



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jul-2020 | Report No: PIDC29612



BASIC INFORMATION

A. Basic Project Data

Country Samoa	Project ID P171764	Project Name Samoa First Response, Recovery and Resilience Development Policy Operation (P171764)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Nov 25, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Samoa	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The objectives of the proposed operation are to promote an inclusive economic response and recovery from the impacts of COVID-19, strengthen Samoa’s macro-fiscal resilience, and increase Samoa’s resilience to climate change, natural disasters, and health-related risks.

Financing (in US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

Total World Bank Group Financing	25.00
World Bank Lending	25.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed operation is the first in a programmatic series of two Response, Recovery and Resilience Development Policy Operations (DPOs), and includes a Disaster Risk Management (DRM) Policy Grant with a Catastrophe-Deferred Drawdown Option (Cat DDO). Like other tourism-dependent economies in the Pacific, Samoa has been hit hard by the economic impacts of the COVID-19 pandemic, just as it was beginning to recover from a devastating measles outbreak that struck a few months earlier. As a result, there is likely to be a large fall in economic activity in the 2020 calendar year,



with significant impacts on government finances. In addition to the pressing needs associated with COVID-19, Samoa is facing several other longer-term challenges: to raise its long-run potential growth rate; increase resilience to climate change and natural disasters; and improve public health outcomes. Samoan households have felt the full force of COVID-19 impacts, with the poorest and most vulnerable likely to be most severely affected. Under the proposed programmatic series of DPOs, the World Bank (WB) will support the implementation of policy actions that have recently been prioritized by the Government to respond to the immediate economic impacts of COVID-19 and boost longer-term resilience to exogenous shocks. In the current circumstances there is a sound case for the provision of substantial budget support to Samoa.

While economic growth has been volatile in recent years, overall Samoa has demonstrated macroeconomic resilience in the face of several shocks. The measles outbreak in late 2019 which claimed more than 80 lives and infected around 2 percent of Samoa's population also had a severe economic impact, particularly on the tourism and broader services sector. As a result of both the measles outbreak and the economic impacts of COVID-19, there will be a substantial contraction in economic activity in FY2020 (year ended June). The current account had moved into surplus in recent years, due to strong growth in tourism-related services exports and remittances. Due to COVID-19, a current account deficit of around 7 percent of GDP could be realized in FY20, with falling tourism receipts and remittances only partially offset by declines in import prices and quantities. Inflation was contained in Samoa in FY2019, and is expected to remain below 3 percent in FY20, due in part to the COVID-19 induced decline in global commodity prices. The Central Bank of Samoa (CBS) is maintaining an accommodative monetary stance, and is providing additional support to offset the impacts of COVID-19 on the banking system.

There is significant uncertainty around the magnitude and duration of COVID-19 impacts in FY21 and over the medium term. Projections indicate that GDP in Samoa could fall by between 12 and 18 percent over the course of the 2020 calendar year (equivalent to USD 100-170 million in lost income). The current account deficit is expected to remain relatively high in FY21, consistent with the projected decline in tourist arrivals, goods exports, and remittances. In the absence of World Bank budget support, a budget deficit of 4.5 percent of GDP is expected in FY21, with a further decline in domestic revenues and increase in current spending only partially offset by an increase in grants from development partners. The budget deficit is projected to return to the government's target range of within 2 percent of GDP by FY23. The government will continue to balance its objectives to meet development priorities and improve service delivery with its commitment to spend within its means and maintain fiscal sustainability. The Government will also need to maintain its solid record on debt policy and management displayed in recent years. Despite the recent fiscal consolidation efforts, Samoa remains at a high risk of debt distress. 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. Samoa's macroeconomic policy framework is assessed as adequate for the purposes of this operation.

Relationship to CPF

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 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. The DPO series is complemented by other WBG operations targeted at achieving the RPF outcomes. The reforms supported by the proposed DPO are also closely aligned with the IDA-19 special themes.



C. Proposed Development Objective(s)

The objectives of the proposed operation are to promote an inclusive economic response and recovery from the impacts of COVID-19, strengthen Samoa's macro-fiscal resilience, and increase Samoa's resilience to climate change, natural disasters, and health-related risks.

Key Results

Over the medium term, the proposed programmatic series of DPOs is expected to contribute to: (i) the provision of substantial financial relief to the private sector and in support of Samoan livelihoods; (ii) full compliance with the provisions of the government's new policy governing on-lending to SOEs, and the debt concessionality requirements of the government's Medium Term Debt Strategy; (iii) an increase in the ratio of value-added goods and services tax revenues to Gross Domestic Product (GDP); (iv) a reduction in the time taken to issue early warnings in response to natural disasters, and an improvement in the quality of those warnings; (v) the maintenance of a high immunization rate for children against measles; (vi) an improvement in the government's ability to detect cases of COVID-19.

D. Concept Description

Pillar 1: Promoting an inclusive economic response and recovery from the impacts of COVID-19

Prior Action 1: Through the second supplemental FY20 budget and the FY21 budget, the Government has provided financial relief to affected firms, including: i) debt service relief on business loans; ii) rent assistance for businesses operating in government-owned facilities; iii) a six-month moratorium on employee provident fund contributions for tourism sector employers; and iv) reductions in a range of other fees and charges.

Expected result: At least 75 percent of private sector firms receive one or more forms of public financial support in FY21.

Prior Action 2: Through the second supplemental FY20 budget and the FY21 budget, the government has approved a series of measures to support vulnerable workers and households, including: i) a top-up of the senior citizens' benefit; ii) an unemployment benefit paid to those losing employment due to COVID-19; iii) a per citizen payout, to provide financial support and incentivize registration for a national ID scheme; and iv) a reduction in electricity and water tariffs.

Expected result: In FY21, proportion of eligible elderly individuals receiving additional payouts > 90 percent; proportion of eligible unemployed workers receiving payouts > 70 percent; proportion of population receiving per capita payout > 50 percent.

Pillar 2: Strengthening macro-fiscal resilience

Prior Action 3: The Recipient's Cabinet has approved a policy governing on-lending to SOEs, which provides guidelines for eligibility and a framework for setting the terms and conditions of on-lending arrangements.

Expected result: Full compliance with MTDS in terms of requirements for debt concessionality and positive economic returns (FY21-FY23). Full compliance with new on-lending policy, and on-lending arrangements continue to be transparently monitored (FY21-FY23).

Prior Action 4: The Government has introduced a Tax Invoice Monitoring System to improve businesses' compliance with their VAGST payment obligations, and the Recipient's Cabinet has approved a supporting amendment to the Tax Administration Act and implementing regulations under this Act.

Expected result: Increase in VAGST receipts as a proportion of GDP.

Pillar 3: Enhancing resilience to climate, natural disaster, and health-related risks

Prior Action 5: The Recipient, through its Cabinet, has approved the Meteorological and Geophysical Services Bill 2020 which gives statutory authority to carry out the functions of the Meteorological Services Division.

Expected result: 20 percent reduction in time taken to issue early warnings in response to natural disasters; and all early



warnings issued are actionable and easy to interpret.

Prior Action 6: The Recipient has enacted the Infants Amendment Act (No. 2) 2019 which mandates the vaccination of children as a condition of school enrolment.

Expected Result: The measles immunization rate for 1-4 year old children remains at or above 95 percent (FY21 to FY23); the measles immunization rate for 1-4 year old girls remains at or above 95 percent.

Prior Action 7: Cabinet has approved the Novel Coronavirus Preparedness and Response Plan, which establishes a framework for health system preparedness, prevention, and response in the event of a confirmed case of COVID-19.

Expected Result: Expanded capacity to test for and monitor COVID-19 cases within Samoa.

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

Poverty and Social Impacts

The proposed operation will support the Government in its efforts to directly support livelihoods in response to the COVID-19 pandemic, and to boost resilience to economic, climate change, and health-related risks, which should ultimately have a particularly positive impact on the poor and vulnerable. The COVID-19 pandemic will likely increase the incidence of hardship across the country, particularly due to decreased income from tourism and remittances: this operation will help mitigate some of these effects. 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. 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 second pillar of reforms supported by this DPO program should assist the Government in its efforts to rebuild fiscal buffers over the medium term. Other reforms supported by this operation should also have positive impacts on the poorest, and may also help to close gender gaps.

Environmental, Forests, and Other Natural Resource Aspects

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. Samoa’s Environmental Assessment (EA) system is considered to be one of the more robust systems in the Pacific, although there are some challenges with implementation. Despite this robust regulatory environment, the Planning and Urban Management Authority (PUMA) continues to face several challenges in delivering on its mandate. Under the Cat DDO component of this operation, the World Bank team will assess if any additional support on safeguards to the Ministry of Works, Transport and Infrastructure and PUMA is required, and take steps to facilitate its provision.

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APPROVAL

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Approved By

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