THE FOUNDATION FOR
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Policy and Regulatory Framework for Remittance - Samoa

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Preface

This report provides a brief overview of the policy and regulatory framework for remittances in Samoa. In particular, the report provides an overview of the foreign exchange licencing rules and regulations; rules relating to mobilisation of deposits by non-bank institutions; prudential regulations affecting non-bank sector growth; tax treatment; and incentives relating to migration and remittances.

This report was prepared as part of a wider Australian Research Council (ARC) funded research project on 'Leveraging Remittances with Microfinance: A Cross-country study'. The six-country study involves Sri Lanka, Philippines, Indonesia, Samoa, Fiji and Timor Leste.

This project is currently on-going. Further work and subsequent findings on this important and growing field is envisaged to be published for dissemination in mid-2007.

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EXECUTIVE SUMMARY

Estimated to be around 20% of GDP contribution, remittance is a key component of the current account and balance of payment in Samoan economy. The Central Bank of Samoa (CBS) stated that the inflow of remittances is projected to rise by 2% in 2006/07 with household transfers expected to improve by 4%.

Apart from the economic significance, remittances to Samoa need to be understood in the social-cultural context. This includes the traditional concepts of *fa'samoa* and *matai* system, acts as a social safety net and facilitates receipt of land titles for good deeds and encourages non-residents to send money home to their kin, respectively.

Remittance flows to Samoa are currently facilitated through both commercial banks and non-banking financial institutions (NBFIs). However, the Central Bank of Samoa is responsible for statutory supervision of banks only, and some selected NBFIs. This does not include the money changers and the money transfer businesses which generally operate on their own. The flow of remittances to Samoa is also affected by various regulations such as the Money Laundering Prevention Act 2000. This makes the facilitation process for remittances more difficult, administratively complex and time-consuming. Furthermore, a recent IMF study found that the prudential regulations lack the detailed requirements for effective monitoring and management of the financial system.

On the issue of tax treatment on remittances, Samoa does not impose any tax on inward or outward remittances, per se. Until the late 1990's Samoa did impose a 1% Foreign Exchange Levy on all outward remittances, such levy (tax) having first been imposed at a time when Samoa had a major problem with its balance of payments and had a real need to preserve its foreign exchange. Samoa repealed such legislation in the late 1990's. Some inward remittances may be subjected to Samoan income tax, if they represent "income" in accordance with the Income Tax legislation, as Samoa taxes all residents on worldwide source income.

As a former colony, Samoa has close ties with New Zealand that began in the early 1900s and continued well after independence in 1962. A strong and continuing migration corridor has been established between Samoa and New Zealand. Under the Treaty of Friendship signed in 1962, preferential treatment and an annual quota system was granted to Samoans to obtain permanent residence in New Zealand. Currently, around 1,100 Samoans are accepted each year for migration under this quota system. In addition, Samoans can also apply for migration to New Zealand via business and family re-union categories.

Since 1994, with the approval of the CBS, Samoan residents who are earners of foreign exchange are eligible to apply for foreign currency deposit accounts (FCDA). Though this facility is mainly available for Samoan residents in the country, it has the potential to be extended to Samoan outside the country, thus facilitating the smooth flow of regular inward remittances.

1. Introduction

Remittance (shown as private transfer in Table 1) is a key component of the current account and a major source of external income for Samoans. Samoans living overseas maintain strong ties with their families, villages and churches, even among second-generation migrants. The traditional *matai* system, which facilitates receipt of land titles for good deeds, encourages non-residents to send money home to their kin. The net inward remittance averaged about 20 percent of GDP over 1986-2004 and kept the current account balance sustainable during the cyclones of the early 1990s, rising to almost 25 percent in FY1991-95. It contributed to cyclone rehabilitation and other reconstruction, giving households a cushion against external shocks.

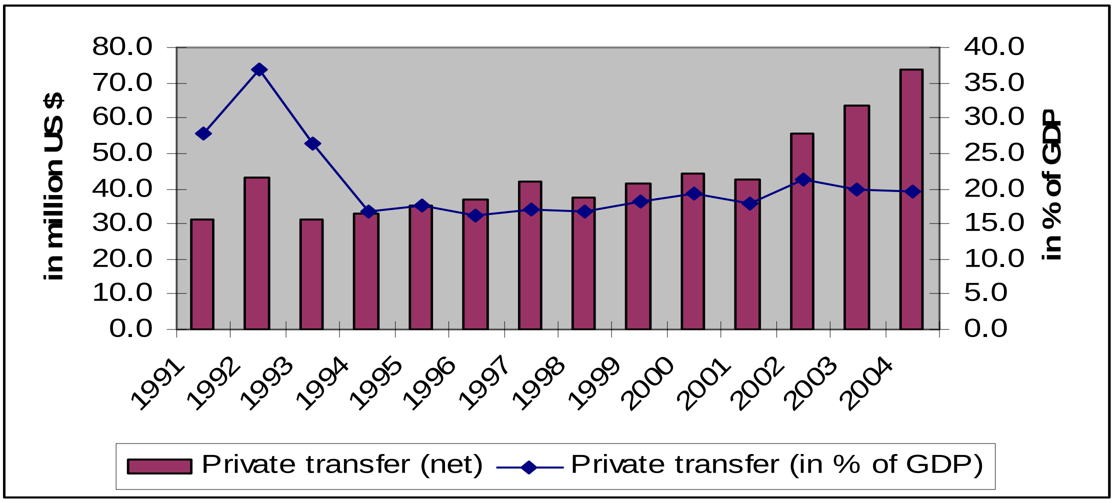
Table 1 Balance of payments - 1986-2004 (USD$ Millions)

	1986-90	1991-95	1996-00	2001-04
Current account balance	11.21	-14.83	11.86	7.08
Merchandise trade balance	-48.65	-89.60	-88.51	-128.18
Merchandise exports, fob	11.82	6.20	15.13	13.85
Merchandise imports, cif	-60.47	-95.80	-103.64	-142.05
Services and income balance	8.31	20.54	37.43	49.08
Services and income: credit	28.26	45.65	67.98	78.95
Services and income: debit	-19.95	-39.58	-32.93	-29.85
Current transfer, net	51.52	54.20	62.93	86.18
Private transfer (net)	-	34.81	40.41	58.88
Official transfer (net)	-	19.39	22.52	27.33
Financial and capital account	-0.15	12.60	-6.60	-0.72
Net errors and omissions	-1.51			
Overall balance	9.54	-2.23	5.25	2.43
Memorandum items				
GDP at current market price (SAT$ Millions)	233.18	371.71	658.65	926.63
Nominal Exchange Rate (SAT$ per USD$)	2.20	2.49	2.85	3.15
Nominal GDP (USD$ Millions)	105.93	149.18	231.11	298.66
Balance of Payments % of GDP				
Exports	11.18	4.46	6.56	4.83
Imports	-56.72	-70.12	-44.89	-48.23
Trade balance	-45.54	-65.66	-38.33	-43.39
Current transfer, net	48.79	38.20	27.22	28.68
Private transfer (net)		25.06	17.48	19.66
Official transfer		13.15	9.74	9.02
Current account balance	10.70	-13.72	5.11	2.01
Overall balance	8.98	-1.70	2.26	0.89
Total International Reserves (USD$ Millions)	46.85	56.45	63.66	74.64
International reserves (in months of next year imports of goods)	7.77	7.01	7.04	5.51

Sources:
(a) Central Bank of Samoa (December, 1994; March, 1998; and June, 2005) and Ministry of Finance of Samoa (various years).
(b) ADB Key Indicators (2005) (www.adb.org/statistics).
(c) IMF International Financial Statistics CD-ROM, May 2000.

Remittances have fluctuated in proportion to GDP, but recently have risen significantly in absolute terms (see Figure 1). In 1992 the ratio of remittances to GDP was 35 percent, which declined to 17 percent in 2000. As global economic conditions improved in 2003, so did the ratio to about 20 percent. Substantial gains were recorded in remittances from the USA (up 16 percent), New Zealand (up 37 percent), Australia (up 19 percent) and American Samoa (up 31 percent) (CBS, 2004). Nevertheless, the ratio also indicates the delicate nature of its contribution to GDP.

Figure 1 Remittances - 1991-2004



Source: Ministry of Finance, Government of Samoa

In its most recent monetary policy statement, the Central Bank of Samoa (CBS) stated that the inflow of remittances is projected to rise by 2% in 2006/07 with household transfers expected to improve by 4%. This is attributed to the growth of the money transfer and money exchange businesses in Samoa and the increasing number of emigrants under the New Zealand quota system. Strong economic performance in migrant receiving countries (Australia, New Zealand and the US) is also considered to be a factor contributing to increased inward remittance to Samoa.

2. Foreign Exchange Licencing Rules and Regulations

The Central Bank of Samoa (CBS) is mandated under legislation to regulate the supply, availability and international exchange of money. The CBS also functions to supervise and regulate banking businesses and the extension of credit, and to implement measures against money laundering. The CBS, in addition, is responsible for the management of the exchange rate with regard to monitoring foreign currency transactions. It is pertinent to note that Samoa's financial system was liberalised in 1998 which included elimination of direct controls on credit ceilings and interest rates of commercial banks. The following is a review of these legislations and their applicability to remittances in Samoa.

2.1 Central Bank of Samoa Act 1984 and Financial Institutions Act 1996

Pursuant to this legislation, the CBS was appointed as the authority that issues licences to both financial institutions and selected non-bank financial institutions (NBFIs). The Financial Institution Department (FID) of the CBS has statutory responsibility for this function. In addition, the CBS also undertakes the prudential supervision of these licenced financial institutions.

Currently, there are two foreign (ANZ and Westpac) and two local commercial banks (Samoa Commercial Bank and National Bank of Samoa) in the country. Under these regulations, commercial banks are obliged to disclose their financial reports and other relevant information to the public.

In 2001, the Financial Institutions Act 1996 was amended to enable the prudential supervision of non-bank financial institutions (NBFIs). However, this amendment was only applicable to selected NBFIs including the Samoa National Provident Fund, Development Bank of Samoa, and insurance companies. Thus, wile the potential for transferring remittances through other NBFIs exists (such as microfinance organisations), legally, they are not allowed to engage in this activity.

2.2 Money Laundering Prevention Act 2000

Through international pressures and commitment to support the global fight against money laundering and terrorism, Samoa has introduced legislation to this effect. Under the Money Laundering Prevention Act 2000, the CBS is mandated to act as the Money Laundering Prevention Authority (MLPA). A special ‘financial intelligence unit’ at the CBS has been established for this purpose, and it collects information on suspicious transactions and money laundering. Equally, all financial institutions as defined in this legislation are also required to report to MLPA any transaction considered suspect.

The MLPA is further supported by the ‘Prevention and Suppression of Terrorism Act’ which was adopted in 2002. According to the CBS, more stringent legislations are currently in the pipeline to further strengthen anti-money laundering activities. This current and proposed regulation will no doubt impact on the facilitation process for inward remittance transfers to Samoa. This may make the facilitation process for inward remittance more difficult, administratively complex and time-consuming.

2.3 Exchange Control Regulations 1999

The main objective of exchange rate policy is to maintain the competitiveness of local exports in the international market whilst minimising imported inflation (CBS, 2004). Since 31 March 1985, the exchange rate of the Samoan Tala is pegged to a trade-weighted basket of the currencies of its major trading partners: Australia, New Zealand, Fiji, United States of America, Germany (replaced by the Euro in 1999) and Japan. Prior to that, the Samoan Tala was pegged to the New Zealand dollar. The nominal exchange rate is set by the CBS daily in accordance with movements in the basket currencies. The relative importance of basket currencies has changed over time.

From the early 1980s until early 1990s the exchange rate between Samoan Tala and the basket currencies followed a steady downward trend. As Table 2 reflects, nominal and real effective exchange rates depreciated 47 percent and 11 percent, respectively, in 1979-1985. Significant currency devaluations of 17 percent in 1983 and 12 percent in 1984 were part of a financial stabilisation package.

Table 2 Movements in exchange rate indices - 1979-2004

Indexes (Base: 1990=100)	1979-1985	1986-1990	1991-1995	1996-2000	2001-2005
Nominal exchange rate	-63.5	-3.2	-3.0	-25.1	+25.1
Nominal effective exchange rate	-46.8	-12.1	+3.9	-6.3	-2.0
Real effective exchange rate	-10.6	-2.5	-1.7	-2.8	+28.7

Note: A negative (-) sign denotes depreciation of the Samoan Tala, while a positive (+) sign denotes appreciation of the currency.
Source: Central Bank of Samoa, IMF Statistics of Samoa, ADB Key Indicators (2005), International Financial Statistics.

Exchange Control Regulations were introduced in 1999 which allowed the licensing of foreign exchange dealers. These foreign exchange dealers are required to submit periodic statistical reports to the CBS. This piece of regulation opened up the remittance market for players other than commercial banks who hitherto had monopoly control. Currently, according to the CBS, a total of 3 licences have been granted, and these dealers offer the public competitive foreign exchange rates. This is particularly important to Samoa given the growing inflow of remittances.

Exchange control regulations set the limit on the sale of foreign exchange (up to SAT$7,000) and outward remittance of foreign exchange up to SAT80,000 – specifically for the payment of imports by authorized foreign exchange dealers. However, there are no such limits to inward remittances. Nevertheless, the movement of inward remittances are monitored by the CBS in accordance with the Money Laundering Prevention Act 2000.

According to the CBS, there are 9 approved money transfers businesses in Samoa, who are subjected to the provisions of the Exchange Control Regulations. In accordance with specific limits of the CBS, these businesses provide services for both outward and inward remittance transfers to the public at competitive rates. The submission of periodic statistical reports to the CBS is required.

3. Rules Relating to Mobilisation of Deposits by Non-bank Financial Institutions

In addition to the four commercial banks, there is wide range of non-bank financial institutions (NBFIs) operating in Samoa. According to an IMF study (2004), these are 20 credit unions, four insurance companies; three money changers; 9 approved money transfers businesses; three money lenders; National Provident Fund; Development Bank of Samoa; the Housing Corporation; and relatively small number of microfinance organisations such as the South Pacific Business Development Foundation and the Women in Business Foundation.

However, unlike commercial banks, only selected NBFIs are supervised to be governed by the CBS's prudential regulations. According to the CBS, these include:

- Development Bank of Samoa
- National Provident Fund
- The Colonial Insurance Company Limited
- The National Pacific Insurance Company Limited
- The Samoa Life Assurance Corporation
- The Progressive Insurance Company Limited.

In accordance with CBS's prudential regulations, regular supervision is undertaken to ensure sound financial management. A number of other NBFIs which are not supervised or governed by the CBS continue to operate on their own.

4. Interest Rates and Prudential Regulations Affecting Non-Bank Sector Growth and Competitiveness

CBS's prudential regulation is concerned with monitoring weaknesses in the financial system and it involves carrying out regular reviews and analysis of financial information and reports of financial institutions. However, individual institutions are also responsible for monitoring and protecting their own depositors and creditors.

An IMF study conducted in 2004 found that many of the prudential regulations are only applicable to the commercial banks. Further, these prudential regulations lack the detailed requirements for effective monitoring and management of the financial system. In 2004, the CBS issued prudential guidelines for the National Provident Fund and the Development Bank of Samoa.

5. Tax Treatment of Remittances

On the issue of tax treatment on remittances, Samoa does not impose any tax on inward or outward remittances, per se. Until the late 1990's Samoa did impose a 1% Foreign Exchange Levy on all outward remittances, such levy (tax) having first been imposed at a time when Samoa had a major problem with its balance of payments and had a real need to preserve its foreign exchange. Samoa repealed such legislation in the late 1990's.

Some inward remittances may be subjected to Samoan income tax, if they represent "income" in accordance with the Income Tax legislation, as Samoa taxes all residents on worldwide source income. Where foreign tax has been paid on such income, Samoan income tax legislation allows a credit for the lesser of the foreign tax actually paid on that income as a part of the total income. In these cases, the remittance itself is still not taxed, rather the recipient is required to disclose all foreign source income in their Samoan income tax returns (and claim a foreign tax credit where such foreign tax has been paid).

Similarly, some outward remittances may be subjected to Samoan income tax deductions, if they represent income that is subjected to Samoan income tax. For example, all interest paid by any Samoan resident bank, company, or individual business, where such interest is an expense incurred in carrying on their business in Samoa, is regarded as withholding income, under Samoa's Income Tax Act, and is subject to the deduction of a final tax of 15%. Other payments to non-residents, that relate to income derived from Samoa, such as consulting or contract work carried out by them in Samoa, is also liable to have a source tax deducted by the Samoan payer. Such tax is not final, but can be claimed as a tax credit by the non-resident (to be offset against any final income tax payable) when they file their income tax return in Samoa.

Dividends made by Samoan companies and distribution of trust profits made after the payment of income tax, are exempt from any further income tax. This exemption applies to both residents and non-residents. So any remittances of dividends, or distributions of after tax profits by Trusts, are not subject to any further tax.

6. Other Incentives Relating to Migration and Remittances

6.1 Incentives Related to Migration

As a former colony, Samoa has close ties with New Zealand that began in the early 1900s and continued well after independence in 1962. A strong and continuing migration corridor has been established between Samoa and New Zealand. Under the Treaty of Friendship signed in 1962, preferential treatment and an annual quota system was granted to Samoans to obtain permanent residence in New Zealand. Currently, around 1,100 Samoans are accepted each year for migration under this quota system. In addition, Samoans can also apply for migration to New Zealand via business and family re-union categories.

Unlike New Zealand, Australia has discouraged preferential treatment or the establishment of a quota system. This is despite calls for increased movement of short-term labour between Pacific Island Countries (PICs) and Australia, as outlined in the World Bank's recent report on 'Expanding Job Opportunities for Pacific Islanders through Labour Mobility at Home and Away' (2006).

6.2 Incentives Related to Remittances

Since 1994, with the approval of the CBS, Samoan residents who are earners of foreign exchange are eligible to apply for foreign currency deposit accounts (FCDA). Though this facility is mainly available for Samoan residents in the country, it has the potential to be extended to Samoan outside the country, thus facilitating the smooth flow of regular inward remittances.

7. Conclusion

Remittances to Samoa have grown substantially in recent years and are expected to continue to contribute significantly to the national balance of payment figures as well as to household income. Remittance flow to Samoa in particular is based on the concept of *fa'samoa* – the traditional form of social safety net that helps extended family members. Many of the remittance senders are based in New Zealand, Australia and the US.

Currently, the remittance market in Samoa is restricted (as a result of legislative requirements) and mainly controlled by a limited number of money transfer agencies and commercial banks. Geographically, these organisations tend to be concentrated in and around urban Apia. As a result, many of the remittance recipients in rural areas are required to travel to Apia to receive their monies.

Further constraining the free flow of remittances to Samoa has been stringent regulations, particularly those related to anti-money laundering activities. Though such regulations have the potential to capture illegal and criminal monies entering the country, it would no doubt cause undue delays for genuine migrants and recipients of remittances. This may also lead to increase flow of remittances through informal channels, though the precise magnitude of such transfers has not been gauged yet.

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