



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Feb-2023 | Report No: PIDC35105

**BASIC INFORMATION****A. Basic Project Data**

Country Samoa	Project ID P180120	Project Name Samoa First Recovery and Resilience Development Policy Operation (P180120)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Jun 15, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Independent State of Samoa	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The two Development Objectives and pillars of the operation are to: (i) promote an inclusive economic recovery and to (ii) strengthen fiscal, social and climate resilience.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	10.00
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DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Samoa is a lower-middle-income small island state, highly dependent on tourism and agricultural trade and extremely vulnerable to natural disasters and external shocks. The country has a population of less than 200,000 people and a GDP of about US\$1 billion. The major drivers of economic activity are tourism, agriculture and fishing, remittances, and aid flows. Up until the global financial crisis, the economy grew at an annual average of 4.5 percent. In the last decade and prior to COVID-19, consecutive economic shocks and natural disasters translated into more volatile and slower growth of around 2.5 percent on average annually. More recently, the economy contracted by 5.4 percent on average from FY20-22, due to the impacts of COVID-19. Pursuing an inclusive economic recovery is challenged by Samoa's small size, geography, and vulnerability to natural disasters and climate change. Growth is constrained by limited endowment in natural resources, a small domestic market and remoteness from large markets for inputs and outputs. Attracting investment to support private sector growth and employment is difficult reflecting these intrinsic factors as well as burdensome business regulations and a still restrictive investment policy. In the last decade, Samoa received less than half the Pacific Island Countries (PICs) average of foreign direct investment (FDI). Samoa also has low female labor market participation rates (40 percent) reflecting limited employment opportunities and bottlenecks in the labor market, further limiting productivity growth.

Samoa recorded a third consecutive year of economic contraction in FY22, primarily due to the impacts of COVID-19. Inflation has been high, reaching 8.8 percent (annual average) in FY22, driven largely by the surge in global food and fuel prices. The current account deficit narrowed to 11.6 percent of GDP in FY22 compared to 14.9 percent of GDP in FY21, owing to robust remittance inflows, which offset the sizeable trade deficit. The government recorded yet another year of fiscal surplus in FY22, supported by robust revenue collections, high grants inflows and under-execution of expenditure. The Central Bank of Samoa (CBS) maintained low policy rates, but due to cyclical and structural factors, credit cost remained high, suppressing credit growth. The financial sector has shown reliance throughout the pandemic, but risks remain. A rebound in economic activity is projected in FY23 with a return to pre-COVID levels over the medium term. The macroeconomic policy framework is adequate for the purposes of the proposed operation.

Relationship to CPF

The proposed reforms are central to the World Bank's engagement with Samoa, as presented in the Regional Partnership Framework (RPF, report #120479) - for nine small Pacific Island countries. The RPF priorities align with Samoa's efforts to recover from the COVID-19 pandemic. The development objectives of the DPO are aligned with the RPF focus areas of protecting incomes and livelihoods, including through (i) promoting private investment, (ii) strengthening resilience to climate change and other natural disasters and addressing NCDs, and (iii) strengthening the enablers of growth through improved macro-economic management and addressing knowledge gaps. The proposed operation also aligns closely with the World Bank Group (WBG) Global Crisis Response Framework (GCRF). This operation will help the country prepare for future shocks contributing to building-up its long-term resilience. Three of the four pillars of the GCRF are addressed by one or more reforms under this operation: (i) social protection and private investment promotion measures (PA#6 and PA#1) will help Protect People and Preserve Jobs; (ii) risk-informed asset management (PA#7) and social service delivery (PA#6) will Strengthen Resilience of people and assets to natural hazards and climate change; (iii) improved public debt and financial management (PA#4 and PA#5), financial inclusion and automated payment systems (PA#2 and PA#3) will contribute to fiscal sustainability and Strengthening Policies, Institutions and Investments for Rebuilding Better. Finally, the DPO series is complemented by other WB-financed projects targeted at achieving the RPF outcomes.



C. Proposed Development Objective(s)

The two Development Objectives and pillars of the operation are to: (i) promote an inclusive economic recovery and to (ii) strengthen fiscal, social and climate resilience.

Key Results

Pillar 1: Promote an Inclusive Economic Recovery

The measures supported under Pillar 1 are complementary and combined are expected to support Samoa's inclusive economic recovery.

Promoting Private Investment

Expected Result: The adoption of a more strategic investment promotion policy is expected to help attract investors in Samoa's comparative advantage sectors. The results indicator thus tracks the increase in the number of foreign enterprises registered in Samoa as measured by the number of foreign investment certificates issued and renewed by MCIL each fiscal year.

Promoting Financial Inclusion

Expected Result: The results indicator will track the share of customs payments processed through the ATS. It captures the implementation of digital payments using customs as a specific use case.

Strengthening the AML/CFT Framework

Expected Result: The results indicator tracks the share of eligible population who has registered for a National Digital ID. The adoption of digital ID is expected to subsequently lead to greater financial inclusion and lower financial sector risk. However, these impacts will only just start to materialize during the reporting period of this operation.

Pillar 2: Strengthen Fiscal, Social and Climate Resilience

The measures supported under Pillar 2 are part of a comprehensive approach to strengthen fiscal, social and climate resilience and are mutually reinforcing.

Strengthening Fiscal Resilience

Expected Result: The results indicator for this prior action would be: (i) MoF's submission in FY23 to Cabinet of a Report that includes the credit risk assessment of Samoa's two largest SOEs (the Development Bank of Samoa and Samoa Airways) including recommendations to address identified contingent liability risks; and (ii) MoF submission of the Mid-Year Budget Monitoring Report for Cabinet approval and its publication on MoF's website.

Strengthening Social Resilience

Expected Result: The results indicator tracks the share of targeted social protection beneficiaries with information cross-checked between government administrative and Census data.

Strengthen Climate Resilience

Expected Result: The results indicator would be MoF's approval by FY24 of the first annual work plan of the newly established Asset Management Division and the recruitment of at least two key staff responsible for climate and disaster resilience in that division.

D. Concept Description

The proposed operation marks the tenth DPO delivered in Samoa over the past 13 years, demonstrating the government's commitment to a consistent reform agenda and a strong partnership with development partners. The operation is structured around current government priorities for which strong reform momentum exists, particularly on fiscal and climate resilience. The operation addresses priorities in two areas:



The first objective of the operation is to promote an inclusive economic recovery. Attracting responsible private investors, especially foreign, in labor intensive services, agriculture or manufacturing sectors helps support private sector growth and the creation of more productive jobs including for more vulnerable segments of the population. Foreign companies typically lead to improvements in production and managerial practices. They also provide in-firm training and skills upgrading, technology transfer and social and environmental standards upgrading, saving resources and lifting productivity and jobs. Improving the reach of the financial system is also key to inclusive recovery. Expanding access to affordable formal financial services supports businesses productivity-enhancing investments, while individuals invest in education and health, raising their productivity and allowing them to better manage income shocks. It also helps limit irresponsible lending reducing over-indebtedness especially of low-income clients and raising overall financial stability. Furthermore, improving financial inclusion by ensuring more clients use formal financial services also increase the reach and effectiveness of the AML/CFT controls. This in turn is key to limit the diversion of resources away from economically and socially productive uses with positive impacts for economic growth.

The first pillar has three policy priorities:

- Prior Action #1. To promote private investment, the recipient, through its Cabinet, has approved the Investment Promotion Policy, which defines the institutional context and instruments to carry out investment promotion.
- Prior Action #2. To promote financial inclusion and financial sector stability, the Recipient, through its Central Bank of Samoa, has approved the Credit Bureau Database Policy, which clarifies institutional and governance arrangements of the proposed Samoa Credit Information Bureau (SCIB), and consumer protection measures, including data confidentiality.
- Prior Action #3. To promote financial inclusion and strengthen the Recipient's Anti-money Laundering and Combating the Financing of Terrorism framework, the Recipient, through its Cabinet, has approved the National Digital ID Bill 2022.

The second objective of the operation is to Strengthen Fiscal, Social and Climate Resilience. Strengthening public debt management and PFM supports macroeconomic stability and further improves debt sustainability. It is also key in managing fiscal risks and ensure no unexpected shocks to government finances undermine existing fiscal space that can be used when natural disasters materialize, to deliver better social services, and provide resources for needed infrastructure. Fiscal space is also needed over the medium-term to facilitate adequate investment in environmental protection, adaptation initiatives and in building-back-better. Implementation of an effective response to natural disasters not only depends on the availability of resources but also on the efficacy of budget execution and coordination mechanisms, and overall robust governance practices. Conversely, a more efficient targeting of social benefits and more resilient natural and physical environment reduces the fiscal burden in the wake of natural disaster events and allows to make the most of limited public resources. At the same time, measures to foster climate and disaster resilience, coupled with improved environmental protection, should help the resilience agenda in protecting the local population, safeguarding livelihoods and fiscal revenues. There are also co-benefits in maintaining the attractiveness of Samoa to nature-based tourism and mitigation of environmental degradation.

The second pillar has four policy priorities:

- Prior Action #4. To improve the monitoring and management of existing Government guarantees and enhance transparency, the Ministry of Finance: (1) conducts credit risk assessment using the Credit Risk Assessment Framework mandated by the Government Guarantee Policy for the Development Bank of Samoa and Samoa Airways and makes a Cabinet submission, which includes the outcome of the credit risk assessment and recommendations to address risks and (2) published the gross financial exposure, which includes stock of all government guarantees breakdown by creditor and borrower (SOE) for December 2021, September 2022 and December 2022 quarters in the December Quarter Debt Bulletin by April 2023.



- **Prior Action #5.** To improve public financial management, the Recipient, through its Chief Executive Officer of Ministry of Finance, has issued an Internal Memorandum, which authorizes the submission of a Mid-Year Budget Monitoring Report to its Cabinet and the publication of such Report on its Ministry of Finance’s website.
- **Prior Action #6.** To strengthen disaster and economic shock response, the Recipient, through its Cabinet, has approved the National Social Protection Framework Policy, which provides principles for coordinating and targeting of benefits to vulnerable groups under current and planned social protection programs.
- **Prior Action #7.** To enhance the life-cycle management and financial resilience of public assets to climate and disaster risk, the Recipient, through its Public Service Commission, has established a new Asset Management Division in the Ministry of Finance.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The proposed programmatic operation will support the Government in its response to mitigate the impact of external global shocks, and longer-term efforts to boost resilience against economic, climate, and disaster risks, all of which affect the poor and vulnerable disproportionately more. The Investment Promotion Policy will likely stimulate economic activity and inclusive job creation in sectors including tourism and agribusiness which generate jobs for low and high skilled workers. Social protection and disaster risk management policies contribute to addressing poverty and vulnerability.

Environmental, Forests, and Other Natural Resource Aspects

Policy actions under this operation are not expected to create negative impacts on Samoa’s environment, forests, and natural resources. The policy reforms enhancing the climate and disaster resilience of assets are likely to have significant positive effects on the environment and natural resources. Samoa’s Environmental Assessment system is considered one of the more robust in the Pacific. Despite this robust regulatory environment, PUMA continues to face several challenges in delivering on its mandate.

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APPROVAL

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Approved By

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