

Acceleration of Millennium Development Goals in Samoa:
Policy Analysis with a Focus on Requirements for Industrial
Growth

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At the same time, all opinions expressed here and any errors that may remain are my individual responsibility only.

ABBREVIATIONS

ADB	Asian Development Bank
AusAID	Australian Government Overseas Aid Program
BNPL	Basic Needs Poverty Line
CCSDP	Community Centred Sustainable Development Programme
CPAP	Country Programme Action Plan
DTIS	Diagnostic Trade Integration Study
EIF	Enhanced Integrated Framework
EPC	Electric Power Corporation
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
LED	Local Economic Development
MAF	Ministry of Agriculture and Fisheries
MCIL	Ministry of Commerce, Industry and Labour
MDG	Millennium Development Goals
MESC	Ministry of Education, Sports and Culture
MFAT	Ministry of Foreign Affairs and Trade
MFEM	Ministry of Finance and Economic Management
MoF	Ministry of Finance
MWCSD	Ministry of Women, Community and Social Development
NGO	Non-governmental organization
NZAID	New Zealand Aid Programme
PMO	Prime Ministers Office
PRTTF	Poverty Reduction Thematic Trust Fund
PSSF	Private Sector Support Facility
RE	Renewable energy
SBEC	Small Business Enterprise Centre
SQA	Samoa Qualifications Authority
SUNGO	Samoa Umbrella for Non-Governmental Organizations
UNDAF	UN Development Assistance Framework
VSDP	Village sustainable Development plan
WIBDI	Women in Business Development Inc
WTO	World Trade Organization

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INTRODUCTION

The government of Samoa sought the assistance of the United Nations Development Program (UNDP) in undertaking a comprehensive policy analysis to identify feasible policy options for addressing and accelerating progress on the gaps identified in the achievement of the Millennium Development Goals (MDG). Within this broad task, PRI was asked to provide an analysis of the requirements for industrial growth, an important factor in achieving the goal of “eradicating extreme poverty and hunger”. The aim of this report is to frame and guide forthcoming national and sectoral plans for 2012-2015 in Samoa. It proposes key policy options that could shift current economic trends by leveraging existing strengths and minimizing constraints in order to create more inclusive growth processes and reduce poverty¹.

The UNDP selected a team to conduct an analysis focused on identifying strategies to promote inclusive growth and job creation and strategies to reduce poverty. This report presents the teams findings. It provides a situational analysis of relevant circumstances in Samoa, many of them unique to that country. It describes the challenges and opportunities facing Samoa at this time. Finally, it assesses policy options for economic growth in terms of strengths, weakness, and earlier actions. It concludes that an effective industrial strategy for Samoa requires a reversal of the long-term decline of farming, and a strong focus on specific intersectoral linkages - between natural resources and value added products, and services increase competitiveness, are the most relevant for Samoa. In addition, there are several areas where a focused and coordinated approach to increase competitiveness for domestic producers can contribute additional benefits for employment and growth.

The first step in the analysis was reviewing background documents on Samoa and conducting an initial assessment of:

- the economic composition;
- key growth sectors and sectors with high employment potential;
- factors related to competitiveness; and,
- constraints inhibiting business growth and job creation.

The synthesis of a wealth of data², identifying key aspects of the economy, its composition and trends. They found that there are critical conditions, achievements and challenges for promoting industrial growth that are highly specific to Samoa. But many

¹ Given that there are separate reports that cover other relevant issues, it should be noted that the report does not go deeply into some of the issues on enhancement and increased effectiveness domestic and external revenues, on agriculture, banking and credit, tourism, labour, and social policies of Samoa, but the report touches on these to the extent they are relevant for the industrial sector. These will be integrated by the UNDP at a later point in the cycle.

²The documents reviewed include: UNDP and multilateral agency reports; documents of the Government of Samoa; macro and microeconomic analyses, sectoral analysis and strategy papers; and donor reports, strategies and plans. Complete references are provided. Special consideration was given to the priorities identified by key business associations and civil society organizations visited in Samoa.

of the policy documents were too generic, and missed some of the circumstances specific to Samoa. Many did not pay sufficient attention to the critical areas of agriculture, manufacturing and employment. Given the volatility of the economy, policy reviews and recommendations that focus on a narrow time period can easily miss long-term trends. A key finding of this review is that industrial and domestic value-added production activities in Samoa have been declining for more than a decade, with the economy increasingly becoming reliant on services and trade, supported through rising incomes from tourism and remittances. Changing this long-term trend, a trend found in many other Pacific Islands, will be a major challenge for Samoa.

The report outlines Samoa's key strengths and weaknesses in terms of achieving the MDGs, especially relating to poverty and growth, and examines the factors that determine the competitiveness of the economy and so shape economic outputs, industrial production and exports. The report provides a short review of industrial policy in the context of Samoa, distinctive features that have militated against industrial development and describes the necessary conditions for such development. This context is important to understand the finding that the past policies for industrial growth in Samoa have not been successful, and how the neglect of some key components have contributed over time.

This initial assessment is followed by a deeper analysis of key growth sectors/sub-sectors and their competitiveness; sectors with high employment potential; and related government policies and priorities. It drills down into the major components of Samoa's industrial activities, including enterprises, sectors, foreign partners, foreign direct investment, and access to finance and credit. This allows for a composite analysis of the bottlenecks and constraints inhibiting the industrial sector, business growth and job creation in Samoa. The special conditions of Samoa suggest a niche role for manufacturing that could be based on the existing natural resource base, with an emphasis on value-added post-production processing of natural resources, especially from agriculture, fisheries and a few other areas such as renewable energy production. Employment opportunities in these areas can generate income for household; increases in outputs can increase demand in important sectors of growth such as tourism, remittances and concomitant growth in construction, commerce, transport and energy sectors. An industrial strategy for Samoa requires a reversal of the long-term decline of farming, and a focus on the specific inter-sectoral linkages that are most relevant for Samoa³.

SAMOA: SITUATIONAL ANALYSIS

KEY FEATURES

Samoa consists of two main islands, Savaii and Upolu, with eight smaller islands. The total land area is 1,100 sq. miles (2,830 sq. km.). Savaii is the largest island (660 sq.

³ It should be noted that there are separate reports within the overall analysis supported by UNDP that cover other issues. One examines fiscal policy and the tax and expenditure systems; and others that focus on agriculture, banking and credit, tourism, labour, and social policies of Samoa. These additional and detailed reports on agriculture and tourism will add to the issues here.

miles or 1,700 sq. km.). The second largest island is Upolu (430 square miles or 1,100 square km). The capital Apia is located here.

A most important fact about Samoa is that it is an island nation with a relatively small population (currently below two hundred thousand persons). Its small size in both area and population, together with the large distances⁴ define some of the binding constraints to available policy options for the growth of industry and manufacturing (e.g. high transport costs to and from major markets). Its small economy is increasingly dependent on tourism and a growing service sector, while agriculture and fisheries, which continue to provide the bulk of employment, have been declining in value. A large fraction of the national income derives from the relatively large remittances (valued at 26% of the size of the GDP); external development assistance represents a smaller but still significant fraction.

Economic growth in recent years has been driven largely by growth in commerce, transport, communications and construction, all linked to and supported by increased numbers of tourists. Unfortunately, exports have stagnated and declined over several decades. The major exports have been fresh fish, coconut oil, coconut cream, nonu juice and a few other miscellaneous items.⁵ The main imports are food, petroleum and manufactured goods, and these are rising relatively quickly. In recent years export revenues have been as low as 5% of its import requirements.

Human development is much more than the rise or fall of incomes or economic growth. But higher incomes and economic growth provide opportunities for people to develop and utilise their potential for productive, creative lives. It expands people's choices. An area of concern is that, while economic growth has increased over the last decade, it has been highly volatile, and the overall growth in GDP has been accompanied by a decline in absolute outputs in the primary and secondary sectors. The data related to poverty and the inequality of income, based on the incomes and expenditures survey of 2008, found that the proportion of the population living below the Basic Needs Poverty Line⁶ has been increasing, and this increase has been substantial. The proportion rose from 15% in 1997 to 26.5% in 2008. Economic development is also challenged due to the vulnerability of Samoa to periodic natural disasters and the increased potential for negative impacts due to climate change resulting from global warming. These facts together have combined to place Samoa among the 49 least developed countries (LDC) in the world.

It must also be said, in particular for those not familiar with Samoa, that many features of poverty are less alarming in Samoa than in many other countries because of the subsistence production of many food items, the community and family culture of sharing, and the foreign remittances from family members who have migrated. The level of extreme poverty, as measured by the proportion of households and the population falling below the food poverty line is very low in Samoa. The latest analysis based on the Household Income and Expenditure Survey 2008 indicates that only about 3.0 percent of

⁴ The Samoa islands are located 2,600 miles Southeast of Hawaii, 1,800 miles from New Zealand and 2,700 miles from Sydney, Australia.

⁵ It also includes one manufactured item, namely automotive wire harnesses, a special case of a company that came to Samoa to take advantage of tariffs that allowed duty free access from Samoa to Australia.

⁶ The Basic Needs Poverty Line is defined to be local costs for food plus the basic needs of households such as education, water and electricity bills, transportation etc.

households and 5.0 percent of the population fall under this category, down from 8.5 percent of Households and 10.6 percent of the population recorded in 2002⁷.

Samoa has a number of important achievements to its credit. With an income per capita of US \$3,121 (PPP) in 2009, it is a medium human development country with a global Human Development Index (HDI) ranking of 94 out of 182 countries. Socio-economic parameters place Samoa in the medium human development level. HDI has increased steadily from 0.709 in 1965 to 0.785 in 2008. The island's population is highly literate with adult literacy at 98.6%. Samoa's HDI places it third in the Pacific region only behind Australia and New Zealand. Continued progress towards economic and human development has meant that Samoa is expected to graduate out of the group of LDCs in 2014. The national expenditures of around 4.0% of the GDP on health and education are relatively good, but there are many demands for their increase should resources allow.

MDG in Samoa	Strengths	Challenges
Eradicate extreme poverty and hunger.	Poverty in Samoa does not mean hunger and destitution.	<p>The MDG progress report for 2010 shows an increasing proportion of the population living below the Basic Needs Poverty line - 15% in 1997, 20% in 2002 and 26.7% in 2008.</p> <p>Worsening income inequality: Gini index rose to 0.47 in 2008 compared to 0.43 in 2002.</p> <p>How to promote a more inclusive growth process.</p> <p>Economic outputs, employment, labour force participation rates, especially for youth and women, have been and continue to pose major development and policy challenges.</p>
Achieve primary education	Almost 100% enrolment in primary school and almost universal literacy, of around 98%.	Complex quality issues
Promote gender equality	High level of parity	Weaker participation rates

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⁷ Government of Samoa.(2010) "Millennium Development Goals. Second Progress Report 2010". Apia, Samoa, page 18.

and empower women.	between the genders in schooling at all levels - primary, secondary and tertiary.	for women in the labour force, political participation and violence against women.
Reduce child mortality.	Excellent progress over several decades with relatively good numbers. Infant mortality rates decreased from 1975 and 2003.	Rise in non-communicable diseases, poor nutrition, the persistence of communicable diseases, and increasing costs
Improve maternal health.	Excellent progress over several decades with relatively good numbers.	Indications of stress in the percent of women receiving adequate care at pregnancy.
Combat HIV/AIDS, malaria & other diseases.	Excellent progress over several decades for infectious diseases and in vaccination rates.	indications of stress in the percent of children vaccinated and increasing rates of non-infectious disease. Stress in the health system's ability to provide adequate doctors and nurses to the population.
Ensure environmental sustainability.	Low pressures on the environment due to the nature of the economy	Special challenges need to be addressed due to potential impacts from global warming and environmental degradations specific to Samoa.
Overall	HDI increased steadily over 40 years. 0.709 in 1965 0.785 in 2008	More disaggregated indicators of special relevance to Samoa suggest a number of areas of concern. Production, livelihoods, and participation rates of working age population in the labour force have been especially resistant to improvements over many decades.

Table 1: Selected MDG Indicators for Samoa

Table one summarises a few key features of Samoa's progress towards the MDG, and highlights some challenges that are most relevant for this study. A very full analysis of each component is available in the 2010 progress report by the Government of Samoa on

progress towards the MDG and is not repeated here.⁸ Worrisome developmental trends include persistently weak job and employment growth and a relatively weak private sector and business. The inability to develop a significant and sustainable program for increased productivity and employment, especially of women and youth, is a growing threat to social and economic development. We believe that poverty in Samoa will not be reduced through redistributive measures alone, but requires a more inclusive growth process. Significant challenges confront Samoa in sustaining and improving its achievements. These can only be addressed by examining closely the unique strengths and specific challenges that face Samoa and implementing strategies based more realistically on what has and has not worked so far.

POPULATION

Year	Population
1951	84,909.00
1961	114,427.00
1971	146,627.00
1981	156,349.00
1991	161,289.00
2001	167,710.00
2010	180,741.00

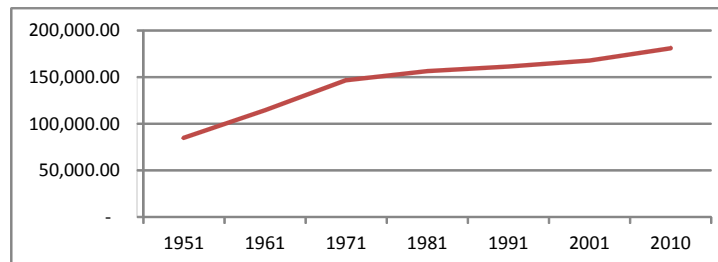


Table 2: Population of Samoa - 1951 - 2010⁹

Since the 1970s, population growth rates have slowed down to below 1% due to declining fertility and increased emigration. Emigration has been of major importance since the 1960s. As of 1976 it was estimated that only 27 thousand Samoans lived outside the country. By 1991 this figure had grown to over 85 thousand, and current estimates place the number of Samoans abroad as a little over 124 thousand. In fact, the number of Samoans abroad is almost equal to 68% of the population that lives in Samoa.¹⁰ Most emigration is to New Zealand, followed by Australia, the USA and American Samoa. Migration patterns have widened recently to include Fiji, UK, Canada, Italy, and Japan.

Emigration of this scale certainly has many impacts on the Samoan economy, both positive and negative. The growth of the population residing outside Samoa has been of major importance, in slowing down the population growth rate within the country, especially from the positive health status improvements, improved survival of children and lower death rates. It also has a profound influence on the social and economic structure of the country. The migration has also reduced local unemployment, which we

⁸ Government of Samoa.(2010) "Millennium Development Goals. Second Progress Report 2010". Apia, Samoa.

⁹ The source for most data used in the tables and the analysis is the data set provided by the Samoa National Office of Statistics to the UNDP. Where other sources are used they are separately identified.

¹⁰ Ratha, Dilip, S. Mohapatra and A. Silwal, 2011. Migration and Remittances Fact Book 2010, Migration and Remittances Unit, World Bank.

note next is very high and, so has acted as a safety valve and reduces social tensions. At the same time, it reduces the pressure on policy makers towards employment generation policies.

One unfortunate fact about emigration is that those with tertiary qualifications tend to be the most mobile, representing over 76% of all migrants. This has certainly exacerbated the skills shortage, and created large gaps in the experienced technical and managerial skill profile available in Samoa. Shortages of doctors and those with nursing skills have been discussed in the Samoan press with great concern, and could reverse the gains in the health status of the population.

Migration has often been viewed in negative terms all over the world¹¹ as a cause of 'brain drain' from the local economy that worsens skill shortages in poor countries, and Samoa is no different. But in recent years the negative view has been mixed with a much more positive view of migration. The positive side of emigration and remittances - their high and stable growth rates, their size and importance to the economy, and the value of remittance flows to the macro foreign exchange balance for Samoa, and for reducing poverty - are now well recognized. We believe there remains a degree of ambiguity with respect to migration and this that may explain a lack of policy attention to enhancing the potential positive impacts of migration, by channelling the migrant resources towards increased savings and investments, and tapping into the skill base for production and exports.

ECONOMY AND GDP

The tables and charts below show the structure of outputs in the Samoan economy by the composition of the different sectors, together with a breakdown of sub-sectors.

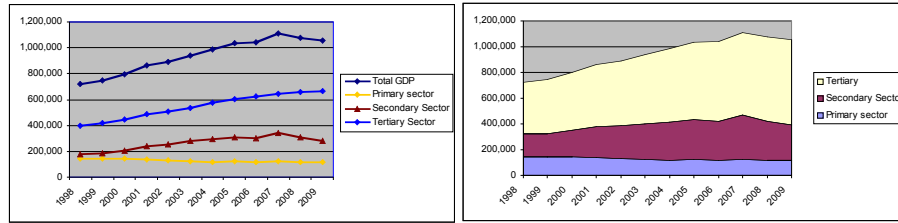
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total GDP	722,471	746,328	798,733	863,495	891,283	941,258	984,545	1,036,339	1,041,704	1,110,740	1,075,393	1,057,550
Primary sector	147,368	143,237	143,377	138,118	129,810	121,546	115,427	121,000	116,674	124,748	114,057	114,834
Secondary Sector	177,404	182,175	208,430	239,001	253,790	281,476	296,288	310,267	301,147	341,307	305,820	280,764
Tertiary Sector	397,698	420,915	446,926	486,376	507,683	538,236	572,829	605,071	623,883	644,685	655,516	661,952

Table 1: Total and sectoral outputs in Samoa 1998 - 2009
(At constant 2002 prices in Thousands of Tala.)

Figure 1: Total and sectoral outputs in Samoa 1998 - 2009
(At constant 2002 prices in Thousands of Tala)

Table 1 and figure 1 show the positive growth of the GDP of Samoa over a twelve year period. It can be seen that the declining outputs from agriculture and fishing have been more than compensated for by the growth in tourism and the services sector. The secondary sector shows a small growth during the period, with declines after 2007. Each

¹¹ Samoa's National Development Plan expressed concerns over the loss of skills in 1975, 1980 and 1992.



of these is further deconstructed and analysed subsequently. It is also seen that Samoa's growth rates improved after the mid-1990s due to economic reforms, and the GDP increased steadily between 1998 and 2004, with dips in 2002 and 2004. It grew by over 6 per cent in the 12 months to June 2005, but that was followed by relative stagnation after 2005, with a jump in 2007. There was a significant decline in 2008 as a result of the global financial and economic crises, followed by a tsunami in 2009. Figure 2 shows the variability in growth rates and illustrates the volatility of the economy, an important impediment to industrial growth (discussed in more detail later).

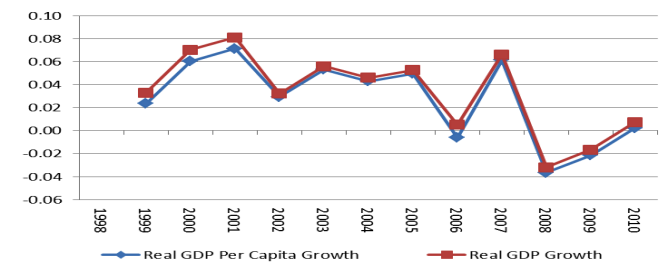


Figure 2: Real and per capita GDP growth rates in Samoa.

An important conclusion that emerges from this observation of volatility is that strategic planning requires a long term perspective that is not apparent in the reports reviewed for this study.

It will be seen that Samoa's economy relies on a narrow set of activities that result from the interplay between its natural resource base and the small size and population of the country, which combine to ensure a small domestic market. The small market size results in a lack of scale economies and economies of specialisation and higher costs of production. In addition, the large distance from major markets makes all imports more expensive, and reduces the competitiveness of exports. These factors have interacted over several decades to reduce the competitive base. Further, the impacts from globalisation and trade liberalization have led to a continuing deterioration in local production without

compensating policy measures, which both theory and practice suggest are critical for small island economies such as Samoa's.¹²

PRIMARY SECTOR: AGRICULTURE, FISHERY AND FOREST

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary sector	147,368	143,237	143,377	138,118	129,810	121,546	115,427	121,000	116,674	124,748	114,057	114,834
Agriculture	78,678	76,658	77,489	67,230	62,099	67,587	63,352	73,203	68,349	71,540	66,399	65,572
Fishing	68,691	66,579	65,888	70,889	67,711	53,959	52,075	47,798	48,325	53,208	47,658	49,262

Table 2: Outputs for the Primary Sector (At constant 2002 prices in Thousands of Tala.)

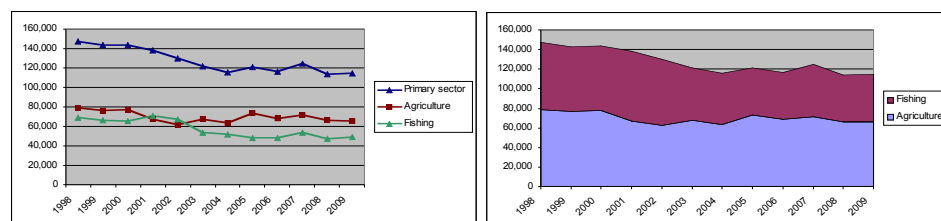


Figure 3: Primary Sector Outputs

The principal economic activities in Samoa are located historically in agriculture and fisheries, with some small-scale manufacturing. The declining value of agriculture and fishing in the economy of Samoa is seen more clearly in table 2 and figure 3. The importance of this fact to increased poverty and inequality is evident from the fact that between 70-80 per cent of the population is directly or indirectly involved in agricultural and primary production, which is mostly rural and village-based. It is estimated that in the rural areas over 95 per cent of the population is engaged in agriculture, characterized by small-scale traditional subsistence farming. These "subsistence" activities, a distinctive feature in Samoa, reduce the small market economy further, much smaller even than the small size of the country would suggest.

Samoa does have a relatively productive natural resource base that has supported interrelated production activities in the primary sector such as crops, livestock, fisheries and forestry products. Root crop production dominates the food crops sector, with small quantities of vegetables and fruit being grown. Coconut, cocoa and small areas of kava and coffee are the main tree crops, and there are minor tree crops such as oranges, avocados, breadfruit, lemons, limes, mangoes and paw paws. The major crops in 1999 were listed as coconuts (used for drinking, cooking, feeding animals); cocoa; bananas;

¹² The phasing out of the preferential treatment for many countries exports is said not to have impacted Samoa negatively. Samoa has unilaterally reduced most of its tariffs as a part of its application to join WTO. While there are many statements that tariff reductions have not been important to the economy, we suspect it has been one of the many factors responsible for reduced outputs from the primary and secondary sectors of the economy, which is most likely contributing to the significant unemployment/under employment of the labour force in economic activities.

taro¹³; taamu or "giant taro". Banana, taro and taamu are commonly grown with coconuts. Long standing and notable features of the agriculture sector include both its importance to the economy and its decline over the last several decades.

According to the agricultural censuses of 1989 and 1999, the area under taro, the major food crop, declined from 36,600 to 10,500 acres.¹⁴ In the early 1990s, Samoa used to supply about 90 per cent of New Zealand's taro market, but this dropped to zero when a disease in 1993 ravaged the industry. Bananas were a major export; however, an increase in diseases that attack the plant and the high costs of pesticides have reduced production and it has reverted to largely a subsistence crop, grown predominantly by small farmers for home consumption and domestic sales. "The contribution of agriculture has continued to decline since 1995¹⁵ and the decline continued to 1999 according to the agricultural census of that year. After the 1999 census there have been five smaller agriculture surveys in the years 2000 to 2005 by the Statistical Department.¹⁶ During the period 1998-2009, agriculture value added as a share of GDP declined from around 10-11 per cent, in 1998, to 6 per cent, in 2009.¹⁷

Fishing is one of Samoa's primary sources of livelihood, important for consumption and exports. Fisheries began increasing its contribution to GDP rising from 4.4% in 1994 to almost 7% in 1999. However, its contribution, averaging around 5.8 per cent of GDP during the period from 2004 to 2009, suggests a relatively stable share but with fluctuating exports. All households reported having members who fish.

The agricultural census shows that almost all households keep livestock, such as cattle, pigs and chickens, again mainly for home consumption¹⁸. Trees are used to supply building materials for family dwellings and guesthouses but are also declining in output. A number of farmers grow small quantities of vegetables, again mainly for their own consumption with small surpluses being sold in the market. The main vegetables are cabbages, peas, pumpkins, green capsicums and eggplants. In one village survey as reported by a FAO survey, farmers also grew cucumbers, tomatoes, and spring onions.

¹³ Taro is the staple starch of traditional Polynesian cuisine, and is both a common and prestigious food item. The tuber itself is prepared in various methods including baking, steaming in earth ovens (umu or imu), boiling, and frying and features in traditional desserts such as Samoan "fa'ausi", which consists of grated, cooked taro mixed with coconut milk and brown sugar. The leaves of the taro plant also used for dishes such as Samoan "palusami" (wrapped coconut milk and onions). It is also called talo locally.

¹⁴ This decline is attributed to the taro leaf blight disease, for which Samoa was unable to provide solutions.

¹⁵ Government of Samoa, 1999 Census of Agriculture, page 6.

¹⁶ No further updated surveys or census on agriculture was noted in the Samoa Bureau of Statistics web site.

¹⁷ Calculated from tables 1 and 2. There are often major discrepancies in the numbers for the economy. For instance, Kristie Druza Anna Hutchens in a report for AusAID in 2008, report higher numbers - "the contribution of subsistence agriculture to gross domestic product (GDP) declined from 40.13 per cent in 1995 to 24.99 per cent in 2000". The World Bank in 1991 estimated the share of agriculture to GDP at 50%.

¹⁸ This not only means household consumption but also to meet family obligations for funerals, weddings, guests and other village affairs. As Sakalafai village adheres to Samoan traditional culture, agricultural activities are viewed more as a source of status and consumption than as a means of accruing profit. None of the farmers interviewed keeps livestock to generate income.

Villagers on the drier western areas used to grow large quantities of oranges and mandarins, but it was reported that these have declined following the affects of two cyclones, but are still grown for home consumption. With the lack of markets, the high cost of inputs and absence of good seed supplies, the farmers report low productivity and outputs. The sector outputs suffer from poor quality of inputs - seeds, fertilizers, pesticides, shortage of capital and lack of knowledge regarding new technologies and best practices.

Major challenges for Samoa include:

- reviving the primary sector through initiatives to redevelop traditional crops;
- establishing and supporting sustainable management of the fisheries sector; and
- enhancing diversification and value addition through industry.

The promotion of the primary sector has always been accorded a high priority in the national economic plans¹⁹ period, where this has been seen as a component for the revitalization of the village economy. Yet the outcomes in the sector over the last decade have been disappointing, with overall reductions in outputs across the sector and declines in productivity from a low base. That and continued data gaps on the sector suggest a divergence between announced priorities and their implementation.

SUBSISTENCE ECONOMY

The importance of the "subsistence economy" is a crucial and distinctive feature of the Samoan economy. Here the word is used in its technical economic meaning of "self-provisioning" instead of relying on markets to exchange goods and services.²⁰ The 1999 Agriculture Census recorded that 72% of the households were active in agriculture. The less accurate 2005 agriculture survey estimated that 75% of the households were engaged primarily in agriculture.²¹ It reported that the percentage of agriculturally-active households that sold coconuts was only 7%; for selling copra it was 0.3%; cocoa 6%; taamu 9%; and those selling bananas and taro were a high of 16% and 31% respectively. The economy of Samoa has traditionally been dependent on agriculture and fishing, and the people in Samoa, as in many small islands, have long developed and maintained

¹⁹ See for instance - 2000-2001 Statement of Economic Strategy;

²⁰ A major gap found in our review of documents is the paucity of reports and statistics that provide sufficient illumination on the subsistence economy of Samoa even though it is the dominant economic activity of the people. Samoa is not alone to have a subsistence sector, as it is estimated by FAO, that subsistence farms occupy 40 percent of the worlds cultivated land and provide support for 50% of the population, but its high proportion within its smaller economy is relatively unusual. Better data and analysis of the barriers facing the subsistence economy and the complex problems of economic development in such economies is a major gap in the literature reviewed and also of the data available and development programs in Samoa. Another FAO study - Tamasese, Edwin, An Analytical Study of Selected Fruit and Vegetable Value Chains in Samoa, December 2009 - on fruit and vegetable production noted that there is no recent official data since 2002,.

²¹ Page 6, 2005 survey summary stated that out of total households numbering 23,964, agriculturally active households were 17,962, minor-agricultural households as 3,043 and the number of non-agricultural households was estimated as 2,959 (12%). No further updated surveys or census on agriculture was noted in the Samoa Bureau of Statistics web site.

unique cultures and livelihoods well-adapted to their natural environment. The traditional practices and cultures are strongly based on community support networks. The increased cash economy, migration to urban areas, increased dependency on imported goods, and the development of modern sectors such as tourism have had an impact on traditional lifestyles in Samoa. Declines in agriculture and fisheries continue to weaken traditional support networks and heighten social and economic vulnerability. Feedback effects include the loss of traditional values, social cohesion, dignity and confidence, previously major components in the resilience of local communities. The overall result is increased social stress.

One of the more perplexing problems of economic development is helping subsistence producers to move from production for their own consumption towards greater integration with markets. Given the overall declines in the primary sector for almost two decades and the high local costs, this is not likely to be easy. Nor is it our view or recommendation that Samoa must abandon all traditional production practices in order to achieve some holy grail of market transactions. But we do believe there are options for *coordinating and providing better incentives for economic activities*. Especially for the promotion of industrial activities, a greater market-oriented production is required. Industrial activity can only be built on local competitive advantages, among which natural resources are one key factor. A shift to larger absolute amounts of market transactions in agriculture and primary products will be a precondition for value-added production and increased industrial activity and that in turn requires greater incentives and reduced risks for local production.

SECONDARY SECTOR & MANUFACTURING

The table and charts below show trends in the outputs of the secondary sector and key components.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Secondary Sector	177,404	182,176	208,430	239,001	253,790	281,476	296,288	310,267	301,147	341,307	305,820	280,764
Food & Beverages manufacturing	23,213	23,731	25,273	26,574	29,654	30,170	30,419	33,301	31,213	27,840	20,827	17,187
Other manufacturing	78,045	84,059	93,020	115,065	119,034	136,767	127,353	126,537	103,560	129,198	106,586	84,174
Construction	48,639	47,023	56,048	59,279	63,004	71,530	94,399	104,881	118,741	135,805	129,003	126,910
Electricity and water	27,507	27,363	34,088	38,082	42,098	43,009	44,118	45,548	47,633	48,464	49,404	52,492

Table 3: Outputs for the Secondary Sector and components
(At constant 2002 prices in Thousands of Tala.)

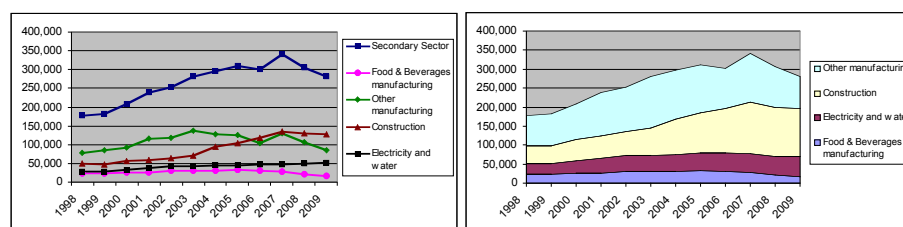


Figure 4: Secondary Sector Outputs by component
(At constant 2002 prices in Thousands of Tala.)

The secondary sector shows a small growth during the period, peaking in 2005 and with declines after that.

MANUFACTURING

Samoa's manufacturing sector (food, beverage and other added together) is small and accounts for 9 percent of GDP. All manufacturing rose slowly until the 2003 to 2005 period, and has declined subsequently. It is still a useful contributor to the country's small exports, but manufacturing exports have also declined from around SAT 18 million in 2005 to less than SAT 8 million. It provides an important source of employment within the relatively small employment opportunities in the economy.²² They have low capacity utilization and have declined with the reductions of import tariffs.²³

The key sub-sectors include food based on agro-processing, beverages, and tobacco, representing about 16% of all manufacturing and amounting to less than 2% of GDP. There were around 200 manufacturing businesses registered with the Ministry of Revenue. The largest numbers are in food processing, at almost one 30% of those registered. Businesses in building products, garments and printing and packaging make up an almost equal numbers in each around 15%. Furniture making represents around 5% of the businesses. There is declining clothing manufacturing sector, but garment makers using imported materials could become a growth area, targeting niche export markets for special clothes. Most of the businesses are quite small.

There had been only two significant foreign-owned manufacturing firms, now reduced to one.²⁴ Yazaki Samoa Ltd., is a wholly owned Japanese company, making automotive wire harnesses for the Australian market. Yazaki controls a large global share in automotive harnesses and selected Samoa in 1991 due to favourable tariff regimes for exports to Australia.²⁵ Yazaki began operations with 3,000 employees. In 1999, Yazaki provided for only 1,700 jobs, still important at 16% of all jobs in the formal private sector. During this field visit to Samoa, Yazaki reported a workforce further reduced to

²² The latest figure available is the 2006 Census, which estimated 8,400 people worked in the manufacturing sector.

²³ DTIS, 2010, page 141.

²⁴ A Chinese firm producing garments for the United States and European Union markets, has either almost or completely ceased production with the decline of tariff protections.

²⁵ The preferential market access is provided by Australia and New Zealand through the SPARTECA trade agreement but with the reduction of import duties there the value of the preferred access has declined.

between 900 and 1000 persons, and even some of those numbers were temporarily under threat due to the disruptions of the 2010 earthquake and tsunami in Japan on the global auto supply chain. Its operations in Samoa continue to be under some threat due to its small scale, costs of transport, productivity of labour and niche market. In effect the manufactured exports can be counted on ones fingers both in terms of products and countries. In interviews, staff turnover at between 15-25% per year was mentioned by Yazaki and others in industry as a major factor in raising costs. Exports currently include - beer to American Samoa, electrical wire harnessing by Yazaki to Australia; and some limited and growing exports of bottled water, snacks and processed foods to the Samoan diaspora, mainly in New Zealand.

CONSTRUCTION

The sectoral composition shows that the construction sector has grown over two and a half times during the period. Drivers of this growth include: the rising demand created by the high remittances that support improved home and church construction; the growth of tourist arrivals and the construction of hotels and resorts; and need for public buildings and disaster reconstruction. Homes and churches in many Samoan villages have been rebuilt with more permanent material. Bulky construction-related items can maintain a competitive advantage due the high freight costs for importing similar items. Bricks are one of the major locally-produced building products, and the local manufacture of doors, cabinets, aluminium windows, screens and steel wire from imported materials remains relatively viable.

ENERGY

Production of electricity (and water) has grown steadily over the period and almost doubled. The increased availability of electricity and water to the population is one positive achievement in Samoa, with over 96% of households using electricity for lighting.²⁶

Electricity production and distribution remains a monopoly of the state-owned Electric Power Corporation (EPC). High energy costs are a major constraint for private sector development. EPC prices for electricity, inclusive of all surcharges, were around one SAT per unit of electricity, between 4-8 times the costs in competing countries.²⁷ Improved efficiency of power supply and efficiency of energy use can increase employment in the sector but even more important can contribute to increased competitiveness in all production activities and also reduce external vulnerability.

Samoa began with hydroelectric power in 1959, and additional small hydro stations provided most of the electricity until the 1990s. While renewable domestic sources provided for almost 100% of the electric supply, today hydro provides less than 50% of the electricity and the rest is produced using imported oil. Adding the needs for transport fuels, Samoa is heavily dependent on imported fossil fuels for meeting most energy

²⁶ This places Samoa among the top four Pacific Island countries that have been able to provide almost all their population with electricity, source Allison Woodruff, 2007. An Economic Assessment of Renewable Energy Options for Rural Electrification in Pacific Island Countries, Pacific Islands Applied Geoscience Commission (SOPAC), SOPAC Technical Report 397, February 2007, page 14.

²⁷ The lower costs are common in many larger countries and those with domestic fossil resources. High costs are common across the Pacific Island countries that import oil.

needs. Given the rising and volatile fuel cost, this reduces competitiveness and increases the growing trade deficits.

EPC created a "Renewable Energy Unit" in 2007 to manage and promote RE activities. It has undertaken some data collection on water resources, working with Ministry of Natural Resources and Environment (MNRE) for the development of potential hydropower schemes. It has one small solar power system for 13 kilowatt with battery storage and mini-grid. With UNDP, support it is assessing wind data at a few points. The EPC was also supported by the UNDP in 2005 to study the feasibility of using coconut oil as a bio-fuel to generate electricity. A blend of 5% coconut oil and 95% diesel, was successful. The EPC implemented another project to test the use of coconut oil in vehicles and found that the vehicles operated well with a blend. It reported that "... due to the unavailability of coconut oil at that time, this project was put on hold." The EPC concludes that run-of-river hydro, wind and bio-fuels are promising sources for Samoa. We conclude that the EPC recognises the importance of renewable energy for Samoa, but for reasons that are unclear has not been able to solve the challenges and implement much of significance.²⁸

There is limited evidence of a strong policy drive to improve the performance of this sector. It is reported that, while the government considers the privatisation of EPC difficult, it has proposed an expanded regulatory framework for the sector and the establishment a new regulator. This was done successfully for telecommunications and it is hoped that similar positive results can be attained in the energy sector. Accelerating the programs for the substitution of imported oil by local renewable energy resources, especially biomass, would support agricultural production, increase employment, reduce the external dependence and induced economic volatility due to oil price changes.

TERTIARY SECTOR

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Tertiary	397,698	420,914	446,926	486,376	507,683	538,236	572,829	605,071	623,883	644,685	655,516	661,952
<i>Commerce</i>	115,112	123,149	135,228	150,541	166,357	164,828	170,441	179,571	189,756	194,446	192,750	192,006
<i>Transport, Communication</i>	85,243	89,037	96,106	107,868	106,546	118,560	131,093	142,666	145,090	154,512	157,939	161,430
<i>Finance and business services</i>	58,181	60,471	62,596	67,271	74,420	82,474	90,009	93,696	98,276	100,554	103,471	108,528
<i>Public administration</i>	56,794	60,670	64,458	67,579	71,011	75,010	78,893	81,068	81,924	84,195	87,098	91,034
<i>Personal and other services</i>	46,959	47,395	47,871	49,462	48,978	54,990	59,642	63,628	58,135	58,608	58,403	54,940
<i>Hotels, restaurants</i>	12,426	17,223	17,725	20,676	19,990	22,619	23,547	25,597	32,002	33,968	37,867	36,641

Table 4: Outputs for the Secondary Sector and components
(At constant 2002 prices in Thousands of Tala. Source: Data collected by UNDP)

²⁸ The ADB also has a program with EPC to promote "Energy efficiency improved and renewable energy use" and the documents state Renewable energy and energy efficiency would be mainstreamed into national plans by end 2012. It states that there is "Limited capacity to promote renewable energy and energy efficiency in Samoa".

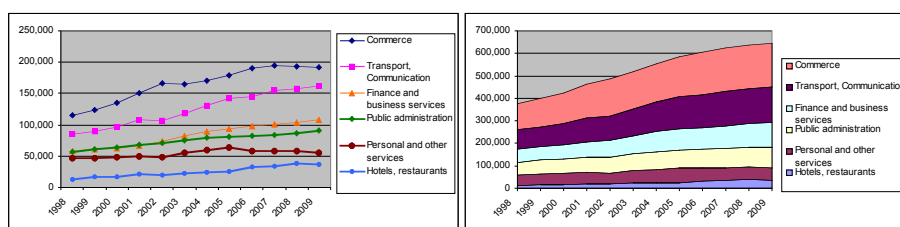


Figure 5: Outputs for the Secondary Sector and components
(At constant 2002 prices in Thousands of Tala. Source: Data collected by UNDP)

The tables above show that with globalisation, reductions in tariffs and policies that have encouraged tourism, increasingly growth has taken place in several service sectors, primarily related to tourism and construction. The services and commercial sector have provided for the most consistent growth for GDP as well as employment during the past two decades. Services have grown in financial and business services as well as transport, hotel, commerce and others. This is the largest market sector, providing over one third of all employment in Samoa.

The growth in services can be understood as a result of three reinforcing factors. First, as a result of high inward remittances, there is an increased demand for commercial services. Second, the needs of servicing increasing tourist arrivals and their consumption in terms of hotels, restaurants, taxi, and related demands. And, finally, there is increased demands for additional professional services - legal and financial - for both the domestic and external sectors.

REMITTANCES

Incomes are supplemented by a very high rate of inward remittances that accounts for almost 26% of gross national expenditures and, additionally, external loans and grants that amount to 10% of gross national expenditures²⁹.

Remittances	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL	172	173	195	212	248	303	312	315	360	370	348

Table 5 : Remittances by Samoans living abroad in Thousands of Tala.

The growth of remittances at an annual average of over 9% over the decade provides for the most consistent and highest rates of income growth for Samoa, more than doubling over this period. In 2009 and 2010, remittances added around 26% to the incomes of Samoans, above that recorded for the GDP. The counter cyclical nature of remittances is important in that they increase in times of down turns and need, and thus have greater significance given the vulnerability to exogenous shocks.

²⁹ For those not familiar with national accounts it should be noted that remittances and external assistance grants and loans do not form a part of the GDP. But they do form a part of the GNI and help increase incomes and expenditures.

The accuracy of data on remittances remains an area of concern. Given the importance of remittances in the economy, a key area for efforts is to improve the data and its analysis. All reviews mention that actual remittances in cash and kind are probably substantially higher than official estimates.³⁰ For instance, according to one estimate 40-60% of remittances from Australia are not sent through formal means.³¹ A very substantial amount of cash is sent informally with people travelling back, and some micro studies suggest they could be 40% of the value of the cash remittances. Thus the overall flow of income into the islands is substantially higher than most formal estimates suggest. Efforts to capture better data on emigrants and remittances is warranted given their importance. This would help improve national income and poverty estimates, and could be an area for policy attention to attain greater positive impacts.

EXTERNAL ASSISTANCE

External aid remains important to government budgets, and Samoa has ODA support from a range of donors. But the amount is only around one third of the value of remittances. In recent years total ODA was around US\$36 million, which was between 9-10 per cent of the value of GDP.³² Together, external grants and remittances help to balance the highly unfavourable balances in foreign exchange created by rapidly rising imports together with declining exports.

SHOCKS AND VOLATILITY

The economic performance of Samoa has a very high dependence on external factors: commodity export prices, costs of imported fuel, crop diseases, tourism demands and weather-related shocks.³³ Agricultural production was greatly damaged and was almost "destroyed by two cyclones in January 1990 (OFA) and December 1991 (VAL)³⁴, and destroyed major crops of coconut, cocoa and banana. As production was recovering from the effects of the cyclones, it was severely affected by the onset of the Taro Leaf Blight in 1993. This destroyed the major export and domestic food crop, taro."³⁵ There was another setback to the economy due to "Cyclone Heta" in early 2004, which caused severe damage to the production of coconut, banana, taro, breadfruit and cocoa. In 2009, a major tsunami set back the economy again.³⁶ The collapse of coconut oil and cocoa production resulted in limited sources of export earnings; automotive wire harnesses, taro and coconut cream were the only three significant export products in the middle years of the

³⁰ This was the observation of the World Bank report on Samoa in 1991, page 211.

³¹ large portion of remittances are sent informally. ADB 2005

³² The contribution from Australia was approximately one-third of that making Australia the largest single donor for that year. The budget for 2008–09 for Australian aid to Samoa was A\$24.5 million. Other important development partners include the China, EC, Japan, New Zealand, the ADB, IBRD and the UNDP.

³³ For a fuller discussions see UNCTAD, 2006. The report finds that the vulnerability index of Samoa to be very high and until that is addressed Samoa will not be able to graduate out of the LDC status.

³⁴ Each one rated as a "one in hundred year" events. Overall between 1981 and 2006 there were 15 major cyclones though not all were as destructive.

³⁵ The 1999 Census of Agriculture is the second carried out in Samoa with the first being in 1989.

³⁶ The IMF reported that it inflicted unprecedented damage to the tourism sector, both in terms of physical destruction, as well confidence in Samoa as a safe and attractive destination. This would cause the economy to contract and delay Samoa's recovery from the global recession.

first decade of 2000. Other negative events included floods, droughts, and the rising sea level, all of which are expected to worsen with global warming according to the World Bank.³⁷ Reductions to shocks can only be achieved through increased resiliency, which could potentially reduce the sources of volatility and limit the range of lows and highs. The high vulnerability results in very variable rates of economic growth discussed, even to frequent reductions in the GDP. Most recently, the budget for 2011-2012 stated that after the negative events of 2008 and 2009, the events in 2011 in the Middle East led to higher oil prices, which spilled over in Samoa to increase domestic inflation and reduced the near term economic outlook.

Beyond the overall volatility, these negative events affect productions in both agriculture and manufacturing as: much of manufacturing involves processing of local agricultural products; and the loss of production inevitably reduces both domestic sales and exports, damaging longer term networks with buyers. Further, the lack of insurance for some of the Samoa-specific events adds to the vulnerability of the already weak private sector.

LABOUR FORCE PARTICIPATION.

A major challenge for Samoa is the low labour force participation in the economy. The 2008 survey of Household Income and Expenditure, shown in table 6, found that only 27% of all adults over 15 years stated that they were employed (full time, part time or self employed). There has been a downward trend in employment since 1991.

2008	Population 15 and above		
	(rounded)	Male	Female
Full time Employed	24,500	15536	8968
Part time employed	854	717	137
Self employed	4,200	2714	1469
Domestic duties	41,000	7845	33180
Farm - own consumption	18,000	17584	848
Farm - for sales	2,500	2315	151
Full time student	14,000	6487	7450
Old & Disabled	4,500	2090	2410
Total	110,000	55288	54613

Table 6: Labour Force Participation

³⁷ The report concluded that 'there is no doubt that disasters in the region are becoming more intense and probably more frequent' and expects increased climate variability, rise in temperatures between 1.0 and 3.0°C, a rise in sea levels between 9 and 90 centimetres by 2100 and increased intensity of cyclones. 2006, Not if but when: adapting to natural hazards in the Pacific islands region, Policy note, World Bank, Washington, DC <<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/PACIFICISLANDSEXTN/0,,contentMDK:20803029~pagePK:141137~piPK:141127~theSitePK:441883,00.html>>.

Since the 1970s, employment in agriculture has dropped from 67 per cent to 50 per cent of all workers. Over this time, employment in financial and business services rose from 0.7 per cent to 7 per cent of workers, and employment in social and personal services rose from 15 per cent to 20 per cent of workers. Employment in manufacturing has ranged between two to four per cent of workers, clearly marking its small size³⁸, and employment in the private sector has been unsteady. Besides the private and public sector, another important source for employment opportunities in Samoa is with the churches, NGOs or international bodies, which account for almost 20% of those employed.

³⁸ Centre for Samoan Studies, Samoa National Human Development Report: Sustainable Livelihoods in a Changing Samoa, page 49.

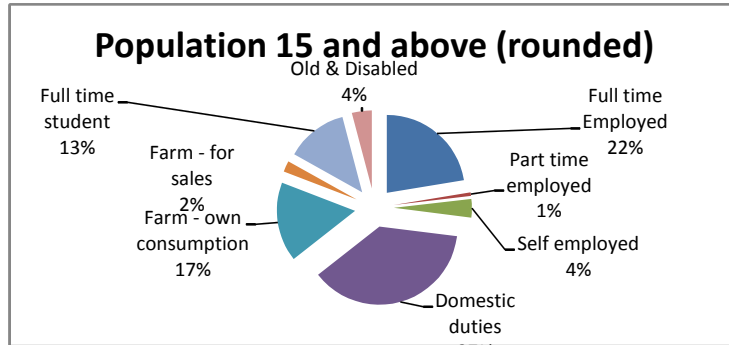
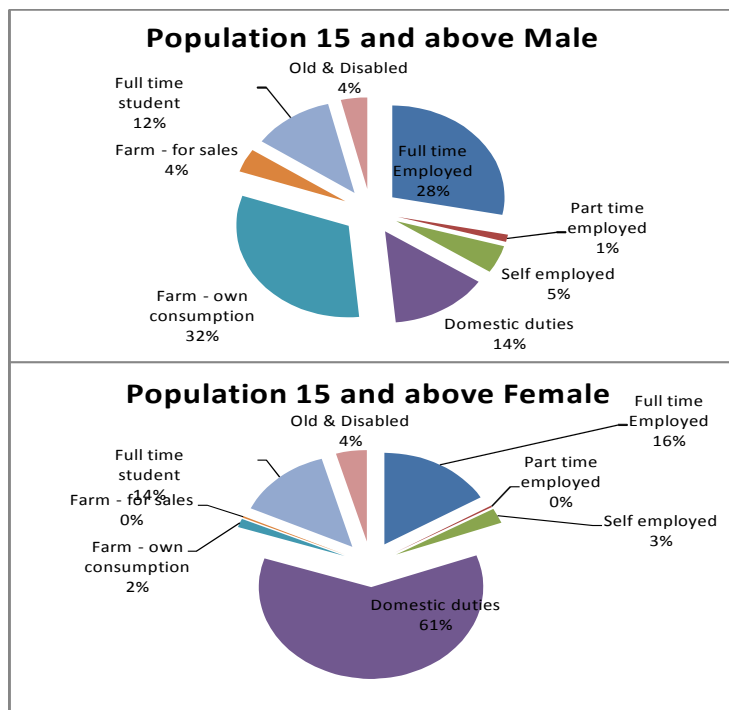


Figure 6: Occupation of the population over 15 years



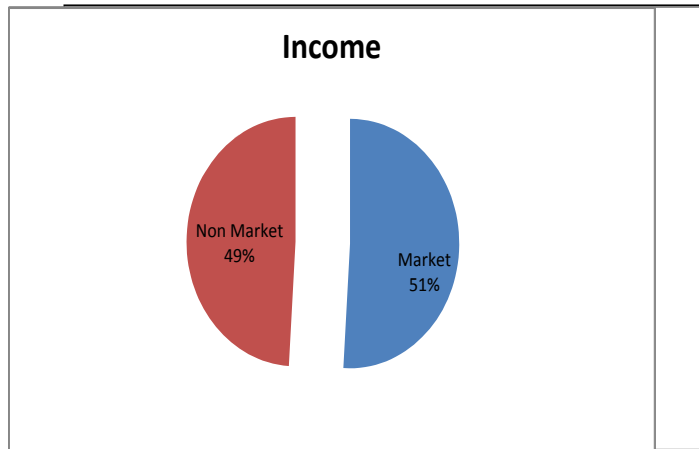


Figure 7: Sources of household income

The household income survey of 2008 breaks down the incomes of households, showing that non market sources such as remittances, gifts and imputed value to accommodation, comprise almost half of the family income. The most compelling argument for production and growth in Samoa is the link to employment. Low levels of employment are considered the main reason for increased poverty, social instability and crime. This lack of employment manifests itself in:

- the number of unemployed (defined as those registered as looking for work)
- the number “inactive” (not working in the subsistence or cash economy and not studying)

The sum of these two groups (the unemployed and the inactive) is very high, and much worse for women and youth. The potential for empowering women through the promotion of inclusive growth options would have many multiplier effects, not only on improved gender inequality.

POVERTY CHALLENGES

A common agreement of the situation on poverty in Samoa is that there is a "poverty of opportunity"³⁹, another way of stating the fact that there are major challenges to more inclusive growth processes that can address the growing poverty in parts of Samoa. The concept of "poverty of opportunity" was expanded in the 2006 National Human Development Report for Samoa to include material poverty. The Report shows a growing recognition of poverty of opportunity, which it argues occurs with regards to education, health, employment, opportunities for material well-being, access to markets and job

³⁹ Government of Samoa, Millennium Development Goals, First progress report 2004, Apia, Samoa, 2004; page 13. And that is not to deny other more common dimensions of poverty as listed in table 1.

security.⁴⁰ These are making the sustainability of livelihoods increasingly difficult and complex. The limitations on livelihood choices are linked to economic, cultural, political and vulnerability factors, including the narrow base of the economy and the vulnerability of the economy to periodic setbacks due to natural disasters. The lack of opportunities is reflected in the special difficulties faced by young people, with high unemployment, lack of opportunities to make a living and high suicide rates.

The chart on labour force participation highlights a key issue that faces Samoa, namely that only 27% of all adults over 15 years stated that they were full-time, part-time or self-employed. Livelihood choices are increasingly becoming bifurcated, leading to worsening income distribution. On the one side are low paying service sector jobs supporting the tourist arrivals and rising commerce. On the other side are high paying technical and professional jobs also in the services (e.g. lawyers, accountants). And finally, for those who are not satisfied with the choices available, the choice is to exit the local economy, while contributing to it and to family and social obligations through remittances.

This moves the focus to human capacity and skills required to make the Samoan economy more productive. While primary school participation is very high, education can be expensive with a significant portion of costs borne by parents. Costs rise further at higher levels, resulting in a growing number of children from poorer families withdrawing. Also, while access has risen, the expansion of the system has taken priority over the quality. It is reported that most junior secondary schools have poor facilities and poorly trained teachers and provide inferior educational opportunities. Consequently, few students were able to move on to senior secondary schools. Educational opportunities at subsequent levels are limited in Samoa, and so many young people go abroad for further studies (it is noted that the government is expanding tertiary and vocational education facilities in Samoa to provide young people with wider opportunities). There has been a mismatch between the skills taught in the schools and those that are needed for the types of employment and livelihoods that are available. This has long been recognized in Samoa, but it is a problem that requires sustained and multi-pronged efforts to solve. Employers interviewed reported that many school leavers have poor or inappropriate skills for the few jobs that are available. Expansion and improvement of training programmes available in the school system, and outside are critical.

ECONOMIC POLICIES

Early on Samoa followed a state-led model of development, with a large number of state-owned enterprises (SOEs) in most sectors of the economy. Samoa faced major macro imbalances in the early 1980s due to a decline in the terms of trade, worsening exchange rates, lower exports, and high budget deficits, and this began a long period of economic reforms. Continued economic reforms in the mid 1990s and implemented since 1997 aimed at improving the efficiency of the public sector, opening up the economy and developing its private sector. The government also reduced import tariffs in line with the

⁴⁰ Centre for Samoan Studies, Samoa National Human Development Report: Sustainable Livelihoods in a Changing Samoa, page 63.

accepted wisdom on creating a competitive private sector and to allow support for its application to join the WTO. The joining of the WTO is pending after one decade. Samoa has made considerable progress in building policy institutions and increasing social and health services to the people. The government is managing a significantly larger budget with reasonable efficiency. The government's economic reform reduced the number of Government departments from 28 to 13, reduced corporate tax rates, and cut import duties dramatically.

Samoa has become a leader in public sector restructuring and privatisation in the Pacific. State Owned Enterprises (SOE) had been an important part of the development plans in the 1980s when there were 40 such enterprises. Poor performance of these enterprises led to the economic strategy of divestment of government ownership from enterprises not deemed strategic. An early result was the sale of 85% of Samoa Breweries. In 2002, the Asian Development Bank (ADB) supported continued phases of SOE reform and the government established a policy for ownership, with divestment of those not deemed strategic. A most notable success in SOE reform and privatisations has been sale of a 45 per cent share in the national airline Polynesian Air to Virgin to create Polynesian Blue in late 2005. The joint venture, Polynesian Blue, has been highly successful both commercially and to the economy by increasing numbers of flights, reducing costs and, thereby, increasing tourism incomes and reducing the costs to reach markets. Increased competition in the telecommunications sector was also promoted when the Caribbean-based mobile phone company Digicel acquired Telecom Samoa in 2006. The government has created the Unit Trust of Samoa, which can buy shares in the privatization, ensuring potential local ownership of the privatised company as well as for new ventures. The Unit Trust of Samoa is an initiative of the Government to provide wider investment vehicles for ordinary Samoans and small investors to access a range of investment options, and allow wider participation by Samoans in future development. It is also a part of the Government's policy of privatizing some of the identified state-owned enterprises (SOE's). The government plans to transfer its shares in Polynesian Blue and Agriculture Store Corporation to UTOS. In March 2011 SamoaTel was sold with 25% of SamoaTel's shares bought by the Unit Trust of Samoa and the other 75% by BlueSky Communications.⁴¹ Almost all the privatisations conducted to date have resulted in improved services and outputs, improving competitiveness there by, and attest to the competence of the high level management skills available in the government but these are not deep enough to manage many enterprises.

In 1994, as a part of the reform process and the reductions of import tariffs, a value-added general services tax (VAGST) of 10 per cent was adopted. This was increased to 12.5 per cent later, and in 2006 it was set at 15 per cent. Financial sector liberalization has also followed. Most reforms have the full support of the Samoan public, its development partners and the international community, but the dismantled tariff barriers that protected local production are not fully appreciated. This macro policy changes led to the changes in economic structure discussed earlier, with the tertiary sector doing well, particularly commerce, along with the transport and communications industries. But the primary and

⁴¹ SamoaTel Ltd was established in 1999 and provides wireless, land line and Internet services and employs about 200 people. BlueSky was also established in 1999 and is now the largest provider of mobile wireless and broadband internet in American Samoa and was acquired by the eLandia Group with 800 employees and based in Miami, Florida, in 2006.

secondary sectors, including manufacturing, have shrunk. There were a number of submissions by Samoan producers that the tariff structure currently remains unfavourable, with low tariffs on value-added finished consumption goods but higher tariffs on inputs required in Samoa. These examples could not be investigated during this mission, but tariff structures have been identified as a major issue for review in the multi stakeholder meetings in which we participated and require follow up.

Samoa has made substantial progress in improving stability in some of the macro economic indicators. Inflation is relatively stable, fiscal accounts are in balance and the level of public debt in relation to GDP has been reduced. Generally Samoa's economic situation is promising, though the economic indicators vary a great deal. Maintaining and further enhancing macroeconomic stability is a prerequisite for sustained growth. But, despite the improved macro framework and support for the private sector-led growth, foreign investment has been almost absent.⁴² The seeming lack of domestic and foreign investments is a puzzle for many who have full faith in the private sector and low confidence in the ability of micro policies to complement the private sector model, given the weakness of the private sector in Samoa and the many constraints discussed so far.

KEY GOVERNMENT AGENCIES:

MFAT

The Ministry of Foreign Affairs and Trade (MFAT) focuses trade development and export promotion with the work managed in the trade division. It develops trade policy and manages international agreements such as the accession to World Trade Organization. It is coordinating the 2010 DTIS. The 2010 Draft Situational Analysis for the Trade Sector states that the trade division has only around 10 full time employees and receives approximately 3 percent of the annual ministry budget appropriation. There are budgetary and staff constraints for local consultations with the private sector, for market information and intelligence, and export promotion.

MFAT receives substantial funding from international organizations for technical assistance and training with a focusing on international trade policy, that could potentially mitigate staff and budget constraints. But ad hoc and uncoordinated donor assistance projects without sufficient domestic resources are often unable to resolve implementation barriers, so a National Export Strategy (NES) developed with assistance from the Commonwealth Secretariat in 2008 is stated as not yet implemented.

MCIL

The Ministry of Commerce Industry and Labour (MCIL) has a very broad mandate covering 26 legislative areas and they include - intellectual property and business registrations, investment promotion, fair trading, industrial relations, worker and

⁴² This section is based on "The 2010 Draft Situational Analysis for the Trade Sector" and also from the personal visits and discussions. The 2010 draft situational analysis states that inward FDI for Samoa was estimated at only USD 1 million in 2009 and it suggests it is only about 2% of the level that should come to Samoa, if Fiji is used for comparison and the amount is scaled to take into account the smaller Samoan economy. It suggests that private investment flows into Samoa are likely masked by the larger remittance flows and some estimate that "at least 10 percent of foreign remittances could be in the form of long term investment projects" but there have been no in-depth study on this.

occupational safety as well as employment and labour market functions. The provision of quality advisory service and developing pragmatic regulatory frameworks to facilitate the development of the private sector to stimulate investment, industry development, increased innovation, registry integrity, generate decent work opportunities, improve safe work environment and fair competition in Samoa are a necessity. It administers 3 assistance schemes to assist the private sector - a duty suspension scheme designed to assist exporters in importing raw materials required without prior payment of duty; a duty concession scheme to assist exporters, manufacturers and property developers (hotels, motels and beach resorts) for tourism, to import materials on a duty free basis; and the UNDP and NZAID supported Private Sector Support Facility. This wide range of functions need to be carried out in some form by the government and reflects the additional costs of good governance in small states. It hampers the ministries focus on and implementation of some of the core functions related to dialogue with the private sector, industrial promotion, trade and investment policy. advice as well as the design and management of the schemes⁴³.

MAF

The magnitude of the task for ministry for Agriculture and Forestry (MAF) can be guessed given the importance of the sector to the Samoan economy and its continued decline over the past decades already discussed. The government announced after the 2010 elections that it will give a priority to the sector plan and this could be a sign of an appropriate turn around for revitalizing the agriculture sector.

MOF

The Ministry of Finance (MOF) is responsible for the development of the overall strategic plan, sector planning, aid management and budget allocation. This gives the ministry a very central position in ensuring that plans are consistent and are supported by adequate financial resources, and for the M&E of the implementation of the plans. The knowledge and lessons available at MOF on both economic and aid coordination should be very important for coordinating technical assistance and long term support for the directions and new programs to increase industrial growth.

MFR

The Ministry for Revenue has two main divisions - Inland Revenue regulates and issues business licenses as well as tax collection and handles refunds provided as a part of incentive schemes and the Customs section manages all border control for the movement of goods and collections of duties.

MWCSD

The Ministry for Women Community and Social Development provides the links to the village communities, supports them in the implementation of programmes to increase

⁴³ The only program mentioned by the MCIL at its web site under the PSSF was a narrowly defined Tsunami Tourism Re-building Program. The guidelines were reviewed and appeared to be excessively restrictive, and focused on rebuilding support for those who suffered damages as opposed to a support for any wider activity that could help improve the performance of the private sector. Its restrictions could reduce its value as the MCIL states the PSSF combines previous allocation and funding schemes supporting Samoa's private sector that include Tourism Support Fund (TSF) and the Private Sector Support Allocation (PSSA).

economic outputs and assists in the coordination of programmes of the various ministries and agencies of government and those of nongovernmental organizations targeting community development.

SROS

The Scientific Research Organisation of Samoa was earlier known as "The Research and Development Institute of Samoa". SROS has been reconstituted in 2008, under a new act and with a nine member Board. It reports to the Ministry of Natural Resources and Environment (MNRE). The new objective of SROS is to promote the national economy based on R&D, undertaken to add value to local resources and services; and to develop prototypes of products and processes for the local and overseas markets. Notable recent work includes the evaluation of five new Samoan taro varieties; a bio-diesel plant in with the capacity of producing 200 litres of bio diesel per batch from coconut oil; and a focus on new product development potentials for the local and overseas markets. SROS has approached NZAID for a commercial level coconut oil extraction plant with the capacity of producing 2 million litres per year that would be used for electricity generation. flour production formulations continues using local breadfruit varieties. It also works on post harvest treatment of agricultural products, is working on a using locally available avocado varieties to make an oil for new uses, and provides an advisory service to the private sector and the government and undertakes chemical, microbiological and physical testing and analyses for exports and quality management for a fee. There are no detailed reviews of its performance but the examination of its objectives - "SROS aims to conduct *scientific research and develop technologies* which outcomes are of great value in the development and sustainability of value added goods and services for export and to achieve reduction on fuel imports and greenhouse gas emissions" and links suggests a potential to reformulate its aims to "*promote innovations*" through acting as the nodal agency for the acquisition, development and transfer of *knowledge* required by Samoan business, and undertaking *research and development* only as required, may be a more appropriate aim.

PRIVATE SECTOR & INDUSTRY

PRIVATE BUSINESS SECTOR

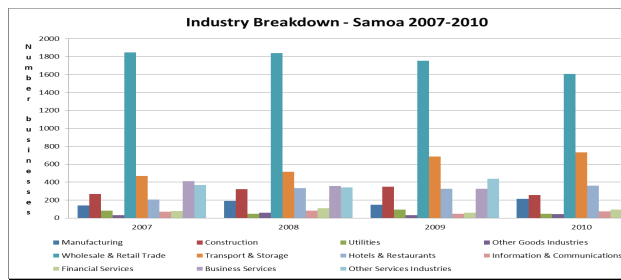


Figure 8: Areas of operation by businesses in Samoa with licenses
(Source: Ministry of Revenue, Government of Samoa)

The Samoa Chamber of Commerce and Industry⁴⁴ is designated as Samoa's National Private Sector Organisation and is open to all areas of Samoa's private sector. In 2010, Chamber had 160 individual members representing all of Samoa's business community and covering over 90% of firms by assets and turnover. Members also include 3 specialized organizations represented a further 1,155 businesses and families engaged in business - the Samoa Association of Manufacturers and Exporters (SAME), Samoa Hotel Association (SHA) and Women in Business Development Inc (WIBDI). SAME and SHA's membership numbers 75 and 80 members respectively, while WIBDI works with over 1,000 families supporting income-generating activities across Samoa.

The licensed businesses operating in Samoa (above) provide additional confirmation of the strengths and weaknesses of different economic activities. The above figure showing the distribution of private business in Samoa reflects the data on the importance of the different sectors in the economy. The services sector business comprise 85% of businesses with licenses to operate. Here trade - wholesale and retail sales - is the dominant sector with almost half the businesses engaged in it. This is followed by Transport and Storage, and then Hotels & Restaurants together with Business and other services. While all Goods Producing Industries in Samoa are only 15% of the total, even here, the dominant sector is Construction, with over half of the businesses. By numbers, manufacturing businesses comprise less than 7% of the licensed businesses.

There was a total of SAT 459million in loans to the private sector. Loans were mostly comprised in the same manner to sectors as shown in the nature of registered businesses, with 'Building and Construction' at SAT 295M, taking the bulk and almost doubling in five years. 'Transport, storage and communication' at SAT80 million was second in the use of loans.

The Chamber strategic document mentions the needs of training programme, greater awareness of and access to funding opportunities, as key services and its own limitations

⁴⁴ More details are available in the Samoa Chamber of Commerce & Industry, Strategic Plan 2011-2015.

include limited participation by members and a heavy reliance on the all volunteer executive members, and limited internal funding and external resources. The chamber sees opportunities in supporting the development of new industry groups based on geography such as in Savaii and sectors with higher demand, combined with greater coordination with others actors to use resources more effectively and increased opportunities for new business creation linked to training opportunities.

COMPETITIVENESS

Competitiveness is the basis for any growth in the industrial sector in the new economic framework. This examines some of the key features for the competitiveness or lack thereof for industry in Samoa.

No.	Cost of doing business-Samoa (Source: World Bank)	2005	2006	2007	2008	2009	2010
1	Cost to enforce a contract (% of claim)	20	20	20	20	20	20
2	Cost to register property (% of property value)	2	2	2	2	2	2
3	Cost to start a business (% of income per capita)	46	46	41	40	10	10
4	Time required to enforce a contract (days)	455	455	455	455	455	455
5	Time required to register property (days)	147	147	147	147	147	27
6	Time required to start a business (days)	35	35	35	35	9	9
7	Procedures required to build a warehouse (number)	18	18	18	18	18	18
8	Procedures required to enforce a contract (number)	44	44	44	44	44	44
9	Procedures required to enforce a contract (number)	44	44	44	44	44	44
10	Procedures required to register property (number)	5	5	5	5	5	5
11	Procedures required to register property (number)	5	5	5	5	5	5
12	Procedures required to start a business (number)	9	9	9	9	5	5
13	Time to prepare and pay taxes (hours)	224	224	224	224	224	224
14	Time to resolve insolvency (years)	3	3	3	3	3	3
15	Total tax rate (% of profit)	20	20	20	19	19	19
16	Trade: Cost to export (US\$ per container)	930	930	930	820	820	820
17	Trade: Cost to import (US\$ per container)	848	848	848	848	848	848
18	Trade: Time to export (day)	27	27	27	27	27	27
19	Trade: Time to import (days)	31	31	31	31	31	31

Table 7: Cost of doing Business in Samoa 2005-2010 (Source: World Bank survey)

The World Bank undertakes an ongoing survey of 20-30 important elements that shape the business costs in a country that determine competitiveness. Examining the table above we see that in Samoa costs to enforce a contract remain high, and so are the cost to register property, and to start a business. Similarly the number of processes and the time taken for them also seem high, though we note the positive changes in the costs and time of starting a business. But overall what is more notable is that there has not been much change between 2005 and 2010. The above costs of doing business table of the World Bank could suggest that there is plenty of room for the Samoa government to increase the efficiency of processes that hinder business growth. To determine how relevant are these for industrial development in Samoa we decided to do some comparisons between Samoa and other countries. For us a surprising fact was that when comparisons are made across countries that have been successful in promoting growth and manufacturing the majority of the barriers listed for Samoa are actually lower than for many other countries.

The table below shows one comparison with Mauritius. This one single comparison is shown here as they are both island countries, with relatively good governance, but they both suffer from a number of similar disadvantages, while Mauritius has been able to register more consistent and higher growth⁴⁵.

Environment for doing Business	Samoa	Mauritius
(Source: World Bank Survey of Business)	2009	2009
% of exporter firms	26	15
ISO certification ownership (% of firms)	31	11
External auditing of financial statements (% of firms)	72	59
Firms using banks to finance expenses (% of firms)	69	39
Firms using banks to finance investment (% of firms)	48	37
Firms with bank loans or lines of credit (% of firms)	51	47
Value of collateral needed for a loan (% of the loan amount)	206	60
% of firms expected to give gifts to get an operating license	15	0
% of firms expected to give gifts to secure a government contract	14	9
% of firms expected to give gifts to tax officials	20	0
Informal payments to public officials (% of firms)	29	6
% of firms formally registered when they started operations	88	84
% of firms identifying business licenses and permits as major constraints""	4	19
% of firms identifying corruption as a major constraint""	22	51
% of firms identifying crime, theft, and disorder as major constraints""	23	42
% of firms identifying customs and trade regulations as a major constraint""	19	18
% of firms identifying finance as a major constraint""	16	46
% of firms identifying labor regulations as a major constraint""	3	9
% of firms identifying tax administration as a major constraint""	20	16
% of firms identifying tax rates as a major constraint""	33	25
Time to clear imports through customs (days)	14	10
Time to clear direct exports through customs (days)	10	10
Days to obtain a construction-related permit	13	72
Days to obtain an import license	7	23
Days to obtain an operating license	5	19
Delay in obtaining a telephone connection (days)	8	39
Delay in obtaining a water connection (days)	6	30
Delay in obtaining an electrical connection (days)	10	19

Table 8: Business Environment - comparison between Samoa and Mauritius

The comparison in the table 8, within limits of the data collected, suggests that in general firms in Samoa face similar or fewer difficulties than firms in Mauritius in doing businesses. (the colours yellow indicate better conditions in Samoa, red indicate worse conditions and yellow indicate similar conditions. Positively, a higher proportion of firms in Samoa do external auditing, have ISO certification and use bank finance. During the mission we were able to visit an ongoing program of the UNDP to increase the quality

⁴⁵ The report "Pacific 2020: Challenges and opportunities for Growth" identified Mauritius as being successful and a model for the Pacific Islands, page 23. It suggests that the driving factor behind Mauritius's success appeared to rest in the quality of its domestic institutions and an ability to create new sources of competitiveness.

processes in Samoan private sector firms. This was viewed with great enthusiasm by the participating firms.

It is seen that competitor firms in Mauritius have to wait less time to clear direct exports through the customs, need far less collateral to get a loan and see tax rates and tax administration as a lower constraint than the Samoan firms do. A major difference, it is interesting to note, that Samoan firms spend more time and energy on giving gifts to officials to start and to operate a business. This should normally be seen as negative and associated to corrupt and inefficient practices. However, at the same time, a higher proportion of Mauritius firms identify business licenses and permits, corruption, and crime, theft and disorder as major constraints, compared to Samoa. This suggests the higher prevalence of "traditional and customary" values in Samoa where gifts are part of a system of reciprocity. Overall, the comparison shows, that Samoan firms can start and operate their business in better conditions than firms in Mauritius. Given that Samoa and Mauritius are comparable in many general aspects (i.e. geography), and the table shows, Samoa is often in a better position than Mauritius, differences in business success and economic performance must be found elsewhere than in the World Bank identified barriers in "economic settings and regulations".

In our view the two most important business costs that have to guide any policy for industrialization in Samoa are distance and small size. Distances lead to high costs as importing one container ranged between US\$ 800 and 930 and then to export one container has been US\$ 850. Thus importing raw materials and then adding value through manufacturing and exporting, requires a minimum cost of US\$1,800 above and beyond all other costs of manufacturing and operations. When the time to export and import is added to this, the firm needs to hold an inventory of 30 to 45 days given the time to export and import are each around 30 days. The table shows that of this time, the time required for customs and other processes, that are internal are around 10-14 days and the other 16-20 days are exogenous, and are based on the frequency of ships coming to Samoa.

Our view that the relative importance of the exogenous factors- smallness⁴⁶ and remoteness are large and critical constraints to local production - is also supported by the report "Pacific 2020: Challenges and opportunities for Growth". It quotes a study by Winters and Martins (2004), who estimate that the costs of manufacturing businesses are much higher for very small states like Samoa by 14–28 per cent compared to larger countries.⁴⁷ The combination of adverse factors go a long way to answering the question raised during discussions on why Samoan private sector firms have apparently failed to take advantage of subsidised investment loans and grants provided by development partners (e.g. Ausaid, NZAID, ADB and World Bank). Our view is that releasing one constraint at a time, such as making some subsidized funds available for investment, does not make enough difference to the competitive situation of the private sector.

⁴⁶ Based on cross-country regression analysis, some argue that, on the whole, small countries have done no worse than large ones in terms of economic outcomes but here the definition of smallness is based on population of fewer than 1.5 million compared to Samoa's population below 200,000.

⁴⁷ Winters and Martins define a micro-country as one with a population of fewer than 12 000, and a very small country as one with a population of below 200,000, as for Samoa. Most of these are island states, and in remote locations. They also note that higher costs also negatively affect the tourism sector.

There is also the lack of availability of collateral and issues related the communal ownership of land. A recent World Bank report reviewed global experience on the links between land and development and found that secure land tenure increases the incentives for land-related investment and allows for transfers to more productive uses of the land. While the report is general in its coverage, it makes one important point that we believe is most relevant for Samoa at this time. It states that the most appropriate and cost-effective method of increasing security and transferability of land is not necessarily individual title but can also be achieved through longer term leases. Second, in Samoa, given all the other constraints to industrialization discussed, this may or may not be the most critical issue. But it is of some importance certainly and the ADB has an ongoing project - Promoting Economic Use of Customary Land, Phase II⁴⁸, that aims develop options for the economic development of customary land emphasising leasing options.

To the above we would add one more factor among the barriers to business formation in Samoa, that is not clearly borne out in these tables, is the low levels of banking by the population, the low investments available to the people and firms because of the higher consumption over income, and high interest rates with large gaps between what the financial institutions pay for deposits and what they collect in interest. This difference of 7-9% between deposits and loans, is high and has remained high in spite of the reforms to the economy, and requires policy measures to increase competition.

The only policies that can promote local private sector is for the coordinated removal of several constraints simultaneously, that together promote sufficient competitiveness to allow for private sector led industrialization in niches that present themselves for Samoa. Small economies such as Samoa, must avoid exacerbating their natural handicaps and do everything they can to reduce higher economic costs. We believe that it is Samoa's low productivity, caused by multiple factors acting together, that needs to be addressed. Based on the 2010 World Bank assessment of industrial performance the capacity utilization of Samoan manufacturing firms is between 25-30 percent, and unless businesses can sell more they would not find it attractive to invest. In discussions with key business groups low demand, high costs, poor labour skills and experience, leads to low productivity, which despite very low wages, is undermining competitiveness. For industrial growth and increased manufacturing, competitiveness has to be created. This has to be based on current and future sectors with high demand - tourist and consumer demand; linked to employment potential- natural resource based, government economic policies and priorities - which need to be changed from the pure market based approach; towards new priorities should Samoa seek to change the trends of economic change identified hitherto.

⁴⁸ TA Number 7387, Project Number 41173- 01 for an amount of US\$500,000

OTHER LOCAL CONTEXT

VILLAGES

The social unit of Samoa is the 'aiga' or the extended family. The 'aiga' is headed by at least one "matai", who is appointed by the consensus of the aiga. The matai assumes responsibility for directing the use of family land, and, other assets⁴⁹, belonging to the aiga. Local authority is also in the hands of the group of matai who constitute the council or 'fono' of the village. Presiding over the fono is the village mayor, which is also a position that is government appointment linking the government to each village. Samoa also has a village level local government based on traditional structures. The Division of Internal Affairs of the Ministry of Women, Community and Social Development is responsible for administration of village affairs.

There are slightly less than 300 village rural level local governments, spread over 19 provinces and 89 districts⁵⁰. Village council has some powers to levy taxes in line with village usage to support community activities, but there is no legal provision to enforce collection, although traditional sanctions can be enforced with court approval. Central government makes transfer payments to local authorities for capital development on an ad hoc basis. The village has the power to promote development alone or in partnership with government ministries. Areas of responsibility include education, agriculture, fisheries, law and justice, public health and village hygiene, the construction of plantation roads, water supplies, sports and recreation, religion, and family welfare.

Samoa culture places great importance on the dignity and achievement of the group rather than its individual members. The country's system of village government is particularly well organized and coherent and is the focal point of a network of social relationships that provide honour and prestige to its members. The social and cultural institutions of Samoa Society (fa'a-Samoa) are relatively strong and more intact than in many other countries. Positively, the sharing of resources and food among families as an obligation and a priority has meant a lower level of absolute poverty, than is selling produce. However, Samoa is also no longer a society of largely self sufficient local units as market and non-market production are almost equally balanced. Imported food and other items are now established as basic household necessities but often of poorer quality than could be provided from domestic productive capacity.

Given the important UNDP initiative - Joint Community- Centred Sustainable Development Programme (CCSDP) being undertaken as a joint UN system support to enable community members to organize for collective action, by pooling resources towards resolving common problems and poverty reduction for some of the ideas here, linking enhanced village level production from natural resources to value added production, it was decided to visit some of the program villages to explore current barriers to productivity and options for improvement. The village of Lano which has built a "Sustainable Development Plan" was visited. As in the broader economy it was found

⁴⁹ Culturally, he must honour the title bestowed on him and represent his people. In return he is entitled to services by the 'tautua' (untitled).

⁵⁰ There are also 26 urban local governments plus the Capital District Council of Apia.

that agriculture provided more employment than any other sector. It presents many opportunities for growth, domestically and for export, but is operating well below potential. Constraints include infrastructure and the other crosscutting issues highlighted-priorities that emerged are: improving farmer access to new technology of better seeds, ability to control pests, and market access and information. In the discussions the village community expressed their feeling that they did not have access to know-how, inputs, extension services and market access opportunities that they could develop on their own, without additional support from outside the village.

An opportunity to promote inclusive growth is provided through the “Joint Community-Centred Sustainable Development Programme (CCSDP) managed by the UNDP at Lano and a group of other villages. The CCSDP is a community-centred initiative that enables community members to organize for collective action, by pooling resources and building solidarity towards resolving common problems and achieving a shared vision for community advancement. It has several objectives in line with UNDAF for the Pacific⁵¹ and one is Equitable Growth and Poverty Reduction. The CCSDP can be an important tool in the poverty alleviation process, as a Local Economic Development (LED) process that can enable the local people to jointly design and implement development options that taps local resources and capacities at the same time as it taps into the government, UN, development partners and others in the value chains as appropriate, creating new public-private partnerships.

LED⁵² can make good use of a community’s comparative advantages and build upon them by expanding existing economic activities by cooperative means, that link demand and supply, and remove specific constraints in an integrated manner, building additional comparative advantages to generate increased productivity and employment. These selected pilot villages in the ongoing CCSDP program could provide one set of LED options by combining the work with clustering efforts, that could scale up a new set of efforts that mobilize multiple resources to reverse the long decline in production and local value added.

RELIGION AND PRACTICE

Religion plays a very important role in Samoa where most people are Christian and a notable feature of Samoa are the impressive number of churches that can be observed.

⁵¹ CCSDP is one of the United Nations joint programmes, and so involves a range of UN Agencies and regional partners working together to achieving “community visions supported and community-based sustainable livelihoods, environmental conservation and disaster management initiatives scaled up, where possible, to the national programme level.” At the time of the visit, a Village Sustainable Development Plan; a Gendered Marine and Mangrove Protected Areas for Lano had been prepared; a Coastal Protection Barrier had been constructed and training for Capacity Building on Good Governance in Lano had been conducted.

⁵² LED initiatives generally and in this case, focus on economic and entrepreneurship development, that can increase productivity, leading to a virtuous and mutually reinforcing growth that increases public-private partnerships, strengthen private sector, increase empowerment and increase social capital. In Samoa they are focused on: micro and small scale business development; business training; agriculture production, fisheries; tourism; and infrastructure development (as needed). UNDP expects that many of the existing partners the ADB, AusAID, NZAID, JICA, World Bank, Peoples Republic of China, Indonesia, S. Korea and Canada, who all have an interest in this may join hands in some components.

Offerings to the local church is a major part of the expenses of a Samoa family according to the HH survey. In a survey of a sample of those who sent and those who received remittances, it was seen that more than 95 per cent of the respondents said that they contributed to their church, with many contributing up to, or more, than one quarter of their income. Given its importance in the economy by size, many issues relating to this are discussed in Samoa. Some suggest greater use for charity towards the members, others have proposed loan funds and some believe it could easily be used as funds for business ventures.

It has been criticized as a mechanism that is only imposing a financial burden on members and also for some times, weak management of the funds. Continued improvements to church buildings from the offerings have clearly contributed to the growth of the construction sector. Education has always been part of the activities and private mission schools are an important part of the education infrastructure, and some have vocational training to their offerings. The government allocates some money for the development of these mission schools. While we can note here, the importance of the church to the economy, well beyond its spiritual role, and there are many different possibilities that exist where by the resources available to the church - funds, organization and educational services - could be used more productively for economic and human development challenges, we cannot step into this complex and sensitive area with any recommendations.

BUSINESS SUPPORT, SKILLS AND FINANCE

There are exist a few, relatively limited, but fairly successful initiatives to increase skills, knowledge, information and loans for entrepreneurs that can be leveraged further. The examples below point both to the problems of lack of capital and accessing credit as critical obstacles for the private sector in Samoa but also that access to capital must be accompanied by additional market and business services that are beyond individual entrepreneurs to provide. All reviews of the existing support services suggest that they meet important needs and the scale and range of such activities need to be expanded in Samoa.

SMALL BUSINESS ENTERPRISE CENTRE

SBEC⁵³ began in 1993 as an initiative by the New Zealand Government to promote private sector development. It is formed as an independent charitable trust, managed by a board and focuses on training small business promoters and in accessing finance. SBEC⁵⁴ has supported 193 small services businesses. The various service businesses supported by SBEC include taxis, mechanical services, food services, cleaning services, entertainment businesses, professional services, health services, import/exporters and many others. SBEC supported the small businesses with loans of SAT 7 million or less than 2% of the business loans. SBEC provides the management training and business advisory services and also facilitates access of small enterprises to financial resources and improves access by guaranteeing up to 80 percent of a loan with a participating bank.

⁵³ SBEC has its own web site at - <http://www.sbecsamoas.ws/index.html>

⁵⁴ The basic figures for SBEC are taken from "SBEC Services Sector Profile 2010" and the discussion on SBEC in the trade sector profile and situation analysis 2010, provided by MCIL.

There is a Small Business Loan Guarantee Scheme (SBLGS) that has been set up under projects with NZAID and the Asian Development Bank (ADB) and this provides loans between SAT5,000 to 50,000. The ADB supported an expanded SBLGS in 2002 that closed in 2009⁵⁵. The SBLGS is promoted and managed by SBEC.

A 2008 an impact assessment of the work of SBEC⁵⁶ to small business development in Samoa concluded that for every tala invested over three tala was generated for the Samoan economy, the value of increased outputs was estimated at around SAT12.0 million per year and that for every additional tala of economic activity, Government revenues increased by SAT0.12 (12%) and estimated that around 2,500 jobs were created. Loan default rates were low.

The 2009 ADB completion report was equally positive on the achievement of the ADB component. It found that the ADB component enabled SAT 11.4 million in guarantees to 853 enterprises, allowing for loans amounting to SAT 15.8 million as against plans for . 592 guarantees worth SAT 3.9 million would be undertaken by SBEC. The program allowed businesses to have term deposits worth SAT 8.7 million at 30 June 2009. An estimated 1,763 new jobs were created under this component against a target of 682 and women filled almost 40% of the new full-time jobs created. An independent assessment of the impact of SBLGS loans reported annual wages paid to new employees amounted to about SAT 22 million with economic value of SAT 1.75 for every tala in loan.

The ADB project also had a micro-finance component that also exceeded its target of 250 loans providing instead 681 loans with the loans used to support agriculture, manufacturing, retail, handicrafts, markets and fishing. The project had two other components, a Small Business Development Fund, that was to provide financial support for support service providers such as SBEC and WIBDI but the design was too restrictive and only about 12% of the expected allocation was used. The final component was for a Samoa Venture Capital Fund, which was established with considerable delay. It received 51 applications for funds but 40 of these were transferred to SBEC as they were small. Of the remaining 10 were rejected and one was passed was finally also rejected. The fund was terminated. The 2008 study and the 2009 review found that SBEC was forced beyond its capacity with the additional demands of the projects and it was unfortunate that the Fund to increase its capacity and put it on a more sustainable footing was in effective to do so.

The findings confirm that finance, skills, knowledge and information that is provided by SBEC are key competitive constraints and these services are very valuable for business growth. They also suggest that simpler project designs that focused on loans, building capacity at SBEC and other similar organisations through cluster initiatives could be more effective.

WOMEN IN BUSINESS DEVELOPMENT INC (WIBDI)

The Women in Business Development Inc was set up in 1991, an NGO, to develop income generating opportunities, especially for rural village women, with the goal of enabling families to remain and strengthen in their village environments, rather than

⁵⁵ Under ADB Project Number: 33167, Loan Number: 1785-SAM(SF), Samoa: Small Business Development Project. Completion Report 2009.

⁵⁶ Jock Struthers, Gisa Purcell and Nick Giera, 2008. Social and Economic Impact Assessment of the Samoa Small Business Enterprise Centre, NZ Aid Programme, December 2008.

emigrating overseas or to the urban areas. It provides a micro-finance scheme and has supported the development of high value organic agricultural products. WIBDI assists with the skills, technology to develop the product, the skills to develop and run a business, and a micro-finance program whereby members learn to save, and borrow. WIBDI as over 1,000 member families in two third of the villages in Samoa. WIBDI began with rural mat-weavers, helping them to improve their designs and skills while taking orders from customers locally and overseas who wanted to buy the mats. Once the weaver began earning an income, WIBDI then taught them and their families skills such as managing finance, banking, budgeting, and bookkeeping. Once the new rural business moves into being a functioning business, WIBDI graduates the business to SBEC.

WIBDI has tried to provide the full range of services to allow small producers to access global markets and overcoming the primary challenges of - isolation from markets, smallness of producers, vulnerability to natural disasters and external shocks. A major success of the WIBDI is an exclusive contract for virgin coconut oil producers with The Body Shop chain and with this ongoing success, it has recently expanded its range to assist with organic and fair trade certification to international standards. It is working on cocoa, vanilla, ginger, nonu juice, and bananas. Higher value through organic production and certification is found to raise the price of coconuts by five times. Thus the value addition by organic certification through WIBDI has made rural farming more viable, creating increased revenues, that then makes higher production viable, and improves the links between rural producers and communities and global markets.⁵⁷

SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION (SPBDF)

The South Pacific Business Development Foundation (SPBDF) established in 2000, is another micro finance organization that provides training, small loans to start and grow businesses. It has helped a little over 2,000 Samoans access SAT2.4 million in loans. With only one branch in the capital Apia, SPBD's main activity is the provision of small unsecured credit to poor women for micro businesses. There is an acute shortage of administrative capacity within SPBD, coupled with frequent staff turnover⁵⁸.

SAMOA UMBRELLA FOR NGOS (SUNGO)

The Samoa Umbrella for NGOs (SUNGO) has as its members over one hundred member associations, many of them are engaged in promoting economic activities. SUNGO was founded in 1997 and was registered as an Incorporated Society in the following year. The organisation was established to provide alternative development options and assistance to vulnerable groups in Samoa and to provide input into Government policy from Non-Governmental Organisations (NGOs), Community Based Organisations (CBOs) and Civil Society Organisations (CSOs) on issues of concern. SUNGO brings together under its umbrella church, social, health, village and youth organizations as well associations that are involved in economic activities such the bee keepers, farmers association, farmers' associations, Samoa Hotel Association, SAME, SBEC and others numbering over one hundred.

⁵⁷ IFC, 2010. Economic Opportunities for Women in the Pacific, IFC in Partnership with AusAID, Washington DC. It also provides cases of a female entrepreneur-owned bottled water company established that supplies major hotels and the start up of a consulting firm that now operates throughout the Pacific.

⁵⁸ Reported by Fikreth Shuaib in Samoa Country Report for SPBD.

New Zealand Aid, the Government of New Zealand, the people of New Zealand and the government of Samoa for their support of the NGO and Civil Society sector in Samoa over the last 5 years. Starting in 2005, New Zealand Aid has core-funded many of Samoa's Non Governmental Organisations.

SAMOA ASSOCIATION OF MANUFACTURERS AND EXPORTERS (SAME)

The Samoa Association of Manufacturers and Exporters (SAME) in recent years has had membership of around 40 firms. It was funded by the New Zealand High Commission and SAME has recently prepared a Strategic Plan: 2010 – 2015 to enhance competitiveness to increase trade, alleviate poverty and face the challenges of an increasingly globalised economy. It reported that firm members continued to face challenges from increasing competition of imported products and difficulties in export markets due to the high local production costs, high costs of inputs - in particular, energy, telecommunication and water. One new initiative of Government the "Samoa Fruit & Vegetable Sector Strategy (SFVSS)" mentioned later, has one component to support SAME provide services to the sector.

The business men and women, and the members of the different associations interviewed suggested significant available capacities, organizations with good information and analysis. That is a strength to be leveraged further. But such capacity was almost all in the urban centre of Apia, while on the other hand, the rural men and women (in our small sample) were relatively poorly organised and had low awareness of economic opportunities and options, and how to use the available institutions and opportunities more effectively for rural-enterprise development.

EXTERNAL ASSISTANCE TO PRIVATE SECTOR DEVELOPMENT

There is considerable donor interest and funds available for improved private sector growth and employment. For example AusAID provides an estimated third of its allocations to this goal and the complete list of activities could not be reviewed here but we mention below some additional projects that provide points of entry and complementarities to the recommended strategy for industrial development.

A quick review suggests that considerable funds are provided for the improvements and expansion of the power sector and the capacity of EPC. Work appears underway for the appointment of an independent regulator for the power sector, which could improve the sector efficiency. Appropriate new regulations opening up generation to the private sector, and other steps would encourage a faster adoption of renewables in the sector and lower prices and boost competitiveness. Funds are also provided by the ADB to assist with the privatisation of state-owned enterprises, including the Samoa Shipping Services and Samoa Commercial Bank⁵⁹.

Some of the assistance programs relevant to this report include the core funding by NZAID Samoa for SBEC and the similar assistance by ADB, discussed earlier under SBEC. It is anticipated that NZAID would continue funding to SBEC based on the

⁵⁹ The Samoa Commercial Bank had been created only in 2003. There are 4 commercial banks registered and operating in Samoa - National Bank of Samoa, Samoa Commercial Bank, ANZ Bank Samoa Limited and the Westpac Bank Samoa Limited.. In 2003 the ADB stated - "The establishment of a fourth commercial bank (Samoa Commercial Bank) is a welcome development, providing the necessary competition to improve delivery of financial services", stated in Samoa Country Strategy and Program Update 2004-2006, Publication Date: July 2003, ADB.

findings of the evaluation. AusAID has ongoing support for two important and related initiatives through the Australian Centre for International Agricultural Research (ACIAR) - Pacific Agribusiness Research for Development Initiative (PARDI) designed to complement through research and technical support another AusAID funded program - Pacific Horticultural and Agricultural Market Access Program (PHAMA), to gain and maintain access to key markets for selected high-value products⁶⁰.

A very promising program is the UNDP partnership with NZAID on a Private Sector Support Facility (PSSF) for a period of five years ending in 2013 with an allocation of SAT \$ 6,091,405 (UNDP: SAT \$ 1,360,565 and NZAID: SAT \$ 4,730,840) that is being implemented by MCIL. This has a number of non government collaborating partners such as SAME, the Chamber of Commerce, Samoa Hotels Association; Farmers Assn; Flower Growers Assn; and other relevant ministries. The government of Samoa has provided for a significant increase to its earlier contributions to the PSSF the Budget for 2011-2012 approved by Parliament. The PSSF plans include "Business Forums" for selected sectors throughout each year, that would a 'think tank' for advising government on the priorities for investment and address the continuum of business development, training and it plans to use the Value Chain⁶¹ method and support selected proposals that may be developed in selected value chains. The PSSF together with the CCSDP, provide the UNDP with two central activities that can make a tremendous difference to inclusive growth in Samoa.

A WAY FORWARD

The way forward for Samoa must build on the strengths and assets that can be brought to bear. Some external facts will always remain important - world economic conditions, price and volatility in key exports and oil imports, trading rules, and, natural disasters and impacts of climate change. But the selected policies should work together to promote greater resilience and reduce risks. In our view, such desirable and integrative policies require much greater attention to capacity building for knowledge and skills that can be rapidly put to use - that meet Samoan productive needs, reduce growing income disparities; increase domestic outputs, and provide increased opportunities and participation of persons of working age, with special attention for youth and women. A first step in this process would be for UNDP and the government to encourage wider dialogue on the findings from this and the other reports prepared for UNDP, to allow all

⁶⁰ Both these programs with funding of AU\$10 and 14 million respectively, cover several Pacific Islands in addition to Samoa. Thus while they are not focused on Samoa only, there are many co-benefits for Samoa possible beyond the work directly focused on Samoa.

⁶¹ The value chain is the sequence of productive stages of a process – for instance seed production for a crop, other inputs required such as fertilizers, water, energy, know how to deal with pests and other hazards, harvesting, post harvesting storage, transport, markets, further processing where required to make additional products, and so on. The Value Chain involves different actors that provide specific inputs into the different stages of the process. Value added initiatives can be defined as those that promote, strengthen or even build for the first time where missing, the different stages of the value chain that will eventually contribute to the competitive advantage of a product or service. Value chain analysis emphasizes the needs and benefits of micro-level cooperation and coordination. See the relationship between value chains and cluster initiatives later.

stakeholders and development partners to arrive at greater common agreement on the broad economic choices and challenges that face Samoa.

There is a need to rethink the broad strategies for development with incremental shifts that promote strengths. The Samoan government began in the earlier decades with efforts to promote a state led development and investment program that ran into difficulties, especially with changes in the external environment. The government responded effectively by retrenching on poorly performing investments, and undertook privatisation and deregulation to support a private sector led model for growth. This allowed improved macro economic stability and other gains noted. But, despite improved macro climate and support for the private sector led growth, private investments have been very low. On the positive side, rising incomes from tourism and remittances have increased people's incomes and supported increasing services, construction and internal trade. But the continuation of these existing trends - growth in tourism and the services sector, and migration and increased remittances - without additional measures would mean continued deterioration of local production, increasing levels of inequality, with likely increases in poverty⁶².

The missing elements in standard policy models, with their simple distinction between the state, markets and private sector, are provided by new theories for industrialization. In small economies, with low productivity and weak market linkages, as in Samoa, it is important to improve coordination of economic activities that are interdependent and have many complementarities⁶³. In Samoa, the original model of large-scale state supported undertakings, could have provided the required scale economies, and for coordination of the required inputs and outputs, but it did not work. So a different and new model could be through increased community, NGO and private participation where the government provides support and assistance and is one stakeholder, not the sole decision maker. Grants and loans can be used to give the existing and new community and private sector structures the power to decide their funding priorities and also how to implement the projects. The deterioration in local production cannot be remedied, given the removal of tariff protection, without other incentives and compensating policy measures that leverage the unique resources and strengths in Samoa.

⁶² We concur with the report Pacific 2020, which suggests not to give up on previous reforms, and promotes "sensible public investment where a relatively quick growth impact can be expected (for example, in infrastructure), combined with more attention to the tough, long-term growth constraints (such as political governance and land tenure)". We differ some what in that infrastructure means not only the physical infrastructure, though we identify energy as a special challenge and opportunity, but must include key foundations of competitiveness for Samoa - finance, skills, and coordination to resolve market failures including public investments that build private sector capacity, improved public-private and private-private cooperation. We believe issues related to land and improved political governance (not the focus of this report) may be desirable on their own they may not be an immediate constraint to economic growth, production and jobs.

⁶³ Interdependent here means that often a single investment by a private person may not be profitable because of multiple market failures but a cluster of related and sequenced investments can be profitable. For instance training alone may not be as valuable, with the trained person emigrating if it is not linked to growing job or livelihood opportunities. The effort by senior leaders to develop a large destination tourist resort near the airport together with daily flights from China is another example at a large scale, of one individual investment not working without the other. Other examples are provided subsequently.

This is not a return to the earlier state led model. But a way to generate policy focus on the key barriers to competitiveness together with programs that harness local, bottom-up problem-solving capacities through greater and focused stakeholder involvement and participation, that can improve the micro-foundations for productivity and growth required. Two methods for improved local development and coordination of complementary economic activities are provided through value chain analysis and cluster initiatives. We reported earlier on specific projects that have supported a set of initiatives to increase skills, knowledge, information and financial resources for entrepreneurs, making use of cooperation and coordination within and between the private sector, community organizations and government, that have been very successful. Value chain and cluster initiatives (discussed below) can leverage these successes further through Samoa's strengths and building on the capacities available both in civil society and government, while also limiting demands for more direct government actions. We noted earlier that the most recent Fruits & Vegetable sector strategy does take note of some of these issues. The plans to implement a value chain approach to the removal of constraints anticipates that fruits and vegetable alone could add 10% to the GDP over 5 years and notes that the impact will be much greater on MDG because of the integration with rural populations. While the estimates can be optimistic, in our view, the approach is sound and implementation can be a key challenge that needs focus.

Strengths, Weaknesses & Actions

The table below summarises the strengths, weaknesses and possible actions that can reverse the decline in industrial and domestic value added production activities, build on the growing services and trade, supported through rising incomes from tourism and remittances.

Table: Samoa - Strengths, Weaknesses and Directions

INTERNAL	Strengths	Weaknesses	Actions
Public policies and institutions	The IMF rated (2005) Samoa as one of the best-managed economies in the Pacific Island region over the past decade. The economy registered solid growth, low inflation, and improved public finances and international reserve levels, and outperformed comparator countries within and	Unilaterally reduced tariffs that protected domestic production. Retrenched on state investments Declines in domestic value added in primary and secondary sectors. Institutional capacity is uneven across ministries,	Rethink strategies for development. Key roles of the State for structural change. A more integrated approach which can simultaneously address threats and vulnerabilities, leverage strengths. Substantial increase in local and sustainable agricultural outputs

	<p>outside the region.</p> <p>Individual successes such as Yazaki, now joint venture in the airline sector and possible large investment in destination tourism with China.</p>	<p>and remains weak in many of them dealing with production activities.</p>	<p>and value added industrial sector.</p> <p>Emphasize value chains and clusters linking primary production to growth sectors.</p> <p>Tariff anomalies, that have been pressed by the private sector, if any should be reviewed.</p> <p>Explore new partnerships with few larger firms such as Yazaki in energy sector; fruit based drinks with manufacturers; diversification of tobacco firm.</p> <p>Build on success in regulating telecommunications to expand to energy and finance.</p>
People	<p>Homogenous society with one people, one language, a common system of agriculture and land tenure, and common culture.</p> <p>High migration relieves population pressures on resources and most important source of incomes for the people of Samoa.</p>	<p>Lack of experience of large numbers of people in more efficient techniques of production.</p> <p>Overall, the human skills base is low and needs supportive actions.</p> <p>High levels of gifts in the form of remittances and gifts, reduces private incentives to work and especially at low wage rates.</p>	<p>Strengthen agricultural sector and rural production.</p> <p>Increase skills of the young.</p> <p>Increase skills and participation of rural women in productive enterprises.</p> <p>Decrease inequalities and tackle the increase in poverty and inequality.</p> <p>Potentially migrants could contribute</p>

			more than remittances. They have higher skills, increased global networks and could be investors and entrepreneurs.
Human resource	High literacy and enrolment rate among both boys and girls	High cost, drop out; expansion of the system has taken priority over the quality. Brain drain, dependency, stagnation. Lack of employment opportunities translate into migration and brain-draining. Mismatch between skills taught and those needed for employment and livelihoods	Create more training programs outside the school Provide incentives for on the job training Increase training effectiveness and appropriateness in formal and vocational system Link all levels of education to productive activities Increase training in entrepreneurship.
EXTERNAL	Strengths & Opportunities	Weaknesses & Challenges	Actions
Partners	Good will and substantial resources made available both financial and technical Several successful projects completed suggest useful expansion.	Activities are not always well coordinated and sustained for full impacts Some projects not designed well and others, with good design often suffer from poor implementation.	Improve monitoring with greater partnership between government and external partners. Generate more lessons on what worked and what did not work and why that are used for learning across stakeholders
Locational factors	Potential for tourism	Remoteness Leads to high costs	See accompanying report on tourism sector.
Climate	Tropical and	Negative events and potential worsening	Increase economic

	productive. Potential to access and use technology and finance to move away from oil dependency to renewable	due to global warming.	resilience. Increase scientific capacity to know, and plan for adaptations. Pursue opportunities with external partners led by UNDP on renewable energy and seek out various funds available globally to assist the shift.
Globalisation	High migration provides opportunities for income, for skill development, and for increased productivity by accessing outside knowledge and practice.	Increased vulnerability, and dependency - food, energy, terms of trade, world economy and trading rules	Increase economic resilience through domestic value added. Increase scientific capacity to know, and plan to capitalize on strengths
Technology	Institutions exist to develop, adapt and transfer new technologies for production.	Weak institutions - with new mandates but not well funded and not closely linked to users and producers.	Use the initiatives such as PSSF, PARDI and others to increase the link between user needs and know how.

Industrial growth policy for Samoa, has to be understood broadly taking into account the simultaneous and multiple market failures owing to size, externalities, missing institutions, and lack of economies of scale. The theory of the free market does not *fully apply* in the Samoa context, owing to the structural characteristics, which markets alone cannot remedy⁶⁴. This means that the market and private sector firms alone cannot coordinate the processes of capital accumulation, structural change and technological upgrading in a way consistent with sustainable growth and development for Samoa. The government needs to help to coordinate the processes. Too often many government and aid programs have been too narrow in their approaches, are not integrated, and have not tapped the available strengths of communities and associations to the extent possible.

⁶⁴ While economists often disagree between the proper roles of government, there is agreement that "market failures" are in called that because markets, meaning the private sector working by itself, cannot solve those problems.

What is required new forms of public-private and private-private partnerships, assisted by sectoral and meso-policies that highlight inter-sectoral linkages, social learning and knowledge diffusion across a wide range of actors. Upgrading productive capacities, require greater local innovations to increase value added, to make better products, and make them more efficiently and often moving into more skilled activities. Samoa does have a relatively productive natural resource base, and an inclusive growth process requires a revival of the primary sector, based both on traditional crops and fisheries, as well many new opportunities for the resource base, together with diversification and value adding steps. Industrial policy for Samoa should aim at transforming the comparative advantage towards more favourable outcomes, toward a more dynamic, higher value added and employment generating activities and promoting competitiveness by building the local supply base, continuous productivity increases and the upgrading of products and processes.⁶⁵

The policy framework requires greater coordination of the factors of production that are interdependent and have many complementarities⁶⁶. This needs simultaneous actions across several areas of the economic system so that supply bottlenecks - as in agriculture, marketing, specialized services, technology and know-how; gaps in human capital and skills are met together and are driven by current and then growing demands in the market. The discussion with entrepreneurs, community and business support organizations, suggest improved efforts to resolve market failures in Samoa. Cluster initiatives can generate a spurt in outputs and promote a more inclusive growth process. For Samoa, continuation of the existing trends - growth in tourism and the services sector, and migration and increased remittances, without additional measures would mean a deterioration of local production and increasing levels of inequality, with likely increases in poverty⁶⁷. In addition, industrial growth requires attention to fundamentals - savings, investment, institutions and human capital and when present, offers the greatest scope for positive externalities and increasing returns, creating the large multipliers for overall growth.

We do not believe that options for traditional manufacturing apply for Samoa. Yet a more integrated strategy, which simultaneously address threats and vulnerabilities, through selective interventions, targeting the most promising sectors of growth to add to increased competitiveness has much promise. It must begin with efforts to increase production and productivity in the villages in agriculture, fisheries and forests, as well as local energy resources, thereby improve outputs and exports, with business oriented production of increased value added products through improved linkages and sustainable resource management. Over time the industrial policy can evolve to promote additional structural

⁶⁵ See UNCTAD, The Least Developed Countries Report, 2007 for a broader theoretical discussion of these issues.

⁶⁶ Interdependency was discussed earlier but given its importance in Samoa it is repeated that it means a single investment by a private person may not be profitable because of constraints while as a cluster of related and sequenced investments can be profitable.

⁶⁷ Pacific 2020 suggests not to give up on previous reforms, and "sensible public investment where a relatively quick growth impact can be expected (for example, in infrastructure), combined with more attention to the tough, long-term growth constraints (such as political governance and land tenure)". We on the other hand suggest improved public policy for improving competitiveness for sustainable production and jobs, improved public-private cooperation, and public investments that build private sector capacity.

changes towards more dynamic and diversified activities, more complex and a sophisticated products and services - “making better products, making them more efficiently, and moving into more skilled activities.

CLUSTER INITIATIVES

Cluster Initiatives are one of several local economic development initiatives that provide a promising approach for Samoa that combines sector, village and business development in an integrated manner and can be incorporated within existing programs of UNDP and other donors. Cluster initiatives support inter-firm and public-private collaboration, institutional development and removal of constraints to targeted regions to promote local/regional industrial development. Clusters are networks that include firms/producers in one sector, often located in one geographic area, with interdependent firms and specialized suppliers - marketing, packaging, testing and so on; knowledge institutions - the local university, research institutes such as SROS; training institutes; bridging institutions such as brokers and consultants; and customers such as hotels, traders, shops, exporters and processing firms - linked to each other in a value adding production chain⁶⁸.

The cluster approach focuses on the linkages and interdependence between actors, but is not limited to a sector in the traditional sense. It also includes those that use the outputs or provide some of the inputs, infrastructure, skilled workers, and know-how.

Competitiveness requires the coordination all producers of intermediate goods, infrastructure providers, the government for necessary policy and regulation, training centres, etc. or "cluster" of public and private agents and the clusters approach focuses on complementarities between these agents, while sectoral approaches with specified boundaries, often fail to take into account important interconnections and flows within the network of production. Clusters foster cooperation by strengthening sectors where the economy already shows potentials for comparative advantage and form the basis for effective microeconomic interventions for market failures in Samoa. It is market-driven and ensures the demand and supply sides work together more effectively. It is inclusive and reaches out to large and small organizations and producers, to input suppliers and also to government institutions. It promotes collaborative solutions yet is supported through economic self-interest, so allows multiple stakeholders to work on a common vision to remove constraints through improved implementation.

There are several stages to a cluster initiative. First, there has to be a planning and mobilization phase where the interest and participation of the different constituencies is secured. This is followed by joint diagnosis of the strengths and weaknesses, and how the different actors can contribute to solutions through collaborative strategies. The participatory diagnostic process builds momentum for the initiative across the cluster community, who assess challenges and opportunities, and the most immediate constraints that can be released through collaboration. The stakeholders come together in working groups to identify priorities and action initiatives, often prioritised by quick wins. There is a formal organization for implementation with committed leadership, a cluster

⁶⁸ Cluster initiative build on the models of Porter on determinants of firm competitiveness and have a strong emphasis on the local/regional dynamics of production and competitiveness. For a review of Porter's views see Porter, M.E. Clusters and Competition,

coordinator, and a minimum amount of financial resources as required to undertake the agreed actions. The implementation phase can include many different types of activities - engaging participants from key institutions; cluster groups that work on specific actions - reform and redesign of services, adding value to existing resources, cluster performance, structure and health of the cluster, accountability and progress information; and the reductions in constraints. It has a management group to spearhead and oversee initiatives; identify additional sources funding commensurate with the type and scale of action initiatives and a monitoring system to track activities and communicate outcomes.

The main benefits is that it moves from compartmentalized approaches, that focus on just one project/issue at a time to an integrative process. In any one Cluster Initiative it is possible to link training and education providers with managers, solution providers with the producers, finance and infrastructure providers to the users, market information and that required for performance requirements such as certification, and government administrative services to the identified cluster needs for productivity improvements. It is also possible to link health and social services within cluster initiatives. Evaluations of such initiatives show that they can often achieve tangible economic outcomes in the short term and then these outcomes provide platforms for ongoing economic improvements⁶⁹. There are a number of additional co-benefits of successful cluster initiatives that includes social learning and improved governance. Cluster initiatives target activities that are selected jointly by members to offer the most local economic development opportunities.

Such initiatives work well for greater coordination of the factors of production that are interdependent and have many complementarities⁷⁰ as that requires simultaneous actions across several areas of the economic system so that individual bottlenecks, as for instance in agriculture, from gaps in marketing, specialized services, technology and know-how, human capital and skills are met together, in a proper sequence and supported by the growing demands in the market. The discussion with entrepreneurs, community and business support organizations, suggest improved efforts to resolve market failures in Samoa can generate a spurt in outputs and promote a more inclusive growth process.

RECOMMENDED EXAMPLES

A village centred Cluster: The UNDP managed CCSDP provides one example and opportunity to promote inclusive growth as it can provide for inter-sectoral linkages, social learning and knowledge diffusion across a wide range of actors. The CCSDP allows for community members to organize for collective action, to pool resources, build capacity, resolve common problems, and promote economic advancement. The CCSDP can be one important tool in the poverty alleviation process since it uses Local Economic Development (LED) approaches that allow the local people to jointly design and implement development options that taps local resources and capacities at the same time as it taps into the resources of government, UN, development partners and others in the

⁶⁹ Sölvell, Ketels, Lindqvist, 2003 - Green book, reports on a survey with data from 450 Cluster Initiatives that completed a global survey.

⁷⁰ Interdependent here means that often a single investment by a private person may not be profitable because of multiple market failures but a cluster of related and sequenced investments can be profitable.

value chains, thus creating new public-private partnerships. LEDs build community comparative advantages and expand economic activities by linking demand and supply, and by removing specific constraints in an integrated manner; and build further comparative advantages to increase virtuous feed back cycles for increased productivity and employment. The analysis of economic opportunities in the village as undertaken in CCSDP should be augmented with value chain analysis and cluster initiatives.

In the discussions held in Lano village, the community members suggested they could grow vegetables to improve their livelihoods and for which there was local demand. They identified several bottlenecks - acquiring good quality seeds; capital for tools; know-how to maintain high production and avoid pests; arranging transport to the markets and some information on local demand and prices⁷¹. The local people did not believe they could resolve all these issues on their own.

Work undertaken under CCSDP can link to the Samoa Tourism Development Plan 2009-2013. It notes that tourism offers opportunities for supply of produce from the agricultural sector and is planned for implementation in seven villages and communities. This recognizes the potential to increase production through the linkages between tourism and local produce as well as oils, fragrance, and soaps. Village clusters can also link to Agriculture, Fisheries and Forestry Sector Plan⁷² 2010/11 – 2015/16, which highlights the potential of the agricultural sector as a driver of economic growth and aims to strengthen links between agriculture and tourism. Several donor-supported projects can also be linked - EU Small grants to families for agricultural production 2010; New Zealand support to WIBDI for Income generating activities in rural areas, 2008 – 2012; and a large World Bank agricultural infrastructure project that is being designed.

In organizing a cluster initiative with this example - the buyer and farmer partnership is critical in that the farmer can grow for access to an assured, higher value markets. Often the buyer can also provide some technical skills and knowledge required to satisfy the needs of their markets. The same link also provides a solution to the buyer's challenge of securing a reliable supply of the proper quality fresh products at the time and place needed.

One possible way could be to begin in five (or more if it can be managed) pilot villages with farmer clusters with 50 farmers approximately from each village, or 250 persons interested in vegetable farming. It would begin a dialogue to determine needs for technical assistance and support programs; select lead farmers, each of whom mentor approximately 10 to 15 others; explore options for extension services; cluster level product collection stations and demonstration plots at the lead farms; and provide packages of improved seeds, improved production and post-harvest practices, to fit the conditions in each.

In such an initiative, the actual selection of the types of vegetables and fruit that would be promoted and how many and where, would be one of the outcomes of a cluster initiative.

⁷¹ The constraints identified in this one example is supported in wider studies of constraints in Samoa as reported by FAO and discussed earlier.

⁷² The Plan discusses the high potential of the agriculture sector compared to any other sector to impact on poverty through having a direct role in raising real incomes of poorer rural communities.

But potential candidates include avocado⁷³, cabbage, cucumber, tomatoes, pumpkin, peppers, citrus fruits, Guavas, mangoes, mangosteens and papaya. There are many individual success stories in other Pacific Islands⁷⁴ of focused efforts that have increased production, exports and value addition in similar products and these are all currently produced in Samoa and have the potential to meet the needs for fresh fruits and vegetables required by hotels and restaurants, not to mention the increased cash purchases by local people that is being met by imports. The total value of fresh vegetables and fruits imported is estimated by FAO at around SAT 600,000 in 2007 and likely more now⁷⁵. While in discussions in Lano, mention was made only of fruits and vegetables but the potentials for increased village production could also include copra, cocoa, coffee, root crops such as taro, vanilla, and fisheries products. The reports by SBEC also suggest many other local products. As the supply and quality of local produce increase, they will assist in manufacturing and processing for Jams, Snack foods & Chips, Dried fruits, Fruit Juices Frozen and dried vegetables, Bottled & Canned fruit, sauces, and so on together with bottling, packaging and other related inputs.

ITC and the UNDP tourism report suggest even higher prospects as they estimate about 25% to 30% of the total imports by hotels and resorts could be replaced by local produce. This represents approximately SAT\$4 million worth of local agricultural products, but this adds eggs and poultry and possibly meat. By generating individual farmer incomes of SAT\$4000 p.a. as many as 1,000 smallholder farmers (8,000 family members) could generate higher incomes and higher village level outputs⁷⁶. These farmers will need additional inputs of seeds, quality management and other inputs such as finance. Surveys of restaurants and hotels showed that 85% would prefer to buy locally if a consistent supply and high quality was ensured.

The FAO study provides a good example of value chain analysis of the various inputs required to make these opportunities viable and the multiple constraints, which include - input supplies that requires coordination between farmers, manufacturers, and processors that does not exist; technical inputs to the farmers, but extension services are almost nonexistent; processing for exports requires High Temperature Forced Air (HTFA) facility with the right capacity; between the markets and the producers linkages a critical requirement is missing. In addition, there was a challenge to ensure that farmers were paid for the goods sold. There were also financial constraints. Hence, solving one constraint at a time is not very useful but pilot programs that can package the solutions through a combination of local mobilization, links to support services and to markets,

⁷³ While we have noted that good data on agricultural production is not available since 2002, the import data shows that avocado imports fell sharply from about 450kg/year in 2002 to about 15kg/year in 2007, which confirms observations regarding a growing production in Samoa. The situation with regards to other possibilities will require further analysis than is possible here.

⁷⁴ Cases in Pacific 2020.

⁷⁵ Tamasese, Edwin, An Analytical Study of Selected Fruit and Vegetable Value Chains in Samoa, December 2009.

⁷⁶ Reported by Ross Corbett in UNDP Tourism study based on ITC study.

promoted by the government can break the vicious cycle. Over time, this will promote new specialised private or joint agencies that can coordinate information for the industry and develop low-cost, community extension systems to provide technical support.

Other Examples - Making key trends in markets for higher value products work for industrial growth in Samoa, through linkages, complementarities and feed back loops.

- One manufacturing firm has begun to make animal feed, which was previously only imported. But many livestock farmers do not use purchased feed. If there was increased meat sales to local markets and for tourist consumption, the higher demand, quality and improved prices would in turn result in increased quality and quantity of meat produced. This would provide the livestock farmers with both resources and incentives to increase the demand for higher quality animal feed. The feed manufacturer then would buy more raw materials, much of it waste products from cassava, breadfruit, bananas and copra from farmers for producing feed and increases their viability. All the producers will need new services for financial and additional technical inputs to increase productivity.
- Taro provides one of the most important and traditional domestically grown root crops in Samoa. The crop is widespread and estimated to provide one fifth of calorie intake in Samoa. An agreement with New Zealand allows for new export opportunities. There are possibilities of using this as a replacement or substitute for imported wheat flour in the domestic market. Because it is gluten free, it can also potentially be sold at a higher price. Besides additional human consumption, with sufficient production, further value addition is possible as an input to industry for the production of starch, alcohol, glucose, acetone, dextrin, glues and pastes, binders, stabilizers, and fillers; and as animal feed. Other value added manufacturing could include - dehydration to produce flakes, processed foods and snacks, some of which are being produced. One research discussed the use of Poi - a pasty starch made from the cooked, mashed taro as potential use as an infant food and a probiotic food, as poi contains more of beneficial bacteria per gram than yoghurt. But such developments depend first on growing production, better market linkages and then on acquiring and building know how required for each process.
- Coconut production has problems in improving incomes in Samoa and this also affects many major producing countries such as India, Indonesia, Philippines, Thailand and Sri Lanka. Competitiveness requires modernization, product diversification and by-product utilization. As with other natural based products in Samoa, there is first the increased consumer demand from the tourism sector that can be tapped, then other domestic demand and finally production and exports of high valued products. We have mentioned the success of WIBDI in developing a market for virgin coconut oil, and for organic production and certification that raises the price of coconuts by five times. We have also mentioned the SROS bio-diesel plant that produces 200 litres of bio diesel per batch from coconut oil; and possibilities for commercial level coconut oil extraction plant with the capacity of producing 2 million litres per year that could be used for electricity generation. This would both augment local production and value and reduce imported costs and volatility.

- There are additional options for value added uses of coconut waste. For instance in the Philippines, a new use was found for coconut husks as the fibre could be made into mats that were much cheaper than imported synthetic materials used for control the erosion in infrastructure such as roads and bridges. The adoption of these mats for erosion control created a stable domestic market, replaced inputs, and added support to the coconut industry.

Actual and detailed recommendations on specific cluster initiatives and value addition require more in-depth work with local stakeholders than allowed for in this phase of the study.

RECOMMENDATIONS

The present report cannot provide a complete solution to all challenges facing Samoa. The priority of industrial policy is to create the conditions for learning through the acquisition of technological and productive capacities, and to ensure financing for technical change and innovation as core functions to build capacities by the process of growth in the business sector that increase critical mass of producers, introducing better products and processes, together with mechanisms to reduce risk and increase value addition through networking, collaboration and fine-tuning - education, technology and labour skills - into an integrated strategy, that rely on promising sectors of growth, beginning with tourism, natural resources and energy.

The most pragmatic approach that should be followed by UNDP with the government, national stakeholders and development partners, would be two parallel policy tracks:

One, is to get some things moving quickly on the short run with results that a growth spurt could be achieved. Begin with relatively modest additions to existing activities building on their known strengths with increased coordination and stronger monitoring and implementation.

The second is a longer term track to establish a base for future industrial and economic growth through creating an enabling and conducive environment. Given the lack of depth in capacities in Samoa because of the small size, it is likely to be more effective to build a few strategically important functions, rather than keep attempting to improve government effectiveness across the board.

Both tracks require additional analysis and actions across productive sectors, with special attention to the interface of the macro and micro which we believe has been a major weakness.

- We recommend that the UNDP and the Government of Samoa set as a key objective - supporting vigorous and sustainable growth that increases productive employment - jobs, livelihoods and productivity, focusing targeted efforts in private sector development, agriculture and value added production that go beyond the past trends.

- We recommend that the UNDP and the Government of Samoa undertake renewed efforts to promote value added production as an area of focus.
- UNDP must ensure more active management of its assistance portfolio and strengthen its capacity to deliver timely integrated policy and technical advice that take greater note of the specificity of Samoa and the micro conditions. There are three ongoing activities managed by UNDP that provide excellent entry points - CCSDP, PSSF and for renewable energy. These provide most immediate and short-term interventions that can yield immediate benefits to the population in terms of poverty reduction and employment, while laying the foundations for longer term sustainable, resilient and inclusive growth. This needs to begin in consultation with key development partners, and national stakeholders.
- Increase financial and technical support to smaller non-government initiatives to generate and disseminate the information required and ensuring competition for funds allocated for research and extension
- Increase focus on effective human resource development and skills for increased productivity in all sectors through increased business training - finance, management, marketing and promotion of entrepreneurial skills. This should be done within the school curriculum and for adults as is being done by organisations like SBEC and WIBDI. Make vocational training more effective by being demand driven rather than supply driven and promoting mentoring and partnerships to develop entrepreneurs and business management skills.
- Develop a training and capacity building action plan per segment (farmer, extension, services, processors, buyers) with short-term modules to include theory and practical hands-on material.
- Improve M&E by focusing on a few key results, improving national statistical capacity and attention to obtain more reliable data of sufficient frequency in the hitherto neglected areas of agriculture production, the development of linkages between leading sectors of tourism and commerce and the lagging economic sectors of agriculture and manufacturing.
- ENERGY: UNDP and the donor community can be of great assistance in attaining the objective to reduce Samoa's dependency on imported fossil fuel. This achieves several other objectives - improve foreign exchange balances, reduce volatility in the price of a key input, adds value to local raw materials such as coconut, waste biomass, increases jobs in the energy sector and also through greater competitiveness in other sectors. This is a priority of the government in SDS 2008 – 2012 (Strategy for the Development of Samoa)
- Tariffs: There should be no further reductions in tariffs and if anomalies can be removed that promote domestic production they should be examined. The area requires a more detailed study of options allowed in theory and practice by WTO, than can be covered here as under the WTO regime there can be many good, theoretically justified incentives that can be provided by the state, that focus on positive and negative "externalities" and market failures⁷⁷.

⁷⁷ Among industrial incentives that are fully accepted globally and under the WTO regime as incentives to build skills in the labour force and that promote higher value added jobs; and incentives to promote

- Finance: Policies to support investments, extensions of credit, and mobilize savings. to strengthening domestic financial institutions and to link formal institutions with informal ones should be explored.
- Regulations - regulatory framework that could incorporate informal institutions and links to mobilize savings from remittances and higher production, and to increase the amount of lending to small-scale entrepreneurs and businesses.

knowledge and its applications often labeled "innovations" which is a word with a large number of meanings relevant for Samoa.

ANNEX: INDUSTRY - Strengths, Weaknesses & Actions

INTERNAL	Strengths	Weaknesses	Actions
Raw Materials	<p>Natural Resource Base - agriculture and fishing.</p> <p>Growing local markets based on travel, tourism and remittances</p> <p>Major global trends towards higher quality, fresh organic niche products</p>	<p>Input weaknesses - Small and narrow base of resources</p> <p>Tenuous input and output distribution networks</p>	<p>Focus on unrealised value-adding opportunities</p> <p>Focus on some unique characteristics - Fresh, organic.</p> <p>Organic value added products</p> <p>High quality low volume niche products - We need to be more specific and suggest a range of products and/or product groups and how to develop them.</p> <p>Use value chain analysis and cluster initiatives to bring together all stakeholders to work together to develop and implement This is easier said than done. I think we need to specify both th "what" and the "how"</p>
Human resource	High level of basic education that can be further built upon.	Inadequate skills for many specific requirements.	Improve vocational training, mentoring in production enterprises, tap into skill and knowledge

			base of emigrants
Locational factors	Costs advantages in supplying local markets New market opportunities nationally - demands from growing tourism sector and local consumption	Very high costs for imports and exports Directly compete with many larger countries with lower cost base on most products.	
Production	Growth in building construction and energy sectors.	Long structural decline over several decades	Take a more systematic and longer term approach while expecting concrete growth results within five years
Marketing and distribution	Potential to highlight Samoa as a source of high quality foods and value added products.	Major weaknesses	Use value chain analysis and cluster initiatives to bring together all stakeholders to work together to develop and implement
Public policies and institutions	Effective public institutions that have achieved broad improvements in macro-economic framework; in several social dimensions.	Public institutions have been relatively weak in supporting and regulating industry to promote value added production.	Develop meso-level action plans to reduce key policy bottlenecks for industry
Associations and cooperation	Traditional strengths of working together can be harnessed Small and homogenous population can be used for forging the common vision A number of existing associations such as SAME,	Traditional communities do not have the experience and do not have the necessary support for greater cooperation in economic activities. Weaknesses exhibited due to lack of experience in working together	Industrial and business associations can improve their capacity for working together. And government needs to promote cooperative services for business and also improve its process of dialogue

	provide a sufficient base to build upon.	to improve value chains	with the private sector.
Business environment and infrastructure	<p>Basic infrastructure is fair to good, especially roads.</p> <p>New broadband capacity can help improve communications infrastructure and also support the growth of value added technology services</p> <p>Mobile and electronic payments being introduced</p>	<p>Weaknesses in communication, financial and energy services create additional and unnecessary drag on business.</p> <p>Relatively high telephone charges, and low access, lack of know-how and IT skills, technical support; low bandwidth; e-commerce; and costs of international calls</p> <p>High margins between deposits and loans</p>	<p>Make greater use of new bandwidth that will become available to lower communication costs.</p> <p>Make better use of internet and cloud services to reduce locational disadvantages</p> <p>Add new regulators for financial and energy services.</p>
Finance	Strong and well capitalized banks.	<p>Weakness in savings and investments</p> <p>Inadequate reach of existing financial institutions</p>	<p>Study mechanisms that can promote investment and savings</p> <p>Mechanisms that can improve the allocation of finance to productive uses</p>
Unique Features	Small numbers of people means also familiarity with each other and potential to cooperate in the tasks required.	Small numbers of people means range of skills available will always be stressed	<p>Capitalize on these assets and meet challenges by redoubling human capacity building and learning efforts.</p> <p>Cluster type initiatives, linking urban markets to rural production combined with other value added inputs</p>
EXTERNAL Products and	Strengths & Opportunities	Challenges and Weakness	Forge new and active partnerships

markets	<p>High costs of transport provide support for domestic value added for higher value products</p> <p>Growth prospects driven by tourism and supported by remittances from Samoans abroad.</p> <p>Considerable unrealised prospects for developing higher value added products from natural resources</p>	<p>Relatively unknown in external markets</p> <p>Absence of major competition for niche products - organic, fresh, local</p> <p>A major global trend that could affect Samoa would be rising energy prices raising import and transport costs.</p>	<p>with embassies, chambers of commerce, technical associations, diaspora to help access foreign markets</p> <p>Take advantage of key trends in markets for higher value products.</p>
Product standards and quality		<p>Work required to meet international quality, consumer & safety standards</p>	<p>Government, UNDP, external partners need to work more effectively together with the chambers, associations. and civil society groups to help access foreign markets and obtain support in the areas of standards.</p>

PEOPLE INTERVIEWED IN SAMOA

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2 Avalisa Viali-Fautua'Alii	ACEO, Ministry of Revenue
3 Noumea Simi	ACEO Ministry of Finance
4 Faainga Mulitalo	ACEO, Ministry of WCSD
5 Sefiua Reupena MuaGututia	Government Statistician
6 Aelua Enari	CEO, Min of Commerce Industry and Labor
7 Sa'u Taupisioletoga Faamau	ACEO, Min of Commerce Industry and Labor
8 Gladys Fuimaona	Min of Commerce Industry and Labor
9 Unasa Iuha Petclo	Min of Commerce Industry and Labor
10 Lyndon Chu Ling	Min of Commerce Industry and Labor
11 Justin Lima	Min. of Foreign Affairs and Trade
12 Henry Tunupopo	Min. of Foreign Affairs and Trade
13 Lita Enari	Min. of Education
14 Atalina Enari	Central Bank of Samoa
15 Karras Lui	Central Bank of Samoa
16 Nanai Sovala Agaiava	CCSDP National Project Coordinator, MWCSO
17 Nileema Noble	Resident Representative, UNDP
18 Armstrong Alexis	Coordinator, UNDP
19 Mihoko Kumamoto	Assistant RR, UNDP
20 Georgina Bonin	Assistant RR, UNDP
21 Yvette Kerslake	Programme Officer, UNDP
22 Ahmed Moustafa	Pacific Regional Center (Fiji), UNDP
23 Fuat Andic	Consultant, UNDP
24 Ross Corbett	Consultant, UNDP
25 Toshiyuki Matsumoto	Vocational education specialist, UNESCO
26 La Manula	President, SUNGO
27 Ruta F. Sinclair	President, WIBDI
28 Fuimaono R. Me	WIBDI
29 Eddie Wilson	SAME
30 Grant Percival	Samoa Chamber of Commerce
31 Oliva Vaai	Yazaki & SAME
32 Fiona Ey	SBEC & Clarke Ey Lawyers

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Terms of Reference:

This document should provide a concise analysis of the performance, potential, challenges and constraints in manufacturing sector in Samoa, including the major barriers; provides a preliminary mapping of the principal stakeholders and players in the public and private sectors, as well as directions for the planning of the field mission. It should comprise:

A synthesis of the composition of the economy particularly focusing on manufacturing and industrial activities; major enterprises (sectors and foreign partners); trends in foreign direct investment; access to credit; remittances, etc.];

Key growth sectors and sub-sectors and their relative competitiveness; sectors with high employment potential: government economic policies and priorities; priorities identified by key business groups;

Bottlenecks or constraints inhibiting sector and business growth and job creation, including those that particularly affect youth and women in Samoa due to sector's policies and regulations; [*Firm formalization, significant burdens (registration and licensing procedures, costs); red tape associated with export processing; tax burden; transport infrastructure; electricity; land tenure issues, access to agricultural inputs, marketing, access to export markets, unsustainable utilization of natural resources (e.g. marine and forestry) access to affordable credit, development strategy for the sector, productivity, skills; access to market information and technology*];

A preliminary assessment of the capacity of key public and private institutions their capacities and effectiveness, the outreach and impact of their respective policies, plans and programmes, including, if relevant, synergies among them. [*Challenges associated with improving the enabling environment for manufacturing sector, potential of strengthening and improved governance*]. It is however understood that a more thorough assessment in the field will permit verifying and further understanding the real capacity of key public and private institutions and of the effectiveness, reach and impact of their respective programs.

Economic and technical support provided by multilateral and bilateral development organizations [gaps and *potential for overlap and complementarities*].

The report should include considerations for Policy options should be feasible, applicable and based on a comprehensive analysis of relevant data and government policies and regulations and provide at a minimum:

A concise analytical summary of the current macro and microeconomic context in Samoa; including:

A summary of key issues inhibiting or facilitating the growth of the sector and Private Sector Development (PSD) growth due to policies/regulations; this includes a brief assessment of the primary gender-based obstacles and barriers to women and men's employment in the manufacturing sector in Samoa.

Identify gaps, challenges, constraints, innovative solution and concrete and applicable policy recommendation to enhance the sector's growth and contribution to employment generation and poverty reduction

An outline of government policies, plans and priorities, including a detailed and thorough assessment of Samoan Government industrial policies; the government's will and capacities to implement the policies and strategies; its existing and planned activities and the gaps, effectiveness, outreach and impact of each program; this includes a brief assessment of government to design and implement gender-sensitive policies and programs that would contribute towards poverty reduction

A thorough assessment of the work plan and programming of the principal donors and international organizations active in manufacturing, identifying the specifics of their current and future plans;

Identification of the principal actors involved in programming;

Identification of opportunities for UNDP's engagement and the expected results in line with the Samoa's sector initiatives. In performing this task, the focus should be to look at programming opportunities that do not duplicate what other donors are doing and that are possibly complementary, to the extent possible. should also focus on:

Creating new and sustainable employment.

Highlighting opportunities for women and youth.

Identifying possible synergies with UNDAF's programming Samoa

Providing stable and sustainable inputs to the tourism sector

Private sector development

Export promotion

Contributing to food security

Contributing to economic growth

Identification of existing and potential risks and, to the extent possible, corresponding mitigation strategies to the proposed UNDP's engagement in manufacturing sector;

Identification of potential partners to implement UNDP's engagement in manufacturing and industrial policies;

Recommendations and the way forward