Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 120056-WS

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 3.6 MILLION
(US$ 5 MILLION EQUIVALENT)

TO

THE INDEPENDENT STATE OF SAMOA

FOR A

FIRST RESILIENCE DEVELOPMENT POLICY OPERATION

September 19, 2017

Macroeconomics and Fiscal Management Global Practice
East Asia and Pacific Region

SAMOA – GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of 19 September 2017)
US$ 1.00 = WST 2.47

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
CBS	Central Bank of Samoa
CDC	Cabinet Development Committee
CFT	Countering the Financing of Terrorism
COEP	Code of Environmental Practice
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CRRS	Climate Resilient Roads Strategy
CTF	Counter Terrorism Financing
DBS	Development Bank of Samoa
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EA	Environmental Assessment
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FY	Financial Year (year ended June)
GDP	Gross Domestic Product
GNI	Gross National Income
GRS	Grievance Redress Mechanism
HIES	Household Income and Expenditure Survey
IDA	International Development Association
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
KYC	Know Your Customer
LTA	Land Transport Authority
MAPS	Methodology for Assessing Procurement Systems
MER	Mutual Evaluation Report
MTDS	Medium-Term Debt Management Strategy
MTO	Money Transfer Operator
MWTI	Ministry of Works, Transport and Infrastructure
NCD	Non-Communicable Disease
NPL	Non-Performing Loan
PBB	Public Beneficial Body
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PFI	Public Financial Institution
PFM	Public Financial Management
PPP	Public-Private Partnership
PPSR	Personal Properties Securities Registry
PSDI	Pacific Private Sector Development Initiative
PTB	Public Trading Body
PUMA	Planning and Urban Management Agency
REER	Real Effective Exchange Rate
SAT	Samoan Tala
SDS	Strategy for the Development of Samoa
SDR	Special Drawing Rights
SHC	Samoa Housing Corporation
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SORT	Systematic Operational Risk-Rating Tool
UNDP	United Nations Development Program
US	United States
US$	United States Dollars
UTOS	Unit Trust of Samoa
VA	Vulnerability Assessment
VAGST	Value-Added Goods and Service Tax
VFRs	Visiting friends and relatives
WB	World Bank
WBG	World Bank Group

Regional Vice President: Victoria Kwakwa
Country Director: Michel Kerf
Senior Global Practice Director: Carlos Felipe Jaramillo
Practice Manager: Ndiame Diop
Program Leader: Robert Utz
Task Team Leader: Kim Edwards

SAMOA

FIRST RESILIENCE DEVELOPMENT POLICY OPERATION

TABLE OF CONTENTS

ANNEXES

TABLES

The Samoa First Resilience Development Policy Operation was prepared by an IDA team consisting of: Kim Edwards (TTL), Economist, GMF10; Eric Blackburn, Procurement Specialist, GGO08; Sean Michaels, Infrastructure Specialist, GTI02; Habiba Gitay, Senior Environmental Specialist, GSU08; Loren Atkins, Associate Counsel, LEGES; David Whitehead, Financial Management Specialist, GGO20; Robert Gilfoyle, Senior Financial Management Specialist, GGO20; Quincy Austriaco, Finance Officer, WFALN; Maeva Betham-Va'ai, Liaison Officer, EACNF; Samantha Evans, Program Assistant, EACNF; and Lynn Malolua, Team Assistant, EACNF. The team received valuable contributions from Aaron Levine, Senior Financial Sector Specialist, GFM02; and Nicholas Valentine, Consultant, GEN2A. The team was supervised by Robert Utz, Program Leader, EACNF. Overall guidance was provided by Ndiame Diop, Practice Manager, GMF10 and Michel Kerf, Country Director, EACNF. Peer reviewers are David Knight, Senior Economist, GMF10, and Kene Ezemenari, Senior Economist, SARDE.

SUMMARY OF PROPOSED GRANT AND PROGRAM
INDEPENDENT STATE OF SAMOA
FIRST RESILIENCE DEVELOPMENT POLICY OPERATION

Borrower	Independent State of Samoa
Implementation	Ministry of Finance
Financing Data	IDA Grant Amount: SDR 3.6 million (US$ 5 million equivalent)
Operation Type	The proposed operation is the first in a programmatic series of two development policy operations, consisting of a single tranche to be disbursed upon effectiveness.
Pillars of the Operation and Program Development Objectives	The two pillars of the operation are: i) To strengthen Samoa's macroeconomic and financial resilience ii) To increase Samoa's resilience to the effects of climate change, natural disasters, and non-communicable diseases
Result Indicators	*Under program development objective (i):* 1. Increase in the ratio of domestic revenue to GDP 2. Growth in registration of security interests on movable collateral 3. Improvement in compliance with APG/FATF recommendations *Under program development objective (ii):* 4. Compliance with updated building codes and standards confirmed for new buildings 5. At least three approved road designs informed by the Vulnerability Assessment 6. Increase in relative price of sugary and salty products, tobacco and alcohol 7. Average unit price of select purchased medicines declines relative to benchmarks
Overall Risk Rating	Moderate
Climate and disaster risks	Short and long term climate and disaster risks are relevant to the operation (as identified as part of the SORT environmental and social risk rating).
Operation ID	P162104

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

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **The proposed operation is the first in a programmatic series of two development policy operations (DPOs), aimed at boosting the resilience of Samoa to some of the major risks threatening its sustainable growth and development.** The proposed operation will strengthen Samoa's macroeconomic and financial resilience, including through increasing revenue collection to help build the fiscal buffers necessary to respond to external shocks. It will also support the Government of Samoa's (Government) efforts to increase Samoa's resilience to the effects of climate change, natural disasters, and non-communicable diseases (NCDs). Under the proposed operation, the World Bank (WB) will continue to support the implementation of reforms that have been prioritized by the Government, and that are closely aligned with target areas identified in the Strategy for the Development of Samoa 2017–2020 (SDS), including economic sustainability and business development, improved health outcomes, and climate and disaster resilience. The proposed DPO series is central to the Bank's overall engagement with Samoa, as laid out in the Regional Partnership Framework (RPF, report no. 100997-EAP) discussed by the Board on 28 February 2017. The first operation in the series is an IDA Grant of SDR 3.6 million (US$ 5 million equivalent).

2. **As a very small remote economy that is highly vulnerable to external shocks, Samoa illustrates many of the constraints facing even well-performing small island states.** Samoa's 189,000 residents live on two main islands located approximately 3,000km from New Zealand and 4,000km from Australia. As is the case in other Pacific Island Countries, the small size of the domestic economy and its extreme remoteness from major markets push up the costs of economic activity, as economies of scale cannot be realized in domestic production and transport costs significantly increase the cost of trade. Moreover, Samoa's narrowly-based economy and vulnerability to exogenous shocks and natural disasters have historically led to a high degree of volatility in economic performance.

3. **Given these geographic constraints, remittances, tourism, and aid flows are critical to improving livelihoods and supporting the domestic economy.** Remittances from Samoans living and working abroad, which have averaged around a quarter of GDP over the last four years, are vital to the livelihoods of the resident population. Migration and remittances are expected to remain a key driver of improvements in Samoa's living standards in the future. Like many small island states, Samoa is also reliant on international development assistance, with grant aid flows averaging just under 10 per cent of GDP over the past four years. Tourism is also an important contributor to the economy of Samoa, with its distinctive geographical and cultural features allowing premium prices to be charged that are sufficient to cover relatively high costs.

4. **After a period of low and volatile growth, economic activity has picked up in recent years, and Samoa has largely recovered from the effects of Tropical Cyclone Evan in late 2012.** In 2009, the Samoan economy contracted by over 5 percent as a result of the cumulative effects of the 2008 food and fuel price spikes, the global economic crisis – which hit its major

exporter of manufactured goods particularly hard – and a devastating tsunami. A major cyclone in December 2012 caused further damage and losses amounting to around 30 percent of GDP. The Government responded to this succession of major shocks by increasing public expenditures, which supported growth but also led to significant increases in public debt. In recent years, however, growth has recovered, driven by construction, tourism arrivals, lower fuel prices, new capacity in the fishing industry, and a series of one-off international and sporting events. The Government has also succeeded in consolidating its fiscal position, and lowering the ratio of external debt to GDP. Nevertheless, the macroeconomic outlook remains subject to a range of external risks.

5. **According to national estimates, extreme poverty is rare in Samoa, and the incidence of basic needs poverty has also declined in recent years after peaking in 2008, although progress has been unevenly distributed across the country**. The latest poverty estimates are from the 2013/14 Household Income and Expenditure Survey (HIES). Using national estimates and poverty lines, food poverty is assessed to be rare, at 4.3 percent of the population, and to have declined significantly since 2002. On the other hand, 18.8 percent of the population experience basic needs poverty, with the incidence higher in the capital Apia and North West Upolu, and lower in the rest of Upolu and on the less populated island of Savai'i (although the incidence of poverty in rural areas may be understated). Although the poverty numbers are not strictly comparable because of the use of a relative poverty line, they suggest that basic needs poverty rose in the period from 2002 to 2008 – due to the effect of the global economic crisis on manufacturing employment and the increase in food and fuel prices – but then declined in subsequent years, with the most recent 2013 estimates of basic needs poverty falling below 2002 levels.

6. **According to internationally-comparable estimates, poverty is very low in Samoa compared with other countries in the region**. These estimates (which are based on figures in the 2008 HIES) indicate that the incidence of extreme hardship (spending of less than $1.90 a day) is only 0.8 percent in Samoa, while the incidence of hardship (spending of less than $3.10 a day) is 8.3 percent, both well below small Pacific Island Country averages. However, compared to other small Pacific Island Countries, Samoa had a relatively high level of inequality in 2008, with a Gini coefficient of 42.7.[1] More recent estimates from the 2013/14 HIES suggest that inequality across the population has in fact worsened in the period since. According to this HIES, gender-based inequality in Samoa is relatively modest overall, but is deeper in urban areas in rural areas, often reflecting wage inequality.

7. **In general, and compared to the rest of the Pacific, most Samoan households enjoy relatively good access to electricity, safe drinking water, and sanitation.** This is in part because Samoa has a less-widely dispersed population (across only four islands) than most of its Pacific neighbours. Around 97 percent of Samoan households have access to electricity through the main grid, and 80 percent of households have access to piped drinking water, with geographic location a more important determinant of access to safe drinking water and sanitation than poverty status.

[1] The Gini coefficient measures how income (or expenditure) is distributed across the population and varies between 0 (complete equality) and 100 (complete inequality).

8. The proposed operation is structured around two development objectives: i) To strengthen Samoa's macroeconomic and financial resilience; and ii) to increase Samoa's resilience to the effects of climate change, natural disasters, and non-communicable diseases. Contributing to the first objective, the program will support reforms to boost revenue, improve access to finance (and in particular access to credit for those individuals and small businesses that currently find it difficult to borrow money due to a lack of acceptable collateral), and manage risks to remittance flows. On the second objective, the program will support reforms to introduce and implement climate-resilient building codes and standards, reduce climate related vulnerabilities in the roads network, improve the management of infrastructure assets, impose excise duties for 'sin' products to help reduce the incidence of NCDs, and improve the efficiency of pharmaceuticals procurement and management.

9. This operation builds on the substantial progress achieved under the previous DPO series in improving macroeconomic sustainability and in the specific policy areas of revenue mobilization, procurement reform, and climate resilience. Over the last two decades, Samoa has established a strong track record for good macroeconomic management and the successful implementation of reforms. Samoa's Country Policy and Institutional Assessment (CPIA) is one of the highest among the WB's Pacific Island member states and among all IDA borrowing countries. Under the proposed operation the WB will continue to support key priorities of the Government's reform program.

10. Over time, the operation is likely to particularly benefit the poorer and more vulnerable in Samoa, by reducing the risks of: (i) a contraction in the provision of essential public services (due to insufficient fiscal buffers); (ii) a disruption to remittance flows; and (iii) a lack of access to key services after a natural disaster. The poorest parts of the population are likely to be the most susceptible to these risks, given their relative dependence on publicly-funded services and remittances, and their higher vulnerability to natural disasters. The reforms supported by this operation should also improve access to finance, particularly for women, spur behavioural change that ultimately reduces the incidence of NCDs, and reduce the likelihood of medicine shortages.

11. The main risks to the proposed operation stem from Samoa's macroeconomic context and its vulnerability to external shocks. Samoa faces a high risk of debt distress, due to its vulnerability to natural disasters, which will only be reduced through continued efforts on fiscal consolidation and debt sustainability. Another major natural disaster in the next few years (or a slippage in domestic macroeconomic management) could threaten macro stability and large parts of the bureaucracy would have to shift their attention to disaster recovery and stabilization efforts. This DPO also supports several reforms which are the direct responsibility of line ministries – where capacity can be stretched and understanding of budget support operations is often lower – rather than the Ministry of Finance. However, development partners continue to be a source of support for the Government's capacity-building efforts in these areas, which are closely aligned with the 2017-20 SDS, and the Ministry of Finance is playing a strong coordinating role and using the sector coordination mechanism to implement reforms.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

12. **Economic growth has picked up in recent years, and Samoa has largely recovered from the effects of Tropical Cyclone Evan in late 2012**. In FY2016 real GDP was estimated to have expanded by around 7 percent, much faster than originally forecasted and a significant acceleration from growth of between 1 and 2 percent in the previous two years. Growth in FY2016 was driven by tourism arrivals, lower fuel prices, and new fish processing facilities, as well as two major sporting events. However, measurement issues associated with improved Value-Added Goods and Services Tax (VAGST) compliance (tax revenues are an important input to the calculation of national accounts statistics) may mean that the FY2016 growth rate was overestimated by 1 to 2 percentage points.[2] In the first three quarters of FY2017, the pace of growth has moderated to around 3 percent, as a result of slowing activity in the construction sector (reflecting the completion of major infrastructure works in 2016) and in the fishing industry. Nevertheless, activity in the wholesale, retail, and tourism-related sectors has remained strong.

13. **Aid flows, remittances and tourism receipts play an important role in financing Samoa's imports, with support from development partners particularly important in alleviating pressure on the balance of payments in the wake of natural disasters**. Although the trade balance improved in FY16, the current account deficit widened to 6.1 percent of GDP (from 3.0 percent in FY15) due mainly to a reduction in remittances related to charities. However, the current account deficit remains below levels observed in previous years, when disaster-recovery and other construction activities pushed up the import bill. The current account deficit is financed primarily by official flows on the capital account. Total visitor arrivals in the 2016 calendar year – which include the large visiting friends and relatives (VFR) market – were up by 4.7 percent relative to the previous year, while remittances declined by around 3 percent. After declining to 3 months of imports in late 2016, due to large one-off outflows and lower capital grants and Foreign Direct Investment (FDI) inflows, foreign exchange reserves recovered to 3.3 months of import cover as at April 2017.

14. **Inflation has remained modest in Samoa**. Average annual inflation was subdued at 0.1 percent in FY2016, with declines in the prices of imported goods (particularly fuel) continuing to offset increases in domestic prices. In FY2017, inflation is expected to have remained contained at around 1.3 percent. Samoa's exchange rate, which is pegged against a basket of major trading partner currencies, depreciated only slightly in nominal and real effective terms in 2016, and the IMF has assessed the current level of the exchange rate (as at May 2017) to be appropriate. The current exchange rate peg has served Samoa well as a credible nominal anchor in the face of external shocks. Scenarios in the joint 2017 IMF/WB Debt Sustainability Analysis (DSA) suggest that a devaluation would have adverse effects on debt sustainability, given the high proportion of foreign currency denominated public debt.

---

[2] Issues around the calculation of the GDP deflator may also have influenced the real GDP growth estimate for FY2016: in particular, the use of a less-preferred single-deflation methodology (which effectively assumes that input and output prices move in tandem) and the use of an inappropriate deflator for the transport sector. Moreover, a rebasing is overdue given that current estimates are based on 2009 prices.

15. The Central Bank of Samoa (CBS) continues to maintain an accommodative monetary stance, which is consistent with its low inflation and moderate growth prospects. The CBS policy rate has remained largely unchanged at the zero lower bound since the 2009 tsunami. However, the transmission mechanism for monetary policy is weak due to a lack of competition at commercial banks and various structural impediments to finance. Nevertheless, the IMF reports that financial stability indicators suggest a generally sound banking system, with commercial banks remaining profitable and well-capitalized, and non-performing loan ratios declining from 8.3 percent in FY2014 to 4.6 percent as at September 2016. Moreover, good progress has been made in implementing recommendations from the 2015 IMF-WB Financial Sector Assessment Program, which include improving supervision, regulation and prudential standards, though reform of the public financial institutions – restoring their original mandates to reduce risks from contingent liabilities and prevent crowding out of private financial institutions – remains a priority.

Table 1: Key Macroeconomic Indicators

				Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Output and inflation	(12-month percent change)								
Real GDP growth	1.2	1.6	7.1	2.5	0.9	1.8	2.1	2.1	2.1
Nominal GDP growth	1.5	4.4	5.5	4.4	2.9	4.3	4.9	5.2	5.2
Change in CPI (end period)	0.2	0.4	2.3	1.4	2.4	2.6	3.0	3.0	3.0
Change in CPI (period average)	-1.2	1.9	0.1	1.8	1.9	2.5	2.8	3.0	3.0
Fiscal	(percent of GDP)								
Revenue and grants	38.0	35.1	33.5	33.7	36.0	32.9	32.9	32.9	32.9
Expenditure and net lending	43.3	38.9	33.8	35.6	37.5	34.1	34.1	34.1	34.1
Overall balance	-5.3	-3.9	-0.4	-1.9	-1.5	-1.3	-1.2	-1.2	-1.1
Public debt	54.4	57.8	52.6	52.3	52.0	51.5	50.8	50.1	49.2
External debt	51.8	55.3	50.7	50.8	50.9	50.8	50.4	49.8	49.0
Money and credit	(12-month percent change)								
Broad money (M2)	18.7	0.6	7.1	7.7	8.2	10.7	4.8	8.4	10.5
Private sector credit (commercial banks)	3.5	12.7	12.8	7.4	5.1	6	5	5	5
Balance of payments	(millions of US dollars)								
Current account balance	-65.1	-24.3	-47.7	-51.6	-51.2	-46.7	-44.1	-43.5	-43.1
(in percent of GDP)	-8.1	-3.0	-6.1	-6.1	-5.9	-5.2	-4.7	-4.5	-4.3
Merchandise exports, fob	24.9	27.9	36.9	38.0	39.4	40.8	42.2	43.7	45.2
Merchandise imports, fob	-334.6	-322.8	-307.2	-325.4	-342.3	-355.6	-371.2	-388.5	-406.8
Services (net)	111.7	124.3	108.9	114.5	125.8	137.5	149.5	162.0	175.0
Income (net)	-29.8	-16.0	-18.5	-17.2	-17.7	-18.5	-19.4	-20.4	-21.5
Current transfers	162.7	162.3	132.1	138.4	143.6	149.1	154.8	159.8	165.0
of which: Private	160.0	160.9	131.7	138.1	143.3	148.8	154.4	159.4	164.6
Capital account	67.2	39.2	27.2	28.2	35.4	25.7	26.4	27.3	28.1
of which: Official flows	60.5	34.3	20.9	23.1	30.3	20.5	21.3	22.1	23.0
Financial account	22.1	28.2	1.6	20.5	18.9	21.5	22.4	23.1	25.7
of which: Direct investment	16.0	27.2	6.1	6.4	6.5	6.8	7.2	7.5	7.9
External reserves and debt									
Gross official reserves	154.3	131.9	111.0	108.1	111.2	111.6	116.4	123.2	133.9
(in months of next year's imports of GNFS)	4.7	4.0	3.3	3.1	3.1	3.0	3.0	3.1	3.2
Exchange rates									
Market rate (tala/USD, period average)	2.32	2.42	2.61	2.52					
Market rate (tala/USD, end period)	2.27	2.56	2.55	2.52					
NEER (2010 = 100)	106.5	111.6	111.9	113.5					
REER (2010 = 100)	104.7	109.4	109.8	108.7					
Memorandum items									
Nominal GDP (millions of tala)	1,866	1,949	2,054	2,135	2,196	2,290	2,403	2,528	2,659
Nominal GDP (millions of US dollars)	804	805	787	847	871	909	954	1,003	1,055
GDP per capita (US dollars)	4,189	4,159	4,035	4,296	4,407	4,522	4,660	4,799	4,951

NB: Fiscal projections assume some measures to broaden the tax base and streamline tax credits and concessions.

16. **Fiscal policy has been responsive to economic conditions and broadly supportive of macroeconomic resilience and sustainable growth.** Elevated levels of spending to fund repair and reconstruction of major public infrastructure and facilitate private sector recovery after Tropical Cyclone Evan helped rebuild the productive capacity of the economy and supported private sector growth. Since that time, however, there has been a substantial effort to consolidate the fiscal position, in line with the winding down of cyclone-related works and the continued economic recovery. Expenditure rationalization and revenue collection efforts reduced the budget deficit to 0.4 percent of GDP in FY16, from 3.9 percent in FY15 and 5.3 percent in FY14, despite a pronounced decline in grants over the same period.[3] Tighter controls on operating expenditure and improved revenue collection contributed about 2.5 percentage points and 1.5 percentage points respectively to the improved fiscal position in FY16. Deficits are typically financed through a combination of external (concessional) borrowing and a draw-down of Government deposits from the banking system.

17. **Comprehensive revenue policy and administrative reforms have led to significant increases in domestic revenue collection over the last five years.** Total domestic revenues in FY16 were around 27 percent of GDP, up from 23 percent of GDP in FY12. Increases in tax revenues have been driven by improved compliance and increased collection of income taxes, excise taxes, and VAGST. Adjustments to non-tax revenues (so that fees and charges come closer to reflecting the true cost of providing associated Government services) have also resulted in additional revenue. Despite somewhat less buoyant revenue projections from FY17 onwards, recent budgetary data for the first three quarters of FY17 suggest that solid revenue performance has generally been maintained.[4] Nevertheless, grants from development partners have declined from the post-cyclone peak in FY14.

Table 2: Key Fiscal Indicators

				Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	(percent of GDP)								
Revenue and grants	**38.0**	**35.1**	**33.5**	**33.7**	**36.0**	**32.9**	**32.9**	**32.9**	**32.9**
Grants	12.6	9.8	6.7	7.8	9.9	6.5	6.5	6.5	6.5
Tax revenue	23.1	22.7	24.2	23.3	23.4	23.7	23.7	23.7	23.7
Non-tax revenue	2.3	2.6	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Expenditure and net lending	**43.3**	**38.9**	**33.8**	**35.6**	**37.5**	**34.1**	**34.1**	**34.1**	**34.1**
Development expenditure	15.0	11.9	9.3	10.2	12.2	8.8	8.8	8.8	8.8
Current expenditure	28.4	27.0	24.5	25.4	25.3	25.3	25.3	25.3	25.2
Compensation of employees	7.7	7.9	8.0	8.2	8.2	8.2	8.2	8.2	8.2
Goods and services	7.6	7.8	5.9	6.4	6.4	6.4	6.4	6.4	6.4
Current balance	-3.0	-1.7	2.3	0.5	0.8	1.1	1.1	1.1	1.2
Overall balance	**-5.3**	**-3.9**	**-0.4**	**-1.9**	**-1.5**	**-1.3**	**-1.2**	**-1.2**	**-1.1**
External financing	2.8	2.3	-1.8	2.2	1.9	1.7	1.5	1.3	1.2
Domestic financing	2.4	1.6	2.2	-0.3	-0.4	-0.4	-0.3	-0.1	-0.1

NB: Of the FY2017/18 projected grants (9.9 percent of GDP), World Bank budget support will account for 0.6 percentage points and general budget support from other JPAM partners (see section 2.3) is projected to account for approximately 1.2 percentage points. Fiscal projections assume some measures to broaden the tax base and streamline tax credits and concessions.

[3] This decline in grants was in part due to a shift in the risk of debt distress from 'high' to 'moderate', which meant WB and ADB financing terms shifted to 50 percent grants and 50 percent credits (from 100 percent grants).

[4] Several one-off factors contributed to the sharp increase in revenues in FY2016, including the opening of two large high-end resorts which boosted value-added tax and excise receipts.

18. Total expenditures were around 34 percent of GDP in FY16, a decline of almost 10 percentage points from two years earlier. The decline has been mainly attributable to a reduction in the net acquisition of nonfinancial assets (mainly infrastructure), in part to a winding down of cyclone reconstruction and other one-off activities. Current expenses also declined (in absolute terms) over the two years to FY16, due in part to a substantial decline in spending on goods and services in FY16. This was achieved by targeting expenditure reductions of 10 percent for most ministries except for health and education. Budget data for the first three quarters of FY17 suggest that restraint in current expenditures has continued, with the FY17 Budget implementing a further 10 percent productivity dividend on the operating expenditures of Government ministries and agencies.[5] As a group, state-owned enterprises (SOEs) add to budgetary pressures in Samoa, with Government transfers to public trading bodies (PTBs) averaging around 1 percent of GDP in recent years.[6] However, in recent years the Government has taken several steps to improve SOE performance, accountability and governance, including by establishing a new Ministry for Public Enterprises, implementing key provisions of the Public Bodies (Performance and Accountability) Act 2001, and appointing independent directors to SOE boards. Moreover, overall grants and subsidies to SOEs (including public beneficial bodies as well as PTBs) have declined markedly in the past three years and are currently below 9 percent of GDP, well below the recent peak of around 11 percent in FY2014. On the other hand, development expenditure is expected to rise in the near term, primarily due to grant-funded capital expenditures (including on the submarine cable project to improve connectivity, as well as transport infrastructure). Overall, expenditure has been prioritized around the social sectors and infrastructure in recent years. Education and health spending each represented around 17-18 percent of budget in FY2016 and FY2017 and have been maintained at an adequate level to support growth, with spending in both sectors (particularly capital spending) having been scaled up in recent years to support prioritized development objectives in these sectors.

19. While wages and salaries have continued to rise gradually as a proportion of GDP, at under a third of current expenditure Samoa's wage bill remains below small states and Pacific Island Country averages, allowing space for non-wage inputs to service delivery. Part of the recent increase can be attributed to a three-year salary adjustment for teachers of 7 percent per year (with the first increase in January 2015), which was put in place to better align teachers' salaries with Public Service Commission salary scales – and with their experience and qualifications – following a recommendation from the Remuneration Tribunal. The recent establishment of the new Ministry for Public Enterprises has also put some upward pressure on the wage bill. While both of these effects should dissipate over the next year or two, it will be important for the Government to persist with efforts to contain further increases in the wage bill, in line with its broader moves to consolidate current expenditures.

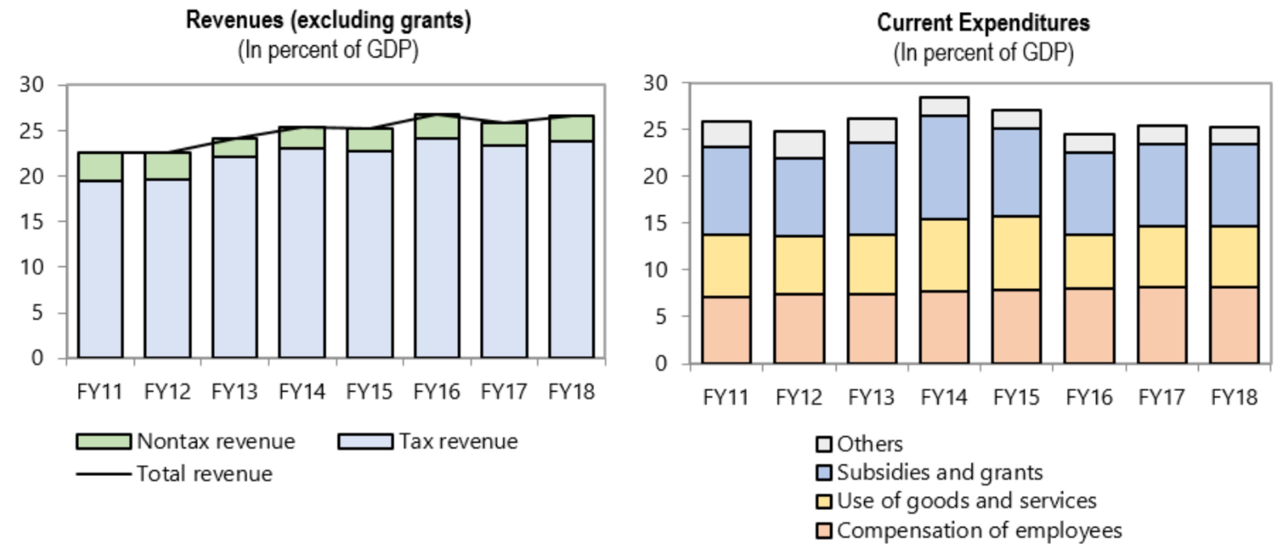
20. Samoa's external public debt has increased quite rapidly in recent years, from around 40 percent of GDP in FY09 to around 55 percent of GDP in FY15. This increase was

[5] This is equivalent to an operating expenditure reduction of 10 percent compared with FY2016. A lower productivity dividend of 3 percent has been set for the Ministries of Education and Health.

[6] The 15 public trading bodies (PTBs) in Samoa operate under a commercial for-profit mandate, while the 11 public beneficial bodies (PBBs) – including the National Health Services – are required to operate efficiently with a focus on effective service provision.

initially attributable to concessional loans to finance post-tsunami reconstruction, followed by concessional lending for other development projects, and then reconstruction requirements following the 2012 cyclone.

Figure 1: Fiscal sector developments



21. However, there are signs that this upwards trend in external and public sector debt is being addressed. After peaking at around 55 percent of GDP in FY15, external public debt has declined and is currently around the Government's target of 50 percent of GDP. Moreover, the Government has renewed its focus on debt sustainability and Medium Term Debt Management Strategy (MTDS) compliance in recent years, and continues to commit to reducing its fiscal deficit and stabilizing its debt levels in its Fiscal Strategy Statement released alongside the annual budget. Samoa's new MTDS 2016-20 – which is now backed in legislation (with the support of the previous DPO series) – establishes the Government's objectives, strategies, and plans for the management of public debt, and limits approval for external loans to those with at least a 35 percent grant element and with a minimum positive economic return sufficient to cover interest and repayment costs (Box 1). Nevertheless, fiscal risks remain substantial, due to the ever-present risk of natural disasters and elevated contingent liabilities, including Government guarantees totalling 9 percent of GDP – mainly to the Public Financial Institutions (PFIs) including the Development Bank of Samoa (DBS), Samoa Housing Corporation (SHC) and the Unit Trust of Samoa (UTOS) – as well as on-lending to SOEs worth around 10 percent of GDP. The most recent joint WB/IMF DSA (May 2017) indicated that Samoa was at a 'high' risk of debt distress, with the downgrade from the 'moderate' risk assessment in the 2015 DSA reflecting a methodological change to better account for the effect of natural disasters on the medium-term projections for growth and the fiscal balance (see paragraph 27).

Box 1: Samoa's Medium Term Debt Management Strategy 2016–2020

Samoa's MTDS establishes the Government's objectives, strategies and plans for the management of public debt. It:

- Limits approval for external loans to loans which i) have at least a 35 percent grant element, and ii) finance projects that have a positive economic return at least sufficient to meet the interest and repayment costs;
- Introduces strategic indicators and targets to monitor the costs and risks associated with the public debt portfolio;
- Limits total Government guarantees outstanding to 10 percent of GDP;
- Provides for regular monitoring of contingent liabilities and the development of a formal on-lending policy;
- Assesses the implementation of the previous 2013-15 MTDS, and;
- Provides for regular reporting on public debt, including a performance audit for debt management operations, to strengthen accountability and transparency.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **Economic growth in Samoa is expected to converge to around 2 percent per year in the medium term.** Growth has recently been supported by the final stages of post-cyclone reconstruction work and the hosting of a series of major international events in Samoa. While these stimuli have now wound down, tourism and infrastructure projects will continue to support growth, offsetting the dampening effect of fiscal consolidation. Over the medium term, real GDP is expected to increase at an annual rate of around 2 percent, supported by growth in the tourism and agriculture sectors. Although the exit of a major manufacturer of automotive wire harnesses is likely to temporarily lower growth in FY2018 (by around 1 percentage point), the opening of several major hotel developments and increased agricultural exports should provide a partial offset. Moreover, losses in employment will likely be contained with a new entrant expected to hire a substantial proportion of the retrenched workers. However, the economy will remain highly vulnerable to external shocks. Weaker-than-expected economic outcomes in Australia or New Zealand would have a negative impact on tourism inflows and remittances. Another natural disaster would set economic recovery from the cyclone off-course and delay the full restoration of productive capacity.

23. **The current account deficit is expected to narrow gradually over the next few years as tourism receipts pick up, and growth in imports driven by construction activity eases.** Export and tourism earnings will grow steadily, benefitting from post-cyclone additions to the capital stock and investments in hotels and the airport, as well as a more positive outlook for agriculture. The ongoing moderation in oil and some other commodity prices will also support the trade balance for as long as these relatively low prices persist. Risks to this outlook include increases in food and fuel prices and/or a slippage in fiscal consolidation efforts, which would increase the current account deficit, or a shortfall in grant support from development partners, which would reduce Samoa's ability to finance that deficit.

24. **As long as underlying inflationary pressures are absent, Samoa is expected to maintain its current accommodative monetary policy over the medium term.** Assuming import price rises remain contained, inflationary pressures should remain relatively modest in the period ahead as the domestic supply of agricultural products expands. Inflation is forecasted at around 3 percent per year over the medium term, but if inflationary pressures were to rise further the CBS stands ready to tighten policy.

25. The Government has committed to containing its fiscal deficit and stabilizing its debt levels in the medium term, as the economy recovers and post-cyclone recovery work ends. On the latter, the planned path of fiscal consolidation has been set out in the Government's fiscal strategy, which serves as a policy anchor and targets a fiscal deficit below 3.5 percent of GDP. Estimates suggest this target has been met in FY17 and will be met again in FY18, in line with Government efforts to boost revenue collection and contain expenditures, while ensuring adequate funding for development priorities in education, health, and infrastructure. The IMF has noted that given recent Government efforts to reduce spending, the scope for further reductions in the near term is limited, and that expenditure on the social sectors and climate-resilient infrastructure should remain priorities. Planned expenditure reviews in the health and education sectors (supported by the WB) should also help to improve the efficiency of spending in these sectors. Grant funding will likely pick up in coming years as the WB and Asian Development Bank (ADB) financing moves to 100 percent grant terms.

26. Samoa's external public debt has fallen by around five percent of GDP since its 2015 peak, reflecting compliance with the MTDS and continued fiscal restraint. On the former, the Government's record since 2015 has been solid, with no new non-concessional debt being contracted. Looking forward, it will be important for the Government to continue on this track – which contrasts with the more mixed record observed in previous years – and ensure that any new proposal to be financed even on concessional terms is rigorously assessed. The Government's efforts on this front will be aided by the strong program of reforms supported by the previous DPO series, which included the establishment of formal procedures for contracting loans and Government guarantees; the enactment of amendments to the Public Finance Management Act 2001 which require that Government borrowing and debt management operations are consistent with the Government's debt management strategy; and the approval of an updated MTDS, which reviewed the implementation of the previous MTDS (including the lapse in compliance in 2014) and introduced quantitative indicators of the costs and risks associated with the debt portfolio to allow more rigorous monitoring.

27. Despite the above, Samoa has been assessed as facing a 'high' risk of debt distress (joint WB/IMF DSA, May 2017). The change in the assessment from the 'moderate' risk assessment in the 2015 DSA reflects methodological adjustments (based on Samoa's historical experience and literature on the macroeconomic impact of natural disasters in the Pacific) to better account for the risks of natural disasters in the medium-term growth and fiscal balance projections.[7] Under the 2017 DSA baseline, the PV of public external debt breaches the indicative threshold of 45 percent of GDP plus remittances in 2034; while exogenous shocks (an exchange rate depreciation or a severe natural disaster in the near term) would lead to much earlier breaches. Samoa's debt service burden also increases significantly relative to the 2015 DSA.

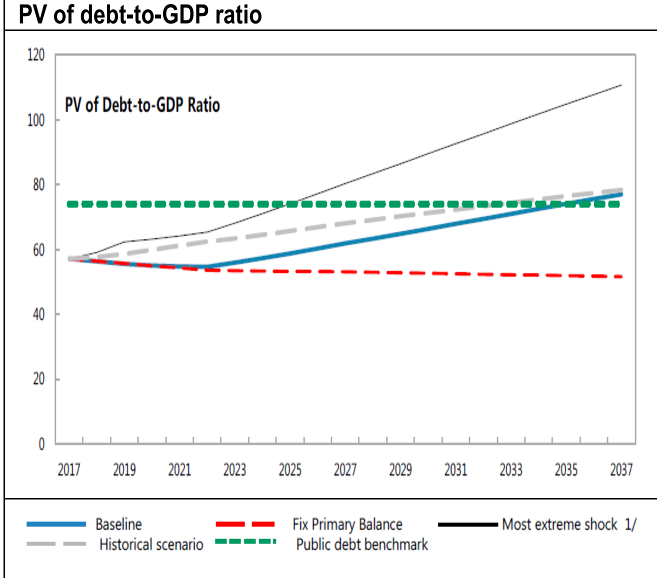
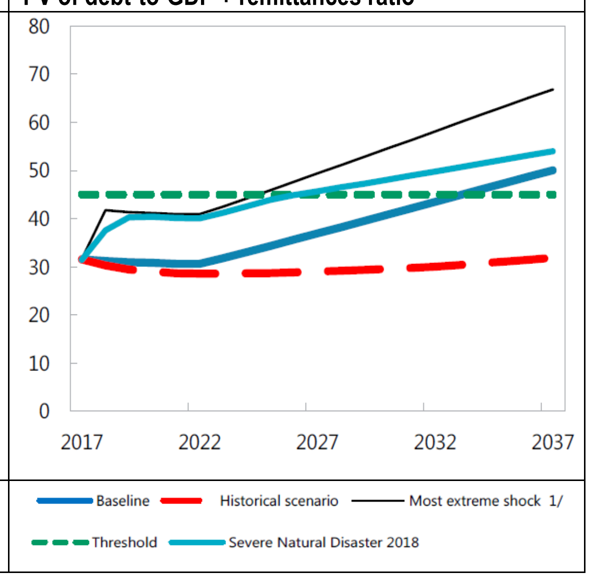
28. Although the Government's stock of domestic debt is only small, the DSA also notes that Samoa faces a heightened overall risk of public debt distress, reflecting contingent liabilities from Government guarantees and on-lending to public enterprises totalling around 19

[7] In particular, for the purposes of the DSA projections the baseline average growth rate was adjusted down to 0.8 percent (compared with a non-disaster potential growth rate of 2.1 percent), while the current account and fiscal deficits were 1.5 percentage points wider than their non-disaster equivalents.

percent of GDP. This reiterates the importance of fiscal consolidation proceeding as planned, and of ensuring that any new debt-funded projects are rigorously assessed and financed with concessional loans, in line with the MTDS. The IMF 2017 Article IV report suggests that continued efforts are necessary to address the contingent liability risks associated with the PFIs and to redesign their role to support the efficient operation of private financial markets. While the role of the Development Bank of Samoa (DBS) in providing credit to the broader economy was justifiable in the immediate aftermath of the global financial crisis, tsunami, and cyclone, the Government now is working to return the DBS to its original mandate, focused on the agriculture sector and small and medium enterprises. Nevertheless, its portfolio of loans to the tourism sector (many of which were originated following these shocks) is likely to remain impaired for some time. The CBS has also stepped up supervision of the PFIs and is taking measures to ensure their adherence to reporting guidelines. The Ministry of Finance is currently developing a policy to manage the risks around on-lending to SOEs, and continues to implement the procedures for issuing Government guarantees supported as part of the previous DPO series, thereby ensuring that any request for a guarantee is effectively reviewed prior to approval and that the appropriate risk and benefit assessments are conducted.

29. Overall, the outlook for Samoa's fiscal position and public debt dynamics is subject to a number of risks. A realization of contingent liabilities or another major natural disaster could set Samoa's fiscal consolidation off-track, and substantially worsen public debt dynamics, delaying the rebuilding of fiscal and debt buffers. Prospects for debt sustainability in the medium and long term are also vulnerable to lower GDP growth and/or a major exchange rate depreciation. However, these risks are partly mitigated by the revenue and climate resilience reforms supported by this proposed operation.

Figure 2: Public and External Debt Sustainability Analysis

Public Debt Sustainability Analysis	External Debt Sustainability Analysis
PV of debt-to-GDP ratio	PV of debt-to-GDP + remittances ratio
	

Source: 2017 Joint IMF/WB Debt Sustainability Analysis

30. **Samoa's macroeconomic policy framework is assessed as adequate.** Samoa's fiscal and monetary policies are consistent with the prevailing economic conditions, and Samoa has consolidated its fiscal position and lowered its debt-to-GDP ratio. Barring any natural disasters, GDP is expected to grow at around 2 percent per year in the medium-term, driven by improvements in the business climate, tourism, and construction. The outlook is, however, subject to a number of important risks. The envisaged positive economic contributions from tourism and the private sector more generally may fail to materialize in coming years, causing growth to fall short of the already modest projections and making reductions in the debt-to-GDP ratio more difficult. Both tourist earnings and remittances are vulnerable to any slowdown in growth in Australia or New Zealand, while the withdrawal of financial services by banks to money transfer operators also poses risks to remittance flows. Maintaining continued fiscal restraint will not be easy, and there may be future pressures to take on new loans that fail to comply with the MTDS. Macroeconomic sustainability would also be threatened by another natural disaster, or a realization of contingent liabilities from Government guarantees and on-lending to SOEs. While not all of these risks can be completely mitigated, the Government's recent efforts and ongoing plans to boost revenue collection, consolidate its finances, and ensure debt sustainability will – if sustained – put it in a stronger position to respond to a future economic shock or natural disaster. Moreover, initiatives to boost the climate resilience of key infrastructure should reduce the reconstruction costs associated with natural disasters when they occur. Ongoing efforts to reform SOEs and the public financial institutions in particular – including by restoring their original mandates in the case of DBS – should help to limit the risk posed by contingent liabilities, as will the introduction of an on-lending policy to SOEs and the ongoing implementation of procedures for issuing Government guarantees supported as part of the previous DPO series.

2.3 DEVELOPMENT PARTNER RELATIONS

31. **The WB has worked closely with Australia, New Zealand, and the ADB to align development partner general budget support under a matrix of policy actions developed jointly by the Government and its development partners**. Each of these development partners has or will be providing general budget support based on actions contained in this Joint Policy Action Matrix (JPAM), which is itself centred on the reforms supported by this DPO. The Government continues to play a leading role in coordinating its development partners and has encouraged the JPAM process as a means of reducing overlap and improving the coordination of policy support and technical assistance provided by development partners. For instance, the WB provided direct technical assistance for two of the seven prior actions supported by this DPO (pharmaceutical procurement and the roads vulnerability assessment) with several of the other actions supported by other development partners. The WB has also liaised with the IMF in its assessment of the macroeconomic policy framework.

3. THE GOVERNMENT'S PROGRAM

32. **The theme of the recently finalized FY2017 to FY2020 Strategy for the Development of Samoa (SDS) is 'accelerating sustainable development and broadening opportunities for all'**. The SDS emphasizes the national commitment to revitalizing sustainable, pro-poor economic growth through economic and social development and improved infrastructure, while building buffers to help protect the economy from the effects of future shocks. The economic development

priorities are to increase and sustain macroeconomic resilience, increase agricultural productivity, increase exports, improve tourism development and performance, and improve the environment for private sector development. The social development priorities are to improve health outcomes, improve the quality of education and training, and strengthen social institutions. The infrastructure development priorities are to achieve sustainable access to safe drinking water and basic sanitation, improve transport systems, ensure affordable access to reliable Information and Communication Technology (ICT) services, and ensure a quality energy supply. Environmental resilience and climate and disaster resilience are also priorities, and there is an explicit attempt to integrate climate resilience and disaster management into each of the priority areas. The SDS builds on the progress achieved over the previous SDS period from 2012–16.

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

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

34. The development objectives and associated reform actions of the proposed operation are closely aligned with the Government's priorities as identified in the SDS. The first development objective of the operation, to strengthen Samoa's foundations for macroeconomic and financial resilience, is aligned with the strategic area of macroeconomic resilience under the economic development pillar of the SDS. Reforms in this operation to boost revenue, strengthen public procurement, improve access to finance, and manage risks to remittance flows build on the substantial reforms to debt management and policy, procurement, revenue administration, and payments system reform that were supported as part of the previous DPO series, as well as a long running public financial management (PFM) reform program in which the Government has established an appropriate legislative framework, introduced program budgeting and instituted sector planning. The second development objective of the operation, to increase Samoa's resilience to the effects of climate change, natural disasters, and non-communicable diseases, is aligned with two pillars of the SDS. The first is the social pillar, and specifically the strategic area of a healthy Samoa with higher levels of well-being. The second is the infrastructure pillar, and specifically the strategic area of improving transport systems and networks. The actions supported under this program continue and add to reforms Government has implemented in recent years to reduce climate related vulnerabilities and reduce the incidence of NCDs. This development objective is closely linked with the mainstreaming of climate resilience activities evident across all sectors in the new SDS, and builds on efforts in the previous DPO series to facilitate better-coordinated and less-fragmented climate resilience policies and projects.

35. The supported reforms will boost resilience to economic, environmental, and health-related shocks, which should particularly benefit the poor and vulnerable. Over time, the operation is likely to particularly benefit the less well-off in Samoa by reducing those risks that have a disproportionate impact on vulnerable groups, including the risk that the Government is unable to fund essential public services after an economic shock; the risk of a disruption to remittance flows; and the risk of a lack of access to key services after a natural disaster. In general, the poorest two quintiles of the population tend to be disproportionately dependent on publicly-funded education, health and community development services, and hence are the most vulnerable to any contraction in their provision that could arise if the Government lacks the fiscal buffers to respond to external shocks. They also tend to be more exposed to the direct impacts of severe weather events, and more dependent on remittances than other quintiles, highlighting the importance of enhancing the climate resilience of buildings and roads and ensuring that remittance channels remain open. The reforms improving access to finance are likely to disproportionately benefit women and businesses owned by women, who previously have been less likely to be able to pledge the security necessary to secure loans.

36. The design of the proposed operation reflects lessons learned from the last programmatic series, as well as the two previous stand-alone DPOs in Samoa. The operation is structured around key aspects of the Government's program for which solid reform momentum exists: in these circumstances, DPOs in Samoa tend to achieve good results and have manageable risks. In this case, it was recognized that the recent release of the new SDS provided an opportunity to align the supported reform program more explicitly with Government priorities. In the second year of the proposed program, the focus is on the implementation of supported reforms, reflecting the lesson that in thin-capacity environments, the achievement of desired outcomes requires not only the approval of a policy reform, but also support for and monitoring of its implementation. A two-year program allows scope for indicative triggers that incentivize follow-through on agreed reforms, and time to assess progress on implementation. Compared with the previous DPO series, the proposed operation has expanded into sectors for which ministries and agencies other than the Ministry of Finance bear primary responsibility, e.g. in the areas of climate resilience, health, transport, and Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) issues. However, consistent with other successful DPOs in the Pacific, the supported actions in each of these areas have benefitted from whole-of-Government engagement (that has in part been facilitated by the DPO preparation process), and the Ministry of Finance has shown a strong sense of ownership of each reform area, as well as a willingness to coordinate the actions of the other agencies whose engagement is needed to achieve these reforms.

37. The JPAM additionally includes a program of SOE reforms, which support the Government's efforts to make progress on its pipeline of divestments and public-private partnerships (PPPs). These actions are intended to help maintain the momentum of recent efforts – including the appointment of independent directors to SOE boards, the introduction of guidelines for PPPs, the approval of a new SOE ownership, performance, and divestment policy, and the privatization of the Agriculture Store Corporation – to help facilitate greater private sector participation in SOEs. Nevertheless, history suggests that the implementation of SOE reforms in Samoa has been slow, and efforts to directly support increased private sector involvement (i.e. through specific transactions) in previous DPOs have met with only mixed success. Given ongoing uncertainties around timing, Government capacity, and appetite for reform, as well as experience in the region which shows that supporting specific transactions (either divestments or PPPs) with DPOs can create unintended consequences, SOE reform actions have not been included in the DPO program at this stage. Nevertheless, through the JPAM process the WB remains closely engaged with these reform efforts, as do other development partners, including through the provision of technical assistance.

38. A number of supported reform areas (procurement, climate resilience of the roads network) relate to specific World Bank Group engagements, reflecting the lesson that such engagements can usefully assist in identifying key priorities to be supported through DPOs. Substantial efforts have been made to ensure alignment between DPO and project priorities in the supported reforms targeting improved climate resilience in the roads network. In the other reform areas (revenue, access to finance, AML/CFT, building codes and standards), other development partners are more closely engaged. A coordinated approach to budget support and the provision of technical assistance has particular benefits in a capacity-constrained environment such as Samoa, a lesson the proposed operation reflects in its joint development partner approach.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.2.1. Strengthening macroeconomic and financial resilience

39. The first development objective of the proposed operation is to strengthen Samoa's macroeconomic and financial resilience. This pillar contains prior actions which will strengthen the Government's revenue base, reduce risks around remittance flows, and increase access to finance. It builds on substantive reforms to debt management, revenue administration, the payments system, and SOE policy supported by the previous programmatic series of DPOs. These reforms should assist the Government to consolidate its public finances and build the fiscal buffers it needs to respond to future external shocks, while ensuring that individuals and businesses can sustainably access the finance and remittances necessary to support their consumption and investment.

Prior Action 1: The Recipient has: (a) through its Cabinet, approved recommendations from the 2016-17 Revenue Review, including: (i) increases to non-tax fees and charges; (ii) the cessation of income tax holidays and the tourism tax credit scheme; (iii) the removal of several income tax exemptions; and (iv) an increase in the income tax-free threshold; (b) included these changes in the Recipient's approved budget for financial year 2017/18; and (c) amended the Income Tax Act as necessary to implement recommendations from the 2016-17 Revenue Review.

40. In recent years, Samoa has implemented a number of tax administration reforms in order to strengthen revenue collection. It has amended its Income Tax Act 2012 and Tax Administration Act 2012 to shift to self-assessment and lighten the compliance burden, particularly on small taxpayers. It has upgraded its revenue information system by introducing audit case selection and management and completing a data reconciliation to provide comprehensive information about arrears by tax type (with a marked improvement in arrears collections since). It has also restructured its revenue administration and strengthened its capacity to support taxpayer education, compliance, and audit and investigation activities. More recently, the Government has made progress in modernizing its customs operations, and improving the efficiency of tax administration. An electronic tax filing system has been rolled out, supported by the previous DPO, which should increase the efficiency of a range of processes, including registering taxpayers, filing returns, processing payments, issuing assessments and checking against third-party information.

41. The first action builds on these improvements to tax administration and is the result of a concerted effort to re-evaluate tax policy in Samoa and seek ways of further strengthening the revenue base. The associated reforms should help the Government to replenish its fiscal buffers and to enhance the economy's resilience to external shocks, while improving the equity of taxation arrangements. The recommendations of the Revenue Review, which was finalized in early 2017, have been approved by Cabinet and incorporated into the FY17/18 Budget. The approved recommendations broaden the tax base by removing unduly generous exemptions and concessions, including the tourism tax credit scheme, which has perhaps been overly successful in encouraging new tourist facilities (to the point where occupancy levels are well below capacity). Income tax holidays for businesses, and income tax exemptions for churches and pastors will also be removed. Taken together, the removal of exemptions and concessions is expected to raise around SAT 3 million in FY18. Non-tax fees and charges will be adjusted on a one-off basis (after having remaining unchanged for a number of years), and then together with excise rates will be indexed in line with inflation, raising SAT 5.6 million in FY18. The Review notes that the first priority should be to improve compliance with the existing revenue laws to ensure a level playing field, and to minimize the need to increase taxes on citizens who are meeting their taxation obligations. This can be achieved by boosting the audit and compliance capacity of customs and revenue officials, increasing audit requirements on high-turnover companies, and renewing efforts to collect capital gains tax; taken together, these measures (which will be rolled out over the next two to three years) are expected to raise about SAT 5 million in FY18.[8]

42. The approved recommendations also include measures to raise personal tax thresholds (which had not previously been adjusted since 2007). The personal tax-free threshold has been raised from SAT 12000 to SAT 15000, easing the income tax burden on around 1900 lower paid employees and sole traders and saving them up to SAT 300 per annum each, while the 20 percent threshold has been raised from SAT 20000 to SAT 25000. The Income Tax Amendment Act 2017 provides a legislative basis for these changes to the tax thresholds, as well as the changes to income tax exemptions and capital gains tax outlined above. To support the competitiveness of Samoan businesses, export taxes and some select import duty and excise rates will also be reduced. Taken together, the net impact of these initiatives is expected to result in an additional SAT 14.1 million in revenue in 2017/18, or about 2.3 percent of total domestic revenue, rising to SAT 31 million per annum by 2019/20.

43. In the process of conducting the Revenue Review Government has consulted widely with industry groups and the churches, and the Chamber of Commerce is broadly supportive. Importantly, none of the proposed changes – including those to tax credit and tax

[8] An equalization charge on the Electric Power Corporation and a new telecommunications levy account for a further SAT2.5 million in additional revenue in FY18.

holiday schemes – are retrospective. While some churches had previously objected to the reforms, and enforcement of taxation on churches and pastors is likely to be challenging, consultations between the Government and the churches are ongoing, and the removal of tax exemptions on churches and pastors accounts for less than one eighth of the total additional revenue to be obtained under this package of reforms. The indicative trigger for the next operation is the approval of necessary implementing regulations (including on capital gains tax and taxing ministers of religion) as well as compliance reforms (including with respect to capital gains tax, audit, and collection of land rents) that have been flagged in the Revenue Review and the Ministry for Revenue's Compliance Improvement Plan 2016-18. During preparation of the next operation, the trigger could also be adapted to incorporate strengthening of the regulatory framework and administration arrangements for withholding taxes and VAGST, where specific issues have recently been identified. *Expected result*: Realized domestic revenues in FY18 and FY19 are above 26 percent of GDP, up from the five-year historical average (FY12-FY16) of 24.8 percent.

Prior Action 2: The Recipient, through its Cabinet, has approved and published a national strategy to mitigate money laundering and terrorism financing risks.

44. This prior action is a necessary initial step in an ongoing process to reduce the vulnerability of Samoa's financial sector to the withdrawal of correspondent banking services by global banks, thereby helping to maintain the continued flow of remittances into Samoa. Remittances stand at 18 percent of GDP of which about 80 percent is channelled through money transfer operators (MTOs) who are facing closure of bank accounts and increased challenges in accessing financial services due to strains in correspondent banking relationships, which are in turn attributable to concerns about compliance with international AML/CTF requirements. Some MTOs are continuing to operate but are using personal accounts or are physically transporting money overseas. Continued reduction in access to banking services – a risk that the IMF views as high likelihood and high impact – could contribute to higher costs and ultimately affect the flow of remittances.

45. To reduce the probability of this risk materializing, Samoa is taking comprehensive steps to improve the effectiveness of its AML/CFT regime. The 2015 Mutual Evaluation Report (MER) conducted by the Asia/Pacific Group on Money Laundering (APG) found that Samoa had significantly increased its overall levels of technical compliance with the Financial Action Task Force (FATF) Standards over the last decade, but that significant shortcomings remain. The national strategy, the development of which was itself a key priority highlighted in the MER, describes the concrete steps that will be taken over the next four years to bring Samoa further into line with international AML/CTF requirements, and address the other priority recommendations of the MER. These include measures to bolster the supervision and regulatory framework governing the offshore sector, enhance the risk-based AML/CFT supervision of banks and MTOs, and improve the implementation of agreed measures, including by strengthening the resources of the Financial Intelligence Unit (FIU) of the CBS.

46. The indicative trigger for the next operation is the completion of recommended legislative reforms in areas where Samoa is currently rated "Non-Compliant" or "Partially Compliant" by APG/FATF. APG assessors found that significant shortcomings in Samoa's AML/CFT regime remain, rating it low or moderately effective in 10 out of 11 immediate outcomes assessing effectiveness, and non-compliant or partially compliant with more than half of the 40 FATF Recommendations. Hence, the authorities were encouraged to work toward substantial improvements of the AML/CFT framework, both on the strategic and operational level. In response to the APG recommendations, a list of required legislative and regulatory reforms has been compiled by the CBS and the highest priority actions are currently being identified. These actions will form the prior action for the next operation in the series and will be specified further during its preparation. The updating of legislation and regulatory frameworks in line with international standards is an important part of the effort to maintain correspondent banking relationships and ensure the continued flow of remittances. *Expected result*: Improvement in compliance with the FATF recommendations in the July 2018 APG assessment, as demonstrated by an upgrading in status from "Enhanced Follow-up (Expedited)".

Prior Action 3: The Recipient, through its Ministry of Commerce, Industry, and Labour, has: (a) commenced the Personal Property Securities Act; and (b) launched the Personal Properties Securities Registry, to improve access to finance by allowing movable property to be used as collateral for loans.

47. This action will make it easier for smaller Samoan businesses and less wealthy individuals – who have been essentially excluded from borrowing through the formal banking system – to secure credit and invest in capital equipment and inventories. Global evidence suggests that lack of collateral is among the most widely cited obstacles to accessing finance for SMEs worldwide (for which female ownership tends to be more prevalent than it is for other types of business), with 78 percent of the assets of the average SME composed of movable property, and only 22 percent real estate. Moreover, only 20 percent of land in Samoa is registered and able to be used as loan security, meaning that other forms of collateral are particularly important. The Personal Properties Securities Registry (PPSR) will make it easier for lending institutions to accept movable property — such as machinery, accounts receivable, or inventory — as collateral, thereby facilitating the provision of credit to more businesses. Lenders can use the online registry to secure their claim on assets borrowers have pledged as collateral and verify that the asset has not already been pledged elsewhere. It is expected that the convenience and accessibility of the registry will also encourage non-bank suppliers — such as wholesalers, agricultural stores, exporters, and vehicle dealerships — to extend credit, which can now be secured against their customers' business assets or products. As such, the PPSR addresses one of the key constraints to access to finance in Samoa. The Act was strongly supported by the commercial banking sector in Samoa, which participated in the extensive consultation process.[9] The PPSR will particularly benefit people living in rural areas, who will be able to save time and money by using the online registry instead of physically traveling to register or check collateral. It is also likely to disproportionately benefit businesses owned by women, which currently are

[9] The Personal Property Securities Bill was enacted by Parliament in 2013. However, some legal issues with the drafting meant that the Act as passed could not then be implemented. This was rectified with the passage of the Personal Properties Securities Amendment Act 2015. After this amendment, procurement of the registry commenced, with registry design and implementation supported by Pacific Private Sector Development Initiative (PSDI). Following the launch of the PPSR and in accordance with the provisions of the Personal Properties Security Act, the Minister for Commerce, Industry and Labour formally nominated February 27, 2017 as the date on which the Personal Properties Security Act commenced.

less likely to be able to pledge the necessary security to secure loans.[10] Similar reforms in Solomon Islands and Vanuatu indicated that women were active users of new secured transaction registries.

48. The indicative trigger for the next operation is a decision to establish new credit bureau arrangements which will provide comprehensive (positive and negative) credit information on potential borrowers, to further improve access to credit in Samoa. Although the Samoan credit bureau was previously slated to be operated out of Fiji as part of a regional arrangement, legal changes in Fiji caused the Fijian provider to cease operation. Discussions are still ongoing around whether an alternative regional arrangement would be suitable or whether a (more expensive) locally-based solution will be pursued. While the latter option will likely be more expensive, there may be some benefits around control of the information and some economies of scale to be realized if the database infrastructure can be linked with the Personal Property Securities Registry and/or a proposed Know Your Customer (KYC) utility for financial transactions. The World Bank Group (WBG) and ADB are supporting CBS to identify alternative means of establishing a credit bureau, and steps to establish a sustainable solution could be supported under the next operation in this series, although it should be noted that there remains substantial uncertainty around potential outcomes in this area and hence some flexibility on this indicative trigger may be required. *Expected result*: Growth of at least 5 percent in the number of registered security interests (excluding transitional filings) from FY18 to FY19, and growth of at least 5 percent for registrations of security interests on movable collateral owned by women or women-owned businesses.

4.2.2. Increasing resilience to the effects of climate change, natural disasters, and non-communicable diseases

49. The second development objective of the proposed operation supports Government efforts to reduce Samoa's vulnerability to some of its major long-term threats: climate change, natural disasters and non-communicable diseases. These vulnerabilities already have a large adverse impact on Samoa and, as noted by Pacific Possible, are likely to cause even greater social and economic costs over the next 25 years in the absence of strong and sustainable policy interventions. This pillar builds on work supported by the previous DPO to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa.

Prior Action 4: The Recipient, through its Cabinet, has approved amendments to the national building codes and standards which will improve climate resilience, and which incorporate provisions for disability access.

50. This prior action helps to improve the resilience of Samoa's buildings to climate and disaster risks. The reform complements Government efforts to support communities through small resilience-building investment activities (which, inter alia, improve access to water, increase food security, reduce land degradation, and enhance access through small roads); increase the resilience of the more major roads that provide access to key services; and strengthen

[10] A recent ADB-supported study noted that while Samoan women consider borrowing as the main way to access capital, only a third of the women in the study were successful in obtaining bank loans.

the design of school buildings – including via alterations to existing buildings – so they can act as shelters in the event of a natural disaster. Implementation of the updated standards supported by this prior action will strengthen the ability of buildings to cope with climate and disaster events including high winds, flooding and storm surges, and seismic activity. Provisions for disability access are also incorporated. The new standards (which update existing standards set in 1992) will be applied to plans for every new building in Samoa, including public buildings, private commercial buildings, and residential buildings. Standards vary according to buildings' importance to the broader community, with critical infrastructure (e.g. hospitals) subject to more rigorous standards. To help promote compliance, a program of intensive training of staff, village representatives, and construction workers is envisaged. The Ministry of Works, Transport, and Infrastructure (MWTI) has plans in place to ensure that its expected workload (issuance of 30-40 building permits / month) can be met with current inspection capacity. On the policy front, MWTI also plans to update and strengthen registration requirements for building-related trades and regulations governing the building industry, as an important means of improving compliance with the new codes. This is the indicative trigger for the second operation in the series. *Expected result:* Compliance with updated codes and standards confirmed for at least 90 per cent of new building plans.

Prior Action 5: The Recipient, through its Cabinet Development Committee, has approved the recommendations contained within the Vulnerability Assessment and Climate Resilient Roads Strategy, which set out the priority investments necessary to improve the resilience of the roads network and provide guidelines for maintenance requirements and engineering standards.

51. This prior action facilitates identification and prioritization of the key investments and activities necessary to reduce the impact of climate change and natural disasters on the Samoan road network. The Land Transport Authority (LTA) has successfully overseen the preparation of the Vulnerability Assessment (VA) and Climate Resilient Roads Strategy (CRRS), a process that has required sustained engagement and inputs from its officials. The Cabinet Development Committee's (CDC) approval of the recommendations contained within the VA and CRRS constitutes a whole-of-Government commitment to i) ensure investment decisions in the roads sector explicitly account for the priorities set out in the VA and CRRS; ii) adequately fund road maintenance activities, in recognition of the fact that an improved maintenance regime will be cost-effective to the extent that it reduces the costs associated with deterioration and restoration; and iii) to ensure compliance with sound engineering standards for road construction, upgrading and maintenance. Adherence to these recommendations will lessen the vulnerability of roads to storms and floods, lower maintenance and emergency repair costs, and reduce the time-to-repair of roads that are affected by natural disasters. Evidence from the WB 'Enhancing the Resilience of the West Coast Road Project' (in which preparation of the VA was one component) indicates that some of the recommendations of the VA and CRRS concerning engineering standards are already being implemented in roadworks around the country. Consideration and approval by the CDC also ensures that the broader recommendations contained in these reports (e.g. around investment priorities) are not only the remit of the LTA, but rather will benefit from coordinated efforts between ministries and agencies (including LTA, the Ministry of Works, Transport and Infrastructure, the Ministry of Natural Resources and the Environment, and the Ministry of Finance). The Government has also committed to monitor the implementation of the CRRS and VA, and review and update them at least every two years, with the first such review tying in with the review of the Transport Sector Plan in FY2019.

52. The proposed indicative trigger is the approval of a broader infrastructure asset management strategy which will apply these principles to other sectors, and implementation of the associated recommendations in the FY2019 budget. It is envisaged that the infrastructure asset management strategy would seek to apply some of the principles and recommendations of the VA and CRRS – e.g. around maintenance, upgrading, and investment decisions – to other national infrastructure (including the airport, port, schools, hospitals, utilities, etc). The focus will be on optimally managing the life cycle of existing Government infrastructure and ensuring that new investment proposals also factor in maintenance requirements. The precise steps to implement this strategy (including in the FY2019 budget) will be further specified during preparation of the next operation. A National Infrastructure Asset Management Policy has already been drafted by MWTI. *Expected result:* By FY19, at least three road designs have been informed by the Vulnerability Assessment.

Prior Action 6: The Recipient has: (a) introduced excise duties for sugary and salty products to improve health and nutrition outcomes and reduce the incidence of non-communicable diseases, and (b) through its Cabinet, approved an annual increase in excises on alcoholic and sweetened beverages and on tobacco of 3 percent and 5 percent respectively over the next three years.

53. Prior Action 6 supports the Government's efforts to use price signals to promote healthy consumption choices while boosting an important source of domestic revenue. Global evidence and regional work, including the NCD roadmap report (Secretariat of the Pacific Community 2014) have shown that the use of prices to disincentivize consumption of alcohol, tobacco, and sugary and salty products is one of the top priorities to address the burgeoning NCD epidemic. NCDs are a major threat to public health and public finances in Samoa, with diabetes, heart disease, and stroke now accounting for almost half of all deaths. Samoa has one of the highest obesity rates in the Pacific at 54 percent, and the World Health Organization has noted that rates of obesity have in fact increased in Samoa over the last decade. Unhealthy diets (for example, sweetened beverages, trans-fats, and sodium) are the greatest risk factor for cardiovascular diseases and diabetes-induced deaths. Pacific Possible notes that in the absence of substantive interventions to control NCDs, the economic costs of mortality and morbidity could reduce GDP in Samoa by around 5 percent in 2040.

54. As part of its response to these concerns, the Government has introduced an excise tax of 8 percent on a range of products with high sugar or salt content, including syrups, confectionary, biscuits, and instant noodles. The Government has also increased the per unit excise tax levied on tobacco and alcohol by 5 percent and 6.5 percent respectively in FY17, and by an additional 5 percent and 3 percent respectively in FY18, with these latter increases to recur annually at least until FY20. Excise taxes are now around 50 percent of the retail price of tobacco in Samoa, and this will rise over time with the scheduled annual increase in tobacco excise of 5 percent per year. The indicative trigger for the next operation is the approval of the Alcohol Control Bill, which will include legislation around increases in alcohol excise taxes. The Government is also considering analytical support to monitor the effects of these excises on prices, imports, and consumption, which will allow policymakers in Samoa to be better informed about the effect of these taxes (on health as well as on revenue) and provide a more solid evidence base on which to make further adjustments. *Expected result*: Increase in price of cigarettes, beer, instant noodles, and sweet biscuits from June 2016 to June 2019 is greater than overall increase in food and non-alcoholic beverages prices.

Prior Action 7: The Recipient, through its Cabinet, has approved framework contracts for the procurement of pharmaceuticals, to increase the efficiency and reduce the cost of procurement, and ensure access while reducing waste.

55. Strengthening procurement systems has an important role to play in improving value-for-money in public expenditure and enhancing public service delivery in Samoa. Samoa has made substantial progress in reforming public procurement systems in recent years, and has built the capacity of the procurement division in the Ministry of Finance, which has spearheaded reform of the legal and regulatory framework for procurement. Support by the previous programmatic series of DPOs, the Government has issued new Treasury Instructions and Procurement Guidelines which provide comprehensive and legally enforceable rules for public procurement, covering procurement methods, transparency, eligibility, documentation, evaluation criteria and processes. It has also developed standard templates for minor and major works as another step toward increasing the speed and efficiency of procurement, and legalized framework arrangements, the use of which provides opportunities to benefit from lower costs associated with economies of scale and increases efficiency through simplification of the associated procurement processes.

56. This prior action builds on this earlier procurement reform program and will improve access to necessary medicine – including NCD-reducing medicines – at a lower unit cost. Within Samoa, it serves as an initial example for the use of framework arrangements in public procurement, and hence lessons learned from this arrangement are likely to benefit the future procurement of other targeted items including stationery, office equipment, and routine maintenance. The framework arrangement for pharmaceuticals establishes terms (e.g. prices and quantities) on which specific purchases will be made over a period of time, allowing for a longer-term contractual relationship with suppliers, and providing opportunities to benefit from lower costs and increased efficiency through simplification of purchasing procedures. A recent NCD cost analysis study has found that Samoa is procuring medicines at three to five times the prices obtained by other procurement agencies, and that the use of key NCD medications in Samoa is relatively low (despite a very high incidence of NCDs). The potential cost savings from this reform should allow the quantity of medicines purchased to increase under the existing budget. By facilitating the demand-based ordering of pharmaceuticals, the framework arrangement will help to ensure fewer stock outs (as well as less wastage due to excess supply), and should increase the speed with which medicines can be purchased in emergency situations. The indicative trigger for the next operation is the introduction of an inventory management system for pharmaceuticals which will further support their efficient purchase, storage, and use. *Expected result:* average unit price of select purchased medicines in FY18 and FY19 i) is lower than in FY17; and ii) compared with FY17, is lower as a proportion of international reference prices.

Table 3: DPO Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Strengthening macroeconomic and financial resilience	
1. The Recipient has: (a) through its Cabinet, approved recommendations from the 2016-17 Revenue Review, including: (i) increases to non-tax fees and charges; (ii) the cessation of income tax holidays and the tourism tax credit scheme; (iii) the removal of several income tax exemptions; and (iv) an increase in the income tax-free threshold; (b) included these changes in the Recipient's approved budget for financial year 2017/18; and (c) amended the Income Tax Act as necessary to implement recommendations from the 2016-17 Revenue Review.	Revenue Review Report for the Government of Samoa, May 2017: provides an independent review of Samoa's current taxation arrangements and makes recommendations to strengthen the revenue base.
2. The Recipient, through its Cabinet, has approved and published a national strategy to mitigate money laundering and terrorism financing risks.	APG Mutual Evaluation Report on Samoa, 2015: evaluates Samoa's compliance with the FATF Standards, and makes recommendations (including the development of a national AML/CFT strategy). Samoa Article IV report (2017) and references therein.
3. The Recipient, through its Ministry of Commerce, Industry, and Labour, has: (a) commenced the Personal Property Securities Act; and (b) launched the Personal Properties Securities Registry, to improve access to finance by allowing movable property to be used as collateral for loans.	Reform Renewed: A Private Sector Assessment for Samoa, ADB PSDI (2015): notes that the results of secured transactions reforms in the Pacific indicate more borrowing on better terms than under the previous systems, with particular benefits for smaller businesses and for women.
Increasing resilience to the effects of climate change, natural disasters, and non-communicable diseases	
4. The Recipient, through its Cabinet, has approved amendments to the national building codes and standards which will improve climate resilience, and which incorporate provisions for disability access.	Consultations between Government, private sector (including engineers, architects, builders), and civil society from 2013-16 to discuss necessary updates to the National Building Code of Samoa 1992.
5. The Recipient, through its Cabinet Development Committee, has approved the recommendations contained within the Vulnerability Assessment and Climate Resilient Roads Strategy, which set out the priority investments necessary to improve the resilience of the roads network and provide guidelines for maintenance requirements and engineering standards.	Vulnerability Assessment, Climate Resilient Roads Strategy, and SMEC Final Report (2017): comprehensively assesses the road network in Samoa, and recommends priority investments, maintenance regimes and minimum engineering standards necessary to ensure climate resilience.
6. The Recipient has: (a) introduced excise duties for sugary and salty products to improve health and nutrition outcomes and reduce the incidence of non-communicable diseases, and (b) approved an annual increase in excises on alcoholic and sweetened beverages and on tobacco of 3 percent and 5 percent respectively over the next three years.	NCD Roadmap for the Pacific, Pacific Islands Forum Secretariat (2014): recommends increases in taxes on tobacco, alcohol, and sugary and salty foods and drinks to curb the incidence of NCDs. Revenue Review Report for the Government of Samoa, May 2017: recommends regular indexation of excises, fees and charges.

Prior Actions	Analytical Underpinnings
7. The Recipient, through its Cabinet, has approved framework contracts for the procurement of pharmaceuticals, to increase the efficiency and reduce the cost of procurement, and ensure access while reducing waste.	Samoa National Non-Communicable Disease Cost Analysis Study, March 2017: notes scope for efficiency gains in procurement given relatively high medicine prices in Samoa. Treasury Instructions and Guidelines for the use of Framework Arrangements in Samoa

4.3 LINK TO RPF AND OTHER BANK OPERATIONS

57. The proposed DPO series is a central component of the WB's overall engagement with Samoa, as highlighted in the Regional Partnership Framework (RPF) for nine small Pacific Island Countries discussed by the Board in February 2017. The design of the development objectives and selection of reform areas are aligned with the focus areas of protecting incomes and livelihoods (including through strengthening resilience to natural disasters and climate change, and addressing NCDs); and of strengthening the enablers of growth and opportunities (through improved macro-economic management, infrastructure and addressing knowledge gaps). A strong economic policy dialogue with the Government is the anchor for the WB's efforts to support this latter RPF theme, with a programmatic series of DPOs as its centrepiece.

58. The DPO series is complemented by a set of other WBG operations targeted at achieving the RPF outcomes. These include technical assistance on procurement reform by the WB, and an extensive engagement with Samoa as part of the Pacific Payments, Remittances and Securities Settlement Initiative. The reforms targeted at reducing Samoa's vulnerability to climate change and natural disasters have been informed and motivated by two ongoing climate resilience projects in Samoa: the Enhancing the Climate Resilience of West Coast Road project and the Enhancing the Climate Resilience of Coastal Resources & Communities project.

59. The reforms supported by this DPO series are also closely aligned with the IDA18 special themes. These include special theme 5 on governance and institutions, with the DPO addressing domestic revenue mobilization, responses to illicit financial flows, and procurement; special theme 3 on climate change, with the DPO supporting measures to enhance resilience to natural disasters and climate change; and special theme 1 on jobs and economic transformation, with the DPO supporting measures to support private sector investment by improving access to finance. Given that these access to finance reforms are likely to be particularly beneficial to women, special theme 2 on gender and development is also addressed.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.4.1. Consultations

60. The formulation of the SDS in Samoa involves an extensive consultation process with a wide range of civil society stakeholders and the general public. Sector coordinators consult with civil society stakeholders as they prepare their contributions to the SDS. The Ministry of

Finance leads a Government wide consultation at the sector level before conducting public consultations on both Upolu and Savaii islands. Various groups including religious leaders, civil societies, village representatives, women committees' representatives, youth group representatives and private sector representatives are invited, giving people across Samoa the opportunity to participate in the formulation of the SDS. For the proposed operation, the Ministry of Finance has consulted broadly across sectors in the process of building the joint policy matrix, in collaboration with development partners.

4.4.2. Collaboration with Other Development Partners

61. The WB is leading the coordinated approach being taken to general budget support in Samoa among development partners. This approach has involved consultation and close cooperation among development partners throughout the iterative process by which the policy matrix has been built up with the Government, joint engagements with the Government including joint missions, shared reliance on the sector-specific expertise of individual development partners, shared documentation, and the harmonisation of business processes to minimise the transaction costs imposed on the Government. This close coordination has been strongly encouraged and warmly welcomed by the Government. While all parties have worked towards the use of a joint policy matrix, each development partner nonetheless retains the flexibility to align the substance of the joint policy matrix with its operational requirements and overarching approach to engagement with Samoa. For the WB, this first operation in the proposed programmatic series focuses on seven of the eight reform areas covered by the joint policy matrix agreed between the Government and development partners (the outstanding reform area is focused on SOEs, as described in paragraph 37).

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

62. The proposed operation will support the Government in its efforts to boost resilience to economic, environmental, and health-related shocks, which should ultimately have a particularly positive impact on the poor and vulnerable. Over time, the prior actions should reduce the risks of i) a contraction in the provision of essential public services (due to insufficient fiscal buffers); ii) a disruption to remittance flows; and iii) a lack of access to key services after a natural disaster. The poorest parts of Samoa's population are likely to be the most susceptible to these risks, given their relative dependence on public services and remittances, and their higher vulnerability to natural disasters. The reforms supported by this operation should also improve access to finance, particularly for women, spur behavioural change that ultimately reduces the incidence of NCDs, and reduce the likelihood of medicine shortages. Social safety nets are fairly limited in Samoa, so the main way in which poor and vulnerable groups are protected is through designing policies that take their interests into account.

63. Given comparatively constrained non-food expenditure, the wellbeing of the poorest quintile of the population is disproportionately dependent on publicly-funded education, health and community development services. Estimates from the 2013/14 HIES indicate that the poorest quintile averages per capita non-food expenditure of about SAT 20 per week, well below the population average of about SAT 70. This makes them more vulnerable than other quintiles to any contraction in the provision of essential public services that may result from external shocks if the Government lacks adequate fiscal buffers. The universal availability of basic public health services at no or little cost underpins the relatively strong health indicators that Samoa has achieved to date (but which are now threatened by NCDs), while the universal availability of fee-free primary and progressively also secondary education underpins Samoa's relatively strong education indicators. It is thus particularly important to poor people and vulnerable groups that the state maintains the capacity to provide public services over time, which in turn depends on the maintenance of fiscal stability. The revenue reforms supported by this operation should strengthen efforts to consolidate its public finances and rebuild its fiscal buffers. The WB is also assisting with a Public Expenditure Review for the health and education sectors, the recommendations of which should help to ensure allocative efficiency and value for money.

64. Reforms to excise and import duties will increase the taxation level on a number of goods that have negative health impacts, including those that are consumed by poorer households. As a share of total expenditure, data from the 2013/14 HIES shows that spending on alcohol and tobacco is roughly constant across the expenditure distribution, at between 1 and 2 percent of the aggregate household budget for almost all deciles. Initial estimates suggest that the excise and duty increases programmed over the next three years would constitute no more than 0.5 percent of the cost of the average consumption basket for those households with non-zero consumption, with potentially smaller effects if there is a behavioural response to reduce tobacco and alcohol consumption. On the other hand, the 2014 NCD Roadmap study notes that over the medium term, the poor benefit significantly more than those better-off in terms of improved health outcomes, and bear less of the tax burden, because they are more likely to stop smoking or not take it up in the first place. Similarly, increased duties on unhealthy foods such as sweet biscuits and instant noodles would increase food costs, though these increases would be offset by any induced behavioural response. Overall, any potential negative budget effects are judged to be outweighed by the potential positive health effects of lowering consumption (and as noted above the use of such taxes is supported by various pieces of analytical work including e.g. the 2014 NCD Roadmap).

65. Other reforms supported by this operation should have positive impacts on the poorest. Analysis conducted as part of the Revenue Review shows that raising the income tax-free threshold (which has not been adjusted since 2007) from SAT 12000 to SAT 15000 is a progressive measure which means that an extra 1852 lower paid employees and sole traders no longer have to pay income tax, saving them up to SAT 300 per annum each. In total, an estimated 14199 workers in formal employment would not be required to pay income tax. The 2013/14 HIES shows that remittances accounted for a higher share of the income of the poorest quintile than for the overall population. The AML/CFT reforms should help address the concerns of correspondent banks and allow continued (albeit more limited) competition in the provision of remittance services, keeping the cost of remittances down for the poorest. Maintaining resilience of the transport sector to climate risks will help facilitate access to key services after a natural disaster, which is again particularly important for the poorest who tend to be more exposed to disasters and less able to cope with their effects (see e.g. the 2016 Systematic Country Diagnostic for the 8 small Pacific Island Countries).

66. **The access to finance reforms are likely to prove particularly beneficial to women**. As women's rights to land are often limited, they can find it more difficult to provide the collateral required for loans. The secured transactions reforms supported in this operation will allow women and women-owned businesses to use movable assets such as equipment and accounts receivable as collateral. As women have a higher non-communicable disease burden, they may also benefit disproportionately from behavioural responses induced by the NCD taxation reforms.

5.2 ENVIRONMENTAL ASPECTS

67. **The policy actions supported under the operation – including those related to building standards and reducing roads vulnerability – are not expected to create negative impacts on Samoa's environment, natural resources or forests compared with the status quo**. Policy actions related to revenue and NCD taxes, access to finance, AML/CFT compliance, and pharmaceutical procurement are not expected to have any significant environmental impacts. The actions to introduce new building codes and standards and approve the recommendations of the roads Vulnerability Assessment have been assessed as yielding climate co-benefits of US$ 1.42 million, due to their positive impact on Samoa's ability to adapt to the effects of climate change and the potential for more severe natural disasters. The Ministry for Natural Resources and Environment (MNRE) is responsible for ensuring that any associated building or road works have minimum environmental and social impact through its legislative framework. The WB's Enhanced Road Access Project is financing LTA's hiring of a Safeguards Advisor to build GoS environmental and social safeguard capacity in the short to medium-term.

68. **Samoa's Environmental Assessment (EA) system is considered one of the more robust systems in the Pacific, although there are some challenges with implementation.** Environmental Assessments are a legal requirement under the Planning and Urban Management Act 2004 and the Planning and Urban Management (Environmental Impact Assessment) Regulations 2007 administered by the Planning and Urban Management Authority (PUMA). As the environmental regulatory agency, PUMA regulates compliance with the legislation and with Samoa's Code of Environmental Practice (COEP), which was developed with assistance from the WB and details procedures to be followed by consultants, designers and contractors for the avoidance or mitigation of adverse environmental effects from infrastructure development projects. The COEP consists of 14 codes covering different activities such as road works, quarry operations, drainage works and telecommunications facilities. There is also increasing compliance and public acceptance of PUMA's development consent process with the number of development consent applications increasing steadily since 2007. Despite this robust regulatory environment, PUMA faces several challenges in delivering on its mandate. While all the Agency's functions are delivered (albeit with varying degrees of timeliness and continuity), low staff numbers are an important constraint. This is compounded by the high rate of staff turnover through the Agency and the consequent shortage of skills to process and review EAs, particularly for the more complex proposals with more comprehensive EA requirements.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

69. Samoa has made considerable progress with reforming its PFM systems in recent years. The budget is credible, fiscal information is generally comprehensive and transparent, orderliness and participation in the annual budget process is strong, many aspects of predictability and control in budget execution are solid, and most aspects of external scrutiny and audit are also solid. An independent evaluation of progress of the second phase of the PFM Reform Plan, implemented between 2011 and 2013, assessed that 22 of the 25 reform targets had been either fully or partially achieved. The 2013 Public Expenditure and Financial Accountability assessment (PEFA) confirmed these PFM improvements relative to the 2010 PEFA, with notable improvements between the two assessments including arrears monitoring and broader budget credibility, tax assessments, bank reconciliations, payroll controls, procurement, expenditure controls, internal audit, annual financial statements, and legislative scrutiny of the budget and audit reports. The budget is published each year on the Ministry of Finance website.

70. Samoa has recently made positive progress in reforming its procurement system. The 2014 Methodology for Assessing Procurement Systems (MAPS) assessment indicated that the adoption of the new Treasury Instructions on procurement had raised the score on the legislative and regulatory framework pillar from 0.14 to 2.14 (out of a possible 3.0), and also improved the institutional framework and management capacity, procurement operations, and integrity and transparency. In recent years, Samoa has also created a new Procurement Division in the Ministry of Finance that has helped to drive the wider procurement reform process. A number of the other weaknesses identified by the MAPS assessment – including lack of procedural guidelines and model tender documents, and lack of provision for and guidance on the use of framework arrangements – have been addressed by reforms supported by the last series of DPOs (with assistance from the WB).

71. The Government's commitment to making future improvements to its PFM systems is strong. Samoa has just completed the third "roll-out" phase of PFM reforms, with considerable achievements made on the earlier two phases. The Ministry of Finance prepared the third phase of the PFM Reform Plan itself, based on the key areas highlighted as weaknesses in the 2013 PEFA and 2014 MAPS assessment, outstanding areas from the second phase of reforms, consultations with internal stakeholders, and discussions with development partners, including through the JPAM engagement. A high level of ownership for the reforms is in evidence, and a strong annual monitoring and evaluation system for the reforms is now well established.

72. Following disbursements under the exogenous shocks facility in 2010 and rapid credit facility in 2013, the CBS underwent IMF Safeguards Assessments in 2010 and 2014. The CBS publishes its annual report and its independently audited financial accounts. The financial statements are prepared in accordance with International Financial Reporting Standards, however there have in the past been some inconsistencies in the reporting of disclosures. The FY15 audited financial accounts have been published on the CBS website and were unqualified.

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

74. Overall, the fiduciary risk rating for the operation is moderate.

75. The proposed operation will follow the WB's disbursement procedures for development policy grants. The grant will be disbursed according to IDA disbursement procedures for DPOs against satisfactory implementation of the development policy program and adequacy of the macroeconomic policy framework, and will not be tied to any specific purchases. Once the grant is approved by the WB Board and becomes effective, and the WB is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA in one tranche, at the request of the Recipient, into an account in US$ dedicated by the Recipient and acceptable to the WB at the CBS (the 'Foreign Currency Deposit Account'). The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds of the operation would not be used to finance expenditures excluded under the Financing Agreement. If, after being deposited in a Government deposit account, the proceeds of the operation are used for ineligible expenditure as defined in the Financing Agreement, IDA will require the Recipient to refund the amount directly to IDA. Any such amounts refunded to IDA shall be cancelled. The closing date for the grant is December 31, 2018.

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

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

5.4 MONITORING AND EVALUATION

78. The Ministry of Finance is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. The Ministry of Finance will directly monitor the results indicators for the actions on debt, procurement, and climate resilience, and will collaborate with the relevant agencies on the indicators for revenue, payments systems, tourism and PPPs. The Ministry of Finance has demonstrated good capacity to monitor and evaluate the results of budget support operations to date. Where possible, it will utilise existing systems for monitoring and evaluation purposes (for instance, the existing annual evaluation of progress on all PFM reforms and the monthly management 'scorecard' for key revenue indicators).

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

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

6. SUMMARY OF RISKS AND MITIGATION

81. Overall the operation faces moderate risks to achieving its development outcomes. Risks associated with natural disasters, shortfalls in macroeconomic management, and the capacity of line ministries are more substantial.

82. One key risk to the operation is posed by Samoa's high degree of vulnerability to external economic shocks, including from natural disasters. Samoa has been assessed as facing a high risk of debt distress, due to its vulnerability to natural disasters. Another major natural disaster in the next few years could threaten macro stability and large parts of the bureaucracy will have to shift their attention to disaster recovery and reconstruction efforts. Any reversal of recent fiscal consolidation efforts or future non-compliance with its MTDS could also make Samoa's fiscal situation difficult to manage. Nevertheless, these risks are mitigated by the resilience-enhancing reforms supported by this operation – which are also key priorities for the Government – and the reforms to debt policy and management in the previous programmatic series. More broadly, the potential impact of these macroeconomic risks to the operation is mitigated by the fact that the supported reforms are key priorities for the Government, so are the ones most likely to retain reform momentum in a challenging environment.

83. This DPO also supports a number of reforms which are the direct responsibility of line ministries – where capacity and understanding of budget support operations may be lower – rather than the Ministry of Finance. This also has the potential to make engagement with policymakers and technical officials more challenging in some cases, given that the financial incentives for line ministries to engage may be less clear. However, development partners (that also participate in the JPAM process) continue to be a source of direct support for the Government's capacity-building efforts in these areas, building trust on both sides, while the Ministry of Finance is playing a strong coordinating role.

Table 4: Systematic Operational Risk-Rating Tool

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	M
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	M
7. Environment and social	M
8. Stakeholders	M
Overall	**M**

NB: H, S, M, and L refer to 'High', 'Substantial', 'Moderate', and 'Low' respectively.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Action for DPO1	Indicative Trigger for DPO2	Expected Results
Pillar 1: Strengthening macroeconomic and financial resilience		
PA1: The Recipient has: (a) through its Cabinet, approved recommendations from the 2016-17 Revenue Review, including: (i) increases to non-tax fees and charges; (ii) the cessation of income tax holidays and the tourism tax credit scheme; (iii) the removal of several income tax exemptions; and (iv) an increase in the income tax-free threshold; (b) included these changes in the Recipient's approved budget for financial year 2017/18; and (c) amended the Income Tax Act as necessary to implement recommendations from the 2016-17 Revenue Review.	Approval of implementing regulations for Revenue Review recommendations – including the Capital Gains Tax Regulation and the Taxing Ministers of Religion Regulation. Implementation of compliance reforms – including on audit and collection of land rents.	Revenue buoyancy (domestic tax and non-tax revenues as a percent of GDP) increases from recent average levels. Baseline (FY12-FY16): Average ratio of domestic revenue to GDP = 24.8 percent Target (FY18 and FY19): Domestic revenue to GDP > 26 percent
PA2: The Recipient, through its Cabinet, has approved and published a national strategy to mitigate money laundering and terrorism financing risks.	Approval of recommended legislative reforms in areas where Samoa is currently rated as 'Non-Compliant' or 'Partially Compliant' by APG/FATF.	Improvement in compliance with the FATF recommendations, as assessed by the July 2018 follow-up to the 2015 Mutual Evaluation Report. Baseline (FY17): APG status is "Enhanced Follow-Up (Expedited)" Target (FY19): APG status improves to "Enhanced Follow-Up"
PA3: The Recipient, through its Ministry of Commerce, Industry, and Labour, has: (a) commenced the Personal Property Securities Act; and (a) launched the Personal Properties Securities Registry, to improve access to finance by allowing movable property to be used as collateral for loans.	Cabinet/CBS decision to establish new credit bureau arrangements which will provide comprehensive (positive and negative) credit information on potential borrowers, to further improve access to credit in Samoa.	Growth in registration of security interests on movable collateral. Baseline (FY17): No registered security interests on movable collateral. Target (FY19): Growth of at least 5 percent in registered security interests (excluding transitional filings) from FY18, and growth of at least 5 percent for registrations of security interests on movable collateral owned by women or women-owned businesses.

Pillar 2: Increasing resilience to the effects of climate change, natural disasters, and non-communicable diseases		
PA4: The Recipient, through its Cabinet, has approved amendments to the national building codes and standards which will improve climate resilience, and which incorporate provisions for disability access.	Registration requirements for building practitioners and regulations governing the building industry are updated and strengthened.	Updated codes and standards implemented and monitored Baseline (FY17): Updated codes and standards not yet in place Target (FY19): Compliance with updated codes and standards confirmed for at least 90 per cent of new building plans
PA5: The Recipient, through its Cabinet Development Committee, has approved the recommendations contained within the Vulnerability Assessment and Climate Resilient Roads Strategy, which set out the priority investments necessary to improve the resilience of the roads network and provide guidelines for maintenance requirements and engineering standards.	Approval of a new national infrastructure asset management strategy to improve the life-cycle management and maintenance of government infrastructure, and implementation of recommendations, including in the FY18/19 Budget.	Number of approved road designs informed by the Vulnerability Assessment Baseline (FY17): zero Target (FY19): 3
PA6: The Recipient has: (a) introduced excise duties for sugary and salty products to improve health and nutrition outcomes and reduce the incidence of non-communicable diseases, and (b) approved an annual increase in excises on alcoholic and sweetened beverages and on tobacco of 3 percent and 5 percent respectively over the next three years.	Cabinet approval of the Alcohol Control Bill, including increases to alcohol excise taxes.	Relative price of tobacco, alcohol, and sugary and salty products increases. Target: Increase in price of cigarettes, beer, instant noodles, and sweet biscuits from June 2016 to June 2019 is greater than overall increase in food and non-alcoholic beverages prices.
PA7: The Recipient, through its Cabinet, has approved framework contracts for the procurement of pharmaceuticals, to increase the efficiency and reduce the cost of procurement, and ensure access while reducing waste.	Establishment of an inventory management system for pharmaceuticals to further support their efficient purchase, storage, and use.	Unit price of select medicines declines relative to benchmarks. Target: Average unit price of select purchased medicines (to be specified during preparation of the next operation) in FY18 and FY19 i) is lower than in FY17; and ii) compared with FY17, is lower as a proportion of international reference prices.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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

Telephone: (685) 34332
(685) 34183
Facsimile: (685) 21312

Government of Samoa

OFFICE OF THE MINISTER OF FINANCE

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

08 September 2017

Dr Jim Yong Kim
President
The World Bank
Washington, DC, 20433
USA

Dear President Kim

LETTER OF DEVELOPMENT POLICY

Over the past two decades, Samoa has established a solid track record of economic reform, and the World Bank's Country Policy and Institutional Assessment suggests that it continues to be one of the strongest performers among IDA-eligible countries.

Underpinning these achievements is Samoa's ambitious development agenda, which is articulated in the *Strategy for the Development of Samoa 2016-2020* (SDS). The SDS sets out our overarching strategy for accelerating sustainable development and creating opportunities for all, and is the result of an extensive consultation process across the country. The SDS outlines the key policy priorities that the government is pursuing to achieve economic development, social development, infrastructure development and environmental sustainability.

These priorities include improving macroeconomic resilience, increasing productivity in agriculture and fisheries, achieving sustainable tourism development and enhancing the enabling environment for business development. They also include raising health and education outcomes, and improving the quality of life of the most vulnerable through community development and the provision of focused and affordable public services. The SDS explicitly integrates climate resilience and disaster risk management considerations across each of the major sectors.

We regard the World Bank as an important partner in pursuing these objectives, including through the policy matrix that we have worked on in collaboration with the Bank and other development partners which underpins this Development Policy Operation. We very much support the efforts made to align the policy reforms in this operation with government priorities, as detailed in the SDS.

In the decade to 2008, Samoa's economy benefitted from substantial structural reforms and grew at an annual average rate of over 4 percent. This period of strong economic growth was however disrupted as a result of the 2008 food and fuel price spikes, the global economic crisis, and a devastating tsunami in September 2009. A major cyclone in December 2012 also contributed to a contraction in output. Samoa's response to these shocks – including expansionary monetary policy and a significant fiscal stimulus – provided a foundation for the economy to recover, while expanding the productive capacity in the medium term.

Indeed, growth in recent years has picked up, supported by construction, tourism arrivals, lower fuel prices, new capacity in the fishing industry, and a series of one-off international and sporting events. The government has also succeeded in consolidating its fiscal position, and the ratio of external debt to GDP has fallen over the past couple of years.

Nevertheless, fiscal pressures remain, and the level of Samoa's external public debt as a proportion of GDP remains relatively high. As such, consolidating the fiscal position and building fiscal buffers, including through improving revenue collection, is a key priority for the government. We also recognize the importance of maintaining access to remittances and expanding access to credit, which will help our people to expand their businesses and fund ongoing consumption and investment activities. At the same time, we endeavor to boost our resilience to the effects of climate change and natural disasters and strengthen the performance of our social sectors, in line with the key priorities in the SDS. We recognize the particular importance of combating non-communicable diseases, which endanger the lives of so many Samoans, as well as being a burden to public finances and public health.

To help achieve a sound fiscal position, we are pursuing reforms to strengthen government finances and improve public financial management. At the core of this agenda are a package of reforms to bolster the domestic revenue base and improve the equity of the tax system, which will be critical to our ability to maintain fiscal buffers over the medium to long term. This builds on substantial efforts to improve the efficiency of tax administration and modernize the customs system in recent years. Combined with continued spending restraint and a budget strategy that reflects our commitment to fiscal consolidation over the medium term, these revenue reforms will help ensure that our government finances remain sustainable.

We are also pursuing reforms to ensure the continued flow of remittances, which are critical to the living standards of many Samoans, and to improve access to finance to help facilitate private sector development. We now have a national strategy in place to address risks around money laundering and terrorism financing, as part of wide-ranging efforts to ensure that correspondent banking relationships are maintained, so that Samoans continue to have a range of cost-effective options to send and receive money from overseas. We have established a personal properties securities registry, which will make it easier for small and medium enterprises to secure credit by allowing a wider range of assets to be used as collateral for loans. To facilitate private sector development, we also are actively seeking to facilitate greater private participation in state-owned enterprises (SOEs), and we have identified a number of opportunities for public-private partnerships and divestments which we will pursue over the next few years.

Samoa, like other Pacific Island Countries, faces substantial risks from natural disasters and the effects of climate change. The government is focusing its attention on updating building codes and standards, to ensure that public, commercial and residential buildings are resilient to natural disasters. It has also approved the recommendations from the recently-completed roads Vulnerability Assessment, and is committed to following through on these recommendations in its investment, upgrading, and maintenance activities, as well as in its implementation of sound engineering standards. A new infrastructure asset management strategy currently under preparation will seek to embed best practice principles in the government's management of its entire public infrastructure portfolio.

While we implement these priority reforms to help consolidate our fiscal position, facilitate private sector development, and build climate resilience, we will also continue to work to strengthen the performance of our social sectors. In the health sector, we are focused on strengthening the alignment of budget resources with policy priorities, including the key priority of managing the rising threat of non-communicable diseases. Efforts to establish and raise taxes on unhealthy products – such as salty and sugary foods and drinks, alcohol, and tobacco – are a critical part of this effort. The establishment of more efficient procurement arrangements for pharmaceuticals should help ensure lower unit costs – allowing more essential medicines to be bought with the same budget – and fewer stock outs. In the education sector, we are focused on improving teacher quality and performance, and implementing effective monitoring and evaluation systems to ensure that sector objectives are achieved.

The government is firmly committed to implementing this package of reform measures, key aspects of which are contained in the policy matrix we have been working on in partnership with the World Bank. Against this background, we therefore seek the World Bank's favorable consideration of our request for a Development Policy Operation for Samoa of US$5 million, aligned with the reform measures set out in the policy matrix.

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

Sincerely yours,

Sili Epa Tuioti
MINISTER OF FINANCE

ANNEX 3: FUND RELATIONS ANNEX

Press Release No. 17/174
FOR IMMEDIATE RELEASE
May 15, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Samoa

On May 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Samoa.

Samoa's economy continues to perform well. Economic activity picked up during 2015/16 driven by tourism arrivals, lower fuel prices, and new fish processing facilities, further boosted by two major sporting events and infrastructure projects. Although the pace will moderate in 2017/18 and in 2018/19 with the closure of a large manufacturing plant, growth is expected to remain buoyant, with GDP growing at around 2 percent annually, driven by construction activity, infrastructure development and improvements in the business environment.

The outlook is moderately positive though subject to downside risks related to Samoa's vulnerability to natural disasters, elevated contingent liabilities, and withdrawal of correspondent banking relationships. Given Samoa's reliance on workers' remittances, the closure of bank accounts of money transfer operators (MTOs) heightens the risk of a disruption to remittance payments.

Inflation is subdued, but is expected to pick up with increasing commodity prices, and will remain close to 3.0 percent over the medium term. Although the trade balance improved, the current account deficit widened to 6.1 percent of GDP in 2015/2016 (from 3.0 percent). This reflects a deterioration of the services balance and lower remittances related to charities, which more than offset an improvement in tourism earnings. In the medium term, the current account deficit is expected to gradually narrow to about 4½ percent of GDP.

The exchange rate has remained stable and an accommodative monetary policy stance has supported private sector activity. Reserves recovered in December and January to 3.2 months of imports, reversing a gradual decline during 2016.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Financial stability indicators point to a generally sound banking system, though there are risks stemming from high loan concentration, the number of borrowers with a high loan-to-capital ratio, and the potential for a sharp deterioration in asset quality in the event of a natural disaster.

Executive Board Assessment[2]

Executive Directors agreed commended the authorities for their prudent policies which led to strong economic performance. However, they noted that the outlook is subject to significant downside risks given Samoa's susceptibility to natural disasters. Spillovers from the withdrawal of correspondent banking relationships also pose challenges. Directors underscored the need to rebuild buffers, increase resilience, and implement structural reforms to secure sustained growth.

Directors welcomed the measures being taken to mitigate the impact of the withdrawal of correspondent banking relationships on the remittance sector. They encouraged the authorities to strengthen the Anti-Money Laundering/Combating the Financing of Terrorism framework and to consider the establishment of a Know Your Customer utility to help prevent disruptions to remittances and lower their cost.

To reduce financial sector vulnerabilities, Directors encouraged further implementation of the recommendations of the 2015 Financial Sector Assessment Program. Directors agreed that reform of public financial institutions (PFIs) remains a high priority and will help reduce risks from contingent liabilities and prevent crowding-out of private financial institutions.

Directors welcomed recent fiscal consolidation efforts and highlighted the need for further measures to reduce public sector debt to a more sustainable level. They emphasized the importance of sustaining expenditure control and increasing revenues, including by broadening the tax base and improving compliance. Ongoing efforts to improve the performance of PFIs and state-owned enterprises would also help to mitigate fiscal risks posed by contingent liabilities.

Directors considered the current monetary policy stance appropriate, given low inflation and moderate growth prospects. Noting that reserves appear to be broadly adequate, they encouraged the authorities to monitor the situation and be ready to recalibrate both monetary and fiscal policy to ensure sufficient coverage.

Directors emphasized that accelerating the pace of structural reforms is necessary to meet Samoa's development goals. They welcomed the efforts being made to spur private sector activity and enhance the resilience of public infrastructure to natural disasters. Private sector activity could be further boosted by improving the business climate, increasing access to credit for small and medium-sized enterprises, and addressing skills mismatches and shortages.

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Table 1. Samoa: Selected Economic and Financial Indicators, 2013/14–2021/22

Population (2015): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2015/16): US$ 4,035
Quota: SDR 11.6 million

			Est.	Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.2	1.6	6.6	2.1	0.9	1.8	2.1	2.1	2.1
Nominal GDP	1.5	4.4	5.4	3.9	2.9	4.3	4.9	5.2	5.2
Consumer price index (end of period)	0.2	0.4	2.3	1.4	2.4	2.6	3.0	3.0	3.0
Consumer price index (period average)	-1.2	1.9	0.1	1.8	1.9	2.5	2.8	3.0	3.0
				(In percent of GDP)					
Central government budget									
Revenue and grants	38.0	35.1	33.5	33.7	35.8	32.3	32.1	32.0	31.8
Of which: grants	12.6	9.8	6.7	7.8	9.9	6.5	6.5	6.5	6.5
Expenditure and net lending	43.3	38.9	33.8	35.6	37.5	34.1	34.1	34.1	34.1
Of which: Development	15.0	11.9	9.3	10.2	12.2	8.8	8.8	8.8	8.8
Current balance	-3.0	-1.7	2.2	0.5	0.6	0.4	0.3	0.2	0.0
Overall balance	-5.3	-3.9	-0.4	-1.9	-1.7	-1.9	-2.0	-2.1	-2.3
External financing	2.8	2.3	-1.8	2.2	2.1	2.3	2.2	2.2	2.3
Domestic financing	2.4	1.6	2.2	-0.3	-0.4	-0.4	-0.3	-0.1	-0.1
				(12-month percent change)					
Macrofinancial variables									
Broad money (M2)	18.7	0.6	7.1	7.7	8.2	10.7	4.8	8.4	10.5
Net domestic assets	2.3	0.0	9.9	4.8	...	...	...	...	...
Private sector credit, commerical banks	3.5	12.7	12.8	7.4	5.1	6.0	5.0	5.0	5.0
Total loan growth, Commercial banks	1.3	8.0	7.7	...	...	...	...	...	...
Total loan growth, Public financial institutions	4.7	1.9	3.3	...	...	...	...	...	...
				(Ratio)					
Individual credit to GDP	28.7	28.6	27.9	...	...	...	...	...	...
Total capital to risk-weighted exposures	29.7	27.1	24.5	...	...	...	...	...	...
Non-performing loans	8.3	7.1	5.2	...	...	...	...	...	...
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-65.1	-24.3	-47.7	-51.6	-51.2	-46.7	-44.1	-43.5	-43.1
(In percent of GDP)	-8.1	-3.0	-6.1	-6.1	-5.9	-5.2	-4.7	-4.5	-4.3
Merchandise exports, f.o.b. 1/	24.9	27.9	36.9	38.0	39.4	40.8	42.2	43.7	45.2
Merchandise imports, f.o.b.	-334.6	-322.8	-307.2	-325.4	-342.3	-355.6	-371.2	-388.5	-406.8
Services (net)	111.7	124.3	108.9	114.5	125.8	137.5	149.5	162.0	175.0
Income (net)	-29.8	-16.0	-18.5	-17.2	-17.7	-18.5	-19.4	-20.4	-21.5
Current transfers	162.7	162.3	132.1	138.4	143.6	149.1	154.8	159.8	165.0
External reserves and debt									
Gross official reserves	154.3	131.9	111.0	108.1	111.2	111.6	116.4	123.2	133.9
(In months of next year's imports of GNFS)	4.7	4.0	3.3	3.1	3.1	3.0	3.0	3.1	3.2
Public debt (in millions of tala) 2/	1,015.4	1,126.1	1,080.7	1,116.5	1,146.6	1,198.9	1,259.2	1,329.4	1,404.9
(In percent of GDP)	54.4	57.8	52.6	52.3	52.2	52.4	52.4	52.6	52.8
External debt (in percent of GDP)	51.8	55.3	50.7	50.8	51.1	51.7	52.0	52.3	52.6
Exchange rates									
Market rate (tala/U.S. dollar, period average) 3/ 4/	2.32	2.42	2.61	2.52	...	...	...	...	...
Market rate (tala/U.S. dollar, end period) 3/ 4/	2.27	2.56	2.55	2.52	...	...	...	...	...
Nominal effective exchange rate (2010 = 100) 3/ 4/	106.5	111.6	111.9	113.5	...	...	...	...	...
Real effective exchange rate (2010 = 100) 3/ 4/	104.7	109.4	109.8	108.7	...	...	...	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	1,866	1,949	2,054	2,135	2,196	2,290	2,403	2,528	2,659
GDP per capita (U.S. dollars)	4,189	4,159	4,035	4,296	4,407	4,522	4,660	4,799	4,951

Sources: Data provided by the Samoan authorities; and IMF staff estimates.
1/ Includes re-export of fuel after 2009/10.
2/ Includes domestic and external public debt.
3/ IMF, Information Notice System (calendar year).
4/ Latest data available.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant positive or negative poverty, social or distributional effects
Strengthening macroeconomic and financial resilience		
Prior action #1	No	Positive - Help sustain availability of health and education services even after an economic shock by bolstering fiscal buffers. Increase in tax-free thresholds boosts incomes of lower-income workers
Prior action #2	No	Positive - Reduce risk of disruption to remittance flows, which could make it harder for individuals to receive remittances (due to closure of MTOs) and potentially increase the costs of sending and receiving money.
Prior action #3	No	Positive - Increase small businesses' access to finance, and for businesses owned by women in particular.
Increasing resilience to climate change, natural disasters, and non-communicable diseases		
Prior action #4	Yes – climate adaptation co-benefits, strengthening resilience of buildings to natural disasters and climate change.	No
Prior action #5	Yes – climate adaptation co-benefits, strengthening the resilience of the Samoan road network to natural disasters and climate change.	Positive - Maintaining resilience of the transport sector to climate risks will help improve access to key services after a natural disaster, on which the poor are likely to be particularly dependent.
Prior action #6	No	Mixed - Poor will benefit more from improved health outcomes, but could be relatively more affected by tax increases in the absence of a consumption response.
Prior action #7	No	Possibly positive - Reduced incidence of medicine stock-outs should help to ensure availability for all.