



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 54054-001
October 2022

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

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 September 2022)

Currency unit	–	tala (ST)
ST1.00	=	\$0.37
\$1.00	=	ST2.72

ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money-laundering
AML/CFT	–	anti-money laundering/combating the financing of terrorism
CBS	–	Central Bank of Samoa
COVID-19	–	coronavirus disease
CSO	–	community service obligation
FSP	–	Finance Sector Plan
GDP	–	gross domestic product
IMF	–	International Monetary Fund
JPAM	–	joint policy action matrix
LERA	–	Labour and Employment Relations Act
MCIL	–	Ministry of Commerce, Industry and Labour
MOF	–	Ministry of Finance
MSEs	–	micro and small enterprises
MTDS	–	Medium Term Debt Management Strategy
MTO	–	money transfer operator
PDS	–	Pathway for the Development of Samoa
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., FY2023 ends on 30 June 2023.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

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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	Subsector(s)	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
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP6: Strengthening governance and institutional capacity		ADB Financing	
✓ OP7: Fostering regional cooperation and integration		Adaptation (\$ million)	0.536
		Mitigation (\$ million)	0.536
		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		Poverty Targeting	
SDG 10.3		General Intervention on Poverty	✓
SDG 13.a			
SDG 17.4			
4. Risk Categorization:	Low		
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		30.900	
Government of Australia - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		12.500	
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)		14.000	
Counterpart		0.000	
None		0.000	
Total		38.400	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Strengthening Macroeconomic Resilience Program, and (ii) a proposed policy-based grant to the Independent State of Samoa for subprogram 1 of the Strengthening Macroeconomic Resilience Program.

2. The proposed 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 that will (i) improve fiscal management and sustainability, (ii) promote inclusive private sector recovery, and (iii) strengthen finance sector development and inclusion. The program will be financed through two policy-based grants of \$7.5 million each, to be implemented during fiscal year (FY) 2023 and FY2024. The program builds on reforms supported by previous Asian Development Bank (ADB) programs and financial support provided for COVID-19 response.¹ The program was developed in collaboration with the World Bank and the governments of Australia and New Zealand, and in regular consultation with the International Monetary Fund (IMF).

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Development context.** Samoa is a small island developing state in the Pacific, with a population of about 200,000 in 2021. 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. Samoa's high dependence on tourism, overseas remittances, and aid from development partners leaves the economy highly sensitive to exogenous shocks.

4. **Sound macroeconomic management.** Despite these development challenges, Samoa has strived to build macroeconomic resilience.² During FY2016–FY2019, annual GDP growth averaged 3.1%. Due to fiscal consolidation, the budget averaged a surplus of 0.3% of GDP in this period compared with an average deficit of more than 5.0% in FY2012–FY2015. Tax collection improved from 22.1% of GDP in FY2015 to 26.7% in FY2020 before COVID-19 affected the private sector.³ In parallel, public expenditure fell from 38.1% of GDP in FY2015 to 31.7% of GDP in FY2020 as government exercised spending restraint. While public debt declined from a peak of 58.9% of GDP in FY2015 to 47.6% of GDP in FY2020,⁴ the IMF assesses Samoa to be at a high risk of debt distress because of the potential effects of future disasters.⁵

5. **Impact of COVID-19.** The pandemic exacerbated Samoa's development challenges as

¹ ADB supported state-owned enterprise (SOE) reforms, procurement and debt management, and resilience to climate change in 2016 through the [Samoa: Fiscal Resilience Improvement Program, Subprogram 1](#). In 2020, ADB provided \$2.9 million under the [Pacific Disaster Resilience Program](#), and \$20.0 million under the [Samoa: Health Expenditure and Livelihoods Support Program](#). During the COVID-19 outbreak in 2022, ADB provided \$10.0 million under the [Pacific Disaster Resilience Program \(Phase 3\)](#).

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

³ 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.

⁴ External debt comprises about 96%–97% of Samoa's public debt.

⁵ International Monetary Fund Assessment Letter (accessible from the linked documents in Appendix 2).

border closures in March 2020 led to a collapse in tourism.⁶ As a result, GDP contracted by 3.1% in FY2020 and 7.1% in FY2021 (Table 1). Because of the sound fiscal position going into the pandemic and development partner support, Samoa implemented response packages to help mitigate the impact of COVID-19 while maintaining fiscal stability. The IMF noted that the fiscal, monetary, and prudential measures put in place in response to COVID-19 were appropriate.⁷ Although nominal debt fell, public debt reached 50.8% of GDP in FY2021 due to the fall in GDP.

Table 1: Selected Economic and Fiscal Indicators
(% of GDP, unless otherwise indicated)

Item	FY2019	FY2020	FY2021e	FY2022p	FY2023p	FY2024p
GDP growth (% change, real)	4.5	(3.1)	(7.1)	(5.3)	2.0	4.0
Inflation (% increase in CPI)	2.2	1.5	(3.0)	8.8	3.2	2.0
Total revenue and grants	32.9	38.7	40.2	40.7	35.0	33.6
Total revenue	30.7	30.2	32.7	27.9	28.2	27.1
of which: tax revenue	26.6	26.7	27.5	23.7	24.0	23.2
Grants	2.1	8.5	7.5	12.8	6.8	6.5
Total expenditure	30.1	31.7	38.1	43.2	38.6	37.2
Current expenditure	27.5	29.5	34.2	34.8	34.0	31.4
of which: wages and salaries	10.7	12.4	13.6	14.2	13.6	13.0
Capital expenditure	2.6	2.1	3.9	8.4	4.6	5.7
Fiscal surplus (deficit)	2.8	7.1	2.1	(2.5)	(3.6)	(3.6)
Public debt	48.5	47.6	50.8	47.4	43.5	40.0
Debt service ratio (% of revenue)	10.5	11.8	10.6	12.3	16.7	16.2
GDP (\$ million, current prices)	822.1	782.9	766.0	781.3	814.7	865.4

() = negative, CPI = consumer price index, e = estimate, FY = fiscal year, GDP = gross domestic product, p = projected.

Note: Numbers may not sum precisely because of rounding.

Sources: Samoa Ministry of Finance FY2022 Budget and Asian Development Bank estimates.

6. **Macroeconomic outlook.** GDP is estimated to have declined by 5.3% in FY2022 as the effects of COVID-19 on services and construction persist. Borders reopened on 1 August 2022, with GDP estimated to grow by 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.⁸ 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, particularly in the services sector.⁹ The fiscal deficit will increase to 3.6% of GDP in FY2023, largely because of sharply declining grants. Public debt is expected to fall to 40.0% of GDP by FY2024 because of declining debt and improved GDP. The IMF considers monetary policy appropriate (footnote 5). Risks to the outlook include external shocks and disasters,¹⁰ However, Samoa faces constraints that can undermine fiscally sustainable, private sector-led recovery and growth (paras. 7–12).

7. **Weaknesses in public financial management.** Samoa has demonstrated a commitment to prudent fiscal and debt management, but COVID-19 has exposed public financial management (PFM) weaknesses that will constrain the government's ability to support the medium-term recovery. PFM priorities must also respond to the long-term challenges of debt sustainability and

⁶ After avoiding COVID-19 outbreaks until 2022, Samoa confirmed 15,664 cases and 29 deaths from 3 January 2022 to 28 August 2022. As of 28 August 2022, 94% of the population aged 12 years and over are fully vaccinated and 63% have received their first booster dose. Government of Samoa, Ministry of Health. 2022. *COVID-19 Situational Report No. 381-387*. Apia.

⁷ IMF. 2020. [Request for Disbursement under the Rapid Credit Facility](#). Washington, DC.

⁸ Government of Samoa. 2021. *Fiscal Strategy Statement. FY2021/2022 Main Estimates*. Apia; and ADB estimates.

⁹ For comparison, the last time tax collections were as low as 24% of GDP was in FY2015.

¹⁰ Inflation was 8.8% in FY2022 partly because of high global oil prices, but is expected to moderate to 3.2% in FY2023.

climate change. The Finance Sector Plan (FSP) FY2014–FY2018, which covered PFM and finance sector reforms, and the previous Medium Term Debt Management Strategy (MTDS) 2016–2020 have ended and achieved many of their aims (footnote 2).¹¹ Alongside the fiscal impacts of COVID-19 and public debt breaching the government’s ceiling of 50% of GDP in FY2021, the government must adapt to the deviation from previously established debt management targets.¹² The MTDS also needs to be renewed and expanded to provide greater coverage of contingent liabilities that may arise from onlending and government guarantees to state-owned enterprises (SOEs) and to identify potential financing sources in the medium term. Existing PFM systems do not support climate change mitigation and adaptation activities adequately, and fiscal responsiveness to national emergencies is weak, with the absence of contingency plans for shocks often placing undue stress on limited available resources.¹³

8. Management and governance of SOEs remain a PFM challenge. The government balances public service delivery through SOEs against preserving fiscal resources through a combination of onlending, guarantees, direct subsidies, and regular community service obligations (CSOs). The current definition of CSO only allows for services to poor households and excludes noncommercial activities directed by government that may have other social or economic benefits. SOEs have lacked certainty in financing noncommercial activities within this definition, leading to ad hoc funding requests to the central budget and increased demand for guarantees and onlending. COVID-19 has seen increased use of these measures to lower SOE borrowing costs and reduce immediate fiscal pressure.¹⁴ However, formal policies governing the assessment and utilization of guarantees and onlending are absent. Contingent risks from SOEs could be further exacerbated by climate change impacts.¹⁵

9. **Barriers to private sector recovery.** The pandemic disrupted labor markets, leading to a decline in business activity and a fall in tax collections. As the economy recovers, measures to accelerate private sector growth and facilitate the return of workers to jobs will be key. While stimulating private sector investment can broaden the economic base, providing protections against discriminatory labor practices and enforcing formal work arrangements will improve working conditions and contribute to economic recovery. The government’s COVID-19 support measures helped mitigate the worst impacts on household incomes and service sector jobs, but the crisis underscored the vulnerability of informal workers, especially those in domestic work, where 75% are female and 62% were not formally employed in 2017.¹⁶ Other weaknesses of the

¹¹ Government of Samoa. 2013. [Finance Sector Plan FY2014-FY2018](#). Apia. Government of Samoa, Ministry of Finance. 2016. [Medium Term Debt Management Strategy 2016–2020](#). Apia.

¹² Indicators breached in FY2021 include (i) average interest rate of 1.46% against a target of 1.40% or less, (ii) average time to maturity of 9.8 years against a target of 13.0 years or more, and (iii) foreign debt as a share of total public debt of 99.6% against a target of 98.0% or less. Refinancing, interest rate, and foreign exchange risks have risen.

¹³ Disasters are estimated to reduce economic growth by 1.7% of GDP a year and cause economic losses and damages of up to one-third of GDP per disaster. Pacific Catastrophe Risk Assessment and Financing Initiative. 2011. *Country Risk Profiles*. Washington, DC.

¹⁴ In FY2021, onlending to SOEs was 8.9% and total SOE debt 12.0% of GDP. Government guarantees were 8.0% of GDP, of which 85% was held by the Development Bank of Samoa and Samoa Airways, which are both heavily exposed to declines in tourism.

¹⁵ 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.

¹⁶ Previous provisions concerning domestic workers in the 2016 Labour and Employment Relations Regulations are weak in several areas, including the failure to (i) mandate written contracts for domestic workers, (ii) prohibit employers from seizing identity documents, and (iii) explicitly state that domestic workers should be paid at least the minimum wage rate after deductions. These shortcomings were of particular concern, given the vulnerable nature of such employment, which stems not only from limited legal protections but also high levels of informality. Data from Samoa Bureau of Statistics. 2018. [2017 Samoa Labour Force Survey](#). Apia.

legislative framework are the lack of explicit prohibition on gender-based pay discrimination, no regular review process for the minimum wage, a lack of clarity on the role of labor inspectors, and inefficient grievance and complaint mechanisms.

10. Even before COVID-19, Samoa struggled to attract foreign investment.¹⁷ In addition to the challenges of being a small and remote market, Samoa has burdensome trade and permit regulations and a restrictive investment policy that contains broad discretionary powers and lacks transparency. Foreign direct investment will be a critical source of capital, technology, and knowledge transfer in helping tourism and other sectors recover from COVID-19. Samoa also lacks a simple process for formalizing small businesses, requiring sole traders and small-scale operators to register as a company under the Companies Act, 2001 through complex procedures. Entrepreneurs, particularly women, have raised concerns about the complexity and difficulty of formalizing their businesses. Further, 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 contractual arrangements. Trading names are collected by the Ministry of Commerce, Industry and Labour (MCIL) and the Ministry for Revenue, but are not linked nor verified against one another. As the private sector grows, it is important to simplify small business registration, allow businesses to legally protect their trade names, and increase ownership transparency.

11. **Underdeveloped finance sector.** The development of the finance sector, including the facilitation of increased financial intermediation, is critical to economic recovery and long-term development. Samoa's small finance sector faces capacity constraints and competing priorities.¹⁸ In 2020, formal domestic credit to the private sector was 53% of GDP, lower than Pacific peers such as Fiji (85%) and Vanuatu (64%). Four commercial banks provide almost 60% of the credit to the economy, with state-owned financial institutions making up most of the remainder. Samoa has 12 money transfer operators (MTOs), including two telecommunications companies that compete with larger international banks to facilitate Samoa's remittances. No public or private sector agency facilitates customer due diligence, document collation, or identity verification; and a lack of digitization has meant relying on manual processes. Stricter customer identification, anti-money laundering/combating the financing of terrorism (AML/CFT), risk assessment, and due diligence requirements are met by international banks and larger MTOs, but locally owned banks and smaller MTOs have struggled to meet requirements. As a result, smaller MTOs have had their bank accounts closed by commercial banks and locally owned banks have lost correspondent bank accounts, leading to market consolidation and an increased cost of remittances and trade payments. Remittances are an important part of household income in Samoa, reaching 30.8% of GDP in FY2021.

12. Insufficient or inefficient collection of customer information requires financial institutions to impose high collateral requirements, which may be difficult for individuals, and micro and small enterprises (MSEs) targeting business growth. Prioritizing the establishment of digital identification and open exchange of credit information will significantly lower the costs of know-your-customer due diligence, enable future digital payments reforms, and support a renewed focus on inclusive financial service delivery. Measures to support MSE lending may also be required to create credit profiles and customer history in the short term. Further, the enactment of the Money Laundering Prevention Amendment Act, 2018 has provided the Central Bank of Samoa (CBS) with the legal authority to regulate anti-money-laundering (AML) practices. With new developments in the finance sector, a review of AML risks is required. This will be a critical

¹⁷ During 2015–2019, foreign direct investment was 1.4% of GDP, well below the Pacific islands average of 3.7%.

¹⁸ Sector Assessment (Summary): Finance (accessible from the list of linked documents in Appendix 2).

step in sequencing reforms to comply with AML requirements that facilitate financial flows for trade and remittances, and will support greater financial inclusion. A large informal finance sector presents significant risk to the financially underserved due to high interest charges, highlighting the importance of improving financial inclusion. Despite the growing use of digital technology and agent banking, only 39.0% of adults and 35.1% of women had access to at least one regulated financial product, and access to financial services in urban areas was twice that of rural areas.¹⁹

13. **Strategic alignment.** The Pathway for the Development of Samoa (PDS) 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.²⁰ It also responds to the impacts of COVID-19 and climate change. The government's medium-term fiscal consolidation plan involves revenue mobilization, expenditure reprioritization, and PFM reforms. To enhance private sector participation, the PDS seeks to implement a policy framework to help businesses recover and contribute to improved foreign exchange earnings and employment in the longer term. Removing barriers to financial access and inclusion are also PDS priorities. The program aligns with five operational priorities of ADB's Strategy 2030: strengthening governance and institutional capacity; accelerating progress in gender equality; addressing remaining poverty and reducing inequalities; tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and fostering regional cooperation and integration.²¹ It aligns with ADB's Pacific Approach, 2021–2025, which supports inclusive growth and helps prepare for and respond to shocks.²²

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

14. **Program description.** The program will help the government transition from crisis response to inclusive fiscal and private sector recovery by delivering on three reform areas (paras. 17–21) across two subprograms. Policy actions address the government's priorities to respond to policy challenges intensified by COVID-19 and restore long-term growth (Appendix 1).

15. Policy-based lending in the form of sovereign budget support is a suitable modality to support the government's reform agenda (para. 13). The programmatic approach allows for the prioritization and sequencing of policy actions to account for Samoa's implementation capacity constraints while sustaining reform momentum and bridging budget support needs. It also provides the flexibility to adapt the reform agenda to emerging opportunities and constraints. Subprogram 1 lays the foundation for inclusive fiscal and private sector recovery through the approval of upgraded policy frameworks, guidelines, and strategies that better respond to the challenges of the current economic environment. Subprogram 2 will build on this foundation through implementing further policy reforms, including through new legislation, institutionalization of key reforms, and formalization of implementing regulations where required. Reform targets account for implementation capacity constraints, given Samoa's small public administration.

16. Subprogram 1 comprises seven prior actions, all of which have been fully complied with. Nine policy actions have been identified for subprogram 2.

17. **Reform area 1: Fiscal management and sustainability.** Under subprogram 1, to help better sequence reform priorities, guide development partner support, and establish PFM reforms

¹⁹ Central Bank of Samoa. 2020. [Samoa's Financial Inclusion Report: December 2020](#). Apia.

²⁰ Government of Samoa, Ministry of Finance. 2022. [Pathway for the Development of Samoa, FY2022–FY2026](#). Apia.

²¹ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²² ADB. 2021. [Pacific Approach, 2021–2025](#). Manila.

and targets, in February 2021, the Chief Executive Officer of the Ministry of Finance (MOF) approved and endorsed for publication the world's first Public Expenditure and Financial Accountability (PEFA) Assessment of Climate Responsive PFM. Not only will the PEFA assessment direct attention toward challenges within the PFM system that hamper climate change actions, but it will also serve as a valuable template for the integration of climate change considerations in the PEFA framework that can be applied to other countries affected by climate change.²³ Concurrently, in September 2022, the cabinet approved and MOF jointly with the CBS commenced implementation of the FSP FY2023–FY2027.²⁴ The FSP sequences PFM and finance sector reform priorities into the medium term. It indicates capacity needs; required regulatory amendments; and annual monitoring targets, including interim targets for the fiscal balance, expenditures, personnel costs, and debt. In anticipation of the FSP, in April 2022, the cabinet approved under subprogram 1 an MTDS for FY2022–FY2026, with immediate effect. The MTDS aims to reduce debt servicing costs and set debt management goals consistent with macroeconomic stability. It covers total public debt, including external and domestic debt, and highlights adherence to the non-concessional borrowing policy.²⁵ The MTDS also covers SOE loans and government onlending. In subprogram 2, the government will embed reforms through the operationalization of a dedicated debt management division within the MOF. It will also further the implementation of the MTDS provisions and targets through its key fiscal documents and undertake measures to strengthen PFM in response to national emergencies.

18. Consistent with the aims of the FSP to mitigate fiscal risks from SOEs, the cabinet approved an onlending policy in September 2020 and a guarantees policy in June 2022, both with immediate effect. The policies provide guidelines for eligibility, set monitoring and reporting requirements, and establish a framework for the terms and conditions of onlending arrangements and the issuing of guarantees. The policies impose disclosure and transparency requirements and mandate a credit risk assessment framework to assess creditworthiness and possible contingent risks to government. Embedded in the Government Guarantee Policy, the cabinet also approved and made effective the credit risk assessment framework. In subprogram 2, the government will prepare and submit to Parliament an amendment to the Public Bodies (Performance and Accountability) Act, 2001 to improve transparency and predictability of public funding to SOEs by (i) expanding the current definition of CSOs to include any service requested or mandated by government that is noncommercial but provides a social or economic benefit to the community, and (ii) requiring statements of corporate intent for public bodies to include funded and unfunded CSOs and assessments of contingent risks.

19. **Reform area 2: Inclusive private sector recovery.** Under subprogram 1, to strengthen labor protections and promote an inclusive economic recovery, in April 2022, the cabinet submitted an amendment bill to the Labour and Employment Relations Act, 2013 (LERA) to Parliament. The bill strengthens provisions against gender discrimination, child labor, and sexual harassment; mandates a regular review of the minimum wage; and improves provisions relating to the formalization and protection of domestic workers.²⁶ In subprogram 2, upon the approval of

²³ 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.

²⁴ The FSP seeks to improve PFM systems (including expenditure and revenue management), monetary policy, the operations of banks and nonbank financial institutions, and the external sector.

²⁵ The Government of Samoa has committed to not enter any new external public and publicly guaranteed non-concessional debt, except if the non-concessional debt limit is adjusted by the World Bank or in consultation with the IMF, as per the World Bank and ADB Sustainable Development Finance Policy actions for Samoa in FY2022.

²⁶ 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, addressing exploitation and abuse. Amendments also empower

the amended LERA by Parliament, the cabinet will approve (i) implementing regulations to the LERA; (ii) a Minimum Wage Policy to guide the process and criteria used in the biennial review of the minimum wage; and (iii) the ratification of the International Labour Organization Violence and Harassment Convention, 2019 confirming that Samoa has adhered to international standards to address violence and harassment in the workplace.

20. To attract private investment, the cabinet approved in June 2022 under subprogram 1 an investment policy that outlines the government's long-term foreign and domestic policy objectives for investment. The policy details key principles of the current legislation such as nondiscrimination between foreign and domestic investors, limited use of investment incentives, adherence to national environmental and social standards, protections for investment, and transparency in rulemaking. This provides a framework for government decisions on foreign investment proposals and priorities and improves transparency with prospective investors, which the MCIL has begun to implement. The approval of the policy also enables MCIL to proceed with the drafting of revisions to the Foreign Investment Act, 2011 based on the framework principles included in the policy, with a target of submitting the amendment bill to Parliament for enactment in subprogram 2. For domestic businesses, the cabinet will submit a new business names bill to Parliament to allow for simplified registration and operation of businesses without the need to register as a company under the Companies Act, 2001. This will reduce the administrative burden on small businesses, including those run by women; enable the legal protection of trading names; assist in due diligence; and promote transparency.

21. **Reform area 3: Finance sector development.** In line with the FSP, CBS has completed and approved in August 2022 under subprogram 1 an assessment to understand the incumbent financial and money-laundering risks in the sector, support continued access to financial services, and improve finance sector stability. The assessment is required to outline risks at the country level and is central to the international Financial Action Task Force analysis of the effectiveness of AML/CFT infrastructure. It highlights the need for capacity building and mitigating potential risks from commercial banks, MTOs, and trust and company service providers. In support of further reducing lender risk, improving access to financial services, and promoting finance sector stability, the CBS also approved with immediate effect a Credit Bureau Database Policy in August 2022 under subprogram 1, which addresses governance, operational arrangements, confidentiality, and consumer protection of credit information. The policy outlines the objectives and benefits of establishing a central credit bureau; determines key stakeholders; defines ownership and governance arrangements; addresses the proposed credit information framework, confidentiality, and consumer protection measures; describes the legal and regulatory framework, operational arrangements, and review mechanism; considers policy risks and costs; and recommends the way forward to establish an efficient and effective credit reporting system in Samoa. The approval of the policy has enabled public consultations on the supporting legislation.

22. In subprogram 2 and in support of the FSP, the government will approve and CBS will start implementing an AML/CFT strategy (based on the assessment approved by the CBS in subprogram 1) to address the remaining policy and capacity challenges in the sector. Subprogram 2 also includes the cabinet approval and submission to Parliament of two new bills: (i) one that allows for the use of digital identification for identity verification, establishing conditions for the provision of digital financial services, particularly for onboarding individuals in line with laws for

labor inspectors to handle employees' complaints and grievances through interviews of employers and employees, issue penalty and compliance notices, and other actions. To clarify certain provisions, several definitions have also been introduced in the amendments to the LERA, including complaint, domestic worker, grievance, redundancies, serious misconduct, sexual harassment, and work performance matters.

money-laundering prevention—this will assist in alleviating capacity-driven constraints in due diligence and monitoring;²⁷ and (ii) a Credit Registry Bill to create an online credit registry in supporting financial access by MSEs and individuals. Also under subprogram 2, the cabinet will approve with immediate effect a strategy to strengthen financial inclusion, with provisions to improve financial literacy for women.

23. **ADB’s value addition.** The program builds on fiscal and debt management reforms supported by earlier ADB programs (footnote 1). ADB also provided support for health systems and technical assistance (TA) to understand the gender-differentiated socioeconomic impacts of the pandemic.²⁸ ADB staff and TA supported debt sustainability analysis capacity development within MOF alongside the preparation of the MTDS, and peer-reviewed the Climate Responsive PEFA led by the IMF.²⁹ ADB TA also analyzed challenges to private sector development, helped draft the business names bill, and supported Samoa’s increased access to finance through the reform of secured transactions and policy support for the credit registry and its supporting legislation.³⁰ ADB provided TA to build AML/CFT compliance capacity and perform the AML/CFT risk assessment.³¹ ADB has contributed to all other prior actions through dialogue under the joint policy action matrix (JPAM).³² Prior actions are aligned with advice from ADB and development partners, as relevant. ADB will provide ongoing staff policy advice and dialogue together with TA to support implementation of actions under subprograms 1 and 2.³³

24. **Partner coordination.** ADB coordinated program design, policy dialogue, and TA with development partners, particularly the governments of Australia and New Zealand and the World Bank, through the JPAM. Reform areas 1 and 2 are common to JPAM partners, while reform area 3 is unique to ADB. JPAM partners (except ADB) have disbursed \$30.9 million in grant cofinancing in FY2022, as reform area 1 and 2 actions were completed.³⁴ The World Bank has provided TA and staff support on the guarantees, onlending, and investment policies; will continue to support the implementation of the credit risk assessment framework and monitoring of contingent and debt risks; and will support legislative amendments to the Foreign Investment Act, 2011. The Government of Australia supported a review of the gaps in the legislation and made recommendations that informed the amendments to the LERA. The IMF’s Pacific Financial and Technical Assistance Centre supports revenue reform and coordinated the Climate Responsive PEFA. CBS is drafting the financial inclusion strategy with assistance from the United Nations Development Programme. ADB regularly consulted with the IMF on macroeconomic projections and policy directions. The IMF provided an assessment letter in support of the program.

25. **Regional cooperation and integration.** The program promotes regional cooperation and integration by reducing barriers to foreign investment through transparent and rules-based

²⁷ 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.

²⁸ ADB supported improved vaccine coverage under ADB. [Regional: Systems Strengthening for Effective Coverage of New Vaccines in the Pacific Project](#); provided \$1.5 million for health system support under ADB. [Regional: COVID-19 Emergency Response](#); and provided TA from ADB. [Regional: Strengthening Social Protection in the Pacific](#).

²⁹ ADB. [Regional: Debt Analytics and Technical Capacity Building](#).

³⁰ ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#).

³¹ 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](#).

³² The JPAM involves development partners and government agencies to identify reforms and coordinate TA support.

³³ Support will be provided through TA in footnote 31 as well as ADB. [Regional: Supporting Public Sector Management Reforms](#).

³⁴ ADB targets disbursement in November 2022, with the completion of actions under reform area 3 in September 2022.

policies that limit discretionary powers and reduce transaction and contract risks through online credit and business names registries.³⁵ Greater financial inclusion will increase cross-border transfers, and improved AML/CFT activities will promote adherence to international financial standards and improve the reputation of financial standards in Samoa and the wider Pacific region. Enhanced labor standards will better protect migrant workers, particularly domestic labor.

26. **Sustainability.** Dialogue through the JPAM helped build on government-led reforms. The operation is structured around current government priorities for which strong reform momentum exists. ADB will continue to provide TA for policy formulation and implementation in coordination with development partners (para. 23). ADB will develop a post-program partnership framework during subprogram 2 to support reform progression.

27. **Lessons.** Policy-based operations in Samoa, and the Pacific more widely (including COVID-19 pandemic response operations), highlight the need for (i) allowing flexibility in planning, budgeting, and financing given the evolving pandemic situation; (ii) enabling the private sector to play a critical role in recovery; (iii) promoting reforms beyond short-term COVID-19-related challenges to strengthen domestic resource mobilization, the targeting and quality of public expenditures, and debt management to rebuild buffers; and (iv) providing targeted TA.³⁶ Past operations have highlighted that close coordination with other development partners is critical to support strong reforms and help maintain a strong policy dialogue with the government (footnote 1). Accordingly, the program had been prepared under the JPAM and 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.

C. Expected Outcome of the Reforms

28. The program is aligned with the government's development objective of empowering communities, building resilience, and inspiring growth (para. 13). The program outcome will be an inclusive fiscal and private sector recovery in Samoa. Both subprograms will contribute to this outcome through sequenced policy actions that will support the government reform program (paras. 17–22). Program reforms will (i) strengthen macro-fiscal resilience through better planning, targeting of reforms, and management of SOE financing and 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 and financial inclusion through improved planning, regulation, and transparency.³⁷

D. Development Financing Needs and Budget Support

29. The government's development financing requirements are estimated at \$57.3 million in FY2023 and \$54.8 million in FY2024, based on projected fiscal deficits (exclusive of proposed JPAM budget support) (Table 2). ADB's proposed financing comprises \$7.5 million for subprogram 1 in FY2023 and \$7.5 million for subprogram 2 in FY2024.³⁸ This takes into account reform sequencing. ADB's budget support is expected to partially meet financing needs alongside

³⁵ Actions to strengthen foreign investment and establish an online credit registry will bring Pacific regional benefits.

³⁶ Independent Evaluation Department. 2015. [Corporate Evaluation Study: ADB Support to Small Pacific Islands Countries](#). Manila: ADB; and ADB. 2011. [Policy Brief: Policy-Based Programs for the Pacific Islands](#). Manila. 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.

³⁷ Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

³⁸ ADB. 2020. [Policy-Based Lending](#). *Operations Manual*. OM D4. Manila; and ADB. 2020. [Staff Instruction on Business Processes for Policy-Based Lending](#). Manila.

support from other JPAM partners. Remaining financing needs will be sourced from government reserves. Other JPAM partners have disbursed budget support contributions parallel to ADB subprogram 1 in FY2022: the World Bank disbursed \$14.0 million, the Government of Australia provided \$12.5 million, and the Government of New Zealand provided \$4.4 million.³⁹ Given the macroeconomic risks (para. 6), financing needs may increase over the program period.

Table 2: Development Financing Needs, FY2023–FY2024

Item	FY2023e		FY2024p	
	(\$ million)	(% of GDP)	(\$ million)	(% of GDP)
Total revenue and grants	285.4	35.0	291.0	33.6
Total expenditure	314.7	38.6	321.8	37.1
Fiscal surplus (deficit) (excluding JPAM budget support grants)	(57.3)	(7.0)	(54.8)	(6.3)
JPAM budget support grants	28.0	3.4	24.0	2.8
Of which Asian Development Bank policy-based grant	7.5	0.9	7.5	0.9
Net lending (borrowing) requirement ^a	(29.3)	(3.6)	(30.8)	(3.6)
Net change in reserves (drawdown)	(33.2)	(4.1)	(67.7)	(7.8)
Net acquisition of financial liabilities	(3.8)	(0.5)	(37.0)	(4.3)
Domestic borrowing	(3.2)	(0.4)	(3.3)	(0.4)
External borrowing	(0.6)	(0.1)	(33.7)	(3.9)

() = negative, e = estimate, FY = fiscal year (ends 30 June), GDP = gross domestic product, JPAM = joint policy action matrix, p = projected.

^a Net lending (borrowing) corresponds to overall fiscal surplus (deficit) presented in Table 1.

Sources: Government of Samoa Budget Statement for FY2023; and Asian Development Bank estimates.

30. The government has requested grants not exceeding \$15 million from ADB's Special Funds resources (Asian Development Fund) to help finance subprograms 1 and 2. Of the subprogram 1 amount, \$1.1 million contributes to the improved management of climate-related public and private investments through the climate PEFA and updated investment policy.

E. Implementation Arrangements

31. The MOF leads the JPAM process and oversees the program as the executing agency. MOF, MCIL, and CBS are the implementing agencies. The JPAM will continue to facilitate consultations on reform priorities. The government is consulting with the private sector and civil society on specific reforms as needed. The program implementation period is September 2020–September 2022 for subprogram 1, and October 2022–March 2024 for subprogram 2. The proceeds of the policy-based grant will be withdrawn following ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE REQUIRED

32. **Poverty and social.** ADB estimates the percentage of households living in basic needs poverty could have gone up from 13.4% in 2016 to 21.7% by 2021 because of the pandemic. For the poor, direct program benefits include better employment outcomes and labor protections, lower costs of starting and running small businesses, and improved access to financial services. The new LERA promotes the formalization of labor, especially for domestic workers, and reduces exploitation (para. 19). It mandates regular minimum wage adjustments, benefiting low-income

³⁹ JPAM support from Australia, New Zealand, and the World Bank parallel to ADB subprogram 1 was disbursed by June 2022, and contributed to meeting the financing needs in FY2022. Development partner TA supports overlapping sets of policy actions within the overall JPAM (para. 24). The World Bank's parallel program is the [Samoa Second Recovery and Resilience Development Policy Operation](#), which supports actions to (i) promote an inclusive economic recovery; (ii) strengthen macro-fiscal resilience; and (iii) enhance climate, disaster, and social resilience. Continued JPAM partners support is proposed in FY2023 and FY2024 (Table 2).

workers.⁴⁰ The program seeks to improve the ability to conduct customer due diligence on financial transactions by lowering the risks to financial institutions providing services to the poor. This will benefit MTOs that face challenges in customer due diligence and reduces barriers to financial services, benefiting the poor. Remittances are particularly important for poorer households, which will be more at risk if remittances fall. Improved PFM will safeguard the funding of essential services that benefit the poor. Better management of SOE financing and contingent risks will minimize the risks of service disruptions or undue pressure on public finances.

33. **Gender.** The program is categorized *some gender elements*. Only 34.2% of women aged 15–64 years are in the labor force, compared with 58.4% of men. Gender gaps exist in hourly earnings within occupations and educational levels, and there are high levels of gender-based violence and sexual harassment. The LERA amendments mandating equal pay for work of equal value are intended to reduce discrimination against women in the workplace. Definitions introduced or amended clarify provisions relating to complaints, domestic workers, grievances, redundancies, serious misconduct, sexual harassment, and work performance. Revisions address recommendations by the Committee on the Elimination of All Forms of Discrimination Against Women in the last periodic review.⁴¹ The revised LERA includes provisions to formalize domestic workers. Revisions clarify hours of work and rest periods and the application of the minimum wage, and prohibit the seizure of identity documents, addressing areas of exploitation and abuse of domestic workers. The program will also support simplified processes for the formalization of new and incumbent MSEs, addressing concerns women entrepreneurs have about the complexity and difficulty of formalizing businesses. Micro enterprises make up 80% of the private sector and 40% are headed by women. Finally, the program will simplify the process of obtaining identity documents through supporting digital identification, addressing difficulties many women face in obtaining them, including for social protection or financial services.

34. **Safeguards.** Following ADB's Safeguard Policy Statement (2009), the program is classified category C for environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. The prior policy actions were assessed and are not expected to result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment.

35. **Governance.** Samoa has recently made good progress on reforming PFM systems (footnote 2). The budget is credible, fiscal information is comprehensive and transparent, participation in the annual budget process is strong, and there are avenues for external scrutiny and audit.⁴² Challenges remain in the comprehensiveness of budget documentation and timely public access to fiscal information. Reform area 1 will improve governance by aligning PFM reforms with current challenges, expanding debt monitoring through the MTDS to include contingent liabilities from SOEs, and assessing the ability of the PFM system to support climate action. ADB staff will monitor the implementation of the MTDS and debt management actions through the JPAM. Reform area 2 supports greater formalization in the labor market and small business, and the application of rules-based approaches to managing foreign investment. Reform area 3 will support access to financial services and finance sector development through improved capacity to mitigate risks of illicit financial transactions, maintain trust in the finance sector, and

⁴⁰ When the minimum wage was last adjusted in 2020, the wage income share for the lowest decile of workers increased from 2.0% of total wage income to 2.5% and from 2.3% to 2.6% for the second decile. Samoa Governance Support Programme. 2021. *National Wage Survey and Minimum Wage Impact Assessment for Samoa*. Apia.

⁴¹ United Nations. Convention on the Elimination of All Forms of Discrimination against Women. [Sixth Periodic Report of States Parties due in 2016: Samoa](#).

⁴² IMF Pacific Financial Technical Assistance Centre. 2019. [Samoa Public Expenditure and Financial Accountability Assessment July 2019](#). Suva.

maintain access to international payment systems. Ongoing TA and ADB staff support will be provided across all reform areas to aid in implementation and mitigate fiduciary risks. Development partners have determined that PFM systems are reliable in terms of budget support.

36. Major risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.⁴³

Table 3: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Further economic shocks, including those from natural hazards or health risks, derail the economic and fiscal recovery.	The government engages in continuous dialogue with development partners to mobilize immediate relief. It is strengthening policy, governance, and institutional arrangements for disaster risk management. The World Bank and the Asian Development Bank are seeking to renew contingent disaster financing by early 2023. Samoa can access funds from the Pacific Catastrophe Risk Insurance Company in case of a major disaster.
Community spread of coronavirus disease (COVID-19) locally and/or in major tourism source markets derails reopening arrangements.	The COVID-19 vaccination rate on 28 August 2022 was 94% for those aged 12 years and above, and 63% have received their first booster dose. Government is building health system capacity to respond to potential outbreaks, including delivering essential medicines and supplies and monitoring vulnerable groups.
High staff turnover aggravates capacity constraints, affecting reform formulation and coordination, and delaying reform implementation.	As necessary, technical assistance from development partners is available to bridge gaps through short- and medium-term capacity supplementation. The joint policy action matrix process facilitates the prioritization of reforms and allows partners to absorb substantial coordination and transaction costs to avoid overburdening the small public administration and decision-makers.

Source: Asian Development Bank.

37. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MOF.

IV. ASSURANCES

38. The government and the MOF have assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft grant agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

V. RECOMMENDATION

39. I am satisfied that the proposed programmatic approach and policy-based grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the programmatic approach for the Strengthening Macroeconomic Resilience Program, and
- (ii) the grant not exceeding \$7,500,000 to the Independent State of Samoa from ADB's Special Funds resources (Asian Development Fund) for subprogram 1 of the Strengthening Macroeconomic Resilience Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Masatsugu Asakawa
President

20 October 2022

⁴³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objectives 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: Further economic shocks, including those from natural hazards or other health risks, derail the economic and fiscal recovery. R2: Community spread of COVID-19 or its variants locally and/or in major tourism source markets derails reopening arrangements. R3: High staff turnover aggravates existing capacity constraints, affecting reform formulation, coordination, and delaying reform implementation.	
Prior Actions: Subprogram 1 Completed: September 2020–September 2022	Policy Actions: Subprogram 2 October 2022–March 2024	Outcome Indicators
Reform Area 1: Fiscal management and sustainability		
<p>1.1. To better sequence PFM reform priorities and align technical support from development partners:</p> <p>1.1.1. The Chief Executive Officer of the Ministry of Finance approved and endorsed for publication the pilot of the PEFA Assessment of Climate Responsive Public Financial Management;^b and</p> <p>1.1.2. The cabinet approved, MOF published, and MOF and CBS commenced implementation of a Finance Sector Plan (FY2023–FY2027) which covers public financial management reforms as well as finance sector development.^c</p> <p>1.2. To improve debt management arrangements, lower debt servicing, and preserve debt sustainability, the cabinet approved with immediate effect and published a MTDS for FY2021/22–</p>	<p>2.1 To implement provisions of the Finance Sector Plan (FY2023–FY2027) to improve PFM processes, the MOF will:</p> <p>2.1.1 Establish and operationalize a Debt Management Division to strengthen debt management capacity and the assessment and monitoring of guarantees and on-lending; and</p> <p>2.1.2 Implement measures to strengthen response to impacts of national emergencies.^d</p> <p>2.2 To support debt sustainability, the government will implement the MTDS for FY2021/22–FY2025/26 through the FY2023 budget and FY2024 fiscal statements which are underpinned by</p>	<p>By March 2025:</p> <p>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</p> <p>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</p> <p>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</p>

Prior Actions: Subprogram 1 Completed: September 2020–September 2022	Policy Actions: Subprogram 2 October 2022–March 2024	Outcome Indicators
<p>FY2025/26, which includes an analysis of long-term debt service requirements and financing strategies.</p> <p>1.3. To improve the management of fiscal risks associated with government on-lending and guarantees to SOEs, the cabinet approved with immediate effect:^f</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>MTDS provisions for strengthening the management of public revenue, expenditure, debt, and fiscal balances.^e</p> <p>2.3 To improve the transparency and the predictability of public funding to SOEs, the cabinet will table in Parliament for enactment, amendments to Public Bodies Act pertaining to Community Service Obligations and corporate governance.^g</p>	<p>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) 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>
<p>Reform Area 2: Inclusive private sector recovery</p>		
<p>1.4. To strengthen labor protections, the cabinet tabled amendments to the Labour and Employment Relations Act in Parliament which include strengthened provisions against gender discrimination, sexual harassment, and the formalization of domestic workers (a majority of whom are women).^h</p> <p>1.5. To attract private investment, the</p>	<p>2.4 To strengthen labor protections, the cabinet will approve:</p> <p>2.4.1 Regulations to the Labour and Employment Relations Act to take effect on 1 January 2024, to guide implementation of the new Act;</p> <p>2.4.2 A Minimum Wage Policy to take effect on 1 January 2024 that is consistent with the revised Labour and Employment Relations Act, to clarify the process and criteria around the biennial review of the minimum wage; and</p> <p>2.4.3 The ratification of the International Labour Organization Violence and Harassment Convention (C190), confirming that Samoan labor standards are consistent with international practices.</p> <p>2.5 To improve the investment environment,</p>	<p>By March 2025:</p> <p>f. At least 45% of domestic workers have contracts registered with MCIL (FY2021 baseline: not applicable)ⁱ 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 Actⁱ</p> <p>h. Number of foreign enterprises registered in Samoa increases to 205 (FY2021 baseline: 186) Source: MCIL reporting</p>

Prior Actions: Subprogram 1 Completed: September 2020–September 2022	Policy Actions: Subprogram 2 October 2022–March 2024	Outcome Indicators
<p>cabinet approved and MCIL has begun implementing an Investment Policy that includes key principles to facilitate equal treatment, transparency, and adherence to environmental and social standards.^k</p>	<p>the 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 To support the development of small business, the cabinet will table in Parliament for enactment, the new Business Names Bill which would allow for simplified registration and operation of small and women-owned businesses.^l</p>	
Reform Area 3: Finance sector development and inclusion		
<p>1.6. To understand the incumbent financial and money laundering risks in the sector, the CBS approved an assessment of Samoa’s money laundering and terrorist financing risks that provides a strong policy basis for reforms.^m</p> <p>1.7. To reduce lender risk, improve access to financial services, and promote financial sector stability, the CBS approved with immediate effect a Credit Bureau Database Policy which addresses the issues of governance, operational arrangements, confidentiality, and consumer protection, and provides the basis for legislation to establish an online credit registry.</p>	<p>2.7 To reduce financial and money laundering risks, the cabinet will approve and CBS will commence implementation of an updated AML/CFT national strategy addressing weaknesses identified in the national assessment undertaken under subprogram 1.ⁿ</p> <p>2.8 To reduce credit risk and establish a central record of creditworthiness, the cabinet will table in Parliament for enactment:</p> <p>2.8.1 A new bill that allows for the use of digital identification for identity verification and establishes conditions for the provision of digital financial services;^o and</p> <p>2.8.2 A Credit Registry Bill enabling and regulating an online credit registry with sex-disaggregated data.</p>	<p>By March 2025:</p> <p>i. One identity database becomes digitally accessible by financial institutions for verification services (FY2021 baseline: identity database does not exist) Source: CBS reporting</p> <p>j. One sex-disaggregated online credit registry is created for recording and reporting credit information. (FY2021 baseline: online credit registry does not exist) Source: CBS reporting</p> <p>k. Samoa is not subject to increased monitoring by the Financial Actions Task Force (FY2021 baseline: not monitored)^p Source: Financial Actions Task Force reporting</p>

Prior Actions: Subprogram 1 Completed: September 2020–September 2022	Policy Actions: Subprogram 2 October 2022–March 2024	Outcome Indicators
	2.9 To support further improvements in financial inclusion, the cabinet will approve with immediate effect a Financial Inclusion Strategy (that includes provisions to strengthen financial literacy for women) as outlined in the Finance Sector Plan (FY2023–FY2027).	
Budget Support ADB: Subprogram 1: \$7.5 million (grant) Subprogram 2: \$7.5 million (grant) Government of Australia \$12.5 million (A\$18.0 million) (grant) ^a Government of New Zealand \$4.4 million (NZ\$7.0 million) (grant) ^a World Bank \$14.0 million (grant) ^a		

A = assumption; ADB = Asian Development Bank; AML/CFT = anti-money laundering and counter-terrorist financing; CBS = Central Bank of Samoa; COVID-19 = coronavirus disease; MCIL = Ministry of Commerce, Industry, and Labour; MOF = Ministry of Finance; MTDS = Medium Term Debt Management Strategy; PDMF = policy design and monitoring framework; PFM = public financial management; PEFA = Public Expenditure and Financial Accountability; R = risk; SOE = state-owned enterprise.

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

^b 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. It is the first use of the PEFA climate module globally. It is published on the Public Expenditure and Financial Management website: <https://www.pefa.org/node/5015>.

^c 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.

^d Future actions are expected to help address weak PFM systems to respond to unforeseen national emergencies arising from disasters caused by natural and health hazards. Indicatively, this includes preparing and implementing operational guidelines and clear procedures for accessing fiscal resources in case of emergencies, and developing and implementing response plans for vulnerable sectors.

^e The Medium-Term Debt Management 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.

^f 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.

^g The government will amend the provisions in the Public Bodies Act to improve transparency and the predictability of public funding to SOEs by (i) expanding the current definition of CSO to also include any service requested or mandated by government that is non-commercial but provides a social or economic benefit to the community and (ii) require statements of corporate intent for public bodies to include funded and unfunded CSO and assessments of contingent risks.

^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 2 years, following the most recent increase in January 2020 from ST2.30 per hour to ST3.00 per hour. It will strengthen the ability of labor inspectors to handle employees' complaints and grievances through interviews with 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 Kiribati and the Marshall Islands 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, limited use of investment incentives, adherence to national environmental and social standards, protections for investment, and transparency in rulemaking. The policy also serves as the basis for ongoing reform and coordination within government and with the private sector.
- l The simplification of formalizing new and incumbent micro and small businesses addresses concerns women entrepreneurs have about the complexity and difficulty of formalizing their businesses. Micro businesses make up 80% of the private sector and about 40% are headed by women.
- 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*. The government aims to ensure that all prudential and AML standards are consistent with international standards.
- 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 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 subprogram 2), and a proposed electronic know-your-customer facility.
- p 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](#).
- q Disbursements by the governments of Australia and New Zealand and the World Bank have taken place in FY2022 against subprogram 1 actions in the first two reforms areas which were completed by June 2022.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54054-001-2>

1. Grant Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. International Monetary Fund Assessment Letter
6. Summary Poverty Reduction and Social Strategy
7. Program Impact Assessment
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items

Supplementary Document

10. Sector Assessment (Summary): Finance

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Government of Samoa
OFFICE OF THE MINISTER OF FINANCE

(Ministry of Finance; Central Bank of Samoa; Development Bank of Samoa; Samoa International Finance Authority; Samoa Life Assurance Corporation; Samoa National Provident Fund; Unit Trust of Samoa;)

DEVELOPMENT POLICY LETTER

9 September 2022

Mr. Masatsugu Asakawa
President
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Subject: Samoa Supporting Economic Resilience Program

Dear Mr. Asakawa,

Over the past two decades, Samoa's ambitious development agenda has supported economic reform and fiscal sustainability, despite repeated economic shocks. The Asian Development Bank (ADB) continues to be an important development partner to us in pursuing our development objectives and supporting our response to COVID-19. We welcome the multi-year support provided by the ADB and deeply value the close working relationship, including through the policy action matrix underpinning this program-based grant.

The recently launched Pathway for the Development of Samoa (PDS) FY2022-FY2026 establishes the guiding principles and priorities that will help achieve macroeconomic sustainability and inclusive recovery following the COVID-19 pandemic. Samoa has made significant gains in public finance management (PFM) over the past decade however, challenges remain. To support future PFM reforms and capacity building, the Finance Sector Plan (FSP) FY2023–FY2027 was developed to support (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. The FSP will guide PFM and finance sector reform into the medium term, and outlines capacity needs, regulatory amendments, and annual monitoring targets, including interim targets for the fiscal balances and debt.

Maintaining fiscal and debt sustainability continues to be a key priority for the government during our recovery from COVID-19. Following the expiry of the previous Medium-Term Debt Strategy (MTDS) in 2020, we have updated our MTDS FY2022–FY2026 to reduce debt servicing costs and set debt management goals consistent with macroeconomic stability and our recovery. The MTDS will help ensure our financing needs and payment obligations are met at the lowest possible cost and prudent risk level. The MTDS further strengthens debt management by expanding the coverage to include government-guaranteed and non-guaranteed debt of all State-Owned Enterprises (SOEs).

While our debt management framework is strong, we recognize that there are ongoing fiscal risks from guarantees and on-lending provided to SOEs. To mitigate some of these risks, we have approved new on-lending and government guarantee policies, which set out principles and procedures governing the eligibility for on-lending and guarantees, and the terms on which they are provided. We have also mandated the application of a credit risk assessment framework for the issuance of government guarantees to public trading bodies, adopting best practices of reporting and disclosure to enhance transparency and accountability. This adds to the work already underway on the possible amendments to the Public Bodies Act to improve transparency and the predictability of public funding to SOEs by expanding the current definition of community service obligations (CSO) to also include requests for non-commercial activities that benefit the community and requiring statements of corporate intent to include funded and unfunded CSO and assessments of contingent risks.

In addition to COVID-19 response and recovery, adaption to the impacts of a changing climate and the decarbonization of the economy pose significant challenges. Planning and implementing climate action will require a systematic whole-of-government approach encompassing the entire PFM cycle. In March 2021, the Ministry of Finance, together with the International Monetary Fund, approved and published the Public Expenditure and Financial Accountability (PEFA) Assessment of Climate Responsive Financial Management to identify capacity gaps and priorities to support climate action. As the first country to undertake such an assessment, we recognize the Climate PEFA as a valuable template for the integration of climate change considerations in the PEFA framework that can then be applied to other small-island and climate-affected states.

To promote an inclusive recovery from the impacts of COVID-19, we have approved an Investment Policy that outlines the government's long-term foreign and domestic policy objectives for investment. This includes key principles such as non-discrimination between foreign and domestic investors, a limited use of investment incentives, adherence to national environmental and social standards, protections for investment, and transparency in rule-making. The adoption of this policy will have a positive impact on improving conditions for investment in the country and we are confident that it will lead to an increase in the number of foreign enterprises registered

in Samoa. The approval of the policy also enables the Ministry of Commerce, Industry, and Labour to proceed with the drafting of revisions to the Foreign Investment legislation, with a target of submitting the amendments to Parliament in 2024. This will complement work underway with the assistance of ADB Pacific Private Sector Development Initiative (PSDI) on the Business Names Act, which allows simplified registration and operation of micro and small businesses, and ultimately enable the creation of an online registry that will allow for open searches of trading names.

We also recognize the important role that jobs play in growing our economy and supporting dignity. We have updated our labour legislation to ensure that workers' rights – particularly those of women – are strengthened and adequately codified. In April 2022, cabinet approved amendments to the Labour and Employment Relations Act (LERA) to go to Parliament which includes strengthened provisions against gender discrimination, child labor, and sexual harassment; mandates a regular review of the minimum wage; and improves provisions relating to the formalization and protection of domestic workers. The LERA enables future revisions to the supporting regulations and will be supported by a Minimum Wage Policy to guide the process and criteria used in the biennial review of the minimum wage. The LERA will also enable Samoa to ratify the International Labor Organization Violence and Harassment Convention, confirming our adherence to international standards.

Financial inclusion and the development of a well-regulated finance sector are also key priorities for the government. The development of the finance sector, including the facilitation of increased financial intermediation, is critical to economic recovery and long-term development, and we must ensure that the industry is both inclusive and meets international standards for due diligence. In line with the reform pathway set in the FSP, the Central Bank of Samoa (CBS) has completed an anti-money laundering and combatting finance for terrorism (AML/CFT) assessment to understand the risks in the sector, support continued access to financial services, and improve finance sector stability. The assessment highlighted needed support to mitigate potential risks from commercial banks, money transfer operators, and trust and company service providers, and will support the formation of a dedicated AML/CFT strategy. Consistent with these aims, CBS has also approved a Credit Bureau Policy that addresses the issues of governance, operational arrangements, confidentiality, and consumer protection of credit information, with the goal of establishing a central credit bureau in Samoa. These efforts will be further supported through future legislation that will allow for the use of digital identification to support expanded financial inclusion that is in line with money laundering prevention.

Despite challenging circumstances, the government is firmly committed to implementing this program to support Samoa's economic recovery efforts. All relevant policies, assessments, and bills have been approved and commenced implementation, in line with the first stage of the agreed program. We therefore seek the ADB's favourable consideration of our request for a program-based grant of US\$7.5 million based on the satisfactory completion of the agreed actions under subprogram 1.

We look forward to continued engagement with ADB to assist Samoa's recovery from COVID-19 and achieve our development aspirations. On behalf of Samoa, I would like to extend our sincere appreciation to the ADB for the close relationship and contributions made to improving the lives of the people of Samoa.

Kind Regards,



Mulipola Anarosa Ale Molioo

Minister of Finance

cc: Saoleititi Maeva Betham Vaai, CEO, Ministry of Finance