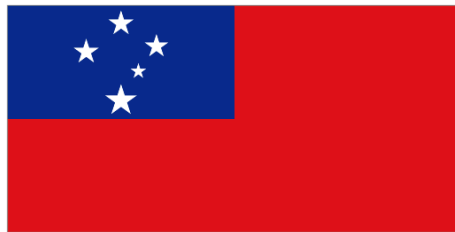




GOVERNMENT OF SAMOA

FINANCE SECTOR ANNUAL PROGRESS REPORT FY 2014



JUNE 2015

Prepared by Ministry of Finance
Private Bag, Apia, Samoa

Contents

LIST OF ACRONYMS.....	3
Executive Summary.....	4
Overall Progress and Performance Against Key Sector Outputs	6
1 Fiscal Sustainability	6
2 Monetary and Financial Stability	23
3 Sound External Position	30
Tables.....	34

LIST OF ACRONYMS

ACEO	Assistant Chief Executive Officer
ADB	Asian Development Bank
AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
AO	Audit Office
ASYCUDA	Automated System for Customs Data
BOP	Balance of Payments
CBS	Central Bank of Samoa
CAG	Controller and Auditor General
CEO	Chief Executive Officer
CPI	Consumer Price Index
DBS	Development Bank of Samoa
EPPD	Economic Policy and Planning Division of the Ministry of Finance
EU	European Union
FCDA	Foreign Currency Denominated Accounts
FIA	Financial Institutions Act
FSAP	Financial Sector Assessment Programme
FSP	Finance Sector Plan
FSPCC	Finance Sector Plan Coordinating Committee
FY	Fiscal / Financial Year
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFS	Government Finance Statistics
GNFS	Goods and Non-Factor Services
GOS	Government of Samoa
IMF	International Monetary Fund
MDG	Millennium Development Goals
MfR	Ministry for Revenue
MoF	Ministry of Finance
MTDMS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
NEER	Nominal effective exchange rate
PEFA	Public Expenditure Financial Assessment
PFI	Public Financial Institutions
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Plan
PFTAC	Pacific Financial Technical Assistance Centre
PSIF	Public Sector Improvement Facility
REER	Real Effective Exchange Rate
SBS	Samoa Bureau of Statistics
SDS	Strategy for the Development of Samoa
SHC	Samoa Housing Corporation
SIFA	Samoa International Finance Authority
SLAC	Samoa Life Assurance Corporation
SNPF	Samoa National Provident Fund
SOEs	State Owned Enterprises
SOEMD	State Owned Enterprises Monitoring Division
SRD	Statutory Reserve Deposit
TA	Technical Assistance
UTOS	Unit Trust of Samoa
WTO	World Trade Organization

Executive Summary

The Finance Sector is in charge of ensuring macroeconomic stability, the Government in its Fiscal Strategy Statement 2013/14 has committed to meeting the following fiscal targets and objectives:

Fiscal Targets	Fiscal Performance
Aggregate current expenditure of between 35-38% of GDP;	Current expenditure at approximately 28.4% of GDP;
Net public debt outstanding at less than 50% of GDP;	Net public debt outstanding at 54% of GDP (GDP 2009 rebase);
Personnel costs as a percentage of total expenditure to be constrained to between 40-45%;	Personnel costs at 37.9% of total current expenditure;
Budget balance to be maintained at a rate –of 3.5% of GDP;	The fiscal deficit is at 5.4% of GDP in FY2014;
Prioritized spending for the Cyclone Recovery Framework based on the work plans submitted by each sector;	Development expenditure linked to priority sectors–rebuilding of economic infrastructure;
Improved performance of SOEs to avoid extra burden on Government budget through default to loans;	Implement structural reforms to make public service more cost effective and use of a sector wide approach to ensure efficient allocation of resources;
Promote greater efficiencies in revenue collection;	Revenue collection efficiencies are being boosted by the ISPs' within MfR;

There were no significant developments in monetary and exchange rate policy measures during FY2013/14. The Central Bank of Samoa (CBS) has maintained an accommodative monetary policy in order to encourage higher demand and business activity in the wake of the global economic crisis, tsunami in September 2009 and tropical cyclone Evan in December 2012.

In pursuing the goal of price stability, CBS maintains an inflation rate that is in line with its major trading partners. Generally, annual rates for trading partners have averaged 3.0 percent per annum and this is the target that the CBS aims to achieve in the medium to long term. National account data for the fiscal year 2013 showed that the economy had grown in real terms by around 1.0 percent post-cyclone Evan. The relief and rehabilitation efforts have boosted the transport and communication, commerce and construction sectors.

The Government and development partners continue to work closely together on the medium term macroeconomic framework for budget support and this has helped Samoa to provide essential goods and services while at the same time work to reduce the fiscal deficit.

Introduction

The finance sector plan in its first year of implementation has derived key development consensus towards achieving its three overarching objectives of fiscal sustainability, financial stability and a sound external position.

Fiscal sustainability has been assessed and strengthened via the PFM Reform Plan actions which will head into its third phase of implementation labelled as 'The Roll Out'. The overall direction of change in PFM performance remains positive and is further evidenced by an improved overall PEFA score of B in 2013 when compared to C+ in 2010 with regards to all PFM dimensions. Further developments will continue to have an underlying effect towards improving poverty alleviation by increasing the efficiency of PFM systems and improving the linkages between policy making and government spending. The strategies will further aim to improve economic stability through secured budget support modalities during a period of fiscal consolidation as well as reforms to State Owned Enterprises.

Financial stability concerns and ongoing efforts to address financial oversight challenges make the recently completed FSAP 2014 very timely. The Central Bank of Samoa (CBS) is in the process of upgrading and expanding its oversight of financial institutions. At the same time, the government sees policies to address low credit provision as priority, which has driven the expansion of Public Financial Institutions (PFIs) and efficient governance of these institutions is an important challenge. Coordination between the Ministry of Finance (MOF) and the CBS should be in place for financial stability assessment and financial sector contingency planning. Such coordination, at both a high strategic and an operational level, has been established through a Memorandum of Understanding (MOU) between the CBS and MOF.

Natural disasters and negative effects from the Global Financial Crisis (GFC) in recent years have put the Samoan financial sector under some strain and made it potentially vulnerable to further shocks. In addition, the Samoan economy could be hit by another global economic downturn, in particular if it brings economic activity in Australia and New Zealand down, thereby affecting Samoan exports, tourism, and remittances. Fortunately, with strong policy frameworks, good donor dialogue and coordination in place, Samoa is well placed to meet these challenges.

Overall Progress and Performance Against Key Sector Outputs

PRIORITY OBJECTIVE ONE

“Development of a relevant, effective and sustainable fiscal position”

Fiscal Sustainability

1. Budget Performance and Outcome

1.1 Improve budget performance processes and systems

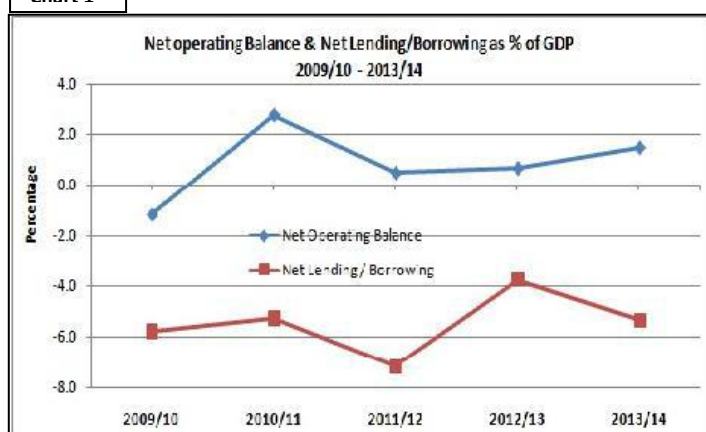
Actions

- 1.1.1 Improve linkages between the budget, sector strategies and the national plan;
- 1.1.2 Strengthen advisory role to Cabinet in promoting fiscal discipline; and
- 1.1.3 Strengthen budget presentation to improve accountability and transparency.

Progress

The performance framework for monitoring and evaluating the government’s fiscal budget has been functioning steadily with positive observations evidenced in strengthening the linkages between sector priorities and the national plan taking into consideration the fiscal backdrop with which we operate in, thus shifting our whole of government mindset from having output based results to a rather more quantitative outcomes based approach coupled with lessons learnt along the way to further enhance and sustain our economic growth in the long run.

Chart 1



The total program expenditures for the Government increased by 7% over 2013/14 due largely to an appropriation of approximately \$60million towards Cyclone Reconstruction works following recovery efforts after Cyclone Evan of 2012. Although the increase was offset by grants from development partners that were declared in the First Supplementary Budget of December

2013, key infrastructural developments required in preparation for the Third UNSIDS Meeting which was held in August/September 2014 continued to contribute to this increase realizing a budget deficit of 5.4% (as shown in chart 1) of GDP in the GFS format. However, the Government of

Samoa's commitment towards fiscal consolidation has managed to contain this level of its deficit and not reaching the budgeted deficits of previous years.

Way Forward

Further improvements will be addressed within Phase 3 PFM Reform Plan to continue to raise the efficiency with which the Government budget preparation process is conducted as well as ensuring the continued improvement in Budget Staff capacities to monitor expenditures as well as the advice and support the establishment of performance measures that improves on the linkages with sectoral and national priorities. The medium-term fiscal goal of the government is to reduce the level of its budget deficit to its fiscal targets of within -3.5% of GDP however the Government of Samoa is mindful of the need to expand its fiscal position to continue to stimulate the economy back to its pre-crisis growth level of 5%. Therefore, efforts will continue in ensuring that expenditure programs are maintained at a sustainable level enough to stimulate growth but within reasonable reach of its fiscal target.

1.2 Strengthening tax revenue collection

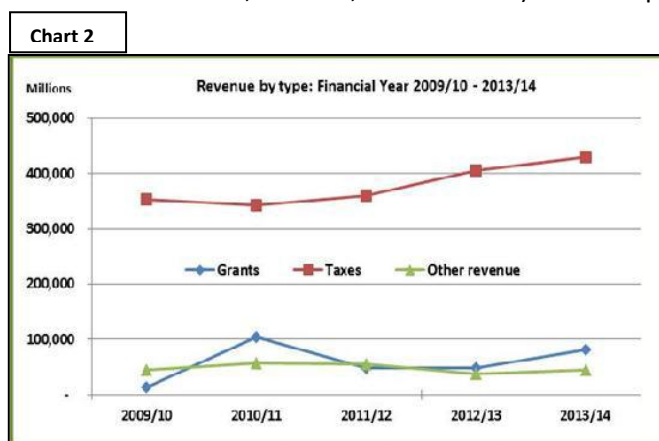
Actions

- 1.2.1 Strengthen legislative and institutional foundation for a modern tax and customs administration geared to Samoa's current and future needs. Restructure the tax administration sections in the Ministry of Revenue to improve efficiency and introduce a new client orientation;
- 1.2.2 Maximise potential synergies between IRS and Customs systems, procedures and databases for revenue and debt collection as well as maximising potential synergies with other government agencies, e.g. MOF, and NPF;
- 1.2.3 Develop future revenue targets and forecasts as an input to the medium term expenditure framework;
- 1.2.4 Improve effectiveness and comprehensiveness of taxpayer registrations;
- 1.2.5 Selective, effective and cost-efficient use of technology to introduce electronic services that allow taxpayers to self-serve through improved access and processing of returns and payments; and
- 1.2.6 Strengthen the monitoring of domestic arrears and ensure that the level of arrears is reduced.

Progress

Actual Revenue collection for the FY2014 stood at \$556.5million, 13.2% higher than the previous year. Contributing 70% to this increase was grants indicating the assistance from donors which saw the extension of 100% grants to assist a faster recovery period for the country following Cyclone Evan.

Recently on **Revenue and Customs**, it is to be noted that there has been a number of recent gains in compliance and the collection of arrears, including through the introduction of a web-based program for the registration of manifests. The introduction of self-assessments and the electronic filing of all taxes are due in coming months, although more work needs to be done on security and central bank control before the introduction of online payments (there may be scope for TA on this front). The implementation of a **presumptive tax** on small businesses for their tax liabilities, which would reduce administrative costs and improve compliance, this has been submitted to Cabinet for approval. It was considered that there was some potential for **excise taxes on tobacco, alcohol and/or fatty foods** which would support NCD policy, although nutritional information would be required as a basis to establish these taxes. A multi sectoral forum on NCD policy (including the Ministries of Health, Finance, and Revenue) could help in this regard.



Taxes accounted for 77 percent (ST\$430.4m as depicted in Chart 2) of total revenues collected in FY2014¹ (ST\$556.5 million) with 15 percent from grants and 8 percent from other revenue sources including cost recoveries collected by ministries. In terms of taxes, 63.0 percent was collected from VAGST, 24.0 percent from income tax, 12.3 percent from customs & import duties, and 0.7 percent

from others.

Tax laws are stable and clear, facilitating fair and non-discriminatory enforcement by tax officials and ease of compliance by taxpayers. The 2013 PEFA gave Samoa a B on the clarity and comprehensiveness of tax liabilities. The PFTAC has ranked Samoa in the middle of the region for its legislative framework under its 2011 Pacific Islands Tax Administration – Baseline Assessment Framework.

Tax administration is reasonably solid, as through its ISP there has been improved overall progress on simplifying administrative systems for major taxes and improving tax compliance. The taxpayer services division within the Inland Revenue arm of the MfR is dedicated to serving taxpayers, as well as a new community compliance unit that delivers educational seminars to the community, produces public awareness brochures & pamphlets, and conducts regular customer surveys. MfR’s website is an excellent source of information on taxes in Samoa that is easily accessible by the public. There is a single taxpayer identification number (TIN) system operated by the revenue authority for the taxes it administers and with the new income tax legislation in place, implementation of new business processes, and upgraded revenue management system as ways to encourage involuntary compliance from taxpayers.

¹ SBS: FY 2013/14 Fiscal Report

Way Forward

There is a lack of information on collection rates or arrears. Risk assessment is used and audit teams are operational, with an internal audit function responsible for monitoring the internal control environment within the Ministry for Revenue.

On the existence and functioning of a tax appeals mechanism (indicator in the 2013 PEFA), Samoa was given a C with a set of administrative procedures in place for revenue appeals and the tax tribunal required under the Taxation Administration Act 2012 in place although yet to be fully operational.

1.3 Strengthening non-tax revenue collection

Actions

1.3.1 Develop and implement government-wide cost recovery policy for public services.

Progress

The 4th Non Tax Revenue (NTR) Rebasing Exercise was conducted in FY2014 and included the review of fees and charges for 9 Ministries (LTA, MCIL, MCIT, MWCSO, MOH, MfR, PTO, AG and FESA), as well as the finalization of fees for other Ministries included in the 3rd Rebasing (MESC, MFAT, MPMC, NUS, Audit, Electoral, Legislative, Regulator, PSC and SQA). The 4th rebasing exercise envisioned an addition \$3.4m in NTRs.

“FY2014 showed an increase in collection of Administrative fees from \$12.7m in 2012/13 to \$14.8m in 2013/14 approximately 16.2% increase whilst collection on fines, penalties and forfeits increased from \$1.6m to \$2.5m approximately 53.5% increase”.

GFS Report: December 2014

Careful consideration was given to ensure that the new fees and charges would have minimal effect on the public and businesses, and that access to essential services is not restricted for everyone

The Fees & Charges Amendment Bill, which gives the Revenue Board authority to change fees and charges when the need arises, is in its final stages and is scheduled to be passed later on this year.

Way Forward

- Complete and roll out the 5th and final rebasing of the NTR Project which was conducted in May-June 2014 across the 8 remaining Ministries;
- Implementation of the various elements of the ongoing management framework for the new NTR framework, including policy and procedures, guidelines, changes to the legal framework

(Preparation of the Fees and Charges Bill 2015), NTR budgeting, NTR accounting and reporting, automated NTR activity costing;

- Plan and implement a Post Implementation Evaluation of the NTR Project once all fees and charges have been enforced.
- Publication of Line Ministries and SOEs NTR Statements;
- Undertake annual adjustments of NTRSC in line with cost increases;
- Conduct strategic reviews of all NTRSC every 5 years;

1.4 Improve predictability and control in budget management and execution

Actions

- 1.4.1 Contain government spending within manageable levels;
- 1.4.2 Strengthen multi-year perspective in fiscal planning through MTEF and cash flow forecasting;
- 1.4.3 Strengthen inclusion of donor funding in annual and medium term budget estimates and out-turn reports.

Progress

Actual expenditures are typically quite close to the amounts budgeted. According to the 2013 PEFA, for the three financial years from FY2010 to FY2013, actual aggregate expenditures varied from the budgeted amounts by around 1-2 percent each year with the exception of FY2011. Supplementary budgets are prepared midterm in the fiscal year which provides flexibility but after the supplementary budget Ministries are unable to overspend on expenditure lines. The constitutionally-mandated provision of a budget allocation for unforeseen expenditures also provides flexibility that helps keep actual and budgeted expenditures in line.

Way Forward

EPPD, Budget Division and ACDM continues to work together on mechanisms to allow the closer monitoring of government ministries' spending and sector plans, and emphasized the need to align the budget Medium Term Expenditure Framework (MTEF/Forward estimates) with the costing of sector plans.

2. Strengthen debt management and financing

Actions

- 2.1.1 Implement debt management strategy controls for loan approvals and domestic debt;
- 2.1.2 Implement Aid Policy (Development Cooperation Policy: Promoting AID Effectiveness) and preferred aid modalities such as budget support; and
- 2.1.3 Improve recording of debt and government liabilities related to government guarantees of external and domestic borrowings by SOEs.

Progress

The Aid/Development Cooperation Policy has been revised and implementation has focused on the achievement of key targets such as the increasing use of country systems and subsequently delivery through budget support. There is a gradual shift towards partnerships arrangements through institutional linkages programs particularly for the social sectors and especially in areas where vulnerable groups are involved.

Climate financing is becoming an important source of financing sustainable infrastructural needs and the Government has recently approved procedures for contracting new loans and issuing government guarantees which were part of the updated operational risk management strategy in the updated action plan. Part XI of the Public Finance Management Act 2001 on Borrowings, Loans and Guarantees has been approved by Cabinet to be in line with the abovementioned approved procedures. These approved procedures need to be implemented for all new loans and guarantees.

The Government's public debt management strategy is part of the annual budget documentation submitted to Parliament. All information on public debt is published quarterly as the debt bulletin on the MOF website. The government continues its commitment to reducing public debt to a more sustainable level in the medium term as highlighted in the revised Medium Term Debt Management Strategy 2014.

Table 1

	FY 0910	FY 1011	FY 1112	FY 1213	FY1314
Total Public Debt (Tala millions)	\$ 714.36	\$ 786.47	\$ 906.43	\$ 990.45	\$ 1,015.45
External Debt (Tala millions)	657.43	737.68	864.64	952.61	966.24
Domestic Debt (Tala millions)	56.94	48.79	41.80	37.84	49.22
GDP (current prices)	1,631.92	1,766.16	1,843.78	1,839.36	1,866.81
Total Public Debt % of GDP	44%	45%	49%	54%	54%
Total Debt Service	35.01	39.16	38.33	40.43	53.56
Total Govt. Guarantees (Tala millions)	77.00	77.00	70.00	129.05	164.85
Total Govt. On-lending (Tala millions)	44.00	74.60	79.00	191.33	193.11

In addition to external public debt, the debt from state owned enterprises poses some risk to the government. The value of defaulted loans as at end of June 2014 stood at ST\$49.2 million. The government is however in the process of setting up the Ministry of Public Enterprise (with technical assistance provided by ADB's PSDI) to further consolidate the government's SOE reform agenda. The intention is to divest a number of public enterprises to reduce risk levels and exposure to debt in the medium term.

In terms of the debt portfolio, China is now the main creditor (35 percent of external debt), with ADB and World Bank accounting for 31 percent and 25 percent of debt respectively. Others, including OPEC, IFAD, EIB / EU & JICA make up the balance.

Table 1 shows the government debt portfolio in the past five Fiscal Years.

Way Forward

Debt Sustainability Analyses are regularly conducted by World Bank and IMF, the recent rebasing of GDP together with some methodological changes associated with the IMF/WB debt sustainability analysis meant Samoa has moved to a moderate risk of debt distress in 2015 (even after incorporating the airport terminal loan). Development partners raised some concerns about compliance with the recently approved debt contracting procedures, as well as the need for some economic analysis of the costs and benefits of a new loan from the EXIM Bank of China.

There are no sources of any new borrowings other than those available from the multilateral financial institutions. Program support grants have seen an increase in FY2014 and 2015 which will help the Government meet development objectives while at the same time contain/reduce future debt levels.

The Education Sector is expected to receive sector budget support in FY2015.

3. Improve accuracy, and timeliness of budget performance and public accounts reporting to Cabinet and Parliament

Actions

- 3.1.1 Commence introduction of the IMF Government Financial Statistics (GFS) 2001 classification system;
- 3.1.2 Timely preparation, auditing and tabling of public accounts in Parliament;
- 3.1.3 Timely and effective monitoring and reporting by MoF to Cabinet of budget performance during each financial year; and increased availability of and public access to budget information as well as public accounts information;
- 3.1.4 Strengthen capacity of MoF and CBS for cash flow forecasting and management; and
- 3.1.5 Confirm Government wide policy and processes for timely payments to suppliers of goods and services and for clearance of arrears.

Progress

The GFS 2001 Manual was adopted in December 2012 (quarter) which replaced the previously used 1986 manual, to report fiscal position and operation of the government, quarterly and on an annual basis by the Samoa Bureau of Statistics. The Budget (MTEF) also uses the GFS Manual 2001 for the three forward year accumulated estimates as introduced via the FY2011/12 Budget Speech. The improvements to the GFS classification system has included coding the underlying budgetary system according to the defined GFS headings in this new manual which has helped to tackle the problems experienced in the past with instances of misclassifying accounts. On the other hand GFS Mapping against the Chart of Accounts in Finance One was completed in second half of 2013, and SBS is currently extracting directly from this source.

As per the public accounts, the government's financial statements for the year ended 30th June 2014 were submitted to the Samoa Audit Office on 31st October 2014, and submitted to Parliament in April 2015. The previous Audited Public Accounts reports 2011-2012 and 2012-2013 were submitted to Parliament in June 2014.

Way Forward

Further technical assistance from PFTAC will help refine the GFS Model. In addition, cash management and Asset Review Policy has also been identified for support under this T.A scheme for staff capacity building and unit capability improvements to enhance this much needed function within the MOF (Accounts Division).

Asset registration and reporting – in line with IPSAS – would allow for more scrutiny over ministries' capital budgets, better accounting for the consumption of fixed capital (depreciation and the need for asset replacement), and potentially better estimates of maintenance requirements

Arrears management to be further improved (turnaround time for payment processing) thus reducing the total arrears from 2.8% of total expenditures in FY12/13 to a lower threshold.

4. Improve relevance, accuracy and timeliness of all data and statistics for policy making, monitoring and evaluation

Actions

- 4.1.1 Improve the capacity of the Samoa Bureau of Statistics in the collection and analysis of key economic and financial data.

Progress

The SBS ISP (2011-2013) delivered all the milestones expected. The achievement of sustained and sustainable improvements in the efficient and effective delivery of statistical outputs will, however, depend on the commitment of SBS management to continue to lead the change process and

implement fully the recommendations for continued capacity building of the staff, improving statistical processes and generally strengthening the institution.

In general the quality and timeliness of key statistics has been improved, and dissemination has been improved through the SBS web-site and stakeholder communications processes. What is not so clear is whether these improvements have actually led to more effective policy analysis and better decision making by policy-makers. This may become clearer as the Strategy for the Development of Samoa (SDS) and the supporting sector plans are developed with clear use of statistics to analyse and support the various development strategies proposed. Encouraging and supporting the more effective use of statistics in policy analysis and formulation needs to be an ongoing process as many agencies, and the staff in those agencies, remain relatively unaware of the wide range of official statistics that are available.

The ISP has provided the Bureau with the tools and the capacity to implement the Samoa Strategy for the Development of Statistics (SSDS) 2011 - 2021 and to maintain Samoa's pre-eminence in statistical development in the Pacific region. But it must be remembered that institutional strengthening and capacity building are dynamic processes. They must not cease just because the ISP has reached its end. The ISP has provided the platform from which continuous improvement should be achievable using the tools and capacities now available to management and staff in SBS.

Way Forward

- HIES to be completed and results published in 2014
- Labour Force Survey results to be published in 2014
- DHS completed in early 2015
- Business Activity Framework & Survey planned for 2014/15
- Next Population Census scheduled for 2016
- SSDS to be reviewed and updated
- Training and capacity building to be continued for staff development
- Additional TA resources will continue to be needed for specialist technical tasks & analysis; e.g. to assist in carrying-out:
 - ✓ CPI weights update from 2013 HIES
 - ✓ Poverty/ hardship and vulnerability analysis from 2013/14 HIES
 - ✓ Development of Environmental Accounts
 - ✓ Extension of GDP indicators and development of other short term economic lead indicators
- More modern, flexible system for BDM registration to be initiated within the next five years; New system to be integrated with the developments in the health management information system so that information can flow easily between the health and BDM systems.

5. Enhance the transparency and effectiveness of procurement processes

Actions

- 5.1.1 Enforce and implement new Procurement Guidelines together with training of Government Ministry personnel responsible for procurement functions;
- 5.1.2 Finalisation of standard tender documents for works, goods and related services, general services and consulting services to be in line with the procurement guidelines and consistent with international best practice; and
- 5.1.3 Improve capacity of Procurement Division to effectively support the Tenders Board as well as technical ministries/agencies to ensure robust evaluation of all bids or procurement proposals submitted to the Tenders Board; and
- 5.1.4 Strengthen completion, value for money and procurement controls.

Progress

The **Procurement** division provided an update on recent developments, including the approval of new Treasury Instructions on procurement (Part K), issuance of a new set of procurement guidelines 2014, and the issuance of standard tender templates for minor works, minor goods and related services and minor general services including trainings and workshops on their use. The two tier procurement trainings: (i) compliance training and (ii) competence training for capacity building was anticipated in 2014/15. The Compliance training was carried out for all line ministries and public bodies on procurement procedures and guidelines, treasury instruction and financial delegation thresholds for compliance purposes. The competence training will be carried out by the National University of Samoa using ITC Supply Chain Management Modules.

The division has now identified three potential items that could use framework arrangements (e.g. pharmaceutical supplies, medical supplies and stationery supplies), with a view to their eventual implementation. In identifying the potential items suitable for framework arrangements the following were considered:

- Ease to specify and ease of change
- Potential benefit (potential savings in cost, resource to procure and manage, delivery time, reduced risk)
- Market risk (impact on local supply market, stability of supply, competition, market share)

Framework arrangements would also help to speed procurement (e.g. for tests, emergency supplies, etc) in emergency situations.

Way Forward

The potential introduction of annual procurement plans for the forward estimate years, implementation of framework arrangements as well as the future establishment of an independent complaints review mechanism are all envisaged to improve the Government's procurement functions immensely so as to attain efficiency and transparency, as a result of minimizing fraudulent and corrupt procurement practices. Collaborate with the National University of Samoa in carrying out the Competence Training for all interested procurement officers in Government. This will in turn develop a qualification in procurement to be recognised in the public service as a profession based on the Supply Chain Management Modules.

6. Improve human resource capacities

Actions

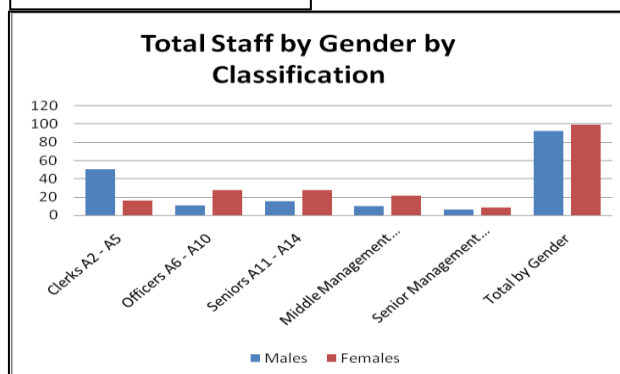
- 6.1 Develop a capacity building action plan for the sector identifying key training needs;
- 6.2 Provide support for professional development, succession planning and induction training for core services; and
- 6.3 Provide resources for improved financial administration and IT networks.

Progress

Strengthening human resource capacities continue to be the focal aspect under the PFM Reform Programme especially in Phase III where a capacity building framework has been finalized and integrated for all implementing agencies within the Finance Sector.

In addition, the CSSD has continued its work internally, implementing capacity building support processes and consultations with MOF staff members as well as externally with PSC towards finalizing and incorporating the Samoa Public Service Performance Appraisal System (PAS) to plan, develop, guide, evaluate and monitor staff performance. The PAS process should create a common view and establish a shared understanding about what is to be achieved, why, how and by when as well as align work efforts with the strategic direction of the Ministry. Other benefits include ongoing discussions about progress offering opportunities for timely feedback, supports career development, recognize and rewards achievements and lastly managing poor performers. Implementation arrangements will be dictated by Performance Appraisal Plans which is a mandatory workplan for each staff member which records the key responsibilities and targets expected of the employee to achieve with each PAS cycle (Financial Yearly from 1 July – 30 June). Furthermore, the CSSD had been instrumental with the support and cooperation of division heads in moving forward

Chart 3 – MOF Personnel



restructuring and reclassification efforts so that the Ministry is strategically aligned to achieve its goals and objectives going forward.

The IT Division continues to be an integral stakeholder in assisting the Ministry of Communications and Information Technology (MCIT) with the work currently undertaking towards setting up and bringing online Samoa's National Broadband Highway (SNBH). On top of that the newly established Systems Support Division provides real time assistance and training support for the government's national accounting system Finance One which is readily available to all ministries upon request. The System Support Division is also working with the Accounts in facilitating some of the electronic modalities that will assist in the financial services, streamlining the process, and review and update some of the system reports based on the accounting reporting requirements and policies. Furthermore, whilst preparing for the SIDS Conference the IT staff members have worked tirelessly with the various organizing committees towards getting our SIDS conference facilities up to the information technology pedigree required by the United Nations.

Way Forward

- CSSD to continue address improvements in human resource management and human resource development using the PAS tool.
- IT to upgrade server hardware and other key capital items required for improving security of the data disseminated between MOF and Line Ministries as well as making sure that Finance One is reaching all users with improved speed and less downtime.
- System Support to improve training requirements of the users of the system and implement some new features and functionality of the system to facilitate improved processes and services to the users.

7. Enhance public financial management systems

Actions

7.1 Continue to provide support for key international assessments including PEFA, MAPS, ROSC etc;

7.2 Update Treasury Manuals with summary Division-level Manuals and an Integrated Budget Cycle management approach; and

7.3 Update the Treasury Instructions in line with the PFMA Act (2001) and changes to work processes since the introduction of Finance One.

Progress

<u>Update:-</u>	<u>Issue:-</u>
<ul style="list-style-type: none">• Completed most recent PEFA Assessment 2013 (Oct/Nov)• Completed PER 2013 (World Bank Assessment)• Completed MAPS (validated report on 14th February 2014)• Completed a Joint AUSAID & NZ MFAT Assessment on Incentivizing PFM (Feb 2014)• Completed World Bank & ADB Missions on evidencing PFM Initiatives (2014)• Newly instated Audit Act 2013 (Samoa Audit Office)• Newly instated Customs Act 2014 (Ministry for Revenue)• Newly instated National Payments System Act 2014 (Central Bank of Samoa)• Updated Treasury Instructions 2013 (Ministry of Finance)• Updated Debt Management Reform Plan 2014	<ul style="list-style-type: none">• Heavy reliance on technical support from international consultancy services.• Human capacity development thwarted by institutional norms and personal career paths i.e. high turnover of skilled staff.• Information Technology not utilized at its full capacity with regards to finance and informational systems.

Way Forward

Short term

- Capacity development trainings for all line ministries and public bodies with regards to the new frameworks in place for accounting procedures as well as the improved procurement functions and templates.

Medium to long term

- Implementation of Phase 3 PFM Reform Plan;
- Increasing linkages with the Finance Sector Plan for fostering economic resilience;

Review of strategy

- The Finance Sector Plan (inclusion of PFM Reform Plan Strategies) reviewed for the first time in June 2015 and this process will continue over the life span of both documents.

8. Strengthen monitoring of State Owned Enterprises

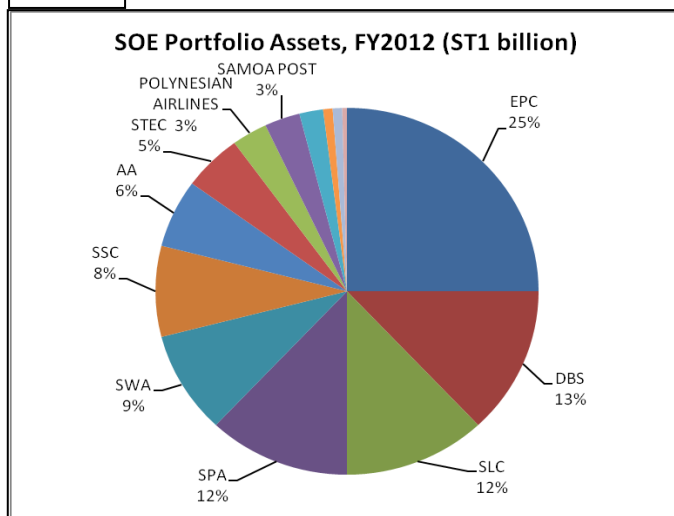
Actions

- 8.1** Enforce and fully implement provisions of Public Bodies (Performance and Accountability) Act 2001;
- 8.2** Strengthen the capacity of the SOE Monitoring Division in provision of finance/business analysis and project appraisal to support the improved performance of SOEs;
- 8.3** Explore Public-Private Partnerships opportunities where appropriate; and
- 8.4** Update and disseminate a national privatisation policy.

Progress

The **SOEMD** has a new SOE policy in place, which includes a privatization plan as well as options for Public-Private Partnerships (PPPs). The focus is now on identifying non-strategic business units (both wholly and/or potentially parts of SOEs) that can be privatized, leaving strategic business units with the government.

Chart 4



There have been no significant variations in individual SOE performance over recent years, the SOE portfolio continues to perform well below the government's target of 7% Return on Equity (ROE) despite access to subsidized credit – 7% below the commercial rate on average – and an estimated ST268million in government transfers equivalent to 2.6% of GDP. The government continues to support loss-making (and insolvent) SOEs through soft loans, or investments directed through SNPF, DBS, ACC and now with UTOS embarking on an adequate

financial disintermediation program, raising funds from the public and local institutions and lending the money in line with their investment policy.

Important steps have been taken to strengthen SOE governance, which also provides support to ministers and the governance reforms which saw a change in the governing structure of SOEs. The Selection of the boards have now been the sole responsibility of the Independent Selection Committee which was established in 2010.

Way Forward

The reform agenda also includes improving the internal controls and internal audit functions of SOEs, with many not having these functions in-house. This was cited as an area which could potentially benefit from TA.

The SOE legal, governance and monitoring framework is robust but has never been fully implemented. SOE performance would improve if the government fully implemented its Public Bodies (Performance and Accountability) Act and this should be supported by publishing SOE accounts and achievements against key performance targets. Increased disclosure would allow increased stakeholder engagement and scrutiny of SOE performance and commercial returns.

Another positive development to improve monitoring effectiveness is a recently appointed SOE Minister responsible for all SOEs with legislation to follow for the establishment of a new Ministry. The Minister of Finance will continue focus on the fiscal oversight of SOEs, including the impact on the government's financial position while the SOE Minister will focus on the ownership interest: governance, the return on investment, long-term organizational health, and effective financial and operational monitoring.

9. Strengthen auditing (internal and external) processes

Actions

- 9.1 Continue use of the 2004 INTOSAI Guidelines to review and strengthen control standards;
- 9.2 Implement the Strategic Plan for Internal Audit Across Government;
- 9.3 Place emphasis on systems monitoring and risk analysis with the objective of strengthening the overall control framework; and
- 9.4 Conduct on-going upgrades of standard manuals and methodological guidelines for the Chief Auditor's Office as a quality control mechanism.

Progress

Internal Audit

Strengthening government's internal audit function to improve effectiveness of internal controls in Government operations is progressing relatively well. With the implementation of the Strategic Plan For Internal Audit Across The Government of Samoa 2012-2016, improvements such as development and implementation of annual Risk Assessments and Audit Plans including capacity building on system based audits have been introduced. However audits continue to be transactional in nature, or relate to investigations.

External Audit

The new Audit Act 2013 increases the powers of the Controller and Auditor General (CAG) to access documents and question officials. It also increases the CAG's ability to audit transactions funded by development partners. Audit reports now become public documents on the date they are tabled in Parliament, rather than having to wait for the completion of debate and committee processes. The new Act contains whistle-blower protections, and the CAG intends to work with MoF and PSC to implement these provisions.

The CAG has also created a Parliamentary oversight committee support unit in office to provide technical support to committees and increase committee access to and understanding of GoS financial documents and statements.

One of the risk mitigation measures recommended in the 2011 ANS was to strengthen and support the role of Parliamentary oversight committees. Various initiatives of GoS with the support of Development Partners (DPs) have had a significant impact. There is wide agreement that Parliamentary committees are now far more effective in holding officials to account. This has coincided with the CAG bringing audited public accounts up to date, allowing the Public Accounts Committee (PAC) to question current officials about weaknesses, failures or frauds that occurred under their watch. In the past, PACs held hearings on public accounts that were 5 years old or more, allowing ministry officials to point the finger of blame at their predecessors.

Way Forward

Internal Audit

To improve Governance, Internal Audit Committee for all Ministries needs to be established and Audit Committees for SOEs need to be improved to provide an independent oversight over the internal audit function. Also the Internal Audit regulation should be developed as a mandate to record the roles, responsibilities, powers and accountability of internal auditors.

External Audit

Under PFM Phase 3, the aim is to build capacity for special audits, targeting fraud, waste and corruption. A special audit unit and a legal unit have been added, with TA potentially useful to set a good platform for these units (the DFAT volunteer program was raised as an option). The plan to outsource public accounts audits was also discussed. Currently, twenty Audit Office staff members are engaged with financial audits, but if these were outsourced to the private sector more performance audits could potentially be carried out (current targets are 2 per year). It was also noted that while SOEs are required by the Public Bodies Act to have internal audit committees, many don't in practice.

10. Improve planning and performance monitoring

Actions

- 10.1 Ministries will be required to develop sector-level medium-term strategies (4-5 years) and prioritised plans based on SDS 2012-2016;
- 10.2 Strengthen capacities in macroeconomic modelling of the economy.

Progress

The Economic Planning and Policy Division (EPPD) continuous support towards assisting and facilitating Sector plans has completed a revised Sector Planning Manual which assist all sectors through principles of better alignment towards national priorities, ownership, inclusiveness and accountability and transparency. Monitoring and Evaluation is vital in the implementation of sector plans especially towards achieving national priorities identified in the Strategy for the Development of Samoa, hence a technical assistance from DFAT (Australia) is currently working with EPPD in setting up a Samoa Monitoring Evaluation Reporting Framework (SMERF).

PFTAC Technical Assistance targeted towards strengthening EPPD staff capacities in macroeconomic modelling of the economy has continued with its hands on approach whereby an expert arrives in country on a bi-monthly/quarterly basis to assist the Macroeconomic Unit with its SERF Model data input, interpretation and analytics.

A Participatory Outcomes Map (POM), in the Samoan Way, engages stakeholders in a facilitated participatory process, promoting learning and providing a framework for ‘action–research’ on processes of change to achieve the planned longer term outcomes of a Sector Plan, program/project. The participants in a project including project staff, key stakeholders, partners and beneficiaries together co-construct the rationale, the causal steps for achieving the longer term outcomes desired.

An Outcomes Map is a conceptual plan that articulates the rationale behind a SP, program/project – what are understood to be the cause-and-effect relationships between inputs, activities, outputs, intermediate outcomes and longer term outcomes. It is built as a participatory activity at early stages of design and becomes, among other things, a base for the development of an M&E and reporting plan. Represented as a diagram, an outcomes map shows a series of expected essential consequences (indicators of success), not just a sequence of events and can be described as a form of design clarification.

Way Forward

- SDS 2012 – 2016 Mid-Term Review to be finalized and endorsed by Cabinet.
- Sector Planning Manual to be reviewed and updated accordingly.
- Outcomes Mapping Exercises to be followed up and further linked into respective sector plans and sector reviews.

PRIORITY OBJECTIVE TWO

“Development of a relevant, effective and sustainable financial institutions and supportive monetary policies”

Monetary and Financial Stability

The main objective of the monetary policy is to promote sustainable real economic growth by **maintaining price** and **financial stability** and **international reserves viability**. In order to achieve these objectives, monetary policy decisions are conducted via open market operations through the issuance and trading of Central Bank Securities.

1. Maintain price stability and low inflation

Actions	Update	Way Forward
1.1 Review exchange rate and interest rate policies and market interventions to minimize impacts of rising fuel prices and imported food products and domestic price movements so as to promote investment.	The monetary policy continued with its easing stance to stimulate economy and encouraged economic activity in 2013/14 and 2014/15, with its main objective of supporting and strengthening the private sector.	The government is implementing a range of initiatives to stimulate agribusiness exports. The CBS continues to monitor domestic and foreign prices.

Deflation deepened to -1.2% in FY2014 from -0.2% in the previous year as international commodity prices and domestic food prices fell, while the tala exchange rate held steady. These declines more than offset the effects of a 3% public sector wage increase, and higher prices of housing, alcohol and transport.

As an added monetary policy measure, the Central Bank Credit Line Facility played a role (to a lesser extent) to infuse more liquidity to selected sectors of the economy, fostering competition in the financial system, reducing/holding down interest rates and boosting private sector credit demand. As a result, PFI credit grew significantly by 14.6% in FY2014 compared to 4.32% in the previous year. While there was further negative growth in commercial bank credit to the economy in the year reviewed, it had picked up slightly from FY2013, despite average lending rates remaining high at over 10 percent. So far in FY 2014/15, however, average lending rates have fallen to 9.45 percent as at April 2015. However, bank credit growth has been flat. Commercial bank credit to the economy has been stagnant in the last three years while lending rates have stayed high at over 10 percent. CBS continues to directly support credit with government guarantees to PFIs to support hard-hit sectors.

The Tala exchange rate is pegged within a ± 2 percent band to a trade and payments weighted basket of currencies, and most capital account transactions require approval from the Central Bank of Samoa (CBS).

The CBS is currently monitoring headline and underlying inflation rates. The domestic prices have been instrumental in keeping inflation low and negative due to improved agricultural supply.

2. Strengthen monetary policy implementation

Actions	Update	Way Forward
<p>2.1 Strengthen prudential supervision by CBS over commercial banks;</p>	<p>Supervisory processes are primarily off-site however, an on-site assessment of commercial banks have been undertaken in early 2014.</p> <p>Work is in progress following an IMF TA Mission in April 2015 to assist with the amendments of the Financial Institutions Act 1996 in view of FSAP recommendations to strengthen CB's supervisory framework and resolution mechanism. The Central Bank is coordinating with the Attorney General's Office drafting of the necessary amendments.</p>	<p>Amend the Financial Institution Act 1996 to include FSAP 2014 recommendations on Banking supervision and resolution.</p>
<p>2.2 Broaden banking supervision to include SNPF, ACC and UTOS, as well as non-bank financial institutions i.e. money transfers, etc;</p>	<p>SNPF and DBS (2012) and UTOS and SHC (2014) included under CBS supervision;</p> <p>CBS supervision (after legislative amendments 2014) also includes insurance companies, MTOs and foreign exchange dealers.</p> <p>a) Prudential Statements to govern SHC operation have yet to be completed.</p> <p>b) Issued new licensing requirements for MTOs which</p>	<p>On-site supervision of the PFIs needs to be introduced and be maintained on a regular basis.</p> <p>An onsite program is scheduled in the second half of 2015 to review operations of the local banks and selected PFIs.</p>

	came into effect 1st January 2015.	
2.3 Develop national strategy on financial literacy; and	A Financial Inclusion Department has been established with CBS and resourced to undertake these financial inclusion efforts;	<p>Continue implementation of the Financial Inclusion Program.</p> <p>The program consists of progressing:</p> <ul style="list-style-type: none"> - Financial Consumer protection - Inclusive insurance - Financial education in the core curricula - The national payments system reform (legal, oversight function and ATS) <p>Various surveys and studies completed with the addition of one more will provide the foundation of the stakeholder workshop to be called from which a national financial inclusion strategy and national financial literacy strategy will be discussed. These are earmarked for the second half of 2015</p>
2.4 Develop a credit bureau to provide credit assessments so as to reduce the cost of capital associated with high risks and transactions costs	Credit Bureau setup is still in the pipeline and under discussion.	<p>Seek IMF expertise to assist with the feasibility analysis.</p> <p>A WB IFC mission (June 2015) to establish discussions and proposals in the setup of a Credit Bureau in Samoa.</p>

CBS' program of supervision and regulation is delivered through the Financial Supervision Department of its Financial Soundness Group (FSG). The FSG was established following senior management's thorough review of CBS' supervisory responsibilities and available resources in the

context of the development of CBS' Strategic Plan (2014-2018). The FSG includes Samoa's Financial Intelligence Unit (FIU) and a Financial System Development Unit, the latter being responsible for financial inclusion initiatives and development of a national payment and settlement system.

CBS is also strengthening oversight of non-bank financial institutions. The PFIs will be supervised according to the nature of their operations; lending in particular is subject to the same categorization, recognition, and rules as for commercial banks.

Currently, there is no credit bureau in Samoa which limits the information available on potential clients and SMEs, especially in an environment with scarce collateral. CBS and MOF continue to explore the viability of this initiative.

3. Improve financial system supervision

Domestic Banking

Actions	Update	Way Forward
3.1 Issue more detailed guidance on banks' credit policies;	The FSAP 2014 exercise has been undertaken and it has highlighted some of the areas that CBS should consider in improving its financial supervision role.	Work is in progress to update existing Prudential Statements and Guidelines for banks and non-banks in view of FSAP recommendations and current international standards.
3.2 Strengthen monitoring and compliance of related / connected lending and large exposures;	The FSAP 2014 also highlighted this area for further improvement	Work is in progress to update existing Prudential Statements and Guidelines for banks and non-banks in view of FSAP recommendations and current international standards.
3.3 Introduce a requirement that banks have in place comprehensive risk management policies to control their non-credit risks (e.g. interest rate, market, operational and country risks);	This was highlighted in the FSAP for further work.	Work is in progress to update existing Prudential Statements and Guidelines for banks and non-banks in view of FSAP recommendations and current international standards.
3.4 Provide guidance to banks on establishment of corporate governance policies and procedures	The FSAP 2014 highlighted this area for CBS's further consideration.	Work is in progress to update existing Prudential Statements and Guidelines for banks and non-banks in view of FSAP recommendations and current international standards.
3.5 Consider amending legislation to provide CBS	Relevant amendments will be incorporated in the FI Act	Action to be reviewed.

with the authority in extreme circumstances to effect changes in banks' Board of Directors and senior management	1996.	
3.6 Implement the new AML/CFT legislative framework by issuing the supporting regulations and guidelines;	Samoa's AML/CFT system was assessed by the Asia Pacific Group on Money Laundering (APG) in November 2014 in accordance with FATF Forty recommendations against the offence of money laundering and terrorist financing activities. Whilst a lot of improvements have been noted, there are still important areas where Samoa's AML/CFT system needs strengthening to effectively counter/detect/mitigate the risks of ML and TF.	Samoa's Mutual Evaluation Report (MER) will be tabled for discussion and approval at the next APG Plenary in Auckland NZ, in July 2015.
3.7 Explore the concept of establishing a Financial Sector Ombudsman to provide an avenue for satisfactory settlement and resolution of complaints/disputes between customers and commercial banks	Discussions are on-going on a better way equitably to provide a resolution to a banking issue.	Further exploration on the setup viability.
3.8 Restructure DBS to focus on providing credit to SMEs and to improve key sectors such as Agriculture.	DBS independent review (TA provided under the PFM Program) completed in 2014 with the aim to make it profitable.	Implementation of the recommendations provided in the final report.

The Central Bank of Samoa is the regulatory and supervisory authority for banks. It is also the regulatory and supervisory authority for some non-bank institutions which compete with the banks in the provision of credit. As a supplement to its supervisory powers in the Financial Institutions Act, the CBS has issued nine Prudential Statements which provide norms and guidance, in a limited number of areas, to be observed by the banks. Both the FIA and the Prudential Statements, which date from 1995-1999, are in need of update and enlargement to reflect current trends in banking supervision.

CBS would benefit greatly from developing policies with particular reference to the updating of the prudential statements and the introduction of new ones. The development of policies is important for the carrying out of effective supervision. Supervisors should have a sound regulatory base with clear recommendations and norms on which to judge compliance and identify the relative strengths and weaknesses of the various banks. In addition, staff numbers are insufficient.

International Banking

Action	Update	Way Forward
3.1 Continue and expand monitoring of banks' activities and risk exposures through on-site examinations;	Already legislated for CBS supervision effective 2013/2014, currently negotiating financial reporting requirements and standards.	Finalising the financial reporting requirements and standards.
3.2 Introduce minimum capital requirements for each bank based on its risk profile;	This was highlighted in the FSAP under SIFA supervision.	Further explore capital requirements between SIFA and CBS
3.3 Issue guidance of banks' policies, procedures and systems related risk management as well as on their corporate governance.	SIFA is already in search for assistance in preparing an appropriate Supervisory Guidance.	Continue working in collaboration with CBS in this regard.

The Samoa International Finance Authority (SIFA) is responsible for the supervision and regulation of international financial services. The FSAP expressed concern regarding, inter alia: (i) potential for infringement of the operational independence of SIFA, given the legal powers of the Minister of Finance to grant licenses and to take other important supervisory measures; (ii) the potential conflict between the promotional and supervisory roles of SIFA; (iii) the minimal published data on the offshore sector; (iv) the need to expand on-site inspections with an emphasis on asset quality and classification; (v) the lack of individual capital requirements based on risk profile; and (vi) the lack of guidance on banks' risk management. SIFA's recent commencement of a search for assistance in preparing appropriate Supervisory Guidance is a timely initiative. It is important that the gaps in supervision and regulation be addressed. Proper oversight of the international financial service is important for the reputation of the whole financial sector and Samoa as a destination for investments.

CBS continues the close collaboration with SIFA in ensuring the FSAP recommendations are implemented/considered where appropriate.

Capital Markets

Action	Update	Way Forward
3.1 Develop oversight by the CBS of the unit trust investment vehicles and their related trustee supervision guidelines;	UTOS is already under CBS supervision (2014).	Continue strengthening prudent oversight on UTOS investments.
3.2 Develop policies and legislative framework for a Capital Markets Authority to oversee development and regulation of the new capital markets initiative;	Viability options have yet to be analysed.	To be explored further as it is a longer term aspiration.
3.3 Review the Unit Trust of Samoa project and identify how it could be expanded into facilitating mobilisation of equity investments into private sector projects.	The government has yet to consider this expansion.	To be explored further in the next two years.

Money and capital market activity is very low. CBS securities are issued, but these are currently low yielding and only bought by commercial banks. The total outstanding volume of CBS securities in FY2014 was around SAT 10.0 million, and there continues to be no secondary trading. There are no Treasury bills outstanding while Government bonds have not been issued since FY2005/06. In terms of other securities, e.g., company shares, there are very few or no transactions.

In addition, foreign bank subsidiaries apply stricter internal standards for inter-bank trading after the GFC. Capital market fragments can be observed in UTOS which sells equity units to individual and corporate investors and itself makes equity investments; and SNPF which invests pension savings and provides annuities to its members.

Currently, there is no capital market supervision although the FSP envisages a capital market authority under the CBS for development and oversight in the medium term.

PRIORITY OBJECTIVE THREE

“Development of a relevant and effective institutional and policy framework for maintaining a competitive and stable position in international trade and reserves”

Sound External Position

As a small open economy, the government has to maintain a sufficient level of reserves to withstand external shocks, foreign reserves have remained buoyant in recent years as a result of financial aid and borrowing following the 2009 tsunami and Cyclone Evan 2012.

The current account deficit increased to 7.6 percent of GDP in 2013/14 as imports rose in line with the economic recovery, but exports contracted and tourism and remittance flows remained flat. The underlying current account deficit (excluding imports related to grants) rose from balance in 2012/13 to around 5 percent in 2013/14. Significant foreign inflows of capital grants and direct investment helped boost Samoa’s official international reserves, equivalent to 5.4 months of prospective imports of GNFS in FY2014 (from 5.5 months of imports in FY2013).

1. Strengthen exchange rate policy options

The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies. The currency basket is reviewed periodically to reflect changes in trade and payment patterns between Samoa and its major trading partners.

Actions	Update	Way Forward
1.1 Review appropriateness of more active use of the exchange rate policy;	Ongoing monitoring of the trade trends and international payment patterns.	CBS continue to cautiously monitor the exchange rate fluctuations to ensure consistency with its Exchange Rate Policy of fostering export competitiveness while minimizing imported inflation.

The IMF Article IV 2015 analysis suggests that there was no significant misalignment of the currency. The current exchange rate regime has served Samoa well, and reserves are adequate under the standard metric. However, given Samoa’s vulnerability to natural disasters, a strong external position with higher reserve buffers would provide the country with greater resilience to such shocks. This would require an improvement in the cost competitiveness of the tradable sector, especially tourism, which may require exchange rate adjustment.

2. Establish country risk rating

Actions	Update	Way Forward
2.1 Identify and secure a reputable international risk rating agency to undertake a full country risk rating during 2014;	Not yet implemented.	CBS to consider worthiness of such exercise.
2.2 Provide resources for implementing measures identified as necessary in the country risk report.	N.A	Awaits the achievement of action 2.1 above.

This is a costly and expensive exercise and CBS has to be sure that the benefits will outweigh the costs from such an undertaking.

3. Develop access to capital markets

The Government reforms and cautious outlook has filtered in access to capital markets, however, it still remains an area under careful scrutiny, for potential investment and debt financing, in the long run. Lessons learnt from Pacific neighbours will also be determined to steer the pathway in going forward.

Actions	Update	Way Forward
3.1 Develop a capacity development programme to up skill and train key personnel involved in Capital Markets operations;	Limited or no development	CBS continue to consider this cautiously and attentively
3.2 Activate a sovereign borrowing from Capital Markets for CBS orientation purposes;	Limited or no development	CBS and MOF to further analyse the benefits and costs for such commitment in the medium term.
3.3 Pursue a private bond placement	Limited or no development	Consider this in the long run, given the limited activity (of such undertaking) and capacity of the private sector.
3.4 Gradually pursue a public bond placement –	Limited or no development	CBS and MOF to further explore this area so as considering viable options on Treasury Bills for short term financing, in the long run.

4. Strengthen access to emergency financing facilities

Actions	Update	Way Forward
<p>4.1 Identify and design measures for accessing emergency financing from international multilateral financial organisations in the event that the need arises;</p>	<p>The second Safeguard Assessment Report was completed and finalised in 2014.</p> <p>The Contingency Emergency Response Component of the Pacific Resilience Programme will provide some support to finance critical imports or emergency response associated services following the proclamation of a state of emergency or declaration of disaster.</p>	<p>Implementing the eight key issues and recommendations in close consultations with the IMF.</p>
<p>4.2 Consider pooling national resources or appropriate financing mechanisms to establish a basis for a catastrophe insurance scheme in the future, either at international or regional levels.</p>	<p>Samoa participates in the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) pilot together with Tonga, RMI, Vanuatu and Cook Islands. Samoa's coverage provides catastrophe risk insurance coverage for low frequency, high severity events through a regional pooling mechanism. Samoa commitment to this initiative includes an annual contribution to paying part of its insurance premiums from 2013-2018.</p>	<p>The Pacific Resilience program which is incorporating the current PCRAFI will also explore the development of a Pacific mutual insurance fund for natural disasters.</p>

In the past 5 years, natural disasters have required diversion of resources to emergency response, recovery and reconstruction. This has contributed to low and volatile economic growth, as well as the elevated debt. Continuing investments in climate change adaptation and disaster risk reduction measures have the potential to reduce the impacts of shocks over the long term.

5. Strengthen access to international commercial banks

Actions	Update	Way Forward
<p>5.1 Develop and explore mechanisms for accessing foreign currency commercial loans for meeting possible financing needs;</p>	<p>Limited or No Development</p>	<p>CBS will continue to monitor this under the exchange control policies and regulations.</p>
<p>5.2 Provide resources for enhancing the role of the SIFA in strengthening access to international banks.</p>	<p>There are 7 off-shore banks licensed in Samoa through SIFA.</p> <p>Change of chairmanship from CBS to the Independent Board member.</p>	<p>Continue addressing gaps in supervision and regulation as highlighted in the FSAP.</p>

The opening of foreign currency accounts by non-residents is delegated to commercial banks whereas applications by residents of Samoa require CBS approval. Resident foreign currency account holders are required to report to CBS on the use of these accounts on a monthly basis.

Furthermore, as per reference to Action 5.1 it is regarding access by Government to foreign currency loans, however for the general public and the business community the aforementioned loans can be offered by the commercial banks in Samoa, subject to approval from CBS in line with Exchange Control Policies.

With regards to SIFA, the Authority is responsible for the incorporation and registration of international companies, and is also the regulatory authority for international companies, international banks, international insurance companies, international mutual fund companies and international trust companies. Samoa's commitment was further demonstrated when it underwent its Phase 1 review under the OECD Peer Review Mechanism which assesses a country's legal and regulatory framework to ensure that Samoa has the necessary regulatory framework thus allowing Samoa to effectively exchange information for tax purposes. The positive outcome of that review has moved Samoa to the Phase 2 review in 2014.

Tables

Annex 1: Sector Performance Monitoring Framework

No.	Key Performance Indicators and Targets	Unit	Baseline	Medium Term Targets ²	Annual Targets					Baseline and Means of Verification	Responsible Monitoring Agency
					2013-14	2014-15	2015-16	2016-17	2017-18		
			2012/13		Actuals	Proj.	Proj.	Proj.	Proj.		
Macro-economic Management											
1	Achieve significant real GDP growth p.a. (June on June)	%	-1.1	3.0-4.0%	1.9	2.3	1.9	1.1	0.4	SBS	MOF
Fiscal Sustainability											
2	Budget deficit to GDP	%	3.8	Maximum of 3.5%	5.4	4.2	4.7	4.0	2.3	SBS	MOF
2a	<i>Current expenditure to GDP</i>	%	26.1	35% - 38% ³	28.4	26.8	25.7	25.2	30.0	SBS	MOF
2b	<i>Personnel costs to current expenditure</i>	%	37.6	40%-45% ⁴	37.9	43.9	46.9	46.9	47.0	SBS	MOF
3	Maintain total debt outstanding to less than 50% of GDP.	%	54	<50%	54	57	58	56	53	MOF Debt Bulletin	MOF
3a	<i>NPV of external public debt (percentage of GDP)</i>	%	51.7	<40%	52.3	54.4	55.0	56.1	54.7	MOF and IMF	MOF
3b	<i>External debt-service % of GDP</i>	%	3.5	<2.5	2.9	4.3	2.6	1.7	2.4	MOF Debt Bulletin	MOF

² The proposed FSP indicators are based on the SDS 2012-2016 national indicators unless otherwise indicated.

³ Revision of previous target provided in Fiscal Strategy Statement, 2015/2016

⁴ Revision of previous target provided in Fiscal Strategy Statement, 2015/2016

No.	Key Performance Indicators and Targets	Unit	Baseline	Medium Term Targets ²	Annual Targets					Baseline and Means of Verification	Responsible Monitoring Agency
					2013-14	2014-15	2015-16	2016-17	2017-18		
			2012/13		Actuals	Proj.	Proj.	Proj.	Proj.		
4	Improve on Public Expenditure and Financial Accountability (PEFA) assessment scores from 2010;									PEFA Report	MOF
4a	Credibility of the budget	Average Grade	C+ ⁵	B+	B+	-	-	-	B+	PEFA Report	MOF
4b	Comprehensiveness and Transparency	Average Grade	C+ ⁶	B+	B+	-	-	-	B+	PEFA Report	MOF
4c	Policy Based Budgeting	Average Grade	C+ ⁷	B	B+	-	-	-	B+	PEFA Report	MOF
4d	Predictability & Control in Budget Execution	Average Grade	D+ ⁸	C+	C+	-	-	-	B	PEFA Report	MOF
4e	Accounting, Recording & Reporting	Average Grade	D+ ⁹	C+	C+	-	-	-	B	PEFA Report	MOF
4f	External Scrutiny & Audit	Average Grade	D+ ¹⁰	C+	B	-	-	-	B+	PEFA Report	MOF
Monetary & Financial Stability											
5	Underlying Price Inflation at less than or between 3.0-4.0 % p.a.	%	-0.2 ¹¹	3.0 – 4.0	0.8	1.3	2.6	2.1	2.5	CBS and SBS	CBS

⁵ C+ is the average 2010 score of Indicators P1-1 to P1-4 which constitute the budget credibility component of PEFA

⁶ C+ is the average 2010 score of comprehensiveness and transparency indicators P1-5 to P1-10 but excluding P1-8 (Local Government) which is not relevant to Samoa

⁷ C+ is the average 2010 score for indicators P1-11 and P1-12 which constitute the policy based budget component of PEFA

⁸ D+ is the average 2010 score for indicators P1-13 to P1-21 which constitute the predictability and control in budget execution component of PEFA

⁹ D+ is the average 2010 score for indicators P1-22 to P1-25 which constitute the accounting, recording and reporting component of the PEFA

¹⁰ D+ is the average score for indicators P1-26 to P1-28 which constitute the external scrutiny and audit component of the PEFA

¹¹ Annual average underlying inflation in the year ending 30 June 2013

No.	Key Performance Indicators and Targets	Unit	Baseline	Medium Term Targets ²	Annual Targets					Baseline and Means of Verification	Responsible Monitoring Agency
					2013-14	2014-15	2015-16	2016-17	2017-18		
			2012/13		Actuals	Proj.	Proj.	Proj.	Proj.		
6	Annual Average growth in private sector / public institutions credit	%	¹² -1.6	3% to 4%	-0.6	12.2	8.0	5.0	3.0	CBS	CBS
7	Annual average growth in Broad Money (M2)	%	¹³ -1.8	3% to 4%	8.3	9.8	8.5	6.5	3.4	CBS	CBS
8	Non-performing loans ratios of:									CBS Estimates	CBS
8a	Commercial Banks	%	10%	8% to 10% p.a.	8.29	10.0	9.0	9.0	8.0	CBS Estimates	CBS
8b	NPF	%	10%	6% to 7%	5.41	9.0	8.0	7.0	6.0	CBS Estimates	CBS
8c	DBS	%	12%	7% to 8%	1.31	11.0	10.0	9.0	8.0	CBS Estimates	CBS
External Sector Position											
9	Maintain import cover at 4.0-6.0 months	Months	¹⁴ 5.5	4.0 to 6.0	5.6	5.0	4.7	4.8	5.0	CBS	CBS
10	Maintain competitive real effective exchange rate.	Index Level	¹⁵ 104.6	100.0	97.8	108.0	106.0	103.0	100.0	CBS and IMF	CBS

¹² Annual Average Growth in year to 30 June 2013

¹³ Annual Average Growth in year to 30 June 2013

¹⁴ As at 30 June 2013

¹⁵ CBS/IMF estimate for FY 2010/2011 based on 2000 = 100