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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.

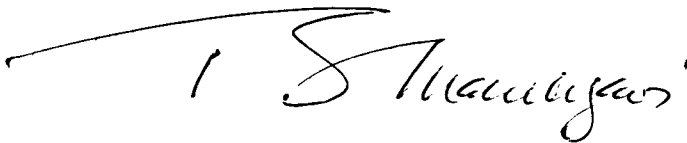
While we implement these priority reforms to help restore a sound fiscal position and achieve stronger and more stable levels of economic growth, we will continue to work to strengthen the

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

A handwritten signature in black ink, appearing to read 'Tuilaepa Sailele Malielegaoi'. The signature is fluid and cursive, with a long horizontal stroke at the beginning.

Tuilaepa Lupesoliai Sailele Malielegaoi  
Minister of Finance