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Note by the government of Samoa on Samoa's smooth transition strategy



**SAMOA'S**

**SMOOTH TRANSITION**

**STRATEGY REPORT,**

**31 DECEMBER 2013**

## SMOOTH TRANSITION REPORT – SAMOA

### **Background:**

Samoa was first included on the list of Least Developed Countries in 1971. It was first identified for graduation in 1997 and subsequently in 2003, 2006, and 2010. Samoa is now scheduled for graduation in January 2014 after having met 2 of the three criteria for graduation in two consecutive rounds. These criteria included:

- GNI per capita: yes (2003, 2006, 2009)
- Human assets index: yes (2000, 2003, 2006, 2009)
- Economic vulnerability index: no

Samoa was scheduled to graduate from the list in December 2010 but the General Assembly extended the transition period by a period of three years, until 1 January 2014, due to the disruption caused to Samoa by the Pacific Ocean tsunami of 29 September 2009 (A/RES/64/295).

The country data Review for 2009 are as follows:

Economic Vulnerability Index	64.3
Human Assets Index	92.2
GNI per capita	2,240

### **What is a smooth transition?**

The UN General Assembly, in resolution 59/209, reconfirmed that graduation from least developed country status should not result in any disruption to the graduating country of its development plans, programmes and projects, and reemphasized the importance of ensuring a "smooth transition" for graduating LDCs. The notion of smooth transition implies that the loss of international (bilateral and multilateral) support measures granted by virtue of LDC status should not harm the graduating country in its development process. A smooth transition therefore should involve "phasing out" arrangements (as opposed to a sudden loss of concessions), or even a partial retention of LDC benefits insofar as such retention will be deemed vital to the beneficiary. Samoa's smooth transition would be premised on the full implementation of its national development strategy SDS 2012-2016 as well as consensus reached with its development partners on the best way forward through the Joint Policy Matrix.

### **Consultative mechanisms on graduation:**

The mechanisms of consultations have all been Government led because they are an integral part of its planning and budgetary processes as well as coordination of development cooperation.

Since the first notification of eligibility for graduation in 1997, the Government of Samoa in conjunction with its process involved in the development of its national development strategy developed a participatory consultative process with its public including focus groups to discuss the issue of graduation and what the impact might be on the economy. These consultations also affirmed and confirmed what the country's development priorities would be over the strategy period and in the long term. As well these consultations helped to determine what were considered pro poor strategies which were considered important in designing programs to be implemented over strategy period.

Similarly, the Government has been in consultation with the private sector and civil society on WTO accession and the need to become a member before it graduates out of LDC status. This was achieved in 2011 and the country is working on meeting its compliance obligations following accession. The conduct of the Diagnostic Trade Integration Study also provided further opportunity to consider what an appropriate action matrix would be with regards enhanced trade opportunities.

Since 2009 when the request for delayed graduation was approved the Government led a consultative process with all its development partners using its quarterly development partner meetings to discuss what assistance could be expected to support graduation. Because Samoa had already signed up to the Paris declaration, Accra Agenda for Action and the Busan Global partnership, it already was committed to the implementation of the principles of aid and development cooperation effectiveness. In 2011, all its development partners agreed to working with the government on a Joint Policy matrix which would be the basis for delivery of aid. The multilateral financial institutions confirmed that there would be no change to Samoa's ability to access concessional financing provided it complied with the policy matrix. Likewise the bilateral partners indicated their commitment and Samoa continued to see an increase in aid volumes up to the present.

The UN has assisted through the conduct of impact assessments as carried out by DESA as well as support a program for the accelerated achievement of the MDGs through a policy review which contributed to the current national development strategy for sustainable development SDS 2012-2016.

At the highest political level, the Prime Minister has presented Samoa's case at the General Assembly, ECOSOC and CDP meetings.

Impact assessment reports have been widely consulted at country level – the main concern of increased costs of borrowing have been put to rest not just because of the different assessment criteria by the MFIs and the fact that Samoa would continue to qualify for concessional borrowing as a SIDS but also because Samoa already had a Medium Term Debt Strategy and a Reform Plan which are also an integral part of the Joint Policy Matrix that has been consulted on with its development partners.

## **LDC-specific international support measures**

Such LDC specific measures include (i) Trade related measures (ii) Financing for development including ODA and (iii) Technical assistance and financial support for government representation at UN meetings.

- **Trade related measures:**

Samoa became a member of WTO in 2011 after 17 years of first application and was able to utilize the special provisions for LDCs and is currently in a transition period to implement compliance commitments.

### **Generalised system of preferences:**

Graduation will result in the loss of preferential market access under the Duty Free Quota Free arrangements. Samoa has a limited range of products for export and as such its fisheries products to the USA will continue to benefit under the GSP scheme after graduation.

The Government has already negotiated with some of its export trading partners on the continuation of DFQF schemes beyond graduation. China has agreed to extend zero tariff treatment on noni juice beyond graduation. Discussion are under way with the Government of Japan on a similar arrangement for noni juice, fish exports and organic products such as honey, vanilla and cocoa which would see rise in tariffs on graduation.

Under Everything But Arms a transitional period of 3 years is allowed after graduation for access of Samoa's coconut oil to the EU market. The EU's GSP preferential rate for crude coconut oil is zero percent rating thus Samoa will as a developing country continue to benefit from this arrangement for its products.

Samoa will continue to receive preferential market access to Australia under the Australian system of Tariff Preferences as well as SPARTECA. For NZ Samoa will retain access under SPARTECA and WTO arrangements.

Under the Pacific Island Countries Trade Agreement, a shorter time frame to set zero tariff rating applies than that applied for LDCs.

- **Financing for Development:**

Maturing partnerships between the Government of Samoa and its development partners and the demonstrable ownership and leadership of the development process has seen huge improvements in accountability, predictability, incentivized programs that re performance based and targeted programs that provide support towards growth while focusing on vulnerable groups.

Multi-year commitments over the period of the current national development strategy (2012-2016) were made by Samoa's bilateral partners (Australia and NZ) and some multilaterals such as the EU, World Bank and ADB based on the identified priority sectors. Multi-year commitments for TA from some members of the UN system are made but the alignment of such allocations to the priorities of the government still needs improvement. Coordination within the UN so that they can effectively deliver as one UN also calls for improvement.

Consultations have already taken place with Samoa's development partners to ascertain what the potential impacts of graduation would be. In terms of grant financing, the framework now adopted for development cooperation is based on the Joint Policy matrix at the higher level and then separate sectoral arrangements are agreed to between the government and the development partners involved in each of the 15 sectors. The focus is not so much on volume but on the effective use of available resources. The modalities of aid delivery range from a few discrete projects to budget support. None of the developments have indicated a reduction in aid volumes; some have indicated different approaches to how they see partnerships working for the development of Samoa such partnerships need not be of a financial nature.

In terms of access to concessional loan financing, in the case of the World Bank and ADB, what might be lost as a LDC can still be accessed as a small island developing state. To date consultations with the Banks have indicated that their conditions for availing concessional lending prevail and that graduation to lending at market rates will in the long term be determined by Samoa's performance.

Because of Samoa's classification as a country being at high risk of debt distress by the IMF, the Government has continued with ongoing reforms including the implementation of Medium Term debt strategy and a Debt reform plan over the next 8 years.

- **Technical assistance and financial support to attend UN meetings:**
  1. IF/EIF funds secured in 2011-12 includes 3 years transition to complete projects and after then proposals will be considered on a case by case should extensions again be requested
  2. Participation at UNESCAP meetings will continue to receive assistance under facilities for Pacific island representation.
  3. As a SIDS, Samoa will also continue to receive support under that category to attend meetings and also for development assistance such as that received from the Special Climate Fund and Adaptation Fund under the UNFCCC as well as Global Environment Fund.

4. Samoa will no longer have access to the LDC Fund for Climate Fund. Funds secured in 2013 under the LDCF will continue to be used for programming beyond graduation
5. With pending graduation, the whole of Government have been requested to prioritise meetings for which participation is essential and that these be funded out of the Budget
6. Samoa's TA needs will be sought from bilateral programs where provisions have been negotiated and confirmed.

### **MODALITIES FOR A SMOOTH TRANSITION STRATEGY**

As determined by the various impact studies that have been conducted pre graduation, it is apparent that there would be minimal impact on the development of the country. Beside these minimal risks associated with the loss of LDC benefits, there are challenges inherent in the current circumstances of Samoa as a small island developing state that also need to be addressed and form part of the "smooth transition strategy", and where perhaps the continued cooperation of development partners is necessary as the country aims towards greater self reliance. These challenges include the recent, lasting global economic crisis, notably with regard to fuel and food prices and shortfalls and the country's vulnerability to natural disasters.

Besides preventing disruptions in the spheres of trade and to a lesser extent development financing, a smooth transition strategy ought to involve the planning and implementation of policies to sustain economic growth and human capital development. This implies promoting investment and access to new forms of financing, seizing trading opportunities and capturing opportunities through partnership arrangements that may not be of a financial nature. A smooth transition strategy is very much country-owned and led, but prepared in cooperation with development partners.

Samoa's smooth transition strategy will be in the form of its national development strategy known as the Strategy for the development of Samoa, a four yearly development framework which implementation is at sector level. The issue of graduation has been integrated into the current development strategy as well as other international protocols such as the MDGs. The SDS at national level and sector developments have interlinked monitoring and evaluation frameworks as well as medium term expenditure frameworks.

The following are lines of action that call for external support Samoa may continue to be in need of. A smooth transition strategy should aim to consolidate the gains already made through this support, which have been taken into consideration in Samoa's dialogue with its development partners toward smooth transition modalities.

### ***Designing an economic stabilization framework***

As emphasized by the IMF in its 2013 Staff report, the most immediate challenge for Samoa is to deal with its fiscal situation given rising levels of fiscal deficits. Post-cyclone recovery and reconstruction pose increasing challenges to macroeconomic management and financial stability. In the short run, mobilizing sufficient financial resources for recovery and reconstruction is critical. Given the high level of public debt, the government was able to secure 100% grant financing for the reconstruction phase and did not need to resort to concessional loans and domestic borrowing. Capital investment in the pipeline before the 2012 cyclone was reviewed and reprioritized to make more resources available for reconstruction. As soon as the recovery takes hold, the budget deficit should be reduced to bring public debt to a more sustainable level over time. This fiscal consolidation will be guided by a medium-term fiscal framework that takes into account the rising debt distress risk and expected slow growth over the medium term. A Medium Term Debt Strategy has had a mid-term review and a resultant debt reform plan has begun implementation.

Considerable efforts have gone into investing in more efficient revenue collection through addressing capacity gaps. These priority actions are being addressed under the Finance sector plan and supported by the development partners.

### ***Develop and formulate a coherent national development strategy***

The smooth transition strategy should naturally converge with the overall national development strategy of the country SDS 2012-2016 launched in early 2012, with particular reference to sector-specific policies and will have a mid-term review at the end of 2014. The SDS was developed through a wide consultative process with the public and covering the whole country. It highlighted the importance of inclusive development and the importance of engagement of civil society, private sector and parliamentarians in the development process as well as the development partners.

Government's action plan places priority on the infrastructure sector to improve transport, communications and water supplies and expand initiatives to capture the most relevant and cost effective renewable energy options as well as continuing focus on health and education and renewed investment in the growth sectors of agriculture and fisheries and tourism. Consultations with the development partners on the importance of supporting the infrastructure sector has resulted in the establishment of an 8 year multi-donor infrastructure facility that is also supported by the Pacific Regional Infrastructural Facility.

It also emphasized the importance of prudent management of natural resources and addressing the impacts of climate change and natural disasters at sector level in terms of both adaptation and mitigation.



### ***Addressing institutional capacity constraints***

Institutional constraints, including shortages of skills, continue to affect the management of the development process, and also encompass the management of projects financed by development partners. These key services across all sectors are outsourced and this has ensured improved rates of implementation and enhanced absorptive capacity. All development cooperation programs have components for capacity building through a number of different modalities including institutional building, training and experience and knowledge sharing through south-south cooperation arrangements.

Targeted scholarships programs by sector will begin in 2014 and supported by bilateral partners so as to address capacity gaps in the key social sectors,

### ***Improving aid coordination and management***

The Government recognizes the importance of coordinating external resources with a view to making aid flows more predictable and program management more effective. This has been made possible through the adoption of an Aid Policy in 2010 which focuses on Planning, securing, utilizing and monitoring external resource flows through a single, competent coordinating entity namely the Aid Coordination Debt Management Division of the Ministry of Finance; such an arrangement contributed to further encouraging partnerships. The commitment of the Government towards the implementation of the principles of effective development cooperation has changed the relationships with its development partners and enhanced donor confidence in the use of country systems as evident through increasing use of budget support. Samoa is party to the Global Partnership for Effective Development Cooperation including participation in the global monitoring process.

Samoa has signed 9 partnership arrangements with its key development partners and has a formalized consultative mechanism with them through quarterly development partner meetings aside from the biennial policy dialogues.

### ***Creating an enabling environment for foreign direct investment and private sector development***

Achieving further structural progress in the context of graduation implies creating an enabling environment for sound foreign direct investment (FDI) and private sector development. Given the fiscal constraint and the relatively low level of domestic savings, promoting the necessary knowledge and technology transfers requires attracting FDI, a strategically important source of financing. Key elements of an enabling business climate are: (i) a fiscal and monetary policy geared toward macroeconomic stability; (ii) the provision of a sound infrastructure and relevant public utilities; (iii) an efficient public administration; and (iv) a trade policy involving concessions that are

commensurate with the constraints faced by the economy, notably the difficulties in achieving competitiveness. Public-private partnership is already encouraged in Samoa's development strategy. Also important is the recognition of the benefits private investment outside the tourism sector could bring to the nation in terms of employment generation. Special incentive schemes to attract investment in the tourism sector have been necessary in order to further widen economic benefits. The new foreign investment policy and the strategy to continue on a privatization program of identified State-owned enterprises are conducive to further economic progress in Samoa's situation post graduation.

### ***Mainstreaming post-disaster rehabilitation agenda***

Post-disaster rehabilitation is part of the smooth transition strategy as much as it was, at an earlier stage, recognized by the UN as justifying a freeze in the graduation countdown following the tsunami of 2009. The speed of recovery from the 2009 tsunami, cyclone of 2012 and the impacts of the global financial crisis has been significant. However, issues such as reconstruction of housing, remain as one of the few outstanding actions of the cyclone recovery program. Samoa has successfully implemented its NAPA in response to the emerging impacts of climate change and is looking at progressing its Mitigation Plan of Action. There has also been an up-scaling of assistance to communities to ensure enhanced resilience.

### ***Maintaining credibility for international support***

As a small island developing State (SIDS) and facing severe, permanent economic and environmental challenges is as consequential, for a SIDS, as graduating from LDC status. Samoa's active engagement in the quest for a fair recognition of SIDS-specific issues at recent global dialogue processes and also in anticipation of the Third International SIDS Conference to be held in Apia 2014, contributes to the country's credibility in its dialogue with development partners. Any LDC-specific concessions that might be lost as a result of graduation could legitimately be retained on SIDS-specific grounds. By recognizing SIDS as well as LDCs, the United Nations offers policy space to graduating countries such as Samoa.

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