SAMOA'S

SMOOTH TRANSITION

STRATEGY REPORT,

31 DECEMBER 2014

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 graduated on 1st 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 now 3,400

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 is 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 processes 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 continues to engage in consultation with the private sector on the compliance obligations following WTO accession. The Diagnostic Trade Integration Study provided the opportunity to consider what an appropriate action matrix would be with regards enhanced trade opportunities. The finalization of the Trade and Commerce sector plan, has resulted in a framework of activities currently being implemented with funding from the IF and EIF well past the graduation date for Samoa.

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, the majority of its development partners agreed to working with the government on a Joint Policy matrix (JPM) which would be the basis for delivery of performance linked aid. 2014 marks the third year of the JPM and the assistance provided has helped meet Samoa's budgetary deficits. As well, 2014 saw the extension of 100% grants to Samoa by the multilateral financial institutions. Improved economic performance will likely see a shift in these arrangements to a 50%grant50% loan composition of assistance from the banks.

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 and other agro-processing products beyond until 2017. 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. Negotiations are ongoing on the FTAs in the Pacific region such as PICTA and PACER, PACER plus. 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 are performance based and targeted programs that provide support towards growth while focusing on vulnerable groups. Financing for development continue to be provided largely by Samoa's development partners

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 were made but the alignment of such allocations to the priorities of the government still needs improvement. The Government continues to call on the UN for Delivery as One modality.

The Pacific region continues to receive assistance and attention from the emerging donors. India and China both held Pacific summits in November in Fiji and commitments were made for additional grants injections and increased concessional financing as well as strategic TA. Samoa is one of the first countries to utilize the resources available.

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. The compliance of Samoa with the Joint Policy Matrix will determine the level and form of assistance to come from its development partners.

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. There is already indication from the IMF that Samoa will progress to a medium debt distress status following a change in the methodology adopted for debt sustainability analysis.

- **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 change. Funds secured in 2013 under the LDCF continue to be used for programming until completion.
5. Some UN agencies still extend funding for travel only
6. Samoa's TA needs are being met from capacity building provisions integrated in all aid programmes.
7. As part of its aid policy, priority is given to local TA unless the capacities/skills required are not available locally.

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.

Samoa's smooth transition strategy has involved the planning and implementation of policies to sustain economic growth and human capital development. Investments have been focused on infrastructural development namely transportation (land air and sea) securing cost effective renewable energy options in order to reach a target set of 100% renewable by 2017 and well as improved connectivity. As well focus is on the growth sectors namely tourism and agriculture/fisheries. Extensive programs to revitalize exports and agriculture and fisheries were launched in 2014. Market opportunities for primary produce have been revitalized and have been supported by improved compliance with quarantine conditions. An agribusiness facility was also launched in 2014 to provide support for commercial agriculture and complements the program established to provide support for subsistence farmers; the financing structure of both programs differing to suit the clients involved. Samoa's transition strategy is very much country-owned and led, but was prepared in cooperation with its development partners.

Samoa's smooth transition strategy is in the form of its national development strategy. 2014 is the mid point of the Strategy and a review has begun of its implementation. 14 sector plans have been developed with the final one launched in November 2014 of the Communications sector. All are at varying stages of implementation and all have multi year financing packages premised on a programmatic approach. The issue of graduation has long 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 so that financing gaps are discussed with development partners engaged in each sector on an annual basis when sector reviews take place. Sector governance have been adapted to address reforms including greater accountability and transparency. The Implementation of sector plans are very much results focused and aligned to resource allocation.

The following are lines of action that might require external support Samoa may continue to be in need of. Samoa's smooth transition strategy consolidates the gains already made through this support, and have been taken into consideration toward smooth transition modalities.

Develop and formulate a coherent national development strategy

The smooth transition strategy converges with the overall national development strategy of the country SDS 2012-2016 launched in early 2012, with particular reference to sector-specific policies and which mid-term review has begun at the end of 2014 as described above. 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.

Priority is placed 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 a Samoa Economic infrastructure facility that is also supported by the Pacific Regional Infrastructural Facility.

The SDS also emphasizes 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. This opens up the opportunity to use climate financing for development purposes particularly for infrastructural development.

Designing an economic stabilization framework

The SDS has as one of its key priority goals – the attainment of macroeconomic stability. 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 are winding down 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. Public sector investment program was recently reviewed, updated and reprioritized. The 2014/15 budget saw a slight reduction in the budget deficit towards threshold levels.. Fiscal consolidation has begun and 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 (2012-2015) will have a final review in early 2015.

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

Addressing institutional capacity constraints

A revised human resource development plan began implementation in 2014 with the implementation of a targeted scholarships program for the education and health sectors on top of the general scholarships program in order to address capacity gaps in these key social sectors thus assuring quality service delivery. 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 constraints are reflected in the low utilization rates of development financing and delayed implementation of program activities. Outsourcing is greatly encouraged including the provision of TA particularly for technical skills that might not be available locally. 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.

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 and subsequently reviewed in 201 and 2014 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. Budget support is extended to Samoa upon demonstration of compliance with the Joint Policy Action Matrix.

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 achieved to date include a fiscal and monetary policy geared toward macroeconomic stability; the provision of sound infrastructure and relevant public utilities; electricity is considered costly (iii) an efficient public administration that has been undergoing extensive reforms and (iv) a trade policy involving concessions that are commensurate with the constraints faced by the economy, and a newly instituted competitiveness policy.. Public-private partnership is already integrated in Samoa's development strategy. Despite numerous efforts to encourage FDI, these have not resulted in increased FDI particularly private investment outside the tourism sector in order to generate more employment and livelihood means. New FDI have been in the tourism sector. Though slow, the Government continues on its privatization as program of identified State-owned enterprises as these are considered 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. All cyclone reconstruction except for bridges and two health centres have been completed 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 including Financial risk measures.

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 during the successful hosting of the Third International SIDS Conference held in Apia in August 2014, contributed to the country's credibility in its dialogue with development partners. By recognizing SIDS as well as LDCs, the United Nations offers policy space to countries that have graduated such as Samoa.

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