

## Concept Paper

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Project Number: 50210-001  
August 2016

# Proposed Programmatic Approach and Policy- Based Grant for Subprogram 1 Samoa: Fiscal Resilience Improvement Program

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

## CURRENCY EQUIVALENTS

(as of 15 August 2016)

Currency Unit	–	Tala (ST)
ST1.00	=	\$0.3984
\$1.00	=	ST2.5100

## ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
FRIP	–	Fiscal Resilience Improvement Program
JPAM	–	joint policy action matrix
MOF	–	Ministry of Finance
MTDS	–	medium-term debt management strategy
PSFMP	–	public sector financial management program
PFM	–	public financial management
PFMRP	–	public financial management reform program
PPP	–	public–private partnerships
SOE	–	state-owned enterprise

## NOTES

- (i) The fiscal year (FY) of the government ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 June 2016.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50210-001</b>	
<b>Project Name</b>	Fiscal Resilience Improvement Program, Subprogram 1	<b>Department /Division</b>	PARD/SPSO
<b>Country</b>	Samoa	<b>Executing Agency</b>	Ministry of Finance
<b>Borrower</b>	Ministry of Finance		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Public administration		1.00
	Public expenditure and fiscal management		2.00
	Reforms of state owned enterprises		2.00
	<b>Total</b>		<b>5.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Partnerships (PAR)	Bilateral institutions (not client government)		
Private sector development (PSD)	Official cofinancing		
	Conducive policy and institutional environment		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Nation-wide	High
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>5.00</b>	
Sovereign Program grant: Asian Development Fund		5.00	
<b>Cofinancing</b>		<b>15.50</b>	
European Union - Grant		5.70	
Government of Australia - Grant		2.30	
Government of New Zealand - Grant		2.50	
World Bank - Loan		5.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>20.50</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

## I. THE PROGRAM

### A. Rationale

1. The proposed Fiscal Resilience Improvement Program (FRIP) aims to help the Government of Samoa maintain macroeconomic stability and strengthen the country's resilience to external shocks. Recent disasters—a tsunami that cost the equivalent of \$124 million, or 22% of gross domestic product (GDP), in 2009 and a cyclone that cost about \$204 million, or 28% of GDP, in 2012—have stretched the government's capacity to respond to future shocks. Therefore, it is a high priority for the government to rebuild fiscal buffers. The policy-based operation will consist of two sequential subprograms in 2016 and 2017 that will support state-owned enterprise (SOE) reforms, improve procurement systems and public debt management, and promote resilience to climate change.<sup>1</sup>

2. Samoa's small size, limited natural resources, narrow-based economy, distance from major markets, and vulnerability to exogenous shocks have constrained economic growth and contributed to its volatility. The global economic crisis in 2008 and the impact of natural disasters have had adverse long-term impacts on growth, which averaged just 1.2% between FY2008 and FY2015—well below the 4.3% average between FY1999 and FY2007. Agriculture and tourism, contributing 35% of total output, have been the hardest hit sectors. Growth of 3.5% is estimated for FY2016 with new tourism developments. However, growth in FY2017 is likely to be 2.0% because of the scheduled closure of the automotive wire harness plant (causing 1,000 job losses).

3. Significant budgetary pressures have arisen from Samoa's vulnerability to external shocks with medium-term fiscal impacts showing up in large fiscal deficits and escalating public debt. Samoa's budget deficit averaged 4.5% of GDP between FY2008 and FY2016. The FY2017 budget targets a fiscal deficit of \$29.5 million, equivalent to 3.5% of GDP. The International Monetary Fund and the World Bank classify Samoa as a country at *moderate* risk of debt distress.<sup>2</sup> The risk was reduced in 2015 as a result of the change of the reference interest rate for calculating concessionality and the inclusion of remittances in the assessment.

4. The proposed programmatic approach for the FRIP is the next step in a medium-term, sequenced public financial management (PFM) reform process supported by development partners to help the government reduce debt and achieve fiscal consolidation, while focusing on necessary reforms to build resilience.<sup>3</sup> It is designed to augment ongoing PFM reforms and will be delivered within the joint policy action matrix (JPAM) provided in Appendix 4. The JPAM was developed through regular policy dialogue on reform priorities between the government and ADB, the World Bank, the Government of Australia, the Government of New Zealand, and the European Union. The other development partners are also using the JPAM for their budget support delivery. The two subprograms allow the flexibility for program changes to efficiently and effectively respond to new risks to the economy and shifts in government priorities. The program is consistent with the Strategy for the Development of Samoa, 2012–2016.

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<sup>1</sup> The government did not request a policy-based operation during programming discussions for the country operations business plan, 2016–2018. The request for a policy-based operation in 2016 was received during JPAM discussions and followed up during the country programming mission for the country operations business plan, 2017–2019.

<sup>2</sup> This is an improvement on the FY2014 rating when Samoa was assessed to be at *high risk* of debt distress.

<sup>3</sup> In 2014, the government launched the Public Financial Management Reform Plan—Phase 3 (2015–2017). The PFM Reform Plan built on previous phases (Phase 2, 2012–2014 and Phase 1, 2008–2011). The first phase built on capacity building initiatives before 2008.

5. The FRIP will build on the lessons of the Economic Recovery Support Program (ERSP),<sup>4</sup> the public sector financial management program (PSFMP),<sup>5</sup> and ADB support for reform around the region. Lessons learned from these operations have highlighted the following good practices, which have been incorporated in the design of the program: (i) the need to ensure political ownership and understanding of the program, (ii) the need to ensure that program supported processes are mainstreamed in PFM practices, and (iii) stakeholders must understand that reforms in a country vulnerable to disasters can take time to become self-sustaining.

## **B. Impact, Outcome, and Outputs**

6. The program impact will be macroeconomic stability. The outcome will be improved fiscal resilience through SOE, public procurement and debt management reforms, and through building resilience to climate change. Subprogram 1 will be structured around the following four outputs to be achieved by 30 September 2016 and these will be augmented through related policy actions to be achieved by 30 September 2017 under Subprogram 2. The draft proposed program policy matrix is in Appendix 5.

- (i) **Improved fiscal position through state-owned enterprise reforms.** SOE reforms will reduce Samoa's dependence on public finances. ADB will continue to support SOE reforms through the regional private sector development initiative technical assistance.<sup>6</sup> Public-private partnerships (PPPs) also contribute towards improving SOE performances. To maintain the reform momentum, the policy actions for Subprogram 1 will include (a) cabinet approval to proceed with at least one PPP; (b) completion of the agriculture stores' privatization; and (c) cabinet approval of an SOE ownership, performance, and divestment policy. Proposed policy actions for Subprogram 2 to be confirmed with the government will include (a) the establishment of a solid waste management PPP, and (b) all SOEs to be up-to-date with external audits.
- (ii) **Improved procurement systems.** The government approved a legal and regulatory framework for public procurement in 2013.<sup>7</sup> Efficient procurement systems ensure effective use of public resources. To continue with procurement reforms, policy actions for Subprogram 1 will include (a) the issuance of new guidelines for use with framework arrangements; (b) revisions to treasury instructions that allow the use of framework arrangements; and (c) the issuance of new templates for procurement of major works. Proposed Subprogram 2 policy actions for this output are (a) establishing an independent complaints mechanism, and (b) piloting framework arrangements for purchasing pharmaceutical items.
- (iii) **Improved debt management.** Effective debt management allows the government to minimize financing costs for its priority investments. Strengthening debt policy and debt management remains a key priority given the rapid increases in debt stock since FY2008 as a result of external shocks. The government produced a medium-term debt management strategy (MTDS) in both 2010 and in 2013, and has now included debt statistics in its official statistical

<sup>4</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 1 Economic Recovery Support Program to the Independent State of Samoa*. Manila.

<sup>5</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Public Financial Management Program to the Independent State of Samoa*. Manila.

<sup>6</sup> ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila (TA 6353-REG. TA-REG 7430, TA REG-8378).

<sup>7</sup> The government issued Treasury Instructions in 2013. Section 6: Part K was revised to allow the use of framework arrangements as a method of procurement.

releases for government finances. To maintain focus and compliance with approved policies, Subprogram 1 will include a policy action for an updated MTDS following an assessment of the previous MTDS. The proposed Subprogram 2 policy action for this output is an external audit on debt management.

- (iv) **Resilience to climate change and variability is promoted.** Public investment in climate resilient assets reduces the need to rebuild frequently following climate-related disasters. Given the substantial economic impact and implicit contingent liability of disasters, and their ability to affect macroeconomic stability, it is important that resilience is mainstreamed in public policies and investments. As a result, it is important to monitor and coordinate a large number of policies and projects associated with building climate resilience. Subprogram 1 will support (a) a national monitoring and reporting framework for climate change to be established, and (b) the inclusion of climate risk and resilience indicators in the Strategy for the Development of Samoa, 2016–2020. Proposed Subprogram 2 policy actions for this output are the (a) development of an integrated policy framework allocating responsibilities across agencies, and (b) preparation of a strategic resilient infrastructure investment plan.

### C. Program Costs and Financing

7. The government has requested a grant of \$5.0 million under Subprogram 1 and a loan of \$5.0 million under Subprogram 2 from the Asian Development Fund. Total annual budget support from all development partners help reduce fiscal deficit by about 2% of GDP (Appendix 6). Reforms of SOEs, improved debt management, procurement systems, and climate resilience will contribute to improved fiscal resilience. The proposed ADB and parallel collaborative partner financing (not ADB administered) are indicated in Table 1. The subprogram grant and loan will be released as a single tranche of \$5.0 million each upon grant and/or loan effectiveness and upon full compliance of each subprogram’s policy actions. The government will ensure that the local currency funds generated by the grant will be used to (i) meet its financing requirements, and (ii) provide the necessary impetus for sustained action on critical reforms.

**Table 1: Tentative Financing Plan**

Source	Amount (\$ million)		Share of Total (%)
	Subprogram 1	Subprogram 2	
Asian Development Bank			
Asian Development Fund (grant)	5.0	0.0	13.9
Asian Development Fund (loan)	0.0	5.0	13.9
World Bank (loan)	5.0	TBC	13.9
Australia (grant)	2.3	2.3	12.7
New Zealand (grant)	2.5	2.5	13.9
European Union (grant)	5.7	5.7	31.7
<b>Total</b>	<b>20.5</b>	<b>15.5</b>	<b>100.0</b>

TBC = to be confirmed.

Sources: Samoa 2016–2017 Budget Estimates and Asian Development Bank staff estimates.

### D. Indicative Implementation Arrangements

8. The Ministry of Finance (MOF) will be the executing agency and will oversee and coordinate the timely implementation of agreed policy actions. MOF will provide a development policy letter summarizing the rationale for and content of the reform program, and will also be responsible for program administration, disbursements, and maintenance of all program records. Participating ministries will report the progress made to MOF. The government, ADB,

and other development partners will participate in at least one annual review of the program by June 2017.

## II. DUE DILIGENCE REQUIRED

9. An independent assessment will be sought from the International Monetary Fund on the appropriateness of macroeconomic policies. ADB will examine the main fiduciary risks to program performance. This will cover PFM risks that go beyond the remit of the proposed program, including preparedness for macroeconomic shocks, the adequacy of anticorruption mechanisms, the robustness of public procurement, and the adequacy of public consultation and information dissemination. A major risk to the program also stems from Samoa's vulnerability to disasters and downside risks from the global economy. The key program-specific risks are (i) lack of readiness and continued support for reforms by the government; (ii) diversion of the government's attention away from reforms supported in the JPAM; and (iii) failure by the government to adhere to a medium-term fiscal framework and debt strategy.

## III. PROCESSING PLAN

### A. Risk Categorization

10. The program is categorized *low risk* as it has (i) a financing amount less than \$50 million (the grant and loan are both \$5 million), (ii) a sound record of previous ADB experience in the sector in Samoa (e.g., ERSP, PSFMP), (iii) reasonable executing agency capacity for administering an externally financed project (MOF executed ERSP and PSFMP), (iv) increased ADB capacity in Samoa, and (v) a safeguard categorization of C.

### B. Resource Requirements

11. ADB staff will prepare the program using international staff support of about 3 person-months, 1 person-month of Office of the General Counsel international staff support, and national staff support of 9 person-months. Ongoing technical assistance (footnote 6) will support the program, in addition to a possible SOE performance improvement and monitoring capacity building technical assistance.

### C. Processing Schedule

**Table 2: Proposed Processing Schedule**

<b>Milestones</b>	<b>Expected Completion Date</b>
Fact finding	4 September 2016
Management review meeting	4 October 2016
Grant negotiations	10 October 2016
Board consideration	30 November 2016

Source: Asian Development Bank staff estimates.

## IV. KEY ISSUES

12. In addition to the issues highlighted in paragraph 9, particular attention will be paid during program processing to ensure (i) high government commitment to facilitate program implementation; (ii) highly consultative program development; (iii) coordination with other development partners; and (iv) the inclusion of lessons in program design from ADB experience with ERSP and PSFMP, as well as policy-based lending in Asia and the Pacific.



## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Program is aligned with:</b> Macroeconomic stability is maintained (Strategy for the Development of Samoa, 2012–2016)			
<b>Program Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> Improved fiscal resilience.	<b>Programmatic Approach</b> Current expenditure remains below 29.0% of GDP (FY2016 baseline 29.1% of GDP).  <b>Subprogram 1</b> Government targets fiscal deficit of 3.5% of GDP for FY2017 (FY2016 baseline: 4.7% of GDP).  <b>Subprogram 2</b> Government maintains its fiscal deficit target at or below 3.5% of GDP for FY2018.	Budget estimates IMF reports  Budget estimates IMF reports  Budget estimates IMF reports	Economic growth remains weak  Further climatic or economic shocks  Containing SOE losses may be difficult to accomplish in light of weak economy  Limited capacity to reform SOEs and track financial performance  Staff turnover and loss of needed skills
<b>Outputs<sup>a</sup></b> 1. Improved fiscal position through SOE reforms	<b>Programmatic Approach</b> Advances in SOE reform and performance, including through partnerships with the private sector, measured by the number of PPPs and privatization of SOEs.  <b>Subprogram 1</b> Cabinet approval of at least one PPP in line with the PPP framework (September 2016).  Completion of sale of Agriculture Stores Corporation (August 2016).  Cabinet approval of privatization policy (August 2016).  <b>Subprogram 2</b> Establishment of a solid waste management PPP.  All SOEs to be up-to-date with their external audits.	Cabinet Decision and Ministry of SOE Reports  Ministry of SOEs Report  Ministry of SOEs Report  Cabinet Decision and approved privatization policy  Ministry of SOEs Report  Ministry of SOEs Report	Political commitments supersede reform commitments  Administrative commitment to reform weakens  High turnover of essential or capable staff  Delays in the delivery of required technical assistance  Non-compliance with approved policies and procedures
2. Improved procurement systems	<b>Programmatic Approach</b> An increase in the extent to which commonly procured items (such as pharmaceuticals and stationery) are procured through framework arrangements that reduce the need	Ministry of Finance reports	

Program Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>for repetitive tender processes for the procurement of common items.</p> <p><b>Subprogram 1</b> Issue guidelines for the use of framework arrangement in public procurement, including speedy procurement in emergency situations (August 2016).</p> <p>Revise treasury instructions that allow the use of framework arrangements (August 2016).</p> <p>New standard templates for procurement of major works issued (August 2016).</p> <p><b>Subprogram 2</b> Establishment of an independent complaints mechanism.</p> <p>Pilot framework arrangements for purchase of pharmaceutical items.</p>	<p>Ministry of Finance Reports; Revised Instructions</p> <p>Ministry of Finance Reports; Issued Templates</p> <p>Ministry of Finance Reports; Issued Templates</p> <p>Ministry of Finance reports</p> <p>Ministry of Finance reports</p>	
3. Improved debt management	<p><b>Programmatic Approach</b> Compliance with medium-term debt management strategy, particularly on concessionality of and economic returns from external loans, is maintained.</p> <p><b>Subprogram 1</b> Approval by Cabinet of the new MTDS (August 2016).</p> <p>Assessment of the previous MTDS (August 2016).</p> <p><b>Subprogram 2</b> External performance audit on debt management.</p>	<p>Ministry of Finance Reports</p> <p>Ministry of Finance Reports</p> <p>Ministry of Finance Reports</p> <p>Ministry of Finance reports</p>	
4. Promote resilience to climate change and variability	<p><b>Programmatic Approach</b> Informed public investment decisions to increase resilience across sectors.</p> <p><b>Subprogram 1</b> Approval of a national monitoring and reporting framework for climate change (August 2016).</p>	<p>Ministry of Finance Reports</p> <p>Ministry of Finance Reports</p>	

Program Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks																					
	<p>Include climate risk and resilience framework in the updated SDS (August 2016).</p> <p><b>Subprogram 2</b> Develop an integrated policy framework that allocates responsibilities for resilience across government agencies and informs decisions to increase resilience across key sectors including agriculture, forestry, water, coastal, and urban areas.</p> <p>Prepare a strategic investment plan that identifies key national infrastructure and prioritizes risk reduction interventions, thereby providing a basis for more coordinated climate resilience financing.</p>	<p>SDS, 2016–2020</p> <p>Ministry of Finance Reports</p> <p>Ministry of Finance Reports</p>																						
<p><b>Key Activities with Milestones</b> Not applicable</p>																								
<p><b>Inputs</b></p> <table border="0" data-bbox="164 1136 1455 1234"> <tr> <td>Asian Development Fund (grant)</td> <td>Subprogram 1</td> <td>\$5.0 million</td> </tr> <tr> <td>Asian Development Fund (loan)</td> <td>Subprogram 2</td> <td>\$5.0 million</td> </tr> </table>				Asian Development Fund (grant)	Subprogram 1	\$5.0 million	Asian Development Fund (loan)	Subprogram 2	\$5.0 million															
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<p><b>Assumptions for Partner Financing<sup>b</sup></b></p> <table border="0" data-bbox="164 1325 1455 1652"> <tr> <td>World Bank (loan):</td> <td>Subprogram 1</td> <td>\$5.0 million</td> </tr> <tr> <td>Australian government (grant)</td> <td>Subprogram 1</td> <td>\$2.3 million</td> </tr> <tr> <td></td> <td>Subprogram 2</td> <td>\$2.3 million</td> </tr> <tr> <td>New Zealand government (grant)</td> <td>Subprogram 1</td> <td>\$2.5 million</td> </tr> <tr> <td></td> <td>Subprogram 2</td> <td>\$2.5 million</td> </tr> <tr> <td>European Union (grant)</td> <td>Subprogram 1</td> <td>\$5.7 million</td> </tr> <tr> <td></td> <td>Subprogram 2</td> <td>\$5.7 million</td> </tr> </table>				World Bank (loan):	Subprogram 1	\$5.0 million	Australian government (grant)	Subprogram 1	\$2.3 million		Subprogram 2	\$2.3 million	New Zealand government (grant)	Subprogram 1	\$2.5 million		Subprogram 2	\$2.5 million	European Union (grant)	Subprogram 1	\$5.7 million		Subprogram 2	\$5.7 million
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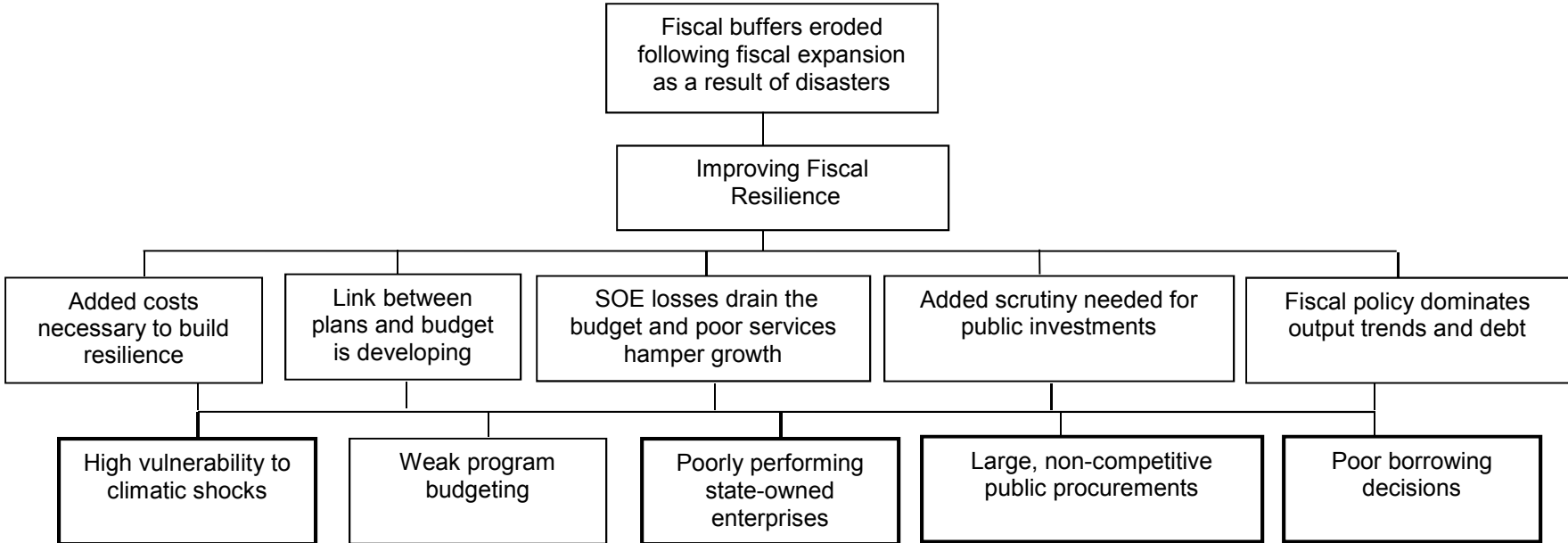
FY = fiscal year, GDP = gross domestic product, Gov't = government, IMF = International Monetary Fund, MTDS = medium-term debt strategy, PFM = public financial management, PPP = public-private partnership, SDS = Strategy for Development of Samoa, SOE = state-owned enterprise.

<sup>a</sup> Baselines are not applicable for output actions.

<sup>b</sup> Several policy reforms that are necessary to reach the intended outcome are supported by partners. These policy reforms are outlined in Appendix 5. The joint participation by partners in reform dialogue does not allow the joint policy action matrix outputs to be split by partner.

Source: Asian Development Bank.

**PROBLEM TREE**



SOE = State owned enterprises

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Samoa	Program Title:	Fiscal Resilience Improvement Program, Subprogram 1
Lending/Financing Modality:	Policy-Based Program Loan/Grant	Department/Division:	PARD/SPSO

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Samoa's small size, limited natural resources, narrowly based economy, distance from major markets, and vulnerability to exogenous shocks place serious constraints and limitations on growth and have led to a high degree of volatility in economic performance since FY2008. The December 2012 cyclone caused damage and loss estimated at more than \$210 million, equivalent to around 30% of gross domestic product. Recovery and reconstruction of essential infrastructure took 3 years. Samoa's economy grew by 1.6% in FY2015. Major contributors to growth were the fishing, transport, commerce, and electricity sectors. Construction and non-food manufacturing output declined significantly in FY2015 following the completion of infrastructure rehabilitation projects and the run-down of activity at the Yazaki plant.

Samoa has made significant progress towards achieving the Millennium Development Goals. However, providing rural and urban communities with formal employment and income-generating opportunities remains a critical issue. Agriculture, fishery, and tourism are the main economic sectors. Economic growth is constrained by the small size of the economy, the high cost of production resulting from geographic fragmentation, and Samoa's distance and remoteness from the major markets. Samoa's long-term development vision is to improve the quality of life for all Samoans, as stated in the Strategy for the Development of Samoa (SDS), 20012–2016.<sup>a</sup> The goals of the SDS include sustained macroeconomic stability. The Government of Samoa has designed a set of policy reforms that have been agreed to by development partners under the joint policy action matrix (JPAM). The JPAM prioritized policy reforms for (i) effective macroeconomic management and public financial management; (ii) improved economic growth and private sector development; and (iii) strengthened social sector performance, all of which contribute towards sustained macroeconomic stability.

The Asian Development Bank (ADB) and other development partners are assisting the government to restore medium-term fiscal stability through a program of budget support linked to the JPAM. The JPAM identifies and sequences measures to strengthen public financial management and fiscal policy, and to pursue reforms that will foster recovery and greater resilience to disasters, consistent with the focus of the ADB country operations business plan (COBP), 2016–2018.<sup>b</sup> The poor were disproportionately affected by cyclone damage, and by unreliable provision and poor quality of public services.

#### B. Targeting Classification

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

#### C. Poverty and Social Analysis

##### 1. Key issues and potential beneficiaries.

Poverty is rising in Samoa. The average proportion of the population with expenditures below the basic needs poverty line increased from 22.9% in 2002 to 26.9% in 2008, while the depth of poverty (as measured by the poverty gap ratio) increased from 6.6% to 8.2% over the same period. Inequality, as measured by the gini coefficient has increased from 0.43 to 0.47. The 2008 household income and expenditure survey (HIES) is the most recent available source of poverty-related data; however, the people of Samoa have since been affected by the 2008 crisis, the 2009 tsunami, and the 2012 cyclone. Reconstructing basic infrastructure, restoring essential services, and rebuilding housing and private businesses is essential to employment generation, social development, and poverty reduction. The poverty report from the 2014 HIES is currently not published. The potential beneficiaries are the general public who will benefit through efficient services from SOEs, improved public procurement systems, improved public debt management, and the promotion of resilience to climate change and variability over the medium term.

##### 2. Impact channels and expected systemic changes.

The program will contribute to poverty reduction in several ways. Poverty reduction is built into the proposed program through (i) sustained, equitable, and inclusive long-term economic growth built on improved public financial management and an enabling business environment; and (ii) enhanced job creation with growth of the private sector.

##### 3. Focus of (and resources allocated in) the PPTA or due diligence.

There is no program preparatory technical assistance (TA). Due diligence was supported by ADB's ongoing engagement in the JPAM process, country analysis to support the COBP, 2016–2018, and ongoing TA support. Other development partners have been closely consulted on the design of the proposed program. Other partners support several social sector outputs in the JPAM.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?  
There is a high degree of gender equality in Samoa. Slightly more girls than boys are now being educated. Women have significantly increased their share of wage employment and in senior management. Parliament recently passed legislation to ensure a minimum 10% representation of women in Parliament. Samoa has also very recently appointed its first female District Court and Supreme Court Judges. The share of women in wage employment in the non-agricultural sector declined slightly from 37.6% in 2005 to 37.5% in 2012.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes  No Please explain.

The objective of the program is to sustain economic growth and macroeconomic stability, while relieving possible hardships on the most vulnerable groups from large macroeconomic adjustments. Progress towards this objective can be expected to result in improved services, and new employment and income generating opportunities for both men and women.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No Please explain.

The objective of the program is to sustain economic growth and promote medium-term fiscal stability, while relieving possible hardships on the most vulnerable groups, through improved public sector management.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The people of Samoa are potential stakeholders in this policy-based program. Specific interest groups among stakeholders include the private sector, civil society, and communities. The government's policy matrix includes a set of measures aimed specifically at fostering consultation with and engagement of stakeholders, including public disclosure of key documents and a series of public consultations prior to the adoption of key strategies and reforms.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The consultation has been embedded in the JPAM process. The program is based on the implementation of the government's own strategies and plans, developed through a consultative approach. Consultation and stakeholder engagement is implicitly targeted through public disclosure of key documents on the Ministry of Finance (MOF) website, adoption of a public consultation strategy by the MOF, and by public consultations prior to the finalization of the SDS and before the submission of the annual budget to Parliament.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing  Consultation  Collaboration  Partnership

Intensive consultation has been carried out during the formulation and implementation of the SDS, 2012–2016, preparation of the joint government–donor JPAM and the preparation of the FY2017 National Budget.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed?  Yes  No Please explain.

Although the program is not a direct pro-poor intervention, there has been considerable consultation and participation by the government with all stakeholders as part of the annual budget preparation and through the JPAM process.

<b>II. SOCIAL SAFEGUARDS</b>	
<b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?  <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None  The program will not involve involuntary resettlement.</p>	
<b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  The program will not impact on indigenous peoples.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  The proposed program will implement reforms in line with the government's JPAM, which also focuses on fostering inclusive, pro-poor growth.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>	
<b>III. OTHER SOCIAL ISSUES AND RISKS</b>	
<p>1. What other social issues and risks should be considered in the project design?  <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment  <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability  <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to disasters <input type="checkbox"/> Creating political instability  <input type="checkbox"/> Creating internal social conflicts <input checked="" type="checkbox"/> Others, please specify _____  The capacity of government agencies to sustain implementation of the JPAM, in light of possible budget expansion to deliver political commitments remains an issue.</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?  TA to provide capacity building in coordination with other development partners.</p>	
<b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>	
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If no, please explain why.  The program design draws from poverty, social, and gender analyses prepared for the COBP, 2016–2018 and the 2014 Samoa country performance assessment.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis and participation plan during the PPTA or due diligence?  The program design draws from poverty, social, and gender analyses prepared for the COBP, 2016–2018 and the 2014 Samoa country performance assessment.</p>	

<sup>a</sup> Samoa Ministry of Finance. *Strategy for the Development of Samoa 2012–2016*. Apia.

<sup>b</sup> ADB. 2015. *Country Operations Business Plan: Samoa, 2016–2018*. Manila.

Source: Asian Development Bank.

## JOINT POLICY ACTION MATRIX

Previous	Mid – 2016	Mid – 2017	Results indicators
<b>Macroeconomic Management and Public Financial Management</b>			
Strengthening Debt Policy and Management of Government Financing Needs			
Approve and institute formal procedures for contracting loans and issuing government guarantees.	The recipient, through its Cabinet, has approved an updated Medium Term Debt Management Strategy (MTDMS) for 2016–2020, which includes a review of the implementation of the previous MTDMS.	External performance audit on debt management	Compliance with the MTDMS provisions on external loan concessionality and economic return.  Baseline: Partial Compliance, FY2011–FY2013  Target: Full Compliance, FY2014–FY2016
Strengthening Procurement			
Implement the Revised Treasury Instructions pertaining to procurement, including issuing new procurement guidelines and introducing new standard templates for minor works, minor goods, and related services and minor general services.	The recipient, through its Ministry of Finance, has issued: [(i) new guidelines for the use of framework arrangements in public procurement]; (ii) revised Treasury Instructions, which allow for the use of framework arrangements; and (iii) new standard templates for major works.	Establishment of an independent complaints mechanism  Commencement of pilot framework arrangement for pharmaceutical items	An increase in the extent to which commonly procured items are procured through framework arrangements within and across line ministries.  <b>Baseline:</b> No such arrangements  <b>Target:</b> Framework arrangements for three of the commonly procured categories of items have been piloted and put in place by the government
Strengthening revenue collection			
Amend the Customs Act to facilitate trade, and implement Automated System for Customs Data (ASYCUDA) World to enhance the customs information system and facilitate trade.	The recipient, through its Ministry of Revenue, has introduced electronic systems for filing and paying taxes, including income taxes.  Approval of value added goods and services tax (VAGST) legislation to remove the exemption for primary producers and raise the threshold.	Amendment to the Income Tax Act 2012 to implement a presumptive tax on small business, reduce administrative costs, and broaden the tax base  Review and transparently account for tax expenditures in the in FY2018 budget	Improved tax compliance as measured by on-time filing, on-time payment, and arrears collection for large enterprises.  <b>Baseline:</b> FY2013—On-time filing < 80%; on-time payment < 70%; outstanding returns collected or resolved by year end < 50%  <b>Target:</b> FY2017—On-time filing ≥ 90%; on-time payment ≥ 80%; outstanding returns collected or resolved by year end ≥ 50%



Previous	Mid – 2016	Mid – 2017	Results indicators
<b>Macroeconomic Management and Public Financial Management</b>			
<b>Economic Growth and Private Sector Development</b>			
Strengthening the enabling business environment			
<p>Approval of a PPP policy framework in order to facilitate increased opportunities for private sector participation in the state owned enterprises (SOE) sector.</p> <p>Establish a dedicated ministerial portfolio for SOEs and transfer responsibility for the performance of SOEs to the new minister; make quarterly performance monitoring reports on SOEs available to the public in a timely manner.</p> <p>Establish the framework for agribusiness development in order to launch the agribusiness program.</p>	<p>[The Solid Waste Management Public–Private Partnership (PPP) has been arranged in line with the PPP policy framework and submitted to the Cabinet for approval.]</p> <p>Approval of the Privatization Policy and completion of the Agriculture Stores privatization.</p>	<p>Establishment of the Solid Waste Management PPP, implementing the PPP framework</p> <p>[Potential PPPs: waste water, routine road maintenance]</p> <p>Bring all SOEs up-to-date with external audits and financial accounts</p> <p>Assessment of adequacy of internal audit function for SOEs and development of remedial action plans</p>	<p>Greater private participation in the SOE sector, as measured by the proportion of new PPPs that conform to the new PPP policy framework.</p> <p><b>Baseline:</b> n/a ([no PPPs under the new framework])</p> <p><b>Target:</b> All new PPPs conform with the new framework</p>
Boosting tourism development			
<p>Approve a revised tourism sector policy designed to provide for more effective tourism promotion and market access.</p>	<p>The recipient, through the Samoa Tourism Authority, has completed the first annual review of the Tourism Sector Plan.</p>	<p>Policy reform to improve existing air service arrangements (pending Government of Samoa’s analysis of options)</p> <p>Review return on investment of marketing activities and take action on recommendations to improve the efficiency of the marketing budget</p>	<p>Improved performance of the tourism industry as measured by an annual increase in arrivals and employment in the sector.</p> <p><b>Baseline:</b> Visitor number FY2015; 90% Compliance with industry standards (2009); Number of industry workforce 3,330 (2010)</p> <p><b>Target:</b> Increase in visitor arrival by 5%; increase in number of employees trained by 5%; increase workforce by 6,700 (2019); 100% business accredited and in compliance of the standards.</p>

Previous	Mid – 2016	Mid – 2017	Results indicators
<b>Macroeconomic Management and Public Financial Management</b>			
A more efficient payments system and financial sector			
Enact National Payments System Act in order to facilitate and regulate electronic payments and emerging innovative payment instruments.	The recipient has issued regulations relating to electronic funds transfers, agents, Central Bank of Samoa oversight and retail payment instruments, as part of the implementation of the National Payments System Act.	[Introduction] of electronic payments system  Public Financial Institutions reforms (in line with Financial Sector Assessment Program recommendations and pending ADB's Private Sector Development Initiative review)  Measures to facilitate money transfers (further analytical work needed)	All banks to have signed up to electronic payments system.
<b>Strengthening Social Sector Performance</b>			
Strengthening the alignment of budget resources and policy priorities in the health sector			
Enact legislation for the establishment of the National Health Promotion Foundation.  Implement the Food Act 2015 to improve food safety and quality control.	The recipient has endorsed the food regulations and standards to support the implementation of the Food Act 2015, and approved the Alcohol Control Policy, 2016–2021.	Introduce an updated non-communicable diseases (NCDs) policy, which incorporates findings from a review of the 2010–2015 policy  [Introduce excise duties for sugary and salty foods to support NCD policy (pending update on plans for the FY2017 budget)]	<b>Baseline and Target:</b> [Increase in price greater than overall consumer price index for tobacco, alcohol, and nominated sugary and salty foods]  [Expanded coverage of high risk groups by the World Health Organization's package of essential interventions to prevent NCDs.]
Strengthening the medium term perspective in education sector planning and budgeting			
Launch an Education Sector Plan with medium term expenditure framework and a monitoring and evaluation framework.	The recipient has approved the Teachers' Bill to regulate teacher registration, qualification, and professional teacher standards (forming an Interim Teacher Council to initiate the process).	[Improve teacher qualifications and establish a Teachers' Council]  [Reform to respond to technical and vocations	Increased number of teachers in Samoa completing a Bachelor Degree in Education, Science and Arts (Major in English)  Improved retention rates for primary and secondary teachers in government, private,

Previous	Mid – 2016	Mid – 2017	Results indicators
<b>Macroeconomic Management and Public Financial Management</b>			
		education and training needs highlighted by Tracer Survey] [Reform to improve numeracy, particularly among boys] [Curriculum review]	and mission schools <b>Baseline:</b> as at 2015, 2,369 teachers teaching in govt. (1,641), mission (582) and private (146) schools. Of government school teachers, 22% do not have a degree qualification
Promoting resilience to climate change and variability			
	The recipient, through its Ministry of Finance, has (i) established a national monitoring and reporting framework for climate resilience, and (ii) included climate risk and resilience results indicators in the new Strategy for the Development of Samoa, 2016–2020.	Develop an integrated policy framework that allocates responsibilities for resilience across government agencies and informs decisions to increase resilience across key sectors including agriculture, forestry, water, and coastal and urban areas  Prepare a strategic investment plan that identifies key national infrastructure and prioritizes risk reduction interventions, thereby providing a basis for more coordinated climate resilience financing	[Increase in maintenance and resilience enhancing expenditures as a proportion of budget]  [Improve disbursement of climate resilience projects]  [Reduce number of climate resilience projects]

Previous	Mid – 2016	Mid – 2017	Results indicators
<b>Macroeconomic Management and Public Financial Management</b>			
Strengthening the management of the water sector			
Increase water quality compliance in treated service areas through implementation of the Water and Sanitation Sector Policy and Strategy.	[Approval of new Water for Life strategy.]	[Review of Samoa Water Authority tariffs and cost recovery strategy]	Increased number of hectares of prioritized watershed areas rehabilitated and/or declared reserves  Reduction in non-revenue water in the Apia urban treated service areas  Improved collection efficiency  Increased water quality compliance in treated service areas  Increase in urban Apia households with approved septic tanks

Note: Actions reflected in brackets are not finalized and are subject to change following joint discussions.  
 Sources: Development partners of Samoa and Government of Samoa

## POLICY ACTIONS

### Subprogram 1

Output	Policy Actions
Output 1: Improved fiscal position through state owned enterprises reforms	1.1 Cabinet approval of one public private partnership (PPP) established in line with the approved PPP framework.
	1.2 Completion of sale of Agriculture Store.
	1.3 Cabinet approval of privatization policy.
Output 2: Improved procurement Systems	2.1 Guidelines for the use of framework arrangements in public procurement, including speedy procurement in emergency situations issued.
	2.2 Revised treasury instructions allowing the use of framework arrangements issued.
	2.3 New standard template for procurement of major works issued.
Output 3: Improved Public Debt Management	3.1 Approval by Cabinet of the new medium term debt management strategy (MTDS).
	3.2 Assessment of previous MTDS.
Output 4: Promoting resilience to climate change	4.1 Establish a national monitoring and reporting framework for climate resilience.
	4.2 Include climate risk and resilience indicators in SDS, 2016–2020.

Source: Asian Development Bank.

### Subprogram 2

Output	Proposed policy actions
Output 1: Improved fiscal position through state owned enterprise (SOE) reforms	1.1 Establishment of a solid waste management public private partnership.
	1.2 All SOEs to be up-to-date with their external audits.
Output 2: Improved procurement Systems	2.1 Establishment of an independent complaints mechanism.
	2.2 Pilot framework arrangements for purchase of pharmaceutical items.
Output 3: Improved Public Debt Management	3.1 External performance audit on debt management.
Output 4: Promoting resilience to climate change	4.1 Develop an integrated policy framework that allocates responsibilities for resilience across government agencies and informs decisions to increase resilience across key sectors including agriculture, forestry, water, and coastal and urban areas, and be gender responsive.
	4.2 Prepare a strategic investment plan that identifies key national infrastructure and prioritizes risk reduction interventions, thereby providing a basis for more coordinated climate resilience financing.

Source: Asian Development Bank

## FISCAL AND MACROECONOMIC POSITION

1. Since 2008, the Samoan economy has been affected by three significant events, the global economic crisis in 2008, a tsunami in 2009, and a cyclone in 2012. The disasters only caused damages and loss of output equivalent to 50% of gross domestic product (GDP) and led to the significant erosion of fiscal buffers built between FY1999 and FY2008.

2. Agriculture and tourism are the mainstays of the Samoan economy. Agriculture comprises around 10% of the economy and employs roughly two-thirds of the largely rural-based population. Agricultural produce makes up the bulk of the country's exports, leaving the Samoan economy particularly vulnerable to natural disasters. The revitalization of the agriculture sector following the 2012 cyclone is a key component of the government's reform program. The Samoa Development Bank is currently providing development finance to the sector, while the Asian Development Bank's agri-business support project,<sup>8</sup> which was approved in 2014, is helping to improve efficiency in agri-value chains to boost the export potential of the sector.

3. Tourism is Samoa's main industry, accounting for approximately 25% of GDP. The tourism industry was hard hit by the tsunami and cyclone, following which many hotels and resorts were forced to close for essential repairs. Recent growth in visitor arrivals has been largely the result of one-off major events, for example, the United Nations Small Island Developing States conference in 2014 and sporting events like the Commonwealth Youth Games in 2015. Improvements to tourism marketing strategies and tourism products are expected to lead to higher growth for the sector.

4. Private remittances and development aid are also important contributors to the Samoan economy. Private remittances average more than one-fifth of national income. They largely support private consumption and are an integral part of the traditional social welfare system supporting Samoa's largely rural-based population. External grant support from Samoa's development partners averaged 9.2% of GDP between FY2009 and FY2015. However, with the completion of many development projects, this has fallen to 6.7% in FY2016—placing considerable pressure on the budget.

5. Budget deficits since FY2009 have been above the government's long-term target of 3.5% of GDP largely as a result of having to meet the reconstruction needs of the country following natural disasters and the need to maintain growth in an adverse economic environment. The average annual fiscal deficit from FY2009 to FY2016 was equivalent to 4.7% of GDP. The fiscal balance has not been helped by the sharp decline in budgeted development partner grants in FY2016, which could lead to a worsening of the country's debt position. After bringing external debt down from over 100% of GDP in the late 1980s to about 30% in FY2009, debt levels have increased again to an estimated 59.9% of GDP in FY2016. Samoa is currently classified by the International Monetary Fund and the World Bank as a country at *moderate* risk of debt distress—an improvement on the FY2014 rating (which rated Samoa at *high* risk of debt distress). Still, Samoa's debt situation remains tenuous. The government is committed to consolidating its fiscal position, but the speed of consolidation needs to be managed carefully in order to minimize the possible impact on economic growth. Selected economic indicators are reflected in Table 1.

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<sup>8</sup> ADB. 2014. *Samoa AgriBusiness Support Project*. Manila.

**Table 1: Selected Economic Indicators**

<b>Indicator</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016 Estimates</b>	<b>FY2017 Forecast</b>
Real GDP growth (% change)	(1.9)	1.2	1.6	3.5	2.0
Inflation (y.o.y. % change)	(1.7)	0.2	0.4	1.5	2.0
Revenue (% of GDP)	33.7	38.1	34.5	33.8	38.6
Of which: grants	9.7	12.6	9.1	6.7	11.4
Expenditure	37.5	43.3	38.3	38.5	42.1
Of which: development	11.5	15.0	11.3	9.3	13.1
Overall fiscal balance	(3.8)	(5.3)	(3.9)	(4.7)	(3.5)
Public debt (% of GDP)	53.6	54.5	57.8	59.9	61.1
Gross reserves (in months of GNFS)	4.0	4.3	4.1	3.6	4.0
Current account balance (% of GDP)	(2.5)	(7.0)	(4.6)	(5.8)	(5.3)

GDP = gross domestic product, GNFS = goods and non-factor services, y.o.y = year-on-year.

Source: Samoa Bureau of Statistics and Asian Development Bank staff estimates.

6. In the FY2017 budget, the government aims to achieve a fiscal deficit of 3.5% of GDP. The fiscal target includes an estimate of a \$5 million program grant from the Asian Development Bank, without which the fiscal deficit will be equivalent to 4.1% of GDP. The estimated total grant from all partners under the joint policy action matrix is anticipated at 1.8% of GDP or the equivalent of 0.5 months of goods and services imports.