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MSME Financing Series No. 4

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



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About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSME's are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set up mechanisms to facilitate the flow of finance. The result has been an increase in financial inclusion but the extent to which the financing gap has been reduced is not well known.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs' equal access to finance? How have demand-side programmes, such as financial literacy, aided MSME? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed *A Framework for Country Studies on MSME Access to Finance in Asia and the Pacific*. The Framework provided direction for the preparation of detailed national studies on MSME access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP's Catalysing Women's Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark. In addition, the Task Force on Banking and Finance of ESCAP's Sustainable Business Network funded a comparative study of MSME financing in Singapore and Hong Kong, China.

About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) at the request of the Central Bank of Samoa (CBS). The report was prepared by John Hardin, ESCAP Consultant and Managing Director of Hardin and Associates, a business development consultancy based in Sydney, Australia.

This report was financially supported by ESCAP's regional programme on Catalysing Women's Entrepreneurship, funded by the Government of Canada, through Global Affairs Canada. The United Nations Capital Development Fund (UNCDF), a partner of ESCAP in the production of studies on MSMEs access to finance in Asia and the Pacific, has provided technical advice.

The preparation of the report involved extensive consultations with government agencies, credit providers, non-governmental organisations, development agencies and the private sector, including local accountants and a sample of SMEs, in Samoa between August and January 2020. Consultations were also undertaken in Australia with the Asian Development Bank (ADB) and Pacific Rise, a facilitator of impact investment in the Pacific Islands.

Desk research involved reviews of available data, relevant reports and government documents. These included studies on SME access to finance in the Pacific Islands, surveys of business operations undertaken by the Samoa Bureau of Statistics, publications of the Ministry of Commerce, Labour and Immigration (MCIL), reports on outcomes from private sector development programs in several Pacific Islands and various CBS reports.

The author of this report has collaborated extensively with Jennifer Bartlett, the consultant preparing a draft of Samoa's MSME policy, commissioned by Samoa's Ministry of Commerce, Industry and Labour with funding by the Government of New Zealand. The draft was reviewed by stakeholders in January 2020 and agreement was reached on high level goals and objectives that are consistent with the key findings of this report.

This report also considered the findings from a January 2020 review of a pilot microfinance scheme on the island of Savaii implemented by the Development Bank of Samoa (DBS) that focussed on women entrepreneurs. The review's assessment and findings provided important information that have been incorporated into this report's findings and recommendations.

The preparation of the report faced limitations due to the following:

- Incomplete data on the number of SMEs in Samoa stemming from the absence of universally agreed upon definitions of what constitutes small and medium size enterprises, also resulting in fragmented data gathering.
- The absence of consistent reporting by credit providers of SME lending volumes/trends. At present the reporting is only segregated by industry sector and there are different classifications of SMEs amongst the credit providers.
- Out of date or incomplete information on the breakdown of the private sector in Samoa in data collated by donors and/or multilateral organisations.

These limitations meant that the data on MSME lending was extrapolated from consultations with credit providers, with whom the author met twice to discuss/review the market and validate initial findings. The upcoming MSME policy of Samoa is expected to include a clear definition of what constitutes small, medium and large businesses, which will facilitate the collection and reporting of official data on MSME access to finance by CBS.

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Abbreviations

ADB	Asian Development Bank
ANZ	ANZ bank
AVCF	Agriculture Value Chain Finance project
BLP	Business Link Pacific (NZ Government funded program)
BSP	Bank South Pacific
CBS	Central Bank of Samoa
DBS	Development Bank of Samoa
ESCAP	Economic and Social Commission for Asia and the Pacific
MCIL	Ministry of Commerce, Industry and Labour
MSME	Micro, Small and Medium Enterprises
MWCSD	Ministry of Women, Social and Community Development
NBS	National Bank of Samoa
NGO	Non-Government Organisation
NFIS	National Financial Inclusion Strategy
PTI	Pacific Trade and Invest
PFIP	Pacific Financial Inclusion Program
SABS	Samoa Agri Business Support program
SLAC	Samoa Life Assurance Corporation
SBEC	Small Business Enterprise Centre
SBH	Samoa Business Hub
SCB	Samoa Commercial Bank
SNPF	Samoa National Provident Fund
SPBD	South Pacific Business Development
ST	Samoa Tala (currency)
UNDP	United Nations Development Program
UNCDF	United Nations Capital Development Fund
USD	United States Dollar
UTOS	Unit Trust of Samoa
WIBDI	Women in Business Development Inc. NGO

Note: Conversions from Samoan Tala (ST) to USD in the text are for illustrative purposes only. They are based on the average exchange rate for 2019 of ST 2.65 = USD 1.00.

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The collaborative support provided by Jennifer Bartlett, the consultant commissioned to prepare the MSME strategy for the Government of Samoa, was also critical to the development of this report.

This report was edited by Dana MacLean, and Patchara Arunsuwannakorn and Beini Liu provided effective research assistance.

Overview and Key Messages

This study analyses the supply and demand of financial services for micro, small and medium enterprises (MSMEs) in Samoa, as well as Samoa's policy and regulatory frameworks already in place and/or needed to better enable MSMEs to access and use financial services. The study also undertakes a gender lens analysis, seeking to determine gender specific constraints faced by Samoan entrepreneurs in accessing and using financial services.

As of 2015, it was estimated that 51 per cent of the Samoan adult population were financially included, 39 per cent thorough ownership of bank accounts and 12 per cent through access to other formal financial services.¹ Among the 49 per cent that were financially excluded, 34 per cent had no access to any financial service and 15 per cent only had access to informal financial services. The gender gap in bank account ownership was small in 2015, when 40 per cent of Samoan women were banked compared to 38 per cent of men.

At the micro enterprise level, Samoa has two main microfinance institutions, which provide microfinance services to a sizeable portion of the population. Currently, one additional microfinance provider, Samoa Business Hub, is entering the market, which will further increase competition and the diversity of financial products in the market.

Small and medium-size enterprises (SMEs), banks and other lenders consulted during this study estimate that between 4,000 and 6,000 SMEs use one or more financial services in Samoa, including simple bank savings accounts. These sources estimate, however, that only around 50 per cent of these SMEs have obtained commercial finance, and they agree that there is considerable unmet demand for commercial finance. The main reasons for the high rejection rate of SME finance applications are weak business cases and/or inadequate collateral.

There are four commercial banks in Samoa that offer a range of traditional financial products and services for SMEs, and they would welcome an increase in their SME loan portfolios. However, they have no commercial imperative to do so in light of less risky opportunities to lend at attractive returns to the corporate sector. The track record of SMEs in Samoa has also not been sufficiently robust to give lenders confidence to increase credit to this sector.

There are various support services offered to SMEs in Samoa, ranging from non-financial services, such as training, to loan guarantee schemes for smaller enterprises. However, there are evident gaps in the provision of appropriate support for *growing* SMEs. This is most notable in relation to independent assessments of proposed growth plans and the subsequent preparation of strong business cases for lenders and/or investors.

The findings of extensive past research on women's access to finance, has shown that women in Samoa are actively involved in finance-related activities. Women take on more responsibility for debt

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