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Samoa Gets Thumbs Up From IMF, Others Need To Work Harder

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(By Alex Rheeney in Singapore, Pacific Magazine)

The International Monetary Fund has praised Samoa for pursuing structural reforms that have led to higher investment and growth in its economy.

Releasing its Regional Economic Outlook for Asia and Pacific during its annual meetings with the World Bank Group in Singapore, the multilateral finance institution said Samoa has been a "notable exception" in the region.

"One notable exception is Samoa, which embarked on a wide-ranging program one decade ago, leading to higher investment and growth. Fiji and Palau have succeeded more recently in promoting foreign and domestic investment in tourism. However, firm and persistent application of the medium-term policy framework outlined above is essential for improved economic performance throughout the region," the IMF said.

While saying island states have immense potential to develop their tourism, fisheries, forestry, mining and agriculture sectors, the Washington D.C.-based fund said the challenge for economic policymakers was to exploit these resources to achieve faster sustainable growth and alleviate poverty through continued macroeconomic stability, structural reform, public sector efficiency and more private sector activity.

The IMF said average real GDP growth has been modest over the past decade, averaging 3 percent annually and below the rate of population increase and is compounded by governance problems, loss of control in public expenditure and misdirection of spending in Island states.

"In recent years, governance problems surfaced, control of public expenditure was progressively weakened, and spending was misdirected. Ethnic tensions contributed to coups in Fiji and civil conflict in the Solomon Islands, although economic recovery has been underway since the arrival of the Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) in 2003. Lack of employment opportunities contributed to increased crime and lawlessness in Papua New Guinea, and emigration from various island countries."

The inability of Island states to reform their expensive public service was highlighted as a concern as individual governments continue to pay a salary bill that was between 10-25 percent of GDP.

"One major issue is the large size of the public sector throughout the region. In particular, the government wage and salary bills are in the range of 10–25 percent of GDP, far higher than in other regions. Another concern is the role of public enterprises, which frequently operate at a loss. This reduces the availability of budgetary funds for other types of spending more conducive to faster growth, including for health, education and infrastructure, especially in the telecommunications and transport sectors," the IMF said.

While Pacific Island states continue to face challenges to improve living standards despite the minute size of their economies, remoteness, limited production diversification, lack of regional co-operation and vulnerability to natural disasters, the IMF said the Australia and New Zealand-endorsed Pacific Plan could hold the key to structural change in the region.

"The key to success of the plan's proposals will be their pace of implementation, which will depend crucially on the island countries themselves. However, the process will inevitably be a lengthy one, given the deep seated nature of many impediments to growth."

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