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Report No. 90121

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 4.9 MILLION
(US$ 7.5 MILLION EQUIVALENT)

TO

THE INDEPENDENT STATE OF SAMOA

FOR A

FIRST FISCAL AND ECONOMIC REFORM OPERATION

August 22, 2014

Macroeconomics and Fiscal Management Global Practice
East Asia and Pacific Region

SAMOA – GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of June 2, 2014)
US$ 1.00 = SAT 2.31

ABBREVIATIONS AND ACRONYMS

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

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SAMOA

FIRST FISCAL AND ECONOMIC REFORM OPERATION

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SUMMARY OF PROPOSED GRANT AND PROGRAM
INDEPENDENT STATE OF SAMOA
FIRST FISCAL AND ECONOMIC REFORM OPERATION

Borrower	Independent State of Samoa
Implementation Agency	Ministry of Finance
Financing Data	IDA Grant; Standard IDA terms Amount: SDR 4.9 million (US$ 7.5 million equivalent)
Operation Type	The proposed operation is the first in a programmatic series of two development policy operations, consisting of a single tranche to be disbursed upon effectiveness.
Pillars of the Operation and Program Development Objectives	The first pillar of the operation is a fiscal reform pillar, contributing to program development objective (i) to strengthen public financial management in the areas of debt, procurement and revenue. The second pillar of the operation is an economic reform pillar, contributing to program development objective (ii) to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term.
Result Indicators	*Under program development objective (i):* 1. Compliance with the MTDMS provisions on external loan concessionality and economic return. Baseline: Partial Compliance, FY11–13. Target: Full Compliance, FY14–16. 2. An increase in the extent to which commonly procured items are procured through framework arrangements within and across line ministries. Baseline: No such framework arrangements. Target: Framework arrangements for three of the commonly procured categories of items have been piloted and put in place by the government. 3. Improved tax compliance as measured by on-time filing, on-time payment and arrears collection for large enterprises. Baseline: FY13 – On-time filing < 80 percent; on-time payment < 70 percent; outstanding returns collected or resolved by year end < 50 percent. Target: FY16 – On-time filing ≥ 90 percent; on-time payment ≥ 80 percent; outstanding returns collected or resolved by year end ≥ 50 percent. 4. Expanded coverage of high risk groups by the PEN Package of interventions to prevent NCDs. Baseline and Target: [To be defined during the preparation of the second operation in the series]. *Under program development objective (ii):* 5. A more efficient payments system as measured by an increased prevalence of electronic payments. Baseline: Number of payments in 2013 – Interbank manual cheque settlements (260,307), Debit and credit card payments (109,819), Credit transfers (149,875), Mobile payments (76,819). Target: Number of payments in 2016 – Interbank manual cheque settlements (decrease by 10 percent), Debit and credit card payments, credit transfers and mobile payments (increase by 10 percent). 6. Improved performance of the tourism industry as measured by an increase in proportion of the tourist and sports tourist segments in overall visitor arrivals and an expansion of the employment of women in the accommodation, restaurants and general commerce industries. Baseline: Average decrease in proportion of target segments of 1.3 percent per year 2009–13, and 2,984 women employed in 2011. Target: Average increase in proportion of target segments of 0.5 percent per year 2013–16, and 3,175 women employed in 2016. 7. Greater private participation in the SOE sector, as measured by the proportion of new PPPs that conform with the new PPP policy framework. Baseline: n/a [no PPPs
Overall Risk Rating	Moderate
Operation ID	P149770

IDA PROGRAM DOCUMENT FOR A PROPOSED FIRST FISCAL AND ECONOMIC REFORM OPERATION TO THE INDEPENDENT STATE OF SAMOA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation is the first in a programmatic series of two development policy operations (DPOs), aimed at strengthening public finances and continuing to support economic growth in Samoa in the wake of a series of major external shocks.** The government recognises that reforms to key aspects of public financial management will help to consolidate its fiscal situation and rebuild the fiscal buffers it needs to respond to future external shocks. It also recognises the critical importance of returning the economy to a more robust growth path, if it is to achieve the objective of the *Strategy for the Development of Samoa 2012–2016* (SDS) of an 'improved quality of life for all'. The proposed DPO series supports these endeavours, through a reform program for which the government has very strong ownership. The DPO series is central to the Bank's overall engagement with Samoa, as laid out in the Country Partnership Strategy (CPS) discussed by the Board on March 5, 2012. The first operation in the series is an IDA Grant of SDR 4.9 million (US$ 7.5 million equivalent).

2. **As a very small remote economy that is highly vulnerable to external shocks, Samoa faces significant development challenges.** Samoa's 189,000 residents live on two main islands located approximately 3,000km from New Zealand and 4,000km from Australia. The small size of the domestic economy and its extreme remoteness from major markets push up production costs in Samoa, making it hard for economic activity to be competitive – unless it can capture some form of rent or premium price in markets to cover its higher production costs. Remittances from Samoans living and working abroad are critical to the livelihoods of the resident population, averaging 24.9 percent of GDP over the last four years. Earnings from visitor arrivals are also critical to the economy, averaging 20.5 percent of GDP over the last four years. The limited nature of livelihood opportunities that are available in such small remote economies exacerbates Samoa's already acute vulnerability to external shocks.

3. **In recent years, economic growth in Samoa has been low and volatile, as the country has been buffeted by a series of major external shocks.** In the two decades to FY08, Samoa had experienced positive – though quite variable – economic growth. But in FY09, the economy contracted by 5.1 percent, as the global economic crisis hit its major exporter of manufactured goods – Yazaki, a vehicle parts supplier for manufacturers in Australia – particularly hard. Growth remained low at 0.5 percent in FY10, as Samoa was hit by a powerful tsunami that caused an estimated 30 percent of GDP in damage and losses. The government's policy responses to these two major shocks helped support modest economic growth of 1.4 percent in FY11 and 2.9 percent in FY12, but in FY13 Samoa was hit by a major cyclone estimated to have caused another 30 percent of GDP in damage and losses. Samoa's fiscal situation has deteriorated markedly since the global economic crisis, as the government responded to this succession of major shocks with fiscal stimulus programs that raised public debt such that Samoa is now at high risk of debt distress. In this context, consolidating the fiscal situation and returning the economy to a more robust growth path are a formidable challenge.

4. The proposed operation supports key aspects of the reforms being implemented by the government to consolidate its fiscal position and return the economy to a more robust growth path. Over the last two decades, Samoa has established a strong track record for good macroeconomic management and the successful implementation of economic reforms. According to the CPIA, its policy and institutional framework is one of the strongest among IDA recipients. Under the proposed operation the Bank will support key aspects of the reform program that the government has prioritised. The Bank will do so alongside Australia and New Zealand, with which the Bank has worked closely in order to align development partner support behind a multi-donor policy matrix developed by the government. The government has encouraged and welcomed this degree of coordination among development partners.

5. The proposed operation is structured around two development objectives: (i) to strengthen public financial management in the areas of debt, procurement and revenue; and (ii) to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term. Contributing to the first objective, the operation will support reforms to strengthen procedures for contracting loans and issuing government guarantees, improve value for money in expenditure by strengthening public procurement processes, and increase revenue collections by strengthening revenue policy and administration. Contributing to the second objective, the proposed operation will support reforms to modernise the payments system which has – *inter alia* – an important impact on remittances, strengthen the sector policy for the critical tourism industry, and increase opportunities for private participation in the large state-owned enterprise sector through a new public-private partnerships policy framework. The key risks to the proposed operation stem from Samoa's macroeconomic context, its institutional capacity for implementation and sustainability, and its high degree of vulnerability to natural disasters.

6. While it is clear that extreme poverty is very rare in Samoa, it is more difficult to get a clear sense of the incidence and dynamics of basic needs poverty. The latest poverty estimates are from the 2008 HIES. These showed food poverty to be rare, at 4.9 percent of the population, and to have declined significantly since the 2002 HIES. The 2008 HIES showed 26.7 percent of the population to be experiencing basic needs poverty, with the incidence highest in the capital Apia and lowest on the less populated main island of Savai'i.[1] However, the methodology used to calculate the poverty lines did not keep the level of well-being the same across the different regions of Samoa, probably leading to an understatement of the incidence of poverty in rural areas relative to a methodology that keeps the level of well-being the same. The gender of the household head appeared to play a negligible role in determining the likelihood of a household being in poverty. It is difficult to get an exact sense of how basic needs poverty has changed over time. Although the 2008 HIES showed basic needs poverty to have risen by about one sixth since the 2002 HIES, the poverty numbers are not strictly comparable because of the use of a relative poverty line, with the increase likely to have been overstated. The data suggests that inequality rose between the 2002 HIES and 2008 HIES, with the Gini coefficient for households rising from 0.43 to 0.47. It is not clear how much of this rise was due to the effects of inflation – given that the impact of the food and fuel crisis on Samoa was near its peak in late 2007 and early 2008 when the HIES was conducted. A new HIES was

[1] These figures somewhat overstate the extent of poverty in Samoa, because they are based on per capita calculations (not distinguishing between adults and children) rather than employing an adult-equivalence formula.

conducted in late 2013 and early 2014. The data from it is currently being processed, with assistance from UNDP. At the same time, the Bank is working with Samoa under a regional initiative to produce a socio-economic atlas from the 2008 and 2014 HIES.

7. Non-income indicators of poverty in Samoa render a fairly favourable picture, but show some regional variation. Though now threatened by the epidemic of non-communicable diseases (NCDs), Samoa's relatively strong health indicators (an infant mortality rate of 15.3, under-5 mortality rate of 17.8, maternal mortality rate of 58 and life expectancy of 73 years) are a reflection of the universal availability of basic public health services at no or little cost, and widespread access to improved water and sanitation services (at 98.5 and 91.6 percent of the population, respectively). Water and sanitation access does vary by region, with Savai'i and rural areas of the more populated main island of Upolu a little less likely to have access to piped water and more likely to depend on rain water than Apia and its surrounds, and also a little less likely to have access to closed sewerage systems. Access to electricity exceeds 95 percent nationally, and varies very little by region. Samoa's relatively strong education indicators (primary and secondary school net enrolment rates of 94.8 percent and 79.7 percent, and an adult literacy rate of 98.8 percent) are a reflection of the universal availability of fee-free primary and progressively also secondary education. Unsurprisingly, residents of rural Upolu and Savai'i are more likely to engage in subsistence production as their main economic activity.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. Economic growth has been volatile in recent years, largely as a result of the succession of major external shocks that have buffeted Samoa. Solid economic growth in FY12 of 2.9 percent was driven by construction and the celebrations for the 50th anniversary of Samoa's independence. The construction growth arose from work on a new hospital (part of a series of government buildings constructed since the global economic crisis) and on roads (in part in response to the earlier tsunami). The 50th anniversary celebrations had a positive impact on most sectors, with growth in visitor arrivals and earnings well above trend. In FY13, the economy contracted by 0.4 percent, as the cyclone caused extensive damage and losses to infrastructure and productive capacity, without reconstruction activity yet taking effect. The agriculture sector was hit particularly hard. Major construction projects also wound down, and visitor arrivals and earnings fell as the cyclone intensified the drop-off from the anniversary-induced peak in FY12. In the first half of FY14, growth picked up strongly as a result of post-cyclone recovery and reconstruction activity, with agriculture, commerce and construction the main contributors. The implementation of the post-cyclone recovery and reconstruction program, which the Bank's previous DPO supported with additional Crisis Response Window resources, has progressed well. Repair, reconstruction and disaster risk reduction for houses, schools and health facilities has proceeded well, although a few more complicated school relocations have been hampered by protracted approvals processes, including inefficiencies in procurement processes. Good progress has also been made with water and sanitation, transport and energy infrastructure, both in government and donor-financed projects. Support for the recovery of the tourism sector has shifted to training, given the damage to capacity caused by displaced employees, while incremental progress has been achieved in the recovery program for the agriculture sector.

Table 1: Key Macroeconomic Indicators

	FY11	FY12	FY13	FY14(est)	FY15(f)	FY16(f)	FY17(f)
Real Economy	*(annual percentage change, unless otherwise indicated)*						
Nominal GDP (SAT millions)	1,508	1,575	1,587	1,603	1,695	1,781	1,862
Real GDP	1.4	2.9	-0.4	2.2	2.1	2.0	2.0
GDP Per Capita (US$)	3,563	3,747	3,732	3,887	4,045	4,207	4,228
Merchandise Imports	9.9	17.3	-9.3	8.7	1.6	1.6	1.6
Merchandise Exports	36.3	23.4	-7.6	-4.8	1.7	0.1	0.1
GDP Deflator	2.3	1.5	1.2	-1.2	3.6	3.0	2.5
CPI (period average)	2.9	6.2	-0.2	-1.1	3.5	3.0	2.5
Fiscal Accounts	*(percent of GDP, unless otherwise indicated)*						
Expenditures	42.2	42.2	43.0	47.5	39.5	33.5	33.5
Revenues and Grants	36.0	33.9	38.3	44.5	37.3	31.8	31.8
Balance	-6.2	-8.4	-4.6	-3.0	-2.2	-1.7	-1.7
PPG Debt (end-of-period)	52.1	57.6	62.0	64.3	63.0	61.7	62.2
Selected Monetary Accounts	*(annual percentage change, unless otherwise indicated)*						
Broad Money (M2)	-0.8	-4.0	-0.8	...	...	...	...
Credit to Private Sector	6.4	2.8	1.1	...	...	...	...
Interest (key policy interest rate)	0.20	0.20	0.20	...	...	...	...
Balance of Payments	*(percent of GDP, unless otherwise indicated)*						
Current Account Balance	-4.1	-9.2	-2.3	-6.1	-5.9	-5.7	-5.4
Merchandise Imports	44.2	49.1	44.5	46.4	45.1	43.9	44.2
Merchandise Exports	3.7	4.3	4.0	3.6	3.5	3.4	3.3
Foreign Direct Investment	1.4	1.8	3.1	1.6	1.6	1.6	1.6
Gross Reserves (US$, end-of-period)	158.4	157.1	137.3	165.9	162.0	149.1	140.8
Months of next year's imports	4.6	4.7	3.8	4.5	4.4	4.0	3.7
External Debt	51.1	54.6	59.8	62.1	61.8	60.9	61.4
Real Effective Exchange Rate (base 2000)	112.4	114.4	113.7	...	...	...	...
Exchange Rate (period average)	2.3	2.3	2.3	...	...	...	...
Memorandum Item							
Nominal GDP (US$ millions)	651	687	687	717	749	782	789

Source: IMF and Bank Staff Calculations

9. Samoa's small size and extreme remoteness from major markets constrain its future growth potential. Small size, when combined with remoteness from major markets, pushes up the cost of economic activity as economies of scale cannot be realised in domestic production and transport costs inflate the cost of tradeable goods and services. In this context, labour migration and remittances are critical to improving livelihoods and supporting the domestic economy. In FY12 and FY13, remittances grew both in nominal terms and as a share of GDP, rising by 6.3 percent in FY12 and 7.0 percent in FY13, to stand at 25.2 percent of GDP in FY13. Migration and remittances are expected to remain a key driver of improvements in Samoa's living standards in future. In tourism, Samoa's distinctive geographical and cultural features allow it to charge premium prices that cover its relatively high cost. Though an important contributor to the economy, with visitor earnings equivalent to 19.9 percent of GDP in FY13, Samoa's tourism industry is underdeveloped in comparison with some of its neighbours. Tourism is the most promising industry in Samoa for future economic growth, so strengthening it is a critical priority. While agriculture is extremely important from a livelihood point of view – as the main activity for a third of the economically active population – its potential for future growth is mainly a derived one, arising from the tourism sector to the extent that supply links can be improved. State-owned enterprises (SOEs) play an important role in

Samoa's economy, controlling assets equivalent to about two-thirds of GDP. The bulk of SOEs – by asset value – are infrastructure services (power, water, roads, ports, airports and post) and the development bank. Even so, there are opportunities for greater private sector development in relation to these SOEs, particularly through the contracting out of operation and maintenance services.

10. **The major external shocks affecting Samoa in recent years have put pressure on the balance of payments, but Samoa has managed to maintain reserves at comfortable levels.** Remittances and tourism receipts play an important role in financing Samoa's imports. Its current account deficit is funded primarily by aid inflows, which tend to be relatively high and stable. In FY12, the current account deficit was unusually high, at 9.2 percent of GDP, as post-global economic crisis construction and post-tsunami reconstruction work combined with rising global food and fuel prices to push up the value of imports. The current account deficit fell to 2.3 percent of GDP in FY13 as that construction and reconstruction work wound down (with post-cyclone recovery activities yet to take effect), despite dampened primary sector exports and tourism receipts. Assistance from the IMF and increased support from development partners in the wake of the cyclone combined to alleviate pressure on the balance of payments, with Samoa managing to maintain reserves at about its target level of 4 months of imports.

11. **The government's response to the series of major external shocks has also led to a rapid increase in external debt, but Samoa has revised its medium-term debt management strategy to provide a credible framework for returning external debt to sustainable levels.** As a fiscal stimulus measure in response to the global economic crisis, Samoa contracted loans for administrative and hospital buildings. Combined with loans for recovery and reconstruction work in the wake of the subsequent tsunami, this pushed Samoa from low to moderate risk of debt distress. Some aspects of the government buildings program may not yield economic returns above borrowing costs, suggesting that procedures for adequate scrutiny of proposed borrowing could have been stronger. Samoa's risk of debt distress then rose to high in the wake of the cyclone. As at the end of the third quarter of FY14, the nominal value of Samoa's external loans consisted of approximately 65 percent highly concessional loans and 35 percent partly concessional loans. In FY13, Samoa revised its medium-term debt management strategy (MTDMS) to – among other things – strengthen accountability and transparency in debt management. Under the MTDMS, external loans may only be contracted if they contain a minimum 35 percent grant component and support projects with an economic return sufficient to cover debt servicing costs. The recent public expenditure review (PER) by the Bank and Ministry of Finance emphasised the importance of meeting this concessionality rule and restricting loan-financing to projects with a clear economic rationale.

Box 1: Samoa's Medium Term Debt Management Strategy 2013–2015

Samoa's MTDMS establishes the government's objectives, strategies and plans for the management of public debt. It:

- 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 and repayment costs;
- Introduces mechanisms to monitor the risk of default on government-guaranteed loans to avoid increases in public debt;
- Introduces mechanisms to monitor public debt composition, identify potential risks, and keep risks at a prudent level; and
- Provides for regular reporting and publication of information on public debt, to strengthen accountability and transparency.

12. Appropriate to the prevailing economic conditions, the Central Bank of Samoa (CBS) has maintained accommodative monetary policy in recent years. The CBS is responsible for internal and external monetary stability. During FY12 and FY13, the CBS maintained official interest rates at close to zero, to which they had been lowered after the global economic crisis. The transmission mechanism in Samoa is weak, however, and since the tsunami the CBS has complemented low official interest rates with increased lending to the Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC) for on-lending to the private sector at concessional rates. Though supporting this initiative in the wake of the tsunami, the IMF has recently highlighted the need for the CBS to – among other things – step-up its supervision of the DBS in light of a rapid escalation of its NPLs, and be assigned regulatory and supervisory responsibility for the SHC and recently established Unit Trust of Samoa (UTOS). Private sector credit growth was modest over this period, at 1.9 percent in FY12 and 1.1 percent in FY13, due mainly to banks remaining cautious on lending risks and focused on protecting their portfolios.

13. Inflation has not been a major threat to macroeconomic stability in Samoa in recent years. The CBS targets an inflation rate of 3 percent over the long term. In FY12, the annual average inflation rate was 6.2 percent, largely as a result of increases in the prices of imported food and fuel, and erratic weather conditions that affected domestic agricultural supply. In FY13, these pressures subsided and agricultural production recovered sufficiently quickly from the cyclone to avoid any prolonged increase in domestic food prices, leading to overall deflation of 0.2 percent. Inflation rate differentials between Samoa and its major trading partners over much of the last decade have, however, led to the steady appreciation of its real effective exchange rate. In FY13 the IMF assessed that the real effective exchange rate was overvalued by something in the range of 9–26 percent (an assessment subject to wide margins of error and considerable uncertainty, because economies as small as Samoa's are volatile and their economic fundamentals can be altered by exogenous shocks). The degree of overvaluation has been attenuated by recent deflation. The IMF regards the flexibility of Samoa's current exchange rate framework as sufficient to allow for the gradual correction of any misalignment, once post-cyclone economic recovery takes hold. It also views Samoa's basket peg as an appropriate exchange rate regime for Samoa, given its underdeveloped financial market and high price pass-through, which would result in excessive exchange rate volatility if the tala were floated.

14. In keeping with the prevailing economic conditions, fiscal policy has been expansionary in recent years. In FY12, the budget deficit after grants was 8.4 percent of GDP. Elevated levels of expenditure largely reflected the continuation of the construction and reconstruction projects begun after the global economic crisis and tsunami, made possible by relatively high levels of grants and the external loans previously agreed for these projects. The deficit had been expected to fall in FY13, as the post-crisis and post-tsunami projects drew to a close, but the cyclone resulted in an increase in the deficit relative to the initial projection, to 4.5 percent of GDP. The deficit was financed by external loans. Grants from development partners were relatively high and stable over this period, playing an important role in reducing the extent of the fiscal deficit. The deficit before grants was 17.2 percent of GDP in FY12 and 15.8 percent in FY13.

15. Samoa's revenue performance has been solid in recent years, and its expenditure has been relatively tightly prioritised around the social sectors and infrastructure. Own revenue was equivalent to 25.0 percent of GDP in FY12, rising to 27.1 percent in FY13 (with tax revenue at 21.4 and 24.8 percent of GDP, respectively). Comprehensive revenue policy and administrative reforms in recent years appear to be paying dividends in terms of an increased tax to GDP share. On the expenditure side, the budget has been divided approximately 2:1 between current and capital expenditure in recent years. Within current expenditure, the education and health sectors represented about 34 percent of the budget by FY13, having increased in recent years due to the recruitment of additional teachers and the expansion of primary healthcare services. At 9.7 percent of GDP in FY12, Samoa's wage bill is not high in comparison with either neighbouring countries or other small island developing states. In light of its recent expansion, and in keeping with the recommendations of the recent PER, the Ministry of Finance is working closely with sector agencies to ensure payroll spending in education and health stabilises as sector personnel targets are met. While transfers to SOEs for community-service obligations are well controlled, the PER highlighted the need to contain other transfers to SOEs which drove an increase in total transfers from 15 to 21 percent of recurrent expenditure over FY06–FY12. The Ministry of Finance is conscious of this and is looking to both stronger oversight of SOE performance and greater access to alternative sources of financing through well-structured public-private partnerships as tools to curtail these transfers over time. More broadly, the PER emphasised the importance of strengthening the focus on value-for-money across public sector expenditure. High levels of capital expenditure in Samoa in recent years primarily reflect construction and reconstruction work in the wake of the global economic crisis and tsunami, with the bulk of this expenditure occurring in the health, education and general infrastructure sectors.

Table 2: Key Fiscal Indicators

	FY11	FY12	FY13	FY14(est)	FY15(f)
	(in SAT millions)				
Overall balance	-93.2	-131.9	-72.0	-48.0	-36.7
Total revenues and grants	542.9	533.1	608.3	714.2	632.1
Tax revenues	342.6	337.5	393.0	414.3	417.5
Non-tax revenues	56.9	56.3	37.4	64.2	81.1
Grants	143.4	139.3	177.9	235.7	133.5
Total expenditures and net lending	636.1	665.0	682.4	762.2	668.9
Current expenditures	457.0	457.5	479.7	560.0	519.5
Development expenditures	179.2	207.5	200.6	202.2	149.4
Net lending	0.0	0.0	0.0	0.0	0.0
Financing	...	...	...	48.0	36.7
External (net)	...	...	...	90.8	80.1
Domestic (net)	...	...	...	-42.8	-43.4
of which Privatisation	...	...	...	0.0	0.0

Source: IMF and Bank Staff Calculations

16. Recent trends in Samoa's public debt mirror those for its external debt. Samoa's public debt is dominated by external debt. External debt comprised 97 percent of the value of public disbursed outstanding debt at the end of the third quarter of FY14 (the bulk of Samoa's very small domestic debt consists of SOE debt in default, which the state has assumed responsibility for). In present value terms, and including publicly-guaranteed debt, external debt comprises about two-thirds of public debt. Given the predominance of external debt, Samoa's public debt dynamics are very similar to its external debt dynamics. The key to debt sustainability is the achievement of the government's planned fiscal consolidation, wherein it will reduce its deficit through improved revenue performance and expenditure rationalisation. Some of the latter will be achieved through the scheduled winding down of post-cyclone recovery activity. In line with the recommendations of the recent PER, the remainder of the rationalisation will be achieved through containing the growth of the public sector wage bill, curtailing transfers to SOEs, and improving value-for-money across public sector expenditure – including through increased value-for-money in public procurement and reduced non-priority recurrent expenditure.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Economic growth in Samoa is expected to rise to modest levels over the medium term, but risks are tilted to the downside.** Over the short term, growth will be boosted by the final stage of post-cyclone reconstruction work and the hosting of two major international events in Samoa. Beyond this, growth is likely to reflect a balance between the boost provided by the increased productive capacity of the economy resulting from post-cyclone recovery efforts, and the dampening effect of fiscal consolidation. The economy will remain, however, highly vulnerable to external shocks. An economic downturn in the US, Australia or New Zealand would have a negative impact on Samoa's critical remittance inflows, and would also have a detrimental effect on visitor arrivals and earnings. Another major natural disaster would set economic recovery from the cyclone off-course, delaying the full restoration of productive capacity.

18. **The current account deficit is expected to be elevated in the short term, but to diminish thereafter.** The widening of the current account deficit in the short term to around 6 percent of GDP is expected to result primarily from increased imports for post-cyclone reconstruction. Over the medium term, exports and tourism earnings are expected to stabilise and recover, while remittances are expected to continue to grow. The assistance received from the IMF together with significant increases in grants from development partners in the wake of the cyclone are expected to be sufficient to finance the elevated current account deficit in the short term, but a decline in grants from development partners as post-cyclone recovery work is completed is expected to result in a decline in reserves below the target level of 4 months of imports over the medium term. Major risks to this outlook include sharp increases in food and fuel prices, which would further inflate Samoa's current account deficit, and a shortfall in grant support from development partners, which would further reduce Samoa's ability to finance that deficit.

19. **Samoa's external debt is expected to remain in breach of key policy-dependent thresholds over the medium term, before returning to sustainable levels thereafter.** In the 2013 joint IMF-WB Debt Sustainability Analysis, the present value of Samoa's external debt is projected to exceed the policy-dependent threshold of 50 percent of GDP for nine years. In the most extreme stress test scenario of a 30 percent devaluation, this threshold is breached for the

entire projection period. Under the historical scenario (reflecting a record of sound macro-economic policies with low deficits), debt ratios are below baseline projections. Measured by the present value of debt to exports, Samoa's debt burden approaches the policy-dependent threshold under the baseline scenario, making a protracted breach likely if loan terms are unfavourable to Samoa over the projection period. Measured by the present value of debt to revenue, the debt burden does not breach policy-dependent thresholds even in the shock scenarios, indicating the resilience provided by Samoa's strong revenue performance. The debt service burden (as a share of exports or revenue) is expected to remain relatively low over the projection period even in the shock scenarios, reflecting the benefits of Samoa's strategy of minimising non-concessional borrowings, the strength of its earnings from tourism, and its strong revenue performance.

20. To support economic recovery, Samoa is expected to maintain its current accommodative monetary policy over the medium term, but stand ready to tighten policy in the event that inflation emerges as a threat or reserves come under pressure. An accommodative monetary policy stance is appropriate to support the medium term recovery of the economy from the series of major shocks in recent years. Current trends in commodity prices and weak domestic economic activity suggest that there is likely to be little underlying inflationary pressure in the near term, but if that situation changes the CBS stands ready to use the set of instruments at its disposal to control inflation. In the event that the exchange rate depreciates to correct its current misalignment, monetary policy would need to be tightened to prevent the second-round effects on inflation. The adverse impact of any such depreciation on Samoa's debt burden and debt service burden would also need to be carefully monitored. Remittances and aid flows have helped ease recent liquidity pressures, with liquidity now adequate to support credit growth. Stepped-up CBS supervision of banks and the expansion of its regulatory and supervisory control to include SHC and UTOS should help to avoid any build of up systemic risks in the financial sector, including as weak economic conditions threaten asset quality.

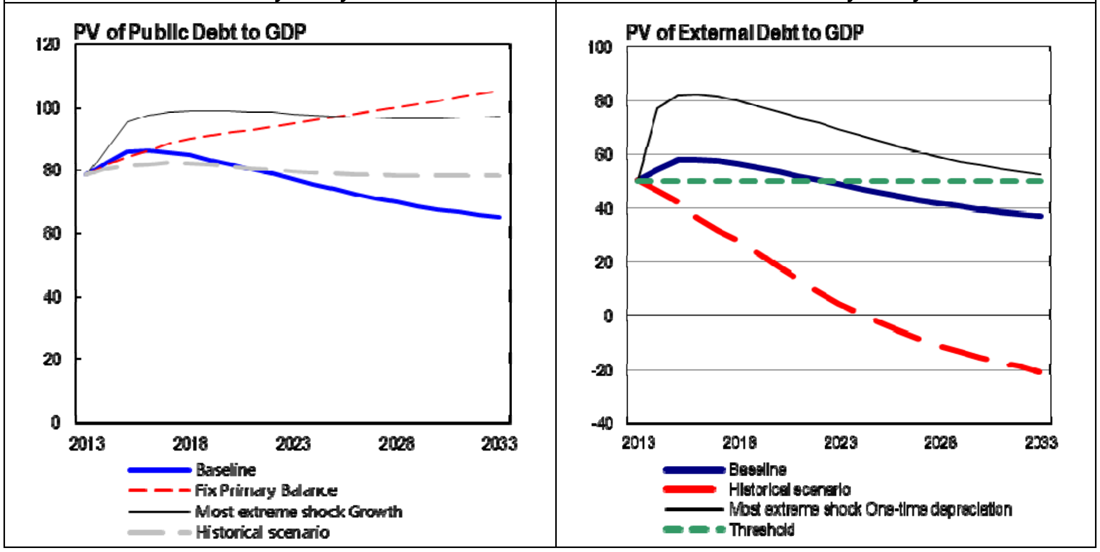
21. Samoa is expected to consolidate its fiscal position, as post-cyclone recovery work ends. Samoa's revenue performance is expected to be robust over the short and medium terms, as it continues to reap the benefits of its revenue policy and administration reforms. The indications provided by bilateral and multilateral development partners are that – although grant funding will decline to more normal levels as post-cyclone recovery work is completed – it will remain reasonably strong. Expenditure is expected to decline as a share of GDP as post-cyclone recovery work ends, expenditure is rationalised, and the focus shifts to rebuilding buffers for future shocks. Highly concessional external loans and domestic sources should be sufficient to finance the deficits. Samoa has a good track record of prudent fiscal management, including a demonstrated capacity to undertake fiscal consolidation, lending credibility to its capacity to implement its planned consolidation of public finances. This path of fiscal consolidation has been set out in its fiscal strategy, which serves as a policy anchor.

22. Samoa's public debt is dominated by external debt, thus its public debt dynamics are expected to be similar to its external debt dynamics over the medium term. Sensitivity analysis indicates that Samoa's ability to return its debt to sustainable levels is critically dependent on fiscal consolidation, with the fixed primary balance scenario showing a worsening debt burden and debt service burden over the entire forecast period. Prospects for debt sustainability in the medium and long term are also vulnerable to permanently lower GDP growth, and in the medium term are vulnerable to a major exchange rate depreciation or a significant increase in other debt creating flows.

23. The outlook for Samoa's fiscal position and public debt dynamics is subject to a number of risks. Another major natural disaster would set Samoa's fiscal consolidation off-track, and substantially worsen public debt dynamics – deferring the time when Samoa is able to rebuild its fiscal and debt buffers. A significant decline in the level of grant funding that Samoa receives from development partners would also threaten fiscal consolidation and debt sustainability. In addition, the fiscal and debt outlook is vulnerable to a major external shock, such as the sudden closure (rather than orderly wind down) of Yazaki, which provides the bulk of manufacturing jobs in Samoa but which supplies vehicle manufacturers in Australia that have announced that they will wind down their operations over the next five-to-ten years. Although the risk posed by Yazaki appears to be fall beyond the budget planning period, the Ministry of Finance is very conscious of its possible economic and social impact, and has indicated an interest in working with development partners to try to mitigate this impact.

Figure 1: Public and External Debt Sustainability Analysis

Public Debt Sustainability Analysis | External Debt Sustainability Analysis



Source: IMF

24. The assessment of Samoa's macroeconomic policy framework is that it is adequate. Samoa's fiscal and monetary policies are consistent with the prevailing economic conditions, and Samoa has a credible plan for consolidating its fiscal position and returning its debt to sustainable levels over the medium-to-long term. The outlook is, however, subject to a number of important risks, not all of which can be mitigated. Samoa's critical remittance flows and tourist earnings are vulnerable to any slowdown in growth in Australia, New Zealand or the US. Samoa's external balance and price stability are vulnerable to any rapid increase in global food and fuel prices. An appreciation of the real effective exchange rate (REER) would dampen economic recovery, through its adverse impact on Samoa's competitiveness, and threaten the external balance. The latter two risks are mitigated by Samoa's readiness to make appropriate adjustments to its monetary and exchange rate policies in the event that these risks materialise.

3. THE GOVERNMENT'S PROGRAM

25. **The objective of Samoa's development strategy is an 'improved quality of life for all'.** The SDS lays out a number of policy priorities designed to enable Samoa to achieve this objective. In the area of economic development, the priorities are to maintain macroeconomic stability, reinvigorate agriculture, revitalise exports, achieve sustainable tourism development, and improve the enabling environment for business development. In the area of social development, the priorities are to improve health outcomes, improve both access to education and learning outcomes, and support social cohesion. In the area of infrastructure development, the priorities are to achieve sustainable access to safe drinking water and basic sanitation, achieve an efficient, safe and sustainable transport system, ensure universal access to reliable and affordable ICT services, and ensure a sustainable energy supply. The priorities for the environment are environmental sustainability and climate and disaster resilience. The theme of the SDS is 'boosting productivity for sustainable development', which emphasises the national commitment to pushing the productive sectors of the economy to revitalise economic growth, while rebuilding buffers to help protect the economy from the effects of future shocks.

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

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **The proposed operation supports a set of carefully selected reforms that are key priorities in the government's program.** Under the fiscal reform pillar, reforms to strengthen debt policy and management, procurement processes, and revenue collection should assist the government to consolidate its public finances and later rebuild the fiscal buffers it needs to respond to future external shocks. These reforms build on nearly two decades of public financial management (PFM) reform, under which the government has established an appropriate legislative framework, introduced program budgeting and instituted sector planning across government. Under its PFM reform plan, the government continues to implement reforms to key outstanding areas of PFM, among which the debt, procurement and revenue areas are high priorities. Under the economic reform pillar, reforms to strengthen the payments system, strengthen tourism sector policy and enhance private sector development opportunities should help lay foundations for more robust economic growth over the medium term. Over the last decade, the government has implemented a number of reforms with a view to boosting

economic growth, including reforms to improve the business enabling environment and to put SOEs on a more commercial footing. The three areas supported by this operation are among the government's top five priorities at the current juncture. Of the other two, considerable reconstruction work is occurring in the infrastructure sector to restore capacity following the cyclone, the policy and institutional elements of which were supported under the previous post-cyclone recovery DPO. In the agriculture sector the government is working, with assistance from the World Bank and the Asian Development Bank (ADB), to help it recover from the cyclone, boost its productive capacity and strengthen its supply links to tourism operators in order to benefit from this derived demand. Although it may emerge that policy or institutional reforms are necessary over time to support these projects, the teams have not as yet identified any that are needed.

28. **The development objectives and associated reform actions of the proposed operation are closely aligned with the priorities and strategic areas in the economic development pillar of the SDS, and are important to prospects for boosting shared prosperity in Samoa.** The operation is also aligned with the theme of the SDS, on the need to push the productive sectors of the economy to revitalise economic growth, while working to rebuild buffers to help protect the economy from the effects of future external shocks. The first development objective of the operation, to strengthen public financial management in the areas of debt, procurement and revenue, is aligned with the strategic area of fiscal sustainability and economic resilience under the macroeconomic stability priority of the SDS. The second development objective of the operation, to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth, is aligned with three priorities of the SDS. The first is the macroeconomic stability priority, and specifically the strategic area of an appropriate institutional framework for the finance sector. The second is the sustainable tourism development priority, and specifically its promotion and market access strategic areas. And the third is the business development priority, specifically the enabling environment and promotion strategic areas. Returning Samoa to a situation where its fiscal position is both sustainable and has scope to respond to external shocks is vital to prospects for boosting shared prosperity in Samoa, because the poorest two quintiles of the population are disproportionately dependent on publicly-funded education, health and community development services and are the most vulnerable to any contraction in their provision in the event that the government lacks the fiscal buffers to respond to external shocks. The poorest two quintiles are also more dependent on remittances than other quintiles, the current high costs of which should decline over time as payments system reforms are implemented. Women – in particular – stand to benefit most from any expansion achieved in tourism sector activity in Samoa.

29. **The design of the proposed operation reflects lessons learned from the two previous stand-alone DPOs in Samoa.**[2] The operation is structured around key aspects of the

[2] The first DPO in Samoa, in FY10, supported the recovery program following the tsunami, including the provision of a credit line to affected tourism operators, PFM reforms in the areas of the timeliness of public accounts and the financial autonomy of SOEs, reforms to strengthen the telecommunications regulator, and the removal of fees for primary schooling. The second DPO, in FY14, supported the recovery program following the cyclone, including a set of measures to improve the resilience of assets to future natural disasters, and PFM reforms in the areas of debt management, procurement and the management of payment arrears.

government's program for which solid reform momentum exists, reflecting the lesson that in such a context in Samoa DPOs tend to achieve good results and have manageable risks. The Ministry of Finance has a strong sense of ownership of each reform area, and considerable experience coordinating the actions of the other agencies whose engagement is needed to achieve these reforms. Five of the six reform areas (debt, procurement, payments system, tourism and public-private partnerships) relate to specific engagements by the Bank and IFC, reflecting the lesson that such engagement can usefully assist in identifying key priorities to be supported through DPOs. The other reform area (revenue) is one where other development partners are more closely engaged, reflecting the lesson that coordination and collaboration with partners can also help identify key priorities to be supported through DPOs, even in the absence of a previous substantial Bank engagement. More broadly, a coordinated approach to budget support has particular benefits in such a capacity-constrained environment as Samoa, a lesson the proposed operation reflects in its joint development partner approach. Finally, by moving to a programmatic series, the proposed operation reflects the lesson that, when not responding to an immediate shock, a more medium-term budget support engagement would be appropriate in Samoa.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.2.1. Fiscal Reform Pillar

30. **The first development objective of the proposed operation is to strengthen public financial management in the areas of debt, procurement and revenue.** The three reform areas that contribute to this objective are strengthening debt policy and management, strengthening public procurement processes to improve value for money in expenditure, and strengthening revenue collection through reforms to revenue policy and administration. These reforms should assist the government to consolidate its public finances and later rebuild the fiscal buffers it needs to respond to future external shocks.

Prior Action 1: The Recipient, through its Cabinet, has approved: (a) formal procedures for contracting loans; and (b) formal procedures for issuing government guarantees, in order to strengthen the Recipient's debt management.

31. **Strengthening debt policy and debt management is one of the key outstanding areas for reform in the sphere of macroeconomic management and PFM in Samoa, given the rapid escalation of its debt in recent years.** Strengthening debt policy and debt management should assist Samoa to consolidate its public finances over the medium term, and eventually rebuild its fiscal and debt buffers in order to be able to respond to future external shocks. Samoa has made considerable progress in this area in recent years, and built up strong momentum behind its debt management reform plan, which it prepared and has now updated with technical assistance from the Bank. It has established an adequately staffed debt management unit within the Ministry of Finance, with a well-specified annual work plan. It has also prepared and subsequently revised a good quality MTDMS, which is available to the public. In addition, it now produces and publishes quarterly debt bulletins, which also enhance accountability and transparency.

32. Establishing formal procedures for contracting loans and issuing government guarantees is vital to efforts to strengthen overarching control of debt and contingent liabilities and ensure that new borrowing is consistent with the revised MTDMS. Formulating, issuing, and disseminating formal procedures for contracting loans and issuing government guarantees is a key step in Samoa's debt reform plan. These formal procedures should ensure that all loan and guarantee proposals go through the same channels, are subjected to the same level of scrutiny, and are assessed against the same criteria. This should reduce the chances of loans or guarantees being agreed without adequate scrutiny and without complying with the MTDMS. Samoa has made considerable progress with establishing procedures on an informal basis for contracting loans, giving a strong indication that it will have the capacity to implement these on a formal basis and extend a similar degree of control to government guarantees. The Ministry of Finance has developed the formal procedures with technical assistance from the Bank. Prior to their dissemination, Cabinet will approve the procedures, which should strengthen ownership and compliance with them. Establishing these formal procedures is a prior action for the operation.

33. Strengthening the legal framework to encompass borrowing purposes, debt management objectives, regular updating of the MTDMS, and annual reporting to Parliament is the next key step in Samoa's debt reform plan. This is not directly linked to formalising loan and guarantee procedures, so there is no need for the procedures to wait on these amendments. Submitting the amendments to Parliament serves as a trigger for the second operation.

34. Over the medium term, these reforms to strengthen debt policy and debt management are expected to result in Samoa fully complying with its MTDMS. Under the MTDMS, external loans may only be contracted if they contain a minimum 35 percent grant element and if the return on the use of the funds will cover debt servicing costs. By establishing formal procedures that ensure adequate scrutiny for all loan and guarantee proposals, and by strengthening the broader legislative framework – including its coverage of the MTDMS – the impetus and capacity for Samoa to comply with its MTDMS should be considerably strengthened.

Prior Action 2: The Recipient, through its Ministry of Finance, has issued: (a) new Treasury Instructions on procurement; (b) a new set of Procurement Guidelines; and (c) new standard templates for minor works, minor goods and related services, and minor general services, in order improve the quality of public expenditure.

35. On the expenditure side, strengthening procurement systems has an important role to play in improving value-for-money in public expenditure and enhancing public service delivery in Samoa. In additional to capital spending of nearly one-third of total expenditure, purchases of goods and services represent about one-third of recurrent expenditure in Samoa, a significant proportion of which consists of public procurement. Samoa has made substantial progress in reforming public procurement systems in recent years, and strong reform momentum exists for the implementation of its development plan for procurement, which it prepared with Bank technical assistance provided in conjunction with the MAPS assessment. Samoa has started to build the capacity of the procurement division in the Ministry of Finance, which has spearheaded reform of the legal and regulatory framework for procurement. It has also improved transparency, by publishing details of all public and SOE procurement notices and contract awards above SAT 500,000 online. However, a review of procurement spending undertaken in conjunction with the MAPS assessment found significant evidence of sequences of multiple small-value contracts for similar items within and across line ministries, seriously undermining value-for-money. To some extent, this reflects fractioning (splitting contracts into smaller amounts to avoid tender thresholds), indicating key weaknesses in procurement systems including lack of enforceability, lack of efficiency and major process bottlenecks that provoke attempts to avoid the system. But more significantly, it reflects poor procurement planning and coordination within government, and the absence of guidelines for framework arrangements.

36. Samoa has now addressed some of these key weaknesses by issuing new Treasury Instructions on procurement, new Procurement Guidelines, and new standard templates that cover the vast majority of tenders. Previously, procurement procedures lacked a legal basis so were not enforceable. Instances of non-compliance could not be sanctioned. The new Treasury Instructions, which came into effect in November 2013, provide comprehensive and legally enforceable rules for public procurement, covering procurement methods, transparency, eligibility, documentation, evaluation criteria and processes. They also explicitly prohibit fractioning. To assist line ministries and SOEs with implementation, the Ministry of Finance has issued detailed procurement guidelines, which have a legal basis in the Treasury Instructions. To improve the efficiency of the system and overcome what has been the major bottleneck in the past – the time taken by the Attorney-General's Office to review and clear tender documents – the Ministry of Finance has also mandated the use of standard templates for minor works, minor goods and related services, and minor general services, which have been pre-approved by the Attorney-General. Conscious of the constrained capacity of procurement officers across government, the Ministry of Finance is putting into practice lessons learned from past reform efforts by holding regular training sessions on the instructions, guidelines and templates. Together, these reforms address the most significant weaknesses of Samoa's procurement systems identified in the MAPS assessment, and are a prior action for the proposed operation.

37. Developing guidelines for the use of framework agreements is an important next step in Samoa's procurement reform plan, to further enhance value-for-money in procurement by aggregating sets of similar small contracts over time within and across multiple government agencies. It serves as a trigger for the second operation in the programmatic series.

38. Over the medium term, these reforms are expected to result in more effective procurement systems. One indicator of this would be an increase in the extent to which commonly procured categories of items for which framework arrangements are appropriate are procured under such arrangements, instead of via multiple small-value contracts within and across line ministries prompted by weak procurement systems and the absence of means for framework arrangements.

Prior Action 3: (a) The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the Customs Act in order to facilitate trade. (b) The Recipient, through its

Ministry of Revenue, has implemented ASYCUDA World in order to enhance the customs information system and facilitate trade.

39. **On the revenue side, Samoa is implementing a comprehensive package of legislative, regulatory and administrative reforms in order to strengthen revenue collection.** In the three years to FY12, Samoa's tax revenue to GDP ratio averaged 22.8 percent. While this is reasonably strong by regional standards, Samoa has identified the potential to improve revenue collections within the settings of its existing tax regime by modernising its legislation and reforming its administration to strengthen compliance. In the last couple of years, it has amended its Income Tax Act and Tax Administration Act to shift to self-assessment and lighten the compliance burden, particularly on small tax payers. It has upgraded its revenue information system, including introducing audit case selection and management into it, and completed a data reconciliation to provide comprehensive information about arrears by tax type (with a marked improvement in arrears collections since). It has also restructured its revenue administration and strengthened its capacity to support its new focuses on taxpayer education, the encouragement of compliance, and audit and investigation activities. The Bank has had a strong dialogue on revenue issues with the government in the context of the PER, Cairns Compact peer review, and preparation of the proposed DPO series. Technical assistance for the reform program has been provided by Australia and New Zealand.

40. **The next significant step in this program of legislative, regulatory and administrative reforms is a complete rewrite of the Customs Act, to provide a modern legislative framework that will facilitate trade, and the enhancement of the customs information system.** As part of the legislative component of Samoa's revenue reform program, Samoa's very outdated Customs Act, dating back to 1977, is being completely rewritten to reflect current good practice in trade facilitation, allowing Samoa to remove unnecessary red tape in customs operations and employ risk management techniques. Its cumbersome customs warehouse regime will be removed, risk profiling will be improved and a new emphasis will be placed on risk-based compliance, including the use of post-clearance audit. The legislative changes are expected to improve transparency and predictability for traders and reduce the cost of doing business.[3] The legislative reforms, on which there has been extensive stakeholder consultation, account for the implications of Samoa's accession to the WTO in 2012, and have been informed by a gap analysis against the revised Kyoto Convention. To complement the legislative reforms, as part of the administrative component of Samoa's revenue reform program, Samoa has upgraded its customs information system to a web-based system, which facilitates electronic submissions and processes that significantly ease the compliance burden for traders. It has also fully integrated its customs and revenue information systems, to strengthen its intelligence. To support the implementation of the legislative reforms, Samoa has also issued a comprehensive set of revised customs procedures, restructured its customs operations, and strengthened staff capacity. The legislative and information system reforms are a prior action for the operation.

[3] The IFC's Doing Business 2014 indicators show that, although the number of documents required for importing and exporting in Samoa is slightly below the regional averages, the time taken is above the regional averages.

41. Following these customs reforms, the next key step in Samoa's revenue reform program is the introduction of electronic systems for filing and paying taxes, including income tax. This serves as a trigger for the second operation in the programmatic series.

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

43. Looking to the future, it will not be possible for Samoa to maintain a sustainable fiscal framework unless it tackles in an effective manner the epidemic of NCDs it faces. NCDs now account for 70 percent of all deaths in Samoa, with cardiovascular disease the biggest single threat. Levels of contributory risk factors for cardio-vascular disease are high among the adult population, with 24 percent smoking on a daily basis, 20 percent physically inactive, 40 percent with high blood pressure, 33 percent with high cholesterol, 85 percent overweight and 54 percent obese. In addition, in the last 10 years the proportion of the adult population suffering from diabetes has more than doubled from 22 percent to nearly 50 percent. Women in Samoa are particularly vulnerable to cardiovascular disease, given that they are 50 percent more likely than men to be obese. Quite aside from the very important social and economic costs of the increased morbidity, disability and premature mortality arising from NCDs, the fiscal costs of treating NCDs over the next 5–10 years if this epidemic is not tackled effectively vastly exceed the resources the government can dedicate to the health sector.[4] They also vastly exceed the fiscal costs of preventing NCDs, making an effective strategy to tackle NCDs essential.

44. Samoa is now preparing to develop a new NCD policy. This is scheduled for implementation in 2015, when the existing policy comes to an end. Under the mantle of the existing policy, Samoa has had some success in reducing levels of smoking – with excise taxes on tobacco and cigarettes quite high in Samoa – and in increasing levels of physical activity. Importantly also, Samoa has significantly increased its spending on primary healthcare personnel and facilities. But its policy has not been effective in tackling all of the key risk factors for NCDs. The new strategy will need to be informed by recent international research on good practices in tackling NCDs, and its development is being assisted by development partners including Australia and the Bank. Two pieces of analytical work by the Bank, the 2013 Health Financing Options for Samoa and the 2014 NCD Roadmap Report provide key recommendations for the new strategy. The former recommended a significant reorientation of public expenditure from curative to primary and secondary prevention, and a proper costing of alternative options in health services. The regional roadmap recommended placing priority on tobacco control, policies on food and drinks linked to obesity, heart disease and diabetes, and scaling up the Package of Essential Non-Communicable Disease Interventions for Primary Health Care in Low Resource Settings (PEN Package). The new NCD policy will serve as a trigger for the second operation.

[4] For instance, the cost to the government of a year of dialysis treatment for a patient with diabetes-related kidney failure in Samoa is more than twelve times Samoa's per capita GNI.

45. **A key indicator of the successful implementation of the new NCD policy will be an expansion in the coverage of high risk groups by the PEN Package.** The PEN Package, an initiative of the World Health Organisation, consists of evidence-based, technically feasible and cost-effective interventions to prevent NCDs.

4.2.1. Economic Reform Pillar

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

Prior Action 4: The Recipient's Parliament has enacted the National Payments System Act in order to facilitate and regulate electronic payments and emerging innovative payment instruments.

47. **Samoa is reforming its payments system to enable it to facilitate and regulate electronic payments and other emerging innovative payment instruments.** In the absence of a suitable legislative and regulatory framework and an appropriate payments infrastructure, Samoa has to date relied on paper-based instruments like cash and cheques for the vast majority of payments. This has made its payments system inefficient and has added to business costs, since paper-based instruments tend to cost two-to-three times electronic instruments. It is estimated that shifting from paper-based to electronic payments typically entails yearly savings of about one percent of GDP, primarily from savings in back-office operations, reductions in leakages of government revenue collections and payments, and improvements in overall payment process efficiency. The absence of mechanisms for electronic funds transfers between financial institutions – and reliance on cumbersome manual clearance processes – has also entailed higher risks both for participants and at a systemic level. Establishing a safe and efficient payments system is necessary for the CBS to be able to minimise the prospect of financial contagion via the payment system and is also critical to the effective implementation of monetary policy. In addition, retail payments are usually people's point of entry to broader financial services. It is thus vital that the integrity of the design and operation of retail payment systems allows users to have complete trust in the institutions providing these services and in the payment mechanisms themselves, which is not the case with the existing paper-based system. Shifting to electronic payments typically also results in increased levels of consumption. Finally, empirical evidence shows that broad-based geographical access to financial services for all consumers – including the unbanked – can be an important means of addressing poverty. The absence of suitable legislation, regulations and payments infrastructure in Samoa to date has hampered the safe and efficient spread of innovative payment instruments like mobile money.

48. **The National Payments System Act will facilitate and regulate electronic payments and emerging innovative payment instruments in Samoa.** The new legislation provides a sound legal basis for payment and securities systems, relevant regulatory powers over the

payments industry for the CBS, customer protection, and the regulation of electronic transfers. The more efficient payments system that the legislation facilitates will provide economy-wide savings, including by reducing transaction costs and risks for businesses. Clearance and settlement systems will need to comply with the new legislative and regulatory framework, ensuring a reduction in systemic risks due to external shocks – like a financial crisis involving international banks operating in Samoa. The CBS will also be able to regulate and supervise remittance transfer operators and electronic-money providers, guaranteeing the proper soundness of firms involved in these markets and respect of minimum requirements for the protection of customers and the transparency of the services offered, as well as safeguarding public trust in these emerging payment instruments. The facilitation of these emerging instruments will have positive effects on financial inclusion, particularly for the unbanked, and the new regulatory and supervisory powers of the CBS will enable their risks – including that of the misuse of these instruments – to be monitored and mitigated. The Bank and IFC have provided technical assistance to Samoa for these legislative reforms and will continue to assist with their implementation. The legislative reforms are a prior action for the proposed operation.

49. A key step in the process of maximising the economic and social benefits of these payment system reforms is the issuance of regulations on remittance service providers. Given the large share of GDP represented by remittances, and the very high cost of remittances to Samoa, any efficiency gains in the market for remittance transfers that increase the share of remittance flows reaching recipients would have an important impact, particularly on the least well off.[5] These implementing regulations serve as a trigger for the second operation in the series.

50. These reforms are expected to result in a more efficient payments system in Samoa. This should be indicated by an increased prevalence of electronic payments in the overall payments set, including interbank payments, card payments, credit transfers and mobile payments. The extent of this increase depends in part on a parallel stream of work the authorities are engaged in with support from development partners, to fund, tender for, and implement an appropriate payments infrastructure to complement the new legislative and regulatory framework. The timing of progress in this area, particularly of when funds for the infrastructure are available, will have a major influence on the extent of the increased prevalence of electronic payments.

Prior Action 5: The Recipient, through the Cabinet Development Committee, has approved a revised tourism sector policy designed to provide for more effective tourism promotion and market access.

51. Tourism is Samoa's most important export industry, but the performance of the industry has been quite weak since the global economic crisis, which has had a detrimental impact on employment opportunities for women. In the four years to FY09 annual growth in visitor arrivals averaged nearly 7.5 percent, but in the four years to FY13 this growth has been near zero. Of particular concern, tourist arrivals fell by about 3 percent per year over the more

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

recent period.[6] During this period, the industry has been adversely affected by the global economic crisis, tsunami, cyclone, and loss of a direct flight link to the US, with a temporary boost in FY12 from the 50th anniversary celebrations. The weak performance of the tourism industry in recent years has been particularly detrimental to women. Women occupy significant portions of tourism-related services in Samoa, including accommodation, cafes and restaurants, and general commerce, so the growth of these services that resulted from tourism growth up to FY09 played an important role in increasing employment opportunities for women – particularly in the formal sector. The 2011 Census showed that women constituted 50 percent of the nearly 6,000 people employed in these industries, relative to their 27 percent share of overall employment.

52. Samoa has revised its tourism sector policy to provide for more effective tourism promotion and associated market access arrangements. Accommodation capacity in Samoa, damaged in both the tsunami and cyclone, is nearly fully restored and is not a binding constraint to the industry's growth. Instead, analysis by the IFC suggests that the major constraint to the industry's growth emanates from tourism promotion and market access arrangements. To date, tourism promotion has not been well targeted to the market segments that Samoa's tourist facilities and attractions can best cater for, nor has there been a mechanism for the impact of promotional activities to be regularly assessed and the marketing strategy revised accordingly. At the same time, Samoa needs to secure air travel connections that match the needs of the tourists it can attract with its promotional activities, including by facilitating negotiations between major tourist operators and both the airlines that serve Samoa directly and those that can link Samoa to markets in the US and Asia. Each of these areas is a priority in Samoa's new tourism sector policy, which has been revised in light of several reviews including the IFC analysis. The critical policy shift represented by the new policy is one towards an evidence-based allocation of promotional resources, an evidence-based monitoring, evaluation and policy feedback loop, and the related strategic renegotiation of market access arrangements. First, promotional resources are allocated in accordance with the identified market segments that Samoa can realistically attract. Second, the impact of the marketing strategy will be reviewed against pre-established indicators on an annual basis, with the review chaired by the Prime Minister and Minister for Tourism, and – very importantly also – involving the participation of industry stakeholders. Third, a negotiating strategy for air travel access, which is coordinated with the marketing strategy, has been developed. The revised policy contains a sequenced implementation framework over a five-year period. The Ministry of Finance has been involved in the revision of the policy, helping to strengthen its performance and accountability linkages, and New Zealand has provided technical assistance for the revision.

53. The next step is for Samoa to conduct the first annual assessment of the impact of its new targeted promotional and marketing arrangements and act upon its findings, in accordance with the review provisions of the revised tourism sector policy. This serves as a trigger for the second operation in the programmatic series.

[6] Tourists comprise about 35–40 percent of Samoa's visitor arrivals, with at least as many arrivals being former residents visiting friends and relatives (VFRs). Although VFRs do not respond to the same marketing strategies as tourists, earnings from VFRs are similar to tourists, and the market grows with the population of Samoans abroad.

54. Implementation of the revised tourism sector policy is expected to improve the performance of Samoa's tourism industry over the medium term. In the absence of further exogenous shocks, this would be indicated by an increase in the growth rate of tourist arrivals and an expansion of the employment opportunities the industry provides to women.

Prior Action 6: The Recipient, through its Cabinet, has approved a public-private partnerships policy framework in order to facilitate increased opportunities for private sector participation in the state-owned enterprise sector.

55. As it seeks ways to enhance the development of its private sector, Samoa is introducing a public-private partnerships (PPP) policy framework in order to increase opportunities for private participation in the large SOE sector. Samoa's SOEs control assets equivalent to some two-thirds of GDP, with the bulk of SOEs – by asset value – being infrastructure service providers and the development bank. The infrastructure SOEs – ordered from largest to smallest by asset value – cover power, ports, water, roads, airports and postal services. Given the predominance of infrastructure service providers, the bulk of the SOE portfolio is likely to remain under public control for the foreseeable future. Rather than seeing the large sector of the economy that is represented by infrastructure SOEs as closed to private enterprises, the government has recognised that this sector could offer an array of opportunities for private sector development through PPPs.[7] The major opportunity the government sees immediately is in contracting out, both smaller-scale services and more major operation and maintenance contracts for infrastructure facilities. Many of these opportunities would be accessible to local entrepreneurs, but the government is equally open to partnering with foreign entrepreneurs where their resources and/or expertise would be necessary for the PPPs to be effective. The Bank and IFC have assisted the government to formulate a PPP policy framework and develop a roadmap of next steps for the implementation of an institutional and regulatory framework, and will continue to support the development of the government's capacity over the medium term to screen potential PPPs and structure them in accordance with the new policy framework.

56. The government's policy initiative on PPPs complements the extensive reforms it has already undertaken in the area of SOEs. Samoa's legislative and regulatory framework for SOEs, introduced in the early 2000s, is regarded as best practice in the Pacific. It puts SOEs on a commercial footing, specifying as their principal objective that they operate as successful businesses. It establishes target rates of return on equity, precludes ministers and officials from serving as directors (except in particular, specified circumstances), establishes directors' duties, and provides for community service obligations. Although the legislative and regulatory reforms have been solid, their implementation has been more incremental, suggesting the importance of allowing adequate time for reforms to become embedded and continually fostering political commitment in support of the reforms. In recent years, the government has taken further steps to strengthen the accountability and transparency of SOE management, through regular Cabinet consideration and publication of performance monitoring reports, and has built on earlier

[7] This would complement the government's broader reform program to support private sector development through improvements to the business enabling environment, which in recent years has seen legislative reforms in the areas of intellectual property, labour and employment relations, personal property securities registration, and land registration and usage (to facilitate the leasing of customary lands), mainly supported by the ADB.

reforms implementing appropriate financial standards by bringing the audited financial reports of SOEs up to date. Following a wave of initial successes with divestment, in more recent years Samoa has successfully restructured its national airline to form a joint venture with Virgin Blue, and privatised its telecommunications operator. While smaller opportunities for divestment remain, past divestments mean that the portfolio is increasingly comprised of core infrastructure SOEs. There remains room to improve the performance of the SOE portfolio, whose return on equity has averaged some 3–5 percent in recent years, below the government target of 7 percent, and to reduce fiscal transfers to SOEs. Achieving these changes will require continued efforts to implement the existing legislative, regulatory and monitoring frameworks, rather than new policy or institutional reforms. The ADB continues to assist Samoa with these efforts. While the overarching objective of the PPP reform agenda is to boost opportunities for private sector development, a secondary objective is to help drive improvements in asset maintenance, operational efficiency and service quality among infrastructure SOEs, in order to contribute to the strengthening of their performance and reduction in fiscal transfers, through appropriately structured contracts with private operations, maintenance and other service providers.

57. **The new PPP policy framework provides a solid platform for the government to develop PPPs that provide new opportunities for the private sector while securing good quality and efficient services for SOEs.** At present, several PPPs are operating in Samoa, but not all are as successful as the airline PPP. In addition, the government receives numerous unsolicited PPP proposals that pose significant risks to the government, including in the form of contingent liabilities, because there is no established mechanism to scrutinise and make informed decisions on these proposals. The Ministry of Finance views the establishment of a proper policy framework for PPPs as critical at the current juncture, in order to ensure that the government is in the driving seat in establishing what it wants to achieve through PPPs and in then sourcing private partners and structuring the contracts accordingly. The new PPP policy framework is consistent with good practices emerging in the field, provides a solid foundation for the implementation of a suitable institutional and regulatory framework for PPPs, and reflects the results of consultations with the relevant stakeholders. It describes the main features of the regulatory framework applicable to PPPs and covers the objectives of the PPP program, sectors open to PPPs, possible types of PPPs that are appropriate for use in Samoa, and tools to be used to assess whether specific projects should be developed as PPPs. It also sets out procedures to establish PPPs, principles and processes for negotiating the allocation of responsibilities and risks under PPPs and the rules applicable to providing public support to PPPs, the principles applicable to the selection of operators and resolution of disputes, and – importantly – measures for dealing with unsolicited bids. Relative to the current situation with respect to the handling of unsolicited PPPs, the new policy framework is expected to significantly reduce the risk of contingent liabilities for the government. A PPP unit, to be established in the Ministry of Finance, will be responsible for identifying opportunities for PPPs. As divestment opportunities run into inevitable limits, with the SOE portfolio progressively reduced to infrastructure service providers and the development bank, PPPs represent the next set of opportunities for greater private sector involvement in the SOE sector. Given the extremely successful example of the contracting out of road maintenance services by the state-owned Land Transport Authority, a project the Bank has supported over many years, the government has a strong appetite for achieving similar successes with other state-owned

infrastructure service providers. Approval of the PPP policy framework is a prior action for the proposed operation.

58. **After the introduction of the policy framework, Samoa is expected to put in place institutional and regulatory provisions for PPPs to implement the new framework.** Issuing these regulations will serve as a trigger for the second operation in the series.

59. **The new PPP policy framework is expected to facilitate greater private participation in the SOE sector, particularly in its infrastructure service providers.** This could be indicated by the proportion of new PPPs that conform with the new PPP policy framework.

Table 3: DPO Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Fiscal Reform Pillar	
1. The Recipient, through its Cabinet, has approved: (a) formal procedures for contracting loans; and (b) formal procedures for issuing government guarantees, in order to strengthen the Recipient's debt management.	Public Debt Management Reform Plan, 2014 and PER, 2014: on the need for formal procedures for contracting loans and issuing guarantees and for meeting concessionality and economic return targets.
2. The Recipient, through its Ministry of Finance, has issued: (a) new Treasury Instructions on procurement; (b) a new set of Procurement Guidelines; and (c) new standard templates for minor works, minor goods and related services, and minor general services, in order improve the quality of public expenditure.	MAPS Assessment, 2014: on the importance of issuing new Treasury Instructions on procurement, new Procurement Guidelines based on these Treasury Instructions, and new standard templates.
3. (a) The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the Customs Act in order to facilitate trade. (b) The Recipient, through its Ministry of Revenue, has implemented ASYCUDA World in order to enhance the customs information system and facilitate trade.	Scoping Review and Gap Analysis of Customs Legislation and Procedures, 2013 (New Zealand): on the legislative and procedural reforms required and the information system upgrade needed.
Economic Reform Pillar	
4. The Recipient's Parliament has enacted the National Payments System Act in order to facilitate and regulate electronic payments and emerging innovative payment instruments.	Assessment of Payment, Remittance and Securities Settlement Systems in Samoa, 2010: on the legislative and regulatory reforms required.
5. The Recipient, through the Cabinet Development Committee, has approved a revised tourism sector policy designed to provide for more effective tourism promotion and market access.	Tourism Sector Diagnostic, 2010 (IFC) and Tourism Support Program Sector Plan Review, 2014 (New Zealand): on key sector constraints and the revisions required for the tourism sector policy.
6. The Recipient, through its Cabinet, has approved a public-private partnerships policy framework in order to facilitate increased opportunities for private sector participation in the state-owned enterprise sector.	Development of a PPP Policy Framework for Samoa Report, 2014: identifying the appropriate scope and providing draft content for the PPP policy framework and related implementing institutions and regulations.

4.3 LINK TO CPS AND OTHER BANK OPERATIONS

60. **The proposed DPO series is a central component of the Bank's overall engagement with Samoa, as laid out in the CPS.** The design of the development objectives and selection of reform areas are aligned with the CPS's first theme on rebuilding macro-economic resilience

and encouraging inclusive growth. A strong economic policy dialogue with the government is the anchor for the Bank's efforts to support this CPS theme, with a programmatic series of DPOs as its centrepiece. There is also a link between the payments system reform area and the second theme of the CPS, on generating opportunities from global and regional integration, including by capitalising on migration and remittances.

61. **The DPO series is complemented by a set of other World Bank Group operations in order to achieve the CPS outcomes.** These include technical assistance on debt management reform, procurement reform and PPPs by the Bank and/or IFC, and an extensive engagement with Samoa as part of the Pacific Payments, Remittances and Securities Settlement Initiative. The tourism sector reform is informed by IFC analysis and complemented by reforms that also support inclusive growth through the agriculture sector, supported by the Samoa Agriculture Competitiveness Enhancement Project. Both the tourism sector and agriculture sector reforms could be complemented by potential work by the IFC on domestic agricultural supply of tourism operators such as hotels and restaurants, under the Pacific Regional Tourism Initiative.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

4.4.1. Consultations

62. **The formulation of the SDS in Samoa involves an extensive consultation process with a wide range of civil society stakeholders and the general public.** Sector coordinators consult with civil society stakeholders as they prepare their contributions to the SDS. Political leaders and senior public servants also hold consultations with the general public in all of the different regions, giving people across Samoa the opportunity to participate in the formulation of the SDS. For the proposed operation, the Ministry of Finance held a series of consultations with relevant stakeholders between January and June, feeding into its contributions to the iterative process through which the policy matrix was built up in consultation with development partners.

4.4.2. Collaboration with Other Development Partners

63. **The Bank is leading the coordinated approach being taken to budget support in Samoa among development partners.** This approach has involved consultation and close cooperation among development partners throughout the iterative process through 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. With respect to sector-specific expertise, the group has placed considerable weight on New Zealand's assistance for customs and tourism reforms, Australia's assistance on asset maintenance financing, and the ADB's agribusiness financing project to help support inclusive growth. This close coordination has been strongly encouraged and warmly welcomed by the government. While all parties have worked towards the use of a joint policy matrix, each development partner nonetheless retains the flexibility to align the substance of the joint policy matrix with its operational requirements and overarching approach to engagement with Samoa. For the Bank, the first operation in the

proposed programmatic series focuses on six of the ten reform areas covered by the joint policy matrix agreed between the government and development partners. By adding in the reform of Samoa's NCD policy, it is envisaged that the second operation in the series will focus on seven of the ten reform areas.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

64. The policy actions supported under the operation are expected to have a positive impact on the poor and vulnerable in Samoa. In terms of the Bank's twin goals, the most appropriate measure of extreme poverty in Samoa is the rate of food poverty, calculated on the basis of the national food poverty lines established in successive HIES. As a result of methodological concerns with applying PPP conversion factors to poverty calculations in the Pacific Islands, it is not considered reliable to estimate extreme poverty on the basis of the global $1.25-a-day poverty line. According to national estimates of food poverty, extreme poverty in Samoa is on a declining trend, halving between the 2002 and 2008 HIES. Although precise calculations are not possible, it is likely that the 2008 HIES estimate of 4.9 percent of the population experiencing food poverty is higher than the estimate of extreme poverty would be if the $1.25-a-day line were applied. With respect to the bottom 40 percent in Samoa, the 2008 HIES showed that households in the bottom two quintiles tended to be larger and have higher numbers of children, and have adults with lower levels of education and a higher likelihood of having subsistence production or home duties as their main activity, than households in other quintiles.

65. The proposed operation is expected to support the government in its efforts to consolidate public finances and rebuild fiscal buffers, which should have important benefits for the poor and vulnerable. Given the constraints on non-food expenditure shown in the 2008 HIES, due to their significantly lower cash incomes, the wellbeing of the poorest two quintiles of the population is disproportionately dependent on publicly-funded education, health and community development services. This makes them more vulnerable than other quintiles to any contraction in the provision of essential public services in the event that the government lacks the fiscal buffers to be able to respond to external shocks without significant reductions in public expenditure. The universal availability of basic public health services at no or little cost, and widespread access to improved water and sanitation services, underpins the relatively strong health indicators that Samoa has achieved to date (but which are now threatened by NCDs). The universal availability of fee-free primary and progressively also secondary education underpins Samoa's relatively strong education indicators. It is thus particularly important to poor people and vulnerable groups that the state maintains the capacity to provide public services over time, which in turn depends on the maintenance of fiscal stability. The debt, procurement and revenue reforms being supported by this operation strengthen public financial management, assisting government efforts to consolidate its public finances and rebuild its fiscal buffers.

66. The proposed operation is expected to support the government in its efforts to return the economy to a more robust growth path, which should also have important benefits for the poor and vulnerable. National payments system reform is expected to have a significant impact on Samoa's remittances market, improving its efficiency and strengthening customer protection. The 2008 HIES showed that remittances accounted for a higher share of the income of the poorest two quintiles than for the other quintiles. The 2011 Census also showed that the beneficiaries of the largest migrant seasonal worker program to which Samoans have access are disproportionately drawn from rural areas. Any decline in the current high cost of sending remittances to Samoa, as a result of the payments system reforms supported by this operation, is therefore expected to be of disproportionate benefit to the poor and vulnerable. The revision of the tourism sector policy is expected to improve the performance of the tourism sector, with positive implications for employment in the sector. As the 2011 Census showed, employment in tourism-related activities is especially important for women, so any increase in employment opportunities in the tourism sector is expected to be of particular benefit to women. The new PPP policy framework, by increasing opportunities for private participation in the SOE sector, is also expected to help the economy move to a more robust growth path. Net employment losses are not expected to result from PPPs, judging from Samoa's earlier positive experience with the contracting out of road maintenance services by the state-owned Land Transport Authority.

67. The government has limited systems to enhance the positive effects of its policies and tackle their possible adverse consequences on poor and vulnerable groups. Social safety nets are fairly limited in Samoa, so the main way in which poor and vulnerable groups are protected is through designing policies that take their interests into account. For example, Samoa's revenue policy and administration reform program has been informed by the principle of seeking to lighten the compliance burden of tax policy on small tax payers, including those at the margins of the formal tax system. The other way in which poor and vulnerable groups are protected in Samoa is through its relatively open and consultative approach to policy, whereby it is reasonably easy for all constituents to have access to policymakers even at a very senior level, so policymakers can be alerted to any unexpected negative consequences of their policies.

5.2 ENVIRONMENTAL ASPECTS

68. The policy actions supported under the operation are not expected to create negative impacts on Samoa's environment, natural resources or forests. Policy actions related to debt policy and management, public procurement processes, customs legislation and information systems, and the national payments system are not expected to have any significant environmental impacts. Similarly, the policy actions relating to the revision of Samoa's tourism sector policy and PPP policy framework are not expected to create negative environmental impacts. The policy action relating to the revision of Samoa's tourism sector policy pertains to tourism promotion and associated market access arrangements, rather than physical works. The PPPs that the government is expected to pursue over the medium term in accordance with the new PPP policy framework relate to service provision and facilities management, rather than physical works. Notwithstanding this, should PPPs involving physical works be proposed which could create environmental or social impacts, such activities and associated impacts would be captured and managed by Samoa's environmental protection regime, which includes the Planning and Urban Management Act as the overarching legislative framework that governs all environmental and social safeguards, including for PPPs.

69. Samoa's environmental protection regime is one of the strongest among Pacific Island countries. For at least a decade, the ADB has been working with the government to enact appropriate legislation and build the capacity of the implementing agency to establish a quality environmental assessment and management regime. The ADB provided support for the creation of the Planning and Urban Management Act of 2004. As part of the Samoa Infrastructure Asset Management 2 project, the World Bank supported the development of the Environmental Impact Assessment Regulations of 2007. Together, these now provide the legal and regulatory framework for environmental protection in Samoa. Capacity development activities – including training for the Planning and Urban Management Agency (PUMA) within the Ministry of Natural Resources and the Environment which is responsible for administering the Planning and Urban Management Act, other government agencies and consultants – have also been supported. Because the legislation and regulations are still relatively new, capacity constraints could place some limits on their effective implementation, but this potential shortcoming is not assessed to be significant. PUMA has been administering and overseeing the implementation of the Planning and Urban Management Act in relation to environmental aspects of projects financed by the Bank, and other bilateral and multilateral partners. Samoa's environmental protection regime and related capacity are the strongest in the Pacific and although the Bank has funded infrastructure such as road works, bridges as well as a new road, these projects have been well executed from a safeguards perspective and have not created significant social or environmental impacts.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

70. Recent diagnostic work indicates that Samoa generally has fairly strong PFM systems. Across the 28 PFM indicators assessed for the government in the 2013 PEFA, Samoa received 2 'A's, 6 'B+'s, 6 'B's, 9 'C+'s, 1 'C' and only 2 'D+'s and 1 'D' (with one indicator not applicable). The budget is credible, fiscal information is generally comprehensive and transparent, orderliness and participation in the annual budget process is strong, many aspects of predictability and control in budget execution are solid, and most aspects of external scrutiny and audit are also solid. Notably, the budget address and budget session in the legislature is broadcast live, the draft estimates are made available to the media when tabled in the legislature, and the full set of budget documentation is available online and in hard copy once approved by the legislature. Weaknesses were identified in some components of the multi-year perspective in budgeting, with the forward estimates presented as part of the annual budget not yet clearly linked to the setting of ministry budget ceilings. Weaknesses were also identified in some components of the effectiveness of the collection of tax payments, relating to data reconciliation in revenue administration and the collection of arrears. Delays in submitting audit reports to the legislature weakened the assessment of the scope, nature and follow-up of external audits.

71. Samoa has a satisfactory legal and regulatory framework for public procurement, but there are weaknesses in other pillars of the procurement system that need addressing. The 2014 MAPS assessment indicated that the satisfactory assessment of the legal and regulatory framework largely stemmed from the new Treasury Instructions on procurement, which became effective in November 2013. This still left two weaknesses in the institutional framework and management capacity of the procurement system, one being lack of procedural guidelines and model tender documents, the other being lack of capacity. There are also two main weaknesses in the integrity and transparency of the system, one being the absence of an independent complaints review mechanism, the other being the absence of a sufficiently active and capable normative authority to act as a driver for efficiency and value-for-money in procurement. These two weaknesses are related to the aforementioned lack of capacity, which inhibits the shift from a hierarchical approvals-based system to a system based on responsibility and accountability through an independent complaints review mechanism, which would free the current approvals body to play a more normative role. A further weakness identified in the MAPS assessment is the lack of provision for and guidance on the use of framework arrangements, which could improve efficiency and value-for-money in the procurement system.

72. **Samoa has made considerable progress with reforming its PFM systems in recent years.** Between 2011 and 2013, Samoa implemented the second phase of its PFM Reform Plan, informed in part by the findings of the 2010 PEFA. An independent evaluation of progress on the PFM Reform Plan assessed that 22 of the 25 reform targets had been either fully or partially achieved. The 2013 PEFA confirmed these PFM improvements relative to the 2010 PEFA, where Samoa had received 1 'A', 1 'B+', 4 'B's, 4 'C+'s, 5 'C's, 10 'D+'s and 1 'D', with the indicator on the stock and monitoring of payment arrears unable to be rated because of the absence of information on arrears (and one indicator not applicable). Notable improvements between the two assessments included 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.

73. **Samoa has also made considerable progress with reforming its procurement system in recent years.** The 2014 MAPS assessment indicated that the adoption of the new Treasury Instructions on procurement had raised the score on the legislative and regulatory framework pillar from 0.14 to 2.14 (out of a possible 3.0), and also improved the institutional framework and management capacity, procurement operations, and integrity and transparency. In recent years, Samoa has also created a new Procurement Division in the Ministry of Finance, an administrative arrangement that has driven the wider procurement reform process. The proposed operation supports reforms addressing some of the key remaining weaknesses.

74. **The government's commitment to making future improvements to its PFM systems is strong.** The next phase of PFM reforms that Samoa is entering is its third, with considerable achievements made on the earlier two phases. The Ministry of Finance has 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. This third phase will be implemented from July 2014 to June 2016. 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. In addition, critical PFM reforms are included as prior actions and triggers in proposed DPO series. The Ministry of Finance supplement its internal capacity to support reforms using a pool of funds for technical assistance provided by development partners, which it has used very effectively in the past to fill key gaps in its capacity to implement PFM reforms.

75. **Samoa's current PFM systems and its commitment to future reforms of these systems, taken together, are adequate to support the proposed operation.**

76. 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 FY13 audited financial accounts have been published on the CBS website and were unqualified.

77. 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.

78. Overall, the financial management risk from the foreign exchange environment is considered to be moderate.

79. The proposed operation will follow the Bank's disbursement procedures for development policy grants. As the financial management risk has not changed since the previous DPO in Samoa, and given the aforementioned issue with the reporting of disclosures, the disbursement arrangements for this operation will be consistent with the previous one. The grant will be disbursed according to IDA disbursement procedures for DPOs against satisfactory implementation of the development policy program, and will not be tied to any specific purchases. Once the grant is approved by the Board and becomes effective, the proceeds will be deposited by IDA in one tranche, at the request of the Borrower, into an account in US$ dedicated by the Grantee and acceptable to the Bank at the CBS (the 'Foreign Currency Deposit Account'). The Grantee shall ensure that upon the deposit of the grant funds into the Foreign Currency Deposit Account, an equivalent amount in SAT is credited in the Borrower's budget management system, in a manner acceptable to the Bank.

80. The Bank will request certification of the receipt and transfer of the grant to be provided by the Controller and Chief Auditor. A certification letter from the Controller and Chief Auditor confirming the transfer of the total sum of funds from the Foreign Currency Deposit Account to the Treasury Account will be submitted to IDA. The letter will confirm that the funds disbursed by the Bank have been deposited into the Foreign Currency Deposit Account and that an equivalent amount has been credited to an account of the government available to finance budgeted expenditures. The letter should also confirm the following: (i) the accuracy of the summary of the transactions, including accuracy of exchange rate conversions; and (ii) 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 letter of certification will be required to be received by IDA within six months of the funds having been disbursed to the government.

5.4 MONITORING AND EVALUATION

81. **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 cover the results indicators for the actions on debt and procurement directly, and will collaborate with the relevant agencies on the indicators for the actions on revenue, payments systems, tourism and PPPs. The Ministry of Finance has demonstrated a good capacity to monitor and evaluate the results of budget support operations to date. Where possible, it will utilise existing systems for monitoring and evaluation purposes (for instance, the existing annual evaluation of progress on all PFM reforms and the monthly management 'scorecard' for key revenue indicators).

82. **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.

6. SUMMARY OF RISKS AND MITIGATION

83. **The overall risk rating of the proposed operation is moderate.**

84. **The first key risk to the operation is macroeconomic.** Samoa is at high risk of debt distress, and if it does not comply with its MTDMS for any reason, its fiscal situation would be likely to become very difficult to manage. In such a scenario, its fiscal priorities would be likely to shift to immediate cash-flow management at the cost of its medium-term reform program in the areas being supported by this operation. An important mitigating factor here is that the operation supports reforms to debt policy and management that are expected to strengthen Samoa's capacity to comply with its MTDMS. However, a major shock to Samoa's critical remittance flows or to visitor arrivals and earnings would result in a significant revenue shock, which would also divert attention away from the reform program being supported by this operation and towards more immediate cash-flow management. While Samoa can take measures to strengthen the payments environment for remittances and the performance of its tourism sector – areas which this operation supports – it cannot really mitigate the risk of a major shock in either area, because such shocks typically emanate from its major source countries abroad. More broadly, the potential impact of these macroeconomic risks to the operation is mitigated by the fact that the reforms being supported are key priorities to the government, so are the ones most likely to retain reform momentum in a challenging environment.

85. **The second key risk to the operation is posed by Samoa's limited institutional capacity for implementation and sustainability.** Samoa has a very small public administration, in which it is typical for only one or two people to be responsible for any given reform. Key person risk is thus substantial, and to some extent it is unavoidable that the departure of any one such key person will significantly interrupt a reform process. It is possible

to mitigate this risk – as this operation has done – by selecting reforms that have strong government ownership, and hence for which there is broad backing. That makes it more likely that any key people who depart will be replaced as quickly as possible, reducing the extent of the interruption to the reform process. It is also possible to mitigate this risk – as this operation has also done – by selecting reforms that development partners are assisting with, to help with knowledge continuity in the event of key person departures. Even so, however, implementation and sustainability risks remain and reliance on development partners entails its own risks. For instance, the full realisation of the benefits of the reforms to the legislative and regulatory framework for the payments system that this operation supports is dependent on donor funding for the new payments infrastructure. While both Samoa and the Bank are doing all they can to secure support for this initiative among the wider community of development partners, to mitigate the extent of this risk, it nonetheless remains a risk to the implementation and sustainability of the operation.

86. The third key risk to the operation is posed by Samoa's high degree of vulnerability to major natural disasters. If it experiences another major natural disaster over the medium term, Samoa's macroeconomic stability will be threatened and large parts of the bureaucracy will have to shift their attention to disaster recovery and reconstruction efforts. This poses some risk to the fiscal reform pillar of the operation, similar to that described above under macroeconomic risks, but it also poses a particular risk to the implementation of Samoa's revised tourism sector policy. In the event of a major natural disaster that affects the tourism sector, the focus is likely to shift to restoring the capacity of tourism infrastructure and operators to serve existing markets, and concentrating promotional activities on regaining those existing markets, rather than to pursuing the revised tourism promotion and market access strategy that is important to the future growth of the tourism sector. It is not necessarily feasible or even desirable to mitigate this risk, because in the event of such a major natural disaster, restoring existing capacity and regaining existing markets would actually be the most important thing Samoa could do to restore the livelihoods of those dependent on the tourism sector. Only thereafter would it make sense to pursue the revised tourism promotion and market access strategy.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
Fiscal Reform Pillar – to strengthen public financial management in the areas of debt, procurement and revenue		
1. The Recipient, through its Cabinet, has approved: (a) formal procedures for contracting loans; and (b) formal procedures for issuing government guarantees, in order to strengthen the Recipient's debt management.	1. The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the PFM Act in order to encompass borrowing purposes, debt management objectives, regular updating of the MTDMS, and annual reporting to Parliament.	1. Compliance with the MTDMS provisions on external loan concessionality and economic return. **Baseline**: Partial Compliance, FY11–13 **Target**: Full Compliance, FY14–16
2. The Recipient, through its Ministry of Finance, has issued: (a) new Treasury Instructions on procurement; (b) a new set of Procurement Guidelines; and (c) new standard templates for minor works, minor goods and related services, and minor general services, in order improve the quality of public expenditure.	2. The Recipient has issued guidelines for the use of framework arrangements in public procurement.	2. An increase in the extent to which commonly procured items are procured through framework arrangements within and across line ministries. **Baseline**: No such framework arrangements **Target**: Framework arrangements for three of the commonly procured categories of items have been piloted and put in place by the government
3. (a) The Recipient, through its Cabinet, has submitted to Parliament a Bill for the amendment of the Customs Act in order to facilitate trade. (b) The Recipient, through its Ministry of Revenue, has implemented ASYCUDA World in order to enhance the customs information system and facilitate trade.	3. The Recipient has introduced electronic systems for filing and paying taxes, including income tax.	3. Improved tax compliance as measured by on-time filing, on-time payment and arrears collection for large enterprises. **Baseline**: FY13 – On-time filing < 80 percent; on-time payment < 70 percent; outstanding returns collected or resolved by year end < 50 percent **Target**: FY16 – On-time filing ≥ 90 percent; on-time payment ≥ 80 percent; outstanding returns collected or resolved by year end ≥ 50 percent
	4. The Recipient has issued a new NCD Policy in order to effectively tackle NCDs.	4. Expanded coverage of high risk groups by the PEN Package of interventions to prevent NCDs. **Baseline** and **Target**: [To be defined during the preparation of the second operation in the series]

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
Economic Reform Pillar – to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term		
4. The Recipient's Parliament has enacted the National Payments System Act in order to facilitate and regulate electronic payments and emerging innovative payment instruments.	5. The Recipient has issued regulations on remittance service providers.	5. A more efficient payments system as measured by an increased prevalence of electronic payments. **Baseline**: Number of payments in 2013 – Interbank manual cheque settlements (260,307) Debit and credit card payments (109,819) Credit transfers (149,875) Mobile payments (76,819) **Target**: Number of payments in 2016 – Interbank manual cheque settlements (decrease by 10 percent) Debit and credit card payments, credit transfers and mobile payments (increase by 10 percent)
5. The Recipient, through the Cabinet Development Committee, has approved a revised tourism sector policy designed to provide for more effective tourism promotion and market access.	6. The Recipient has conducted the first annual assessment of the impact of its new targeted promotional and marketing arrangements and acted upon its findings, in accordance with the review provisions of the revised tourism sector policy.	6. Improved performance of the tourism industry as measured by an increase in proportion of the tourist and sports tourist segments in overall visitor arrivals and an expansion of the employment of women in the accommodation, restaurants and general commerce industries. **Baseline**: Average decrease in proportion of target segments of 1.3 percent per year 2009–13, and 2,984 women employed in 2011 **Target**: Average increase in proportion of target segments of 0.5 percent per year 2013–16, and 3,175 women employed in 2016

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
Economic Reform Pillar – to strengthen the payments system, tourism sector policy and private sector development opportunities as foundations for more robust economic growth over the medium term		
6. The Recipient, through its Cabinet, has approved a public-private partnerships policy framework in order to facilitate increased opportunities for private sector participation in the state-owned enterprise sector.	7. The Recipient has put in place the necessary regulatory provisions for PPPs to implement the new PPP policy framework.	7. Greater private participation in the SOE sector, as measured by the proportion of new PPPs that conform with the new PPP policy framework. **Baseline**: n/a [no PPPs under the new framework] **Target**: All new PPPs conform with the new framework

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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Office of the Prime Minister
Apia, Samoa

12 August, 2014

Dr Jim Yong Kim
President
World Bank
Washington, DC, 20433
USA

Dear President Kim

Letter of Development Policy

In the years preceding the global economic crisis, Samoa had established itself as a strong performer on economic growth among the Pacific Island Countries. It had also established a solid track record for economic reform, and continues to be one of the strongest performers amongst IDA-eligible countries according to the World Bank's Country Policy and Institutional Assessment. Underpinning these achievements is the ambitious development agenda and commitment to economic reform that Samoa has pursued over the past two decades.

The *Strategy for the Development of Samoa 2012-2016* (SDS) sets out our overarching strategy for achieving inclusive growth and sustainable development for all. It is the result of an extensive consultation process encompassing every region of the country. The SDS outlines the key policy priorities that the government is pursuing for economic development, social development, infrastructure development and environmental sustainability. These priorities include maintaining macroeconomic stability, reinvigorating agriculture, achieving sustainable tourism development and improving the enabling environment for business development. They also include improving health and education outcomes, and improving the quality of life of the most vulnerable through community development, social protection and the provision of high quality and affordable public services. We see our engagement with the World Bank as a way to further the objectives of the SDS.

Samoa's track record of strong economic growth was disrupted by the global economic crisis and the two major natural disasters that subsequently hit Samoa. As a result of the global economic crisis, GDP contracted by over 5 percent in 2008/09. Economic recovery has been difficult to sustain since the global economic crisis, as a result of the major natural disasters that have affected Samoa. The tsunami that struck Samoa in September 2009 caused the loss of 143 lives, left over 5,000 people without homes and livelihoods, and resulted in damage and losses equivalent to 30 percent of GDP. Just three years later, in December 2012, a powerful cyclone devastated large parts of the country, with extensive destruction of property, homes, agricultural crops, infrastructure and businesses. The damage and losses from the cyclone were again equivalent to 30 percent of GDP.

The government, with the support of development partners including the World Bank, has mounted effective recovery and reconstruction programs in the wake of both of these major natural disasters. But, when combined with the fiscal stimulus the government provided in response to the global economic crisis, these programs have contributed to a serious deterioration in the government's fiscal position, with Samoa now at high risk of debt distress. These three external shocks have also yielded low and volatile economic growth in recent years, which has held back our ability to improve the quality of life of our people.

It is now time to look ahead, and focus on priority reforms that will help restore a sound fiscal position and achieve stronger and more stable levels of economic growth, at the same time as we continue to work to strengthen the performance of our social sectors.

In order to help restore a sound fiscal position, we are pursuing reforms to macroeconomic management and public financial management. At the core of this agenda, are reforms to strengthen debt policy and management, which will be critical to our ability to return our debt to sustainable levels over the medium to long term. To strengthen expenditure quality, we are making significant reforms to strengthen public procurement systems. And on the revenue side, we are implementing a comprehensive package of legislative, regulatory and administrative reforms in order to strengthen revenue collection. Our commitment to reform in these areas is demonstrated by a series of notable achievements to date, and we are working hard to retain this reform momentum. Combined with a fiscally responsible budget and a fiscal strategy that reflects our firm commitment to fiscal consolidation over the medium term, these reforms to macroeconomic management and public financial management will help us to return our public finances to the solid position that we were so successful in maintaining prior to the global economic crisis.

In order to help achieve stronger and more stable levels of economic growth, we are pursuing reforms to strengthen the productive sectors of the economy and facilitate private sector development. We are reforming our national payments system, in order to make it more efficient and better able to facilitate business transactions. Over time, we also expect these reforms to contribute to a reduced cost of remittances, which are critical to the living standards of many Samoans. In the productive sectors, we are establishing a framework and launching a program for agribusiness development that we expect will help revitalise the agriculture sector. This sector is extremely important to livelihoods in Samoa, with four in five Samoans engaging in some form of agricultural activity. We are also revising our tourism sector development plan, to ensure that we spur a higher level of growth in this key economic sector than has occurred in the turbulent period since the global economic crisis. We recognise the particular significance of the tourism sector for the employment and empowerment of women in Samoa, which underscores the importance of setting the sector on a stronger growth path. To facilitate private sector development, we are actively seeking to create opportunities for greater private sector participation in state-owned enterprises (SOEs). The initial step in this process is the development of a public-private partnerships policy framework which will shape our actions over the medium term. This new policy framework will also fit within our ongoing reform agenda for SOEs, under which we continue to work to strengthen the performance, accountability and transparency of our SOEs.

While we implement these priority reforms to help restore a sound fiscal position and achieve stronger and more stable levels of economic growth, we will continue 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. These efforts are informed by the recent public economic review that we undertook in conjunction with the World Bank, and by our recognition that the rising threat of non-communicable diseases requires a reorientation of our policy priorities and budget resources in the health sector. In the education sector, we focused on strengthening the medium term perspective in planning and budgeting and implementing effective monitoring and evaluation systems to ensure that sector objectives are achieved.

The government is firmly committed to implementing this package of reform measures, key aspects of which are highlighted in the policy matrix we have been working on in conjunction with the World Bank. Against this background, we therefore seek the World Bank's favourable consideration of our request for a Development Policy Operation for Samoa of US$ 7.5 million aligned with 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 extend our sincere appreciation for the excellent level of cooperation we have now enjoyed with the World Bank over many years.

Yours sincerely

T S Malielegaoi

Tuilaepa Lupesoliai Sailele Malielegaoi
Minister of Finance

ANNEX 3: FUND RELATIONS ANNEX

Samoa – Assessment Letter for the World Bank
June 24, 2014

1. **The Samoan economy is recovering from the effects of Cyclone Evan.** Growth is expected at 1½ percent in fiscal year 2013/14, led by strong recovery in agriculture, reconstruction and preparations for the United Nations Third International Conference on Small Island Developing States (SIDS). Inflation was in negative territory in 2012/13, and plentiful agricultural supply and a stable exchange rate have kept it below 1 percent in recent months. The external current account deficit is expected to widen to 6 percent of GDP as the recovery takes hold, but tourism investments, remittances and aid flows are expected to keep reserves at 4½ months of imports.

2. **The authorities have managed reconstruction costs while moving towards medium-term fiscal consolidation.** A supplementary budget was introduced in 2013/14 to accommodate higher reconstruction spending and preparations for the SIDS conference. However, a strong rebound in tax revenues (due to improved administration) and higher grants are expected to allow for a reduction in the overall deficit to 3 percent of GDP. The medium-term fiscal framework targets a deficit of 1½ percent of GDP by 2015/16, and a gradual reduction of debt to 50 percent of GDP by 2020. This consolidation is feasible, but will depend on maintaining the revenue effort and bringing total expenditure as a percent of GDP back to pre-crisis levels.

3. **There has been progress in strengthening financial sector oversight, but risks remain.** The Unit Trust of Samoa and the Samoa Housing Corporation have been brought under the supervision of the central bank. However the Development Bank of Samoa has seen rising NPLs related to the slow pace of reconstruction in the tourism sector. A joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission is expected in October 2014.

4. **The authorities are committed to maintain the tala exchange-rate basket peg, which has provided a credible nominal anchor in the face of external shocks**. An updated assessment of the exchange rate suggests that the degree of overvaluation of the tala has been attenuated by recent deflation. Nevertheless, some adjustment could improve competitiveness and preserve external stability, but this would have to be gradual given the high proportion of foreign currency denominated public debt.

5. **Continued efforts on structural reforms, including on SOEs, the use of customary lands, improvements to the business climate and public financial management, will be key to support a robust recovery of growth.**

6. **On May 16, 2013 the IMF disbursed SDR 5.8 million (about US$8.6 million) under the Rapid Credit Facility (RCF) to help the country manage the economic impact of Cyclone Evan.** The next Article IV consultation discussion is scheduled for March 2015 to allow for the authorities' preparation to host the Third International SIDS Conference in September 2014 and for the joint IMF-World Bank Financial Sector Assessment Program to finish its work in the second half of 2014.

Table 1. Samoa: Selected Economic and Financial Indicators, 2008/09–2015/16 [1]

Population (2012): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2012/13): US$ 3,732
Quota: SDR 11.6 million

	2008/09	2009/10	2010/11	2011/12	2012/13	Proj. 2013/14	Proj. 2014/15	Proj. 2015/16
	(12-month percent change)							
Output and inflation								
Real GDP growth	-5.1	0.5	1.4	2.9	-0.4	2.2	2.1	2.0
Nominal GDP	-2.2	2.0	3.7	4.4	0.8	1.1	5.7	5.1
Change in CPI (end period)	10.0	-0.3	2.9	5.5	-1.7	1.0	3.5	3.0
Change in CPI (period average)	14.6	-0.2	2.9	6.2	-0.2	-1.1	3.5	3.0
	(In percent of GDP)							
Central government budget								
Revenue and grants	34.5	37.9	36.0	33.9	38.3	44.5	34.7	31.8
Of which: grants	7.8	10.5	9.5	8.8	11.2	14.7	5.3	3.8
Expenditure and net lending	38.7	44.4	42.2	42.2	43.0	47.5	36.8	33.5
Of which: Development	12.8	14.7	11.9	13.2	12.6	12.6	8.0	5.1
Overall balance	-4.2	-6.5	-6.2	-8.4	-4.6	-3.0	-2.2	-1.7
External financing	3.1	9.8	6.4	8.5	4.2	5.7	4.7	1.9
Domestic financing	1.1	-3.3	-0.1	-0.1	0.1	-2.7	-2.6	-0.2
	(12-month percent change)							
Money and credit								
Broad money (M2)	7.7	10.9	-0.8	-4.0	-0.8	...	...	...
Net foreign assets	9.2	32.7	-11.6	-5.9	-21.8	...	...	...
Net domestic assets	7.1	1.5	5.3	-3.1	8.9	...	...	...
Private sector credit	6.5	4.0	6.4	2.8	1.1	...	...	...
	(In millions of U.S. dollars)							
Balance of payments								
Current account balance	-32.3	-44.3	-26.4	-62.9	-15.6	-44.0	-44.5	-44.7
(In percent of GDP)	-6.2	-7.6	-4.1	-9.2	-2.3	-6.1	-5.9	-5.7
Merchandise exports, f.o.b. 2/	11.1	17.5	23.8	29.4	27.2	25.9	26.3	26.3
Merchandise imports, f.o.b.	-229.3	-261.6	-287.5	-337.1	-305.8	-332.5	-338.0	-343.4
Services (net)	91.7	87.2	112.9	114.5	122.7	118.9	119.9	121.2
Income (net)	-32.0	-18.7	-27.2	-36.9	-29.0	-29.2	-30.6	-32.1
Current transfers	126.2	131.4	151.6	167.2	169.3	173.0	177.8	183.3
External reserves and debt								
Gross official reserves	95.3	165.3	158.4	157.1	137.3	165.9	162.0	149.1
(In months of next year's imports of GNFS)	3.3	5.4	4.6	4.7	3.8	4.5	4.4	4.0
Public debt 3/	647.2	752.4	786.5	906.4	983.3	1031.3	1068.0	1098.4
(In percent of GDP)	45.4	51.7	52.1	57.6	62.0	64.3	63.0	61.7
Exchange rates								
Market rate (tala/U.S. dollar, period average)	2.7	2.5	2.3	2.3	2.3	...	...	...
Market rate (tala/U.S. dollar, end period)	2.5	2.3	2.4	2.3	2.3	...	...	...
Nominal effective exchange rate (2000 = 100) 4/	97.7	97.9	98.2	99.0	98.5	...	...	...
Real effective exchange rate (2000 = 100) 4/	116.2	111.6	112.4	114.4	113.7	...	...	...
Memorandum items:								
Nominal GDP (in millions of tala)	1,426	1,454	1508	1575	1587	1603	1695	1781
Nominal GDP (in millions of U.S. dollars)	522	585	651	687	687	717	749	782
GDP per capita (U.S. dollars)	2,879	3,214	3,563	3,747	3,732	3,887	4,045	4,207

Sources: Data provided by the Samoan authorities and Fund staff estimates.

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