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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 10.4 MILLION (EQUIVALENT TO US$14.0 MILLION) TO

INDEPENDENT STATE OF SAMOA
FOR THE

SAMOA SECOND RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION

May 18, 2022

Macroeconomics, Trade and Investment Global Practice
Urban, Resilience and Land Global Practice
East Asia and Pacific Region

Public Disclosure Authorized

Samoa

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of date)

Currency Unit

US$1.00

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CAPEX	Capital Expenditure
Cat DDO	Catastrophe-Deferred Drawdown Option
CBS	Central Bank of Samoa
COEP	Code of Environmental Practice
CERC	Contingency Emergency Response Component
CA	Current Account
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DRF	Disaster Risk Financing
DSSI	Debt Service Suspension Initiative
DRM	Disaster Risk Management
EA	Environmental Assessment
FSAP	Financial Sector Assessment Program
FY	Financial Year (year ended June)
GDP	Gross Domestic Product
GNP	Gross National Product
GGP	Government Guarantee Policy
GRID	Green, Resilient and Inclusive Development
GRS	Grievance Redress Service
HIES	Household Income and Expenditure Survey
IBRD	International Bank for Reconstruction and Development
ICT	Information Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standard
JPAM	Joint Policy Action Matrix
LDP	Letter of Development Policy
LERA	Labour and Employment Relations Act
MAPS	Methodology for Assessing Procurement System
MCR	Ministry of Customs and Revenue
MMR2	Measles, Mumps and Rubella
MCIL	Ministry of Commerce, Industry and Labour
MNRE	Ministry of Natural Resources and Environment
MWTI	Ministry of Works Transport and Infrastructure
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MoF	Ministry of Finance
MHEWS	Multi-Hazard Early Warning System
NAPDM	National Action Plan for Disaster Management
NEOC	National Emergency Operation Center
NCDs	Non-Communicable Diseases
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loans
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Center
PREP	Pacific Resilience Program
PUMA	Planning and Urban Management Authority
PPEs	Personnel Protective Equipment
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PPA	Performance and Policy Action
PPG	Public and Publicly Guaranteed
PPP	Purchasing Power Parity
PV	Present Value
REER	Real Effective Exchange Rate
SBS	Samoa Bureau of Statistics
SMD	Samoa Meteorology Division
SAT	Samoan Tala
SMEs	Small Medium Enterprises
SDR	Special Drawing Rights
SDS	Strategy for the Development of Samoa
SOEs	State Owned Enterprises
SDFP	Sustainable Development Finance Policy
SCD	Systematic Country Diagnostics
SDG	Sustainable Development Goals
TA	Technical Assistance
TC	Tropical Cyclone
TIMS	Tax Invoice Monitoring System
TTM	Tupa Tamasese Meaole Hospital
UNICEF	United Nations Children Fund
WBL	Women, Business and the Law
WB	World Bank
WBG	World Bank Group
WHO	World Health Organization

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SAMOA
SAMOA SECOND 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
P174498	Yes	2nd in a series of 2

Proposed Development Objective(s)

The development objective is to: (i) promote an inclusive economic recovery; (ii) strengthen macro-fiscal resilience; and (iii) enhance climate, disaster and social resilience.

Organizations

Borrower:	INDEPENDENT STATE OF SAMOA
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**14.00**

DETAILS

International Development Association (IDA)	14.00
IDA Grant	14.00

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	Current (FY21)	Target
1. Share of unemployed people benefiting from government assistance through (i) unemployment benefits;	0 (FY19)	38.8 percent	At least 37.9 percent (FY23)
(ii) short-term paid training	0 (FY19)	13.5 percent	At least 3.8 percent (FY23)
2. Increase in foreign enterprises registered in Samoa.	0 (FY21)	0	At least a 10 percent increase (End of 2023)
3. Share of total population benefiting from government assistance.	0 (FY19)	5.4 percent	At least 4.5 percent (FY23)
4 (i) Share of domestic workers with contracts registered with Ministry of Commerce, Industry and Labour: (ii) Number of provisions included in the Women, Business and Law Equal Pay index enshrined in national labor legislation	(i) No requirement (ii) 3 of 4 (FY20)	(i) No requirement (ii) 3 of 4	(i) 45 percent (ii) 4 of 4 (FY23)
5. Risk assessments of all new on-lending and government guarantees conducted and accounted for in deciding on eligibility for new government guarantees and on-lending proposals.	Risk assessments of new government guarantees and on-lending arrangements are limited (FY20)	Risk assessments conducted for new on-lending and government guarantee proposals limited with absence of a credit risk assessment framework.	Comprehensive risk assessments conducted for all new on-lending and government guarantee proposals. (FY23)
6. Tax revenue on goods and services (percentage of GDP)	16.9 (FY19)	17.4	At least 17.7 (FY23)
7. Early warnings for severe weather: (i) contents convey potential impacts and provide guidance for actions necessary in high-impacted areas; and (ii) are transmitted through multiple media.	(i) Only general impact and guidance included (ii) 3 (FY20)	(i) Only general impact and guidance included (ii) 4	(i) All convey actions to be taken in areas likely to be most impacted (ii) At least 6 (End of 2023)
8. Share of active building practitioners licensed and registered	0 (FY20)	12 percent	At least 60 percent (FY23)
9. Fiscal risks and external contingent financing included in budget documents	Limited information included in budget documents (FY21)	Limited information included in budget documents	Information included in budget documents (End of 2023)
10. Proportion of children or the cohort for 1-2 year old immunized against measles, mumps and rubella	59 percent (FY19)	80 percent	At least 85 percent (FY23)

IDA PROGRAM DOCUMENT FOR A PROPOSED DEVELOPMENT POLICY GRANT TO SAMOA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This proposed operation is the second in a series of two development policy operations in support of the government of Samoa.** The objectives and pillars of the proposed operation are to: (i) promote an inclusive economic recovery; (ii) strengthen macro-fiscal resilience; and (iii) enhance climate, disaster and social resilience. The operation is an IDA grant of SDR 10,414,000 (US$14.0 million equivalent).

2. **The COVID-19 pandemic has devastated the tourism dependent economy despite a sizeable fiscal stimulus.** The introduction of international border closures imposed under a State of Emergency declared in March 2020 - which has continued to at least May 5, 2022 - temporarily insulated Samoa from COVID-19 community transmission[1]. However, these containment measures significantly impacted the tourism sector and delayed construction activities resulting in an economic contraction of 8.1 percent in FY21. Although the government achieved a fiscal surplus of 1.9 percent of GDP, public debt rose from 46.5 percent of GDP in FY20 to 49.7 percent in FY21 owing to the nominal GDP contraction. The government responded with strong public health measures, extending support to the poor and the vulnerable and the private sector totaling 7.3 percent of GDP, helping avoid a more severe economic downturn. The vaccination rate has been a primary precondition for border reopening; as of April 24, 2022, 92.3 percent of the adult population has received two doses and 55 percent a third dose. Despite the border closures, the first community transmission was detected on March 17, 2022 and a lockdown was declared on 19 March 2022. As of May 4, 2022, the number of community cases stand at 10,583 with twenty deaths. The baseline assumes a six-month delay in border reopening, worsening the macro-outlook.

3. **A new Administration took office in July 2021 following a period of political uncertainty.** A new government took office on July 27, 2021, following the general election on April 9, 2021. This is the first time Samoa has had a change of party in government since the Human Rights Protection Party (HRPP) came into power in 1982. FAST (Faatuatua ile Atua Samoa ua Tasi) Party, was formed in June 2020 by former members of HRPP. The election led to a deadlock and a constitutional crisis that ended on July 23, 2021, following the Court of Appeal final decision. The new Administration has laid out its plans in the 2022 Budget Speech and in the Pathway for the Development of Samoa FY2021/22-FY2025/26 (PDS) that was launched in February 2022. The plans remain aligned with previous priorities, but with a greater focus on social and community development. The PDS targets a sustainable, inclusive, and resilient economic recovery that drives human development and contributes to shared prosperity.

4. **Samoa faces several challenges to an inclusive economic recovery including its size, remoteness, and impacts of climate change and other natural disasters.** As a small and remote country with a population of some 200,000 people and a GDP of less than US$1 billion, potential growth is constrained by limited natural resources, limited trading opportunities with high trading costs, narrow economic base and difficulties in realizing economies of scale. Samoa struggles to attract investment, receiving less than half the Pacific Island Countries (PICs) average for foreign direct investment (FDI) due both to these intrinsic factors as well as burdensome trade and permits regulations and a largely restrictive investment policy. Samoa also has low female labor market participation rates

[1] The cautious approach to border reopening is due to relatively weak public health systems and loss of lives with the measles outbreak in late 2019 and the 1918 Influenza pandemic, which resulted in deaths of at least one-fifth of the Samoan population (WHO 2020). The delay is also to buy time to vaccinate the ages 5-12 years.

(40 percent). Samoa is highly vulnerable to extreme weather events, including through multiple annual heavy rainfall, and associated floods. At least one category 2 to 3 tropical cyclones and associated storm surges and almost annual seasonal droughts. With continued climate change, heavy rainfall and associated flooding are likely to become more intense and frequent.[2] Extreme temperatures, storm surges, and the intensity of cyclones are all likely to increase leading to increased impacts[3] and affecting recovery. In addition, the high incidence of Non-Communicable Diseases (NCDs), including obesity and diabetes, has substantial social and economic costs, and places escalating fiscal pressures.

5. **Households have felt the full brunt of the economic impacts of the COVID-19 pandemic, with the poorest and vulnerable most severely affected.** The COVID-19 pandemic related restrictions have exacerbated poverty with surveys showing a substantial reduction in tourism-related employment and hours worked. Poverty is likely to have risen from pre-pandemic levels, with urban areas more affected due to higher job concentration in the services sector. While most households enjoy relatively good access to electricity, safe drinking water, and sanitation, when measured against a "cost of basic needs" poverty line, the incidence of poverty in FY13/14 remained high at 20.3 percent of the population.[4] Despite the pandemic, one area of stability, has been the maintenance of remittances where four out of every five households receive transfers from abroad, such that remittances averaged 26.3 percent of GDP in FY19-21.

6. **The objectives and pillars of the proposed operation are to: (i) promote an inclusive economic recovery; (ii) strengthen macro-fiscal resilience; and (iii) enhance climate, disaster and social resilience.** Pillar 1 supports measures to facilitate greater private investment, improve the protection of domestic workers, and strengthen provisions against gender discrimination to ensure an inclusive economic recovery. Pillar 2 supports reforms to strengthen debt management and mitigate fiscal risks from contingent liabilities and improve revenue mobilization. Pillar 3 supports reforms to strengthen early warning systems predominantly for multiple climate related hazards, improve the resilience of assets to climate related disasters, and the use of different sources of financing in response to a natural disaster and to improve climate and disaster resilience.

7. **The proposed operation aligns closely with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper and the Regional Partnership Framework**. Three of the four pillars of the WBG Approach Paper are addressed by one or more reform measures supported by this proposed operation: (i) the social response – protecting the poor and vulnerable; (ii) the economic response – supporting businesses; and (iii) the strengthening of policies, institutions, and investments. Consistent with the WBG Approach Paper, this operation has a strong focus on debt management and overall fiscal sustainability. The proposed reforms are central to the World Bank's overall engagement with Samoa, as presented in the Regional Partnership Framework FY17-FY21,[5]. The operation builds on strong government commitment and ownership, and is closely coordinated with all major development partners, including the Asian Development Bank (ADB), Australia and New Zealand.

8. **The macroeconomic policy framework is adequate for the purposes of the proposed operation.** The economy is projected to contract in FY22 by 0.3 percent. This reflects the longer than expected closure of borders

[2] IPCC 2021– Sixth Assessment Report of the Working Group 1, Summary for Policy Makers.
[3] The World Bank Group and Asian Development Bank 2020 - Climate Risk Profile: The Pacific Region; World Bank. 2017. Climate change and disaster management. Pacific Possible; Background Paper no. 6.
[4] Work is progressing to construct national "cost of basic needs" poverty estimates based on the 2018 HIES data.
[5] Report #120479, discussed by the Board on February 28, 2017, and extended by the Board of Executive Directors on February 6, 2020 to FY23.

due to COVID-19 community transmission and knock-on effects of the war in Ukraine through higher commodity prices and the slowdown in the global economy. Growth is expected to increase to around 3 percent growth over the medium term. The recovery is expected to be driven by a gradual resumption of tourist activity, including spillovers to other sectors and an increase in capital projects, which had slowed due to the COVID-19 travel restrictions. The government is striking a prudent balance between its commitment to maintaining fiscal sustainability and its efforts to provide support to communities, businesses and vulnerable individuals and households. The government has demonstrated sound fiscal management in recent years through a sustained increase in domestic revenues, responsible spending, and avoiding new non-concessional external borrowing. The government remains committed to medium-term fiscal consolidation to create fiscal space and build resilience and is targeting a fiscal deficit of 2 percent of GDP by FY25. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. Foreign reserves are projected to decline over the medium term, lowering import coverage to 4.2 months, but remain within the adequate range suggested by the IMF. Public debt is sustainable at just below 50 percent of GDP, but the country remains at high risk of debt distress due to vulnerability to natural disasters. Samoa participated in the Debt Service Suspension Initiative (DSSI) until the end of December 2021.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Samoa recorded a historical-high economic contraction of 8.1 percent in FY21, primarily due to the impacts of COVID-19.**[6] While border closures insulated the community from the pandemic, the tourism industry came to a standstill and generated knock-on effects on other sectors. The lack of international visitor arrivals put a halt to accommodation & restaurant, commerce, and transport activity. Infrastructure projects were also severely disrupted by border closures and travel restrictions. Floods in late-2020 afflicted another blow to the economy, disrupting agricultural output and supply chains – an income source for many households. Nonetheless, robust remittance inflows and fiscal stimulus provided some impetus to growth, thereby helping mitigate the magnitude of the contraction. Weak domestic demand and reductions in utility prices suppressed the inflation rate down to -3.0 percent in FY21.

10. **The current account deficit was substantial at 15.3 percent of GDP in FY21 following three years of surpluses.** Given the absence of tourism activity, tourism receipts were at zero in FY21 compared to 17.2 percent of GDP in FY20. This offsets remittances, foreign grant inflows, and subdued imports. Robust remittance inflows of approximately 30 percent of GDP in FY21, 4.2 percent of GDP higher than in FY20 reflect fiscal stimulus measures in Samoa's main source countries (Australia, New Zealand and United States). Imports remained subdued and broadly around FY20 levels, driven by the collapse of the tourism sector, under-execution of public investment (compared to the budget), and weak domestic demand. Foreign reserves remained adequate at 7.8 months of prospective imports in FY21.

11. **In spite of the COVID-19 shock, the government maintained a fiscal surplus of 1.9 percent of GDP in FY21.** This compares to a surplus of 6.2 percent of GDP in FY20. The lower surplus reflects higher expenses to

[6] Based on September quarter 2021 GDP release.

support vulnerable households and firms, increase in public investment, and lower development partner grants. Total revenue (including grants) increased by 1.5 percent of GDP in FY21, driven by an increase in taxes on goods and services. This was helped by the rollout of the Tax Invoice Monitoring System (TIMS) and other non-tax revenue, as supported by this Development Policy Operation (DPO) series. Total expenditure recorded a sizeable increase of 6 percent of GDP, reflecting a relatively larger fiscal stimulus in FY21 to support vulnerable households and firms. Public investment increased to 4.0 percent of GDP, an increase of 2 percent of GDP compared to FY20. Given the fiscal surplus, the government has been accumulating cash reserves, which is expected to be an important financing mechanism going forward. Public debt rose from 46.5 percent of GDP in FY20 to 49.7 percent in FY21, reflecting lower nominal GDP.

12. **Healthy fiscal buffers helped the government mitigate the impacts of COVID-19 while maintaining macroeconomic stability (Table 1).** The government approved a 3.1 percent of GDP fiscal and economic response package in FY20. The package included: (i) expenditure to cover the immediate medical response; (ii) assistance to the private sector; and (iii) assistance to vulnerable individuals and households (PA1 in DPO1). It also included: (i) temporary concessions or exemptions on import duties on food, agricultural and fishing materials; (ii) grace periods to be applied to all loan repayments (with subsidies to be provided by the government to affected lenders); (iii) temporary reductions in rent and utility bills to vulnerable households and affected businesses; (iv) a six-month moratorium on pension contributions for the hospitality sector, and a one-off top up of Samoan Tala (SAT) 300 (about US$110) payable to all beneficiaries of the existing senior citizen’s pension scheme (PA2 of the DPO1). A second stimulus package of 4.2 percent of GDP was included in the FY21 budget. The stimulus package extended some of the measures from FY20 and introduced new measures for vulnerable households and businesses, including through the provision of community-based primary health care services and unemployment subsidies. Annual dividend payouts by the Samoa National Provident Fund were also distributed amounting to 1.8 percent of GDP.

Table 1: COVID-19 Stimulus Measures

Component	FY20	FY21
Health	0.9	0.2
Education	0.0	0.2
Businesses	1.0	0.7
Households	0.9	3.1
Food security	0.0	0.0
Multisectoral	0.1	0.0
Total	**3.1**	**4.2**

Table 2: Key Macroeconomic Indicators 1/2/

Variable	2018	2019	2020	2021	2022	2023	2024	2025
Real economy: annual percent change, unless otherwise indicated								
GDP (Nominal -- Local Currency)	-0.1	5.8	-2.4	-6.9	4.7	5.1	6.8	5.1
Real GDP	-1.2	4.4	-2.6	-8.1	-0.3	2.5	3.8	2.4
GDP per capita (USD, nominal)	0.1	1.3	-5.7	-3.3	-0.9	2.1	5.0	3.7
GDP Deflator	1.2	1.4	0.2	1.3	5.0	2.5	2.9	2.6
CPI (year-average)	3.7	2.2	1.5	-3.0	8.5	4.2	2.9	2.6
Fiscal Account, percent of GDP, unless otherwise indicated								
Expenditures	31.1	29.4	31.4	37.2	37.6	38.2	37.6	37.4
Revenues	30.9	32.1	37.6	39.1	35.1	34.7	34.9	35.4
General Government Balance	-0.2	2.7	6.2	1.9	-2.5	-3.5	-2.7	-2.0
General Government Debt	52.8	47.5	46.5	49.7	44.9	39.2	39.4	39.5
Macrofinancial variables, annual percent change, unless otherwise indicated								
Private sector credit	1.6	6.1	5.8	1.5	4.8	5.8	5.5	5.3
Non-performing loans to total gross loans (ratio)	4.3	3.9	2.9	3.7	...	...	...	...
Balance of Payments, percent of GDP, unless otherwise indicated								
Current Account Balance	0.9	3.0	0.2	-15.3	-12.7	-10.5	-5.8	-4.2
Imports, Goods and Services	50.2	51.8	51.1	52.5	56.0	56.6	55.8	56.5
Exports, Goods and Services	34.2	37.7	31.6	12.5	12.5	21.4	26.8	30.2
Net Foreign Direct Investment	1.9	0.3	-0.8	0.8	0.7	0.9	0.6	0.5
Gross Reserves (in months of prospective imports)	4.2	5.4	6.4	7.8	6.7	5.4	4.7	4.2
Exchange Rate (per USD, average)	2.52	2.62	2.70	2.57	...	...	...	...
Memorandum items:								
GDP nominal in US$ (millions)	837	852	807	788	789	818	867	908
Stock of government deposits								
Millions of LCU	197.4	212.5	280.0	319.9	215.5	60.5	60.5	60.5
Percent of GDP	9.4	9.5	12.9	15.8	10.1	2.7	2.5	2.4

Sources: Samoan authorities and Bank staff estimates and projections.
1/ Fiscal year runs from July 1 to June 30.
2/ Projection starts from FY2022.

Table 3: External Financing Requirements and Sources 1/ 2/

Variable	2018	2019	2020	2021	2022	2023	2024	2025
BOP financing requirments and sources, in percent of GDP, unless otherwise indicated								
Financing Requirements	1.3	-0.4	1.5	7.2	12.7	10.5	5.8	4.2
Current Account Deficit	-0.9	-3.0	-0.2	15.3	12.7	10.5	5.8	4.2
Net Errors and Omissions	2.1	2.6	1.6	-8.1	0.0	0.0	0.0	0.0
Financing Sources	1.3	-0.4	-1.1	5.2	11.8	10.6	5.8	4.5
Capital Account Balance	3.9	2.9	8.4	12.4	3.9	3.9	3.7	3.6
Net Foreign Direct Investment	1.9	0.3	-0.8	0.8	0.7	0.9	0.6	0.5
Net Portfolio Investment	0.4	0.2	-2.7	1.6	-0.6	-0.7	-0.3	-0.3
Net Govt Foreign Borrowing	1.3	-2.0	-1.7	-1.1	-2.3	-3.4	2.7	2.0
Net All Other Flows	-2.3	-0.3	0.6	-4.8	6.4	4.8	-2.6	-2.2
Change in reserve assets 3/	-3.9	-1.5	-4.8	-3.7	3.6	5.2	1.8	1.0
Other External Financing 4/	0.0	0.0	-2.6	-2.0	-0.9	0.1	0.0	0.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Nominal GDP (USD)	836.6	852.0	807.1	788.4	788.9	817.7	866.7	907.6

Sources: Samoan authorities and Bank staff estimates and projections.
1/ Fiscal year runs from July 1 to June 30.
2/ Projection starts from FY2022.
3/ Plus indicates a drawdown of reserves.
4/ Includes net IMF credit and DSSI savings.

Table 4: Selected Fiscal Indicators 1/ 2/

Variable	2018	2019	2020	2021	2022	2023	2024	2025
Key Fiscal Indicators, percent of GDP, unless otherwise indicated								
Overall Balance	-0.2	2.7	6.2	1.9	-2.5	-3.5	-2.7	-2.0
Primary Balance	0.6	3.5	6.9	2.2	-2.0	-2.7	-1.9	-1.2
Total Revenues and Grants	30.9	32.1	37.6	39.1	35.1	34.7	34.9	35.4
Tax Revenues	25.1	25.6	25.9	26.7	26.8	26.8	26.9	27.4
Taxes on Goods and Services	16.6	16.9	17.4	17.4	17.9	18.3	18.7	19.2
Direct Taxes	5.6	5.9	5.9	6.3	5.8	5.2	5.0	5.0
Taxes on International Trade	2.8	2.8	2.5	3.0	3.0	3.2	3.2	3.2
Other Taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Tax Revenues	2.8	4.0	3.5	5.1	3.8	3.7	3.7	3.7
Grants	3.1	2.5	8.2	7.3	4.5	4.3	4.3	4.3
Expenditures	31.1	29.4	31.4	37.2	37.6	38.2	37.6	37.4
Expenses	24.6	26.4	28.6	31.8	31.3	31.8	30.9	30.5
Wages and Compensation	9.3	10.3	12.0	13.2	12.9	13.1	13.0	12.9
Goods and Services	6.9	9.0	8.7	8.4	8.5	8.5	8.5	8.5
Interest Payments	0.8	0.7	0.7	0.3	0.5	0.8	0.8	0.8
Current Transfers	7.6	6.3	7.2	9.8	9.4	9.4	8.6	8.4
Social Assistance	0.9	0.9	1.1	1.4	2.2	2.6	2.0	2.0
Other Current Transfers	6.7	5.4	6.2	8.5	7.2	6.8	6.6	6.4
Capital Expenditures	6.5	2.5	2.1	4.0	5.6	5.8	6.2	6.4
Government Financing	0.2	-2.7	-6.2	-1.9	2.5	3.5	2.7	2.0
External (Net)	1.3	-2.0	-1.7	-1.1	-2.3	-3.4	2.7	2.0
Domestic (Net) 3/	-1.1	-0.7	-4.4	-0.8	4.8	6.9	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
GDP nominal in LCU (millions)	2107.7	2230.6	2177.4	2026.7	2121.8	2230.0	2380.9	2501.6
Stock of government deposits								
Millions of LCU	197.4	212.5	280.0	319.9	215.5	60.5	60.5	60.5
Percent of GDP	9.4	9.5	12.9	15.8	10.1	2.7	2.5	2.4

Sources: Samoan authorities and Bank staff estimates and projections.
1/ Fiscal year runs from July 1 to June 30.
2/ Projection starts from FY2022.
3/ Plus (+) indicates reduction in cash deposits and minus (-) indicates accumulation of cash deposits.

13. **The Central Bank of Samoa (CBS) maintained an accommodative monetary stance, but credit intermediation remained constrained by weak monetary transmission**. Private sector credit growth plunged to 1.5 percent in FY21 from 5.8 percent FY20. High excess reserves, a lack of competition in the commercial banking sector, conservative lending practices, and various other structural impediments to finance explain the weak monetary transmission. The policy rate remained unchanged at 0.15 percent, signaling appropriate support amid low inflation. In response to the pandemic, the CBS set up a 'Standby Credit Facility' for commercial banks to obtain liquidity as needed. The CBS ceased open market operations to allow the banks to use their available liquidity to meet private-sector credit demand. The CBS also helped the government execute interest rebates for three months at the rate of 2 percent per annum. The rebate was applied to all households and businesses with outstanding loans at the banks, at a fiscal cost of 0.3 percent of GDP.

14. **The banking system remained broadly sound, profitable, and stable but needs to maintain prudent liquidity provisions.** Financial soundness indicators in FY21 presented a total capital adequacy ratio at 28.1 percent, the Tier 1 ratio at 23.7 percent and return on equity at 12 percent. Nonetheless, NPLs rose from 2.9 percent in FY20 to 3.7 percent in FY21. However, the position of individual banks varied according to their profit base and exposure to the tourism sector. Liquid assets to total assets stood at 19.4 percent and liquid assets to short term liabilities at 35 percent in FY21, a slight improvement from FY20. A future further weakening in bank profits and capital buffers is likely. To monitor the impacts of COVID-19 on the financial system, the CBS maintains a weekly dialogue with the banks to monitor changes in loan performance and ensure adequate liquidity provisions. The CBS is also closely monitoring assessment of cash flow, liquidity positions and balance sheets at the individual bank level, particularly those exposed to the tourism sector to maintain safety and soundness.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

15. **The economy is expected to contract for a third consecutive year in FY22, heightened by the fall-out from the war in Ukraine.** The outlook is largely dependent on the assumptions around border re-opening (which has been postponed from March 2022 to October 2022) and the economic fallout from the war in Ukraine. While Samoa's direct dependence on Russia and Ukraine through trade and tourism is limited, the surging international fuel and food prices represent a terms of trade shock which will delay economic recovery, increase inflation, and widen the fiscal and external deficits. The baseline scenario assumes that the international border will re-open in October 2022, and the tourism sector is expected to recover gradually from approximately 50,000 tourist arrivals in FY23, increasing to 90,000 in FY24 - around two-thirds of pre-COVID arrivals.[7] The outlook is also dependent on Samoa's ability to manage the recent (March 17, 2022) community outbreak of COVID-19. In the baseline, the government is expected to successfully contain the community outbreak and achieve high rate of third dose vaccination as well as vaccinate the ages 5-12 years at least by August 2022. The economy is projected to contract by 0.3 percent in FY22 driven by a persistent decline in tourism-related and agriculture sectors.

16. **A recovery is projected from FY23 onwards**. An average growth of 3.1 percent is projected from FY23-24 and normalize at its steady-state rate of 2-2.5 percent by the end of the medium-term. Growth in the near term is expected to be driven by expansionary fiscal policy to support the vulnerable, robust remittance inflows, an increase in construction activity and a gradual recovery in tourism-related sectors. Over the medium-term, a broad-based increase in growth is expected through a pickup in public investment in physical infrastructure that enhances climate resilience and key measures included in the PDS that aim to increase potential growth. These include enhancing agriculture, fisheries and aquaculture productivity, revitalizing tourism and supporting business innovation and growth, particularly for micro, small and medium enterprises for economic diversification. The PDS also focuses on improving social development through improving public health, providing quality education and skilled workforce. The baseline projections in the medium-term do not include the economic impacts of natural disasters. The impact (on growth and fiscal and current accounts) is incorporated in the long-term projections for the DSA.[8]

[7] Average tourist arrival in FY2018 and FY2019 was 140,000.

[8] Based on experience and study by IMF staff, to account for the impact of natural disasters in the long-term, GDP growth is lowered by 1.3 percentage points, the current account and fiscal deficits widened by 3.5 percent of GDP each. The methodology used is consistent with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change", which suggests that the long-term baseline macroeconomic projections for the countries highly vulnerable to natural disasters should not just be based on the outlook in non-disaster years, but should also factor in an average adverse impact from probable disasters to ensure more realistic medium-term and long-term plans and policies including focus on building resilience.

17. **Inflation is expected to spike at 8.5 percent in FY22 (following deflation in FY21), driven by a surge in global commodity prices and ongoing supply chain disruptions.** Inflation has been aggravated by the war in Ukraine, which has put additional pressures on selected commodity prices, surging to multi-year highs. Inflation is expected to remain elevated in FY23 at 4.2 percent before subsiding to below the authorities target of 3.0 percent from FY24. As the pandemic eases its grip and the impact of the war in Ukraine softens, inflation is expected to fall to 3 percent over the medium term, assuming inflation expectations remain well anchored. Given the temporary nature of the shock and to complement the expansionary fiscal policy to support economic recovery, the CBS is expected to maintain an accommodative monetary policy stance, which worked well during past shocks. However, the CBS is closely monitoring the developments, particularly on prices and trade and will adjust monetary policy as appropriate to avoid higher inflation feeding into elevated inflation expectations in the medium-term.

Table 5: GDP: Contribution by sector (percentage points)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
					Projections			
	Contributions to Real GDP growth							
Agriculture	-0.8	-0.6	-0.1	0.1	-0.2	0.1	0.2	0.1
Industry	-2.1	1.5	-1.2	-1.5	0.4	0.6	0.6	0.5
Services	1.7	3.5	-1.3	-6.6	-0.5	1.9	2.9	1.8
of which tourism related	-0.9	3.8	-2.6	-4.3	-0.7	1.5	2.5	1.4
of which other	2.6	-0.3	1.4	-2.4	0.2	0.4	0.5	0.4
Real GDP growth	-1.2	4.4	-2.6	-8.1	-0.3	2.5	3.8	2.4

Source: Samoan authorities and Bank staff estimates and projections.

18. **The current account deficit is expected to remain elevated in FY22-23 before gradually narrowing over the medium-term.** A deficit of 12.7 percent of GDP is projected for FY22, as zero tourism receipts, an increase in imports (due to increase in commodity prices) and normalizing grants inflows offset the robust remittance inflows. Over the medium term, the deficit is expected to gradually narrow to about 4.2 percent of GDP, supported by recovery in tourism receipts, export earnings, which are expected to offset the normalizing grants and remittance inflows.

19. **Reserves are projected to stabilize at around 4.2 months of prospective imports over the medium- term.** In FY22, reserves are projected to decline to 6.7 months of import cover, driven by the dormant tourism sector combined with higher infrastructure-related and petroleum imports, and normalizing official transfers. Over the medium-term, the persistent current account deficit is expected to exert pressure on reserves, lowering import coverage to 4.2 months. The projected level of reserves is considered adequate when compared to the range of 2.8 to 4.6 months of imports recommended by the IMF. Nonetheless, a higher buffer is warranted given Samoa’s vulnerability to external shocks. Considering vulnerability to climate related and other disasters, the IMF recommends a higher reserves coverage range of between 4.1 to 6.4 months of prospective imports.

20. **A fiscal deficit of 2.5 percent of GDP is projected for FY22, to remain expansionary in the near-term and to gradually narrow towards the authorities target of 2 percent of GDP over the medium-term.** The FY22 projection is based on normalizing grant inflows and non-tax revenues together with an increase in public infrastructure investment spending to support the economic recovery. The fiscal deficit is expected to widen in FY23 as the war in Ukraine offsets the recovery in tax revenue. In addition, social protection measures are anticipated to be extended to assist the poor and vulnerable facing rising cost of living amid high inflation. The expected measures include higher social welfare transfers to vulnerable individuals and higher transfers to SOEs

to be able to execute some of the measures for the government, such as lower utility bills for the most vulnerable. From FY24, the fiscal deficit is projected to narrow, supported by a gradual increase in revenue, consistent with the economic recovery and tax reforms supported in this DPO series. It also reflects a projected decline in current expenses as the government's economic support package is unwound, which offsets the gradual increase in public investment. With the fiscal consolidation efforts, the fiscal deficit is projected to reach the authorities target of 2.0 percent of GDP in FY25.

21. **Given the government's strategy to avoid contracting any new public debt, the fiscal deficit is expected to be financed partially by DSSI savings and the remainder from the government's cash deposit drawdown.** The government's rationale to drawdown the cash deposits as opposed to contracting loans was to avoid public debt levels above their target of 50 percent. The government plans to replenish these deposits by seeking additional grant financing in the coming year. In addition, the government has contingency financing options that it can draw down to provide liquidity to respond to shocks. In FY21, the stock of government deposit amounted to 15.8 percent of GDP, declining to 10.1 percent of GDP in FY22. Similar to FY21, the government has not borrowed to finance the budget as revenue collections have been sufficient to meet the expenditures as of December 2021. This led to the preservation of the existing cash deposits of the government. As of January 2022, stock of government deposits remains around FY21 levels ($320 million tala or 15 percent of GDP).

Table 6: Fiscal Financing Needs and Sources for FY22-FY251/

	FY2022	FY2023	FY2024	FY2025
		(In percent of GDP)		
Total Revenue and Grants (1)	**35.1**	**34.7**	**34.9**	**35.4**
Tax revenue	26.8	26.8	26.9	27.4
Non-tax revenue	3.8	3.7	3.7	3.7
Budget Support Grants	4.5	4.3	4.3	4.3
World Bank	1.8	…	…	…
ADB	0.0	…	…	…
Australia	1.4	…	…	…
New Zealand	1.2	…	…	…
Expenditure (2)	**37.6**	**38.2**	**37.6**	**37.4**
Current spending	32.0	32.4	31.4	31.0
Interest payments	0.5	0.8	0.8	0.8
Capital spending	5.6	5.8	6.2	6.4
Overall balance (1 - 2)	**-2.5**	**-3.5**	**-2.7**	**-2.0**
Overall balance excluding DSSI impact on interest payment	-2.7	-3.5	-2.7	-2.0
Financing	**2.7**	**3.5**	**2.7**	**2.0**
Net external financing (net disbursements minus amortization)	-3.2	-3.4	2.7	2.0
Net domestic financing 2/	4.8	6.9	0.0	0.0
DSSI savings	1.1	0.0	0.0	0.0
Principal	0.9	0.0	0.0	0.0
Interest	0.2	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**

1/ Fiscal year runs from July 1 to June 30.

2/ Plus indicates a net reduction in cash deposits. FY2022 and FY2023 assumes zero external borrowing and in the absence of additional grants, all financing gap will be filled by a drawdown of government's cash deposits.

22. **The government remains committed to medium-term fiscal consolidation.** The government has a recent track record of fiscal discipline. Over the five years FY17-FY21, the fiscal account recorded a surplus averaging 2.4 percent of GDP compared to an average deficit of 4.5 percent of GDP during the previous five years (FY2012-16). The government has been prudent in accumulating cash reserves from recent surpluses to build fiscal buffers, allowing flexibility to adjust the financing mix as needed. To support fiscal sustainability, Cabinet has approved the Medium-Term Debt Management Strategy FY21/22-25/26 (MTDS), which would limit approval for external concessional loans that finance projects resulting in a positive economic return. Going forward, the government's medium term fiscal consolidation plan involves revenue mobilization, expenditure reprioritization and strengthening PFM reforms.

23. **The government is pushing through revenue mobilization measures and reprioritizing expenditure to safeguard fiscal sustainability.** Revenue mobilization measures include completing the TIMS rollout (PA4 in DPO1) to maintain the momentum in robust revenue collections as evident in FY20-21 and raising excises (PA4, which are expected to yield 0.3 percent of GDP per year). The government is also committed to improving the capacity of the taxpayer office to further improve tax compliance. On the expenditure side, the authorities are committed to containing the wage bill over the medium term given the completion of the phased cost of living adjustment payout to civil servants in FY21. The authorities are also considering reprioritizing budget expenditure towards job creation, with reforms that foster resource allocation for growth sectors and enhances climate resilience.

24. **Samoa remains at high risk of debt distress due to frequent natural disasters, a relatively modest long-term growth outlook, and heavy reliance on financing from development partners.** A Bank-led DSA Update was prepared for the purposes of this operation, in coordination with the IMF. The rating remained unchanged from the March 2021 WB/IMF DSA. In the baseline scenario, which incorporates the average annual impact of natural disasters on growth, external and fiscal accounts —the Present Value (PV) of external and total Public and Publicly Guaranteed (PPG) debt-to-GDP ratios incur threshold breaches in 2040 and 2038, respectively. In addition—when incorporating a tailored natural disaster stress test—the threshold breaches occur in 2034 and 2030, respectively.[9] The DSA baseline scenario assumes that all financing from IDA and the ADB beyond FY22 will be on full credit terms.[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. The next joint WB/IMF DSA is expected to be published in the last quarter of 2022.

25. **Public debt remains sustainable and hinges upon the government's efforts to build fiscal and external buffers, especially for natural disasters and climate change shocks, in conjunction with boosting long-term inclusive growth.** The government needs to secure adequate financing on highly concessional terms consistent with the MTDS with continued access to grants to fulfill any financing gaps. The FY21 Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPAs) supported debt sustainability. The two PPAs were: (i) the Cabinet approval of a policy governing on-lending to SOEs, and risk assessments completed for all new on-lending arrangements entered into between October 8, 2020 and May 31, 2021, as per the policy (PA3 in DPO1); and (ii) zero non-concessional borrowing ceiling on contracting new external PPG debt in FY21. The government completed both PPAs. Compliance with FY22 PPAs will also help with debt sustainability. The two

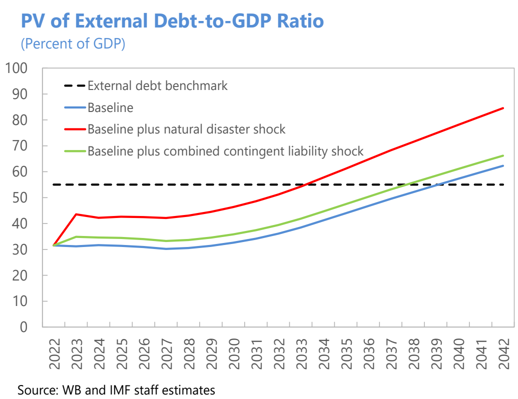
[9] The tailored natural disaster stress test entails a one-off shock to GDP growth and fiscal and current account balances in year 2 of the projection horizon.

[10] Given the country's high risk of debt distress, it is currently eligible for 100 percent grant terms from IDA and ADB; however, for the purposes of projections, the DSA is assuming 100 percent credit terms to avoid a circular situation where the assumption that future commitments will be on grant terms would yield actual commitments on credit terms.

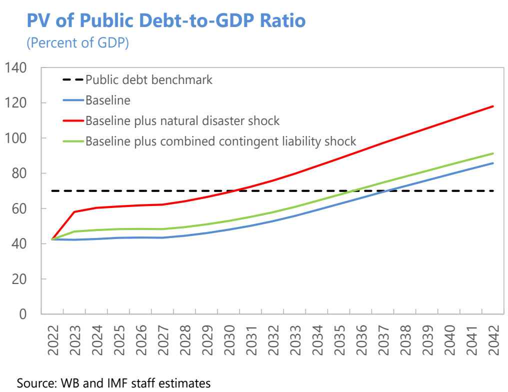
PPAs for FY22 are: (i) to manage fiscal risks associated with government guarantees, the government has prepared a credit risk assessment framework covering financial and business risks to assess applications for government guarantees from SOEs, as part of a Cabinet approved Government Guarantee Policy, which: (1) mandates the application of the credit risk assessment framework to assess all new government guarantee applications including the completion of credit risk assessments prior to entering into any new government guarantees; (2) will be published on Ministry of Finance website by April 2022; and (ii) to improve debt sustainability, the government of Samoa will not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt in FY22. Debt reporting is adequate for a small country with limited capacity and the government is up to date with its reporting through the WB Debtor Reporting System.

Figure 1: Public and External Debt Sustainability Analysis

External Debt Sustainability Analysis



Public Debt Sustainability Analysis



Source: Bank-led DSA Update, February 2022

26. **Risks to the macroeconomic outlook are tilted to the downside.** The domestic outbreak of COVID-19 could further delay opening of borders. While the vaccination rate is promising, the authorities are adopting a cautious approach to border reopening to prevent overburdening their weak public health systems and Samoa's experience with other health shocks.[11] The delay is also to buy some time to vaccinate the ages 5-12 and to wait and learn from the experience from other neighboring PICs, who have begun to reopen. Tourist hesitancy to travel and confidence in local health systems could also lead to a slower-than-expected recovery in tourism receipts. Under-execution of public investment and premature withdrawal of economic stimulus measures could impede the pace and durability of economic recovery. Rising global economic uncertainty and global energy and food price increases aggravated by the war in Ukraine could hurt consumers through prolonged price pressures and create a possible de-anchoring of inflation expectations. It is also expected to suppress domestic economic recovery and exert additional pressure on balance of payment with Samoa being a net importer. High vulnerability to natural disasters continues to threaten the economy. On the upside, to the extent that international arrivals recover faster than expected, economic growth could outperform the baseline projections.

[11] The measles outbreak in late 2019 and the 1918 Spanish flu, which resulted in deaths of at least one-fifth of the Samoan population.

Table 7: Baseline vs Downside Scenarios

	FY2022	FY2023	FY2024	FY2025
Real GDP growth (percent)				
Baseline	-0.3	2.5	3.8	2.4
Downside	-0.3	1.3	2.8	2.0
Inflation (percent)				
Baseline	8.5	4.2	2.9	2.6
Downside	8.5	6.8	4.0	3.0
Current account balance (% of GDP)				
Baseline	-12.7	-10.5	-5.8	-4.2
Downside	-12.7	-12.6	-7.0	-5.0
Foreign reserves (months of prospective imports)				
Baseline	6.7	5.4	4.7	4.2
Downside	6.5	4.9	4.1	3.5
Fiscal balance (% of GDP)				
Baseline	-2.5	-3.5	-2.7	-2.0
Downside	-2.5	-4.6	-3.7	-2.5
Stock of government deposit LCU (millions)				
Baseline	215.5	60.5	60.5	60.5
Downside	215.5	36.4	36.4	36.4
Public debt (% of GDP)				
Baseline	44.9	39.2	39.4	39.5
Downside	44.9	39.7	41.2	41.9

Source: Bank staff projections

27. **The economic outlook is surrounded by a high degree of uncertainty.** A downside scenario was prepared to illustrate the abovementioned downside risks. The scenario leads to a deeper economic contraction and slower recovery, which would worsen the fiscal and external position. It assumes a worsening of the war in Ukraine and international borders re-open in January 2023 (three months later with approximately 17,000 less tourist arrivals compared to the baseline). The scenario assumes the authorities are only able to contain the community outbreak of COVID-19 with a high percentage of the population protected with a third dose by November 2022. Consistent with hesitation about international travel and tourism persisting in key source markets, the scenario assumes that tourism arrivals would reach only half their pre-COVID levels by FY24 compared to two-thirds in the baseline. This would create negative spillovers to other economic sectors including commerce and construction, resulting in a relatively sluggish recovery over the projection period. Real GDP would grow by 1.3 percent in FY23 and 2.8 percent in FY24. Further increase in global commodity prices resulting from the war in Ukraine would lead to domestic price pressures. This would lead to a higher and persistent inflation. The delayed recovery in tourism and exports of goods relative to the baseline together with higher petroleum imports than in the baseline would widen the current account deficit. As a result, reserves coverage is expected to decline to 3.5 months over the medium-term, remaining just within the range considered adequate. This could also lead to downward

pressure on the exchange rate, which would raise the local currency value of debt service. The lower growth outlook would create pressure on domestic revenues and necessitate additional stimulus measures to support the vulnerable. This would widen the fiscal deficit by around 1 percentage point of GDP on average between FY23-25 and increase the debt-to-GDP ratios as the government borrows to meet the financing gap. To build adequate fiscal buffers, the government needs to seek additional grant and/or concessional loan financing from development partners and fast-track the development of domestic debt market.

28. **The macroeconomic policy framework is adequate for the purposes of the proposed operation.** The economy is projected to contract in FY22 by 0.3 percent. This reflects the longer than expected closure of borders due to COVID-19 community transmission and knock-on effects of the war in Ukraine through higher commodity prices and the slowdown in the global economy. Growth is expected to increase to around 3 percent growth over the medium term. The recovery is expected to be driven by a gradual resumption of tourist activity, including spillovers to other sectors and an increase in capital projects, which had slowed due to the COVID-19 travel restrictions. The government is striking a prudent balance between its commitment to maintaining fiscal sustainability and its efforts to provide support to communities, businesses and vulnerable individuals and households. The government has demonstrated sound fiscal management in recent years through a sustained increase in domestic revenues, responsible spending, and avoiding new non-concessional external borrowing. The government remains committed to medium-term fiscal consolidation to create fiscal space and build resilience and is targeting a fiscal deficit of 2 percent of GDP by FY25. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. Foreign reserves are projected to decline over the medium term, lowering import coverage to 4.2 months, but remain within the adequate range suggested by the IMF. Public debt is sustainable at just below 50 percent of GDP, but the country remains at high risk of debt distress due to vulnerability to natural disasters. Samoa participated in the Debt Service Suspension Initiative (DSSI) until the end of December 2021.

2.3. IMF RELATIONS

29. **In March 2021, the IMF Board concluded the Article IV consultation with Samoa.** The Board noted that Samoa has shown resilience to past economic shocks, underpinned by the authorities' strong commitment to support the economy, and financial assistance provided by the international community. In April 2020, the IMF Board approved the government's request for a disbursement under the Rapid Credit Facility of SDR 16.2 million (100 percent of quota). The WB liaised closely with the IMF in its assessment of the macroeconomic policy framework and in the preparation of the March 2021 DSA and the updated DSA for this operation. More broadly, the WB and IMF collaborate closely, and WB staff have participated in all recent Article IV missions and the Staff Visit in November 2021. Based on this cooperation, the WB and IMF share a common view about Samoa's macroeconomic and structural reform priorities.

3. GOVERNMENT PROGRAM

30. **The theme of the new development plan – the Pathway for the Development of Samoa – is 'Empowering communities, building resilience and inspiring growth'**. The PDS emphasizes the commitment to community development recognizing that these are essential social institutions in Samoa. It includes five pillars of development: Social, Economic, Governance, Environment and Infrastructure. Within the five pillars in the PDS, there are some notable priorities of relevance to this operation. Priorities under the social pillar include: (i) alleviating hardship and poverty amongst families and enhancing resilience in managing social issues; and (ii) improving access and delivery of public health care services particularly through addressing the NCD epidemic (and other public health emergencies), vaccination coverage, and life expectancy. Under the economic pillar, priorities include: (i) stabilizing the macroeconomic framework underpinned by fiscal sustainability and resilient and flexible monetary policies; (ii) growth of the tourism sector through improved marketing and internalizing the social and economic benefits of tourism to local communities; and (iii) prioritizing exports, labor mobility and access to markets through focus on trade, commerce and private sector investment. Under the governance pillar, priorities include empowered legislation, improved accountability and dynamic global relations and partnerships. Under the environment pillar, the priorities include efforts to address the impacts of climate change and disasters (integrating risk and resilience into development planning). Under the infrastructure pillar, priorities include focus on safety, quality, climate resilience, maintenance and sustainability of infrastructure. Samoa does not have a formal nation-wide social protection system that identifies and targets the most vulnerable. Through the COVID-19 stimulus package, the government introduced a range of support to the vulnerable. These vulnerabilities are exacerbated for people with disabilities, whose access to employment is even more limited, relative to both women without disabilities and men with disabilities. The PDS includes support to people with disabilities which is also included in the FY22 budget.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **The reforms supported by the proposed operation are closely aligned with priorities in the PDS**. The first development objective is consistent with the economic pillar of the PDS that enhances the participation of the private sector in development, and boosts tourism performance. The second development objective is consistent with the priority for stabilizing the macroeconomic framework underpinned by fiscal sustainability and resilient and flexible monetary policies under the economic pillar. The third development objective is aligned with the social, environment and infrastructure pillars and the priorities related to support for the most vulnerable, risk and resilient planning and climate and disaster resilience as well sustainability of infrastructure.

32. **The proposed operation reflects key lessons learned from previous DPOs in Samoa and in the Pacific region.** The operation marks the eleventh DPO delivered in Samoa over the past 12 years. It demonstrates the government's commitment to a consistent reform agenda and a strong partnership with development partners. 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. This operation builds on the reforms supported in DPO1 (P171764) and previous series of operations. Past operations have highlighted that close coordination with other development partners is critical to support strong reforms and help maintain a strong policy dialogue with the government and is conducted through a Joint Policy Action Matrix

(JPAM) mission. Support through Investment Project Financing (IPF) operations and the inclusion of parallel TA in coordination with development partners is critical for implementation of reforms and achievements of results.

33. **The proposed DPO2 reform program remains strong.** The development objectives and pillars remain unchanged from that of DPO1, but DPO2 emphasizes the recovery from COVID-19 pandemic compared to the focus on response in DPO1. Reflecting the new context created by the COVID-19 pandemic and the priorities articulated in the PDS, some indicative triggers have been adjusted and some prior actions added (see Annex 4). The main changes include:

- Trigger 1 was converted to a PA with a modification to reflect the need for a multi-phased series of changes to the Foreign Investment Act to increase foreign investments;
- Trigger 2 has been dropped as the new Government is focusing on a broader social protection agenda and needs time to progress a Social Protection Policy that reflects the PDS priorities in the Social Pillar;
- Trigger 3 and 5 have been converted to a PA with minor modifications that reflect the contents of the reform aligned with the pillar objectives;
- Trigger 4 has been replaced with a strengthened PA that reflects the emerging need under the COVID-19 related border closure situation. Specifically, the measures to improve debt management have been strengthened by dropping the Medium-Term Debt Strategy and adding the preparation of a Government Guarantee Policy that strengthens the existing procedures and includes a robust credit risk assessment framework;
- Trigger 6 and 7 have been converted to PAs; and
- Trigger 8 on development and approval of a National Epidemic and Pandemic Influenza Preparedness & Response Plan was completed ahead of schedule in December 2020 and has been dropped from this DPO.

34. **The program has made good progress and is on track to meeting the targets.** Several results indicators have shown substantial progress and targets are on track for: (i) the number of unemployed receiving benefits and training (RI #1); (ii) senior citizens receiving government assistance (RI #3); (iii) risk assessments on on-lending application (RI #5); and (iv) increases in tax collections (RI #6). The registration of building practitioners is being implemented through a two-step process rather than just being implemented by Ministry of Works, Transport and Infrastructure (MWTI) as envisaged in DPO1. Step 1 includes: MWTI's assessment of the technical qualifications and experience of the applicants and step 2 is the Ministry of Customs and Revenue's assessment and confirmation of the applications prior to issuance of business licenses to the building practitioners. As the technical assessment for 65 applications was completed in April 2022, the target is expected to be met. Lastly, the vaccination related indicator is on track to be met, with approximately 80 percent of the 1-2 year cohort of children being immunized against measles, mumps and rubella.

35. **This proposed operation would be provided as a DPO IDA grant.** It includes financing of SDR 10,414,000 (US$ 14.0 million equivalent), which would be provided as regular DPO grant financing once the operation is declared effective. The closing date for the proposed operation is November 30, 2023.

36. **Policy actions and reforms would be monitored throughout the implementation period**. As the first operation was a combination of a DPO and a Cat-DDO, there is continued support through parallel TA and IPF operations – particularly the PREP project – while COVID-19 projects have been supporting the monitoring of the health-related PAs in both operations in this series. Ongoing engagement with the government and other development partners through the JPAM dialogue will also support monitoring.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Promote an Inclusive Economic Recovery

37. **Pillar 1 supports reforms to attract investment and improve employment terms and conditions for domestic workers.** The pandemic has had a substantial and widespread negative 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 the effect of this has been felt across the economy. The loss of business activity had an immediate and devastating impact on the labor force, with significant disruptions to formal and informal work. The government's COVID-19 support measures helped mitigate the worst of this impact on household incomes, especially for those that were employed in the tourism sector. However, the crisis has underscored the vulnerability of informal workers especially those ins domestic work where three quarters of workers in Samoa are female and 62 percent are not formally employed.[12] As the economy begins to recover, measures to accelerate private sector growth and protect workers returning to their jobs will be key to sustaining the recovery. Providing extra protection to those in domestic work will contribute to improving the working conditions of the labour force and contribute to economic recovery.

38. **FDI will be critical in helping the tourism sector and other sectors recover from the COVID-19 pandemic over the next five to ten years as a source of capital, technology and knowledge transfer.** Net FDI inflows in Samoa was 1.4 percent of GDP per year in 2015-19 (US$11.6 million), well below the Pacific Island average of 3.7 percent of GDP (Figure 2). Through the PDS, the government is promoting economic growth by facilitating an improved business environment that will foster private sector investment and engagement in national development. Reforms to Samoa's legal and regulatory framework governing investment will be key to attracting more investment from both domestic and foreign sources. The time lag between these reforms and new domestic and foreign investment will depend both upon the speed and quality of implementation of the reforms but also on exogenous factors, particularly the need for any additional travel restrictions in response to COVID-19.

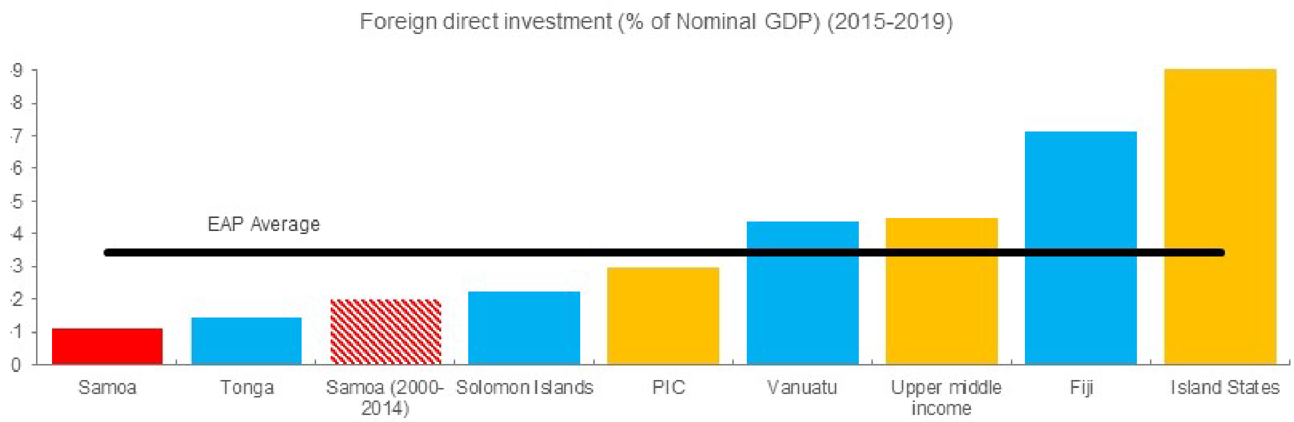
Prior Action 1: To attract private investment, the Recipient, through its Cabinet, has approved an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.

39. **To support the private sector recovery in the medium-term, the government will need to ensure that Samoa provides an attractive, stable environment for both domestic and foreign private sector investment.** Private investment will play a critical role in the recovery with new investments required to restart economic activity that was shuttered during the pandemic and to upgrade infrastructure and production processes to meet new consumer demands (for instance, greater health and sanitation controls in the tourism sector). Evidence from the five-year period prior to the pandemic shows that Samoa was already underperforming as compared to the wider region in attracting foreign direct investment with a high reliance on a limited number of source markets.[13] Beyond intrinsic issues of remoteness and the small market size, Samoa has a relatively high regulatory compliance cost, particularly in key areas such as trade, construction, and land access coupled with limited

[12] 2017 Samoa Labour Force Survey estimates retrieved from ILOSTAT.
[13] China accounts for just over 40 percent of Samoa's FDI in recent years, with New Zealand and Australia combined accounting for another 20 percent.

digitization to improve the efficiency of service delivery. In addition, Samoa does less investment promotion than most peer countries in the region, with a larger focus on certification of investors.

Figure 2: Samoa's FDI is considerably lower than comparator countries



Source: World Development Indicators

40. **Improving the transparency and predictability of the legislative framework is an important consideration for foreign investors.** While foreign and domestic investors equally benefit from an efficient and competitive business environment, foreign investors are more likely to prioritize the predictability of the legal and regulatory environment when making investment decisions. This legal framework in Samoa is outlined in the Foreign Investment Act of 2000 (FIA). A 2021 World Bank review of the Foreign Investment Act highlighted several key reforms needed to improve the regulatory environment and provide a more transparent and predictable legal environment. The proposed reforms are also aligned with Samoa's obligations under the Pacific Agreement on Closer Economic Relations (PACER) Plus.[14] Key reform recommendations from the review include, inter alia:

i. Adopting a national investment policy to serve as the basis of a comprehensive reform. Experience globally and in the Pacific region has shown that the adoption of such an investment policy improves both the substance and efficiency of subsequent reforms. The investment policy builds upfront political support for reform, servs as a coordination instrument both within government and between government and the private sector, and ensures reforms are aligned with global best practice.
ii. Improving the transparency and predictability in investment legislation. A key priority in Samoa is to make entry requirements more transparent with less discretion in how they are enforced. This will be accomplished by replacing the current certification system which lacks transparent qualifications and a dispute resolution mechanism with a simple set of criteria for investment entry that are verified through the normal business registration process. In addition, new regulations are needed to limit discretion and establish criteria for placing economic activities on the reserve and restricted lists. The introduction of transparent criteria for investment entry and restricted activities will improve the predictability of the business environment.
iii. Strengthening the institutional capacity for investment promotion, facilitation, and retention and separating these functions from the regulatory body.

[14] Full agreement available from https://pacerplus.org/

41. **The Cabinet has approved a national Investment Policy.** The Ministry of Commerce, Industry and Labour (MCIL) led this initiative as the responsible agency for implementation of the Foreign Investment Act and related activities including registration, regulation and monitoring of foreign investment enterprises in Samoa. MCIL also hosts the investment promotion arm of the government. The investment policy outlines the government's long-term foreign and domestic policy objectives for investment and was prepared with WB support. The policy outlines key principles of the current legislation such as non-discrimination between foreign and domestic investors, a limited use of investment incentives, adherence to national environmental and social standards, protections for investment, and transparency in rulemaking. In terms of the procedural steps, Cabinet approval of the Investment Policy enables MCIL to proceed with drafting the revisions to the Foreign Investment Act of 2000 and related regulations based on the framework principles included in the Policy with a target of submitting the amendments to Parliament in the next 18 to 24 months. The Bank through a parallel TA will continue to work closely with the authorities throughout the implementation period of the policy to ensure that further reforms will continue to follow best practice and to help build the capacity of the implementing agencies.

42. **The results indicator tracks the increase in the number of foreign enterprises registered in Samoa.** The adoption of a national investment policy will have a positive impact on improving conditions for investment in Samoa by committing the government to key principles and transparent processes in facilitating investment. This should lead to an increase in the number of foreign enterprises registered in Samoa, while noting the risk that COVID-19 community transmission related restrictions may pose to attracting new foreign investors. The indicator will be measured by the number of foreign investment certificates renewed and issued by MCIL each year. The baseline year is taken as FY21 when 186 total foreign enterprises were registered in Samoa. The target is for a 10 percent increase, equivalent to 205 enterprises in December 2023. Registrations are monitored and reported on annually by the MCIL.

Prior Action 2: To improve employment protections, the Recipient, through its Cabinet, has approved the Labour and Employment Relations Amendment Bill 2022 which formalizes employment of domestic workers and strengthens provisions against gender discrimination.

43. **The Samoan labor market is heavily skewed towards employment in services and the public sector, with significant gender disparities in labor force participation and unemployment**. About 45 percent of employment is in the services sector with this share rising since 2000. Informal employment accounts for approximately 37 percent of employment, though there is considerable variation across sectors, with informal work particularly high amongst domestic workers at 62 percent of employment. Samoa also has significant gender gaps in employment. Labor force participation amongst women is 34.2 percent compared to 58.4 percent for males, and females account for just 34.4 percent of the labor force. The unemployment rate among female youth was 43.4 percent compared to 24.6 percent for young men according to the 2017 Labor Force Survey. Further, wage growth in Samoa has been modest in recent years. The public sector saw modest wage increases in 2019 and 2020, while there was an increase in the minimum wage from SAT 2.30 to SAT 3.00 in 2020 (the first since 2015).

44. **A review of the previous legislative framework for employment identified several weaknesses.** These include the failure to adequately address pay discrimination on the basis of gender and limited legal protection and a lack of clarity relating to coverage of domestic workers, which has resulted in high levels of informality among that group, 75 percent of whom are women[15]. Other weaknesses include the absence of a regular review

[15] 2017 Samoa Labour Force Survey

process for the minimum wage, a lack of clarity around the role of labor inspectors, and inefficient grievance and complaint mechanisms. Equal pay protections in the previous employment legislation did not comply with the requirements of n the ILO Equal Remuneration Convention, 1951 (No. 100), which Samoa ratified in 2008. The lack of robust protections for domestic workers also primarily affects employed women, five percent of whom are employed as domestic workers.[16] Provisions concerning domestic workers had been included in the 2016 Labour and Employment Relations Regulations rather than in the Labour and Employment Relations Act (LERA), and were weak in several areas, including the failure to: (i) mandate written contracts for domestic workers; (ii) prohibit employers from seizing identity documents; and (iii) explicitly state that domestic workers should be paid at least the minimum wage rate after deductions. These shortcomings were of particular concern given the vulnerable nature of such employment which stems not only from limited legal protections, but also high levels of informality.[17]

45. **The Amendments to the LERA Bill 2022, approved by the Cabinet[18], increase protections for domestic workers and strengthens provisions against discrimination on the basis of gender**. The amendments under the LERA Bill 2022 address identified gaps and increases protections for domestic workers to the level of national labor legislation. They also seek to facilitate a grievance pathway for employees and explicitly requires that written domestic-worker contracts are submitted to the MCIL. MCIL is committed to the formalization of domestic worker employment and is undertaking outreach to employers and providing standard templates for work contracts to facilitate this formalization. Combined with enhanced compliance (see below), these measures will promote the formalization of domestic workers in Samoa, bolstering protections for such workers. The amendments will reduce gender discrimination in the workplace by strengthening equal pay for work of equal value provisions and expanding the definition of remuneration to include any additional cash or in-kind emoluments payable (directly or indirectly). Amendments that clarify hours of work and rest periods, application of the minimum wage, and prohibit seizure of identity documents for domestic workers will strengthen regulation of such employment. These changes are complemented by amendments that will strengthen compliance by empowering labor inspectors to handle employees' complaints and grievances through interviews of employers and employees, issuance of penalty and compliance notices, as well as other actions. Several definitions have been introduced in the amendments to the LERA Bill 2022 that clarify certain provisions, including complaint, domestic worker, grievance, redundancies, serious misconduct, sexual harassment, and work performance matters. They also provide for a review of the minimum wage every two years, following the increase in January 2020 from SAT 2.30 per hour to SAT 3 per hour.

46. **The results indicator targets increased rates of formalization for employment of domestic workers and improved protection against gender discrimination.** The formalization of domestic workers' employment would be measured by the share of domestic workers with contracts registered with MCIL. Currently, 38 percent of domestic employees have written contracts, but they are not formally registered with MCIL. The baseline reflects the current status of no requirement for employers to register their employees with MCIL. The target is at least 45 percent of workers with contracts being registered with MCIL in FY23, with the denominator representing total number of domestic workers determined using latest available national estimates[19]. The requirement of written

[16] 2017 Samoa Labour Force Survey

[17] International Labour Organization. 2021. Making decent work a reality for domestic workers: Progress and prospects in Asia and the Pacific ten years after the adoption of the Domestic Workers Convention, 2011 (No.189).

[18] The Cabinet approved the amendments to the LERA Bill 2022 on April 20, 2022 and submitted to the Parliament; the Parliament was discussing these changes on the week of May 2, 2022.

[19] Such as the 2017 Labor Force Survey or the 2021 Population and Housing Census

contracts for domestic workers is expected to limit the imbalance of power between employers and employees and to contribute towards improved working conditions for domestic workers, the majority of whom are women. To measure improvements towards more gender-equitable legislation, the World Bank's Women, Business and the Law (WBL) Index will be used[20] as the second part of the results indicator. Currently, Samoa meets three of the four criteria in the WBL Index. The amendment to the provision of "equal remuneration for work of equal value" will mean Samoa meets all four criteria by FY23 for gender equality in pay in the WBL Index, placing Samoa among the only two other countries in the Pacific which have introduced a similar provision in national employment legislation (see Annex 7).

Pillar 2: Strengthen Macro-Fiscal Resilience

47. **The second development objective is to strengthen macro-fiscal resilience.** The fiscal impacts of the COVID-19 pandemic 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 debt management. The tax-to-GDP-ratio has increased steadily and held up during the pandemic, in part due to DPO supported reforms of revenue administration and tax policy. Over the past five years, public expenditure has been contained, no new non-concessional debt has been contracted (in line with the MTDS 2020), and total public and publicly guaranteed debt remains sustainable. As required under the PFM Act, the government has approved the MTDS FY2021/2022 - 2025/26, following the expiry of the previous MTDS in 2020. The government aims to strengthen the fiscal position by further improving revenue collection and monitoring the fiscal risks associated with SOEs. The policy reforms supported under this pillar are consistent with these priorities and will assist the government to build the fiscal resilience it needs to respond to future shocks. The targets associated with the PAs under this Pillar in DPO 1 (RIs 5 and 6) are on track.

Prior Action 3: ***To manage fiscal risks associated with government guarantees, the Recipient, through its Cabinet, has approved a Government Guarantee Policy, which establishes and mandates the application of a credit risk assessment framework for the issuance of Government guarantees to public trading bodies.***

48. **Samoa is assessed at high risk of debt distress and exposed to risks from Government guarantees, requiring careful debt management.** While the government has demonstrated commitment to prudent debt management in recent years, the COVID-19 pandemic has posed various challenges, including limiting fiscal space to respond to shocks. Government guarantees can help fulfill specific policy objectives by lowering borrowing costs and increasing investment for entities in prioritized sectors. However, they imply risks to government finances and their materialization can create fiscal costs and impair fiscal sustainability. As of September 2021, on-lending amounted to 8.2 percent of GDP while government guarantees were 10 percent of GDP, warranting careful assessments for all on-lending arrangements and new applications for government guarantees.[21] Approximately 90 percent of the government guarantees are held by the Development Bank of Samoa and Samoa Airways, both largely exposed to the tourism sector. As part of proposed programmatic PPA for FY23, the MoF will apply the credit risk assessment framework included in the GGP to these two SOEs. This will help the government monitor and make an informed decision on existing government guarantees.

[20] The WBL Gender Equality in Pay Index addresses four questions of national legislation: (i) Does the law mandate equal remuneration for work of equal value? (ii) Can a woman work at night in the same way as a man? (iii) Can a woman work in a job deemed dangerous in the same way as a man? and (iv) Can a woman work in an industrial job in the same way as a man? Of the Pacific Islands, only the Marshall Islands and Kiribati have laws that mandate equal remuneration for work of equal value.
[21] Percent of GDP calculated using FY2022 GDP projection.

49. **To address fiscal risks from on-lending activities, DPO1 and the FY21 SDFP PPA supported the government to develop an on-lending policy**. The policy provides guidelines for eligibility, set monitoring and reporting requirements, and established a framework for the terms and conditions of on-lending arrangements. Nonetheless, risks from government guarantees remain, especially given the challenges posed by the COVID-19 pandemic, particularly on the tourism sector. The MoF procedures for issuing guarantees to SOEs were outdated, and assessment of government guarantee applications conducted were not subject to a robust credit risk assessment framework. The 2019 IMF Article IV report thus recommended the strengthening of the existing procedures for issuing government guarantees to SOEs.

50. **The Cabinet approved Government Guarantee Policy (GGP) will include and enforce the application of a credit risk assessment framework for the assessment of government guarantee applications from public trading bodies.**[22] The GGP reflects the current circumstances needed for the monitoring and management of government guarantees, including the establishment of the Ministry of Public Enterprises, which was the former SOE monitoring division within the MoF. The Policy adopts best practices of reporting and disclosure for transparency and accountability purposes. The credit risk assessment framework included in the Policy will help assess applications for government guarantees from public trading bodies and strengthen the monitoring and management of government guarantees. The credit risk assessment framework is largely the same as the on-lending policy. The Policy, including the credit risk assessment framework, is a PPA for FY22 under the SDFP, which has been completed. Implementation is supported by technical assistance from the World Bank.

51. **The results indicator targets conducting risk assessments of all new on-lending and government guarantee proposals.** The baseline for FY20 is that risk assessments of new government guarantees, and on-lending arrangements are limited and not fit for purpose. The target for FY23 is that risk assessments will be conducted for all new government guarantees and on-lending proposals to better manage the associated risks.[23] The credit risk assessment of the applications for government guarantees will help MoF achieve the fiscal target of the government associated with total government guarantees at any point as stipulated in the GGP.[24]

Prior Action 4: ***To improve revenue mobilization, the Recipient, through its Cabinet, has approved excise tax increases on selected unhealthy products.***

52. **Non-communicable Diseases (NCDs) are a major fiscal and health challenge in Samoa.** This is driven by increasing rates of diabetes, heart disease, and stroke now accounting for almost half of all deaths. Unhealthy diets (for example, sweetened beverages, fatty foods, trans-fats, and sodium) are the greatest risk factor for the development of cardiovascular disease and diabetes-induced deaths. NCDs account for over 80 percent of all deaths in Samoa. Preventing NCDs and reducing the vulnerability of the population to health risks continue to be critical priorities for Samoa and are reflected in the PDS. With support from the Samoa Health System Strengthening Program (P164382), the government is continuing its efforts to improve nutrition, promote healthy

[22] In the Public Bodies (Performance and Accountability) Act, “Public Trading Body (PTB)” means an organization that exists mainly for the purpose of optimizing returns on investment of public funds and includes the organizations and any subsidiary of the public bodies. SOEs are part of the PTBs.

[23] During the preparation of DPO1, the intention was to only provide on-lending support to SOES rated at “A” or “B” based on the risk assessment framework on the on-lending policy. However, given the prolonged impact of the pandemic, this restriction has been removed from the target.

[24] The GGP policy must ensure the achievement of fiscal targets of the government including: (1) total government guarantees as a % of GDP = below 10% of GDP and (2) Total Debt to GDP = below 50% of GDP.

lifestyles, and revitalize primary health care and community-based interventions to tackle rising NCDs. The National Health Accounts Report for FY14-15 showed that the fiscal cost of NCDs is SAT40.3 million (36.4 percent of the total annual health spending) and is the largest proportion of all the health spending categories.[25]

53. **Raising excise taxes will increase government revenues and can be effective to disincentivize consumption of alcohol, tobacco, as well as sugary and salty products.** Previous DPOs have supported the increase in excise taxes on tobacco, alcohol and unhealthy foods and drinks and strengthened regulations on the sale and supply of alcohol which have helped increase tax revenues. The first reform was supported by a DPO approved in 2017 (Samoa First Resilience DPO – P162104) through the approval of the Excise Tax Rates *Amendment Act 2016*, which increased excise taxes on tobacco, alcohol and unhealthy foods and drinks. The DPO (Samoa Second Resilience DPO with Cat DDO – P165928) supported the Alcohol Control Bill (enacted into a law in 2020),[26] which strengthened regulations on the sale and supply of alcohol, complementing the excise tax increase supported in the first in the series DPO (P162104). The intention of the reform was to progressively bring these taxes closer to WHO recommended levels (in the case of tobacco taxes).

54. **PA#4 will increase the excise tax on meat products (based on their fat content), sugary products and reduce taxes on healthier products.** The increase was approved by the National Revenue Board and reflected in the Cabinet decision. The tax increase will be implemented via amendments to the Customs Tariff Act 1975 which are being drafted after the Cabinet approval and will be introduced as the Customs Tariff Amendment Bill 2022 in FY23. Once the Bill is passed and the Act amended in FY23, the result will be doubling of excise taxes on fatty meats, an increase of 5 to 10 percent on some sugary and salty items and around 60 percent increase in carbonated soft drinks. The revised duties and excise taxes on healthier options, particularly on vegetables and fruits not grown in Samoa, has been halved from 20 percent to 10 percent which could promote healthy choices. There are no duties and taxes on vegetables grown in Samoa and mostly sold in the markets, which decreases potential hardship on the poor households. In addition, duties on some of the meat grown in Samoa has been decreased and would provide a source of protein to the population. Overall, these reforms will result in an annual net revenue gain for the government of around 0.3 percent of GDP per year. The extra revenue will support the government with its health spending burden from the NCDs.[27]

55. **The results indicator targets an increase in the collection of taxes on goods and services.** This will emanate from increase in tax collections from unhealthy products, which face the excise tax increases, resulting in increased revenue collection whilst contributing to the efforts to reduce NCDs. The baseline is 16.9 percent of GDP for taxes collection on goods and services in FY19 and a target of increasing this to at least 17.7 percent of GDP in FY23, also reflecting the efforts under the TIMS (DPO1).

Pillar 3: Enhance Climate, Disaster and Social Resilience.

56. **The third development objective is to enhance climate, disaster and social resilience.** Climate related risks including heavy rainfall, cyclones, floods, storms, and droughts are interrelated and affect Samoa's people,

[25] Ministry of Health, 2016, Samoa National Health Accounts FY2014-2015, Apia, Samoa (page 35).
[26] The Alcohol Control Act 2020 (https://www.palemene.ws/wp-content/uploads/Alcohol-Control-Act-2020-Eng.pdf)
[27] Under the IDA-funded Samoa Health System Strengthening Program (P164382), the government is developing a policy for reducing NCDs.

economy and environment, causing damage and losses of up to about a third of the annual GDP.[28] The economic recovery took at least three years as evidenced by TC Evan in 2012. Given that these impacts are likely to increase over the coming decades, the government is committed to continue its efforts to enhance the resilience to climate related risks and other disasters. This pillar builds on the reforms supported through the previous DPOs starting in 2016. The first policy reforms for climate resilience were introduced in DPO2 (P155118) and approved in 2016 with a focus on integrating climate and disaster resilience into Strategy for the Development of Samoa (SDS) 2016/17–2019/20 and improving coordination and monitoring of climate finance.[29] Under the DPO1 approved in 2017 (P162104), the pillar on climate and disaster resilience included revision of the National Building Code and road designs to reflect these emerging risks. The DPO with Cat-DDO (P165928), approved in 2018, included policy reforms to strengthen single-story residential housing and improving life-cycle management and resilience of public infrastructure to climate and disaster risks. The DPO1 with Cat-DDO (P171764) in this series approved in 2020, included the approval of a Meteorology, Geoscience and Ozone Services Bill (which provides the foundation for PA5) and continued the reforms to strengthen the climate and disaster resilience of buildings by introducing licenses for building practitioners in Samoa.

Prior Action 5: To improve preparedness and response for climate-related disasters, the Recipient, through its Cabinet, has approved a Multi-Hazard Early Warning System Policy for Meteorological, Hydrological and Geophysical Hazards 2022-2032.

57. **The development of an integrated and multi-hazard early warning system will overcome the challenges related to information sharing and instrumentation compatibility and will enhance the roles and responsibilities of key agencies.** The roles and responsibilities of collecting hydrological, meteorological and other data needed for developing an early warning reside in different entities within the government. Given the multiple and inter-related hazards that Samoa faces, establishing an integrated system underpinned by a framework and operational procedures for developing and conveying the impacts of multiple hazards (for example heavy rain and storm surge) will help overcome many of the challenges. An integrated approach will enhance effective coordination and information sharing which will promote prompt action and result in saving lives and reducing damages and loss. It will also contribute to improving efficiency, maintenance procedures and the overall sustainability of the system (including software and hardware). Such an approach would also mean early warnings are issued in the context of other hazards including pandemics or health hazards.

58. **Early warnings must be timely and convey actions to save lives and reduce damage to assets and the environment.** Results from other World Bank projects (e.g., in Samoa – P126596, and in India, P148108) have shown that preparedness actions lead to improved adaptive capacity and resilience of stakeholders to climate-related and other shocks. The Meteorology, Geoscience and Ozone Services Bill 2020 (PA5 of DPO1) – enacted as The Meteorology, Geoscience and Ozone Services Act 2021 - gives the Samoa Meteorology Division (SMD) in the Ministry of Natural Resources and Environment (MNRE), the authority to request information, synthesize and analyze and transmit the early warnings that convey impacts. Through the PREP project (P154839), the government has been upgrading hardware and software to ensure compatibility and has

[28] 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.

[29] A single policy reform was included to overcome the challenges of fragmentation of climate finance across the country with 50 or so projects being planned or implement. The reform was to coordinate climate resilience projects and monitor climate finance and to reflect climate and disaster risk and resilience in the country's development strategy and Sector Plans.

developed manuals that capture the process for developing and transmitting easily understood, location specific and actionable early warnings.

59. **The Cabinet approved the MHEWS policy that underpins an integrated multi-hazard warning system to improve the content and actionability of early warnings.** The policy draws on good practices from other island nations and small states around the world which emphasize that the warnings be specific and granular, convey likely impacts and provide guidance on actions to be taken in areas most likely to be impacted: for example, in the case of flooding near the mouth of the river, evacuation for higher ground using specific pre-defined routes. The policy provides a framework for strengthening institutions and mainstreaming MHEWS considerations in the government's national strategic frameworks, economic plans, legislations and operational policies for disaster risk management and adaptation to climate change. The policy also, supports the inclusion of both weather and climate related as well geohazards (such as tsunamis or earthquakes) and provision to specify the hydrometeorological hazards, e.g., coastal and riverine floods. Such actions will strengthen the coverage of the hazards and help people move out of harm's way in a timely manner. The policy also supports the use of multiple media to transmit early warnings thus ensuring they reach the poor, vulnerable and those located in remote and rural areas. .[30] It also ensures that early warnings are easily understood and actionable by a range of stakeholders (including the government, the private sector, and the population in affected areas). The policy has been developed through an inclusive and consultative process and promotes collaboration amongst agencies. The consultation process has increased awareness of adaptation to climate change, the importance of preparedness for the increasing frequency and intensity of climate extremes and how to minimize the loss of lives, assets, and livelihoods.

60. **The results indicator measures whether early warnings for severe weather convey impacts and provide guidance for actions and are transmitted using multiple media to reach women and vulnerable groups in remote areas.** SMD uses a range of media (print, radio, television, text messages, social media, emails, SMD websites, smartphone apps) to ensure that the warnings can be received throughout Samoa including by the poor, vulnerable and women in remote and rural areas and in urban areas with access to limited forms of media (in some instances, only radio and print). Simple explanation of the actions needed in specific areas as part of the contents of early warnings for severe weather would contribute to timely action and minimize harm and losses. The result encompasses PA5 of DPO1 and focuses on severe weather warnings – the most common hazard and measures if the early warning for severe weather: (i) contents convey potential impacts and provide guidance for necessary actions in high-impacted areas with a baseline in FY20 of zero and target for end of 2023 to be for all such warnings to include such content; and (ii) are transmitted through multiple media with a baseline of three in FY20 and a target of at least six by the end of 2023.

Prior Action 6: To guide the use of different sources of financing in response to a natural disaster and to improve climate and disaster resilience, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy 2022-2025.

61. **Given the increasing climate-related and other risks and high vulnerability, decisions on rapid access to finance after a disaster will help with effective and efficient response and resilient recovery over the longer-term**. As of March 2022, the government accesses four major risk transfer and contingency financing instruments

[30] 2019-2020 Samoa MICS-DHS which shows that there is differing access to sources of information across genders, rural and urban locations, and income quintiles

to provide post-disaster liquidity.[31] Three of these instruments (Cat-DDO, CERC and the ADB Regional Contingent Financing pool) were accessed from December 2019 to August 2020. The government also has indemnity insurance for major public assets, contingency budget (which is prudently controlled until the end of the cyclone season at least March of each year) and the ability to reallocate budget for response and recovery if needed. The government recognizes the need for a policy to guide the use of these instruments in the aftermath of a disaster, based on the extent of the likely social, economic, and environmental impacts and the timing of a disaster (e.g., early or late in the cyclone season). The major cost to the government after a disaster is the repair and/or rebuild of public building and other assets, restore access to basic services, and to provide support to vulnerable individuals and households that are impacted – including the poor, the elderly and with people with disability and those who live in high-risk areas (such as those prone to coastal and riverine floods).

62. **The Cabinet approved Disaster Risk Financing (DRF) Policy helps prioritize the use of different financing instruments.** The Policy has been developed with support from parallel WB TA, including the Pacific Catastrophe Risk Assessment and Financing Initiative TA (P161700) and through the IDA financed PREP project (P154839). The Policy: (i) identifies and quantifies disaster-related economic and fiscal risks; (ii) assesses the set of instruments that are available against the identified economic and fiscal risks; (iii) identifies gaps in instruments for ongoing and future climate-related and risks from other natural disasters; and (iv) defines a decision-making process for the use of contingent finances after a disaster. It is to be implemented over a three-year period based on detailed implementation plan and will be reviewed, updated and extended after that time. The policy draws on lessons from the instruments and tools activated for the COVID-19 pandemic and measles epidemic, including the Cat-DDO, the CERC, the ADB contingent financing and the government's own funds. The PEFA pilot climate assessment[32] stressed the need for reporting on all sources of climate-related finance, including post-disaster ones, to strengthen planning and oversight and to integrate the information public financial management and budget documents. The Policy implementation plan thus includes reporting on the use of such finances and during the lifetime of the policy the establishment of an overall public asset registry in the MoF linking other registries in the SOEs, particularly the Land Transport Authority and the Samoa Water Authority. With the support of WB parallel TA, the government is also completing risk and vulnerability assessments of all public schools and medical facilities that will provide geo-referenced location, condition of the assets, risks and exposure to key hazards (including high winds, heavy rain), estimated and actual construction costs, and the costs of regular maintenance necessary to minimize damage in the event of cyclones or other disasters. The outputs of the risk and vulnerability assessment are planned to be included in the asset registry.

63. **The results indicator targets the inclusion of fiscal risks and external contingent financing in budget documents.** Information on contingent financing in budget documents will improve transparency and oversight and show how the different instruments are used in the event of a disaster. The result indicator measures the inclusion of fiscal risks and external contingent financing in budget documents (budget speech, fiscal strategy statement, budget estimate). For the baseline, in FY21 only the unforeseen expenditure was disclosed in the budget estimates. This is used as the baseline to show that limited information was included prior to FY22. The

[31] These include: (i) sovereign catastrophic risk insurance through the Pacific Catastrophe Risk Insurance Company; (ii) Contingency Emergency Response Component (CERC) included in several IDA funded projects to improve climate and disaster resilience in medium-long-term. 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); (iii) the ADB Regional Contingent Financing Risk Pool; and (iv) the Cat-DDO included as part of the DPOs approved in 2018 and 2020

[32] Samoa – PEFA Assessment of Climate Responsive Public Financial Management, February 2021. Available from https://www.pefa.org/sites/pefa/files/2021-03/WS-Feb21-CRPFM-Public%20with%20PEFA%20Check_0.pdf

target is that such information for external contingent financing is consistently included in the budget documents by the end of 2023.

64. **The analytical underpinnings of the proposed program are summarized in Annex 6.**

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

65. **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 that was discussed by the WB Board in February 2017.** The RPF priorities are highly relevant to Samoa's efforts to respond to and recover from the COVID-19 pandemic. The development objectives of the DPO are aligned with the focus areas of protecting incomes and livelihoods, including through strengthening resilience to climate change and other natural disasters and addressing NCDs and strengthening the enablers of growth through improved macro-economic management and addressing knowledge gaps. A strong economic policy dialogue with the government is the anchor for the WB's efforts to support this latter RPF theme, with this programmatic series of DPO as its centerpiece.

66. **The WB'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 WBG 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. PA#1 and PA#2 support the relief stage of the response, while the remaining reforms will contribute to building a resilient recovery. Each of the four pillars of the Approach Paper are addressed by reform measures supported by the operation: the health response by PA#4; the social response by PA#1 and PA#2; the economic response by PA#1 and PA#2; and the strengthening of policies, institutions, and investments by PA#3 through 6. Consistent with the Approach, the DPO program also emphasizes debt management and overall fiscal sustainability (PA#3 and results indicators) and incorporates Policy and Performance Actions under the IDA Sustainable Development Finance Policy.

67. **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 and natural disasters build on engagement through IDA since 2009 (after TC Ian and Evan) and health-related shocks since 2019. This engagement includes past and ongoing operations, including: (i) Enhancing the Climate Resilience of Coastal Resources and Communities Project (P126596); (ii) Samoa Enhanced Road Access Project (P145545); (iii) the IDA-funded Pacific Resilience Program (PREP- P154839); (iv) the Samoa Health System Strengthening Program (P164382); (v) Samoa Climate Resilient Transport Project (P165782); (vi) Samoa Agriculture and Fisheries Productivity and Marketing Project (P165873); (vii) Samoa Second Resilience Development Policy Operation with a Cat-DDO (P165928); (viii) Samoa First Response, Recovery and Resilience Development Policy Operation with a Catastrophe-Deferred Drawdown Option (P171764); and (ix) the Samoa COVID-19 Emergency Response Project (P173920).

68. **The reforms supported by the proposed DPO are also closely aligned with the IDA-19 special themes.**[33] The DPO is aligned with: (i) Theme 1 on Jobs and Economic Transformation, with the operation helping to protect employment in Samoa despite COVID-19 impacts; (ii) Theme 3 on climate change, with

[33] These include: (1) Jobs and Economic Transformation (JET); (2) Fragility, Conflict, and Violence; (3) Climate Change; (4) Gender and Development; and (5) Governance and Institutions.

the operation supporting measures to enhance resilience to climate change and natural disasters; and (iii) Theme 5 on governance and institutions. Debt and human capital are also addressed as cross-cutting issues.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

69. **The formulation of the PDS in Samoa involved an extensive consultation process with a wide range of civil society stakeholders and the public.** The MoF led government-wide consultations on Upolu and Savaii islands. Civil society groups, village representatives, women's committees' representatives, youth group representatives and private sector representatives were represented, giving people across Samoa the opportunity to participate in the formulation of the PDS. For the proposed operation, which is linked closely to the priorities in the PDS, MoF, in collaboration with development partners, has consulted broadly across sectors in the process of developing the JPAM. Further collaborations with government agencies and private sector stakeholders have been held on the Investment Policy under Pillar 1.

70. **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 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 the government's response to the COVID-19 pandemic. The government, through 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 partner.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

71. **The proposed operation will support Government in its short-term responses to mitigate the impact of the pandemic and its longer-term efforts to boost resilience against economic, climate, and health risks, all of which disproportionately affect the poor and vulnerable**. As seen in the 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. Pillar 1 of this operation supports actions that protect the vulnerable against income losses due to unemployment and gender-based discrimination through the creation and formalization of jobs in a gender equitable way. 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 (PA#3), protecting against health risks (PA#4), and improving preparedness against disaster risks (PA#5 to PA#7).

72. **PA#1 and PA#2 combined to create more formal jobs for poor and vulnerable men and women.** The goal of increasing foreign investment to aid the recovery of tourism and hospitality sectors will be of disproportionate benefit to the poor and vulnerable, many of whom worked in the sector before the pandemic. The policy is likely to be pro-poor, given that households with members working in the tourism sector had lower average incomes and slightly higher rates of poverty in 2013 (24.2 percent) than households without members in tourism (19.8 percent). The formalization of low-wage domestic workers--75 percent of them are women--

under PA#2 is expected to have positive impacts on poverty. The MCIL's provision of standard templates for work contracts will help domestic workers negotiate contracts with their prospective employers. The reforms to the LERA are expected to improve working conditions for one of the most vulnerable categories of workers and address identified gender wage gaps, driven by potential discrimination[34] and women's overrepresentation among domestic workers[35] is likely to disproportionately benefit employed females, especially those currently working as domestic workers, and has the potential to increase female labor force participation in the long run.[36]

73. **Increased taxes on unhealthy foods under PA#4 and reductions on healthier alternatives are likely to have positive long-term impacts on public health, with purchasing power shocks adequately mitigated.** On one hand, the increased taxes will negatively impact the poor with a limited budget for food in the short term. This is even so as they currently spend more on unhealthy food.[37] On the other hand, poor and vulnerable households are more susceptible to the economic effects of health shocks, due to the limited room in their budget without formal safety nets. Evidence from other countries, such as Tonga, has shown the effectiveness of the taxes in changing consumption behavior. The inclusion of a reduction in duties for healthier options from 20 percent to 10 percent is likely to promote behavior changes and minimize the negative impact on purchasing power, particularly among lower income households, in the long run.

74. **Reforms supported under Pillar 3 are also expected to have positive impacts on the poorest households by better protecting them and their assets from natural disasters and aiding their recovery in the aftermath**. Those relying on subsistence agriculture and fisheries for their livelihoods are among the most vulnerable; for example, the average annual consumption among agriculture and fishing workers was 24 percent lower than other workers, according to the household income and expenditure surveys. The lower financial buffers make it difficult to sustain themselves following the income losses and damages caused by a natural disaster. They are thus likely to benefit from reforms that introduce a rapid disbursement of disaster financing for recovery and improve early warning, given that agricultural 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 and radio (as is the current practice through SMD) will reach poor households in a timely manner and give them some time to prepare.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

75. **The policy actions supported under the proposed operation are not expected to create negative impacts on Samoa's environment, natural resources or forests**. PA1 includes a principle to ensure that environmental regulations are adhered to by domestic and foreign investors. In addition, given the current COVID-19 related restrictions, the scenario for recovery of tourism sector in Samoa over the coming year or so, investment in new

[34] Erman, Alvina; De Vries Robbe, Sophie Anne; Thies, Stephan Fabian; Kabir, Kayenat; Maruo, Mirai. 2021. Gender Dimensions of Disaster Risk and Resilience: Existing Evidence. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/35202
[35] This will be addressed by PREP project.
[36] While the prevailing evidence on the link between gender equality in labor legislation and female labor force participation shows a positive relationship in the long run (see *Hyland et al. (2020)* for overview) the evidence of short-run employment effects of legal improved protections is more mixed (Dinkelman and Ranchod (2012); De Melo Costa et al. (2016) and Feld (2020) .
[37] A study of the household income and expenditure survey finds that low-income households are less likely to access a diet satisfying nutrient thresholds. FAO. 2017. Dietary patterns of households in Samoa: Identifying the factors and food items most important to understanding nutrition.

tourist facilities or supporting infrastructure is highly unlikely. This minimizes the risk of negative impact on the environment. In addition, use of the regional level EIA guidelines for tourism development can further reduce risk of negative impacts.[38] Improvement in debt management (PA3) and fiscal risk from government guarantees (PA4) are unlikely to affect the environment, forests and natural resources.

76. **The policy reforms related to enhancing climate and disaster resilience are likely to have significant positive effects on natural resources.** (PA5 with a focus on impact specific early warning will help save lives and assets and, in some cases, could decrease the demand on forests and natural resources (such as through having to rebuild fewer houses). The DRF Policy (PA6) will help in making prudent and timely decisions on the use of external contingent financing and provide flexibility for the government to support the poor and vulnerable and their livelihood needs, and could thus have positive effects on the environment, forests, and natural resources.

77. **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*. Section 34 of the Act states "All development needs consent under this Act unless a sustainable management plan or regulations provide otherwise." where "development" is defined as "...the use of land (whether for a long term or temporary purpose), the erection of a building or other structure, the carrying out of a work, subdivision, and any other activity regulated under this Ac*t.*" The Act and Regulations are administered by the Planning and Management Authority (PUMA), which became a division of MWTI in 2018. PUMA regulates compliance with the legislation and with Samoa's Codes of Environmental Practice (COEP), which was developed with WB support. COEP also details procedures that consultants, designers and contractors should follow to avoid or mitigate the adverse environmental effects of infrastructure projects. Compliance with, and public acceptance of, PUMA's development consent processes are increasing, with the number of development consent applications rising steadily since 2007. The Community Integrated Management plans, supported through the previous DPO series, continue to be part of the PUMA's information system, and inform decisions on Development Consent, and prohibit 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, as a result, provides for better use of environmental resources, such as building materials

78. **PUMA continues to face several challenges in delivering on its mandate, despite this robust regulatory environment**. While all of 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. There are provisions under the IDA funded Climate Resilient Transport Project to provide technical assistance to strengthen PUMA's capacity, especially regarding Government's ability to manage a climate resilient road infrastructure.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

79. **Samoa has made considerable progress in recent years with reforming its PFM systems.** The budget is credible, fiscal information is generally comprehensive and transparent, participation in the annual budget process is strong, control in execution of the budget is sound, and there are avenues for external scrutiny and

[38] Developed by the Secretariat of the Pacific Regional Environmental Program (SPREP) in 2018 *Environmental Impact Assessment: Guidelines for Coastal Tourism Development In Pacific Island Countries and Territories*. https://www.sprep.org/sites/default/files/documents/publications/eia-guidelines-tourism-development_0.pdf

audit. The 2019 PEFA confirmed these PFM improvements relative to the 2014 PEFA. There were notable improvements between the two assessments including: (i) transparency of taxpayer obligations and liabilities with the existence of a functioning tax appeal mechanism; (ii) easier access to information and greater clarity on administrative procedures and legislation; (iii) significant improvement in accounting practices, recording and reporting; and (iv) material advancements 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 the 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 of the budget, especially in *budget documentation*, which did not contain information such as stock of debt, financial assets, fiscal risks, medium-term framework, tax expenditures; and *public access to fiscal information*, as basic elements such as the enacted budget and the annual budget execution report, were not made available to the public within the required timeframes. The budget is published each year on the Ministry of Finance website.

80. **Samoa has made progress in reforming its procurement system.** The 2014 Methodology for Assessing Procurement System (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 (of a possible 3.0), and improved the "Institutional Framework & Management Capacity", "Procurement Operations & Market Practices", and "Integrity & Transparency of the Public Procurement System" (the Treasury Instructions, Section 6: Procurement & Contracting (Park K Amended 2020). In recent years, Samoa has also created a Procurement Division in the MoF to support procurement processing and to help drive wider procurement reform. Several other weaknesses identified by the MAPS assessment such as the lack of procedural guidelines and model tender documents, as well as provision for and guidance on the use of framework agreements - have been addressed by reforms supported by the last series of DPOs (with assistance from the WB). The government developed a Procurement Operating Manual (April 2020) which includes arrangements for the use of framework agreements. In April 2020 the government of Samoa also entered into an agreement to use the Tenderlink Software as a Service (SaaS) e-procurement system. In May 2021, this system was also approved for use on all IDA financed Projects in Samoa (subject to certain conditions). Ongoing challenges include low tendering thresholds for procurement activities which create an administrative burden on technical ministries with limited procurement resources and capacity. There are also lengthy delays associated with related clearances and approvals.

81. **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 2015-2017, based on: (i) the key areas highlighted as weaknesses in the 2013 PEFA and the 2014 MAPS assessment; (ii) outstanding areas from the second phase of reforms; (iii) consultations with internal stakeholders; and (iv) discussions with development partners, including through dialogue as part of the JPAM. 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.

82. **The government's PFM priorities are outlined in the PDS and the finance sector plan**. The Plan is overseen by a committee consisting of representatives from MoF, MCR, SBS, CBS and OAG and covers: (i) PFM systems (including revenue management and external audit); (ii) the management of monetary policy; (iii) the operations of commercial banks and other non-bank financial institutions; and (iv) building a stable external sector position to ensure macroeconomic stability, while at the same time building financial institutions and systems

which are resilient, efficient, competitive and proactive to stimulate, support and sustain inclusive economic growth for Samoa. The plans are available online at the MoF website.

83. **The foreign exchange control environment of the Central Bank of Samoa (CBS) is satisfactory.** The financial statements of CBS are prepared in accordance with International Financial Reporting Standards and are published on the CBS website (including its annual report) and are independently audited. The audited financial accounts for the year ended June 30, 2020, were unqualified and have been published. The IMF Article IV of March 2021 reported that a previous update safeguards assessment of the CBS (completed in June 2014) found some safeguards elements in place, but raised concerns over CBS' autonomy and governance, audit quality, and staff capacity that need to be addressed. The CBS has taken steps to address these, including improving its governance and autonomy through the 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 WB has reasonable assurance that the control environment for foreign exchange at the CBS is satisfactory.

84. **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 account of transaction demand on foreign exchange and carries out a maturity analysis of 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 based on the distribution of trade, private remittances and travel transactions. The exchange rate peg has provided a welcome nominal anchor in the context of relatively weak monetary policy transmission. There are risks around the sustainability of the exchange rate peg given the continued external volatility. However, the CBS's commitment to quarterly reviews of the weights applied to the basket peg will help ensure stability of the exchange rate system, serving as an appropriate nominal anchor going forward. 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 the Bank's operations are minimized by the CBS adhering to Bank wide corporate policies and the external audit functions.

85. **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 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.

86. **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 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 dollars that form part of the country's official foreign exchange 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 grant will

be deposited in one tranche. The proceeds of the operation would not be used to finance expenditures excluded under the General Conditions for IDA Financing: Development Policy Financing (2018) (revised on August 1, 2020, April 1, 2021 and January 1, 2022) (General Conditions). If, after being deposited in a government deposit account, the proceeds of the operation are used for excluded expenditures 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.

87. **The WB requires confirmation from Government of each receipt of funds.** The WB obtains a confirmation from the government (within 30 days after 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).

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

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

89. **The MoF is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation.** MoF 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 result indicators. MoF 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).

90. **The results indicators chosen for the operation have been selected keeping in mind the ready availability of data of reasonable 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.

91. **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 MF), or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address legitimate 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 WB's attention, and the WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit

6. SUMMARY OF RISKS AND MITIGATION

92. **Overall, the operation faces substantial risks to achieving its development outcomes**. There are ongoing risks associated with the COVID-19 pandemic, war in Ukraine and the ever-present risk of climate related 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 by other development partners, especially budget support as part of the JPAM.

93. **Key macroeconomic risks to the operation include further delays to the border reopening due to the current community outbreak of COVID-19 and the economic fallout of the war in Ukraine.** There are significant downside risks associated with the baseline economic projections presented in Section 2. International travel restrictions may remain in place beyond 2022. Although vaccination rate of 90 percent was one of the criteria for border opening, the community transmission that started on March 17, 2022 could delay the opening. Consequently, tourism sector recovery could be delayed, creating further social and economic implications. The war in Ukraine could lead to a protracted period of high global commodity prices, trickling down to prices in Samoa. As a result, Samoa may record further price hikes, persisting for a prolonged period, affecting the poor and vulnerable the most through higher cost of living. This would warrant further social expenditures from the government to support the vulnerable individuals and households. In addition, high input costs and further slowdown in global economic growth would limit the inward flow of foreign investment and affect the magnitude and pace of economic recovery in Samoa. This would have negative implications on government revenues, squeezing the fiscal space.

94. **The realization of these macroeconomic risks could have negative implications for the results targets from this operation and may prevent the achievement of PDOs 1 and 2**. It would also divert the limited capacity of the government away from the implementation of longer-term reforms. The Government's continued effort to build fiscal buffers, enhance the investment and support to agriculture and fisheries, and ability to manage the economy over the past two years under COVID-19 related restrictions, would help mitigate some of the risks. The public health reforms including those supported by this programmatic series and the currently high vaccination rate 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. Despite the risk mitigation measures, the residual macroeconomic risks are substantial.

95. **Due to Samoa's inherent vulnerability to climate change, the risks to natural disasters, epidemics, and the environment and society are substantial.** Another major natural disaster would also severely test government capacity and public finances.[39] Samoa is assessed to be at a high risk of debt distress largely because of its vulnerability to climate-related disasters and could threaten macroeconomic stability, creating additional hardships on the population given the strains from the COVID-19 pandemic. 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 will provide greater fiscal space to respond to such a shock. The reforms to strengthen impact-based warnings will contribute to improved preparedness and response to reduce the social, environmental and economic costs of a disaster. The guidance on decisions on the use of contingent financing

[39] The maximum damage Samoa has suffered from natural disasters is 161.8 percent of GDP while average damage amounted to 47.7 percent of GDP (https://www.imf.org/en/Publications/WP/Issues/2018/05/10/The-Economic-Impact-of-Natural-Disasters-in-Pacific-Island-Countries-Adaptation-and-45826).

instruments will contribute to timely decisions and contribute to reducing the social impacts of a future disasters. More broadly, the potential impact of these risks is mitigated by the supported reforms, which are priorities for the government and other development partners involved in JPAM and are likely to retain momentum even in a challenging environment.[40]

96. **This proposed DPO2 supports several reforms which are the direct responsibility of individual 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 ministries to participate are less clear. In addition, this operation has 18 months remaining to achieve the proposed results, and the community outbreak of COVID-19 may create some delays in the achievement of some results. However, the engagement through the investment projects and TA with these ministries has helped to support the overall dialogue. Development partners (who 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 will specifically address the capacity needs of MNRE in implementing the associated reforms.

[40] Samoa was amongst the first Pacific Island Countries to develop a Climate Resilience Investment Plan (CRIP) in 2009. GoS also included the requirement for considering climate and disaster risk and resilience in its development plan of 2017. Further it developed participatory climate and disaster risk spatial planning and identified priority investments which along with those in CRIP have been funded by IDA investment projects and those from other development partners.

Table 8: 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		Results			
DPO1	**DPO2**	**Indicator Name**	**Baseline**	**Current (FY21)**	**Target**
Pillar 1: Promote an Inclusive Economic Recovery					
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 FY21 budget.	**Prior Action #1:** To attract private investment, the Recipient, through its Cabinet, has approved an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.	**Results Indicator #1:** i) Share of unemployed people benefiting from government assistance through (i) unemployment benefits; ii) short-term training **Results Indicator #2:** Increase in foreign enterprises registered in Samoa	(i) 0 (FY19) (ii) 0 (FY19) 0 (FY21)	(i) 38.8 percent (ii) 13.5 percent 0	At least 37.9 percent (FY23) At least 3.8 percent (FY23) At least a 10 percent increase (End of 2023)
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 FY20 supplemental budget and its FY21 budget.	**Prior Action #2:** To improve employment protections, the Recipient, through its Cabinet, has approved the Labour and Employment Relations Amendment Bill 2022 which formalizes employment of domestic workers' and strengthens provisions against gender discrimination.	**Results Indicator #3:** Share of total population benefiting from government assistance **Results Indicator #4**: (i) Share of domestic workers with contracts registered with MCIL; and (ii) Number of provisions included in the Women, Business and Law Equal Pay index enshrined in national labor legislation	0 (FY19) (i) No requirement (ii) 3 (FY 20)	5.4 percent (i) No requirement (ii) 3 of 4	At least 4.5 percent (FY23) (i) Target: 45 (FY23) (ii) Target 4 of 4 (FY23)

Pillar 2: Strengthen 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.	**Prior Action #3:** To manage fiscal risks associated with Government guarantees, the Recipient, through its Cabinet, has approved a Government Guarantee Policy, which establishes and mandates the application of a credit risk assessment framework for the issuance of Government guarantees to public trading bodies.	**Results Indicator #5:** Risk assessments of all new on-lending and government guarantees conducted and accounted for in deciding on eligibility for new government guarantees and on-lending proposals	Risk assessments of new government guarantees and on-lending arrangements are limited. (FY20)	Risk assessments conducted for new on-lending and government guarantee proposals limited with absence of a credit risk assessment framework.	Comprehensive risk assessments conducted for all new on-lending and government guarantee proposals. (FY23)
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.	**Prior Action #4:** To improve revenue mobilization, the Recipient, through its Cabinet, has approved excise tax increases on selected unhealthy products.	**Results Indicator #6:** Tax revenue on goods and services (percentage of GDP)	16.9 (FY19).	17.4	Taxes on goods and services increase to at least 17.7 (FY23)

Pillar 3: Enhance Climate, Disaster and Social Resilience					
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.	**Prior Action #5:** To improve preparedness and response for climate-related disasters, the Recipient, through its Cabinet, has approved a Multi-Hazard Early Warning System Policy for Meteorological, Hydrological and Geophysical Hazards 2022-2032.	**Results Indicator #7:** Early warnings for severe weather: (i) contents convey potential impacts and provide guidance for actions necessary in high-impacted areas; and (ii) are transmitted through multiple media	(i) Only general potential impact and guidance included (ii) 3 (FY20)	(i) Only general potential impact and guidance included (ii) 4	(i) Contents of all severe weather early warnings convey actions to be taken in areas likely to be most impacted (ii) At least 6 (End of 2023)
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.		**Results Indicator #8:** Share of active building practitioners licensed and registered	0 (FY20)	12 percent	At least 60 percent (FY23)
	Prior Action #6: To guide the use of different sources of contingent financing in response to a natural disaster and to improve climate and disaster resilience, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy 2022-2025. [41]	**Results Indicator #9:** Fiscal risks and external contingent financing sources included in budget documents	Limited information included in budget documents (FY22)	Limited information included in budget documents	Information included in budget documents (End of 2023)

[41] The National Epidemic and Pandemic Influenza Preparedness & Response Plan which would have been included as a PA#7 was completed in December 2020

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.		**Results Indicator #10:** Proportion of children for the cohort of 1-2 year old immunized against measles, mumps and rubella	59 percent (FY19)	80 percent	At least 85 percent (FY23)

ANNEX 2: FUND RELATIONS ANNEX

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

FOR INFORMATION

FO/DIS/22/36

March 16, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Samoa—Assessment Letter for the World Bank**

Board Action:	Executive Directors' **information**
Publication:	Not yet decided*
Questions:	Mr. Swiston, APD (ext. 39640)

*If the authorities consent to the publication of this assessment, it may be published by the World Bank.

Samoa—Assessment Letter for the World Bank
March 16, 2022

This letter provides IMF staff's assessment of Samoa's macroeconomic conditions, prospects, and policies. The assessment has been requested in relation to the World Bank's Second Response, Recovery and Resilience Development Policy Operation for Samoa.

Recent Developments, Outlook, and Risks

1. **Samoa has avoided domestic transmission of COVID-19 but remains in a recession due to the pandemic.** Samoa has remained closed to regular international travel since March 2020, implementing strict quarantine policies. This has prevented COVID-19 transmission domestically but resulted in a sharp contraction of tourism and related industries. Notwithstanding some buffering effects from a broad array of policy support measures, along with resilient remittances, real GDP declined 8.1 percent in FY2021 and is projected to be flat, 0.0 percent, in FY2022.[1] Inflation has spiked, due mainly to exogenous factors. Headline inflation has risen to 11.3 percent y/y through December 2021, mostly driven by rising import prices, which are up 15.2 percent y/y, while inflation of local items is at 4.1 percent y/y.

2. **Central government finances have weathered the pandemic surprisingly well.** The central government ran a surplus of 1.9 percent of GDP in FY2021, as current and capital expenditure were under-executed and tax revenue was stronger than expected, with some contribution from the rollout of the TIMS electronic invoice monitoring system. IMF staff forecasts a deficit of 2.1 percent of GDP in FY2022.[2] Tax receipts are projected to decline modestly due to the sluggish economy, and other revenue is projected to be lower due to some cuts to fees and other charges, while expenditure is forecast to grow in line with GDP.

3. **Credit growth slowed despite accommodative monetary policy.** The Central Bank of Samoa (CBS) policy rate was maintained at 0.15 percent. Deposit rates decreased amidst high levels of liquidity and lending rates declined slightly, but credit growth slowed in line with stagnant demand. The impact of the pandemic on commercial bank prudential indicators has been modest to date, with a small increase in non-performing loans, mainly in the tourism and construction sectors, though there are risks of further increases as bank support of borrowers is wound down. Meanwhile, provisions have been increased and capital ratios remain well above prudential norms.

[1] Fiscal years end in June.

[2] This incorporates a supplementary budget of 0.8 percent of GDP approved in December.

4. **With no tourism, the current account deficit hit 15.3 percent of GDP in FY2021, but reserves remained ample.** The deterioration in the current account paralleled the losses of 17 percent of GDP in tourism inflows, while imports proved resilient, supported by remittances. However, staff continues to assess Samoa's external position as broadly in line with medium-term fundamentals and desirable policy settings, once adjusting for the expected transitory nature of the tourism shock. Reserves increased despite the current account deficit, with contributions from higher grants, the Debt Service Suspension Initiative, and the 2020 RCF disbursement. This raised reserve coverage to above adequate levels, at 8.1 months of prospective imports. With the slow recovery in tourism, the current account deficit is projected to remain elevated, at -12.5 percent of GDP in FY2022.

5. **The medium-term outlook hinges critically on a safe reopening and resumption of tourism.** This will require clear health and safety protocols, along with measures to boost testing availability and other medical capacity. Assuming a partial reopening to tourism beginning in early FY2023, real GDP growth is projected at 4.0 percent in FY2023 and FY2024, though this is subject to a wide range of uncertainty surrounding the course of the pandemic. After a brief rebound as tourism normalizes, medium-term growth is projected to return to the historical average 2-2.5 percent range. Both tourism and overall output are forecast to remain below the pre-pandemic trend due to some scarring. Inflation is forecast to remain high, at 6.6 percent at end-FY2022, due mainly to supply factors including global food and commodity prices, before converging in FY2023 to about 3 percent, in line with trading partner inflation rates.

6. **Pandemic-driven downside risks to activity predominate, while inflation risks are rising.** The key downside risks to activity are pandemic-related—either domestic transmission disrupting activity, or additional delays in reopening due to risks of imported infections. While direct trade and financial links with Russia and Ukraine are low, a global slowdown associated with the war in Ukraine could weigh on tourism activity once borders reopen. Samoa also faces ever-present risks from large natural disasters. On the upside, a successful reopening and rapid recovery in tourism driven by pent-up demand could support activity. Inflation risks are rising given the recent surge in the prices of oil and other commodities due to the Russia-Ukraine war, and the related potential for supply disruptions. In turn, higher inflation could weigh on consumption by reducing household purchasing power.

Fiscal Policies

7. **Fiscal policy is rightly aiming for near-term accommodation, within the constraints of limited fiscal space.** The modest deficit, which can be financed in part by deposits accumulated from recent budget surpluses, is appropriate to buffer the impact of the pandemic and should be

targeted toward affected groups. The basic pension is being augmented and a disability allowance is being introduced, which helps strengthen the social safety net, and the supplementary budget includes measures to help sustain tourism-related firms through the prolonged shutdown. Executing capital expenditure as budgeted—unlike in previous years when it was significantly lower—would deliver a much-needed boost to activity, though this faces challenges as the border closure hinders availability of materials and expertise.

8. **Samoa's high risks of external and public debt distress call for medium-term fiscal consolidation.** Projected fiscal deficits are expected to keep the public debt-to-GDP ratio between 45-50 percent in the medium term. However, recent Debt Sustainability Analyses (DSA) incorporating Samoa's vulnerability to natural disasters and the effects of climate change finds that ratios of external and public debt-to-GDP could breach relevant thresholds in the 2030s.[3] Given the timing of these projected breaches, the fiscal consolidation necessary to safeguard sustainability can be gradual. Structural reforms to raise growth potential would also help bolster sustainability (see below).

9. **Fiscal consolidation should be revenue-based given the need to increase spending on development and climate-resilient infrastructure.** Samoa has achieved substantial increases in tax revenue over the past decade. However, revenue measures should continue to take priority given social spending needs and the gradual reduction of tariffs associated with the PACER Plus agreement. The authorities are already taking steps by increasing excises applying to items with high sugar and salt content and finalizing implementation of the TIMS. Future increases in revenue could be attained by broadening the base of the value-added tax, raising its rate, reducing corporate tax exemptions, and strengthening revenue administration. A recent Fund Climate Macroeconomic Assessment Program emphasized the need for substantial investment in climate-resilient infrastructure, which would be more cost effective than *ex-post* reconstruction after disasters.[4] This underscores the strong rationale for such investment to be funded by grants from the international community given the limited borrowing space implied by high debt distress risks.

10. **There is also room to strengthen public financial management, including governance of SOEs, to ensure productive use of resources and guard against fiscal risks.** Periodic reviews of public financial management have noted enhancements in the last decade.[5] Priorities for further improving the effectiveness of expenditure are to apply greater scrutiny to budget proposals and

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[3] The latest published DSA can be found in IMF Country Report No. 21/56.

[4] Y. Kinoshita, et al, *Samoa: Climate Macroeconomic Assessment Program (CMAP)*, February 2022.

[5] R. Neves, et al, *Samoa: Public Expenditure Financial Accountability Assessment*, July 2019.

outcomes during the budget planning cycle, and reinforce capital expenditure execution with strengthened project planning and monitoring. A national ID project that is nearly finalized should facilitate the delivery of health and education services, along with other social safety net programs. The pandemic has illustrated the exposure of the central government balance sheet to SOE liabilities, which underscores the need for tighter oversight of SOE borrowing, and improvements in governance and financial performance should be required in exchange for government support. Costs associated with social obligations or policy lending should be funded out of the budget and targeted to the highest-priority objectives. The government also needs to investigate and clarify any actual or implicit guarantees tied to the activities of any of the public financial institutions (PFIs).

Monetary and Financial Policies

11. **With inflation driven mainly by exogenous factors, monetary policy can remain accommodative in the near term, but some removal of accommodation will be necessary if wages and prices of domestic items accelerate.** Output and employment remain well below pre-pandemic levels, while higher prices have eroded household purchasing power, providing a negative impulse to domestic demand. Tightening policy at this juncture would delay economic recovery and could thus contribute to an undershooting of inflation in one-two years. The currency basket regime has helped inflation normalize quickly after previous supply-driven spikes and provides a credible nominal anchor in the context of a closed capital account. This framework should help restrain underlying price pressures, and headline inflation should converge to the low single digits once global inflation pressures are contained. However, higher rates would be appropriate once the recovery is underway or if pressures on prices of domestic goods and services materialize.

12. **Financial system policies should focus on continuing to build buffers, strengthening supervision and regulation, preserving correspondent banking relationships (CBRs), and enhancing inclusion.** Given the possibility of a pandemic-driven rise in non-performing loans, the authorities have appropriately encouraged banks to increase capital buffers and provisioning. Vigilant monitoring of asset quality, including updated stress testing, is necessary to help identify and address potential vulnerabilities. In the medium term, reforms are necessary to continue modernizing the regulatory and supervisory framework, including with respect to PFI prudential regulations. Local banks and money transfer operators have been affected by pressure on CBRs, and the underlying risks surrounding CBRs remain high, including due to the commercial viability and regulatory risk from the standpoint of counterparts abroad. The authorities are engaging in work on several aspects of this issue, including the development of a Know-Your-Customer utility and stepped-up anti-money laundering supervision. The pending establishment of a credit bureau, along with finalizing the national ID project, should help increase financial inclusion.

Structural Reforms

13. **Structural reforms remain critical to pursue inclusive growth and diversification.** Growth needs to accelerate to reach targets under the Sustainable Development Goals, raise standards of living, and provide sufficient high-quality jobs for the growing population. The authorities have launched a five-year plan, *The Pathway for the Development of Samoa*, that provides an overall strategy in this area. A key priority is boosting human capital by strengthening the health system, ensuring food security, broadening access to high-quality education using ICT, and improving training of the labor force. Samoa can also take greater advantage of the PACER-Plus agreement to diversify exports by upgrading the business environment and reducing trade facilitation costs. Successfully increasing climate-resilient infrastructure spending, as highlighted earlier, would also bring both near-term and long-term growth benefits.

Fund Relations

14. **Samoa is on a standard 12-month Article IV consultation cycle.** The 2021 consultation was concluded on March 16, 2021. On April 24, 2020, the IMF Executive Board approved $22.03 million in emergency financing under the IMF's Rapid Credit Facility to Samoa to help meet its balance of payments financing needs due to the COVID-19 pandemic. Samoa is a major recipient of IMF technical assistance, including from the Pacific Financial Technical Assistance Center (PFTAC).

Table 1. Samoa: Selected Economic Indicators, 2018/19-2026/27 [1]

	2018/19	2019/20	2020/21	Projections 2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Output and inflation		(12-month percent change)							
Real GDP	4.4	-2.6	-8.1	0.0	4.0	4.0	3.5	3.0	2.5
Nominal GDP	5.8	-2.4	-6.9	8.3	9.0	7.1	6.6	6.1	5.6
Consumer price index (end of period)	-0.1	-3.3	4.1	6.6	3.0	3.0	3.0	3.0	3.0
Consumer price index (period average)	2.2	1.5	-3.0	8.3	4.8	3.0	3.0	3.0	3.0
Central government finances			(In percent of GDP)						
Revenue and grants	35.6	38.7	39.1	35.0	34.2	34.0	34.1	34.4	34.7
Of which: grants	6.0	9.3	7.3	7.3	7.0	6.5	6.0	6.0	6.0
Expenditure	34.0	32.8	37.2	37.1	37.5	38.1	37.6	37.1	36.8
Of which: Expense	26.9	29.3	33.3	32.7	32.0	32.1	31.4	30.9	30.6
Of which: Net acquisition of non-financial assets	7.1	3.5	4.0	4.4	5.5	6.0	6.2	6.2	6.2
Overall balance	1.6	5.8	1.9	-2.1	-3.2	-4.1	-3.5	-2.7	-2.1
Gross debt outstanding	47.5	46.5	49.6	45.7	46.4	47.9	48.6	48.7	48.2
Macrofinancial conditions		(12-month percent change)							
Broad money (M2)	9.9	-0.9	1.8	8.3	7.9	7.1	6.6	6.1	5.6
Private sector credit, Commercial banks	6.1	5.8	1.5	3.0	6.0	5.5	5.3	4.8	4.9
Total loan growth, Commercial banks	5.8	3.9	...	...	...	...	...	...	...
Total loan growth, Public financial institutions	17.2	9.0	...	...	...	...	...	...	...
Private sector credit			(In percent of GDP)						
Commercial banks	48.1	52.4	...	...	...	...	...	...	...
Public financial institutions	32.5	36.4	...	...	...	...	...	...	...
Bank financial soundness									
Regulatory Capital to Risk-Weighted Assets, Ratio	27.5	28.7	28.1	...	...	...	...	...	...
Non-performing Loans to Total Gross Loans, Ratio	3.9	2.9	3.7	...	...	...	...	...	...
Balance of payments			(In percent of GDP)						
Current account balance	3.0	0.2	-15.3	-12.5	-7.2	-4.1	-3.1	-2.7	-2.4
Merchandise exports, f.o.b.	5.9	5.6	4.4	4.8	4.6	4.5	4.5	4.4	4.4
Merchandise imports, f.o.b.	41.0	39.2	40.5	40.9	40.4	39.6	38.9	38.7	38.6
Services (net)	21.1	14.1	-3.9	-1.6	5.5	10.0	11.7	13.0	13.9
Of which: Tourism receipts	23.6	17.2	0.0	0.0	8.2	12.9	14.9	16.5	17.4
Income (net)	-4.2	-3.8	-1.9	-1.9	-2.2	-2.5	-2.8	-3.2	-3.6
Current transfers (net)	21.3	23.4	26.5	27.1	25.3	23.5	22.3	21.8	21.5
External reserves and debt									
Gross official reserves (million U.S. dollars) 2/	185.3	222.3	288.5	296.8	290.6	302.9	305.7	311.6	319.5
(In months of next year's imports)	5.4	6.5	8.1	7.9	7.4	7.4	7.1	6.9	6.8
External debt (in percent of GDP)	46.8	46.1	49.3	45.6	46.3	47.9	48.6	48.7	48.2
Exchange rates									
Market rate (tala/U.S. dollar, period average)	2.62	2.70	2.57	...	...	...	...	...	...
Real effective exchange rate (12-month percent change) 3/	2.7	0.0	-6.2	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (million tala)	2,231	2,177	2,027	2,195	2,392	2,562	2,732	2,898	3,060
GDP per capita (U.S. dollars)	4,323	4,068	3,947	4,059	4,291	4,532	4,784	5,020	5,258

Sources: Data provided by the Samoan authorities; and IMF staff estimates and projections.
1/ Fiscal years July-June.
2/ Incorporates August 2021 SDR allocation.
3/ Increase signifies appreciation.

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)

01st May 2022

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 and shown resilience amid multiple shocks. Samoa's ambitious development agenda has been instrumental in helping our country steer in this positive direction. Our recently launched Pathway for the Development of Samoa (PDS) FY2021/22-FY2025/26 was developed from the people's vision of "Fostering social harmony, safety, and freedom for all." It establishes the guiding principles and strategic policy priorities that the government is pursuing to continue to achieve macroeconomic sustainability and inclusive recovery. The PDS has five strategic outcomes including: (i) improved social development; (ii) fostering a diversified and sustainable economy; (iii) security and trusted governance; (iv) secured environment and climate change; and (v) structured public works and infrastructure. Our pursuit of enhanced human development – an ambition across the five strategic outcomes – will help overcome hardship challenges faced by the poor and vulnerable of Samoa and enable them to more readily access opportunities to reach individual and collective potentials and pursue a better quality of life. Our actions will be guided by commitments to: (i) foster a just, more sustainable and peaceful future based on our shared values of fairness, respect, inclusiveness, and responsibility, both for each other and our natural resources; (ii) support measures that reflect local needs and opportunities, and which enhance our national resilience; (iii) safeguard the rule of law and uphold human rights and fundamental freedoms; (iv) promote and protect our institutions of law and governance, ensuring that they are fit for purpose and are accountable to all those who live in Samoa; and (v) grow a diversified economy that is sustainable and resilient to global, national and local exigencies.

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 developed in collaboration with the Bank and other development partners. We greatly support the efforts made to align the policy reforms in this operation with government priorities including those outlined in the PDS and our recent responses to COVID-19.

The COVID-19 pandemic has devastated our small island country. We introduced international border closures and imposed social distancing measures under a Proclamation of Emergency declared in March 2020. While these measures insulated us from the pandemic, they significantly impacted the tourism sector and delayed construction activities thereby resulting in an economic contraction of 8.1 percent in FY21. The economy is expected to contract further in FY22 given the negative impact from the continued border closure, the global economic slowdown, and sadly the community outbreak of COVID-19 with the first community case being reported on the 17th March 2022.

The government remains committed to supporting affected businesses and vulnerable households through this difficult period without compromising macroeconomic sustainability over the longer term. Therefore, our policy response is reflective of the resources that are currently available along with the additional assistance provided by our development partners. In recent years, we have consolidated our fiscal position by increasing domestic revenues and containing our spending. Despite the substantial support to the vulnerable, we recorded fiscal surpluses amid the pandemic indicative of our commitment to ensuring fiscal discipline. The debt to GDP ratio has fallen significantly since 2015 and we have accumulated sizeable cash deposits which helped us fund the stimulus packages for COVID-19. We participated in the Debt Service Suspension initiative (DSSI) until the end of 2021. We have been meeting our obligations under the DSSI, including by disclosing all public sector financial commitments and not contracting any new external non-concessional debt. Continued access to grants will help us maintain the fiscal space required so as to avoid further borrowing or drawdowns of our cash reserves. Any narrowing of our fiscal space will make it difficult for us to provide immediate response for the anticipated escalating recent emergency from the COVID-19 virus transmission in the community and future emergencies.

With healthy fiscal buffers, we approved stimulus packages of around 7.3 percent of GDP in FY20 and FY21. The packages helped improve the capacity of our public health system, protected the livelihoods of those most affected by the COVID-19 crisis and were the source of financial support to businesses to maintain operational viability. The support was skewed towards the heavily affected tourism sector and with targeted support to the most vulnerable individuals and households. The Samoa National Provident Fund also helped support the stimulus through annual dividend payouts. As part of the FY22 budget, we are extending support to the vulnerable, enhancing the inclusivity of such support, further increasing senior citizen's pension scheme payments and introducing a disability benefit scheme.

To promote an inclusive recovery from the effects of COVID-19, we have approved an Investment Policy that outlines the government's long-term foreign and domestic policy objectives for investment, including key principles such as non-discrimination between foreign and domestic investors, a limited use of investment incentives, adherence to national environmental and social standards, protections for investment, and transparency in rulemaking. The adoption of this investment policy will have a positive impact on improving conditions for investment in the country and we are confident that it will lead to an increase in the number of foreign enterprises registered in Samoa. We are committed to fully implementing this policy, beginning with substantial revisions to our Foreign Investment Act. We have also updated our labor legislation to ensure that workers' rights – particularly those of women – are strengthened and adequately codified. To meet this commitment, after Cabinet approval of the Labour and Employment Relations Amendment Bill 2022 on 20 April, 2022, it was sent to the Legislative Assembly Office for translation before subsequent submission to Parliament for discussion and in time assent by the Head of State.

Maintaining fiscal sustainability continues to be a key priority for the government. We have updated our Medium-Term Debt Management Strategy (MTDS) following the expiry of the previous MTDS in 2020. The MTDS will help ensure our financing needs and payment obligations are met (at the lowest possible cost and prudent risk level while further strengthening debt management by expanding the coverage to include debt-- government guaranteed and non-guaranteed—of all State-Owned Enterprises (SoEs). It will also assist to mitigate fiscal risks associated with increasing debt service requirements resulting from expiring grace periods on previous loans by outlining a financing strategy to meet these requirements. While our debt management framework is strong, we recognize that there are ongoing fiscal risks from guarantees and on-lending provided to SoEs. To 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. We have also prepared a government guarantee policy that establishes and mandates the application of a credit risk assessment framework for the issuance of Government guarantees to public trading bodies. The Policy adopts best practices of reporting and disclosure to enhance transparency and accountability. The credit risk assessment framework included in the Policy will help assess applications for government guarantees from public trading bodies and strengthen the monitoring and management of government guarantees.

In recent years, we have made a significant effort to bolster our domestic revenue base and improve the equity of the tax system, building on earlier improvements to the efficiency of tax administration and to modernize the customs regime. We are now focusing on improving compliance and ensuring a level playing field for businesses. In that vein, we have passed legislation and made implementing regulations that provide the basis for a Tax Invoice Monitoring System (TIMS), which has helped to ensure that businesses' VAGST obligations are accurately reported. Now that the system is in place, it is allowing 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. During the TIMS rollout and in recognition of the pressures that the COVID-19 pandemic imposed on Samoan businesses, we adopted a posture of flexibility toward compliance by granting time leniency to register and increasing the small business threshold to reduce compliance pressures. Separately, to further boost revenue collections we have approved increased excise tax on meat products (based on their fat content), sugary products while reducing taxes on imported vegetables (most of our locally grown fruit and vegetables are sold in the markets and no taxes apply to these). This Cabinet approval will allow amendments to the Customs Tariff Act 1975 which are being drafted after the Cabinet approval and will be introduced as the Customs Tariff Amendment Bill 2022 in FY23. The additional revenue generated will assist us in continuing our efforts to promote healthy lifestyles and healthy eating to reduce the prevalence of non-communicable diseases within our population..

Like other Pacific Island Countries, Samoa faces substantial risks from natural disasters and the effects of climate change. The climate related risks—heavy rainfall, cyclones, floods, storms, and droughts—are interrelated and affect Samoa's people, economy and environment. Such hazards have significant direct effects on communities, ecosystems and livelihoods, decimating capital assets and causing damage and losses of up to about a third of the annual GDP as evidenced by Tropical Cyclones Evan in 2012. Given these impacts are likely to increase over the coming decades, we are committed to bolster our efforts—which we started in 2012—to enhance our resilience to climate related risks and other disasters. We have continued to integrate climate and disaster resilience into our PDS and have been coordinating this effort through a dedicated division of the Ministry of Finance. With the enactment of the *Meteorology, Geoscience and Ozone Services Act* in 2021, we are continuing reforms to improve our early warning system and have developed a Multi-Hazard Early Warning System Policy to ensure that there are timely warnings to many hazards that affect our island nation (including climate-related geological hazards, such as earthquakes and tsunami risks) and provide more impact-related information for the more commonly occurring hazards, particularly coastal and riverine floods.

As our population is spread over two main islands with limited communications, these early warnings will be transmitted and broadcasted through various forms of media to ensure the widest possible dissemination of critical communications among the poor, vulnerable and remote/rural areas to ensure appropriate, quick and safe responses are implemented and catastrophic loss of life and livelihoods is minimized.

Finally, we are improving our decision-making on the use of financing following disasters. Through support from the World Bank and other development partners over the past six years, we have been able to access four major disaster risk financing instruments. Along with our own contingency budget and access to some emergency funds from bilateral donors, these instruments help us prepare and respond to disasters and enhance our resilience to the increasing impacts of climate change. However, the use of these instruments in the aftermath of a disaster, based on the extent of the likely social, economic, and environmental impacts and the timing of a disaster (e.g., early or late in the cyclone season) is challenging. As such, we have completed a Disaster Risk Financing policy to help guide us on our decision-making in these instances and strengthen our reporting to our Cabinet and parliament on the use of finance. The Policy also recognizes the damage and loss of critical infrastructure during disaster and the repair and/or rebuild of public building and other assets, restoring access to basic is a major cost to the government. The policy thus supports the establishment of an overall public asset registry in the coming years that will contribute to improving life-cycle management and resilience of public infrastructure to climate and disaster risks. Finally, the policy also recognizes the importance of providing support to the poor and vulnerable as they often live in high-risk zones and we hope to develop a Social Protection Policy and system to help us continue to provide such support..

Despite the challenging circumstances, not limited to the current community outbreak of COVID-19, we remain firmly committed to implementing the package of reform measures contained in this DPO reform matrix. The key aspects of these measures are contained in the policy matrix we have been developing in partnership with the World Bank. All relevant policies and bills have been approved by Cabinet. The policies include detailed implementation plans with monitoring and reporting to the Cabinet on a regular basis. For the bills, as with the Labour and Employment Relations Amendment Bill, they will be sent to the Legislative Assembly Office for translation before submission to Parliament for discussion. Once Parliament passes the Bill, it will need assent by the Head of State to become an Act. The timing for parliament discussion and passing of a Bill varies as it depends on the parliamentary sitting schedule.

Against this background, we therefore seek the World Bank's favorable consideration of our request for a development policy grant of US$ 14 million, based on our completion of the reform measures stipulated 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 valued relationship we have forged with the World Bank over many years.

Yours sincerely

Hon. Mulipola Anarosa Ale Molioo
Minister of Finance

ANNEX 4: INDICATIVE TRIGGERS AND PRIOR ACTIONS

Indicative Trigger as Envisaged in DPO1	Proposed Prior Action for DPO2	Comment
Pillar 1: Promote an Inclusive Economic Growth and Recovery		
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.	**PA#1:** To promote private sector investment, the Recipient, through its Cabinet, has approved an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.	**Trigger converted to PA with modifications**. The proposed revisions to the Foreign Investment Act were assessed by the WBG and found to be limited in scope and thus, unlikely to have much impact on FDI flows. The government has since engaged in a substantive policy dialogue with the WBG on a comprehensive reform. The Investment Policy measure will translate this reform commitment into a legal policy that will serve as the foundation for this reform.
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.		**Dropped** as the new Government is focusing on a broad social protection agenda and needs time to progress a social protection policy.
Indicative Trigger 3: To strengthen provisions against discrimination and child labor, and clarify the process for adjusting minimum wages, the Recipient, through its Cabinet, has approved a revised Labour and Employment Relations Act.	**PA#2:** To improve employment protections, the Recipient, through its Cabinet, has approved the Labour and Employment Relations Amendment Bill 2022 which formalizes employment of domestic workers' and strengthens provisions against gender discrimination.	**Trigger converted to PA with minor modifications.**
Pillar 2: Strengthen Macro-Fiscal Resilience		
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.	**PA#3:** To manage fiscal risks associated with Government guarantees, the Recipient, through its Cabinet, has approved a Government Guarantee Policy, which establishes and mandates the application of a credit risk assessment framework for the issuance of government guarantees to public trading bodies.	**Trigger replaced with a strengthened PA.** Given risks from government guarantees, the MoF is expediting the preparation of a Government Guarantee Policy, which strengthens the existing procedures and includes a robust credit risk assessment framework.
Indicative Trigger 5: To reduce the incidence of NCDs, Government has introduced excise tax increases on unhealthy products.	**PA#4:** To improve revenue mobilization, the Recipient, through its Cabinet, has approved excise tax increases on selected unhealthy products.	**Trigger converted to PA with minor modifications.**

Pillar 3: *Enhance Climate, Disaster and Social Resilience*		
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.	**PA#5:** To improve preparedness and response for climate-related disasters, the Recipient, through its Cabinet, has approved a Multi-Hazard Early Warning System Policy for Meteorological, Hydrological and Geophysical Hazards 2022-2032.	**Trigger converted to PA.**
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.	**PA#6:** To guide the use of different sources of contingent financing in response to a natural disaster and to improve climate and disaster resilience, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy 2022-2025.	**Trigger converted to PA.**
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.	Outcomes added into the narrative given the plan was completed in December 2020.	**Indicative trigger was completed in December 2020** and thus not included in the proposed policy matrix.

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
Pillar 1: Promote an Inclusive Economic Recovery		
PA#1: To promote private sector investment, the Recipient, through its Cabinet, has approved an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.	Neither positive/ negative	Positive
PA#2: To improve employment protections, the Recipient, through its Cabinet, has approved the Labour and Employment Relations Amendment Bill 2022 which formalizes employment of domestic workers' and strengthens provisions against gender discrimination.	Neither positive/negative	Positive
Pillar 2: Strengthen Macro-Fiscal Resilience		
PA#3: To manage fiscal risks associated with Government guarantees, the Recipient, through its Cabinet, has approved a Government Guarantee Policy, which establishes and mandates the application of a credit risk assessment framework for the issuance of government guarantees to public trading bodies.	Neither positive/negative	Neither positive/negative
PA#4: To improve revenue mobilization, the Cabinet has approved excise tax increases on selected unhealthy products.	Neither positive/negative	Positive
Pillar 3: Enhance Climate, Disaster and Social Resilience		
PA#5: To improve preparedness and response for climate-related disasters, the Recipient, through its Cabinet, has approved a Multi-Hazard Early Warning System Policy for Meteorological, Hydrological and Geophysical Hazards 2022-2032.	Positive	Positive
PA#6: To guide the use of different sources of contingent financing in response to a natural disaster and to improve climate and disaster resilience, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy 2022-2025.	Positive	Positive

ANNEX 6: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Pillar 1: Promote an Inclusive Economic Recovery	
PA#1: To promote private sector investment, the Recipient, through its Cabinet, has approved an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.	A Technical Assistance study on the overall investment climate, including a review of the foreign investment Act in Samoa provided observations regarding: (i) the context for the foreign investment legislation in terms of Samoa's economic development and foreign investment; (ii) concerns about foreign investment in Samoa; and (iii) shortcomings of Samoa's foreign investment legislation. The studies suggested a phased approach for a comprehensive reform.
PA#2: To improve employment protections, the Recipient, through its Cabinet, has approved the Labour and Employment Relations Amendment Bill 2022 which formalizes employment of domestic workers' and strengthens provisions against gender discrimination.	The Australian Aid-funded Samoa Technical Assistance Facility in July 2018 prepared a review of the LERA 2013, titled Revising the Employment and Labour Relations Act: Implications for MCIL. This review identified gaps in the legislation and made recommendations which have informed the amendments to the LERA 2013.
Pillar 2: Strengthen Macro-Fiscal Resilience	
PA#3: To manage fiscal risks associated with Government guarantees, the Recipient, through its Cabinet, has approved a Government Guarantee Policy, which establishes and mandates the application of a credit risk assessment framework for the issuance of government guarantees to public trading bodies.	The policy draws on material from Backmair, F., (2016).[42] The IMF 2019 AIV Staff Report highlights the need to make progress in monitoring and disclosing fiscal risks from state-owned enterprises, and notes that existing procedures for issuing guarantees to SOEs should be strengthened.
PA#4: To improve revenue mobilization, the Recipient, through its Cabinet, has approved excise tax increases on selected unhealthy products.	2014 World Bank NCD Roadmap outlined the scale of the NCD epidemic facing Samoa and recommended to reinforce positive behavioral change with taxes on risk factor goods like tobacco and unhealthy food and drink as part of a broader package of reforms. The 2021 IMF Article IV Staff Report recommended raising excises on alcohol and tobacco, as well as high salt, fat and sugar to promote health and partially compensate for revenue losses from PACER Plus. The World Bank flagship study Pacific Possible notes that in the absence of substantive interventions to control NCDs, the economic costs of mortality and morbidity could reduce GDP in Samoa by approximately five percent in 2040. Bank Study on excise taxes in Tonga shows that higher revenue collection from an increase in excise taxes will increase fiscal space, helping the government increase the resources to further support health promotion activities as well as improve health care services.

[42] 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.

Pillar 3: Enhance Climate, Disaster and Social Resilience	
PA#5: To improve preparedness and response for climate-related disasters, the Recipient, through its Cabinet, has approved a Multi-Hazard Early Warning System Policy for Meteorological, Hydrological and Geophysical Hazards 2022-2032.	The World Bank Global Assessment Report on Disaster Risk Reduction – Cost and benefits of early warning systems (2011) highlights that a MHEWS with the ability to warn of one or more hazards increases the efficiency and consistency of warnings through coordinated and compatible mechanisms and capacities
PA#6: To guide the use of different sources of contingent financing in response to a natural disaster and to improve climate and disaster resilience, the Recipient, through its Cabinet, has approved a Disaster Risk Financing Policy 2022-2025.	Samoa faces significant catastrophe risk. Analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative indicates that in any given year Samoa faces a 10% chance of experiencing combined emergency costs from Tropical Cyclone and Earthquake that exceed US$ 4.7m; and a 2 percent chance of experiencing combined Tropical Cyclone and Earthquake emergency costs exceeding US$ 25m. The PEFA pilot climate assessment (https://www.pefa.org/node/5015) stressed the need for reporting on all sources of climate-related finance to strengthen planning and oversight and to integrate in public financial management. The Samoa IMF Technical Assistance Report—Climate Macroeconomic Assessment Program (CMAP) and the Tonga IMF/WB CCPA highlighted the benefit of developing a disaster risk financing strategy.

ANNEX 7: ADDRESSING GENDER INEQUALITY

This Annex provides an overview of the gender gaps and how PA2 and 5 address them.

Gender gaps in economic opportunities persist in Samoa. Only 34.2 percent of women aged 15-64 are in the labour force, compared to 58.4 percent of men. Only about 37 percent of paid employees and about 38 percent of persons in formal employment are women.[43] Among those who are in wage employment, there are some indications of gender gaps in hourly earnings, which persist within occupations and educational levels.[44] Women's monthly earnings have also been shown to be lower than men's at all levels of educational attainment.[45]

Domestic workers in Samoa are predominantly female and highly vulnerable. As many as three quarters of domestic workers in Samoa are female, with more than one in every 20 women in paid employment working in the sector. Due to limited legal protections, high levels of informality and the nature of their work, domestic workers, especially female migrant workers, are one of the most vulnerable employment groups.[46] There have been accounts of exploitation of migrant female workers and seizure of identification documents.[47] No countries in EAP currently cover domestic workers in their national labor laws, with the majority opting to use subordinate regulations or legislation specific to domestic workers.[48]

Women face disproportionate risks in the face of natural disasters, with poor and rural women being especially vulnerable. Global evidence suggests that women have limited access to information, higher likelihood to be at home during the day, and the main responsibility for the care for children, the disabled and the elderly. These factors increase their risks of injury and death during disasters.[49] While no sex-disaggregated data on access to early warnings currently exists in Samoa,[50] the 2019-2020 wave of the Samoa MICS-DHS shows that there are clear gendered patterns in access to information. Despite the fact that nearly all rural and urban households have at least one mobile phone (96 and 97 percent respectively), rural women are four percentage points less likely to own a mobile phone than men (76 versus 80 percent respectively), with the gap expanding to 12 percentage points among the poorest households (67 versus 79 percent). Women across both urban and rural areas, as well as across income quintiles, are about 18 percentage points less likely to have used the internet over the three months preceding the survey. At the same time, even though penetration of mass media (TV, radio or press) is significantly lower than mobile phone ownership amongst the poorest and rural households,[51] exposure is equal for women and men (at 71 and 59 percent respectively), while it is lower for women amongst urban households.

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[43] 2017 Samoa Labour Force Survey estimates retrieved from ILOSTAT

[44] To date, there is no rigorous analysis of the Samoan labor market that quantifies the extent to which these gaps are driven by unobservable factors (e.g., potential gender discrimination).

[45] ILO. 2014. Samoa Labour Market Update.

[46] ILO. 2021. Making decent work a reality for domestic workers: Progress and prospects in Asia and the Pacific ten years after the adoption of the Domestic Workers Convention, 2011 (No.189)

[47] MCIL 2018.