

# SAMOA - NATIONAL STUDY

## Infrastructure Financing Strategies for Sustainable Development



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The shaded areas of the map indicate ESCAP members and associate members.

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The study was developed under a United Nations Development Account project entitled “Financing strategies for inclusive, equitable and sustainable development in Asia and the Pacific”, which is implemented by the Macroeconomic Policy and Financing for Development Division of ESCAP. The study was prepared by Nadia Meredith-Hunt and benefited from extensive comments from Mathieu Verougstraete, Economic Affairs Officer, Macroeconomic Policy and Financing for Development Division, ESCAP. The views expressed in this document are those of the author and do not necessarily reflect the views of the United Nations Secretariat.

This publication has been issued without formal editing.

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## Executive summary

The United Nations ESCAP Macroeconomic Policy and Financing for Development Division is implementing a United Nations Development Account project on "Financing strategies for inclusive, equitable and sustainable development in Asia and the Pacific". Samoa is one of the five selected countries for this project. The specific objective of this paper is to study infrastructure financing challenges in Samoa through a diagnostic and analytical work on the availability and sources of financing for infrastructure development.

Infrastructure is one of the three broad sectors that drive the development of various investments as outlined in the Strategy for Development of Samoa (SDS) and other national planning documents such as the Public Sector Investment Plan (PSIP). The recently launched SDS 2017-2020 articulates the following priority outcomes for the Infrastructure related sectors:

- Key Outcome 9: Access to Clean Water and Sanitation Sustained
- Key Outcome 10: Transport Systems and Networks Improved
- Key Outcome 11: Improved and Affordable Country Wide ICT Connectivity
- Key Outcome 12: Quality Energy Supply

In order to achieve these outcomes, there is a need to address the emerging challenges that are likely to influence the development priorities and performance of these sectors during the next 3-5 years. These are summarised below:

- Samoa's small size, with a land area of 2,820 square kilometres and a population close to 200,000 this imposes diseconomies of scale and other constraints to its development efforts.
- High vulnerability to natural disasters. Approximately 70% of the country's population and infrastructure, including the main international airport, are located in low lying coastal areas.
- Adequate and sustainable funding for investments and maintenance for public sector funded investments given budget constraints and competing demands from other sectors.
- Limited technical and institutional capacity to ensure the successful implementation.
- The multi-faceted nature of agencies involved means that cooperation and exchange of information among sector agencies and with private sector service providers are often challenging. Limited absorptive capacities within all implementing agencies.
- Limited blending of existing modalities to leverage additional financing from private sources.

To adequately address these concerns Samoa will also need to ensure environmental sustainability, climate change adaptation and disaster risk mitigation are integrated into all infrastructure planning, design and construction investments. This entails a high cost and it is increasingly clear that the finance required for a successful, orderly transformation to a low-carbon and resilient Samoan economy runs into the millions.

Samoa's revenue base is relatively small compared to the growing demands for more climate resilient infrastructure. The total level of resources available to the Government has increased from USD 195.84 million in 2011/12 to USD\$232.33 million in 2014/15. The grant component of total revenue has averaged around 10% and this is expected to grow as Samoa seeks to secure more grant based funding for infrastructure related investments. Overall, development partners via grant and loan mechanisms fund approximately 85% of total ongoing infrastructure related investments. Against this background, there is a clear need for more innovative instruments to incentivise private

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investments in infrastructure and increase Government tax base as well as revenue generation capabilities.

In addition, public expenditure efficiency has to continue improving to ensure that limited resources are effectively invested into projects aligned with national priorities. In this respect, the identification of financing gaps within the four infrastructure sectors is ongoing with the development of Medium Term Expenditure Frameworks (MTEF). To date, only the Transport and Water & Sanitation sectors have completed their MTEF's. However, a snapshot of pipeline infrastructure related capital investment based on the PSIP 2015/16-2017/18 indicates additional financing amounting to USD\$8.2 million is yet to be secured. These costs are expected to grow as other infrastructure priorities are designed and costs incorporated into the relevant sector plans and master-plans. Regarding public expenditure management and systems, significant enhancements have led to increased ownership and use of country systems by development partners. This has also contributed to Samoa's success in accessing budget support assistance.

The Government is also pushing ahead with further state-owned enterprise (SOE) reform in light of their potential impact on fiscal sustainability. The role played by Ministry of Public Enterprise (MPE) is expected to improve SOE performance and accountability and there is a clear need for more active promotion of PPPs similar to the ones adopted for the aviation, communication and energy sectors.

Further support is needed to mobilise additional resources from financial markets given budgetary constraints from public funds. This will minimise the risk of increasing Samoa's external debt portfolio as the country continues to evolve into a low middle-income country with restricted access to highly concessional financing facilities. Local commercial bank lending for infrastructure related activities has not seen much growth given the high-risk nature associated with these projects. As such, the Multilateral Development Banks (MDBs) together with other public development finance institutions, play a key role in facilitating the use of scarce government resources and leveraging much larger, and longer-term, private investments.

Samoa has also been relatively successful in seizing opportunities emerging from climate related instruments to mobilise approximately USD\$109 million from global facilities including the Global Environment Fund (GEF) and Green Climate Fund (GCF). The implementation modalities on the other hand have not progressed as fast as envisaged during the design of these projects. This has been compounded by the limited baseline information available, development partner reporting and procurement requirements, high personnel turnover and technical capacity to undertake the required environmental and social safeguards. The use of regional facilities such as the Pacific Regional Infrastructure Facility (PRIF) and proposed establishment of a dedicated regional climate finance fund by the Pacific Forum Islands Secretariat provide an opportunity to leverage additional financing for infrastructure projects that have a regional impact. Substantial resources, partnership and long-term commitment to training and skills development is therefore needed across all infrastructure related sectors.

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## Acronyms

|       |   |
|-------|---|
| ACC   | Aid Coordinating Committee                            |
| ADB   | Asian Development Bank                                |
| AG    | Attorney General                                      |
| AO    | Audit Office  |
| APRC  | UNDP's Asia Pacific Regional Centre                   |
| CBA   | Cost Benefit Analysis                                 |
| CBS   | Central Bank of Samoa                                 |
| CC    | Climate Change  |
| CCA   | Climate Change Adaptation                             |
| CCPP  | Climate Change Programme and Plan                     |
| CCU   | Climate Change Unit                                   |
| CDC   | Cabinet Development Committee                         |
| CPEIR | Climate Public Expenditure and Institutional Review   |
| CRICU | Climate Resilience Investment Coordination Unit       |
| CROP  | Council of Regional Organisations in the Pacific      |
| CSO   | Civil Society Organization                            |
| CSSP  | Civil Society Support Programme                       |
| DRM   | Disaster Risk Management                              |
| DRR   | Disaster Risk Reduction                               |
| EACC  | Economics of Adaptation to Climate Change             |
| EC    | European Commission                                   |
| EIA   | Environmental Impact Assessment                       |
| EPC   | Electric Power Corporation                            |
| EPPD  | Economic Planning and Policy Division                 |
| EU    | European Union  |
| FD    | Forestry Division                                     |
| GEF   | Global Environment Facility                           |
| GHG   | Greenhouse Gas  |
| GoS   | Government of Samoa                                   |
| IWSA  | Independent Water Schemes Associations                |
| JICA  | Japan International Cooperation Agency                |
| LDC   | Least Developed Country                               |
| LTA   | Land Transport Authority                              |
| MAF   | Ministry of Agriculture and Fisheries                 |
| MCIL  | Ministry of Commerce Industry and Labour              |
| MCIT  | Ministry of Communications and Information Technology |
| MDG   | Millennium Development Goals                          |
| MESC  | Ministry of Education, Sports and Culture             |
| MFAT  | Ministry of Foreign Affairs and Trade                 |
| MfR   | Ministry for Revenue                                  |
| MJCA  | Ministry of Justice and Courts Administration         |
| MNRE  | Ministry of Natural Resources and Environment         |
| MOF   | Ministry of Finance                                   |
| MoH   | Ministry of Health                                    |
| MoP   | Ministry of Police                                    |
| MPA   | Marine Protected Area                                 |
| MPMC  | Ministry of the Prime Minister and Cabinet            |
| MTEF  | Medium Term Expenditure Framework                     |
| MTFF  | Medium Term Fiscal Framework                          |

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MWCSD Ministry of Women, Community and Social Development  
MWTI Ministry of Works Transport and Infrastructure  
NGO Non-Governmental Organization  
NHS National Health Services  
NKF National Kidney Foundation  
NTCCASS Tourism Climate Change Adaptation Strategy for Samoa  
NUS National University of Samoa  
NZAP New Zealand Aid Program  
OOTR Office of the Regulator  
PFM Public Finance Management  
PFI Public Financial Institutions  
PIC Pacific Island Countries  
PIGGAREP Pacific Islands Greenhouse Gas Abatement through Renewable Energy Project  
PILF Pacific Island Leaders Forum  
PPCR Pilot Programme for Climate Resilience  
PRIF Pacific Region Infrastructure Facility  
PSC Public Service Commission  
PSIP Public Sector Investment Program  
PUMA Planning and Urban Management Agency  
SAME Samoa Association of Manufacturers and Exporters  
SAT Samoan Tala  
SBS Samoa Bureau of Statistics  
SDS Samoa Development Strategy  
SFESA Samoa Fire and Emergency Services Authority  
SGP Small Grants Program  
SHA Samoa Hotel Association  
SIDS Small Island Developing State  
SNEP Samoa National Energy Policy  
SQA Samoa Qualifications Authority  
SROS Scientific Research Organisation of Samoa  
STA Samoa Tourism Authority  
SUNGO Samoa Umbrella for Non-Governmental Organisations  
SWA Samoa Water Authority  
SWAp Sector Wide Approach  
UNEP United Nations Environment Programme  
UNFCCC United Nations Framework Convention on Climate Change  
UNDP United Nations Development Programme  
WB World Bank

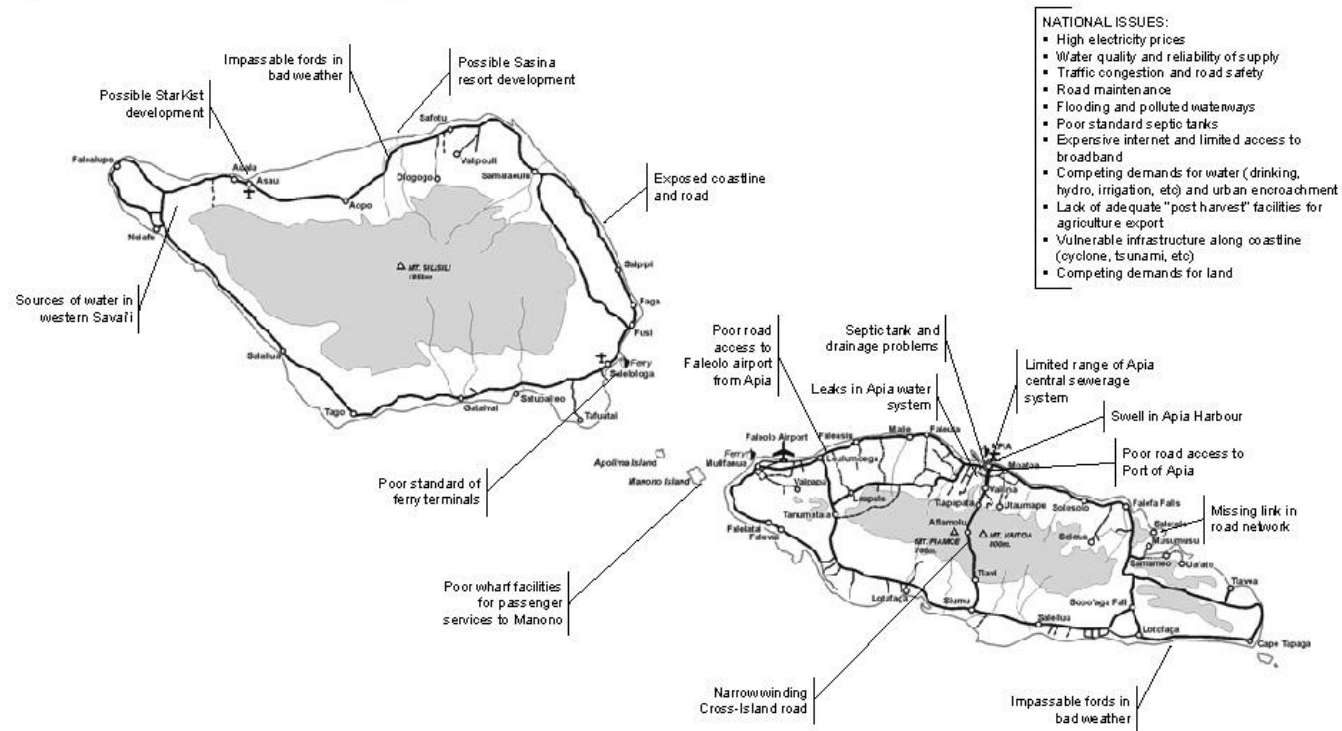
Financial Year in Samoa = July to June

Currency = Tala (WST)

Exchange rate = US\$1 = WST 2.30;

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## SAMOA INFRASTRUCTURE PROFILE



Source: Samoa National Infrastructure Strategic Plan 2011.



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## **1. Introduction**

### **1.1 Context and background of the study**

The United Nations ESCAP Macroeconomic Policy and Financing for Development Division is implementing a United Nations Development Account project on "Financing strategies for inclusive, equitable and sustainable development in Asia and the Pacific". The project aims to increase knowledge and capacities of policymakers in developing countries in Asia and the Pacific for mobilizing domestic and international resources, any other mixes of financial sources as appropriate, in support of financing infrastructure development for sustainable development. The full TOR is reflected in annex 1.

Samoa is one of five countries selected for this project for which the objective is to prepare an in-depth country study on the infrastructure financing challenges in Samoa through a diagnostic and analytical work on the availability and sources of financing for infrastructure development. Recent studies and assessments within the infrastructure related sectors in Samoa revealed a number of emerging trends that are likely to influence the development priorities and performance of these sectors during the next 3-5 years.

These trends are primarily driven by Government decisions and politics, technology, increased economic integration and trade, demographic and societal factors and by environmental and energy considerations. Consultations undertaken as part of this study highlighted the need to strengthen policy and regulations frameworks for the sector, institutional capacities and capabilities including in the important area of human resources. Improving the management of existing infrastructure and investing in improved quality and standards, safety and security compliance, efficiency and sustainability were also clear priorities from consultations.

### **1.2 Methodology and constraints**

A comprehensive desk research and literature review of key documents, reports, statistics and data made available by key implementing agencies within the key infrastructure related sectors during mobilization and prior to the commencement of the study. The documents and statistical information reviewed are highlighted in annex 2.

The findings of the desk research and literature review were validated through consultations with key stakeholders during a national workshop held on 3-4 February 2017 (**Annex 3**). The timely availability of some of the information was one of the constraints faced during drafting of the report.

## **2. Assessment of national infrastructure needs**

This section outlines the existing planning framework around infrastructure development in Samoa as well as estimated infrastructure needs (including possible gaps) under the following key points:

### **2.1 National planning framework**

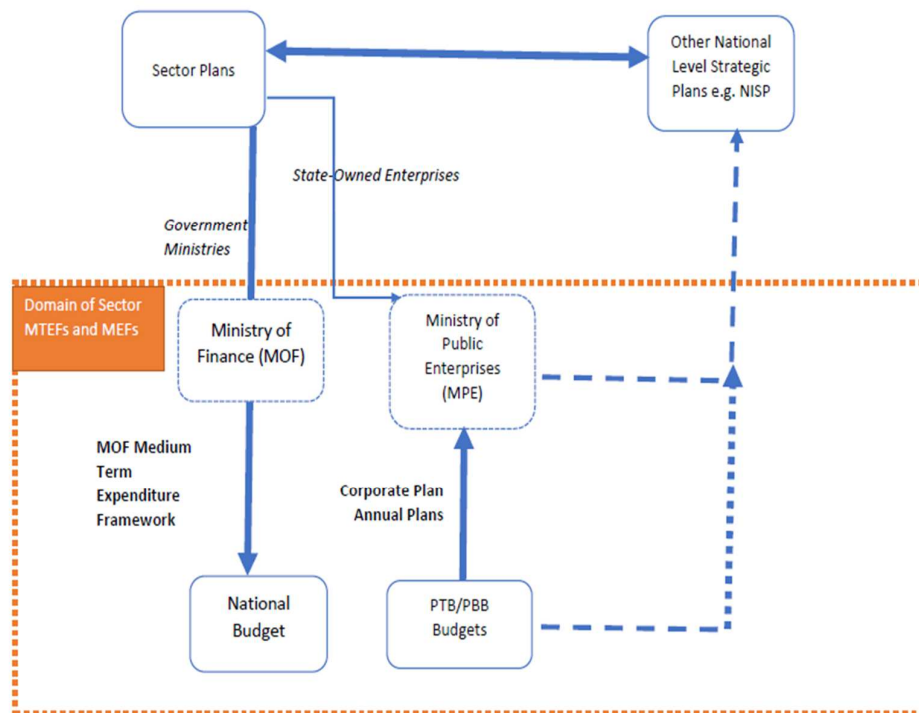
#### ***Strategy for the Development of Samoa***

Samoa's small size, with a land area of 2,820 square kilometres and a population close to 200,000 imposes diseconomies of scale and other constraints to its development efforts. The national planning framework is the Strategy for Development of Samoa (SDS). There have been several plans

developed with 4-year planning periods. The recently launched SDS 2016/17-2019/20 has been divided into 3 broad categories (Social, Economic and Infrastructure) of which 14 sectors are subdivided into. The priority outcomes for the Infrastructure related sectors from the current SDS are:

- Key Outcome 9: Access to Clean Water and Sanitation Sustained
- Key Outcome 10: Transport Systems and Networks Improved
- Key Outcome 11: Improved and Affordable Country Wide ICT Connectivity
- Key Outcome 12: Quality Energy Supply

**Figure 1: National Planning Framework**



### ***Sector Planning***

The introduction of the "Sector Wide Approach", is a policy shift to ensure inclusivity of all sector stakeholders under a common framework and shared agenda and is aimed at ensuring better management of resources and improved coordination amongst development partners and implementing agencies in pooling funds. This has resulted in the shift from a discreet project based approach to a programmatic approach of implementation of activities with a more strategic focus on the achievement of key sector objectives and national priorities. Each sector investment programme will reflect a prioritization at sector level and which collectively will support the achievement of national objectives.



**Table 1: Overview of Sector Plans**

| Strategy for Development of Samoa                                     |  |  |   |
|---|--|--|---|
| Economic Sectors  | Social Sectors                                 | Infrastructure Sectors   | Cross-Sector                            |
| 1. Agriculture Sector Plan 2016 - 2020 Vol I & II                     | 5. Law and Justice Sector Plan 2012 - 2016     | 10. Energy Sector Plan 2012 – 2016                               | 14. Environment Sector Plan 2013 – 2016 |
| 2. Trade, Commerce and Manufacturing Sector Plan 2012 - 2016 Vol I&II | 6. Community Sector Plan 2010 – 2015           | 11. Water and Sanitation Sector Plan 2012 - 2016                 |   |
| 3. Finance Sector Plan 2012-2017                                      | 7. Health Sector Plan 2008 – 2018              | 12. Transport Sector Plan 2013-2018                              |   |
| 4. Tourism Sector Plan 2014-2019                                      | 8. Education Sector Plan 2013 – 2018           | 13. Communication Sector Plan (draft form – needs to be updated) |   |
|   | 9. Public Administration Sector Plan 2014-2018 |  |   |

Other national strategic plans that feed into the planning process is the National Infrastructure Strategic Plan (NISP) which was developed in 2011 and reviewed in 2014. The Government of Samoa (GoS) launched the NISP in 2011 with the assistance from the regional Pacific Regional Infrastructure Facility (PRIF). The NISP provided a strategic approach to address the challenges and issues facing Samoa's economic infrastructure sector with the overall aim of providing an *"integrated program of new investments and supporting initiatives reflecting the Government of Samoa's aspirations for the economic infrastructure sector"*.

A review commissioned by GoS and PRIF in 2014 indicated a 60-62% implementation status for priorities in both design and inception phases. The review also highlighted that only 11 of the 46 priority investment projects had gone through the Cabinet Development Committee (CDC) process. One of the recommendations from the review was the need to regularise the project selection and approval process through CDC by encouraging awareness of the Public Sector Investment Plan (PISP) as a national planning tool for planned public investments in Samoa.

The PSIP provides details of the GoS investment programmes with a minimum estimated amount of SAT\$100, 000 (USD\$43,478) over a period of 3 financial years. It identifies all estimated financial resources currently being disbursed as well as gaps that need to be filled for all ongoing (current) and pipeline (proposed) public sector investments for the current and two forward fiscal years. As a rolling plan, the PSIP is and needs to be reviewed and updated annually in time for the preparation of the annual budget, and links with the implementation of sector plans.

## 2.2 Infrastructure development cost estimates

Infrastructure is one of the three broad sectors that drive the development of various investments as outlined in the PSIP and SDS. The following are the four main sectors that contribute directly to infrastructure related investments in Samoa and each of these sectors have developed their respective sector plans<sup>1</sup> as highlighted in Table 1 above.

1. Transport
2. Communications and IT
3. Energy
4. Water and Sanitation

<sup>1</sup> For the purposes of this report buildings is assumed to be part of infrastructure development. Ministry of Finance are also assessing how to reflect buildings as a sub-sector given the level of development financing that has been utilised.

Based on the PISP 2015/16-2017/18, the total value of ongoing capital investment projects is USD\$254 million. Out of this amount USD\$215.7 million is attributed to capital investment for the four infrastructure sub-sectors which accounts for 29% of the total Gross Domestic Production<sup>2</sup> (GDP) in 2014/15. Table 2 below specifically presents the cost estimates for the four infrastructure sub-sectors between 2013/14 -2015/16 and 2015/16-2017/18. The estimates indicate that the Energy sector accounts for the largest share of the funding, followed by Transport, Water & Sanitation and Communications & IT respectively.

**Table 2: Comparison of Ongoing Capital Investment by Funding Source<sup>3</sup>**

| Sector                       | 2013/14-2015/16<br>USD millions |             |              | 2015/16-2017/18<br>USD millions |           |               | Notes                     |
|------------------------------|---------------------------------|-------------|--------------|---------------------------------|-----------|---------------|---------------------------|
|                              | GoS                             | Grants      | Loans        | GoS                             | Grants    | Loans         |                           |
| Energy <sup>4</sup>          | 12                              | 27          | 76.6         | 12                              | 27        | 76.6          | No additional funding     |
| Transport                    | 0                               | 24.7        | 16.9         | 0                               | 40        | 30.3          | Increase in funding       |
| Communications & IT          | 0.44                            | 0           | 20.5         | 0                               | 16.5      | 0             | Decrease in loan funding  |
| Water & Sanitation           | 0                               | 0           | 11.5         | 0                               | 6.5       | 7.04          | Increase in grant funding |
| <b>Total for 4 sectors</b>   | <b>12.44</b>                    | <b>51.7</b> | <b>125.5</b> | <b>12</b>                       | <b>90</b> | <b>113.94</b> |                           |
| <b>Total Infrastructure</b>  |                                 |             |              | <b>USD\$215.7</b>               |           |               |                           |
| <b>Total Capital</b>         |                                 |             |              | <b>USD\$254</b>                 |           |               |                           |
| <b>% of Real GDP 2014/15</b> |                                 |             |              | <b>29%</b>                      |           |               |                           |

Source: PSIP 2013/14-2015/16, PSIP 2015/16-2017/18.

### ***Detailed Sector Developments***

#### **Energy Sector**

The Samoa Energy Sector Plan 2012-2016 lays out the medium-term framework for achieving the national development goals for the sector of “Investing in Renewable Energy and Energy Efficiency”. The overall goal of the sector is to achieve a 100% renewable energy by 2017. The Energy sector which is the largest investment portfolio (USD\$121 million) under the 2015/16-2017/18 PSIP comprises of capital initiatives totalling USD\$115.6 million plus USD\$5.4 million for technical assistance. The four ongoing projects include:

- Samoa Power Sector Expansion Project under the auspices of the ADB, JICA, DFAT and GoS (approximately USD\$100million) of which USD\$64.60 million is in loans, USD\$23.39 million in grants and USD\$12 million is funded through the local budget as GoS contribution.

<sup>2</sup> Real GDP in 2014/15 was SAT\$1.7 billion or approximately USD\$739 million. Source: SDS 2017-2020

<sup>3</sup> For the purposes of this report the figures used are based on the current PSIP and MoF have advised that the next iteration of the PSIP will reflect the new projects that have come online since the last PSIP was published. A list of all current projects funded by grants and loans under infrastructure is reflected in **Annex 5**.

<sup>4</sup> The energy sector allocation for 2015/16-2017/18 period is a continuation of the 2013/14-2015/16 period which indicates there was no new additional financing sourced for the sector but rather a rollover of existing projects.

- Petroleum Bulk Storage Facility Project Phase IV under an OPEC loan of USD\$12 million
- Renewable Energy Project Phase I funded by a grant of USD\$2.98 million from ADB
- Solar PV Project funded by a loan from JICA amounting to USD\$0.59 million.

Only one pipeline capital project was identified and is estimated at USD\$5.71 million. This project is an initiative to be implemented by STEC on piloting the processing of biomass for electricity generation and the Government through MNRE are currently putting together the proposal to be submitted under the GEF 6 for financing after regularising this through the normal processes for Government endorsement. The Government continues to review project proposals related to renewable energy and energy efficiency requested by the private sector for electricity generation and gasification of biomass. In addition, possible Public Private Partnerships (PPP) with banks and others for investments are currently being explored and advocated by the Energy Sector Coordination division within MoF.

#### Transport Sector

The estimated total costs for the Transport Sector portfolio under the 2015/16-2017/18 PSIP within the review period stands at USD\$80.74 million. This consists of total ongoing capital projects of USD\$70.10 million and USD 10.64 million for technical assistance. The main projects include the PPCR (Enhancing Climate Resilience of the West Coast Road) Project USD\$14.8 million and the reconstruction of the Faleolo International Airport including the Terminals and Airways for USD\$55.30 million. JICA's grant agreement of USD\$10.6 million for the Rehabilitation of the Old Wharf and Construction of New Container Yard at Apia Port was signed on 22 June 2015 and implementation has commenced. These ongoing projects of the Transport Sector consist of USD\$39.8 million grants and USD\$30.30 million loans assistance from the World Bank and the People's Republic of China.

The recently completed MTEF 2016-2019 for the sector indicated the total cost for implementing all sector initiatives is USD\$266.5 million and there is an estimated 3-year funding shortfall of USD 141.7 million or 53% of the total costs. These estimates need to be integrated into the next PSIP to ensure alignment of these key planning tools.

#### Water Sector

The Water for Life Sector Plan 2012 – 2016 provides the strategic framework for developments in the sector and it is currently under review. Key challenges include inadequate water treatment capacity, losses in the water systems as well as the competing demand of water resources from hydropower and irrigation.

The total public sector investment into the Water Sector for the review period stands at approximately USD\$31.04million as noted in 2015/16-2017/18. This is comprised solely of two major ongoing capital projects which are; the Samoa Consolidated Urban Untreated Water Supply Schemes Rehabilitation Project (US\$16.2million) under a JICA grant, and the Water and Sanitation Policy Support Program Phase II of USD\$6.45million through a budgetary support grant from the European Union.

There are other Water Sector initiatives implemented under the Environment Sector with financing such as Technical Cooperation Facility (TCF) channelled via the Ministry of Finance. Such initiatives include:

- Rehabilitation of Catchment Areas;

- Samoa-Australia Partnership: Surface water and Groundwater components<sup>5</sup>;
- Integrated Water Resource Management Project<sup>6</sup>.
- Vaisigano River Protection Project via Global Environment Fund
- Vaisigano Flooding and Drainage Project via Green Climate Fund

### Communications & IT

The total public investment for the Communication Sector totals USD\$16.76million and consists of two capital projects. The Tuisamoa Submarine Cable is now implemented by the Communication Sector with an estimated project cost of USD\$16.50million. This project is co funded by the Asian Development Bank as well as the World Bank with the objective of improved connectivity and reduces the costs of communication and technology.

Another proposed project which is currently being processed through the official Government approval process is the Replacement and Construction of the New Broadcast Transmission Mast for Radio 2AP and AM540 with an estimated cost of AUD\$1.68m under DFAT (Australian Government) assistance.

The second capital investment, which is still in the pipeline, is the establishment of the new National Radio 2AP at the proposed site at Vaea with a total cost of USD\$2.52million. Potential donor for financing of this development has yet to be finalized. According to the NISP review (disregarding the installation of the AM Radio Transmitter), there is an envisaged improvement in domestic and international connectivity through the installation of the second international fibre-optic cable which is co-financed by the ADB and World Bank as well as through private sector contributions.

The major challenge for the sector is the finalisation and implementation of the Communication Sector Plan with a costed MTEF and M&E to address all strategic areas highlighted within the national planning document. This sector has seen the most growth in terms of private sector suppliers with capital investments that need to be factored into the overall investment portfolio for the sector.

## **2.3 Linkages to Sustainable Development Goals**

The World Bank describes Samoa as a low middle-income country. GDP per capita is estimated to have fully recovered in 2014/15 to the level of USD\$2,751 recorded in 2011 following the declining trend during 2012/2013 due to impacts of the Global financial crisis, Tsunami in 2009 and the devastating cyclone Evans in 2012. Since 2010, Samoa has been adapting to the opportunities and challenges from joining the World Trade Organisation (WTO) in 2012 and official graduation from LDC status in 2014 and adoption of the new Sustainable Development Goals.

The 2013/14 Household Income and Economic Survey (HIES) has been completed and the results have been utilised for the update of the Samoa Hardship and Poverty Report currently being finalised. The preliminary analysis in the draft report indicates that the average incidence of basic needs poverty in rural households nationally has improved to 18.8% in 2013/14 when compared to 26.9% in 2008 and 22.9% in 2002. In terms of inequality, there is a widening of the income distribution gap reflected by the worsening of the overall Gini coefficient from 0.43 in 2002 to 0.56 in 2013/14.

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<sup>5</sup> This was completed in 2013 but officially closed in 2015 awaiting submission of final report from MNRE

<sup>6</sup> This project was completed and closed in Feb 2014

Progress towards the SDGs relevant to infrastructure development is ongoing and the following provides a snapshot of the initiatives undertaken to date to facilitate the development and implementation of these projects with communities.

- i. *SDG 7 / Ensure access to affordable, reliable, sustainable and modern energy for all.* Samoa's plan of ensuring 100% Renewable Energy Efficiency by December 2017 is on track. It is premised on the vision to ensure that "by 2017 Samoa would rely on local renewable energy sources namely solar, water and wind for 100% of electricity generation. Renewable energy sources are good for the environment and for a healthy population."
- ii. *SDG 9 / Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation.* Samoa's Government continues to be committed in ensuring resilient communities and infrastructure through road, air, health and other community investments with the assistance of the donor communities.
- iii. *SDG 11 / Make cities and human settlements inclusive, safe, resilient and sustainable.* Safety of our communities is entrenched in our traditional systems and government awareness and advocacy programmes within our homes and villages.
- iv. *SDG 13 / Take urgent action to combat climate change and its impacts.* Samoa's government is committed and leading in the Pacific in taking urgent actions to combat climate change and its impacts. Climate Change is a cross cutting theme across all Sectors in Samoa and mainstreamed into all Ministries work plans.

### 3. Availability/source of funds for infrastructure development

The total level of resources available to the Government has increased from USD 195.84 million in 2011/12 to USD\$232.33 million in 2014/15. The grant component of total revenue has averaged around 10% and this is expected to grow as Samoa seeks to secure more grant based funding for infrastructure related investments.

**Table 3: Composition of Government Revenue FY 2011/12-2014/15**

| Revenues              | FY 2011/12    | FY 2012/13    | FY 2013/14    | FY 2014/15    |
|-----------------------|---------------|---------------|---------------|---------------|
|                       | USD millions  |               |               |               |
| <i>Total Revenues</i> | <b>195.84</b> | <b>213.35</b> | <b>241.47</b> | <b>232.33</b> |
| <i>Taxes</i>          | 156.75        | 176.53        | 187.11        | 192.18        |
| <i>Grants</i>         | 14.62         | 20.92         | 35.58         | 17.90         |
| <i>Other Revenues</i> | 24.47         | 15.89         | 18.78         | 22.25         |

Source: Central Bank of Samoa.

Identification of financing gaps within the four infrastructure sectors is ongoing with the development of Medium Term Expenditure Frameworks (MTEF). To date, only the Transport and Water & Sanitation sectors have completed their MTEF's. However, a snapshot of pipeline capital investment based on the PSIP 2015/16-2017/18 indicates additional financing amounting to USD\$8.2 million is yet to be secured. These costs are expected to grow as other infrastructure priorities are designed and costed through relevant sector plans and masterplans. A summary is presented below:

**Table 4: Pipeline Capital Investment for Infrastructure Sectors**

| Sector              | Pipeline Capital Investment                 | Estimated Cost USD millions | Financing Source     |
|---------------------|---|-----------------------------|----------------------|
| Energy              | Piloting Biomass for Electricity Generation | 5.7                         | Yet to be identified |
| Communications & IT | New National 2AP Radio at Vaea              | 2.5                         | Yet to be identified |
|                     |   |                             |                      |
| <b>Total</b>        |   | <b>8.2</b>                  |                      |

Source: PSIP 2013/14-2015/16, PSIP 2015/16-2017/18.

### **3.1 Public expenditures management**

#### ***Expenditure and resource management***

Significant improvements to the efficiency and accountability of public expenditure systems has led to increased confidence in development partners and adoption of country systems and budget processes for channelling of development funds.

These changes include ongoing Public Finance Management Reform Plan which is now driven through the Finance Sector Plan 2012-2016. Annual reviews of the PFM program are undertaken together with development partners, civil society and key government stakeholders. There have been two PEFA assessments undertaken in 2010 and 2013 respectively. Based on the PEFA 2013 assessment, the most significant improvements have been made in expenditure, commitment and arrears reporting; taxation awareness programs; debt and guarantees processes; payroll and other expenditure processing; and bank/suspense account reconciliation. Many of these improvements have flown from enhancements to the Finance One and People One systems used for Finance and HR processing, which have enabled more timely and accurate data processing and reporting.

The Ministry of Finance has also put in place the forward estimates process as an integral part of national planning cost estimates over a 3-year rolling basis. This integration has included collaboration with coordinating implementing agencies to initiate the inclusion of investment plans, medium term expenditure frameworks and monitoring and evaluation frameworks within the scope of the development of sector plans. This ensures the alignment of available resources to key priority areas while identifying resource gaps and addressing them accordingly.

#### ***Project selection***

The Cabinet Development Committee (CDC) consists of all Cabinet Ministers, Associate Ministers, CEO's and their Assistant CEO's. Their role is to sanction at the operational level any project that is tabled by a Ministry, Authority or Corporation with recommendations from the Economic Policy and Planning Division (EPPD) of the Ministry of Finance.

The task of identifying viable projects is the most important and crucial step in the process of project preparation. This is the responsibility of Government ministries/agencies. The basis for Government departments/agencies to identify projects is the outcome of a detailed sector analysis of the opportunities and constraints affecting the sector in reaching its objectives and goals (usually the



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situational analysis component of the Sector Plan). When a project idea has been formulated into a Project Identification Brief (PIB) as per template issued by MOF<sup>7</sup>, it is then submitted to EPPD who will then undertake the appraisal of the project on the basis of the PIB and assessing the viability of the project in terms of the following aspects:

- *Financially viable* – assess how net benefits (revenue less production costs) of the project relate to the capital requirements, and with budgetary needs and foreign exchange requirements.
- *Economically viable* – assess whether the project is in the national interest through the application of “shadow price” to help determine whether the proposed resources are being used efficiently.
- *Environmentally friendly* – assess negative/positive effects a project may have on the environment via Environmental Impact Assessment (EIA) studies as required under the Planning and Urban Management Act (PUMA) 2004.
- *Socially adaptable and politically acceptable* – assess effect of project on distribution objectives of development including employment, improving standard of living and incomes for target groups including gender.

The appraisal is then submitted to CDC who decides whether or not the project is to be implemented. CDC will also have to decide on the financing of the project whether it is donor funded, domestically sourced under the budget or through a PPP arrangement such as the Samoa National Broadband Highway Project (SNBH). Projects requiring external financing are then directed to the Aid Coordination Committee (ACC), the technical arm being the Aid Coordination and Debt Management Division of the Ministry of Finance, to identify and coordinate funding arrangements.

### ***Procurement***

Procurement of Public Goods and Services strictly follows this legal framework for approval and implementation of operations

1. Public Finance Management Act 2001 Section XII,
2. Treasury Instructions 2013 Amended Part K 2016 ,
3. Amended Procurement Guidelines: Goods, Works & General Services 2016
4. Procurement Guidelines: Consulting Service 2014 ,
5. B4 Schedule

The National Tenders Board is the decision making Authority for all major public procurement of works, goods, general services and consulting services and supported by the Procurement Division within MOF under the overall guidance of the CEO.

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<sup>7</sup> The full project planning cycle and application forms are articulated in the 2015 Manual for Project Planning and Programming developed by MOF and summarised in Annex 4.

## 3.2 Resource mobilisation

### *Public finance*

Samoa's economy has grown marginally since 2012/13 from -1.9% to 3.5% in 2015/16. This was largely due to the reconstruction work following Cyclone Evan, preparations for the UN Small Island Developing States (SIDS) Conference and the construction of some major hotels such as Return to Paradise Resort, Lamana Hotel, Aggie Greys Resort and the Aggie Grey's Hotel in Apia.

The overall budget balance is expected to meet the target deficit in the current fiscal year 2016/17. The improvement in deficit from a negative 6.4% in 2010/11 to 3.5% in 2015/16 as per Table 4 below has been driven by the winding down and eventual completion of rehabilitation and reconstruction works linked to the Tsunami of 2009 and the Cyclone of 2012. In 2016/17 the deficit is forecasted to be -3.5% of GDP which is now in line with the target. The previous deficits have been mainly due to the commitment made by the government on spending for the Commonwealth Youth Games and other huge projects in the pipeline such as road constructions and the new airport terminal development that are ongoing.

Table 5: Macroeconomic Framework 2015/16 - 2018/19

|  | Target                             | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--|------------------------------------|---------|---------|---------|---------|
| Real GDP (%change)                               | 3.0%-4.0%                          | 3.5%    | 3.0%    | 2.7%    | 3.2%    |
| Budget Balance (% of GDP)                        | Deficit: Not more than 3.5% of GDP | -4.7%   | -3.5%   | -4.5%   | -3.6%   |
| Total Current Expenditure (% of GDP)             | 35%-38%                            | 25.3%   | 25.1%   | 22.9%   | 21.2%   |
| Personnel Costs (% of total current expenditure) | 40% - 45%                          | 46.9%   | 48.1%   | 48.1%   | 47.2%   |
| Disbursed Outstanding Debt (% of GDP)            | Less than 50%                      | 58.0%   | 58.0%   | 56.2%   | 52.9%   |
| Nominal GDP (\$ billion USD)                     |                                    | 2.03    | 2.14    | 2.25    | 2.38    |
| Total Capital Expenditure (% of GDP)             |                                    | 29%     |         |         |         |

Source: Fiscal Strategy 2016/17, Ministry of Finance.

Based on the 2013 PEFA assessment, Samoa has continued to improve its policy-based budgeting. The budget timetable, processes and guidance are generally adhered to, and legislative approval is provided prior to the commencement of the budget year. Medium-term financial forecasts have been in place for a number of years, although general budget consideration focuses primarily on the budget year only and there is no clear link between the forward estimates and ministry ceilings. The development and publication of fully-costed sector strategies, and the linking of these to the budget process in the future, will assist in this area. Debt Sustainability Analyses (DSAs) are regularly conducted. The DSAs cover both external and domestic debt.

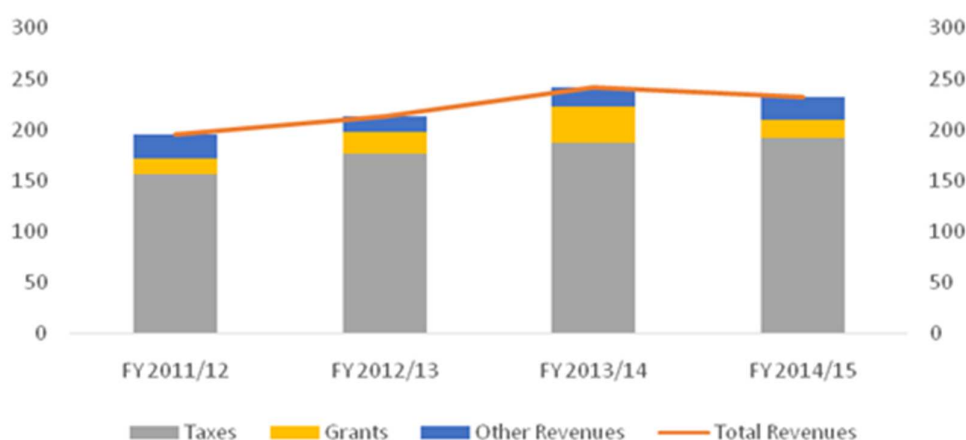
### *Tax collection and policy*

Samoa instituted key tariff and revenue reforms beginning with the introduction of the VAGST in 1994. The key tax instruments currently employed include:

- Income tax is levied under the Income Tax Act 2012 on the taxable income for the previous calendar year. This new simplified tax code came into effect on 1 January 2013. The company tax rate is 27%.
- Non-resident companies (i.e. a reregistered overseas company) are charged 27% tax on their taxable income derived from sources in Samoa to the extent attributable to business carried on through a permanent establishment in Samoa. The top marginal tax rate for individuals is also 27%. This applies to assessable income over \$20,000 per annum.
- Foreign-controlled companies are subject to thin capitalization requirements, so that if the company has a debt-to-equity ratio of more than 3:1, they cannot claim a deduction for interest on debts that exceed that ratio. Tax laws also include transfer pricing rules.
- Dividends paid by resident companies are tax exempt income in Samoa.
- Withholding tax of 15% is payable on interest earned on bank deposits etc
- Capital gains tax is levied at 27% on profits arising from the disposal of capital assets sold within 3 years of the date of acquisition.
- Samoa's consumption tax, or VAGST, is levied on the supply of most goods and services at a rate of 15%. There are certain exempt supplies (e.g. local food, financial services, transport fares, electricity) and zero-rated supplies (e.g. exports). VAGST is also payable on imports at a rate of 15%.
- Customs duties are currently set at four clusters – 0%, 5%, 8% and 20%. Excise duty is also imposed on alcohol, soft drinks, tobacco products and certain motor vehicles.

The fiscal policy continues to focus on reducing reliance on international trade based taxes with the bulk of taxed revenue generated through VAGST and other taxes. Based on trends since 2011/12 approximately 80% of total revenue is generated through local taxes and in 2014/15 it accounted for 83% of total revenue.

Figure 2: Share of Total Government Revenues Generated by Taxes (USD millions)



Source: Central Bank of Samoa.

Recent restructuring of non-tax revenue collections/cost recoveries within all Government Ministries has been put in place as a priority of the Annual Recurrent Budget process of Government. This has led to the recent tabling of the Fees and Charges (Miscellaneous Amendment Act) with the aim of consolidating all the different acts with fees and charges clauses and the Ministry of Finance through the National Revenue Board of Government to oversee and facilitate any new fees and charges for all government Ministries and state-owned corporations.

### Grants & Loans from Development Partners

In 2011, a Joint Policy Action Matrix (JPAM) was developed by the Government of Samoa and its major development partners to ensure a more coordinated approach for the delivery of performance linked aid. The JPAM has provided much needed assistance to date mainly in the form of grants towards Samoa's budgetary deficits. In that regard, the likelihood of continued grants as opposed to loans is dependent on the country's economic performance.

Based on a recent monitoring report on Samoa's progress since graduation in 2014, the level of aid flows from major development partners did not seem heavily impacted, with Australian accounting for 30% of net overseas development assistance (ODA) disbursement to Samoa in 2013, followed by New Zealand (19%), Japan (6%) and the European Union (EU) (3%). Australia's total estimated ODA to Samoa for 2014/15 budget was USD\$37.6 million with New Zealand's allocation standing at USD\$12 million in 2014. However, Samoa still continues to be highly vulnerable to external shocks due to its susceptibility to natural disasters and small population size.

The most significant donor for capital investment projects is the World Bank whose largest contribution is to the Transport Sector particularly for improving the climate resilience of roads and related infrastructure as well as the improvement of aviation security and safety through the Samoa Aviation Investment Project.

Figure 3: Case for Building Climate Resilient Roads

The devastation caused by Tropical Cyclone Evan in 2012, was an unfortunate reminder of how vulnerable Samoa remains to tropical cyclones, heavy rains and storm surges. Approximately 80 percent of Samoa's coastline is rated as sensitive or highly sensitive to erosion, flooding and landslip. According to the Index for Risk Management – INFORM – Samoa's risk profile is measured across three dimensions which include (i) Hazard and exposure – events that could occur and the people or assets potentially affected by them; (ii) Vulnerability – the susceptibility of communities to those hazards and; (iii) Lack of capacity – lack of resources available that can help absorb the shock. The 2016 risk profile<sup>8</sup> for Samoa indicates that it is relatively more susceptible to hazards and its ability to absorb the shocks from these hazards is very limited compared to similar peers as depicted by Samoa's INFORM Risk Profile below:

| Country             | INFORM     | Hazards & Exposure | Vulnerability | Lack of Coping Capacity |
|---------------------|------------|--------------------|---------------|-------------------------|
| Guyana              | 2.9        | 1.4                | 2.9           | 5.8                     |
| Saint Kitts & Nevis | 2.9        | 3.0                | 2.5           | 3.1                     |
| Costa Rica          | 2.8        | 2.8                | 2.8           | 2.9                     |
| <b>Samoa</b>        | <b>2.8</b> | <b>1.2</b>         | <b>3.9</b>    | <b>4.6</b>              |
| Seychelles          | 2.8        | 1.6                | 3.9           | 3.4                     |
| Cabo Verde          | 2.8        | 1.1                | 4.2           | 4.8                     |
| Canada              | 2.7        | 3.9                | 2.0           | 2.6                     |

Source: Index for Risk Management INFORM.

Such extreme weather events have a major impact on the Samoa road network which are mainly located along the coastline of both main islands. In Upolu, the West Coast Road is the main economic corridor for the country and remains highly vulnerable. The impact of ongoing weather events to the West Coast Road and the rest of the network will limit reliable access to it, and

<sup>8</sup> It should be noted that the results of the global INFORM model are not directly comparable with regional or national models. This is because INFORM measures relative risk, so the results depend on the risk level of other countries or subnational units in the model. At all levels of the INFORM model, a lower value (closer to 0) always represents a lower risk and a higher value (closer to 10) always represents a higher risk.

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undermine commerce and damage efforts to reduce poverty. Investments such as the development of the West Coast Road are critical to build resilience over the long term.

In 2013, the West Coast Road Project is funded under the Pilot Program for Climate Resilience for a total grant of US\$14.8 million through the World Bank. The project is currently being implemented by the Land and Transport Authority (LTA) over a five-year period. More than 88,000 residents of 31 Samoan villages are set to benefit from better road access when the improvements to Upolu's West Coast Road project are completed. In addition to improving the climate resilience of the West Coast Road, the project also aims to enhance local capacity to develop a more climate resilient road network.

Samoa's high level political support and commitment to addressing climate change has seen a steady increase in climate financing from development partners in the last decade. Climate Change which is inclusive of DRR is cross-cutting across sectors and a significant yet novel challenge to national frameworks. As such climate financing in Samoa in recent years has significantly focused on the development of policies and planning frameworks for climate adaptation. This shows that the local government is continuing to catch up on both policies and to implement climate proofing simultaneously. Several development partners have committed to increase climate financing for adaptation and mitigation, it presents an opportunity for climate proofing infrastructure development. The following global mechanisms are currently operating in Samoa with an estimated USD\$109 million grant funding secured for national level climate change projects.

- **Global Environment Fund (GEF)** has funded several projects in Samoa, including two NAPA priority projects and recently approved Economy-Wide Adaptation to Climate Change Project **USD 12.3 million** which runs from 2014-2019 through the **LDCF** and the GEF Small Grants Programme and Pacific Adaptation to Climate Change (PACC) project in 14 countries, including Samoa<sup>9</sup>.
- **Pilot Program for Climate Resilience** which is part of the Climate Investment Funds administered by the World Bank (to which the UK, Germany and Japan are principal contributors.) Samoa is one of the first pilot countries and has accessed grant funds for investment projects including (i) *Enhancing the climate resilience of the West Coast Road (Apia to Airport)* USD\$15 million and (ii) *Enhancing the climate resilience of coastal resources and communities* USD\$14.6 million and (iii) *Technical Assistance: Trust Fund* USD\$0.3 million.
- The UNFCCC has had the **Adaptation Fund** operating since 2007, with Samoa accessing **USD\$8.7 million** for Enhancing Resilience of Samoa's Coastal Communities to Climate Change Project due to end in November 2017.
- The bilateral/quasi global finding mechanism, the **Fast Start Funds** as well as the **Green Climate Fund**, which now has just approved **USD\$57.7 million** for Samoa's Integrated Flood Management to Enhance Climate Resilience of the Vaisigano River Catchment in Samoa from 2017-2023.

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<sup>9</sup> Project now completed and closed in April 2015.

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### 3.3 Public-private partnerships

#### ***Regulatory and Institutional Setting:***

The newly established Ministry of Public Enterprises (MPE) provides the institutional linkage arrangement between the Government and 29 of its SOEs of which some have PPP arrangements nationally and internationally. The regulatory environment for financing of PPP's in Samoa is governed under some of the following legislations with the involvement of the Office of the Attorney General providing the legal backing and support in administering these PPP's under specific sector arrangements including infrastructural arrangements.

- Public Finance Management Amendment Act 2015
- Public Bodies (Performance and Accountability) Amendment Act 2015
- International Companies Amendment Act 2014
- Foreign Investment Act 2011

MOF introduced a discussion paper in 2002 on SOE ownership, performance and divestment which stipulated that Government should only own enterprises, which have significant strategic, security, or social importance that they cannot be entrusted to private ownership (includes SAA, EPC, SPA, SWA, and SSS) and that Government should divest all enterprises other than those designated as essential or strategic. Following the issuance of the discussion paper, Cabinet issued a directive in January 2015 outlining additional issues on reforming SOEs:

- Rationale of the Cabinet Decision as part of wider economic and public sector reform including SOE reform, to promote a strong emphasis on private sector-led economic growth underlying role of private sector as engine of growth.
- Opportunities for public-private partnerships to develop, operate and maintain public infrastructure and assets and related services to provide strategic services required to meet the growing demand of the economy and people of Samoa.
- No new strategy was proposed but a further diversification of approaches to restructure of SOEs was implemented to improve operational efficiency and financial sustainability.

#### ***Financial Support***

Financial oversight and support towards the implementation of any PPP entered into remains the sole responsibility of the MOF. Development funds to support project preparation include the Private Sector Support Fund Facility (PSSF) and Civil Society Support Programme (CSSP). The PSSF provided grants for small to medium sized businesses operating in the agriculture, fisheries, tourism, manufacturing and exporting and technology sectors <sup>10</sup> whilst CSSP targeted the non-government organisations and community based organisations to improve the social and economic well-being of the people of Samoa<sup>11</sup>. The program design identifies three sub-objectives:

- Sustainable social and economic benefits which meet the needs of vulnerable groups in Samoa
- Well governed civil society organizations with strengthened capacity to manage developmental programs on a sustainable basis
- A strengthened voice of civil society organizations to effectively influence national policy.

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<sup>10</sup> Private Sector Support Facility Guidelines 2012.

<sup>11</sup> CSSP Program for Samoa, MTR 2013.



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Other mechanisms for government assistance to support or mitigate risk in PPP projects include the Community Service Obligations (CSO) which are financial assistance provided by Government to SOEs for undertaking investments that have relatively low financial returns but high social benefits. In addition, two supplementary appropriations are allowed and tabled in Parliament within a financial year to also assist in any unanticipated unforeseen circumstances generally.

### ***Selection Process***

The selection process for PPP initiative are demand driven with public sector agencies encouraged to identify possible avenues for encouraging private sector involvement. Out of the four infrastructure related sectors, the energy sector has been aggressively pursuing its renewable energy development programme under relevant climate change initiatives. This is expected to lead to significant foreign exchange savings from reduction of fuel imports and also the reduction in carbon emissions in the energy sector. Other sectors have employed some form of PPP including the communication and wastewater management. There is still scope to enhance efficiency through greater competition.

One of the key policy priorities of the Government is to support the development of the private sector to enable it to take a lead role in the development of the national economy. In addition to providing a stable macroeconomic environment, the development of the private sector needs to be further supported through ongoing investment in economic infrastructure through the following measures:

- Ensure strong leadership, commitment and whole of government support for national initiatives.
- Support ongoing partnerships between government, the private sector and development partners to implement innovative financing mechanisms.
- Provision of adequate resources to improve coordination and absorptive capacities within the implementing agencies
- Encourage and promote awareness of national planning tools such as the PSIP to consolidate all the existing and proposed development initiatives identified in the related sector plans.

### ***Contracts & Fiscal Sustainability***

The Government through the Electric Power Corporation (EPC) has committed that by 2017, it will be fully producing electricity via renewable and alternative energy. The EPC has in the past 3 years implemented its energy efficient programme by securing development assistance for its own renewable energy development projects and at the same time progressively outsourcing some generation of electricity to independent power producers who then sell back to the EPC for distribution. In addition to this initiative, EPC in 2015 commenced its rehabilitation programme for the hydro-stations that were damaged during the 2012 cyclone. The fuel, particularly diesel savings from utilisation of renewable energy sources will have a direct impact on external trade and will reduce some of the pressure on the BOP. The net effect of savings is still considered to be positive after factoring in the capital import costs of renewable energy equipment such as storage batteries and etcetera.

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**Figure 4: Strengthening Public-Private Partnership in Energy Sector**

The Electricity Act 2010 commenced the deregulation of the electricity sector, particularly in the area of electricity generation, where independent power producers now have the ability to generate electricity through renewable energy sources. EPC has over the years explored diversifying into renewable energy generation with funding assistance from development partners but has overall been hampered by its capacity to secure additional financing through loans.

Eight power purchasing agreements have been entered into with IPPs where two are presently supplying electricity to the main grid with the remaining six coming online within the next 2 to 3 years. In addition to the IPPs, private entities have to some extent relied on by the EPC to utilise electricity produced from privately owned generators during periods when electricity produced by the EPC was insufficient to meet public consumption demand or when supply of electricity was disrupted.

Existing legislation allows the increased use of private sector standby generation capacity but the legislation is currently being reviewed to ensure that private sector generation must be sold to the main grid to supply total consumption as opposed to generating electricity for personal consumption.

The Power Sector Expansion Project is a USD\$100 million-dollar project funded by ADB, JICA, GoA and GoS that has blended grant and loan financing in order to support GoS objective of providing sustainable and reliable electricity services to all consumers at cost-efficient prices. The PSEP has more than 30 subprojects including the upgrade of transmission and distribution lines, construction and rehabilitation of diesel generation, development of renewable energy resources, and installation of prepayment meters. The project has also explored the use of Power Purchasing Agreements with selected vendors and lessons learnt to date indicate a more collaborative approach is needed to ensure successful PPAs in future.

### **3.4 Capital markets**

The track record of the Samoa International Finance Authority has shown that Samoa with its social and political stability has the potential to attract international capital. The immediate challenge now for the Government is how to capitalize on the success of the “offshore finance” business and develop an onshore capital market. The Government has taken a long-term view in its plans for development of a full-fledged stock exchange due to the relatively large demands for building up a pool of technical and professional services to support infrastructure necessary to effectively run a viable and credible capital market.

The creation of the Unit Trust of Samoa (UTOS) is seen by the Government as a key building block for development of the local capital market and then explore how to accelerate the process, to jumpstart the development of a regional and later international stock exchange which will attract not only reputable experienced securities brokers and dealers but also a general pool of credible overseas regional and international pool of technical and professional expertise necessary for fully functional stock exchange.

The Government is also conscious of the increasing surveillance on the international finance centres by the international community and it is preparing to invest resources to have the appropriate technical and management capacities to ensure all the relevant international legal, regulatory, administrative, accounting and supervisory international standards are complied with. Therefore, a

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major technical capacity enhancement programme will be developed to underpin the plans for creation of Samoa as a credible and efficient finance centre.

### ***Local Securities and Bond Market***

In January 1998, monetary policy implementation switched from direct controls to indirect controls through open market operations in Central Bank Securities. The statutory reserve requirement, however, is still being maintained as a backup and it is currently set at 4.8% of commercial banks' deposit liabilities. The conduct of open market operations seeks to achieve a number of important objectives. The immediate objective is to remove the excess reserves of commercial banks with the Central Bank. Once these excess deposits have been removed, the Central Bank would then monitor closely the liquidity of the financial system. The issue of Central Bank securities is also aimed at developing the financial market in Samoa.

CBS securities are issued under the authority of the Central Bank of Samoa Act 1984. The securities are denominated in Samoan Tala, sold at a discount to par, carry no coupon rate and are redeemable at par on maturity. The primary auctions of Central Bank securities are held every week. To implement this system, the Central Bank has developed a liquidity forecasting framework which targets the banks' free reserves and manages liquidity around this target. This minimises the volatility in these reserves and in turn minimises interest rate volatility.

The Government as a practice in the 1970s and 1980s used to float 5-year and 10-year national development bonds as part of financing the Government budget. Financing from these national development bonds directed the development budget and was only promoted on the basis that the Government budget achieves a minimum level of operating budget surplus i.e. surplus of tax revenues over current expenditures. The use of the national development bonds has not been utilized recently given the ease of access to the institutional financial institutions like the SNPF and UTOS.

### ***International money markets***

Although Samoa borrowed from the New Zealand money markets in the 1960s to finance the construction of the Apia and Asau wharves, it has not utilised this source of financing because since then it has not been an option given the increasing range of development financing sources as Samoa leveraged its LDC status with its international relations position to access to a wide range of concessional lending facilities, whilst Samoa was labelled as an LDC country. Possible avenues to test the market include:

- **International Private Bond Placement** - To test and create exposure among the key securities dealers in the private capital markets, a foreign currency bond for the minimum principal amount possible is being planned after securing a prominent securities dealer in the Asian capital markets.
- **International Public Bond Placement** - After the preparatory phase establishing a track record using the private placement bond market and Samoa country risk rating has been established a public bond placement was planned towards the end of 2015. However, this has not eventuated as it appears the increase in availability of external grant funding has not created the need for external borrowings.

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### ***Rating Agencies***

Whilst the country risk for Samoa has been assessed from time to time when seeking relatively large private loan and equity financing facilities, there has been no official rating of Samoa's credit risk by the recognised rating capital markets institutions. To date the country's short-term liquidity has been assessed by overseas private investors and financiers using the reports from the IMF Article IV country consultations. The medium-term risk has been assessed using mainly the World Bank and Asian Development Bank development country reports.

The Central Bank of Samoa has started to prepare for engaging a reputable credit rating international institution to rate Samoa as part of a programme to facilitate access of Samoa to the international capital markets and attract foreign investors.

### ***Bank financing / securitization schemes***

Samoa maintains close banking relations with the international/regional commercial banks like the ANZ Bank and the Bank of the South Pacific (BSP), which could be tapped for accessing foreign currency commercial loans for possible infrastructural financing. Familiarity of these commercial banks with the local situation and their assessment of country risks would facilitate a credit decision by these locally based international commercial banks.

The international commercial banks which are being introduced to through their dealings with their clientele in the Samoa International Financial Authority centre are also expected to be regularly be in a position to consider a balance of payments financing facility given their familiarity of Samoa's standing in the international financial markets.

The functioning of the UTOS effectively securitises the infrastructural projects it invests in and then sells the investment units to the general public. Since the setting up of UTOS, it has been involved in the equity financing of the privatization of 25% of Bluesky Samoa Ltd and purchase of capital notes from the state-owned Enterprises for financing of infrastructural projects. Much of the debt in public financial institutions enjoys an explicit government guarantee, and in addition, SOE liabilities (also implicitly guaranteed by the government) represent a fiscal risk (e.g. in 2013/14, the government took over the defaulted loan to the Pacific Forum Line of around SAT 16 million provided by UTOS with a government guarantee).

## **3.5 State-owned enterprises**

### ***Role of SOEs in infrastructure development***

The Ministry of Public Enterprises was established solely to ensure profitability and efficiency of all 28 Government SOEs. The institutional and regulatory management for the infrastructure related sectors includes multiple players, with different government authorities having distinct responsibilities for particular issues. Information on key SOEs with legal mandates and sector roles are summarised below in table 6:

**Table 6: Sector Roles and Responsibilities**

| State Owned Enterprises & Statutory Bodies / Agency  | Roles & Responsibilities   |
|--|--|
| <ol style="list-style-type: none"> <li>1. Samoa Ports Authority</li> <li>2. Samoa Airport Authority</li> <li>3. Land Transport Authority</li> <li>4. Samoa Shipping Services</li> <li>5. Pacific Forum Line</li> <li>6. Samoa Shipping Corporation</li> <li>7. Samoa Water Authority</li> <li>8. Electric Power Corporation</li> <li>9. Office of the Regulator</li> </ol> | <ol style="list-style-type: none"> <li>1. Focal point for ports related activities and infrastructure</li> <li>2. Focal point for airport related activities and infrastructure</li> <li>3. Focal point for land transport related activities and infrastructure</li> <li>4. Provide shipping services for seafarers in Samoa</li> <li>5. Provides international freight shipping services</li> <li>6. Provides passenger and vehicular ferry services (domestic and to/from American Samoa)</li> <li>7. Supplies water and wastewater services</li> <li>8. Supplies electricity services</li> <li>9. Regulates the tariff and competition within energy and telecommunication sectors.</li> </ol> |

There is a strong need and priority across all sector agencies for increased investment in strengthening technical and institutional capacity to ensure the successful implementation of infrastructure related initiatives over the coming years. This calls for substantial resources, partnership and long-term commitment to training and skills development within each of the sectors. Training needs will have to be identified at all levels of the sector, building on the workforce planning mechanisms being introduced through public ministries such as MWTI and MOF. This practice could be expanded to include key SOEs and other key considerations to be taken into account include:

- Encourage partnerships with key educational institutions offering certificates/degrees relevant to the sector
- Provide increased training in critical areas such as results-based project management and analysis, monitoring and evaluation, data management etc to public sector staff
- Undertake re-orientation of work processes, instruments, procedures and systems development
- Put in place staffing and institutional arrangements for the sector coordination and management

### ***Financial Capacity of SOEs***

SOE performance up to 2015 indicated total assets of USD\$600 million, total liabilities of USD\$347 million with approximately 95% of total external debt allocated to SOEs within the infrastructure sector i.e. Energy and Transport. The average return on equity is -0.1% with Return on Assets ta - 0.0%. The projected revenue collection from SOE's is a weak area and proven ineffective and inefficient in terms of collection in the past years. With the establishment of the MPE, the goal is to ensure that Government through the recurrent budget, grants and loans continue to support SOE's through various agreements and arrangements with various donor partners.

The Government continues to support loss-making SOEs through soft loans or investments directed through Public Financial Institutions (PFIS) given the nature of these investments and associated socio-economic benefits. The joint venture between GoS national carrier Polynesian Airlines and

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Virgin Australia is one of the pioneering mechanisms that was instituted in 2005 by GoS to ensure the financial viability of the national airline carrier and growth of the tourism sector in Samoa. An overview of the lessons learnt from this mechanism is presented below.

**Figure 5: Promoting Partnerships in the Transport Aviation Sub-Sector**

Polynesian Airlines, fully owned by the Government of Samoa, was the national carrier of Samoa exclusively vested with all route rights under the bilateral airline service agreements to which Samoa was a signatory. Polynesian Airlines' activities included long haul international jet operations, short-haul and domestic turbo-prop operations as well as ground handling services. The airline however, was becoming a significant burden on Government finances through loan guarantees and regular budget capital contributions.

With the assistance of the International Finance Corporation, in 2005 Government entered into a joint venture with Virgin Blue, which assumed the long haul jet operations previously serviced by Polynesian Airlines. The main objectives of the PPP were to ensure the provision of domestic and international air transportation links; eliminate the burden on Government finances with transfer of capital responsibility and management to the private sector; and to secure air transport links to support the development of tourism in Samoa.

A mid-term monitoring and evaluation brief commissioned by the IFC in 2009 evaluated the impact of the PPP as follows:

Direct private sector investment mobilised USD\$ 14.2 million

Increased consumer choices and air transport seat capacity by 130 percent

Reduction in the cost of airfares between 31 percent and 45 percent for the Australia and New Zealand sectors with consumer savings estimated at USD\$ 57.7 million.

The joint venture served as a catalyst for generating tourist arrival growth with peak growth recorded for Samoa in 2006 at 13.8 percent.

Indirect Investment by the tourism industry in additional accommodation facilities stimulated by increased tourism traffic of USD\$ 3.91 million based on the number of additional tourists staying in hotels, additional room nights and beds required.

The total foreign exchange earnings for the period 2006 to 2009 was USD\$ 435.0 million. The estimated foreign exchange earnings for the same period from the additional tourists is USD\$ 8.5 million which represents approximately 2 percent of the total foreign exchange earnings over the 2005-2009 period.

An increase in national salaries and wages of USD\$ 1.4 million.

The impact on the fiscal position of Government was estimated at USD\$ 10.0 million comprised of investment in the joint venture, termination of aircraft leases, payment of company debt, savings to national budget, investment dividends and additional VAGST taxes and airport revenues.

The joint venture agreement ended in October 2016 and the Cabinet appointed Special Committee are considering several options for moving forward given the need to maintain ongoing transport links to Samoa in order to support the development of tourism which is one of the leading sectors driving economic growth.

### **3.6 Banking sector**

Samoa's debt management, monitoring and reporting capacity is good relative to other Pacific Island countries according to the 2015 IMF Debt Sustainability assessment. Samoa has developed a medium-term debt management strategy (MTDS 2013-2015) which establishes the government's objectives, strategies and management of public debt, and it regularly reports and publishes



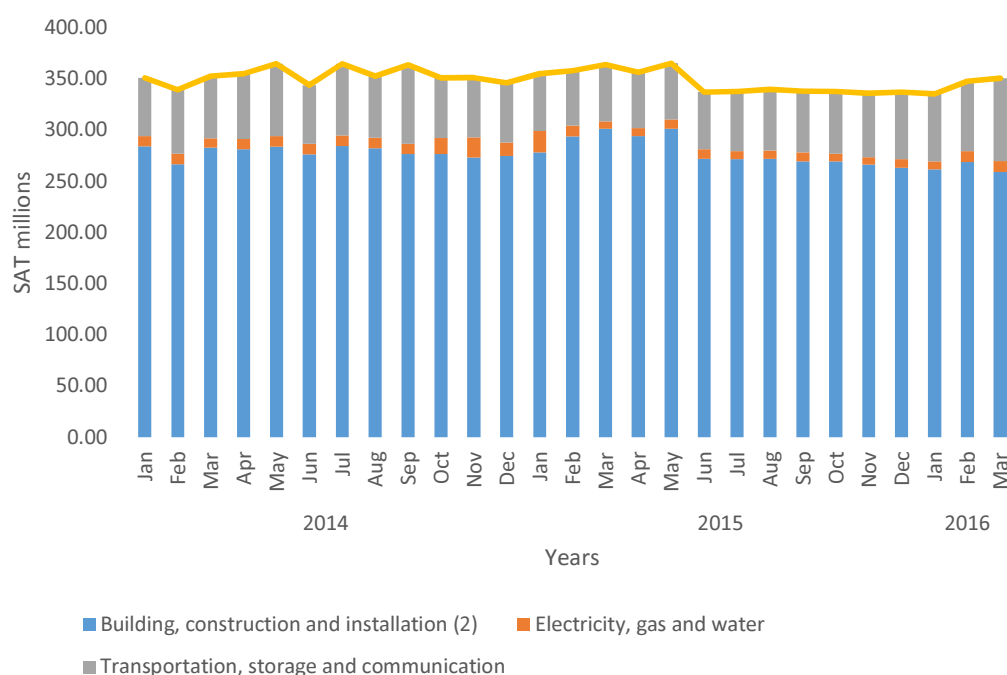
information on public debt. The MTDS limits approval of external loans to those with a 35 percent grant element and a minimum positive economic return to cover interest and repayments. It also introduces mechanisms to monitor the risk of default from government guaranteed loans and monitor risks from the composition and maturity profile of public debt.

### **Local Banks**

The Central Bank of Samoa has several financial instruments available to stimulate investment within the infrastructure sector and these included special credit lines given to commercial banks and national development bank offering low interest rates, longer terms and favourable grace periods. For example they have facilitated private sector borrowings for the Submarine cable through WB – International Finance Corporation (IFC) and ADB.

Mobilising financing for infrastructure through the local commercial banks is relatively difficult given the high cost of projects undertaken. There is also limited ability of local businesses to meet the required security for these high risk initiatives. The main sources of commercial lending have been channelled towards infrastructure related activities including: (i) building and construction; (ii) transportation, storage and communication and (iii) electricity, gas and water. An overview of commercial lending portfolio below indicates a relatively slow growth in terms of the total lending to infrastructure industries since 2014:

**Figure 6: Commercial Bank Lending to Infrastructure Related Activities, 2014-2016**



Source: Central Bank of Samoa.

### **Multilateral Development Banks (MDBs)**

The MDBs, together with other public development finance institutions, play a key role in assisting small island nations such as Samoa to utilise scarce government resources and leveraging much larger, and longer-term, private investments. In 2014, the world's six large MDBs (including World Bank, Asian Development Bank, European Investment Bank, European Bank for Reconstruction and

Development and African Development Bank Group) delivered over US\$28 billion in financing to help developing countries and emerging economies mitigate and adapt to the challenges of climate change. The latest figures bring total collective commitments of the past four years to more than US\$100 billion<sup>12</sup>.

Given the high cost associated with infrastructure related investments, it is increasingly clear that the finance required for a successful, orderly transformation to a low-carbon and resilient Samoan economy runs into the millions. The central government's net domestic debt is small, amounting to 2 percent of GDP, but domestic liabilities in public financial institutions and SOEs could add 24 percent of GDP to the debt ratio<sup>13</sup>. External debt makes up 98 percent of the total, with most being concessional. Multilateral creditors account for 58 percent of total external debt (including 25 percent owed to the World Bank, 31 percent to Asian Development Bank, and 2 percent to OPEC, IFAD and EIB). Bilateral creditors account for approximately 42 percent of the total external debt (35 percent owed to China and 6 percent to Japan). There is no external private debt. The details for ADB and WB portfolios are listed below:

**Table 7: MDB Existing Portfolios in Samoa**

| <b>Institution</b>          | <b>Existing Portfolios</b>  |
|-----------------------------|---|
| <b>ADB – as end FY 2014</b> | 35 loans (\$186.19 million), 14 ADF grants (\$90.42 million), and 93 TA projects for \$30.43 million have been provided to Samoa. Two loans (\$75.15 million), 6 ADF grants (\$58.50 million), and 1 TA project (\$0.40 million) are active |
| <b>WB</b>                   | 10 projects with a total commitment of US\$125.9 million. Samoa has an IDA-17 (FY15–FY17) allocation of \$24.5 million.   |

### **3.7 Regulatory environment**

#### ***Legal/Regulatory Framework***

There are several existing legal/regulatory framework in place to support infrastructure investment such as Tourism Development Act, Planning and Urban Management Act 2004, Development Consent and Building Consent to manage development.

#### ***Land***

The majority of land ownership in Samoa is under customary ownership. Leasing arrangements allows for 20 plus 20 year guarantee of lease ownership to foreign enterprises. There have been numerous legislations developed to promote more economic use of customary land which include: Use of Lands and Titles Registration Act 2008, Samoa Alienation of Customary Land Act 1965, Samoa Alienation of Freehold Land Act 1972, Lands and Titles Amendment Act 2008, Land Survey and Environment Act 1997. There are also provisions to support land acquisition by Government through the Taking of Land Act 1964 and Amendment 2005 to support land acquisition for infrastructure project for public interest.

<sup>12</sup> <http://www.worldbank.org/en/news/press-release/2015/06/16/mdbs-provided-28-billion-climate-finance-2014>

<sup>13</sup> <https://www.imf.org/external/pubs/ft/dsa/pdf/2015/dsacr15191.pdf>

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There is ongoing support being provided through ADB for promoting the economic use of land given the potential for these to be used to improve access to credit for business investment. There are ongoing consultations given the concerns raised by the community regarding possible alienation of customary land should the investment fail.

### ***Environmental and Social Safeguards***

There are existing national environmental and social standards such as the Development Consent and Building Consent which are required for any infrastructure related initiative. These standards are in line with international best practices such as the “Equator Principles” and are compulsory for all development funded infrastructure projects.

Samoa has adopted an integrated approach which incorporates land use planning, coastal zone management, tourism projects, energy and wastes, land degradation and proper management of eco-attractions into the Environmental Impact Assessment (EIA) process. Such adaptations to the EIA process require an adequate institutional and research framework to ensure that the EIA process takes into account current scientific knowledge and the analytical requirements such an integrated assessment would entail. This integrated approach for undertaking assessments of climate change impacts are becoming a necessity for small island states like Samoa.

One of the challenges encountered in undertaking the EIA process is the consideration of alternatives. This area of analysis requires a consideration of the cost-benefit of each option as well as significant impacts arising from the alternative. The lack of sound baseline data due to limited resources for sustained social and environmental monitoring also seriously impacts the potential for the EIA process to contribute to sustainable development. This is further compounded by capacity constraints in key agencies that affect the implementation of the EIA process.

## **4. Financing strategies**

This section outlines conclusions and possible financing strategies and implementation modalities for infrastructure development in Samoa. These include:

### **4.1 Mobilizing domestic resources**

Investment in the transport sector has had a significant effect on Samoa’s economic growth over the last decade. Anecdotal evidence indicates that investment in the physical transport infrastructure including roads, airports and seaports can provide faster returns than equivalent investment in social services including health and education. This is because improved transport infrastructure has a faster impact on total productivity and on economic growth than social infrastructure.

Approximately 85% of public expenditure for capital investment in Samoa is directly concerned with infrastructure based on its PSIP. The large majority of infrastructure spending is on sectoral projects including transport and water and sanitation. The figures suggest that the infrastructure related share of total expenditure is lower for recurrent expenditure than for development expenditure. Furthermore, the large majority of recurrent infrastructure expenditure is mainly financed through SOEs. Contingent liabilities comprise explicit guarantees of around 7 percent of GDP in PFIs and implicit guarantees of around 17 percent of GDP in SOEs. The total amounts to approximately 24 percent of GDP at end-2014.

In view of this, it is useful to build on the existing information available for pipeline infrastructure projects in order to ensure there is sufficient levels of financing available to cater for the growing

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infrastructure related expenditures in Samoa. The growing tax base provides a good avenue for sourcing these funds and targeted non- tax revenue measures is another policy being implemented as part of the Government’s fiscal strategy.

#### **4.2 Improving public expenditure efficiency**

The continuous improvements to the public finance management systems has facilitated the current sector financing mechanisms. These include (i) general budget support; direct grants as “Outputs to Third Parties” via ministry budgets; (ii) project specific development soft term loans and grants to ministries and on-lending arrangements with SOEs; and (iii) accumulated cash flows from operations and debt financing via commercial loans. With the move towards the sector-wide approach in planning and budgeting it is expected that the following funding mechanisms will be explored over the plan period:

- Increased sector or general budget support mechanisms for development funding as opposed to discrete projects for core sector projects/programmes
- Blending of grants, loans and equity investments

The multi-faceted nature of the infrastructure sector means that inter-relationships between stakeholders and sector-implementing agencies are both complex and unpredictable. In addition, various stakeholder organisations are mandated to enact their own legislation or constitutions and to follow the direction of their individual governing bodies or boards, whose objectives may not always be in line with sector objectives or priorities.

The Government is pushing ahead with further SOE reform in light of SOEs’ potential impact on fiscal sustainability. The role played by MPE is expected to improve SOE performance and accountability. Performance evaluations of boards of directors of SOEs is ongoing and further support is needed to ensure privatisation of SOEs already approved by Cabinet proceed in a timely manner.

#### **4.3 Partnering with the private sector**

The Government recognises the need of a greater role for the private sector in developing and financing infrastructure and are attempting to introduce measures to improve the development of PPPs to mitigate risk particularly within the energy and aviation sector.

In particular, there has been slow growth in utilising private sector financing for infrastructure related investments in Samoa. There are a number of institutional, governance and financing issues which include:

- Weak pipeline of bankable PPP projects and poor quality of project preparation prior to bidding, with inadequate background analysis undertaken prior to tendering resulting in unrealistic expectations.
- Lack of market-oriented legal, administrative and institutional systems to: (a) promote private investment in infrastructure PPPs; (b) clearly define the roles and responsibilities for the public and private sectors throughout the project cycle; (c) mitigate risks associated with integrating projects into broader systems, line agencies delays on project site, pricing risk, regulatory approvals, etc; and (d) address key sector policy issues (e.g., tariff regimes, land acquisition) which can undermine the viability of PPPs.
- Limited government capacity and lack of methodology to determine which projects should be procured publicly and which should be PPPs. This includes an unclear role of SOEs in the PPP market, which continues to crowd out private sector investment/expertise.

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- Inability of local financial markets to provide adequate levels of long-term local currency financing for infrastructure PPPs.

#### **4.4 Tapping financial markets**

The financial sector in Samoa remains generally well capitalized, profitable and liquid, although risks and vulnerabilities have built up in certain areas. Capital adequacy ratios and Return on Equity (ROE) in the banking sector were generally comfortable at 28.7 percent and 7.1 percent respectively at the end of 2014 according to IMF Debt Sustainability Assessment Report in 2015. However, non-performing loans edged up to around 7 percent. Key areas that continue to require strengthening include financial sector supervision and regulation in order to attain macro-financial stability and a sound external position.

There is an ongoing review of credit provisions through PFIs to ensure they retain their core roles and facilitate increased private financial role in provision of credit. The credit guarantee support provided via PFIs to strengthen finance to the public and business community is considered to be only a temporary measure given the special circumstances, and is complementary to credit from commercial banks. As rebuilding efforts wind down it is envisaged that PFIs will gradually reduce provision of credit to the private sector. MPE will also increase its monitoring role through supporting transparency and accountability of these organizations.

Another constraint to private sector credit is the lack of acceptable collateral available to many private sector businesses. In this regard, the use of customary land leases as acceptable collateral is being developed. Also, a personal property security act is now in place to allow individuals and business to use their moveable assets as collateral for loans. A centralized asset registry is still being developed at the moment to bring this into effect. Further analysis is underway of the relatively high lending rates, which are a deterrent to potential businesses and those that are looking to improve and expand their domestic operations, to determine if this is an issue for which a policy response would be appropriate.

#### **4.5 Leveraging climate finance and ODA resources**

As experience with climate financing evolves, Samoa has been able to increase its access to numerous facilities to supplement its growing infrastructure portfolio. The climate proofing of national roads and airport facilities have benefitted from this investment as part of the USD\$109 million in grant funding secured for national level climate change projects.

The implementation modalities on the other hand have not progressed as fast as envisaged during the design of these projects. This has been compounded by the limited baseline information available, onerous reporting and procurement requirements of development partners, high personnel turnover and technical capacity to undertake the required environmental and social safeguards.

There are several tools that could be used to measure climate resilience. This includes the use of Climate Public Expenditure and Institutional Review (CPEIR) which could be used as a basis for budget support to support both mitigation and adaptation initiatives. Samoa can build on these numerous assessments to gauge the extent and impact of climate related financing in order to leverage more climate financing for specific infrastructure related projects being developed by implementing agencies to combat increasing climate risks.

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There is also scope for enhancing regional approaches whereby key players such as the Pacific Regional Infrastructure Facility (PRIF) can assist countries like Samoa in seeking co-financing for projects that have a regional impact or scope for replicability. The Pacific Island Forum (PIF) Secretariat are exploring the feasibility of establishing a regional fund for climate finance, which could be a bridge for country systems that have not yet satisfied fiduciary requirements. Such a fund could pool financial resources and technical expertise to increase the scale, and promote smooth implementation of projects and capacity development. It could also be a platform for enhancing collaboration in order to maximize resources and leverage additional initiatives. Such fund however requires an effective governance structure and significant donor engagement and consultation.

## **5. Conclusions**

The Government recognizes that vulnerabilities have increased in certain areas including as a consequence of the needed government intervention to support reconstruction following frequent natural disasters. This has exacerbated the public debt-to-GDP ratio which has increased due to widened fiscal deficits. The current account deficit has worsened with reconstruction increasing demand for imported inputs. Asset quality in both public financial institutions and commercial banks has deteriorated. These vulnerabilities expose the economy to increased risks.

Substantial investment has been channelled to the infrastructure related sectors and this is expected to grow as Samoa continues to adapt to climate change impacts. These investments have been underpinned by a robust national planning and policy framework as well as growing technical capacity within the key implementing agencies. Significant improvements to public expenditure management systems have also facilitated the flow of development funds towards infrastructure investments.

However, there are clear constraints that need to be addressed in order for Samoa to continue to evolve as a low middle-income country with potential limitations to its access for future highly concessional development financing. The absorptive capacities within key agencies namely SOEs need to be addressed a matter of priority to ensure the timely implementation of these projects. There is also a need for a more aggressive promotion of PPPs in key sectors including transport, communication, water and sanitation and energy. The Government will need to ensure more vigilance and adherence of implementing agencies to established policies that focus on blending of financial instruments to contain and reduce these vulnerabilities over time.

The role played by financial institutions is critical to ensure additional resources can be mobilised from private investment. This can be facilitated through the support provided by MDBs as well as local commercial banks. There is also scope for enhancing regional approaches to leverage additional resources for projects that have a regional impact or can be replicated. Accessing regional facilities such as PRIF and establishment of a dedicated regional climate finance fund to leverage additional financing are other options worth pursuing. Substantial resources, partnership and long-term commitment to training and skills development within each of the infrastructure related sectors is essential for meeting Samoa's sustainable development goals.

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## Annexes

### Annex 1: Terms of reference

#### PROPOSED STRUCTURE – NATIONAL STUDY

##### I. Assessment of National Infrastructure Needs

The first part focuses on estimating the infrastructure needs (including possible gaps) and the consultant should try to answer the following questions:

- What are the indicative cost estimates for infrastructure development in the coming years?
- Has the country developed a national infrastructure strategic plan and/or master plans in the following sectors: Transport, Energy, ICT and Water/Wastewater)?
- What additional costs could be required for achieving the infrastructure-related sustainable development goals?<sup>14</sup>

##### II. Availability / Source of Funds for Infrastructure Development

The second part of the report could deal with the availability and source of funding for infrastructure development. To this end, the consultant could review the following categories and should try to answer these questions as much as possible while including other relevant elements:

|                                      |   |
|--------------------------------------|---|
| PUBLIC<br>EXPENDITURES<br>MANAGEMENT | <b>Infrastructure spending</b> <ul style="list-style-type: none"><li>▪ What is the share of budget devoted to infrastructure development?</li></ul>   |
|                                      | <b>Project selection and procurement</b> <ul style="list-style-type: none"><li>▪ Are there any reforms planned regarding project selection and procurement? Utilities regulation?</li><li>▪ Have any reforms been made to improve the transparency of public procurement frameworks?</li><li>▪ Is there a specific ministry in charge of reviewing the national infrastructure plans and approvals?</li></ul> |
| DOMESTIC RESOURCES<br>BILIZATMOION   | <b>Public finance</b> <ul style="list-style-type: none"><li>▪ What is the fiscal situation of the country? Budget deficit/surplus?</li><li>▪ What is the level of indebtedness? Current-account deficit and level of external debt?</li></ul>   |
|                                      | <b>Tax collection and policy</b> <ul style="list-style-type: none"><li>▪ What is the level of tax collection compared to the region (e.g. Tax to GPD ratio)? What is the scope for enhancing tax collection / increasing tax levels?</li><li>▪ Are there any specific tax policies or incentives related to infrastructure investments?</li></ul>   |
|                                      | <b>Grants:</b> <ul style="list-style-type: none"><li>▪ Does the Government benefit from Donors' grants? If yes, does that constitute a large part of its revenues?</li><li>▪ Has the Government tried to attract resources from climate finance instruments for infrastructure development? Has the Government a plan to increase the resources mobilized from these</li></ul>                                |

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<sup>14</sup> In particular SDG 7 / Ensure access to affordable, reliable, sustainable and modern energy for all, SDG 9 / Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation, SDG 11 / Make cities and human settlements inclusive, safe, resilient and sustainable and SDG 13 / Take urgent action to combat climate change and its impacts



|   |  |
|---|--|
|   | instruments?   |
| PUBLIC-PRIVATE PARTNERSHIPS <sup>15</sup> | <b>Regulatory and Institutional Setting:</b> <ul style="list-style-type: none"> <li>▪ Laws and Regulations for PPP: <i>Is there any legal/regulatory framework allowing the private sector to execute public infrastructure projects? Is there a legal/regulatory framework specific to PPP? What are some of the important related regulations (e.g., land law, foreign investment law, etc.)?</i></li> <li>▪ Government Organizations for Promoting PPP: <i>Which government agencies are assigned tasks to promote PPP? Is there a special PPP unit? With whom do private parties need to consult?</i></li> </ul> |
|   | <b>Financial Support:</b> <ul style="list-style-type: none"> <li>▪ Project Development Fund: <i>Is there an institutionalized fund which supports project preparation?</i></li> <li>▪ Government Support (Guarantees and Subsidies): <i>Is there a mechanism to disburse the government's budget (including from a separate fund) for financing support or risk mitigation in PPP projects?</i></li> </ul>   |
|   | <b>Selection Process:</b> <ul style="list-style-type: none"> <li>▪ Project Process and Guidelines: <i>How are projects approved by the government as PPP? Is there a streamlined procedure for pre-qualification, bidding, or negotiation? Stakeholder consultation?</i></li> <li>▪ Project Lists: <i>Is there any published list targeting to potential investors?</i></li> <li>▪ Unsolicited Proposal: <i>Is there any guidance on how to treat unsolicited proposals?</i></li> </ul>  |
|   | <b>Contracts:</b> <ul style="list-style-type: none"> <li>▪ Are PPP contracts bankable in the country (important issues for the banking sector include: step-in rights; termination payments; and security interests, the latter being challenging for infrastructure assets)?</li> <li>▪ Has the government developed Model Concession Agreement to facilitate the contracting of PPP projects?</li> </ul>   |
|   | <b>Fiscal Sustainability:</b> <ul style="list-style-type: none"> <li>▪ Are there mechanisms set-up to manage the contingent liabilities that can result from public guarantees provided for PPP projects? Are potential liabilities correctly reported in public accounts?</li> </ul>  |
|   | <b>Examples of PPP Projects:</b> <ul style="list-style-type: none"> <li>▪ What kinds of projects were already awarded as PPP projects?</li> <li>▪ Do local companies have sufficient resources and capacity to finance infrastructure projects?</li> </ul>   |
| CAPITAL MARKETS                           | <b>Local Bond Market:</b> <ul style="list-style-type: none"> <li>▪ Is there a liquid sovereign bond market (size/tenor)?</li> <li>▪ Does the country have a corporate bond markets (size / type of companies)? Are local infrastructure companies issuing bonds on this market?</li> <li>▪ Is there a plan to further develop those markets?</li> </ul>  |
|   | <b>Local Stock Market:</b> <ul style="list-style-type: none"> <li>▪ What is the level of development of the stock market? Market capitalization? Number of companies listed?</li> <li>▪ Are there any fund managers active in the country focusing on infrastructure investments?</li> </ul>   |
|   | <b>Regional Markets:</b> <ul style="list-style-type: none"> <li>▪ Are local companies listed/ issuing bonds on offshore regional financial markets?</li> </ul>   |
|   | <b>Institutional Investors:</b> <ul style="list-style-type: none"> <li>▪ Are there local institutional investors such as pension funds, insurance companies and SWFs that</li> </ul>   |

<sup>15</sup> The methodology for this category is taken from the ERIA's work in ASEAN on [http://www.eria.org/PPP\\_Comparative\\_Table\\_ASEAN\\_2015.pdf/](http://www.eria.org/PPP_Comparative_Table_ASEAN_2015.pdf/) A good source of information regarding PPP is the PPP Knowledge Lab <https://pppknowledge.org/>

|                         |   |
|-------------------------|---|
|                         | <p>could support investment in infrastructure?</p> <ul style="list-style-type: none"> <li>Is there any plan or effort to introduce a pension plan (for a general one or for a specific type of such as a pension fund for public employees) or any other measure to increase savings?</li> <li>Are there any regulations preventing / limiting the possibility for these investors to invest in infrastructure projects (e.g. minimum rating)?</li> <li>Is there any legal/regulatory framework permitting to use Central Bank reserves partially or use the reserves as collateral for economically important infrastructure financing?</li> <li>Are there any regulations encouraging institutional investors to finance long-term investments in sustainable infrastructure development (e.g. Green Bonds)?</li> </ul> |
|                         | <p><b>Rating Agencies:</b></p> <ul style="list-style-type: none"> <li>Are there local rating agencies supporting the financial market development?</li> </ul>   |
|                         | <p><b>Project Finance :</b></p> <ul style="list-style-type: none"> <li>Have infrastructure projects in the country been financed directly through financial markets? For example through project bonds or infrastructure funds?</li> <li>Is the government encouraging the setting of infrastructure funds or similar investment vehicle mechanisms?</li> </ul>   |
|                         | <p><b>Bank's refinancing / securitization schemes:</b></p> <ul style="list-style-type: none"> <li>Have refinancing or takeout financing schemes been explored to release long-term commitments from bank's balance sheet? For example through the securitization of infrastructure loans?</li> </ul>  |
| STATE-OWNED ENTERPRISES | <p><b>SOEs and infrastructure development:</b></p> <ul style="list-style-type: none"> <li>What is the role of state-owned companies in the infrastructure sectors? What is their size? What are the sectors they are involved in?</li> </ul>  |
|                         | <p><b>SOEs financial capacity:</b></p> <ul style="list-style-type: none"> <li>Are these companies financially profitable or do they rely largely on public budget allocation?</li> </ul>  |
| BANKING SECTOR          | <p><b>Local Banks:</b></p> <ul style="list-style-type: none"> <li>Are infrastructure projects mainly financed through corporate loans or project finance?</li> <li>Are local banks used to project finance? Can they lend large amount of money in local currency? What is the typical maximum tenor of their loans? Are there any regulations constraining the banks to provide long-term loans? What is the average of maturity of the deposits in the banking sector? Do the banks' deposits are coming from a narrow base of clients?</li> <li>Are there any regulations encouraging banks to grant loans for long-term investments in sustainable infrastructure development?</li> </ul>   |
|                         | <p><b>International Commercial Banks:</b></p> <ul style="list-style-type: none"> <li>Are international commercial banks active in the country? Ready to finance infrastructure projects?</li> </ul>   |
|                         | <p><b>Multilateral Development Banks:</b></p> <ul style="list-style-type: none"> <li>What is the involvement of MDBs in terms of infrastructure financing?</li> <li>Sovereign lending and/or private sector financing?</li> </ul>   |
|                         | <p><b>Dedicated infrastructure institutions</b></p> <ul style="list-style-type: none"> <li>Has the Government established dedicated finance institutions to support infrastructure development in the country, for example a national development bank?</li> </ul>  |

The consultant could also assess key aspects of the legal and regulatory environment that are relevant for infrastructure development.

|                        |   |
|------------------------|---|
| REGULATORY ENVIRONMENT | <b>Overview:</b> <ul style="list-style-type: none"> <li>Is there any legal/regulatory framework specific to infrastructure investment? What are some of the important related regulations?</li> <li>What is the procedure to determine which type of infrastructure project should be associated with each procurement method (such as PPP and traditional procurement)?</li> <li>Is there any plan or effort to enhance greater transparency in infrastructure project financing?</li> </ul> |
|                        | <b>Land:</b> <ul style="list-style-type: none"> <li>Foreign Ownership for Land and Buildings: <i>Is the ownership of land or buildings granted to foreign enterprises?</i></li> <li>Land Acquisition Support by Government: <i>Is there a framework to support land acquisition for infrastructure project for public interest?</i></li> </ul>  |
|                        | <b>Environmental and Social Safeguards:</b> <ul style="list-style-type: none"> <li>Do local environmental and social standards comply with the international best practices (for instance, the “Equator Principles”)?</li> </ul>  |

Based on the results from the analysis, the report should provide a holistic overview of the different sources and options for financing infrastructure development in the country.

### III. [Financing Strategies](#)

The third part should suggest some possible financing strategies and explain how they could be implemented in the country. Possible financing strategies include:

- **Mobilizing Domestic Resources** (for example through tax reforms)
- **Improving public expenditure efficiency** (significant savings can be made regarding infrastructure development by improving the selection, streamlining delivery and optimizing the use of existing infrastructure).
- **Partnering with the Private Sector** (for instance through PPP arrangements)
- **Tapping Financial Markets** - how financial markets can better support infrastructure development and how more resources can be mobilized from the financial sector (for example through issuing bonds on local or regional markets construction companies could accessed more easily long-term financing and some infrastructure projects could directly tap these markets – what needs to be done to make that possible) – If the capital markets are currently not playing a role, the report should indicate the main obstacles and challenges as well as the possible options to better exploit capital markets in the future for infrastructure development.
- **Leveraging Climate Finance and ODA resources**

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## Annex 2: References

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### Annex 3: List of stakeholders consulted

#### Stakeholder Interviews

| NAME                      | ORGANISATION | POSITION                      |
|---------------------------|--------------|-------------------------------|
| 1. Paulino Pania          | MWTI         | ACEO – Policy and Planning    |
| 2. Petone Toafia-Mulinuu  | MWTI         | Principal Policy and Planning |
| 3. Foketi Fuimaono        | MWTI         | Policy and Planning Officer   |
| 4. Glenn Fawcett          | MWTI         | MTEF Consultant               |
| 5. Iulai Lavea            | MOF          | CEO                           |
| 6. Lita Lui               | MOF          | ACEO – Aid & Debt Management  |
| 7. Sione Foliaki          | MOF          | ACEO – Energy Division        |
| 8. Margaret Polly Godinet | MCIT         | ACEO – Corporate Services     |
| 9. Talatalaga Matau       | MCIT         | ACEO – Policy and Planning    |
| 10. Manusamoa Tony Saaga  | MCIT         | ACEO – Information Technology |
| 11. Letoa Matini Asaua    | MCIT         | ACEO - Broadcasting           |
| 12. Ruth Ueselani         | MNRE         | Water Sector Coordinator      |
| 13. Elita Tooala          | MPE          | CEO                           |
| 14. Noumea Simi           | MFAT         | CEO                           |

#### National Workshop Participants

| No. | Participant             | Designation   | Organisation | Email  |
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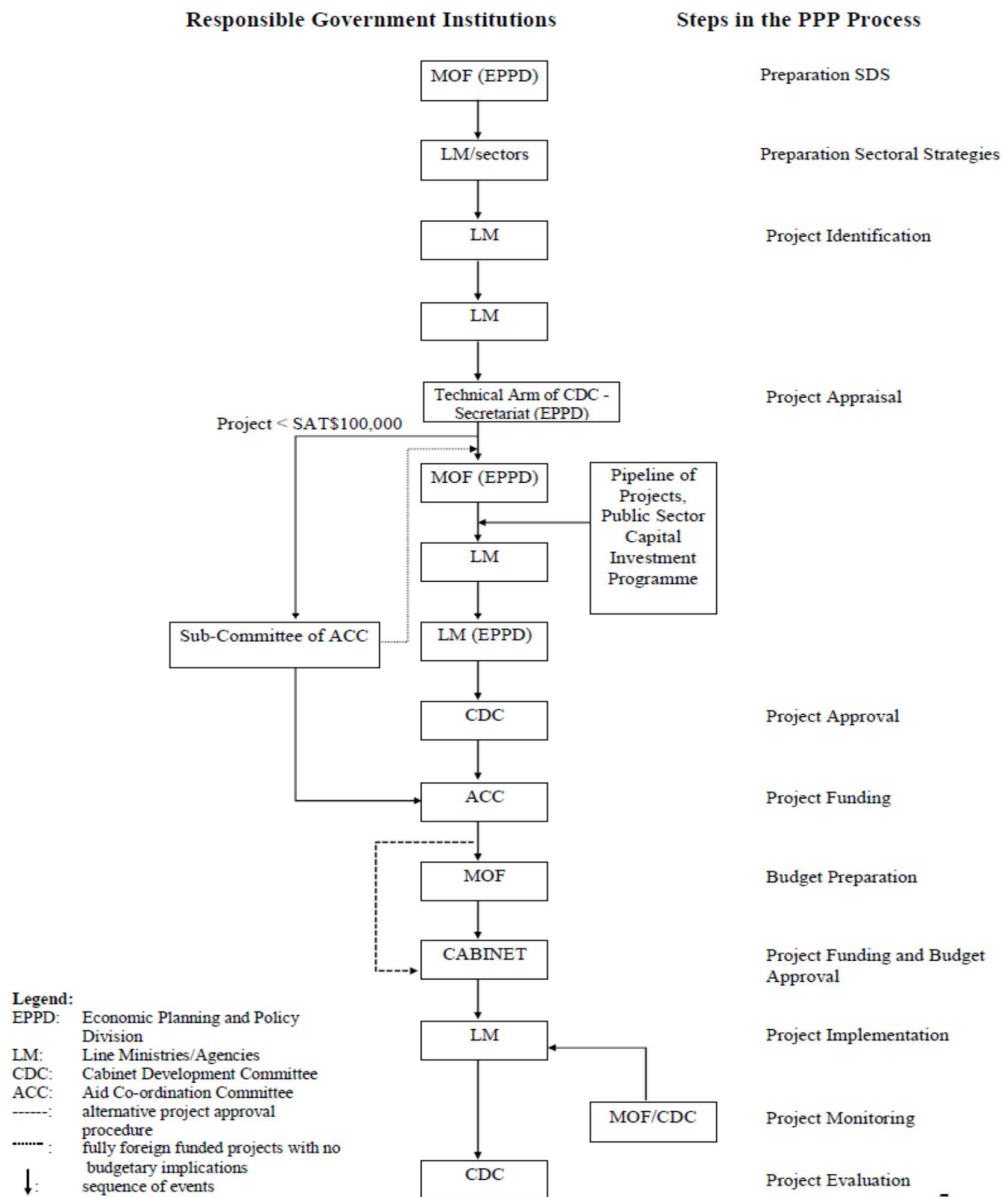
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## Annex 4: Overview of project planning process



**Annex 5: List of ongoing infrastructure projects**

| PROJECT   | IA   | GRANTS IN USD       |                      | LOANS (USD)          |                      | IN-KIND             |                     |
|---|------|---------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
|   |      | FY 2015/16          | FY 2016-17           | FY 2015/16           | FY 2016-17           | FY 2015/16          | FY 2016-17          |
| <b>ENERGY SECTOR</b>  |      | <b>\$ 2,818,815</b> | <b>\$ 2,033,900</b>  | <b>\$ 11,856,783</b> | <b>\$ 15,635,700</b> | <b>\$ 4,888,970</b> | <b>\$ 7,749,730</b> |
| Solar PV Project (Japan)  | EPC  | \$ 535,758          |                      |                      |                      |                     |                     |
| Energy Bill and Sustainable Bioenergy (EU/GIZ)                              | MoF  | \$ -                | \$ 353,736           |                      |                      |                     |                     |
| Biogas Generation (Bio Gen) (SPREP)   | MNRE | \$ -                | \$ 151,303           |                      |                      |                     |                     |
| Power Sector Expansion Project (ADB)  | EPC  | \$ 2,167,826        | \$ 1,221,957         |                      |                      | \$ 2,283,057        | \$ 1,528,861        |
| Power Sector Expansion Project (Aust)                                       | EPC  | \$ 115,230          | \$ 306,904           |                      |                      |                     |                     |
| Power Sector Expansion Project (ADB/JBIC)                                   | EPC  |                     |                      | \$ 8,605,043         | \$ 12,702,207        |                     |                     |
| Petroleum Bulk Storage Facility (OPEC 4)                                    | MoF  |                     |                      | \$ 3,251,739         | \$ 2,933,492         |                     |                     |
| Samoa Renewable Energy Partnership (NZ/EU)                                  | EPC  |                     |                      |                      |                      | \$ 2,605,913        | \$ 1,221,957        |
| Samoa Renewable Energy Partnership (ADB)                                    | EPC  |                     |                      |                      |                      |                     | \$ 4,998,913        |
| <b>TRANSPORT &amp; INFRASTRUCTURE SECTOR</b>                                |      | <b>\$ 8,801,374</b> | <b>\$ 12,187,414</b> | <b>\$ 28,287,423</b> | <b>\$ 35,781,896</b> | <b>\$ -</b>         | <b>\$ -</b>         |
| Climate Resilience of West Coast Road (WB)                                  | LTA  | \$ 3,251,739        | \$ 601,265           |                      |                      |                     |                     |
| Samoa Aviation Investment Project (WB)                                      | SAA  | \$ 2,167,826        | \$ 2,578,106         |                      |                      |                     |                     |
| Pacific Regional Infrastructure Fund-Samoa Aviation Investment Project (WB) | SAA  | \$ 130,070          | \$ 70,825            | \$ 5,754,336         | \$ 13,858,696        |                     |                     |

|  |                   |                      |                      |                      |                      |                     |                     |
|--|-------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| <b>Enhanced Roads Access Project (WB)</b>  | LTA               | \$ 3,251,739         | \$ 4,663,305         |                      |                      |                     |                     |
| <b>Enhanced Roads Access Project (DFAT/WB)</b>   | LTA               | \$ -                 | \$ 4,273,913         |                      |                      |                     |                     |
| <b>Post Tsunami Reconstruction Project (IDA)</b>                                       | LTA               |                      |                      | \$ 325,174           |                      |                     |                     |
| <b>Faleolo International Airport Terminal (China)</b>                                  | SAA               |                      |                      | \$ 22,207,913        | \$ 21,923,200        |                     |                     |
| <b>COMMUNICATION SECTOR</b>  |                   | <b>\$ 3,417,739</b>  | <b>\$ 32,653,696</b> | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ -</b>         | <b>\$ -</b>         |
| <b>ICT Technical Assistance for the Connectivity Program (Aust)</b>                    | MCIT              | \$ 166,000           | \$ 83,000            |                      |                      |                     |                     |
| <b>Samoa Connectivity Project (WB)</b>   | MCIT              | \$ 1,625,870         | \$ 14,219,130        |                      |                      |                     |                     |
| <b>Samoa Submarine Cable (ADB)</b>   | MCTI              | \$ 1,625,870         | \$ 18,351,565        |                      |                      |                     |                     |
| <b>WATER &amp; SANITATION SECTOR</b>   |                   | <b>\$ 17,081,443</b> | <b>\$ 8,810,870</b>  | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$ -</b>         | <b>\$ -</b>         |
| <b>Water and Sanitation Policy Support Programme Phase II and MDGs Initiative (EU)</b> | MoF/<br>MWC<br>SD | \$ 12,908,261        | \$ 8,810,870         |                      |                      |                     |                     |
| <b>Global Climate Change Alliance (EU)</b>   | LTA/S<br>WA       | \$ 586,739           |                      |                      |                      |                     |                     |
| <b>TOTAL FOR INFRA SECTOR</b>  |                   | <b>\$ 32,119,370</b> | <b>\$ 55,685,879</b> | <b>\$ 40,144,206</b> | <b>\$ 51,417,595</b> | <b>\$ 4,888,970</b> | <b>\$ 7,749,730</b> |



# **SAMOA- NATIONAL STUDY**

## **Infrastructure Financing Strategies for Sustainable Development**