



**GOVERNMENT OF SAMOA**

**BUDGET ADDRESS**

**2015/2016**

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**PRIME MINISTER & MINISTER OF FINANCE**

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## **2015/16 BUDGET ADDRESS**

*“Living within our means”*

Mr. Speaker

As required under Standing Order 124, it is with great pleasure that I present on behalf of the Government, the Statement on the Estimates for the 2015/2016 fiscal year.

### **I. BUDGET SETTING**

The 2015/16 budget is envisaged to be a tight one. Following the 2008 global financial crisis, the 2009 tsunami and cyclone Evan in 2012, government had to significantly raise spending to respond to these external shocks. The resources required were to a large extent facilitated by our development partners. In 2015/16, we need to rein in spending as the responses to these shocks tail off.

Mr Speaker and Honorable Members

There is no way the government can sustain the high spending levels of the past five years without recourse to increased grants and raising taxes. At the same time we need to work towards reaching the sustainable fiscal deficit of 3.5% of GDP over the medium term.

As a responsible government, we are proposing to cut back spending. And I am pleased to say that we are able to do this without compromising the provision of key services to our people. The message therefore is we need to **“live within our means”**.

### **II. BUDGET STRATEGY**

Real GDP is expected to grow by 1.9% and will reach the level of \$2.0 billion tala in 2015/16.

The winding down of cyclone related reconstruction works, completion of the SIDS meeting as well as taking a more prudent approach to prioritizing expenditures form the basis for a reduced 2015/16 budget compared to 2014/15. The fiscal deficit is expected to be around 4.7% of GDP which is still higher when compared to 2014/15 but still a credible goal in view of the reduced revenue position.

On the revenue side, there are no major tax and tariff measures being considered except to introduce a health levy on soft drinks, liquor and cigarettes to demonstrate government’s support for a healthy population in particular the school aged kids. A renewable energy levy on fossil fuel is being proposed to facilitate the financing of renewable energy development so that the objective of reduced electricity bills can be achieved as early as possible in addition to moving towards achieving the goal of 100% renewable energy in 2017.

Grant assistance is expected to drop significantly as a result of the reclassification of Samoa's debt situation from high to medium debt distress which means Samoa no longer qualifies for 100% grant but instead 50% grant and 50% credit. The tailing off of reconstruction works also contributes to the declining grant position in 2015/16.

The government will not commit to any loans unless the new loans are in line with the medium term debt management strategy and the loan funded projects will contribute positively to economic growth.

### **III. ACHIEVEMENTS IN THE PAST FIVE YEARS**

Mr. Speaker and Honorable Members

I will now provide a brief account of the developments achieved during the five years of this parliamentary term.

Macroeconomic performance over the past five years was greatly hampered by natural disasters and the global financial crisis. In response, the government adopted an expansionary fiscal stance as it embarked on the recovery and rehabilitation works as well as providing the stimulus package to trigger economic activity following the financial crisis.

Despite these difficult times, recovery started to take hold in 2010 with real GDP growth reaching 5.6% in 2010/11. Unfortunately, cyclone Evan struck in December 2012 causing significant damage and substantial losses totaling \$470.0 milion tala. As a result growth fell to less than 1% in 2011/12 followed by negative 2% in 2012/13. However with the cyclone recovery program, growth rebounded in 2013/14 registering 1.2%. With the hosting of the SIDS Conference and the construction of major hotels such as Lamana Hotel, Aggie Greys Beach Resort, Aggie Greys Hotel, Aga Reef Resort and Return to Paradise Resort, economic growth was expected to reach 2.3% in 2014/15.

On the education front, substantial resources have been allocated to the sector given it is a priority sector in the SDS. The launch of the Education Sector Plan 2013–2018 provided the platform to identify education priorities that will achieve improved access to education, training and learning outcomes. The Samoa School Relief Scheme providing free education for Primary and Secondary Schools continue to be supplemented by government funding.

The Oceania University of Medicine (OUM) is now under the National University of Samoa's management and therefore the full benefits of the university will now be accrued to local students without any more outside interference.

The health sector continues to be a priority sector as demonstrated by the completion of the national hospital at Motootua. The new hospital provides state of the art medical equipments and products to better serve the public. District hospitals at Poutasi, Lalomanu, Safotu, Foailalo and Sataua have been refurbished to ensure the rural communities have readily available access to good health service and medical treatments.

The Agriculture Sector Plan which was launched in May 2011 provides the framework through which agricultural priorities are identified and developed. Support has been focused on revitalizing the sector through the Stimulus Program to replant cocoa, coconut and coffee as well as the Talomua program. This has been complemented by the Samoa Agriculture Competitiveness Enhancement Programme (SACEP) with the objective of boosting livestock development, and fruit and vegetable farming. The establishment of the Samoa AgriBusiness Project supported by the ADB will provide qualified agribusinesses financial and technical support as well as assistance towards penetrating the export market. Through SROS, research continues into further processing of agricultural products such as avocado and breadfruit for the benefit of the private sector.

As a result of cyclone Evan recovery works, the road network around the country has been substantially improved. The Samusu-Lalomanu road is almost completed. The extension of the four lane road from Vailoa to Vaitele is expected to commence soon. The West Coast road from Apia to Faleolo will be upgraded to ensure resilience to climate change. As well, LTA has put together a road construction plan to improve road conditions around the urban and rural areas.

On the energy sector, government has invested heavily in renewable sources to ensure the community can have the benefit of low cost electricity as soon as possible. We now have a number of solar and wind farms generating electricity and selling to the grid. For power supply stability, the Fiaga Power Station will continue to be maintained going forward.

Substantial investments in the water sector with support from the EU has continued resulting in improved water supply around the urban areas as well as community managed water schemes.

On telecommunications the National Broadband Highway Network (NBHN) project has been completed. This is a major investment which is expected to significantly increase the speed of internal internet communications. It has the capacity to facilitate tele-medicine and tele-education that will benefit the rural communities around the country.

Tourism remains a key sector for Samoa's development and the government has been providing support to encourage investment in the sector. Such support has allowed the completion of a number of world class hotels such as the Sheraton Aggie Greys Beach Resort, the Return to Paradise Resort at Lefaga, Aga reef Resort at Lalomanu and Orator hotel at Tanumapua. The Lamana Hotel at Taumeasina and the Aggie Grey's Hotel at Vaisigano are expected to be completed by early next year.

Last year Samoa hosted the SIDS which is the biggest meeting ever held in the Pacific. This is a major investment which has placed Samoa on the world map and exposed our small country to global opportunities in terms of tourism and trade.

#### IV. BUDGET SUMMARY

Mr. Speaker,

I would now like to highlight the key components of the 2015/16 budget.

<b><u>Revenue</u></b>		<b>\$689,013,681</b>
Ordinary Revenues	\$551,916,733	
External Grants	\$137,096,948	
<b><u>Expenditures</u></b>		<b>\$785,357,784</b>
Statutory Expenditures	\$103,298,657	
Expenditure Programs	\$478,223,687	
Development Expenditures	\$189,488,730	
Unforeseen Expenditures	\$ 14,346,711	
<b><u>Overall Budget Deficit</u></b>		<b>(\$96,344,104)</b>
Financed by:		
Soft Term Financing	\$84,082,700	
<b><u>Cash Deficit after Borrowing</u></b>		<b>(\$12,261,404)</b>

The 2015/16 financial year budget is expected to record an overall deficit of \$96.34 million tala equivalent to 4.7% of GDP. The overall deficit will be financed through soft term loans.

Although this level is higher compared to 2014/15, it reflects Government's commitment to clawing back to the medium term target of 3.5%.

#### V. REVENUE MEASURES

Mr. Speaker,

Ordinary Receipts are expected to drop by 0.2% as a result of the revenue foregone for providing fiscal incentives to support hotel investment, manufacturing and renewable energy. As mentioned earlier, grant revenue is expected to drop by 23% reflecting the reclassification of Samoa's debt status from high to medium debt distress which means Samoa no longer qualify for the full 100% grant assistance but reduced to only 50% grant and 50% loan.

In support of the social and climate change objectives, two revenue raising initiatives are being introduced for implementation in 2015/16:

1. *Health Levy*

The government considers it extremely important that our people pursue a healthy living. Obesity, high blood pressure, diabetes and many other diseases do occur because of what we drink and eat. Sadly our young population are the most at risk. Equally important is

that the government spends substantial amount of resources every year on treating these diseases. To help break this trend, the government is proposing a 6.5% health levy to be applied to the prices of soft drinks and alcoholic beverages as well as a 5% excise tax on tobacco products.

## **2. *Renewable Energy Levy***

Climate change has emerged to be a key development challenge for every country irrespective of size. Burning fossil fuels contribute enormously to damaging the environment and we are beginning to see a number of natural disasters with higher frequency and intensity as a result. As a responsible government, we need to move to adopting a renewable energy framework that will minimize the level of emission. As a result, a renewable energy levy of 6.5sene per litre will be applied on fuel imports to promote investment in renewable energy sources. Such an initiative will also deliver the added advantage of achieving the dual objective of lower electricity costs to the consumers and achieving 100% renewable in 2017.

## **VI. EXPENDITURE PRIORITIES**

Mr Speaker and Honourable Members,

The proposed total expenditure budget amounts to \$785.4m falling short of the current year by 2%. This demonstrates government's commitment to prudent expenditure prioritization to be in line with revenue generation so as to maintain the fiscal deficit at an affordable level.

I will now highlight key expenditure priorities for 2015/16:

### **1. *Health Sector***

The total budget allocation for the Health Sector is \$79.3 million tala representing 17% of total expenditure programs. The following provisions reflect the Government's commitment to this priority sector:

- \$7.6 million is provided towards the Ministry of Health operations;
- \$6.1 million grant is earmarked for the National Kidney Foundation;
- \$63.8 million grant is provided for the National Health Services for the hospital's operations;
- \$2.5 million has been provided to cover the cost of the overseas medical treatment scheme;

### **2. *Education Sector***

The total budget for the sector is \$79.07million tala representing 16.5% of total estimates and 4% as a proportion of total GDP. The key priority areas are:

- \$50.4 million to the Ministry of Education, Sports and Culture for normal operations
- \$6.0 million grant for Private and Mission Schools
- \$2.76 million for the Samoa Qualifications Authority
- \$11.05 million grant for the National University of Samoa
- \$1.5 million to fund stationeries for all Government Schools

This excludes \$5.7m towards the implementation of the School Fee Grant Scheme for both Primary and Secondary Education currently administered under the Ministry of Finance.

### ***3. Infrastructure***

#### ***Electricity:***

A total of \$11.3 million is allocated to EPC to support ongoing developments. Of this amount, \$7 million is provided to compensate EPC for VAGST payments on fuel with the balance of \$4.3 million earmarked for community service obligations (CSO).

#### ***Water:***

The Samoa Water Authority will receive a budget allocation of \$12 million. Of this amount, \$4.22 million will go towards community service obligations (CSO) with \$7.78 million financing for key water investment priorities under the EU budget support.

#### ***Roads and Bridges:***

Total Government grant to the Land Transport Authority (LTA) is \$19.9 million towards maintenance works required for bridges and the road network around the country. This appropriation is 17% lower than the current year representing the conclusion of most of the reconstruction works following cyclone Evan.

#### ***Telecommunications:***

Telecommunication is a key priority sector providing support service that is critical to business development and consumers. To reinforce development in this sector, the following allocations have been confirmed for 2015/2016:

- A \$4.23 million budget is allocated to meet the Ministry of Communication's operations.
- \$1.74 million is allocated to fund the operations of the Office of the Regulator;
- \$1.2 million has been earmarked as government contribution to the National Broadband Highway annual fees; and
- \$7.4 million through a grant assistance from the Asian Development Bank and the World Bank for a submarine cable.

### ***4. Agriculture***

The Agriculture Sector has an allocation of \$13.6 million for the year 2015/16. The key initiatives are:

- \$11.3 million to the Ministry of Agriculture's operations;
- \$0.50 million allocated for the implementation of Agriculture Shows.

Not included in these figures is the support provided under the World Bank through the Samoa Agriculture Competitiveness Enhancement Project which will provide an additional \$4.9million to the sector aiming at promoting import substitution and improving food security. Furthermore, an additional \$3.7 million will also be provided to continue to support Cyclone Recovery efforts for the sector.

The Asian Development Bank is also supporting the Agribusiness Project providing technical and market access assistance to small to medium enterprises in the sector with an assistance valued at \$370,000 for the 2015/16 fiscal year.

### ***5. Trade, Commerce and Manufacturing***

The Trade, Commerce and Manufacturing Sector is also a key sector of the economy as one of the driving forces behind economic development. The following are initiatives for the sector in 2015/16:

- \$3.98million to the Ministry of Commerce operations;
- \$9.32million to the Samoan Tourism Authority;
- \$450,000 to support the Small Business Enterprise Centre;
- \$200,000 general support to the Private Sector; and
- \$125,300 to the continuous apprenticeship training under the National University of Samoa.

### ***6. Commonwealth Youth Games 2015***

The Government is allocating a total of \$5million to the hosting of the Commonwealth Youth Games in September 2015 where Samoa will host an approximate 1,500 athletes and officials from 69 countries of the Commonwealth.

## **VII. UNFORESEEN EXPENDITURES**

A provision of \$14.35 million tala has been provided to cover unforeseen expenditures that may arise during the course of the next fiscal year.

## **VIII. SUPPLEMENTARY ESTIMATES 2014/2015**

The Government is also proposing to table a Second Supplementary Budget for the financial year 2014/2015. The supplementary budget is cost neutral as it will be funded from the reallocation of existing resources. Therefore it has no impact of the fiscal deficit.

## **IX. CONCLUSION**

Mr. Speaker and Honourable Members,

As you will note Mr Speaker, the 2015/16 budget has been framed with the objective of living within our means. This is the most sustainable approach going forward. We can no longer depend on the generosity of our development partners forever. We need to look internally at the revenue generated domestically and ask the hard question....what can we afford given the revenue we have. We need to be prudent in prioritizing our development agenda so that the service delivery to the public is not compromised. This is the hard reality of being a middle income country having graduated from the LDC status last year.

At this point I would like on behalf of the government and people of Samoa to acknowledge the support and generosity of our development partners. Thank you very much for your support to our development.

In closing I would also like to acknowledge everyone's support to the development of our country. We thank you and may God continue to bless you all as we prepare to celebrate our 53<sup>rd</sup> Independence Anniversary.

Mr. Speaker,

I commend the 2015/16 Budget to the House.

Soifua.