Australian Government
Department of Foreign Affairs and Trade

INVESTMENT CONCEPT NOTE TITLE – SAMOA GOVERNANCE AND ECONOMIC GROWTH INVESTMENT

A. Development Context (What is the problem?)

The Samoan context

The fiscal, economic and social effects of the COVID-19 pandemic have been severe, compounding the setbacks associated with the measles epidemic of late 2019. Real Gross Domestic Product (GDP) contracted by -3.2% in FY2020[i]: considerably worse than that experienced in Kiribati (-1.1%) and Tonga (-2.5%)[ii]. Current International Monetary Fund (IMF) projections point to a further contraction of -8.5% in FY2021[iii], before a return to growth in FY2022[iv]. The World Bank (WB) and Asian Development Bank (ADB) believe the downturn might be much deeper. What *is* certain is that the effects are being felt by the treasury, businesses, households, and specific groups, including women (see Annex A).

The **pressure on Samoa's fiscal position** is greater now than at any time since the Global Financial Crisis. Samoa's fiscal balance is projected to fall to -3.0% of GDP in FY2021[v] and public debt may climb to about 57% of GDP[vi]. The Government's ability to fund and deliver core services and programs is under strain, increasing the vulnerabilities some people face. Yet in some respects, the impacts of COVID-19 might have been worse. Over the past two decades, Samoa has established a solid track record of macroeconomic performance[vii]. Reforms to inland revenue, for example, have led to significant increases in domestic revenue collection[viii]. Those successes, and the insights about what enabled them, must now be harnessed to deepen the reforms required to support Samoa's stabilisation and recovery: strengthened debt management; closer collaboration between central and line ministries on public financial management (PFM) reforms; and enhanced transparency of public finances[ix]. Reform processes will need to navigate prevailing interests and incentives, and the thin human resources available in the public sector.

Prior to the measles outbreak and the COVID-19 pandemic, Samoa's economic outlook looked strong. The IMF anticipated that the economy would grow by 3.4% in 2018/19, peak at 4.4% in 2019/20, and settle at just over 2% in the medium-term[x]. The health crises have eroded that sense of positivity, with the depth and duration of the **severe economic downturn** of grave concern. Samoan tourism operators may be without international customers for up to – potentially more than – two full years[xi], and 48% of those who were working in the sector have been laid off[xii]. **Women and those aged 20-29 have been particularly affected**[xiii]. Business confidence is low, the skills gap has widened, and rates of basic needs poverty may surpass those of 2008 (see Annex A). Women-owned businesses have been disproportionately affected by the pandemic[xiv]. The GOS must now position Samoa for an inclusive, durable recovery; one that is founded on economic diversification, innovation, and investment, and which offers equality in opportunity and outcomes. It will require concerted action to implement overdue structural reforms that will improve the business and investment environment, and which will facilitate job creation and mobility.

Australia's partnership with Samoa

Australia has provided critically important support to the GOS as it has sought to manage and mitigate the impacts of COVID-19. However, the degree of responsiveness, flexibility, and oversight we have been able to show has been constrained by our administratively demanding and disjointed portfolio of investments. Recent Aid Quality Checks (AQCs) have pointed to space for improved efficiency, effectiveness and gender equality. As Samoa plots a path to recovery and resilience, Australia must pivot to a development program that is founded on consolidation, greater engagement, and the delivery of relevant, high quality advice and support to viable reform areas. The upcoming conclusion of several commitments provides the opportunity to make these adjustments. The Samoa Economic Infrastructure Program (SEIP, A$18.7m, 2012-21), the Fiscal Resilience Program (SFRP, A$6m, 2018-21), the Civil Society Support Program (CSSP, A$2m, 2018-21), the Procurement Reform Support Program (SPRSP, A$1.5m, 2019-22), and the Governance Support Program (SGSP, A$9.5m 2018-22), coupled with various smaller value investments, all come to an end between mid-2021 and mid-2022). Over the same period, several high profile commitments will move from concept or design to implementation. These include two key construction projects. The Legislative Assembly Office (LAO), implemented using DFAT rather than GOS systems, will finalise its design in May 2021, go out to tender in Q3 2021, and mobilise in early 2022 for construction.

Looking ahead

We wish to better target our resources on *viable reform priorities* where we have strong national interests, comparative advantages, and well-established relationships. That requires that we refresh our portfolio, the delivery modalities we use, and how we approach what we do. The **Samoa Governance and Economic Growth (GEG) Investment** will assist the GOS to develop and implement priority reforms, while strengthening organisational capabilities and the institutional environment so that the GOS is better placed to deliver policy commitments more broadly and over the longer-term. In so doing, the investment will help improve the effectiveness of public expenditure and, by extension, the effectiveness of the development partner investments. That includes our upcoming Human Development and Social Inclusion Investment (HDSI, 2021-29). We anticipate that most of our bilateral investments in the fields of economic governance, economic growth, private sector development and potentially support to leverage policy and economic benefits from our infrastructure investments will be consolidated within this single GEG Investment. Investments in security and democratic governance may also be incorporated where these are consistent with overall objectives, where there is strong demand from the new GOS, and where the bilateral program can add value to and leverage from Australia's regional programming (e.g., for instance twinning/institutional linkage programs, cyber security cooperation).

The design process will coincide with the formation of a new national government in Samoa. This will be an opportune time to ensure the optimal relevance of our programming to the policy agendas of the new decision-makers and to build and leverage new (and existing) relationships through our development program.

B. Strategic Intent and Rationale (Why should Australia invest?)

Why governance and economic growth? Alignment with Australian policy objectives

Australia is Samoa's largest bilateral development partner. Total Australian ODA to Samoa in 2020-21 is estimated to be A$37.2 million, of which A$27 million is allocated to the Samoa bilateral program. It is likely that additional significant funds will be committed through the Pacific COVID-19 Response Package. The ***Samoa COVID-19 Development Response Plan*** commits Australia to work with its partners to improve health security, maintain stability, and support economic recovery. Australia has already injected A$10.5 million under the 2020 COVID-19 Response Package. This includes the provision of budget support to ensure fiscal stability. The Samoa Governance and Economic Growth Investment will assist the GOS to mitigate the current fiscal challenges and to establish a path to economic recovery and resilience. It will do so by deepening our engagement in priority areas in which we are presently engaged and have traction (e.g., debt management), while assisting GOS to address emerging priorities, either directly or in collaboration with the HDSI Investment (e.g., in the case of cost-effective social protection measures for the most vulnerable). As such, the Investment will be an important enabler of Samoa's continued pursuit of SDG Goals.

Why this and why now? Alignment with the aid tests

The proposed investment passes Australia's aid tests. A healthy, prosperous, and stable Samoa – one in which *all* citizens are protected and can prosper – is in **Australia's national interests**. In actively supporting economic recovery we will advance our Pacific Step-up and Partnership for Development goals of strengthening economic resilience and stability. Widening access to opportunities and outcomes *for all Samoans* is consistent with Australia's values, and offers upsides for macroeconomic stability and growth[xv]. An open, well-run economy with a stable and effective government benefits both Australian businesses and Samoa's fiscal position. This requires capable, efficient and transparent institutions that meet needs and expectations. The potential gains are evident. Government effectiveness is known to have a significantly positive effect on **economic growth**[xvi], which is itself the main driver of **poverty reduction**[xvii]. Government effectiveness is also associated with greater social equity in middle-income countries[xviii], such as Samoa. Given the known links between growing inequality and increasing poverty[xix], opportunity exists to support Samoa to build back better by stimulating trade, investment, and job creation in ways that benefit all Samoans, including women and those who are disadvantaged. The economic case for doing so is compelling: greater levels of gender equality are correlated with enhanced productivity and economic growth[xx].

This investment provides opportunity for Australia to **add value as an effective partner** in key reform areas, to build on successes to date, and to cement our role as a partner of choice. Australia is uniquely placed in this regard: it is the only bilateral partner with a substantive governance program *and on-the-ground presence*. While both the WB and the ADB are active in the governance and economic growth space, there is limited ongoing support in-country. ADB's portfolio of programs is primarily regionally driven, with a focus on energy, safer and more efficient road and maritime transportation, better internet connectivity, and effective disaster relief[xxi]. Similarly, the WB has a focus on infrastructure, climate resilience, transport and, increasingly, health system strengthening. While development policy operations (DPOs) support policy reform and occasionally strategic planning, they are often comprised of short-term interventions that are limited in scope and focused on policy outputs, rather than longer term sustainment of capacity gains and implementation. In discussions regarding future programming, the WB, ADB, and the GOS recognise the role that Australia has played *and must continue to play* in helping the GOS to embed reforms. This includes the multi-donor Joint Policy Action Matrix (JPAM) process, where Australia has been a key stakeholder providing support to reforms and measures to translate commitments into sustained action.

The investment will allow us – Australia and its international partners – to support improvements to the accountability, responsiveness, and capability of government, while strengthening donor effectiveness and coordination. We will capitalise on our reputation as an independent and trusted advisor, our deep and long-held bilateral and regional partnerships, and Australia's well-regarded record of economic and public administration reform. We will also utilise infrastructure projects delivered outside this Investment – such as the LAO - to stimulate the construction sector and facilitate skills development, while also offering an entry-point to JPAM/PFM reform agendas regarding improved asset management[xxii].

As a "flexible operating model"[xxiii] that is guided by agreed objectives, but which can learn from experience, amend tactics, and reallocate resources, the Investment embodies Australia's commitment to strong **performance management** and the delivery of effective development assistance. This 'structured flexibility' will enable us to respond, pivot or reorient our assistance to support viable reform agendas, better respond to changes (e.g., in policy priorities), mitigate shocks (e.g., associated with debt distress, cyclones), and adjust strategies and investments in the pursuit of success. In so doing, this Investment builds upon lessons learned from the pivoting process required by COVID-19.

What lessons have we learned?

Since 2015, DFAT has invested in more than 10 'standalone' projects or programs in the governance and economic growth space through our bilateral program in Samoa. A similar number of regional programs have an active footprint in the country. While many investments are well regarded by GOS and have generated good results, evidence suggests there is scope for improved performance and greater relevance (see Annex F). For example, programs that have been delivered through GOS systems have met with a range of implementation and planning challenges that have not been addressed or remedied effectively.

It is evident that technocratic approaches are often poorly suited to unlock change, particularly where they 'parachute in' best practice, bypass local structures or are implemented too rigidly. After all, the political economy of reform in Samoa is complex. While that is evident, it is also the case that the Apia Post team, much of Australia's programming, and the wider development partner community need greater understanding of the underlying interests, motivations and incentives that shape reform if they are to secure the desired benefits from budget support, policy dialogue and other forms of support. Our approach must therefore pivot to a more agile and informed way of operating that targets specific, reform-minded problems/opportunities, and which is underpinned by an ongoing reading of and response to the Samoan environment. In the short-term, it will require that the design team explore the political economy and draw on relevant insights from Australia's programming in Samoa and the wider region. They will also be guided by the findings and recommendations of the ANAO report of April 2020 on the VFM of facility arrangements.

What might success look like?

Subject to the conclusion of the design process and finalisation of the end-of-investment outcomes (EOIOs), it is anticipated that the investment will:

› respond to a call from GOS for Australia to present a more cohesive, coordinated and transparent approach to our development program that incorporates Whole of Government (WoG) and regional initiatives;

› strengthen monitoring, evaluation and learning (MEL);

› improve the performance and risk management of our development programming, both in terms of the pursuit of desired development results *and* the associated opportunities to cement geo-strategically important relationships and institutional linkages;

› allow more frequent, higher quality and more informed strategic engagement and coordination with both GOS and development partners;

› secure greater, sustained returns from our long-term investments in government systems and budget support;

› cement our position as a partner of choice to key institutions (e.g., the Samoan Ministry of Finance), and use those relationships to facilitate positive spill-overs to other sectors and investments (e.g., DFAT's upcoming HDSI investment);

› further the goals of the Pacific Step-up by enabling DFAT to leverage the development cooperation program more effectively as a platform for diplomatic and WoG engagement; and,

› future-proof our way of working so we can pivot effectively in response to setbacks and changes to policy.

C. Proposed Outcomes and Investment Options (What?)

We will seek to make an effective contribution to the attainment of two EOIOs (or "development results"[xxiv]), indicatively as follows:

› **EOIO1: Government of Samoa implements economic measures to mitigate pressing fiscal challenges, drive efficiency, and to strengthen Samoa's fiscal resilience.**

› **EOIO2: Government of Samoa, in collaboration with non-state actors, implements changes in policy and practice that encourage inclusive governance and climate-resilient, broad-based economic recovery and growth**.

The two outcomes – to be further developed during the design process and in consultation with key stakeholders – are discussed below. The GEG's value will be derived from its ways of working. The Investment will support evidence-informed and locally led solutions to the resolution of pressing issues. It will do so by collaborating with key partners, promoting knowledge-to-policy processes, engaging with the underlying institutional and social systems, and supporting fit-for-purpose solutions. These will include technical 'fixes' to problems that are technocratic in nature, and more exploratory approaches to issues that are complex in nature. The pursuit of gender equality within the EOIOs is a case in point; one that will require improvements to the evidence base, a tackling of gendered norms, and an elevated line of sight from GOS's more output focused approach to gender programming to date.

This twin-track approach recognises that reform processes are complicated and political in nature. Individual competencies, organisational capabilities, and underlying norms, interests and incentives combine to shape what is possible. The attainment of the EOIOs will therefore require that GOS is supported to address the underlying drivers – not the symptoms – of key challenges. Against that backdrop, the Investment will deliver a range of *formal* service lines (e.g., policy and technical advice, applied research, convening) that will result in a suite of tailored, context-specific outputs - knowledge, skills, linkages, products, and policy options - that provide the foundations for change. These will be complemented by an additional set of *informal* service lines (e.g., critical friendship, mentorship) that will help instil the confidence, courage, etc. to act.

End-of-Investment-Outcome #1: Government of Samoa implements economic measures to mitigate pressing fiscal challenges, drive efficiency, and to strengthen Samoa's fiscal resilience.

We will support the GOS[1] to **manage and reduce current debt vulnerabilities so that Samoa builds the fiscal space necessary to recover from the impacts of COVID-19 and then establishes the necessary financial buffers to absorb future shocks.** The Investment will be guided and limited by viable reform agendas within existing government strategies and plans, including the Finance Sector Plan, Samoa Debt Management Plan, and the Strategy for the Development of Samoa. Subject to further scoping at design phase, the Investment will focus on opportunities to **improve revenue collection**, **strengthen debt management**, and **continue procurement reform** in key agencies. The design team will also test reform opportunities connected to State Owned Enterprises (SOEs) – a reform area previously supported by SGSP. In addition to improving efficiencies, reducing liabilities and/or improving cost-effectiveness, reforms to procurement processes and to SOEs should also stimulate **market-related benefits** (see EOIO2). Measures to improve the **efficiency and cost-effectiveness of public expenditure in key social sectors will be led by the upcoming HDSI Investment**, with the active support of this Investment (see below).

The design process will further examine the use of the JPAM multi-donor mechanism as a means to support reform processes, as well as opportunities to leverage complementarities with Australia's regional programs. These include the Pacific Financial Technical Assistance Centre and the Pacific Private Sector Development Initiative (PSDI). It will also explore linkages with external programs, such as the WB's First Response, Recovery and Resilience Development Policy Operation (approved December 2020) and the ADB's regional initiative, Supporting Public Sector Management Reforms (June 2020), noting coordination to date on WB and ADB efforts through JPAM. In finalising identification of areas of greatest priority, the design team will consider the pipelines of other development partners, including an upcoming New Zealand Ministry of Foreign Affairs and Trade (NZ MFAT) TA-centred governance program (that appears to be very limited in scope and financial value).

Reforms to the fiscal landscape are typically hard fought and long in gestation. They are often political in nature, not least in times of social stress. However, a **positive trajectory over the eight-year life of the Investment** would see the GOS being better able to sustainably finance budget deficits, deliver essential services and programs, repay loan obligations in a timely manner, maintain agency over future investment decisions, continue financing for essential imports, and able to navigate the fiscal consequences of low-frequency, high-impact disasters such as cyclones.

End-of-Investment-Outcome #2: Government of Samoa, in collaboration with non-state actors, implements changes in policy and practice that encourage inclusive governance and climate-resilient, broad based economic recovery and growth.

We will support the GOS and its partners[2] to **position Samoa for an inclusive, durable recovery** – one that addresses the gendered impacts of the pandemic. That will require improvements to the business environment, structural reforms that facilitate job creation and mobility, and the effective functioning of enabling services that allow opportunities to be realised. The Investment will prioritise those reforms that show promise of having the widest and most lasting effects, and which should generate dividends for women. Subject to further scoping at design phase, the Investment will focus on opportunities to **facilitate job creation and mobility** (e.g., through better alignment of supply and demand, particularly in skills), and **stimulate investment, innovation and economic diversification** (e.g., through policy advice and support to market and labour regulation). For these ambitions to be realised, it will be necessary to **improve the coherency, transparency and responsiveness of the policy, legal, institutional, and regulatory conditions** that support inclusive, climate-resilient economic recovery and growth. By extension, that will require fostering **governance processes that are more inclusive and representative**, and which

[1] e.g., the Ministries of the Prime Minister and Cabinet, Finance, Customs and Revenue, Public Enterprises, and the Disaster Management Office.

[2] e.g., the Ministry of Commerce, Industry and Labour, Ministry of Finance, and Central Bank of Samoa, in addition to various non-state entities, including the Samoa Chamber of Commerce and Industry, banks and training institutions.

lead to outcomes that are more broadly shared. It may also require engagement with the broad security frameworks that underpin economic resilience and stability (see "Areas requiring for further exploration", below).

Australia's previous investments under this outcome area have achieved a number of successes, including setting a revised minimum wage; supporting government to better engage with foreign and seasonal work opportunities (and maximise remittance flows); building market intelligence tools for labour mobility; setting quality standards for industries and infrastructure; and supporting digital transformation, connectivity, cyber-security and service opportunities. This investment will seek to build upon and expand on many of these successes.

The GEG Investment will also seek to ensure that the economic and governance opportunities presented by **Australia's infrastructure commitment** in the LAO (possibly future investments through the AIFFP) are maximised. The GEG will not project manage the construction of either commitment, nor will the Investment fund additional infrastructure development projects. Rather, the GEG will seek to: a) stimulate wider economic benefits arising from Australia's infrastructure commitments, for example by supporting measures that maximise training, skills, employment and procurement opportunities (and potentially in collaboration with the sister HDSI investment); and, b) draw upon the insights and examples of good practice modelled by the LAO other projects to support evidence-based improvements to GoS's policy and regulatory framework for climate-resilient infrastructure development in Samoa. Subject to further exploration during the design process, the GEG may also provide discrete advisory services in the areas of risk management and quality assurance for the infrastructure investments.

By helping GOS to address structural obstacles to skills upgrading, investing, and doing business, this Investment will improve the returns to DFAT's business and sector-focused regional programming (e.g., PSDI, Business Partnerships Platform, PACER Plus Support, and Pacific Horticultural and Agricultural Market Access Program Plus). Areas of greatest priority will be identified by the design team, with due consideration of areas where other partners have greater experience and expertise (e.g., NZ MFAT on small business development) and/or where they will have a footprint, e.g., ADB's recently approved, multi-country TA program to support micro, small and medium-sized enterprises in the Pacific to recover from the pandemic[xxv]. Several areas that were previously supported by SGSP (e.g., foreign investment) but which are better located within the PSDI given its depth of expertise and regional engagement will be transitioned. The design team will test the merits of engaging in banking sector reform, including support to the Central Bank of Samoa, noting their increased regulatory role in the finance industry. However, the Development Bank of Samoa will unlikely be a focus due to the presence of other partners (ADB, WB). The design team will also explore opportunities to support GOS to capitalise on labour mobility opportunities, an area of high demand in the previous SGSP. DFAT will have ultimate authority for making decisions on areas for program investment.

A **positive trajectory over the eight-year life of the investment** would see individuals (including women and disadvantaged groups) and private sector actors benefit from a growing economy that generates greater, and more diverse, income and employment opportunities.

Links to the upcoming Human Development and Social Inclusion Investment

This Investment and its sibling, the HDSI Investment, will be designed and implemented concurrently, allowing for synergies and interlinkages to be optimised. There will be joined-up engagement with GOS, with a view to enhancing the government's ability to provide fiscally responsible support to target populations, including women, girls and people with disabilities. Subject to confirmation during the design process, the HDSI Investment will lead on measures to **improve the efficiency and cost-effectiveness of public expenditure in the health and education sectors**. However, it would do so in close collaboration with this Investment, drawing on the relationships, insights and expertise it offers. The two investments will also collaborate on **social protection** initiatives, with specifics to be identified during the design phase. This joined-up approach has the potential to unlock opportunities. For instance, government cash transfer pathways in Samoa are limited to old age pensions, whereas in many other Pacific countries payments are based on school attendance, births and unemployment. This is an area that is an emerging priority for GOS but where any measures need to be evidence led, well targeted and cost-effective.

Areas requiring further exploration

Several thematic issues will require specific resolution during the design phase, most notably:

- The potential role, relative importance, and location of **democratic governance** within this Investment, be that as an area within EOIO2 or as an outcome in its own right – a decision that will be dependent, in part, on the views of the new GOS. Much of Australia's support to democratic governance to date has been regionally funded and that is unlikely to change. However, we recognise that Samoa will require capable, inclusive, and accountable institutions as it seeks to bounce back and there might be opportunities to build on recent regional investments in parliamentary twinning and the Samoa Ombudsman. Based on previous engagement, we anticipate support to democratic governance might amount to only 1-2 per cent of total annual investment budget and for this to be located within EOIO2. However, it is possible that during design, and based on priorities of the new government, this could rise in prominence, perhaps demanding an outcome in its own right.
- The potential role, relative importance, and location of a **security**-related workstream within this Investment, again as an area within EOIO2 or as an outcome in its own right. We recognise that closer economic integration and connectivity creates both economic upsides and security-related challenges for Samoa, including the need for effective border management and cybersecurity (see the Boe Declaration Action Plan). To date, the bilateral program has only had a small but important engagement in this area, most notably via SGSP's support to the development of a national security policy and limited technical advice on border management. Levels of annual expenditure would likely be on a par with those for democratic governance but, again, could rise in prominence subject to consultations with GOS.
- Appropriate entry points for addressing and championing **gender equality and social inclusion (GESI)**. We recognise that the effects of the COVID pandemic have both exacerbated economic and gender inequality (see Annex A) and increased the risk that essential services and programs may be compromised. We intend to make a strong GESI contribution through this Investment, e.g., to inclusive governance processes, inclusive employment opportunities, and women's economic empowerment. Detailed work will be undertaken during the design phase, which may include supplementary, targeted desk-based analysis by the Governance and Social Development Resource Centre.

Whereas GESI will be a cornerstone of the GEG, any investments in democratic governance and security would likely be limited. Under DFAT's guidance, the design team will explore measures to guard against potential strategic drift (e.g., by introducing an expenditure cap for particular themes), while also examining coherence with Australia's regional programming and the expectations outlined in the Pacific Step-up. More broadly, the design team will also be tasked with identifying: viable reform areas within the agreed outcome areas; the best means to secure leverage from our budget support and relationships; suitable means to incentivise meaningful change and performance (e.g., by GOS and the Implementing Partner); possible avenues for joint cooperation that could produce cost savings and other VFM upsides; specific opportunities to complement and leverage off Australia's regional programs (e.g. in private sector development, infrastructure, security); and opportunities to engage with civil society partners in ways that offer potential for results and which are consistent with the mandate of the HDSI Investment. The design team will also be tasked with developing a program logic that will capture EOIOs, intermediate outcomes and (indicative) outputs, and delineating appropriate levels of accountability for the anticipated results.

The design process will identify priorities and workstreams for the first two years. These would be subject to verification and refinement upon commencement of implementation. They would draw on the Samoa 2040 Strategy, the new Strategy for the Development of Samoa, key central ministry strategic and organisational plans, and the expressed needs of the new GOS. They would also reflect lessons learned and gains achieved from the delivery of the Samoa COVID-19 Development Response Plan.

Positioning and expected benefits

The Investment will seek to develop the capabilities and capacities of key Samoan institutions to better deliver their mandates, to better coordinate, and to engage more effectively with each other. In recognition of Samoa's vulnerability profile, this will include measures to enhance preparedness for and responsiveness to slow onset crises and shocks (e.g., in terms of disaggregated statistics, evidence-based risk and vulnerability assessments, effective targeting, and public investment). Due consideration will be given to appropriate opportunities for Samoan partners to draw upon Australian innovation and Australia's experience of evidence-based planning and action, of overcoming coordination challenges, and of building institutional capability to iterate, learn and adapt. By functioning in this way, the Investment will enhance and maintain Australia's position as a partner of choice for Samoa's economic, development, and security cooperation. It will enable delivery of timely, high-quality support to where it is needed, while supporting Australian WoG objectives. For the Australian Government, this Investment will allow us to strengthen ties with key Samoan partners (e.g., Ministries of Prime Minister and Cabinet, Finance, Commerce and Industry, Public Enterprise, Revenue and Customs) and better manage and coordinate the totality of our support. It will also allow us to deliver Australia's infrastructure commitments with reduced risk. For both countries, it will enable a fuller responsiveness to urgent needs, and allow a redirection of human resources to the roles expected of our respective policies.

D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)

Delivery options

Three delivery modalities were considered in detail: a **contractor-managed 'flexible program'**; a **contractor-managed 'development facility'**; and a **streamlined, DFAT-led 'status quo'** (each described below and appraised in detail by Post). Further options were considered, most notably delivery through multilateral development banks and the creation of a Samoa off-shoot to existing regional programs. However, these provide less attractive qualities, e.g., in terms of Australia's direct influence; our ability to deploy Australian expertise or to work directly with other partners; the degree of alignment with GOS's desire for Australia to marshal its well-regarded expertise and experience in key reform areas; the need to have 'boots on the ground' to facilitate operational progress; and the degree of flexibility available within the tightly defined mandates of existing regional programs.

VFM-related assumptions have been made to the best of Post's ability, noting; 1) specific costs and staffing requirements will be dependent on the outcomes of the design process; and 2) there are no "standard" accepted costs for management fees for various modalities.

Delivery Option A: a flexible program in which assistance to focal themes and issues is housed within one investment, with responsibility for portfolio management and administration contracted out to a Program Manager (i.e., a managing contractor). End of Program Outcomes (EOPOs), Intermediate Outcomes and tentative Outputs to be identified at the outset, as would the nested programs and delivery partners.

Notable benefits: minimal scope for strategic drift; DFAT's outsourcing of responsibilities could reduce its admin. load.

Notable limitations: less well suited to fluid/uncertain environments and complex reform issues; would require lengthier upfront design processes; DFAT less able to respond to reform opportunities and policy shifts.

Notable risks: may incentivise or motivate partners to focus on output delivery, not the pursuit of EOPOs; rigidity may render the program unable to pivot to new circumstances, e.g., in policy and in response to unforeseen shocks; goes against GOS requests for programs that have strategic versatility and may reduce our existing influence.

VFM: FTE: (1) senior LE would administer a head agreement and support high level risk and policy discussions. Up to (2) LE may act as thematically focused policy and program leads. Resourcing would probably be required to support initiatives or requests that sit outside of the flexible program, should it be required. A-Based (1) officer would have streamlined/consolidated engagement on management, risk and policy issues. Management Costs: management fees may be lower than those for a facility given greater clarity of programmatic activities. Overheads for property, vehicles etc may be similar. Unexpected/predicted program requirements or shifts in policy/environment may result in additional programming being required, potentially undermining the value of the modality.

Delivery Option B: a development facility in which an appointed Facility Manager (i.e., a managing contractor) would centrally administer contracts and actively manage the portfolio on behalf of the two governments. Overarching high-level development outcomes would be agreed at the outset, but reform pathways and strategies would be subject to ongoing testing, learning, and adjustment. Nested programs/interventions would be identified at the outset and over time.

Notable benefits: well suited to fluid/uncertain environments, allowing for timely pivots; suitable for piloting innovative approaches and for placing 'small bets' that could be scaled back, adjusted, or further supported over time; preferred approach of GOS; allows for greater responsiveness and integration with regional programming; Post would have greater ability and space to engage on policy and strategic issues, and pivot to key issues to maximise influence.

Notable limitations: would require strong DFAT skills in strategic and policy engagement, and in complex program and contract management; might take time to develop such skills and to cement working relationships.

Notable risks: strategic drift; may take excessive time for the facility to 'find its way'; influence of Post may be diluted.

VFM: FTE: (1) senior LE would administer a head agreement and support high level risk and policy discussions. Up to (2) LE would act as thematically focused policy and program leads, with some front-loading of effort until the facility finds its feet. A-Based (1) officer would have streamlined/consolidated engagement on management, risk and policy issues. Staffing requirements could be reassessed in a Mid Term Review. Management Costs: management fees may be higher than other models (depending on the degree of specificity identified during design) but may not be significantly more than the existing high fees for the smaller scale, Samoa Governance Support Program (a TA facility). Overheads may be similar to a flexible program.

Delivery Option C: the status quo in which assistance to a set of pre-defined focal themes and issues would be delivered by a small (i.e., reduced) number of programs delivered by a range of partners. Responsibility for contract administration, cross-program lesson-sharing and coherence would reside with DFAT. Option of appointing a Program Support Unit (PSU) to assist DFAT and bolster resourcing.

Notable benefits: familiarity; would provide DFAT with regular direct engagement with partners and GOS (albeit often at an administrative and contractual level).

Notable limitations: drivers of Apia Post's mediocre AQC scores and the findings of the 2019 internal audit would remain unresolved; Post would have limited bandwidth to respond efficiently and effectively to needs/opportunities and to urgent requests from CBR; doesn't meet GOS request for limiting transaction costs and for consolidation; more frequent administrative transactions with an already overwhelmed GOS would detract from elevating discussions to an outcomes and policy focussed level.

Notable risks: portfolio fragmentation and weak strategic oversight leads to missed opportunities and elevated risk; rigidity in portfolio composition leads to a proliferation of new investments/contracts.

VFM: FTE: existing (4) LE staff would be required for administrative, rather than policy/programming driven, duties. While a PSU may assist, it would also require management itself. Quality reporting requirements would be higher and require greater internal focus. DFAT A-Based (1) would be allocating more time to a diffused set of programs requiring greater internal oversight and reporting. Management Costs: depending on delivery partners, management costs/fees may be lower but there would be no economies of scale. A PSU might attract its own management fees and overheads.

Our preferred approach is Option B, i.e., a development facility. It offers optimal scope to pursue strategic, coherent outcomes; the desired degree of flexibility to changes in the policy and operating environment; the ability to deliver Pacific Step-up commitments; VFM upsides for Australia and Samoa; and effective risk management and mitigation. We also recognise that facilities are often the most suitable delivery option for fluid, uncertain environments that necessitate a degree of agility. From a Samoa-facing perspective, the responsiveness and ability to pivot of the SGSP (a quasi-facility) was identified by GOS as a strongly preferred model, and one which supports GOS objectives. Nonetheless, we remain conscious that facilities can take time to 'find their way' and for trust/understanding to emerge (e.g., Coalitions for Change, Philippines[xxvi]). We also note the risk of strategic drift (e.g., see SGSP Samoa; Governance for Growth, Vanuatu; KOMPAK, Indonesia[xxvii]), and the related possibility of fragmentation, incoherence, and suboptimal effectiveness (hence the notion of 'structured flexibility'). As such, the design team will be tasked with exploring both Option A and Option B. This will include detailed VFM analysis of each. Irrespective of delivery modality, this Investment will have an appropriate level of GESI-focused analytical capacity and resourcing. GESI inputs and activities will be delivered within a clear Investment-wide GESI strategy and an associated commitment to actively engage and share lessons with the HDSI Investment.

From a broader perspective, the timing of the overall restructure of the Samoa development program presents an opportunity for the Post to be strategic when considering VFM, given the HDSI and GEG investments will operate over similar timeframes and will represent the majority of bilateral program activity. For instance, opportunities will be explored during the design and procurement processes for the two implementing partners to share premises, resources and costs. Similarly, a number of LE positions have become vacant at Post, with replacements being recruited on a limited term (12-24 month) basis. This will ensure Post has flexibility to find the right resourcing levels and mix of skills to effectively manage the selected modality and investment once mobilised.

Role of the Implementing Partner

The Implementing Partner (IP) will be expected to act upon the instruction of DFAT and the governing group, while having licence to think and act *within agreed parameters* where measures are consistent with the identified outcomes, key policy priorities, and agreed operating principles. Nonetheless, the expectations placed on the IP will be clear: it will be expected to complement and add value, not detract and disrupt bilateral relationships. It must therefore enhance established, well-functioning and trusted relationships between DFAT, GOS and associated partners. To optimise performance and to exploit available synergies with other programs, the design process will explore opportunities to insert contractual performance-related incentives for specific partners, including the IP.

The IP will be required to provide a range of support functions to DFAT and/or GOS. These will include applied political economy analysis; partnership brokering; event convening; grant and contract management; sub-design; communications; MEL; financial reporting; and risk management. The IP will also support DFAT's policy engagement with GOS, ensuring application of evidence and political economy-related insights.

The success of the Investment will depend in large part on *how* the IP works as much as *what* it does. The IP will operate as an active partner, critical friend and supporter; one that assists Samoan colleagues to co-create and then deliver locally-led changes that are desirable, technically feasible, and politically and institutionally viable. The IP will be expected to actively facilitate knowledge-to-policy processes, utilise the Investment's full 'body of work' (both past and present), and enhance engagement and collaboration among those involved. In doing so, it will seek to build momentum and ultimately help nudge the system towards the capabilities and actions required to deliver necessary reforms.

DFAT's role, associated implications, and opportunities for leverage

DFAT will be responsible for maintaining and strengthening bilateral relations with GOS partners, direction setting (with GOS), and oversight of the Investment performance. This requires that DFAT plays an active role in leading high-level or strategic engagement with GOS and APS agencies; scanning the landscape for bottlenecks, risks and opportunities; ensuring effective coordination and coherence between this investment, DFAT's upcoming HDSI Investment, and Australia's regional and global investments; and facilitating evidence-informed decision-making. DFAT will retain ultimate decision-making authority for all investments and will not delegate responsibility for policy decisions or overall development program risk management. It will also lead coordination and dialogue with other development partners, particularly the WB, ADB, NZ MFAT and the IMF.

This outward-facing, strategic, and relationship-centred role is fully consistent with the ambitions foreseen within the Pacific Step-up. By outsourcing an appropriate degree of administration and management, DFAT will have more time to fulfil this role. For optimal returns, Apia Post will require a mix of skills and expertise, including in policy dialogue and policy analysis; strategic management of flexible modalities; partnership brokering and relationship management; MEL; and DFAT safeguards and financial accountability. However, the effective functioning of the Investment will not be dependent on or built around any one individual or skill set.

Indicative governance arrangements

The Investment Design Document (IDD) will set out agreed governance arrangements. Specific attention will be paid to relevant lessons and to the interests, concerns, and expectations of both governments. In principle, both governments are keen to streamline arrangements in ways that minimise reporting obligations and transaction costs but that facilitate elevated, strategic dialogue between senior personnel, i.e., people with the authority to make decisions. The design team will also explore points of interface with DFAT's upcoming HDSI Investment, such that insights, opportunities and risks are shared or managed efficiently and effectively.

Performance management

The IP will develop, implement and periodically review an investment-level Performance Assessment Framework (PAF). The IDD will capture a set of draft performance expectations (to be revisited and finalised within six months of start-up). A set of partner/program-specific logics and MEL frameworks would nest within the overarching PAF.

An independent progress review is envisaged at or about Month 24, as is a Mid-Term Review in 2025-26. The MTR will allow for recalibration of outcomes and the theory of change, and/or act as a stop/go/reconfiguration point should the Investment not be performing adequately. To promote high-quality implementation, the contract for the IP will include performance payments based on excellent delivery of services and achievement of specific results. For any sub-designs and/or downstream implementation plans the IP will explore the use of results-based financing and other innovative financing approaches that may suit the Samoa context.

E. Risks

The Investment is deemed to be of medium value and medium risk, as indicated in the Investment Concept Risk and Safeguards Assessment. We judge that each of the risks can be effectively managed through careful design and review, the careful appointment of key personnel, and ongoing open dialogue during implementation. The approach described in this ICN represents a tactically and politically smart way of enabling DFAT and its partners to manage and mitigate risk. The proposed approach will also create more time and opportunity for personnel at Post to engage with changes in the external environment.

The Investment will involve contact with children and vulnerable and disadvantaged groups. In line with DFAT's Child Protection Policy, a detailed assessment of child protection-related risks will be conducted during the design phase.

F. Annex A: The governance and economic growth landscape (April 2021)

Introduction

Samoa has recorded only three cases of COVID-19 at the border: two were identified in November 2020, and the third in February 2021. The GOS's response to the threat of the pandemic earlier in the year was swift. Samoa was among the first nations to introduce 14-day self-quarantine measures for travellers from COVID-19–affected countries[xxviii]. On 20 March 2020, the GOS declared a State of Emergency, closing its borders to all but returning citizens, essential advisors, and diplomats. Restrictions gradually eased in Q2-4 2020 but the State of Emergency remains in place. Following identification of the first COVID case on 18 November 2020, the GOS extended the quarantine period from 14 to 21 days. Repatriation flights operate only sporadically and are subject to change.

While cases have been kept to an absolute minimum, the headline fiscal and economic impacts of the COVID-19 pandemic have been severe. Whereas the global economy is projected to expand by 4% in 2021[xxix], realities in Samoa are very different. Real GDP growth contracted by -3.2% in FY2020[xxx]. The deterioration will be compounded in 2021, with the economy expected to contract by -8.5%[xxxi]: a little worse than current forecast for its neighbour, Tonga (-8.0%[xxxii]) and significantly worse than the pre-COVID 19 projection for Samoa of 2.7%[xxxiii]. Despite the GOS's comprehensive stimulus program, comprising two packages of support worth US$24.8 million (3.1% of GDP) for FY2020 and then US$31.1 million (3.8% of GDP) for FY2021[xxxiv], businesses and households have faced considerable hardship. The environment is likely to worsen before it improves.

An exogenous shock amidst a broadly positive governance and management trajectory

In some respects, the impacts of COVID-19 might have been worse. Over the past two decades, the country has established a **solid track record of macroeconomic reform and performance**[xxxv]. In the ADB's view, the GOS was implementing "a sound budgetary framework" before the pandemic: a view endorsed by the IMF in 2020[xxxvi]. In recent years, a concerted effort had been made to enhance the country's macroeconomic resilience by raising domestic revenues, containing spending, and bringing down the level of public debt[xxxvii]. Reforms to the Inland Revenue, for example, have led to stronger enforcement and improvements in taxpayer compliance and, in turn, to significant increases in domestic revenue collection[xxxviii]. External debt fell from 54.9% of GDP in FY2015 to 46.9% in FY2019 – just below the GOS target of 50.0%[xxxix] (but higher than the 40% proposed by the IMF in 2019[xl]). Over the same period, the current account balance improved from a deficit of 8.1% of GDP in FY2014 to a small surplus of 2.3% in FY2019, aided by growing remittance receipts, strong tourism earnings, and a boost to the construction sector provided by the Pacific Games in July 2019[xli]. Going into 2020, the outlook looked positive. Projected high earnings from both tourism and remittances were expected to spark a current account surplus in FY2020 of 3.0% of GDP [xlii]. The banking system also appeared to be sound, evidenced by declining non-performing loan ratios and adequate liquidity[xliii].

An elevated risk of debt distress and ongoing need for PFM reform

Notwithstanding the gains made in recent years, Samoa's fiscal wellbeing was already exposed before the pandemic on account of its narrow economic base and its vulnerability to shocks. In 2018, the ADB[xliv] had judged Samoa as having a "**high risk of debt distress**"; a view shared by the IMF in 2019[xlv]. However, the fiscal effects of the pandemic appear to be manageable: the ADB stated in July 2020 that Samoa's debt profile should "remain sustainable over the long run"[xlvi], due in part to its long-term concessional nature[xlvii]. That view remains unchanged. However, the debt profile is based on external debt only: the amount of domestic debt, which is largely generated by State Owned Enterprises, is unclear. Moreover, the relative size of public debt will inevitably increase as the economy contracts. Samoa's fiscal balance is projected to fall to -3.0% of GDP in FY2021[xlviii]. Current projections indicate that public debt will reach about 57% of GDP[xlix.]. Most of the debt is externally sourced[3] and related to project financing. Samoa's vulnerability to natural disasters (e.g., cyclones) and the effects of climate change (e.g., coastal erosion, changes in rainfall) heighten risks further. In the coming months and years there will be need to adopt a careful approach to **debt management and fiscal sustainability**[l], accompanied by prudent investment for recovery and

[3] e.g., from the ADB, EIB, EXIM Bank of China, IFAD, JICA, OPEC, and the World Bank.

economic resilience. **IMF emergency financing** under the Rapid Credit Facility (RCF) will help Samoa address urgent balance of payments, potentially offering a route to access the G20's Debt Suspension Initiative. However, it is doubtful that the GOS will be able to finance further economic stimulus in 2021.

Samoa is rightly regarded as **one of the region's leading PFM reformers**[li], and Australia and its JPAM partners (NZ MFAT, WB, EU and ADB) have played an important supporting role in recent years. However, the JPAM parties recognise that more can be done to safeguard fiscal sustainability, to build adequate buffers to address economic hardship and the vulnerabilities associated with disasters and onset crises (e.g., climate change), and to nurture inclusive, growth-promoting policies[lii]. Within these headline areas, there is an ongoing need to strengthen evidence-informed policy processes (e.g., by improving interagency collaboration and by developing statistical capacity); to forge closer collaboration between central and line ministries on PFM reforms; to improve risk management and mitigation, budget reliability and predictability, and control in budget execution; to broaden the tax base; to improve cash management; to better monitor and assess spending outcomes to enhance spending efficiency (e.g. through expenditure impact analysis and independent audits); to improve tax administration (e.g., by strengthening audit capacity), and; to enhance the transparency of public finances[liii]. All parties also recognise that choices need to be made. Like all Pacific Island Countries, Samoa has a small population, and this human resourcing constraint can limit successful implementation of reforms[liv], e.g., in terms of availability of relevant analysis and research and access to sufficient numbers of skilled personnel to develop, approve and drive large, complex reform programs. As that might suggest, there is growing recognition that PFM programs can be too broad and too ambitious. This can lead to poor prioritisation and a risk that governments prioritise *form* (appearance) over *function* (actual), in part to 'virtue signal' to development partners over and above an actual commitment to change practice – something which might threaten the prevailing political economy[lv].

A tightening economic landscape and a challenging outlook

Prior to the measles outbreak of late 2019 and the global COVID-19 pandemic in 2020-21, Samoa's economic outlook looked strong, having bounced back from the impacts associated with the closure of the Yazaki manufacturing plant in August 2017 and cyclone Gita in February 2018. The IMF anticipated that the economy would grow by 3.4% in 2018/19, peak at 4.4% in 2019/20, and settle at just over 2% in the medium-term[lvi]. COVID has eroded that sense of positivity, with the depth and duration of the **severe economic downturn** of grave concern. 2020 was marked by a sharp decline in foreign earnings[lvii], private consumption, and investment[lviii]. There may be little respite in the short to medium-term. The economic outlook will remain weak so long as travel restrictions, containment measures and the absence of a national and regional vaccination program weigh heavily on the tourism sector and decision-making in the business and political sectors more broadly.

While the restrictions introduced by the GOS have kept the country largely COVID-free, they have had a dramatic impact on the national economy, the private sector, and livelihoods. Notwithstanding the two GOS support and stimulus packages in 2020 that have sought to support the cash positions and liquidity of the business community, the private sector continues to navigate the possibilities of loan defaults and bankruptcies[lix]. **Business confidence remains very weak**, with 68% of companies surveyed in March/April 2020 fearing closure should the State of Emergency be extended[lx]. **Women-owned businesses have been disproportionately affected, with nearly 91% having experienced declines in revenue**[lxi]. Most operate in the informal sector. Exports of goods fell by 10.0% year-on-year (y-o-y; provisional) in the first two months of 2020[lxii]. After the high point of the Pacific Games in 2019, the construction sector is depressed.

The **tourism industry**, which accounted for up to one third of all jobs in Samoa[lxiii] and over 20% of those in formal employment (2018)[lxiv], has been severely affected. **Women and those in their 20s have been particularly affected by job losses**[lxv]. Tourism receipts had grown steadily in recent years, from 17.3% of GDP in FY2012 to 23.1% by FY2019[lxvi] (although low bed occupancy rates even before the onset of the measles outbreak pointed to unresolved structural issues). In April–September 2020, monthly tourist arrivals in the Pacific declined by 99%–100% (y-o-y)[lxvii]. Samoa was little different. Prospects for recovery remain highly uncertain, and the sector is not expected to return to pre-COVID levels until 2026. The extended slowdown in tourism from the combined effects of the measles outbreak in 2019 and then the global COVID-19 pandemic mean that Samoan tourism operators may be without international customers for up to – potentially more than – two full years[lxviii]. Nearly half (47.9%) of the 5651 people who were working in the tourism sector before the measles epidemic and COVID-19 pandemic have been laid off. A further 20.7% (1171) have been placed on reduced hours. Some subsectors have been more severely affected than others: nearly four out of every five people who worked in "accommodation" – the area that once employed the most people (3155) – have either been laid off or placed on reduced hours[lxix]. The hotel properties that remain open are trading with limited capacity and minimal staff. The ripple effects are felt in the wider economy and across both formal and informal sectors (e.g., on suppliers of fresh produce and market vendors). They are also felt by some demographic groups more than others: 54% of the pre-measles and COVID-19 tourism workforce were female and 40% were aged 20-29[lxx]. One glimmer of hope is that a safe reopening of borders might lead to a "post-lockdown" surge in South Pacific tourism; Samoa will need to secure a first-mover advantage among its regional peers[lxxi].

The **banking sector** was broadly healthy before COVID-19[lxxii] and it remains well capitalised[lxxiii]. The Central Bank of Samoa is seeking to maintain its accommodative monetary policy stance and is providing liquidity to support the private sector[lxxiv]. **Access to affordable finance** for small and medium-sized enterprises (SMEs) (and households) was an issue before the pandemic[lxxv], with **women and women-owned enterprises facing additional barriers associated with gender norms**[lxxvi]. There are signs that there is further tightening, with commercial banks reducing the number of new business loans issued in Q4 2020. Should this remain an issue, it will act as an impediment to stabilisation and recovery[lxxvii]. SMEs, not least those that are owned or managed by women, are particularly vulnerable to difficulties servicing their debt obligations.

Samoa can bounce back from current realities. Many of the needs and opportunities that were known before the pandemic have simply gained greater prominence. They include the need to enhance the resilience of SMEs, extend financial inclusion and social protection, and revitalise the agriculture sector. There is also need to attract greater volumes of FDI[lxxviii], enable greater export flows by improving trade facilitation and the business environment; and build greater resilience to disasters[lxxix]. As a generator of jobs and supplier of goods and services, the private sector will play a critically important role in Samoa's recovery but there remains ongoing need to address a **significant skills mismatch** in the labour market. Equally, **State Owned Enterprises** will have a role to play but they must be well managed and financially viable.

The ripple effects on households and individuals

The COVID-19 pandemic represents one of the most profound challenges in Samoa's recent history. There is a significant risk that the pandemic and its ripple effects will erode the progress made since 2000. The effects will be felt disproportionately by vulnerable populations: recent estimates suggest that 10.2% of **female-headed households,** compared to 7.8% of male-headed households, are vulnerable to slipping into basic needs poverty[lxxx].

A quarter of households had at least one member engaged in the tourism and transport sectors; sectors that have been severely affected since the outbreak of the pandemic. **Unemployment rates**, which had fallen steadily over the last six years to 8.4% (2019)[lxxxi], are expected to climb sharply, potentially reaching 16% in FY2021[lxxxii]. **Youth[4] unemployment – 17.6% among men (2017) and, at 30.2%, nearly twice as high among females[lxxxiii] – is of particular concern**[lxxxiv]. Risks to household wellbeing are exacerbated by the presence of an ***ad hoc* and fragmented social protection** landscape[lxxxv]. While the GOS and development partners are keen to enhance social protection measures more must be done to build the necessary foundations for well-targeted, fiscally responsible mechanisms (e.g., in terms of statistics availability and interpretation, and financial modelling). Risks to household wellbeing are further compounded by longer-term challenges and '**slow onset crises'**, such as the recent decline in the performance of the fishing sector – a trend that has been attributed to the impact of climate change on fish migration[lxxxvi].

[4] Aged 18-35.

Samoa has a substantial reliance on **food imports**. Disrupted shipping patterns have led to periodic shortages of imported commodities (e.g., sugar, carrots, meat) and a downturn in exports of taro to New Zealand. Household food access will be adversely affected by reduced income. Vulnerable and disadvantaged segments of the population who do not have access to capital, land or goods to support sufficient sustenance levels are particularly exposed.

In 2019, **remittances** accounted for an estimated 23.4% of GDP[lxxxvii]. They are also known to be vitally important to households in the aftermath of cyclones, helping families and particularly women to meet essential needs and to rebuild[lxxxviii]. Remittance flows to Samoa, like elsewhere in the region, have shown greater resilience than first feared and actually increased by 6.2% in the 12 months to September 2000[lxxxix]. The remittance income has supported local consumption and provided a much-needed stimulus to government revenues[xc]. However, the risks remain elevated[xci]: a protracted economic downturn in key regional economies (e.g., Australia, New Zealand), any downturn in regional labour markets and uncertainties about travel restrictions may weigh heavily on remittance flows in the medium-term. Any reduction in remittances could unwind recent development gains and deepen poverty and inequality[xcii].

The **cost of remitting cash to Samoa is high**: 11.01% of the amount remitted to Samoa is lost to charges (2019), compared to the global average of 6.79%[xciii]. Samoa, like many PICs, remains vulnerable to the withdrawal of the **Corresponding Bank Relationships** (CBRs) – a course of action that would adversely affect growth[xciv]. CBRs play a key role in facilitating trade and providing access to finance for households. While Samoan banks and larger Money Transfer Operators (MTOs) have maintained and even regained CBRs, smaller MTOs have faced bank account closures. USD denominated remittances are particularly exposed (though total volumes of AUD and NZD are higher)[xcv]. Higher cost of remittances would have a negative impact on more vulnerable segments of the population, and reduced volumes would lead to lower consumption patterns[xcvi], stifling economic recovery[xcvii].

Challenges to long-term stability, the presence of slow onset crises, and the ever-present risk of shocks/disasters

The COVID-19 pandemic has had a profound impact on the established world order. National economies are under strain, businesses have failed, and households have faced loss and hardship. Yet, Samoa, like other PICs, has always been **highly vulnerable to external shocks**. It will remain so. Most of Samoa's population and critical infrastructure is located on the coast. This makes the country highly vulnerable to the impacts of **climate change**. This includes intensifying tropical cyclones and storm surges, flooding, stronger and longer-lasting droughts and heat waves, coastal erosion, increased acidity of ocean waters, sea-level rise, wind-driven waves and king tides. As climate change impacts intensify, Samoa will experience more severe cyclones, perhaps on a par with Ofa (1990), Val (1991) and Evan (2012). The loss to life, livelihoods, infrastructure and the economy is considerable: Cyclone Ofa, for example, caused damage worth about US$200 million[xcviii].

The costs per capita of post-disaster reconstruction can be exorbitant. As that might suggest, there remains ongoing need to implement fiscal and economic reforms to strengthen Samoa's resilience; one that shifts focus away from ex-post recovery and emergency-based funding[xcix] to a coherent policy framework that binds, for example, economic growth, improved PFM and asset management, and investments in climate and disaster-resilient infrastructure that is cost and energy efficient, and environmentally sensitive. It also requires **risk reduction investments** in sound procurement practices, debt servicing, and in local capabilities to build community resilience. Fiscal space is necessary for times of recovery[c].

More widely, Samoa will require capable, inclusive, and accountable institutions as it seeks to bounce back. Duty holders must be held to account. In many respects, the foundations exist: Freedom House judges Samoa to be "free", scoring it 81/100[ci]. Australia's programming continues to add value, e.g., via the partnership between the Samoa Ombudsman and the Australian Audit Office. However, there remains space to strengthen civil society's "voice" in national decision-making processes. This includes opportunities to apply more participatory approaches during the planning, design and procurement phases of major infrastructure projects (e.g., to take into account traditional knowledge and respect the social and cultural landscape).

[i] IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[ii] IMF. October 2020. *World Economic and Financial Surveys: Regional Economic Outlook – Asia and Pacific. Navigating the Pandemic: a multispeed recovery in Asia*.

[iii] IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[iv] By 1.5%. See IMF. October 2020. *World Economic and Financial Surveys: Regional Economic Outlook – Asia and Pacific. Navigating the Pandemic: a multispeed recovery in Asia;* IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[v] IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[vi] IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[vii] UNDP. 2020. Development Finance Assessment for Samoa: leveraging finance for sustainable development. https://www.asia-pacific.undp.org/content/dam/rbap/docs/dg/dev-effectiveness/UNDP-RBAP-Development-Finance-Assessment-Samoa-2020.pdf [Accessed 20 January 2021]

[viii] UNDP. 2020. *Development Finance Assessment for Samoa: leveraging finance for sustainable development*. https://www.asia-pacific.undp.org/content/dam/rbap/docs/dg/dev-effectiveness/UNDP-RBAP-Development-Finance-Assessment-Samoa-2020.pdf [Accessed 20 January 2021]; World Bank. 04 November 2020. *Report No: PGD214. International Development Association Program Document for a Proposed Development Policy Grant in the Amount of SDR 17.9 million (US$ 25 million equivalent) comprising a Development Policy Grant of SDR 10.7 MILLION (US$ 15 million equivalent) and a disaster risk management Development Policy Grant with a catastrophe deferred drawdown option (CAT-DDO) of SDR 7.2 million (US $10 million equivalent) to the Independent State of Samoa for the First Response, Recovery and Resilience Development Policy Operation with a Catastrophe-Deferred Drawdown Option*. http://documents1.worldbank.org/curated/en/106341606728391675/pdf/Samoa-First-Response-Recovery-and-Resilience-Development-Policy-Operation-with-a-Catastrophe-Deferred-Drawdown-Option-Cat-DDO-Project.pdf [Accessed 20 December 2021]

[ix] IMF. 02 March 2000. *Samoa: Staff Concluding Statement of the 2020 Article IV Mission*. https://www.imf.org/en/News/Articles/2020/03/02/mcs030220-samoa-staff-concluding-statement-of-the-2020-article-iv-mission [Accessed 20 January 2021]; UNDP. 2020. *Development Finance Assessment for Samoa: leveraging finance for sustainable development*. https://www.asia-pacific.undp.org/content/dam/rbap/docs/dg/dev-effectiveness/UNDP-RBAP-Development-Finance-Assessment-Samoa-2020.pdf [Accessed 20 January 2021]; IMF. 25 January 2021. *Samoa: Staff Concluding Statement of the 2021 Article IV Mission*. https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission [Accessed 26 January 2021]

[x] IMF. May 2019. *Samoa. 2019 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Samoa*. https://www.imf.org/~/media/Files/Publications/CR/2019/1WSMEA2019002.ashx [Accessed 15 June 2019]

[xi] ADB. December 2020. *Pacific Economic Monitor*. https://www.adb.org/sites/default/files/publication/662406/pem-december-2020.pdf [Accessed 18 January 2021].

[xii] Data provided to Apia Post by the Samoan Bureau of Statistics, 29 January 2021.

[xiii] Data provided to Apia Post by the Samoan Bureau of Statistics, 29 January 2021.

[xiv] ADB. December 2020. *Supporting recovery by micro, small, and medium-sized enterprises in the Pacific from the effects of the COVID-19 pandemic. Technical Assistance Report*. https://www.adb.org/sites/default/files/project-documents/54257/54257-001-tar-en.pdf [Accessed 07 March 2021].

[xv] For the links between inequality and growth and stability, see Dabla-Norris, M.E., Kochhar, M.K., Suphaphiphat, M.N., Ricka, M.F., Tsounta, E., 2015. *Causes and consequences of income inequality: A global perspective*. International Monetary fund.

[xvi] Cross-country panel analysis of 81 countries. See Alam, M.R., Kiterage, E., Bizuayehu, B., 2017. "Government effectiveness and economic growth". *Economic Bulletin*, 37(1): 222-227.
[xvii] Fosu, A.K. 2017. "Growth, inequality, and poverty reduction in developing countries: Recent global evidence", *Research in Economics*, 71(2): 306-336. https://doi.org/10.1016/j.rie.2016.05.005.
[xviii] Cross-country panel analysis of 71 low and middle-income countries. See Jindra, C, Vaz, A. 2019. "Good governance and multidimensional poverty: A comparative analysis of 71 countries", *Governance*. 32: 657–675. https://doi.org/10.1111/gove.12394
[xix] Fosu, A.K. 2017. "Growth, inequality, and poverty reduction in developing countries: Recent global evidence", *Research in Economics*, 71(2): 306-336. https://doi.org/10.1016/j.rie.2016.05.005 [Accessed 12 January 2021]; McKnight, A. 2019. "Understanding the relationship between poverty, inequality and growth: a review of existing evidence", *CASE Paper 216/LIP Paper 8*. LSE. See https://sticerd.lse.ac.uk/dps/case/cp/CASEpaper216.pdf [Acessed 13 January 2021].
[xx] https://reports.weforum.org/global-gender-gap-report-2015/the-case-for-gender-equality/ [Accessed 07 March 2021].
[xxi] The ADB has several active or recently approved knowledge and TA-based investments in thematic areas related to this Investment. All are multi-country or regional in nature. For example a six-country investment to strengthen the enabling environment for micro, small and medium-sized enterprises to recover (Project Number 54257-001, approved December 2020); regional support to climate-resilient investment pathways in the Pacific, including climate-proofed infrastructure development (54068-001, December 2020); a four-country investment to strengthen economic statistics for improved evidence-informed decision-making (54260-001, September 2020); a seven-country investment to support public sector management reforms (54060-001, June 2020); and a regional initiative to strengthen social protection in the Pacific (53371-001, April 2020).

[xxiii] Speech made by Frances Adamson to the Institute of Public Administration of Australia on 12 August 2019. See https://www.dfat.gov.au/news/speeches/Pages/institute-of-public-administration-australia-secretarys-series [Accessed 16 September 2020].
[xxiv] See the framing offered in DFAT's *Guidance Note: Performance Assessment Framework for Facilities* (September 2020).
[xxv] Approved in December 2020. Samoa is one of six countries. The initiative will focus on strengthening the enabling environment, including measures to enhance business development services.
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