



Report and Recommendation of the President to the Board of Directors

Project Number: 43191-01
March 2010

Proposed Program Cluster and Loan for Subprogram 1 Independent State of Samoa: Economic Recovery Support Program

CURRENCY EQUIVALENTS

(as of 8 March 2010)

Currency Unit	–	tala (ST)
ST1.00	=	\$2.5413
\$1.00	=	ST0.3935

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
CSO	–	community service obligation
ERSP	–	economic recovery support program
EU	–	European Union
FY	–	financial year
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
NGO	–	nongovernment organization
NZAID	–	New Zealand Agency for International Development
OECD	–	Organisation for Economic Co-operation and Development
PEFA	–	public expenditure and financial accountability
PFM	–	public finance management
PRC	–	People's Republic of China
PSIP	–	Public Sector Investment Program
SDS	–	Strategy for the Development of Samoa
SOE	–	state-owned enterprise
TA	–	technical assistance
UN	–	United Nations
UNDP	–	United Nations Development Programme
VAGST	–	value-added goods and services tax

NOTES

- (i) The fiscal year (FY) of the Government of Samoa and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 30 June 2009.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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LOAN AND PROGRAM SUMMARY

Borrower	Independent State of Samoa
Proposal	<p>The proposed Economic Recovery Support Program (ERSP) is a program cluster of loans with two subprograms totaling \$26.8 million equivalent. The program will support an expanded public investment program that will assist recovery from an economic slowdown linked to the global economic crisis and address reconstruction needs arising from the September 2009 tsunami. The program will simultaneously implement structural and governance measures that will strengthen prospects for sustaining economic growth over the medium term. Additional policy actions will help protect the vulnerable, safeguard Samoa's fiscal position, and facilitate communication and engagement with the private sector and civil society.</p>
Classification	<p>Targeting classification: General intervention</p> <p>Sector (subsectors): Multisector: public sector management; transport, and information and communication technology; health and social protection</p> <p>Themes (subthemes): Economic growth (promoting macroeconomic stability, promoting economic efficiency and enabling business environment, widening access to markets and economic opportunities), governance (economic and financial governance), private sector development (policy reforms)</p> <p>Location impact: National (high impact)</p>
Environment Assessment	Category C. No significant adverse environmental impacts are identified.
Social Safeguards Assessment	<p>Involuntary resettlement: Category C</p> <p>Impact on indigenous people: Category C</p> <p>No involuntary resettlement or impact on indigenous people is expected.</p>
Rationale and Description	<p>The global economic crisis contributed to a sharp economic slowdown in Samoa. The economy contracted by 5.5% in fiscal year (FY) 2009 as remittances weakened and cutbacks in the Australian automobile industry reduced demand for Samoa's manufacturing exports of automotive wire harnesses. The completion of major construction projects in FY2008 and the erosion of household purchasing power by high inflation also contributed to the economic deterioration. In FY2009, 2,035 formal sector jobs were lost—a decline of 9.3%. As many as 1,500 additional jobs held by Samoans were lost in September 2009 when a large tuna cannery closed in neighboring American Samoa.</p> <p>On 29 September 2009, a devastating earthquake and tsunami hit Samoa, killing 143 people and leaving 5 people missing. The tsunami reached up to 400 meters inland and damaged or completely destroyed villages, schools, roads, and tourist facilities along the southwest, southern and south eastern coastline. Initial estimates put total damage and loss at \$106 million, the equivalent of 17% of the annual gross</p>

domestic product (GDP). Around \$60 million of this would be borne by the public sector. The tsunami directly affected households in areas of the country that were already relatively poor.

The recent economic shocks brought to a halt an extended period of economic growth. Assisted by political stability, Samoa implemented far-reaching and important reforms that achieved good development results. An early return to moderate rates of economic growth is possible and sustainable if there is early completion of tsunami related reconstruction and additional support is provided to the private sector. The tourism, agriculture, and fishing sectors can be vibrant sources of employment and economic growth, building on Samoa's natural beauty, well-educated labor force, and ample land and marine resources.

The government has requested support from development partners to help the economy recover from the recent shocks. The ERSP is the contribution of the Asian Development Bank (ADB) to development partners' collaborative response to this need. The immediate need is to continue post-tsunami reconstruction initiated by the government with development partner support and assistance by Samoan communities living abroad. Grants of \$26.1 million from development partners, including ADB, were especially important to funding this initial response. In December 2009, the International Monetary Fund released \$9.3 million under the Exogenous Shocks Facility and endorsed government efforts to secure concessional financing from ADB and the World Bank to further rebuild the economy.

The ERSP provides for elevated government capital expenditure to undertake post-tsunami reconstruction and provide a short-term boost to economic activity (output 1). Complementary policy actions will safeguard the overall fiscal position and enhance the quality of government expenditure (output 2). Structural and governance improvements will support medium-term prospects for economic growth by enhancing the economy's productivity (output 3). Policy actions will also provide opportunities for the vulnerable to make economic growth more inclusive (output 4). Engaging private sector and civil society stakeholders in public policy will be enhanced to deepen local awareness, understanding, and ownership of the ERSP (output 5). The five outputs will progress concurrently under the two subprograms of the ERSP.

The ERSP targets economic growth led by the private sector. At the macro level, the ERSP will assist the private sector by supporting aggregate demand and lessening the risk that fiscal stress will bring macroeconomic instability. At the micro level, the ERSP will emphasize ensuring sound public investment, continuing to rationalize state-owned enterprises, improving the performance of those that remain under government ownership, ensuring effective competition in the economy, and thorough efforts to modernize the legal framework affecting business.

Impact and Outcome

The impact of the ERSP will be the achievement of higher and more inclusive economic growth. The outcome of the program will be to initiate

economic recovery with extra protection for the vulnerable and the country's fiscal position.

Special Features

The policy actions of the ERSP are aligned with the government's own policy matrix. ADB's support is harmonized with support to be provided by bilateral and multilateral development partners and is in line with advice from the International Monetary Fund.

Support for the vulnerable is a feature of the program in recognition of the extra hardship imposed by the tsunami, the global economic crisis, and the preceding episode of high international commodity prices. This support will facilitate a progressive reorientation of government programs to target the most vulnerable. It is proposed that the ERSP link to a Japan Fund for Poverty Reduction grant for social protection that will support the piloting of social safety nets and associated policy development.

Period and Tranching

The program cluster period is from 1 March 2009 to 30 December 2011. A single tranche loan of \$16.0 million equivalent is to be disbursed under subprogram 1 when the government has met the conditions for effectiveness. Subprogram 2 will be presented for consideration and approval by the ADB Board of Directors depending on the progress achieved in implementing subprogram 1, including compliance with the proposed policy actions, and the readiness of the government to undertake the succeeding policy reforms. A single tranche loan of \$10.8 million equivalent is expected to be disbursed under subprogram 2. Subprogram 2 is expected to be considered by the Board about 12 months after the subprogram 1 loan takes effect.

Financing Plan

The program cluster amounts to \$26.8 million equivalent, comprising two subprograms amounting to \$16.0 million equivalent and \$10.8 million equivalent. The loan of \$16.0 million equivalent (subprogram 1) will be provided from ADB's Special Funds resources with an interest charge of 1.0% per annum during the grace period and 1.5% thereafter, a term of 24 years including a grace period of 8 years, and other terms and conditions set forth in the loan agreement.

Procurement and Disbursement

Loan proceeds will be used to pay for items procured in ADB member countries, excluding ineligible items and imports financed from other bilateral and multilateral sources. The loan proceeds will be disbursed to the borrower in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*.

Counterpart Funds

The government shall ensure that the local currency generated from the proceeds of the loan is used to support public expenditure objectives under the program.

Executing Agency and Implementation Arrangements

The Ministry of Finance will be the executing agency for the program. The Program Coordinating Committee, comprising the Ministry of Finance and the Central Bank of Samoa, will coordinate the program. The Program Coordinating Committee will meet at least quarterly to monitor progress and oversee the implementation of the program, as well as to guide and

direct the activities of the executing agency. Development partners will also monitor and review program implementation.

In addition to engaging in broad policy dialogue and monitoring, development partners have provided and will continue to provide support for specific areas of the policy matrix. ADB support has focused on policy regarding state-owned enterprises, the budget's medium-term expenditure framework, power sector reform, legislative reform to reduce the cost of doing business, and next steps in social protection. In the context of the policy matrix, the Australian Agency for International Development, New Zealand Agency for International Development and the United Nations agencies have been most prominent in the immediate response to the tsunami and follow-on alleviation of social impacts of the tsunami as well as the global economic crisis. The European Union's relevant area of focus is the reform of public financial management, while the World Bank has provided support for telecommunications and transport sector reform.

Benefits

The program will provide broadly distributed benefits by helping to counter the negative impact of the September 2009 tsunami and the global economic crisis and setting a foundation for higher economic growth over the medium-to-long term led by the private sector. The vulnerable will benefit from the improved economic conditions and targeting of government programs.

Risks and Assumptions

The key risks are (i) insufficient government capacity to implement the program, (ii) reduced funding for capital expenditure because of a lack of restraint among government agencies regarding current expenditure growth, (iii) impaired implementation of the medium-term fiscal framework because of a shortfall in external financing, and (iv) insufficient political and community support for policy actions. The program is designed to mitigate these risks to the extent feasible.

Achieving the expected impact from the program relies on (i) improvement in the global economy, (ii) a positive response by the private sector to improved economic conditions, (iii) continuing improvements in the performance orientation of government agencies, and (iv) the provision of complementary technical resources by development partners.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed program cluster for the Economic Recovery Support Program (ERSP) and (ii) a proposed loan to the Independent State of Samoa for subprogram 1 of the ERSP. The ERSP was prepared by a joint team of representatives of the Government of Samoa and the Asian Development Bank (ADB). The design and monitoring framework is in Appendix 1. The development policy letter, including the policy matrix for subprogram 1 and triggers for subprogram 2, is in Appendix 2.

II. THE MACROECONOMIC CONTEXT

A. The Impact of the Global Economic Crisis

2. The Samoan economy grew strongly from fiscal year (FY) 2000 to FY2008, achieving an average growth rate of 4.8% per annum.¹ Growth was driven largely by rising construction and service sector activity. Preparations for the 2007 South Pacific Games, expanding tourism accommodation, and new public and commercial buildings drove a mini construction boom. Growth in remittance flows and tourism underpinned expansion in commerce, hotels and restaurants, and transport and communications, while manufacturing also made a positive contribution to growth. These positives outweighed a contraction in the primary sector (Appendix 3).

3. Some weakening in growth was inevitable in FY2009 as the surge in construction projects passed. The global economic crisis, however, added substantially to the severity of the slowdown.² The largest private employer, Yazaki, cut its workforce by more than half as the Australian automobile industry it supplies contracted. Remittances, which supplied 25% of the gross domestic product (GDP), slowed as the economies of the United States, New Zealand, and then Australia weakened. High international commodity prices fed through with a lag, and very high inflation that peaked in November 2008 at 18.7% on a year-on-year basis and averaged 13.9% in FY2009 eroded household purchasing power. Tourism arrivals continued to grow, however, helped by the operation of a budget airline, expanding accommodation, and the diversion of tourists from the Fiji Islands (tourism receipts were 22.1% of GDP in FY2009).

4. The economy contracted by 5.5% in FY2009. From June 2008 to June 2009, the formal sector lost 2,035 jobs, a decline of 9.3%, and the number of operating businesses fell from 4,518 to 3,681. Remittances fell by 17% year-on-year in real terms in the 12 months to June 2009. The closure of a large tuna cannery in neighboring American Samoa in September 2009 eliminated up to 1,500 jobs held by Samoans and an important source of remittances.

5. The economic slowdown weakened the government's revenue performance (Appendix 4). Tax collections in FY2009 were 4.7% below budget estimates and almost 2% below those of FY2008. The real value of government revenue is projected to remain below trend over the short-to-medium term. The weakening in revenue has put pressure on the government's fiscal position and threatened key programs, particularly the delivery of essential services.

6. In the absence of any corrective government action, a further sizeable economic contraction seemed likely in FY2010. Declining incomes and remittance flows were projected to

¹ ADB. Forthcoming. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Manila.

² ADB. *Pacific Economic Monitor*. Manila (various editions).

reduce real consumption, private investment was projected to contract because of lost business confidence and the reduced availability of affordable loans, and exports of manufactured and primary products were projected to remain weak.³ This was the negative outlook despite the positive news that tourism arrivals from Australia and New Zealand had begun to improve by late FY2009, Yazaki was expected to begin some re-hiring (which commenced in November 2009), and inflation continued to ease.

7. Although there is a shortage of data on the impacts of the economic slowdown on vulnerable members of the community, they were expected to have been put under additional stress by the decline in remittances and local employment, the higher cost of living, and pressure on public service delivery. Labor market analysis suggests that the working poor are the most exposed to the effects of the global economic crisis.⁴ Starting from a position of vulnerability, they likely saw their incomes decline when construction, manufacturing, retail, and wholesale activity weakened. Low-income families dependent on overseas remittances are also likely to have been among those hit hardest by the global economic crisis. Women are particularly exposed as they rely heavily on lower-paid jobs in tourism and manufacturing (e.g., women accounted for around 80% of Yazaki's workforce).

B. The September 2009 Tsunami

8. On 29 September 2009, an earthquake and resultant tsunami hit Samoa, with the effects concentrated in the southeastern coast of the most populated island, Upolu. The waves reached up to 400 meters inland, directly affecting more than 5,000 people and leaving 143 dead (10 of them tourists), 5 missing, and 310 injured. In total, 19 villages and their houses, schools, roads, utilities, and tourism facilities were damaged or destroyed.⁵ Households in these areas already experienced more hardship than did other areas of the country.

9. The tsunami had its main impact in one of the most popular areas for holiday makers. It is estimated that 128 rooms and 322 beds were destroyed or damaged, and more than 300 beach *fales* (traditional huts used by day visitors and budget travelers) were affected. In total, 10% of tourist accommodation accredited by the Samoa Tourism Authority was affected. Up to 20 kilometers of beach and reef were at least partly degraded. The extensive damage to tourism and other infrastructure will need to be repaired and debris on beaches and in marine areas will need to be removed as part of tsunami recovery. The tsunami can be expected to have a broader impact by changing perceptions of the desirability of Samoa as a holiday destination. Extra marketing efforts and discounting are in place to recover lost appeal, further eroding tourism's contribution to the economy.

10. The government requested support from the World Bank, ADB, AusAID, and United Nations agencies to conduct a quantitative analysis of tsunami impact and provide recommendations for medium- and longer-term recovery and reconstruction. The preliminary assessment from the damage and loss assessment is of a 5-year recovery-and-reconstruction cost of about \$150 million. Two-thirds of this is required to re-establish (i.e., build back better) housing and facilities, with a third of the cost to be incurred in relocating villages to new inland sites. The expenditure required from the public sector over the next 5 years is estimated at \$100

³ For example, the macroeconomic framework released in May 2009 projected a contraction of 0.8% in FY2010, despite factoring in the benefits of a large fiscal stimulus. Government of Samoa, Ministry of Finance. 2009. *Fiscal Strategy Statement Budget 2009/2010*. Apia (May, p. 11).

⁴ ADB. 2010. *Pacific Economic Monitor*. Manila (February).

⁵ Early Recovery Team. 2009. *29 September 2009 Earthquake and Tsunami: Early Recovery Framework*. Apia (October, submitted to the Prime Minister of Samoa).

million, with more than half required in transport and substantial allocations required to health, education, and electricity.

11. A rapid humanitarian and reconstruction effort is providing a short-term boost to the economy. Higher government expenditure and support from Samoans living overseas and the broader international community for those affected by the tsunami saw a rise in arrivals soon after the tsunami, and economic indicators pointed to an increase in aggregate demand. There is expected to be a follow-on lull in arrivals, however, as many family reunion visits (which make up around half of Samoa's visitors) appear to have been brought forward in response to the tsunami, this is expected to create a lull in visitor arrivals during 2010. Similarly, higher remittances provided in response to the tsunami could be at the expense of remittances later in FY2010 (footnote 2). Latest estimates are for a small economic expansion of 0.8% in FY2010.

C. Policy Dialogue

12. The National Economic Summit involving the private sector and civil society organizations was held on 27 March 2009 to discuss the impact of the global economic crisis on Samoan business and society and to formulate a policy response. Following the summit, the government committed to stimulating the economy through an elevated level of capital expenditure, to (i) counter deterioration in aggregate demand and (ii) implement productivity-enhancing investment projects. The government also committed to the continued implementation of public sector management reforms and of microeconomic policies enunciated as the Strategy for the Development of Samoa (SDS), 2008–2012.⁶ These reforms and policies aimed to achieve the national development objectives of improved governance and economic growth and employment creation led by the private sector.

13. The government committed to using the Public Sector Investment Program (PSIP) as the vehicle for implementing an elevated level of capital expenditure. The PSIP directs the Government's major projects for investment in human and physical capital. It provides (i) an overview of ongoing public sector projects; (ii) an overview and a schedule of public sector pipeline projects from a 3-year perspective; (iii) information on the government's priority sectors and projects for donor consultations and (iv) a mechanism that enables the government to obtain, for forward budgetary planning, a balanced level of capital investments throughout the period of the PSIP.⁷ With the support of ADB technical assistance, project screening and approval procedures have been put in place to guide the prioritization and scheduling of new projects.⁸ Selection criteria emphasize ensuring alignment with the SDS 2008-2012, Government policy and sector plans, financial sustainability and ensuring that projects are environmentally sound.⁹

14. The government initiated a complementary dialogue with development partners to secure the concessional financing needed to implement the PSIP and select technical support for the proposed policy actions. Development partners responded through a regional dialogue

⁶ Government of Samoa. 2008. *Strategy for Development of Samoa 2008–2012: Ensuring Sustainable Economic and Social Progress*. Apia.

⁷ The PSIP presents the operating and capital costs of public sector projects approved by the Cabinet Development Committee that cost more than ST100,000. It incorporates most technical assistance and other development partner projects. The PSIP is prepared annual by the Ministry of Finance in close consultation with line agencies.

⁸ ADB. 2007. *Technical Assistance to the Independent State of Samoa for Support for the Formulation and Implementation of the Strategy for the Development of Samoa*. Manila (TA 7033-SAM, \$500,000, approved 17 December).

⁹ Government of Samoa. 2009. *Sector Planning Manual for Samoa: 2009 Edition*. Apia; Government of Samoa. 2009. *Manual on Project Planning and Programming: 2009 Edition*. Apia.

and coordinated missions by ADB, Australian Agency for International Development (AusAID), New Zealand Agency for International Development (NZAID), European Union (EU), Japan International Cooperation Agency, United Nations Development Programme, and World Bank. In addition, ADB, EU, and World Bank missions overlapped with the November 2009 mission of the International Monetary Fund (IMF).

15. The policy dialogue culminated in the government's adoption of a sequenced and prioritized policy matrix that encompassed actions to address post-tsunami reconstruction needs (Table 1). Key underpinnings of the policy matrix are the SDS 2008–2012 and supporting sector plans, the FY2010 budget statement and fiscal strategy, and recent cabinet decisions. Development partners committed to using this policy matrix as a basis for policy-based grants and loans envisaged over the short-to-medium term. The government's preference is that development partners make more use of government systems with a view to a channeling more development assistance through the budget.

Table 1: Government Policy Matrix

Theme	Near-Term Actions (indicative: Dec 2009)	Short-Term Actions (indicative: Dec 2010)	Medium-Term Actions (indicative: Dec 2011)
Addressing post-tsunami reconstruction	Elevated capital expenditure implementing the interim PSIP, which incorporates a costed tsunami recovery plan	Elevated capital expenditure implementing the interim PSIP, which incorporates a costed tsunami recovery plan	Elevated capital expenditure implementing the updated PSIP, which is nearing completion of post-tsunami reconstruction
Maintenance of overall fiscal discipline	Interim update of the medium-term expenditure framework to account for the impact of the tsunami	Medium-term expenditure framework remains consistent with maintaining a low risk of debt distress	Medium-term expenditure framework sets out to reallocate and prioritize expenditure that will ensure a low risk of debt distress
Enhanced PFM	Stage 1 of the PFM reform plan under way with an emphasis on accounting, audit, procurement, and debt and cash-flow management	Stage 1 of the PFM reform plan nearing completion and stage 2 endorsed for implementation Gradual adoption by development partners of the use of government systems	Stage 2 of the PFM reform plan under way with an emphasis on improving the alignment of expenditure with the SDS Increased shift by development partners to budget support
Enhanced economic contribution of SOEs	Action plan prepared for moving SOEs to full compliance with the Public Bodies (Performance and Accountability) Act on appointment of board members Liberalization of telecommunications sector	SOEs fully compliant with the Public Bodies (Performance and Accountability) Act on the appointment of board members SamoaTel privatized	SOEs fully compliant with the provisions of the Public Bodies (Performance and Accountability) Act on community service obligations and corporate planning Compliance with privatization schedule
Reduced cost of doing business		Refined Foreign Investment Act	Continued modernization planned for legislation affecting the establishment

Theme	Near-Term Actions (indicative: Dec 2009)	Short-Term Actions (indicative: Dec 2010)	Medium-Term Actions (indicative: Dec 2011)
		Establishment of Personal Property Securities Act	and operation of businesses
Targeted support for the most vulnerable members of the community	Immediate housing and other living needs of tsunami-affected communities met, and interim needs being addressed	Findings of the 2008 household income and expenditure survey publicized Concept paper on the needs of the vulnerable released and key interventions to address issues incorporated in the sector planning and programming process	Integrate into the next SDS actions that will provide better opportunities for the most vulnerable members of the community.
Consultation with and engagement of stakeholders	Public release of a communications and engagement strategy that explains key policy actions and provides for effective feedback from the private sector and civil society	Communications and engagement strategy being implemented to explain key policy actions and provide for effective feedback from the private sector and civil society	Refined communications and engagement strategy feeds into the preparation of the next SDS in a consultative and participatory manner.

Dec = December, FY = fiscal year, PFM = public finance management, PSIP = Public Sector Investment Program, SDS = Strategy for the Development of Samoa, SOE = state-owned enterprise.

Source: Government of Samoa, Ministry of Finance.

D. International Monetary Fund Assessment

16. In response to the balance of payments impact of the tsunami, the IMF released \$9.3 million under the Exogenous Shocks Facility in December 2009. The IMF estimated that its financing would help keep Samoa's official reserves at about 3.5 months of prospective imports (of goods and services), in line with past trends and a recommended temporary lowering of the official reserves target to 3 months of current imports. The IMF noted its support was not a substitute for concessional loans and grants but would play a catalytic role in securing needed financial assistance from ADB, the World Bank, and other development partners. The IMF highlighted the authorities' good track record in pursuing prudent fiscal policies and steadfast structural reform, and that policies have been consistent with IMF advice.¹⁰

17. The IMF also highlighted the authorities' swift response to the disaster and noted that recovery plans are consistent with safeguarding Samoa's social and economic progress and macroeconomic stability. It assessed fiscal policies to be appropriately focused on allocating development spending to infrastructure rehabilitation and allocating non-priority current spending to providing basic social services. The authorities' commitment to their strategy for managing public debt and to meeting the remaining financing needs primarily through concessional external financing and grants was seen as an anchor for macroeconomic stability. A debt-sustainability analysis concluded that even after taking into account the large deficits envisaged from FY2010 to FY2012, the debt outlook remained favorable and Samoa continued to be at low risk of debt distress.

¹⁰ IMF. 2010. *Samoa: Request for Disbursement under the Rapid-Access Component of the Exogenous Shocks Facility—Staff Report*. IMF Country Report No. 10/46. Washington, DC (February).

III. THE PROPOSED PROGRAM

A. Impact and Outcome

18. The impact of the program will be the achievement of higher and more inclusive economic growth. The outcome of the program will be the initiation of economic recovery with extra protection for the vulnerable and the country's fiscal position. The impact and outcome will be achieved by helping meet the government's budget financing needs, which have been increased by the 2009 tsunami, and through support for the government's policy agenda.

B. Policy Framework

19. The economic slowdown follows an extended period of economic growth. Political stability facilitated Samoa's implementation of far-reaching and important reforms that achieved good development results (Appendix 5). An early return to moderate rates of economic growth is possible and sustainable if the damage from the tsunami is quickly repaired and additional support is provided to the private sector. Tourism, agriculture, and fishing can be vibrant sources of employment and economic growth, building on Samoa's natural beauty, a well-educated labor force, and ample land and marine resources.

20. The tsunami intensifies the imperative to strengthen economic and fiscal management. Reconstruction is likely to provide a short-term economic stimulus, but only temporarily as it will be driven by a rise in the government's capital expenditure that will need to be wound back over the medium term. A deepening of policy action will improve economic prospects in tsunami-affected areas and help build the private sector so it can lead economic growth as the stimulus from government expenditure winds down. Stronger medium-term economic growth performance will be important for building the fiscal capacity needed to service public debt incurred in post-tsunami reconstruction.

C. Policy Actions

21. The ERSP provides for elevated government capital expenditure to undertake post-tsunami reconstruction and provide a short-term boost to the economy (output 1). Complementary policy actions will safeguard the overall fiscal position and enhance the quality of government expenditure (output 2). Structural and governance improvements will support medium-term prospects for economic growth by enhancing the economy's productivity (output 3). Policy actions will provide opportunities for the vulnerable to make economic growth more inclusive (output 4). The engagement of private sector and civil society stakeholders in public policy will be enhanced to deepen local awareness, understanding, and ownership of the ERSP (output 5). These five outputs will progress concurrently under the two subprograms of the ERSP.

22. The policy actions target economic growth led by the private sector.¹¹ At the macro level, the ERSP will assist the private sector by supporting aggregate demand and lessening the risk that fiscal stress will bring macroeconomic instability. At the micro level, the ERSP will emphasize ensuring sound public investment, continuing to rationalize state-owned enterprises (SOEs), improving the performance of those that remain under government ownership, ensuring effective competition in the economy, and thorough efforts to modernize the legal framework affecting the formal business sector to lower the cost of doing business.

¹¹ This reflects the government's recognition of the central role to be played by the private sector in promoting economic growth, as written into the SDS 2008–2012 and its most recent predecessors.

23. The policy actions of the ERSP are based on the near- and short-term actions of the government's own policy matrix and develop the foundation upon which the government can implement the priority actions for the medium term (Table 1).¹² The program is designed to remain within the existing capacity of the public sector, supplemented in certain areas by assistance from development partners. These design features are adopted to enhance country ownership and the sustainability of outcomes.

1. Output 1: Addressing Post-Tsunami Reconstruction

24. **Policy actions.** Subprogram 1 will support elevated capital expenditure in the FY2010 budget.¹³ Capital expenditure will follow the interim PSIP, which incorporates a costed tsunami recovery plan and continues to fund a portion of previously planned investments (e.g., road network upgrades, rural access roads, public buildings, energy projects, and sanitation improvements). Subprogram 2 will reinforce this in FY2011.

25. The FY2010 budget provides for a high level of capital expenditure for FY2010 and an associated high budget deficit (Table 2). Most of the capital expenditure for FY2010 was planned for roads, public buildings, and schools. The capital expenditure planned for FY2010 and the out years now needs to accommodate tsunami reconstruction.

26. A FY2010 first supplementary budget provided for an additional \$27.7 million in expenditure for priority tsunami relief and reconstruction activities, that will be largely funded from additional grants (Tables 3 and 4).¹⁴ The expenditure provided for by the first supplementary budget is in addition to tsunami relief and reconstruction activities funded from the original FY2010 budget appropriation.

27. To reflect the additional needs arising from the tsunami, an interim update of the PSIP was undertaken through the FY2010 first supplementary budget process.¹⁵ The update incorporated a costed tsunami recovery plan (Table 5). This plan drew on reconstruction proposals prepared by ministries and SOEs and was informed by the Damage and Loss Assessment and Early Recovery Framework prepared following the tsunami.

¹² The formulation of the ERSP has also drawn on diagnostics presented in ADB. 2007. *Samoa: Private Sector Assessment—Consolidating Reform for Faster Growth*. Manila; ADB. Forthcoming. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Manila.

¹³ That is to exceed estimated expenditure of ST140 million in FY2008.

¹⁴ Samoa Minister of Finance. 2009. *FY2010 First Supplementary Budget Address*. Apia (December).

¹⁵ Government of Samoa. *Public Sector Investment Programme FY2010-FY2013*. Apia (December).

Table 2: Key Macroeconomic and Budget Aggregates

Variable	Unit	FY2008	FY2009 (estimate)	FY2010 (budget)	FY2010 (estimate)	FY2011 (forecast)	FY2012 (forecast)
Macroeconomic aggregates							
Real GDP	% p.a.	5.0	(5.5)	(0.8)	...	(0.6)	1.1
Inflation (%)	% p.a.	5.6	15.0	1.5	...	4.0	4.0
Current account balance	% of GDP	(4.9)	(12.4)	(16.4)	...	(14.1)	(11.7)
Import cover	months of merchandise imports	4.5	5.1	5.3	...	5.4	5.2
Government revenue							
Revenue and grants	% of GDP	32.8	35.3	35.9	40.8	34.5	33.7
- tax revenue	% of GDP	23.1	23.7	22.3	22.3	22.6	23.1
- tax revenue (nominal)	% change p.a.	2.8	(1.6)	(5.2)	(5.0)	4.7	7.4
Government expenditure							
Total	% of GDP	34.4	42.7	47.0	52.2	45.1	41.2
Operating	% of GDP	24.9	27.3	29.0	34.2	34.5	31.8
- personnel costs	% of GDP	9.0	9.4	9.3	9.3	9.2	8.6
- personnel costs	% of operating expenditure	36.2	34.4	32.0	27.1	26.7	27.1
Capital	% of GDP	9.5	15.4	18.0	18.0	10.6	9.4
Budget balance	% of GDP	(1.6)	(7.5)	(11.1)	(11.4)	(10.6)	(7.5)
General government debt	NPV as % of GDP	26.4	27.8	35.5	35.7	42.0	45.3

() = negative, ... = not available, FY = fiscal year, GDP = gross domestic product, NPV = net present value, p.a. = per annum.

Sources: Government of Samoa budget addresses and fiscal strategies, various years; ADB estimates based on data from the Ministry of Finance.

Table 3: Additional FY2010 Grants for Tsunami Relief and Reconstruction

Source	\$ million
Australian Agency for International Development	7.7
New Zealand Agency for International Development	6.8
European Union	5.2
Asian Development Bank	1.0
Tsunami Relief Fund	2.0
Other	3.4
Total	26.1

Sources: ADB Staff estimates based on Samoa Minister of Finance. 2009. *FY2010 First Supplementary Budget Address*. Apia (December) and Legislative Assembly of Samoa. 2010. *Approved FY2010 First Supplementary Estimates of Receipts and Payments of the Government of Samoa for the Year Ended 30 June 2010*. Parliamentary Paper 2009–2010 No.88. Apia (January).

Table 4: Budget Financing (\$ million)

	FY2009 (estimate)	FY2010 (budget)	FY2010 (estimate)
Revenue and grants	175.1	190.4	216.8
Tax and non-tax revenue	136.2	133.4	133.6
Grants	38.9	57.0	83.1
Tsunami-related grants	0.0	0.0	26.1
other grants	38.9	57.0	57.0
Expenditure	212.3	249.3	277.1
Operating	135.7	154.0	181.4
Capital	76.6	95.4	95.7
Net lending	(37.2)	(58.9)	(60.3)
Net financing requirement	37.2	58.9	60.3
Gross borrowing	44.2	70.7	72.5
Concessional financing	37.0	64.2	60.9
Asian Development Bank	3.7	24.1	20.1
People's Republic of China	25.7	34.7	34.7
World Bank	5.8	3.7	3.7
Other sources	1.9	1.6	2.4
Other (cash and unidentified)	7.1	6.5	11.5
Gross amortization	4.9	11.8	12.2
<i>Memorandum items:</i>			
Concessional financing	37.0	64.2	60.9
Project based	37.0	44.2	44.9
Budget support ^a	0.0	20.0	16.0

() = negative, FY = fiscal year.

^a This constitutes budget support to be provided by the ADB. The gap between the final estimate and the original budget estimate for FY2010 is a result of the updating of budget estimates. A government request to the World Bank for \$20 million in budget support for approval in FY2010 is not incorporated into the table.

Sources: Government of Samoa, Budget Addresses and Fiscal Strategies, various years, and ADB estimates based on data from the Ministry of Finance.

Table 5: Tsunami Recovery Plan—PSIP Projects (\$ million)

Sector	FY2010 (estimate)	FY2011 (forecast)	FY2012 (forecast)	FY2013 (forecast)	Total
Water	1.9	3.0	1.9	0.0	6.7
Housing	3.4	0.0	0.0	0.0	3.4
Health	2.4	3.0	1.5	0.0	6.9
Education	1.9	3.7	2.2	0.0	7.8
Agriculture	0.9	0.7	0.2	0.0	1.9
Commerce	1.3	0.8	0.5	0.0	2.6
Electricity	1.9	4.4	4.5	0.0	10.7
Transport	5.6	9.0	11.2	26.5	52.2
Communication	0.7	1.9	0.7	0.0	3.4
Environment	1.3	0.6	0.9	0.0	2.8
Disaster risk management	0.6	1.1	1.1	0.0	2.8
Total	21.9	28.2	24.7	26.5	101.3

FY = fiscal year, PSIP=Public Sector Investment Program.

Sources: Government of Samoa. *Public Sector Investment Programme FY2010–FY2013*. Apia (December).

2. Output 2: Maintenance of Fiscal Responsibility

28. The output is directed to achieving the medium-term goals of fiscal discipline and improving transparency, accountability, efficiency, and equity in the use of public funds.

a. Maintenance of Overall Fiscal Discipline

29. **Policy actions.** Under subprogram 1, the FY2010 budget was prepared against a medium-term expenditure framework that included a fiscal strategy statement, the preparation of forward estimates, and a statement of government operations prepared in accordance with IMF's Government Finance Statistics standards.¹⁶ The subprogram ensured adherence by the FY2010 budget to the principle of responsible fiscal management of the Public Finance Management Act 2001; no rise in public sector salaries; and the preparation of an interim update of the medium-term expenditure framework to account for the impact of the tsunami. Taken together, these actions ensure a fiscally sustainable FY2010 budget. Subprogram 2 provides for maintaining a medium-term expenditure framework that is consistent with fiscal sustainability preserving low risk of debt distress as assessed by the IMF.

30. The government framed the FY2010 budget with the intent of easing and slowing down the pace of the shock arising from the global economic crisis. Balancing the short-term need and the need for fiscal restraint over the medium term, the budget was framed against the following elements:

- (i) investment in capital projects that would help stimulate growth, especially in construction;
- (ii) ensuring people's needs were met;
- (iii) prioritizing expenditures to ensure that the priorities stated in the SDS 2008–2012 were not overly compromised;
- (iv) maintaining public sector wage restraint (a salaries tribunal recommendation for a 10% civil service wage rise was not included in the FY2009 budget);
- (v) no additional revenue raising through tax increases, as this would further disadvantage businesses and consumers alike; and
- (vi) seeking assistance from development partners to provide some form of budget support to fund the expected deficit.

31. **Principles of fiscal responsibility.** Such decisions were guided by the principles of fiscal responsibility established in the Public Finance Management Act 2001:

- (i) management of total state debt at prudent levels to provide a buffer against factors that may adversely affect total state debt in the future;
- (ii) ensuring that within any borrowing program the total expenditures of the state are not more than total receipts (inclusive of borrowings) in that financial year;
- (iii) achieving and maintaining levels of the state's net worth that will provide a buffer against factors that may adversely affect the state's net worth;
- (iv) managing prudently the fiscal risks facing the state;
- (v) pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years; and

¹⁶ The government received technical assistance from ADB in support of these actions, in particular through the development of the Samoa economic and revenue forecasting model, assistance with medium-term fiscal framework development, the development of manuals and training in the preparation of government finance statistics, project planning and appraisal, and monitoring and evaluation. ADB. 2007. *Technical Assistance to the Independent State of Samoa for Support for the Formulation and Implementation of the Strategy for the Development of Samoa*. Manila (TA 7033-SAM, financed by the Japan Special Fund).

- (vi) ensuring that the policies stipulated in the SDS and fiscal policies approved by the cabinet are in agreement with the fiscal limit that will be applied to current and future expenditures on ministries and government projects.

32. **Fiscal strategy and medium-term expenditure framework.** The fiscal strategy of the FY2010 budget highlighted the potential for economic deterioration and the planned increase in capital expenditure to result in a budget deficit above the target range set in the SDS 2008–2012.¹⁷ This would result in turn in the government sector exceeding its target of 40% of GDP. Other key fiscal parameters, specifically those set for current expenditure and personnel costs, were projected to remain within the target range set in the SDS 2008–2012.¹⁸ Drawing on this assessment, and to ensure compliance with the principles of fiscal responsibility, the forward estimates of the FY2010 budget set out an adjustment path for key fiscal parameters.¹⁹

33. The FY2010 budget was only the second budget to present forward estimates of revenue and expenditure, which cover the 2 following years. These were summarized in a statement of government operations prepared in accordance with IMF's Government Finance Statistics standards. The inclusion of such estimates enables the government to better understand the medium-term impacts of its policy decisions and act to improve budget transparency.

34. The FY2010 supplementary budget provided an interim update of the medium-term framework, taking into account the fiscal pressures arising from the tsunami. It set a target of reducing government sector debt to 40% of GDP in FY2013.²⁰

35. **Expenditure adjustments.** Expenditure proposals for the FY2010 budget were subject to closer scrutiny, and some lower-priority initiatives were trimmed. Cuts were made to selected operating expenditure and minor capital items: all vacancies and new positions, except those prioritized by the budget committee and those under recruitment, will not be filled; allocations for travel, catering, and donations have been reduced; efforts were made to trim unnecessary fuel use, and all expenditure on new vehicles was removed; and overtime provisions were largely removed (except for ST1 million in overtime for key services, e.g., nurses and doctors) and replaced by flexitime arrangements.²¹

36. As part of expenditure control, the government made the politically difficult decision in FY2010 to reject the salaries tribunal recommendation for a 10% civil service wage rise and did not include any rise in public sector salaries in the budget.

¹⁷ The Public Finance Management Act 2001 requires that the budget be accompanied by a statement on the government's fiscal strategy. The statement is required to (i) include an assessment of the extent to which the budget statement is consistent with Samoa's current SDS; (ii) include an explanation of the reasons for any significant differences between the economic and financial situation of the state and the information and intentions presented in the current SDS and previous fiscal policy statement; (iii) where the circumstances have changed, present an amended set of intentions; and (iv) provide projections of movements in the key variables that demonstrate intended progress toward achieving the longer-term objectives specified in the current SDS and the fiscal policy statement, as well as stating the significant assumptions on which the projections are based.

¹⁸ Samoa Ministry of Finance. 2009. *Fiscal Strategy Statement Budget FY2010*. Apia (May).

¹⁹ Samoa Minister of Finance. 2009. *FY2010 Budget Address*. Apia (May).

²⁰ Samoa Minister of Finance. 2009. *FY2010 First Supplementary Budget Address*. Apia (December).

²¹ A controversial expenditure area in the FY2010 budget is the funding of the switch to driving on the left-hand side of the road, which occurred on 7 September 2009. The government adopted the switch to facilitate the importation of cheaper vehicles from New Zealand and Australia. A range of public and private costs were incurred in the switch (e.g., re-equipping and modifying vehicle fleets; changing road signage, road markings, traffic lights, etc.; and education and awareness programs). There was considerable public opposition to the switch. The switch itself occurred smoothly, though, and opposition to it has since dissipated.

37. **Key budget risks.** Government revenue was on target as of mid-FY2010. Careful attention will thus be needed to restrain operating expenditure to no more than budget levels in FY2010, ensure planned cuts are achieved, and avoid potential fiscal pressures from new expenditure initiatives. Most expenditure cuts were across the board, rather than tightly prioritized activities and agencies. It may also become necessary to reprioritize during the year to achieve the delivery of the most important budget outputs. Policy dialogue in the development of subprogram 2 will focus on these issues with the objective of mitigating risks and ensuring the maintenance of a medium-term expenditure framework that is consistent with fiscal sustainability by preserving low risk of debt distress as assessed by the IMF.

b. Enhanced Public Financial Management

38. **Policy actions.** Stage 1 of a public finance management (PFM) reform plan was initiated under subprogram 1. Subprogram 2 provides for completing stage 1 and initiating stage 2, as well as publicly releasing the 2010 IMF Article IV staff report. These actions are to improve transparency, accountability, efficiency, and equity in the use of public funds.

39. **Public finance management reform plan, 2008–2010.** The PFM reform plan, prepared to strengthening public financial management systems and promote the efficient use of public resources, was approved by the Cabinet Development Committee in September 2008.²² It was set up as a response to weaknesses in public finance management identified under Samoa's first Public Expenditure Financial Accountability assessment. A second assessment was carried out in February 2010 together with a Debt Management Performance assessment. The plan covers the legal and regulatory framework, institutional arrangements, management systems, and capacity development, adopting a sequenced approach to achieving fiscal discipline and improving the strategic allocation of resources.

40. Stage 1 focuses on improving the reconciliation and reporting of public accounts and the related strengthening of internal control systems, as the bases from which to proceed to higher-level reforms. Key actions undertaken as part of stage 1 include (i) the timely production of accurate public accounts against a target of ensuring that public accounts are finalized within 4 months of year's end; (ii) cash flow monitoring and management, including the Ministry of Finance's establishment of a cash management committee; (iii) strengthened audit, including the adoption of international audit guidelines and the adoption by the chief auditor's office of new audit standard manuals and methodological guidelines for quality control; (iv) strengthened procurement procedures, including the establishment and public release of new procurement guidelines and the preparation of standard tender and contract formats for works, supplies, and services;²³ and (v) improved arrears management. The cabinet created a PFM reform steering committee, including representatives of Ministry of Finance (MOF), the Ministry of Revenue, and the auditor general, responsible for overseeing and monitoring PFM reform plan implementation and reporting on progress.

41. **Revenue initiatives.** The PFM reform plan sets out intended reforms in revenue collection through (i) the restructuring of the tax administration sections in the Ministry of Revenue to improve efficiency and introduce a new client orientation, and (ii) the introduction of

²² The PFM Reform Plan (Stage 1) is funded by the Public Sector Investment Facility.

²³ The standard bidding documents for goods and works, as well as a procurement manual, are being reviewed by the ADB Central Operations and Services Office as part of the exercise to review national procurement procedures and to develop national competitive bidding procedures for Samoa.

a new database information system for income tax collection and monitoring with links to the automated system for customs data and Finance One, the budget system in use in Samoa.

42. **Next steps.** The PFM reform plan is seen as an evolutionary process that will be updated through annual reviews. The second stage of the PFM reform plan for 2011–2013 will improve transparency and efficiency in budgeting. The focus is to strengthen performance monitoring in the context of the further development of the 3-year rolling medium-term expenditure framework introduced in FY2009, including the formulation of sector-wide strategies and investment plans that will be used for setting output targets linked to budget allocations and monitoring sector performance. Under the PFM reform plan, the budget and planning committee in MOF is to be revitalized to review submissions from line ministries, provide advice on improvements required, and provide general policy support to strengthen output definition and performance monitoring. This will significantly enhance performance focus, line ministry engagement, and the effectiveness of the budget process. The next public expenditure and financial accountability assessment, planned for 2012, will provide an important input into the evolution of the reform plan.

3. Output 3: Productivity-Enhancing Structural and Governance Improvements

a. Enhanced Economic Contribution of SOEs

43. **Policy actions.** Under subprogram 1 the cabinet prioritized initiatives to raise the pace of SOE reform, implementation of an action plan commenced to move SOEs to full compliance by end-2010 with the Public Bodies (Performance and Accountability) Act 2001 on the appointment of board members, the liberalization of telecommunications sector was completed (by not renewing SamoaTel's exclusive license), a bill was endorsed by the Cabinet for the creation of the Office of the Power Regulator, and electricity tariffs were increased by 8.5% to bring them closer to the cost of operations. Subprogram 2 provides for the SOEs to be fully compliant by end-2010 with the Public Bodies (Performance and Accountability) Act 2001 on the appointment of board members, for the privatization of SamoaTel and gazettal of the legislation what will establish the Office of the Power Regulator.

44. There has recently been renewed commitment to improving SOE performance. This followed a subregional seminar on SOE performance sponsored by ADB in early 2009 to promote the findings of a comparative review of SOE reform performance in the Fiji Islands, Samoa, and Tonga.²⁴ A key result of the seminar was the March 2009 decision of the Samoa cabinet, sponsored by the Prime Minister, that (i) ministers and ex-officio board members must step down by June 2010, (ii) SOEs must achieve a minimum return of 7% or chief executive officers and boards face removal from office; (iii) community service obligations (CSOs) can be paid only with prior cabinet and MOF approval; and (iv) 50% of profits must be paid to the government as a dividend.

45. **Action plan on membership of SOE boards.** The action plan will move SOEs to full compliance with Samoa's Public Bodies (Performance and Accountability) Act 2001 in relation to board membership (the action plan is summarized in Appendix 6). The aim is to replace all members of Parliament and nonessential public servants on the boards of SOEs with

²⁴ ADB. 2009. *Finding Balance: Making State-Owned Enterprises Work in Fiji Islands, Samoa, and Tonga*. Manila. The seminar was sponsored under ADB. 2006. *Technical Assistance for Pacific Private Sector Development Initiative*. Manila (TA 6353-REG).

independent parties by end-2010.²⁵ These independent parties will be selected and appointed in accordance with the Public Bodies (Performance and Accountability) Act 2001 and associated regulations. All essential public servants appointees to boards—required, for example, for their technical skills or sector experience—will be appointed only in accordance with the legislation (schedule 3 of the regulations) and will not receive directors' fees. This requires some supporting legislative amendments, as 12 individual SOE acts prescribe the presence of ministers and ex-officio members on their boards. The action plan also provides for establishment of a process for selecting and appointing directors of SOEs and an Independent Selection Committee for the directors of SOEs.

46. **Telecommunications deregulation and privatization.** Wide-ranging reforms in telecommunications initiated in 2004 have allowed new entrants to be established in mobile telecommunications and the internet. Competition has driven the costs of international mobile phone calls down by 50%–67%, internet usage has blossomed, and total teledensity rose to an estimated 30 lines per 100 people in 2006—11 of them fixed line and 19 mobile (footnote 1). The opening of the telecommunications market to competition was completed in 2009 by allowing SamoaTel's sole license for the operation of an international gateway and its sole license for the operation of landlines to expire. Completing the privatization of SamoaTel, supported by the World Bank, is expected in first quarter of FY2010, will provide important funding for the government to meet medium-term budget needs.²⁶

47. **Power sector reform.** The power sector is to follow telecommunications along the path of progressive reform and opening to competition. The main near-term opportunities for competition are in proven renewable energy technologies (i.e., hydro, wind, solar, biomass, and geothermal). As an initial step toward competition, regulatory powers are to be separated from the electricity utility. A new electricity act was prepared under subprogram 1 to establish the Office of the Power Regulator. The act will be approved under subprogram 2 as a further step towards making the office operational. These reforms complement other actions under the Power Sector Expansion Project, which is supported by ADB and the governments of Australia and Japan.²⁷ The project provides for expanding generation capacity, improving the efficiency of transmission and distribution systems, reviewing the tariff structure, institutional strengthening in the electricity utility, and reviewing CSOs to be met by the utility.

48. The SDS 2008–2012 restates the government's commitment to retaining ownership only of those enterprises that have significant strategic, security, or social importance (Samoa Airport Authority, Electric Power Corporation, Samoa Ports Authority, Samoa Water Authority, and Samoa Shipping Corporation) and of improving the corporate governance and performance of SOEs. Nonstrategic SOEs are all considered under the SDS to be suitable for privatization, provided that appropriate regulatory frameworks are in place to ensure that service quality and cost are maintained or improved under private ownership.

49. **Next steps.** The SDS 2008–2012 provides for investigating the establishment of a single regulatory body or competition agency to take on the task of preventing the abuse of monopoly powers held by privatized SOEs, taking account of the role of the existing sector regulators and

²⁵ The extension of the original target date of June 2010 to end-2010 reflects the extra demands arising from tsunami relief and reconstruction.

²⁶ SamoaTel's equity alone was valued at \$25 million in 2008.

²⁷ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Asian Development Fund Grant, and Technical Assistance Grant to the Independent State of Samoa for the Power Sector Expansion Project*. Manila (Loan 2368-SAM, approved 21 November 2007, \$26.6 million). Supported by a loan from the Japan Bank for International Cooperation for \$38 million, an Asian Development Fund grant of \$15.39 million, and an AusAID grant of \$8 million.

the provisions of the Fair Trading Act. Such a body has the potential to modernize economic regulation across the economy and minimize the duplication of economic regulation functions across sectors. SOE performance can also be enhanced by improving the management of CSOs. In the past, the exact nature of CSOs and their rationale has not been clear, so estimating their benefits and costs and considering alternative delivery mechanisms has been difficult. The Public Bodies (Performance and Accountability) Act 2001 and its regulations contain a very clear and robust process for identifying, documenting, and costing CSOs. A draft new CSO policy has been prepared regarding the provision of electricity and water CSOs. Adherence to this process by boards and responsible ministers would achieve immediate improvements in the performance and accountability of SOEs and in the delivery of public services.

b. Reduce the Cost of Doing Business

50. **Policy actions.** The SDS 2008–2012 provides for reforming components of the legal framework that unnecessarily adds to the cost of establishing and operating a business. The government has made progress through the implementation of the Companies Amendment Act 2006. Subprogram 2 advances this agenda by refining the Foreign Investment Act 2000, including a review of the restricted list, and passage of the personal property securities bill. Prepared with ADB assistance, the bill will provide a modern legal framework for lending and debt collection (Appendix 3, section C5).²⁸

4: Output 4: Support the Vulnerable through Targeted Actions

51. The government recognizes that areas for improvement remain in setting priorities and targeting and delivering support services to the vulnerable. Under subprogram 1, the government has taken a number of practical steps that demonstrate its commitment to supporting the vulnerable. These are (i) meeting the immediate housing and other basic needs of tsunami-affected communities and addressing their interim needs; (ii) a housing program, now under way, to assist those affected by the tsunami; and (iii) cabinet approval of a school fee relief scheme at primary school level. Subprogram 2 builds upon these actions by supporting the creation of a framework for future support to the vulnerable, through providing for the preparation and release of a concept paper on the needs of the vulnerable and the incorporation of key interventions into the sector planning process. Additionally, the implementation of the school fee scheme will continue, and the findings of the 2008 household income and expenditure survey will be publicized. These actions will advance the broader agenda of ensuring that the provision of extra support for the most vulnerable members of the community is included among the core tasks of government.

52. **Immediate response to the tsunami.** The government responded early to the destruction caused by the tsunami. Extensive support was immediately provided to affected communities with humanitarian help from the international community. Temporary housing was provided, along with food, water, and clothing; extra health care was mobilized; and action commenced to reestablish public services. The response was coordinated by the Disaster Advisory Council, which was supported by the National Disaster Management Office and other government line ministries. An interagency standing committee was established under United Nations leadership, and by 6 October 2009 there were 35 international agencies participating actively in a cluster system (15 United Nations agencies, 17 international and national nongovernment organizations, and 3 bilateral partners).

²⁸ ADB. 2006. *Technical Assistance for Pacific Private Sector Development Initiative*. Manila (TA 6353-REG); ADB. 2009. *Technical Assistance for Pacific Private Sector Development Initiative, Phase II*. Manila (TA 7430-REG).

53. **The early recovery framework.** The government requested the preparation of an early recovery framework led by the interagency standing committee. The framework focuses on restoring the basic foundations that will allow people to begin to rebuild their lives and bridging the transition period from the relief phase to the recovery phase. It provides a detailed assessment of a range of sectors and activities taking into account the capacity, strengths, and resilience of both local communities and the government. The key areas of strategic intervention identified as requiring attention were resettlement, access to basic social services and infrastructure, livelihoods, disaster risk reduction in light of climate change, and the environment. Under this framework, assistance will target the needs of 5,274 affected people in an area with a total population of 11,121.

54. **Assistance for housing.** The efficiency of the response phase of the disaster led by the government and coordinated by the National Disaster Management Office, coupled with the localized impact of the tsunami, allowed for a speedy transition into an early recovery phase. The customary land tenure system meant that all people affected had access to plantation lands inland to which they moved immediately after the disaster. Many have expressed strong determination to remain there. This facilitated the quick commencement of the construction of permanent housing such as the traditional *fale*. The government has launched, with grant support from various donors, a housing subsidy scheme to allow tsunami-affected families to rebuild their houses.

55. **School fee relief scheme.** In response to the adverse impact of the global economic crisis on the vulnerable, the FY2010 budget announced the adoption of a targeted scheme to meet the cost of primary school fees over the medium term. The aim is to keep in school those who would otherwise drop out due to financial constraints—it has been estimated that around 10% of the school age population faces such a risk AusAID and NZAID are assisting the implementation of the scheme, which constitutes one of the few public programs that specifically target the vulnerable. The First Supplementary Budget FY2010 announced the fast tracking of this scheme which will allow for the non-payment of school fees for students in government and mission schools at the primary level. Importantly, Government is committed to fully funding the scheme on a graduating basis at the end of the first three years.

56. **Policy in support of the vulnerable.** Samoa has a very small official social welfare system, and Government policy towards meeting the needs of the vulnerable has emphasized employment creation and education (Appendix 7). The Senior Citizens Pension Scheme administered by the Samoa National Provident Fund provides T\$125/month to everyone over the age of 65, but is untargeted. Likewise, Government support for primary and curative health services, as well as support for education, generally does not specifically target the vulnerable. Public policy also implicitly relies on community and family-based support. Such support mechanisms remain strong in Samoa, as readily evidenced by the considerable support provided by Samoans living overseas following the tsunami. Nevertheless, they are better suited to addressing impacts that are localized or felt within a relatively small share of the population, as opposed to the generalized shock imposed by high inflation and the global economic crisis. The new impacts arising from the global economic crisis and then the tsunami add to the information gap on the definition of the ‘vulnerable’ and their needs. Actions will be taken under the ERSP to seek to fill this gap. A concept paper on the needs of the vulnerable will be released so that key policy actions in support of the vulnerable can be factored into the budget process and preparation of the next SDS. The wide distribution of findings from the latest household income and expenditure survey will support the policy formulation process.

5. Output 5: Consultation and Engagement of Stakeholders

57. **Policy actions.** Under subprogram 1, communications and engagement with key external stakeholders was enhanced to explain key policy actions, including (i) the government's response to the global economic crisis and the reconstruction needs of the tsunami, (ii) the priorities in the PSIP, (iii) the state of public finances and PFM reform, and (iv) government actions to address the needs of the most vulnerable. It further provides for effective feedback from the private sector and civil society. The enhanced engagement is to continue under subprogram 2.

58. The government already places considerable public finance and sector information in the public domain, publishing key documents and statistics on government websites in a timely and comprehensive manner. There is also a track record of public consultation on and participation in key development issues, such as in the development of SDSs. The enhanced communication and engagement efforts adopted through this program will build on this strong base. The program addresses lessons from ADB experience in implementing programs that developing local awareness, understanding, and ownership of programs is critical to their success.

D. Triggers for Subprogram 2

59. The development policy letter (Appendix 2) sets out the government's reform agenda for the next 2 years, building on reform momentum from subprogram 1. Triggers for subprogram 2 are described in the policy matrix attached to the development policy letter. The indicative milestones for subprogram 2 that can be monitored are listed in the design and monitoring framework (Appendix 1).

60. Building on reforms under subprogram 1, subprogram 2 is expected to be implemented in 2011, and, subject to Board approval, will be financed by ADB. Subprogram 2 will continue to focus on fiscal consolidation but with more attention to improving infrastructure investment and governance to sustain higher growth, as well as progress in other areas that may emerge from policy dialogue and engagement with the government in 2010 and 2011. The expected timeframe for processing subprogram 2 is only indicative, with allowance for delay.

61. While subprogram 2 contains targeted policy actions, the program cluster approach allows an appropriate policy response to unanticipated changes in the external environment. The conditions for releasing the subprogram 2 tranche will not be specified at the outset of the ERSP but will be determined in consultation with the government on the bases of lessons from subprogram 1. These conditions are likely to be in the policy areas set out in the subprogram 2 triggers. This approach will ensure that the ERSP is synchronized with the government's policy agenda and responsive to external environmental factors.

E. Responding to Lessons

62. The cluster approach responds to the lesson that program lending has not always been firmly based on an assessment of achievable rates of change and that its rigidity has contributed to program delays.²⁹ In this case, risk was heightened by the imperative for an early initial disbursement as a short-term boost to the economy. This heightened the risk that program

²⁹ Key sources of lessons are ADB. 2009. *ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila; ADB. 2001. *Special Evaluation Study on Program Lending*. Manila (November); ADB. 1999. *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*. Manila.

preparation would be too compressed. The cluster approach gives the ERSP flexibility to tailor the details and timing of policy actions to Samoa's circumstances during the formulation of the second subprogram. This has been achieved by allowing government and other development partners' resources to focus on the most immediate policy actions and making more time available for considering follow-on actions.

63. The creation of new structures and processes can erode country ownership and has therefore been avoided. The preparation of the ERSP has thus emphasized the use of existing institutional structures and enhancing existing systems and processes.

64. Country ownership and endorsement is facilitated by relatively simple scope that avoids the overly complex programs developed for the Pacific in the 1990s. Keeping the program realistic and firmly within the capacity of Samoa enhances prospects for sustainable impacts. The sequencing of actions has helped keep the scope simple, facilitating communication and encouraging broad endorsement of the program.

65. The recent ADB evaluation of its program lending in the Pacific highlights the importance to program success of encouraging the private sector. The ERSP responds to this by helping the private sector, at both the macro and micro levels.

66. Program lending evaluations have supported the basic rule that consultation with, and understanding by, affected groups and sectors helps create a climate for change and enhances the sustainability of public policy reform. The ERSP applies this principle by (i) being anchored in the SDS 2008–2012 and sector plans and the FY2010 budget; (ii) drawing on the diagnostic work of the latest Pacific Island economic report, which incorporated the findings of extensive consultation;³⁰ and (iii) including as one of five output areas actions to provide for public communication and ownership of economic and fiscal management initiatives. This alignment with government-led initiatives accords with commitments in ADB's country partnership strategy to focus on planning, capacity development, and institutional reform to support sustained infrastructure development.

67. The need for the long-term perspective and commitment identified by evaluation studies is recognized in the ERSP. The ERSP is seen as the next step in a long-term, sequenced reform process. Most policy actions build on earlier support from Samoa's key development partners. ADB shares the long-term commitment made by other development partners to secure sustainable economic growth and development in Samoa. ADB support continues with the provision through technical assistance (TA) of the specialist skills needed to advance the policy agenda. The policy matrix identifies medium-term program directions as guides to the support that could follow the ERSP.

68. Program design is built on (i) the wide-ranging diagnostic analysis presented in the draft *Samoa 2009 Social and Economic Report: Equity in Development* prepared by ADB (footnote 1); (ii) the policy framework presented in ADB's *Taking the Helm: A Policy Brief on a Response to the Global Crisis*;³¹ and (iii) an ongoing policy dialogue among the government, development partners, the private sector, and civil society representatives.

³⁰ ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Manila.

³¹ ADB. 2009. *Taking the Helm: A Policy Brief on a Response to the Global Crisis*. Manila (May)

F. Special Features

69. ADB support is harmonized with that of AusAID, the EU, NZAID, and the World Bank in response to the global economic crisis and the tsunami. All agencies are aligning support to the same government-led policy framework. The ERSP is also in line with the IMF's assessment of post-tsunami needs, notably concessional external financing and the pursuit of fiscal consolidation over the medium term.

70. Support for the vulnerable is a feature of the program in recognition of the extra hardship imposed by the tsunami, global economic crisis, and preceding episode of high international commodity prices. This support will facilitate a progressive reorientation of government programs to target the most vulnerable. It is proposed that the ERSP will link to a Japan Fund for Poverty Reduction grant for social protection that will support the piloting of social safety nets and associated policy development.³²

G. Financing Plan

71. The government has requested assistance in the form of a program cluster worth up to \$26.8 million equivalent and comprising two subprograms, one amounting to \$16.0 million equivalent and the other \$10.8 million equivalent. ADB will provide a loan in various currencies equivalent to \$16 million for subprogram 1 from its Special Funds resources. The program loan will have a term of 24 years including a grace period of 8 years with an interest charge of 1.0% per annum during the grace period and 1.5% thereafter. The remaining adjustment costs will be met by the government.

72. Loan size has been determined after due consideration of (i) the estimated impact of the global economic crisis and the tsunami; (ii) the national budget's projected financing requirement and the government's stated intention (as advised in the FY2010 Budget) to draw on ADB financing to help meet it; (iii) the significance and complexity of the ERSP policy actions; and (v) the ERSP's conformity with ADB's country partnership strategy, 2008–2012.³³ Loan size also recognizes the contribution that will be made to protecting the most vulnerable members of the community and the government's demonstrated commitment to implementing a policy agenda.

³² The proposed project will extend targeted support to vulnerable groups such as women, unemployed youths, and people living with disabilities through the development and piloting of semiformal social safety net models that build on existing informal community mechanisms. The proposed project will also provide for a participatory, country-led process of social-protection policy development to better identify and understand how to address the needs of the vulnerable.

³³ The country partnership strategy supports SDS implementation in alignment with the objectives of the Paris Declaration on Aid Effectiveness of 2005. The strategy focuses on poverty reduction by addressing binding constraints to growth through interventions related to (i) improving the delivery of public services, including by removing infrastructure constraints, and (ii) promoting private sector development. ADB. 2008. *Country Partnership Strategy: Samoa, 2008–2012*. Manila (September).

H. Implementation Arrangements

73. **Program management.** MOF will be the executing agency and oversee policy, legal, and regulatory actions, ensuring that the reforms agreed to by the government and ADB are duly carried out on time. TA resources will be provided to help the government meet the tranche conditions. MOF will also be responsible for the overall implementation of subprogram 1, including all policy actions, program administration, disbursements, and maintenance of all program records. A program coordinating committee, comprising MOF and the Central Bank of Samoa, has been established and will be responsible for coordinating similar programs prepared with development partners. The program coordinating committee will meet at least quarterly to monitor progress, oversee the implementation of the program, and guide and direct the activities of the executing agency. The committee will liaise with other sector committees and invite, as appropriate, line agencies of the borrower, ADB, and other development partners to participate in meetings to discuss program implementation issues.

74. **Development partner focus.** In addition to engaging in broad policy dialogue and monitoring, development partners have provided and will continue to provide support for specific areas of the policy matrix. ADB support has focused on SOE policy, the budget's medium-term expenditure framework, power sector reform, legislative reform to reduce the cost of doing business, and next steps in social protection. In the context of the policy matrix, AusAID and NZAID have been most prominent in the immediate response to the tsunami and follow-on alleviation of social impacts. The EU's area of focus has been PFM, while the World Bank has focused on telecommunications reform.

75. **Implementation period.** The program cluster period is from 1 March 2009 to 30 December 2011. The policy, legislative, organizational, and operational changes agreed to with the government and set out in the policy matrix will be put in place during this period. Subprogram 1 will be implemented from 1 March 2009 to 30 October 2010.

76. **Procurement and disbursement.** The proceeds of the loan will be disbursed to Samoa according to ADB's simplified disbursement procedures and related requirements for program loans.³⁴ The proceeds will be used to finance items produced and procured in ADB member countries, excluding items in the list of ineligible items (Appendix 8) and imports financed by other bilateral and multilateral sources. Loan proceeds disbursed against imports will require government certification that the value of all imports to Samoa, minus its imports from nonmember countries, ineligible imports, and imports financed under other official development assistance, is at least equal to or greater than the amount of the loan to be disbursed during a particular year.

77. The loan proceeds will be used to finance the full foreign exchange costs. Supporting import documentation will not be required if, during each year that loan proceeds are expected to be disbursed, the value of Samoa imports minus imports from nonmember countries, ineligible imports, and imports financed under other official development assistance is equal to or greater than the amount expected to be disbursed during that year. The government will certify its compliance with this formula with the withdrawal request.

78. In accordance with the simplified disbursement procedures and related requirements for program loans, all goods and services produced and originating in ADB member countries will be procured, with due consideration of economy and efficiency, in compliance with the

³⁴ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

government's standard public procedures and normal private sector commercial practices acceptable to ADB. Goods commonly traded on international commodity markets will be procured according to procedures appropriate to the trade and acceptable to ADB. Before withdrawal, the government will open or nominate a deposit account with the Central Bank of Samoa to receive the loan proceeds. The account will be managed, operated, and liquidated according to terms satisfactory to ADB. ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the government's certification.

79. **Tranches.** The program will be provided as a cluster loan comprising two subprograms, each a single tranche program. A single tranche loan of \$16.0 million equivalent will be disbursed under subprogram 1 when the government has met the conditions for effectiveness. Subprogram 2 will be presented for consideration and approval by ADB's Board of Directors depending on the progress achieved in implementing subprogram 1, including compliance with the proposed policy actions, and the readiness of the government to undertake the succeeding policy reform measures. A single tranche loan of \$10.8 million equivalent is expected to be disbursed under subprogram 2. Subprogram 2 is expected to be considered by the Board about 12 months after the subprogram 1 loan takes effect.

80. **Counterpart funds.** Local currency generated from the proceeds of the loans will be used to support public expenditure objectives under the program.

81. **Program performance monitoring and evaluation.** MOF will (i) establish within 3 months of loan effectiveness and then maintain a performance evaluation system for the program, which will be derived from the design and monitoring framework, policy letter, and policy matrix, and (ii) monitor and report to ADB, every 6 months during the term of the program, the implementation of policy actions and their impact on budget outcomes and public enterprise performance (including financial and performance indicators), in line with the program impact and outcome indicators agreed on with the government. As the outcomes and impact of the program will be felt most clearly beyond the period of its implementation, they will continue to be monitored by MOF. The monitoring of outcomes and impact will be useful to the government's own processes and decision making and, hence, is not an onerous requirement.

82. **Program review.** In cooperation with the government and in conjunction with reviews made under associated TA, ADB will periodically review the progress of implementation and assess the impact of the ERSP. The government will keep ADB informed of the outcome of policy proposals and policy discussions with other multilateral and bilateral agencies that have implications for ERSP implementation and will provide ADB with the opportunity to comment on any resulting policy proposals. ADB, in collaboration with MOF and other multilateral and bilateral agencies, will review program performance 6 months after loan effectiveness to review the outcome of subprogram 1 and begin preparing subprogram 2. This review will (i) evaluate the implementation of the policy reform under subprogram 1; (ii) assess the impact on each sector; (iii) describe lessons identified during the program period; and (iv) outline reforms and assistance needed for sustained economic recovery, to enable the processing of subprogram 2.

83. The government and ADB have agreed on a range of outcome and output indicators for monitoring ERSP implementation and evaluating its impact in the ERSP design and monitoring framework (Appendix 1).

84. A program completion report will be prepared for each subprogram, with an overall report to be prepared within 1 year following the end of the program to evaluate its overall

success. The government will continue to monitor and evaluate the program at least until the program completion report is prepared.

85. **Anticorruption Policy.** ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the executing agency. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program. To support these efforts, relevant provisions of ADB's Anticorruption Policy are made applicable during Program implementation including by requiring the Borrower to facilitate the exercise of ADB's right to audit and examine the records and accounts of the executing agency and all contractors, suppliers, consultants, and other service providers as they relate to the program.

IV. TECHNICAL ASSISTANCE

86. The ADB–World Bank Samoa country focal officer—appointed in October 2009, funded by the World Bank, and located in the joint ADB–World Bank country focal office—will provide an immediate point of contact for the program and provide technical support as required.

87. The TA on Pacific Economic Management supports economic monitoring, analysis, and policy advice in Pacific developing member countries, including Samoa.³⁵ The TA supports the strengthening of economic monitoring systems and uses this information to provide higher-quality economic advice. The TA focuses on assisting the formulation and implementation of country-specific actions in response to the global economic crisis. The scope of assistance extends to revitalizing economic management systems, including support for the implementation of communication and awareness-raising initiatives and the formulation and implementation of budget and structural reforms. This will extend assistance on fiscal management provided by the TA on Support for the Formulation and Implementation of the SDS, 2008–2012.³⁶

88. Under the TA for the Pacific Private Sector Development Initiative, ADB supports Pacific developing member countries, including Samoa, in coordinating private sector reforms; analyzing private sector development-related issues and projects; reforming companies, companies registry, and bankruptcy legislation; secured transactions initiatives; and actions to improve governance and restructure the SOE sector (footnote 28). Substantial TA has been provided previously to Samoa for the implementation of the Public Bodies (Performance and Accountability) Act 2001, including the preparation of regulations and road maps for SOE restructuring. The TA is expected to continue this support, with an emphasis on SOEs. Competition policy and legislative reform that reduces the cost of doing business will be supported.

89. ADB is supporting reform in the electricity sector through TA for Implementing the Samoa National Energy Policy, which is linked to a large power sector expansion project and a regional energy efficiency project (footnote 27).

90. Recognizing the lead role undertaken by the EU and the Governments of Australia and New Zealand to directly support PFM, and the support from the IMF's Pacific Financial

³⁵ ADB. 2009. *Technical Assistance for Pacific Economic Management*. Manila (TA 7280-REG, subprogram 1).

³⁶ ADB. 2007. *Technical Assistance to the Independent State of Samoa for Support for the Formulation and Implementation of the Strategy for the Development of Samoa*. Manila (TA 7033-SAM, financed by the Japan Special Fund).

Technical Assistance Centre, ADB has not focused on this area in Samoa.³⁷ Support is provided, however, on a regional basis to the Pacific Association of Supreme Audit Institutions, of which the Samoa Audit Office is a member.³⁸ Through that association, the Samoa Audit Office participates in the Pacific Regional Audit Initiative, which assists regional cooperation and coordination among Pacific audit agencies to build and sustain public auditing capacity. In addition, ADB supports the development of internal audit in the Pacific in conjunction with the IMF's Pacific Financial Technical Assistance Centre, initially in three pilot countries including Samoa.³⁹

91. Other development partners are providing substantial TA in support of other policy actions covered by the ERSP (Appendix 9). Notably, the World Bank has been a key source of support for telecommunications reform and the privatization of SamoaTel.

V. PROGRAM BENEFITS, IMPACT, AND RISKS

A. Benefits and Impact

92. **Economic.** The program will provide budget support to enable the government to stimulate the economy and thereby respond to the economic downturn caused by the global economic crisis. It will then support the recovery of the economy and the transition to faster and more inclusive economic growth. Investment in priority infrastructure projects will deliver the higher-quality and lower-cost services needed for economic growth and provide opportunities for local businesses to participate in service delivery.

93. **Social.** The program will help the government reduce the incidence of poverty and return the economy to its long-term growth path. An analysis of social and gender issues is in Appendix 7. Benefits will be accrued in the short term by mitigating the negative effects of the global economic crisis and, in the medium-to-long term, by implementing SOE reforms, which are expected to improve services. The summary poverty reduction and social strategy is in Appendix 10.

94. **Environmental.** Environmental benefits will arise from the implementation of the PSIP in the medium term, as it will allow the government to optimize the contribution of infrastructure to environmentally sustainable growth. The reformulated PSIP and post-tsunami reconstruction will reflect close attention to reducing the vulnerability of coastal communities to storms and other natural disasters, the incidence of which is expected to rise with climate change. SOE reforms will support more efficient and less wasteful resource use. An environmental assessment is in Supplementary Appendix A.

95. **Financial.** The program will encourage improved fiscal management and budgeting focused on priority expenditures. The progressive reform of SOEs and clarification of CSOs will remove unnecessary costs from the government budget. Improved cost efficiency in the provision of SOE services will lend fiscal space for the government's other social and development spending.

³⁷ ADB supports the operation of the Pacific Financial Technical Assistance Centre through ADB. 2008. *Technical Assistance for Pacific Financial Technical Assistance Centre 2008–2011*. Manila (TA 4212-REG).

³⁸ ADB. 2008. *Technical Assistance for Strengthening Governance and Accountability in Pacific Island Countries (Phase 2)*. Manila (TA 6499-REG, cofinanced by the Japan Special Fund and the Government of Australia).

³⁹ Support is provided under ADB. 2008. *Technical Assistance for Strengthening Public Financial Management in Pacific Developing Member Countries*. Manila (TA 6507-REG). The Cook Islands, Samoa, and Tonga are the three pilot countries.

B. Risks

96. The key risks are (i) insufficient capacity in the government to implement the program, (ii) reduced funding for capital expenditure because of a lack of restraint in government agencies regarding growth in current expenditures, (iii) impaired implementation of the medium-term fiscal framework because of a shortfall in external financing, and (iv) insufficient political and community support for the policy actions.

97. The program is designed to mitigate key risks. Explicit cabinet commitments will drive the allocation of financial and human resources to implementing the program and ensure that the budget is able to fund higher capital expenditure. Technical assistance will be available to implement important structural and governance policy actions and to support the budget and planning process. The program has been developed in close consultation with development partners to ensure a shared commitment to supporting the government's policy agenda and the preparedness of Samoa to secure external concessional financing. Community awareness and demand for the program will be reinforced through the communications and engagement strategy. The cluster approach will allow the deferral or reformulation of subprogram 2 if the pace of implementation or political commitment changes.

98. Full achievement of the program impact relies on (i) improvement in the global economy, (ii) a positive response from the private sector to improved economic conditions, (iii) continuing improvements in the performance orientation of government agencies, and (iv) the provision of complementary technical resources by development partners.

99. The potential benefits from reducing the impact of the global economic crisis and providing for post-tsunami reconstruction with supporting structural and governance initiatives are considered to outweigh the risks. Indeed, the costs of inaction could be substantial. They would be reflected in a continued decline in the fiscal situation, with resultant damage to the operations of the private sector and implications for the government's ability to fund basic social services such as health and education and address environmental concerns.

VI. ASSURANCES AND CONDITIONS

A. Specific Assurances

100. In addition to the standard assurances, the government has given the following assurances, which will be incorporated in the legal documents:

- (i) The government will (a) ensure that the policies already adopted and actions already taken as described in the development policy letter, including the policy matrix, continue in effect for the duration of the program period and subsequently and (b) promptly adopt all other policies and take all other actions indicated in the development policy letter, including the policy matrix, and ensure that such policies and actions continue in effect for the duration of the program period and subsequently.
- (ii) The government will keep ADB informed of relevant policy proposals and policy discussions with other multilateral or bilateral development partners that have implications for implementation of the program, keep ADB informed of the progress made in carrying out the policies and actions set out in the development policy letter and the policy matrix, and provide ADB with an opportunity to

comment on any resulting policy proposals. The government will continue policy dialogue with ADB on problems and constraints encountered during the implementation of the program and on desirable changes to overcome or mitigate such problems and constraints.

- (iii) Throughout the implementation of the program, the government will ensure that adequate resources are allocated and released in a timely manner in order to ensure the proper implementation of the ERSP as described in the development policy letter.
- (iv) The government will undertake the measures necessary to create and sustain a corruption-free environment; ensure that its anticorruption law and regulations and ADB's Anticorruption Policy are strictly enforced and complied with during program implementation; and facilitate ADB's exercise of its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the program.
- (v) The government will ensure that (a) within 3 months of loan effectiveness a performance evaluation system, acceptable to ADB, will be established and maintained and (b) the Ministry of Finance monitors and reports to ADB, biannually over the term of the program, the implementation of policy actions and their impact on budget outcomes and public enterprise performance (including financial and performance indicators), as aligned with the program impact and outcome indicators agreed upon with the government.
- (vi) The government will ensure that (a) its monitoring and evaluation of the program remains in effect for at least 1 year after the completion of the program and, (b) within 1 year of program completion, it will prepare a program completion report for the purposes of evaluating the program's overall success.

B. Conditions for Loan Effectiveness

101. The loan will become effective only after the government has satisfactorily fulfilled all conditions for the release of the single tranche of subprogram 1.

VII. RECOMMENDATION

102. I am satisfied that the proposed program cluster and loan would comply with the Articles of Agreement of the Asian Development Bank and recommend that the Board approve

- (i) the program cluster for the Economic Recovery Support Program; and
- (ii) the loan in various currencies equivalent to SDR 10,408,000 to the Independent State of Samoa for subprogram 1 of the Economic Recovery Support Program from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% thereafter; a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Haruhiko Kuroda
President

23 March 2010

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Higher and more inclusive economic growth path	Real GDP growth progressively raised toward the government's target long-term growth rate of 3.5% per annum by 2014 Relative standard of living of the most vulnerable groups in the community, disaggregated by sex, improved as measured by a rising expenditure share of the poorest quintile of households between 2008 and the next household income and expenditure survey	National accounts, government financial statistics, household surveys, population census and other statistical releases Monitoring reports for the SDS and supporting national plans and strategies	Assumptions Global economy begins to recover from the downturn during 2010 Private sector responds to improved economic conditions Risks Cyclones or other adverse weather events damage the economy Higher crude oil prices damage the economy
Outcome Economic recovery combined with protection of the most vulnerable and the fiscal position	Real GDP growth in FY2011 and FY2012 Scores on World Bank Governance Indicators (indicators for Government Effectiveness and Regulatory Quality) improve from their 2008 levels by 2012 Budget deficit on track to decline below 3.5% of GDP in FY2013 (projected at 11.1% for FY2010) Public sector assessed by IMF Article IV report as at low risk of debt distress in FY2010 and FY2012 Replacement of the SDS 2008-2012 places additional emphasis on meeting the needs of the most vulnerable members of the community (with special emphasis on the needs of disadvantaged females)	National accounts, government financial statistics, household surveys, population census and other statistical releases Monitoring reports for the SDS and supporting national plans and strategies Budget papers Government web sites IMF Article IV Staff Reports Donor economic and financial reporting	Assumptions Continued commitment of government agencies to improved performance Other development partners provide adequate, timely budget support and technical assistance to meet financing and human resource needs Risks Parliamentary and community support for the government's economic management weakens Government agencies fail to restrain low-priority current expenditure
Outputs 1. Post-tsunami reconstruction needs addressed	Capital expenditure in FY2010 to FY2012 exceeds FY2008 level (estimated at ST140 million) Government capital expenditure in FY2010 to FY2012 directed to the priority projects of a PSIP updated for post-tsunami reconstruction needs	Budget papers including Fiscal Strategy Statement Public Sector Investment Program Ministry of Finance Quarterly Economic Reviews	Assumptions Government prioritizes capital works based on economic returns Sufficient suitably qualified and experienced personnel available to manage the

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
2. Fiscal responsibility maintained	<p>Principles of fiscal responsibility of the Public Finance Management Act 2001 met in FY2010-FY2012</p> <p>Next Public Expenditure Financial Accountability assessment (conducted no later than 2012) shows overall improvement on the 2006 performance</p> <p>Public Financial Management Reform Plan updated by FY2012 for the results of 2010 and follow-on public expenditure financial accountability assessments</p>	<p>Statistics Bureau of Samoa Government Finance Statistics Report and national accounts</p> <p>Public accounts</p> <p>IMF Article IV Staff Reports</p> <p>Government web sites</p> <p>Ministry of Finance SOE Monitoring Unit</p> <p>TA and agency progress reports to government and ADB</p>	<p>expansion in capital works, structural initiatives and support for the most vulnerable, as well as to serve on SOE boards</p> <p>Risks</p> <p>Government has sufficient skills and capacity in government to implement the program</p> <p>Cost of targeting support to the most vulnerable is prohibitive or otherwise technically impractical</p> <p>Legal barriers prevent structural reforms</p>
3. Productivity enhanced by structural and governance improvements	<p>Consolidated rate of return on equity on SOEs above 2008 level (3.4%) by 2012</p> <p>Cost of landline calls below their 2008 levels by 2012 (per minute cost as of August 2008 of T\$0.05 for local calls, T\$0.18 for national calls and T\$1.31 average across international calls for Groups 1 to 4)</p> <p>Connection of at least one new private sector power generator to the grid by 2012, or preparations for connection well advanced (shown by issuance of a license to supply)</p>	<p>Cabinet submissions and cabinet approval as formally advised to ADB</p> <p>Results of consultative process and stakeholder feedback</p>	
4. Targeted support to the most vulnerable members of the community	<p>Immediate housing and other living needs of tsunami-affected communities met by March 2010</p> <p>5 new government programs established by 2012 that target the most vulnerable (with special emphasis on the needs of disadvantaged females)</p>		
5. Improved consultation and engagement of stakeholders	<p>User surveys of representatives of the private sector and civil society report an increase from 2008 to 2012 in the scope and effectiveness of the government's communication and engagement on key public policy issues</p>		

Activities with Milestones	Inputs
<p>Subprogram 1 (by April 2010)</p> <ul style="list-style-type: none"> 1.1 Implementation of an interim update of the Public Sector Investment Programme 2.1 Formulation and implementation of an updated, fiscally prudent medium-term expenditure framework 2.2 Implementation of the Public Finance Management Reform Plan (Stage 1) 3.1 Preparation of initiatives to raise the pace of SOE reform 3.2 Finalization of an action plan for updating the membership of SOE boards 3.3 Completion of the liberalization of the telecommunication sector 3.4 Finalization of proposals for an Office of the Power Regulator 4.1 Provision of support for housing and other living needs to tsunami-affected communities 5.1 Enhancement of communication and engagement with private sector and civil society <p>Subprogram 2 (indicative timeline of April 2011)</p> <ul style="list-style-type: none"> 1.1 Elevated capital expenditure maintained 1.2 Updating and implementation of the prioritized, rolling Public Sector Investment Programme 2.1 Formulation and implementation of an updated, fiscally prudent medium-term expenditure framework 2.2 Completion of the Public Finance Management Reform Plan (Stage 1) 2.3 Implementation of the Public Finance Management Reform Plan (Stage 2) 3.1 Implementation of the action plan for updating the membership of SOE boards 3.2 Establishment of the Office of the Power Regulator 3.3 Preparation and implementation of privatization plan for SamoaTel 3.4 Modernization of legislation affecting business establishment and operation 4.1 Conduct of a public dialogue on the needs of the vulnerable and the re-orientation of government programs to better meet their needs 4.2 Implementation of the outcome of the public dialogue 5.1 Enhancement of communication and engagement with private sector and civil society 	<p>ADB Loan of \$26.8 million equivalent. First subprogram single tranche 1 of \$16.0 million equivalent in April 2010; second subprogram single tranche of \$10.8 million equivalent (indicative timing of April 2011)</p> <p>Government Reform actions Financing for capital expenditure Budget management</p>

ADB = Asian Development Bank, FY = Fiscal year, GDP = gross domestic product, IMF = International Monetary Fund, MoF = Ministry of Finance, PFM = Public Financial Management, PSIP = Public Sector Investment Programme, SDS = Strategy for the Development of Samoa 2008–2012, SOE = state-owned enterprise, TA = Technical Assistance.

Source: ADB staff estimates.

DEVELOPMENT POLICY LETTER AND POLICY MATRIX



GOVERNMENT OF SAMOA

OFFICE OF THE MINISTER OF FINANCE

Ministry of Finance, Central Bank of Samoa, Development Bank of Samoa, Samoa National Provident Fund, Samoa Life Assurance, Samoa Housing Corporation, Tenders Board, Samoa International Finance Authority, Cabinet Development Committee

1

17 March, 2010

Mr. H. Kuroda
President
Asian Development Bank
6 ADB Avenue
Mandaluyong, Metro Manila
Philippines

Dear Mr. Kuroda,

Re: The Economic Recovery Support Program

Samoa has been one of the better performing economies in the Pacific, though it remains vulnerable to natural disasters and other exogenous shocks that adversely impact remittance flows and tourism on which the economy largely depends. Growth at an average 4.0% per annum in 2000–2008 has been underpinned by economic and public sector reforms begun in the mid-1990s. The long-term reform process has been supported by the Asian Development Bank (ADB) from the beginning, and has been sequenced according to a series of national development strategies.

The *Strategy for the Development of Samoa (SDS), 2008-2012: Ensuring Sustainable Economic and Social Progress* is the current strategy guiding our national development and response to the emerging challenges to the achievement of our vision of "improved quality of life for all". To achieve the SDS vision, 7 objectives are identified:

- (i) sustained macroeconomic stability;
- (ii) private sector led economic growth and employment creation;
- (iii) improved education standards;
- (iv) improved health standards;
- (v) community development: social harmony;
- (vi) improved governance; and
- (vii) environmental sustainability and disaster risk reduction.

Achieving the goal of private sector-led development requires the Government to provide a conducive macroeconomic environment, critical physical and social infrastructure, and a strengthened governance environment. The successful execution of these functions in turn

requires improvement in the efficiency and effectiveness of the public sector in order to ease the constraint imposed by limited domestic capacity at the individual and institutional level.

The global economic crisis has created additional challenges for Government. The crisis placed at risk the manufacturing, and tourism sector growth on which the Samoan economy is so dependent, as well as remittance flows from Samoans living abroad. The economy contracted by 5.0% in the last fiscal year FY2009, largely as a result of manufacturing contraction, with employment declining by over 9% and a number of major businesses closing down. Further contraction of 2.3% is expected in 2009-10, and further unanticipated stress has been caused by the devastating earthquake and subsequent tsunami of 29 September 2009.

Government tax revenue in FY2009 was 4.7% below original budget estimates and 1.7% below the actual level of FY2008. Domestic revenue (tax plus non-tax) increased by only 0.9% in a high inflation environment. A further fall of 0.9% in tax revenue is projected in FY2010, and domestic revenue is projected to drop by 5.5% because of a decline in non-tax revenue. These revenue falls have placed considerable pressure on Government's public expenditure programs.

In response, our FY2010 Budget has set short-term fiscal priorities that are aligned with the *SDS 2008-2012*, as follows:

- (i) investment in capital projects that will help stimulate growth;
- (ii) ensuring people's needs are met;
- (iii) prioritizing expenditures to ensure achievement of the development objectives of SDS is not compromised;
- (iv) maintaining public sector wage restraint (a Salaries Tribunal recommendation for a 10% civil service wage rise was postponed);
- (v) avoiding tax increases that would further dampen business and consumer confidence; and
- (vi) seeking assistance from the donor community to provide budget support, so that fiscal expansion does not place undue pressure on inflation and the balance of payments.

Government acted early to respond to the destruction caused by the earthquake and tsunami. Extensive support was provided immediately to affected communities with international assistance. An Early Recovery Framework was prepared to provide a detailed assessment of a range of sectors and activities that take into account the capacity, strengths and resilience of both local communities and the Government. The key areas of strategic intervention are resettlement and access to basic social service and infrastructure, livelihoods, disaster risk reduction and climate change and the environment. Under this framework, assistance will target the needs of 5,274 affected people mainly in an area with a total population of 11,121 located intersperse on the south-western, southern and eastern coast of Upolu Island.

A Damage and Loss Assessment was prepared with the assistance of the World Bank and other development partners. The damage and loss assessment identified damages at T\$163 million and losses at T\$97 million, giving a total direct impact on the economy of T\$260 million (equivalent to 17% of annual gross domestic product (GDP) or around US\$100 million). It is estimated that around 58% of the damages and losses (T\$150 million) will be borne by the public sector, and shared by the government and State-owned enterprises. The Government's

recovery plan was derived out of the Early Recovery Framework and Damage and Loss Assessment and is the basis for the Supplementary Budget approved in January 2010.

The Government of Samoa will continue to lead the implementation of its recovery plan in close collaboration with its development partners, non government organizations and communities.

The Supplementary Budget approved in January 2010 provides a guide to tsunami rehabilitation and reconstruction and identified funding sources. The recovery plan is integrated into the medium term expenditure framework, and will be linked to a revised Public Sector Investment Plan. It is Government's intent to fund the additional expenditure planned for FY2010 to FY2012 through a mix of grant and concessional loan financing. Against this background, the Government is prepared to review existing medium term spending plans in consultation with development partners in order to redirect to the extent possible funds to rehabilitation. This would not only close the financing gap in outer years but also mitigate capacity constraints in public sector administration.

The attached Policy Matrix sets out a Program of reform to which the Government of Samoa is committed and for which ADB's partnership is sought in the form of a US\$26.8 million cluster program loan, comprising two subprograms of US\$16.0 million and US\$10.8 million respectively drawing on ADB's Asian Development Fund resources. The Program will enable the Government to address a recovery response to the economic slowdown that was exacerbated by the adverse impacts of the global economic crisis as well as post-tsunami reconstruction needs.

The specific proceeds of the subprogram 1 loan will support increased capital expenditure set out in the FY2010 Budget. Increased construction activity will lift aggregate demand and economic activity. Targeted actions will support the most vulnerable members of the community in this difficult time. Government commits to strengthen state owned enterprise reforms, reduce the cost of doing business and further improve public financial management while maintaining overall fiscal discipline. The subsequent subprogram 2 will have a similarly structure to subprogram 1, allowing for a deepening of policy actions in the areas addressed under subprogram 1.

The policy actions adopted under the Program loan reflect the national priorities as laid out in the *SDS 2008-2012*. The implementation of these policy actions will enable the achievement of a higher and more inclusive economic growth path. The outcome will be initiation of economic recovery and reform of state owned enterprises combined with protection of the most vulnerable and the fiscal position.

Furthermore, the government is committed to the consolidation of its plans to enhance communications and engagement of the public in key policy actions. Currently, the development and review of the national development strategy involves a wide consultative process nation wide and by focus groups. Non-Government Organizations (NGOs) are also represented on the Cabinet Development Committee and it is at this forum that priorities of the Public Sector Improvement Programme are determined. In order to ascertain what the government response would be to the economic crisis, consultations with the private sector including the non formal sector were held after which feedback and recommendations were provided to the government. Business forums are also conducted twice annually in order to gauge what the private sector identifies as priority areas for support under the private Sector Support Facility. Similarly NGO forums are held for the same purpose of articulating priorities under the Civil Society Support Facility. Both facilities are multi donor funded together with the government. The government is

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cognizant of the fact that effective partnerships and information sharing are vital to the development process. In this regard, the government through the Ministry of Finance actively involves the public including the development partners in the international assessments of public finance management but also shares the findings with them as well. The Ministry of Finance has scheduled budget consultations with the private sector and NGOs for the next financial year thus renewing its commitment to such a process as it used to do in the past. Media freedom in the country provides the opportunity for open and public debate on policy issues. The national information and communication strategy highlights the importance of information sharing and all government entities are required to establish websites to provide such a service.

I am confident that our strong ownership, supported by financial and technical assistance from ADB and other development partners, will assist us to achieve these reform goals.

The Government commits to the policy actions to be taken prior to subprogram 1 single tranche release as set out in the attached Policy Matrix.

Yours sincerely



Hon. Niko Lee Hang
Minister of Finance

Attachment A: Policy Matrix

Table A2: Policy Matrix

Output	Policy Actions under Subprogram 1 Single Tranche Release (April 2010)	Triggers for Subprogram 2 Single Tranche Release (indicative timeline April 2011)	Medium Term Direction
Output 1: Addressing post-tsunami reconstruction	1.1 Elevated level of capital expenditure in FY2010 (exceeding the estimated FY2008 level of ST140 million) implementing an interim PSIP that incorporates a costed tsunami recovery plan <i>(MoF to provide to ADB budget papers and supplementary budget papers for the Parliamentary approved budget for FY2010 and an interim Public Sector Investment Programme)</i>	1.1 Elevated level of capital expenditure in FY2011 (exceeding the estimated FY2008 level of ST140 million) implementing an interim PSIP that incorporates a costed tsunami recovery plan	The PSIP is maintained as a rolling plan in support of the SDS 2008-2012
Output 2: Maintenance of fiscal responsibility	<p>2.1.1 FY2010 budget applies a medium-term expenditure framework including preparation of forward estimates, a Fiscal Strategy Statement FY2010 and a Statement of Government Operations in accordance with the IMF's Government Finance Statistics standards <i>(MoF to provide to ADB budget papers and supplementary budget papers for the Parliamentary approved budget for FY2010)</i></p> <p>2.1.2 No rise in public sector salary levels in FY2010 <i>(As confirmed to ADB by MoF)</i></p> <p>2.1.3 FY2010 budget adheres to the principle of responsible fiscal management of the Public Finance Management Act 2001 <i>(MoF to provide to ADB budget papers and supplementary budget papers for the Parliamentary approved budget for FY2010)</i></p> <p>2.1.4 Interim update of the medium term expenditure framework to account for the impact of the tsunami <i>(MoF to provide to ADB budget papers and supplementary budget papers for the Parliamentary approved budget for FY2010 including an updated medium term expenditure framework)</i></p>	2.1.1 Medium term expenditure framework remains consistent with maintaining a low risk of debt distress as assessed by the IMF	Maintenance of overall fiscal discipline
	2.2.1 Stage one of the PFM Reform Plan underway that emphasizes accounting, audit, procurement and debt and cashflow management <i>(MoF to provide to ADB a certified extract of Public Sector Investment Facility Committee minutes confirming approval of the PFM Reform Plan, and to confirm commencement of implementation)</i>	<p>2.2.1 Stage one of the PFM Reform Plan nearing completion and stage two endorsed by Cabinet for implementation</p> <p>2.2.1 2010 IMF Article IV Staff report publicly released</p>	Enhanced PFM

Output	Policy Actions under Subprogram 1 Single Tranche Release (April 2010)	Triggers for Subprogram 2 Single Tranche Release (indicative timeline April 2011)	Medium Term Direction
Output 3: Productivity enhancing structural and governance improvements	<p>3.1.1 Cabinet approved initiatives to raise the pace of SOE reform: (i) Ministers and ex-officio board members must step down; (ii) SOEs must achieve minimum of 7% return, or CEOs and boards will face removal from office; (iii) community service obligations can only be paid with prior cabinet and MoF approval; and (iv) that 50% of profits must be paid to government as dividend <i>(Secretary to Cabinet to provide to ADB a certified extract of Cabinet minutes confirming approval)</i></p> <p>3.1.2 Commencement of the implementation of the action plan to move SOEs to full compliance by end-2010 with the Public Bodies (Performance and Accountability) Act 2001 on the appointment of board members, through Cabinet approval of: a process for selecting and appointing directors of SOEs; and the establishment and appointment of members of an Independent Selection Committee for the directors of SOEs <i>(MoF to provide to ADB a copy of the action plan and Secretary to Cabinet to provide to ADB a certified extract of Cabinet minutes confirming approval)</i></p> <p>3.1.3 Completion of liberalization of telecommunications sector through non-renewal of SamoaTel's exclusive license <i>(MoF to confirm expiry of SamoaTel's exclusive license(s))</i></p> <p>3.1.4 Bill approved by Cabinet to create the Office of the Power Regulator <i>(Secretary to Cabinet to provide to ADB a certified extract of Cabinet minutes confirming approval and MoF to provide extracts of the Bill)</i></p> <p>3.1.5 8.5% increase in electricity tariffs charged by the Electricity Power Corporation to bring tariffs closer to the cost of operations <i>(MoF to confirm 8.5% increase in electricity tariffs)</i></p>	<p>3.1.1 SOEs fully compliant by end-2010 with the Public Bodies (Performance and Accountability) Act 2001 on the appointment of board members</p> <p>3.1.2 SamoaTel privatized</p> <p>3.1.3 Gazettal of legislation providing for creation of the Office of the Power Regulator</p>	Enhanced economic contribution of SOEs
		<p>3.2.1 Refinement of Foreign Investment Act</p> <p>3.2.2 Passage of the Personal Property Securities Act</p>	Reduced cost of doing business

Output	Policy Actions under Subprogram 1 Single Tranche Release (April 2010)	Triggers for Subprogram 2 Single Tranche Release (indicative timeline April 2011)	Medium Term Direction
Output 4: Targeted support for the most vulnerable members of the community	<p>4.1 Immediate housing and other basic needs of tsunami affected communities met and interim needs being addressed <i>(MoF to provide to ADB quantitative information on numbers of affected persons and households and support delivered to these in regard to shelter, water, food and basic medical services)</i></p> <p>4.2 Housing program underway to assist those affected by the tsunami <i>(As confirmed to ADB by MoF)</i></p> <p>4.3 Cabinet approves school fee scheme <i>(Secretary to Cabinet to provide to ADB a certified extract of Cabinet minutes confirming approval)</i></p>	<p>4.1 Concept paper on the needs of the vulnerable prepared and released and key interventions to address issues incorporated into the sector planning/programming process</p> <p>4.2 School fees scheme implemented for 2010 school fee</p> <p>4.3 Findings of the 2008 household income and expenditure survey publicized</p>	Provision of extra support for the most vulnerable members of the community included within core tasks of government
Output 5: Consultation and engagement with stakeholders	<p>5.1 Consolidation of plans to enhance communication and engagement of the private sector and civil society on key policy actions, inclusive of:</p> <ul style="list-style-type: none"> (i) the Government's response to the global economic crisis and the reconstruction needs of the tsunami; (ii) the priorities in the PSIP; (iii) the state of the public finances and PFM reform; and (iv) government actions to address the needs of the most vulnerable. <p><i>(As confirmed to ADB by MoF)</i></p>	<p>5.1 Enhanced communication and engagement with the private sector and civil society on key policy actions</p>	Improvement in the contribution of all stakeholders to the formulation and implementation of public policy

ADB=Asian Development Bank, FY2009 = 2008/09, IMF = International Monetary Fund, MoF = Ministry of Finance, PFM = public financial management, PSIP = public sector investment programme, SDS = Strategy for the Development of Samoa, SOE = state-owned enterprise
Source: Independent State of Samoa, Ministry of Finance.

ECONOMIC ANALYSIS

A. Samoa's Economic Vulnerability

1. Samoa's natural resource endowment supports agriculture, fishery, and tourism development, but it faces constraints imposed by a small domestic market and high shipping costs.¹ Other constraints to private sector development emanate from weaknesses in the legal and regulatory environment within which business operates, inefficiencies in the state-owned enterprise (SOE) sector, and weaknesses in physical infrastructure. Badly needed reforms of SOEs have been slow and have yet to be completed.

2. The result is an economy that is narrowly based and highly dependent, on imports, with merchandise imports 10 times greater than merchandise exports. The balance of payments relies heavily on the continued inflow of private remittances, official grants, and international tourism receipts. This exposes Samoa to the effects of economic downturns in its major trading partners—Australia, New Zealand, and the United States—which are also the main sources of tourist arrivals and remittances. The exposure was highlighted by the impacts of the global economic crisis, which contributed to a 5.5% contraction in the real economy in FY2009. In addition, Samoa is highly exposed to adverse weather, natural disasters, and crop disease.

3. Samoa's economic vulnerability was demonstrated by the need to rebuild the Samoan economy after two major cyclones in the early 1990s that saw the ratio of government expenditure to the gross domestic product (GDP) peak at more than 80% in fiscal year (FY) 1993. This was followed by the outbreak of taro blight that damaged local food production and exports. More recently, in January 2004, Samoa was hit by tropical cyclone Heta, which severely damaged agriculture and caused inflation to rise above 16% during the year. The damage caused by the earthquake and cyclone in September 2009 further demonstrates Samoa's exposure to factors beyond its control.

4. Yet Samoa has overcome these potential limitations and is widely regarded as a "success story of the Pacific."² The government began introducing major economic and public sector reforms in the early 1990s, in the wake of a series of crippling disasters.³ It has persisted, steadily broadening and deepening reforms to achieve a major economic transformation. On average, real GDP per capita has increased by more than 3% per year since the mid-1990s, and external public debt has fallen below 40% of the GDP. These achievements are enabling Samoa to graduate from the ranks of least-developed countries despite its economic vulnerability.

B. Economic Prospects

5. The recent shocks occurred against a background of considerable progress in achieving social and economic development. Thanks to political stability, the country has been able to implement far-reaching and important reforms. Despite the inherent constraints imposed by Samoa's size and location, it has identified and realized opportunities for sustained growth. Further advancement can be attained through measures to advance the role of the private sector in the economy. Agriculture and tourism can be vibrant sources of employment and

¹ This appendix draws on ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Draft. Manila. and ADB. 2008. *Samoa: Private Sector Assessment—Consolidating Reform for Faster Growth*. Manila.

² International Monetary Fund. 2007. *Staff Report on Article IV Consultations*. Washington D.C.

³ For example, a value-added tax was introduced in 1994, structural reforms were introduced to promote competition and private sector development, several SOEs were privatized, and institutional reforms were implemented progressively across the public service.

growth, but this requires further efforts to develop an appropriate enabling environment for investment in these sectors, equitable and efficient economic policies, and continued reductions in government involvement in commerce, particularly in agriculture.

6. However, substantial constraints exist on private sector development and effective public service delivery. These stem from (i) physical infrastructure deficiencies, particularly in power, transport, drainage, and sanitation; (ii) the broad engagement of the state in the economy, crowding out the private sector and in many areas providing only weak public goods; (iii) underdeveloped financial markets; and (iv) weaknesses in the private sector-enabling environment. Further, capacity and institutional weaknesses constrain sustainable development.

7. Removing these binding constraints would facilitate sustainable and broad-based economic growth that would generate employment and resources for public services, which are required to enable inclusive development and growth and alleviate poverty and hardship. To realize its potential growth prospects, Samoa must face the fundamental development challenge of generating private sector-led growth in output and employment and thereby raise living standards and reduce hardship.

8. Samoa has demonstrated its capacity to meet these challenges by being one of the leaders in policy reform in the Pacific. The environment for doing business in Samoa has improved consistently since the mid-1990s. Macroeconomic and fiscal stability, liberalized financial markets, public service reforms, reduced government presence in commerce, improved infrastructure, and increased liberalization of the telecommunications and aviation markets have significantly improved the business environment. This has been manifested in the fastest sustained growth in the region and a sharp improvement in Samoa's human development indicators. However, despite substantial policy improvements, much remains to be done to overcome natural and artificial impediments and achieve sustainable economic growth.

C. Constraints and Key Issues

1. The Role of the State in the Economy

9. The public sector still accounts for a substantial portion of overall expenditure in Samoa, with government spending equivalent to 40% of the GDP. The state continues to play a substantial role in the Samoan economy through SOEs, which include a range of commercial businesses that employ 10% of the workforce. The supplies most infrastructure services, plays a substantial role in agriculture, and runs a number of businesses. Financial returns are generally low or negative.

10. Further, in some sectors, particularly electricity generation, legally implemented monopolies raise costs and reduce productivity. More generally, the high cost and poor quality of public services that are provided either directly by the state or by public enterprises present obstacles to private sector development. Electricity costs are among the highest in the Pacific, reflecting the rising cost of fuel, inefficient tariff structure, and management shortfalls in the state-owned monopoly. Moreover, unreliable power provision is a standard complaint of the business community. While treated water charges are comparatively low, service remains erratic.

11. These costs depress the competitiveness of export industries, while the capacity constraints of state-owned utilities restrain investment growth in productive sectors. Operation and maintenance of infrastructure present much greater scope for private sector involvement.

Further, the government's continued acceptance of noncommercial stewardship of large parts of the public enterprise portfolio, particularly the public trading bodies, crowds out the private sector and exposes the government to significant risk and direct costs.

12. Compared with the past, however, there has been a strong downward trend in the state's involvement in the economy. If the intentions of the government with respect to future policy are carried out, public sector expenditure will continue to decline and competition will gradually be introduced through contracting out. Although the government's intention is to retain 100% ownership of the major infrastructure SOEs, policy is to be directed toward allowing private sector participation in partnership with these SOEs.⁷

13. The benefits of lessening the engagement of the state in business have been shown in the returns from reforming telecommunications and transport, in which Samoa has been one of the leaders in the region. The sale of the international routes of Polynesian Airlines was completed in October 2004, and the benefits from these reforms continue to flow through to the tourism sector. Efforts to open the economy have also arisen from the arrival of Digicel, having a dramatic impact on the cost of telecommunications. The sale of the international routes of Polynesian Airlines lowered the cost of air travel to Samoa overnight, and the number of tourists has increased dramatically. Privatization is continuing, with Samoa Broadcasting Corporation already privatized and SamoaTel scheduled for privatization in 2010.

2. Economic Infrastructure

14. The provision of adequate economic infrastructure services is crucial to the creation of an attractive investment climate. The issues are demonstrated by the situation in the power sector. Blackouts, brownouts, high tariffs, and the weak finances of the Electric Power Corporation are problems that need to be addressed. A long-term program for reforming the electricity sector is needed that encompasses tariff adjustment and structure, institutional strengthening of the Electric Power Corporation, opening up power generation to private sector competition in a new regulatory framework, and a review of the customary service obligations that the Electric Power Corporation has to meet that addresses costing and reimbursement mechanisms. The government should make it a priority to pass the electricity bill, which sets up an independent regulator. This would be an important step in improving the performance of the Electric Power Corporation.

3. Property Rights and Land Issues

15. About 80% of the land in Samoa is under customary ownership, 16% is owned by the government, and 4% is freehold. Tackling the problems of a customary system is difficult and highly sensitive. Land issues lie at the core of the Samoan way of life, and it is unsurprising that the government has moved cautiously in addressing them. The current system of customary tenure has, however, a strong and deleterious impact on investment. Nevertheless, discussion of land issues is moving forward toward a system that will allow those wishing to lease their land to identify themselves to the government, who will keep a database for investors. In doing this, it is important that lease arrangements allow the lessors to benefit if businesses located on their land are successful, perhaps through royalty payments. A further impetus for reform is that anomalies exist that appear to have little bearing on the foundations of the customary land system. For example, leases for agriculture are not available for Samoans without title but are

⁷ The Samoa Water Authority, Electric Power Corporation, Samoa Port Authority, Samoa Airport Authority, and Samoa Shipping Corporation. The soon-to-be-formed Samoa Land Transport Authority is expected to have "strategic" status, but SamoaTel is open to privatization.

permitted for companies and foreigners. This penalizes Samoans and holds back land leasing in general and agriculture in particular.

4. Financial Markets

16. Financial markets in Samoa are still underdeveloped. Weak property rights, the lack of a collateral framework, difficulty in collecting debts, and poor credit information hamper the funding of investment and entrepreneurship. However, work on a new framework for secured transactions has begun with ADB support. The legal framework for lending and debt collection is in the process of being modernized with the drafting of a Personal Property Securities Act and accompanying regulations. The act will allow the pledging of movable property as security for lending by companies and individuals and simplify and speed up the debt collection process.

17. With a well-functioning collateral framework in place, bank lending will have a stronger foundation and the range of potential clients should increase. The embryonic credit bureau and the debt-collection company are making progress and could provide an additional building block for developing the financial market. ADB's proposed subordinated convertible bonds and technical assistance to one of the commercial banks in Samoa is designed to increase access to finance and strengthen the emerging banking sector, including corporate governance.

5. The Commercial Legal Framework

18. From a business law standpoint, Samoa's commercial legal framework is a mixture of antiquated legislation (some dating back to the beginning of the 20th century) and new legislation that reflects modern business law. Samoa has embarked on a number of initiatives to modernize its commercial legal framework, most notably with the passage of the Companies Act 2001, subsequently revised in the Companies Amendment Act 2006 and the drafting of its implementing regulations. This act is modeled on its New Zealand counterpart and reflects modern business practices. While the promulgation of the act was delayed for lack of implementing regulations—in large part because of delays in deciding how the companies registry would handle electronic registration and paperless filing—implementation commenced in 2008. This was assisted by work commenced in late 2007, with ADB support, on modernizing the companies' registry, along with the secured transactions framework. There would be efficiency gains from an amalgamation under a single administrative agency of the company and the movable property registries, as well as the motor vehicle registry (which records security interests in motor vehicles).

19. Samoa's bankruptcy act is based on the United Kingdom bankruptcy act of 1906 and is extremely outdated, mandating a bankruptcy process that is costly to undergo. Other laws governing commercial transactions, including arbitration, the sales law, consumer protection, and credit information, need updating and amendment.

20. Foreign direct investment in Samoa is the second lowest of all Pacific developing member countries, ahead of only the Fiji Islands and amounting to less than 4% of the GDP. Foreign investors face far more onerous requirements to obtain permission to invest than do domestic investors. Under the Foreign Investment Act 2000, foreign investors must apply for a foreign investment certificate from the Ministry of Commerce Industry and Labour before proceeding to Inland Revenue for a business license and then return to Commerce Industry and Labour to register a company name. The act provides free repatriation of profits and capital gains (given tax clearance and supporting documentation), eliminates the general requirement for partnership with local investors, and shortens the list of activities reserved for Samoan

nationals to bus and taxi transport, hire vehicles, retail trade, and sawmilling. A restricted list of activities is open to foreign investors provided they enter into joint ventures with Samoans, employ locals, and source capital overseas. Reporting requirements, the difficulty of getting permission for the employment of expatriate workers, weaknesses in the Foreign Investment Act 2000, and lengthy delays in obtaining land leases all contribute to low foreign direct investment. Further, the ad hoc nature of incentives offered to foreign investors' risk distorting investment and resource allocation. Potential foreign investors continue to face uncertainty about the restricted list, since its content—along with the criteria for inclusion of a business activity in the reserved and restricted lists—have been under review for some time. The revision of the Foreign Investment Act 2000 and the urgent simplification of conditions for the employment of expatriates are essential steps toward making Samoa more attractive to foreign investors. Refinements to the act are almost ready for tabling in Parliament.

6. The Special Needs of Agriculture

21. The government has stressed that agriculture is a private sector activity and that its role in the sector is to provide a rural business environment that is conducive to private participation. Samoa is blessed with fertile soil, a climate that allows year-round growing, and a geographical position that potentially allows supplying both the northern and the southern hemisphere during their respective winters. In spite of the strong potential for niche market agriculture, however, subsistence farming still accounts for nearly half of agricultural output. Agriculture is largely a part-time activity, as only 6% of households are occupied full time in agriculture and only 23% earn half their income from farming.

22. Samoan agriculture underperforms because only a small portion of arable land is farmed and productivity is low. The failure of this sector to develop more rapidly is the result of a number of interconnected factors, including continued heavy state involvement in agriculture, lack of information and expertise on markets and standards, failure to exploit market niches, and the difficulty of leasing land for agriculture.

23. Realizing the potential of the agricultural sector requires improved agricultural extension services; better market information; and the ability to deal with the phytosanitary standards of countries to which Samoa can export agricultural crops, especially Australia and New Zealand.

7. Promoting Public–Private Sector Dialogue

24. Discussion with both the private and the public sector revealed that institutional memories are short and that there is no ongoing formal process for dialogue on important issues. The government should give the private sector a more central role in policy formulation, with a view to enhancing the understanding of business needs and incentive systems, and facilitating public–private partnership. Toward this end, a private–public sector roundtable, facilitated by ADB in 2007, led to agreement on establishing a formal process for public–private dialogue through an amended Revenue Board mechanism.

25. Recently, the Chamber of Commerce became the umbrella organization for the formerly disparate representation of the many private sector bodies in Samoa. However, its lack of a secretariat hampers its ability to effectively represent the private sector in Samoa, in particular in providing input for the Samoa Development Strategy, 2008–2012 and liaising with the regional umbrella group, the Pacific Private Sector Organization. It now has a full time fully funded secretariat and a separate Samoa private sector organization has been set up.

FISCAL ANALYSIS

A. The Overall Fiscal Stance

1. Samoa has sustained a sound overall fiscal stance. Budget surpluses were achieved in fiscal year (FY) 2005 and in the late 1990s. When budget deficits have occurred they have been kept small to moderate.¹ The last budget deficits of concern were in the early and mid-1990s when the combined effects of cyclone damage, taro disease, and the restructuring of the national airline saw the deficit peak at more than 20% of the gross domestic product (GDP). The government's subsequent sound fiscal stance has more than halved its external debt since FY1995. The ratio of government external debt to GDP is projected to reach a moderate level below 40%.² The sound fiscal stance has resulted from wide-ranging revenue reforms, tighter expenditure management, and good economic growth.

2. However, Samoa faces a number of risks to the maintenance of a sound fiscal situation. These are the inherent vulnerability of a small, open economy; continued oil price increases; the potential emigration of skilled workers; susceptibility to natural disasters; and market isolation. The features that support continued healthy fiscal outcomes are political stability, relatively stable economic performance, and ongoing economic and institutional reforms. Public financial management continues to improve, and taxation compliance has been strengthened. Samoa has made substantial progress in improving fiscal transparency, as there is a comprehensive and modern legal framework for fiscal management, the central bank is effectively independent, the budget is comprehensive and reliable, public accounts are timely and comprehensive, and there is quite extensive reporting of noncash items.

3. A commitment to prudent fiscal management has been a feature of recent national development plans, and there has been remarkable success in meeting these commitments. For some time, the medium-term fiscal goal of the government has been to maintain balanced budgets. If budget deficits occur, the goal is to keep them below a target rate of 3.5% of GDP and ensure they support valid capital expenditure.³ These targets were adopted by the Strategy for the Development of Samoa (SDS), 2008–2012.

4. The government has achieved its goal of balanced budgets in most recent years, though budget deficits increased slightly from FY2004 to FY2008 toward the government's threshold of 3.5%. However, the deficits have since risen slightly above the target, indicating some relaxation of aggregate fiscal discipline (Table A4).

B. The Quality of the Revenue System

5. Revenue generation is generally aligned with national poverty reduction priorities. Taxes are generally equitable with the lifting of the tax-free threshold and exemption of fresh food from the value-added goods and services tax (VAGST). In the FY2007 budget, the VAGST was increased to 15% and the threshold at which businesses are required to register for and pay the VAGST was increased to ST78,000 per annum. The top personal tax rate and the company tax rate were reduced from 29% to 27%, and for individual taxpayers the tax-free threshold was raised to ST12,000.

¹ ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Draft. Manila.

² All government debt is external. Net private external debt is low.

³ Ministry of Finance. 2005. *Strategy for the Development of Samoa 2005–2007: Enhancing people's choices*. Apia. (January, p. 29).

Table A4: Summary of Government Accounts

	FY2005 (actual)	FY2006 (actual)	FY2007 (actual)	FY2008 (actual)	FY2009	
					(budget)	(estimate)
ST million						
Total revenue and grants	408.5	395.0	487.7	483.2	510.8	498.3
Total revenue	283.1	323.2	389.2	406.3	400.1	387.6
Tax	242.2	281.0	331.1	340.4	340.6	334.9
Nontax	40.9	42.2	58.1	65.9	59.6	52.7
Grants	125.4	71.8	98.5	76.9	110.7	110.7
Total expenditure	405.4	391.3	472.4	506.5	594.5	604.1
Operating	236.6	281.5	327.6	366.7	378.4	386.1
Capital	168.8	109.8	144.8	139.8	216.1	218.0
Current balance	46.5	41.7	61.6	39.6	21.8	1.5
Overall balance	3.1	3.7	15.3	(23.3)	(83.6)	(105.8)
Financing	(3.1)	(3.7)	(15.3)	23.3	83.6	105.8
External financing (net)	15.8	3.7	7.7	16.5	90.0	105.4
Domestic financing (net)	(18.9)	0.0	(22.9)	6.8	(6.4)	...
<i>Memorandum items:</i>						
Nominal GDP (ST million)	1,124.3	1,221.1	1,336.1	1,471.6	1,413.2	1,413.2
(In percent of GDP)						
Total revenue and grants	36.3	32.4	36.5	32.8	36.1	35.3
Of which:						
Tax and non tax revenue	25.2	26.5	29.1	27.6	28.3	27.4
Expenditure	36.1	32.0	35.4	34.4	42.1	42.7
Of which:						
Operating	21.0	23.1	24.5	24.9	26.8	27.3
Capital	15.0	9.0	10.8	9.5	15.3	15.4
Current balance	4.1	3.4	4.6	2.7	1.5	0.1
Overall balance	0.3	0.3	1.1	(1.6)	(5.9)	(7.5)
External financing (net)	1.4	0.3	0.6	1.1	6.4	7.5
Domestic financing (net)	(1.7)	0.0	(1.7)	0.5	(0.5)	...

() = negative, ... = not available, FY = fiscal year, GDP = gross domestic product.

Note: Estimates in the table are prepared on a government financial statistics basis.

Source: Samoa Bureau of Statistics.

6. Major tariff reforms were undertaken in the FY1999 and FY2000 budgets. In April 2007, the Subcommittee on Tariffs recommended removing tariffs from a range of business inputs. These recommendations were consistent with the SDS goal to remove anomalies from the tariff system.

7. A range of anomalies in the enabling environment for investment and private sector development also require removal. However, some anomalies remain in the taxation system, such as the tax-free status of agriculture. Apart from agriculture, exemptions and incentives are available for tourism and hotel investors, taxpayers who donated to the 2007 South Pacific

Games, business taxpayers in relation to accelerated depreciation allowances, and financial service providers. The Ministry for Revenue estimates that revenues of ST56 million were foregone in FY2006 through import duty concessions alone. These various exemptions and incentives should urgently be reviewed to ascertain if they are efficient means of generating sustainable increases in national income, employment, and other economic benefits.

C. The Quality of Public Expenditure

8. The public finance management (PFM) system is robust, and its economic reporting is of a high order. The key missing factor is the lack of forward estimates of recurrent revenues and expenditures. Some delays occur in submitting audited public accounts to the Office of the Chief Controller and Chief Auditor, while the current format of accounts does not include disclosure of development spending by donors outside of the treasury fund. The environment for monitoring revenues, expenditures, and cash management is incomplete. These matters are being addressed, but progress is constrained by institutional capacity.

9. The Public Finance Management Act 2001 is the key legislation relating to budget preparation and execution. There is provision in the act, and a long-standing government commitment, for preparing and presenting the budget in a multiyear framework. The development of a system of forward estimates commenced in November 2006, but progress is impeded by the lack of a practical framework that fits local needs and circumstances. The government and its development partners should continue efforts to formulate and implement a medium-term approach to budgeting.

10. Following an independent assessment of the government's PFM systems in October 2006, the Ministry of Finance developed a PFM reform plan. Under the first stage of this plan, it was agreed to focus on achieving basic fiscal discipline and strengthening core systems for effective financial management. The independent assessment identified a number of core processes that need to be strengthened:

- (i) the timely preparation and submission of public accounts;
- (ii) regular reconciliation of bank accounts and cash-flow management and monitoring to ensure the predictability of funds for commitment of expenditure;
- (iii) the monitoring, management, and timely payment of arrears, especially VAGST refunds;
- (iv) a framework of improved internal control for PFM supported by regular internal audit of financial systems and risk analysis;
- (v) developing user-friendly manuals on procedures for public accounting and budgeting at a division level and for the Treasury;
- (vi) the collection of income tax payments and follow up of income tax arrears; and
- (vii) strengthening the medium-term expenditure framework and transitioning to sector-wide programs, along with improved monitoring of performance with key indicators.

11. Due to the backlog of bank reconciliations, the Ministry of Finance has been unable to submit annual public accounts within the timeframe defined under the Public Finance Management Act. In addition, it was noted that inadequate cash-flow monitoring and management cause late payment of government accounts, with negative impacts on the private sector. Developing an effective internal audit framework that will aim to undertake systems monitoring instead of spot checks is directly related to achieving improvements in reconciling and finalizing accounts, as it will help to strengthen existing systems.

12. Despite improvements, the high cost and poor quality of infrastructure that is provided either directly by the state or by state-owned enterprises have been obstacles to growth and development in the private sector. Further, the government's continued subsidies to state-owned enterprises through its acceptance of noncommercial rates of return crowds out the private sector and dulls the incentive to achieve efficiency. The success in bringing down telecom costs shows the benefits that can be expected from the private provision of services in wide areas of the economy.

D. Near-Term Priorities

13. The FY2010 budget provides for a large increase in expenditure to boost GDP, maintain essential service delivery, and build the economy for the longer term. A larger capital allocation is planned to boost infrastructure spending in road projects, buildings, and school property and provide the necessary stimulus to much-needed productive investment to stimulate economic activity and raise the country's capital stock. Greater scrutiny has gone into public sector base spending to ensure the government gets value for the money it currently spends, as well as find efficiencies and savings where possible. Revenue flows are expected to benefit from limiting the economic contraction.

14. The tsunami presents an additional challenge that will see a deterioration in the fiscal position over the medium term. A revised medium-term expenditure framework is needed for FY2010 that will allow the government to meet higher near-term expenditure needs. The implementation of the sound, updated Public Sector Investment Program has the potential to help turn the economy around by countering the cyclical downturn and adverse impact of the tsunami and then build for economic recovery by lifting the economy's productive capacity. There is a need, however, to carefully monitor the implementation of the Public Sector Investment Program to ensure alignment with SDS priorities.

15. The government needs to strike a balance between the stimulus required to correct for these shocks and sustainability. Operating expenditures will need to be contained to enable the funding of priority capital expenditure. Expenditure on lower-priorities will need to be trimmed.

PUBLIC FINANCIAL MANAGEMENT

A. Public Financial Management

1. The continued improvement of public financial management is one of the strategies outlined in the Strategy for the Development of Samoa (SDS), 2008–2012 to support enhanced public sector efficiency.¹ The general robustness of the public finance management system was documented by the International Monetary Fund in 2005 and in the 2006 European Union-funded assessment using the comprehensive public expenditure and financial accountability (PEFA) framework.² All government revenue and expenditure is incorporated into the government accounts and the total fiscal risk posed by state-owned enterprises is documented.

2. The governance assessment of the Asian Development Bank (ADB) has identified the main problems emerging in recent years as those relating to the internal control framework, liability management, cash management, reconciliation, and reporting. Major weaknesses that the government aims to rectify include (i) a weak linkage between the SDS and annual budgets, (ii) delays in presenting audited public accounts, and (iii) some data deficiencies and an associated lack of coding of government finance statistics headings in the budgetary system.

3. The Public Finance Management Act 2001 requires the presentation of the budget in a multiyear framework with forward estimates for 3 years. However, forward estimates of recurrent revenues and expenditures are lacking. The government is taking steps to develop a medium-term fiscal framework by fiscal year (FY) 2009 and receives assistance from the Pacific Financial Technical Assistance Centre for this purpose. Audited public accounts for FY2007 are available, and the accounts for FY2008 are being processed. The lag in preparing audited accounts is largely attributed to delays in submissions from line ministries to the Ministry of Finance, the changeover to a new financial system, and limited capacity in the auditor general's office, with most audits on public bodies outsourced to the private sector.

4. The quality of public finance data is compromised by misclassification of accounts, particularly for net lending, external grants, and current and development expenditure, and because the budgetary system is not coded by government financial statistics headings. The government intends to move to the 2001 government financial statistics system (on a cash basis) over the next 2 years, with assistance from Pacific Financial Technical Assistance Centre, and made initial steps in the FY2009 budget by preparing summary reconciliations to the government financial statistics.

5. Samoa's contracting and procurement rules are clear and generally well implemented. While there is no independent legal framework regulating policies on procurement, instruments such as the Public Finance Management Act 2001 provide legal coverage. Revised tender board guidelines have been finalized.

6. Samoa has established effective rules and processes to guard against corruption. The ongoing challenge is to ensure they are effectively implemented and monitored, given the overwhelming political dominance of the governing party combined with pressure to contribute to cultural functions that could lead to the use or misuse of public resources and entrusted power. Samoa has endorsed and actively engaged with the ADB–Organization for Economic Co-operation and Development Anti-Corruption Initiative for Asia and the Pacific action and

¹ The sector diagnostics presented in this appendix draw heavily on ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Draft. Manila.

² Linpico. 2006. *Samoa Public Financial Management Performance Report*. Brussels (October 2006).

implementation plans and has completed self-assessments of corruption. However, it has yet to establish a specialist anticorruption agency or unit charged with responsibility for coordinating efforts to prevent and eliminate corruption.

7. Samoa's public finance management³ has recently been assessed using the comprehensive PEFA framework (footnote 2).⁴ That analysis has provided a firm basis for Samoa's first assessment of governance risks and mitigation strategies. Compared with other Pacific developing member countries, Samoa ranks well in terms of its public finance management. The budgeting system tends to be realistic in terms of aggregate projections and outcomes,⁵ budget documents capture virtually all revenues and expenditures, and the quality of economic reporting is high. The budget process is policy based and actively engages all relevant stakeholders. Oversight of the budget and fiscal risk is effective.⁶ The budget is implemented in an orderly and predictable manner, and there are significant controls placed on the release of public funds.

8. At the same time, there are areas in which Samoa's public financial management performance remains less than optimal. Further, there has been considerable staff turnover in recent years, and the consequent decline in professional capacity is becoming visible in weakening performance in some areas of public service. Adding to these emerging concerns, pressure was placed on Samoa's fiscal position in FY2006 by the granting of a 42% public service wage increase over 3 years and the costs of restructuring Polynesian Airlines for the joint venture agreement with Virgin Blue Airlines.⁷ Authorities tightened their fiscal stance after the March 2006 election, in the end limiting the FY2006 deficit to 0.3% of the gross domestic product (GDP), much lower than had been targeted.

9. In terms of ongoing or emerging risks, of key concern are the problems that have emerged in recent years in the internal control framework, liability management, cash management, reconciliation, and financial reporting. The internal control framework has excessive transaction level controls, yet monitoring of income, expenditure, and cash management is inadequate. There is inadequate monitoring of accounts payable, which are not always paid in a timely manner. There are also deficiencies in tax collection, especially in relation to gross income tax arrears. The PEFA report points out that this can have some significant impacts. The accumulation of tax arrears can be a critical factor undermining budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment for all taxpayers. In Samoa, the current lack of confidence in the integrity of revenue and expenditure data means many agencies run their own separate accounting systems, which are not always compatible with the central Finance One system. Finally, since early-2009 audited public accounts have not been submitted on time (although prior to this they were always timely), a problem attributed to the introduction of a new information system and to the staff turnover.

³ Public finance management in Samoa is governed by the Constitution and the Public Finance Management Act 2001.

⁴ Under the internationally accepted PEFA framework, Samoa's performance was assessed in relation to seven dimensions of public financial management: credibility of the budget; comprehensiveness and transparency; degree to which the budget is prepared with due regard to government policy; predictability and control in budget execution; accounting, recording, and reporting; external scrutiny and audit operations; and appropriateness of donor practices in the country. The analysis covered all government expenditure for the 3 years to 30 June 2006.

⁵ Despite a tendency each year to allocate insufficient funds to health and education and then transfer the needed funds from other ministries in supplementary budgets.

⁶ Medium-term estimates have been adopted in the Public Sector Investment Program.

⁷ The restructuring costs were estimated as equivalent to 2.5% of the gross domestic product in FY2006.

B. Procurement

10. Samoa's contracting and procurement rules are clear and generally well implemented. Samoa does not have an independent legal framework regulating its policies on public procurement. However, as a result of the government's efforts to improve the procurement environment in recent years, several other instruments provide legal coverage. For example, Samoa's Public Finance Management Act obliges ministers to comply with procurement procedures and processes, and the tenders board is authorized to issue regulations, instructions, and operating manuals on the procurement of goods, works, and services.⁸

11. Although responsibility for procurement processing has been successfully devolved to ministries and departments, the associated approval thresholds are quite low. For contracts that have a potential value of between ST100,000 and ST500,000, the tenders board determines how contracts will be let. Beyond this amount, a cabinet decision is required. Eighty percent of public contracts in Samoa are awarded on the basis of open competition. Exceptions are allowed in cases of repeat purchase and highly specialized goods and services. The various procurement methods included in the tenders board guidelines are largely consistent with ADB and World Bank procurement guidelines, with a major focus on competitive bidding and on transparency and integrity in the bidding process.⁹ In fact, recent development activities actively harmonize their procurement processes and reporting systems with the government's own system and regulations.¹⁰

12. In October 2003, ADB and the World Bank jointly undertook a procurement assessment in Samoa.¹¹ This review recommended that the Samoan government revise the tenders board guidelines to ensure they are comprehensive and develop a new, more user-friendly procurement manual. The review also recommended establishing an effective and independent mechanism for handling complaints. A process for submitting and addressing procurement complaints is in place and operating, but it lacks the ability to refer the resolution of the complaint to a higher external authority. At present, complaints are first referred to the relevant agency and, if not satisfactorily resolved there, can be referred to the secretary of the tenders board.

C. Anticorruption

13. There is no concrete evidence of widespread and persistent corruption in Samoa. Where instances of corruption are identified (commonly bribery of customs or police officers), they are addressed. The government has instituted laws, policies, parliamentary standing orders, and guidelines to curb and eliminate corrupt practices. Samoa's public sector reforms have actively sought to incorporate transparency and accountability. Although it is too early to assess the impact of these reforms, the many institutional strengthening programs that have been

⁸ The Samoa Tenders Board and the Ministry of Finance has issued Guidelines for Government Procurement and Contracting: Goods and Works as well as Guidelines for Government Procurement and Contracting: Consulting Services, in June 2008. In addition, the Tenders Board has recently released Standard Bidding Documents for Goods and Works as well as a Procurement Manual which are being pilot tested by line ministries."

⁹ A detailed description of Samoa's procurement provisions and processes can be found in ADB–Organisation for Economic Co-operation and Development. 2005. *Anti-corruption Policies in Asia and the Pacific: Thematic Review on Provisions and Practices to Curb Corruption in Public Procurement, Self-assessment Report Samoa*. ADB–OECD Anti-Corruption Initiative for Asia and the Pacific.

¹⁰ ADB. 2005. *Education Sector Project Phase II*, Manila (November), I, cofinanced by ADB, the Australian and New Zealand agencies for international development, and the Samoan Government.

¹¹ World Bank. 2006. *Samoa Operational Procurement Review*. Manila. (May).

implemented in government agencies since the early 1990s are regarded as having caused the decline in corruption that has been observed since about 2000.

14. Nevertheless, while processes exist and are applied when official complaints are lodged, the pressure to contribute to cultural functions in Samoa could lead to the misuse of public resources and entrusted power. Gift giving and conflict of interests have always been challenges for this very family-oriented system.¹² Importantly, too, the governing party's overwhelming political dominance means it can do virtually anything, including amend the Constitution. The opposition is almost powerless to influence government policy. This situation has fueled public suspicion that corruption must occur. This perception is not based on concrete evidence but on inference from the government's long-standing majority. Nevertheless, the extent of the government's political dominance creates an environment in which corruption could flourish. The government must remain vigilant in ensuring that the effective rules and processes it has put in place are equally effectively implemented and monitored in practice. Transparency International's analysis of integrity systems in Samoa supports this view, arguing that the government should now focus on consolidation by enforcing the rules and regulations it already has in place.

15. Beyond this, there are further anticorruption measures the government could consider. For example, the Samoan government does not have a specific anticorruption strategy in place. However, it has endorsed and actively engaged with the ADB–Organisation for Economic Co-operation and Development (OECD) Anti-Corruption Initiative for Asia and the Pacific, its action plan, and its implementation plan. The three pillars of the implementation plan¹³ are being addressed by ongoing reform programs and through the enforcement of the codes of ethics that are in place for Parliament and the public service. As part of its involvement in the ADB–OECD initiative, Samoa has completed self-assessments on corruption both generally and specifically in relation to public procurement. The initial reports are publicly available¹⁴ but could usefully be updated and expanded. Although Samoa has in place agencies that administer compliance issues, consideration should now be given to establishing a specialist anticorruption agency or unit charged with coordinating efforts to prevent and eliminate corruption. At present, in relation to the Money Laundering Prevention Act 2007, the central bank undertakes these functions on behalf of the Ministry of Finance. Beyond this, the new Law and Justice Sector Plan will look at interagency coordination on anticorruption issues.

¹² Transparency International. 2004. *National Integrity Systems Country Study Report Samoa 2004*. Berlin.

¹³ The three pillars are (i) developing effective and transparent systems for public service, (ii) strengthening anti-bribery actions and promoting integrity in business operations, and (iii) supporting active public involvement.

¹⁴ See also ADB–OECD. 2003. *Anti-corruption Policies in Asia and the Pacific: Self-Assessment Report Samoa*. Apia (ADB–OECD Anti-Corruption Initiative for Asia and the Pacific, November).

STATE-OWNED ENTERPRISES

A. Overview

1. Samoa launched an aggressive state-owned enterprise (SOE) reform effort in the mid-1980s, which led to the restructuring and divestment of 20 loss-making SOEs, half of the country's SOE portfolio. The government retains full ownership of 15 public trading bodies, 7 public beneficial bodies, and 3 public mutual bodies that collectively comprise the SOEs.

2. With the passage of the Public Bodies (Performance and Accountability) Act 2001 and the subsequent policy paper on SOE ownership, performance, and divestment, the government established the principles by which it would place its public enterprises on a commercial footing and divest all public enterprises not deemed strategic.¹ The framework provides a sound basis for restructuring public enterprises, strengthening their corporate governance practices, and providing for funding noncommercial activities via community service obligations (CSOs) issued in an open and transparent manner. The framework represents best practice in the Pacific and improves on the New Zealand SOE act upon which it is based.²

3. However, implementing the public enterprise framework has proven difficult, and the pace of SOE reform in the first decade of the millennium has been well below publicly announced plans. A recent study shows that the average return on assets of the commercial SOEs for 2002–2006 was –1.7%, against a long-established government target of 7.0%. Over the same period, the return on assets for infrastructure SOEs was 3.3%, and net government contributions to all SOEs was estimated at \$43 million.³ Although much reduced, the risk remains of a repeat of the budget blowouts seen in the 1990s and early 2000s that arose from poor management of the national airline.

4. Contributions to the SOEs from the budget are mainly for the operation of the public beneficial bodies that provide health and education services on behalf of the government (Table A6.1). The public trading bodies receive a lower total payment, mainly for CSOs payments and capital injections. In fiscal year (FY) 2010 the creation of the Land Transport Authority as an SOE, which took over much of the work of the Ministry of Works, Transport, and Infrastructure, brought a large increase in grants to public trading bodies.

5. Sustainable long-term economic growth will require further progress in SOE reform. The passage of the Public Bodies (Performance and Accountability) Act 2001, supports sound practice in the corporate governance, accountability, and performance of SOEs. Yet slow implementation means few of the requirements of the act are fully met. Until the act is fully implemented and enforced, the management of SOEs will lack the commercial imperative and flexibility to maximize their efficiency, and checks and balances on the operation of SOEs and their use by the government will remain inadequate. Full implementation of the act, supplemented by strengthening the State-Owned Enterprises Monitoring Division of the Ministry of Finance, would offer substantial benefits to the economy at a relatively small financial or social cost.

¹ State-Owned Enterprise Monitoring Division, Treasury Department, Ministry of Finance. 2002. *Policy Discussion Paper on State-Owned Enterprise Ownership, Performance and Divestment*. Apia.

² ADB. 2009. *Finding Balance: Making State-Owned Enterprises Work in Fiji, Samoa and Tonga*. Manila.

³ The comparable results for the average return on assets in Tonga was 9% and in the Fiji Islands was –1%. The return on assets of the infrastructure SOEs was 7% in Tonga and 0% in the Fiji Islands.

Table A6.1: Payments from the Budget to SOEs (ST million)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Public Trading Bodies	19.6	51.2	46.3	38.3	28.4	74.1
Community service obligations	6.4	7.7	14.0	17.2	9.5	6.5
Capital injection	11.2	40.8	22.7	7.3	1.2	2.2
Grant	0.7	0.7	0.7	0.7	0.6	47.0
Fuel VAGST subsidy	1.0	1.0	2.0	6.0	9.0	7.8
Repayments for borrowings taken over by the government	0.3	1.0	7.1	7.1	8.1	10.5
Public Beneficial Bodies	10.8	52.6	60.6	77.6	91.9	78.8
Total	30.4	103.8	107.0	115.8	120.2	152.8
As a % of government expenditure	10.6	32.2	28.1	27.3	29.4	39.9

FY = fiscal year, SOE = state-owned enterprise, VAGST = value-added goods and services tax.

Source: Ministry of Finance.

B. Community Service Obligations

6. Many of the SOEs are required to provide subsidized or free services to communities through CSOs. In the past, they were expected to defray these expenses by raising charges to paying customers—a process generally known as cross-subsidization. The Public Bodies (Performance and Accountability) Act now allows SOEs to claim reimbursement from the government for the cost of providing CSOs. Conflicting interpretations of what constitutes a CSO have seen SOEs requesting CSO payments for services that they are providing under no explicit obligation to provide or simply cannot provide efficiently. Similarly, there appear to be cases where SOEs fulfill CSOs that do not qualify for direct compensation. If properly contracted and funded, the delivery of these CSOs should not have an adverse impact on SOEs' profitability. The reality, however, is that CSOs are not clearly identified, costed, contracted, or funded. This poor CSO management depresses SOEs' profitability, contributes to inefficient resource allocation, and impairs the government's ability to assess whether or not the CSOs provide value for money.

7. A 2007 CSO policy paper clarified the government's goals for CSO delivery and simplified its implementation. This policy effectively limits CSOs to projects that are consistent with the goals identified in the SDS and alleviate hardship in Samoa. The new policy includes a streamlined process of CSO identification, prioritization, approval, and compensation. If strictly applied, this new CSO policy should cause SOEs to discontinue activities that they consider to be CSOs but for which no further compensation will be received from the government.

8. Implementation of the new CSO policy framework should be guided by the clear separation of the government's dual role as both the purchaser and provider of CSOs. International experience shows that functioning purchaser-provider models are critical to enabling all stakeholders in CSO delivery to efficiently articulate and deliver on their commitments. In practical terms, the purchaser-provider model requires the formulation of a contract specifying the precise nature of the service to be provided and the mechanisms by which that service will be measured and compensated. In the case of Electricity Power Company and Samoa Water Authority, CSO payment should be linked to specific outputs where possible. For example, Samoa Water Authority's provision of electricity for boreholes could be compensated according to the quantity of water pumped, thus providing an incentive to explore alternative delivery mechanisms. Similarly, the provision of power to rural communities could be

compensated by kilowatt hours delivered, according to an efficient benchmark. CSOs should be subject to pre-approval and benefit–cost analysis.

9. Even if rigorously implemented, the infrastructure service SOEs would probably still provide returns far below their cost of capital. For example, Samoa's Electric Power Corporation received only 36% of its requested funding for CSOs in FY2005, and it generated a return on equity of 0%. In FY2006, the company received 13% of its request and its rate of return on equity was 1%. This analysis shows that, even if the CSOs had been fully funded according to the corporation's own calculation of costs, its return on equity would have been only 3.5% in FY2005 and 6.2% in FY2006. The corporation would still have been unable to meet the government's return on equity target of 7.0% or the private sector's benchmark of 10.0%–15.0%. While the methodology for estimating true CSO costs certainly needs to be improved across the Pacific island countries, there are many examples demonstrating that SOEs' poor financial results cannot be fully attributed to unfunded CSOs. They can be attributed, however, to politicized decision making that does not respect commercial objectives and directs SOEs to engage in noncommercial activities outside the formal CSO framework.

C. Corporate Governance Reform

10. With the enactment of the Public Bodies (Performance and Accountability) Act 2001, SOEs were given a set of guidelines and requirements to strengthen their corporate governance practices and support more commercial orientation. The act, which took effect in 2003, sets out a number of key prescriptions: (i) the process for selecting and appointing directors, (ii) the role of directors, (iii) reporting requirements, (iv) the disclosure of conflicts of interest, (v) the role and composition of the audit committees, and (vi) policies and procedures for contracting CSOs.

11. While the act is based on international best practice in SOE corporate governance, implementation has proven to be a challenge; as of end-2006, COEs were fully meeting only the reporting and disclosure requirements. Of the other provisions, only one SOE (SamoaTel) has complied with the spirit of the selection and appointment process for directors and appointed a chairman of the board from the private sector. While many SOEs now have audit committees, few of them are fully operational.

12. Department heads remain on SOE boards, and ministers remain as chairpersons.⁴ Their presence increases the risk that SOEs are operated on noncommercial terms and potentially subject to political pressures. The preferred arrangement is they be commercially focused, independently operated entities subject to clear lines of public accountability. Conflicts of interest can also arise from the existing board membership. For example, distortions to competition can arise as ministries have vested interests in ensuring that SOEs benefit from sector policy, and conflicts can arise in ensuring the collection of outstanding debts owed by ministries.

13. Concerns exist that it may be difficult to replace ministers and public servants on SOE boards for lack of skilled directors. In the interim, the government is agreeable to recruiting expatriate directors to SOE boards. Taking a longer-term view, the Samoa Institute of Directors was established in November 2005 and is working on reforming SOE board structure and composition. The government requires directors of SOEs to attend training courses at the Samoa Institute of Directors as part of the capacity-building program to strengthen SOE corporate governance. The training program for directors is being strengthened and

⁴ Of the 25 SOEs, 14 are chaired by their sector ministers.

complemented with assistance from the European Union and the New Zealand Agency for International Development.

14. The government has recently adopted an action plan to bring the membership of SOE boards regard to the membership of SOE boards into line with the requirements of the Public Bodies (Performance and Accountability) Act 2001. The plan sets out the key objectives and activities for to be pursued in 2010 (Table A6.2).

Table A6.2: Summary of the SOE Action Plan

Objective	Strategy	Deadline
Replacement of Minister, Members of Parliament and Public Servants on Public Body Boards	Draft a legislation to amend all Governing Public Body's Legislation	By the end of June 2010
	Implement the recommendations off the action plan paper	By the end of 2010
Due process for the appointment of directors on Public Body Boards	Cabinet to approve the process for selecting and appointing directors	By the end of March 2010
	Establish and appoint the members of an independent Selection Committee	By the end of March 2010
	Ministry of Finance to work with the Samoa Institute of Directors in maintaining a database for current and potential Public Body's directors, which will be forwarded to the Independent Selection Committee to assist with the selection of directors on Public Body Boards	Ongoing
Directors appointed are experienced with continued training to enhance skills and expertise	Cabinet to make training for directors mandatory.	By the end of March 2010
	Ministry of Finance to work with the Samoa Institute of Director to provide trainings for all Public Body Directors	By the end of June 2010
	Accreditation system for all local directors	Ongoing

Source: Ministry of Finance.

D. Privatization

15. In March 2004, the cabinet approved a paper calling for the immediate privatization of seven SOEs, three of which were majority state-owned. The government completed the divestment of three of the four minority holdings over the next 2 years, but privatizing the three majority-owned SOEs has been hampered by delays. The cabinet has indefinitely postponed two of the transactions—the sale of Agricultural Stores Corporation and Samoa Shipping Services—despite the recommendation of privatization advisors to proceed. A third majority-owned SOE, Samoa Broadcasting Corporation, was privatized in 2008. In 2006, the government restructured Samoa's loss-making airline, Polynesian Airlines, resulting in a joint venture with Virgin Blue Airlines to operate the airline's international routes. This successful venture illustrates the substantial efficiency gains that can come with privatization.

16. SOE divestiture was included in the Strategy for the Development of Samoa (SDS), 2008-2012. If the government is to successfully execute the privatization of its remaining nonstrategic SOEs as per the terms of its policy paper and SDS, it will need political commitment at the highest levels to overcome resistance from vested interests in the government and SOEs and potential public opposition. International experience demonstrates that public support for SOE divestiture can be garnered through (i) public disclosure of SOE financial performance, and (ii) illustrating the benefits of improved services through private provision. Further public support for privatization could be encouraged through the annual publication of SOE accounts and key performance indicators in widely circulated newspapers.

17. Restructuring strategies will need to be developed for each SOE to be privatized. To do this objectively, the government should determine its objectives for each transaction. Such objectives are typically expressed in terms of (i) employment preservation, (ii) service continuity, and/or (iii) maximization of proceeds. Maximizing proceeds is generally possible only when assets are competitively tendered and no conditions of service are placed on the investor.

POVERTY AND GENDER ANALYSIS

A. Overview

1. Samoa ranked second among the six Pacific developing member countries included in the United Nations Development Programme (UNDP) *2009 Human Development Report*, which places it in the medium human development category.¹ Life expectancy is high at 75 years, infant mortality is low at 24 per 1,000 live births, enrollment rates exceed 90% at the primary level, the adult literacy rate is 99%, and the gross domestic product (GDP) per capita was estimated to be \$2,968 in 2009 (current prices). The country is well advanced in meeting most Millennium Development Goals by 2015. The decline in the reported poverty incidence has exceeded the target, universal primary education has almost been achieved, there is gender parity in primary schools, and child and maternal mortality have been reduced.²

2. Samoa's social progress results from its long-standing and robust economic growth, supported by political stability and far-reaching reforms, substantial remittances from Samoans abroad, and high public expenditure on education and health. Samoa's performance is also anchored on a sustained commitment to reforms and good governance.

3. This level of well-being is nevertheless fragile. Small island developing states like Samoa are vulnerable to external influences beyond their control, as demonstrated by the impact of the current global economic crisis and recent earthquakes and tsunamis. Worsening economic conditions have resulted in the temporary loss of jobs at the Yazaki vehicle parts plant, the country's largest private employer. The deterioration in economic conditions in host countries caused remittances to fall by 18% in real terms in September 2009 on a year-on-year basis. Around 80% of cannery workers in American Samoa are Western Samoans temporarily residing in the territory. Until 2009, the territory's two tuna-processing facilities employed 5,000 workers. However, the extension of United States minimum wage laws to American Samoa caused the closure of one of these canneries and the loss of 2,000 jobs in 2009. Lost competitiveness because of higher labor costs makes uncertain the future of the country's remaining cannery, which has already laid off 350 workers. Samoa experienced 14 major natural disasters between 1950 and 2009. During disaster years, it has been estimated that Samoa's economic losses have averaged 46% of GDP.³ The earthquake and tsunami of 29 September 2009 are reported to have affected at least 5,274 people and 19 villages and caused at least \$106 million in damage and losses.⁴

4. Not all Samoans have fully participated in and shared the benefits of recent growth. Preliminary evidence indicates that, although the proportion of households facing hardship in Apia and surrounding areas fell between 2002 and 2008, poverty in Savaii and parts of Upolu has increased. In 2002, the Gini coefficient was estimated to be 0.43, which suggests that the distribution of income in Samoa is relatively unequal. Samoan households that suffer hardship experience poverty of opportunity, which is manifested in the lack of (i) access to public services, including access to a high-quality education, reliable and affordable power, and safe water and sanitation; (ii) adequate income to meet basic household needs and customary

¹ ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Manila.

² Since 2000, male enrollment at secondary schools has been lower than that of females because of higher male dropout rates. This calls for education policies that address the causes of dropping out of secondary school, especially among males. (Ministry of Education, Sports and Culture. 2007. *Education for All: Mid-Decade Assessment*. Apia).

³ World Bank. 2006. *Not If but When: Adapting to Natural Disasters in the Pacific Region*. Washington D.C.

⁴ Government of Samoa. 2009. *Draft Early Recovery Framework*. Apia.

obligations to the family, village, community, and church; and (iii) opportunity to participate fully in the socioeconomic life of the community.

B. Formal and Informal Safety Nets

5. As with the other Pacific developing member countries, the Samoan social safety net is a mix of kinship, community, nongovernment organization (NGO), and government support and services. In Samoa, there is heavy reliance on the traditional informal social safety net systems (*Fa'a Samoa*), particularly remittances, in the absence of a well-developed social security system. In general, kinship and community support is provided for individuals and families facing a crisis. This support extends to providing long-term assistance to the disabled and chronically afflicted. NGO and church support is mainly directed toward short-term crises, though some provide health services and accommodation for those in need. At the same time, there is evidence that meeting numerous church and village obligations (*faalavelave*) has put pressure on vulnerable households by reducing available resources for meeting basic household needs such as education and health.⁵

6. There are good opportunities for overseas migration, particularly to New Zealand, which grants residency permits to at least 1,100 Samoans annually. New Zealand's seasonal employment scheme provides a number of temporary unskilled employment opportunities to Samoans. Remittances have increased to around 20% of the GDP and are a major source of cash income, particularly for subsistence households. According to the 2006 census, 45% of all households nationally received remittances; 6% of households claimed remittances as their primary source of income; and 10% of household depended on income from remittances, plantations, and fishing to meet their basic needs.

7. The government provides financial support for senior citizens. Under the Samoa Senior Citizens Benefit Scheme, everyone over the age of 65 is provided ST125 per month (2009 level of benefits). Also, the government provides for death benefits under the accident compensation scheme, which were increased from ST2,500 to ST44,000 in 2008.

C. Vulnerable Groups

8. While there has been no systematic attempt to identify the groups who are vulnerable, social research shows that vulnerable groups in Samoa include landless families, unemployed youths and adults, single-income households, families with many children to look after, people living in isolated villages with poor transport, and people living with disabilities.⁶

9. Despite good living standards and achievements in education and health, there is little cash employment outside Apia. Subsistence agriculture remains important for much of the country's rural population, as 47% of the economically active population reported spending at least some of their time engaged in subsistence activities in 2006. One percent of economically active people over the age of 15 were reported to be unemployed in 2006, compared with 5% in 2001.⁷ Yet job creation in the formal public and private sector has not kept pace with the number of new job seekers. About 5,000 individuals leave school and enter the formal labor market each year, compared with total employment of 21,600 in 2006. Unemployed youths between the ages of 15 and 24 accounted for nearly two-thirds of all unemployed persons in 2006. However,

⁵ Secretariat of the Pacific Community. 2003. *Assessment of Hardship and Poverty, Samoa*. Noumea.

⁶ Centre for Samoan Studies. 2006. *Samoa National Human Development Report 2006*. Apia. (p. 30)

⁷ Government of Samoa. 2001. *Census of Population and Housing*. Apia. (This very low employment rate has been attributed the high demand for labor in the run-up to the South Pacific Games in 2007.)

the true unemployment situation in the country is disguised by significant underemployment among those engaged in subsistence activities.

10. By regional standards, Samoan women score highly on the gender development index and gender empowerment measure. Samoa ranks 89th out of 156 countries in the 2007–2008 UNDP Gender-Related Development Index. Women have good access to education. Samoa has reached gender parity in primary enrollment rates, and female enrollment in secondary schools is higher than male enrollment, with gross enrollment rates of 85% versus 76%. Yet, there is a relative lack of vocational training opportunities for women in rural areas and the informal sector. While women's health indicators in Samoa are good compared with those of other Pacific countries, complications arising from pregnancy and childbirth are still a major cause of death among women, especially women in rural and remote areas.⁸

11. Despite women's progress in education, women still face disadvantages in their access to economic and political resources. Women are only half as likely as men to be economically active (33% compared with 65%), and only about one-third of paid workers are women.⁹ Women have little protection from labor-related discrimination. The global economic crisis is believed to have caused job loss for many women, as large numbers of them were employed in the Yazaki vehicle parts plant¹⁰ and canneries. The impacts of the recent tsunami on tourism will affect women's employment, as many paid women workers are engaged in tourism-related services and sales.

12. Women's limited ownership of land constrains their productive potential and access to financial resources. Although the availability of freehold land is increasing, 78% of the country's land is under customary ownership, and only those with chiefly titles (*matai*) may lease land.¹¹ Yet, only 20% of matai title holders are women because of Samoa's patriarchal system of village chiefs. While a few organizations provide microfinance in rural areas (e.g., Women in Business Development Inc. and the Small Business Enterprise Center and the South Pacific Business Development), many rural women lack the financial literacy and business skills needed to utilize available opportunities.¹²

13. **Basic service delivery.** The SDS prioritizes improved education and health outcomes and community development for all. Special attention is given to the most disadvantaged households, which are those with the least access to cash incomes from paid work, remittances, or farm production.

1. Education

14. The Government of Samoa is strongly committed to improving access to education and its quality. The education sector receives a substantial share of public spending, and in recent years has accounted for around 22%–25% of the government budget. In Samoa, most primary schools are operated by village committees in partnership with the government. Staff salaries, stationery, and textbooks are funded by the government, while parents are responsible for providing buildings and furniture, as well as covering maintenance costs. Private and church schools also provide education at all levels but are usually more expensive than public schools.

⁸ United Nations Children's Fund. 2006. *Samoa: A Situation Analysis of Children, Women, and Health*. Suva.

⁹ Samoa Bureau of Statistics. 2008. *Samoa: Population and Housing Census Report 2006*. Apia.

¹⁰ Women are reported to account for around 80% of Yazaki's workforce.

¹¹ Samoa Bureau of Statistics. 2008. *Samoa: Population and Housing Census Report 2006*. Apia.

¹² AusAID. 2008. *Women in Business in Samoa: Key Findings from the August 2008 Scoping Mission*. Canberra.

15. Despite reaching a national enrollment rate of 99% in 2004, in recent years Samoa has seen its national intake and enrollment rates fall despite laws that make school compulsory up to year 8. The national intake for year 1 students fell from 88% in 2000 to 78% in 2006. In addition, the proportion of children of official admission age not enrolled in year 1 increased from 12% in 2000 to 22% in 2006.¹³ Children in Samoa drop out of school for a number of reasons, including the lack of ability to pay school fees or parental support, low priority placed on education, loss of interest, peer pressure to drop out, chronic health problems, and misbehavior. Over the past few years, an increasing number of children have been observed selling merchandise in the streets of Apia during school hours.¹⁴

16. Also, despite increased government support for early childhood education, enrollment rates remain low at around 35%. Low enrollment rates have been attributed the poor quality of service, as many early childhood education programs do not meet the standards of the National Council for Early Childhood Education Samoa because of limited funding; the lack of qualified teachers; and the poor quality of classroom facilities, equipment, and learning material.

18. There are notable differences in the condition of classroom facilities and educational attainment in urban and rural areas. For example, students in the Apia urban area are consistently more likely to stay to year 8 than are rural students. While retention rates have improved in areas of Upolu, retention rates in Savaii fell from 91% in 2001 to 82% in 2006. Rural children generally have less access to secondary education than do those living in urban areas. Urban areas of Apia have higher transition rates to secondary school than do rural areas. This is likely because 18 of the country's 46 secondary schools are located in Apia, despite only 21% of the population living in this area. In addition, schools in rural areas generally operate with lower-quality facilities and learning inputs. This situation has improved somewhat under the Education Sector Project II, which has provided funding for renovations and equipment for secondary schools in rural and disadvantaged areas and the pursuit of a national policy to upgrade all rural secondary schools so that the same opportunities available to urban students are also offered to those rurally based.

19. Access to education is particularly low among children with disabilities. In 2002, for example, 87% of children with disabilities did not attend school. However, in recent years the government has drafted a special needs education policy and has begun providing grants to NGOs to support the delivery of special needs education. It has also established six special needs units in selected schools on Upolu and Savaii where the need for such facilities has been identified. However, these facilities lack resources, including sufficient numbers of qualified teachers. The Government of Australia has provided substantial support for inclusive education under its Samoa-Australia partnership arrangements.

20. Community and parental responsibility for providing school facilities and covering maintenance and operating costs for some school activities tends to re-enforce inequality between communities. As a result, disadvantaged or less well-organized communities generally have schools that are in poorer condition and students with lower educational outcomes.

21. In response to the impacts of the global economic crisis, which has seen an increasing number of children being withdrawn from school for lack of ability to pay their school fees, the government is implementing the Targeted School Fee Payment Scheme, funded by Australia and New Zealand for ST4 million, which will provide targeted payments to vulnerable groups to meet the cost of primary school fees over the medium term.

¹³ Ministry of Education, Sports, and Culture. 2007. *Education for All: Mid-Decade Assessment*. Apia.

¹⁴ Samoa Bureau of Statistics. 2008. *Samoa: Population and Housing Census Report 2006*. Apia.

2. Health

22. Samoa has achieved reasonably good basic health outcomes in recent decades as a result of high public expenditure in this sector. However, the high incidence of non-communicable diseases poses a serious health challenge Samoa's population. Primary, secondary, limited tertiary, and public health services are provided through public facilities, including referral to hospitals in Apia and on Savaii, a number of district hospitals, health centers and sub-center visiting services provided on an outreach basis. Tertiary care is provided mainly in New Zealand. A network of women's committees co-manages publicly funded rural health services.

23. Despite the wide geographic distribution of health facilities, financing for rural primary health services has been low, and facilities have deteriorated. Rural facilities often endure poor maintenance or lack essential equipment, medical supplies, or basic drugs. The difficulty of maintaining the quality, staffing, and use of rural health services—along with recent improvements in transport and communications—has caused increased pressure on central facilities. People often bypass local clinics managed by nurses, expecting better service from doctors at larger facilities. Consequently, admissions to district hospitals and health centers have decreased substantially as a share of total admissions, while the share of inpatient services provided by Tupua Tamasese Meaole Hospital increased to 84% in 2006.

24. There is growing evidence that the health needs of vulnerable groups, particularly those living in rural areas, are not being met. Diagnostic health services are available only in the main hospitals, as is specialized care for people with chronic needs such as the elderly and disabled. Children who are born with or acquire disabilities have high rates of mortality for lack of access to health-care or community-support services. Domestic violence is a recognized problem, but it is not dealt with by the medical services apart from treating injuries. A relatively small number of families are excluded by village leaders from attending village health clinics or participating in health programs conducted in villages.

25. Despite the provision of public health services being heavily subsidized by the government, it has been reported that even the currently small health center charges are burdensome to many vulnerable households.¹⁵ Village women's committees and district hospitals charge an additional fee for services, on top of those charged by the ministry, at a rate that varies from village to village. This additional cost is another reason why people bypass rural clinics. User fees are, however, a small part of overall medical costs. Transportation, consultations, and medicines can be much more expensive. Government pharmaceutical supplies are being reduced to encourage more private sector supply, but this may make them even less affordable to low-income people. Medicines for chronic problems, such as diabetes and hypertension and their complications, are particularly expensive. A 2005 survey found that almost half of the expense for treatments of chronic illness was spent on transportation (24% on consultation, and 28% on medicines).

¹⁵ ADB. 2009. *Samoa Social and Economic Report 2009: Continuing Growth and Stability and Managing Development Risk*. Manila.

LIST OF INELIGIBLE ITEMS

1. No withdrawals will be made for expenditures
 - (i) for goods included in the groups or subgroups of the United Nations Standard International Trade Classification, Revision 3 (Table A8) or any successor groups or subgroups under future revisions to the classification, as designated by the Asian Development Bank by notice to the borrower;
 - (ii) in the currency of the borrower or of goods supplied from the territory of the borrower;
 - (iii) for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the Asian Development Bank;
 - (iv) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (v) for narcotics;
 - (vi) for environmentally hazardous goods, the manufacture, use, or import of which is prohibited under the laws of the borrower or international agreements to which the borrower is a party; or
 - (vii) on account of any payment prohibited by the borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Table A8: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco-processing machinery
897	897.3	Jewelry of gold, silver, or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations. Standard International Trade Classification, Revision 3.

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The principal bilateral donors are the Australian Agency for International Development (AusAID), New Zealand Agency for International Development (NZAID), Japanese International Cooperation Agency, People's Republic of China (PRC), and various agencies of the United Nations. The multilateral agencies that provide grants and loans are the Asian Development Bank (ADB), World Bank, European Union (EU), and Organization of Petroleum Exporting Countries.

2. ADB's country partnership strategy, 2008–2012 supports the implementation of the Strategy for the Development of Samoa (SDS) in alignment with the objectives of the Paris Declaration on Aid Effectiveness of 2005. The CPS focuses on poverty reduction with two inter-related pillars for intervention addressing the binding constraints for growth: (i) improved delivery of public services, including the removal of infrastructure constraints, and (ii) the promotion of private sector development. Priority sectors for the assistance pipeline are (i) energy, (ii) water supply and sanitation and waste management, and (iii) education. Priority themes are private sector development and sustainable economic growth.

3. Australia and New Zealand have endorsed the Joint Samoa Program Strategy, 2006–2010 to support Samoa's national planning processes and priorities. The strategic and enabling objectives are to (i) improve opportunities for employment and investment, (ii) facilitate community-level income and small business opportunities, (iii) improve the private sector enabling environment, and (iv) enhance the well-being of all Samoans through improved service delivery and community development. Australia takes the lead donor role in (i) public sector reform, (ii) law and justice, and (iii) rural development with a focus on income generation. New Zealand takes a lead donor role in respect of (i) the private sector and tourism, (ii) civil society and community development, and (iii) health. Australia and New Zealand work jointly with ADB as lead donors to support education. Australia and New Zealand also participate in cofinancing projects (e.g., Australian participation in the Power Sector Expansion Project with ADB and the Japan Bank for International Cooperation) and regional technical assistance, mainly with ADB and the World Bank).

4. The EU's country strategy for 2008–2013 is based on the government's SDS priorities. Samoa was allocated €31.3 million under the 10th European Development Fund, 2008–2013. Approximately 85% of the national indicative program resources, or €25.5 million, are earmarked for the Water Sector Support Programme. Assistance also includes support for non state actors, a technical cooperation facility and support for the Civil Society Support Fund that is cofunded by Australia and New Zealand for the development of community school facilities, health facilities, community micro projects, institutional strengthening and training. The European Investment Bank has funded so far eight lending operations in Samoa with a total value of €14.0 million.

5. Japan's development cooperation program with Samoa is premised on the SDS 2008–2012. The focus of Japanese International Cooperation Agency activities include several projects of assistance in health, education, transport, and the environment, including waste management and small-scale income generation activities. Japan International Cooperation Agency is a major co-financier of the 2007 Power Sector Expansion Project together with ADB and Australia. The ADB-administered Japan Special Fund is a major source of technical assistance for Samoa.

Table A9: Major Development Partners

Development Partner	Project name	Estimated Duration	Estimated Amount (million)
Theme: Law, Economic Management, and Public Policy			
ADB	Support for the implementation of SDS 2008-2012	2008–2009	\$0.6
	Private Sector Development Initiative	ongoing	...
	Support for external and internal audit	ongoing	...
AusAID	Institutional strengthening of police	2004–2008	A\$15.6
	Public sector improvement facility	2005–2009	A\$10.0
	Capacity building—judiciary	2006–2011	A\$5.0
NZAID	Public sector improvement facility	2005–2009	NZ\$5.0
	Capacity building—judiciary	2006–2011	NZ\$5.0
PRC	Legislative Assembly building/Courts Administration building	2007-2010	\$20.0
	Government office buildings	Ongoing	\$40.0
UNDP	Good governance	2008–2012	\$0.4
Theme: Water Supply, Sanitation, and Waste Management			
ADB	Sanitation and drainage project	2008–2010	\$5.0
EU	Water sector policy support program, including integrated water resources management, water supply and sanitation infrastructure, public awareness, and institutional strengthening	Ongoing	ST67 m
Theme: Energy			
ADB	Power sector expansion project	2008–2015	\$26.6
JICA	Power sector expansion project	2008-2015	\$38.0
AusAID	Cofinancing of the power sector expansion project	2008–2015	A\$19.0
Theme: Transportation and Communication			
World Bank	Infrastructure asset management	2003–2010	\$21.5
	Telecommunications development	2002–2009	\$4.5
	Cyclone emergency response program	2004–2008	\$4.5
UNDP	Information and communication technology development	2008	\$0.1
Theme: Health, Nutrition, and Social Protection			
World Bank	2nd Health sector policy development	2008–2013	\$3.0
	Infrastructure development	2004–2010	\$21.5
AusAID	Tsunami recovery	2009–2010	\$7.5
	Samoa health sector program project	2008–2013	A\$15.0
	Tackling non communicable diseases in Pacific	2007–2011	A\$20.0
NZAID	Tsunami recovery	2009–2010	NZ\$10.0
	Medical treatment/visiting medical experts schemes	annual	NZ\$0.7
AusAID and NZAID	School fee relief scheme	2010	\$2.5
EU	Tsunami relief	2009–2010	€4.0
ADB	Tsunami relief	2009	\$1.0
Theme: Gender and Development			
UNDP	Human rights activities	2008	...
	Integrated youth project	2008	\$0.1
AusAID	Small grants scheme for communities	annual	A\$0.5
NZAID	Assistance to nongovernment organization and support for Samoa Umbrella for Non Governmental Organisations	annual	NZ\$0.7
Theme: Private Sector Development			
UNDP	Private sector support (consolidates previous UNDP-supported Structural Adjustment Facility)	2009-2010	\$0.1

Development Partner	Project name	Estimated Duration	Estimated Amount (million)
World Bank	Technical assistance	2004–2008	\$0.2
EU	European partnership agreement, trade agreements, and related training	Ongoing	...
NZAID	Private sector support facility	2008–2011	NZ\$1
	Tourism rehabilitation/support	2009–2012	NZ\$4

...= not available, ADB = Asian Development Bank, A\$ = Australian dollar, AusAID = Australian Agency for International Development, EU = European Union, NZ\$ = New Zealand dollar, NZAID = New Zealand Agency for International Development, JICA = Japan International Cooperation Agency, PRC = People's Republic of China, UNDP = United Nations Development Programme.

Source: Development partner websites.

6. PRC has no specific country strategy and program for Samoa. PRC assistance focuses mainly on infrastructure (mainly buildings), long term training and the provision of a medical team.

7. The United Nations (UN) Development Assistance Framework for the Pacific Subregion is the common planning framework for UN agencies in the Pacific and will guide most of the UN's work from 2008 to 2012. The UN Development Assistance Framework represents the first region-wide response to the UN operational reform process and is a product of several partnerships in development, including between two UN country teams in the Fiji Islands and Samoa covering 15 UN agencies, funds and programs, and between the UN and the governments of 14 Pacific island countries. The United Nations Development Programme, World Health Organization, and UN Population Fund provide a range of assistance to Samoa in biodiversity, climate change adaptation, reproductive health, gender, water quality, information and communication technology development, good governance, and human rights.

8. The Pacific Regional Strategy, 2006–2009 of the World Bank has two strategic pillars for assistance in Samoa: (i) strengthening government capabilities in service delivery and (ii) improving incentives for private sector growth and employment. Assistance focuses on disaster risk management, health policy and infrastructure development, roads and bridges, marine protected areas, communications development, finance, and trade.

B. Institutional Arrangements and Processes for Development Coordination

9. The planning of development projects begins with project ideas generated by staff in line ministries, who complete a project proposal form. This is sent to the Sector and Project Unit of the Economic, Policy, and Planning Division for appraisal. The appraisal comprises comments that are designed to improve the proposal, rather than a thorough analysis of net benefits, consistency with the SDS, or relationship to the sector plan (notwithstanding that a number of sector plans have yet to be completed).

10. Following appraisal, the Sector and Project Unit sends all proposals to the Cabinet Development Committee, which meets every 2 months, where they are approved in principle. The proposals are conveyed to the Aid Coordination Committee which, like the Cabinet Development Committee, is chaired by the Prime Minister. The Aid Coordination and Debt Management Division in the Ministry of Finance, which provides secretariat services to the Aid Coordination Committee, then has the responsibility for resource allocation.

11. ADB and World Bank have a shared liaison officer position based in the Ministry of Finance in Apia. This has enabled greater coordination between these two institutions and allows for more regular representation of ADB and World Bank in local meetings to coordinate development partners.

C. Achievements and Issues

12. Samoa became a signatory to the Paris Declaration on aid effectiveness, in August 2008. The Paris Declaration principles are however generally followed in Samoa, where the SDS mean that leadership on development policies and activities comes largely from Government, and that donors have agreed to base their programs on the nation's development strategies. Similarly, harmonization of action is improving, with a number of programs supported jointly by two or more donors under sector-wide approaches. A draft Aid and Development Cooperation Policy has been submitted for Cabinet approval which sets out the framework for effective aid delivery in order to positively impact on the development process. Currently, performance indicators are being formulated so that the Government and donors can assess progress towards development outcomes. Samoa and the Cook Islands are the only Pacific countries undertaking an evaluation of the Paris Declaration in early 2010.

13. Support from donors for the preparation and implementation of sector plans is already a priority. Sector plans are particularly important focus as they are to provide an important link to medium-term budgeting through the national Medium Term Expenditure Framework. Eight sector plans developed to date all have Medium Term Expenditure Frameworks and Monitoring and Evaluation frameworks which provide a link to the national Medium Term Expenditure Framework.

14. Progress on managing external assistance is, however, somewhat mixed across sectors. Notably, 7 sectors still lack completed sector plans (3 are under development with the remainder yet to initiate activities in this direction). The target is to complete all sector plans by the end of the current SDS. The slow pace of reform of State Owned Enterprises constitutes an important shortcoming in the contribution of the public sector to development results. And the approach to development planning at the program and project level, despite the preparation of the SDS, could be more strategic. The move to adopt sector wide approaches is however an important change that will help address this concern.

D. Recommendations

15. The Government has established a broad ranging and well regarded strategic planning process and implementation framework. Key elements are the SDS 2008-2012 and its sector plans, the Public Financial Management Reform Program and the reform architecture for State Owned Enterprises. They provide a sound basis for the alignment and harmonization of external assistance, and to meeting the Government preference that more assistance be provided as budget support.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country and Project Title: Samoa Economic Recovery Support Program
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Lending/Financing Modality:	Program Cluster Loan	Department/ Division:	Pacific Department/ Pacific Subregional Office in Suva
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I. POVERTY ANALYSIS AND STRATEGY

A. Link to the National Poverty Reduction Strategy and Country Partnership Strategy

1. Based on the country poverty assessment, the country partnership strategy, and the sector analysis, describe how the project would directly or indirectly contribute to poverty reduction and how it is linked to the poverty reduction strategy of the partner country.

The overall vision of the Strategy for Development of Samoa (SDS), 2008-2012 is to improve the quality of life for all by ensuring sustainable economic and social progress. The SDS identifies three priority areas for implementation: economic policies, social policies, and public sector management and environmental sustainability. Under the economic policies, two main goals are sustained macroeconomic stability and economic growth and employment creation led by the private sector. Broadening economic activity and private sector development is a key strategy for improving economic growth rates and reducing poverty and will be supported through the program.

B. Poverty Analysis

Targeting Classification: General intervention

1. Key Issues

The program will help the government limit any short-term increase in poverty incidence arising from the economic slowdown. Specific actions include (i) allocating more of the budget for capital expenditure in accordance with a prioritized Public Sector Investment Program, (ii) establishing a budget process for fiscal year 2010 that limits new expenditure initiatives to priorities that will have immediate and significant impacts and/or support the most vulnerable members of the community, (iii) preserving or increasing expenditure on the delivery of public services to the most vulnerable members of the community, (iv) implementing a school fees relief scheme, and (iv) aligning government expenditure and revenue with the medium-term goal.

2. Design Features

Support for the vulnerable is a feature of the program, in recognition of the extra hardship imposed by the global economic crisis and the preceding episode of high international commodity prices. This support will comprise relief from the payment of public school fees and explicit, progressive reorientation of government programs to target the most vulnerable.

II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

Key Issues. The impact of the program on the budget should provide benefits to the Samoan economy and the Samoan people. As the specific areas of impact and scale of impact will depend on the decisions the government makes once a strengthened policy and legislative environment is in place, an assessment is infeasible at this point.

B. Consultation and Participation

1. Provide a summary of the consultation and participation process during the project preparation.

Consultation was undertaken with representatives of civil society and agencies responsible for delivering key services during with-country consultation, reconnaissance, and pre-appraisal missions. This was joined with fact-finding for the linked Japan Fund for Poverty Reduction grant. The mission consultation built on consultation undertaken by the government, notably through a global crisis public forum and in the formulation of a response to tsunami.

2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?

☐ Information sharing ☒ Consultation ☐ Collaborative decision making ☐ Empowerment

3. Was a C&P plan prepared? ☐ Yes ☒ No

If a C&P plan was prepared, describe key features and resources provided to implement the plan (including budget, consultant input, etc.). If no, explain why.

The program is instead based on implementing the government's own strategies and plans, notably through the SDS 2008–2012, which was developed through a consultative approach and provides mechanisms for ongoing public reporting on performance. The program provides for the government's design and implementation of a consultation and engagement strategy covering the scope of the program, which will provide feedback from private sector and civil society organizations on the government's development agenda.

C. Gender and Development

1. Key Issues.

By regional standards, Samoan women score highly on the gender development index and gender empowerment measure. Women have good access to education, with near universal access to primary education and higher enrollment than men in secondary education. Women's health indicators are also good by regional standards, though illness related to pregnancy and childbirth still poses health risks for women.

Women still face disadvantages in their access to economic and political resources. Women are only half as likely as men to be economically active (33% compared with 65%), and only about one-third of paid workers are women. Women have little protection from labor-related discrimination. The global economic crisis is believed to have caused job loss for many women, as large numbers of them were employed in the now closed Yazaki vehicle parts plant and in canneries. The recent tsunami's effects on tourism will influence women's employment, as many paid women workers are engaged in tourism-related services and sales. Women's limited ownership of land constrains their productive potential and access to finance. While there are organizations providing microfinance in rural areas, many rural women lack the financial literacy and business skills needed to utilize available opportunities.

2. Key Actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

☐ Gender plan ☒ Other actions/measures ☐ No action/measure

A linked project—Social Protection of the Vulnerable in the Pacific, financed from the Japan Fund for Poverty Reduction—will extend targeted support to vulnerable groups such as women, unemployed youths, and people living with disabilities through the development and piloting of semiformal social safety net models that build on existing informal community mechanisms. The proposed project will provide for a participatory, country-led process of social protection policy development to better identify and understand how to address the needs of the vulnerable. These components will include specific measures that target women and monitor their participation.

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	No impact		<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
Indigenous Peoples	No impact		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
Labor <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	No impact		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
Affordability	No impact		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others (conflict, political instability, etc), please specify	No impact	No other social risks of the Program have been identified.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action

IV. MONITORING AND EVALUATION

Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? ☒ Yes ☐ No

The design and monitoring framework contains specific performance targets for state-owned enterprises that will include social indicators.