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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF
SDR 17.9 MILLION
(US$ 25 MILLION EQUIVALENT)
COMPRISING
A DEVELOPMENT POLICY GRANT OF SDR 10.7 MILLION (US$ 15 MILLION EQUIVALENT)
AND
A DISASTER RISK MANAGEMENT DEVELOPMENT POLICY GRANT WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION (CAT-DDO) OF SDR 7.2 MILLION (US $10 MILLION EQUIVALENT)

TO

THE INDEPENDENT STATE OF SAMOA

FOR THE

First Response, Recovery and Resilience Development Policy Operation with a Catastrophe-Deferred Drawdown Option

November 04, 2020

Macroeconomics, Trade and Investment Global Practice
Urban, Resilience and Land Global Practice
Health, Nutrition and Population Global Practice
East Asia And Pacific Region

Samoa
GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of September 30, 2020)
Currency Unit
US$1.00 = SAT 2.62
SDR 1 = US$ 1.40757

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ACC	Accident Compensation Corporation
APTC	Australian Pacific Training Coalition
Cat-DDO	Catastrophe Deferred Drawdown Option
CBS	Central Bank of Samoa
CERC	Contingency Emergency Response Component
CIM	Community Integrated Management
COEP	Code of Environmental Practice
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
DBS	Development Bank of Samoa
DPO	Development Policy Operation
DEMA	Disaster and Emergency Management Act
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EA	Environmental Assessment
FDI	Foreign Direct Investment
EPI	Expanded Programme on Immunization
FOREX	Foreign Exchange
FY	Financial Year (year ended June)
GDP	Gross Domestic Product
GNP	Gross National Income
GRS	Grievance Redress Mechanism
HIES	Household Income and Expenditure Survey
IDA	International Development Association
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
JPAM	Joint Policy Action Matrix
KM	Kilometers
LTA	Land Transport Authority
MAPS	Methodology for Assessing Procurement Systems
MTDS	Medium-Term Debt Management Strategy
MCR	Ministry for Customs and Revenue
MMR2	Measles, Mumps and Rubella Vaccine
MNRE	Ministry of Natural Resources and Environment
MoF	Ministry of Finance
MWTI	Ministry of Works, Transport and Infrastructure
MWCSD	Ministry of Women, Community and Social Development
NAPDM	National Action Plan for Disaster Management
NBC	National Building Code
NCD	Non-Communicable Disease
NHS	National Health Services
NPL	Non-Performing Loan
NZ	New Zealand
OAG	Office of the Attorney General
PREP	Pacific Resilience Program
PBB	Public Beneficial Body
PCRAFI	Pacific Risk Assessment and Financing Initiative
PUMA	Planning and Urban Management Authority
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PFI	Public Financial Institution
PFM	Public Financial Management
PPA	Policy and Performance Action
PPG	Public and Publicly Guaranteed
PPP	Purchasing Power Parity / Public-Private Partnership
PTB	Public Trading Body
PV	Present Value
REER	Real Effective Exchange Rate
SAT	Samoan Tala
SBS	Samoa Bureau of Statistics
SDS	Strategy for the Development of Samoa
SDR	Special Drawing Rights
SDFP	Sustainable Development Finance Policy
SME	Small and Medium Enterprise
SNPF	Samoa National Provident Fund
SOE	State-Owned Enterprise
SORT	Systematic Operational Risk-Rating Tool
TA	Technical Assistance
TC	Tropical Cyclone
TIMS	Tax Invoice Monitoring System
US	United States
USD	United States Dollar
UTOS	Unit Trust of Samoa
VAGST	Value-Added Goods and Service Tax
VFRs	Visiting Friends and Relatives
WB	World Bank
WBG	World Bank Group
WBG	World Bank Group
WHO	World Health Organization

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SAMOA

SAMOA FIRST RESPONSE, RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION

TABLE OF CONTENTS

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P171764	Yes	1st in a series of 2

Proposed Development Objective(s)

The objectives of the proposed operation are to promote an inclusive economic response and recovery from the impacts of COVID-19, strengthen Samoa's macro-fiscal resilience, and increase Samoa's resilience to climate change, natural disasters, and health risks.

Organizations

Borrower:	SAMOA
Implementing Agency:	MINISTRY OF FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**25.00**

DETAILS

International Development Association (IDA)	25.00
IDA Grant	25.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
#1. Number of unemployed benefiting from government assistance	FY2019: no COVID-19 response spending to support the unemployed	By June 2021: At least 2000 workers losing employment in 2020 have received unemployment benefits. At least 200 individuals have participated in the short-term paid training scheme.
#2. Increase in number of foreign investment registrations	FY2020: 45 foreign investment enterprises were registered	In the year to June 2023: At least 50 foreign investment enterprises were registered.
#3. Number of eligible recipients benefiting from government assistance	In FY2019, number of eligible elderly individuals receiving top-ups to the senior citizens' benefit = 0	By June 2021: At least 9000 eligible elderly individuals have received top-ups to the senior citizens' benefit.
#4. Improved gender equality in the workplace	2020: Samoa's average score across the workplace, pay, and parenthood sub-measures of the Women, Business and the Law index is 72	In 2023: Samoa's average score across the workplace, pay, and parenthood sub-measures of the Women, Business and the Law index increases to at least 80 in 2023.
#5. Full compliance with MTDS in terms of requirements for new external debt concessionality	FY2020: Full compliance – no new external non-concessional loans	From July 2020 to June 2023: Full compliance – no new external non-concessional loans.
#6. Risk assessments conducted and accounted for in deciding on eligibility for new on-lending arrangements	FY2020: Risk assessments of new on-lending arrangements limited and not fit for purpose	From July 2021 to June 2023: risk assessments conducted for all new on-lending proposals, and new on-lending is only provided to SOEs assessed to have a credit risk rating of 'A' or 'B'.
#7. Increase in collection of taxes on goods and services (VAGST plus excise taxes) as a proportion of GDP	FY2017 to FY2019 average: 16 per cent of GDP	In the year to June 2023: At least 17 percent of GDP.
#8. Early warnings issued convey potential impacts and actions needed to reduce harm to life and damage to assets	FY2020: Early warnings do not convey impacts or guidance to reduce harm or damage	In the year to June 2023: i) At least 70 percent of early warnings issued for hydro-meteorological events convey potential impacts and actions needed to reduce harm or damage; and ii) In the event of an epidemic or pandemic, early warnings are issued and include information on the public health risk and the location of potential hot spots.
#9. Building practitioners licensed and registered	FY2020: No licensed or registered building practitioners	In the year to June 2023: At least 25 building practitioners licensed and registered.
#10. Risks and contingent financing strategies for natural disasters incorporated into budget documentation	FY2020: No analysis of risks or contingent financing strategies for natural disasters in the budget documents	FY2023: Fiscal risks associated with natural disasters are assessed and contingent financing sources are explicitly recorded in the budget documentation.
#11. Children are immunized against measles, mumps and rubella	2019: immunization rate of measles, mumps and rubella (MMR2) for the cohort of 1-2 year old children = 59 percent	In the year to June 2023: The immunization rate for measles, mumps and rubella (MMR2) for the cohort of 1-2 year old children is at or above 85 percent.

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE INDEPENDENT STATE OF SAMOA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation is the first in a programmatic series of two and includes a Disaster Risk Management (DRM) Policy Grant with a Catastrophe-Deferred Drawdown Option (Cat-DDO).** The objectives and pillars of the proposed operation are to: (1) promote an inclusive economic response and recovery from the impacts of COVID-19; (2) strengthen macro-fiscal resilience; and (3) increase resilience to climate change, natural disasters, and health risks. This first operation is an IDA Grant of SDR 17.9 million (US$ 25.0 million equivalent). Of this amount, US$ 15.0 million equivalent is a development policy grant and US$ 10 million equivalent is a Cat-DDO on grant terms, available for full or partial disbursement in the event of a natural catastrophe. Pillar 3 of the operation specifically supports Government's policy efforts to increase its resilience to risks from climate change, natural disasters and public health emergencies.

2. **COVID-19 has hit Samoa's tourism sector hard, just as it was recovering from a measles outbreak.** In November 2019, a measles outbreak claimed 83 lives, infected around 2 percent of the population of 197,000, and had a severe economic impact on tourism and services. In March 2020, Government acted quickly to declare a state of emergency in response to COVID-19, locking down its international borders, and imposing social distancing measures and internal travel restrictions. As of mid-October 2020, there have been no confirmed cases of COVID-19 in Samoa.

3. **As a result of COVID-19 effects, the economy is expected to contract by 7.7 percent in FY2021.** In mid-2019, the economic outlook was relatively sanguine: growth in FY2019 had rebounded after a contraction in FY2018, which was in part due to Tropical Cyclone (TC) Gita. The Government had successfully consolidated its fiscal position over the previous few years, with debt to GDP declining. Real GDP was expected to increase at a moderate pace over the medium term, supported by continued growth in the tourism and agriculture sectors, and improvements to the business environment resulting from public investments. However, the measles outbreak and COVID-19 have resulted in an economic contraction of 3.5 percent in FY2020, and a projected 7.7 percent contraction in FY2021. This is due mainly to a reduction in international tourism arrivals. Public spending is expected to pick up in FY2021 – in part due to the implementation of a fiscal support package – and domestic revenue is expected to decline.

4. **In addition to COVID-19, Samoa is facing several other challenges: to raise potential economic growth; increase resilience to climate change and natural disasters; and improve public health outcomes**. As a very small remote economy, Samoa's potential growth is constrained by high trade costs and difficulties in realizing economies of scale, which limit private sector incentives to invest. Samoa is also severely exposed to climate change and frequent natural disasters including through the effects of heavy rainfall, floods, droughts, tropical cyclones, storm surges, earthquakes and tsunami. These have significant direct effects on communities and livelihoods, lead to substantial losses in economic production, and decimate the capital stock. At the same time, an epidemic of non-communicable diseases (NCDs) has brought substantial social and economic costs associated with morbidity and premature mortality, and escalating fiscal costs associated with treatment needs. The 2019 measles outbreak and ongoing COVID-19 pandemic have again highlighted the critical need to increase the resilience of the

population to communicable diseases, which can partly be achieved by reducing the prevalence of NCDs.

5. **Households have felt the full force of the economic impacts of COVID-19, with the poor and vulnerable likely to be most severely affected.** According to internationally comparable estimates, extreme poverty (consumption of less than US$1.90PPP per person per day) was 1.1 percent in 2013-14, among the lowest in the Pacific. Most households also enjoy relatively good access to electricity, safe drinking water, and sanitation. However, when measured against a "cost of basic needs" poverty line that reflects national standards of living, the incidence of poverty in 2013/14 remained significant at 20.3 percent of the population.[1] Many of these people will face significant additional hardship due to COVID-19. Almost a quarter of households have members engaged in the tourism and transport sectors. Survey reports suggest substantial reductions in tourism-related employment and hours worked. Although the impact on incomes may be mitigated by a reallocation of labor toward agricultural activities, it is still likely to be severe. Finally, four out of every five households receive remittances from abroad, with total remittance inflows equivalent to around 18 percent of GDP. Although they have held up in the three months to June 2020, remittances could decline significantly in FY2021 due to COVID-19 effects.

6. **The proposed programmatic Development Policy Operation (DPO) series supports Government's response to COVID-19, as well as its longer-term efforts to facilitate economic recovery and build resilience**. Since the onset of the measles outbreak and the COVID-19 pandemic, the content of the program has shifted substantially toward supporting the immediate response to these shocks, ensuring that the economy is in a position to recover once COVID-19 related restrictions ease, and increasing resilience to risks, including those associated with climate change, natural disasters, and public health emergencies. Pillar 1 supports measures to protect the livelihoods of households and workers adversely affected by the crisis. Pillar 2 supports reforms to strengthen the medium-term fiscal position by improving revenue administration, and to mitigate fiscal risks, through closer assessment and monitoring of Government on-lending to SOEs. Pillar 3 supports reforms to strengthen early warning systems (for climate, natural and health risks), ensure that builders meet minimum standards, and promote child vaccinations. These reforms are closely aligned with current priorities, including sustainability and business development, improved health outcomes, and climate and disaster resilience as outlined in the Strategy for the Development of Samoa FY2017–FY2020 (SDS).

7. **The DPO program aligns closely with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper (June 2020).** In line with the Approach Paper, the DPO includes policy measures critical to the immediate relief stage of the response as well as longer-term reforms aimed at building a resilient recovery. The four pillars of the Approach – the health response, the social response, the economic response, and the strengthening of policies, institutions, and investments – are each addressed by one or more reform measures supported by this programmatic series. In line with the Approach paper, the DPO program also has a strong focus on debt management and overall fiscal sustainability.

8. **Given Government's appropriate crisis response and structural policy actions, there is a sound case for the provision of budget support to Samoa.** Over the short to medium term, the unanticipated financing gap resulting from falling revenues, additional public health spending, and additional spending to mitigate the economic effects of COVID-19 is potentially large. Government has taken steps to allocate its budget to areas of highest priority. Without significant financial support to prevent costly and

[1] Work is progressing to construct internationally-comparable poverty estimates based on the more recent 2018 HIES data.

inefficient business closures and sustain household incomes and livelihoods, there is the potential for very damaging longer-term impacts on the Samoan economy which could persist long after international travel restrictions have been eased. This DPO is central to the World Bank's overall engagement with Samoa, as laid out in the Regional Partnership Framework (RPF) FY2017-FY2021,[2] and the joint budget support engagement is also critical for other partners who are providing financial assistance to Government. The hybrid structure of the proposed operation is particularly appropriate for Samoa, given the importance of policy reforms which increase resilience to shocks, and the need for financing that disburses quickly in the aftermath of a natural disaster or public health emergency. The hybrid structure also reduces transaction costs for a thin-capacity country like Samoa.

9. **The macroeconomic policy framework is adequate for the purposes of this operation.** Government is striking a prudent balance between its commitment to maintain fiscal sustainability and its efforts to provide support to businesses and older vulnerable citizens. This support will be important in maintaining lives and livelihoods and helping the economy to recover once COVID-19 restrictions ease. Assuming international travel resumes by mid-2021, economic growth is projected to rebound in FY2022 and FY2023 as tourism and related industries recover, before stabilizing at around 2.5 percent per year. The economy will also be supported by construction of public infrastructure projects and improvements to the business environment resulting from recent investments to improve internet connectivity and reduce the cost of electricity. Nevertheless, the outlook remains highly uncertain, and is dependent on the duration of travel restrictions imposed in response to COVID-19, the speed of the economic recovery once borders reopen, and whether or not Samoa ultimately remains free of the virus. In preparation for external shocks and natural disasters, Government has made substantial efforts to build its macroeconomic resilience in recent years, including by raising domestic revenues, containing spending, and bringing down the level of public debt. While a deficit of 2.9 percent of GDP is forecast for FY2021, fiscal deficits are projected to narrow within Government's 2 percent of GDP target from FY2022 onwards. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. While Samoa is rated at high risk of debt distress, the 2020 IMF-WB Debt Sustainability Analysis (DSA) notes that its debt is sustainable, in part because of its long-term concessional nature. Debt will remain sustainable as long as Government continues with its recent practices of bolstering fiscal buffers when possible, maximizing the use of grant financing, and ensuring that any new loans are concessional.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. **While economic growth has been volatile in recent years, Samoa has demonstrated macroeconomic resilience in the face of several shocks**. The economy contracted in FY2018 (year ended June) due to a series of one-off factors, including the closure of a major manufacturer and the impact of TC Gita. Samoa's economy rebounded in FY2019, with growth of 3.5 percent (about 3.0 percent per capita) attributable to preparations for the Pacific Games in July 2019 and continued impetus from construction, tourism earnings, and remittances.

[2] Report #120479, discussed by the Board on February 28, 2017 and extended by the Board of Executive Directors on February 6, 2020 to FY23.

11. **The measles outbreak in late 2019 had a severe economic impact, particularly on the tourism and broader services sector**. The commerce sector alone, which accounts for nearly one third of the economy, contracted by around 8 percent in real terms in the December quarter of 2019 (compared with the 2018 December quarter). Visitor arrivals in the months of December 2019 and January 2020 were about 25 percent down on a year earlier.

12. **As a result of the measles outbreak and COVID-19, there has been a substantial contraction in economic activity in FY2020**. Prior to COVID-19, it was expected that the economy would rebound in the March and June quarters of 2020, led by a recovery in tourism, with several international and regional events scheduled to be held in Samoa. But the travel restrictions imposed in early March 2020, which were quickly followed by a full border closure, resulted in a substantial reduction in tourism activity. Economic activity has also been adversely affected by declines in construction activity and goods exports, although remittances have held up over the three months to June. Domestic restrictions on movement and business operations imposed during the State of Emergency, which started in March 2020 (and was subsequently extended several times, albeit with fewer restrictions), have continued to constrain activity. Collectively, these impacts have resulted in the economy contracting by 3.5 percent in FY2020, compared with the prior forecast of about 4 percent growth. Of the 7.5 percentage point drop, around 2 percentage points is attributable to the impact of measles, around 5 percentage points to the COVID-19 related decline in tourism, and around 1.5 percentage points to other COVID-19 impacts.[3] These impacts were partially offset by support from fiscal stimulus approved in April 2020 which is estimated to have contributed about 1 percentage point to growth.

13. **The current account had moved into surplus in recent years, due to strong growth in tourism-related services exports and remittances, but is expected to have turned to a deficit in FY2020.** At the end of 2019, Samoa's foreign exchange reserves had been rebuilt to around 5 months of imports, well within the desirable range as assessed by the IMF. But a current account deficit of around 6 percent of GDP is projected in FY2020, with falling tourism receipts only partially offset by declines in the value of imports and increases in foreign aid. April's IMF projections indicate that this would give rise to a balance of payments financing gap of around US$ 34 million. In response, Samoa accessed US$ 22 million (100 percent of quota) under the Fund's Rapid Credit Facility in April. The residual financing gap has been met in part by higher-than-expected assistance from development partners, and in part through a drawdown of international reserves. Reserves are expected to have remained at around 5 months of imports at the end of FY2020 (Table 1).

14. **Inflation was contained in FY2019, and has fallen in FY2020, due in part to the decline in global commodity prices and slack demand**. The exchange rate, which is pegged against a basket of major trading partner currencies (including the Australian dollar, the New Zealand (NZ) dollar, and the US dollar), was little changed in nominal and real effective terms in FY2020, and the IMF's most recent published assessment (May 2019) noted that the level of the exchange rate was broadly in line with fundamentals and desirable policies. Given the country's size and dependence on external markets, the current exchange rate peg has served Samoa well as a credible nominal anchor in the face of external shocks. Scenarios conducted as part of the 2020 IMF-WB DSA suggest that a devaluation would have adverse

[3] This is based on estimates of the effects on sectoral activity and tourist spending in the December 2019 quarter (for measles) and the March and June 2020 quarters (for COVID-19 related impacts). Apart from impacts on tourism-related sectors, other impacts include effects on construction, agriculture, and the broader commercial sector.

effects on debt sustainability, given the high proportion of foreign currency denominated public debt.

15. **The Central Bank of Samoa (CBS) is maintaining an accommodative monetary stance, and is providing additional support to offset the impacts of COVID-19 on the banking system**. However, the transmission mechanism for monetary policy is weak due to high excess reserves, a lack of competition in the commercial banking sector, conservative lending practices, and various other structural impediments to finance. In response to COVID-19, the CBS has set up a Stand-by Credit Facility for commercial banks, and an Emergency Price Control Board has temporarily been established to keep wholesale and retail prices in check, along with a State of Emergency Order (dated March 30) to enforce a temporary price ceiling for a predetermined set of selected goods.

16. **The banking system is well capitalized, with sound financial indicators, including contained non-performing loans (NPLs), and ample liquidity buffers.** To monitor the impacts of COVID-19 on the financial system, the Central Bank of Samoa (CBS) maintains a weekly dialogue with the banks to track changes in loan performance and ensure adequate liquidity provision. In recent years, good progress has been made in implementing recommendations from the 2015 IMF-WB Financial Sector Assessment Program, which include improving supervision, regulation and prudential standards. While supervision of public financial institutions (PFIs) has been strengthened, restoring their original mandates to reduce risks from contingent liabilities remains a priority. In particular, the balance sheet of the Development Bank of Samoa (DBS) was already under pressure prior to the pandemic because of NPLs to tourism operators: plans are now in place to resolve these NPLs and to refocus DBS's lending activities on the agriculture sector and small and medium enterprises.

17. **Comprehensive revenue policy and administrative reforms have helped spur significant increases in domestic revenue collection in recent years.** Increases in tax revenues have been driven by improved compliance and increased collection of income taxes, excise taxes, and Value-Added Goods and Services Tax (VAGST). Adjustments to non-tax revenues (so that fees and charges come closer to reflecting the true cost of providing associated Government services) have also resulted in additional revenue. Many of these measures have been supported by previous DPO series. Grants have increased as a result of the IDA scale-up and shift to 100 percent grant terms in 2017 (and should increase further as recently approved projects are implemented), although variable execution of grant funded capital spending has been reflected in variability in recorded grant receipts.

18. **Government has balanced its objectives to meet development priorities and improve service delivery with its commitment to maintain fiscal sustainability.** While current spending has risen modestly since FY2017, it remains much lower than earlier in the decade, and has been accommodated within the overall revenue envelope. As a result, fiscal surpluses were realized in FY2018 and FY2019. Despite modest increases in the wage bill due to cost of living adjustments, at around 40 percent of current expenditure it remains in line with small states and Pacific island country averages. Overall grants and subsidies to State Owned Enterprises (SOEs) – including public beneficial bodies as well as public trading bodies – have declined to be well below the recent peak of around 10 percent in FY2014.[4] Education and health spending each represented around 17-18 percent of the budget in FY2018 and FY2019, with spending in both

[4] This was in part due to the integration of NHS into the Ministry of Health in 2018. The 15 public trading bodies (PTBs) in Samoa operate under a commercial for-profit mandate, while the 11 public beneficial bodies (PBBs) – including until recently the NHS – are required to operate efficiently with a focus on effective service provision.

sectors (particularly capital spending) scaling up in recent years to support prioritized development objectives. Nevertheless, the overall net acquisition of nonfinancial assets declined in FY2018 and FY2019, in part due to the completion of some large projects associated with tsunami and cyclone reconstruction.

19. **COVID-19 had substantial fiscal impacts in FY2020, which resulted in a large recorded surplus.** Grants rose sharply, particularly in the June quarter as part of development partners' COVID-19 response, and a large part of these will be used to cover FY2021 financing needs. Tax revenues held up as a proportion of GDP. For some tax lines, collection lags meant that revenue in the (heavily COVID-19 affected) June quarter reflected economic activity in the previous quarter. Current spending rose by about 3 percentage points of GDP, partly due to the first phase of Government's economic stimulus package which was approved in a supplementary budget passed in April. Capital spending was much lower than anticipated, in part due to COVID-19 related constraints on construction activity. Taken together, these impacts resulted in a surplus of 6.2 percent of GDP. On the other hand, focusing on the current budget and excluding grants from development partners, the budget outcome was less contractionary than it has been in recent years (Table 3).[5]

20. **Phase 1 of the fiscal and economic response package approved by Government in April totaled SAT 66 million (about US$ 24 million or around 3 percent of GDP).** Of the total SAT 66 million amount, SAT 39 million was additional spending, SAT 10 million was revenue foregone, and the remainder was effectively financed by SOEs. The package included: (i) expenditure to cover the immediate medical response; (ii) assistance to the private sector; and (iii) assistance to individuals and households. Supported by external donors, the authorities allocated SAT 20.3 million (1 percent of GDP) towards the medical response, with the aim of enhancing the country's preparedness for COVID-19. Assistance to the private sector included debt service support for small businesses; a temporary reduction in rent and utility bills; and a six-month moratorium on pension contributions for the hospitality sector. Measures to support households included a one-off top-up of SAT 300 (about US$ 110) payable to all beneficiaries of the existing elderly pension scheme. Revenue measures included a temporary exemption on import duties on basic food items for households, duty concessions on selected agricultural and fishing materials, and a waiver on bus and taxi registration fees.

21. **Phase 2 of the response package was focused on assisting those individuals and industries most affected by the COVID-19 crisis, and those most vulnerable to these impacts.** Phase 2 was incorporated into the FY2021 budget and totaled 2.3 percent of GDP. Building on the Phase 1 measures, the second phase included additional debt service relief and an extension of utility price reductions. It also included several measures to directly support livelihoods, including top-ups to the elderly pension scheme, an unemployment benefit for those losing work as a result of COVID-19, paid training scheme for unemployed hospitality workers, a per citizen payout of SAT 50 per person, and rent relief for vendors at government-owned markets, many of whom are informal. These were complemented by the introduction of several other measures to protect the most vulnerable, including the provision of concessional financing to vulnerable families in need of shelter, and increased assistance to social welfare NGOs. In addition, a special National Provident Fund (SNPF) dividend payout equivalent to 1.7 percent of GDP was also made to SNPF members, funded from the annual investment returns on their contributions.

[5] External grants (unlike domestic revenue) are not a leakage from the domestic economy, and a relatively high proportion of capital spending tends to be on imported inputs such as materials, machinery, and labor, which limits its spillover impact to the rest of the economy.

22. **The response package targeted the tourism sector, which has been most affected by COVID-19, and the agriculture sector, which provides critical support for livelihoods across the country**. Several of the new measures – such as the paid training scheme and a reduction in hotel electricity tariffs – provided additional targeted assistance to businesses and employees in the tourism sector. Support is also being provided to agriculture, which many households depend on as their main source of livelihoods, and which provides an important safety net for workers usually employed in other sectors. In addition to the duty concessions provided as part of Phase 1, financial assistance was provided to agricultural exporters, and an agricultural employment creation scheme was deployed using previously underutilized government-owned land.

23. **The government's response to COVID-19 appropriately balances the provision of support to businesses and livelihoods, and the need to maintain macroeconomic sustainability**. With the benefit of additional grant support from development partners, the total cost to the budget (5.3 percent of GDP) has been manageable and has not required the government to take on additional debt. Government has made a concerted effort to direct financial support to households and businesses where the needs are greatest, while at the same time deploying some broader measures to bolster aggregate demand across the economy, recognizing that almost all sectors have been negatively affected.

24. **Government has demonstrated a commitment to prudent debt management in recent years and external public debt has declined markedly.** External public debt peaked at around 55 percent of GDP in FY2015, due to the need to finance post-tsunami (2009) and post-cyclone (2012) reconstruction, as well as borrowing for development projects. Since then, total public debt has declined to below Government's target of 50 percent of GDP. The Government has renewed its focus on debt sustainability and compliance with its Medium-Term Debt Management Strategy (MTDS) in recent years. In line with IMF advice, Government has recently reduced its medium-term fiscal anchor to target a fiscal deficit of no more than 2 percent of GDP (while allowing for flexibility in extraordinary circumstances). Samoa's MTDS 2016-20 establishes Government's objectives, strategies, and plans for the management of public debt, and limits approval for external non-concessional loans and with a minimum positive economic return sufficient to cover interest and repayment costs. As supported by the previous Fiscal and Economic Reform DPO series, Government has also put in place formal procedures for contracting government loans and issuing government guarantees to SOEs, and enacted amendments to the Public Finance Management Act which require consistency with Government's debt management strategy.[6] Reflecting this renewed commitment to prudent debt management, there have been no new non-concessional loans approved in Samoa since 2014. In the most recent Public Expenditure and Financial Accountability (PEFA) assessment (July 2019), Samoa received an A for PI-13 on debt management. The PEFA assessment noted that domestic and foreign debt and guaranteed debt records are complete, accurate, up to date, and reconciled monthly. Comprehensive reports covering debt service, stock, and operations are published quarterly.

[6] These reforms took into account recommendations from the 2010 DeMPA, which was a followed by a Debt Management Reform Plan (January 2013) and Follow-Up Plan (April 2014). A recent (2019) review indicated satisfactory implementation of these plans.

Table 1: Key macroeconomic indicators

				Est.	Proj.		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Output and inflation	(12-month percent change)						
Real GDP growth	1.0	-2.2	3.5	-3.5	-7.7	5.6	4.9
Nominal GDP growth	1.0	-0.2	5.8	-3.1	-6.2	7.8	7.4
Change in CPI (end period)	1.0	5.8	-0.1	-3.3	2.9	2.9	2.8
Change in CPI (period average)	1.3	3.7	2.2	1.5	1.5	2.2	2.5
Fiscal	(In percent of GDP)						
Revenue and grants	29.3	30.6	33.9	36.8	34.2	33.6	35.3
Expenditure	31.4	30.6	31.1	30.6	37.1	34.6	36.0
Overall balance	-2.2	0.1	2.8	6.2	-2.9	-1.0	-0.7
Public debt	49.7	52.9	47.6	46.8	47.9	43.9	40.9
External debt	48.3	52.0	46.9	46.5	47.5	43.5	40.5
Money and credit	(12-month percent change)						
Broad money (M2)	7.8	16.5	9.9	-2.5	0.9	4.9	4.7
Private sector credit (commercial banks)	9.5	1.6	6.1	2.6	2.9	4.3	4.3
Balance of payments	(In percent of GDP)						
Current account balance	-2.0	0.8	2.3	-5.9	-7.9	-6.4	-5.0
(in US$ millions)	-16.6	6.8	19.4	-48.8	-60.9	-52.9	-43.8
Merchandise exports, fob	4.6	4.3	5.9	5.5	5.4	5.7	5.8
Merchandise imports, fob	37.1	39.4	41.0	41.9	41.0	39.2	40.2
Services exports	27.0	29.9	31.3	24.0	15.9	19.1	21.6
of which tourism earnings	18.2	21.6	23.1	16.3	7.7	11.4	14.2
Services imports	10.1	10.9	10.8	12.1	11.8	11.3	11.1
Primary income (net)	-3.2	-3.6	-4.4	-4.5	-4.5	-3.7	-3.8
Current transfers (net)	16.8	20.5	21.3	23.2	28.0	23.0	22.8
External reserves and debt							
Gross official reserves (USD millions)	122.3	163.1	192.8	180.2	141.8	145.4	156.4
(in months of next year's imports of GNFS)	3.5	4.4	5.1	5.3	4.1	3.9	3.7
Exchange rates							
Market rate (tala/USD, period average)	2.54	2.52	2.62	2.62	…	…	…
Market rate (tala/USD, end period)	2.51	2.60	2.63	2.62	…	…	…
NEER (2010 = 100)	110.1	106.3	109.1	109.3	…	…	…
REER (2010 = 100)	104.3	102.4	105.2	106.3	…	…	…
Memorandum items							
Nominal GDP (millions of tala)	2,109	2,106	2,231	2,161	2,028	2,187	2,348
Nominal GDP (millions of US dollars)	832	836	851	823	…	…	…
GDP per capita (US dollars)	4,210	4,193	4,231	3,989	…	…	…

Table 2: Balance of Payments – Financing requirements and sources

				Est.	Proj.		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	US$ millions						
Financing requirements	**30.9**	**13.4**	**5.7**	**74.6**	**79.6**	**80.1**	**70.6**
Current account deficit	16.6	-6.8	-19.4	48.8	60.9	52.9	43.8
Debt amortization	14.3	20.2	25.1	25.8	18.7	27.2	26.8
Financing sources	**30.9**	**13.4**	**5.7**	**74.6**	**79.6**	**80.1**	**70.6**
FDI and portfolio flows (net)	-14.2	19.5	4.0	12.0	4.0	-1.1	-0.7
Capital grants	8.9	15.4	22.0	29.2	20.4	42.6	47.1
Debt disbursements	23.2	26.7	20.0	10.0	4.3	22.0	22.1
Net use of IMF credit	-1.6	-2.5	-3.3	20.6	-1.7	-1.7	-0.9
Other flows (net)	25.5	-4.9	-7.4	-9.7	14.2	21.9	14.1
Change in reserves (- is increase)	-10.9	-40.8	-29.7	12.5	38.5	-3.6	-11.1

Table 3: Key Fiscal Indicators

				Est.	Proj.		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Percent of GDP						
Revenue and grants	**29.3**	**30.6**	**33.9**	**36.8**	**34.2**	**33.6**	**35.3**
Domestic revenue	27.3	27.7	29.7	29.2	25.8	27.3	28.9
Tax revenue	24.5	25.0	25.7	25.7	22.8	24.1	25.5
Taxes on income and property	*5.7*	*5.6*	*5.9*	*5.7*	*5.4*	*5.5*	*5.8*
Taxes on goods and services	*16.2*	*16.6*	*16.9*	*17.5*	*15.0*	*16.5*	*17.6*
Customs and import duties	*2.6*	*2.8*	*2.8*	*2.6*	*2.3*	*2.1*	*2.2*
Non-tax revenue	2.8	2.8	4.0	3.5	3.0	3.2	3.4
Grants	1.9	2.9	4.2	7.6	8.4	6.3	6.4
Expenditure	**31.4**	**30.6**	**31.1**	**30.6**	**37.1**	**34.6**	**36.0**
Current expenditure	23.3	24.5	25.8	28.8	33.0	27.7	27.7
Compensation of employees	*8.1*	*9.2*	*10.3*	*12.1*	*13.2*	*12.0*	*12.0*
Goods and services	*5.3*	*6.7*	*8.4*	*8.4*	*10.3*	*7.2*	*7.2*
Grants to SOEs	*7.5*	*6.4*	*4.8*	*5.6*	*5.0*	*4.7*	*5.1*
Subsidies	*0.5*	*0.2*	*0.2*	*0.2*	*1.3*	*0.9*	*0.8*
Interest	*0.8*	*0.8*	*0.7*	*0.7*	*0.7*	*0.7*	*0.6*
Social benefits	*0.9*	*0.9*	*0.9*	*1.1*	*1.9*	*1.6*	*1.5*
Other expense	*0.2*	*0.1*	*0.5*	*0.8*	*0.6*	*0.5*	*0.5*
Capital expenditure	8.2	6.1	5.3	1.7	4.1	6.9	8.4
Overall balance	**-2.2**	**0.1**	**2.8**	**6.2**	**-2.9**	**-1.0**	**-0.7**
Overall balance (exc. grants)	-4.1	-2.8	-1.4	-1.4	-11.3	-7.3	-7.1
Current balance (inc. grants)	6.0	6.2	8.0	7.9	1.2	5.9	7.6
Current balance (exc. grants)	4.1	3.3	3.9	0.4	-7.2	-0.4	1.2
Net external financing	0.1	1.3	-2.0	-1.8	-1.9	-0.6	-0.6
Net domestic financing	2.0	-1.4	-0.7	-4.5	4.8	1.6	1.3

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

25. **There is significant uncertainty around the magnitude and duration of COVID-19 impacts in FY2021 and over the medium term.** Much depends on the duration of travel restrictions imposed in

response to COVID-19 (both in Samoa and in key source countries), and whether Samoa ultimately remains free of the virus.

26. **In the baseline scenario presented in this document (Tables 1 through 5), GDP is expected to contract by a further 7.7 percent in FY2021, before recovering in FY2022 and FY2023.** Underpinning this scenario is the assumption that Samoa's international border remains closed for the remainder of the 2020 calendar year, and that an easing of travel restrictions in the first half of 2021 brings only a modest influx of arrivals (between a quarter and a half of regular levels). The effect on economic activity related to international tourism – which was estimated to account for around a quarter of Samoan GDP in 2019 – would, on its own, cause GDP to contract by a further 9.5 percent in FY2021 (Table 4). Additional negative effects on the construction sector, goods exports, remittances, and commercial activity (due to domestic restrictions on businesses and social distancing requirements) would also have a contractionary impact. These effects would be partially offset by the effects of Government stimulus packages, the efforts of the tourism industry to reorient toward domestic tourism and hospitality, and the reallocation of hospitality workers and assets toward other productive activities, including in agriculture. While remittances are important to Samoan incomes (equivalent to around 18 percent of GDP), any decline in remittance inflows due to COVID-19 is likely to be much smaller than for tourism (a 10 percent decline is forecast for FY2021 in the baseline scenario), and the relationship with GDP is less direct (given that a relatively large proportion of remittances is likely to fund import spending or be saved).[7]

Table 4: GDP by sector

					Proj.		
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
	Contributions to GDP growth						
Agriculture and fishing	1.5	-0.9	-0.6	-0.2	0.9	0.2	0.2
Industry	-1.1	-2.1	1.5	-1.5	-0.3	0.3	0.3
Services	0.6	0.9	2.7	-1.8	-8.3	5.1	4.3
of which tourism related	*0.3*	*2.0*	*3.0*	*-6.5*	*-9.5*	*4.8*	*4.0*
of which other	*0.3*	*-1.2*	*-0.4*	*4.7*	*1.2*	*0.3*	*0.3*
GDP growth	**1.0**	**-2.1**	**3.6**	**-3.5**	**-7.7**	**5.6**	**4.9**

27. **Assuming travel restrictions are removed by mid-2021, economic growth is projected to rebound in FY2022 and FY2023** as the tourism sector recovers and tourism arrivals revert to pre-crisis levels, before stabilizing at around 2.5 percent per year over the medium term. A recovery in remittance inflows will also provide some support, with remittances projected to return to FY2020 levels by FY2023. Over the longer term, the economy should be supported by construction of public infrastructure projects, improvements to the business environment resulting from recent investments to improve internet connectivity and reduce the cost of electricity, and the resumption of growth in the tourism-related sectors, which should directly create formal job opportunities for Samoa's more vulnerable people. The opportunities outlined in Government's *Samoa 2040* plan – in tourism, agriculture, the knowledge economy, and labor mobility – provide some upside potential to growth in incomes and employment.[8] However, the economy will remain highly vulnerable to external shocks: another natural disaster with the

[7] Remittances increased by 15 percent (yoy) in the three months to June 2020, and by 5 percent in the twelve months to June 2020.
[8] The *Samoa 2040* Plan is due to be launched in October 2020. See Section 3 for more details.

cyclone season over October-March would negatively affect livelihoods, strain the fiscal and debt position, and reduce productive capacity.

28. **The current account deficit is expected to remain relatively high in FY2021, consistent with the projected decline in tourist arrivals, goods exports, and remittances.** These will only be partially offset by declines in import values and increases in financial assistance from development partners, including as provided by this DPO. The resulting balance of payments financing needs are likely to result in downward pressure on international reserves, although reserves do not decline to critical levels in the base case and are projected to be slowly rebuilt over the medium term as inflows of foreign exchange recover. Over the longer term, exports and tourism earnings should grow steadily, benefitting from recent additions to the capital stock and investments in hotels and the airport, as well as a more positive outlook for agriculture. Inflation is projected to remain contained.

29. **Including the proposed World Bank budget support, a fiscal deficit of 2.9 percent of GDP is expected in FY2021.** Domestic revenues are projected to fall by a further 17 percent in nominal terms, with declines across the major revenue lines: VAGST receipts, excise taxes, and income taxes. Current spending will increase in nominal terms, mainly due to additional (phase 2) stimulus and social benefits that have been budgeted for FY2021, in addition to the ongoing implementation of phase 1. Grants are expected to remain high in FY2021, with development partners expected to provide significant financial assistance through budget support and other modalities (Table 5). Due to external debt service requirements, government financing needs are projected to be close to 6 percent of GDP in FY2021, but these can be covered from the fiscal surplus realized in FY2020 and previously accumulated cash buffers.

30. **Samoa is participating in the G20 Debt Service Suspension Initiative (DSSI) which will also reduce near-term pressure on financing needs**. In August 2020 Government sent letters to its two bilateral creditors – China, and Japan (via the Paris Club) – informing them of Samoa's intention to participate. The suspension of debt service payments to these creditors (up until the end of December 2020) will create additional fiscal space of around 1.1 percent of GDP (US$ 8.9 million) in FY2021. This fiscal space will assist Government in meeting its COVID-19 related financing needs, in addition to the budget support provided by this DPO (Table 5). Government has committed to continue to disclose all public sector financial commitments and contract no new non-concessional debt during the suspension period.

31. **The fiscal deficit is projected to return to Government's target range of within 2 percent of GDP in FY2022, reflecting Government's commitment to rebuilding fiscal buffers and its conservative approach to contracting new debt.** Spending related to the economic support package is projected to be unwound in FY2022 and FY2023. Tax revenue as a proportion of GDP is projected to gradually increase as the economy recovers, supported by recent reforms to improve tax policy and administration (see para 17 and Prior Action 4 of this operation). While grants are expected to decline in FY2022 and FY2023 from their extraordinary levels in FY2021, they will remain higher than recent averages. This reflects the recent scale-up in national IDA allocations for the small Pacific countries and Samoa's shift to 100 percent grant terms for IDA and Asian Development Bank (ADB) financing. Development spending is also expected to rise, due mainly to grant-funded investments (including roads projects and public buildings).

Table 5: Financing needs and sources for the FY2021 budget

	% of GDP
Total Revenue and Grants (1)	**34.2**
Tax revenue	22.8
Non-tax revenue	3.0
Grants	8.4
WB DPO budget support	2.0
WB COVID-19 Emergency Response Project	0.1
ADB budget support	2.7
Other grants (inc. capital grants)	3.6
Expenditure (2)	**37.1**
Current spending	33.0
Capital spending	4.1
Overall balance (1 - 2)	**-2.9**
Net external financing (new inflows - amortization) (3)	-3.0
Financing needs (1 - 2 + 3)	**5.9**
Financing sources	**5.9**
DSSI	1.1
Net domestic financing	4.8

Table 6: Downside scenario

	FY2020	FY2021	FY2022	FY2023
GDP growth (percent)	-3.5	-9.7	2.7	3.9
Difference from baseline	*0.0*	*-2.1*	*-3.0*	*-1.0*
Fiscal balance (% of GDP)	6.2	-3.6	-2.5	-2.6
Difference from baseline	*0.0*	*-0.6*	*-1.5*	*-1.8*
Current account balance (% of GDP)	-6.0	-9.1	-8.6	-7.6
Difference from baseline	*0.0*	*-1.1*	*-2.1*	*-2.6*

32. **A downside scenario would imply a slower recovery in FY2022 and FY2023**. The downside scenario presented in Table 6 assumes that international borders remain closed until the end of the 2021 calendar year, and tourist arrivals return at only half their pre-COVID levels from January 2022 to June 2023, consistent with hesitation about international travel and tourism persisting in key source markets. Remittances would fall in FY2021 and remain at this lower level rather than slowly recovering over the following two years. In nominal tala terms domestic revenues would decline relative to the baseline, increasing the fiscal deficit by 1 to 2 percentage points of GDP in FY2022 and FY2023 (even assuming no additional government spending to provide further stimulus). To avoid cash buffers being run down to critically low levels, Government would need to seek additional grant and/or concessional loan financing from development partners, tap domestic sources of financing, or risk being forced into reducing public spending from its current (relatively high) level more quickly than anticipated. The delayed resumption and slower-than-expected recovery in international tourism would also affect the balance of payments,

with reserves declining to between two and three months of imports. This could also lead to downward pressure on the exchange rate, which would raise the local currency value of debt service requirements.

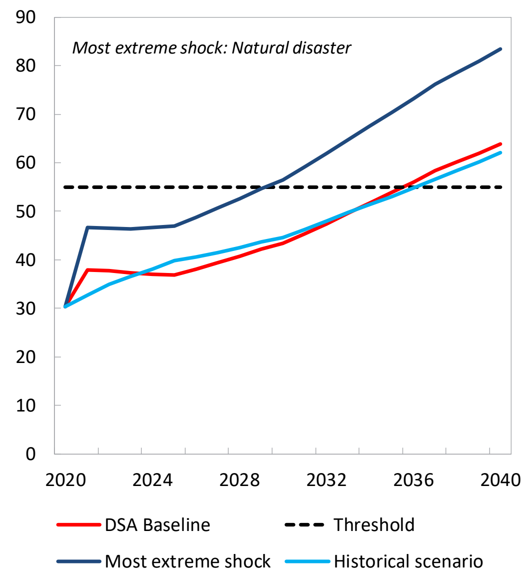
33. **Samoa is assessed to be at high risk of external and overall debt distress, with application of judgment, due to frequent natural disasters, a relatively modest long-term growth outlook, and a substantial reliance on financing from development partners**. In Figure 1, the joint WB/IMF April 2020 DSA has been updated for the release of full-year FY2020 data, and to be consistent with the macroeconomic framework presented in this program document. In the baseline scenario, which incorporates the average annual impact of natural disasters, the present value (PV) of external and total public and publicly-guaranteed (PPG) debt-to-GDP ratios incur threshold breaches in 2036 and 2035, respectively, while exogenous shocks (a severe natural disaster or a one standard deviation growth shock in the near term) would lead to earlier breaches.[9] The DSA baseline scenario assumes that all financing from IDA and the ADB is provided on credit terms, given its role to inform judgment on Samoa's capacity to receive credit financing from these institutions.[10] If Samoa continues to receive 100 percent grant financing from IDA and the ADB, the PV of external PPG debt to GDP is expected to remain relatively stable throughout the projection period, at levels below high-risk thresholds. Samoa's debt is assessed to be sustainable, despite a steep upward trajectory in the baseline scenario, in part because of its long-term concessional nature. This assessment also hinges upon the authorities' efforts to bolster their fiscal buffers once the post-COVID-19 recovery gathers pace. It recommends that the authorities continue to ensure that any new loans are concessional and consistent with the MTDS to ensure debt sustainability. To support this objective, continued compliance with the no new non-concessional external borrowing policy is included as a results indicator for this DPO series and as a Policy and Performance Action (PPA) under the new IDA Sustainable Development Finance Policy (SDFP).

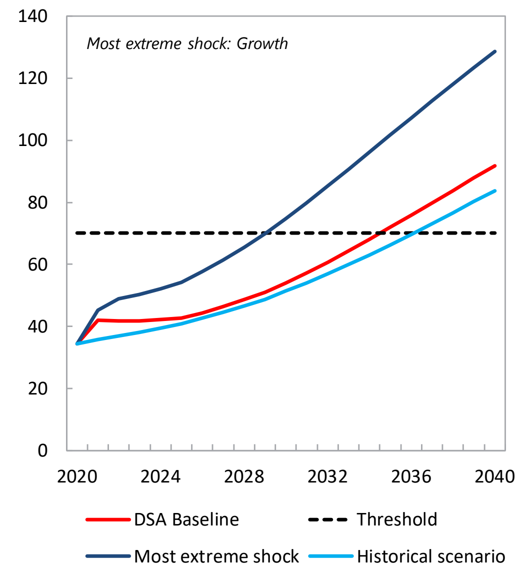
[9] For the purposes of the DSA projections the baseline average growth rate was adjusted down to 0.9 percent (compared with a non-disaster potential growth rate of 2.2 percent), while the current account and fiscal deficits were 1.5 percentage points wider than their non-disaster equivalents. While the mechanical risk of external and overall debt distress is moderate (based on a ten year forecast horizon), judgement was used to extend the forecast horizon to twenty years and arrive at a high-risk rating – as was the case in the April 2020 DSA – given the likely and persistent impact of climate change and natural disasters over the longer-term.

[10] The impact of DSSI participation on debt servicing requirements has also been incorporated into the baseline.

Figure 1: Public and External Debt Sustainability Analysis

External Debt Sustainability Analysis	Public Debt Sustainability Analysis
PV of external PPG debt-to-GDP ratio	PV of PPG debt-to-GDP ratio





34. **Although Government's stock of domestic debt is small, there are risks from contingent liabilities from Government guarantees and on-lending to public enterprises.** While contingent liabilities from Government guarantees to SOEs have declined from around 9 percent of GDP in FY2016 to around 7.5 percent of GDP in FY2020**,** continued efforts are necessary to address the associated contingent risks. Around two thirds of the outstanding guarantees are to the DBS.[11] While the role of the DBS in providing credit to the broader economy was justifiable in the immediate aftermath of the global financial crisis, tsunami, and cyclone, Government now is working to return the DBS to its original mandate, focused on the agriculture sector and small and medium enterprises. At the same time, it is taking steps to resolve poorly performing loans to the tourism sector. The CBS has also increased supervision of the PFIs and is taking measures to ensure their adherence to reporting guidelines. As supported by Prior Action 3 (which is also a PPA under the SDFP), the Ministry of Finance has introduced a policy to manage the risks around on-lending to SOEs, with on-lent loans currently worth around 7.6 percent of GDP. It also continues to implement the procedures for issuing Government guarantees supported as part of the previous DPO series, thereby ensuring that any request for a guarantee is effectively reviewed prior to approval and that the appropriate risk and benefit assessments are conducted.

35. **Samoa's macroeconomic policy framework is assessed as adequate for the purposes of this operation.** Government is appropriately balancing its commitment to maintain fiscal sustainability with its efforts to provide support to households and businesses. Assuming travel restrictions are removed by mid-2021, economic growth is projected to rebound in FY2022 and FY2023 as tourism and related industries recover, before stabilizing at around 2.5 percent per year over the medium term. The

[11] This was for a credit line facility channeled from the CBS through the DBS for rehabilitation and recovery efforts after Cyclone Evan. Government guaranteed Unit Trust of Samoa loans to Samoa Airways account for a further 22 percent.

Government has made substantial efforts to build its macro resilience in recent years, including by raising domestic revenues, containing spending, and bringing down the level of public debt. This has put it in a good position to implement a substantial economic response package (totaling around 7 percent of GDP over two phases) to help mitigate the impacts of COVID-19. While a deficit of 2.9 percent of GDP is forecast for FY2021, fiscal deficits are projected to narrow within Government's 2 percent of GDP target from FY2022 onwards. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. While Samoa is rated at high risk of external and overall debt distress, its debt is sustainable, in part because of its long-term concessional nature. Debt will remain sustainable as long as Government continues with its recent practices of bolstering fiscal buffers when possible, maximizing the use of grant financing, and ensuring that any new loans are concessional. But the outlook remains highly uncertain, and is dependent on the duration of travel restrictions imposed in response to COVID-19 (both in Samoa and in key source countries), the speed of the economic recovery once borders reopen, and whether or not Samoa ultimately remains free of the virus. While Government has built fiscal space in recent years, the realization of a downside scenario would have severe social and economic implications and put Samoa's public finances and balance of payments under significant pressure. In such a situation it is likely that Government would require additional assistance from development partners in order to avoid contracting large amounts of new debt and/or sharply reducing public spending.

2.3. IMF RELATIONS

36. **In April 2020, the IMF Board approved the authorities' request for a disbursement under the Rapid Credit Facility (RCF) of SDR 16.2 million (US$ 22.0 million).** This was based on the urgent balance of payments needs arising from the sudden exogenous shock of COVID-19, and the authorities' existing and prospective policies to address this external shock, including their commitment to seek additional external budget financing from other development partners. Fund staff noted that Samoa has a strong track record of economic policymaking, and that its capacity to repay the IMF remains strong. The WB has closely liaised with the IMF in its assessment of the macroeconomic policy framework and in the preparation of the 2020 DSA update which was prepared as part of the RCF package.

3. GOVERNMENT PROGRAM

37. **The theme of the FY2017-FY2020 Strategy for the Development of Samoa is 'accelerating sustainable development and broadening opportunities for all'**. The SDS emphasizes the national commitment to revitalizing sustainable, pro-poor economic growth through economic and social development and improved infrastructure, while building buffers to help protect the economy from the effects of future shocks. The economic development priorities are to increase and sustain macroeconomic resilience, increase agricultural productivity, increase exports, improve tourism development and performance, and improve the environment for private sector development. The social development priorities are to improve health outcomes, improve the quality of education and training, and strengthen social institutions. Among other initiatives, health outcomes will be improved through a general shift in emphasis toward primary and preventative measures, including NCD screening, control, and management programs, and the use of excise taxes to increase the cost of alcohol, tobacco, and sugary and salty foods and drinks. The infrastructure development priorities are to achieve sustainable access to safe drinking

water and basic sanitation, improve transport systems, ensure affordable access to reliable Information and Communication Technology (ICT) services, and ensure a quality energy supply. Environment, climate and disaster resilience are key priorities, and all sectors are required to incorporate climate and disaster risk and resilience in their annual work program, with a percentage of the annual budget to the technical agencies contingent on such incorporation.

38. **The SDS is made operational through Samoa's comprehensive sector planning framework.** All Government ministries, SOEs and other public agencies are grouped into sectors, and have their activities coordinated under sector plans and monitored through the sector coordination mechanism. Each of the 14 sector plans has a direct link with the policy priorities articulated in the SDS. The performance of each sector is reviewed each year against the key performance indicators in the sector plan, which are in turn derived from the key indicators in the SDS. This sector planning framework is linked to the budget process, so that resource allocations are generally geared to enabling the entities in each sector to make their designated contributions to their sectors and thereby the overarching SDS.

39. **With World Bank support, Government is also preparing its *Samoa 2040* Plan, which will set out Samoa's agenda for economic growth and development over the next twenty years**. The Plan identifies a set of potentially transformational opportunities – in tourism, agriculture, the knowledge economy, and labor mobility – that have the potential to boost incomes and standards of living in Samoa by the year 2040. In line with the World Bank flagship study *Pacific Possible*, the *Samoa 2040* approach suggests that reform and investment efforts need to be carefully targeted at unlocking opportunities for income growth that have the highest potential, given Samoa's geography. Each of the opportunities presented – in the thematic areas of tourism, agriculture, the knowledge economy, and labor mobility – responds in some way to the constraints associated with smallness and remoteness, so that Samoa can use its natural endowments (productive agricultural land, natural beauty and biodiversity, culture, and people) to their fullest potential. To fully realize these opportunities, *Samoa 2040* highlights the need to make concerted efforts to encourage investment in the health, education, and training of its people, conserve its marine, coastal and terrestrial biodiversity, encourage investment in climate-resilient infrastructure to improve connectivity and lower disaster costs, ensure that government policy is supportive of long-term growth, and provide an attractive, stable economic environment to encourage private sector investment. Such measures will help ensure that Samoa's economy has the supply-side capacity to deliver improved growth and employment outcomes in each of these areas over the next twenty years.

40. ***Samoa 2040* will complement the SDS over the next twenty years, providing a long-term strategic framework to guide the short- and medium-term priorities outlined in the SDS.** Beginning with the 2021-25 SDS currently under preparation, successive five-year SDSs will establish priorities which are informed by *Samoa 2040*, and will monitor progress towards the longer-term economic objectives that *Samoa 2040* sets.

3.1 THE GOVERNMENT'S RISK AND RESILIENCE PROGRAM

41. **Like many Pacific Island countries, Samoa is extremely vulnerable to multiple hazards and public health risks**.[12] Climate change and natural disasters negatively impact the population, economy and environment, with recent disasters causing damages and losses equivalent to 20-30 percent of GDP.[13] The epidemic of NCDs in the country has increased the vulnerability of the population to communicable diseases, such as COVID-19.

42. **Government has shown strong progress on implementing reforms supported by the previous DPO with a Cat-DDO resulting in improved resilience to climate change and other natural hazards.** Government has used the Guidelines for the Application of the National Building Code (NBC) 2017 to facilitate the development and use of templates and check lists that have enhanced the assessment of building permit applications. The Guidelines have also been used to train building inspectors (with support from a WB technical assistance) which has improved oversight of building permits and effectiveness of building site inspections. Implementation of the Asset Management Strategy has contributed to improved maintenance of major infrastructure (water utilities and roads) leading to improved sustainability and decreased damage from natural disasters. Government is developing an asset information system across all agencies and SOEs to monitor and prioritize maintenance of assets. Community Integrated Management Plans are being used as part of the assessment for development consent and for investment activities that enhance community resilience (e.g., by diversifying income sources and improving water supply). The policy reforms and triggers under Pillar 3 build on these reforms and strengthen Government's capacity for preparing and responding to a range of natural hazards.

43. **Government has continued to show a strong commitment to disaster management and has been effective in its preparedness and response efforts to a range of disasters**. Over the past two years, Samoa has used its National Action Plan for Disaster Management (NAPDM) 2017-2020 – which outlines roles, responsibilities and procedures for Government entities and communities to follow in case of a disaster – as the basis for continued implementation of the Disaster and Emergency Management Act (DEMA) 2007. Samoa demonstrated its disaster preparedness in its response to TC Gita in 2018, the measles outbreak in late 2019 and the ongoing COVID-19 pandemic. The country's timely activation of the National Disaster Council[14] and National Emergency Operations Centre (NEOC) and incorporation of lessons learned from the response to the measles outbreak contributed to Government's swift response to COVID-19 pandemic. Recognizing the population's vulnerability to COVID-19, Government imposed strict border controls and screening and quarantine mechanisms at the end of January 2020 – well in advance of other countries – and declared a State of Emergency on March 21, 2020. These swift actions have been effective, and as of mid-October 2020, the country has no confirmed COVID-19 cases.

44. **Samoa uses a risk layering approach to manage the financial impacts of natural and public health disasters.** It is accessing four major financial instruments to provide post-disaster liquidity: i)

[12] World Bank. 2017. *Climate change and disaster management.* Pacific Possible Background Paper No. 6. Washington, D.C. World Bank Group. http://documents.worldbank.org/curated/en/655081503691935252/Climate-change-and-disaster-management
[13] Estimated damages from the 2009 tsunami were US$ 124 million or 22 percent of 2008 GDP and from category 5 TC Evan in 2012 US$ 204 million or 28 percent of 2011 GDP. Catastrophic risk modelling suggests that Samoa could incur on average an annual GDP loss of about US$ 10 million as a result of earthquakes and tropical cyclones.
[14] The Council is chaired by the Prime Minister (with the Deputy Prime Minister as Deputy Chair and 11 Ministers as members. The day-to-day work is driven and coordinated by the Disaster Management Office.

catastrophic risk insurance through the Pacific Catastrophe Risk Insurance Company (PCRIC); ii) Contingency Emergency Response Component (CERC) included in several IDA funded projects[15]; iii) the Asian Development Bank's (ADB) Regional Contingent Financing Risk Pool; and iv) the Cat-DDO included in the previous DPO series. This range of instruments has contributed to Government meeting its public financing needs; for example, for COVID-19 Government accessed funds available from the Cat-DDO, the ADB Regional Contingent Financing pool and a CERC available under the WB's Pacific Resilience Program (PREP) project. As a proposed trigger for this series of operations, development of the Disaster Risk Financing Policy will further enhance this risk layering approach.

45. **Since the measles outbreak in 2019, Samoa has strengthened its level of epidemic preparedness and enhanced the implementation of the Expanded Programme on Immunization (EPI).** It has done so through strengthening community outreach services and empowering the *Komiti Tumama* (Village Women's Committees), to carry out public health outreach programs especially on immunization and environmental health. Systematic training on immunization has been provided to health workers including on effective vaccine management, proper immunization techniques, injection safety, recording and reporting. Routine immunization has been intensified and a catch-up drive for all children was initiated in early 2020. Negative pressure wards for infective disease patients are being built in Tupua Tamasese Meaole Hospital (TTM) in Upolu. Isolation rooms have been established at TTM hospital and Malietoa Tanumafili II Hospital in Savai'i. The reforms supported by the proposed operation further strengthen Samoa's preparedness for and response to epidemics and complement actions supported by the IDA-financed Samoa Health System Strengthening Program (P164382) and the Samoa COVID-19 Emergency Response Project (P173920).

46. **In February 2020, Government prepared a Novel Coronavirus Preparedness and Response Plan, which establishes a framework for health system preparedness, prevention, and response in the event of a confirmed COVID-19 case**. The plan provides an operational guideline for implementing the DEMA 2007 in response to a public health emergency, identifies priority needs (including for medical goods and equipment), and sets out required preparedness and response actions (including screening, testing and quarantine). The plan has helped Government coordinate its public health response, inform the public about social distancing and other measures in a consistent manner, guide the actions on the grounds and articulate its medical needs to development partners.

47. **Government is also responding to the ongoing NCD epidemic which has increased the population's vulnerability to infectious disease epidemics and pandemics.** NCDs account for over eighty percent of deaths in Samoa. Preventing NCDs and reducing vulnerability of the population to health and climate risks are critical priorities for Samoa. Supported through the Samoa Health System Strengthening Program (P164382), Government is continuing its efforts to improve nutrition, promote healthy lifestyles, and revitalize primary health care and community-based interventions to tackle rising NCDs. Previous DPOs – which supported the approval of the Alcohol Control Bill and increased excise taxes on tobacco, alcohol and unhealthy foods and drinks – helped address key risk factors contributing to the prevalence of NCDs. Reforms from the previous DPO series also enabled the use of framework arrangements for the procurement of pharmaceuticals and supported an improved electronic inventory management system,

[15] These include the Pacific Resilience Program (PREP) project (P154839), the Samoa Climate Resilient Transport Project (P165782) and the Agriculture and Fisheries Productivity and Marketing Project (P165873).

reducing the potential for stockouts and wastage.[16] Building on this experience, framework arrangements are also being used to expedite the procurement of goods and services for disaster response.

48. **Overall, Samoa's disaster risk management (DRM) framework has a sound foundation that has been tested and is further supported by resilience-building prior actions in this proposed operation.** Government has already demonstrated a strong commitment to improving Samoa's resilience to natural hazards and public health emergencies as illustrated by its efforts to integrate disaster risk and resilience into its SDS. Samoa actively supports its international DRM commitments. For example, it is implementing the Sendai Framework of Disaster Risk Reduction Action through the development of DRM plans for villages – which have an autonomous governance structure – as well as at the national level.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

49. **As well as being responsive to current Government priorities, the reforms supported by this operation are closely aligned with target areas in the SDS FY2017–FY2020, including economic sustainability and business development, improved health outcomes, and climate and disaster resilience**. The first development objective – to promote an inclusive response and recovery from COVID-19 – is aligned with the economic priority in the SDS to enhance the participation of the private sector in development, and boost tourism performance. The second development objective – to strengthen macro-fiscal resilience – is aligned with the strategic area of macroeconomic resilience under the economic development pillar of the SDS. The third development objective of the operation, to increase Samoa's resilience to climate change, natural disasters and health-related risks is aligned with the social pillar of the SDS, and specifically the strategic objective of a healthy Samoa with higher levels of well-being, as well as with the environment pillar, which includes specific outcomes related to climate and disaster resilience.

50. **This proposed operation has the following features**:

- Upfront financing: SDR 10.7 million (US$ 15.0 million) would be provided as regular DPO grant financing, once the operation has been declared effective.
- Contingent (Cat-DDO) financing through a DRM Policy Grant: Subject to the drawdown trigger condition being met (see below), a grant of up to SDR 7.2 million (US$ 10 million) would be available for full or partial disbursement at any time within a three-year drawdown period.
- The closing date for the proposed operation is November 30, 2023 (and is not affected by the timing of any drawdown of the Cat-DDO).

51. **The proposed Cat-DDO drawdown trigger and renewal conditions include the following**:

- **Drawdown trigger**: The Cat-DDO proceeds may be drawn down after a "natural catastrophe" that results in a Proclamation of Emergency in accordance with Article 105 of the Constitution of

[16] This has resulted in lower costs for some essential medication and increased efficiency in inventory management and replenishment. The reforms also led to amendment of the Treasury Instructions and related Guidelines and recently the development and update of the Procurement Operations Manual 2020 which applies to procurement in all line agencies.

Samoa and when the International Development Association (the "Association") is satisfied, based on evidence satisfactory to it, that such a Government proclamation has been issued. In the event that the Head of State is unavailable to make a Proclamation of Emergency under Article 105 of the Constitution, the Council of Deputies will make such a proclamation on the Head of State's behalf in accordance with Article 23 of the Constitution. For the purpose of this operation and drawing on Article 105 and the DEMA 2007, a "natural catastrophe" includes imminent or occurring emergencies caused by an earthquake, tsunami, volcanic eruption, cyclone, high winds, storm, heavy rainfall, flood, drought, bush fire or other natural hazard, or any public health-related event, that requires Government to promptly mobilize its capacity and/or financial resources.

- **Drawdown period and renewals:** The drawdown period for the Cat-DDO component will be three years. The Cat-DDO component may be renewed once for an additional three years, at Government's request, if the Association is satisfied with the progress achieved by the Independent State of Samoa (the "Recipient") on the program and with the adequacy of the Recipient's macroeconomic policy framework. Renewal needs to occur no earlier than one year and no later than six months before the closing date.

52. **Monitoring policy actions and reforms to increase resilience to climate change, natural disasters and public health risks would occur throughout the three-year term of the operation.** Parallel technical assistance will also support such monitoring. The Cat-DDO component of this DPO will run in parallel with DPO2. Such an approach will maintain the integrated policy dialogue that is working to build resilience along multiple dimensions, and will continue to leverage support that has been provided by other development partners through the joint budget support dialogue.

53. **The design of the proposed operation reflects lessons learned from previous DPOs in Samoa, and, in particular, the DPO with Cat-DDO hybrid approved by the Board in 2018.** The operation is structured around current Government priorities for which strong reform momentum exists. In these circumstances, DPOs in Samoa tend to achieve good results and have manageable risks. A two-operation program also allows scope to adjust the indicative triggers, including to respond, as necessary, to the still uncertain evolution of the COVID-19 pandemic and its economic impacts (e.g. in light of capacity constraints or revised priorities). Given the track record of DPOs in Samoa, and the significant financing needs of Government, this new DPO series remains an appropriate modality for supporting Government to respond and recover to the impacts of COVID-19, and to continue to build longer-term resilience to economic shocks, the impacts of climate change and natural disasters, and public health emergencies.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Promoting an inclusive economic response and recovery from the impacts of COVID-19

54. **The first development objective of the proposed operation is to support the immediate response to the economic impacts of COVID-19, and ensure that the economy is in a position to recover once travel restrictions are loosened and the effects of the crisis abate**. While there are as yet no confirmed cases of COVID-19 in Samoa, the pandemic has had a large and widespread impact on businesses, jobs, and livelihoods. Businesses – particularly those in or closely linked to the tourism and

hospitality sectors – have lost much of their regular revenue, and this has had spillover effects across the economy.

55. **The immediate response to COVID-19 has direct implications for the medium-term recovery**. Hysteresis effects associated with business closures, job losses, and foregone education and training could result in a substantial and long-term loss of productive capacity, resulting in economic adjustments that last long beyond the resolution of the COVID-19 outbreak itself. As a result, policy measures to support the immediate response to the impact of COVID-19 can also play an important role in facilitating economic recovery, by reducing the magnitude of these hysteresis effects. In particular, by bolstering demand for goods and services across the economy, these measures can help support economic activity and the continued operation of local businesses at a time when external demand drivers are lacking. The second DPO in this series will also provide an opportunity to explicitly support medium-term economic recovery measures.

56. **The immediate priorities of Government are to remain COVID-19 free, strengthen the capacity of the public health system, protect the livelihoods of those most vulnerable and exposed to the economic effects of the crisis, and preserve productive capacity**. The health response – encapsulated by the Novel Coronavirus Preparedness and Response Plan – has been supported by an additional budget allocation of around 1 percent of GDP, and is benefitting from the continued engagement of the World Bank and other development partners in strengthening the health system. The prior actions supported under this pillar illustrate Government's commitment to the latter two objectives, and are a critical component of the overall response as set out in Section 2.1. The measures are either novel for Samoa (the unemployment benefit and paid training scheme) or build on existing mechanisms (the senior citizens' benefit top-up), drawing on the experience of other Pacific countries in responding to external shocks. They carefully balance the need to provide immediate government support to affected households and increase aggregate demand with the need to maintain macroeconomic sustainability over the medium term. In line with good principles, they are targeted at those sectors and households most in need of support, temporary, and transparent.

Prior Action 1: To support workers losing employment in response to COVID-19, the Recipient, through its Cabinet, has approved the introduction of an unemployment benefit and a short-term paid training scheme as part of its FY2021 budget.

57. **COVID-19 is severely affecting employment.** Household Income and Expenditure Survey (HIES) data indicates that almost a quarter of Samoan households have members engaged in activities linked to tourism and transport, which have seen the most severe effects from COVID-19. A recent Rapid Assessment Survey (supported by the International Labor Organization) of 119 vulnerable Samoan businesses indicated that employment fell by 27 percent between December 2019 and June 2020. Most remaining employees have had their working hours reduced. Over half of the laid off employees noted that they would turn to agriculture as an alternative income source. About two thirds of the businesses surveyed were engaged in the retail, wholesale, and tourism-related sectors (accommodation, transport, and restaurants).

58. **An immediate priority of Government has been to support those who have lost work as a result of COVID-19**. To achieve this, it has approved measures including:

i) **Unemployment benefit**: In an economy the size of Samoa's, where many workers will maintain some sort of connection with their employers even if they are laid off or stood down, and can reasonably expect to be rehired once the tourism sector and overall economy pick up, an unemployment benefit is a targeted and cost-effective way of providing support to those most in need.[17] The Ministry of Finance is working closely with the Chamber of Commerce and businesses to identify i) employees who have been made redundant over the period from February to May 2020; ii) employees who have been placed on leave without pay; and iii) employees who have been forced to reduce their working hours. The focus will initially be on unemployed workers in tourism-related sectors and in manufacturing. However, there is scope for the unemployment benefit to be expanded to cover a broader range of industries, as long as the total amount disbursed remains within the overall budget allocation. A one-off payment of between SAT 100 and SAT 300 (US$ 38 to US$ 114) is planned for each of these unemployed or underemployed workers in October.

ii) **Short-term paid training scheme**: Through the Samoa Tourism Authority, Government is working with the Australian Pacific Training Coalition (APTC) to provide a range of training programs ranging from one to ten weeks in duration, targeting workers in the hospitality sector who have been laid off due to COVID-19. The course offerings include customer service, time management, financial record keeping, cookery, food and beverage service, tour guiding, and leadership and management. To compensate for travel, food and other expenses each participant will be paid SAT 100 per week of attendance. Government will cover the cost of this allowance, as well as the cost of the training itself.

59. **Taken together, these policy measures provide an important source of financial support to individuals and households most affected by the COVID-19 crisis.** The paid training scheme should also help to improve productive capacity in the tourism sector once international borders reopen. As they are effectively a new form of social protection in Samoa, there is the opportunity to build on the experience of implementing these measures to help inform Government's response to future shocks. The total cost to the budget is SAT 3 million (about US$ 1.2 million).

60. **Government is also pursuing complementary measures to help businesses continue operating and employing workers where possible**. Several businesses in tourism-related industries have recalibrated their activities to focus on the domestic market. Government is supporting them in these efforts. Measures have been put in place to temporarily reduce debt service burdens for tourism operators and other businesses (including small businesses and microfinance clients), provide rent relief (including for informal market vendors operating out of government-owned markets and facilities), and reduce other operating costs (e.g. utility prices).

61. **To support private sector recovery in the medium-term, Government will need to ensure that Samoa provides an attractive, stable environment for private sector investment, including foreign investment.** Foreign Direct Investment (FDI) has traditionally been relatively low in Samoa but will be critical in helping the tourism sector and other sectors recover from COVID-19 over the next five to ten years, as a source of capital, technology and knowledge transfer. As noted in *Samoa 2040*, the

[17] In contrast to a wage subsidy, which may be costly and potentially regressive to the extent that only formal sector employees benefit.

international experience suggests that successful destination development often begins with a series of key “anchor” private investments around which clusters of smaller investments subsequently form. For example, Samoa is currently significantly underrepresented when it comes to international brand name hotels, limiting its recognition in overseas markets.

62. **As an indicative trigger for the next operation, the approval of new foreign investment legislation would reduce uncertainties faced by foreign investors, potentially aiding in the development of the tourism sector and other industries.** The legislation would limit the scope for discretion in foreign investment approvals, and clarify the criteria and process for amending reserved and restricted lists. Alternative prior actions to help support private sector recovery may also be introduced into DPO2 (including reforms based on the *Samoa 2040* Plan which is scheduled to be launched in 2020), with some flexibility on the next operation’s triggers desirable given the current circumstances and uncertainties.

63. *Expected result*: By June 2021, at least 2000 workers losing employment in 2020 have received unemployment benefits. At least 200 individuals have participated in the paid training scheme. In the year to June 2023, at least 50 foreign investment enterprises are registered.

Prior Action 2: To support vulnerable individuals and households in response to COVID-19, the Recipient, through its Cabinet, has approved and implemented top-ups of the senior citizens’ benefit, as part of its FY2020 supplemental budget and its FY2021 budget.

64. **Although there have not been any confirmed cases of COVID-19 to date, households have been hard hit by the pandemic, and older people are particularly vulnerable.** Those previously dependent on international tourists for their incomes have suffered large reductions in their earning capacity. While remittances have remained strong in the three months to June 2020, they are forecast to decline in FY2021 as a result of the economic impacts of COVID-19 on sending countries. This would also have a significant impact on the 4 out of every 5 households that receive remittances from abroad, and a particularly concerning effect on the poorest and most vulnerable households. Laid-off workers are reportedly turning to agriculture as an alternative source of livelihoods, but in most cases, this will be a relatively poor substitute for the cash incomes earned prior to COVID-19. Older people are particularly vulnerable due to their reliance on the incomes of family members and community assistance, both of which are being strained by the effects of the pandemic.

65. **Top-ups to elderly benefits schemes have previously been successfully used in response to shocks in Fiji and Tonga**. An evaluation of top-up payments to the Elderly Benefit Scheme in Tonga after TC Gita hit in 2018 found that: i) the top-up was identified by the elderly as the most important benefit they received; ii) the top-up was used to ensure food security, meet the health needs of the elderly and their households, and satisfy church and social obligations; and iii) the top-up was delivered in a timely fashion as it took advantage of the social protection mechanism already in place. The elderly recipients willingly shared their benefits with their households, relatives, and other members of the community.

66. **The top-up to the senior citizens’ benefit in Samoa is a critical part of Government’s efforts to support the livelihoods of vulnerable households.** Prior to COVID-19, the senior citizens’ benefit provided a benefit of SAT 145 (around US$ 55) per month to Samoan citizens aged 65 years or older. This monthly payment was topped up by SAT 300 in May 2020 and SAT 100 in July. From July, the monthly benefit was

also increased by SAT 15 on a permanent basis. The total cost to the budget in FY2020 and FY2021 was SAT 6.8 million (US$ 2.6 million). Through the use of an existing social protection mechanism, these top-ups have been implemented quickly and have directly benefitted the elderly, who tend to be more vulnerable to economic shocks and to climate and disaster risks. Like in Tonga, these top-ups are likely to be shared and therefore have significant potential to reduce hardship more broadly. Among the elderly living with extended family, the vulnerability of the overall household is likely to decline, consistent with evidence that transfers to elderly women tend to improve the schooling and nutritional outcomes of children in the same household.[18]

67. **The implementation of the top-up also demonstrates Government's willingness to explore ways of making its social protection system more responsive to shocks.** Like many Pacific countries, Samoa currently has limited mechanisms available to target support to those households most in need. Given that context, the Government has made a concerted effort to allocate financial support in ways which protect the most vulnerable and complement Prior Action 2 (see Section 2.1). The World Bank has been engaged in a dialogue with Government on the formulation of these measures, and has highlighted the benefits of vertically expanding existing mechanisms (based on the experience in other Pacific countries) as well as supporting the Government in its efforts to provide assistance to those workers losing employment due to COVID-19.

68. **Over the medium term, there is significant potential to build on the reforms supported by Prior Actions 1 and 2 to further develop the social protection system**. The indicative trigger for DPO2 is the Cabinet approval of a social protection policy, which would draw on the experience and lessons learnt from the COVID-19 response. The policy would provide the foundation for the establishment of social protection mechanisms which would: i) enable the identification of vulnerable and/or shock-affected individuals and ii) allow the systematic targeting of benefits to these individuals in response to climate-related or other shocks. In the longer term, the national digital ID, as a foundational ID system, can provide the basis for a social registry to support vulnerable people quickly and effectively in response to future economic shocks or natural disasters, as well as to promote digital government, financial inclusion and more efficient remittances. The development of the national digital ID scheme, implemented by the Samoa Bureau of Statistics (SBS) and overseen by the National ID Steering Committee chaired by the Prime Minister, is supported by the IDA-financed Samoa Connectivity Project. The WB Connectivity Project team will continue to explore social protection use cases for the national ID with Government, while the WB Social Protection team has proposed a survey-based assessment of the social protection measures supported by Prior Actions 1 and 2 which should yield useful recommendations.

69. **An additional indicative trigger for the next operation in the series is the approval of amended labor and employment relations legislation**, which will help to ensure that the economic recovery is inclusive, including by promoting gender equality in Samoan workplaces. The amendments to the Labour and Employment Relations Act will improve consistency with international labor standards, clarify the

[18] See World Bank, (2016). *Systematic Country Diagnostic For Eight Small Pacific Island Countries: Priorities For Ending Poverty And Boosting Shared Prosperity*, and Yoong, J., Rabinovich, L., and Diepeveen, S., (2012). *The impact of economic resource transfers to women versus men: a systematic review*. Technical report. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

terms and conditions of employment, and strengthen provisions around discrimination, forced labor, and the employment of children. The legislation should help to reduce both direct and indirect discrimination against women in Samoan workplaces, and ensure equal pay for work of equal value. It will also regulate the employment conditions of domestic workers, a high proportion of whom are women. The amended bill will provide for a review of the minimum wage every two years, following the most recent increase in January 2020 from SAT 2.30 per hour to SAT 3 per hour.

70. *Expected result*: By June 2021, at least 9000 eligible elderly individuals have received top-ups to the senior citizens' benefit. Samoa's average score across the workplace, pay, and parenthood sub-measures of the Women, Business and the Law index increases from 72 in 2020 to at least 80 in 2023.

Pillar 2: Strengthening macro-fiscal resilience

71. **The second development objective of this program is to strengthen the macro-fiscal resilience of Samoa over the medium to long term.** The fiscal impacts of COVID-19 have highlighted the importance of rebuilding buffers and managing fiscal risks over the medium term. This pillar builds on reforms supported by previous DPO series, including in the areas of debt management, revenue administration, and SOE policy. Prior to the dual shocks of the measles outbreak and the COVID-19 pandemic, tax revenues as a proportion of GDP had steadily increased, in part due to DPO supported reforms to revenue administration and policy. Over the past five years, public expenditure has been contained, no new non-concessional debt has been contracted (in line with Government's MTDS), and total public and publicly guaranteed debt has declined. Since the last DPO for Samoa was approved in late 2018, the authorities have also made several improvements to budget transparency and the fiscal targets, based on recommendations from a recent PEFA and recent IMF technical assistance.[19] This second pillar of reforms reflects Government's view that over the medium to long term the fiscal position can be strengthened further by achieving improved compliance in revenue collection, and its acknowledgement that more needs to be done to monitor the fiscal risks associated with SOEs. The policy reforms supported under this pillar are aligned with these priorities and will assist Government to build the fiscal resilience it needs to respond to future external shocks.

72. **Pillar 2 includes Policy and Performance Actions for FY2021 under the Sustainable Development Finance Policy**, namely: (i) Cabinet approval of the on-lending policy (PA3, see below); and (ii) continued compliance with the 'no new non-concessional external debt' policy which is included in the existing MTDS and will remain in the updated MTDS. Ensuring that any new borrowing taken on to fund Samoa's development needs is provided at concessional terms will help ensure that the debt service burden associated with this borrowing is manageable. The updated MTDS itself is an indicative PPA for FY2022 (see para 71).

Prior Action 3: To provide guidelines for eligibility, set monitoring and reporting requirements, and establish a framework for the terms and conditions of on-lending arrangements, the Recipient, through

[19] Compared with previous budgets, the information provided in the FY2020 and FY2021 fiscal strategy statements more comprehensively covers the economic and fiscal outlook (as well as realized outcomes), and provides forward estimates that are aligned with GFS standards. In line with recommendations from the recent IMF Article IV mission, a fiscal target limiting the budget deficit to 2 percent of GDP was also introduced (down from 3.5 percent of GDP in the FY2019 fiscal strategy statement).

its Cabinet, has approved a policy governing on-lending to state-owned enterprises.

73. **As supported by the previous Fiscal and Economic Reform DPO series, Government has pursued a strong program of debt management reforms in recent years.** This has included the establishment of formal procedures for contracting government loans and issuing government guarantees to SOEs; the enactment of amendments to the PFM Act which require that government borrowing and debt management operations are consistent with Government's debt management strategy; and the approval of an updated MTDS in FY2016, which reviewed the implementation of the previous MTDS (including the lapse in compliance in 2014) and introduced quantitative indicators of the costs and risks associated with the debt portfolio to allow more rigorous monitoring. Compliance with the MTDS has been consistently monitored and achieved.

74. **In contrast to the process for issuing government guarantees, the process for engaging in and managing government on-lending to SOEs has been less clearly defined**. As noted by the new on-lending policy, there have previously been challenges in the implementation, management and monitoring of the on-lending portfolio. These include: limited risk assessments and due diligence for on-lending arrangements, which meant that several SOEs had difficulties in meeting repayments; ad hoc procedures and inconsistency in terms and conditions for on-lending; the absence of a legal provision for on-lending; unclear accountability frameworks; and a lack of proper reporting and record keeping.

75. **Total Government on-lending is substantial, suggesting that the associated fiscal risks need to be carefully monitored and controlled.** Total Government on-lending outstanding at the end of March 2020 was SAT 164.6 million (7.6 percent of GDP). The Electricity Power Corporation accounted for around two-thirds of this on-lending, and the Samoa Submarine Cable Company just under a third. The Development Bank of Samoa and the Unit Trust of Samoa accounted for around 1 percent and 2 percent respectively.

76. **The new policy supported by this operation aims to ensure that on-lending arrangements to SOEs support the implementation of development projects in a cost-efficient manner, with an acceptable level of risk to Government**. It sets out principles governing SOE eligibility for on-lending, outlines the risk assessment requirements, and describes in detail how the terms and conditions for on-lending arrangements will be determined. Before the approval of any on-lending, a credit risk assessment is required of the recipient SOE, based on an evaluation of financial risks (financial position, performance, and the projected impact of the proposed new debt) and business risks (government policy, management, and industry). Specific criteria for weighting and assessing each of these risks (on a simple A to C scale) are provided in the policy. For on-lending to be provided, SOEs must have an acceptable level of credit risk, and to help ensure repayment the project to be funded must be assessed as having positive economic returns.

77. **The policy also sets out key reporting requirements and the process to be followed in case of arrears/default.** Reporting requirements include quarterly reports on the status of project implementation and the date and value of each disbursement and loan payment; quarterly reports on the financial status of the SOE and its ability to meet its financial obligations; and annual audited financial statements. The process for cases of arrears and default includes procedures for arrears settlement and negotiated loan restructurings (with Cabinet approval), and the imposition of penalty fees and other

disciplinary measures. The policy is immediately applicable having been approved by Cabinet and will be published on the Ministry of Finance website.

78. **The policy includes procedures for establishing on-lending arrangements which provide guidance akin to that already in place for Government guarantees**. The guarantee procedures – which have been well implemented since their original approval in 2015[20] – ensure that any request for a guarantee is adequately assessed prior to approval, outlining the roles and responsibilities of the Ministry of Finance, the Ministry of Public Enterprises, the Attorney General and the Cabinet. Guarantees are only granted if: i) the guaranteed loan finances a project that yields a positive economic return; ii) the contingent liability associated with the guarantee is compliant with Government's debt management strategy and consistent with overall debt sustainability; and iii) the beneficiary meets specific financial requirements. By subjecting new on-lending proposals to similar risk assessments and evaluation processes, the policy should help to contain the associated fiscal risks.

79. **The indicative trigger for the next operation is the Cabinet approval and publication of a new MTDS**. The new MTDS will review compliance with the current MTDS, which has not been updated since 2016. It will help to further strengthen debt management in Samoa by including a specific analysis of debt service requirements, including those associated with the principal loan agreements for on-lent funds. Debt service requirements have increased in recent years as grace periods on previous loans have expired. By outlining a financing strategy to meet these requirements, the new MTDS should help to mitigate the associated fiscal risks. The new MTDS will also reconfirm Government's commitment to the principles of no new non-concessional borrowing and the requirement that new debt provides a positive economic return, both of which are critical to ensuring that the overall level of public debt remains sustainable.

80. *Expected result*: From July 2020 to June 2023: full compliance with MTDS provisions on no new external non-concessional loans. From July 2021 to June 2023: risk assessments conducted for all new on-lending proposals, and new on-lending is only provided to SOEs assessed to have a credit risk rating of 'A' or 'B'.

Prior Action 4: To improve businesses' compliance with their value-added goods and services tax payment obligations, the Recipient has enacted amendments to the Tax Administration Act, and the Recipient's Head of State has made implementing regulations that facilitate the introduction of a tax invoice monitoring system.

81. **While tax revenues have increased substantially in recent years, compliance has been identified as an ongoing issue**. The Revenue Review completed in 2017 (supported as part of the previous Resilience DPO series) notes that the top priority is to improve compliance with the existing revenue laws to achieve a level playing field, and to minimize the need to increase taxes on businesses and citizens that are meeting their taxation obligations. Feedback from the Samoa Chamber of Commerce and Industry received as part of Revenue Review consultations indicated that their members were aware of significant non-compliance among some businesses in the reporting of sales and VAGST payable, particularly in the wholesale and retail industries.

[20] The Government has recently reviewed the procedures for issuing Government guarantees (supported as part of the previous DPO series) to ensure that they remain fit for purpose.

82. **The introduction of the TIMS is designed to improve businesses' compliance with their VAGST payment obligations** by requiring the use of an electronic fiscal device (EFD), which will capture the VAGST component of transactions and transmit that information to the Ministry of Customs and Revenue (MCR), as well as providing customers with instantly verifiable invoices. An amendment to the Tax Administration Act (for which technical assistance from PFTAC was received) to ensure compatibility with the TIMS was passed by Parliament in January 2020, and implementing regulations under this Act have subsequently been approved by Cabinet.

83. **Once fully implemented, this reform will complement other elements of MCR's Compliance Improvement Strategy, which are being pursued in parallel**. This strategy has been through several iterations in recent years, with the most recent version being completed in late 2018. As part of the strategy, there have been significant ongoing efforts to improve the integrity of the registration database and follow-up with non-filers, targeting large and high-risk taxpayers. Arrears collection and risk-based audit processes have also been improved, supported by IMF technical assistance. Positive results have already been observed in terms of improved on-time filing and payment. To the extent that the TIMS succeeds in improving the accuracy of VAGST declarations from taxpayers, it should complement these other efforts and support overall revenue mobilization.

84. **While COVID-19 has caused some delays in implementation, full roll-out of the new system is expected by 2022.** The system was launched in early March, and the implementation schedule has five phases, with the first phase covering a combination of large enterprises and SMEs that have been identified as higher-risk (200 in total). There has been significant planning to manage implementation issues around costs, coverage, and connectivity, in consultation with the private sector. While the Chamber of Commerce supports the reform in principle, due to the impact of COVID-19 and the associated financial pressures it has requested extensions to the original (ambitious) roll-out schedule. Five-month extensions have been granted to allow businesses more time to meet the requirements. This has been particularly challenging given that international vendors of the EFDs have not been able to provide the support that they would under normal circumstances.

85. **As an indicative trigger for the next operation in the series, Government will introduce excise tax increases on unhealthy foods and tobacco.** The proposed trigger will include increased excise tax on meat products (based on their fat content), sugary products, and tobacco (among others), and a reduction in tax on healthier products. These reforms will result in increased revenue to Government, and direct health benefits associated with healthier eating and reduced consumption of tobacco. Moreover, the increased taxes – to the extent they help to control the prevalence of NCDs in the general population – will also have a critical role in building Samoa's resilience to communicable diseases, including measles and COVID-19, to which immune-compromised individuals tend to be particularly vulnerable. This reform would therefore also contribute to the third development objective of the operation. The proposed trigger builds on sin tax reforms introduced in the previous Resilience DPO series, progressively bringing these taxes closer to World Health Organization (WHO) recommended levels (in the case of tobacco taxes) and more precisely targeting unhealthy foods (in the case of fatty meats). Recommendations from a recent study of excise taxes in Tonga will be taken into account, including to ensure that for items that are subject to increased taxes: i) risks around the availability of untaxed unhealthy substitutes (e.g., for tobacco) are addressed; and ii) healthier untaxed substitutes are readily available (to reduce the risk of regressivity). The Tonga study indicates that the positive health impacts of excise tax increases are likely to be stronger to the extent these issues are addressed. As was the case in Tonga, Government plans to use these tax

increases as an opportunity to conduct a detailed evaluation of their effects on pricing, consumption, and behaviour, supported by the World Bank.

86. *Expected result*: Taxes on goods and services (VAGST plus excise taxes) as a proportion of GDP increase to at least 17 percent of GDP in the year to June 2023, from 16 percent on average over the three years to FY2019.

Pillar 3: Enhancing resilience to climate change, natural disasters and health risks

87. **The third development objective is to reduce Samoa's vulnerability to the current and long-term threats of climate change, other natural disasters, and contagious disease outbreaks.** The climate related risks include heavy rainfall, cyclones, floods, storms, and droughts; those from geological hazards include earthquakes, volcanic eruptions, and tsunami; and public health risks include epidemics (such as measles, dengue and chikungunya) and pandemics (such as COVID-19). Several of these risks are interrelated: for instance, the risk of vector-borne diseases has increased due to the higher frequency of heavy rainfall and floods, which create pools of standing water which act as breeding sites for mosquitoes. Climate change is already affecting Samoa's people, economy and environment, and these impacts are likely to increase over the coming decades irrespective of global action to reduce greenhouse gas emissions and slow the rate of climate change.[21] The social and economic impacts of the measles outbreak and the COVID-19 pandemic are a severe demonstration of the risks that contagious diseases pose for countries like Samoa. Pillar 3 reforms are aligned with Government's goals to improve resilience to climate change and natural disasters and improve public health outcomes.

Prior Action 5: To provide the Meteorological Services Division with the formal authority to coordinate and transmit early warnings and request information necessary to perform this function, the Recipient, through its Cabinet, has approved the Meteorology, Geoscience and Ozone Services Bill 2020.

88. **This proposed legislation will ensure that Samoa has an entity with the formal authority to issue early warnings and to coordinate the necessary information and analysis.** The Meteorological Services Division (SMD), which is part of the Ministry of Natural Resources and Environment (MNRE), is the lead agency that synthesizes and transmits early warnings. However, operating without a formal mandate has hampered its ability to request and acquire the necessary information – including from other divisions within MNRE and from the Ministry of Health (for public health outbreaks) – to provide these early warnings. Lessons from other countries suggest that the head of a single agency should have the formal responsibility and authority for coordinating and transmitting these warnings. This is best achieved through a regulatory framework which provides formal authority to a lead agency, clarifies its roles, responsibilities and procedures for coordination and transmission and ensures an annual operating budget to provide such services. This Bill provides such a framework and ensures that SMD is seen as the lead agency for early warnings. It codifies the collaborative process with the NEOC – which gets activated to lead disaster management and response actions during an emergency – in the issuance of early warnings[22]. The Bill also emphasizes the need for early warnings to convey impacts, so as to improve preparedness and minimize harm. As demonstrated by a recent pilot of impact-based forecasting for

[21] World Bank. 2017. Climate change and disaster management. Pacific Possible; Background Paper no. 6.
[22] Currently, as NEOC does not have the ability to transmit early warnings (using bulk SMS or social media), SMD prepares the early warnings and shares them with NEOC for review prior to transmission to the public.

heavy rainfall in the Vaisigano watershed (one of the largest watersheds in Samoa), SMD has the capacity to conduct impact-based forecasts and convey these impacts in the early warnings that are issued.

89. **The indicative trigger for the next operation is Cabinet approval of a Multi-hazard Early Warning System (MHEWS) strategy that would improve the efficiency of information sharing on hazards, their potential impacts, and required responses**. Although Samoa has improved its early warning systems and risk management related to meteorological and hydrological hazards, it needs to move to a more inclusive approach for multiple hazards, and ensure that the impacts of these hazards – natural and human-caused – are translated into actions by Government and the population. The need for such an approach was demonstrated in April 2020 when TC Harold hit several Pacific island countries which at the same time were under a COVID-19 related lock-down. The MHEWS Strategy, once approved, will help to ensure that early warnings are issued for a broader range of hazards, including those related to public health risks. It will also ensure that early warnings convey the actions that should be taken by affected populations, e.g., in case of flooding, to head for higher ground using certain evacuation routes. Once confirmed as part of the preparation of DPO2, the proposed prior action will include specific implementation measures to capture key parts of the strategy, which could include the establishment of an open information platform to allow information and analysis for early warnings to be shared across the Government.

90. *Expected result*: In the year to June 2023: i) at least 70 percent of early warnings issued for hydro-meteorological events convey potential impacts and actions needed to reduce harm or damage; and ii) in the event of an epidemic or pandemic, early warnings are issued and include information on the public health risk and the location of potential hot spots.

Prior Action 6: To regulate the standard of building practitioners and contractors and improve the resilience of buildings, the Recipient, through its Cabinet, has approved a Building Practitioners' Licensing and Registration Policy.

91. **By ensuring that building practitioners and contractors meet certain standards, this policy will improve the resilience of buildings in Samoa**. After revising the NBC in 2017, Government recognized that lack of a formal registration process for builders was contributing to the failure of infrastructure – especially during cyclones – resulting in high maintenance costs to Government and households and reducing the lifespan of buildings. Having benefitted from close consultations with the building industry and government agencies, the policy regulates the standard of building practitioners (including carpenters, bricklayers, concreters, etc.) and contractors. To ensure resilience of buildings, the Policy stipulates that buildings are constructed to a high standard as required under the NBC 2017. The licensing and registration scheme requires builders to meet specific qualification requirements and adhere to the construction requirements of the NBC 2017. Building practitioners apply to MWTI for a license and are nominated for a specific grade depending on their qualifications and experience, with the grade determining the type of building which they are allowed to work on[23]. The policy also categorizes major construction projects into 3 categories (Categories A to C) and stipulates the requirements of building contractors bidding on major construction projects. The combination of licensing and project categorization for practitioners and contractors will be a major contribution to improving the resilience

[23] Only certain grades can undertake construction or work on certain Building Groups - type of building project stipulated in the NBC 2017. For example, Grade A licensed practitioners (highest grade/most qualified) are allowed to work on all Building Groups, whereas a Grade C licensed practitioner (lowest grade and typically informally trained through work experience, or through attending technical vocational training courses) can only undertake work on a Building Group 5 (Single Unit Residential) project.

of building assets given their observed vulnerability to damage and destruction during cyclones over the past two decades. The policy is aligned with the Australia-New Zealand (ANZ) licensing and registration requirements. This enables those participating in labour mobility schemes to register and be licensed under this policy, thereby increasing the pool of licensed building practitioners.

92. **The indicative trigger for the next operation is the approval of a Disaster Risk Financing (DRF) policy.** This policy will guide Government in deciding when and how to trigger the various financing options (own resources, contingent financing instruments, insurance, donor support, etc.) available in the event of a natural disaster. Financing needs associated with the rehabilitation and reconstruction of public infrastructure are typically a significant component of these overall needs (as illustrated by TC Evan in 2012, where the estimated damage and loss to public infrastructure was 37 percent of 2011 GDP) and can have a substantial budgetary impact. The policy would be closely linked to ongoing work to value public infrastructure assets and construct an asset register. This register will include information for buildings (such as primary and secondary schools, hospitals, clinics, and police stations) and combine it with the existing information for transport, water & sanitation and electricity assets, specifying their location, condition, risk and exposure to key hazards (e.g., high winds, heavy rain, earthquakes), estimated/actual construction costs, and the costs of regular maintenance necessary to minimize damage in the event of cyclones or other disasters. The policy would reference this asset register, including to allow an assessment of the contingent financing risks associated with repair and reconstruction of these public assets after natural disasters.

93. *Expected result:* At least 25 building practitioners with demonstrated knowledge of constructing resilient buildings are licensed and registered in the year to June 2023. Fiscal risks associated with natural disasters are assessed and contingent financing sources are explicitly recorded in the FY2023 budget documentation.

Prior Action 7: To protect Samoans from infectious diseases, the Recipient has enacted the Infants Amendment Act 2019 which mandates the vaccination of children as a condition of school enrolment.

94. **The measles epidemic in late 2019 highlighted the need for improved vaccination in Samoa**. In 2018, Samoa had one of the lowest immunization rates for measles containing vaccine (first dose) in the Pacific (the rate for one-year old children dropped from 76 percent in 2012 to 31 percent in 2018)[24]. Parents were hesitant to vaccinate children following vaccination accidents resulting in two deaths in 2018. In response to the measles outbreak, a mass vaccination program[25] was implemented; as of January 2020, WHO-UNICEF figures show the measles vaccination rate had increased to 89 percent in children between the ages of six months to four years[26]. In addition, health care workers are receiving additional training on effective vaccine management, proper immunization techniques, injection safety, proper recording and reporting (supported through ADB's vaccination projects and the IDA-financed Samoa Health System Strengthening Program).

[24] Samoa: WHO and UNICEF estimates of immunization coverage: 2019 revision.
[25] A total of 134,499 individuals were vaccinated through the mass vaccination campaign on 4-5 December 2019. (Source: Government of Samoa Recovery Plan: Measles Epidemic 2020)
[26] This is closer to the WHO guidance that 95 percent of children need to be immunized for measles to stop instances of the disease spreading and becoming an epidemic.

95. **The Infants Amendment Act 2019 mandates parents or persons or those with custody of a child to comply with the vaccination and immunization requirements of the Ministry of Health for infectious diseases.** Aligned with WHO and UNICEF guidance, Samoa's current vaccination schedule for children from birth to 5 years includes Bacille Calmette-Guérin (BCG) vaccine, Hepatitis B, diphtheria, Pertussis, tetanus, mumps, measles, rubella, polio, and Haemophilus influenza type b. The Act requires these vaccinations for school enrollment. Reflective of the strong governance roles of villages, the Act also amends the Village Fono Act 1990 and the Internal Affairs Act 1995 to incorporate these vaccination and immunization requirements. In enacting the Infants Amendment Act, Samoa has followed other countries (e.g. in Europe) which have used legislation to mandate vaccination (especially for measles) for school enrolment. In addition to responding to the measles outbreak, Government has also established a cold chain equipment inventory for all vaccinations in 14 locations across the country, strengthened outreach and communication campaigns for vaccination and adopted measures to improve record keeping in villages and digitize immunisation records. Government has also set up a mechanism to report on progress on vaccination rates. To assist with record keeping, Government is issuing a vaccination booklet for all newborns which will record all vaccinations administered. To facilitate evaluation, the results indicator for this DPO specifically targets a sustained improvement in the MMR2 (measles, mumps and rubella) vaccination rate[27], which is critical in itself and also serves as a proxy for improvements in the coverage of other vaccinations.

96. **The indicative trigger for DPO2 is the Cabinet approval of a National Epidemic and Pandemic Influenza Preparedness & Response Plan, and implementation of one or more key measures included in this plan** (specific implementation measures will be agreed in the process of preparing DPO2). The plan will have a broader scope than the Novel Coronavirus Preparedness and Response Plan (see para 46) and will help to improve Samoa's preparedness for any future epidemic or pandemic. The focus of the plan will be on surveillance, emergency training and drills, procedures for quarantine and isolation, strengthening laboratory diagnostic capacity, screening at ports of entry and border control procedures, stockpiling of drugs and PPEs, and health promotion and communication. It will also cover training of nurses in vaccine administration, and measures to build awareness of vaccination requirements. The plan will draw on lessons from responding to the measles outbreak and the COVID-19 pandemic and incorporate good practices from other small island states and globally.

97. *Expected Result:* The immunization rate for measles, mumps and rubella (MMR2) for the cohort of 1-2-year old children is at or above 85 percent in the year to June 2023.

4.3. LINK TO COUNTRY PARTNERSHIP FRAMEWORK, OTHER BANK OPERATIONS AND THE WBG STRATEGY

98. **The DPO series is a central component of the WB's overall engagement with Samoa, as highlighted in the Regional Partnership Framework (RPF, report #120479) for nine small Pacific Island Countries discussed by the Board in February 2017.** The RPF priorities are highly relevant to Samoa's efforts to respond to and recover from COVID-19. The development objectives of the DPO are aligned with the focus areas of protecting incomes and livelihoods (including through strengthening resilience to natural disasters and climate change and addressing NCDs); and of strengthening the enablers of growth (through improved macro-economic management and addressing knowledge gaps). A strong economic

[27] MMR vaccine in Samoa is administered twice following WHO guidance; MMR1 between 6-12months and MMR2 at 15 months.

policy dialogue with Government is the anchor for the WB's efforts to support this latter RPF theme, with the programmatic series of DPOs as its centerpiece.

99. **The Bank's program in the nine small Pacific countries has been adjusted to align with the three phases of Relief, Restructuring, and Resilient Recovery outlined in the World Bank Group COVID-19 Crisis Response Approach Paper (see Annex 6).** Consistent with the adjustment of the overall program, this DPO is also closely aligned with the WBG COVID-19 Crisis Response Approach. Prior Actions 1 and 2 are critical to the immediate relief stage of the response, while the remaining reforms will contribute to building a resilient recovery. Each of the four pillars of the Approach are addressed by reform measures supported by this operation – the health response by Prior Action 7, the social response by Prior Actions 1 and 2, the economic response by Prior Actions 1 and 2, and the strengthening of policies, institutions, and investments by Prior Actions 3 through 6. In each instance the indicative triggers proposed for the second DPO in the series make further contributions to these pillars. In line with the Approach, the DPO program also emphasizes debt management and overall fiscal sustainability (Prior Action 3 and the indicative trigger and results indicators), and incorporates Policy and Performance Actions under the IDA Sustainable Development Finance Policy.

100. **The DPO series is complemented by other WBG operations targeted at achieving the RPF outcomes.** The reforms targeted at increasing Samoa's resilience to climate change, natural disasters and health shocks have been informed and motivated by ongoing investment projects in Samoa: including the IDA-funded PREP which supports the strengthening of the multi-hazard early warning system, the Samoa Health System Strengthening Program (P164382) and the Samoa COVID-19 Emergency Response Project (P173920). To support Government's response to COVID-19, the WB has approved US$8.5 million in funding through the Cat-DDO (approved by Board in November 2018), the Contingency Emergency Response Component (CERC) of PREP, and the Emergency Response Project.

101. **The reforms supported by the proposed DPO are also closely aligned with the IDA-19 special themes**[28]. The DPO is aligned with Theme 1 on Jobs and Economic Transformation, with the operation helping to protect employment in Samoa despite COVID-19 impacts; Theme 3 on climate change, with the operation supporting measures to enhance resilience to natural disasters and climate change; and Theme 5 on governance and institutions. Debt and human capital as cross-cutting issues are also addressed.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

102. **The formulation of the SDS in Samoa involved an extensive consultation process with a wide range of civil society stakeholders and the general public.** The Ministry of Finance led a Government wide consultation at the sector level before conducting public consultations on both Upolu and Savaii islands. Various groups including religious leaders, civil societies, village representatives, women committees' representatives, youth group representatives and private sector representatives were invited, giving people across Samoa the opportunity to participate in the formulation of the SDS. For the proposed operation, which is linked closely to the priorities elaborated in the SDS, the Ministry of Finance has

[28] These include: i) Jobs and Economic Transformation (JET), ii) Fragility, Conflict, and Violence; iii) Climate Change; iv) Gender and Development, and v) Governance and Institutions.

consulted broadly across sectors in the process of building the joint policy matrix, in collaboration with development partners.

103. **The WB has worked closely with Australia, New Zealand, and the ADB to align development partner general budget support under a matrix of policy actions developed jointly by Government and its development partners.** Each of these development partners has or will be providing general budget support based on actions contained in this Joint Policy Action Matrix (JPAM), which is itself centered on the reforms supported by this operation. Several partners have also provided or plan to provide substantial additional budget support under streamlined processes to aid Government's response to COVID-19. Government, through Ministry of Finance (MOF), continues to play a leading role in coordinating its development partners and uses the JPAM process as a means of reducing overlap and improving the coordination of policy support and technical assistance provided by development partners.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

104. **The proposed operation will support Government in its short-term responses to mitigate the impact of the COVID-19 pandemic and its longer-term efforts to boost resilience against economic, climate, and health risks, all of which disproportionately benefit the poor and vulnerable**. As has been seen in past shocks, the poorest parts of Samoa's population are the most heavily impacted due to their dependence on public services, lack of personal safety nets, and higher vulnerability to natural disasters and health shocks. This operation supports, under Pillar 1, actions that protect the short-term purchasing power of the vulnerable through direct transfers. Pillars 2 and 3 provide longer-term protection to the poor and vulnerable by helping to ensure that fiscal space is sufficient to maintain public services (Prior Actions 3 and 4) and by improving preparedness against climate change and health risks (Prior Actions 5 through 7).

105. **Prior Actions 1 and 2 provide direct transfers to mitigate the loss in purchasing power of vulnerable individuals and households during the pandemic.** The average annual per capita expenditure, based on 2013/14 HIES data, is around SAT 6700, but the annual per capita expenditure for the lowest two quintiles (bottom 40 percent) is much lower, at SAT 3000. As such, the temporary transfers of Prior Action 2 will provide substantial contributions to the welfare of the elderly citizens who also tend to be vulnerable to climate and health risks. For example, additions to the senior citizens' benefit include SAT 400 in one-off disbursements and a permanent top up of SAT 15 per month, which amounts to almost 20 percent of per capita expenditure in the lowest two quintiles. The top-ups to the elderly pension scheme will benefit the elderly directly, who tend to be among the more vulnerable members of the population, while also having significant potential to reduce hardship more broadly. For instance, transfers to elderly women have also been found to improve the schooling and nutritional outcomes of children in the same household, so among the elderly living with extended family, the benefits are likely to be shared.

106. **Measures supported under Prior Action 1 will support those who have had the biggest direct shock to their incomes and livelihoods, while the paid training scheme should also help boost the longer-term earning capacity of tourism and hospitality workers**. The unemployment benefit will pay out

between SAT 100 and SAT 300 to affected workers, or between 3-10 percent of annual per capita expenditure for households in the lowest two quintiles. The paid training scheme will provide SAT 100 per week of attendance. These measures are also likely to be pro-poor, given that households with members working in the tourism sector have lower average incomes and slightly higher rates of poverty (24.2 percent) than households without members in tourism (19.8 percent).Other measures, including the per citizen payout, reduced utility prices, relief on household loan repayments, the provision of concessional financing to vulnerable families in need of shelter, and an agricultural employment creation scheme using previously unutilized government-owned land, will provide further support to those in need.

107. **The reforms introduced in Prior Actions 3 and 4 will help the Government to maintain fiscal stability, which is critical to ensure that public services continue to be provided to the poor and vulnerable during and after covariate shocks.** Poor and vulnerable households are much more susceptible to any contraction in the provision of essential public services (e.g., health, education) that may occur during and after shocks, due to their lack of resources to access these services elsewhere. The universal availability of basic public health services at little or no cost underpins the relatively strong health indicators that Samoa has achieved to date (but which are now threatened by NCDs), while the universal availability of fee-free primary and progressively also secondary education underpins Samoa's relatively strong education indicators. It is thus particularly important to poor people and vulnerable groups that Government maintains the capacity to provide public services over time, which in turn depends on the maintenance of fiscal stability. The second pillar of reforms supported by this DPO program should assist Government in its efforts to rebuild fiscal buffers over the medium term.

108. **The reforms supported under Pillar 3 should also have positive impacts on the poorest**. Those relying on subsistence agriculture and fisheries for their livelihoods are amongst the most vulnerable, with lower financial buffers to sustain themselves following the income losses and damages caused by a natural disaster. They are thus likely to benefit from reforms that increase resilience to climate change, given agriculture and coastal areas and fisheries are often severely damaged or destroyed in cyclones and floods. Early warnings that are widely transmitted through mass text messages (as SMD does) will reach poor households and allow them time to prepare. Similarly, by reducing the potential spread of communicable diseases within Samoa, the public health reform supported by this operation will again benefit the poor and vulnerable – to the extent that these individuals tend to be most susceptible to contracting such diseases and/or are less able to cope with the effects.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

109. **The policy actions supported under the operation – including those related to climate and disaster resilience – are not expected to create negative impacts on Samoa's environment, natural resources or forests compared with the status quo**. Support to vulnerable workers and households could have a positive effect on the environment with reduced demands on ecosystems for food and livelihoods and lower risk of over-exploitation of ecosystems. The policy actions to support the improvement in macro-fiscal resilience and enhancing response and resilience to climate, disaster and health risks are also not expected to have any significant environmental impacts.

110. **In relation to PA7, there is a possibility of risks to the environment with respect to medical waste management.** In 2019, recognising the shortcomings in medical waste management, Government adopted the National Health Care Waste Management Strategic Plan (2019-2023). However, there are

some gaps in the implementation of this strategy including limited human and infrastructure capacity and training. The incinerator in Savai'i does not function properly and Occupational Health and Safety (OHS) is minimal for all stages of health care waste management. To mitigate these risks, Government (through the Samoa COVID-19 Emergency Response Project (P173920) and the CERC under PREP) is procuring appropriate waste management infrastructure and equipment. These include an incinerator for Savai'i (which is expected to be delivered before the end of 2020), PPE (which arrived in Samoa in September 2020), and two medical waste trucks for Upolu and Savai'i. The Samoa Health System Strengthening Program and Samoa COVID-19 Emergency Response Project is also supporting training of all health workers on waste management to ensure compliance with international industry practice and the relevant WHO guidelines.

111. **Samoa's Environmental Assessment (EA) system is considered one of the more robust in the Pacific, although there are some implementation challenges.** Environmental Assessments are a legal requirement under the Planning and Urban Management Act 2004 and the Planning and Urban Management (Environmental Impact Assessment) Regulations 2007. These are administered by the Planning and Urban Management Authority (PUMA) which is a Division in MWTI. As the environmental regulatory agency, PUMA regulates compliance with the legislation and with Samoa's Code of Environmental Practice (COEP), which was developed with World Bank support. It also details procedures consultants, designers and contractors should follow to avoid or mitigate the adverse environmental effects of infrastructure development projects. COEP consists of 14 codes covering different activities such as road works, quarry operations, drainage works and telecommunications facilities. Compliance and public acceptance of PUMA's development consent process are increasing, with the number of development consent applications rising steadily since 2007. The CIM plans (supported through the previous DPO series) are now part of the PUMA's information system and inform decisions on Development Consent, prohibiting development in areas at high risk from riverine floods, coastal storm surges and/or landslides. Use of such information ensures reduced risk of damage or loss of assets and thus better use of environmental resources, such as building materials.

112. **Despite this robust regulatory environment, PUMA continues to face several challenges in delivering on its mandate**. While all PUMA's functions are delivered (increasingly with less delays due to a recent increase in the number of staff), staff turnover has affected the process and review of EAs, particularly for more complex proposals that have more comprehensive EA requirements. However, PUMA's move from MNRE to MWTI over the past two years is attracting technical staff. During the life of this operation, the WB team will assess if any additional support on safeguards is required for MWTI – including for safe COVID-19 practices in civil work sites – and PUMA, and take steps to facilitate its provision. There are also provisions under the WB Climate Resilient Transport project to provide technical assistance to strengthen PUMA's capacity, especially regarding Government's ability to manage a climate resilient road network.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

113. **Samoa has made considerable progress with reforming its Public Financial Management (PFM) systems in recent years.** The budget is credible, fiscal information is generally comprehensive and transparent, orderliness and participation in the annual budget process is strong, many aspects of predictability and control in budget execution are sound, as are most aspects of external scrutiny and audit. The 2019 Public Expenditure and Financial Accountability Assessment (PEFA) confirmed these PFM

improvements relative to the 2014 PEFA. There were notable improvements between the two assessments including transparency of taxpayer obligations and liabilities with the existence of a functioning tax appeal mechanism, easier access to information and greater clarity on administrative procedures and legislation, significant improvement in accounting, recording and reporting, and significant improvement in the quality and timeliness of annual financial reporting in accordance with IPSAS Cash standards. Improved external scrutiny and audit has resulted from improvement in the timeliness of submission of audit reports to the Legislative Assembly. Small declines occurred in six indicators, half of which were in the area of comprehensiveness and transparency. The budget is published each year on the Ministry of Finance website.

114. **Samoa has recently made positive progress in reforming its procurement system.** The 2014 Methodology for Assessing Procurement Systems (MAPS) assessment indicated that the adoption of the new Treasury Instructions on procurement had raised the score on the legislative and regulatory framework pillar from 0.14 to 2.14 (out of a possible 3.0), and also improved the institutional framework and management capacity, procurement operations, and integrity and transparency. In recent years, Samoa has also created a new Procurement Division in MoF that has helped to drive the wider procurement reform process. A number of the other weaknesses identified by the MAPS assessment – including lack of procedural guidelines and model tender documents, and lack of provision for and guidance on the use of framework arrangements – have been addressed by reforms supported by the last series of DPOs (with assistance from the WB). In April 2020, Government developed a Procurement Operating Manual which enshrines the use of framework arrangements. Ongoing challenges include low tendering thresholds which create administrative burden on ministries with limited resources and capacity.

115. **The Government's commitment to making future improvements to its PFM systems is strong.** Samoa has recently completed the third and final "roll-out" phase of its PFM Reform Plan, with considerable progress achieved over the three phases. The Ministry of Finance prepared the third phase of the PFM Reform Plan, based on the key areas highlighted as weaknesses in the 2013 PEFA and 2014 MAPS assessment, outstanding areas from the second phase of reforms, consultations with internal stakeholders, and discussions with development partners, including through the Joint Action Policy Matrix (JPAM) engagement. A high level of ownership for the reforms is in evidence, and a strong annual monitoring and evaluation system for the reforms is now well established.

116. **The Government's PFM priorities are outlined in the SDS and the financial sector plan**. The financial sector plan overseen by a committee consisting of representatives from MoF, MCR, SBS, CBS and OAG covers PFM systems (including revenue management and external audit), management of monetary policy; the operations of commercial banks and other non-bank financial institutions; building a stable external sector position to ensure macroeconomic stability, whilst at the same time building financial institutions and systems which are resilient, efficient and competitive and proactive to stimulate, support and sustain inclusive economic growth for Samoa. The plans are available online at the MoF website.

117. **The foreign exchange control environment of the Central Bank of Samoa (CBS) is satisfactory.** The financial statements (FS) are prepared in accordance with International Financial Reporting Standards and are published on CBS website as well as its annual report and its independently audited financial accounts. The FY2018 audited financial accounts were unqualified and have also been published.

Following disbursements under the Exogenous Shocks Facility in 2010 and the Rapid Credit Facility in 2013, the CBS underwent IMF Safeguards Assessments in 2010 and 2014. The IMF Article IV of May 2019 reported that an update safeguards assessment of the CBS was completed in June 2014 which found some safeguards elements in place, but concerns over CBS autonomy and governance, audit quality, and staff capacity need to be addressed. The CBS has taken steps to address these, including improving its governance and autonomy through enactment of a new central bank law in 2015. The safeguards assessment concluded that the CBS should take further steps to enhance oversight of audit functions. Based on publicly available financial information and the steps taken by Government to address concerns identified in the IMF Safeguards Assessment, it is concluded that the World Bank has reasonable assurance that the control environment for foreign exchange at the CBS is satisfactory.

118. **As a part of its regular procedures, the CBS has a strategy to address various risks including liquidity, exchange rate, credit and operational risks.** To limit liquidity risk, the CBS maintains a level of reserves that takes into account transaction demand on foreign exchange and carries out maturity analysis on its investments to keep track of its liquidity position. Foreign exchange rate risk is managed by pegging the tala to a basket of currencies, with weights allocated on the basis of the distribution of trade, private remittances and travel transactions. The CBS manages credit risk by prescribing minimum credit ratings for investment and specifies the maximum permissible credit exposure to individual banks and countries based on their credit rating. Risks arising from Bank's operations are minimized by the CBS adhering to Bank wide corporate policies and the external audit function.

119. **Overall, the fiduciary risk rating for the operation is Moderate.** This assessment is based on the status of the PFM system and the foreign exchange control environment of the CBS. The Government has made considerable progress with reforming its Public Financial Management systems in recent years in the areas of transparency of taxpayers obligations, access to information, budget credibility, improvements in accounting, and quality and timeliness of annual financial statements to lower fiduciary risks. However, there are still institutional weaknesses in the area of comprehensiveness and transparency for which Government is committed to making future improvements, outlining its PFM priorities in its SDS and financial sector plan. The CBS publishes its annual reports and independently audited financial statements on its website and has taken steps to address concerns identified in the IMF safeguards assessments to improve its governance and autonomy; however, the safeguards assessment concluded that CBS should take further steps to enhance oversight of audit functions.

120. **The proposed operation will follow the WB's disbursement procedures for development policy grants.** The grant will be disbursed according to IDA disbursement procedures for DPOs against satisfactory implementation of the development policy program and adequacy of the macroeconomic policy framework and will not be tied to any specific purchases. Once the grant is approved by the WB Board and becomes effective, and the WB is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA, at the request of the Recipient, into an account at the CBS in US$ dedicated by the Recipient, that forms part of the country's official Foreign Exchange (FOREX) reserves and is acceptable to the WB (the 'Foreign Currency Deposit Account'). The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds of the operation would not be used to finance expenditures excluded under the General Conditions for

IDA Financing: Development Policy Financing (2018) (General Conditions). If, after being deposited in a Government deposit account, the proceeds of the operation are used for ineligible expenditure as defined in the General Conditions, IDA will require the Recipient to refund the amount directly to IDA. Any such amounts refunded to IDA shall be cancelled.

121. **The funds for the partial or full disbursement of the Cat-DDO will be made available after the drawdown trigger condition is met.** At the request of the Recipient, and with the WB being satisfied that a Government Proclamation of Emergency has been issued, the proceeds will be deposited by IDA into the Foreign Currency Deposit Account. The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds cannot be used for ineligible expenditure but will not be tied to any specific purchases.

122. **The WB requires confirmation from Government of each receipt of funds.** The WB obtains a confirmation from Government (within 30 days after each disbursement) that: (i) the proceeds were received into an account of Government that is part of the country's foreign exchange reserves (including the date and the name/number of Government's bank account in which the amount has been deposited); and (ii) an equivalent amount has been accounted for in the country's budget management system (including the Chart of Accounts name/account number, the date, and the exchange rate used).

123. **The WB will retain the right to request Government to arrange a special audit of the dedicated Foreign Currency Deposit Account for each fiscal year in which there were receipts.** The audits will confirm that the funds disbursed by the WB have been deposited into the Foreign Currency Deposit Account and that an equivalent amount has been either credited to an account of Government available to finance budgeted expenditures, or used for budgeted payments made in foreign currency and categorization of these payments. The audit opinion should also confirm the following: (i) the accuracy of the summary of the transactions, including accuracy of exchange rate conversions; (ii) that the Dedicated Account was used only for the purposes of the operation; (iii) that all payments out of the Dedicated Account were not made for any Excluded Expenditures as defined in the General Conditions; (iv) that all payments made from the Dedicated Account were for Government's budget expenditures (i.e., items included in Government's approved budget for the period) or transfers into Government's Treasury Account; and (v) that payments from the Foreign Currency Deposit Account were transferred to an account available to finance budgeted expenditure in a timely manner (normally within 30 days of disbursement). The audit reports of the Dedicated Account for each fiscal year in which there were receipts, if requested in writing by the WB, will be required to be received by IDA within six months of the end of the Recipient's fiscal year in which the disbursement is made.

124. **The closing date for the operation is November 30, 2023.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

125. **The Ministry of Finance is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation.** The Ministry of Finance will directly monitor the results indicators pertaining to revenue, debt management, and execution of the economic support package, and will collaborate with the relevant ministries and agencies on the other results indicators. The Ministry of Finance has demonstrated good capacity to coordinate the monitoring and results evaluation of budget

support operations to date. Where possible, it will utilize existing systems for monitoring and evaluation purposes (for instance, the monthly management 'scorecard' for key revenue indicators).

126. **The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality.** Capacity constraints in such a small public administration affect the array, timeliness and quality of available data. Where possible, results indicators have been selected from those that already exist, rather than requiring new data to be produced, diverting scarce capacity from core data collection and analysis functions.

127. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or drawdown trigger conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms (established by MoF), or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

128. **Overall the operation faces substantial risks to achieving its development outcomes**. There are ongoing risks associated with the COVID-19 pandemic and the ever-present risk of natural disasters, the realization of which could lead to significant macroeconomic impacts and put additional stress on already strained government capacity. These are mitigated in part by the reforms supported by this operation, and the financing provided. While elections will be held in April 2021, previous elections have passed without significant disruption to government, and the assessment of political risk remains moderate (though government capacity will likely be further strained through the caretaker and election period).

129. **A key macroeconomic risk to the operation will be realized if the impacts of COVID-19 are worse than expected.** There are significant downside risks associated with the baseline economic projections presented in Section 2. International travel restrictions may remain in place even beyond the middle of 2021, and the recovery in tourism may only be slow even after these restrictions are eased, especially if reductions in productive capacity prove to be long-lasting. A domestic outbreak of COVID-19 or another infectious disease could potentially have devastating social and economic implications. The realization of any of these risks would cause further declines in economic activity, reduce the available fiscal space to support businesses and livelihoods, and divert the limited capacity of Government away from the implementation of longer-term reforms. But Government's immediate economic response to COVID-19 – as supported by this operation – will help to reduce the potential for hysteresis effects. The public health reforms supported by this programmatic series should serve to reduce the likelihood of public health emergencies, and – through improved health system preparedness – the social and economic costs should an emergency occur.

130. **Another major natural disaster would also severely test government capacity and public finances.** Samoa is assessed to be at a high risk of debt distress largely because of its vulnerability to natural disasters. Another major natural disaster in the next few years could threaten macroeconomic stability, create additional hardships on the population given the strains already associated with COVID-19, and large parts of the bureaucracy would have to shift their attention to disaster recovery and reconstruction efforts. Reforms supported by this proposed series of operations – to boost revenue collection, ensure debt sustainability, and manage fiscal risks associated with SOEs – will provide greater fiscal space to respond to such a shock. The upfront and disaster-contingent grant financing provided by this proposed operation as budget support also serves to reduce some of these macroeconomic risks. The reforms to strengthen disaster management will continue to contribute to improved preparedness and response and reduce the social, environmental and economic costs of a disaster. More broadly, the potential impact of these risks is mitigated by the fact that the supported reforms are priorities for Government, and so are likely to retain momentum even in a challenging environment.

131. **Due to Samoa's inherent vulnerability to climate change, natural disasters, and disease outbreaks, the environmental and social risks are substantial.** The reforms supported in this operation and the previous series to strengthen disaster management and climate resilience help to mitigate these risks. The financial support provided to households as part of the COVID-19 response and the disaster-contingent grant financing provided by this proposed operation will, to some extent, reduce the social impacts of a future disaster and could reduce the demands on the ecosystem to meet livelihood needs. The actions supported through the COVID-19 Emergency Response Project and Samoa Health System Strengthening Program – which include strengthening capacity at rural district hospitals, training nurses in vaccine administration, improving the surveillance of health outbreaks, strengthening laboratory testing capacity, digitalizing health information for patient tracking and vaccination; building cold chain and vaccine storage; and procuring an incinerator and PPEs – will contribute to reducing the health and social risks.

132. **This DPO also supports a number of reforms which are the direct responsibility of line ministries, where capacity and understanding of budget support operations is sometimes lower**. This also has the potential to make engagement with policymakers and technical officials more challenging in some cases, as the financial incentives for line ministries to participate are less clear. However, the IPF engagements with these Ministries have helped to support the overall dialogue. Development partners (that also participate in the JPAM process) continue to be a source of direct support for Government's capacity-building efforts in these areas, building trust on both sides, while the MoF is playing a strong coordinating role. The parallel TA provided to support Government on results under PA5 and PA6 and the indicative triggers related to climate and disaster resilience will specifically address the capacity needs of MWTI and MNRE in implementing the associated reforms.

Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Moderate

2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results		
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1: Promoting an Inclusive Economic Response and Recovery from the Impacts of COVID-19				
Prior Action 1: To support workers losing employment in response to COVID-19, the Recipient, through its Cabinet, has approved the introduction of an unemployment benefit and a short-term paid training scheme as part of its FY2021 budget.	**Indicative Trigger 1:** To reduce uncertainties faced by foreign investors, the Recipient, through its Cabinet, has approved a revised Foreign Investment Act, which limits the scope for discretion and clarifies the criteria and process for amending reserved and restricted lists.	Number of unemployed benefiting from government assistance Increase in number of foreign investment registrations	FY2019: no COVID-19 response spending to support the unemployed FY2020: 45 foreign investment enterprises were registered	By June 2021: At least 2000 workers losing employment in 2020 have received unemployment benefits. At least 200 individuals have participated in the short-term paid training scheme. In the year to June 2023: At least 50 foreign investment enterprises were registered
Prior Action 2: To support vulnerable individuals and households in response to COVID-19, the Recipient, through its Cabinet, has approved and implemented top-ups of the senior citizens' benefit, as part of its FY2020 supplemental budget and its FY2021 budget.	**Indicative Trigger 2:** To promote the targeting of benefits to vulnerable and affected households in response to shocks, the Recipient, through its Cabinet, has approved a social protection policy. **Indicative Trigger 3:** To strengthen provisions against discrimination and child labour, and clarify the process for adjusting minimum wages, the Recipient, through its Cabinet, has approved a revised Labour and Employment Relations Act.	Number of eligible recipients benefiting from government assistance Improved gender equality in the workplace	In FY2019, number of eligible elderly individuals receiving top-ups to the senior citizens' benefit = 0 2020: Samoa's average score across the workplace, pay, and parenthood sub-measures of the Women, Business and the Law index is 72	By June 2021: At least 9000 eligible elderly individuals have received top-ups to the senior citizens' benefit. In 2023: Samoa's average score across the workplace, pay, and parenthood sub-measures of the Women, Business and the Law index increases to at least 80 in 2023

Prior Actions and Triggers		Results		
Pillar 2: Strengthening Macro-Fiscal Resilience				
Prior Action 3: To provide guidelines for eligibility, set monitoring and reporting requirements, and establish a framework for the terms and conditions of on-lending arrangements, the Recipient, through its Cabinet, has approved a policy governing on-lending to state-owned enterprises.	**Indicative Trigger 4:** To ensure prudent debt management, the Recipient, through its Cabinet, has approved and published a new MTDS covering the period from 2021 to 2025.	Full compliance with MTDS in terms of requirements for new external debt concessionality Risk assessments conducted and accounted for in deciding on eligibility for new on-lending arrangements	FY2020: Full compliance – no new external non-concessional loans FY2020: Risk assessments of new on-lending arrangements limited and not fit for purpose	From July 2020 to June 2023: Full compliance – no new external non-concessional loans From July 2021 to June 2023: risk assessments conducted for all new on-lending proposals, and new on-lending is only provided to SOEs assessed to have a credit risk rating of 'A' or 'B'.
Prior Action 4: To improve businesses' compliance with their value-added goods and services tax payment obligations, the Recipient has enacted amendments to the Tax Administration Act, and the Recipient's Head of State has made implementing regulations that facilitate the introduction of a tax invoice monitoring system.	**Indicative Trigger 5:** To reduce the incidence of NCDs, Government has introduced excise tax increases on unhealthy products.	Increase in collection of taxes on goods and services as a proportion of GDP	FY2017 to FY2019 average: 16 per cent of GDP	In the year to June 2023: Taxes on goods and services (VAGST plus excise taxes) increase to at least 17 percent of GDP
Pillar 3: Enhancing Resilience to Climate Change, Natural Disasters, and Health Risks				
Prior Action 5: To provide the Recipient's Meteorological Services Division with the formal authority to coordinate and transmit early warnings and request the information necessary to perform this function, the Recipient, through its Cabinet, has	**Indicative Trigger 6:** To improve its preparedness for a broad range of hazards, the Recipient, through its Cabinet, has approved a Multi-hazard Early Warning System strategy, and one or more key measures included in this strategy has been implemented.	Early warnings issued convey potential impacts and actions needed to reduce harm to life and damage to assets	FY2020: Early warnings do not convey impact and guidance to reduce harm or damage	In the year to June 2023: i) At least 70 percent of early warnings issued for hydro-meteorological events convey potential impacts and actions needed to reduce harm or damage; and ii) in the event of an epidemic or

Prior Actions and Triggers		Results		
approved the Meteorology, Geoscience and Ozone Services Bill 2020.				pandemic, early warnings are issued and include information on the public health risk and the location of potential hot spots
Prior Action 6: To regulate the standard of building practitioners and contractors and improve the resilience of buildings, the Recipient, through its Cabinet, has approved a Building Practitioners' Licensing and Registration Policy.	**Indicative Trigger 7:** To guide the use of different sources of financing in response to a natural disaster, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy.	Building practitioners licensed and registered Risks and contingent financing strategies for natural disasters incorporated into budget documentation	FY2020: No licensed or registered building practitioners FY2020: No analysis of risks or contingent financing strategies for natural disasters in the budget documents	In the year to June 2023: At least 25 building practitioners licensed and registered FY2023: Fiscal risks associated with natural disasters are assessed and contingent financing sources are explicitly recorded in the budget documentation.
Prior Action 7: To protect Samoans from infectious diseases, the Recipient has enacted the Infants Amendment Act 2019 which mandates the vaccination of children as a condition of school enrolment.	**Indicative Trigger 8:** To improve its capacity to prepare for and respond to future health emergencies, the Recipient, through its Cabinet, has approved a National Epidemic and Pandemic Influenza Preparedness & Response Plan, and one or more key measures included in this plan has been implemented.	Children are immunized against measles, mumps and rubella	2019: The immunization rate for measles, mumps and rubella (MMR2) for the cohort of 1-2 year old children = 59 percent	In the year to June 2023: The immunization rate for measles, mumps and rubella (MMR2) for the cohort of 1-2 year old children is at or above 85 percent

ANNEX 2: FUND RELATIONS ANNEX

PRESS RELEASE

PR20/189

IMF Executive Board Approves a US$22.03 Million Disbursement to Samoa to Address the Covid-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the disbursement of US$22.03 million in emergency financing to help Samoa address urgent balance of payments needs created by COVID-19.
- IMF financing support provides resources to the authorities to maintain macroeconomic stability with the aim of assisting the private sector adversely affected by COVID-19.
- To address the pandemic, the Government of Samoa has taken measures to support businesses, workers, and households to safeguard the health and livelihoods of the population.

Washington, DC – April 24, 2020 The Executive Board of the International Monetary Fund (IMF) approved a disbursement to Samoa under the Rapid Credit Facility (RCF) equivalent to SDR 16.2 million (about US$22.03 million, 100 percent of quota) to help cover urgent balance of payments needs stemming from the global COVID-19 pandemic.

Samoa suffered from a severe measles outbreak in late-2019 (which claimed 83 lives and resulted in over 5,700 cases), and resulted in a much larger economic contraction than that of past natural disasters. The global pandemic of COVID-19 has exacerbated the economic downturn and will devastate the economy as it heavily depends on now-closed inbound tourism and remittances.

Samoa has shown resilience to multiple past economic shocks, underpinned by the authorities' strong commitment to support the economy, and financial assistance provided by the international community. Samoa was among the first countries in the world to secure its border to protect its citizens. The authorities' response to the measles outbreak and the global pandemic has well identified the policy priorities, including safeguarding human capital, providing support to the private sector, and maintaining macroeconomic stability. With support provided by external donors, the authorities aim to enhance the country's preparedness to handle the impact of COVID-19, as well as improving the quality and efficiency of the health care system. The authorities' policy response also targets assistance to vulnerable businesses and households to ease the impact of the pandemic, and safeguard their livelihoods. The financial assistance provided by the IMF will help the authorities maintain macroeconomic stability, thereby supporting the private sector and facilitating international payments for imports, which are needed to provide goods and services to sustain the livelihoods of the people.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"The global COVID-19 pandemic has exacerbated the impact of the measles outbreak of late-2019 on Samoa's economy. The border closure, combined with a sudden stop of tourist arrivals and decline in remittances, has led to a precipitous fall in two vital sources of foreign earnings and resulted in an urgent balance of payments need. IMF emergency support under the Rapid Credit Facility will help meet this balance of payments need, maintain macroeconomic stability, and catalyze additional donor support which is needed to fill the remaining balance of payments gap and ease the potentially sizable adjustment burden on the fiscal sector.

2

"Samoa has shown resilience to multiple past economic shocks. The authorities have put together a strong policy package in response to the pandemic, with policy measures aimed to strengthen the health care system, help vulnerable businesses and households, and accommodative monetary policy to ensure liquidity in the financial sector.

"Beyond the immediate response, the authorities will continue to implement structural reforms, with policies appropriately balanced between safeguarding debt sustainability and promoting economic growth. They also need to continue their efforts to enhance spending efficiency, strengthen social protection programs and safety nets, further improve tax administration, strengthen public financial management, and safeguard financial stability. Addressing vulnerability to climate change remains a key medium-term challenge to create a fiscal buffer."

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker:
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings: https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

3

Table 1. Samoa: Selected Economic and Financial Indicators, 2016/17 – 2024/25

			Est.			Proj.			
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.0	-2.2	3.5	-5.0	-1.5	2.7	2.2	2.2	2.2
Nominal GDP	1.0	-0.2	5.8	-2.4	0.9	4.9	4.7	5.1	5.1
Consumer price index (end of period)	1.0	5.8	-0.1	2.9	1.9	2.9	2.8	2.8	2.8
Consumer price index (period average)	1.3	3.7	2.2	2.8	2.5	2.2	2.5	2.8	2.8
				(In percent of GDP)					
Central government budget									
Revenue and grants	29.3	30.6	33.9	28.4	25.5	28.1	31.5	34.9	34.9
Of which: grants	1.9	2.9	4.2	6.9	5.3	4.8	4.8	4.9	4.9
Expenditure	31.4	30.6	31.2	35.7	35.4	35.8	37.3	37.5	37.6
Of which: Expense	23.2	24.5	25.9	30.3	28.2	28.4	28.5	28.4	28.6
Of which: Net acquisition of non-financial assets	8.2	6.1	5.3	5.4	7.1	7.4	8.9	9.1	9.0
Gross operating balance	6.1	6.2	8.0	-1.8	-2.7	-0.4	3.0	6.5	6.3
Overall fiscal balance	-2.1	0.1	2.7	-7.3	-9.8	-7.8	-5.8	-2.6	-2.7
Overall fiscal balance excl. grants	-4.0	-2.8	-1.5	-14.2	-15.2	-12.6	-10.6	-7.6	-7.6
Public debt	49.7	52.9	47.5	52.9	62.8	68.0	71.3	71.2	71.3
				(12-month percent change)					
Macrofinancial variables									
Broad money (M2)	7.8	16.5	9.9	-2.5	0.9	4.9	4.7	4.7	4.7
Net domestic assets	0.7	0.9	2.1	...	...	...	...	...	...
Private sector credit, Commercial banks	9.5	1.6	6.1	2.6	2.9	4.3	4.3	4.3	4.3
Total loan growth, Commercial banks	6.6	1.7	5.8	...	...	...	...	...	...
Total loan growth, Public financial institutions	12.8	6.0	17.2	...	...	...	...	...	...
				(Ratio)					
Total capital to risk-weighted exposures	25.1	27.3	27.5	...	...	...	...	...	...
Non-performing loans	4.1	4.3	3.9	...	...	...	...	...	...
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-16.6	6.8	19.4	-58.7	-58.0	-23.0	-22.4	-20.7	-13.2
(In percent of GDP)	-2.0	0.8	2.3	-7.1	-7.0	-2.6	-2.5	-2.2	-1.3
Merchandise exports, f.o.b. 1/	38.0	36.3	50.0	44.9	45.4	47.2	49.3	51.5	53.8
Merchandise imports, f.o.b.	308.6	328.9	349.4	349.9	343.6	347.1	370.8	401.0	424.8
Services (net)	140.6	158.4	174.8	97.4	95.1	122.7	136.9	152.1	168.4
Income (net)	-26.6	-30.0	-37.3	-36.9	-34.2	-30.4	-34.0	-31.8	-32.1
Current transfers	140.0	171.1	181.3	185.8	179.3	184.6	196.1	208.6	221.5
External reserves and debt									
Gross official reserves 2/	122.3	163.1	192.8	182.4	137.9	151.5	162.6	175.9	190.1
(In months of next year's imports of GNFS)	3.5	4.4	5.1	5.0	3.8	3.9	3.9	4.0	4.2
Public debt (in millions of tala) 3/	1,047.4	1,113.8	1,059.3	1,209.4	1,434.3	1,620.3	1,772.2	1,857.5	1,948.9
(In percent of GDP)	49.7	52.9	47.6	55.6	65.3	70.4	73.5	73.3	73.2
External debt (in percent of GDP)	48.3	52.0	46.9	52.9	62.8	68.0	71.3	71.2	71.3
Exchange rates									
Market rate (tala/U.S. dollar, period average) 4/	2.54	2.52	2.62	2.67	...	...	...	...	...
Market rate (tala/U.S. dollar, end period) 4/	2.51	2.60	2.63	2.70	...	...	...	...	...
Nominal effective exchange rate (2010 = 100) 4/	110.1	106.3	109.1	109.3	...	...	...	...	...
Real effective exchange rate (2010 = 100) 4/	104.3	102.4	105.2	106.3	...	...	...	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	2,109	2,106	2,227	2,175	2,195	2,303	2,411	2,533	2,661
GDP per capita (U.S. dollars)	4,210	4,193	4,231	4,084	4,053	4,211	4,357	4,510	4,667

Sources: Data provided by the Samoan authorities; and IMF staff estimates and projections.
1/ Includes re-export of fuel after 2009/10.
2/ Includes the IMF disbursement of SDR16.2 million (100 percent of quota) under the Rapid Credit Facility (RCF) and external financial assistance by multilateral and bilateral donors to support policies to address impacts of the global COVID-19 pandemic (see Table 5).
3/ Includes domestic and external public debt.
4/ IMF, Information Notice System.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

Please address all correspondence to:
The Minister of Finance
Private Bag
Apia, Samoa

Government of Samoa
OFFICE OF THE MINISTER OF FINANCE
(Ministry of Finance; Central Bank of Samoa; Samoa National Provident Fund; Development Bank of Samoa; Samoa International Finance Authority; Samoa Life Assurance Corporation; Unit Trust of Samoa)

07th October 2020

Mr David Malpass
President
The World Bank
Washington, DC, 20433
USA

Dear President Malpass

Letter of Development Policy

Over the past two decades, Samoa has established a solid track record of economic reform and performance. Underpinning these achievements is Samoa's ambitious development agenda, which is articulated in our *Strategy for the Development of Samoa 2016-2020* (SDS). The SDS sets out our overarching strategy for accelerating sustainable development and creating opportunities for all, and outlines the key policy priorities that Government is pursuing to achieve these ends. These priorities include improving macroeconomic resilience, increasing productivity in agriculture and fisheries, achieving sustainable tourism development and enhancing the enabling environment for business development. They also include raising health and education outcomes, and improving the quality of life of the most vulnerable through community development and the provision of high quality and affordable public services. Given the critical impacts of climate change and natural disasters on our people and economy, the SDS explicitly integrates measures to enhance climate resilience and improve disaster risk management across each of the major sectors. Our SDS for the period 2021 to 2025 – which is currently under preparation – will have a similar scope. But it will be closely informed by our soon to be released *Samoa 2040* plan, which identifies transformative opportunities for economic growth over the next two decades in Samoa and provides a broad roadmap for realizing these gains.

The World Bank continues to be an important partner to us in our pursuit of our objectives, including through the policy matrix underpinning this Development Policy Operation that we have worked on in collaboration with the Bank and other development partners. We very much support the efforts made to align the policy reforms in this operation with government priorities, including those outlined in the SDS and (more recently) relating to our response to COVID-19.

The COVID-19 pandemic has meant that achieving our broader objectives has become much more difficult. Samoa remains free of COVID-19, and our priority is to continue to enforce protection measures to ensure that the virus does not reach our shores. Unfortunately, travel restrictions and other public health measures imposed as part of the ongoing State of Emergency have had severe economic impacts. GDP has already fallen in FY2020, and a further contraction is expected in FY2021, due mainly to the effect on our tourism and hospitality industry, and the spillover effects on related sectors. Many have been left without work and have been forced to return to more traditional sources of livelihoods.

The Government has committed to supporting affected businesses and households through this difficult period. At the same time, we recognize the need to balance the immediate need for this financial support with the need to maintain macroeconomic sustainability over the longer term. Therefore, our policy response reflects the resources that are currently available along with the additional assistance provided by our development partners. In recent years, the government has consolidated its fiscal position, by increasing domestic revenues and containing our spending. As a result, the ratio of debt to GDP has fallen significantly since 2015. This prudent fiscal management has allowed us more fiscal space to respond to the current crisis.

The Government's stimulus package, implemented in two phases and amounting to around 7 percent of GDP in total, focuses on the most affected and most vulnerable. As well as improving the capacity of our public health system, our priorities are to protect the livelihoods of those most affected by the COVID-19 crisis and provide financial support to businesses to help them to remain viable. We have approved a series of measures to support Samoans who have lost work as a result of COVID-19. With the support of our Chamber of Commerce, we are rolling out an unemployment benefit, payable to those workers who have lost their jobs, been stood down, or are working on reduced schedules (starting with a focus on tourism and hospitality-sector workers). We have also approved the establishment of a short-term paid training scheme for unemployed hospitality sector workers. This will allow them to improve their skills while maintaining a temporary source of income during the current period in which work is hard to come by. Measures to support tourism-related businesses, which have been hardest hit by COVID-19, include a six-month moratorium on National Provident Fund and Accident Compensation Corporation contributions and a six-month reduction in electricity and water charges. These measures complement other actions to reduce debt servicing burdens for businesses, provide rent relief, and support the agriculture and fishing sector. Several of these measures will assist smaller enterprises and those operating in the informal sector, such as market vendors.

The Government is also providing substantial assistance to households in need of financial support to maintain their livelihoods. We have topped up the senior citizens' benefit, which will benefit the individual recipients directly – who tend to be among the more vulnerable members of the population – as well as their households. And we are providing a payout of 50 tala per person to provide income support and economic stimulus. Building on the experience and lessons from our COVID-19 response, we are committed to developing our social protection system further, and exploring mechanisms to identify and target the provision of benefits to individuals and households in response to future shocks.

To promote an inclusive recovery from the effects of COVID-19, we plan to update our foreign investment legislation to provide more certainty to foreign investors and increase our access to this critical source of capital, technology, and knowledge. We will also update our labour legislation to ensure that workers' rights – particularly those of women – are strengthened and adequately codified.

Maintaining fiscal sustainability continues to be a key priority for Government. While our debt management framework is strong, we recognize that there are ongoing fiscal risks from guarantees and on-lending provided to state-owned enterprises. To help us mitigate some of these risks, we have approved a new on-lending policy, which sets out principles and procedures governing eligibility for on-lending and the terms on which it is provided. In the near future we will update our Medium Term Debt Management Strategy and ensure that we have a plan in place to manage our ongoing debt servicing requirements. We have also informed our two bilateral creditors of our intention to participate in the Debt Service Suspension initiative. The fiscal space provided by this suspension will help us to meet our COVID-19 related financing needs, as will the budget support provided by this DPO. We are committed to meeting our obligations under the DSSI, including to continue to disclose all public sector financial commitments and to contract no new external non-concessional debt.

In recent years the Government has made a significant effort to bolster its domestic revenue base and improve the equity of the tax system, building on earlier improvements to the efficiency of tax administration and modernize the customs system. Our focus is now on improving compliance and ensuring a level playing field for businesses. We have passed legislation and made implementing regulations that provide the basis for a Tax Invoice Monitoring System (TIMS), which will help to ensure that businesses' VAGST obligations are accurately reported. Once in place, this system will allow us to make further progress against our overall Compliance Improvement Strategy, the implementation of which has recently been reflected in increased on-time filing and payment of taxes. That said, we recognize the pressures that COVID-19 is placing on Samoan businesses, and will be sensitive to their needs in rolling out the TIMS. In parallel, we are also pursuing complementary reforms in the related areas of audit and enforcement, supported by technical assistance from the IMF.

Samoa, like other Pacific Island Countries, faces substantial risks from natural disasters and the effects of climate change, as well as health emergencies. To help mitigate these risks, we have recently approved new legislation that ensures that the Meteorological Services Division – which is part of our Ministry of Natural Resources and Environment – has the formal authority to transmit early warnings of these hazards, and to request the necessary information from other parts of Government. This will ensure that early warnings are provided more efficiently and contain actionable information, providing our population with more opportunity to prepare. We have approved a new Building Practitioners Licensing and Registration Policy, which will ensure standards are met in the building industry and ultimately improve the resilience of buildings in Samoa to the effects of climate change and natural disasters. To further boost our resilience to shocks, two of our next priorities are to develop a strategy to ensure we provide warnings applicable to the full range of hazards to which our country is exposed, and complete a disaster risk financing policy, that will help to guide the use of different sources of contingent financing in response to a natural disaster.

Finally, we are also continuing to work to strengthen the performance of our health system. The 2019 measles outbreak and the COVID-19 pandemic emphasize the risks that contagious diseases pose for countries like Samoa. In response, we have enacted new legislation that makes vaccinations mandatory for school enrolment, to lock in recent gains in immunization rates achieved in the immediate aftermath of the measles outbreak. We have strengthened community outreach services and trained health care workers on immunization safety and recording protocols. We have formulated the Novel Coronavirus Preparedness and Response Plan, which established a framework for health system preparedness, prevention, and response in the event of a confirmed COVID-19 case. And we are continuing with our efforts to promote healthy lifestyles and healthy eating, to reduce the prevalence of non-communicable diseases within our population. We are also working on a plan which will reduce our vulnerability to future epidemics and health emergencies by strengthening surveillance and screening mechanisms, quarantine procedures, and diagnostic capacity.

In this difficult time, we remain firmly committed to implementing this package of reform measures, key aspects of which are contained in the policy matrix we have been working on in partnership with the World Bank. Against this background, we therefore seek the World Bank's favorable consideration of our request for a development policy grant of US$ 15 million, and a development policy grant with a catastrophe deferred drawdown option of US$ 10 million, based on our completion of the reform measures set out in this policy matrix.

We look forward to the continued active engagement of the World Bank in Samoa, and take this opportunity to again extend our sincere appreciation for the close relationship we have had with the World Bank over many years.

Yours sincerely

Hon Sili Epa Tuioti
Minister of Finance

ANNEX 4: ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Promoting an inclusive economic response and recovery from the impacts of COVID-19	
Prior Action 1: To support workers losing employment in response to COVID-19, the Recipient, through its Cabinet, has approved the introduction of an unemployment benefit and a short-term paid training scheme as part of its FY2021 budget.	World Bank, IMF, and Samoa Governance Support Facility (DFAT) policy notes provide several recommendations on providing public financial support to vulnerable workers and households, to help mitigate the short and longer-term livelihood impacts of COVID-19.
Prior Action 2: To support vulnerable individuals and households in response to COVID-19, the Recipient, through its Cabinet, has approved and implemented top-ups of the senior citizens' benefit, as part of its FY2020 supplemental budget and its FY2021 budget.	Parsons, K., and Pazmino, N., (undated), *Social Protection in times of need: Elderly Benefit and Disability Scheme top-ups in the aftermath of Tropical Cyclone Gita in Tonga*, World Bank, provides evidence for the appropriateness of this response in response to shocks in a similar country context.
Strengthening macro-fiscal resilience	
Prior Action 3: To provide guidelines for eligibility, set monitoring and reporting requirements, and establish a framework for the terms and conditions of on-lending arrangements, the Recipient, through its Cabinet, has approved a policy governing on-lending to state-owned enterprises.	IMF 2019 AIV report highlights the need to make progress in monitoring and disclosing fiscal risks from state-owned enterprises, and notes that a formal on-lending policy should be put in place. The policy draws on material from Backmair, F., (2016), *Contingent Liabilities Risk Management: A Credit Risk Analysis Framework for Sovereign Guarantees and On-Lending*, World Bank Policy Research Working Paper 7538, and Assessing and *Managing Credit Risk from Contingent Liabilities: A Focus on Government Guarantees*, World Bank Debt Management Learning & Training Notes, 2019.
Prior Action 4: To improve businesses' compliance with their value-added goods and services tax payment obligations, the Recipient has enacted amendments to the Tax Administration Act, and the Recipient's Head of State has made implementing regulations that facilitate the introduction of a tax invoice monitoring system.	IMF (2015), *Electronic Fiscal Devices: An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency* (WP/15/73) provides guidance on the introduction and implementation of tax invoice monitoring systems, noting the need to ensure they are part of a comprehensive compliance improvement strategy.
Enhancing resilience to climate change, natural disasters, and health risks	
Prior Action 5: To provide the Recipient's Meteorological Services Division with the formal authority to coordinate and transmit early warnings and request the information necessary to perform this function, the Recipient, through its Cabinet, has approved the Meteorology, Geoscience and Ozone Services Bill 2020.	World Bank (undated), *Draft Early Warning System Needs Assessment and Investment Plan for the Pacific Islands – Samoa* sets out recommendations to improve early warning systems, including institutional and regulatory strengthening.
Prior Action 6: To regulate the standard of building practitioners and contractors and improve the resilience of buildings, the Recipient, through its Cabinet, has approved a Building Practitioners' Licensing and Registration Policy.	The Guidelines for the Application of the National Building Code, 2017 found that one of the weaknesses to strengthen new residential housing against climate-related risks and earthquakes is the house owners not being able to secure services of builders/village carpenter (who build most single storey houses) and having to rely on personal recommendations due to lack of a registration of building practitioners in Samoa.

Prior Action 7: To protect Samoans from infectious diseases, the Recipient has enacted the Infants Amendment Act 2019 which mandates the vaccination of children as a condition of school enrolment.	Given the hesitancy amongst the population to vaccinate children, many countries have used legislation to mandate vaccination and restrict school access for children who have not received the vaccinations. The Act builds on international examples and serves to lock in the benefits of the mass vaccination efforts undertaken in late 2019 in response to the measles outbreak.

ANNEX 5: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Promoting an inclusive economic response and recovery from the impacts of COVID-19		
Prior Action 1: To support workers losing employment in response to COVID-19, the Recipient, through its Cabinet, has approved the introduction of an unemployment benefit and a short-term paid training scheme as part of its FY2021 budget.	Potential for significant positive effects	Significant positive effects
Prior Action 2: To support vulnerable individuals and households in response to COVID-19, the Recipient, through its Cabinet, has approved and implemented top-ups of the senior citizens' benefit, as part of its FY2020 supplemental budget and its FY2021 budget.	Potential for significant positive effects	Significant positive effects
Operation Pillar 2: Strengthening macro-fiscal resilience		
Prior Action 3: To provide guidelines for eligibility, set monitoring and reporting requirements, and establish a framework for the terms and conditions of on-lending arrangements, the Recipient, through its Cabinet, has approved a policy governing on-lending to state-owned enterprises.	No significant positive or negative effects	Could have positive effects to the extent that the reform helps to preserve the fiscal space available to fund public services and respond to future shocks.
Prior Action 4: To improve businesses' compliance with their value-added goods and services tax payment obligations, the Recipient has enacted amendments to the Tax Administration Act, and the Recipient's Head of State has made implementing regulations that facilitate the introduction of a tax invoice monitoring system.	No significant positive or negative effects	Could have positive effects to the extent that the reform helps to preserve the fiscal space available to fund public services and respond to future shocks.
Operation Pillar 3: Enhancing resilience to climate change, natural disasters, and health risks		
Prior Action 5: To provide the Recipient's Meteorological Services Division with the formal authority to coordinate and transmit early warnings and request the information necessary to perform this function, the Recipient, through its Cabinet, has approved the Meteorology, Geoscience and Ozone Services Bill 2020.	No significant positive or negative effects	Significant positive effects
Prior Action 6: To regulate the standard of building practitioners and contractors and improve the resilience of buildings, the Recipient, through its Cabinet, has approved a Building Practitioners' Licensing and Registration Policy.	Significant positive effects	Significant positive effects
Prior Action 7: To protect Samoans from infectious diseases, the Recipient has enacted the Infants Amendment Act 2019 which mandates the vaccination of children as a condition of school enrolment.	Could have negative effects	Could have significant positive effects

ANNEX 6: PIC9 REGIONAL PARTNERSHIP FRAMEWORK – COUNTRY PROGRAM ADJUSTMENT RESPONDING TO COVID-19

Over the past decade, the nine Pacific Island Countries[29] (PIC9) covered by our Regional Partnership Framework (RPF) FY17-FY21 (Report #120479, extended by the Board of Executive Directors on February 6, 2020 to FY23) have made modest economic and social progress due their narrow economic base, high exposure to climate change risks, and extreme remoteness. The economies of the small PICs are driven primarily by fishing, agriculture, and tourism, as well as the construction of public infrastructure, including recovery and reconstruction spending in response to natural disasters such as Tropical Cyclone (TC) Pam, which hit Vanuatu and Tuvalu in 2015, and TC Gita, which hit Tonga and Samoa in early 2018. Prior to the COVID-19 pandemic, revenue from fishing licenses drove budget surpluses in Kiribati, Tuvalu, and the North Pacific countries, while prudent fiscal policy has helped Samoa and Tonga to move toward more balanced budgets. The PIC9 has remained free of COVID-19 cases to date. However, keeping the virus at bay, while good news on the health front, has meant closed borders. The COVID-19 shock has pushed all the economies into recession, most severely those highly dependent on tourism (Palau, Samoa, Tonga, and Vanuatu). In addition, TC Harold hit Vanuatu and Tonga in mid-2020. These countries are having to manage both the pandemic and the recovery from a natural disaster. The World Bank Group's engagement under the RPF[30], will therefore need to be adjusted to support the region in its Relief, Restructuring, and Resilient Recovery.

Impact of the COVID-19 Pandemic on the PIC9 and Government Responses

The South Pacific economies of Samoa, Tonga, and Vanuatu have been deeply impacted by a range of natural disasters and adverse shocks over the past year. As noted, TC Harold struck Vanuatu and Tonga in April 2020, while measles plagued Samoa in late 2019. COVID-19 has had severe effects on tourism-related activity and employment. In each of these countries, economic output is expected to drop by 10 to 15 percent in the 2020 calendar year.

The Central Pacific countries—Kiribati, Nauru, and Tuvalu—have been less severely affected by the pandemic than their tourism-dependent neighbors. Nonetheless, a slowdown in donor-driven construction activity and visitor arrivals is still expected to result in economic contractions in 2020, of about 1 percent in Tuvalu and 2 percent in Kiribati and Nauru.

In the North Pacific, the economic impact of COVID-19 is also expected to push the Federated States of Micronesia (FSM), the Republic of Marshall Islands (RMI), and Palau into recession in FY20 and FY21. In FY20 (year ended September 2020) an economic contraction of around 5 percent is anticipated for FSM

[29] The nine PICs are the Republic of Kiribati, the Republic of the Marshall Islands (RMI), the Federated States of Micronesia (FSM), the Republic of Nauru, the Republic of Palau, the Independent State of Samoa, the Kingdom of Tonga, Tuvalu, and the Republic of Vanuatu.

[30] The RPF is structured around four strategic focus areas that remain on track. These are: 1) fully exploiting available economic opportunities; 2) protecting incomes and livelihoods; 3) enhancing access to employment opportunities; and 4) strengthening the enablers of growth opportunities (such as macroeconomic management, infrastructure, and knowledge). The RPF has climate resilience and fiscal/debt sustainability as foundational pillars, with cross-cutting themes of gender equality and digital technology development.

and RMI, and 12 percent in Palau. With borders expected to remain closed until at least mid-2021, all three economies are projected to contract further in FY21. While large parts of government revenues are relatively protected from the economic downturn (namely, aid flows and fishing revenues), substantial fiscal risks remain, including due to the scheduled expiry in 2023 and 2024 of fiscal transfers related to these nation's Compact of Free Association with the United States.

The PIC9 response to the COVID-19 pandemic has been swift. In addition to quickly closing borders and implementing health measures, many countries have enacted policies designed to maintain macroeconomic stability and support impacted sectors and households**.** Social protection mechanisms are generally weak in the Pacific. Consequently, countries have used a variety of measures to support livelihoods and businesses during COVID-19. These have included tax relief, access to pension fund savings, reduction in education fees, agricultural support funding, deferral of debt service for firms, and other measures. Given the general the lack of social protection schemes in the Pacific and the low capacity in the health sector, governments are now engaging with the World Bank and other development partners on formulating long-term programs to sustainably manage the economic and health shocks. As COVID-19 vaccines become available, the countries will require near- and medium-term assistance for immunization programs. This is in addition to ongoing measures to build greater resilience to the growing threat posed by climate change and natural disasters. Cognizant of their vulnerability to widening deficits as revenues have collapsed, countries are developing enhanced Medium-Term Fiscal and Debt Sustainability frameworks, to ensure long-term fiscal stability. The majority of the PIC9 have maintained zero non-concessional borrowing rules under the new Sustainable Development Financing Policy, prioritized low-cost financing, and where official bilateral debt is high and costly, have taken advantage of the Debt Service Suspension Initiative.

<u>WBG Support for Responding to the Crisis</u>

Consistent with the World Bank Group COVID-19 Crisis Response Approach Paper, the Bank's program in the PIC9 has been adjusted to align with the three phases of Relief, Restructuring, and Resilient Recovery. The FY21 pipeline was re-prioritized to free-up financing space for emergency health operations and DPOs (where appropriate). The pipeline for the remainder of IDA19 (FY22, FY23) is also being re-confirmed with clients in light of COVID-19.

1. ***Support to health for saving lives threatened by the virus:*** Emergency health response operations were delivered for Kiribati ($2.5m), RMI ($2.5m), and Samoa ($2.9m) in the last quarter of FY20, with the aim to prevent, detect, and respond to the threat posed by COVID-19 in these countries and to strengthen national systems for public health preparedness. In addition, Contingent Emergency Response Components (CERCs) were triggered in selected active projects in FSM ($2.5m), Samoa ($0.5m), Tonga ($2.9m), and Tuvalu ($2.5m). The availability of resources in these CERCs enabled the rapid release of funds to clients for emergency health response to COVID-19. In Vanuatu, a Development Policy Operation (DPO) with a Catastrophe Deferred Drawdown Option (Cat-DDO) was restructured to include a health-related catastrophe trigger, resulting in a $9.92m disbursement to the country on April 24, 2020. Samoa similarly drew down on its Cat-DDO, resulting in a $5.09m disbursement on March 26, 2020. *[Relief]* Discussions are to be held with RMI, FSM, and Vanuatu to confirm interest in Bank support for COVID-19 vaccination under the Bank's expanded COVID-19 Strategic Preparedness and Response Program.

2. ***Protecting the poor and vulnerable:*** In Samoa, a new resilience DPO/Cat-DDO under preparation for FY21 delivery was adjusted to also respond to COVID-19. To support the poor and the vulnerable, this operation includes supporting the government in introducing an unemployment benefit and a short-term paid training scheme as part of its FY21 budget, which will support workers losing employment due to COVID-19. Top-ups to senior citizens' benefits will also be implemented as part of the government's FY20 supplemental budget and its FY21 budget. *[Restructuring]*

3. ***Ensuring Sustainable Business Growth and Job Creation*:** In Tonga, a regular DPO originally scheduled for delivery in FY21 was deferred to FY22 and replaced by an emergency DPO with additional resources from the Crisis Response Window. To support livelihoods and household investments in human capital, this operation includes supporting the government in putting together an Economic and Social Stimulus Package, which provides school fee relief and targeted crisis-responsive social protection payments drawing on newly developed social registries and using new electronic payment methods. It also establishes institutional mechanisms for the payment of wage subsidies to workers and financial assistance to formal and informal businesses affected by the crisis. To help lay the foundation for economic recovery, the operation supports the expansion and extension of the government's flagship microfinance program, along with the passage of Tonga's first international arbitration legislation to improve the investment climate. *[Restructuring, Recovery]*

4. ***Strengthening Policies, Institutions, and Investment for Rebuilding Better:*** The Bank is supporting this pillar through the various DPOs under preparation for delivery in FY21 (Samoa, Tonga – see above; also Kiribati) as well as planned DPO engagements for FY22 (RMI – new; Tonga and Tuvalu – continuing series). Discussions are also to be held with Vanuatu regarding a new DPO/Cat-DDO in IDA19 (FY21/FY22 delivery). Through DPOs and IPFs, the Bank is helping the PIC9 to literally build back better through support for enhanced building requirements to improve resilience to the significant and frequent natural hazards that PIC9s face. For example, standards for building practitioners and contractors to ensure more resilient building construction were introduced in Samoa. In Tonga, a Housing Sector Resilience Office for resilient housing management and rebuilding was established. These are critical measures that will have sustainable development impacts well beyond the current economic crisis. Finally, the Bank is continuing to provide advisory services and analytics in a range of sectors, including but not limited to health financing, economic competitiveness, and labor mobility and social protection.

Selectivity, Complementarity, Partnerships

To avoid stretching thin client capacity, the Pacific CMU applied a $5m minimum to all PIC9 operations under preparation in IDA18 and restricted the IDA18 pipeline to four IPFs and one DPO series per country[31]. These parameters are being tightened to three IPFs and one DPO series per country in IDA19, although the CMU will continue to make exceptions for projects of strategic or critical importance to clients, including to respond to the impacts of COVID-19.

The Bank in the Pacific works closely with Australia, New Zealand, the Asian Development Bank, and other key development partners on macroeconomic policy issues in the region, for example through quarterly

[31] Facilitated by frontloading (in some cases, exceptionally) of IDA18 resources.

meetings of the technical working group on economic policy reform and through the annual Friends of Pacific Budget Support meetings. Providers of budget support to the Pacific continue to take a coordinated approach and agree on joint policy matrices to minimize the burden of required policy actions on clients. In addition, the Pacific Financial Inclusion Donor Group meeting and the semi-annual Private Sector Development donor group meetings are active and regular coordination platforms. Coordination with development partners on the response to COVID-19 has been strong and effective in ensuring non-duplication and/or complementarity of support.

PIC9 Financing Needs and Sources of Financing

Country	Overall Financing Needs	Domestic Financing	Multilateral Sources	Bilateral Sources	Commercial Sources
Kiribati (CY2020)	USD 41m	USD 26m (drawdown on cash reserves rather than borrowing)	WBG USD 5m	EU USD 3m NZ USD 4m Aus USD 3m	0
Nauru (FY21: year ended Jun 2021)	0 (balanced budget forecast after accounting for debt resolution payments of around USD 5 m)	0	0	0	0
Tonga (FY21: Jul 2020 to Jun 2021)	USD 69.7	USD 2.5m domestic bond. USD 25m drawdown cash reserves	WB: USD 30m IMF: USD 9m	DSSI: USD 3.2m	0
RMI (FY20: Oct 2019 to Sep 2020)	USD 30.3m	USD 2.2m from domestic revenues	ADB: USD 20.5m WB: USD 2.5m	US: USD 3.9m Taiwan, China: USD 1.2m	0
FSM (FY20: Oct 2019 to Sep 2020)	USD 35m	USD 21.7m from domestic revenues that would otherwise have been used to build fiscal buffers	ADB: USD 3m WB: USD 2.5m	US: USD 7.7m China: USD 0.1m	0
Samoa (FY21: year ended Jun 2021)	USD 45m	USD 32m drawdown of cash buffers	OPEC and WB: USD 4 m	DSSI: USD 9 m	0
Tuvalu	USD 7m	USD 2m	ADB USD 0.4m	Aus USD 2m NZ USD 1m China USD 2m	0
Palau (FY21: Oct 2020 to Sep 2021)	USD 40m	USD 20m drawdown in cash buffers	ADB: USD 20m loan expected.	0	0
Vanuatu (CY2020)	USD 108m (includes planned prepayments of external debt = USD 18 m)	USD 12 m rollover of domestic debt (assumed) USD 72 m drawdown of cash buffers	~USD 11m (WB and ADB)	~ USD 11 China	0