Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Apr-2023 | Report No: PIDA35939

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Samoa	P180120	Samoa First Recovery and Resilience Development Policy Operation (P180120)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EAST ASIA AND PACIFIC	08-Jun-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Independent State of Samoa	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 (ii) strengthen fiscal, social and climate resilience.

Financing (in US$, Millions)

SUMMARY

Total Financing	10.00

DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Decision
Other

Explanation
The review authorized the team to appraise and seek RVP approval for negotiations with the updated PD once all evidence is received.

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 annual growth of around 2.5 percent. 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 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 substantial 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 by FY26. 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) and financial inclusion (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 (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 better formulated and more strategic investment promotion policy should facilitate private, especially foreign, investment to support inclusive growth.
Strengthening Financial Inclusion and Financial Sector Resilience
Expected Result: The results indicators will track: (i) the share of adult population with credit information in the credit bureau; and (ii) the share of eligible population who has registered for a National Digital ID.

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 indicators will track whether Samoa Airways and Development Bank of Samoa qualify for government guarantees based on their credit ratings and the budget variance (difference between budgeted and actual fiscal balance).
Strengthening Social Resilience
Expected Result: The results indicator will track the share of targeted beneficiaries with information cross-checked between government administrative and Census data.
Strengthen Climate Resilience
Expected Result: The results indicator will track: (i) the establishment of a centralized asset register for at least three key sectors and inclusion of resilience- related information in annual financial statements; and (ii) share of villages with Village Disaster and Climate Risk Management plans completed.

D. Project 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. The reforms on investment promotion are expected to facilitate private investment, domestic and foreign, and support productive jobs creation in sectors like tourism that reach more vulnerable groups, including women, youth, and rural communities. Improving the reach of the financial system is also key to an inclusive recovery. The proposed credit reporting reforms will provide an incentive to commercial financial institutions to increase access to financial services with a disproportionately larger impact on un – and under-banked populations. This, in turn, is expected to support businesses productivity-enhancing investments, while individuals invest in education and health, raising their productivity and allowing them to better manage income shocks. It will also help limit irresponsible lending, reducing the risk of over-indebtedness especially of low-income clients, contributing to overall financial stability. Finally, the National Digital ID reforms will support access to financial and other public services by facilitating identification. This is especially important for citizens receiving remittances, government support payments and/or with less access to traditional government services to start with. Improving customer identification will also contribute to addressing money laundering and corruption risks by raising the level of AML/CFT compliance of financial institutions. This in turn will support the flow of remittances and businesses cross-border financial transactions with positive impacts for economic activity, equity and 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 instruments to facilitate investment promotion.
- *Prior Action #2.* To promote financial inclusion and financial sector resilience, 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, 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) has conducted 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.
- *Prior Action #5.* To improve public financial management, the Recipient has issued a Cabinet directive, which regularizes the submission, by its Ministry of Finance, of Quarterly Budget Monitoring Reports to its Cabinet.
- *Prior Action #6.* To strengthen disaster and economic shock response, the Recipient, through its Cabinet, has approved the National Social Protection Policy Framework, which enhances links between social assistance, social insurance and active labor market programs to improve provides principles for coordinating and targeting of benefits to vulnerable groups under current and planned social protection programs.
- *Prior Action #7.* To enhance the climate and disaster resilience of public assets, the Recipient, through its Public Service Commission, has issued an order which establishes a new Asset Management Division in its Ministry of Finance.

E. Implementation

Institutional and Implementation Arrangements

The MoF is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. MoF will directly monitor the results indicators pertaining to debt management, public financial management, and asset management, and will collaborate with the relevant ministries and agencies on the other result indicators. MoF has demonstrated good capacity to coordinate the monitoring and results evaluation of budget support operations to date. Where possible, it will utilize existing systems for monitoring and evaluation purposes.

The results indicators chosen for the operation have been selected considering the ready availability of data of reasonable 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.

F. 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 impacts of economic, health and natural shocks are shown to be more than twice as significant for poor people than anyone else. This is because low-income communities tend to be located in less accessible low-cost risk prone areas in fragile dwellings, and commonly have limited access to health and social protection services, credit or insurance to mitigate the post-disaster impacts. They are also the most affected by post-disaster disruptions in infrastructure services such as electricity, roads and running water. This holds true in Samoa. Pillar 1 reforms on investment promotion and financial inclusion will support job creation in the medium- to longer-term and raise credit access for a wider pool of citizens. Pillar 2 targets social protection policies and provides a coherent framework for social protection (PA#6) interventions to the vulnerable populations and will enhance the resilience of people and assets at regular time and at time of shocks. The NSPPF provides also the basis for leveraging the work conducted under pillar one PA#3 (NDID) to identify more efficiently people in need at regular times and at time of shocks.

The Investment Promotion Policy supported in PA#1 will likely stimulate economic activity and inclusive job creation in sectors including tourism and agribusiness which generate jobs for low and high skilled workers. Lack of access to financial services limits economic opportunities and can raise the vulnerability of low-income households and micro and small businesses. Social protection policies, national digital ID, 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 reforms in this operation are aligned with the Pathway for the Development of Samoa which focuses on strengthening green development to protect and better manage Samoa's fragile environment. The Investment Promotion Policy (PA#1) has the objective of increasing investment. Samoa's economic endowments and economic structure implies that new investment will be largely in small or moderate sized projects in retail, tourism and other services, and agricultural industries. There is little likelihood of large industrial development projects in forestry or resource extraction. Environmental risks in tourism and agriculture are mitigated primarily by the requirement in the investment policy for all investments to adhere to Samoa's environmental and social regulations. Additional steps could be taken to ensure regulators have the capacity to properly apply these environmental standards, particularly if the pace of new investments increases. The Credit Bureau Policy (PA#2) is expected to expand the borrower market allowing more businesses especially SMEs access to financing, which could lead to infrastructure development in Samoa. Such development would be assessed under Samoa's regulatory system for environmental impacts. Other PAs related to fiscal risk from government guarantees (PA#4), public financial management (PA#5) and AML/CFT (PA#3) are unlikely to affect the 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. Furthermore, Samoa's Environmental Assessment system is considered one of the more robust in the Pacific.

G. Risks and Mitigation

Overall, the operation faces substantial risks to achieving its development outcomes. These are partially mitigated by the reforms supported by this operation, and the financing provided by other development partners, especially budget support as part of the Joint Policy Action Matrix (JPAM). Macroeconomic risks are rated substantial given the narrow economic base and vulnerability to external shocks and natural disasters. Due to Samoa's inherent vulnerability to climate change and natural hazards, the risks to natural disasters, epidemics, and the environment and society are substantial. The potential impact of these risks is mitigated by the supported reforms, which are priorities for the government and other development partners involved in JPAM and are likely to retain momentum even in a challenging environment. This proposed DPO supports several reforms which are the direct responsibility of individual ministries, where capacity and understanding of budget support operations is sometimes limited.

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APPROVAL

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