectors and has been allocated as follows:

- \$5.5million has been allocated to the operations and administration of the Ministry of Works, Transport and Infrastructure;
- \$21.2million is appropriated for the Land Transport Authority for routine maintenance and construction of roads and bridges planned for the country. It is anticipated that the LTA will be collecting up to \$14.5million in revenues from their operations which will also contribute to these key road works.

There are also a number of infrastructural projects; ongoing and pipeline funded by development partners to the value of \$58.4million in grants and \$52.0 million in concessional financing.

Electricity

\$2million has been allocated for Community Service Obligations of the Electric Power Corporation to supplement the cost of ensuring rural areas have access to electricity as well as to assist families who cannot afford connection costs. Additional resources collected by the EPC will be used to finance its usual operations to the general public.

The Electricity Sector also has projects to the value of \$4million in grants and \$31.8million in loans provided through the cooperation of Government and its partners;

Water

\$2million has been appropriated for Community Service Obligations of the Samoa Water Services Authority to ensure access to water in rural communities. As per usual, the SWA will also be collecting resources from their services to assist in other areas which need financing.

An additional \$8.6million has also been provided for the Samoa Water Authority through budget support from the EU.

Communications

\$7.7million has been allocated to the communications sector and is allocated as follows:

- \$5.9million for the operation of the Ministry for Communications and Technology which include co-location, electricity and spectrum fees for the Samoa National Broadband Highway;
- \$1.75million has been allocated for the normal operations of the Office of the Regulator.

It is anticipated that the Tui Samoa Cable will be commissioned towards the end of this year. This has been made possible through funding from the ADB, World Bank and the Australian Government. It is expected that a total of approximately \$50million in grant assistance is appropriated for the new financial year.

Integrated Flood Management

It is worth noting that the Green Climate Fund has approved Samoa's project proposal worth US\$57m intended to reduce the impact of recurrent flood related impacts in the Vaisigano river catchment. The project has three interlinked project components as follows:

- i. Capacities and mechanisms in place for an integrated approach to reduce vulnerability towards flood-related risks
- ii. Strengthened adaptive capacity and reduced exposure to climate risks of vulnerable communities, livelihoods and infrastructure in the Vaisigano Catchment; and
- iii. Upgraded drainage in downstream areas for increased regulations and rapid discharge of water flows.

Implementation is expected to commence around the end of 2018 when all the contractual arrangements have been finalized.

4. Tourism

\$11.4million has been allocated to the Samoa Tourism Authority for the implementation of its planned activities which includes the marketing and promotion of Samoa as a tourist destination. \$2.0 million is earmarked for the marketing of Samoa in the New Zealand and Australian markets which have the greatest potential for increased tourists to visit Samoa as well as easy airline connections to Samoa. The more tourists that visit our shores means good business for our hotels, provide the much needed employment opportunities as well as providing a market for our local produce and handicrafts.

The New Zealand Government will work with the Samoa Tourism Authority in promoting Samoa in NZ and Australia and will contribute \$4.5m in 2017/18 to assist with that work.

The Apia Waterfront Development project is expected to commence construction next year and the New Zealand government is contributing \$3.56 m towards that project.

5. Commerce

\$7.7million has been allocated to the Ministry of Commerce, Industry and Labour which include a contribution to the private sector of \$200,000.

\$4.25million will also be made available from the UNOP for the sector under the Enhanced Integrated Framework.

6. Agriculture and Fisheries

An appropriation of \$14.1 million has been allocated to the Ministry of the Agriculture and Fisheries for their normal operations.

\$3.2million has been appropriated for the Scientific Research Organisation of Samoa to support their continuing research efforts.

\$6.5million in grants and \$6.5million in loans will also be made available from the World Bank in conclusion of the SACEP Project for the Agriculture Sector while \$4.3million will be sourced from the ADB and the Australian Government to continue the AgriBusiness Project.

VII. UNFORESEEN EXPENDITURES

The total estimated appropriation for Unforeseen expenditures based on the total expenditure programs of Government for 2017/18 is \$15.35million.

VIII. SUPPLEMENTARY ESTIMATES 2016/17

Mr. Speaker,

I am pleased to inform Honorable Members that we are not tabling a Second Supplementary Budget for the current financial year. This demonstrates that Ministries have kept within their spending limits and therefore do not see the need for additional resources.

IX. CONCLUSION

Mr. Speaker and Honourable Members,

To a large extent, the Government has delivered on what we said we will do. A lot remains to be done though. In the course of the next financial year, we will continue implementing the reform agenda that will provide the solid foundation for a resilient economy and to ensure the Samoan community receives the service they demand.

Our economy continues to perform well and the medium term outlook looks good provided we do not get hit by a cyclone or other natural disasters. We must take note of these downside risks and design appropriate strategies to ease the adverse impact of natural disasters on the economy when they strike.

As a responsible government, we will continue to do just that. We will continue to put in place the policy framework that will ensure macroeconomic stability. We will continue to implement the development agenda articulated in the Strategy for the Development of Samoa. We will press ahead to ensure our people can proudly call this place home.

This is not an agenda for the government alone. It calls for the contribution of the community as well. It is a partnership and for that, I would like to invite the community to actively participate in the development of our country in whatever capacity and role.

At this point, I would like to acknowledge the support and generosity of our development partners whose ongoing assistance continues to play a critical role in Samoa's development.

In closing, I would like to thank the citizens of our country for their support in all the Government's endeavors. It is our prayer that God will continue to protect and shower His blessings upon us all as we embark on celebrating our 55th Year of Independence.

Mr. Speaker and Honourable Members,

I now commend the 2017/18 Main Estimates to the House.

Soifua