



Concept Paper

PUBLIC

Project Number: 54054-001
July 2022

Proposed Programmatic Approach and Policy- Based Grant for Subprogram 1 Independent State of Samoa: Strengthening Macroeconomic Resilience Program

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 June 2022)

Currency unit	–	tala (ST)
ST1.00	=	\$0.37
\$1.00	=	ST2.67

ABBREVIATIONS

ADB	–	Asian Development Bank
AML/CFT	–	anti-money laundering and combating the financing of terrorism
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
IMF	–	International Monetary Fund
JPAM	–	joint policy action matrix
MCIL	–	Ministry of Commerce, Industry, and Labour
MTDS	–	Medium Term Debt Strategy
MTO	–	money transfer operator
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Samoa and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 30 June 2022.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	Leah C. Gutierrez, Pacific Department (PARD)
Deputy Director General	Emma M. Veve, PARD
Directors	Ananya Basu, Social Sectors and Public Sector Management Division (PASP), PARD Aaron Batten, Pacific Subregional Office in Suva, Fiji (SPSO), PARD
Team leader	James Webb, Public Management Economist, PASP, PARD ^a
Team members	Cindy Bryson, Social Development Specialist, PASP, PARD Joana Custodias, Counsel, Office of the General Counsel Mairi MacRae, Senior Social Development Specialist (Gender and Development), PASP, PARD Rosalind McKenzie, Principal Operations Coordination Specialist (Fragile Situations), PASP, PARD Maria Melei, Senior Country Officer, SPSO, PARD ^b Shiu Raj Singh, Financial Sector Specialist, Pacific Liaison and Coordination Office, PARD Leba Sovea, Senior Programs Assistant, SPSO, PARD
Peer reviewer	Cigdem Akin; Principal Public Management Economist; Public Management, Financial Sector, and Trade Division; Central and West Asia Department

^a Outposted to the Pacific Subregional Office in Suva, Fiji.

^b Outposted to the Samoa Pacific Country Office in Apia, Samoa.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. PROGRAM AND RATIONALE	1
A. Background and Development Constraints	1
B. Policy Reform, ADB's Value Addition, and Sustainability	3
C. Expected Outcome of the Reform	5
D. Development Financing Needs and Budget Support	5
E. Implementation Arrangements	5
III. DUE DILIGENCE REQUIRED	6
IV. PROCESSING PLAN	6
A. Risk Categorization	6
B. Resource Requirements	6
C. Processing Schedule	6
V. KEY ISSUES	6
APPENDIXES	
1. Preliminary Policy Design and Monitoring Framework	7
2. List of Linked Documents	11

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54054-001	
Project Name	Strengthening Macroeconomic Resilience Program (Subprogram 1)	Department/Division	PARD/PASP
Country	Samoa	Executing Agency	Ministry of Finance
Recipient	Independent State of Samoa		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54054-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54054-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management		2.500
	Public expenditure and fiscal management		2.500
Finance	Finance sector development		2.500
		Total	7.500
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP6: Strengthening governance and institutional capacity			
✓ OP7: Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.1, 1.2, 1.b		Some gender elements (SGE)	✓
SDG 5.1			
SDG 8.1, 8.10, 8.3, 8.5			
SDG 10.3			
SDG 17.4			
4. Risk Categorization:		Poverty Targeting	
	Low	General Intervention on Poverty	✓
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		7.500	
Sovereign Programmatic Approach Policy-Based Lending (Grant): Asian Development Fund		7.500	
Cofinancing		16.500	
Government of Australia - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		2.100	
New Zealand Grant - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		4.400	
World Bank - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		10.000	
Counterpart		0.000	
None		0.000	
Total		24.000	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The Strengthening Macroeconomic Resilience Program will help the Government of Samoa implement reforms to restore fiscally sustainable growth led by the private sector, which has been adversely affected by the coronavirus disease (COVID-19) pandemic. The program comprises two subprograms which will (i) improve fiscal management and sustainability, (ii) promote inclusive private sector recovery, and (iii) strengthen finance sector development.¹ It aligns with the following operational priorities of the Asian Development Bank (ADB) Strategy 2030: addressing remaining poverty and reducing inequality, strengthening governance and institutional capacity, fostering regional cooperation and integration, and accelerating progress in gender equality.² The program is consistent with the priorities of the Pacific Approach.³

2. The proposed program will be financed through two policy-based grants of \$7.5 million each, to be implemented during fiscal year (FY) 2023 and FY2024. A policy-based programmatic modality is appropriate as it reinforces and supports the government's own broad-ranging reform agenda, permits prioritization and sequencing of reforms to account for low implementation capacity, and provides flexibility to respond to emerging opportunities and constraints. Subprogram 1 supports reforms to formulate and introduce new policies and legislation to restore fiscally sustainable growth led by the private sector. Subprogram 2 builds on this foundation with a focus on implementing, deepening, and expanding reforms (paras. 13–15).

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Development context.** Samoa is one of the Pacific small island developing states, with a population of about 202,500 in 2022. Challenges to sustainable growth include a narrow economic base, remoteness from export markets, infrastructure deficiencies, human capital shortages, and vulnerability to climate change and external shocks. Before the pandemic, tourism was a key economic driver, contributing almost 25% of gross domestic product (GDP) in FY2019.

4. **Sound macroeconomic management.**⁴ Despite the development challenges, Samoa has strived to build macroeconomic resilience. From FY2016 to FY2019, annual GDP growth averaged 3.1%. As the government pursued fiscal consolidation, the budget was close to balance (averaging a surplus of 0.3% of GDP) during this period, compared with an average deficit of more than 5.0% during FY2012–FY2015. Public debt declined from a peak of 58.9% of GDP in FY2015 to 48.5% of GDP in FY2019.⁵ Tax collection improved from 22.1% of GDP in FY2015 to 26.7% in FY2020 before the full impact of COVID-19 began to affect the private sector.⁶

5. **Impact of COVID-19.** The pandemic exacerbated development challenges as border closures led to a collapse in tourism.⁷ As a result, GDP contracted by 3.1% in FY2020 and 7.1% in FY2021. Because of its sound fiscal position going into the pandemic and development partner

¹ A preliminary draft of the policy design and monitoring framework is in Appendix 1.

² ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

³ ADB. 2021. *Pacific Approach, 2021–2025*. Manila. The program supports preparing for shocks and inclusive growth.

⁴ Sector Assessment (Summary): Public Sector (accessible from the list of linked documents in Appendix 2).

⁵ External debt comprises about 96%–97% of Samoa's public debt.

⁶ Reforms to broaden the tax base included removing unduly generous exemptions and concessions; allowing the indexation of various excise rates, fees, and charges; raising personal-tax thresholds; and boosting tax compliance.

⁷ After avoiding COVID-19 outbreaks until 2022, Samoa confirmed 14,772 cases and 28 deaths from 3 January 2022 to 22 June 2022. About 80% of the population aged 5 years and over are fully vaccinated, while about 93% have received at least one dose. See [World Health Organization COVID-19 dashboard](#) (accessed 1 June 2022).

support, Samoa was able to implement response packages to help mitigate the impact of COVID-19 while maintaining fiscal stability. The International Monetary Fund (IMF) noted that the fiscal, monetary, and prudential measures put in place in response to COVID-19 were appropriate.⁸ Although debt remained sustainable, the public debt–GDP ratio reached 50.8% in FY2021 because of the decline in GDP.

6. **Macroeconomic outlook.** GDP is estimated to decline 5.3% in FY2022 as the effects of COVID-19 persist. Borders are planned to reopen in August 2022, with growth projected at 2.0% in FY2023. ADB assesses the general direction of macroeconomic policies to be sound based on the government’s commitment to fiscal consolidation. Current expenditures are projected to decline from 34.8% of GDP in FY2022 to 31.4% of GDP in FY2024 as stimulus expenditures wind down.⁹ Although aggregate revenues will decline as partner grants taper off, tax revenues will remain stable at about 23%–24% of GDP during FY2022–FY2024, with challenges in rebuilding income taxes.¹⁰ The fiscal deficit will increase to 3.6% of GDP in FY2023, largely because of sharply declining grants. Although the risk of debt distress remains high, public debt is expected to decline to 39.9% of GDP by FY2024. The IMF considers monetary policy appropriate.¹¹ Risks include external shocks, disasters, and delays in reopening borders.¹²

7. **Binding constraints.** Without reforms, Samoa faces several constraints that can undermine fiscally sustainable, private-sector-led recovery and growth (paras. 8–10).

8. **Weakened fiscal position.** COVID-19 has exposed public financial management (PFM) challenges that will constrain the ability of the government to support medium-term recovery. PFM priorities must respond to the long-term challenges of debt sustainability and climate change. The previous Finance Sector Plan, which covered PFM (and finance sector) reforms, ended in FY2018. With public debt breaching the government’s ceiling of 50% of GDP in FY2021, there are concerns about debt management and servicing. Even before the pandemic, state-owned enterprises (SOEs) lacked certainty in financing community service obligations, which led to ad-hoc funding requests to the central budget, and increased demand for guarantees and on-lending. COVID-19 has seen increased use of government guarantees and on-lending to SOEs to lower SOE borrowing costs and reduce immediate fiscal pressure.¹³ However, formal policies governing the assessment and utilization of guarantees and on-lending are absent. Contingent risks from SOEs can be further exacerbated by climate change impacts.¹⁴

9. **Barriers to private sector recovery.** The pandemic disrupted formal and informal work, leading to a decline in business activity and stagnating tax collections. As the economy recovers, measures to accelerate private sector growth and facilitate the return of workers to jobs will be key. The legislative framework does not explicitly prohibit gender-based pay discrimination, and lacks clarity on protections and conditions for domestic workers, 75% of whom are women. Other weaknesses include an absence of a regular review process for the minimum wage, a lack of clarity on the role of labor inspectors, and inefficient grievance and complaint mechanisms.

⁸ IMF. 2020. [Request for Disbursement under the Rapid Credit Facility](#). Washington, DC.

⁹ Government of Samoa. 2021. *Fiscal Strategy Statement. FY2021/2022 Main Estimates* and ADB staff estimates.

¹⁰ For comparison, the last time tax collections were below 24% of GDP was in FY2015 (24.0%).

¹¹ IMF. 2021. [Staff Report for the 2021 Article IV Consultation](#). Washington, DC.

¹² Inflation is projected at 8.9% in FY2022 because of high global oil prices, moderating to 3.2% in FY2023.

¹³ In FY2021, on-lending to SOEs was 8.9% and total SOE debt was 12.0% of GDP. Government guarantees were 8.0% of GDP, of which about 85% was held by the Development Bank of Samoa and Samoa Airways, both heavily exposed to tourism.

¹⁴ Contingent liabilities emerging from climate change could be substantial, as SOEs are often exposed to climate risks. In the case of the Development Bank of Samoa, contingent liabilities were extended to cover support to affected businesses after Cyclone Evan in 2012, a situation made more likely with the ongoing impacts of climate change.

Restrictive investment policies and burdensome trade and permit regulations have limited foreign direct investment.¹⁵ As the private sector grows, it is important to simplify registration of small business, allow businesses to legally protect their trade names, and increase business ownership transparency. Samoa lacks a simple process for formalizing small businesses, requiring sole traders and small-scale operators to register under the Companies Act 2001 through complex procedures. Furthermore, although companies can indicate trade names, they are not formalized on a publicly available register or protected by law, leading to the possibility of duplication and a lack of transparency when companies enter into contract arrangements.

10. **Underdeveloped finance sector.** Samoa's small finance sector faces capacity constraints and competing priorities.¹⁶ Commercial banks are realigning businesses to serve low-risk market segments, and with a lack of credit history reporting further constraining private sector financing. No public or private sector agency facilitates customer due diligence, document collation, or identity verification. Customer identification, stricter anti-money laundering and combating the financing of terrorism (AML/CFT), risk assessments, and due diligence requirements are met by international banks and large money transfer operators (MTOs), but smaller MTOs have struggled to meet requirements. As a result, smaller MTOs have had their bank accounts closed by commercial banks, leading to market consolidation and an increased cost of remittances. Remittances are an important part of household income in Samoa, reaching 27.9% of GDP in FY2021. The pace and sequence of reforms must be well formulated to meet international standards for mitigating risks, while also maintaining a level of financial flows that will enable private sector investment and continued remittances to support economic recovery.

11. **Government strategy.** The Pathway for the Development of Samoa FY2022–FY2026 seeks to address constraints to inclusive and resilient growth, including through improved macroeconomic and fiscal management, private sector development, and access to financial services.¹⁷ It also responds to the impacts of COVID-19 and climate change. The government will prioritize expenditures to help stimulate the economy and ensure inclusive recovery and is pursuing medium-term fiscal consolidation and finance sector development.

B. Policy Reform, ADB's Value Addition, and Sustainability

12. **Program description.** The proposed program will help the government transition from crisis response to inclusive fiscal and private sector recovery by delivering on three reform areas (paras. 13–15) across two subprograms. Policy actions address the government's priorities in responding to policy challenges intensified by COVID-19. Subprogram 1 policy actions will enable deeper reforms in subprogram 2, with a focus on implementation. Subprogram 2 will be refined with monitorable policy actions during its processing.

13. **Reform area 1: Fiscal management and sustainability.** Under subprogram 1, the cabinet will approve and endorse for publication the world's first Public Expenditure and Financial Accountability (PEFA) Assessment of Climate Responsive PFM, to inform future reforms.¹⁸ The cabinet will approve and implement a Finance Sector Plan (FY2022–FY2026).¹⁹ The plan will help better sequence reform priorities, guide development partner support, and establish PFM reforms

¹⁵ During 2015–2019, foreign direct investment was 1.4% of GDP, below the average for Pacific islands of 3.7%.

¹⁶ Sector Assessment (Summary): Finance (accessible from the list of linked documents in Appendix 2).

¹⁷ Government of Samoa. 2022. [Pathway for the Development of Samoa FY2021/22–FY2025/26](#). Apia.

¹⁸ The assessment evaluates the readiness of the PFM system to respond to climate change and looks at climate-informed macroeconomic analysis, revenue, public investment, procurement, and expenditure management.

¹⁹ The Finance Sector Plan seeks to improve: (i) PFM systems (including expenditure and revenue management); (ii) monetary policy; (iii) operations of commercial banks and nonbank financial institutions; and (iv) the external sector.

and targets. The cabinet will approve a medium-term debt strategy (MTDS) for FY2022–FY2026 to reduce debt servicing costs and set debt management goals consistent with macroeconomic stability. In order to mitigate fiscal risks from SOEs, the cabinet will approve and implement policies related to on-lending, guarantees, and contingent liabilities, as well as the application of credit risk assessment frameworks and improved governance, reporting, and public funding arrangements for SOEs. Under subprogram 2, the government will continue to implement the PFM elements of the Finance Sector Plan, recommendations of the PEFA, and the MTDS; strengthen SOE governance and formalize funding arrangements for noncommercial activities; and deepen reforms to manage contingent liabilities.

14. **Reform Area 2: Inclusive private sector recovery.** Under subprogram 1, the cabinet will approve for tabling in Parliament a modernized Labour and Employment Relations Act, which increases protections against gender discrimination and child labor and protects the rights of domestic workers.²⁰ The cabinet will approve, and the Ministry of Commerce, Industry and Labour (MCIL) will implement, an investment policy based on principles of equal treatment, transparency, and adherence to social and environmental standards for businesses. Under subprogram 2, the cabinet will: (i) approve a policy to set the minimum wage consistent with the revised Labour and Employment Relations Act, which MCIL will implement; and (ii) table in Parliament for enactment (a) revisions to the Foreign Investment Act to provide greater certainty to foreign investors, and (b) a business names bill to allow simplified registration and operation of small businesses.

15. **Reform area 3: Finance sector development.** Under subprogram 1, and in support of the Finance Sector Plan (footnote 19), the government will improve access to financial services through the cabinet approving legislation for tabling in Parliament on using digital identification for verification purposes, particularly for customer onboarding in line with laws for money laundering prevention.²¹ The Central Bank of Samoa will endorse a completed AML/CFT risk assessment to understand the financial and anti-money laundering risks, which will help strengthen Samoa's AML/CFT regime through the development of a national AML/CFT strategy. Under subprogram 2, the government will introduce legislation to create an online credit registry in Samoa;²² approve and begin implementing the AML/CFT national strategy; and continue implementing elements of the Finance Sector Plan.

16. **Partner coordination.** ADB coordinated program design and technical assistance (TA) with development partners, particularly the governments of Australia and New Zealand and the World Bank, through the joint policy action matrix (JPAM).²³ Reform areas 1 and 2 are common to JPAM partners, while reform area 3 is unique to ADB. JPAM partners (except ADB) will disburse \$16.5 million in grant cofinancing in FY2022, when reform area 1 and 2 actions are completed.²⁴ The Pacific Financial and Technical Assistance Centre supports revenue reform.

17. **ADB's value addition.** ADB TA and staff supported the debt sustainability analysis and the preparation of the MTDS, peer reviewed the PEFA, helped draft the business names bill, and

²⁰ Amendments mandate equal pay for work of equal value and expand the definition of remuneration to include other forms of payment. Amendments clarify hours of work and rest periods, application of minimum wages, and prohibit seizure of identity documents for domestic workers (75% women), addressing exploitation and abuse. The role of labor inspectors has been strengthened to improve implementation and compliance.

²¹ Part 3 of the Money Laundering Prevention Act 2007 requires financial institutions to verify the identity of customers when establishing a relationship or conducting a transaction. Currently, the central bank allows only functional documents such as passports, driver's license, or voter registration cards to satisfy requirements.

²² Actions to strengthen foreign investment and establish an online credit registry will bring Pacific regional benefits.

²³ The JPAM involves development partners and government agencies collaborating to identify reforms and coordinate TA support. Details on partner TA support will be provided in the report and recommendation of the President.

²⁴ ADB expects to disburse in early FY2023 after completion of actions under reform area 3 (expected by August 2022).

carried out an analysis of challenges to private sector development.²⁵ ADB supported Samoa's increased access to finance through reform of secured transactions and policy support for the credit registry (footnote 25). ADB provided TA for the AML/CFT risk assessment and AML/CFT compliance capacity building.²⁶ The program follows on from ADB support for the government's efforts to manage and mitigate COVID-19 impacts.²⁷ Staff policy advice and dialogue together with TA will be provided to support implementation subprogram 1 and subprogram 2 actions.²⁸

18. **Sustainability and lessons.** Dialogue through the JPAM helped build on government-led reforms. ADB will provide TA for policy formulation and implementation in coordination with development partners. Based on lessons, the program includes policy actions prioritized by the government to avoid overloading limited capacity, builds on ongoing reforms to ensure sustainability, and limits actions to key areas such as fiscal sustainability.²⁹ A post-program partnership framework will be developed during subprogram 2 to support reform progression.

C. Expected Outcome of the Reform

19. The program is aligned with the government's development objective of empowering communities, building resilience, and inspiring growth (footnote 17). The program outcome will be an inclusive fiscal and private sector recovery in Samoa. Program reforms will (i) strengthen macro-fiscal resilience through better planning, targeting of reforms, and management of SOE risks; (ii) support inclusive private sector growth through improved labor market protections, business regulation, and management of foreign investment; and (iii) enhance financial market development through support for improved planning, regulation, and transparency.

D. Development Financing Needs and Budget Support

20. The government has requested grants not exceeding \$15 million from ADB's Asian Development Fund as budget support to finance the program. ADB's proposed financing is based on reform sequencing and the government's development financing needs and comprises \$7.5 million for subprogram 1 in FY2023 and \$7.5 million for subprogram 2 in FY2024. The program will help the government meet estimated financing gaps of \$34.3 million in FY2023 and \$35.7 million in FY2024, based on projected fiscal deficits (exclusive of ADB support). Given the macroeconomic risks (para. 6), financing needs may increase over the program period.

E. Implementation Arrangements

21. The Ministry of Finance leads the JPAM process and oversees the program as the executing agency. The MCIL and the Central Bank of Samoa are also implementing agencies. The JPAM will continue to facilitate broad consultations on reform priorities. The government is

²⁵ ADB. [Regional: Debt Analytics and Technical Capacity Building](#), and ADB. [Pacific Private Sector Development Initiative, Phase IV](#).

²⁶ ADB. [Regional: Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls \(Subproject B\)](#); and ADB. [Regional: Supporting Finance Sector and Private Sector Development in the Pacific](#).

²⁷ In 2020, ADB provided \$2.9 million under ADB. [Pacific Disaster Resilience Program](#); and \$20 million under ADB. [Samoa: Health Expenditure and Livelihoods Support Program](#). During the COVID-19 outbreak in 2022, ADB provided \$10 million under ADB. [Pacific Disaster Resilience Program \(Phase 3\)](#).

²⁸ Support will be provided through the TA in footnote 26 and ADB. [Regional: Supporting Public Sector Management Reforms](#); ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#); the proposed Improving Finance Sector Know Your Customer Capacity in the Pacific and Strengthening Institutional Capacity for Fiscal Management.

²⁹ ADB's engagement through policy-based support in FY2014–FY2016 highlighted the importance of political support for reforms. ADB. 2016. [Completion Report: Public Sector Financial Management Program in Samoa](#). Manila.

consulting with the private sector and civil society on individual reform initiatives as needed. The indicative program implementation period is September 2020–August 2022 for subprogram 1, and September 2022–March 2024 for subprogram 2. The proceeds of the policy-based grant will be withdrawn, upon effectiveness, in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE REQUIRED

22. Program due diligence will include a risk assessment and mitigation plan, a program impact assessment, and public sector and finance sector assessments. ADB will request a macroeconomic assessment letter from the IMF. The proposed program's safeguard categorization is C for environment, involuntary settlement, and indigenous peoples. The program will not modify or weaken any environmental safeguard policy or regulation in Samoa.

23. The program is classified *some gender elements*. It supports legislation against gender discrimination in labor practices and moves to protect informal workers. Legislation includes provisions to ensure equal pay for work of equal value, regulate the employment conditions of domestic workers (75% women), and limit forced labor and employment of children. The program also supports formalization of new and incumbent micro and small businesses, which will improve access to entrepreneurial opportunities for women. Additional proactive gender elements will be discussed during due diligence, including actions to support women's financial inclusion.

IV. PROCESSING PLAN

A. Risk Categorization

24. The program is categorized *low risk* because (i) the grant does not exceed \$50 million, (ii) ADB has a strong track record of engaging in Samoa's public sector, (iii) the executing agency has demonstrated reasonable ability to administer previous externally financed programs, and (iv) the operation is not expected to be classified A for any safeguard category.

B. Resource Requirements

25. ADB estimates that 18 person-months of staff time will be required to process the program.

C. Processing Schedule

26. Milestones and expected completion dates are summarized in the table.

Proposed Processing Schedule

Milestones	Expected Completion Date
Concept approval	July 2022
Fact-finding mission	July 2022
Staff review meeting	August 2022
Grant negotiations	September 2022
Board consideration	October 2022
Grant effectiveness	October 2022

Source: Asian Development Bank.

V. KEY ISSUES

27. ADB will closely monitor recovery scenarios and provide timely TA to support reforms.

PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Empowering communities, building resilience, and inspiring growth (Pathway for the Development of Samoa) ^a		
Outcome An inclusive fiscal and private sector recovery in Samoa		Risks and Critical Assumptions R1: The reopening of the economy is delayed or the economic and fiscal recovery does not eventuate. R2: Further economic shocks, including those from natural hazards or other health risks, derail the economic and fiscal recovery. R3: Economic conditions in overseas markets deteriorate and there is a decline in overseas labor programs
Indicative Policy Actions: Subprogram 1 September 2020–August 2022 ^b	Indicative Policy Actions: Subprogram 2 September 2022–March 2024 ^b	Outcome Indicators
Reform Area 1: Fiscal management and sustainability		
1.1. In order to sequence PFM reform priorities and align technical support from development partners, Cabinet will: 1.1.1. Approve and endorse for publication the pilot of the PEFA Assessment of Climate Responsive Public Financial Management; ^c and 1.1.2. Approve, publish and commence implementation of a Finance Sector Plan (FY2022–2026) which covers public financial management reforms as well as finance sector development. ^d 1.2. In order to improve debt management arrangements, lower debt servicing, and preserve debt sustainability, Cabinet will approve with immediate effect and publish a Medium-Term Debt Strategy for FY2022–FY2026, which includes an analysis of long-term debt service requirements and financing strategies. ^f 1.3. In order to improve the management of fiscal risks associated with government on lending and guarantees to SOEs,	2.1 In order to improve PFM processes, the government will continue implementation of PFM reform measures as outlined in the Finance Sector Plan (FY2022–FY2026), and informed by the PEFA Assessment of Climate Responsive Public Financial Management. ^e 2.2 In order to support debt sustainability, the government will implement the Medium-Term Debt Strategy for FY2022–FY2026 through the FY2023 budget and FY2024 fiscal statements which are underpinned by MTDS provisions for strengthening management of public revenue, expenditure, debt, and fiscal balances. ^f 2.3 In order to improve the transparency and predictability of public funding to SOEs, Cabinet will table in Parliament for	By March 2025: a. Average current expenditure growth is no more than 3 percentage points higher than total revenue growth in FY2023 and FY2024 (FY2021 baseline: current expenditure growth 7.2 percentage points higher than total revenue growth) Source: MoF Financial Statements b. 100% of new external public and publicly guaranteed debt approved is on concessional terms (with a grant element of at least 35%) (FY2021 baseline: not applicable) Source: MoF Government Quarterly Debt Bulletin c. Short-term foreign currency debt (due within a year) remains below 15% of foreign exchange reserves (FY2021 baseline: 10%) Source: MoF Government Quarterly Debt Bulletin d. Risk assessments based on the credit risk assessment framework are conducted for 100% of new on-lending and government guarantee proposals by FY2024 (FY2021 baseline: not applicable)

Indicative Policy Actions: Subprogram 1 September 2020–August 2022 ^b	Indicative Policy Actions: Subprogram 2 September 2022–March 2024 ^b	Outcome Indicators
<p>Cabinet will approve with immediate effect:⁹</p> <p>1.3.1. Policies governing on-lending and the granting of government guarantees; and</p> <p>1.3.2. A credit risk assessment framework, covering financial and business risks for all applications for on-lending or government guarantees.</p>	<p>enactment, amendments to Public Bodies Act pertaining to Community Service Obligations and corporate governance.</p>	<p>Source: MoF Government Quarterly Debt Bulletin</p> <p>e. Total government guarantees are maintained below 10% of GDP by FY2024 (FY2021 baseline: 8% of GDP) Source: MoF Government Quarterly Debt Bulletin</p>
Reform Area 2: Inclusive private sector recovery		
<p>1.4. In order to strengthen labor protections, the Cabinet will table in Parliament for enactment, amendments to the Labour and Employment Relations Act which include strengthened provisions against gender discrimination, child labor, and the formalization of domestic workers.^h</p> <p>1.5. In order to attract private investment, the Cabinet will approve, and MCIL will commence implementation of, an Investment Policy which includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.^k</p>	<p>2.4 In order to clarify processes around setting the minimum wage, Cabinet will approve and MCIL will commence implementation of a Minimum Wage Policy that is consistent with the revised Labour and Employment Relations Act.</p> <p>2.5 In order to improve the investment environment, Cabinet will table in Parliament for enactment, revisions to the Foreign Investment Act to provide greater clarity and certainty for foreign investors, limit the scope for discretion, and improve the ability of government agencies to implement legislation.</p> <p>2.6 In order to support the development of small business, Cabinet will table in Parliament for enactment, the Business Names Act which would allow for simplified registration and operation of small businesses.</p>	<p>By March 2025:</p> <p>f. At least 45% domestic workers have contracts registered with MCIL (FY2021 baseline: not applicable)^j Source: MCIL reporting</p> <p>g. Number of provisions included in the Women, Business and Law Equal Pay index enshrined in national labor legislation increases to 3 out of 4 (FY2021 baseline: 0) Source: Labour and Employment Relations Act^l</p> <p>h. Number of foreign enterprises registered in Samoa increases to 205 (FY2021 baseline: 186) Source: MCIL reporting</p>
Reform Area 3: Finance sector development		
<p>1.6. In order to support ease of access to financial services, the Cabinet will approve legislation for tabling in Parliament that allows for the use of</p>	<p>2.7 In order to reduce credit risk and establish a central record of creditworthiness, Cabinet will table in Parliament for</p>	<p>By March 2025:</p> <p>i. One identity database becomes digitally accessible by financial institutions for</p>

Indicative Policy Actions: Subprogram 1 September 2020–August 2022 ^b	Indicative Policy Actions: Subprogram 2 September 2022–March 2024 ^b	Outcome Indicators
<p>digital identification for identity verification, and establishes conditions for provision of digital financial services.^l</p> <p>1.7. In order to understand the incumbent financial and anti-money laundering risks in the sector, support continued access to financial services, and improve finance sector stability, the Board of the Central Bank of Samoa will endorse the completed assessment of Samoa's anti-money laundering and counter-terrorist financing (AML/CFT) system which will provide a strong policy basis for an AML/CFT national strategy.^m</p>	<p>enactment a Credit Registry Bill enabling and regulating an online credit registry.</p> <p>2.8 In order to reduce financial and anti-money laundering risks, the government will approve and commence implementation of an updated AML/CFT national strategy addressing weaknesses identified in the national assessment undertaken under subprogram 1.</p> <p>2.9 In order to support further improvements in finance sector development and financial inclusion, the government will continue implementation of relevant measures outlined in the Finance Sector Plan (FY2022–FY2026).ⁿ</p>	<p>verification services (FY2021 baseline: identity database does not exist) Source: Central Bank of Samoa reporting</p> <p>j. One online credit registry is created for recording and reporting credit information. (FY2021 baseline: online credit registry does not exist) Source: Central Bank of Samoa reporting</p> <p>k. Samoa is not subject to increased monitoring by the Financial Actions Task Force (FY2021 baseline: not monitored)^o Source: Financial Actions Task Force reporting</p>

Budget Support

ADB:

Subprogram 1: \$7.5 million (grant)

Subprogram 2: \$7.5 million (grant)

Government of Australia \$2.1 million (A\$3 million) (grant)^p

Government of New Zealand \$4.4 million (NZ\$7 million) (grant)^p

World Bank \$10 million (grant)^p

Each development partner manages the disbursement of their respective financing in parallel.

A = assumption; ADB = Asian Development Bank; AML/CFT = anti-money laundering and counter-terrorist financing; COVID-19 = coronavirus disease; MCIL = Ministry of Commerce, Industry and Labour; MoF = Ministry of Finance; NCDs = noncommunicable diseases; PDMF = policy design and monitoring framework; PEFA = Public Expenditure and Financial Accountability; SOE = state-owned enterprise; R = risk.

^a Government of Samoa. 2021. *Pathway for the Development of Samoa, FY2022–FY2026*. Apia.

^b In line with the Staff Instruction on Business Processes for Policy-Based Lending (issued 19 January 2021): “The indicative policy actions and outcome(s) are presented in a preliminary format in the concept paper, with further details elaborated and/or confirmed during fact-finding and presented in the RRP.” Dates of approval and/or effectivity will be added as they become available.

^c The PEFA 2021 Climate Assessment evaluates the readiness of the PFM system to respond to climate change and includes a standardized assessment of climate informed macroeconomic analysis and planning, revenue, public investment, procurement, and expenditure management. The overall PEFA is a full assessment, and is the first use of the PEFA climate module globally.

^d The Finance Sector Plan covers: (i) PFM systems reforms and targets; (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.

- ^e Future actions proposed to improve fiscal resilience and sustainability include improved macroeconomic and fiscal modelling, amendments to the Public Financial Management Act, improved budget and financial reporting, revenue and tax compliance and administrative measures, debt management improvements, procurement reforms, strengthened investment programming and analysis, cash and asset management improvements, and disaster response.
- ^f The Medium-Term Debt Strategy will be implemented through to FY2026, and implementation is institutionalized through the Cabinet approval of the strategy. The implementation period of subprogram 2 will cover the implementation of the FY2023 budget and the FY2024 fiscal statement.
- ^g The formation and implementation of the on lending policy and guarantees policy are two of the actions outlined in the Finance Sector Plan within the *Fiscal Resilience & Sustainability Strategic Outcome 4: Debt Management and Analysis Strengthened*. These actions were also part of the sustainable development finance policy actions for 2021 and 2022 respectively. The credit risk assessment is also part of the same section of the Finance Sector Plan.
- ^h The amendments to the Labour and Employment Relations Act will improve consistency with international labor standards, clarify the terms and conditions of employment, and strengthen provisions around discrimination, forced labor, and the employment of children. The legislation will help to reduce both direct and indirect discrimination against women in Samoan workplaces, and ensure equal pay for work of equal value. It will also regulate the employment conditions of domestic workers (including hours of work and rest periods, application of the minimum wage, and prohibition of seizure of identity documents), about 75% of whom are women. The amended bill will provide for a review of the minimum wage every two years, following the most recent increase in January 2020 from ST2.30 per hour to ST3 per hour. It will strengthen the ability of 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.
- ⁱ The requirement of written 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 and 62% of whom are not formally employed. An increase in the number of formal contracts registered with MCIL, the oversight agency, will demonstrate that Labour and Employment Relations Act is being properly implemented and labor protections for the most vulnerable are being monitored by the responsible agency.
- ^j To measure improvements against gender discrimination, the World Bank's Women, Business and the Law (WBL) Index will be used. 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.
- ^k The Investment 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. The policy will also serve as the basis for ongoing reform and coordination within government and with the private sector.
- ^l Legislation that allows the use of digital identification is a required step for the formation of a national identity database, online credit registry (a proposed policy action for sub-program 2), and a proposed electronic know-you-customer facility. Parliamentary approval of legislation on the use of digital identification for identity verification is expected within the overall program period.
- ^m The AML/CFT assessment and associated response are actions outlined in the Finance Sector Plan under *Monetary and Financial Stability Strategic Outcome 3: Regulatory Compliance Framework Strengthened*.
- ⁿ In addition to AML/CFT measures, electronic identification and a credit registry, future actions proposed to improve financial market development and stability include improved monetary policy formulation and surveillance, legislative reform for financial and non-financial institutions, updating of banking prudential guidelines and exchange rate regulations, a national payment system and electronic know-your-customer facility, and financial literacy and inclusion measures.
- ^o As per the Financial Action Task Force, Samoa is not subject to increased monitoring as of October 2021. See [Jurisdictions under Increased Monitoring – October 2021](#).
- ^p Disbursements by the governments of Australia and New Zealand and the World Bank are expected in FY2022 against subprogram 1 actions in the first two reforms areas which are expected to be completed by June 2022. Partner financing for FY2023 is under discussion.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=54054-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): Public Sector

Supplementary Document

3. Sector Assessment (Summary): Finance