



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-August-2018 | Report No: 129730



BASIC INFORMATION

A. Basic Project Data

Country Samoa	Project ID P165928	Project Name Samoa Second Resilience Development Policy Operation with a Catastrophe Deferred Drawdown Option	Parent Project ID (if any) P162104
Region East Asia and Pacific	Estimated Board Date October 31, 2018	Practice Area (Lead)(s) Macroeconomics, Trade and Investment; Social, Urban, Rural and Resilience	Financing Instrument Development Policy Financing
Borrower(s) Independent State of Samoa	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The objective is to:

- i. To strengthen Samoa's macroeconomic and financial resilience
- ii. To increase Samoa's resilience to the effects of climate change and natural hazards
- iii. To reduce Samoa's vulnerability to non-communicable diseases

Financing (in US\$, Millions)

SUMMARY

Total Financing	13,700,000
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DETAILS

Source: IDA	13,700,000
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Decision

The summary Decision from the Decision Meeting is whether the team is authorized to appraise and negotiate the DPF.



B. Introduction and Context

Country Context

- 1. The proposed operation is the second in a programmatic series of two development policy operations (DPOs), aimed at boosting the resilience of Samoa to some of the major risks threatening its sustainable growth and development, and includes a Disaster Risk Management (DRM) Policy Grant with a Catastrophe-Deferred Drawdown Option (Cat DDO).** The proposed operation combines two instruments (a DRM DPO with a Cat DDO, embedded in a programmatic DPO) and has the objectives of strengthening Samoa's macroeconomic and financial resilience, increasing Samoa's resilience to the effects of climate change and natural hazards, and reducing the vulnerability of Samoans to non-communicable diseases. With the inclusion of a Cat DDO, this operation will specifically support the Government of Samoa's efforts to increase Samoa's resilience to natural disasters, not only by supporting policy reforms to this end, but also by providing substantial, quick-disbursing financing in the immediate aftermath of a natural disaster.
- 2. Under the proposed operation, the World Bank (WB) will continue to support the implementation of reforms that have been prioritized by the Government,** and that are closely aligned with target areas identified in the Strategy for the Development of Samoa 2017–2020 (SDS), including economic sustainability and business development, climate and disaster resilience, and improved health outcomes. The DPO series is central to the Bank's overall engagement with Samoa, as laid out in the Regional Partnership Framework (RPF, report no. 100997-EAP) discussed by the Board on 28 February 2017. The second operation in the series is an IDA Grant of SDR [9.5] million (US\$ 13.7 million equivalent). Of this amount, SDR 3.5 million (US\$ 5 million equivalent) would be provided as a development policy grant, and SDR 6.0 million (US\$ 8.7 million equivalent) would be provided under the Cat DDO on grant terms, available for full or partial drawdown in the event of a Proclamation of Emergency related to a natural catastrophe (e.g., cyclones, earthquakes, tsunami).
- 3. The proposed operation is innovative in providing a combination of upfront financing and disaster-contingent financing through a single budget support operation.** The proposed structure is particularly appropriate for small island developing states such as Samoa, given the importance of policy reforms to address vulnerability to natural disasters and climate change, the need for financing that disburses quickly and with certainty in the aftermath of a natural disaster, in addition to traditional budget support, and the efficiency gains in a thin-capacity environment of working with one operation, one set of prior actions, and one set of reporting requirements (rather than two), both for the government and for the Bank. Moreover, the integration of support for disaster risk management policy reforms with the long-running budget support dialogue in Samoa will further the government's effort to mainstream climate and disaster risk and resilience into its development.

Relationship to CPF

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



5. **The DPO series is complemented by other WBG operations targeted at achieving the RPF outcomes.** The reforms targeted at increasing Samoa's resilience to climate change and natural disasters have been informed and motivated by two ongoing climate resilience projects in Samoa: the Enhancing the Climate Resilience of West Coast Road project and the Enhancing the Climate Resilience of Coastal Resources & Communities project. Other relevant areas of WB engagement include technical assistance on procurement reform, an extensive engagement with Samoa as part of the Pacific Payments, Remittances and Securities Settlement Initiative, and a planned project in the health sector.

C. Proposed Development Objective(s)

The objectives of the operation are:

- i) To strengthen Samoa's macroeconomic and financial resilience
- ii) To increase Samoa's resilience to the effects of climate change and natural hazards
- iii) To reduce Samoa's vulnerability to non-communicable diseases

Key Results

Under program development objective (i):

1. Increase in the ratio of domestic revenue to GDP
2. Growth in registration of security interests on movable collateral
3. Improvement in compliance with APG/FATF recommendations

Under program development objective (ii):

4. Revised building codes and standards applied to new residential buildings
5. Road designs informed by Vulnerability Assessment and Infrastructure Asset Management Strategy improvement initiatives implemented
6. Increase in the number of priority investments identified in the risk informed management plans that are included in the work programs of key sectors

Under program development objective (iii):

7. Increase in relative price of sugary and salty products, tobacco and alcohol
8. Average unit price of select purchased medicines declines relative to benchmarks

D. Program Description

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



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

E. Implementation

Institutional and Implementation Arrangements

8. The Ministry of Finance is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. The Ministry of Finance will directly monitor the results indicators for the action on revenue, and will collaborate with the relevant agencies on the other results indicators. The Ministry of Finance has demonstrated good capacity to coordinate the monitoring and results evaluation of budget support operations to date. Where possible, it will utilise existing systems for monitoring and evaluation purposes (for instance, the monthly management ‘scorecard’ for key revenue indicators).

9. The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality. Capacity constraints in such a small public administration affect the array, timeliness and quality of available data. Where possible, results indicators have been selected from those that already exist, rather than requiring new data to be produced, diverting scarce capacity from core data collection and analysis functions.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

10. The proposed operation will support the Government in its efforts to boost resilience to economic, climate, and health-related shocks, which should ultimately have a particularly positive impact on the poor and vulnerable. Over time, the prior actions should reduce the risks of i) a contraction in the provision of essential public services (due to insufficient fiscal buffers); ii) a disruption to remittance flows; and iii) severe impacts on livelihoods after a natural disaster. The poorest parts of Samoa’s population are likely to be the most susceptible to these risks, given their relative dependence on public services and remittances, and their higher vulnerability to natural disasters. The reforms supported by this operation should also help to ensure investment activities (in housing, in public infrastructure, and at the community level) are designed to reduce the damage from natural disasters and climate change. Social safety nets are fairly limited in Samoa, so the main way in which poor and vulnerable groups are protected is through designing policies that take their interests into account.



11. Given comparatively constrained non-food expenditure, the wellbeing of the poorest quintile of the population is disproportionately dependent on publicly-funded education, health and community development services. Estimates from the 2013/14 HIES indicate that the poorest quintile averages per capita non-food expenditure of about SAT 20 per week, well below the population average of about SAT 70. This makes them more vulnerable than other quintiles to any contraction in the provision of essential public services that may result from external shocks if the Government lacks adequate fiscal buffers. The universal availability of basic public health services at no or little cost underpins the relatively strong health indicators that Samoa has achieved to date (but which are now threatened by NCDs), while the universal availability of fee-free primary and progressively also secondary education underpins Samoa's relatively strong education indicators. It is thus particularly important to poor people and vulnerable groups that the state maintains the capacity to provide public services over time, which in turn depends on the maintenance of fiscal stability. The revenue reforms supported by this DPO program should further the government's efforts to consolidate its public finances and rebuild its fiscal buffers.

12. Other reforms supported by this operation should have positive impacts on the poorest. The 2013/14 HIES shows that remittances accounted for a higher share of the income of the poorest quintile than for the overall population. The AML/CFT reforms should help to address the concerns of correspondent banks and allow continued competition in the provision of remittance services, keeping the cost of remittances down for the poorest. Maintaining resilience of key public infrastructure (and in particular roads) to climate risks will help facilitate access to key services after a natural disaster, which is again particularly important for the poorest who tend to be more exposed to disasters and less able to cope with their effects (see e.g. the 2016 Systematic Country Diagnostic for the 8 small Pacific Island Countries). Reforms that will support the implementation of identified priority investments at the district and village level will also help the poorest, e.g. by ensuring access to fresh water through provision of rain water tanks or gravity fed systems; by improving food security through provision of agriculture planting material for establishing multi-cropping systems during seasonal droughts.

Environmental Aspects

13. The policy actions supported under the operation – including those related to climate and disaster resilience – are not expected to create significant negative impacts on Samoa's environment, natural resources or forests. Policy actions related to revenue, AML/CFT compliance, alcohol control and pharmaceutical inventory management are not expected to have any significant environmental impacts. The actions to support implementation of the revised national building codes, improve the management of key infrastructure assets, including roads, and ensure that climate and disaster risks are better accounted for in the design and location of key social and economic assets. To the extent that improvements in road management serve to lengthen the lifespan of road assets, this would reduce quarrying for building material and potentially reduce fuel consumption through improved flow of traffic. The adoption of CIM plans is likely to result in positive effects as at least a third of the identified investments at the district level and half at the village level focus on reducing degradation, increasing afforestation and improving the condition of the water sources and coastal areas. To the extent these investments are reflected in sector work programs, they are likely to cause minimal negative impact on ecosystems as they are relatively small and are overseen by a project funded environmental safeguard specialist. The Ministry for Natural Resources and Environment (MNRE) is responsible for ensuring that building and road works have minimum environmental and social impact through its legislative framework.

G. Risks and Mitigation



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

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

CONTACT POINT

World Bank

Kim Edwards, Senior Economist and co-Task Team Leader
+621 9235 6536

Habiba Gitay, Senior Environmental Specialist and co-Task Team Leader
+679 322 8909

Borrower/Client/Recipient

Implementing Agencies



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	
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Approved By

Country Director:		
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