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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

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

TO

THE INDEPENDENT STATE OF SAMOA

FOR A

SECOND FISCAL AND ECONOMIC REFORM OPERATION

August 16, 2016

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 August 2, 2016)
US$ 1.00 = WST 2.51

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CBS	Central Bank of Samoa
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DBS	Development Bank of Samoa
DPO	Development Policy Operation
FY	Financial Year
GDP	Gross Domestic Product
GNI	Gross National Income
HIES	Household Income and Expenditure Survey
IDA	International Development Association
ICT	Information and Communication Technologies
IFC	International Finance Corporation
IMF	International Monetary Fund
MAPS	Methodology for Assessing Procurement Systems
MoF	Ministry of Finance
MTDS	Medium-Term Debt Management Strategy
NCD	Non-Communicable Diseases
NPL	Non-Performing Loan
PEFA	Public Expenditure and Financial Accountability
PEN	Package of Essential Non-Communicable Disease Interventions for Primary Health Care in Low Resource Settings
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public-Private Partnership
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
SOE	State-Owned Enterprise
UNDP	United Nations Development Program
US	United States
US$	United States Dollars
UTOS	Unit Trust of Samoa
VAGST	Value-Added Goods and Service Tax
VFRs	Visiting friends and relatives

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SAMOA

SECOND FISCAL AND ECONOMIC REFORM OPERATION

TABLE OF CONTENTS

ANNEXES

TABLES

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SUMMARY OF PROPOSED CREDIT AND PROGRAM
INDEPENDENT STATE OF SAMOA
SECOND FISCAL AND ECONOMIC REFORM OPERATION

Borrower	Independent State of Samoa
Implementation	Ministry of Finance
Financing Data	IDA Credit; Standard IDA terms for small island states Amount: SDR 3.6 million (US$ 5 million equivalent)
Operation Type	The proposed operation is the second 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 three pillars of the operation are: (i) to improve fiscal management in the areas of debt, procurement and revenue; (ii) to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term; and (iii) to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa, as an important step toward increasing its resilience to the effects of climate change.
Result Indicators	*Under program development objective (i):* 1. Compliance with the MTDS provisions on external loan concessionality and economic return. 2. An increase in the extent to which commonly procured items are procured through framework arrangements within and across line ministries. 3. Improved tax compliance as measured by on-time filing, on-time payment and arrears collection for large enterprises. *Under program development objective (ii):* 4. A more efficient payments system as measured by an increased prevalence of electronic payments. 5. Improved performance of the tourism industry as measured by an increase in proportion of the tourist and sports tourist segments in overall visitor arrivals and an expansion of employment in the accommodation, restaurants and general commerce industries. 6. Greater private participation in the SOE sector, as measured by the number of new PPPs *Under program development objective (iii):* 7. Increased integration and monitoring of climate resilience actions and indicators in sector plans and annual reviews.
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	P155118

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

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **The proposed operation is the second in a programmatic series of two development policy operations (DPOs), aimed at strengthening public finances and continuing to support Samoa's economic recovery from a series of major external shocks.** The government recognises that reforms to debt management, procurement and revenue collection will help it to achieve its fiscal consolidation objectives and rebuild the fiscal buffers it needs to respond to future external shocks. It also recognises the importance of returning the economy to a more robust growth path and of boosting resilience to the effects of climate change and natural disasters, if it is to achieve the objective of the *Strategy for the Development of Samoa 2012–2016* (SDS) of an 'improved quality of life for all'. The proposed second operation in this DPO series supports the government in these endeavours, through a reform program for which the government has very strong ownership. The DPO series is central to the Bank's overall engagement with Samoa, as laid out in the Country Partnership Strategy (CPS) discussed by the Board in 2012. The second operation in the series is an IDA Credit of SDR 3.6 million (US$ 5 million equivalent), following an IDA Grant of SDR 4.9 million (US$ 7.5 million equivalent) which was disbursed in 2015 as part of the first operation in the series.

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 led to a high degree of volatility in economic performance, particularly in recent years.

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 around 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. Although visitor earnings were estimated at around a fifth of GDP in 2015, Samoa's tourism industry remains underdeveloped in comparison with some of its neighbours. As tourism is the most promising industry in Samoa for future economic growth, strengthening it is a critical priority. A number of major hotel developments are scheduled to open in 2016 which may attract increased tourist arrivals in coming years.

4. In recent years, economic growth in Samoa has been low and volatile, as the country recovers from a series of major external shocks, including the global financial crisis, a tsunami in 2009, and Cyclone Evan in December 2012. Between 1997 and 2007, growth averaged 3.6 percent per annum, well above both Pacific and Caribbean comparators, underpinned by a stable macro-economic environment and a business friendly investment climate. But 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 in September 2009. 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 this context, consolidating the fiscal situation and returning the economy to a more robust growth path are a formidable challenge.

5. The proposed operation supports key reforms being implemented by the government to consolidate its fiscal position and return the economy to a more robust growth path. Over the last two decades, Samoa has established a strong track record for good macroeconomic management and the successful implementation of economic reforms. Samoa's Country Policy and Institutional Assessment (CPIA) is one of the highest among the Bank's Pacific Island member states and among all IDA borrowing countries. Under the proposed operation the Bank will continue to support key aspects of the reform program that have been prioritised by the government.

6. The proposed operation is structured around three development objectives: (i) to improve fiscal management in the areas of debt, procurement and revenue; (ii) to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term, and (iii) to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa, as an important step toward increasing its resilience to the effects of climate change. The third objective is new to this operation and has been introduced in line with a priority of government: to improve its monitoring and coordination of the large number of policies and projects associated with building climate resilience. Contributing to the first objective, the operation will support reforms to ensure compliance with and review the implementation of the government's debt management strategy and procedures, improve value for money in expenditure by strengthening public procurement processes, and increase the efficiency of revenue collection. Contributing to the second objective, the proposed operation will support reforms to modernise the payments system (which has an important impact on remittances, as well as on the broader business environment), review and assess initiatives to boost tourism sector activity, and encourage private sector activity and more efficient service provision through SOE divestments. On the third objective, the operation will support reforms to strengthen the screening and monitoring of climate resilience activities, which will ultimately facilitate better-coordinated and less-fragmented climate resilience policies and projects, reducing the risk to vulnerable communities. In general, the actions in this DPO seek to support the government's focus on *implementing* reforms, e.g. through explicitly monitoring compliance with previously-supported debt management reforms, supporting the privatization of the Agriculture Stores Corporation and the development of a PPP and privatization pipeline, and encouraging the implementation of a framework arrangement for pharmaceutical items (which is expected to be piloted in FY2017 once the relevant guidelines are approved). This focus on implementation follows the substantial reform achievements supported by the first operation.

7. **Extreme poverty is very rare in Samoa, but the incidence and dynamics of basic needs poverty is less clear**. The latest poverty estimates are from the 2008 HIES. According to internationally-comparable estimates, 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. Using national estimates and poverty lines, food poverty is assessed to be rare, at 4.9 percent of the population, and to have declined significantly since the 2002 HIES. On the other hand, the 2008 HIES showed 26.9 percent of the population to be experiencing basic needs poverty, with the incidence highest in the capital Apia and lowest on the less populated island of Savai'i, although the incidence of poverty in rural areas may have been understated. Although the 2008 HIES showed basic needs poverty to have risen by about one sixth since the 2002 HIES, the poverty numbers are not strictly comparable because of the use of a relative poverty line, with the increase likely to have been somewhat overstated. A more recent HIES was conducted in late 2013 and early 2014, although the data has only recently been processed and poverty estimates have not yet been extracted.

8. **By supporting the government in its efforts to consolidate public finances and rebuild fiscal buffers, the operation is expected to have important benefits for the poor and vulnerable, thereby contributing to the achievement of the twin goals in Samoa.** Due to their lower cash incomes, the wellbeing of the poorest two quintiles of the population is disproportionately dependent on publicly-funded education, health and community development services. In circumstances where the government lacks adequate fiscal buffers to respond to external shocks, this makes them more vulnerable than others to any contraction in the provision of essential public services, highlighting the importance of sound fiscal management. Moreover, by supporting reforms to return the economy to a more robust growth path, the operation should help create job opportunities for the poorest and most vulnerable. Over the longer term, it should also help limit their particularly high levels of exposure to the adverse effects of natural disasters and climate change.

9. **The main risks to the proposed operation stem from Samoa's macroeconomic context and its vulnerability to external shocks**. Samoa faces a heightened overall risk of public debt distress, which will only be reduced through continued efforts on fiscal consolidation and debt sustainability. If this effort is not forthcoming, Samoa's fiscal situation will become increasingly difficult to manage, which could lead to a shift in focus away from implementation of the longer-term reforms supported by this operation. Samoa's macroeconomic stability could also be threatened were it to experience another major natural disaster, and large parts of the bureaucracy would be required to focus their attention on disaster recovery and reconstruction efforts.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

10. The economy continues to recover from the effects of Tropical Cyclone Evan and other external shocks. Real GDP increased by 1.6 percent in FY2015, driven by the services and transport sectors, which in turn benefitted from increases in remittances and tourism earnings, as well as lower fuel prices. In particular, growth was supported by increased domestic consumption as a result of the UN Small Island Developing States (SIDS) conference in September 2014, preparations for the Samoa–New Zealand rugby test match and Commonwealth Youth Games in the second half of 2015, and increases in transport sector activity, in part associated with lower fuel prices. This was an improvement on growth of 1.2 percent in FY2014, and came despite a decline in construction activity associated with cyclone recovery and the SIDS conference, as well as a smaller contribution to growth from agriculture.

11. The major external shocks affecting Samoa in recent years put pressure on the balance of payments. Aid flows, remittances and tourism receipts play an important role in financing Samoa's imports. Assistance from the IMF – in the form of a US$8.6 million disbursement under the Rapid Credit Facility – and increased support from development partners in the wake of the cyclone combined to alleviate pressure on the balance of payments. The current account deficit stood at 8.1 percent of GDP in FY2014, with cyclone-recovery and other construction activities pushing up the import bill. However, it has since narrowed substantially to 2 – 3 percent of GDP, due mainly to an increase in tourism-related services exports, lower oil and food prices, and a reduction in reconstruction-related imports. The current account deficit is financed primarily by official flows on the capital account. Total visitor arrivals in 2015 – which include the large visiting friends and relatives (VFR) market – were up by 4.3 percent relative to the previous year, while remittances grew by 8.5 percent. Foreign reserves have dipped in recent years to just over 3 months of imports (below the target level of 4 months), in part reflecting recent debt repayments. While reserves are projected to increase in the near term, reserves coverage is relatively low compared to other Pacific Island countries and is a source of vulnerability given the elevated risk of natural disasters.

12. The Central Bank of Samoa (CBS) has appropriately maintained accommodative monetary policy in recent years. The Central Bank of Samoa has continued to maintain an accommodative monetary stance, with the CBS policy rate (the 91 day bill rate) remaining largely unchanged at the zero lower bound since the 2009 tsunami. The transmission mechanism in Samoa is weak, however, and in the wake of external shocks and natural disasters the CBS has also increased lending to the Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC) for on-lending to the private sector at concessional rates. For instance, following the 2012 cyclone, the CBS responded quickly to extend support to hard-hit sectors, and made available on-lending of just over US$10 million via the Development Bank of Samoa and the Samoa Housing Corporation. Though there is evidence that these initiatives supported credit growth and economic activity in the aftermath of the cyclone, the asset quality of the DBS in particular appears to have deteriorated more recently.[1] To address some of these risks, the government has introduced a cap for government guarantees of 10 percent of GDP in its new Medium Term Debt Strategy, and plans to develop a formal on-lending policy to guide government on-lending operations. At the same time, the new Ministry of Public Enterprises will take a more active role in reviewing the governance and reporting of PFI operations, while the central bank is moving to improve financial oversight of the PFIs, including through on-site inspections and the issuance of prudential regulations.

13. Inflation has not been a major threat to macroeconomic stability in Samoa. Average annual inflation was around 2 percent in FY2015, with declines in the prices of imported goods (particularly fuel and food) offsetting increases in domestic food prices. This followed declines in prices in FY2014 as the cyclone-related spike in food prices was unwound. Samoa's exchange rate, which is pegged against a basket of major trading partner currencies, rose in real effective terms in FY2015 but has since depreciated modestly. In FY2015, the IMF found no significant evidence to suggest the exchange rate was misaligned, and noted that the current exchange rate peg has served Samoa well as a credible nominal anchor in the face of external shocks. Scenarios in the joint IMF/WB Debt Sustainability Analysis suggest that a devaluation would have adverse effects on debt sustainability, given the high proportion of foreign currency denominated public debt.

14. In keeping with the prevailing economic conditions, fiscal policy has been expansionary in recent years. Elevated levels of spending to fund repair and reconstruction of major public infrastructure and facilitate private sector recovery after Tropical Cyclone Evan have helped rebuild the productive capacity of the economy and supported private sector growth. However, the government ran a fiscal deficit of 3.9 percent of GDP in FY2015, down from 5.3 percent of GDP in FY2014, with the less expansionary stance attributable to the winding down of cyclone-related works and the continued economic recovery. Grants from development partners were relatively high over this period, averaging around 10 percent of GDP in the four years to FY15 and playing an important role in reducing the extent of the fiscal deficit. Despite a decline in grants in FY2016[2], current estimates suggest that the government made further progress on fiscal consolidation, with government spending on current expenditures (excluding debt servicing) down by around 4 percent from the previous year. Deficits are typically financed through a combination of external (concessional) borrowing and a draw-down of government deposits from the banking system.

[1] The joint IMF/World Bank FSAP team visiting in 2014 recommended, inter alia: measures to address weaknesses in asset quality and performance of the PFIs; measures to contain the risk of contingent liabilities to public finances from PFIs, including by refraining from conducting further policy lending through PFIs that is not financed directly through the budget; redesigning the role of PFIs so that they complement rather than compete with commercial banks; enhancing the transparency and governance of the PFIs with improved accounting and disclosure practices; and incorporating the PFIs under the supervisory and regulatory framework of the central bank.

[2] 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).

Table 1: Key Macroeconomic Indicators

					Proj.				
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Output and inflation	(12-month percent change)								
Real GDP growth	0.4	-1.9	1.2	1.6	3.0	1.5	2.0	2.1	2.1
Nominal GDP growth	4.4	-0.2	1.5	4.4	3.4	2.5	4.0	4.5	4.9
Change in CPI (end period)	5.5	-1.7	0.2	0.4	0.3	1.7	2.2	2.6	3.0
Change in CPI (period average)	6.2	-0.2	-1.2	1.9	0.3	1.0	2.0	2.4	2.8
Central government budget	(percent of GDP)								
Revenue and grants	30.2	33.8	38.1	35.9	32.7	38.4	32.2	32.0	32.9
Grants	7.6	9.7	12.6	9.8	6.8	11.7	5.8	5.7	6.5
Tax revenue	19.6	22.1	23.1	22.7	22.2	22.8	22.6	22.5	22.6
Non-tax revenue	3.1	2.0	2.4	3.4	3.7	3.9	3.8	3.8	3.8
Expenditure and net lending	37.3	37.6	43.3	39.8	36.1	40.5	35.7	34.9	35.5
Development expenditure	12.5	11.5	15.0	12.8	10.5	13.7	10.2	9.5	10.1
Current expenditure	24.8	26.1	28.4	27.0	25.6	26.8	25.5	25.4	25.4
Compensation of employees	7.4	7.5	7.7	7.9	8.1	8.3	8.3	8.3	8.3
Subsidies and grants	8.3	9.8	11.1	9.4	8.3	9.5	7.0	7.0	7.0
Current balance	-2.2	-2.0	-3.0	-0.9	0.3	-0.1	0.8	1.0	1.0
Overall balance	-7.2	-3.8	-5.3	-3.9	-3.4	-2.1	-3.5	-2.9	-2.6
External financing	7.3	3.5	2.8	2.3	2.0	2.9	3.5	2.9	2.6
Domestic financing	-0.1	0.3	2.4	1.6	1.4	-0.8	0.0	0.0	0.0
Money and credit	(12-month percent change)								
Broad money (M2)	-4.0	-0.8	18.7	0.6	7.7	2.5	4.0	4.5	4.9
Net foreign assets	-6.6	-11.9	59.3	50.6	0.0	54.0			
Net domestic assets	-2.7	4.8	2.1	-2.0	4.4	-3.4			
Private sector credit	2.8	1.1	3.4	15.4	3.4	5.2	5.7	3.5	5.0
Balance of payments	(millions of US dollars)								
Current account balance	-65.8	-3.2	-65.1	-23.5	-19.1	-18.3	-18.4	-18.3	-19.1
(in percent of GDP)	-8.2	-0.4	-8.1	-2.9	-2.3	-2.1	-2.0	-1.9	-1.9
Merchandise exports, fob	29.3	27.5	24.9	27.9	36.3	37.4	39.3	41.2	43.3
Merchandise imports, fob	-351.6	-309.3	-334.6	-322.8	-329.0	-332.3	-337.0	-340.7	-347.5
Services (net)	108.0	117.3	111.7	131.9	141.6	145.9	150.4	154.2	158.0
Income (net)	-26.8	-27.5	-29.8	-22.9	-25.6	-26.3	-27.3	-28.6	-30.0
Current transfers	175.4	188.8	162.7	162.3	157.7	157.0	156.3	155.6	157.1
of which: Private	175.4	183.3	160.0	160.9	156.2	155.5	154.8	154.1	155.6
Capital account	17.6	27.3	67.2	39.2	38.0	37.0	36.1	35.1	34.2
of which: Official flows	21.3	24.6	60.5	34.3	33.3	32.2	31.3	30.4	29.5
Financial account	42.6	2.5	22.1	46.4	-40.0	-1.3	-15.2	-14.6	-14.5
of which: Direct investment	16.3	11.7	16.0	36.7	37.6	36.5	36.0	35.6	35.6
External reserves and debt									
Gross official reserves	157.1	137.3	154.3	131.9	110.9	128.3	130.8	135.1	137.8
(in months of next year's imports of GNFS)	4.7	3.9	4.6	3.8	3.2	3.6	3.7	3.7	3.7
Public debt (in millions of tala)	959.7	984.5	1015.4	1126.1	1194.0	1237.3	1312.3	1376.8	1438.9
(in percent of GDP)	52.1	53.5	54.4	57.8	59.2	59.9	61.0	61.3	61.0
External debt (in percent of GDP)	49.9	51.6	51.8	55.3	58.5	59.5	61.0	61.3	61.0
Exchange rates									
Market rate (tala/USD, period average)	2.3	2.28	2.32	2.42					
Market rate (tala/USD, end period)	2.33	2.37	2.27	2.56					
NEER (2010 = 100)	100.9	104	106.5	111.6					
REER (2010 = 100)	102.9	104.6	104.7	109.5					
Memorandum items									
Nominal GDP (millions of tala)	1843	1839	1866	1949	2016	2067	2150	2247	2358
Nominal GDP (millions of US dollars)	801	805	804	804	846	876	915	952	989
GDP per capita (US dollars)	4,241	4,228	4,189	4,159	4,341	4,463	4,629	4,774	4,927

Source: IMF and Bank Staff Calculations

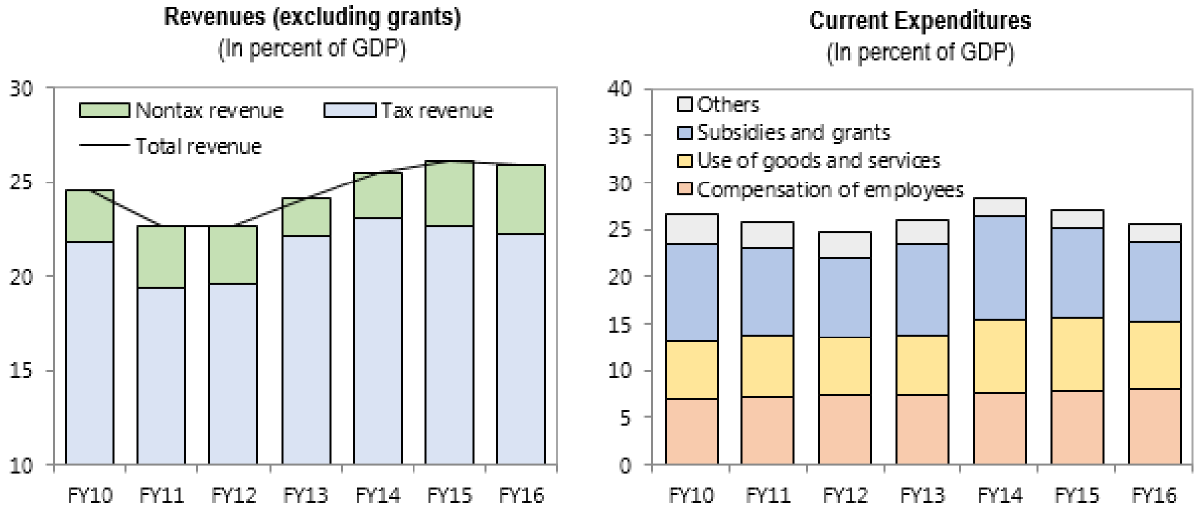
15. Comprehensive revenue policy and administrative reforms have led to improvements in domestic revenue collection. Over the last five years domestic revenues have increased by almost 4 percentage points of GDP. Increases in tax revenues have been driven by improved collection of income taxes, excise 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.

16. Expenditure has been prioritized around the social sectors and infrastructure, and progress has been made on reducing current expenditures as a proportion of GDP. Total expenditure in FY2015 was 39.8 percent of GDP, significantly lower than the 43.3 percent recorded the year before. The decline was mainly attributable to a reduction in infrastructure spending, in part due to a winding down of cyclone reconstruction, as well as the completion of preparations for the SIDS conference and Commonwealth Youth Games. Operating expenses also declined slightly in absolute terms compared to FY2014, due mainly to a substantial reduction in grants to public bodies, led by a reduction in grants to the Land Transport Authority, although other public bodies also saw slight reductions. Current estimates suggest that these trends have continued in FY2016, with total and current expenditures declining further as a proportion of GDP. In FY2017, expenditures are budgeted to rise sharply, but this is primarily due to grant-funded capital expenditures (mainly on the submarine cable project to improve connectivity, which is jointly funded by the Asian Development Bank, World Bank, Australia, and the Samoa Submarine Cable Company), as well as a one-off increase in subsidies and grants. Other current expenditures are projected to remain contained, in part due to the introduction of a 10 percent productivity dividend on the operating expenditures of government ministries and agencies in the FY2017 Budget.[3] At the same time, 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.

17. 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 in order 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 of 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.

[3] 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.

Figure 1: Fiscal sector developments



Source: IMF staff

18. Nevertheless, the government's earlier response to the series of major external shocks has led to a rapid increase in public external debt. As a result of continued fiscal deficits (above the medium-term target of 3.5 percent of GDP) and only modest economic growth, Samoa's public external debt has increased rapidly in recent years, from around 30 percent of GDP at end FY2008 to about 55 percent at end December 2015.[4] This increase was largely due to reconstruction efforts following the 2009 tsunami and 2012 cyclone. In addition, as a fiscal stimulus measure in response to the global economic crisis, Samoa contracted a number of loans for infrastructure purposes, many of which yielded little economic return. As a result of this borrowing, public external debt is well above the fiscal strategy target of 50 percent of GDP. Disbursements of more recent borrowing are expected to take public external debt further away from this target in the near term.

19. While Samoa has a medium-term debt management strategy (MTDS) and procedures for contracting new loans in place, implementation remains a challenge. Under the 2013-15 MTDS, public external loans were only to be contracted if they contained a minimum 35 percent grant component and supported projects with a minimum economic return sufficient to cover debt servicing costs. However, the terms of a recent infrastructure loan implied a grant element of around 27 percent, below the 35 percent threshold for concessionality, and the procedures for contracting new loans were not followed prior to the signing of the loan. That said, there have been a number of subsequent actions, including remedial measures and legislative changes supported by the DPO program, that indicate that the government has renewed its focus on debt sustainability and MTDS compliance (see paras 38-42 for more details). A new MTDS for the period 2016-2020 has also been approved by Cabinet as part of the debt-related prior action for this operation (Box 1), which reports on 2013-15 MTDS implementation in an effort to transparently assess past compliance and derive lessons for debt management.

[4] Samoa's public debt is dominated by external debt, so recent trends in public debt mirror those described above.

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

20. Economic growth in Samoa is expected to converge to a modest rate over 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. Growth in coming years is likely to reflect a balance between the boost provided by the increased productive capacity of the economy resulting from post-cyclone recovery efforts, and the dampening effect of reduced construction activity and fiscal consolidation. In FY2016 real GDP is expected to have expanded by around 3 percent, faster than originally forecast, due to stronger-than-expected growth in fishing – due mainly to the operations of a newly-established fish processing and packing company – as well as in the transport and utilities sectors. 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 pending exit of a major manufacturer of automotive wire harnesses is likely to temporarily lower growth in FY2017, the opening of a number of major hotel developments and increased agricultural exports should provide a partial offset. 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.

21. 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 recent decline in oil and other commodity prices will also support the trade balance for as long as these relatively low prices persist. Major risks to this outlook include sharp increases in food and fuel prices, which would increase the current account deficit, and a shortfall in grant support from development partners, which would reduce Samoa's ability to finance that deficit.

22. As long as underlying inflationary pressures are absent, Samoa is expected to maintain its current accommodative monetary policy over the medium term. Current trends in commodity prices and weak domestic economic activity suggest that there is likely to be little underlying inflationary pressure in the near term, but if that situation changes the CBS stands ready to tighten policy. While the role of the public financial institutions in providing credit to the broader economy was justifiable in the immediate aftermath of the GFC, tsunami, and cyclone, in the absence of natural disasters or other external shocks the focus should now be on returning them to their original mandates, while improving the transparency and governance of their operations.

23. The Government has committed to reducing its fiscal deficit and stabilizing its debt levels in the medium term, as the economy recovers and post-cyclone recovery work ends. The keys to debt sustainability are compliance with the MTDS and the achievement of the government's planned fiscal consolidation. On the former, the FY2016 budget address explicitly noted that the government "will not commit to any loans unless the new loans are in line with the medium term debt management strategy and the loan funded projects will contribute positively to economic growth". Samoa's new Medium Term Debt Strategy establishes the government's objectives, strategies, and plans for the management of public debt, and limits approval for external loans to those that have at least a 35 percent grant element and that finance projects which carry a positive economic return.

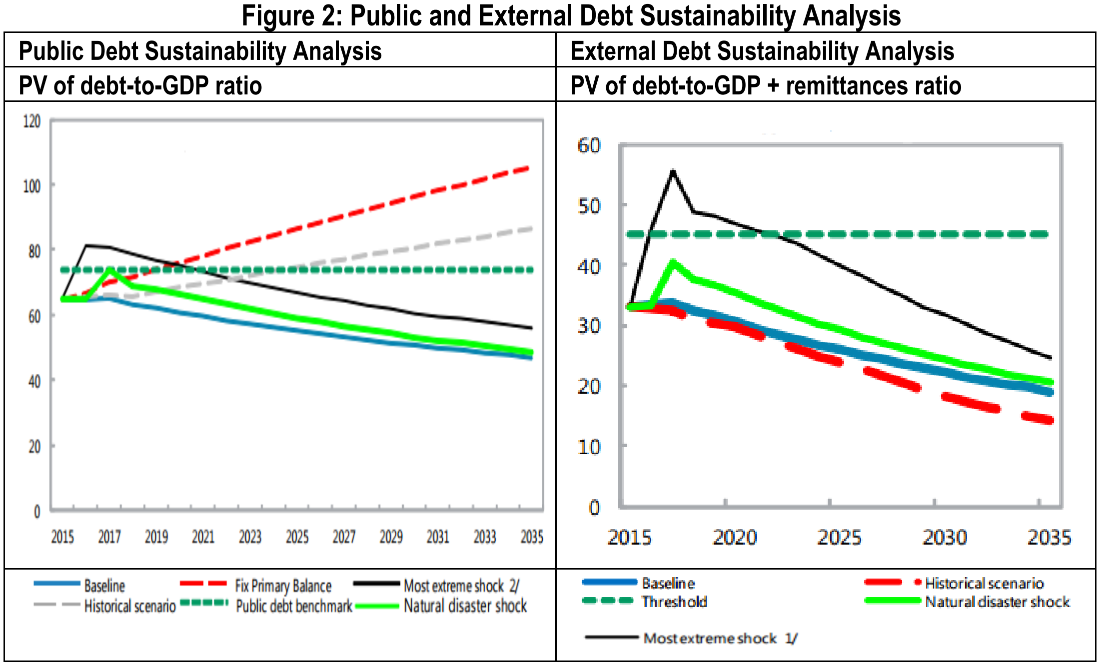
24. The planned path of fiscal consolidation has been set out in the government's fiscal strategy, which serves as a policy anchor. The annual Fiscal Strategy Statement sets out targets to maintain the fiscal deficit below 3.5 percent of GDP and bring outstanding public debt below 50 percent of GDP. To move toward achieving these goals, the government plans to sustain recent improvements in revenue administration and bring current expenditure to pre-crisis levels, while keeping capital spending above its historical level to support growth. Total expenditure is expected to decline as a share of GDP as the government's focus shifts to rebuilding buffers for future shocks. The indications provided by bilateral and multilateral development partners are that although grant funding will decline to more normal levels as post-cyclone recovery work is completed, it will remain reasonably strong. The IMF has welcomed the commitment from the authorities to reduce outstanding debt and emphasized the importance of balancing support for economic activity with the need to rebuild fiscal buffers, consistent with government efforts to maintain robust revenue performance, contain current expenditures (while protecting critical social programs), and continue carefully prioritized capital investments.

25. Samoa's external debt is expected to remain below indicative thresholds, although an extreme shock scenario would lead to a breach in the near term. The joint WB/IMF Debt Sustainability Analysis (July 2015) indicated that Samoa had shifted to a 'moderate' risk of debt distress, following elevation from a 'low' to a 'high' risk of debt distress over the period from 2011 to 2013. Developments over the past year remain consistent with this moderate risk rating, with the IMF noting that while low inflation and modest growth are contributing to less favourable debt dynamics in the near term, public debt should stabilize below 60 percent of GDP in the medium term. The shift to a moderate risk of debt distress in 2015 was predominantly due to an increase in the discount rate used by the Bank/Fund to calculate the present value of debt (from 3 percent to 5 percent), and a recent GDP rebasing, which – along with other methodological changes to Samoa's GDP estimates – pushed up estimates of nominal GDP. Samoa's public external debt to GDP ratio was expected to remain below the indicative threshold in the baseline scenario, with public external debt service ratios also relatively low, reflecting the high average concessionality of the debt portfolio. The PV of public external debt was projected to rise from 37.6 percent of GDP in FY14 to just over 40 percent of GDP in FY17, but fall thereafter. However, a sharp decline in remittances or FDI would lead to a breach of the PV of public external debt to GDP ratio in the near term. A natural disaster scenario brings external debt close to (but below) the indicative threshold in 2017, with the PV of public external debt to GDP falling steadily thereafter.

26. 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 24 percent of GDP in FY14. In the baseline scenario, the PV of public debt was projected to remain broadly stable over the next two to three years at around 65 percent of GDP, and then decline after FY17. However, the baseline assumes significant fiscal consolidation; a failure to consolidate would lead to a protracted breach of the benchmark for the PV of public debt to DP ratio.[5] 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.

27. 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 would set Samoa's fiscal consolidation off-track, and substantially worsen public debt dynamics, delaying the rebuilding of fiscal and debt buffers. A significant decline in the level of grant funding that Samoa receives from development partners would also threaten fiscal consolidation and debt sustainability. Prospects for debt sustainability in the medium and long term are also vulnerable to lower GDP growth and/or a major exchange rate depreciation.

Figure 2: Public and External Debt Sustainability Analysis



Source: 2015 Joint IMF/WB Debt Sustainability Analysis

28. 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 begun to consolidate its fiscal position so as to return its debt to more sustainable levels over the

[5] Note that this 'fix primary balance' scenario was not run for the external debt sustainability analysis, but would likely give rise to similar dynamics.

medium-to-long term. The outlook is, however, subject to a number of important risks. The envisaged positive economic contributions from tourism and agriculture may fail to materialize in coming years, causing growth to fall short of the already modest medium-term projections and making reductions in the debt-to-GDP ratio more difficult. Fiscal consolidation will not be easy, and there may be future pressures to take on new loans that fail to comply with the MTDS. The required fiscal consolidation would also be threatened by another natural disaster, or a realization of contingent liabilities from government guarantees and on-lending to public enterprises. Remittances and tourist earnings are vulnerable to any slowdown in growth in Australia, New Zealand or the US, while the withdrawal of financial services by banks to money transfer operators also poses risks to remittance flows. While not all of these risks can be completely mitigated, the government's recent efforts and ongoing plans to 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. Efforts to establish an on-lending policy and reform the public financial institutions should also help to limit the risk posed by contingent liabilities.

2.3 DEVELOPMENT PARTNER RELATIONS

29. The Bank has worked closely with Australia, New Zealand, the Asian Development Bank and the European Union to align development partner 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 budget support on the basis of actions contained in this Joint Policy Action Matrix (JPAM) that is 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. The Bank has also liaised closely with the IMF in its assessment of the macroeconomic policy framework.

3. THE GOVERNMENT'S PROGRAM

30. The objective of Samoa's development strategy is an 'improved quality of life for all'. The SDS lays out a number of policy priorities designed to enable Samoa to achieve this objective, with the emphasis on pushing the productive sectors of the economy to revitalise economic growth, while increasing economic and environmental resilience. In the area of economic development, the priorities are to maintain macroeconomic stability, reinvigorate agriculture, revitalise exports, achieve sustainable tourism development, and improve the enabling environment for business development. In the area of social development, the priorities are to improve health outcomes, improve both access to education and learning outcomes, and support social cohesion. In the area of infrastructure development, the priorities are to achieve sustainable access to safe drinking water and basic sanitation, achieve an efficient, safe and sustainable transport system, ensure universal access to reliable and affordable ICT services, and ensure a sustainable energy supply. The priorities for the environment are environmental sustainability and climate and disaster resilience. The SDS builds on the progress achieved over the previous SDS period from 2008–12, which focused on strengthening service delivery.

31. The Government is currently in the process of finalizing an updated SDS, which will cover the four-year period from FY2017 to FY2020. The theme of the new SDS will be ‘accelerating sustainable development and creating opportunities for all’, which emphasises the national commitment to revitalizing sustainable, pro-poor growth, while rebuilding buffers to help protect the economy from the effects of future shocks. While the priorities – economic sustainability and business development, improved education and health outcomes, better access to infrastructure, and climate and disaster resilience – are in line with the existing SDS, there is an increased focus on public-private partnerships as a means of promoting investments for social and economic developments, and an explicit attempt to integrate climate resilience and disaster management into each of the priority areas.

32. 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. 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

33. The development objectives and associated reform actions of the proposed operation are closely aligned with the priorities and strategic areas in the economic development pillar of the SDS. The first development objective of the operation, to strengthen public financial management in the areas of debt, procurement and revenue, is aligned with the strategic area of fiscal sustainability and economic resilience under the macroeconomic stability priority of the SDS. These reforms build on nearly two decades of public financial management (PFM) reform - during which the government has established an appropriate legislative framework, introduced program budgeting and instituted sector planning across government – and are also closely aligned with the government’s own PFM reform plan, which is currently in the third ‘roll-out’ phase. The second development objective of the operation, to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth, is aligned with three priorities of the SDS. The first is the macroeconomic stability priority, and specifically the strategic area of an appropriate institutional framework for the finance sector. The second is the sustainable tourism development priority, and specifically its tourism promotion and market access strategic areas. And the third is the business development priority, specifically the enabling environment and promotion strategic areas. The actions supported under this program continue and add to reforms government has implemented over the last decade to boost economic growth, including reforms to improve the business enabling environment and to put SOEs on a more commercial footing.[6] The third (new) development objective, to strengthen the monitoring, reporting, and coordination of climate resilience activities

[6] These include the establishment of the electronic Samoa Companies Registry in February 2013, which led to more rapid and efficient company incorporation, and steps to strengthen SOE governance, including by removing government ministers from SOE boards.

in Samoa, as an important step toward increasing its resilience to the effects of climate change, is closely linked with the specific environmental priorities of the SDS, as well as the mainstreaming of climate resilience activities evident across all sectors in the new SDS.

34. The supported reforms are also important to prospects for boosting shared prosperity in Samoa. Returning Samoa to a situation where its fiscal position is both sustainable and has scope to respond to external shocks is particularly important for the poorest two quintiles of the population, which are disproportionately dependent on publicly-funded education, health and community development services and are the most vulnerable to any contraction in their provision in the event that the government lacks the fiscal buffers to respond to external shocks. They also tend to be the most vulnerable to the direct impacts of severe weather events, increasing their reliance on the government's capacity to respond through relief and reconstruction activities. The poorest two quintiles are also more dependent on remittances than other quintiles, the current high costs of which should decline over time as payments system reforms are implemented. Women – in particular – stand to benefit most from any expansion achieved in tourism sector activity in Samoa, given that the tourism industry tends to employ a relatively high proportion of women compared with other industries.

35. The design of the proposed operation reflects lessons learned from the first operation in the 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. The Ministry of Finance has a strong sense of ownership of each reform area, and considerable experience coordinating the actions of the other agencies whose engagement is needed to achieve these reforms. Five of the seven reform areas (debt, procurement, payments system, tourism, and climate resilience) relate to specific engagements by the Bank and IFC, reflecting the lesson that such engagement can usefully assist in identifying key priorities to be supported through DPOs. In the other reform areas (revenue and SOE reform), 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.

36. Following on from the substantial reforms supported by the first operation, a continuation of the series is appropriate given the progress achieved to date, the need to maintain focus on implementation and next steps, and the continued need for budget support. In general, a lesson from previous engagements is that programmatic budget support engagement is likely to be beneficial in Samoa (in circumstances where there isn't a need to respond to an immediate shock), as it allows for a sequence of achievable 'steps' towards longer-term reform objectives. The first operation supported substantial reforms under the fiscal and economic pillars, including the amendment of the Customs Act to facilitate trade and reduce the cost of doing business, new procurement instructions, guidelines and templates to improve efficiency and compliance with agreed procedures, and procedures for contracting new loans and issuing guarantees. It also supported the enactment of the National Payments System Act to facilitate and regulate electronic payments, the approval of a revised tourism sector policy to provide for more effective tourism promotion and market access, and the approval of a PPP framework to facilitate increased opportunities for private sector participation.

37. Despite a delay of about a year in formulating this second operation, reform momentum has been maintained. The delay was attributable to the signing of a semi-concessional loan in late 2014, which took place before the procedures for contracting new debt that were approved as part of the first operation had been followed. In response, the Bank delayed the effectiveness of the first DPO, pending evidence that the approved procedures had been followed, and that an economic analysis had been completed to address the question of whether (and under what conditions) the financed project would result in a minimum positive economic return sufficient to cover the interest and repayment costs, as set out in the MTDS. The analysis was eventually completed and endorsed by the Cabinet Development Committee in mid-2015, and the government has published it online, which is a notable step towards greater transparency.

38. While one trigger has been missed, and one only partially achieved, overall the government has made good progress on its reform agenda since the first operation went to Board in late 2014. Delays in the completion of a new Non-Communicable Diseases (NCD) policy (Table 3) clearly reflect issues specific to the health sector, rather than a lack of broader government commitment to reform, and it is not clear that its timely completion has received the necessary technical support from development partners. That said, the NCD Policy for 2010-15 is currently undergoing review and evaluation, with the findings of the review to inform an updated policy (2016-20), which is currently being developed. Moreover, there has been some progress against other elements of the NCDs agenda.[7] Overall, progress against specified actions is considered sufficient to achieve the development objectives of the program.

[7] The PEN Fa'a Samoa package is now being rolled out to 14 villages, after being piloted in two. The PEN Package, an initiative of the World Health Organisation, consists of evidence-based, technically feasible and cost-effective interventions to prevent NCDs. The intention is to encourage a greater sense of responsibility around ensuring good health in the villages, including by promoting self-monitoring. In the FY2017 budget address, the government has also committed to introducing new excises on salty and sugary foods.

Table 2: Triggers and proposed prior actions for DPO 2

Trigger for DPO 2 (as stated in program document for DPO 1)	Proposed prior action for DPO 2	Explanation for any material change
Fiscal Reform Pillar – to improve fiscal outcomes in the areas of debt, procurement and revenue		
1. The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the PFM Act in order to encompass borrowing purposes, debt management objectives, regular updating of the MTDS, and annual reporting to Parliament.	1. The Recipient has a) passed the amendment to the Public Finance Management Act that sets out government borrowing purposes, debt management objectives, consistency of operations with the Medium Term Debt Strategy, and requirements for annual reporting to parliament; and b) through its Cabinet, approved an updated Medium Term Debt Strategy for the period 2016-2020, which is designed to strengthen debt policy and debt management and includes an assessment of the implementation of the previous medium term debt strategy.	Trigger is met. Prior action incorporates and extends trigger, with part (a) including the enactment of amendments to the PFM Act (rather than submission to Parliament of the Bill), part (b) supporting government efforts to transparently monitor compliance and assess the results of previously supported debt management reforms.
2. The Recipient has issued guidelines for the use of framework arrangements in public procurement.	2. The Recipient, through its Ministry of Finance, has issued: (a) revised Treasury Instructions which allow for the use of framework arrangements in public procurement; (b) new guidelines for the use of the said framework arrangements; and (c) new procurement standard templates for major works, general services, and goods.	Trigger is met. Prior action incorporates and extends trigger, by including the approval of new standard templates for major works.
3. The Recipient has introduced electronic systems for filing and paying taxes, including income tax.	3. The Recipient, through its Ministry for Revenue, has introduced electronic systems for filing and paying taxes, including income tax.	Trigger is met.
4. The Recipient has issued a new NCD Policy in order to effectively tackle NCDs.	*Trigger not converted to prior action*	Issuance of a new NCD Policy has been delayed, as the previous NCD Policy is still being reviewed. The WB NCD study which was intended to inform the new policy has also been pushed back (now targeting mid-2016 completion). A number of other measures targeting NCDs have been implemented in the interim, including the pilot of the PEN package of interventions.
Economic Reform Pillar – to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for private sector-led economic growth over the medium term		

5. The Recipient has issued regulations on remittance service providers.	4. The Recipient's Central Bank of Samoa has submitted draft regulations to the Office of the Attorney-General, in accordance with the National Payment System Act, relating to the regulation of agents that provide payment services, and oversight by the Central Bank of Samoa.	Trigger is partially met. There has been a delay in issuing the regulations and related guidelines due to the need to comply with legal standards. Issuance is expected in the third quarter of 2016.
6. The Recipient has conducted the first annual assessment of the impact of its new targeted promotional and marketing arrangements and acted upon its findings, in accordance with the review provisions of the revised tourism sector policy.	5. The Recipient, through the Samoa Tourism Authority, has completed the first annual (FY2014/15) status report on the Tourism Sector Plan, and has commissioned independent reviews of its air access and marketing arrangements.	Trigger is met. First annual status report on the TSP, which included an assessment of promotional and marketing arrangements, was completed in October 2015 and discussed at a Tourism Sector Forum in March 2016. With the support of the IFC, the GoS has also commissioned independent reviews of its air access and marketing arrangements which will provide a sound analytical basis for future reforms.
7. The Recipient has put in place the necessary regulatory provisions for PPPs to implement the new PPP policy framework.	6. The Recipient, through its Cabinet, has approved a revised policy on ownership, performance, and divestment of Public Bodies, and completed the privatization of the Agriculture Store Corporation.	No further regulatory provisions were required to implement the PPP framework, and there is nothing currently preventing its application to PPP proposals. The proposed prior action supports continued government efforts to facilitate greater private participation in SOEs over time.
Climate Resilience Pillar - to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa, as an important step toward increasing its resilience to the effects of climate change		
No trigger – this is a new action	7. The Recipient has a) through its Cabinet, established a Ministerial Committee to monitor Climate Resilience Projects with a coordination and clearance function for climate finance; and b) committed to integrating disaster risk and climate resilience into all sector plans in the Recipient's Strategy for the Development of Samoa, with monitoring to occur through the new results framework of the SDS.	Improving the coordination of climate finance and the monitoring of resilience-building activities is a priority of the GoS, and is a necessary step toward reducing fragmentation of climate financing and projects.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.2.1. Fiscal Reform Pillar

39. **The first development objective of the proposed operation is to strengthen public financial management in the areas of debt, procurement and revenue.** The three reform areas

that contribute to this objective are strengthening debt policy and management, strengthening public procurement processes to improve value for money in expenditure, and strengthening revenue collection. These reforms should assist the government to consolidate its public finances and rebuild the fiscal buffers it needs to respond to future external shocks.

Prior Action 1: The Recipient has a) passed the amendment to the Public Finance Management Act that sets out government borrowing purposes, debt management objectives, consistency of operations with the Medium Term Debt Strategy, and requirements for annual reporting to parliament; and b) through its Cabinet, approved an updated Medium Term Debt Strategy for the period 2016-2020, which is designed to strengthen debt policy and debt management and includes an assessment of the implementation of the previous medium term debt strategy.

40. Strengthening debt policy and debt management remains a key priority in Samoa given the rapid escalation of its debt in recent years. Strengthening debt policy and debt management should assist Samoa to consolidate its public finances over the medium term, and eventually rebuild its fiscal buffers in order to be able to respond to future external shocks. Samoa has an adequately staffed debt management unit within the Ministry of Finance, with a well-specified annual work plan. It prepared (in 2010) and subsequently revised (in 2013) an MTDS, which is available to the public. It also produces and publishes quarterly debt bulletins, which enhance accountability and transparency.

41. As a prior action for the first DPO in the series, the government established formal procedures for contracting loans and issuing government guarantees which were designed to ensure that all loan and guarantee proposals go through the same channels, are subjected to the same level of scrutiny, and are assessed against the same criteria. This was intended to reduce the chances of loans or guarantees being agreed without adequate scrutiny and without complying with the MTDS. The 2013-2015 MTDS limited approval for external loans to those with i) at least a 35 percent grant element and ii) a minimum positive economic return sufficient to cover interest and repayment costs.

42. However, a recent instance of semi-concessional borrowing suggested that the government struggled to fully implement these reforms. The terms of the infrastructure loan implied a grant element of around 27 percent, below the 35 percent threshold for concessionality. Moreover, implementation of the procedures for contracting loans occurred only after the loan was signed, and there were delays in the preparation of an economic analysis to assess whether the project would show a net economic benefit (as required to establish compliance with the MTDS). As a result, the World Bank delayed effectiveness of the first DPO, until the procedures were complied with and an economic analysis of the terminal was completed and endorsed by the Cabinet Development Committee. The underlying assumptions were internally consistent and the analysis supported the economic case for the terminal investment, which was estimated to have a small positive net present value at a discount rate of 8 percent. This economic analysis was also made publically available through the Ministry of Finance website, which was a notable step toward greater transparency. Recognizing their importance, the GoS has since requested technical assistance (from the Asian Development Bank) to develop its capacity to carry out economic analyses of infrastructure projects.

43. In 2015, the government enacted amendments to the PFM Act encompassing borrowing purposes, debt management objectives, consistency of operations with the MTDS, and annual reporting to Parliament. The submission to Parliament of this Bill was the trigger for the current operation. Importantly, the amended PFM Act requires that State borrowing and debt management operations "are to be consistent with the Government's debt management strategy". Hence the Act now provides the legal backing for the conditions in the MTDS, including the requirement to only enter into new foreign currency loans that are highly concessional with a grant element of at least 35 percent. The Act also requires that the Treasury annual report submitted to Parliament includes a review and analysis of the implementation of the debt management strategy each year.

44. In line with the need to focus on the consistent implementation of previous policy reforms, the government has approved an MTDS for the period 2016-2020, which includes a review and assessment of the implementation of the previous MTDS. Given the earlier completion of the original trigger, this also acts as part of the prior action for this operation, and reflects an attempt to support government efforts to transparently monitor compliance and assess the results of previously supported debt management reforms. This should ultimately incentivize better compliance with established policy. The new MTDS outlines strategies to manage a range of risks (including currency risk, interest rate risk, refinancing risk, credit risk and operational risks), and emphasizes the requirement to only contract external debt that is highly concessional. It recognizes the lapse of compliance with the MTDS in 2014, and for the first time introduces quantitative indicators of the costs and risks of the debt portfolio which will allow for more rigorous monitoring of compliance.

45. Over the medium term, these reforms to strengthen debt policy and debt management are expected to result in full compliance with the MTDS, supported by a renewed government commitment to consolidate its fiscal position. For instance, unlike previous budgets, the FY2016 Budget address contained an explicit statement that "The government will not commit to any loans unless the new loans are in line with the medium term debt management strategy and the loan funded projects will contribute positively to economic growth", and this commitment was fully complied with in FY2016.

Prior Action 2: The Recipient, through its Ministry of Finance, has issued: (a) revised Treasury Instructions which allow for the use of framework arrangements in public procurement; (b) new guidelines for the use of the said framework arrangements; and (c) new procurement standard templates for major works, general services, and goods.

46. 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. Supported by the 2013 DPO, it has improved transparency, by publishing details of all public and SOE procurement notices and contract awards above SAT 500,000 online. More recently, supported by the first DPO in the current series, the government issued new Treasury Instructions and guidelines which provide comprehensive and legally enforceable rules for public procurement, covering procurement methods, transparency, eligibility, documentation, evaluation criteria and processes. They also explicitly prohibit fractioning (the splitting of contracts into smaller amounts to avoid tender thresholds). To improve the efficiency of the system and reduce the time taken by the Attorney-General's Office to review and clear tender documents, the MoF has also mandated the use of standard templates for minor works, minor goods and related services, and minor general services, which have been pre-approved by the Attorney-General. The MoF has since held regular training sessions on these instructions, guidelines and templates, and the templates are currently being used by line ministries and public bodies for procurement of goods, works & services.

47. The use of framework agreements by line ministries and SOEs provides opportunities to benefit from lower costs associated with economies of scale and increases efficiency through simplification of the associated procurement processes. Framework agreements will also reduce the time to undertake procurement and may be particularly useful in emergency situations. Specific items and services that could be procured under framework agreements – such as pharmaceuticals, stationery, office equipment, and routine maintenance – have already been identified. It is anticipated that a framework agreement will be piloted in FY2017. Framework agreements will be legalized through an amendment to the Treasury Instructions and the related Guidelines. As a next step, the Government will need to develop bidding documents and related guidance notes to inform line ministries and SOEs on how to use the new arrangements.

48. The issuance of guidelines and standard templates for major work is another step towards increasing the speed and efficiency of public procurement in Samoa, following the issuance of guidelines and standard templates for minor works, minor goods and related services and minor general services that was supported by the previous DPO. This should further improve the efficiency of the procurement system. These reforms, together with the development of guidelines and the amendment to the Treasury Instructions to allow for framework agreements, constitute a prior action for the proposed operation, which fully incorporates and extends the original trigger.

49. Over the medium term, these reforms are expected to result in more effective procurement systems. One indicator of this would be an increase in the extent to which commonly procured categories of items for which framework arrangements are appropriate are procured under such arrangements, instead of via multiple small-value contracts.

Prior Action 3: The Recipient, through its Ministry for Revenue, has introduced electronic systems for filing and paying taxes, including income tax.

50. Samoa has implemented a comprehensive package of legislative, regulatory and administrative reforms in order to strengthen revenue collection. In the last couple of years, it has amended its Income Tax Act and Tax Administration Act to shift to self-assessment and lighten the compliance burden, particularly on small tax payers. 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 its new focuses on taxpayer education, the encouragement of compliance, and audit and investigation activities. The Bank has had a strong dialogue on revenue issues with the government in the context of the PER, Cairns Compact peer review, and preparation of the proposed DPO series. Technical assistance for the reform program has been provided by Australia and New Zealand.

51. More recently, the government has made substantial progress in modernizing its customs operations, improving the efficiency of tax policy, and broadening the tax base. VAGST review legislation was passed in October 2015, removing the VAGST exemption for primary producers (in line with WTO obligations) and raising the threshold from SAT$78000 to SAT$130000. A presumptive flat rate tax on small businesses for their VAGST liabilities is planned to be introduced in FY17. This would reduce administrative costs and broaden the tax base. These reforms follow substantial progress in modernizing customs operations through a complete rewrite of the Customs Act, which was supported as part of the first operation in the series.

52. The next key step in Samoa's revenue reform program is the introduction of electronic systems for filing and paying taxes, including income tax. This is a prior action for the current operation. The electronic filing system was upgraded and the systems for PAYE tax and VAGST were rolled out in late 2015. Training – initially targeted at large enterprises and SOEs – was provided toward the end of 2015, and about 30 percent of large enterprises (with turnover greater than SAT 1 million) are now using the online system. Electronic systems for income taxes also went live in July 2016. Ultimately, the use of electronic systems should increase the efficiency of a range of processes, including registering taxpayers, filing returns, processing payments, issuing assessments and checking against third-party information. Experience suggests that returns filed electronically have much lower error rates than paper returns and reduce the need to impose penalties to foster compliance. The more efficient handling provided by electronic returns also lowers administrative costs and allows tax officers to issue assessments and refunds more quickly.

53. Over the medium term, these revenue policy and administration reforms are expected to result in improved tax compliance. This should be indicated by improvements in a set of measures including on-time filing, on-time payment and arrears collection.

4.2.2. Economic Reform Pillar

54. The second development objective of the proposed operation is to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term. The three areas that contribute to this objective are reforms to modernise the payments system, strengthen the sector policy for the critical tourism industry, and increase opportunities for private participation in the large state-owned enterprise sector.

Prior Action 4: The Recipient's Central Bank of Samoa has submitted draft regulations to the Office of the Attorney-General, in accordance with the National Payment System Act, relating to the regulation of agents that provide payment services, and oversight by the Central Bank of Samoa.

55. Samoa is reforming its payments system to facilitate and regulate electronic payments and other emerging innovative payment instruments. In the absence of an appropriate payments infrastructure, Samoa has to date relied on paper-based instruments like cash and cheques for the vast majority of payments. This has made its payments system inefficient: based on examples from other countries and studies, it has been estimated that moving from paper-based to electronic payments typically leads to yearly savings equivalent to several percentage points of GDP, primarily from savings in back-office operations, reduced leakages in transfers to and from government, and improvements in overall efficiency. The daily payments made among banks and other major payers such as the Treasury are currently cleared and settled via a manual system managed by the CBS. Such procedures are not in line with international standards and best practices, and expose the Samoan financial sector to liquidity and credit risks, which could undermine the overall stability of the financial sector. At the retail level the banks operate in isolation from each other and their payment systems are not interoperable. The absence of suitable legislation, regulations and payments infrastructure in Samoa to date has also hampered the spread of innovative payment instruments like mobile money.

56. The National Payments System Act, the enactment of which was supported by the first DPO, has been designed to facilitate and regulate electronic payments and emerging innovative payment instruments in Samoa. The new legislation provides a sound legal basis for payment and securities systems, and provides the CBS with regulatory powers over the payments industry, customer protection, and the regulation of electronic transfers.

57. A key step in the implementation of this Act is the issuance of regulations on electronic payments systems. As a prior action for this operation, regulations governing agents and CBS oversight of payment systems have been submitted to the Attorney-General's office for approval, while guidelines on retail payment instruments and electronic funds transfers have also been prepared. These regulations and guidelines will provide the industry with precise guidelines for the roll-out of electronic payment systems, introducing relevant parameters for the issuance of licenses, customer protection, dispute resolution, and the execution of transfers. The regulations will support the certainty of operations in this area, improving the level of oversight of the CBS and increasing public confidence in electronic payments systems, by ensuring the prudent management of risks. The regulation and supervision of remittance transfer operators and payment service providers will allow the CBS to ensure the proper soundness of firms involved in these markets and enforce requirements on transparency and customer protection. The new regulatory and supervisory powers of the CBS will also enable the associated risks – e.g. of the misuse of these instruments – to be monitored and mitigated.

58. Given the large share of GDP represented by remittances, and the very high cost of remittances to Samoa, any efficiency gains in the market for remittance transfers that increase the share of remittance flows reaching recipients would have an important impact, particularly on the least well off.[8] The new regulations will allow new players to enter the market and compete with existing participants, expanding the range of instruments used to transfer remittances and leverage new technologies. The regulations will also increase the extent

[8] Estimates suggest that if the high cost of remittances to Samoa declined toward global averages, the savings to Samoan migrants and their families would be in the vicinity of 1–2 percent of GDP annually.

to which recipients of remittances are protected, providing the CBS with adequate tools to regulate the market.

59. These reforms are expected to result in a more efficient payments system in Samoa. In the longer term, this should be reflected by an increased proportion of electronic payments in overall payments, including interbank payments, card payments, credit transfers and mobile payments. However, the extent of this increase depends in part on a parallel stream of work the authorities are engaged in with support from development partners, to fund, tender for, and implement an appropriate payments infrastructure to complement the new legislative and regulatory framework. At present, the procurement of the payments system via an international bid is likely to take place in the second half of 2016, with roll-out taking approximately one year from the selection of the implementing vendor. Given this timeline, the assessment of the results indicator on the proportion of electronic payments has been pushed to FY2018, so as to allow time to assess the effects of the new payments system facilitated by these regulations.

Prior Action 5: The Recipient, through the Samoa Tourism Authority, has completed the first annual (FY2014/15) status report on the Tourism Sector Plan, and has commissioned independent reviews of its air access and marketing arrangements.

60. Tourism is Samoa's most important export industry, and the industry has recovered after slow growth in the aftermath of the global economic crisis. In the four years to 2013 there was very little growth in visitor arrivals, but growth picked up to average above 5 percent in 2014 and 2015, driven in part by the rugby Test match in July 2015 and the Commonwealth Youth Games held in September 2015. In the near term, prospects remain relatively bright, with two major new developments – Sheraton Aggie Greys Hotel and Bungalows; and the Taumeasina Island Resort – scheduled to open in the second half of 2016. Tourism growth will continue to be an important driver of employment opportunities in Samoa, and for the employment of women in particular. The 2011 Census showed that women constituted half of the nearly 6,000 people employed in tourism-related industries – commerce, accommodation, and restaurants – relative to their 27 percent share of overall employment.

61. Samoa has revised its tourism sector plan to provide for more effective tourism promotion and associated market access arrangements. Analysis by the IFC suggests that the major constraint to the industry's growth emanates from tourism promotion and market access arrangements. To date, tourism promotion has not been well targeted to the market segments that Samoa's tourist facilities and attractions can best cater for, nor has there been a mechanism for the impact of promotional activities to be regularly assessed and the marketing strategy revised accordingly.

62. The first annual status report on the Tourism Sector Plan was completed in late 2015 and discussed at the Samoa Tourism Forum in March 2016, and comprises part of the prior action for this operation. The rationale for this action is to support the government and the Samoan Tourism Authority in moving toward evidence-based policy, based on the regular monitoring and evaluation of its activities. Amongst other things, this should assist with allocating marketing resources more efficiently and negotiating improved air travel access. The status report reviews government initiatives and performance in FY2014/15 in five strategic areas: Marketing the Destination; Product Development; Investment and Business Enabling Environment; Transport Infrastructure and Access; and Human Resource Development and Training.

63. On marketing, the report outlined progress on recent measures to develop Samoa's brand in key source markets, tailor destination campaigns, target social media activities, and grow developing markets through promotional events. To further inform the government's marketing efforts, an independent "Air Transport and Tourism Market Assessment" (commissioned by the Government and the IFC) was finalized in March 2016. The assessment finds that Samoa needs to better differentiate itself from its competition, rather than just focusing on 'beach and beauty'; that it should target families as well as beachgoers and honeymooners; that it should better tailor marketing materials to each target market; and that it should expand its use of social media and conduct a full review of paid media. It also shows that Samoa's marketing spend per holiday tourist arrival is significantly higher than that of similar island destinations. On this front, the government plans to implement a review of marketing investment in the second half of 2016 to evaluate the return on investment and seek ways of improving efficiency, recognizing that the marketing budget per tourist in Samoa was relatively high.

64. The status report also identified that connectivity – especially in terms of air transport linkages – remains a major constraint. The government also commissioned an independent review of the air access arrangements to Samoa (again supported by the IFC), which has provided the government with a range of options to improve existing air service arrangements. Key issues raised with the existing arrangements included inconvenient and inconsistent flight schedules, high fares, and inadequate service quality. The options outlined by the review will be considered by the government and pursued further in the second half of 2016, which should ultimately assist Samoa in securing air travel connections that match the needs of the tourists it attracts through its promotional activities.

65. The government's commissioning of the reviews on tourism marketing and air access arrangements constitute the second part of the prior action for this operation. Alongside implementation of the revised tourism sector policy, the government's response to these reviews is expected to improve the performance of Samoa's tourism industry over the medium term. In the absence of further exogenous shocks, this would be indicated by an increase in the growth rate of tourist arrivals and an expansion of the employment opportunities provided by the industry. Given that women occupy a substantial proportion of tourism-related jobs, an expansion of employment in tourism would likely have a significant impact on employment opportunities for women in particular.

Prior Action 6: The Recipient, through its Cabinet, has approved a revised policy on ownership, performance, and divestment of Public Bodies, and completed the privatization of the Agriculture Store Corporation.

66. The government recognizes that the private sector is the main engine of economic growth in Samoa, and has undertaken a series of recent reforms to facilitate greater private sector participation in SOEs in particular. For instance, PPPs offer Samoa the potential to boost opportunities for private sector involvement and investment, while at the same time driving improvements in asset maintenance, operational efficiency and service quality among SOEs. As a step toward realizing this potential, the government established a PPP Framework – which was supported as a prior action in the first DPO – which provided consistent guidelines to be drawn on to evaluate the suitability of various types of PPPs for specific projects. It sets out minimum procedures to establish a transparent process for structuring a PPP, including basic principles and processes to consider when allocating and negotiating responsibilities and risks, principles for selecting operators and resolving disputes, and measures for managing unsolicited proposals. Samoa now has a substantial pipeline of PPP opportunities, following the approval of the PPP Framework in 2014. The contracting out to the private sector of road maintenance services by the state-owned Land Transport Authority, a project supported by the Bank, is viewed as a successful example of an Operation & Maintenance PPP and the GoS is looking to replicate similar PPPs in other sectors (including solid waste management). More recently, the government elected to carry out an important submarine cable project – which will provide Samoans with cheaper and higher-capacity internet access – as a PPP. This PPP will draw on private sector equity as well as grant contributions from development partners to finance and implement construction[9]. A PPP division has also been established in the new Ministry for Public Enterprises (MPE) and, in consultation with relevant line ministries, has primary responsibility for identifying PPP opportunities.

67. The government, with assistance from the Private Sector Development Initiative (PSDI), has approved a revised policy on SOE ownership, performance, and divestment. SOEs in Samoa have struggled to meet their commercial mandate over the past decade or so, with returns on equity falling well below the 7 percent target, despite access to subsidized credit and government transfers. The new policy, which was endorsed by Cabinet in January 2015, reinforces the government's commitment to improve the efficiency of SOEs and ensure opportunities for private sector development. It notes that the improvements in productivity and efficiency can be better achieved by "eliminating the distinction between strategic and non-strategic assets and examining for each SOE the commercial rationale for specific operating and ownership modalities, namely privatization, contracting out, or public private partnerships". It confirms that commercialization is mandatory for all Public Trading Bodies (PTBs) and that community service obligations should be costed separately and approved by the government through its annual budget process. It also contains principles to guide divestments, and incorporates an implementation framework – including actions, targets, and timeframes – for the reform of 16 SOEs.

68. The government has also completed the privatization of the Agriculture Stores Corporation, which was previously its highest priority for divestment. This privatization – which was delayed due to difficulty in finding a buyer – was the first by the government in a number of years, and provides a good starting point for proceeding with the near-term pipeline of divestments (Table 3). Together with the approval of the revised policy on SOE ownership, performance, and divestment, the privatization of the Agriculture Stores Corporation constitutes a prior action for this operation.

[9] The project will see Samoa connected via a 1,300km cable that will link the country's largest islands, Upolu and Savai'i, to the Southern Cross Cable Network in Suva, Fiji. Financing will be provided by the Asian Development Bank, the World Bank, Australia, and the newly established Samoa Submarine Cable Company.

Table 3: Pipeline of divestment and PPP opportunities

Divestments	***Status***	**PPPs**	***Status***
Agriculture Stores Corporation	Completed (April 2016)	Review of airline joint venture	By end-2016
Public Trust Office	On track for FY16/17	Solid waste management	On track for FY16/17
Samoa Housing Corporation	On track for FY16/17	Waste-water treatment	On track for FY16/17
Samoa Post Limited	On track for FY16/17	New contract for road maintenance	On track for FY16/17

69. The new PPP policy framework and revised policy on SOE ownership, performance, and divestment is expected to facilitate greater private participation in SOEs over time. This would be indicated by the number of new PPPs that conform with the newly established PPP policy framework.

4.2.3. Climate Resilience Pillar

70. The third development objective of the proposed operation, which is new to the programmatic series, is to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa, as an important step toward increasing its resilience to the effects of climate change. By supporting government efforts to improve its screening and monitoring of the large number of policies and projects associated with building climate resilience, the prior action should ultimately facilitate better-coordinated policies across multiple sectors, reducing the risks faced by vulnerable communities.

Prior Action 7: The Recipient has a) through its Cabinet, established a Ministerial Committee to Monitor Climate Resilience Projects with a coordination and clearance function for climate finance; and b) committed to integrating disaster risk and climate resilience into all sector plans in the Recipient's Strategy for the Development of Samoa, with monitoring to occur through the new results framework of the Strategy for the Development of Samoa.

71. Efforts to strengthen Samoa's resilience to the effects of climate change face a number of challenges pertaining to the fragmentation of policies, projects, and financing. Access to climate financing is not a major constraint: there are already a large number of funded climate projects but disbursement rates tend to be low, suggesting the need to focus on consolidation of existing projects and develop better monitoring and reporting mechanisms. As well as putting an unnecessary burden on government officials, the fragmentation of projects and financing has made it more difficult to ensure their strategic coherence. At the same time, multiple sectoral climate resilience policies exist – e.g. for agriculture, forestry, water, urban development and natural resource management – but these often do not adequately consider climate related risks and/or potentially introduce new risks in different sectors or geographic areas.

72. The government has identified a need to ensure that there is a coordinated policy and investment framework for addressing climate related risks across all key sectors and landscapes/watersheds. This is becoming an urgent priority given the increasing demand on land, forest, coastal and water resources in Samoa, and the increasing intensity of rainfall and storm surges, leading to coastal floods and salt water intrusion into fresh water coastal resources.

73. As the first step toward policy coordination and a systematic framework for investment prioritisation, the government has established a Ministerial Committee to Monitor Climate Resilience Projects. This Committee represents multiple ministries (including the Ministry of Finance, the Ministry of Natural Resources and Environment, the Ministry of Works, Transport, and Infrastructure, and the Ministry of Women, Community and Social Development), with membership at the Minister and CEO level. Importantly, the committee will have a clearance function for all climate financing proposals, as well as taking decisions on climate resilience policies and investments to ensure that they are in line with a coherent overall plan. It will be supported by the Climate Resilience Investment and Coordination Unit (CRICU) within the MoF.

74. The government has also incorporated climate-related results indicators into its updated Strategy for the Development of Samoa 2016-2020, which requires the integration of climate and disaster risk and resilience into all sector plans. Annual reviews of these sector plans will assess progress according to the new results framework of the SDS. These reforms, which in conjunction with the establishment of the Committee are prior actions for the operation, are a necessary starting point in understanding the extent to which existing climate projects in the various sectors are meeting (or failing to meet) their objectives. Given the previous lack of monitoring and reporting on climate resilience activities in Samoa, establishing more formal reporting mechanisms across sectors should help improve transparency and facilitate the mainstreaming of resilience-building activities.

75. Next steps will aim at improving coordination and reducing fragmentation of climate financing and projects. Over the next year, the government intends to develop an integrated policy framework which will assist the government in managing climate-related risks, through more coherent land and water use planning in particular. Amongst other things, the policy framework will establish which ministry should take the lead on what responsibilities, and foster better information-sharing and coordination between ministries. The government also intends to prepare an investment plan that identifies key interventions and sources of finance. In line with the overall objectives for climate resilience established by the policy framework, the investment plan will guide financial allocation priorities for proposed climate projects, with projects only being approved to the extent that they are compatible with government goals.

76. The supported action is expected to directly foster an improvement in the national monitoring and reporting of climate resilience activities, which would be indicated by the extent to which sector plans and annual reviews include actions and reporting on climate resilience indicators. To the extent that the reforms (including those slated for the year ahead) ultimately succeed in reducing fragmentation and improving coordination, an improvement in the performance of climate resilience projects would be expected over the longer-term.

Table 4: DPO Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Fiscal Reform Pillar	
1. The Recipient has a) passed the amendment to the Public Finance Management Act that sets out government borrowing purposes, debt management objectives, consistency of operations with the Medium Term Debt Strategy, and requirements for annual reporting to parliament; and b) through its Cabinet, approved an updated Medium Term Debt Strategy for the period 2016-2020, which is designed to strengthen debt policy and debt management and includes an assessment of the implementation of the previous medium term debt strategy.	Public Debt Management Reform Plan, 2014: on the need to improve the medium-term perspective of debt management efforts, and transparently and regularly report on implementation progress.
2. The Recipient, through its Ministry of Finance, has issued: (a) revised Treasury Instructions which allow for the use of framework arrangements in public procurement; (b) new guidelines for the use of the said framework arrangements; and (c) new procurement standard templates for major works, general services, and goods.	MAPS Assessment, 2014: on the potential benefits of framework arrangements to realise economies of scale, and standard templates to improve the efficiency and speed of procurement.
3. The Recipient, through its Ministry for Revenue, has introduced electronic systems for filing and paying taxes, including income tax.	PFM Reform Plan Phase III and Finance Sector Annual Review Report (June 2015): on the need for electronic services that allow taxpayers to self-serve through improved access and processing of returns and payments.
Economic Reform Pillar	
4. The Recipient's Central Bank of Samoa has submitted draft regulations to the Office of the Attorney-General, in accordance with the National Payment System Act, relating to the regulation of agents that provide payment services, and oversight by the Central Bank of Samoa.	Assessment of Payment, Remittance and Securities Settlement Systems in Samoa, 2010: on the legislative and regulatory reforms required.
5. The Recipient, through the Samoa Tourism Authority, has completed the first annual (FY2014/15) status report on the Tourism Sector Plan, and has commissioned independent reviews of its air access and marketing	Tourism Sector Diagnostic, 2010 (IFC) and Tourism Support Program Sector Plan Review, 2014 (New Zealand): on key sector constraints and the revisions required for the tourism sector policy.
6. The Recipient, through its Cabinet, has approved a revised policy on ownership, performance, and divestment of Public Bodies, and completed the privatization of the Agriculture Store Corporation.	PSDI Review of the Government of Samoa's Policy on State-Owned Enterprise Ownership, Performance and Divestment, July 2014: on how to improve SOE performance and achieve greater private sector participation.
Climate Resilience Pillar	
7. The Recipient has a) through its Cabinet, established a Ministerial Committee to monitor Climate Resilience Projects with a coordination and clearance function for climate finance; and b) committed to integrating disaster risk and climate resilience into all sector plans in the Recipient's Strategy for the Development of Samoa, with monitoring to occur through the new results framework of the SDS.	Requirement for better coordination, monitoring and reporting on climate resilience initiatives identified in the Bank's ongoing engagement through the Pilot Program for Climate Resilience.

4.3 LINK TO CPS AND OTHER BANK OPERATIONS

77. **The proposed DPO series is a central component of the Bank's overall engagement with Samoa, as laid out in the CPS.** The design of the development objectives and selection of

reform areas are aligned with the CPS's first theme on rebuilding macro-economic resilience and encouraging inclusive growth. A strong economic policy dialogue with the government is the anchor for the Bank's efforts to support this CPS theme, with a programmatic series of DPOs as its centrepiece. There is also a link between the payments system reform area and the second theme of the CPS, on generating opportunities from global and regional integration, including by capitalising on migration and remittances. The reforms supporting government efforts to improve climate resilience directly address the third theme of the CPS on building resilience to natural disasters and climate change.

78. **The DPO series is complemented by a set of other World Bank Group operations in order to achieve the CPS outcomes.** These include technical assistance on debt management reform, procurement reform, PPPs, and climate resilience by the Bank and IFC, and an extensive engagement with Samoa as part of the Pacific Payments, Remittances and Securities Settlement Initiative. The tourism sector reforms have been informed by IFC analysis and complemented by reforms that also support inclusive growth through the agriculture sector, supported by the Samoa Agriculture Competitiveness Enhancement Project.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.4.1. Consultations

79. **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

80. **The Bank is leading the coordinated approach being taken to 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 Bank, the second operation in the proposed programmatic series

focuses on seven of the ten reform areas covered by the joint policy matrix agreed between the government and development partners.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

81. **The proposed operation is expected to support the government in its efforts to consolidate public finances and rebuild fiscal buffers, which should have important benefits for the poor and vulnerable.** Given the constraints on non-food expenditure shown in the 2008 HIES, due to their significantly lower cash incomes, the wellbeing of the poorest two quintiles of the population is disproportionately dependent on publicly-funded education, health and community development services. 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 debt, procurement and revenue reforms being supported by this operation strengthen public financial management, assisting government efforts to consolidate its public finances and rebuild its fiscal buffers.

82. **The proposed operation is expected to support the government in its efforts to return the economy to a more robust growth path, which should also have important benefits for the poor and vulnerable.** National payments system reform is expected to have a significant impact on Samoa's remittances market, improving its efficiency and strengthening customer protection. The 2008 HIES showed that remittances accounted for a higher share of the income of the poorest two quintiles than for the other quintiles. The revision and subsequent review of the tourism sector policy is expected to improve the performance of the tourism sector, with positive implications for employment in the sector. As the 2011 Census showed, employment in tourism-related activities is especially important for women, so any increase in employment opportunities in the tourism sector is expected to be of particular benefit to women. Increasing opportunities for private sector participation in the operation of SOE services is also expected to help improve service provision and create job opportunities as it moves to a more robust growth path. The SOE policy also allows for any potential adverse impacts on employment (e.g. from privatizations or PPPs) to be scrutinized through scoping studies prior to their approval. The Agriculture Store privatization supported as part of this operation is expected to have little impact on employment in Samoa, given the low number of staff employed and the large number of firms competing in this space.

83. **The government has limited systems to enhance the positive effects of its policies and tackle their possible adverse consequences on poor and vulnerable groups.** 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. For example, Samoa's revenue

policy and administration reform program has been informed by the principle of seeking to lighten the compliance burden of tax policy on small tax payers, including those at the margins of the formal tax system. One recent example was the new VAGST legislation passed in October 2015, which raised the registration threshold on the value of taxable supply from SAT$78000 to SAT$130000.

5.2 ENVIRONMENTAL ASPECTS

84. The policy actions supported under the operation are not expected to create negative impacts on Samoa's environment, natural resources or forests. Policy actions related to debt policy and management, public procurement processes, revenue administration, and the national payments system are not expected to have any significant environmental impacts. Similarly, the policy actions relating to the revision of Samoa's tourism sector policy and SOE policy are not expected to create negative environmental impacts. While the SOE policy is expected to lead to more PPPs and divestments over time, on balance the environmental effects are likely to be positive, to the extent that the targeted improvements in service delivery include a reduction of adverse environmental impacts. For example, the Solid Waste Management PPP, which is high on the government's priority list, is in large part an environmental improvement project, with potential benefits including compliance with stricter landfill standards, reduced aquifer contamination and more sanitary waste disposal. The policy action relating to the review of Samoa's tourism sector policy will mainly affect tourism promotion and associated market access arrangements, rather than physical works. While increased tourist activity is itself likely to have environmental impacts, including higher water and energy use, higher waste generation, and coastal degradation, these impacts would be captured and managed by Samoa's environmental protection regime, which includes the Planning and Urban Management Act 2004 as the overarching legislative framework that governs all environmental and social safeguards. Moreover, the tourism sector plan status report (which was supported by the operation as Prior Action 5) includes coverage of a number of recent initiatives designed to mitigate environmental impacts, including beach replenishment, water quality monitoring, and a renewable energy scheme.

85. In general, Samoa's environmental protection regime is one of the strongest among Pacific Island countries, and has been strengthened over time by substantial project engagements and technical assistance from both the ADB and the World Bank. Environmental Impact Assessments (EIAs) are a legal requirement provided by the Planning and Urban Management Act and the Environmental Impact Assessment Regulation 2007. The EIA system is increasingly being applied, and is considered one of the more robustly implemented systems in the Pacific. There is also increasing compliance and public acceptance of the Planning and Urban Management Agency's (PUMA's) development consent process with the number of development consent applications increasing steadily since 2007. Assessments of the environmental protection regime in recent World Bank investment projects have noted that the Ministry of Natural Resources and Environment – within which PUMA is a regulatory agency – is well-organized and has good experience in environmental impact assessment and environmental management plans, as well as being familiar with Bank environmental safeguards.

86. The action to improve the coordination and monitoring of climate resilience activities should ultimately improve environmental outcomes. The integration of climate and disaster risk and resilience into all sector plans (with monitoring through annual reviews of these plans) is a necessary starting point in understanding the extent to which existing climate projects are meeting (or failing to meet) their objectives. Establishing more formal reporting mechanisms across sectors should help improve transparency and facilitate the mainstreaming of resilience-building activities into sector planning, as should the oversight provided by the new Ministerial Committee.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

87. 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 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.

88. Samoa has also made considerable progress in reforming its procurement system. The 2014 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, an administrative arrangement that has driven the wider procurement reform process. The current series of operations supports reforms addressing a number of the other identified weaknesses, including lack of procedural guidelines and model tender documents, and lack of provision for and guidance on the use of framework arrangements.

89. The government's commitment to making future improvements to its PFM systems is strong. Samoa is now in 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.

90. 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.

91. 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.

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

93. The proposed operation will follow the Bank's disbursement procedures for development policy credits. As the financial management risk has not changed since the previous DPO in Samoa, and given the aforementioned issue with the reporting of disclosures, the disbursement arrangements for this operation will be consistent with the previous one. The credit 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 credit is approved by the Board and becomes effective, the proceeds will be deposited by IDA in one tranche, at the request of the Borrower, into an account in US$ dedicated by the Borrower and acceptable to the Bank at the CBS (the 'Foreign Currency Deposit Account'). The Borrower shall ensure that upon the deposit of the credit funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Borrower's budget management system, in a manner acceptable to the Bank. The proceeds of the operation would not be used to finance expenditures excluded under the 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.

94. The Bank will request confirmation from the Government of receipt of funds (normally within 30 days). The Bank obtains a confirmation from the government (normally within 30 days after loan disbursement) that (a) the loan 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).

95. The Bank will request an audit of the transactions of the Dedicated Account to be provided by the Controller and Auditor-General. The audit opinion by the Controller and Auditor-General will be submitted to IDA. The audit opinion will confirm that the funds disbursed by the Bank 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 of the transaction of the Dedicated Account will be required to be received by IDA within six months of the end of the Recipient's fiscal year.

5.4 MONITORING AND EVALUATION

96. 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).

97. 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.

98. 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

99. **The first risk to the operation derives from the possibility of shortfalls in domestic macroeconomic management.** While Samoa has been assessed to be at a moderate risk of debt distress, it faces a heightened overall risk of public debt distress, reflecting substantial government guarantees and on-lending to public enterprises, as well as the risk of failure to pursue fiscal consolidation. Any future instance of non-compliance with its MTDS could also make Samoa's fiscal situation difficult to manage. In such a scenario, its fiscal priorities would be likely to shift to immediate cash-flow management at the cost of its medium-term reform program in the areas being supported by this operation. An important mitigating factor is that this program has supported reforms to debt policy and management that are expected to strengthen Samoa's compliance with its MTDS, including by improving transparency and accountability around its provisions. 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. Moreover, development partners continue to be a source of support for the government's capacity-building efforts in the areas supported by this operation.

100. **The second key risk to the operation is posed by Samoa's high degree of vulnerability to external shocks, including from natural disasters.** If it experiences another major natural disaster over the medium term, Samoa's macroeconomic stability will be threatened and large parts of the bureaucracy will have to shift their attention to disaster recovery and reconstruction efforts. This poses some risk to the fiscal reform pillar of the operation, similar to that described above under macroeconomic risks, but it also poses a particular risk to the implementation of Samoa's revised tourism sector policy and its focus on tourism promotion and market access. It is not necessarily feasible or even desirable to mitigate this risk, because in the event of such a major natural disaster, restoring existing capacity and regaining existing markets would actually be the most important thing Samoa could do to restore the livelihoods of those dependent on the tourism sector. An adverse shock to visitor arrivals, remittance inflows and/or development partner assistance would also result in a significant decline in growth and public revenues, which would also divert attention away from the reform program being supported by this operation.

Table 5: Standardized 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	M
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	M
7. Environment and social	S
8. Stakeholders	M
Overall	M

ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<tr><th colspan="2">Prior Actions</th><th rowspan="2">Results</th></tr>
<tr><th>Prior Actions under DPO 1</th><th>Prior Actions for DPO 2</th></tr>
<tr><td colspan="3">Fiscal Reform Pillar – to improve fiscal management in the areas of debt, procurement and revenue</td></tr>
<tr><td>1. The Recipient, through its Cabinet, has approved: (a) formal procedures for contracting loans; and (b) formal procedures for issuing government guarantees, in order to strengthen the Recipient's debt management.</td><td>1. The Recipient has a) passed the amendment to the Public Finance Management Act that sets out government borrowing purposes, debt management objectives, consistency of operations with the Medium Term Debt Strategy, and requirements for annual reporting to parliament; and b) through its Cabinet, approved an updated Medium Term Debt Strategy for the period 2016-2020, which is designed to strengthen debt policy and debt management and includes an assessment of the implementation of the previous medium term debt strategy.</td><td>1. Compliance with the MTDS provisions on external loan concessionality and economic return.
Baseline: Partial Compliance, FY11–13
Target: Full Compliance, FY16–18</td></tr>
<tr><td>2. The Recipient, through its Ministry of Finance, has issued: (a) new Treasury Instructions on procurement; (b) a new set of Procurement Guidelines; and (c) new standard templates for minor works, minor goods and related services, and minor general services, in order improve the quality of public expenditure.</td><td>2. The Recipient, through its Ministry of Finance, has issued: (a) revised Treasury Instructions which allow for the use of framework arrangements in public procurement; (b) new guidelines for the use of the said framework arrangements; and (c) new procurement standard templates for major works, general services, and goods.</td><td>2. An increase in the extent to which commonly procured items are procured through framework arrangements within and across line ministries.
Baseline: No such framework arrangements
Target: Framework arrangements for three of the commonly procured categories of items have been established (by June 2018), with demonstrated benefits in terms of lower unit costs and/or reduced time to undertake procurement.</td></tr>
<tr><td>3. (a) The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the Customs Act in order to facilitate trade. (b) The Recipient, through its Ministry of Revenue, has implemented ASYCUDA World in order to enhance the customs information system and facilitate trade.</td><td>3. The Recipient, through its Ministry for Revenue, has introduced electronic systems for filing and paying taxes, including income tax.</td><td>3. Improved tax compliance as measured by on-time filing, on-time payment and arrears collection for large enterprises.
Baseline: FY13 –
On-time filing < 80 percent; on-time payment < 70 percent; outstanding returns collected or resolved by year end < 50 percent
Target: FY18 –
On-time filing ≥ 90 percent; on-time payment ≥ 80 percent; outstanding returns collected or resolved by year end ≥ 50 percent</td></tr>
</table>

Prior Actions		Results
Prior Actions under DPO 1	**Prior Actions for DPO 2**	
Economic Reform Pillar – to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term		
4. The Recipient's Parliament has enacted the National Payments System Act in order to facilitate and regulate electronic payments and emerging innovative payment instruments.	4. The Recipient's Central Bank of Samoa has submitted draft regulations to the Office of the Attorney-General, in accordance with the National Payment System Act, relating to the regulation of agents that provide payment services, and oversight by the Central Bank of Samoa.	5. A more efficient payments system as measured by an increased prevalence of electronic payments. **Baseline**: Number of payments in 2013 – Interbank manual cheque settlements (260,307) Debit and credit card payments (109,819) Credit transfers (149,875) Mobile payments (76,819) **Target**: Number of payments in FY2018 – Interbank manual cheque settlements (decrease by 10 percent) Debit and credit card payments, credit transfers and mobile payments (increase by 10 percent)
5. The Recipient, through the Cabinet Development Committee, has approved a revised tourism sector policy designed to provide for more effective tourism promotion and market access.	5. The Recipient, through the Samoa Tourism Authority, has completed the first annual (FY2014/15) status report on the Tourism Sector Plan, and has commissioned independent reviews of its air access and marketing arrangements.	6. Improved performance of the tourism industry as measured by an increase in proportion of the tourist and sports tourist segments in overall visitor arrivals and an expansion of the employment of women in the accommodation, restaurants and general commerce industries. **Baseline**: Average decrease in proportion of target segments of 1.3 percent per year 2009–13, and 5,992 people employed in tourism-related industries in 2011 **Target**: Average increase in proportion of target segments of 0.5 percent per year 2013–18, and 6376 people employed in tourism-related industries in 2016

Prior Actions		Results
Prior Actions under DPO 1	**Prior Actions for DPO 2**	
Economic Reform Pillar – to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for private sector-led economic growth over the medium term		
6. The Recipient, through its Cabinet, has approved a public-private partnerships policy framework in order to facilitate increased opportunities for private sector participation in the state-owned enterprise sector.	6. The Recipient, through its Cabinet, has approved a revised policy on ownership, performance, and divestment of Public Bodies, and completed the privatization of the Agriculture Store Corporation.	6. Greater private participation in the SOE sector, as measured by the number of new PPPs. **Baseline**: No new PPPs in FY2016 **Target**: At least two new PPPs (by June 2018), with all new PPPs arranged in accordance with the new framework.
Climate Resilience Pillar – to strengthen the monitoring, reporting, and coordination of climate resilience activities in Samoa, as an important step toward increasing its resilience to the effects of climate change.		
	7. The Recipient has a) through its Cabinet, established a Ministerial Committee to monitor Climate Resilience Projects with a coordination and clearance function for climate finance; and b) committed to integrating disaster risk and climate resilience into all sector plans in the Recipient's Strategy for the Development of Samoa, with monitoring to occur through the new results framework of the Strategy for the Development of Samoa.	7. Improvement in coordination of resilience activities and in national monitoring and reporting on climate resilience indicators. **Baseline**: Ad hoc reporting on climate resilience and disaster risks across sectors. **Target** (in FY18): All new sector plans to incorporate climate resilience actions, and all sector plan annual reviews to monitor disaster risk and climate resilience results indicators as per the new SDS results framework.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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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)

13 July 2016

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 continues to be one of the stronger performers amongst IDA-eligible countries according to the World Bank's Country Policy and Institutional Assessment. Underpinning these achievements is Samoa's ambitious development agenda, which is articulated in our new *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. This is the result of an extensive consultation process with stakeholders 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 quality and affordable public services. As well, the new SDS explicitly integrates climate resilience and disaster risk management across each of the major sectors. We regard the World Bank as a key partner in pursuing the objectives outlined in the SDS.

In the decade to 2008, Samoa's economy benefitted from substantial structural reforms and grew at an average rate of over 4 percent, which was well above average for the Pacific Island Countries. However, this period of strong economic growth was 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 led 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 gradually, supported by construction activity and a series of international events, including the UN Small Island Developing States (SIDS) conference in September 2014 and the 2015 Commonwealth Youth Games. Over the last year, the fishing, transport and utilities sectors contributed positively to stronger growth.

Overall, the government, with the support of development partners including the World Bank, has responded appropriately in the wake of these external shocks, with the available evidence suggesting that the reconstruction and recovery programs have been effective. However, as a result of continued fiscal deficits and only modest economic growth, Samoa's external public debt as a proportion of GDP increased quite rapidly over recent years. As such, consolidating the fiscal space and returning the economy to a more robust growth path are key priorities for the government. At the same time, we endeavor to boost resilience to the effects of climate change and natural disasters and strengthen the performance of the social sectors, in line with the key priorities of our SDS.

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 reforms and legislation to enhance debt policy and management, which will be critical to our ability to return the debt level to a sustainable level over the medium to long term. To strengthen expenditure quality, we are making significant reforms to strengthen public procurement systems. On the revenue side, we are implementing a comprehensive package of legislative, regulatory and administrative reforms in order to increase compliance and efficiency of revenue collection. Having embarked on an ambitious reform program in each of these areas over recent years, the government is now focused on the implementation of these reforms. Combined with a budget strategy that reflects firm commitment to fiscal consolidation over the medium term, these macroeconomic and public financial management reforms will help position the government finances on a more sustainable footing.

To achieve stronger and more stable economic growth, we are pursuing reforms to strengthen the productive sectors of the economy and facilitate private sector development. We are reforming and regulating our national payments system, in order to improve efficiency, reduce risks and increase public confidence. Over time, we also expect these reforms to contribute to a reduced cost of remittance which is a critical driver of economic activity. We are also reviewing the tourism sector development plan, tourism marketing and air access arrangements, to ensure that this key sector is supported appropriately. We recognise the significance of the tourism sector for the employment and empowerment of women which elevates the need of setting the sector on a stronger growth pathway.

To facilitate private sector development, we are actively seeking to facilitate greater private sector participation in state-owned enterprises (SOEs), and we have identified a number of opportunities for public-private partnerships and divestments to be pursued in the coming years. With the development of the public-private partnership policy framework in 2014, a revised SOE policy has been approved which reinforces the commitment to improve the efficiency of SOEs and generate opportunities for private sector development.

Samoa, like other Pacific Island Countries, faces substantial risks from natural disasters and the effects of climate change. The government is therefore prioritizing the coordination of the policy framework and projects associated with building climate resilience, with the ultimate goal of reducing the risks faced by vulnerable communities. In the first instance, we need to develop the necessary institutional arrangements to ensure that each of our climate resilience and disaster risk management policies and investments is consistent with a cross-sectoral strategic plan. We also need to develop better monitoring and reporting mechanisms, so as to better understand whether climate projects in the various sectors are generating a positive outcome.

While we implement these priority reforms to help consolidate our fiscal position, achieve more robust economic growth, and build climate resilience, we will also continue to work to strengthen the performance of the social sectors. In the health sector, focus will be on strengthening the alignment of budget resources with policy priorities, including the key priority of managing the rising threat of non-communicable diseases. In the education sector, we will focus 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 seek the World Bank's favourable consideration of our request for a Development Policy Operation 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 positive partnership we have had over many years.

Yours sincerely

Sili Epa Tuioti
MINISTER OF FINANCE

ANNEX 3: FUND RELATIONS ANNEX

Samoa—Assessment Letter for the World Bank
July 8, 2016

1. **Real economic activity has normalized following natural disasters and the GFC that dampened growth since 2009.** Growth for financial year 2015/2016 is estimated to be 3 percent, up from 1.6 percent in 2014/2015, led by strong growth in fishing, transportation, and electricity and water sectors. Growth is expected to moderate to 1.5 percent in 2016/2017, reflecting the closure of a major manufacturing plant. Over the medium term, growth is projected to reach around 2 percent led by agriculture and tourism. Inflation is low and is expected to remain moderate over the medium term.

2. **Risks to the outlook are significant and financial and fiscal buffers remain depleted.** Natural disasters are an ongoing risk and the subsequent recovery could be hampered by high public debt and vulnerabilities in public financial institutions (PFI). Remittance flows (at 20 percent of GDP) could be disrupted, given the continued withdrawal of financial services by banks to money transfer operators, that channel 80 percent of remittances to Samoa.

3. **Policies are appropriately calibrated.** Fiscal consolidation and an accommodative monetary policy stance balance support for economic activity and the need to rebuild buffers in the near term. Low inflation and modest growth are contributing to less favorable debt dynamics and the debt-to-GDP ratio is projected to increase this year and next but should stabilize below 60 percent by 2020. Declining grant revenue along with large development expenditure needs add to the challenge of fiscal consolidation and underscore the need to develop broad-based domestic revenue sources and improve expenditure rationalization. Contingent liabilities are large, estimated at 24 percent of GDP, and are related to SOEs and PFIs.

4. **The external position is broadly in line with fundamentals.** The current level of the exchange rate is appropriate. However, reserve coverage is projected lower than previously thought at just over 3 months of imports, and is particularly low taking into consideration the risk of natural disasters. Foreign currency-denominated public sector debt limits the role of the exchange rate to smooth the adjustment of the economy to external shocks. The current account deficit is expected to be about 2 percent over the medium term.

5. **The 2015 financial sector assessment program identified risks in some commercial banks and PFIs.** The role of PFIs needs to be refocused to reduce contingent liabilities and to support the development of private financial markets. Regulation and supervision of financial institutions needs to be further improved. Increased AML/CFT compliance along with enhanced payment systems can help reduce risks of a remittance slowdown.

6. **Continued reform momentum can help unlock Samoa's potential.** These include reforms to support agriculture and tourism and measures to improve the business environment. Continued implementation of SOE governance reforms can help increase the contribution of this sector to economic activity.

Table 1. Samoa: Selected Economic and Financial Indicators, 2011/12–2020/21

Population (2015): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2014/15): US$ 4,159
Quota: SDR 11.6 million

					Est.	Proj.				
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					(12-month percent change)					
Output and inflation										
Real GDP growth	0.4	-1.9	1.2	1.6	3.0	1.5	2.0	2.1	2.1	2.1
Nominal GDP	4.4	-0.2	1.5	4.4	3.4	2.5	4.0	4.5	4.9	5.1
Consumer price index (end of period)	5.5	-1.7	0.2	0.4	0.3	1.7	2.2	2.6	3.0	3.0
Consumer price index (period average)	6.2	-0.2	-1.2	1.9	0.3	1.0	2.0	2.4	2.8	3.0
					(In percent of GDP)					
Central government budget										
Revenue and grants	30.2	33.8	38.1	35.9	32.7	38.4	32.2	32.0	32.9	33.1
Of which: grants	7.6	9.7	12.6	9.8	6.8	11.7	5.8	5.7	6.5	6.7
Expenditure and net lending	37.3	37.6	43.3	39.8	36.1	40.5	35.7	34.9	35.5	35.5
Of which: Development	12.5	11.5	15.0	12.8	10.5	13.7	10.2	9.5	10.1	10.1
Current balance	-2.2	-2.0	-3.0	-0.9	0.3	-0.1	0.8	1.0	1.0	1.0
Overall balance	-7.2	-3.8	-5.3	-3.9	-3.4	-2.1	-3.5	-2.9	-2.6	-2.4
External financing	7.3	3.5	2.8	2.3	2.0	2.9	3.5	2.9	2.6	2.4
Domestic financing	-0.1	0.3	2.4	1.6	1.4	-0.8	0.0	0.0	0.0	0.0
					(12-month percent change)					
Money and credit										
Broad money (M2)	-4.0	-0.8	18.7	0.6	4.7	2.5	4.0	4.5	4.9	n.a.
Net domestic assets	-2.7	4.8	2.1	-2.0	12.0	-1.2	…	…	…	…
Private sector credit	2.8	1.1	3.4	15.4	3.4	5.2	5.7	3.5	5.0	n.a.
					(In millions of U.S. dollars)					
Balance of payments										
Current account balance	-65.8	-3.2	-65.1	-23.5	-19.1	-18.3	-18.4	-18.3	-19.1	-18.0
(In percent of GDP)	-8.2	-0.4	-8.1	-2.9	-2.3	-2.1	-2.0	-1.9	-1.9	-1.7
Merchandise exports, f.o.b. 1/	29.3	27.5	24.9	27.9	36.3	37.4	39.3	41.2	43.3	42.4
Merchandise imports, f.o.b.	-351.6	-309.3	-334.6	-322.8	-329.0	-332.3	-337.0	-340.7	-347.5	-354.5
Services (net)	108.0	117.3	111.7	131.9	141.6	145.9	150.4	154.2	158.0	166.7
Income (net)	-26.8	-27.5	-29.8	-22.9	-25.6	-26.3	-27.3	-28.6	-30.0	-31.6
Current transfers	175.4	188.8	162.7	162.3	157.7	157.0	156.3	155.6	157.1	159.0
External reserves and debt										
Gross official reserves	157.1	137.3	154.3	131.9	110.9	128.3	130.8	135.1	137.8	157.8
(In months of next year's imports of GNFS)	4.7	3.9	4.6	3.8	3.2	3.6	3.7	3.7	3.7	3.8
Public debt (in millions of tala) 2/	959.7	984.5	1,015.4	1,126.1	1,194.0	1,237.3	1,312.3	1,376.8	1,438.9	1,499.2
(In percent of GDP)	52.1	53.5	54.4	57.8	59.2	59.9	61.0	61.3	61.0	60.5
External debt (in percent of GDP)	49.9	51.6	51.8	55.3	58.5	59.5	61.0	61.3	61.0	60.5
Public external debt-service ratio (in percent)	4.5	6.7	7.7	8.6	9.4	9.6	9.9	11.9	12.3	12.8
Exchange rates										
Market rate (tala/U.S. dollar, period average)	2.30	2.28	2.32	2.42	…	…	…	…	…	…
Market rate (tala/U.S. dollar, end period)	2.33	2.37	2.27	2.56	…	…	…	…	…	…
Nominal effective exchange rate (2010 = 100) 3/	100.9	104.0	106.5	111.6	…	…	…	…	…	…
Real effective exchange rate (2010 = 100) 3/	102.9	104.6	104.7	109.5	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (in millions of tala)	1843	1839	1866	1949	2016	2067	2150	2247	2358	2478
Nominal GDP (in millions of U.S. dollars)	801	805	804	804	846	876	915	952	989	1,028
GDP per capita (U.S. dollars)	4,241	4,228	4,189	4,159	4,341	4,463	4,629	4,774	4,927	5,081

Sources: Data provided by the Samoan authorities and Fund 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).