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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 9.9 MILLION
(US$ 13.7 MILLION EQUIVALENT)
COMPRISING
A DEVELOPMENT POLICY GRANT OF SDR 3.6 MILLION (US$ 5.0 MILLION EQUIVALENT)
AND
A DISASTER RISK MANAGEMENT DEVELOPMENT POLICY GRANT WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION (CAT DDO) OF SDR 6.3 MILLION (US$ 8.7 MILLION EQUIVALENT)

TO

THE INDEPENDENT STATE OF SAMOA

FOR A

SECOND RESILIENCE DEVELOPMENT POLICY OPERATION
WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

October 31, 2018

Macroeconomics, Trade and Investment and Social, Urban, Rural and Resilience Global Practices
East Asia and Pacific Region

SAMOA – GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of 30 September 2018)
US$ 1.00 = WST 2.60
SDR 1.00 = US$ 1.39525

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
CBR	Correspondent Banking Relationship
CBS	Central Bank of Samoa
CDC	Cabinet Development Committee
CERC	Contingency Emergency Response Component
CFT	Countering the Financing of Terrorism
CGT	Capital Gains Tax
CIM	Community Integrated Management
COEP	Code of Environmental Practice
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CRIP	Climate Resilient Investment Plan
CRRS	Climate Resilient Roads Strategy
CTF	Counter Terrorism Financing
DBS	Development Bank of Samoa
DDO	Deferred Drawdown Option
DPO	Development Policy Operation
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
EA	Environmental Assessment
ECR	Enhancing the Climate Resilience of Coastal Resources and Communities
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FY	Financial Year (year ended June)
GDP	Gross Domestic Product
GNI	Gross National Income
GRS	Grievance Redress Mechanism
HIES	Household Income and Expenditure Survey
IDA	International Development Association
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPES	Institute of Professional Engineers Samoa
JPAM	Joint Policy Action Matrix
KYC	Know Your Customer
LTA	Land Transport Authority
MAPS	Methodology for Assessing Procurement Systems
MER	Mutual Evaluation Report
MTDS	Medium-Term Debt Management Strategy
MfR	Ministry for Revenue
MNRE	Ministry of Natural Resources and Environment
MOF	Ministry of Finance
MTO	Money Transfer Operator
MWTI	Ministry of Works, Transport and Infrastructure
MWCSD	Ministry of Women, Community and Social Development
NAPDM	National Action Plan for Disaster Management
NBC	National Building Code
NCD	Non-Communicable Disease
NHS	National Health Services
NPL	Non-Performing Loan
PREP	Pacific Resilience Program
PBB	Public Beneficial Body
PCRAFI	Pacific Risk Assessment and Financing Initiative
PUMA	Planning and Urban Management Authority
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PFI	Public Financial Institution
PFM	Public Financial Management
PPP	Public-Private Partnership
PPSR	Personal Properties Securities Registry
PSDI	Pacific Private Sector Development Initiative
PTB	Public Trading Body
PUMA	Planning and Urban Management Agency
PV	Present Value
REER	Real Effective Exchange Rate
SAT	Samoan Tala
SDS	Strategy for the Development of Samoa
SDR	Special Drawing Rights
SHC	Samoa Housing Corporation
SIAMS	Samoa Infrastructure Asset Management Strategy
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SORT	Systematic Operational Risk-Rating Tool
TA	Technical Assistance
TC	Tropical Cyclone
UNDP	United Nations Development Program
US	United States
UTOS	Unit Trust of Samoa
VA	Vulnerability Assessment
VAGST	Value-Added Goods and Services Tax
VFRs	Visiting Friends and Relatives
WB	World Bank
WBG	World Bank Group

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SAMOA

SECOND RESILIENCE DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

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The Samoa Second Resilience Development Policy Operation with a Catastrophe-Deferred Drawdown Option was prepared by an IDA team consisting of: Kim Edwards (TTL), Senior Economist (GMTP2), Habiba Gitay (TTL), Senior Environmental Specialist, GSU08; Jolanta Kryspin-Watson, Lead Disaster Risk Management Specialist, GSU08; Denis Jordy, Lead Disaster Risk Management Specialist, GFDRR; Eric Blackburn, Procurement Specialist, GGO08; Imogen Halstead, Senior Economist, GPV02; Loren Atkins, Associate Counsel, LEGES; Georgie McArthur, Consultant, LEGES; David Whitehead, Senior Financial Management Specialist, GGO20; Robert Gilfoyle, Senior Financial Management Specialist, GGO20; Chau-Ching Shen, Senior Finance Officer, WFACS; Maeva Betham-Va'ai, Liaison Officer, EACNF; Jian Vun, Infrastructure Specialist, GSU08; Cindy Robles, Disaster Risk Management Specialist; Michelle Lee, Program Assistant, EACNF; and Lynn Malolua, Team Assistant, EACNF. The team was supervised by Robert Utz, Program Leader, EACNF. Overall guidance was provided by Ndiame Diop, Practice Manager, GMF10, Abhas Jha, Practice Manager, GSU08, and Michel Kerf, Country Director, EACNF. Peer reviewers are Philip Schuler, Senior Economist, GMTLC; Eric Dickson, Senior Urban Specialist, GSU13; and Abigail Baca, Senior Financial Officer FRBK.

SUMMARY OF PROPOSED GRANT AND PROGRAM
INDEPENDENT STATE OF SAMOA
SECOND RESILIENCE DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

Borrower	Independent State of Samoa
Implementation	Ministry of Finance
Financing Data	International Development Association (IDA) Grant Amount: SDR 9.9 million (US$ 13.7 million equivalent) of which SDR 3.6 million (US$ 5.0 million equivalent) would be provided as a development policy grant, and SDR 6.3 million (US$ 8.7 million equivalent) would be provided as a Disaster Risk Management policy grant with a Catastrophe-Deferred Drawdown Option (Cat DDO).
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, and a single tranche with a full or partial disbursement under a Cat DDO.
Pillars of the Operation and Program Development Objectives	The three pillars of the operation are: i) To strengthen Samoa's macroeconomic and financial resilience ii) To enhance Samoa's resilience to the effects of climate change and natural hazards iii) To reduce Samoa's vulnerability to non-communicable diseases
Result Indicators	*Under program development objective (i):* 1. Increase in the ratio of domestic revenue to Gross Domestic Product (GDP) 2. Growth in registration of security interests on movable collateral 3. Improvement in compliance with Asia/Pacific Group on Money Laundering / Financial Action Task Force (APG/FATF) recommendations *Under program development objective (ii):* 4. Revised National Building Code applied to new single-story residential housing 5. Road designs informed by Vulnerability Assessment and Infrastructure Asset Management Strategy improvement initiatives implemented to improve resilience to climate and disaster risks 6. Reviews of the implementation of new Community Integrated Management plans to enhance the resilience of communities are completed *Under program development objective (iii):* 7. Increase in relative price of sugary and salty products, tobacco and alcohol 8. Average unit price of select purchased medicines declines relative to benchmarks
Overall Risk Rating	Moderate
Climate and disaster Risks	The operation has been screened for climate and disaster risk. (The program faces risks from climate change and disasters due to the potential impacts on macroeconomic stability and limited government capacity; the reforms supported under Pillar 2 are specifically designed to enhance the Samoa's resilience to long- and short-term risks from climate change).
Operation ID	P165928

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

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **The proposed operation is the second in a programmatic series of two development policy operations (DPOs), aimed at boosting the resilience of Samoa to some of the major risks threatening its sustainable growth and development, and includes a Disaster Risk Management (DRM) Policy Grant with a Catastrophe-Deferred Drawdown Option (Cat DDO).** The proposed operation combines two instruments (a DRM DPO with a Cat DDO, embedded in a programmatic DPO) and has the objectives of strengthening Samoa's macroeconomic and financial resilience, increasing Samoa's resilience to the effects of climate change and natural hazards, and reducing the vulnerability of Samoans to non-communicable diseases. With the inclusion of a Cat DDO, this operation will specifically support the Government of Samoa's efforts to increase Samoa's resilience to natural disasters and the effects of climate change, not only by supporting policy reforms to this end, but also by providing substantial, quick-disbursing financing in the immediate aftermath of a natural disaster.

2. **Under the proposed operation, the World Bank (WB) will continue to support the implementation of reforms that have been prioritized by the Government**, and that are closely aligned with target areas identified in the Strategy for the Development of Samoa FY2017–FY2020 (SDS), including economic sustainability and business development, improved health outcomes, and climate and disaster resilience. The DPO series is central to the Bank's overall engagement with Samoa, as laid out in the Regional Partnership Framework (RPF) FY17-FY21 (Report #120479) discussed by the Board on February 28, 2017. This second operation in the series is an IDA Grant of SDR 9.9 million (US$ 13.7 million equivalent). Of this amount, SDR 3.6 million (US$ 5.0 million equivalent) would be provided as an (upfront) development policy grant, and SDR 6.3 million (US$ 8.7 million equivalent) would be provided under the Cat DDO on grant terms, available for full or partial disbursement in the event of a Proclamation of Emergency related to a natural catastrophe (e.g., cyclones, earthquakes, tsunami).[1]

3. **The proposed operation is innovative in providing a combination of upfront financing and disaster-contingent financing through a single budget support operation**. The proposed structure is particularly appropriate for small island developing states such as Samoa, given the importance of policy reforms to address vulnerability to natural disasters and climate change, the need for financing that disburses quickly and with certainty in the aftermath of a natural disaster, in addition to traditional budget support, and the efficiency gains in a thin-capacity environment of working with one operation, one set of prior actions, and one set of reporting requirements (rather than two), both for the government and for the Bank. Moreover, the integration of support for disaster risk management policy reforms with the long-running budget support dialogue in Samoa will further the government's effort to mainstream climate and disaster risk and resilience into its development.

[1] On the basis that it is not possible to make a Proclamation of Emergency in accordance with Article 105 of the Constitution due to the absence or unavailability of the Head of State, the "declaration of a disaster" in accordance with Article 19(2)(a) of Samoa's *Disaster and Emergency Management Act*, 2007 may also be used to trigger a disbursement.

4. **As a very small remote economy that is highly vulnerable to climate change, disasters and external shocks, Samoa illustrates many of the constraints facing even well-performing small island states.** Samoa's 189,000 residents live mostly on two main islands located approximately 3,000km from New Zealand and 4,000km from Australia. The small size of the domestic economy (GDP was US$841m in FY2017) 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 external shocks have historically led to a high degree of volatility in economic performance. 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 December 2012, Tropical Cyclone (TC) Evan caused further damage and losses amounting to around 28 percent of 2011 GDP. At the same time, and as in other Pacific Island Countries, an epidemic of non-communicable diseases (NCDs) has brought substantial social and economic costs associated with increased morbidity and premature mortality, and escalating fiscal costs associated with meeting health treatment needs.

5. **In response to the tsunami in 2009 and TC Evan in 2012, the Government has undertaken a series of measures to improve its management of disaster risks, which are further built upon by the Cat DDO component of this operation.** In general, Samoa is highly exposed to negative effects from climate change and natural hazards including floods, droughts, tropical cyclones, storm surges, earthquakes and tsunami. To address these vulnerabilities, Samoa's Cabinet has recently approved a National Action Plan for Disaster Management (NAPDM, 2017-2020) that deepens the integration of disaster risk management into its core development sectors. Through IDA and support from other development partners, Samoa is strengthening its multi-hazard early warning systems, addressing climate and disaster risks to coastal areas and flood plains, and has revised its National Building Code (NBC) to reduce the damage from cyclonic winds and earthquakes. To address its financial needs after a natural disaster, Samoa has participated in a Bank-led regional disaster risk insurance facility for the past five years and has also incorporated a contingency component in a Bank investment operation. The Cat DDO expands the range of risk financing instruments available to Samoa, while supporting further policy reforms to decrease disaster and climate-related risks.

6. **The population of Samoa is highly vulnerable to non-communicable diseases, which are a major and increasing threat to public health and public finances.** NCD-related deaths – including deaths caused by diabetes, heart disease, and stroke among others – account for over half of all premature deaths in the country, and the share of NCDs in the total disease burden has increased from 60 percent in 1990 to 73 percent in 2016. Although genetics is a factor, the top risk factors for these diseases are life-style related, and include a high body-mass index, high sugar and salt intake, high blood pressure, and tobacco and alcohol consumption. Changing lifestyle habits to reduce the prevalence of risk factors will be critical, including through price signals. The fiscal costs of treating NCDs, if this epidemic is not curtailed, are unaffordable and vastly exceed the fiscal costs of preventing NCDs, highlighting the importance of an effective preventative strategy. As recommended by the 2017 Samoa NCD Study, improving the efficiency of medicine procurement and improving the access to and uptake of cost-effective essential NCD

medicines in at-risk populations will also be important. The current programmatic series of development policy operations has supported several reforms in these areas (e.g. imposition of excise taxes, pharmaceutical procurement reform) which have benefitted from coordinated action across the Government, including engagement from the Ministry of Health, Ministry for Revenue, and Ministry of Finance.

7. **On the macroeconomic front, economic activity has picked up in recent years, after a period of low and volatile growth.** The Government responded to the succession of major shocks that hit the country at the turn of the decade by increasing public spending, which supported the economy but also led to significant increases in public debt. Since then, growth has recovered, driven by construction, increased tourism arrivals, lower fuel prices, new capacity in the fishing industry, and a series of one-off international and sporting events. Overall, economic growth has averaged 3.1 percent over the four years since TC Evan in December 2012, substantially faster than the 1.2 percent averaged over the preceding decade. The Government has also succeeded in consolidating its fiscal position and lowering the ratio of external debt to GDP. Over the medium term, real GDP is expected to increase at an annual rate between 2 and 2.5 percent, supported by continued growth in the tourism and agriculture sectors, and improvements to the business environment resulting from recent investments to improve internet connectivity and reduce the cost of electricity. Nevertheless, the macroeconomic outlook remains subject to a range of risks, including continued vulnerability to external shocks.

8. **Given Samoa's 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, and particularly to the poorest, with the 2013/14 Household Income and Expenditure Survey (HIES) showing that remittances accounted for a higher share of the income of the poorest quintile than of the overall population. Migration and remittances are expected to remain a key driver of Samoa's living standards into the future, highlighting the importance of maintaining sound and stable correspondent banking relationships. Like many small island states, Samoa is reliant on international development assistance, with grant aid flows averaging just under 10 per cent of GDP over the past four years. Tourism is also an important contributor to the economy of Samoa, with its distinctive geographical and cultural features allowing premium prices to be charged that are sufficient to cover relatively high costs.

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

in food and fuel prices – but declined in subsequent years, with the most recent 2013 estimates of basic needs poverty falling below 2002 levels.

10. According to internationally-comparable estimates, poverty is very low in Samoa compared with other countries in the region, and most Samoan households enjoy relatively good access to electricity, safe drinking water, and sanitation. Estimates based on the 2008 HIES indicate that the incidence of extreme hardship (spending of less than $1.90 a day) is only 0.8 percent in Samoa, while the incidence of hardship (spending of less than $3.10 a day) is 8.3 percent, both well below small Pacific island country averages.[2] 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 (above the small Pacific island country average of 38.4).[3] More recent estimates from the 2013/14 HIES suggest that inequality across the population has in fact worsened in the period since. Nevertheless, with a less-widely dispersed population (across only four islands) than most of its Pacific neighbours, Samoa has fewer constraints to the provision of adequate infrastructure across the country, with around 97 percent of Samoan households able to access electricity through the main grid, and 80 percent of households able to access piped drinking water. According to the HIES, gender-based inequality in Samoa is relatively modest overall, but is higher in urban areas in rural areas, often reflecting wage inequality.

11. As in other small Pacific island countries, the poorer parts of the population in Samoa tend to be more exposed to natural disasters and less able to cope with their effects.[4] Among the most vulnerable are those relying on (subsistence) agriculture and fisheries for their livelihoods, given that these activities often face significant damages and losses after a disaster hits. For instance, after TC Evan in 2012, it was estimated that the imputed incomes of wage-salaried and self-employed persons in agriculture and fisheries (including subsistence agricultural workers) would approximately halve in the year immediately following the cyclone, compared to income declines of 11 percent for tourism workers and 3 percent for those in commerce. The poorer and more vulnerable also have lower financial buffers to sustain themselves following the income losses and damages caused by a natural disaster.

12. The proposed operation builds on the achievements of the first DPO in the series and is structured around three development objectives: i) to strengthen Samoa's macroeconomic and financial resilience; ii) to enhance Samoa's resilience to the effects of climate change and natural hazards; and iii) to reduce Samoa's vulnerability to non-communicable diseases. Contributing to the first objective, the operation will support reforms to raise revenue collection, and manage risks to remittance flows, including those related to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) issues. On the second objective, the operation will support reforms to implement the climate resilient aspects of the revised National Building Code, improve the management of infrastructure assets, including

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[2] Work is progressing to construct internationally-comparable poverty estimates based on the more recent 2013/14 HIES data. Data for a new (2018) HIES is currently being collected.

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

[4] See the Systematic Country Diagnostic for the 8 small Pacific Island Countries, World Bank, 2016.

roads, and update Community Integrated Management (CIM) plans to enhance the resilience of communities, small infrastructure and ecosystems. On the third objective, the operation will support the introduction of new legislation to limit the negative impacts of alcohol consumption, and measures to improve the efficiency of pharmaceuticals procurement and management. The Government has already made good progress in implementing the policy actions completed under the first DPO in the series (DPO1), and in several areas these implementation efforts are being further supported by the prior actions in the proposed operation.

13. **The current programmatic series of two operations also continues the achievements under the previous DPO series** in improving macroeconomic sustainability and in the specific policy areas of revenue mobilization, procurement reform, and climate resilience. Over the past two decades, Samoa has established a strong track record for good macroeconomic management and the successful implementation of reforms. Samoa's Country Policy and Institutional Assessment (CPIA) is one of the highest among the WB's Pacific island member states and among all IDA countries.

14. **Over time, this series of operations is likely to particularly benefit the poorer and more vulnerable in Samoa**, by reducing the risks of: (i) a contraction in the provision of essential public services (with the revenue reforms providing more fiscal space to the government); (ii) a disruption to remittance flows; and (iii) severe impacts on livelihoods and damage to assets after natural disasters. The poorest parts of the population (especially those in rural areas) are likely to be the most vulnerable to these risks, given their reliance on publicly-funded services and remittances, and the dependence of their livelihoods on activities such as agriculture and fishing that are particularly susceptible to climate-related risks and natural disasters.

15. **The main risks to the proposed operation stem from Samoa's macroeconomic context and its vulnerability to external shocks and natural disasters**. Samoa faces a high risk of debt distress (due to in part to its vulnerability to natural disasters), which can only be reduced through continued efforts on fiscal consolidation and debt sustainability. Another major natural disaster in the next few years (or a slippage in domestic macroeconomic management) could threaten macro stability and large parts of the bureaucracy would have to shift their attention to disaster recovery and stabilization efforts. This DPO also supports several reforms which are the direct responsibility of line ministries – where capacity can be stretched and understanding of budget support operations is often lower – rather than the Ministry of Finance. However, development partners continue to be a source of support for the Government's capacity-building efforts in these areas, which are closely aligned with the FY2017-FY2020 SDS, and the Ministry of Finance is playing a strong coordinating role and using the sector coordination mechanism to implement reforms. The revenue, climate resilience and disaster risk management reforms supported by this proposed operation, combined with the upfront and disaster-contingent grant financing it provides, also serve to mitigate some of these risks.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

16. **Economic growth has picked up in recent years, and Samoa has demonstrated macroeconomic resilience after being hit by a number of external shocks**. Overall, economic growth has averaged 3.1 percent over the four financial years since TC Evan in December 2012, substantially faster than the 1.2 percent in the preceding decade. GDP growth in Samoa slowed to 2.5 percent in FY2017, down from around 7 percent in FY2016 (year ending June), due to slowing activity in the construction sector (reflecting the completion of major infrastructure works in 2016), the transport sector, and in the commercial fishing industry.[5] Nevertheless, activity in the wholesale and retail sectors has remained strong. Growth is expected to have moderated to 1.8 percent in FY2018, due to the closure of a major manufacturer of automotive wire harnesses in August and normalization of fishing exports. Damage from TC Gita, which hit in February 2018, was relatively contained and is expected to have only a marginal negative impact on growth.

17. **The current account balance has narrowed, due to strong growth in tourism-related services exports and an easing in imports for construction.** The current account deficit narrowed to 2.3 percent of GDP in FY2017, below levels observed in previous years, during which disaster-recovery and other construction activities tended to increase the import bill. It is expected to have increased modestly to 2.9 percent of GDP in FY2018, driven by a pickup in imports for various investment projects. The current account deficit is financed primarily by capital grants, though net inflows of highly concessional debt from development partners have also played a role in recent years (Table 2). Total visitor arrivals in the 2017 calendar year – which include the large visiting friends and relatives (VFR) market – were up by 7.5 percent relative to the previous year, while remittances increased by around 9 percent. Samoa's foreign exchange reserves currently stand at around 3.7 months of imports, which is at the lower end of the desirable range according to the International Monetary Fund's (IMF) most recent assessment, and will likely need to be bolstered over time given risks associated with natural disasters and other external shocks.

18. **Inflation has remained contained in Samoa**. Average annual inflation remained contained at 1.3 percent in FY2017, after being close to zero in FY2016, with declines in local prices (particularly food and non-alcoholic beverages) offsetting a modest pickup in the prices of imported goods (particularly fuel) in FY2017. Inflation is expected to have quickened somewhat in FY2018, due to a pick-up in import prices and more recently domestic food prices (in the wake of TC Gita), but to have remained below the authorities' 3 percent target. Credit growth moderated in FY2017, and is expected to have remained moderate in FY2018 in line with slower growth in economic activity. Samoa's exchange rate, which is pegged against a basket of major trading partner currencies, was little changed in nominal and real effective terms in FY2017, and the IMF has assessed the current level of the exchange rate (as at May 2018) to be broadly in line with fundamentals and desirable policies. The current exchange rate peg has served Samoa well as a credible nominal anchor in the face of external shocks. Scenarios in the joint 2018 IMF/WB Debt

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[5] However, measurement issues associated with improved Value-Added Goods and Services Tax (VAGST) compliance (tax revenues are an important input to the calculation of national accounts statistics) may have led to the FY2016 growth rate being overestimated by 1 to 2 percentage points.

Sustainability Analysis (DSA) suggest that a devaluation would have adverse effects on debt sustainability, given the high proportion of foreign currency denominated public debt.

19. The Central Bank of Samoa (CBS) continues to maintain an accommodative monetary stance, which is consistent with low inflation and recent fiscal consolidation efforts. The CBS policy rate has remained largely unchanged at the zero lower bound since the 2009 tsunami. However, the transmission mechanism for monetary policy is weak due to high excess reserves, a lack of competition in the commercial banking sector, conservative lending practices, and various other structural impediments to finance. Nevertheless, the IMF reports that financial stability indicators suggest a generally sound banking system, with commercial banks remaining well-capitalized and liquid. While non-performing loans increased and profitability dipped in late 2017, these indicators look to have rebounded in subsequent months. Moreover, good progress has been made in implementing recommendations from the 2015 IMF-WB Financial Sector Assessment Program, which include improving supervision, regulation and prudential standards. While supervision of public financial institutions (PFIs) has been strengthened, restoring their original mandates to reduce risks from contingent liabilities remains a priority.

20. Comprehensive revenue policy and administrative reforms have helped spur significant increases in domestic revenue collection over the last five years. Total domestic revenues in FY17 were around 27 percent of GDP, up from 23 percent of GDP in FY12. Increases in tax revenues have been driven by improved compliance and increased collection of income taxes, excise taxes, and Value-Added Goods and Services Tax (VAGST).[6] 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. The impact of the measures supported by this DPO series – including the removal of tax concessions and exemptions, the recalibration of non-tax fees and charges, and increases in various excise duties – is estimated to result in a further cumulative increase in domestic revenues of around 1 percent of GDP between FY17 and FY20, though this will depend on further progress in improving compliance. While grants from development partners have declined from their post-cyclone peak, they are projected to pick up over the next few years as a result of the IDA scale-up and recent shift to 100 percent grant terms.

21. Total expenditures were around 35 percent of GDP in FY17, down from 44 percent of GDP in FY14. As a result of substantial fiscal consolidation efforts by the government, current expenses fell by over 5 percentage points of GDP over this period, with grants to public enterprises declining and the government implementing a 10 percent 'productivity dividend' on the operating expenditures of most Government ministries and agencies in FY16 and FY17.[7] A reduction in the net acquisition of nonfinancial assets (mainly infrastructure) also contributed to the decline, in part due to a winding down of cyclone reconstruction and other one-off activities.

[6] In FY2016 the opening of two large high-end resorts helped to boost value-added tax and excise receipts.

[7] This was equivalent to an operating expenditure reduction of 10 percent compared with the previous year. A lower productivity dividend of 3 percent was set for the Ministries of Education and Health.

22. Overall, spending on wages and salaries and on transfers to public enterprises has remained contained, allowing fiscal space for other inputs to service delivery. Education and health spending each represented around 17-18 percent of the budget in FY2018 and FY2019, with spending in both sectors (particularly capital spending) scaling up in recent years to support prioritized development objectives. While wages and salaries have continued to rise gradually as a proportion of GDP, at just over a third of current expenditure, Samoa's wage bill remains below small states and Pacific Island Country averages of between 40 and 45 percent of current spending.[8] Overall grants and subsidies to State Owned Enterprises (SOEs) - including public beneficial bodies as well as public trading bodies - have declined in the past three years and are currently around 8 percent of GDP, well below the recent peak of around 10 percent in FY2014.[9] Historically close to 90 percent of these grants have been provided to the public beneficial bodies (including the National Health Service), which are tasked with the provision of various social services, or used to fund community service obligations associated with infrastructure provision. Government transfers to public trading bodies (PTBs), which operate under a commercial for-profit mandate, have averaged around 1 percent of GDP in recent years. Recent work on a revised Dividend and Return on Equity policy for the PTBs indicates that while profitability and dividend payouts have been weak in some cases, the solvency positions of most PTBs are generally sound (with the Development Bank of Samoa a notable exception, see para 33). More generally, in recent years the Government has taken several steps to improve the performance, accountability and governance of SOEs, including by establishing a new Ministry for Public Enterprises, implementing key provisions of the Public Bodies (Performance and Accountability) Act 2001, and appointing independent directors to SOE boards. Current efforts to further strengthen SOE governance and explore avenues for increased private sector participation in certain public enterprises – including divestments and Public-Private Partnerships (PPPs) – should also help to improve performance and reduce fiscal risks.

23. The Government has demonstrated a commitment to prudent debt management in recent years and external public debt has declined markedly since FY15. Samoa's external public debt increased from around 40 percent of GDP in FY09 to around 55 percent of GDP in FY15, due to the need to finance post-tsunami (2009) and post-cyclone (2012) reconstruction, as well as lending for other development projects. However, external public debt has since declined and is currently below the Government's target of 50 percent of GDP. The Government has renewed its focus on debt sustainability and compliance with its Medium-Term Debt Management Strategy (MTDS) in recent years, and continues to commit to maintaining its fiscal deficit below its 3.5 percent target. Samoa's MTDS 2016-20 – which is backed in legislation (with the support of the previous DPO series) – establishes the Government's objectives, strategies, and plans for the management of public debt, and limits approval for external loans to those with at least a 35 percent grant element and with a minimum positive economic return sufficient to cover interest

[8] The increase in compensation of employees from 8.0 percent of GDP in FY17 to 9.2 percent of GDP in FY18 largely reflects recent steps to merge the National Health Services (NHS) with the Ministry of Health, meaning that the approximately 1,000 NHS employees are now recorded as being on the government's payroll (in FY17 and in previous years, spending on these employees was recorded as part of the budgeted grant to NHS).

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

and repayment costs (Box 1). Reflecting this renewed commitment to prudent debt management, there have been no new non-concessional loans approved in Samoa since 2014.

Table 1: Key Macroeconomic Indicators

				Est.		Proj.	
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Output and inflation	(12-month percent change)						
Real GDP growth	1.6	7.1	2.5	1.8	3.2	5.0	2.2
Nominal GDP growth	4.4	5.5	3.8	4.8	5.8	7.7	5.0
Change in CPI (end period)	0.4	2.3	1.0	2.6	2.5	2.7	2.8
Change in CPI (period average)	1.9	0.1	1.3	2.9	2.6	2.6	2.8
Fiscal	(In percent of GDP)						
Revenue and grants	35.1	36.1	34.2	35.8	35.5	37.7	37.8
Expenditure and net lending	38.9	36.5	35.3	37.7	38.0	38.8	38.6
Overall balance	-3.9	-0.4	-1.1	-2.0	-2.5	-1.1	-0.8
Public debt	57.8	52.6	49.1	50.1	50.4	48.5	47.4
External debt	55.3	50.7	47.7	49.1	49.8	47.9	47.1
Money and credit	(12-month percent change)						
Broad money (M2)	0.6	7.1	7.8	4.8	5.8	5.2	5.0
Private sector credit (commercial banks)	12.7	13.6	7.2	7.0	7.4	7.5	6.9
Balance of payments	(In millions of USD)						
Current account balance	-24.9	-37.3	-19.5	-25.1	-44.0	-44.9	-50.4
(in percent of GDP)	-3.1	-4.7	-2.3	-2.9	-4.8	-4.6	-4.9
Merchandise exports, fob	27.9	36.9	38.0	39.1	40.5	41.9	43.2
Merchandise imports, fob	-322.8	-307.2	-308.4	-330.2	-363.4	-397.3	-410.2
Services exports	196.1	206.2	224.0	233.9	246.6	275.9	280.5
Services imports	-68.7	-84.8	-82.1	-86.0	-91.0	-98.0	-102.9
Primary income (net)	-16.1	-18.6	-28.4	-29.8	-31.5	-31.5	-30.9
Current transfers - inflows	176.4	149.9	159.7	167.9	176.0	186.9	193.8
Current transfers - outflows	-13.8	-17.7	-19.1	-20.0	-21.2	-22.8	-23.9
Capital account	35.8	27.2	43.2	33.3	39.3	48.1	50.8
of which: Official flows	34.3	20.9	26.0	24.9	31.0	39.8	42.5
Financial account	28.2	15.2	-4.8	13.2	5.9	16.6	1.9
of which: Direct investment	27.2	6.2	-8.5	8.5	8.0	11.6	11.6
External reserves and debt							
Gross official reserves (USD millions)	131.9	111.0	121.6	143.0	144.2	164.1	166.4
(in months of next year's imports of GNFS)	4.0	3.4	3.5	3.8	3.6	4.0	3.9
Exchange rates							
Market rate (tala/USD, period average)	2.42	2.61	2.54				
Market rate (tala/USD, end period)	2.56	2.55	2.51				
NEER (2010 = 100)	111.6	111.8	111.5				
REER (2010 = 100)	109.5	109.9	109				
Memorandum items							
Nominal GDP (millions of tala)	1,949	2,055	2,133	2,235	2,364	2,545	2,673
GDP per capita (US dollars)	4,149	4,015	4,255	4,405	4,578	4,845	4,990

Table 2: Balance of Payments – Financing requirements and sources

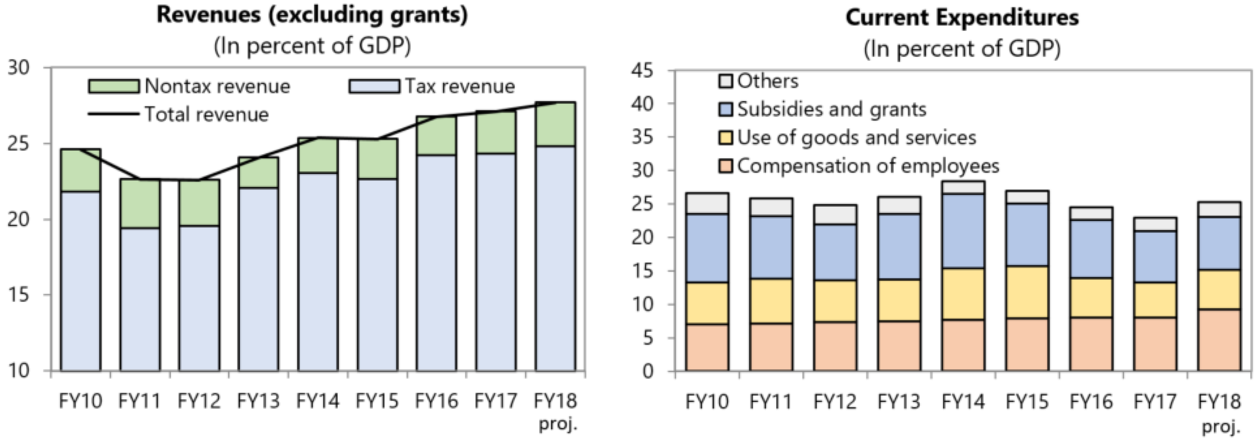
		Est.	Proj.		
	2016/17	2017/18	2018/19	2019/20	2020/21
	US$ millions				
Financing requirements	**33.8**	**45.3**	**65.3**	**67.3**	**75.1**
Current account deficit	19.5	25.1	44.0	44.9	50.4
Debt amortization	14.3	20.2	21.3	22.4	24.7
Financing sources	**33.8**	**45.3**	**65.3**	**67.3**	**75.1**
FDI and portfolio flows (net)	-14.1	2.9	0.0	5.6	5.1
Capital grants	26.0	24.9	31.0	39.8	42.5
Debt disbursements	23.2	26.7	45.7	36.5	33.9
Other flows	17.6	12.4	-10.2	5.3	-4.2
Change in reserves	-18.8	-21.5	-1.2	-19.9	-2.4

Table 3: Key Fiscal Indicators

				Est.	Proj.		
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Percent of GDP						
Revenue and grants	**35.1**	**36.1**	**34.2**	**35.8**	**35.5**	**37.7**	**37.8**
Grants	9.8	9.3	7.2	8.1	7.5	9.4	9.5
Domestic revenue	25.3	26.8	27.1	27.7	28.0	28.3	28.3
Tax revenue	22.7	24.2	24.3	24.8	25.0	25.3	25.3
Taxes on income and profits	*5.5*	*5.6*	*5.5*				
VAGST	*9.1*	*9.7*	*9.3*				
Excises	*5.1*	*5.9*	*6.3*				
Customs and import duties	*2.6*	*2.6*	*2.6*				
Non-tax revenue	2.6	2.6	2.8	2.9	3.0	3.0	3.0
Expenditure and net lending	**38.9**	**36.5**	**35.3**	**37.7**	**38.0**	**38.8**	**38.6**
Development expenditure	11.9	12.0	12.3	12.4	12.5	13.5	13.4
Current expenditure	27.0	24.5	23.0	25.3	25.5	25.3	25.2
Compensation of employees	7.9	8.0	8.0	9.2	9.3	9.3	9.3
Goods and services	7.8	5.9	5.3	5.9	6.0	5.9	5.8
Grants	9.4	8.7	7.6	8.0	7.9	7.8	7.7
Interest	1.3	1.2	1.4	1.4	1.4	1.1	1.0
Current balance	**-1.7**	**2.2**	**4.0**	**2.3**	**2.7**	**2.9**	**3.0**
Primary balance	**-2.6**	**0.8**	**0.3**	**-0.6**	**-1.1**	**0.0**	**0.3**
Overall balance	**-3.9**	**-0.4**	**-1.1**	**-2.0**	**-2.5**	**-1.1**	**-0.8**

NB: Of the FY2018/19 projected grants (7.5 percent of GDP), World Bank budget support will account for about 0.5 percentage points and general budget support from other Joint Policy Action Matrix (JPAM) partners (see section 2.3) is projected to account for approximately 1.0 percentage points.

Figure 1: Fiscal sector developments



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.

24. **Nevertheless, the debt stock remains high compared to other Pacific Island Countries, and fiscal risks remain substantial, including the ever-present risk of natural disasters.** The most recent joint WB/IMF DSA (May 2018) indicates that Samoa remains at a 'high' risk of debt distress (as was the case in the previous 2017 assessment), with the downgrade from the 'moderate' risk assessment in the 2015 DSA reflecting a methodological change to more accurately account for the average effect of natural disasters on the medium-term projections (see para 31).

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

25. **Economic growth is projected to pick up in FY19 and FY20 before settling at between 2 and 2.5 percent per year in the medium term.** Growth is expected to rebound to 3.2 percent in FY19, as two new businesses set up full scale operations at the old Yazaki plant, preparations for the 2019 Pacific Games take place, and several public projects – two new bridges, road extensions, and a new terminal at the international airport – near completion. In FY20, growth is projected to accelerate further, driven by tourism related activity with Samoa hosting the Pacific Games in July 2019. Over the medium term, real GDP is expected to increase at an annual rate between 2 and 2.5 percent, supported by continued growth in the tourism and agriculture sectors, and improvements to the business environment resulting from recent investments to improve internet connectivity and reduce the cost of electricity. However, the economy will remain highly vulnerable to external shocks, including another natural disaster,

which would negatively affect livelihoods, strain the fiscal and debt position, and reduce productive capacity.

26. The current account deficit is expected to widen modestly over the next few years as imports pick up to supply investment projects, including those related to the Pacific Games, though continued growth in tourism earnings should provide a partial offset.[10] 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. While the recent recovery in oil prices has affected the import bill (despite substantial investments in renewable energy), expectations that global energy and agricultural prices will remain broadly stable over the next one to two years should help to contain the merchandise trade deficit. Nevertheless, risks to this outlook include faster-than expected increases in food and fuel prices and/or a slippage in fiscal consolidation efforts, which would increase the current account deficit, or a shortfall in grant support from development partners, which would reduce Samoa's ability to finance that deficit.

27. Assuming import price rises remain contained, inflationary pressures should remain moderate in the period ahead, particularly if the domestic supply of agricultural products continues to expand. Inflation is forecasted at around 3 percent per year over the medium term, though it remains well below that rate currently. As the economy rebounds and inflation rises, the CBS stands ready to raise the policy rate, though in the absence of structural measures to strengthen the transmission mechanism such policy rate changes may only have a marginal effect.

28. While Government spending is projected to rise, the projected increases are small compared to the substantial fiscal consolidation achieved over the last few years, and can be accommodated to the extent they are matched by the forecast increase in grants. Current spending is projected to have picked up in FY2018 and to be maintained at a higher level over the next few years, due to i) an increase in transfers to the Samoa Sports Facilities Authority (for Pacific Games related spending) and the Land Transport Authority (to cover road rehabilitation following TC Gita and additional funding for road maintenance); ii) an increase in goods and services spending attributable to several one-off Government-sponsored events; and iii) an increase in spending on medical supplies. This increase in current spending as a proportion of GDP is expected to be slowly unwound over time, falling back to 25.0 percent of GDP by FY2023, with the Government balancing its objectives to meet development priorities and improve service delivery with its commitment to maintain fiscal sustainability. Development spending is also expected to rise modestly in the near term, due to grant-funded investments (including on the submarine cable project to improve connectivity, as well as transport infrastructure) and spending on infrastructure needed for the Pacific Games in 2019.

29. The Government remains committed to containing its fiscal deficit over the medium term. The planned path of fiscal consolidation has been set out in the Government's fiscal strategy, which serves as a policy anchor and targets a fiscal deficit below 3.5 percent of GDP and

[10] The current account deficit was also temporarily lowered by one-off service-related payments in FY17 and FY18: the absence of these payments from FY19 onwards will also cause the deficit to widen. On the other hand, a boost in tourism-related services exports due to the Pacific Games in FY20 will temporarily narrow the deficit in that year.

external public debt below 50 percent of GDP. Estimates suggest these targets have been met in FY18 and will be met again in FY19, in line with continued Government efforts to boost domestic revenue collection and contain expenditures. Over the medium term, the projected increases in expenditure are consistent with a decline in the budget deficit, given the projected increase in grants and continued progress on improving domestic revenues. Plans to implement recommendations from recent expenditure reviews in the health and education sectors (supported by the WB) – including an increase in the share of the health budget allocated to preventative health services and primary care, and in the share of the education budget allocated to early childhood education – should ultimately help to improve the efficiency and allocation of spending in these sectors, in the context of a constrained overall fiscal envelope.

30. The Government will also need to maintain its solid record on debt policy and management displayed in recent years. Since 2015, no new non-concessional debt has been contracted – in line with the provisions of the MTDS – and external public debt has declined markedly. Looking forward, it will be important for the Government to continue on this track – which contrasts with the more mixed record observed in previous years – and ensure that any new proposal to be financed even on concessional terms is rigorously assessed.[11] In its most recent Article IV consultations, the IMF recommended the introduction of a fiscal anchor targeting an overall fiscal deficit below 2 percent of GDP on average over the medium term, which would be consistent with the achievement of a lower public debt target of 45 percent of GDP in the medium term and 40 percent of GDP over the longer term. Such a target would likely be more suitable for a country of Samoa's size and external vulnerabilities, notwithstanding the fact that the interest burden associated with the current public external debt stock of just below 50 percent of GDP is relatively contained at between 1 and 1.5 percent of GDP, due to the high concessionality of most of the debt. The authorities agreed with IMF staff advice on the potential to further strengthen the fiscal framework along these lines, and this could form the basis of a series of policy actions in a successor DPO series.

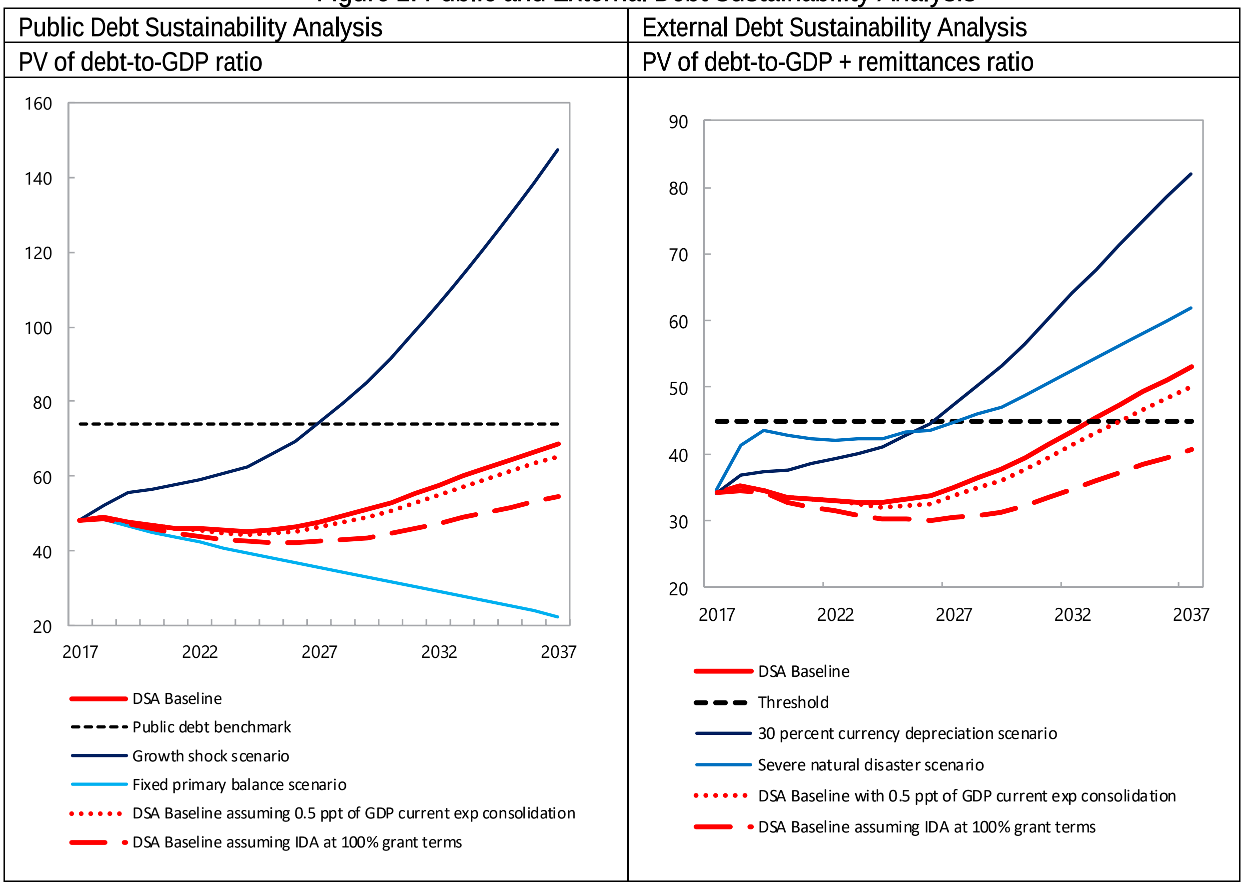
31. Despite the recent fiscal consolidation efforts, Samoa remains at a high risk of debt distress (joint WB/IMF DSA, May 2018). As previously noted, the two most recent DSAs have more accurately accounted for the average annualized cost of natural disasters in the medium-term growth and fiscal balance projections, based on Samoa's historical experience and literature on the macroeconomic impact of natural disasters in the Pacific.[12] Under the 2018 DSA baseline, the present value (PV) of public external debt breaches the indicative threshold of 45 percent of GDP plus remittances in 2034; while exogenous shocks (an exchange rate depreciation or a severe natural disaster in the near term) would lead to earlier breaches. Nevertheless, it should be noted

[11] The Government's efforts on this front will be aided by the strong program of reforms supported by the previous DPO series, which included the establishment of formal procedures for contracting loans and Government guarantees; the enactment of amendments to the Public Finance Management Act 2001 which require that Government borrowing and debt management operations are consistent with the Government's debt management strategy; and the approval of an updated MTDS, which reviewed the implementation of the previous MTDS (including the lapse in compliance in 2014) and introduced quantitative indicators of the costs and risks associated with the debt portfolio to allow more rigorous monitoring.

[12] In particular, for the purposes of the DSA projections the baseline average growth rate was adjusted down to 0.9 percent (compared with a non-disaster potential growth rate of 2.2 percent), while the current account and fiscal deficits were 1.5 percentage points wider than their non-disaster equivalents.

that the DSA baseline is based on a specific scenario – namely, that all financing from IDA and the Asian Development Bank (ADB) provided on credit terms – given its role to inform judgment on Samoa's capacity to receive credit financing from these institutions. To the extent that Samoa in practice continues to receive 100 percent grant financing from IDA, the projected increase in the PV of debt to GDP is much less pronounced (Figure 2).

Figure 2: Public and External Debt Sustainability Analysis



Note: Public debt includes government guarantees worth 7.2 percent of GDP. The red dotted line incorporates a projected 0.5 ppt of GDP consolidation in current expenditure from FY19 to FY23 (as in Table 3). The red dashed line assumes that future IDA financing is provided at 100 percent grant terms (as is currently the case) rather than 100 percent credit terms (as assumed by the DSA). These ratios rise from 2027 onwards due to an assumption that grants from (other) development partners decline.
Source: 2018 Joint IMF/WB Debt Sustainability Analysis and WB estimates.

32. **Several of the prior actions supported by this operation have the potential to reduce some of the fiscal risks associated with natural disasters, although it is difficult to quantify these effects with any degree of certainty or precision.** Over time, the adoption of guidelines to assist builders and homeowners in strengthening the resilience of new residential housing should help to reduce the fiscal costs of post-disaster support for rebuilding in the housing sector. Improvements to the government's management of its infrastructure portfolio (as reflected in the Samoa Infrastructure Asset Management Strategy) may also reduce post-disaster reconstruction costs, while potentially leading to increases in spending on asset maintenance. Similarly, implementation of the recently approved Community Integrated Management Plans could see

more budget resources devoted to resilience-building interventions at the community level, but lower recovery spending in the wake of a natural disaster.

33. Although the Government's stock of domestic debt is only small, there are additional risks from contingent liabilities from Government guarantees and on-lending to public enterprises. While contingent liabilities from Government guarantees to SOEs have declined from around 9 percent of GDP in FY16 to an estimated 7.2 percent of GDP in FY17**,** continued efforts are necessary to address the associated fiscal risks. Around 80 percent of the outstanding guarantees are to the Development Bank of Samoa (DBS), for a credit line facility channelled from the CBS through the DBS for rehabilitation and recovery efforts after Cyclone Evan. While the role of the DBS in providing credit to the broader economy was justifiable in the immediate aftermath of the global financial crisis, tsunami, and cyclone, the Government now is working to return the DBS to its original mandate, focused on the agriculture sector and small and medium enterprises, while at the same time resolving poor-performing loans to the tourism sector. The CBS has also stepped up supervision of the PFIs and is taking measures to ensure their adherence to reporting guidelines. The Ministry of Finance has drafted a policy to manage the risks around on-lending to SOEs, with on-lent loans currently worth around 6 percent of GDP, and continues to implement the procedures for issuing Government guarantees supported as part of the previous DPO series, thereby ensuring that any request for a guarantee is effectively reviewed prior to approval and that the appropriate risk and benefit assessments are conducted.

34. Samoa's macroeconomic policy framework is assessed as adequate. Samoa has consolidated its fiscal position in recent years and its fiscal and monetary policies continue to be consistent with the prevailing economic conditions. The IMF has noted that the authorities have made efforts to reduce public debt through expenditure control and revenue mobilization, as recommended by staff, and that the current accommodative monetary policy stance is consistent with staff advice, as are government efforts to implement recommendations to improve financial stability and manage the risks around the withdrawal of correspondent banking relationships. Barring any natural disasters, GDP is expected to grow at an average rate of just over 2 percent per year in the medium-term, driven by improvements in the business climate, tourism, and agriculture. The outlook is, however, subject to a number of important risks. Another major natural disaster, a slackening of efforts to contain public spending, or a realization of fiscal risks related to government guarantees or on-lending could set Samoa's fiscal consolidation off-track, and substantially worsen public debt dynamics. Maintaining continued fiscal restraint will not be easy, and there may be future pressures to take on new loans that fail to comply with the MTDS. The envisaged positive economic contributions from tourism and the private sector more generally may fail to materialize in coming years, causing growth to fall short of the already modest projections and making reductions in the debt-to-GDP ratio more difficult. Both tourist earnings and remittances are vulnerable to any slowdown in growth in Australia or New Zealand, while the withdrawal of financial services by banks to money transfer operators also poses risks to remittance flows. While not all of these risks can be completely mitigated, the Government's recent efforts and ongoing plans to boost revenue collection and ensure debt sustainability will – if sustained – put it in a stronger position to respond to a future economic shock or natural disaster. Ongoing efforts to reform SOEs and the public financial institutions should help to limit the risks posed by contingent liabilities and on-lending. Moreover, initiatives to improve disaster risk management and boost the climate resilience of key infrastructure – including those supported by this operation – should help to reduce the reconstruction costs associated with natural disasters when they occur, while access to the Cat DDO component of this operation will help to offset some of the fiscal needs associated with disaster recovery. Indeed, with the addition of the Cat DDO to the suite of disaster risk financing instruments already available, the government would potentially have access to around US$18 million (or over 2 percent of GDP) in quick-disbursing disaster contingent financing, which would typically be supplemented with additional support from development partners for longer-term reconstruction efforts.

2.3 DEVELOPMENT PARTNER RELATIONS

35. **The WB has worked closely with Australia, New Zealand, and the ADB to align development partner general budget support under a matrix of policy actions developed jointly by the Government and its development partners**. Each of these development partners has or will be providing general budget support based on actions contained in this Joint Policy Action Matrix (JPAM), which is itself centred on the reforms supported by this operation. The Government, through Ministry of Finance (MOF), continues to play a leading role in coordinating its development partners and has encouraged the JPAM process as a means of reducing overlap and improving the coordination of policy support and technical assistance provided by development partners. For instance, the WB provided direct technical assistance for two of the seven prior actions supported by this operation (building guidelines and community integrated management plans) and provided inputs for several others. A number of the other actions were directly supported by other development partners. The WB has also liaised with the IMF in its assessment of the macroeconomic policy framework.

3. THE GOVERNMENT'S PROGRAM

36. **The theme of the FY2017-FY2020 Strategy for the Development of Samoa (SDS) is 'accelerating sustainable development and broadening opportunities for all'**. The SDS emphasizes the national commitment to revitalizing sustainable, pro-poor economic growth through economic and social development and improved infrastructure, while building buffers to help protect the economy from the effects of future shocks. The economic development priorities are to increase and sustain macroeconomic resilience, increase agricultural productivity, increase exports, improve tourism development and performance, and improve the environment for private sector development. The social development priorities are to improve health outcomes, improve the quality of education and training, and strengthen social institutions. Among other initiatives, health outcomes will be improved through a general shift in emphasis toward primary and preventative measures, including NCD screening, control, and management programs, and the use of excise taxes to increase the cost of alcohol, tobacco, and sugary and salty foods and drinks. The infrastructure development priorities are to achieve sustainable access to safe drinking water and basic sanitation, improve transport systems, ensure affordable access to reliable Information and Communication Technology (ICT) services, and ensure a quality energy supply. Environmental resilience and climate and disaster resilience are key priorities, and all sectors are required to incorporate climate and disaster risk and resilience in their annual work program, with a percentage of the annual budget to the technical agencies contingent on such incorporation. The SDS builds on the progress achieved over the previous SDS period from FY2012–FY2016.

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

3.1 DISASTER RISK MANAGEMENT IN THE GOVERNMENT'S DEVELOPMENT AGENDA

38. Samoa, along with the other Pacific Island Countries (PICs), is among the most vulnerable nations in the world.[13] Samoa is the 60th most vulnerable country, in a cluster with many other small island states, with a vulnerability score of 0.48 driven by its high exposure to climate and disaster impacts on housing, agriculture, health (vector borne diseases and access to health services) and ecosystem services, especially for marine systems (ND-GAIN 2018).[14] Changes in rainfall patterns and intensity are causing frequent floods, seasonal droughts and affecting water supply and agriculture. Tropical cyclones, storm surges, and sea level rise (which is driving salt water intrusion into the fresh water lens), are other negative impacts related to climate change. Samoa is also at risk from earthquakes and tsunami with the Pacific Risk Assessment and Financing Initiative (PCRAFI) disaster risk modelling suggesting that in the next 50 years, Samoa is at risk of incurring an annual average loss of US$10 million due to earthquakes and tropical cyclones, with a 50 percent chance of experiencing a loss exceeding US$130 million, and a 10 percent chance of experiencing a loss exceeding US$350 million (PCRAFI 2017).[15] The estimated damages from the tsunami in 2009 and TC Evan in 2012 highlight Samoa's exposure to natural disasters (Table 4).

39. The Government has demonstrated a strong commitment to disaster risk management and climate resilience. It developed a National Action Plan for Disaster Management (NAPDM) in 2010-11 (covering the 2011-2016 period) which provides the basis for continued implementation of the Disaster and Emergency Management Act, 2007 by integrating disaster management into key sectors, improving preparedness for disasters, indicating the roles and responsibilities of different government entities in the event of disasters and increasing the disaster awareness and preparedness of the population. The NAPDM 2017-2020 was approved

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[13] World Bank. 2017. *Climate change and disaster management.* Pacific Possible Background Paper No. 6. Washington, D.C. World Bank Group. http://documents.worldbank.org/curated/en/655081503691935252/Climate-change-and-disaster-management

[14] This is on a scale of 0 to 1, where a score near zero indicates low vulnerability; as a comparison Australia has a score of 0.29. The ND-GAIN index considers the risks and vulnerability and the readiness to respond to past and projected climate change across six sectors (food, water, health, ecosystem services, human habitation and infrastructure) to determine an overall value of vulnerability based on the country's exposure, sensitivity and ability to adapt to the negative effects of climate change. https://gain-new.crc.nd.edu/country/samoa.

[15] Pacific Risk Assessment and Financing Initiative - PCRAFI 2017

by Cabinet in July 2018. Samoa actively supports the Sendai Framework of Action and has developed DRM plans for several villages (which have their own governance structures) as well as at the national level. Some sectors have also developed their own DRM and climate resilience plan with a focus on preparing and responding to specific hazards (e.g., the health sector plan is focused on vector- and water-borne disease after cyclones and floods). Under projects supported by the WB and other development partners, the Government is harmonising its early warning systems and establishing a multi-hazard early warning system, which is expected to be completed in 2020. Planned legislation – in the late stages of drafting – will help establish a legal and regulatory framework for multi-hazard early warning systems in Samoa. The Government also holds "disaster preparedness day" each year to help ensure that the population can respond effectively to early warnings.

Table 4: Impacts of previous major cyclones, earthquakes and tsunami on Samoa

Last major disaster and impact	Impacts on people and costs (actual and/or modelled)
Tropical Cyclone Gita, March 2018	Cost: US$ 0.45 million; < 0.1% of 2017 GDP
Tropical Cyclone Evan; Dec 2012	Cost: US$ 204 million; 28% of 2011 GDP
Earthquake and tsunami, Sept 2009	Cost: US$ 124 million; 22% of 2008 GDP Casualties: 148 fatalities; 310 seriously injured; 3000 people made homeless

40. Samoa was amongst the first countries in the Pacific to bring together its disaster risk management and adaptation to climate change in its national development strategy. To improve the coordination and outcomes of the increasing number of climate resilience and DRM investment projects, the Climate Resilient Investment Plan (CRIP) was developed with the support of the WB-Pilot Program for Climate Resilience project. Samoa presented the CRIP as its National Adaptation Plan and referenced it for its efforts to adapt to climate change in its Intended Nationally Determined Contributions submitted to the United Nations Framework Convention on Climate Change. The CRIP also informed the approach to integrating climate and disaster resilience in the SDS FY2012-FY2016 and SDS FY2017-FY2020.

41. Samoa uses a risk layering approach to manage the financial impacts of natural disasters and is able to access a suite of financial instruments that provide post-disaster liquidity. Samoa is the only country in the Pacific that will have access to four risk financing instruments – catastrophic risk insurance through PCRAFI, the Contingency Emergency Response Component (CERC) included in the IDA-funded Pacific Resilience Program (PREP) project and in the Samoa Climate Resilient Transport project, the Asian Development Bank's (ADB) Regional Contingent Financing Risk Pool as well as this proposed Cat DDO. This range of instruments will help the Government meet its shorter-term public financing needs in the wake of a natural disaster. For example:

- risk insurance through PCRAFI can be used for low probability, but high impact events such as tsunami and strong tropical cyclones:
- the CERC can be used for high probability but low impact events such as floods and less intense tropical cyclones in more contained areas; and

- the proceeds from the Cat DDO and/or the ADB Regional Contingent Financing pool can be used for high impact events including intense tropical cyclones, earthquakes and tsunami.

42. **In general, Samoa is one of the better prepared countries in the Pacific for responding to disasters and emergencies, in part due to lessons learned from the 2009 tsunami and TC Evan in 2012.** Samoa has strengthened preparedness at the community, sectoral and national levels. The NAPDM 2017-2020 outlines clear roles, responsibilities and procedures to be followed by government entities and communities in the case of a disaster to ensure an effective response. This includes activation of the National Disaster Council, chaired by the Prime Minister (with the Deputy Prime Minister as Deputy Chair and 11 Ministers as members), which provides strategic direction in response to the disaster situation. The Council works closely with an operational arm, the Disaster Advisory Committee, which has about 50 members including Chief Executive Officers of key Ministries, representatives from SOEs and the telecom and banking sectors, villages and civil society organisations. The day-to-day work is driven and coordinated by the Disaster Management Office.

43. **The Government has the capacity to lead emergency response and early restoration efforts prior to calling in international assistance, as demonstrated after TC Gita in February 2018**. The National Disaster Council facilitates the release of financing for immediate spending needs using the Unforeseen Expenditure provision in the budget (3 per cent of the operational budget). MOF works with the Samoa Audit Office to expedite disbursement of these funds.[16] MOF also liaises with line ministries to identify recovery requirements and savings within existing budgets that can be reallocated toward recovery efforts. These budget reallocations along with support requested and secured from development partners are formalized through a supplementary budget, which is cleared by Cabinet before Parliamentary approval at a special sitting. On the procurement side, amendment of the Treasury Instructions (Section 6, Procurement & Contracting) in June 2016 included provision for the use of framework agreements that allow for guarantees on the terms of supply, prevent opportunistic pricing, speed up procurement, and reduce the transactional costs and administrative burden of mobilizing contractors and suppliers for immediate response. A framework agreement has already been established for pharmaceuticals procurement, as supported by the previous operation in this series, and other agreements for goods and services critically required in post-disaster situations have also been established, enhancing the Government's ability to lead emergency response.

44. **Overall, Samoa's disaster risk management framework has a sound foundation that will be further supported by the resilience-building prior actions in this operation.** The Government has already demonstrated a strong commitment to improving Samoa's resilience to natural hazards and the actions being supported by this operation will further boost the resilience of housing, national infrastructure, and local communities. The Government's focus on integrating climate and disaster risk and resilience into the SDS, including through allocation of funds for the relevant sector work programs, is also consistent with a longer-term resilience objective. As part of its plans to produce a risk financing strategy, the Government is considering options to support the development of disaster risk insurance products for the private sector. Initial

[16] All Government payments are pre-audited by the Samoa Audit Office before they are disbursed.

assessments suggest that the financial sector in Samoa has the capacity to develop risk insurance products and that there is scope to improve private sector awareness of the need for insurance as a means of supporting business continuity and resilience, which could in the longer term reduce the burden on the Government to support the private sector after a natural disaster.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

45. The development objectives and associated reform actions of the proposed operation are closely aligned with the Government's priorities as identified in the SDS. The first development objective of the operation, to strengthen Samoa's macroeconomic and financial resilience, is aligned with the strategic area of macroeconomic resilience under the economic development pillar of the SDS. Reforms in this operation to boost domestic revenue and manage risks to remittance flows build on the reforms supported by the first operation in the series, as well as reforms to debt management and policy, procurement, revenue administration, and payments system reform that were supported as part of the previous DPO series. The second development objective of the operation, to increase Samoa's resilience to the effects of climate change and natural hazards is closely aligned with the mainstreaming of climate resilience activities evident across all sectors in the SDS, and builds on efforts in the previous DPO. Reforms in this operation strengthen the resilience of new single-story residential housing, improve the management of key infrastructure assets, including roads, and enhance the resilience of local communities and ecosystems. The third development objective, to reduce Samoa's vulnerability to non-communicable diseases, is aligned with the social pillar of the SDS, and specifically the strategic area of a healthy Samoa with higher levels of well-being.

46. The reforms supported will boost resilience to economic, environmental, and health-related shocks, which should particularly benefit the poor and vulnerable. Over time, this series of operations is likely to particularly benefit the less well-off in Samoa by reducing those risks that have a disproportionate impact on vulnerable groups, including the risk that the Government is unable to fund essential public services after an external shock; the risk of a disruption to remittance flows; and the risk of extreme impacts on livelihoods or a lack of access to key services after a natural disaster. Because they have smaller household budgets, the poorest households tend to be disproportionately dependent on publicly-funded education, health and community development services, and hence are the most vulnerable to any contraction in their provision that could arise if the Government lacks the fiscal buffers to respond to external shocks or natural disasters. They are also more exposed to the direct impacts of extreme weather events (e.g. because they tend to live in poorer quality housing), and tend to be more dependent on remittances, highlighting the importance of enhancing the climate resilience of buildings and roads, responding to risk assessments included in Community Integrated Management (CIM) plans, and ensuring that remittance channels remain open.

47. This proposed operation has the following features:

- Upfront financing: SDR 3.6 million (US$ 5.0 million) would be provided as regular DPO grant financing, once the operation has been declared effective;

- Contingent (Cat DDO) financing through a DRM Policy Grant: Subject to the drawdown trigger condition being met (see below), a grant of up to SDR 6.3 million (US$ 8.7 million) would be available for full or partial disbursement at any time within a three-year drawdown period.
- The closing date for the proposed operation is November 30, 2021 (and is not affected by the timing of any drawdown of the Cat DDO component).

48. **The proposed Cat DDO drawdown trigger and renewal conditions include the following**:

- **Drawdown trigger**: The Cat DDO proceeds may be drawn down after a "natural catastrophe" that results in *a Proclamation of Emergency* in accordance with Article 105 of the Constitution of Samoa and when the Association is satisfied, based on evidence satisfactory to it, that such a government proclamation or declaration has been issued.[17] For the purpose of this operation, a natural catastrophe includes emergencies due to cyclones, volcanic eruptions, tsunami, floods, earthquakes, high winds and seasonal droughts and excludes any emergency due to military, economic, political or technological causes[18].
- **Drawdown period and renewals:** The drawdown period for the Cat DDO component will be three years. The Cat DDO component may be renewed once for an additional three years, at the Government's request, if the Association is satisfied with the progress achieved by the Recipient on actions related to the climate and disaster resilience pillar and with the adequacy of the Recipient's macroeconomic policy framework. Renewal needs to occur no earlier than one year and no later than six months before the closing date.

49. **Monitoring of the policy actions and reforms to increase resilience to climate change and natural hazards would occur throughout the three-year term of the operation.** Such monitoring will also support (through a parallel Technical Assistance) the implementation of the climate resilience aspects of the revised National Building Code for new single-story residential housing, improved management of key government assets, including roads and other major infrastructure, and efforts to build the resilience of communities, small infrastructure and ecosystems to climate and disaster risks. The Cat DDO component of this operation may run in parallel with a new programmatic series of DPOs in Samoa, with the potential for DRM-related policy reforms in a new series to be informed and supported by the ongoing Cat DDO

[17] Article 105, of the *Constitution of the Independent State of Samoa, 1960* under Part X: Emergency Powers, states that "if the Head of State is satisfied, acting in his or her discretion after consultation with Cabinet, that a grave emergency exists whereby the security or economic life of Samoa or of any part thereof is threatened whether by war, external aggression, internal disturbance, or natural catastrophe, the Head of State may by proclamation … declare that a state of emergency exists. The power of the Head of State to make a proclamation of emergency is also referenced in the *Disaster and Emergency Management Act, 2007*. On the basis that it is not possible to make a Proclamation of Emergency in accordance with Article 105 of the Constitution due to the absence or unavailability of the Head of State, the Recipient may use "declaration of a disaster" in accordance with Article 19(2)(a) of Recipient's *Disaster and Emergency Management Act*, 2007 as a drawdown trigger.

[18] Samoa's Constitution and its *Disaster and Emergency Management Act 2007* differentiate between emergencies and disasters. Further detail is provided in Annex 5.

engagement. Such an approach would maintain the integrated policy dialogue that builds resilience along multiple dimensions, and would continue to leverage the support that has been provided by other development partners through the joint budget support dialogue.

50. The design of the proposed operation reflects lessons learned from the first operation in the series, as well as previous 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. As it is the second operation in the series, the focus in many cases is on the implementation of reforms supported by DPO1, reflecting the lesson that in thin-capacity environments, the achievement of desired outcomes requires not only the approval of a policy reform, but also support for and monitoring of its implementation. A two operation program also allows scope to adjust the indicative triggers where necessary (e.g. in light of capacity constraints or revised priorities).

51. Compared with the previous DPO series, the current program has expanded into sectors for which ministries and agencies other than the Ministry of Finance bear primary responsibility, e.g. in the areas of disaster risk management (including with respect to transport and building infrastructure), health, and Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) issues. However, consistent with other successful DPOs in the Pacific, the supported actions in each of these areas have benefitted from whole-of-Government engagement that has in part been facilitated by the DPO preparation process, and the MOF has shown a strong sense of ownership of each reform area, as well as a willingness to coordinate the actions of the other agencies whose engagement is needed to achieve these reforms.

52. The design of the Cat DDO component reflects lessons from IBRD countries given that this is a new instrument for IDA countries. It also builds on the discussions held with Bank teams and country representatives from other small island states who are preparing Cat DDOs. Reflecting lessons learned, the Cat DDO i) is structured around ongoing efforts and priorities of the Government with focus on the implementation of supported reforms; ii) provides a parallel Technical Assistance to ensure that the DRM framework is enhanced on an ongoing basis, policy reforms are completed and targets are met; and iii) links to both ongoing investments and programmatic budget support, contributing to the successful outcome of the reforms. A coordinated approach to budget support and the provision of technical assistance has proven to be particularly beneficial in a capacity-constrained environment such as Samoa, a lesson the proposed operation reflects in its joint development partner approach.

53. Following on from the substantial reforms supported by the first DPO, 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. While one trigger has not been converted to a prior action, and others have been adjusted, overall, the Government has made good progress on its reform agenda since the first operation went to Board in September 2017 (see Table 5). Overall, progress against specified actions is considered sufficient to achieve the development objectives of the program.

Table 5: Triggers stated in DPO1 and prior actions for DPO2 with a Cat DDO

Trigger for DPO2 (as stated in program document for DPO 1)	**Proposed prior action for DPO2 with a Cat DDO**	**Current status and explanation for any material change in trigger for DPO1**
Strengthening macroeconomic and financial resilience		
1. Approval of implementing regulations for Revenue Review recommendations – including the Capital Gains Tax Regulation and the Taxing Ministers of Religion Regulation. 2. Implementation of compliance reforms – including on audit and collection of land rents.	The Recipient, through its Cabinet, has approved recommendations to simplify the capital gains tax regime and facilitate the collection of capital gains tax.	These recommendations from the recent CGT review were approved by Cabinet in October 2018, with the recommended amendments to the Income Tax Act (ITA) expected to be completed in 2019 (delays have been mainly due to Technical Assistance (TA) availability). While the Ministry for Revenue has clarified that a separate regulation on taxing ministers of religion is not needed, as the ITA provides sufficient detail and guidance, awareness-building efforts to explain the obligations of ministers under the new taxation regime are ongoing. The Government has also taken a number of actions to improve compliance (see para 58), but these have mainly involved improvements in process rather than new policy reforms, and hence have not been incorporated into the prior action.
3. Approval of recommended legislative reforms in areas where Samoa is currently rated as 'Non-Compliant' or 'Partially Compliant' by APG/FATF.	The Recipient, through its Parliament, has enacted the Money Laundering Prevention Amendment Act 2018, which enhances the Recipient's compliance with anti-money laundering and countering terrorist financing international standards.	Trigger has been completed and legislation enacted in June 2018.
4. Cabinet/CBS decision to establish new credit bureau arrangements which will provide comprehensive (positive and negative) credit information on potential borrowers, to further improve access to credit in Samoa.	Trigger not converted to prior action	Although the Samoan credit bureau was previously slated to be operated out of Fiji as part of a regional arrangement, legal changes in Fiji caused the Fijian provider to cease operation. The ADB is supporting CBS to identify alternative means of establishing a credit bureau, though insufficient progress has been made for the Government to take a formal decision, and hence this indicative trigger has not been converted into a prior action. Nevertheless, a diagnostic assessment of issues relevant to the establishment of a credit bureau in Samoa was completed in March 2018 (see para 63). As noted in DPO1, there was substantial uncertainty around potential outcomes in this area and hence a need for flexibility on this indicative trigger.

Enhancing resilience to the effects of climate change and natural hazards		
Registration requirements for building practitioners and regulations governing the building industry are updated and strengthened.	The Recipient, through its Cabinet, has approved Guidelines for the Application of the National Building Code, which will help to strengthen new single-story residential housing against climate-related risks and earthquakes.	The Guidelines were approved by Cabinet in October 2018. While new registration requirements for the building industry have been drafted and are expected to be finalized in 2019, given limited capacity within Ministry of Works, Transport and Infrastructure the immediate priority is to ensure that the revised NBC can be practically applied to new residential single-story buildings that are most vulnerable to climate and disaster risks, as reflected by the prior action for this operation. The parallel TA will support the use of the Guidelines as part of the training and accreditation of building practitioners, which will help them to meet their registration requirements.
Approval of a new national infrastructure asset management strategy to improve the life-cycle management and maintenance of Government infrastructure, and implementation of recommendations, including in the FY18/19 Budget.	The Recipient, through its Cabinet, has approved the Samoa Infrastructure Asset Management Strategy, to help improve the life-cycle management and resilience of public infrastructure to climate and disaster risks.	Completed, with Cabinet approval of the SIAMS in July 2018. While the Government has begun to implement some of the SIAMS recommendations (e.g. on monitoring of road condition and asset valuation of roads and bridges), these measures have now been incorporated into the results indicator for this action.
No indicative policy trigger – this is a new action	The Recipient, has i) through its Cabinet, approved Community Integrated Management Plans to strengthen the resilience of all 41 districts to the impacts of climate change and natural disasters, and ii) made these plans publicly available.	The Cabinet approved the district level plans on August 15, 2018. The Government has made the CIM plans available through its portal in October 2018.
Reducing vulnerability to non-communicable diseases		
Cabinet approval of the Alcohol Control Bill, including increases to alcohol excise taxes.	The Recipient, through its Cabinet, has approved the Alcohol Control Bill, to minimize harmful effects from the consumption and abuse of alcohol.	The Alcohol Control Bill was approved by Cabinet in September 2018. Increases to excise taxes have been approved separately, including as supported by the previous operation.

Establishment of an inventory management system for pharmaceuticals to further support their efficient purchase, storage, and use.	The Recipient, through its Ministry of Finance, has approved the introduction of an integrated, computerized inventory management system for pharmaceuticals, to boost the efficiency of medicines procurement and help prevent stock outs and reduce wastage.	The proposed prior action has been completed. The full installation of the Inventory Management System (IMS), together with the provision of appropriate training, is scheduled to be completed by the end of 2019, later than originally envisaged. The Government was previously intending to establish the IMS as part of a broader e-health system, which accounts for the delay in progress on this trigger. As it has become clearer that the e-health system will take several years to roll out, the Government has decided to proceed with the establishment of the IMS now, and integrate it into the e-health system once it is set up.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.2.1. Strengthening macroeconomic and financial resilience

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

Prior Action 1: The Recipient, through its Cabinet, has approved recommendations to simplify the capital gains tax regime and facilitate the collection of capital gains tax.

55. **In recent years, Samoa has implemented several reforms that strengthen domestic revenue collection, helping to build fiscal buffers and improve the economy's resilience to external shocks, while also improving the equity of taxation arrangements.** In 2017, and as a prior action supported by DPO1, the recommendations of a broad Revenue Review were approved and implemented by government (through the Income Tax Amendment Act 2017) as part of a concerted effort to re-evaluate tax policy in Samoa and seek ways of further strengthening the domestic revenue base. The approved recommendations broaden the tax base by removing unduly generous tax exemptions and concessions, adjust and index non-tax fees and charges and excise rates, and raise personal tax thresholds (which had not previously been adjusted since 2007), easing the income tax burden on around 1900 lower paid employees and sole traders. These reforms follow a series of reforms to tax administration in recent years, including reforms to shift to self-assessment and lighten the compliance burden, particularly on small taxpayers; upgrades to the revenue information system; modernization of customs operations, and the roll out of an electronic tax filing system. These reforms have been partly responsible for significant increases in domestic revenue collection in Samoa, amounting to around 4 percentage points of GDP over the last five years.

56. The Revenue Review noted that a priority should be to improve compliance with the existing revenue laws, which would minimize the need to increase taxes on citizens who are meeting their taxation obligations. It recommended that this could be achieved by boosting the audit and compliance capacity of customs and revenue officials, increasing audit requirements on high-turnover companies, and renewing efforts to collect capital gains tax. Taken together, these measures were estimated (conservatively) to facilitate an increase in domestic revenue collections of around SAT 10 million, or about 2 percent of total tax revenues. Along these lines, at the time DPO1 was prepared, the proposed indicative trigger for the current operation was the approval of necessary implementing regulations (including on capital gains tax and taxing ministers of religion) as well as compliance reforms that had been flagged in the Revenue Review and the Ministry for Revenue's Compliance Improvement Plan 2016-18.

57. The first prior action serves to improve the Government's capacity to apply the new capital gains tax (CGT) regime, which was designed to help boost collection of CGT. While there has always been provision in Samoan tax law to charge capital gains tax, it has never been collected due to the difficulty of implementation and the existence of a three-year exemption period (assets held for longer than three years were previously not subject to CGT). This exemption period was removed as part of the legislative amendments supported by the first DPO in the series.[19] The approved recommendations (prepared with donor funded technical assistance) serve to clarify the regime and ensure that CGT can be collected in practice, including by resolving discrepancies with the recently introduced stamp duty legislation (the Stamp Duty Amendment Act 2017), which requires that capital gains tax is paid before a transfer of certain assets can be registered in the name of the new owner (i.e. before stamp duty is paid). The approved recommendations also simplify the calculation of CGT.

58. While the Government has also taken a number of actions to improve compliance, these have mainly involved improvements in process rather than new policy reforms. These include an increase in collections from the application of VAGST to imported services (particularly via stepped up liaison efforts with the Banks and other financial institutions); greater efforts to target outstanding returns from large enterprises; and improvements in risk-based auditing practices. Several of these efforts have been closely supported by PFTAC, which in 2017 and 2018 has provided technical assistance on developing a Compliance Improvement Plan, strengthening the audit function of the Ministry for Revenue (MfR), and strengthening arrears and returns management. Assistance has also been provided to assist with the roll-out of an industry partnership approach to tax collection to address high non-compliance rates in cash economy sectors (including trades such as electricians and plumbers). Further to the legislative amendments supported by the previous operation, MfR has clarified that a separate regulation on taxing ministers of religion is not needed (as envisaged by the indicative trigger for this operation), as the revised Income Tax Act provides sufficient detail and guidance. Nevertheless awareness-building efforts to explain the obligations of ministers under the new taxation regime are ongoing. *Expected result*: Realized average domestic revenues in the four-year period from FY18 to FY21

[19] Previously, capital gains made after three years were not taxable, but capital gains realized within three years of the asset being purchased were subject to CGT at the rate of 27 percent, with the cost base subject to indexation adjustment.

are above 26 percent of GDP, up from the five-year historical average (FY12-FY16) of 24.8 percent.

Prior Action 2: The Recipient, through its Parliament, has enacted the Money Laundering Prevention Amendment Act 2018, which enhances the Recipient's compliance with anti-money laundering and countering terrorist financing international standards.

59. This prior action is part of an ongoing process to reduce the vulnerability of Samoa's financial sector to the withdrawal of correspondent banking services by global banks, thereby helping to maintain the continued flow of remittances into Samoa. Remittance inflows have averaged close to 20 percent of GDP over the last five years. About four fifths of all remittances are channelled through money transfer operators (MTOs) who are facing closure of bank accounts and increased challenges in accessing financial services due to strains in correspondent banking relationships (CBRs), which are in turn partly attributable to concerns about compliance with international AML/CTF requirements. According to a recent survey sponsored by the IMF, of the 12 licensed MTOs operating in Samoa, 9 have lost at least one CBR since 2013, while four have also had transaction limits imposed on their accounts. A further reduction in access to financial services from global and regional banks – a risk that the IMF views as high likelihood and high impact – could contribute to higher costs and ultimately affect the flow of remittances.

60. To reduce the probability of this risk materializing, Samoa is taking comprehensive steps to improve the effectiveness of its AML/CFT regime. The 2015 Mutual Evaluation Report (MER) conducted by the Asia/Pacific Group on Money Laundering (APG) found that Samoa had significantly increased its overall levels of technical compliance with the Financial Action Task Force (FATF) Standards over the last decade, but that significant shortcomings remain. The national strategy, the development of which was itself a key priority highlighted in the MER, describes the concrete steps that will be taken over the next four years to bring Samoa further into line with international AML/CTF requirements, and address the other priority recommendations of the MER. These include measures to bolster the supervision and regulatory framework governing the offshore sector, enhance the risk-based AML/CFT supervision of banks and MTOs, and improve the implementation of agreed measures, including by strengthening the resources of the Financial Intelligence Unit of the CBS. More recently (as of early 2018), the IMF has noted that the authorities have made welcome progress in implementing measures to mitigate the risks from withdrawal of CBRs. These include actions to address gaps in the AML/CFT framework (in line with the national strategy) including risk-based monitoring and quarterly compliance meetings between the Financial Intelligence Unit, MTOs, and financial institutions; efforts to establish a database for customer identification and monitoring, as well as to improve the availability and quality of CBR and remittance data more generally; and efforts to address risks from the offshore sector.

61. The amendment to the Money Laundering Prevention Act 2007 addresses a number of the key recommendations of the 2015 MER. It sets out the obligations of financial institutions to conduct customer due diligence and report large cash transactions, and contains provisions to criminalize money laundering and terrorism financing. As such, it is fully aligned with the indicative trigger set out in DPO1: namely, the completion of recommended legislative reforms in areas where Samoa is currently rated "Non-Compliant" or "Partially Compliant" by

APG/FATF. The updating of legislation and regulatory frameworks in line with international standards is an important part of the effort to maintain correspondent banking relationships and ensure the continued flow of remittances, though concerted efforts will be required to implement these provisions and ensure compliance in the years ahead. *Expected result*: Measured improvement in compliance with the FATF recommendations, as demonstrated by an upgrading in APG status from "Enhanced Follow-up (Expedited)".

62. **Following the launch of the Personal Properties Securities Registry (PPSR), supported as a prior action in DPO1, an indicative trigger for the current operation was a decision on new credit bureau arrangements, but the Government is still considering the optimal form of these arrangements.** By allowing movable property to be used as collateral for loans, the PPSR makes it easier for smaller Samoan businesses and less wealthy individuals – who have been essentially excluded from borrowing through the formal banking system – to secure credit and invest in capital equipment and inventories.[20] New credit bureau arrangements would ideally provide comprehensive (positive and negative) credit information on potential borrowers, to further improve access to credit in Samoa. Although the Samoan credit bureau was previously slated to be operated out of Fiji as part of a regional arrangement, legal changes in Fiji caused the Fijian provider to cease operation. The World Bank Group (WBG) and ADB are supporting CBS to identify alternative means of establishing a credit bureau, though insufficient progress has been made for the Government to take a formal decision, and hence this indicative trigger has not been converted into a prior action. As noted in DPO1, there was substantial uncertainty around potential outcomes in this area and hence a need for flexibility on this indicative trigger.

63. **Nevertheless, a diagnostic assessment of issues relevant to the establishment of a credit bureau in Samoa was completed in March 2018**. It considered the cost-effectiveness of different operating models, regulatory and legal requirements, and the potential to integrate a credit bureau with the PPSR and/or a proposed Know Your Customer (KYC) utility. There are ongoing discussions around whether an alternative regional arrangement would be suitable or whether a (more expensive) locally-based solution will be pursued (and if so, how would it be funded). While the latter option will likely be more expensive and require ongoing subsidization, there may be some benefits around control of the information and some economies of scale to be realized if the database infrastructure can be linked with the PPSR and/or a KYC utility for financial transactions.

4.2.2. Enhancing resilience to the effects of climate change and natural hazards

The second development objective supports Government's efforts to reduce Samoa's vulnerability to the current and long-term threats of climate change and natural hazards, particularly cyclones, earthquakes and tsunami, and is the critical pillar for the Cat DDO component of this proposed operation. These vulnerabilities already have a large adverse impact on Samoa as stated earlier and are likely to result in even greater social, environmental

[20] Initial indications are that banks and other stakeholders are continuing to be familiarized with the new system. As at December 2017 there were close to 800 asset registrations, with motor vehicles accounting for the majority, though not all of these were new registrations (some were existing assets that had been transferred onto the new system).

and economic costs over the next 25 years irrespective of global action to reduce greenhouse gas emissions and slow down the rate of climate change.[21] This pillar contains reforms to improve Samoa's resilience to these climate and disaster risks. The reforms under this pillar will: strengthen new single-story residential housing to withstand cyclone winds and earthquakes, thereby reducing the cost of rebuilding/repair after a such events; ensure good management and regular maintenance of key transport assets (roads, bridges, culverts) and other public infrastructure to reduce vulnerabilities to floods and cyclones; and update CIM plans to enhance the resilience of communities, local infrastructure and ecosystems.

Prior Action 3: The Recipient, through its Cabinet, has approved Guidelines for the Application of the National Building Code, which will help to strengthen new single-story residential housing against climate-related risks and earthquakes.

64. **This prior action will help to strengthen new single-story residential buildings to better withstand earthquakes and cyclones.** As supported by the first DPO in the series, the Government has recently embarked on a revision of its NBC that was introduced in 1992. The revised NBC stipulates requirements for five major classes of infrastructure ranging from large infrastructure such as hydropower dams to traditional houses (fale). In July 2017, Cabinet approved the revised NBC but requested that the Ministry of Works, Transport and Infrastructure (MWTI) ensure that certain provisions of the Code were suitable for the Samoan context. Cabinet also endorsed MWTI's request to start an awareness program on the NBC 2017 to relevant stakeholders such as the building industry and other government agencies responsible for its implementation and enforcement. Given that the major assets that are damaged or destroyed after cyclones tend to be residential housing (which constitute 80 percent of the permit applications to MWTI), the Government saw the need to develop guidelines that will help the building industry and home owners implement the revised NBC, and that will assist MWTI staff in enforcing compliance. The focus on residential housing – of which the majority of buildings are single-story, particularly for the poorer parts of the population – is appropriate as larger buildings tend to be better engineered and the Government generally has greater leverage in ensuring that the design is compliant with the revised NBC.

65. **These guidelines address some of the critical reasons for damage to residential houses in Samoa.** Post-disaster assessments indicate that incorrect interpretation and inadequate enforcement of the NBC, as well as lack of regular maintenance, are key reasons for damage to residential houses. The guidelines thus simplify the interpretation of the Code, including extensive illustrations to clarify how home owners and builders can follow good practices, and provide templates with specifications for building designs and estimated costs based on the materials needed. They also highlight the major changes from the previous NBC 1992, and outline good practices pertaining to maintenance of residential housing. As well as providing an aid to builders and home-owners, the illustrations and templates included in the guidelines facilitate the assessment of permit applications by MWTI staff. The guidelines were reviewed by a sub-committee of the Institute of Professional Engineers Samoa (IPES) to provide quality assurance and ensure use of Samoan specific knowledge. As the guidelines focus on following procedures and good practices, rather than on adding stringent engineering requirements, the IPES review

[21] World Bank. 2017. Climate change and disaster management. Pacific Possible; Background Paper no. 6.

indicates that the use of the guidelines is unlikely to lead to an increase in the costs to home owners/builders, and over the longer term should lead to decreased damages.

66. **The Government will take advantage of continued support from the Technical Assistance to ensure the revised NBC is used widely.** As part of the technical assistance (TA), the Government will be supported to develop training materials to help improve the capacity of building practitioners (such as concreters, plumbers and electricians, and professionals, such as engineers and architects) and home owners to improve the design, building, and maintenance of residential housing. This assistance is anticipated to lead to more building permits for residential housing being sought. Such training will also improve the capacity of MWTI supervisors and engineers who review the building permit applications, and subsequently carry out the final building inspections required for the issuance of an Occupancy Certificate, contributing to the application and enforcement of the revised NBC. The TA will also assist with strengthening the registration requirements for builders constructing residential houses, thus contributing to the indicative trigger envisaged in the first DPO in the series. The expected result for this action is (relative to the FY17 baseline): a 10 percent increase in number of building permits (ensuring compliance with the revised NBC) issued for single-story residential housing over FY20 and FY21 (average), and a 10 percent reduction in the average time taken to approve building permit applications for single-story residential housing over FY20 and FY21 (average).

Prior Action 4: The Recipient, through its Cabinet, has approved the Samoa Infrastructure Asset Management Strategy, to help improve the life-cycle management and resilience of public infrastructure to climate and disaster risks.

67. **This prior action provides the basis for ensuring that Government makes sound decisions on the maintenance and renewal of key national infrastructure, including major road assets.** The Samoa Infrastructure Asset Management Strategy (SIAMS) seeks to apply some of the principles and recommendations of the recently completed roads vulnerability assessment and Climate Resilient Roads Strategy (CRRS), as supported by the first DPO – e.g. around maintenance, upgrading, and investment decisions, as well as the location of future roads – to national infrastructure more broadly. The SIAMS includes a list of critical infrastructure assets in Samoa, clarifies the linkages between the various national and sectoral plans relevant to infrastructure asset management, outlines current asset management challenges, and identifies twelve ‘improvement initiatives’, as summarized in Table 6. The SIAMS includes a monitoring program for the initiatives. An Asset Management Steering Committee has been established which meets quarterly and oversees progress. A database has been developed which includes information on the implementation status of each of the initiatives. MWTI, as the Secretariat to the Steering Committee, uses the database to provide updates to the Steering Committee. Three of the initiatives – AM01, AM05, and AM06 – focus on improving maintenance of major infrastructure (such as the airport, port and water utilities) as well as asset information systems that can be accessed across Government agencies and SOEs. Such initiatives will help improve the life cycle and sustainability of these assets, and will be cost-effective to the extent that a sound maintenance regime reduces the costs of replacing or renewing these assets, as well as the costs of deterioration (including disruptions of service) and restoration of services after a cyclone, flood or earthquake. AM01 is under implementation and is part of the five-year contract for the main airport in Apia. In addition, the initiative on asset valuation of roads and bridges (AM05) is being implemented and will inform a revised maintenance regime for these assets. The review of heavy

vehicle charges (AM09) is being supported through a current World Bank investment project and will help with reducing congestion and potentially increasing resources for road maintenance. The analytical work that will develop recommendations for improving road asset management (AM10) is being procured and will also provide inputs for LTA's maintenance regime. *Expected result:* By FY21, at least three road designs have been informed by the Vulnerability Assessment; and at least two improvement initiatives identified in the SIAMS have been implemented.

Table 6: Samoa Infrastructure Asset Management Strategy Improvement Initiatives

AM01: Establish a Maintenance Support Contract for Aviation Infrastructure
AM02: Expansion of the Computerized Maintenance Management System (CMMS) for SSC, EPC, and SAA
AM03: Health Sector Asset Collection and Lifecycle Cost Analysis
AM04: Establish Road Condition Monitoring and Renewals Program
AM05: Complete an Asset Valuation for Roads and Bridges
AM06: GIS Data Consolidation and Sharing Platform for Government Agencies
AM07: Pipe Renewals Program for Apia CBD
AM08: Implement Water Security and Disaster Resilience Mitigation Measures
AM09: Review Heavy Vehicle Charges
AM10: Recommend Improvements to Road Asset Management System
AM11: Prepare an Asset Management Plan for Buildings
AM12: Capture CBD Drainage Assets for GIS

Prior Action 5: The Recipient, has i) through its Cabinet, approved Community Integrated Management Plans to strengthen the resilience of all 41 districts to the impacts of climate change and natural disasters, and ii) made these plans publicly available.

68. This prior action provides a basis for the Government and local communities to work together to identify climate and disaster risks and implement solutions that address these risks. The CIM plans serve to identify and enhance awareness of hazards and risks from the mountains to the coast and the reefs in each of the districts. By outlining solutions to address these risks, the CIM plans will facilitate more climate resilient planning and development, and improve communities' ability to respond and recover after natural disasters. The approved CIM plans are a major improvement to the district-level plans developed almost two decades ago, which were focused on major coastal infrastructure assets (such as sea walls and coastal roads), included little technical information (such as risk maps based on aerial photography and digital elevation models), and had only limited input from the communities. In line with the recently updated Community Integrated Management Strategy, the approved CIM plans have expanded in scope to cover agriculture, water, and livelihoods as well as infrastructure, and place more emphasis on the need for well-functioning ecosystems to enhance community resilience to climate-related impacts. The plans also promote joint ownership and implementation by the Government, communities, and development partners. The solutions contained in the plans to increase the resilience of communities were identified in a participatory consultations and site assessment process. The solutions are grouped under four main themes: infrastructure; environment and natural resources; livelihoods and food security; and local-level governance. Examples of solutions found in the approved CIM plans include improvements to water supply (rain water tanks and gravity fed systems) in the face of seasonal droughts; improvements to coastal fisheries and reefs through community-based interventions; improvements in multi-cropping systems; and the planting of native trees and shrubs in areas of high erosion around the villages.

69. **Finalisation and publication of the CIM plans is an important step toward promoting more climate resilient development in Samoa**. The prior action ensures all interested stakeholders have easy access to the plans and supports their use as the main reference to guide land-use, planning, and development decisions by local communities, government, and other public entities. In partnership with the Ministry of Natural Resources and the Environment (MNRE), village representatives are expected to play an active role in reviewing and monitoring the implementation of solutions proposed in these plans. The Government has already made the priorities identified in the CIM plans central to the work programs of key sectors including Water, Agriculture & Fisheries, Environment and Transport. The Climate Resilience Steering Committee, chaired by the Chief Executive Officer of the MOF, oversees the selection of the priorities and linkages to the sector work programs. *Expected result*: A review of the implementation of CIM plan solutions is completed before June 2021 for at least one third of the 41 districts, with each review and its findings to be approved by the Climate Resilience Steering Committee.

4.2.3. Reducing vulnerability to the effects of non-communicable diseases

70. **The third development objective of the proposed operation supports Government efforts to reduce the vulnerability of Samoa's population to non-communicable diseases**. NCDs are a major threat to public health and public finances in Samoa, with diabetes, heart disease, and stroke now accounting for almost half of all deaths. Samoa has one of the highest obesity rates in the Pacific at 54 percent, and the World Health Organization has noted that rates of obesity have in fact increased in Samoa over the last decade. Unhealthy diets (for example, sweetened beverages, trans-fats, and sodium) are the greatest risk factor for cardiovascular diseases and diabetes-induced deaths. Apart from the obvious social costs, *Pacific Possible* notes that in the absence of substantive interventions to control NCDs, the economic costs of mortality and morbidity could reduce GDP in Samoa by around 5 percent in 2040. Moreover, the treatment costs associated with an increasing NCD burden pose a significant fiscal risk to the Government. Data from the National Health Accounts indicate that current health spending on curative care rose by almost 7 percent per annum (in real terms) between 2005 and 2015, with all other current health spending rising by less than 2 percent per annum over the same period. This increase in spending on curative care was likely driven to a significant extent by the response to NCDs. If the trend increase in curative care spending was maintained over the next decade, projections suggest that total current health spending could reach 5.5 percent of GDP in 2025 (up from 3.7 percent in 2015), and almost 20 percent of the total budget (up from 14.6 percent in 2015). Such increases are likely unsustainable in the context of a constrained fiscal situation, highlighting the need to take concerted action on preventative measures.

Prior Action 6: The Recipient, through its Cabinet, has approved the Alcohol Control Bill, to minimize harmful effects from the consumption and abuse of alcohol.

71. **Alcohol is responsible for a number of harms in Samoa, with the excise tax increases supported by DPO1 an important policy measure to help reduce consumption.** Alcohol is an

important risk factor for many NCDs, including liver disease, cancer, and cardiovascular disease, and there is substantial evidence that abuse of alcohol is also an important contributing factor to gender-based violence, crime, and road accidents. Global evidence and regional work, including the NCD Roadmap report (Secretariat of the Pacific Community 2014) have shown that the use of prices to disincentivize consumption of alcohol, tobacco, and sugary and salty products is one of the top priorities to address the burgeoning NCD epidemic. In line with this recommendation, as a prior action in DPO1 the Government increased excise taxes on alcohol and tobacco, and introduced a new excise tax on a range of products with high sugar or salt content.

72. The Alcohol Control Bill aims to minimize harmful effects from alcohol abuse by strengthening regulations on the sale and supply of alcohol, complementing the excise tax increases supported by DPO1. The Bill repeals and replaces the 2011 Liquor Act, which was reliant on the establishment of a scheme of liquor licenses to promote responsibility in the manufacture, import, sale and consumption of liquor, without necessarily paying sufficient attention to other regulatory measures. The Bill establishes an Alcohol Control Board, increases penalties for offences relating to the sale and consumption of alcohol (e.g. pertaining to adulterated alcohol, supply to underage individuals, consumption in public places), establishes clearer and simpler licensing requirements for the sale, manufacture, and importation of alcohol, establishes labelling requirements for alcohol products, sets out controls over the advertising and promotion of alcohol, and establishes enforcement provisions. The Bill complements recent efforts to increase the price of alcohol through raising excise taxes, including as supported by DPO1. It also draws on several pieces of analytical work conducted by government in recent years, including the National Alcohol Control Policy 2016-21 (Ministry of Health) and the Alcohol Reform Issues Paper 2013 (Law Reform Commission), which highlight the need to respond to a rise in alcohol-related violence and reduce some of the other harms caused by alcohol consumption in Samoa.

73. The Government is also considering analytical support to help evaluate the effects of the excise changes on prices, imports, and consumption, and to recommend additional non-price measures (including education and outreach) that can help curtail consumption of these 'sin' products and improve health outcomes in Samoa. Such support would allow policymakers in Samoa to be better informed about the effect of these taxes (on health as well as on revenue) and provide a more solid evidence base on which to make further adjustments. The expected result for this sequence of prior actions is that the increase in price of cigarettes, beer, instant noodles, and sweet biscuits from June 2016 to June 2021 is greater than overall increase in food and non-alcoholic beverages prices.

Prior Action 7: The Recipient, through its Ministry of Finance, has approved the introduction of an integrated, computerized inventory management system for pharmaceuticals, to boost the efficiency of medicines procurement and help prevent stock outs and reduce wastage.

74. The Government has made substantial progress in strengthening its procurement systems in recent years, which has helped to improve value-for-money in public expenditure and enhance public service delivery in Samoa. Supported by the previous programmatic series of DPOs, the Government has issued new Treasury Instructions and Procurement Guidelines which provide comprehensive and legally enforceable rules for public procurement, covering procurement methods, transparency, eligibility, documentation, evaluation criteria and processes.

It has also developed standard templates for minor and major works as another step toward increasing the speed and efficiency of procurement, and legalized framework arrangements, the use of which provides opportunities to benefit from lower costs associated with economies of scale and increases efficiency through simplification of the associated procurement processes. As supported by DPO1, the recently established framework arrangement for pharmaceuticals establishes terms (e.g. prices and quantities) on which specific purchases will be made over a period of time, allowing for a longer-term contractual relationship with suppliers, and providing opportunities to benefit from lower costs and increased efficiency through simplification of purchasing procedures, more competition among suppliers, and increased scale and certainty of purchases.

75. This prior action helps to ensure that the benefits of the framework arrangement for pharmaceuticals can be fully realized. Ultimately, it should also help to improve access to necessary medicine – including NCD-reducing medicines – at a lower unit cost. One of the major benefits of the framework arrangement is that it facilitates the demand-based ordering of pharmaceuticals, helping to ensure fewer stock outs (as well as less wastage due to excess supply), and increasing the speed with which medicines can be purchased in emergency situations. The recent health PER notes that high provisions for obsolete stock in recent years point to shortcomings in the procurement and management of medical supplies, e.g. because purchases are not aligned closely with needs, medicines tend to expire before being used, or medicines do not reach those patients who need them. The introduction of an inventory management system for pharmaceuticals will ensure the provision of up to date, easily accessible information about current stock levels in health facilities around the country, which will mitigate these problems and help to fully realize the gains from demand-based procurement that the new framework arrangement allows. It will also reduce the scope for loss and theft of pharmaceuticals. As such, it will further support the efficient purchase, storage, and use of medicines – including those necessary to treat NCDs – lowering costs and potentially improving access.[22] While there are plans to roll out an e-health system in Samoa over the next few years, the inventory management system will be established earlier (target by the end of 2019) and then integrated into the broader e-health system once it is set up, with the support of development partners. The expected result for this sequence of prior actions is that the average unit price of select purchased medicines in FY19 and FY20 i) is lower than in FY17; and ii) compared with FY17, is lower as a proportion of international reference prices.

[22] A recent NCD cost analysis study has found that Samoa is procuring medicines at three to five times the prices obtained by other procurement agencies, and that the use of key NCD medications in Samoa is relatively low (despite a very high incidence of NCDs).

Table 7: DPO Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Strengthening macroeconomic and financial resilience	
The Recipient, through its Cabinet, has approved recommendations to simplify the capital gains tax regime and facilitate the collection of capital gains tax.	Revenue Review Report for the Government of Samoa, May 2017: provides an independent review of Samoa's current taxation arrangements and makes recommendations to strengthen the revenue base. Strengthening the Capital Gains Tax in Samoa Report, August 2018: identifies avenues to maximize the potential of the capital gains tax in Samoa.
The Recipient, through its Parliament, has enacted the Money Laundering Prevention Amendment Act 2018, which enhances the Recipient's compliance with anti-money laundering and countering terrorist financing international standards.	APG Mutual Evaluation Report on Samoa, 2015: evaluates Samoa's compliance with the FATF Standards, and makes recommendations (including the development of a national AML/CFT strategy). Samoa Article IV reports (2017 and 2018) and references therein.
Enhancing resilience to the effects of climate change and natural hazards	
The Recipient, through its Cabinet, has approved Guidelines for the Application of the National Building Code, which will help to strengthen new single-story residential housing against climate-related risks and earthquakes.	Post-Disaster Needs Assessments (PDNAs) after tropical cyclones in Samoa, Fiji and Tonga concluded that the extensive damage to the housing stock could be decreased if government agencies, builders and home owners complied with building codes and conducted regular maintenance. Lack of access to simple guidelines and templates to help interpret often complex building codes was identified as a constraint.
The Recipient, through its Cabinet, has approved the Samoa Infrastructure Asset Management Strategy, to help improve the life-cycle management and resilience of public infrastructure to climate and disaster risks.	The Vulnerability Assessment of the Samoa Road Network (2017) and the Climate Vulnerability Assessment of Fiji (2017) concluded that governments should have an infrastructure asset management and maintenance regime to increase the life of infrastructure assets and decrease damage from climate-related events.
The Recipient, has i) through its Cabinet, approved Community Integrated Management Plans to strengthen the resilience of all 41 districts to the impacts of climate change and natural disasters, and ii) made these plans publicly available.	The Economics of Climate Change of Adaptation for Samoa (2011) recommended the review and updating of the previous coastal integrated management plans; the ECR project – approved in 2013 - used this as a basis to support these updates and include a focus on the risk and resilience of communities and non-infrastructure assets.
Reducing vulnerability to non-communicable diseases	
The Recipient, through its Cabinet, has approved the Alcohol Control Bill, to minimize harmful effects from the consumption and abuse of alcohol.	National Alcohol Control Policy 2016-21 (Ministry of Health) and the Alcohol Reform Issues Paper 2013 (Law Reform Commission) highlight the need to respond to a rise in alcohol-related violence and reduce some of the other harms caused by alcohol consumption in Samoa, and propose some recommendations and issues to consider.

Prior Actions	Analytical Underpinnings
The Recipient, through its Ministry of Finance, has approved the introduction of an integrated, computerized inventory management system for pharmaceuticals, to boost the efficiency of medicines procurement and help prevent stock outs and reduce wastage.	Samoa National Non-Communicable Disease Cost Analysis Study, March 2017: notes scope for efficiency gains in procurement given relatively high medicine prices in Samoa. Terms of Reference for a Modernised Pharmaceutical Inventory Control Management System (2018): outlines the purpose and details the specifications of the new IMS.

4.3 LINK TO RPF AND OTHER BANK OPERATIONS

76. The DPO series is a central component of the WB's overall engagement with Samoa, as highlighted in the Regional Partnership Framework (RPF, report #120479) for nine small Pacific Island Countries discussed by the Board in February 2017. The design of the development objectives and selection of reform areas are aligned with the focus areas of protecting incomes and livelihoods (including through strengthening resilience to natural disasters and climate change and addressing NCDs); and of strengthening the enablers of growth and opportunities (through improved macro-economic management, infrastructure and addressing knowledge gaps). A strong economic policy dialogue with the Government is the anchor for the WB's efforts to support this latter RPF theme, with the programmatic series of DPOs as its centrepiece.

77. The DPO series is complemented by other WBG operations targeted at achieving the RPF outcomes. The reforms targeted at increasing Samoa's resilience to climate change and natural disasters have been informed and motivated by two ongoing climate resilience projects in Samoa: Enhancing the Climate Resilience of West Coast Road project and the Enhancing the Climate Resilience of Coastal Resources and Communities (ECR) project. The ECR project has supported the development of a framework for supporting villages, government entities and SOEs to implement resilience priorities that are identified in a participatory integrated management planning process.[23] The IDA-funded PREP supports the strengthening of the multi-hazard early warning system and preparedness as well as investments, such as those for safe schools and other buildings for temporary evacuation identified in the NAPDM. Other relevant areas of WB engagement include technical assistance on procurement reform, an extensive engagement with Samoa as part of the Pacific Payments, Remittances and Securities Settlement Initiative, and a planned project in the health sector.

78. The reforms supported by the proposed DPO are also closely aligned with the IDA18 special themes. These include special theme 5 on governance and institutions, with the DPO addressing domestic revenue mobilization and responses to illicit financial flows; and special theme 3 on climate change, with the DPO supporting measures to enhance resilience to natural disasters and climate change.

[23] These include a project funded through World Bank and financed by the Pilot Program for Climate Resilience (PPCR) and the UNDP's project funded by Adaptation Fund.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.4.1. Consultations

79. **The formulation of the SDS in Samoa involved an extensive consultation process with a wide range of civil society stakeholders and the general public.** The Ministry of Finance led 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 were invited, giving people across Samoa the opportunity to participate in the formulation of the SDS. For the proposed operation, which is linked closely to the priorities elaborated in the SDS, 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 WB is leading the coordinated approach being taken to general budget support in Samoa among development partners.** This approach has involved consultation and close cooperation among development partners throughout the iterative process by which the policy matrix has been built up with the Government, joint engagements with the Government including joint missions, shared reliance on the sector-specific expertise of individual development partners, shared documentation, and the harmonisation of business processes to minimise the transaction costs imposed on the Government. This close coordination has been strongly encouraged 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.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY, SOCIAL, AND GENDER IMPACTS

81. **The proposed operation will support the Government in its efforts to boost resilience to economic, climate, and health-related shocks, which should ultimately have a particularly positive impact on the poor and vulnerable.** Over time, the prior actions in this DPO program should reduce the risks of i) a contraction in the provision of essential public services (with the revenue reforms providing more fiscal space to the government); ii) a disruption to remittance flows; and iii) severe impacts on livelihoods after a natural disaster. The poorest parts of Samoa's population are likely to be the most susceptible to these risks, given their relative dependence on public services and remittances, and their higher vulnerability to natural disasters. The reforms supported by this operation should also help to ensure investment activities (in housing and in public infrastructure) are designed to reduce the damage from natural disasters and climate change. Formal 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.

82. Given comparatively constrained non-food expenditure, the well-being of the poorest quintile of the population is disproportionately dependent on publicly-funded education, health and community development services. Estimates from the 2013/14 HIES indicate that the poorest quintile averages per capita non-food expenditure of about SAT 20 per week, well below the population average of about SAT 70. This makes them more vulnerable than other quintiles to any contraction in the provision of essential public services that may result from external shocks if the Government lacks adequate fiscal buffers. The universal availability of basic public health services at no or little cost underpins the relatively strong health indicators that Samoa has achieved to date (but which are now threatened by NCDs), while the universal availability of fee-free primary and progressively also secondary education underpins Samoa's relatively strong education indicators. It is thus particularly important to poor people and vulnerable groups that the Government maintains the capacity to provide public services over time, which in turn depends on the maintenance of fiscal stability. The revenue reforms supported by this DPO program (including the package of reforms supported in the first operation in the series) should assist the Government in its continued efforts to consolidate its public finances and build fiscal buffers.[24] Measures to facilitate the collection of capital gains tax may also act to lower inequality in Samoa, which tends to be higher than in other Pacific island countries.

83. Other reforms supported by this operation should have positive impacts on the poorest, and may also help to close gender gaps (see Annex 6 for more details). The 2013/14 HIES shows that remittances accounted for a higher share of the income of the poorest quintile than for the overall population. The AML/CFT reforms should help to address the concerns of correspondent banks and allow continued competition in the provision of remittance services, keeping the cost of remittances down for the poorest. These reforms may also be particularly beneficial for women, to the extent a higher proportion of women (48 percent) tend to receive remittances than men (39 percent). Maintaining resilience of key public infrastructure (and in particular roads, bridges or crossings) to climate risks will help facilitate access to key services after a natural disaster, which is again particularly important for the poorest who tend to be more exposed to disasters and less able to cope with their effects (see e.g. the 2016 Systematic Country Diagnostic for the 8 small Pacific Island Countries). The development of guidelines for single-story residential housing (with translation into Samoan) and presentation in a pictorial format will particularly benefit the poor who have the least ability to secure the services of home designers. The application of these guidelines is likely to benefit women in particular: higher proportions of Pacific women tend to die in natural disasters than men, as women are more likely to be inside their homes when a disaster hits, while men are more likely to be in open spaces. Reforms that will support the implementation of identified priorities at the district level will also help the poorest, e.g. by ensuring access to fresh water through provision of rain water tanks or gravity fed

[24] The reforms to excise and import duties supported by the first operation in the series will likely have a positive impact on government revenues, while at the same time improving health outcomes by disincentivizing consumption of alcohol, tobacco, and unhealthy foods and drinks. Nevertheless, these tax increases may also have a negative impact on household budgets, including those of poorer households. As a share of total expenditure, data from the 2013/14 HIES shows that spending on alcohol and tobacco is roughly constant across the expenditure distribution, at between 1 and 2 percent of the aggregate household budget for almost all deciles. Estimates suggest that the excise and duty increases programmed over three years would constitute less than 0.5 percent of the cost of the average consumption basket for those households with non-zero consumption, with potentially smaller effects if there is a behavioral response to reduce consumption.

systems; by improving food security through provision of agriculture planting material for establishing multi-cropping systems during seasonal droughts.

84. **Once effective, the Alcohol Control Bill may have positive effects in reducing gender-based violence and improving health outcomes in Samoa.** Alcohol consumption and especially binge drinking is an important contributing factor to sexual and gender-based violence (SGBV) in Samoa where half of the women aged 15-49 who have been in a relationship have experienced physical, emotional, and/or sexual violence by an intimate partner. Alcohol consumption is generally much higher for men than for women which also makes men vulnerable to alcohol-related NCDs such as esophageal cancer and liver disease.

5.2 ENVIRONMENTAL ASPECTS

85. **The policy actions supported under the operation – including those related to climate and disaster resilience – are not expected to create negative impacts on Samoa's environment, natural resources or forests compared with the status quo**. Policy actions related to revenue, AML/CFT compliance, alcohol control and pharmaceutical inventory management are not expected to have any significant environmental impacts. The actions to support implementation of the revised NBC to single-story housing, improve the management of key infrastructure assets, including roads, and ensure that climate and disaster risks are better accounted for in the design and location of key social and economic assets are expected to have positive effects on the environment. These measures should serve to lengthen the lifespan of these assets and thus decrease demand on material sourced from the environment, such as sand, rocks and/or timber for houses and building material for roads. The approval of CIM plans is likely to also result in positive effects as a high proportion of the identified priorities focus on reducing forest and coastal ecosystem degradation, increasing afforestation and improving the condition of the water sources and coastal areas.

86. **Samoa's Environmental Assessment (EA) system is considered one of the more robust systems in the Pacific, although there are some challenges with implementation.** Environmental Assessments are a legal requirement under the Planning and Urban Management Act 2004 and the Planning and Urban Management (Environmental Impact Assessment) Regulations 2007 administered by the Planning and Urban Management Authority (PUMA) which is a division in the Ministry for Natural Resources and Environment (MNRE). As the environmental regulatory agency, PUMA regulates compliance with the legislation and with Samoa's Code of Environmental Practice (COEP), which was developed with assistance from the WB and details procedures to be followed by consultants, designers and contractors for the avoidance or mitigation of adverse environmental effects from infrastructure development projects. The COEP consists of 14 codes covering different activities such as road works, quarry operations, drainage works and telecommunications facilities. There is also increasing compliance and public acceptance of PUMA's development consent process with the number of development consent applications increasing steadily since 2007.

87. **Despite this robust regulatory environment, PUMA faces several challenges in delivering on its mandate**. While all PUMA's functions are delivered (albeit with varying degrees of timeliness and continuity), the low number of staff is a critical constraint. This is

compounded by the high rate of staff turnover and the consequent shortage of skills to process and review EAs, particularly for the more complex proposals with more comprehensive EA requirements. Nevertheless, MNRE has over the last year considered options to improve retention of technical staff. Through the WB-PPCR project, the project Safeguard Specialist has been providing support to PUMA especially in relation to implementation of the priority solutions identified in the CIM plans. As part of continued capacity building, the WB has also provided specific training on safeguards which was attended by PUMA staff and consultants. Under the Cat DDO component of this operation, the WB team will assess if any additional support is required and take steps to facilitate its provision. There are also provisions under the recently approved WB Climate Resilient Transport project to supply technical assistance to strengthen PUMA's capacity, especially in relation to the Government's ability to manage a climate resilient road network.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

88. Samoa has made considerable progress with reforming its Public Financial Management 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 sound, as are most aspects of external scrutiny and audit. An independent evaluation of progress of the second phase of the three-phase PFM Reform Plan, which was implemented between 2011 and 2013, assessed that 22 of the 25 reform targets had been either fully or partially achieved. The 2013 Public Expenditure and Financial Accountability Assessment (PEFA) confirmed these PFM improvements relative to the 2010 PEFA, with notable improvements between the two assessments including arrears monitoring and broader budget credibility, tax assessments, bank reconciliations, payroll controls, procurement, expenditure controls, internal audit, annual financial statements, and legislative scrutiny of the budget and audit reports. Another PEFA is due to be finalized by March 2019 which will inform a new set of PFM priorities which will be incorporated into the Finance Sector Plan. The budget is published each year on the Ministry of Finance website.

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

90. The Government's commitment to making future improvements to its PFM systems is strong. Samoa has recently completed the third and final "roll-out" phase of its PFM Reform Plan, with considerable progress achieved over the three 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.

91. 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.

92. 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.

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

94. The proposed operation will follow the WB's disbursement procedures for development policy grants. The grant will be disbursed according to IDA disbursement procedures for DPOs against satisfactory implementation of the development policy program and adequacy of the macroeconomic policy framework, and will not be tied to any specific purchases. Once the grant is approved by the WB Board and becomes effective, and the WB is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA, at the request of the Recipient, into an account in US$ dedicated by the Recipient and acceptable to the WB at the CBS (the 'Foreign Currency Deposit Account'). The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds of the operation would not be used to finance expenditures excluded under the General Conditions for IDA Financing: Development Policy Financing (2017) (General Conditions). If, after being deposited in a Government deposit account, the proceeds of the operation are used for ineligible expenditure as defined in the General Conditions, IDA will require the Recipient to refund the amount directly to IDA. Any such amounts refunded to IDA shall be cancelled.

95. The funds for the partial or full disbursement of the Cat DDO will be made available after the drawdown trigger condition is met. At the request of the Recipient, and with the WB being satisfied that a Government Proclamation of Emergency has been issued, the proceeds will be deposited by IDA into the Foreign Currency Deposit Account. The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds cannot be used for ineligible expenditure but will not be tied to any specific purchases.

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

97. The WB will retain the right to request the Government to arrange a special audit of the dedicated Foreign Currency Deposit Account for each fiscal year in which there were receipts. The audits will confirm that the funds disbursed by the WB have been deposited into the Foreign Currency Deposit Account and that an equivalent amount has been either credited to an account of the Government available to finance budgeted expenditures, or used for budgeted payments made in foreign currency and categorisation of these payments. The audit opinion should also confirm the following: (i) the accuracy of the summary of the transactions, including accuracy of exchange rate conversions; (ii) that the Dedicated Account was used only for the purposes of the operation; (iii) that all payments out of the Dedicated Account were not made for any Excluded Expenditures as defined in the General Conditions; (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 reports of the Dedicated Account for each fiscal year in which there were receipts, if requested in writing by the WB, will be required to be received by IDA within six months of the end of the Recipient's fiscal year in which the disbursement is made.

98. The closing date for the operation is November 30, 2021.

5.4 MONITORING AND EVALUATION

99. 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 action on revenue, and will collaborate with the relevant ministries and agencies on the other results indicators. The Ministry of Finance has demonstrated good capacity to coordinate the monitoring and results evaluation of budget support operations to date. Where possible, it will utilise existing systems for monitoring and evaluation purposes (for instance, the monthly management 'scorecard' for key revenue indicators).

100. 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.

101. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or drawdown trigger 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

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

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

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

Ministry of Finance is playing a strong coordinating role. The parallel TA provided as part of the Cat DDO component over three years will specifically address the capacity needs of MWTI and MNRE in implementing these reforms.

Table 8: Systematic Operational Risk-Rating Tool

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

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

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Action for DPO1	Prior Action for DPO2 with CAT-DDO	Expected Results
Pillar 1: Strengthening macroeconomic and financial resilience		
PA1: The Recipient has: (a) through its Cabinet, approved recommendations from the 2016-17 Revenue Review, including: (i) increases to non-tax fees and charges; (ii) the cessation of income tax holidays and the tourism tax credit scheme; (iii) the removal of several income tax exemptions; and (iv) an increase in the income tax-free threshold; (b) included these changes in the Recipient's approved budget for financial year 2017/18; and (c) amended the Income Tax Act as necessary to implement recommendations from the 2016-17 Revenue Review.	The Recipient, through its Cabinet, has approved recommendations to simplify the capital gains tax regime and facilitate the collection of capital gains tax.	Revenue buoyancy (domestic tax and non-tax revenues as a percent of GDP) increases from recent average levels. Baseline (FY12-FY16): Average ratio of domestic revenue to GDP = 24.8 percent Target (FY18-FY21): Average domestic revenue to GDP > 26 percent
PA2: The Recipient, through its Cabinet, has approved and published a national strategy to mitigate money laundering and terrorism financing risks.	The Recipient, through its Parliament, has enacted the Money Laundering Prevention Amendment Act 2018, which enhances the Recipient's compliance with anti-money laundering and countering terrorist financing international standards.	Improvement in compliance with the FATF recommendations, as assessed by the July 2018 follow-up to the 2015 Mutual Evaluation Report. Baseline (FY17): APG status is "Enhanced Follow-Up (Expedited)" Target (FY19-FY21): APG status improves to and is maintained at "Enhanced Follow-Up" or better (i.e. no longer a need for expedited follow-up)
PA3: The Recipient, through its Ministry of Commerce, Industry, and Labour, has: (a) commenced the Personal Property Securities Act; and (a) launched the Personal Properties Securities Registry, to improve access to finance by allowing movable property to be used as collateral for loans.		Growth in registration of security interests on movable collateral. Baseline (FY17): No registered security interests on movable collateral. Target (FY19): Growth of at least 5 percent in registered security interests (excluding transitional filings) from FY18, and growth of at least 5 percent for registrations of security interests on movable collateral

		owned by women or women-owned businesses.
Pillar 2: Enhancing resilience to the effects of climate change and natural hazards		
PA4: The Recipient, through its Cabinet, has approved amendments to the national building code which will improve climate resilience, and which incorporate provisions for disability access.	The Recipient, through its Cabinet, has approved Guidelines for the Application of the National Building Code, which will help to strengthen new single-story residential housing against climate-related risks and earthquakes.	Revised national building code implemented and monitored Baseline (FY17): Revised NBC not yet in place Target (FY20-FY21 average): Relative to the baseline, a 10 percent increase in number of building permits (ensuring compliance with the revised NBC) issued for single-story residential housing, and a 10 percent reduction in the average time taken to approve building permit applications for single-story residential housing.
PA5: The Recipient, through its Cabinet Development Committee, has approved the recommendations contained within the Vulnerability Assessment and Climate Resilient Roads Strategy, which set out the priority investments necessary to improve the resilience of the roads network and provide guidelines for maintenance requirements and engineering standards.	The Recipient, through its Cabinet, has approved the Samoa Infrastructure Asset Management Strategy, to help improve the life-cycle management and resilience of public infrastructure to climate and disaster risks.	Number of approved road designs informed by the Vulnerability Assessment Baseline (FY17): zero Target (by FY20): 3 Number of improvement initiatives identified in the SIAMS that have been implemented. Baseline (FY18): zero Target (by FY21): 2
	The Recipient, has i) through its Cabinet, approved Community Integrated Management Plans to strengthen the resilience of all 41 districts to the impacts of climate change and natural disasters, and ii) made these plans publicly available.	A review of the implementation of CIM plan solutions is completed before June 2021 for at least one third of the 41 districts, with each review and its findings to be approved by the Climate Resilience Steering Committee Baseline (FY18): New CIM plans not yet approved Target (by FY21): Reviews of the CIM plans of at least 14 districts are completed and approved by the CRSC.

Pillar 3: Reducing vulnerability to non-communicable diseases		
PA6: The Recipient has: (a) introduced excise duties for sugary and salty products to improve health and nutrition outcomes and reduce the incidence of non-communicable diseases, and (b) approved an annual increase in excises on alcoholic and sweetened beverages and on tobacco of 3 percent and 5 percent respectively over the next three years.	The Recipient, through its Cabinet, has approved the Alcohol Control Bill, to minimize harmful effects from the consumption and abuse of alcohol.	Relative price of tobacco, alcohol, and sugary and salty products increases. Target: Increase in price of cigarettes, beer, instant noodles, and sweet biscuits from June 2016 to June 2021 is greater than overall increase in food and non-alcoholic beverages prices.
PA7: The Recipient, through its Cabinet, has approved framework contracts for the procurement of pharmaceuticals, to increase the efficiency and reduce the cost of procurement, and ensure access while reducing waste.	The Recipient, through its Ministry of Finance, has approved the introduction of an integrated, computerized inventory management system for pharmaceuticals, to boost the efficiency of medicines procurement and help prevent stock outs and reduce wastage.	Unit price of select medicines declines relative to benchmarks. Target: Average unit price of select purchased medicines (to be specified during preparation of the next operation) in FY18, FY19 and FY20 i) is lower than in FY17; and ii) compared with FY17, is lower as a proportion of international reference prices.

ANNEX 2: IMF RELATIONS ANNEX

Press Release No. 18/217
FOR IMMEDIATE RELEASE
June 4, 2018

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

IMF Executive Board Concludes 2018 Article IV Consultation with Samoa

On May 7, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV consultation[1] with Samoa.

Samoa's economy has shown resilience and continues to perform well. Growth remained robust at 2.5 percent in 2016/17, driven by commerce, services and agriculture. Inflation picked up to 1.3 percent in 2016/17, compared to close to zero in the previous year, but remains well below the authorities' target of 3 percent. The current account deficit narrowed to 2.3 percent, driven by temporary factors. The Samoan Tala appreciated against the U.S. dollar during 2016/17, although there was little change in the nominal and real effective exchange rates. Financial soundness indicators highlight that commercial banks are well capitalized and that earnings, profitability, and liquidity indicators are within historical norms.

Growth is projected to moderate to 1.8 percent in 2017/18, due to the negative impact of the closure of the Yazaki manufacturing plant in August 2017 and normalizing of fishing exports after two exceptionally good years, only partially offset by the impact of higher public infrastructure spending and Samoa's hosting of regional meetings. Growth is expected to rebound in 2018/19, as two new businesses scale up operations at the old Yazaki plant and several infrastructure projects are completed. In 2019/20, growth is projected to accelerate to 5 percent, driven by tourism related sectors as Samoa hosts the Pacific Games in July 2019, before settling at just above 2 percent in the medium term. Inflation is expected to continue to

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

pick up to about 3 percent in the medium term. The current account deficit is expected to widen to just above 4 percent of GDP in the next few years, driven by a rebound in imports to support investment for the Pacific Games and other infrastructure projects.

Executive Board Assessment[2]

Executive Directors commended the authorities for Samoa's robust growth and resilience in the face of external shocks. However, the outlook is subject to downside risks, including from the country's high vulnerability to natural disasters and the partial withdrawal of correspondent banking relationships (CBRs). Looking forward, Directors underscored the need to build fiscal space, continue efforts to mitigate spillovers from the loss of CBRs, and implement structural reforms to secure sustained, inclusive growth.

Directors called for a strengthening of the fiscal framework to reduce public debt to a more sustainable level, including by considering the introduction of a lower public debt-to-GDP target, and a fiscal balance anchor consistent with the target. Efforts can be made to improve tax administration and compliance. Ongoing efforts to improve the performance of public financial institutions (PFIs) and state-owned enterprises and to strengthen public financial management would help mitigate fiscal risks.

Directors considered the current accommodative monetary policy stance to be appropriate, but noted the need to strengthen the monetary transmission mechanism. They considered the external position to be consistent with economic fundamentals. Directors noted that international reserves are broadly adequate, and emphasized that external donor and remittances flows remain an important source of financing to help address vulnerabilities to natural disasters.

Directors welcomed the measures being taken to mitigate vulnerability to a further withdrawal of CBRs. They encouraged the authorities to take additional measures to align the AML/CFT framework to international standards, and leverage technology solutions for customer

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

identification and monitoring. Directors encouraged engagement with relevant stakeholders to achieve an industry-led, regional solution to the withdrawal of CBRs.

Directors commended the authorities for the considerable progress made in implementing the 2015 Financial Sector Assessment Program recommendations. They emphasized that further progress should focus on upgrading the regulatory and supervisory framework to support corrective actions and resolution. They also agreed that formulating a coherent framework for governance and performance of PFIs, including a clear definition of their mandates, remains a key priority.

Directors encouraged the authorities to focus the structural reform agenda on broadening financial inclusion, enhancing resilience to natural disasters, and improving the business environment. In this context, they commended the adoption of a financial inclusion strategy and plans to upgrade infrastructure, and encouraged follow up on plans to introduce measures to improve access to finance for households and businesses.

Table 1. Samoa: Selected Economic and Financial Indicators, 2014/15–2022/23

Population (2016): 195.843 thousands
Main Exports: Tourism, fish, taro
Key Export Markets: American Samoa, New Zealand, Australia
GDP per capita (2016/17): US$ 4,255
IMF Quota: SDR 16.2 million

			Est.	Proj.					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.6	7.1	2.5	1.8	3.2	5.0	2.2	2.2	2.2
Nominal GDP	4.4	5.5	3.8	4.8	5.8	7.7	5.0	5.3	5.3
Consumer price index (end of period)	0.4	2.3	1.0	2.6	2.5	2.7	2.8	3.0	3.0
Consumer price index (period average)	1.9	0.1	1.3	2.9	2.6	2.6	2.8	3.0	3.0
				(In percent of GDP)					
Central government budget									
Revenue and grants	35.1	36.1	34.2	35.7	35.7	35.6	35.6	34.9	34.9
Of which: grants	9.8	9.3	7.2	8.1	7.5	7.4	7.4	6.7	6.7
Expenditure and net lending	38.9	36.5	35.3	37.7	38.0	38.0	38.0	37.4	37.4
Of which: Development	11.9	12.0	12.3	12.4	12.5	12.5	12.5	11.9	11.9
Current balance	-1.7	2.2	4.0	2.3	2.7	2.7	2.7	2.7	2.7
Overall balance	-3.9	-0.4	-1.1	-2.0	-2.3	-2.4	-2.4	-2.5	-2.5
External financing	2.3	0.4	0.1	2.3	2.7	2.6	2.4	2.5	2.5
Domestic financing	1.6	0.0	1.0	-0.4	-0.4	-0.2	-0.1	-0.1	0.0
				(12-month percent change)					
Macrofinancial variables									
Broad money (M2)	0.6	7.1	7.8	4.8	5.8	5.2	5.0	5.3	5.3
Net domestic assets	-0.7	19.2	-7.3	...	...	...	...	...	...
Private sector credit, Commercial banks	12.7	13.6	7.2	7.0	7.4	7.5	6.9	7.0	6.5
Total loan growth, Commercial banks	8.0	7.7	4.8	...	..	...	..	...	...
Total loan growth, Public financial institutions	1.9	3.3	4.4	...	..	...	..	...	...
				(Ratio)					
Individual credit to GDP	28.6	27.8	29.1	...	..	...	..	...	...
Total capital to risk-weighted exposures	27.1	24.5	25.1	...	..	...	..	...	...
Non-performing loans	7.1	5.2	4.1	...	..	...	..	...	...
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-24.9	-37.3	-19.5	-25.1	-40.6	-37.7	-42.4	-46.4	-48.1
(In percent of GDP)	-3.1	-4.7	-2.3	-2.9	-4.4	-3.8	-4.2	-4.4	-4.3
Merchandise exports, f.o.b. 1/	27.9	36.9	38.0	39.1	40.5	41.9	43.2	44.6	45.9
Merchandise imports, f.o.b.	-322.8	-307.2	-308.4	-330.2	-360.0	-390.1	-402.2	-421.5	-441.8
Services (net)	123.7	119.6	138.9	147.9	155.6	177.9	177.6	186.6	197.3
Income (net)	-16.1	-18.6	-28.4	-29.8	-31.5	-31.5	-30.9	-31.5	-31.8
Current transfers	162.3	132.0	140.5	147.9	154.8	164.1	169.9	175.4	182.2
External reserves and debt									
Gross official reserves	131.9	111.0	121.6	143.0	144.2	164.1	166.4	164.6	174.5
(In months of next year's imports of GNFS)	4.0	3.4	3.5	3.8	3.6	4.0	3.9	3.7	3.6
Public debt (in millions of tala) 2/	1,126.1	1,080.7	1,047.4	1,120.7	1,187.6	1,262.3	1,340.1	1,427.5	1,518.9
(In percent of GDP)	57.8	52.6	49.1	50.1	50.2	49.6	50.1	50.7	51.2
External debt (in percent of GDP)	55.3	50.7	47.7	49.1	49.6	49.0	49.8	50.5	51.1
Exchange rates									
Market rate (tala/U.S. dollar, period average) 3/ 4/	2.42	2.61	2.49	...	..	...	..	...	...
Market rate (tala/U.S. dollar, end period) 3/ 4/	2.56	2.55	2.46	...	..	...	..	...	...
Nominal effective exchange rate (2010 = 100) 3/ 4/	111.6	111.8	111.5	...	..	...	..	...	...
Real effective exchange rate (2010 = 100) 3/ 4/	109.5	109.9	109.0	...	..	...	..	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	1,949	2,055	2,133	2,235	2,364	2,545	2,673	2,815	2,965
GDP per capita (U.S. dollars)	4,149	4,015	4,255	4,405	4,578	4,845	4,990	5,150	5,321

1/ Includes re-export of fuel after 2009/10.
2/ Includes domestic and external public debt.
3/ IMF, Information Notice System (calendar year).
4/ Latest data available.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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

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

FA'AVAE I LE ATUA SAMOA

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)

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02 October 2018

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 performance. Underpinning these achievements is Samoa's ambitious development agenda, which is articulated in our *Strategy for the Development of Samoa 2016-2020* (SDS).

The SDS sets out our overarching strategy for accelerating sustainable development and creating opportunities for all, and outlines the key policy priorities that the government is pursuing to achieve these ends. These priorities include improving macroeconomic resilience, increasing productivity in agriculture and fisheries, achieving sustainable tourism development and enhancing the enabling environment for business development. We also include raising health and education outcomes, and improving the quality of life of the most vulnerable through community development and the provision of high quality and affordable public services. Given the critical impacts of climate change and natural disasters on our people and economy, the SDS explicitly integrates measures to enhance climate resilience and improve disaster risk management across each of the major sectors.

The World Bank continues to be an important partner to the Government of Samoa, in our pursuit of these objectives, including through the policy matrix underpinning this Development Policy Operation that we have worked on in collaboration with the Bank and other development partners. We very much support the efforts made to align the policy reforms in this operation with government priorities, as detailed in the SDS.

In the decade to 2008, Samoa's economy benefitted from substantial structural reforms and grew at an annual average rate of over 4 percent. However, this period of strong economic growth was disrupted due to the 2008 food and fuel price spikes, the global economic crisis, a devastating tsunami in September 2009, and a major cyclone in December 2012. In the years since, growth has picked up as Samoa has recovered from these shocks, supported by construction, tourism arrivals, lower fuel prices, new capacity in the fishing industry, and Samoa's hosting of a series of international meetings and sporting events. The government has also succeeded in consolidating its fiscal position, and the ratio of external debt to GDP has fallen since 2015.

Nevertheless, fiscal pressures remain, and the level of Samoa's external public debt as a proportion of GDP remains relatively high. As such, maintaining fiscal sustainability, including through improving revenue collection, continues to be a key priority for the government.. At the same time, we are endeavoring to boost our resilience to the effects of climate change and natural disasters and strengthen the performance of our social sectors, in line with the key priorities of our SDS. We recognize the critical importance of combating non-communicable diseases, which endanger the lives of so many of our people, and which are a major threat to public finances as well as to public health.

With an eye to our longer-term economic prospects, we are also preparing a *Samoa 2040* strategy, building on the recent *Pacific Possible* exercise led by the World Bank. *Samoa 2040* will identify potentially transformative opportunities for economic growth over the next few decades in Samoa and provide a broad roadmap for realizing these gains.

To help achieve a sound fiscal position, we are pursuing reforms to strengthen government finances and improve public financial management. At the core of this agenda are a recent package of reforms to bolster the domestic revenue base and improve the equity of the tax system, building on substantial efforts to improve the efficiency of tax administration and modernize the customs system over the past few years. In 2018 we have paid particular attention to improving our capital gains tax regime, and in the coming months we are committed to passing legislative reforms (in the form of amendments to the Income Tax Act) and implementing recently approved recommendations that will help to simplify and increase the collection of capital gains tax, further boosting overall revenue. Combined with continued spending restraint and a budget strategy that reflects our commitment to fiscal consolidation over the medium term, these revenue reforms – once fully bedded down - should help ensure that our government finances remain sustainable.

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

Samoa, like other Pacific Island Countries, faces substantial risks from natural disasters and the effects of climate change. The government is focusing its attention on implementing the recently updated National Building Code, including by developing guidelines for residential housing to help home owners and the building industry comply with the Code, which will ultimately improve the resilience of new homes to natural disasters, especially earthquakes and cyclones. We have recently approved an Infrastructure Asset Management Strategy, which sets out principles of good practice for the government's management of public infrastructure portfolio, and outlines a set of priority improvement initiatives, some of which the government has already begun to take forward. At the same time, the government remains committed to implementing the recommendations from the recently-approved roads Vulnerability Assessment, in its roads investment, upgrading, and maintenance decisions, and its implementation of sound engineering standards. The government has also completed and approved community integrated management plans for each of the 41 districts in Samoa, which have been prepared with the close participation and support of the communities in each district, and which identify climate and disaster related risks along with priority actions to help improve the resilience of these communities to these risks.

While we implement these priority reforms to help ensure fiscal sustainability, address financial sector risks, develop the private sector, and build climate and disaster resilience, we are also continuing to work to strengthen the performance of our social sectors. In the health sector, we are focused on strengthening the alignment of budget resources with policy priorities, including the key priority of managing the rising threat of non-communicable diseases. Efforts to establish and raise taxes on unhealthy products – such as salty and sugary foods and drinks, alcohol, and tobacco – are a critical part of this effort, as is the recently approved Alcohol Control Bill, which strengthens regulations around the sale and supply of alcohol to help reduce the harms associated with its consumption. Combined with the recent establishment of a framework arrangement for the procurement of pharmaceuticals, the government's decision to introduce a pharmaceutical inventory management system (in advance of the broader e-health system) should help to ensure more efficient purchasing of medicines, fewer stock outs, and less wastage.

The government is firmly committed to implementing this package of reform measures, key aspects of which are contained in the policy matrix we have been working on in partnership with the World Bank. Against this background, we therefore seek the World Bank's favorable consideration of our request for a development policy grant of US$ 5 million, and a development policy grant with a catastrophe deferred drawdown option of US$ 8.7 million, based on our completion of the reform measures set out in this policy matrix.

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

Yours sincerely

Sili Epa Tuioti
MINISTER OF FINANCE

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant positive or negative poverty, social or distributional effects
Strengthening macroeconomic and financial resilience		
Prior action #1	No	Positive – Help sustain availability of health and education services even after an economic shock by bolstering fiscal buffers.
Prior action #2	No	Positive – Reduce risk of disruption to remittance flows, (upon which the poor tend to be particularly reliant), which could potentially increase the costs of sending and receiving money.
Enhancing resilience to the effects of climate change and natural hazards		
Prior action #3	Yes – climate adaptation co-benefits, strengthening resilience of new single-story residential buildings to natural disasters and climate change.	Positive – Increased resilience to disasters will reduce damages to the housing assets of the poor. Easier access to standard templates and designs for housing.
Prior action #4	Yes – climate adaptation co-benefits, strengthening the resilience of the Samoan infrastructure assets to natural disasters and climate change.	Positive – Maintaining resilience of key infrastructure including roads will help improve access to services after a natural disaster, on which the poor are likely to be particularly dependent.
Prior action #5	Yes – less damage and disturbance to the particularly sensitive ecosystems near the coast and in flood plains. Due diligence from safeguards will continue to ensure that the identified priority solutions do not cause significant damage to the environment.	Positive – Priority investments at district level will benefit the poor through improved food and water security. Focus on wider ecosystem interventions will improve resilience of the poor and also maintain and/or enhance the livelihood of the poor that are often dependent on ecosystems; restoration of watersheds and forests will also provide access to traditional medicines that are valued by Samoan people but may be more accessible for the cash-poor part of the population.
Reducing vulnerability to non-communicable diseases		
Prior action #6	No	Possibly positive – the poor may benefit relatively more from improved health outcomes associated with reduced consumption and abuse of alcohol.
Prior action #7	No	Possibly positive – Reduced incidence of medicine stock-outs should help to ensure availability for all.

ANNEX 5: EMERGENCIES AND DISASTERS IN SAMOA'S CONSTITUTION AND DISASTER AND EMERGENCY MANAGEMENT ACT 2007

The Constitution of Samoa, 1960 and the *Disaster and Emergency Management Act, 2007* differentiate between a disaster and an emergency. An emergency is seen to be beyond the ability of the Government to respond using its own resources, whereas a disaster is a situation that the Government can manage with its own resources. Both the *Disaster and Emergency Management Act* and the Constitution include disease outbreaks as an example of a disaster. The specific definitions in the Act are as follows:

"Declaration of Disaster means the activation of the disaster response provisions of the National Disaster Management Plan by the Chairperson of the National Disaster Council in accordance with section 19 of the Act. **"Disaster"** means a situation –

(a) that arises from any happening, whether natural or otherwise, including –

(i) any naturally occurring event affecting the whole or any part of Samoa;

(ii) any fire caused by any means;

(iii) any aspect of the safety of a ship or aircraft in Samoa's territory;

(iv) any outbreak or spread of disease affecting humans, plants or animals;

(v) the supply of water or the quality of water resources in Samoa;

(vi) the breakdown of telecommunications in Samoa or between Samoa and other countries; and

(vii) any other emergency event resulting from systems failure, infrastructure failure or human error; and

(b) which involves threat or danger to human life or health, or to the environment; and

(c) which might require response agencies to respond under this Act. "

"Emergency means a situation in any part of Samoa;

(a) which is more serious than a disaster;

(b) which could result or has resulted in causing widespread human, property or environmental losses throughout Samoa or in any part of Samoa; and

(c) which does require a substantial mobilisation and utilisation of Samoa's resources or exceed the ability of Samoa to cope using its own resources."

ANNEX 6: GENDER ANALYSIS

The promotion of gender equality and women's empowerment is aligned with Samoa's national policies and priorities and is reflected in the Strategy for the Development of Samoa FY2017-FY2020 which commits to "improve quality of life for all". To achieve this the Government has prioritized the mainstreaming of gender, youth, children and disability needs in policy development. Samoa is signatory to a range of international conventions and commitments including the Convention on the Elimination of All Forms for Discrimination Against Women, the 1995 United Nations Beijing Platform for Action, the Commonwealth Plan of Action for Gender Equality and the Sustainable Development Goals. At the regional level, the Government aligns itself with the Pacific Leaders Gender Equality Declaration and the Revised Pacific Platform for the Advancement of Women.

The country's Community Development Plan 2016-2021 aims to strengthen the social, environmental, and economic well-being of the villages, including the most vulnerable who are identified as women, youth, persons with disabilities, children and marginalized groups. This Plan is closely aligned with Samoa's National Policy for Gender Equality 2016-2021 which provides a comprehensive framework to accelerate and enhance gender equality and the well-being of women in Samoa. It has seven broad priority outcomes: (1) Safe families and communities including ending violence against women and children; (2) healthy women and girls; (3) equal economic opportunities for women; (4) increased participation of women in public leadership and decision-making; (5) increased access to education and a gender-sensitive education curriculum; (6) enhanced gender equality approaches to community resilience and disaster preparedness; and (7) enhanced institutional mechanisms for the promotion of gender equality.

The Government has various institutional arrangements to ensure the effective implementation of the Gender Policy. At the Government level, the Ministry of Women, Community and Social Development (MWCSD) has the primary responsibility for the mainstreaming of gender. It has a staff possessing solid gender expertise and the mandate to implement community development programs in close collaboration with the other ministries. It works within the traditional structures in the villages such as the women's committees, youth groups and village councils. MWCSD coordinates a network of Government Women's Representatives who serve as liaison officers between the Government and the women's committees in the villages; report on implementation and monitoring of programs; and promote government policy related to advancing the role of women in the villages.

The proposed operation has the potential to reduce gender gaps. It can be classified as a Category 2 gender project "which are those that have the potential to positively impact gender inequalities and biases and introduce or modify activities to affect such change in one or more of the priority areas of the Consolidated Country Gender Action Plan for the PIC-9, FY17-21.

To the extent that it helps maintain the continued flow of remittances into Samoa, Prior Action 2 has the potential to particularly benefit women. A higher proportion of women (48 percent) receive remittances than men (39 percent). Women therefore stand to benefit disproportionately from any action that increases access to remittances and/or puts downward pressure on the costs of transferring money into Samoa.

The impacts of climate change and natural hazards are gender-differentiated in Samoa[25]. Natural disaster and climate change are not gender-neutral as underlying gender inequalities affect vulnerability

[25] "Understanding the Gender-Differentiated Impacts of Disasters and Climate Change in Samoa" prepared for Samoa's Pilot Programme on Climate Resilience and the World Bank.

and adaptive capacity to disasters and climate change. Samoan women are disproportionally vulnerable as their socio-economic status is not equal to that of men.

Samoa's National Disaster Management Plan 2017-2020 recognizes the importance of mainstreaming gender and enhancing women's participation and leadership in disaster management. It also promotes gender analysis and the systematic collection and use of sex and age disaggregated data. Samoa's Gender in Disaster Risk Management Policy 2017-2021 aims to ensure that gender considerations are fully addressed in all phases of DRM in the country, recognizing that women and men have different vulnerabilities and capacities and that disasters can accentuate existing gender inequalities.

Prior Action 3, which will help strengthen new residential single-story housing through the application of the revised National Building Code, is likely to benefit women in particular. More Pacific women tend to die from disasters than men as women are more likely to be inside poorly constructed homes when a disaster hits, while men are out in open spaces. This is because women are involved mainly in work in the house including domestic chores, caring for children, the sick, and the elderly, cleaning, and cooking. In the 2009 tsunami, 60 percent of those who died were women and 40 percent were men which was disproportionate to the overall population figures at the time (52 percent men and 48 percent women). Elderly persons, people with disabilities and children were also over-represented among the victims. The main reasons for the higher mortality rate for women were that some women went back to their homes to collect household belongings; while other women were trying to protect children, parents and other family members.

Prior Action 6 may act to reduce sexual and gender-based violence in Samoa via the approval of the Alcohol Control Bill which contains measures to reduce alcohol consumption. Alcohol consumption is an important contributing factor to sexual and gender-based violence which is very high in Samoa. About 60 percent of the women in Samoa aged 15-49 who have been in a relationship have experienced physical, emotional and/or sexual violence by an intimate partner, according to the 2017 Samoa Safety and Family Study**.** This has therefore been highlighted as an issue of national concern and the Government has established a Family Violence Court and a Drugs and Alcohol Court to oversee cases regarding all forms of violence in Samoan families related to drugs and alcohol. To the extent that it acts to reduce the harmful effects of alcohol abuse, the Alcohol Control Bill might be expected to benefit women, men and children, not only by reducing alcohol-fuelled violence but also by reducing instances of alcohol-related NCDs such as oesophageal cancer, liver disease and epileptic seizure, and reducing the risk of cardiovascular disease and stroke.

Sources:

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