

I. OVERVIEW

The Central Bank of Samoa continued to face many new challenges in the performance of its statutory functions during the twelve months to end December 2000. It was a period in which financial sector reforms were three years in the making. And, together with a wide and extensive range of public sector reforms by Government, it was considered essential that the momentum of these reforms should continue to be monitored, reviewed and revised where necessary.

Since the mid-1990s Samoa's economy has been performing remarkably well, boosted largely by the agriculture, commerce, construction and tourism sectors which were enhanced by several reform measures put in place by the Government to ensure sustainable economic development. Through positive policy actions, Samoa has emerged as the leader of economic reform in the Pacific. The ongoing challenges facing Government are to build diversity into the economy through deregulation, to consolidate fiscal reforms and to improve the efficiency of state owned enterprises.

To be consistent with these reforms, the Central Bank last year adopted its first Corporate Plan which highlight the functions and strategic directions of the Central Bank, up to the end of 2002. It encompasses tighter administration as well as the principles of transparency and accountability. The organizational structure of the Central Bank staff was restructured accordingly and the budgeting process has been changed from line budget to a performance output budget format. In addition, the format and style of the Bank's Annual Report has been changed beginning with this Report for the year 2000. The objective is to explain to the stakeholders the Central Bank's operational activities and what the Bank had been doing during the year, with less emphasis on a detailed write up about the economy. The usual detailed report on the economy is published in the Central Bank's quarterly bulletins and monthly reports.

The framework for economic and social development in Samoa is set by the Government's

Statement of Economic Strategy. The third Statement, which covers the years 2000 and 2001, aims to achieve sustainable economic growth through a healthy and competitive private sector, and to ensure that the strategies pursued benefit the whole of Samoa.

The main objective of any central bank is to achieve economic growth with stability. And, the role of the Central Bank of Samoa is no different. The Bank achieves this through the conduct of appropriate monetary policy, having due regard to Government's overall economic objectives as stipulated in the Statements of Economic Strategy.

The conduct of monetary policy during 2000 involved no major changes in policy settings. Indicators available early in the year suggested that economic growth was going to slow down to 4.0 percent after growing by an estimated 5.3 percent in 1999. Government's net deposits with the monetary system was largely neutral, the annual rate of inflation remained very low (less than 1 percent) and the level of net foreign exchange reserves was comfortable at around 7 months of import cover. Against this background, monetary policy was allowed to remain largely relaxed throughout the year in an attempt to boost economic growth, particularly through the private sector. In addition, the Government Budget for 2000/2001 announced in May foreshadowed a relaxation in fiscal policy which would stimulate further growth in the economy. The 2000/2001 Government Budget provided an overall deficit of \$40.4 million (3.6 percent of GDP) with a \$0.5 million cash surplus with the monetary system.

The consequential mid year review of monetary policy objectives and operating targets resulted in very minimal change to the status quo. With the economy estimated to grow a little bit faster than expected in the second half of the year, putting pressure on the rate of inflation (fueled by sharp hikes in international petroleum prices) and the level of reserves to drop to 6 months of import cover, there was a need to tighten monetary policy. In the event, the Central Bank reduced the commercial banks' free deposits, or their

Exchange Settlement accounts balances, with the Bank through the issuance of more Central Bank Securities (currently its main monetary policy instrument), thus putting upward pressure on interest rates. As a result, the growth in bank credit slowed down from 20.4 percent in June 2000 to 16.8 percent in December 2000 and the rate of growth in money supply declined from 13.0 percent to 12.3 percent.

Available data indicate that the economy continued to perform very well in 2000. Total gross domestic product grew, in real terms, by around 7 percent following a 3.1 percent growth in 1999. Most sectors of the economy showed remarkably strong growth during the year, particularly the construction, agriculture, commerce and tourism sectors. Industrial production remained buoyant throughout the year (up 3 percent). Domestic demand continued to expand, supported by the strong growth in total credit to the private sector (up 12 percent), an expansionary fiscal policy vis a vis the monetary system and a rise in private remittances (up 20 percent). The total value of imports rose slightly to \$349 million. Exports, on the other hand, fell 18 percent to \$45 million reflecting lower revenues from most of the major export commodities such as fresh fish, coconut oil, coconut cream and copra. Fortunately, these declines were partially offset by substantial earnings from garment exports which began shipment early in the year.

In December 2000, the Central Bank celebrated its 25th Anniversary as the country's monetary authority which began with the Monetary Board in 1975. A lot of progress has been achieved, placing the Central Bank as one of the pivotal instruments of economic policy. However, a lot of new challenges still lie in the period ahead. And, for the Central Bank, reforms in the financial system are new and may take time for more positive effects to flow through to the general public, the ultimate beneficiaries.

II. THE CENTRAL BANK OF SAMOA – WHAT WE DO

The Central Bank of Samoa is the nation's reserve bank and, as such, it acts as banker to the Government and the commercial banks.

Pursuant to its mandate under the Central Bank of Samoa Act 1984, the Financial Institutions Act 1996 and the Money Laundering Prevention Act 2000, the Central Bank has the following main functions:

- ~~///~~ regulating the issue supply availability and international exchange of money;
- ~~///~~ advising the government on banking and monetary matters;
- ~~///~~ promoting internal and external monetary stability;
- ~~///~~ promoting a sound financial structure;
- ~~///~~ promoting credit and exchange conditions conducive to the orderly and balanced economic development of Samoa;
- ~~///~~ supervising and regulating banking business and the extension of credit; and
- ~~///~~ implementing counter measures against money laundering such as to deter, detect and criminalized money -laundering activities.

The Central Bank undertakes the formulation and implementation of monetary policy and related measures, which include open market operations in Central Bank Securities to influence the level of interest rates and the availability of credit in the financial system.

It is also responsible for the management of the rate at which Samoa's Tala is exchanged with currencies of other countries and, when necessary, administers exchange control measures with regard to monitoring foreign currency transactions.

The Bank in addition, is responsible for the custody and management of Samoa's reserves of international currencies for the payments of goods and services.

The issue of currency notes and coins to meet the needs of the business community and the

general public is a crucial role for which the Central Bank is widely known.

As fiscal agent of Government, the Central Bank undertakes, when required, the issue and administration of Treasury Bills and other Government securities. Moreover, it issues its own Central Bank Securities to the commercial banks and non-banks and maintains a registry service and rediscount facilities.

The Central Bank is responsible for the registration and prudential supervision of commercial banks. It also acts as banker for the commercial banks, provides a facility for the clearing and settlement of inter -bank payments, and is also custodian of the commercial banks' statutory minimum cash reserves.

The Financial Institutions Act 1996 appoints the Central Bank as the authority that issues licenses to financial institutions and, shall undertake the prudential supervision of licensed financial institutions.

The Money Laundering Prevention Act 2000 also mandates the Central Bank of Samoa as the Money Laundering Authority. As such, the Central Bank collects information on suspicious transactions and can undertake further scrutiny of any information suggesting money laundering taking place.

During the period under review, the Central Bank employed a total of eighty -seven staff. Its new organization structure is provided and its operational functions are carried out over six departments.

III. CENTRAL BANK STRUCTURE

An integral part in the formulation of the Central Bank's first ever Corporate Plan for 2001 -2002 was the review of its organization structure. And, as a result a new organizational structure was approved with effect May 1, 2000.

The new organization structure is shown in Chart 1.

Some major changes which took place under the new organization structure included the restructuring of several departments which resulted in the creation of a new department for Financial Markets, merging certain departments to become one and renaming some. But, of significant importance was the inter-departmental devolvement of functions, fine-tuned in order to become compatible with the strategic objectives stipulated in the Corporate Plan.

The new organizational structure now comprises six departments divided into two functional groups. One group is responsible for policy formulation, policy implementation and banking and corporate services. The second group is responsible for management resources, accounting and budget, and other internal services. The Governor and Audit departments, however, are not shown as such on the structure but are an integral part of the Central Bank's new organization hierarchy. The change from two Deputy Chief Executive positions to one and the appointment of a Secretary to the Bank were the other changes under the new structure.

As the Central Bank moves away from the old conventional line budgeting to the new concept of performance budgeting, the new organization structure has been designed to provide an improved framework for closer expenditure and output scrutiny and to ensure consistent performance and efficiency at all times. Since May 2000, most of the changes under the new structure have been implemented, except for a few remaining positions at the senior and management level which are yet to be filled.

IV. BOARD OF GOVERNORS

The Board of Governors of the Central Bank is responsible for the policy and the general administration of the Central Bank. Moreover, the Board may exercise any of its powers under the Central Bank of Samoa Act 1984, it may make by-laws for the conduct of its business, and, can issue directives for the purpose of effecting the provisions of the Act and other related legislations.

The Members of the Board is appointed by the Head of State, acting upon the advice of Cabinet. It comprises of a Chairman and two other independent Board Members, together with the Financial Secretary and the Governor/Chief Executive of the Central Bank.

The Chairman and two other independent Board Members are chosen from amongst Samoan citizens of recognized standing and experience in agriculture, commercial, professional or academic matters.

The Governor/Chief Executive of the Central Bank is responsible to the Board for the execution of the Central Bank's policies and for the efficient management of the Central Bank. And, in doing so, he/she must follow any general or special directions given to him/her by the Board.

During the year under review, the Chairman of the Board was Afoa Kolone Vaai. The two other independent members were Leali'ie'e Rudy Ott and Papali'i John Ryan. The Financial Secretary, Ms Hinauri Petana and the Governor/Chief Executive of the Bank, Papali'i Tommy Scanlan complete the current membership of the Board. The Board as a whole met on six occasions during the year.

V. GOVERNANCE

During the year, the Internal Audit Department together with Management undertook various reviews of some of the Central Bank's key responsibilities to ensure that these are carried out effectively, proactively and continuously.

Among the key roles that Management plays in the strategy development process are:

~~///~~ producing the first Corporate Plan for the Central Bank. The Plan includes details on key initiatives of the Bank over the next two years and performance indicators in achieving efficiency and long-term goals;

~~///~~ adopting the output performance budgeting format. This technique focuses directly on results with greater emphasis on the elements of accountability: -

- ~~///~~ governance
- ~~///~~ measurement
- ~~///~~ management
- ~~///~~ reporting

~~///~~ restructuring and realigning the Central Bank to make these developments happen. Reviewing and assessing the operating controls and procedures. Recruiting and developing high talented and motivated staff necessary to meet the new strategy demands. Putting the right staff in key positions and roles in managing the Central Bank; and

~~///~~ staff performance measurement and evaluation. This system is currently under review.

As a result of active participation and cooperation, Management was able to assess resources in a more comprehensive and effective manner.

VI. CHRONOLOGY

CHRONOLOGY OF MONETARY POLICY AND MONETARY CONDITIONS SINCE THE DEREGULATION OF THE FINANCIAL SYSTEM

1998:

January: Liberalisation of the financial system commenced with the elimination of direct controls on credit ceilings and interest rates of the commercial banks. Auction of Central Bank Securities was adopted as an indirect monetary instrument. Minimum liquid assets requirement was redefined to be equivalent to 20 percent of private sector deposits.

February: The minimum liquid assets requirement for the commercial banks was reduced by 1 percentage point per month until completely eliminated.

May: The 1998/1999 Government Budget projected a cash surplus of \$1.9 million and an overall deficit of \$11.4 million, equivalent to less than 1 percent of GDP.

June: Allowed commercial banks to engaged in forward contracts with clients in the buying and selling of foreign exchange.

September: The Central Bank published the first series of commercial banks' interest rates, fees and charges.

November: Annual Exporters of the Year Awards in which the Central Bank participated as one of the major sponsors.

1999:

January: The one percent Government levy on the purchase of foreign exchange was abolished.

May: The 1999/2000 Government Budget projected a cash surplus of \$1.7 million and an overall deficit of \$34.1 million, equivalent to 3 percent of GDP.

June: Technical adjustment to the commercial banks' statutory reserve ratio, reducing it to 4.8 percent from 5.0 percent.

August: Exchange Control Regulations 1999 became effective which, amongst other things, allowed the licensing of foreign exchange dealers.

September: Issued guidelines for the foreign currency exposures of the commercial banks.

November: Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.

2000:

February: The Bank's Accounting computer system became operational.

May: (a) Government launched its third Statement of Economic Strategy for 2000 and 2001.
(b) The 2000/2001 Government Budget projected a cash surplus of \$0.5 million and an overall deficit of \$40.4 million.

- June: Enacted the Money Laundering Prevention Act 2000.
- July: Further relaxation of the remaining exchange control requirements on current payments.
- October: (a) The Central Bank hosted the Pacific Regional Central Bank Seminar on “Central Bank Balance Sheet in a Liberalised Financial System”.
- (b) The Central Bank conducted a Seminar on Money Laundering for all the interested stakeholders of the financial system.
- November: Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.
- December: (a) Celebrated the 25th Anniversary of the Central Bank as the monetary authority.
- (b) Launched the Central Bank 25th Anniversary Book
- (c) Launched the Central Bank Corporate Plan 2001-2002.
- (d) Launched the Central Bank website cbs.gov.ws
- (e) The 2000/2001 First Supplementary budget projected a cash surplus of \$0.4 million and an overall deficit of \$44.5 million.

VII. THE YEAR IN REVIEW

1. MONETARY POLICY FORMULATION IN 2000

The Research and Statistics Department (RSD) is responsible for advice on monetary policy formulation. And, until the middle of 2000, the Department was also responsible for monetary policy implementation through its advice on the Central Bank's open market operations and the determination of the appropriate size of the regular (fortnightly) auctions of Central Bank Securities. The role of policy implementation was delegated to the newly created Financial Markets Department in July 2000. (See section on Monetary Policy Implementation.)

Monetary policy formulation is a year round process involving the collection, compilation and analysis of historical information on the economy and the forecast of macro economic developments twelve months ahead. Since Government operations have a dominant impact on the domestic economy, the preparation of monetary policy review papers are timed to coincide with the approval of the Government Budget for the next fiscal year .

Available indicators in early 2000 suggested that real economic growth was going to slow down in 2000 to 4.0 percent after expanding by an estimated 5.3 percent in 1999. On the other hand, Government's net position with the monetary system was largely neutral, the annual rate of inflation remained very low (below 1 percent) and the level of net foreign reserves was very high at around 7 months imports of goods.

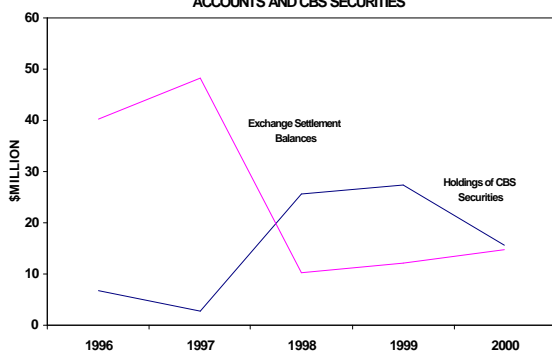
Against this background of low inflation, balanced fiscal outturn and strong reserves position, monetary policy was allowed to remain largely relaxed throughout the year in an attempt to boost economic growth, particularly through the private sector. In the early part of the year, the issuance of Central Bank Securities, which is the Central Bank's main policy instrument, was limited only to rolling over the stock of Securities that matured. This allowed bank credit

to continue to grow, averaging 20.4 percent in the first six months of the year, and total money supply to expand by 13.0 percent.

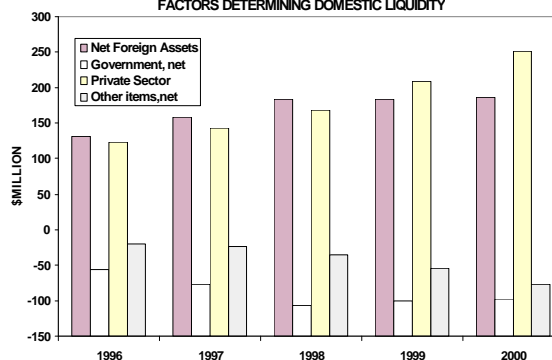
Early in the second half of the year, however, it became apparent that the economy was expanding a little bit faster than anticipated. In addition, the Government Budget for 2000 /01 foreshadowed a relaxation in fiscal policy which would stimulate further growth in the economy. As a result, the outlook for the next twelve months was for the rate of inflation to start picking up again, fueled by the sharp increase in international petroleum prices. On the other hand, the level of international reserves looked set to decline from 7 months imports cover early in the year to about 6 months in twelve months time. Nevertheless, that level of reserves was still considered comfortable.

Although these signs pointed to a need to tighten monetary policy, the Central Bank felt that international petroleum prices might ease as the year progressed. Furthermore, the Central Bank was concerned that a sharp tightening in monetary policy would risk slowing down developments in the private sector prematurely. In principle, therefore, the Central Bank opted to hold the commercial banks' exchange settlement balances (their free liquidity) with the Central Bank at their mid year levels (around \$4.6 million). In practice, however, the actual policy implementation was tighter than intended with the commercial banks' Exchange Settlement levels reduced to their minimum working balance levels. (See Graph 1.) As a result, the annual average growth rate of bank credit slowed down from 20.4 percent in June 2000 to 16.8 percent in December 2000 and the rate of growth of total money supply declined from 13.0 percent to 12.3 percent.

GRAPH 1
COMMERCIAL BANKS EXCHANGE SETTLEMENT
ACCOUNTS AND CBS SECURITIES



GRAPH 2a
FACTORS DETERMINING DOMESTIC LIQUIDITY



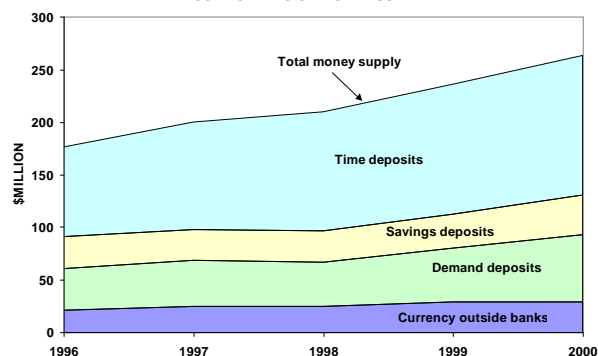
Overall, the macro economic environment remained generally favourable throughout 2000. (See Table 1. Selected Economic Indicators.) Although fiscal policy was slightly expansionary, Government's financial position with the monetary system remained sound.

At year end, total money supply grew 11.4 percent compared with 12.5 percent in 1999. (See Graphs 2a and 2b.)

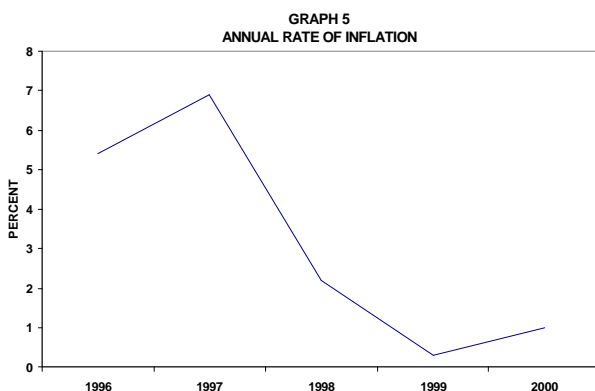
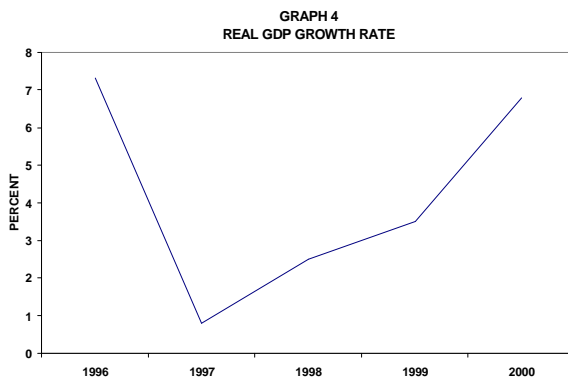
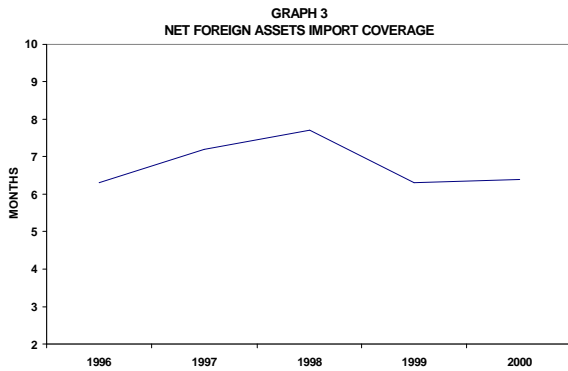
Table 1 Selected Economic Indicators					
Period	1996	1997	1998	1999	2000
Monetary Aggregates (End period)					
Net Foreign Assets	131.07	158.01	182.83	182.84	185.96
Government, net	-56.38	-77.39	-106.22	-100.09	-97.63
Private sector (1)	122.74	142.89	168.77	208.21	251.76
Other items, net	-20.60	-23.32	-35.18	-54.59	-76.66
Money Supply (M2)	176.83	200.19	210.20	236.37	263.43
Currency (2)	20.96	24.88	24.82	29.09	28.87
Demand deposits	40.18	44.14	41.71	51.23	64.41
Savings deposits	29.80	28.73	30.38	31.93	37.50
Time deposits	85.89	102.44	113.29	124.12	132.65
Commercial Banks (End period)					
Exchange Settlement Balances	40.12	48.14	10.29	12.14	14.78
Holdings of CBS Securities	6.80	2.65	25.51	27.39	15.66
Annual rate of inflation	5.4	6.9	2.2	0.3	1.0
Gross Domestic Product (During period)					
Nominal (Tala million)	555.5	625.3	659.4	705.9	771.9
Real (Tala million)	568.8	573.3	587.7	608.0	649.4
GDP deflator	97.7	109.1	112.2	116.1	118.9
Real GDP growth (percent)	7.3	0.8	2.5	3.5	6.8
Balance of Payments (During period)					
Exports (f.o.b)	28.8	37.5	55.5	54.7	45.1
Imports (c.i.f)	-243.7	-256.2	-285.7	-348.5	-348.6
Travel, net	87.0	86.2	104.8	114.2	122.1
Private remittances, net	90.5	107.6	109.9	125.2	145.6
Government transfers, net	55.1	69.5	65.6	108.2	64.5
Government capital, net	0.5	0.1	10.5	-9.2	27.3
All other items, net	-4.5	-17.8	-31.3	-44.6	-52.9
Overall balance	13.7	26.9	29.3	0.01	3.1
Net Foreign Assets (End period)					
Months of imports of goods	6.3	7.2	7.7	6.3	6.4

(1) Includes non-monetary financial institutions and non-financial public enterprises.
(2) Currency outside banks.

GRAPH 2b
COMPONENTS OF MONEY SUPPLY



Although the balance of payments was in deficit throughout most of the year, international reserves remained strong with the level of net foreign assets hovering around 6 months of imports. (See Graph 3.) Latest figures indicate that the economy grew 7.3 percent in 2000 which was much stronger than 3.1 percent in 1999, and the annual rate of inflation (at 1.0 percent) remained well below the target of 3 percent. (See Graphs 4 and 5.)



2. MONETARY POLICY IMPLEMENTATION

The implementation of monetary policy is carried out by the Financial Markets Department (FMD), a newly created Department and one of the two policy implementing Departments. The other one is the Financial Institutions Department. The FMD is also responsible for the exchange rate policy, foreign reserves management, analysis of financial markets, open market operations, and liquidity management and forecasts.

With the lifting of direct credit controls in early 1998, the conduct of monetary policy has since relied on open market operation type of monetary instruments, the issuance of Central Bank Securities. In the initial stage, Central Bank Securities were issued in the primary market to soak up excess liquidity in the system. This was done by targeting the level of the commercial banks' cash balances in their Exchange Settlement Accounts with the Central Bank, to ensure that the commercial banks hold only working balances.

In 2000, the Bank continued to use Central Bank Securities as its main monetary policy instrument. The auction of Central Bank Securities in the primary market was carried out on a weekly basis. And, at the end of the year 2000, the total face value of Central Bank Securities outstanding amounted to \$18.0 million down from \$28 million in 1999. Please see Table 2.

	1999	2000
Number of Floats	33	34
Amount Floated	121.2	123.0
Amount Tendered	150.6	121.4
Amount Allotted	106.4	102.2
Amount Redeemed	95.6	109.8
Amount Outstanding	28.0	18.0

Towards the end of the year, a 56 -day paper was added to the 91 and 182 - day maturities already available. This was to offer shorter-term investment options to the commercial banks (the main participants in the market) to help manage their liquidity needs in the short term. The Central Bank was also considering offering a 28 day-paper sometime in 2001.

Yields on Central Bank Securities generally rose during the year, partly reflecting the Central Bank's attempt to attract investments from the non-bank sector of the community. Yields were generally higher than the interest rates paid on commercial banks deposit of comparable maturities.

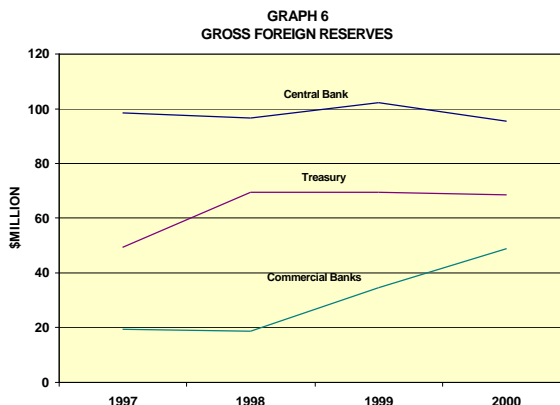
The Central Bank introduced secondary market trading in the second half of the year. This was to smooth out fluctuations in the liquidity system on a daily basis. However, this was abandoned after two months of operation as trading was very thin coupled with the fact that it did not attract any new investors other than the two main commercial banks.

3. FOREIGN RESERVES MANAGEMENT

One of the main objectives of monetary policy is to target or maintain total foreign exchange reserves at a level which could be able to meet the demand of the country for overseas payments. This level is usually set at 6 months of import cover.

Although the Central Bank has been vested with the responsibility of managing the country's foreign exchange reserves, a large amount of the official reserves are with the Treasury and the commercial banks. Reserves held with the Treasury Department are used mainly for the payment of Government's overseas obligations. The commercial banks generally hold a limited amount of foreign reserves as working balances to meet the daily transactional needs of the public. But, following policy changes in 1999 which allowed the commercial banks to maintain prudent foreign currency risk exposures, their holdings of foreign exchange reserves increased markedly.

As at end December 2000, total gross foreign exchange reserves of the country amounted to \$212.7 million of which \$95.2 million (or 45 percent) was held by the Central Bank, \$68.7 million (or 32 percent) was held by Treasury and \$48.8 million (or 23 percent) by the commercial banks. Please see Graph 6.

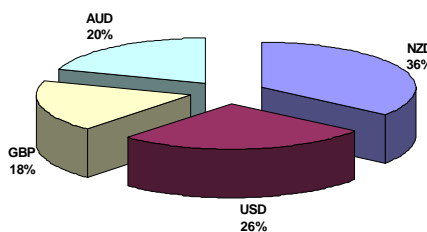


Total foreign reserves in the monetary system rose 3 percent in 2000. The Central Bank and Treasury's share of gross foreign assets continued to shrink in 2000 while that of the commercial banks increased markedly.

The investment strategy followed by the Central Bank in 2000 remained the same as that in the previous year. Funds are invested in liquid short-term instruments, either time deposits or money market instruments such as Treasury Bills, Certificates of Deposit or Bank Bills. The Central Bank also makes sure that reserves are invested in highly creditable banking institutions, preferably with minimum ratings of AA. The Central Bank can attempt to maximize returns only if the liquidity and safety of foreign assets are guaranteed.

At end December 2000, the Central Bank's total reserves portfolio was \$95.2 million of which 35.4 percent were invested in New Zealand dollars, 26.3 percent in US dollars, 20.1 percent in Australian dollars and 18.2 percent in British pound sterling. Please see Graph 7.

**GRAPH 7
CURRENCY COMPOSITION OF FOREIGN EXCHANGE RESERVES
AS AT 31 DECEMBER 2000**

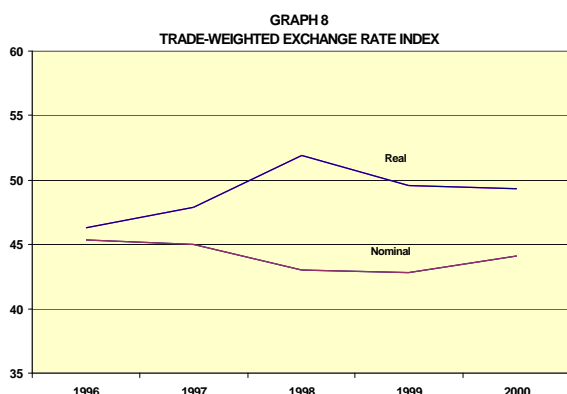


4. EXCHANGE RATES

The Central Bank's objective in managing the exchange rate of the Tala is to ensure that the value of the Tala is such that our exports remain competitive and that the balance of trade is sustainable over the long term. At the same time, care is taken to ensure that imported inflation is minimized.

The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies. The currency basket is reviewed periodically to reflect changes in trade and payment patterns between Samoa and its major trading partners. As a result of the last review carried out in 1999, the currency basket now comprises the currencies of NZ, US, Australia, Fiji, Japan and Euro countries. The weightings are based on Samoa's distribution of trade, private remittances, travel transactions and debt servicing.

Graph 8 shows the movements of the Tala in terms of its Nominal Effective Exchange Rate Index (NEER) and of its Real Effective Exchange Rate Index, which is adjusted for changes in prices. The Tala appreciated by 2.9 percent in nominal terms against the currencies of the countries represented in the basket. On the other hand, it depreciated by 0.4 percent against these currencies in real terms due mainly to the lower rate of inflation in Samoa compared to those of our major trading partners.



5. BANK SUPERVISION

The Financial Institutions Department (FID) is the second policy -implementing Department. It undertakes one of the Central Bank's statutory role to regulate, licence and supervise financial institutions. In exercising that responsibility, the FID endeavours to promote a sound and efficient domestic financial system.

5.1 PRUDENTIAL SUPERVISION

Prudential supervision, which is conducted mainly on an off-site basis, concentrates primarily on detecting early signs of weaknesses. This is carried out through regular analysis of financial information and reports provided by the commercial banks. These figures are compared against prudential standards and previous performance to highlight any significant trends in the financial positions of the commercial banks. Regular dialogue with the commercial banks is prompted once any issue of concern arises.

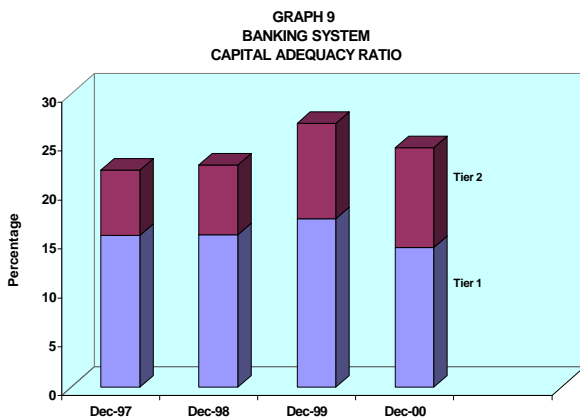
The Central Bank continued to develop its capacity to conduct on-site examination of banks' operations during 2000. To this effect, an on-site visit was carried out for one commercial bank early in the year. This was done in conjunction with the commercial bank's final audit by its external auditors. From the Central Bank's perspective, the joint visit with the commercial bank's external auditors served the following main purposes:

- (a) to verify the accuracy and correctness of information as furnished by the commercial bank throughout the year and evaluate the commercial bank's risk management system;
- (b) provide the opportunity to develop and strengthen the relationship and understanding between the supervisors and auditors, given their respective statutory responsibilities under the Financial Institutions Act 1996; and

- (c) to continue with the development of the ability of supervisors to carry out effective and productive on-site visits. These visits are strategically focused on the main areas where the commercial banks have inherent major risks.

With reference to prudential issues, special emphasis was focused on capital adequacy, credit risk and liquidity management.

- (a) Capital provides an essential buffer to absorb losses that might arise in banking business. It is therefore one of the key tasks for bank supervisors to monitor. A risk-based minimum capital requirement of 15.0 percent must be maintained by the banks at all times. At the end of 2000, the banking system remained strongly capitalised in comparison to the Central Bank's minimum capital adequacy requirement, recording an aggregate ratio of 24.5 percent. Please see Graph 9.

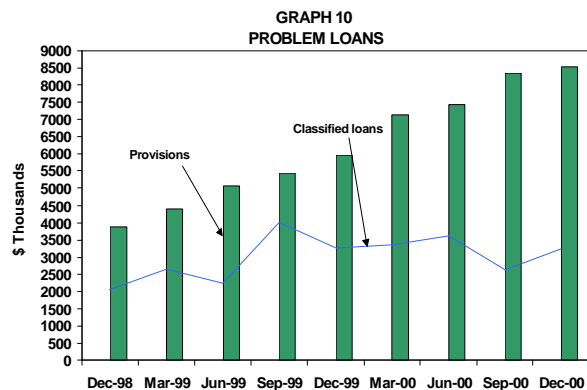


The Central Bank consults closely with any commercial bank which proposes a capital reduction, to ensure its ability to comply with the minimum capital requirement is not hindered over the longer run.

- (b) In terms of credit risk, the Central Bank places greater emphasis on banks internal management to monitor and provide adequate controls on credit to reduce possible losses. As loans increase in size, the risk and complexity of loans

condition also increases. Such is the cause of asset quality problems if poorly managed. Supervisors, on the other hand, must ensure that adequate level of provision is maintained by the commercial banks to cushion problem loans.

For the year under review, the commercial banks' combined level of arrears and non-performing loans amounted to \$4.4 million. This was comfortably provided for by the total provision for bad and doubtful debts which reached \$8.5 million and represented 3.4 percent of total lending respectively. The relatively high level of provisions partly reflected a dynamic provisioning approach being adopted by the commercial banks which estimates the level of credit losses inherent in the loan portfolio based on their risk grading system. Please refer to Graph 10.



- (c) Proposals in managing liquidity are pending since the Liquid Assets Requirements (LAR) was phased out in May 1999. At the moment, however, the Central Bank relies on the commercial banks to manage their day-to-day liquidity to meet daily demand, as well as for handling unexpected strains on their cash flows. Total liquid assets as a percentage of total domestic deposit liabilities stood at 15.5 percent (\$39.5 million), a decrease from 20.2 percent (\$46.5 million) when compared to the same time in 1999.

The Central Bank encourages the disclosure of financial information by the commercial banks to better inform their customers and the general public. It is the supervisors' duty to ensure that commercial banks disclose financial reports and any other relevant financial information to the public in due time.

In addition, the Central Bank also made available information booklets and pamphlets on relevant topics or issues in the financial system in order to strengthen the community's understanding and awareness. Included in this report framework are commercial banks' fees and charges which the Central Bank published regularly whenever there are significant changes.

5.2. YEAR 2000 COMPLIANCE

A close monitoring of the banking system's performance with respect to compliance with the Y2K issue was ongoing during the year. Responses received from the commercial banks were encouraging, and thus reflected a positive attribute of preparations by all in ensuring their respective systems were fully compliant with the required standards.

That said, the banking system did not encounter any problems relating to the Y2K bug or the "Millennium Bug" throughout the year under review.

5.3 MONEY LAUNDERING PREVENTION ACT 2000

In June 2000, the Money Laundering Prevention Act came into force, following its passage by Parliament. The Act creates as a criminal offence the act of money laundering and stipulates the conviction of any person, if found guilty, to a fine not exceeding \$1.0 million or imprisonment for a period not exceeding seven years or to both.

The vulnerability of the Samoan financial system to money laundering is highly recognised. The threat that money laundering could pose to national stability and credibility, highlights the significant importance to Samoa of implementing such legislation to combat

money-laundering activities. Furthermore, it demonstrates to the international community Samoa's commitment to support the global efforts in the fight against money laundering.

Under the Money Laundering Prevention Act 2000, the Money Laundering Prevention Authority (MLPA), which supervises the financial institutions, shall be appointed by the Minister of Finance. But, until such time, the function of the Authority shall be carried out by the Central Bank.

In its effort to promote the awareness and understanding of the public and interested stakeholders on money laundering issues, the Central Bank made several publications and press releases in this regard. A seminar was also held with all the financial institutions and the relevant agencies covered under the Act, to further promote their understanding with respect to their specific obligations under the Money Laundering Prevention Act 2000.

On the international scene, Samoa was formally accepted in June 2000 as a member of the Asia Pacific Group on Money Laundering (APG), a multilateral body established with broad objectives to combat money laundering.

Also, a commitment was made by the Government to the United Nations Office for Drug Control and Crime Prevention (UNODCCP) to adhere to certain minimum performance standards and has expressed agreements with the goals of the UN Global Programme against Money Laundering.

5.4 PROPOSED AMENDMENTS TO THE FINANCIAL INSTITUTIONS ACT 1996

A review of the Financial Institutions (FI) Act 1996 was undertaken during the year which resulted in proposed changes to further improve the supervisory framework of the Central Bank over the financial system. To this effect, the proposed amendments of the FI Act 1996 cover two main areas:

- a. to extend the supervisory role of the Central Bank to cover operations of the non-bank persons and financial institutions with the approval of the Minister; and
- b. to provide more room for the commercial banks to accommodate large financial proposals above their maximum limits as allowed under Section 12 of the Act.

In essence, the above amendments provide flexibility to improve market development and financial innovations within the financial system.

Furthermore, it provides an extended supervisory mechanism to ensure that financial institutions adopt prudent and best management practices to safeguard their operations against any inherent risks.

The above amendments have been submitted for Parliament's consideration during its Sitting in early 2001.

6. BANKING AND CORPORATE SERVICES

The Banking and Corporate Services Department (BCSD) is the newly structured Department, providing banking and corporate services to the Government, commercial banks and the general public. It also oversees exchange control procedures.

6.1 EXCHANGE CONTROL

In administering the Exchange Control Regulations 1999, the Banking and Corporate Services Department ensures that the country's foreign exchange reserves are maintained at a sustainable level which is conducive to the country's financial and economic stability.

6.1.1 Relaxation of Exchange Control Policy Requirements

Given the continuing improvement in the economy and in line with the ongoing process of the liberalization of the financial system, the

Central Bank further relaxed Exchange Control Policy requirements which became effective on 3 July 2000. These changes are as follows:

- i. Central Bank permits for the importation of motor vehicles and capital items were abolished;
- ii. Import entries no longer require Central Bank or commercial banks certification prior to presentation to the Customs Department;
- iii. The allowable limits on the commercial banks authority to make advanced payment were abolished;
- iv. The allowable limit on the commercial banks authority to make payment for imports under open account was abolished;
- v. The authority delegated to commercial banks and money changers to issue foreign exchange for overseas travelling expenses has been increased to \$700 per person per day to a maximum of \$7000 per person per trip. Requests for higher amounts require prior approval from the Central Bank; and
- vi. The commercial banks have been delegated authority to make all other payments which used to be approved by the Central Bank.

As a result of the progressive relaxation of Exchange Controls and allowing more delegated authority to the commercial banks, referrals and applications made direct to the Central Bank had decreased dramatically in 2000 compared to the year before.

However, for monitoring purposes, the commercial banks are still required to continue submitting periodic statistical reports of all overseas payments to the Central Bank.

6.1.2 Restricted Foreign Exchange Dealers

The Exchange Control Regulations 1999 authorizes the granting of licenses to foreign exchange dealers to do businesses in Samoa in accordance with stipulated operating procedures set by the Central Bank. For monitoring purposes, dealers are required to submit periodic statistical reports to the Central Bank.

Dealers offer the public competitive foreign exchange dealing services. As at the end of December 2000, the Central Bank has granted three restricted foreign exchange dealers' licenses.

6.1.3 Money Transfer Business

As at the end of December 2000, the Central Bank of Samoa has granted approval for the operation of five money transfer businesses. These businesses offer competitive services in money transfer under specified limits authorized by the Central Bank, and are required to provide periodic statistical reports to the Bank.

6.1.4 Offshore Borrowing and Remittance of Capital

Prior approval is required from the Central Bank for offshore borrowing as well as the outward remittance of capital. Approval is normally granted in the case of overseas borrowing for development projects. And, bona fide requests for remittance of capital have always received Central Bank approval.

6.1.5 Exports

The objective of the Central Bank's export procedures is to ensure that exports are sold for their proper value and full export proceeds are repatriated to the domestic economy. The Central Bank processed an average of 300 export shipment forms per month from individual exporters.

The Central Bank continues to monitor the flow of capital, but more emphasis is placed on the repatriation of all export proceeds to the local economy.

6.1.6 Foreign Currency Deposit Accounts

Resident individuals or firms who are earners of foreign exchange are eligible to apply for Central Bank approval to open foreign currency deposit accounts with the local commercial banks. The use of these accounts is for the settlement of their overseas commitments pertaining to their line of business activity.

In 2000, the number of foreign currency account approvals increased to 71, from 48 in 1999.

6.2 BANKING

The Central Bank provides a range of banking, registry and settlement services.

6.2.1 Customer Banking Services

Specialized banking services are provided to the Government and a number of overseas official institutions e.g. the European Union and the World Bank.

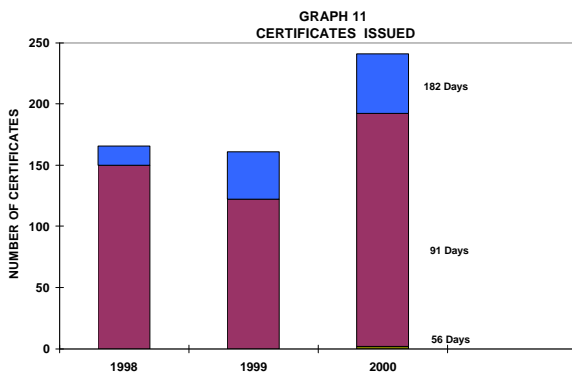
6.2.2 Registry

A registry service is maintained for the trading of Central Bank Securities (CBSS). Records are kept with regard to the issuance of securities, redemption, rediscounting and payment of interest.

The issuance of Central Bank Securities is tender-based, with registered bidders submitting tenders based upon the invitations for tender. Details of each tender and the results are announced in the local media.

In 2000, 34 tenders were held compared to 33 in 1999. A total of 241 certificates were issued in 2000 compared to 161 certificates in 1999, an increase of 80 certificates. A new 56-day certificate was introduced at the end of 2000. Please see Table 3 and Graph 11.

TERM	1999	2000
56 Days	Nil	2
91 Days	122	190
182 Days	39	49
TOTAL	161	241



6.2.3 Interbank Settlement

The Central Bank's role, in so far as the interbank settlement system is concerned, is to be a facilitator, ensuring the smooth exchange of payments amongst the commercial banks. It does this by providing office facilities where the commercial banks exchange cheques at the end of each business day and maintaining commercial banks Exchange Settlement Accounts (ESA) through which the necessary transactions are made. In addition, these ESAs are used to settle foreign exchange and currency transactions with the Central Bank as well as dealings in CBS Securities. ESAs are required to be in credit at all times.

6.3 CORPORATE SERVICES

6.3.1 Communication

The Central Bank continued to provide a program for disseminating information, explaining monetary and banking policies. This is an important part of the Central Bank's efforts to be transparent in its work and accountable for its decisions.

In addition to the various publications printed, the Central Bank has a website (launched in

December) and prints public notices and articles in the local newspapers to keep the public informed of any changes and up coming Central Bank events.

The major highlight of the year 2000 was the 25th Anniversary Celebrations of the Central Bank as a monetary authority, held on 1-4 December 2000. The celebrations culminated a year of preparations by the Central Bank. A special edition called the 25th Anniversary Booklet and the Central Bank's "Corporate Plan 2001-2002" were launched to mark this special occasion. Furthermore, the Central Bank published a seven part series of Information Press Releases in both Samoan and English in the printed media. The series focused on the evolutionary role and responsibilities of the Central Bank as a monetary authority since 1975.

On several occasions during the year, the Governor was invited to speak on public fora on issues of topical nature, those with economic underpinnings on the domestic economy. The Governor also took an active role in policy committees such as the Cabinet Development Committee (CDC) and the Inter Departmental Committee (IDC).

6.3.2 Publications

Seven Part Series (Newspaper edition)

- Part one *How the Central Bank came into existence*
- Part two *Financial Sector Liberalization in Samoa*
- Part three *Prudential Supervision and Regulation of Banks*
- Part four *Currency Issue*
- Part five *Relaxation of Exchange Control Regulations*
- Part six *Foreign Exchange Reserves*
- Part seven *Exchange Rates*

Quarterly Bulletins

March issue

June issue

September issue

December issue – Includes seven part series on CBS role

Annual Report

6.3.3 Information Technology

Although the Central Bank has had access to computers and links to the INTERNET for a number of years, it still has a long way to go for it to effectively exploit the benefits of modern day information technology for its work. A WINDOWS NT server was installed in 2000 to enable more links to the Internet. However, constraints with limited access to the local Internet Service Providers as well as slow capacity in telecommunication links hinder further progress in this area. The Central Bank currently has 40 personal computers (PCs) linked by a local area network.

The long awaited computerization of the Central Bank's accounts and payroll was a welcomed development when the computer accounts software, Great Plains from Eclipse Computing, Australia, went live in February 2000. This development was assisted by a consultant provided by the Asian Development Bank and the relevant training of staff by the software supplier. Training with the SWIFT system was also continued in order to upgrade skills and comply with international standards.

7. CURRENCY

One of the Central Bank's key obligations is to meet the currency needs of the public. Therefore, as the sole provider of the currency, it has to ensure that stocks of all currency denominations (notes and coins) are in adequate supply and of high quality to meet the transactional needs of the public.

No other person is allowed to print or issue currency. And, it is an offence to deface any currency by means of writing, stamping, erasure

or any other actions that would change the features of the currency.

7.1 CASH OPERATIONS

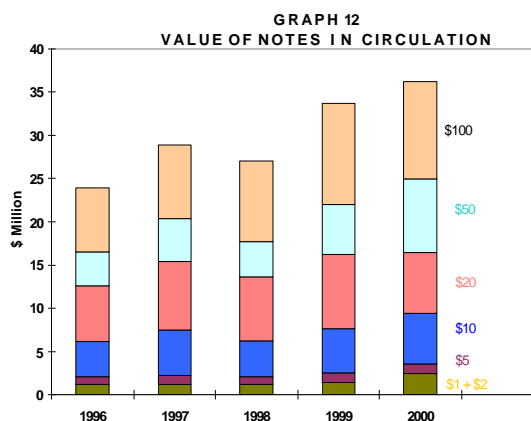
Commercial banks make daily deposits of surplus cash with the Central Bank, when they receive more cash from their customers than the amount required for their daily operations. If the commercial banks receive fewer cash deposits from their customers, than the amount required for their daily operations, they make withdrawals from their excess cash deposited with the Central Bank.

7.2 NOTES IN CIRCULATION

As at 31 December 2000, the value of currency (notes and coins) in circulation amounted to \$38 million compared with \$36 million in 1999.

New currency notes issued totaled (with a face value of) \$23,174,500 compared to \$19,200,000 in 1999. In addition, a total value of \$253,000 worth of coins was issued during the year compared to \$129,874 in 1999.

The introduction of automatic teller machines (ATM) saw an increase of \$2 million in the amount of new notes issued. The increase has prompted the Central Bank to devise new cash handling procedures to improve the quality of currency notes. Please see Graph 12.



7.3 COUNTING AND SORTING OF BANK DEPOSITS

QUALITY OF NOTES

The quality of bank notes is determined to a great extent by the manner in which the members of the general public handle and care for the currency notes.

Poor quality notes removed from circulation in 2000 increased due to writings, crumpling, tearing, removal of watermark and other damaging actions taken by the public. The increase in the number of notes removed from circulation due to poor quality means more money is required to pay for the printing of new notes.

Cash handling aimed at improved quality requirements, through awareness programs, is one of the Bank's priorities in the near future.

Although the poor quality bank notes are removed from circulation through the use of a sorting machine, the bulk of it is sorted manually. Unissuable (soiled) notes are destroyed once a month by shredding. A total of \$20,013,939 worth of unissuable currency notes were withdrawn from circulation and destroyed in 2000, compared to \$13,893,372 in 1999.

7.4 PRINTING OF BANK NOTES

There were no new notes printed during the year 2000. The paper note denominations (5 Tala, 10 Tala, 20 Tala, 50 Tala and 100 Tala) are printed by De La Rue, while the polymer note (2 Tala) is printed by Note Printing Australia. The polymer bank notes, are generally more durable compared to traditional paper notes. This is due mainly to the fact that they do not get dirty easily and are harder to tear. Compared to paper notes, polymer banknotes cost roughly twice as much to produce, but are estimated to last four times longer. Samoa was the first country in the South Pacific to use Polymer notes in 1991, marking the celebration of the Fifty Years of Service by His Highness the Head of State, Susuga Malietoa Tanumafili II.

7.5 MINTING OF COINS

A supply of new coins worth \$348,600 of various denominations was struck at the Singapore Mint in October 2000. This compares with our last order of new coins of several denominations with the face value of \$212,000 received in January 1997.

7.6 CURRENCY NOTES AND COINS FOR COLLECTORS

From time to time, coins and specimen currency notes are provided to overseas collectors. In 2000, we issued about 60,052 pieces (worth \$142,079) of currency notes to 37 requests from interested overseas note collectors.

8. STAFF DEVELOPMENT

The Management Resources Department (MRD) is one of two Resources Departments; the other one is the Accounting and Budget. The MRD is responsible for the Bank's building, tenants and security. But, its major task is the management of staff resources.

Staff development and career strengthening remained an important task for the Bank, as has been the case in previous years. Securing training opportunities, provision of training incentives (both local and overseas), internal movement of staff through promotions and direct transfers and on-the-job training have been principal avenues to enhance staff development and capability.

During the year, the Central Bank conducted several training courses for its staff. These included the annual Induction course for new staff recruits and the Writing Skills course for its senior staff. The latter course was made possible with the assistance of the Australian Expert Service Overseas Programme (AESOP) who so kindly provided the services of Mrs Sue Ward as the resource personnel. The Central Bank also, with the assistance of the Reserve Bank of Australia and Reserve Bank of New Zealand, hosted the annual South Pacific Central Bankers Workshop on 'Central Bank Balance Sheets in a Liberalised Financial

System'. This course was attended by twenty-two (22) participants from six central banks in the Pacific Region, including ten (10) from the Central Bank of Samoa.

Several staff also participated in short-term training and seminars organized under the auspices of the various Government Organizations and Departments. And, in as far as continuing education was concerned, seven staff graduated at year-end. Two in particular graduated from the University of the South Pacific; one, was a management staff who graduated with the degree of Master in Business Administration (MBA) and the other with a Certificate in Librarianship.

Furthermore, five other staff graduated from the National University of Samoa, three with Certificates in Computer-Aided Graphic Design, one with a Diploma in Accounting and the other with a Certificate in Commerce.

The Central Bank, as always, continued to take advantage of training opportunities provided by overseas agencies in the form of short-term courses, seminars, workshops and attachments. The selection of training opportunities were based on their relevance and cost effectiveness to the Central Bank. Throughout the year, ten staff attended overseas training courses, and six went on work related attachments.

In May, the Central Bank implemented a major organizational restructure which resulted in the creation of the Financial Markets Department and the appointment of its Manager. As well, five other staff were reallocated to different departments. It is pleasing to report that the Bank maintained its staff number after the restructure.

There were nine promotions and direct transfers made during the year, three of which were at the management level. As usual, this strategy not only recognizes the potentials of the individual staff and where these potentials could be best utilized, but also in order to retain a pool of human resources with the highest possible level of competence, professionalism and integrity.

Eight new staff were recruited during the year, six of whom were replacements for those who had resigned from their services with the Central Bank. Only one staff was dismissed due to non-compliance with staff regulations.

As at 31st December 2000, the Central Bank had a staff of 87 including two part-time cash counters.

As in the past, the Central Bank continued to provide short-term vocational working opportunities for students from the Samoa Polytechnic Institute and students returning for holiday from overseas studies. During the year, the Central Bank accepted ten students both for work experience attachments and part-time employment.

On several occasions, the Governor represented the Central Bank in overseas meetings, forums, conferences and was a member of several official Government delegations.

The Central Bank wishes to acknowledge, with gratitude, the assistance of the following overseas institutions; the Reserve Bank of New Zealand, Reserve Bank of Australia, Reserve Bank of Fiji, the International Monetary Fund (IMF), Pacific Financial Technical Assistance Centre (PFTAC), the Asian Development Bank (ADB), and the Commonwealth Secretariat in providing training opportunities for Bank staff.

On behalf of the three commercial banks, the Development Bank and the National Provident Fund, the Central Bank prepared and submitted to the National University of Samoa a proposal to launch a diploma course in banking and finance to be an integral part of the University's annual curriculum program. This particular course would help meet the needs of those seeking to pursue or further their careers in the banking and financial sector. To kick-start the course program, the financial institutions concerned are prepared to fund the initial two years with the intention that the course would be later integrated into the University budget. Although the proposal is still on an exploratory stage with the University, the Central Bank would like to acknowledge with

thanks the favourable reception and consideration granted by the University during the consultative process with the financial institutions.

In August, the Bank farewelled Mr. David Meader who had worked for two years as Research Advisor under the International Monetary Fund's Technical Assistance Program. The Central Bank is indeed very grateful to the IMF for the services of Mr. Meader.

9. FINANCIAL PERFORMANCE

The Accounting and Budget Department (ABD) is responsible for management accounting, which include the Central Bank's budget, staff payroll payments and the preparation of financial statements.

Whereas the audited accounts of the Central Bank for the year ended 31 December 2000 appear at the end of this section, following are some of the highlights:

In 2000, the assets and liabilities of the Central Bank went down \$7 million. On the liabilities side, there were decreases in CBS securities of \$9.3 million, Government Deposits of \$4.2 million and revaluation reserve of \$0.7 million. These were partly offset by increases in demand deposits due to banks of \$2.6 million, notes and coins in circulation of \$1.7 million, external liabilities of \$1.5 million, statutory deposits of banks of \$0.8 million and general reserve of \$0.6 million. On the assets side, decreases were noted in external assets of \$6.8 million, fixed assets of \$0.4 million, notes and coins of \$0.3 million and receivable and prepayments of \$0.2 million, which were partly offset by an increase in money at call of \$0.7 million.

The Central Bank made a net operating profit of \$1,179,246 in 2000, compared to a net operating profit of \$940,323 in 1999. As required under Section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profit (equivalent to \$589,623) was transferred to the Government and the other 50 percent was transferred to General Reserve. The increase in the profitability of the Central Bank in 2000 was a

result of an increase in total income of \$870,298 that exceeded an increase in total expenses of \$613,616. The main items that contributed to this outcome was an increase in interest earned from overseas investments of \$854,322 although there were increases of \$468,111 in occupancy costs and other administrative expenses of \$220,835.

Twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to Government under Section 28(3) of the Central Bank of Samoa Act 1984. Accordingly, the Central Bank transferred \$1,482,784 to Government for 2000 compared with \$1,672,504 the previous year.

During the year, the Central Bank issued CBS securities with a face value of \$91,600,000.

Under the terms of the Financial Sector Program Loan between the Government and the Asian Development Bank (ADB), the realised interest cost of these securities, amounting to \$1,909,375 was met by the Government from funds provided by the ADB. Accordingly, this amount is excluded from both the income and the expenses of the Central Bank as recorded in the accounts.

9.1 PERFORMANCE BUDGETING

In 2000, the Bank took steps to revise its annual budget approach in order to improve and strengthen the role of internal budget as a more effective instrument in the allocation of costs to the Bank's priorities and main outputs.

This revision was more focused on any changes to ensure the resources and functions are managed efficiently by departments in order to achieve effective and intended incomes, and are consistent with output performance budgeting system widely adopted by the public sector. This approach was intended to become effective in 2001 financial year.

9.2 NEW COMPUTERIZED ACCOUNTING SOFTWARE

The Bank's new computerized accounting system was introduced for the first time in 2000, with the intention of improving the performance and the efficiency of the Bank's accounting system. The new system replaced the manual system which was introduced when the Bank was set up in 1984.

After one year of operation, the Bank has experienced some good signs and promising results in the new system and hopefully will continue in the years ahead.

IX. THE OFFSHORE FINANCE CENTRE

The Office of the Registrar of International and Foreign Companies is attached to the Central Bank for administrative purposes. The Office operates under its own budget which is supervised by an Advisory Committee comprising the Governor, Financial Secretary and the Attorney General.

1. INTRODUCTION

The Offshore Finance Centre (OFC) operates under the following Acts:

- ?? International Companies Act 1987
- ?? Offshore Banking Act 1987
- ?? International Trusts Act 1987
- ?? Trustee Companies Act 1987
- ?? International Insurance Act 1988
- ?? International and Limited Partnership Act 1998
- ?? Segregated Fund International Companies Act 2000

The OFC was established in October 1988 as a quasi government unit within the Central Bank of Samoa. It employs a Registrar and support staff to administer legislation, which regulate all registered entities. The Advisory Committee comprising of the Governor/Chief Executive of the Central Bank of Samoa, the Financial Secretary and the Attorney General oversee its operations. This structural arrangement facilitates an efficient and flexible administration of the offshore regime. The Offshore Finance Centre is also known as the Office of the Registrar of International and Foreign Companies or the International Companies Office.

As with all Offshore Financial Centres, the Samoa jurisdiction has over the past 12 months come under a lot of scrutiny from various international organizations like the Financial Stability Forum (FSF), the Financial Action Task Force on Money Laundering (FATF) and the Organization for Economic Cooperation and Development (OECD). These initiatives particularly the FSF and FATF stem from

concerns of G7 nations about significant gaps in both financial supervision and anti-money laundering systems in the global system. All these concerns are perceived to be facilitated by offshore financial centres with lax or no supervision, high vulnerability to money laundering and fiscal regimes which are harmful to major economies with high taxes.

2. INCORPORATIONS

The continuing increase in the number of new registrations during the year is no doubt a result of our promotional efforts in the past, coupled with the recovery of our main offshore market, Hong Kong from the Asian financial crisis. New international companies registered during the year reached 1,496 compared to 1,141 new companies in the previous year. In addition, 16 new long-term companies and 11 new international trusts were registered during the year.

As at the end of the year, 4,772 international companies, 145 international long-term companies, 167 international trusts, 9 offshore banks and 6 international insurance companies remained on the register. There were no new banks or insurance companies licensed during the year.

Since establishment in October 1988, the Offshore Finance Centre has registered 7,372 international companies, 147 international long-term companies, 6 trustee companies, 25 offshore banks, 16 international insurance companies and 303 international trusts.

3. REVENUE

Total revenue for the year reached \$5,450,592 (an increase of 39 percent) compared to \$3,931,257 in 1999 (an increase of 28 percent). Total revenue include interest received of \$445,962 from term investments, up from \$371,288 in the previous year.

4. STAFF ACTIVITIES

Staff development is essential in our efforts to enhance the knowledge of the staff and to keep abreast with ongoing developments in the offshore world. To this end, we were represented at the: -

- ?? 3rd Typologies Workshop of Asia Pacific Group on Money Laundering
- ?? United Nations Forum Plenary against Money Laundering
- ?? 7th Annual Working Meeting of the Offshore Group of Insurance
- ?? International Monetary Fund (IMF) and the Financial Stability Forum (FSF) Outreach Meeting
- ?? Technical Meeting on the establishment of Financial Intelligence Units (FIUs) in the Pacific
- ?? Offshore Group of Banking Supervisors Meeting (OGBS)
- ?? International Conference of Banking Supervisors (ICBS)

The Assistant Manager Accounts attended a two-week training attachment with the Australian Prudential Regulation Authority to undergo practical training experience on insurance supervisory methods.

5. DEVELOPMENTS

In our efforts to effectively respond to the current initiatives affecting our Centre, (particularly on financial supervision), we engaged the services of an Adviser from the British Executive Services Overseas (BESO) to review the Center's offshore banking regime with a view to fully comply with the Basle Core Principles on Banking Supervision. The technical assistance provided by the Adviser has helped improve our banking supervisory standards and identified amendments to our Offshore Banking Act to further enhance our supervisory practices.

The Money Laundering Prevention Act 2000 enacted in June demonstrated Samoa's commitment to being part of the solution in

combating money laundering globally. This new piece of legislation, which is administered by the Money Laundering Authority in the Central Bank, covers all offshore entities and overrides secrecy provisions in any enactment.

A new legislation called Segregated Fund International Companies Act 2000, introduced in July 2000, diversified the product base of our Centre and allowed Samoa to compete with jurisdictions offering the same product.

In the medium term, the Centre sees as a priority the need to continue enhancing its operational and legislative framework not only in the light of current initiatives, but also out of self-interest for the long-term continuity and viability of the Offshore Finance Centre.
