

Micro, Small and Medium-sized Enterprises' Access to Finance in Samoa

COVID-19 Supplementary Report and Recommendations



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Abbreviations

ADB	Asian Development Bank
BLP	Business Link Pacific (NZ Government funded program)
CBS	Central Bank of Samoa
DBS	Development Bank of Samoa
ESCAP	Economic and Social Commission for Asia and the Pacific
G2B	Government-to-Business
G2P	Government-to-Person
IMF	International Monetary Fund
MSMEs	Micro, Small and Medium Enterprises
MWCSD	Ministry of Women, Social and Community Development
NGO	Non-Government Organisation
SABS	Samoa Agri Business Support program
SBH	Samoa Business Hub
SPBD	South Pacific Business Development
UNDP	United Nations Development Program
UNCDF	United Nations Capital Development Fund
USD	United States Dollar

Note: Conversions from Samoan Tala (WST) to USD in the text are for illustrative purposes only. They are based on the average exchange rate for early 2020 of WST 2.65 = USD 1.00.

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Introduction

This report is supplementary to the “Micro, Small and Medium-Sized Enterprises (MSMEs) Access to Finance in Samoa” report that was prepared for the Central Bank of Samoa based on data and research undertaken in late 2019, prior to the COVID-19 pandemic. Both of the reports have been coordinated by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP’s Catalysing Women’s Entrepreneurship Programme.

The purpose of this supplementary report is to provide guidance on immediate to short-term measures, medium-term measures and long-term structural measures for supporting MSMEs affected by the COVID-19 pandemic. The report takes into consideration the specific financial impacts on women-owned/managed MSMEs in Samoa.

The methodology in developing this report involved an assessment of the measures already undertaken by the Government of Samoa, a review of the measures and policies implemented by other small island developing states, and remote interviews with a range of government agencies, NGOs, financial service providers, business service providers, and MSMEs in Samoa (see the Appendix for information on those consulted).

This report is not intended to be a detailed government policy strategy; however, it concentrates on providing the key recommendations and measures to be taken forward to limit the adverse impacts of the COVID-19 pandemic on Samoa’s MSMEs and, specifically, women-owned or run enterprises. The report considers the pro-active government interventions already implemented and, where possible, builds in recommendations to utilize already existing programs and support structures.

Overview and key messages

The COVID-19 pandemic knows no borders, resulting in widespread global negative economic and social repercussions. It is currently estimated that 2020 global gross domestic product (GDP) losses due to the pandemic will range between USD 76.7 billion to USD 346.98 billion by the end of the year (Duffin, 2020). While restrictions in many countries are beginning to ease, economic recovery is not only dependent on the strength of each national economy, but also that of key trade partners, and the country's successes or failures in addressing the pandemic. The adverse economic impacts have been significant, particularly in countries such as Samoa, where a large portion of the economy depends on micro, small and medium enterprises (MSMEs) concentrated in the tourism and services sectors.

MSMEs make up the majority of Samoa's economy with small and medium enterprises (SMEs) alone comprising an estimated 88 per cent of all Samoan businesses (Samoa Observer, 2018). Samoa's real GDP is expected to contract by 6.6 per cent in 2020 and a recent business survey by the Samoa Chamber of Commerce and Industry indicates a severe negative impact on employment and overall business confidence in the country.

Since the onset of the pandemic, entrepreneurs have faced declining sales, liquidity and cash flow challenges, as well as staff layoffs, amid a climate of heightened uncertainty and worry about their business's ability to survive. SMEs specifically are encountering difficulties servicing their debt obligations. Furthermore, women-owned or managed SMEs face greater resilience issues than their male counterparts in times of crisis. In the Samoan context, women take on greater family and social obligations, resulting in less time and attention towards the needs of their businesses. Women are also more cautious when it comes to taking risks and borrowing; therefore, given the unpredictability of the current economic environment, women are less confident about approaching financial institutions for loans. Specific attention and support services are needed to address the needs of women-owned businesses at this time.

Support measures to help SMEs survive, restructure their debt obligations, and resume operations as soon as possible are a top priority. The Government of Samoa has been quick to introduce practical immediate measures to assist the private sector to weather the current economic turmoil. However, mid to long-term support measures that address the key hurdles barring the re-emergence of a vibrant MSMEs sector also need to be considered.

ESCAP's previous 2020 study on "*Micro, Small and Medium-sized Enterprises' Access to Finance in Samoa*" and the study's recommendations remain valid and are even more crucial in the current environment. This "*Supplementary Report on the Financial Impacts of COVID-19 on Samoa's MSMEs*" sets out recommended measures to assist Samoan MSMEs in the immediate/short-term, medium and long term. These recommendations build on the information and recommendations put forward in the previous report, while also highlighting the need for increased support and incentives specifically for women-owned businesses. Many of these recommendations will require additional government budget allocation and/or external funding and technical support.

The key recommendations suggested by this report include:

IMMEDIATE/SHORT TERM MEASURES

Supply of Finance

- Continuing principal and interest repayment relief for the Development Bank of Samoa (DBS) and the South Pacific Business Development (SPBD) clients for another three months, with reviews to determine extensions on a case-by-case basis. Clients, particularly women clients, facing difficulties meeting repayment obligations after this additional period are to be further assisted with workout strategies.
- A capital injection into DBS to provide support for clients facing difficulties and, importantly, technical support to upgrade the staff business project assessment and delinquent account workout management skills. This technical support will assist DBS to manage non-performing loans and strengthen its overall loan portfolio.
- A concessional loan to SPBD, earmarked for additional and extended SME credit, will directly and relatively quickly benefit a range of entrepreneurs.
- Immediate technical and financial support for DBS to roll out their revised women-focussed microfinance scheme to all parts of the country.
- Re-allocation of the remaining funds in the Samoa Agribusiness Support Program (SABS) to the Samoa Business Hub (SBH) for the coordination of similar assistance for SMEs in other industry sectors.

Demand for Finance

Many SMEs will need to re-schedule their debt obligations and some will require re-financing packages that will be difficult to secure from commercial finance providers. There would be a role for DBS to provide this support but before mobilizing funds for such processes, the bank needs to be provided with both additional funding and technical support to carefully vet and structure the credit packages. While such measures will be beneficial for borrowers, bank liquidity and capital reserves need to be considered and therefore risk mitigation approaches and measures also need to be considered prior to undertaking such an initiative.

Additionally, it is recommended that SBH be provided with additional external technical assistance and resources to immediately strengthen its services in the following areas:

- Upgraded business project assessment capabilities to support an expansion of the

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