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

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Unlocking Public and Private Finance for the Poor

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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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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 management and have, according to lenders, proven to be more responsible managers, but sociocultural norms and customs have restricted women's aspirations. There is a strong argument in favour of providing women entrepreneurs with additional support to properly assess their business plan, develop clear financial projections and implementation strategies, as well as preparing a finance submission that they can effectively "own".

There is also evidence that women micro entrepreneurs can benefit much from accessing financial resources. For instance, a January 2020 review of a pilot microfinance scheme for women and youth on the island of Savaii implemented by the Development Bank of Samoa (DBS) found that releasing

[1] Central Bank of Samoa, Financial Services Demand Side Survey, 2015.

financial constraints empowered women entrepreneurs to expand micro enterprise activities in the agriculture sector, village shops, and small-scale services.

Despite the current traditional products and services already available or being further rolled out to micro and to small and medium-sized enterprises, the supply of specialised and tailored financial products and services, such as commercial equipment leasing and factoring, is limited. Although there have been improvements in recent years, significant offerings of financial products and services are unlikely to be introduced in the medium term given the small size of the market relative to the resources required to manage more complex financial instruments.

Regarding policies and regulations, based on the findings of numerous studies, such as the World Bank's Doing Business, and consultations with lenders and the private sector, the regulatory environment in Samoa is generally regarded as satisfactory — apart from the absence of a local credit bureau. In this regard, the Asian Development Bank has plans to resurrect the previously stalled credit bureau by early 2021.

Recommendations

Based on this study's consultations and research the following recommendations are provided:

- On the demand side, the provision of effective support for all SMEs to develop and present strong business cases to potential credit providers is required. Also, many small and medium size businesses have not adequately assessed their growth or diversification plans and would benefit from experienced input on the viability of their plans as well as on financial and credit structuring.
    - In this regard, there is also a need for an integrated program that focuses on developing local skills and experience to assess the commercial viability of proposed business ventures and the preparation of "bankable proposals". The program could be operated through Samoa Business Hub (SBH) but will require additional external support. More generous support would be provided to women entrepreneurs to ensure their maximum possible participation and flow-on benefits.
- On the supply side there is a need for a scheme to address the issue of insufficient collateral for the majority of SME finance requests, particularly from women-owned SMEs. Therefore, a *collateral shortfall partial guarantee scheme* that relies on referrals of shortlisted SME borrowers from lenders is proposed.
    - This scheme, which would be piloted by SBH for a period of two years, would incorporate risk-sharing mechanisms for participating SMEs and lenders, environmental and social safeguards, and straightforward and transparent processes. The outcomes would be an increase in the number of SMEs, particularly women-owned businesses, securing commercial finance and a likely improvement in the lenders' SME risk perceptions.
    - Special provisions for women through tailored eligibility criteria and/or more extensive support would enhance women entrepreneurs' ability to grow and expand their businesses. A scheme that would provide women entrepreneurs with additional support and guidance, rather than by quotas or through complex/confusing eligibility criteria, is recommended. Established program manager performance targets that stipulate the numbers of assisted women would be sufficient to avoid mission drift.
- Another recommended initiative on the supply side would be the provision, by a development agency, of short-term technical services to DBS involving practical training and mentoring to develop internal skills in order to provide basic mentoring to microfinance borrowers and to guide delinquent SME borrowers on optional work-out strategies.

Introduction

This study provides recommendations to advance micro, small and medium enterprises (MSMEs) access to and use of financial services in Samoa. It is structured as follows:

- An analysis of the current supply and demand of financial services, the related enabling environment and the existing assistance programs for MSMEs.
- Identification of key issues and barriers impacting the supply of, and demand for, MSME finance.
- Proposed initiatives to improve MSME access and use of finance based on evident gaps in the market.

1. Supply and demand of credit

Supply of Credit

Microfinance

The major supplier of microfinance in Samoa is **South Pacific Business Development** (SPBD) of Samoa is a for-profit business and a branch of SPBD Microfinance network in the Pacific that has been operating for more than 18 years.

SPBD provides micro loans ranging from a minimum of ST 1,250 (USD 470) to a maximum of ST 8,000 (USD 3,000) to its clients, who are all women. To avoid excessive indebtedness, borrowers are subject to a 'loan size graduation process' by which they can only progress to the next level of finance once they have adequately serviced their previous loan. Extensive support is provided to borrowers through 346 centres with nearly 80 per cent outreach to the country. Of the 19,000-plus clients serviced by SPBD, approximately 90 per cent are classified as women who run and operate several different income-earning informal businesses or microenterprises. Over the past 18 years, as reported by SPBD the organization has disbursed more than 80,000 loans to SPBD clients for Micro Businesses Loans, Higher Education Loans, Overseas Workers Loans, White Goods Financing and SME Loans. The target for loan disbursements in 2019 was ST 24 million (USD 9 million), and SPBD managed to exceed the target with a total of ST 24.2 million granted in loans (USD 9.1 million).

All potential SPBD borrowers are pre-screened during the process of recruitment, to ensure they are eligible to join the program. Prior to being granted loans, new recruits are provided with a training about the loan program and the creation of a savings account, as well as a financial literacy course. The spouses of women borrowers can join the training if they wish to. All loans provided incorporate a spouse life insurance policy, except for HELP, OWL and White Goods Financing. On-going support is available for borrowers to resolve any issues. Repayments are around ST 24 (USD 9) or more per week for the minimum loan amount or higher, depending on the size of the disbursement. Repayments are controlled primarily through joint responsibility of the group and are guaranteed by the centre. Currently, SPBD is exploring the option of introducing mobile phone banking and other financial services through ICT Company Bluesky and Vodafone.

SPBD also provides SME loans in the range of ST 10,000 and ST 32,000 (USD 3,800 and USD 12,000). To date, nearly 400 SME loans have been distributed and the overall portfolio default rate is 1.84 per cent. Clients who require larger loans than the maximum amount offered are encouraged to approach the commercial banks or the Development Bank of Samoa (DBS), however SPBD continues to monitor their performance through informal contact programs.

SPBD has been subject to criticism because of high interest charges, which are currently a flat rate of 24 per cent for micro-loans and 21 per cent for SME loans. However, their operating model is very expensive, and there is a general lack of awareness outside the SPBD circle of the costs associated with the Grameen model adopted by SPBD. This model requires SPBD to closely and actively engage with members every week; meetings are held at the SPBD centre from Mondays to Thursdays. The stringent data collection process as well as a weekly payment tactic are implemented to prevent high loan default rates amongst borrowers. Although these processes have been subject to unnecessary criticism, SPBD supports its clients (borrowers) by mitigating liability and lowering the risk of over-indebtedness, whilst providing the necessary support for their businesses to grow and helping to improve their family's living standards.

In 2018, SPBD's total income in Samoa amounted to ST 5.5 million (USD 2 million) and the net profit after income tax was ST 555,000 (USD 210,000). Operating expenses sat at ST 3.8 million (USD 1.4 million) and interest charges on borrowings were slightly above ST 1 million (USD 380,000).

The **Development Bank of Samoa** (DBS) has been involved in microfinance since 2006 to support the economic empowerment of women in cooperation with the Ministry of Women, Social and Community Development (MWCSD). The initiative increased access to finance for women in both Upolu and Savaii to start projects. However, the initiative was unsuccessful, as the default rate was almost 50 per cent. DBS identified the main reason for this failure on the fact that the nominations of beneficiaries was driven by the MWCSD and the DBS processes of assessing eligibility was relaxed.

In 2016, an external review of the project was conducted with funding support received from MWCSD. The review's recommendations provided the basis for the design of the Inclusive Development Facility for Women and Youth that was piloted in Savaii in July 2017. The facility is delivered in three tier levels of financing. Tier 1 loan are for ST 2,500 (USD 950), Tier 2 loans for ST 5,000 (USD 1,900) and Tier 3 loans for ST 7,500 (USD 2,850). The progression through the tiers comes with conditions. A total of 778 women and youth were eligible and received loan for around ST 2 million (USD 755,000). Over 70 per cent of the participating microbusinesses were in the agriculture and fishing sectors. The remaining included retail, food, printing, clothing, weaving and crafting. The default rate has been below 2 per cent. The partners include the MWCSD, Central Bank of Samoa (CBS) and Samoa Life Assurance Corporation (SLAC)

The January 2020 review of the pilot's performance found that:

- 70 per cent of women borrowers reported increases, some of which were substantial, in family incomes as a direct result of the loan.
- The reported increase in family incomes was 3.3 times the value of the loans provided.
- Borrowers in default for more than 30 days had outstanding payments equivalent to 3.3 per cent of the total value of the loan portfolio as of December 2019.
- Only six of the almost 780 borrowers (0.8 per cent) defaulted completely and had their outstanding loan amounts reallocated to other members of their peer group.

The interest rate is 8 per cent per annum, but this has proven to be insufficient to cover operational costs. An interest rate of between 13 and 14 per cent per annum would improve the scheme's financial performance, but sustainability would still require ongoing outside funding support because of the high operating costs. The review of the pilot scheme noted that an interest rate of 15 per cent would be close to the breakeven point for the scheme, however this may be counterproductive for the average woman borrower.

The use of FinTech to reduce the loan repayment workload and costs has been considered but experienced DBS personnel believe that the weekly personal meetings and loan collections are an essential risk management tool, especially for new borrowers.

It is likely that the pilot, with minor modifications such as including more mentoring support for borrowers, will be rolled out to other areas of Samoa in 2020. There is an evident demand for it and DBS' overall approach has proved successful.

DBS was also a partner to the Samoa Agriculture Competitiveness Enhancement Project. This project is a blended finance initiative in which farmers contributed 50 per cent of their projects' cost while the World Bank funded 50 per cent through a matching grant. The DBS provided financing for 30 per cent of the project cost to assist farmers who are not able to contribute their 50 per cent share. The financing was capped at ST 10,000 (USD 3,800) and the loans were secured by a credit guarantee offered by Samoa Business Hub. DBS will continue partnering with the World Bank in a continuation project entitled 'Samoa Agriculture & Fisheries Productivity and Marketing Project'. DBS is also partnering with the private sector in a pilot project on Agriculture Value Chain Finance (AVCF) for taro and cocoa.

The Samoa Business Hub (SBH) (previously known as the Small Business Enterprise Centre, SBEC) recently launched a micro loan and insurance scheme to directly provide loans of up to ST 10,000 (USD 3,800). The aim is to fill a gap in the market not sufficiently addressed by other lenders. Under this initiative, microloans of up to ST 10,000 can be provided directly to microenterprises that have good repayment track records.

Women in Business Development Inc. (WIBDI) has adopted a different approach and does not emphasise credit provision. Their successful model works from the market by selecting sustainable market niche opportunities and assisting mainly women and their families in rural areas to participate in the supply chain. In Samoa, WIB works with 1,300 families in more than 189 villages. The market niche opportunities pursued by WIB include: organic 'direct micro expelled' (DME) coconut oil, for which Samoa is the sole supplier to the Body Shop UK; organically certified fetau oil (calopyhllum inophyllum); coffee, cocoa and organic dried bananas, which are exported to the New Zealand market.

Some small loans, usually only around a few hundred Tala, have been provided to families at a 10 per cent interest rate. However, the focus is for participating women and/or families to save part of their income until they have ST 1,000 (USD 380) in the bank, after which they are referred to a local bank to apply for a small loan if needed.

The Women in Business NGO works directly to include women and their families in the supply chain of products for the organisation's sales, primarily to overseas markets. This hands-on approach provides practical guidance and mentoring and reinforces financial discipline. Around 1,300 families receive flow-on benefits from this support and benefit socially from the positive role models provided to the community by the participating women.

In summary, most Samoans, and particularly women, have access to appropriate and relevant micro credit and some support services. There are also several programs provided outside of the microfinance sector that promote financial literacy and other organisations that have facilitated supporting services such as microinsurance and e-banking.

SME Credit

Commercial Banks

Commercial banks in Samoa are not required to allocate a specified share of their lending to SMEs and there is no dedicated SME bank. The government-owned DBS has been subject to government-directed credit provision, but commercial banks are free to develop their own individual market penetration and business growth strategies.

Within the commercial banks there are no dedicated SME lending departments, though some offer finance products that are geared more towards smaller SMEs.

There are four commercial banks in Samoa that compete in the market and provide the traditional range of commercial finance, internet banking and support services. Two of the banks —ANZ and Bank South Pacific (BSP)— are foreign-owned. Samoa Commercial Bank (SCB) and National Bank of Samoa are locally owned.

Each commercial bank has between five and eight branches and agencies around the country and as of December 2019, they accounted for 58.3 per cent of the supply of domestic credit in Samoa. All credit appraisals and approvals are, however, undertaken by the banks' head offices in the capital, Apia, while the regional offices handle routine deposits and payments.

Trade credit is provided by the two overseas-owned banks' through their established facilities, while the Asian Development Banks' Trade Finance Program supports the two local banks with funds for this important segment of the market.

Data on the commercial banks' credit provision to the private sector is summarised in Appendix 2. More information, based on data from CBS and the interviews with each bank, is detailed in Appendix 3.

According to the monthly statistical bulletins of the CBS, the total value of credit provided to the private sector by the commercial banks as of December 2019 was ST 1,156 million (USD 435 million). This value has increased by 13 per cent over the last three years, from a total of ST 1,020 million (USD 385 million) at the same time in 2016.

The key industry sectors receiving credit were building and construction (35 per cent of total credit), professional and business services (18 per cent) trade (11 per cent) and transport, storage, communications (6 per cent).

All commercial banks are financially sound and the per centage of non-performing loans to total loans over the last three years has been between 5.5 and 6.0 per cent. The calculated return on equity across the commercial banks over the 12 months up to December 2019 ranged between 15 and 35 per cent.

Interest charges for commercial finance (term loans, overdrafts) range from 8 per cent to 14 per cent per annum, depending on the perceived risk of the business. Most SME credit lines are subject to a 10 per cent interest charge, while vehicle finance (regarded as risky by banks) is usually available at 12 per cent interest. The average spread on interest rates (excluding CBS and government deposits) has been consistently more than 6 per centage points over the last three years.

Development Bank of Samoa

DBS has a total loan portfolio of ST 147 million (USD 55 million), and 98 per cent of its customers are MSMEs. The products available to them include micro loans of up to ST15,000 (USD 5,700), small loans of up to ST 50,000 (USD 18,900) and medium size loans of up to ST 250,000 (USD 94,000). However, loans for large corporate clients, especially in the tourism sector, account for 81 per cent of the value of DBS's portfolio., These loans are characterized by a high default rate. The non-performing loans of corporate clients represent 23 per cent of the total loan portfolio of DBS. In contrast, the default rates amongst SMEs is between 5 and 8 per cent, while the default rate of Inclusive Development Facility for Women and Youth pilot was, as mentioned above, below 2 per cent.

In relation to the Personal Property Securities Act of 2013, a personal property registry has facilitated the use of movable assets as security and other innovative measures have been introduced. DBS has implemented this by accepting joint ownership of vehicles registered with the Samoa Land Transport Authority as security for loans. The same consideration is applied to farm tools and equipment under the AVCF pilot project.

In relation to the Personal Property Securities Act 2013, a personal property registry has facilitated the use of movable assets as security and other innovative measures have been introduced. For example, DBS has a joint ownership scheme with the Samoa Land Transport Authority and clients to facilitate the use of personal vehicles as security for small loans.

Non-bank Finance Providers

The other important source of credit for SMEs in Samoa is the National Provident Fund of Samoa (NPF). NPF is an equity investor, which also provides commercial loans to businesses with employee contributions to the Fund. The minimum loan amount is ST 50,000 (USD 19,000) and there is no ceiling amount for an individual loan. Accordingly, most of the loans are provided to medium and large businesses (by Samoa standards), but some of the Fund's equity investments are below ST 500,000 (USD 190,000).

Around 2,800 loans have been provided by NPF, with a total value of ST 172 million (USD 65 million). Interest charges and collateral requirements are similar to those of the commercial banks and the Fund undertakes careful due diligence on all applications. Arrears are only 0.7 per cent of the loan portfolio, which reflects the Fund's careful assessment and monitoring processes.

SPBD has expanded into SME finance. Under its SME finance scheme, the maximum loan offered to women is ST 32,000 (USD 12,000). Out of 400 SME loans, one hundred clients have been granted the maximum loan amount. Borrowers under this scheme understand that they cannot borrow more than the maximum and are encouraged to approach DBS or other relevant banks of their choice.

Additionally, SPBD is currently considering providing SME loans up to ST 150,000 (USD 57,000). SPBD is confident that at least half of the one hundred SMEs which have borrowed the maximum loan amount of ST 32,000 similarly have the potential to service a ST 200,000 (USD 75,000) loan.

Vehicle and equipment finance for business purposes is available through commercial banks and has become easier to obtain following the introduction of the moveable assets register. Vehicles less than three years old can be used as part security for finance, but this is regarded as a risky business, as reflected in the high interest charges of around 12 per cent per annum. Credit companies specialising in financing this kind of security — Credit Corporation and BSP Finance — operate in other parts of the Pacific Islands but not in Samoa, leading to limited competition that drives up the high credit charges.

Based on the feedback provided by credit providers and the private sector during this study the key conclusions on the availability of SME finance are as follows:

- Almost all SMEs have accounts with the commercial banks, and many have accounts with different banks. The most common finance facilities are overdrafts and term loans.
- SMEs have reasonably good access to commercial bank facilities through branch networks and are making increased use of internet/electronic services – this includes women owned/managed businesses. However, commercial credit provision decisions are made either at the head office or overseas.
- The financial services offered by the commercial banks satisfy most of the SMEs' requirements, but the associated costs and collateral requirements make it difficult for SMEs to access finance. Commercial banks have noted that the great majority of SME finance applications are rejected and almost all such requests from new customers/enterprises are determined not to be creditworthy.

Demand for credit

Microfinance

The microfinance segment of the market in Samoa, in which women are strongly represented, is reasonably well serviced. The coverage achieved by South Pacific Business Development (SPBD) and the recent review of the DBS pilot in Savaii indicate that there is ongoing demand and a need for relevant microfinance.

The review of the DBS pilot scheme in Savaii showed that women commencing microenterprises are satisfied with relatively small loans of ST 2,500 (USD 940) at the outset but some will reasonably quickly graduate to loans of up to ST 5,000 or ST 7,500 (USD 1,900 or 2,800).

According to the Ministry of Agriculture and Fisheries, some 28,199 households in Samoa rely on agriculture for survival. While more than half are subsistence farmers, 46 per cent (13,031 households) sell part or all of their produce either informally or semi-formally, according to the Samoa Agricultural Survey 2015. If given access to small-scale finance, these income earners would be able to capitalise on credit and assistance to expand their businesses. Access to financial support would allow them to maximise their earning potential and expand their livelihoods to make greater economic contributions.

The ADB has plans to work with DBS on small-scale supply chain finance based on the borrowers' inventory and accounts receivable — this follows a successful trial of this approach through the Tonga Development Bank. While not focussed on micro enterprises, this program will have flow-on benefits to individual small-scale suppliers and should stimulate a viable customer base for microfinance providers.

While some expansion in microfinance programs is possible, there are already several initiatives planned or underway and potential additional support options for micro businesses in this sector are relatively limited.

A suggested initiative was to utilise remittances to women as an alternative form of collateral/security for microfinance. This concept was not supported by the interviewed microfinance providers because it is not a guaranteed, regular income source and was regarded as a far inferior type of security compared to the group debt responsibility approach.

SME Finance Demand

Access to affordable and appropriate finance for SMEs in Samoa represents more complex issues and there are impediments that need to be addressed. A vibrant SME sector can contribute to a stronger economic growth, employment generation and, in some cases, import substitution/export development that is consistent with government goals.

SME credit supply has been the focus of most research and donor support programs in the Pacific Islands over recent decades. While the provision of credit and the related enabling environment are obviously important considerations, attention also needs to be given to the demand side of the equation.

In order to assist SMEs in Samoa to secure more appropriate and affordable finance it is important to consider the following realities:

- While the commercial banks in Samoa would welcome an increased SME loan portfolio, there is no commercial imperative to do so. There are often less risky and more attractive returns from the corporate sector and other financial transactions, such as international money transfers and consumer credit.
- The track record of SMEs in Samoa has not been sufficiently robust to give lenders confidence to increase credit to this sector. Any easing of credit supply and a reduction

in interest rates will depend in part on reversing the perception that SME lending is relatively problematic, and this will take time to achieve.

- The small size of the Samoa economy means that many specialised financial products that require scale to support delivery costs will not be made available in the foreseeable future. The increasing use of e-commerce will help to overcome this constraint to some extent, but the absence in Samoa of finance companies that operate in other larger Pacific Island economies indicates that the perceived economies of scale to support a local presence remain a barrier.

On a more positive note, women entrepreneurs are well regarded by all credit providers and initiatives to improve SME access to finance may well have a disproportionately positive impact on women.

The estimated number of SMEs with some form of commercial credit can only be based on the number of each lender's SME portfolio, but this is only a guide because of the different interpretations of SME customers. The ANZ bank, for example, has a relatively low number of SME clients with borrowings of up to ST 1 million (USD 380,000), while DBS and SCB each have well over a thousand SME lenders. But it is also not clear how many of the nominated borrowers have credit facilities with more than one lender.

The best possible estimate is that across all the credit providers (commercial banks, DBS, and NPF) there are approximately 4,000 SMEs with some form of commercial finance product. If it is assumed that there is considerable overlap of SMEs with more than one source of commercial finance, a more accurate number of operating SMEs with some form of commercial credit is more likely to be between 2,500 and 3,000 enterprises, or around 50 per cent of all the operating SMEs.

This coincides with a 2013 survey of business activities by the Samoa Bureau of Statistics that reported only slightly more than 40 per cent of responding businesses sourced a bank loan to support their business expansion over the previous 12 months. Most relied on their own savings or family support, particularly in the retail sector, where women are most commonly owners/managers.

Input from the commercial banks indicates that women-owned businesses represent almost 50 per cent of their overall smaller commercial finance customers, but less than 20 per cent of larger borrowers. Lenders have confirmed that women entrepreneurs are generally more cautious than men about going into debt and the low take-up of the BSP's small loan scheme (see Appendix 3), which was intended to appeal mainly to women, is indicative of this wariness.

During the SABS design, the ADB estimated, for example, that unmet demand from enterprises in the agribusiness sector ranges from ST 300,000 to ST 3 million (USD 110,000 to USD 1.1 million) for individual businesses.

Without more detailed, reliable data it is not possible to provide definitive conclusions, but it is clear that the **value** of commercial finance provided to SMEs in Samoa (defined for these purposes as borrowers with a turnover below ST 1 million (USD 380,000) is around 20-25 per cent of the total credit provided to the private sector. To what extent this stems from unmet demand, or from a general reluctance to borrow, is not clear.

Factors Impacting on Women's Access to Finance

There has been considerable research and reports undertaken in Samoa on women's access to finance. These include Financial Competency of Low-Income Households in Samoa (PFIP 2012); Financial Services Demand Side Survey (CBS/PFIP 2015); Political Representation and Women's

Empowerment in Samoa (National University of Samoa. 2015); Women and Business in the Pacific (ADB 2018); and the National Survey of Private Sector Employment in Samoa (MCIL).

The common findings from this research can be summarised as follows:

- **Women are actively involved in finance related activities**. Forty per cent of women are banked (compared to 38 per cent of men); almost 50 per cent of women receive remittances (compared with around 40 per cent of men); 50 per cent of working business proprietors are women; women are the main beneficiaries of microfinance programs and over 45 per cent of the beneficiaries of the Small Business Enterprise Centre's loan guarantee scheme have been women.
- **Women take on more responsibility for debt management and, according to the interviewed credit providers, have proven to be more responsible managers**. Men demand greater rights in terms of discretionary spending and expect their female partners to manage the finances.
- **Social culture and customs have restricted women's aspirations.**

This last point is significant and can be an impediment for women considering graduation beyond informal income earning and microbusiness activities.

The previously mentioned research has shown that the lack of voice in village "government" disempowers women from the outset —— 89 per cent of village chiefs (Matai) are men and they determine the distribution of the customary land that represents over 80 per cent of land in Samoa. In addition, women in rural areas do not usually receive community support for formal business development as it is perceived as diminishing their ability to fulfil family and social obligations.

As in many countries, women in Samoa still have the prime responsibility for their immediate and extended families and they are more likely to be under pressure to contribute to community events such as funerals, weddings and church services. The expectations and attitudes of male partners and family members may also result in less control over spending. As one experienced banker noted, "women may be earning the money, but it is often the husband who spends it".

Social obligations are a constraint on all women in Samoa and have resulted in less access to, and involvement in, business networks. Women are reasonably well represented in business associations but find it difficult to participate actively because of time pressure stemming from their obligations to extended family and communities. Research demonstrates that women in Samoa are also less confident in dealing with financial institutions than their male counterparts.

Under Samoan law, women have equal rights to men and can, for example, be the sole shareholder in a registered business. This is not, however, enough to counteract the social and cultural factors that affect the confidence of women with entrepreneurial aspirations.

At the personal loan level, there has been a detrimental impact from indebtedness, going as far as jail sentences for a number of women, stemming mostly from the activities of unregulated money lenders. The matter has been referred to the Samoa Law Reform Commission for resolution. Although the lenders are unregulated, there is still a recognised contract between the lender and borrower that can be enforced under Samoa law.

There are no reputational constraints to women seeking SME-related finance. In fact, all the commercial lenders interviewed for this and past studies indicated that they are keen to support women business owners, who they generally regard as having superior financial discipline and business drive than men. According to one banker, "[Women] nearly always pay on time." None of the interviewed lenders, mostly women decision makers, could identify any unique constraints that specifically apply to women seeking to secure commercial finance.

Women's lower confidence in dealing with lenders and their cautious attitude to debt (along with the adverse publicity surrounding women jailed for loan defaults) has, however, resulted in women tending to be more reluctant to go into debt and/or encouraged them to pay down loans as quickly as possible. Such financial prudence has helped women entrepreneurs to establish their good reputation with lenders, but it can also slow or restrict their business growth and/or diversification opportunities. Assisting women to strike an appropriate balance should therefore be considered an important element of any effective support program.

However, women may face more barriers than men in securing acceptable collateral for commercial finance. Tangible assets are sometimes in their partner's name, or their partner may not be prepared to offer jointly owned assets as security. This can create problems in securing commercial finance; a shortfall in the amount of acceptable security for the lender subsequently leads to rejection of the application and/or the impression that the business is not fully supported by the woman's partner and therefore has an increased risk of failure.

The often counterproductive social pressures on women have been addressed by microfinance providers and other development programs by including men household members in the training sessions, incorporating quarantined social obligation payments in small business budgets (to ensure that such payments are carefully managed) and by empowering women through mentoring, group meetings and ultimately commercial success.

These types of interventions are not necessarily fully transferable to women owned/managed SMEs but their success indicates that there is value in providing women with appropriate strategies to handle social and family obligations in a manner that does not adversely affect their aspirations, business operations and growth.

2. Enabling Environment

Policy and Regulations

There is currently no MSME policy in Samoa and there is no single government agency that focuses solely on MSME development.

Samoa has in place a National Financial Inclusion Strategy (NFIS) (2017-2020), which includes action plans benefitting MSMEs, including improved access to finance. Implementation of the NFIS is driven by the National Financial Inclusion Task force, chaired by CBS.

The Ministry of Commerce, Industry and Labour (MCIL) has a broad mandate to facilitate economic development in Samoa and recognises the need for a business-enabling environment to allow MSMEs to prosper. Most of MCIL's support programs involve medium and larger businesses (by Samoa standards), export promotion and the encouragement of productive foreign investment.

Non-deposit taking financial institutions are not subject to the same stringent regulations and reporting as the commercial banks. There are business registration requirements that applicants must meet, with the exception of small agriculture and fisheries operations, but there are few other regulatory obligations. DBS, as a government-owned microfinance institute, is subject to regular scrutiny and oversight.

During the interviews with commercial lenders in Samoa, the only nominated significant regulatory or infrastructure impediment was the absence of a credit bureau. Commercial lenders noted that the land ownership regime makes it impossible to pledge customary land as collateral and accepted that this was not an easy problem to resolve given the country's cultural norms.

All of those interviewed for the study were generally satisfied with the regulatory environment for the use of collateral, as well as the procedures for handling business liquidations and the available legal recourse (including for resolution outside of the courts), despite the time and resources formal legal processes involve. The latter does, however, reinforce the attitude that the security offered for the provision of credit is a last resort and its importance is therefore ranked well below the borrower's track record, capability and a strong business case.

The 2015 Personal Property Security Act is viewed positively because of its prioritization of competing interests in movable property and the electronic information available on movable assets, which reassures lenders that assets offered as collateral have not been previously pledged to another lender. The Act also offers simplified, expedited enforcement against collateral when a debtor defaults on his/her debt. The banks interviewed for the study indicated an increased willingness to provide credit against movable assets, but no detailed data is available.

Other regulatory and business-enabling environment issues that do not have a substantial impact on the provision of credit to SMEs continue to be addressed by the ADB, World Bank/IFC and other organisations. These include the establishment of a credit bureau, expansion of the movable assets criteria and structural infrastructure improvements such as electric power in regional centres.

Credit guarantees and other lending Infrastructure

Different types of **Guarantee Programs** operate in Samoa. The Government of Samoa has provided guarantees to DBS for lending to businesses affected by natural disasters and to stimulate the tourism sector. This has been coupled with repayment relief and concessional finance.

This directed lending, as already outlined, has had an adverse impact on the profitability of DBS and a high per centage of the supported businesses in the tourism sector were medium to larger size ventures.

The only other government-backed program that assists businesses with partial loan guarantees is the ADB-supported Samoa Agri Business Support project (SABS), which offers a mixed package of support to approved commercial businesses involved in agricultural activities. The SABS project provides roughly 50 per cent of collateral coverage and refundable business support services.

Assistance was provided for commercial credit of between ST 100,000 and ST 1.5 million (between USD 39,000 and 588,000), with the largest credit facility to date of ST 600,000 (USD 235,000) at an interest rate of 8 per cent per annum. Funds were placed with four commercial partner banks, which are expected to carry at least 50 per cent of the credit at risk. The other 50 per cent of the collateral shortfall is guaranteed by the SABS scheme, of which 25 per cent of the loan is interest-free for seven years.

Over a four-year period, 14 commercial agri-businesses were granted access to finance via the four commercial banks. Six non-financing enterprises received refundable business support services. One business project failed due to non-compliance issues and another is being financially restructured by the lender.

At the time of writing, the ADB and the Government of Samoa have agreed that SABS will no longer be a separate entity and its role will be incorporated into the SBH. The support offered by SABS will be similar to what was available in the past, but its mandate will not be restricted to the agribusiness sector.

The Samoa Business Hub was launched in November 2019 to embrace a broader mandate than the previous Small Business Enterprise Centre (SBEC), which was established in 1994 under the control of the Western Samoa Small Business Enterprise Development Trust. Its core function is the management of its Business Loan Guarantee Scheme.

This scheme was designed in the early days of SBEC to assist businesses seeking to obtain loans from the five participating commercial banks of Samoa. It was established with 'settled funds' from the New Zealand Government (NZG) that enabled the provision of limited guarantees to the lender (commercial bank) in return for the agreement to advance funds to clients of SBEC. Subsequently, the Government of Samoa obtained a loan from the Asian Development Bank (ADB) in March 2001 to extend the scope of SBEC's financial support and assistance. The 'Government of Samoa Funds' are administered by the Ministry of Finance and the Central Bank of Samoa. All guarantees to support business loans are provided either directly by SBEC and supported by the NZG settled funds, or by the Ministry of Finance, supported by the Government of Samoa Funds.

The funding set aside for the guarantees is ST 7 million (USD 2.6 million) and the current utilisation is 165 per cent. This equates to guarantees totalling more than ST 11.5 million (USD 4.3 million), for approximately 300 micro and small businesses. Given the low 2-per cent delinquency rate, this utilisation rate appears acceptable.

SBH provides 100 per cent credit guarantees to lenders for loans up to ST 20,000 (USD 7,500) and an 80 per cent guarantee for those between ST 20,001 and ST 100,000 (USD 38,000). These guarantees are supported by preliminary trainings for borrowers and financial submissions for lenders to consider. Clients seeking a guarantee on loans of up to ST 50,000 (USD 19,000) are provided with three weeks of business basics and financial management training as well as assistance to formulate their business plans. SBH assesses their proposed business models and provides an outline of the businesses' viability, along with the guarantee offer. This training is also provided for recipients of the microloans of up to ST 10,000 mentioned above (in page 3).

Businesses seeking a guarantee on larger loans of between ST 50,000 and 100,000 are requested to attend the Business Growth Incubation Program, which is a more intensive program running over a ten-month period. However, their business model and potential loan is assessed in a much shorter time frame. Follow-up support to clients involves personal meetings every two to three months and SBH staff visit the borrower with the lenders, whenever possible, to discuss any delinquent accounts/non-performing loans.

Other financial ecosystem components

Apart from the usual forms of commercial credit — term loans, overdrafts, working capital facilities, chattel mortgages, etc — the provision of other, more complex financial services in Samoa is relatively thin. Several insurance, home lending, and currency exchange companies operate in Samoa, but there is **no domestic supply of finance** in the following areas:

- Stock exchange
- Small caps equity market
- Venture capital funds with an appetite for smaller business ventures
- Factoring or leasing facilities
- Peer-to-peer platform lending
- Investment account platforms
- Equity crowd funding mechanisms
- Finance credit companies that offer services, including vehicle and equipment leases, to the private sector

There is no public equity market for SMEs in Samoa. NPF is prepared to invest in local businesses that offer good returns, but most SMEs are unlikely to satisfy the Fund's due diligence and the preference is to provide short term loans to SMEs with proven track records.

The Unit Trust of Samoa (UTOS) was established in 2010 to provide Samoans with the opportunity to invest in commercialised State-Owned Enterprises. UTOS has invested in a select number of enterprises in Samoa and New Zealand, but its investment strategy is focussed on larger business ventures and is unlikely to represent an equity investment source for local SMEs.

Angel/impact investors are not a significant source of finance for SMEs in Samoa. Prominent local businesspeople have invested in a small number of SMEs, but there is no formal structure nor organisation that facilitates this type of investment.

The Australian Government-funded Pacific Rise program has attempted to promote impact investment in the Pacific Islands over three years and has a few partner organisations, which have shortlisted investment opportunities. The program has identified two potential investments in Samoa, but these have not yet proceeded to finalisation. There have also been attempts by other international organisations to match suitable business ventures in Samoa and other Pacific Island countries with international impact investors, but with only limited success to date.

Mobile and Internet Banking

In Samoa only around 40 per cent of the population has physical access to commercial financial services, but there is 78 per cent mobile phone penetration. There is, therefore, considerable potential for mobile phone banking and progress has been made in this area with the introduction of mobile money platforms by mobile phone service providers.

The Pacific Financial Inclusion Programme (PFIP), jointly administered by UNCDF and UNDP, operates in several Pacific Island countries, including Samoa. Its objective is to increase the number of low-income earners who adopt formal financial services.

PFIP supports the Central Bank of Samoa in the implementation of the National Financial Inclusion Strategy. In addition, PFIP aids private sector companies with the innovation of relevant and affordable financial services, such as banking and micro insurance solutions.

One such project has resulted in the linking of a mobile money platform to bank accounts. The EziBank solution connects Digicel's Mobile Money to an NBS savings account in a service primarily used to facilitate the saving of remittances.

These types of services are likely to expand in Samoa and will further improve the level of access to financial services and allow informal business operators to present basic records of savings and payments to enhance their prospects of securing small loans.

All the commercial banks offer internet and mobile phone banking services and report that the majority of their SME customers, including women, increasingly utilise internet banking for a wide range of financial transactions. In addition to offering improved convenience for SMEs, the electronic data can be used by banks to undertake an initial assessment of the customers financial transaction records when considering a credit request.

Applications for finance can be lodged via the internet, utilising the forms required by the banks and for relatively small and/or straightforward requests this may be enough for a decision by the in-country main office. For SME clients with no well-established history with the bank, and particularly when the required finance is more substantial, personal meetings to discuss key issues are required.

A noteworthy recent FinTech innovation, supported by ESCAP and UNCDF, has been the support of SkyEye, a geographical information system developer. Currently there is no interoperable payments system in Samoa that allows payments to easily flow between different banks and mobile money platforms. SkyEye is working to develop a payments gateway to solve this issue and enable an ecosystem where buyers can make payments using their bank account or mobile money accounts through digital channels. The digitization of payments will support MSMEs in the documentation of their cash flow and the data will assist financial institutions to make informed lending decisions.

Credit Assessment

The credit assessment processes by finance providers in Samoa are handled internally and there is no outsourcing to FinTech companies.

The two foreign owned banks — ANZ and BSP — have their own credit assessment tools that have been developed and refined over time. The two local banks and DBS have assessment processes that combine, to varying degrees, both automatic assessment calculations and manually prepared scoring. This adds to the cost of assessing credit submissions, but for both DBS and SCB, which work closely with applicants and customers, decisions are partly based on their knowledge of the applicants and the relevant local environment. NBS would like to introduce more sophisticated FinTech tools for their credit assessments/scoring and monitoring because this will reduce the time and costs of the current processes.

There is no indication from the involved banks in Samoa that FinTech assessment processes have increased lending to SMEs. The per centage of smaller SME loans by ANZ has, for example, declined. While tools such as credit scoring can lower assessment costs and provide objective/comparative data that allows loan officers to undertake consistent initial assessments, they do not compensate for the business case shortcomings in most SME credit submissions and there is no evidence of a positive impact on the level of SME lending.

Monitoring

Microfinance providers in Samoa tend to rely on the traditional personal and group contact approach to monitor clients' performance and loan repayments. Increased use of mobile and electronic banking mechanisms will help to supplement information gathering, but the successful focus on personal contact and information gathering is unlikely to change in a significant way.

Electronic data and internet banking allow the commercial banks to monitor the performance of borrowers allowing the banks in Samoa to quickly identify delinquent accounts. ANZ and BSP have universal procedures to review delinquent and non-performing accounts and, where appropriate, the development of debt rescheduling processes. The other commercial banks and DBS rely more on direct contact with customers to discuss rectification options.

The development of effective work-out strategies for delinquent accounts is, however, less well managed by the locally owned banks and DBS. An SME work out strategy goes beyond debt rescheduling. It often needs to consider core issues such as management, financial control and general market issues and this requires bank staff with some level of business experience/knowledge and few bank employees below senior management level have such skills.

3. Assistance Programs for MSMEs

SPBD and DBS have provided similar support services to potential borrowers and established microbusiness operators, including:

- Financial literacy training for women and youth.
- Training courses on how to run a small business, along with appropriately tailored manuals and workbooks.
- Pre-screening of potential borrowers that involves a brief assessment of the proposed income generation activity.
- Assistance with opening a bank account, and
- Limited mentoring and support other than that offered by the regular borrower group meetings.

The DBS training associated with their pilot scheme in Savaii was considered useful by those interviewed for the review and a similar reaction is predicted for the training provided by SPBD.

The Women in Business NGO focuses on working directly with women in the supply chain of products for the organisation's sales, primarily to overseas markets. This hands-on approach provides practical guidance and mentoring, as well as reinforcing financial discipline. Around 1,300 families receive flow-on benefits from this support and benefit socially from the positive role models provided to the community by the participating women.

Samoa Business Hub

SBH's scope of work continues to have a development focus but has expanded over more than two decades of operation. The organisation still provides a range of services and programmes to help individuals set up small businesses and to offer guidelines for the continued growth of ventures. However, the original focus on micro and small start-up businesses had a special focus on disadvantaged groups, such as the poor, youths, and women in rural areas and the outer islands. Under the new mandate, support is also extended to established medium and large businesses with export potential, or those which are export ready.

At the same time as rebranding, SBH restructured its business units to address each of the business segments in terms of the business training provided and level of access to finance offered under the Microfinance and Business Loan Guarantee Scheme. This support is delivered by four business units: Micro & Start-up; Small Business; Business Growth and the Savaii Unit; which delivers the full spectrum of SBH's services and promotes the work of the Business Growth Unit in Savaii.

In addition to the four core units, SBH established the Special Projects Unit to capitalise on its training expertise and diversify its program offerings and customer base. The unit has ILO-accredited master trainers and offers a range of programs, including the SQA accredited business certificate, Green Climate Fund business training and training for participants of both NZ and Australia's seasonal work programmes.

Independent reviews of the operations and impacts of SBEC, before its rebranding as SBH, have been positive, and the Centre has been held in high regard by businesses and finance institutions for some time. SCB, for example, has taken on 126 customers as a result of SBEC referrals and 56 per cent of these have been women owned/managed.

There are mixed views on the usefulness of the business plans/finance submissions prepared by SBEC — NPF has not made use of the offered guarantee because they consider the supported documentation does not satisfy their standards and the commercial banks are cautious about relying on the SBEC assessments. Overall, however, all those interviewed for this study believe that the level of support afforded SMEs has been excellent.

Donor-Supported Programs

Several donor-funded programs provide ancillary support to SMEs that can have a positive impact on securing access to finance. These include:

- **Pacific Trade and Invest**, an agency of the Pacific Islands Forum Secretariat funded by the Australian Department of Foreign Affairs and Trade, has offices in several key overseas markets. The organization provides export development aid and export promotion support. Assistance is also provided to SMEs and larger businesses to assess their investment readiness and attract equity investors.
- **Business Link Pacific (BLP)**, a New Zealand Government funded program provides technical assistance to local business service providers and offers 50 per cent subsidies on fees charged to SMEs for a full range of finance related activities, including the

preparation of finance submissions. There are currently ten accredited business service providers in Samoa.

- **Pacific Rise**, an Australian Government funded regional program, which facilitates impact investments in the Pacific Islands, including Samoa. Two potential equity investments are currently under consideration in Samoa and involved businesses learn a great deal from the assessment and due diligence processes involved in the program.
- **ADB** has provided a range of support programs in Samoa with a focus on access to finance. These include a trade credit facility offered by two local banks, the Samoa Agribusiness Support Project outlined earlier and the pending introduction of a supply chain finance program for smaller business operators.
- The **Pacific Financial Inclusion Programme** is geared to improving financial inclusion and has implemented several programs that have both direct and indirect influence on MSME access to finance.

Other donor-backed programs aim to improve the business-enabling environment and the provision of technical support and market information for SMEs, including the Australian Government funded PHAMA program that addresses overseas market issues for agribusiness suppliers in the Pacific Islands.

Currently, however, there are no donor supported programs providing business planning or finance submission support for individual SMEs seeking commercial finance.

Business Organizations and Government

There are two key private sector organisations in Samoa – the Samoa Chamber of Commerce and Industry and the Samoa Association of Manufacturers and Exporters (SAME).

The Chamber provides training courses for members, including on topics such as Accounting for Non-Accountants and Credit Management and Debt Recovery. However, there are no programs that provide direct assistance to members seeking commercial finance.

SAME has 130 members, with a good deal of crossover with Chamber membership, and has a growing number of women members. Its training and guidance focus on ISO accreditation (30 members are now accredited) and HACCP certification (15 members are certified). SAME is interested in improving trade (export) finance in Samoa but has no definite plans to facilitate implementation or any related training.

The Government of Samoa is supportive of private sector development but is primarily involved in creating a more conducive environment for enabling business. MCIL has a number of private sector support programs, such as the export assistance and the duty concession schemes, which provide import exemptions for eligible companies in the tourism, agriculture, agribusiness, fisheries and internal air transport sectors.

Provisions were made for concessional lending by DBS to the tourism sector following a natural disaster, but the government has no specific access to finance support programs.

The Ministry of Women and Social Development provides financial literacy training and allocates grants to projects that will benefit women in rural communities.

Local Business Service Providers

Given the relatively small Samoa economy there are limited local technical support services, such as HACCP and ISO accreditation, available to SMEs. There are a number of insurance companies that offer the full range of services and micro insurance has been developed in collaboration with one of these businesses.

Financial services support is available from local accountants, but these are mostly used by SMEs for annual returns and tax compliance/adherence. SMEs in Samoa recognise that they need expert assistance in this area but have proven to be highly cost conscious when considering more extensive use of local accountants.

Interviewed lenders also noted that only a small number of local accountants are able to prepare a bankable finance submission that satisfies all of their requirements. Submissions through accountants are better than those prepared by SMEs themselves, but most do not present a strong business case that gives confidence to the lender.

4. Proposed Initiatives

The proposed support initiatives draw on the study's findings and focus on the SME sector. This is because the microfinance segment is already well supplied by SPBD and the anticipated expansion of DBS's scheme, as well as SBH's expanded microfinance program, indicate that the unmet demand will be satisfied by appropriate and relevant services.

A proposed initiative to provide technical support to DBS overlaps with the microfinance sector by improving borrower vetting and mentoring/support.

An important factor that has been considered when framing the possible initiatives is the small size of the Samoa economy. With a total population of around 200,000 people, there are natural limits on the range of financial services that can be provided on a commercially viable basis and the number of local businesses that can service increased debt when relying on the domestic market alone. MSME development programs that have proved successful in larger developing economies will not necessarily be possible or sustainable in Samoa, where the profitable opportunities, scale and associated returns for lenders/investors are often more challenging.

There is a relatively substantial capital inflow into Samoa in the form of remittances from Samoans living overseas, but as evidenced in the previously mentioned research, these funds are usually not utilised for formal commercial purposes. Likewise, the money earned from Samoans working (short or medium term) in New Zealand and Australia is usually allocated to personal/family consumption, but some is used by regular offshore workers for small business ventures, such as the purchase of a taxi.

An attempt by MCIL in 2018 to assist women returning from overseas work to consider micro or small business ventures elicited a weak response and similar over ambitious programs may not be successful if no attention is given to credit demand side shortfalls.

Rationale Behind Proposed Initiatives

There are a range of financial institutions providing credit to SMEs and, given the size of the Samoa economy, it is possible to argue that from a supply side perspective the market is reasonably competitive and (while thin or inadequate in terms of equity investment and specialised finance products) is appropriately serviced. Interest rates are high by current international standards, but this reflects the small size of the market and the risk perceptions of lenders.

However, there is an asymmetry in the demand and supply sides of the equation regarding SME access to finance in Samoa. SMEs identify the difficulty in securing affordable and appropriate finance as a key impediment to business expansion. On the other hand, the lenders interviewed for this study stated that they maintain a positive attitude towards women entrepreneurs and are prepared to lend more to SMEs, , but they receive too few bankable proposals. Their most frequent complaints about the acceptability of finance submissions are insufficient information, a lack of confidence in the ability of many SMEs to effectively manage growth, insufficient equity contributions from the borrower, and inadequate collateral.

Resolving this asymmetry is not an easy task and requires an approach that places appropriate focus on demand side shortcomings. This requires measures to facilitate more bankable SME finance submissions while ensuring that the business (especially middle management in medium size businesses) has the knowledge, capabilities, and strategies to manage growth and service debt.

Improvements on the supply side will only bear tangible and substantial outcomes if the core issue of SMEs' capacity to present well thought out and convincing finance submissions is addressed.

There is no dedicated SME bank in Samoa and such a bank would be difficult to justify in the small domestic economy. Given that the commercial lenders in Samoa have sufficient liquidity to increase their credit portfolio, there is no need for the CBS to provide public funds for on-lending to SMEs.

The alternative of a government mandated SME lending quota for commercial banks should be avoided. This will not address the reasons behind the shortage of bankable proposals and is likely to disrupt the market. It should also be noted that an attempt to introduce such a quota in Fiji was eventually withdrawn because the banks would not approve credit that did not satisfy their prudential standards – they opted instead to pay the associated penalty fees and pass on these costs to borrowers.

FinTech solutions, provided by technology and financial service providers, are more limited in Samoa than in developed economies. Assistance to address shortcomings needs to be balanced with proportionate regulatory responses that include assessing potential risks to financial stability and client protection while also considering the development benefits and increased financial inclusion that FinTech can offer.

The gaps between the needs of small borrowers and the supply of appropriate services is summarised in the table in Appendix 4. This highlights an evident gap in the market in the provision of professional guidance/assistance to growing SMEs, particularly those seeking finance to fund growth.

The security/collateral required to underpin credit is very important (and one of the proposed initiatives addresses this issue) but relying on collateral assets if the business fails is regarded as the last resort for the lender. The effort and uncertainty associated with seizing security makes it the least desirable outcome for banks. A weak/unclear business case will block the provision of credit, even when acceptable collateral is offered. Any program to improve SMEs' access to credit in Samoa must therefore address the calibre of the finance submissions presented to lenders and/or investors. Several organisations/programs are already operating in this space, but there is room for improvement and a more integrated approach to address the gaps in the market.

However, the overall objective to improve the demand side of the equation should not be restricted to the development of better finance submissions. Support and guidance are also required to help SMEs, particularly women owned/managed ventures, to properly assess their options and structure their businesses more effectively. Negative assessments of business ventures that result in the venture not proceeding should be regarded as positive outcomes because for every failed business, there are adverse economic and social consequences.

There is also a strong argument in favour of providing women entrepreneurs with additional support to properly assess their business plans, develop clear financial projections and implementation strategies, as well as prepare finance submissions that they can effectively "own". This should be coupled with ongoing mentoring support until the business growth/diversification is progressing satisfactorily.

The needs of women entrepreneurs have been incorporated into the recommended initiatives rather than as separate stand-alone programs. Support programs specifically for women entrepreneurs could be considered but it will be more cost effective to implement programs with the potential to benefit all productive enterprises and make special provisions for women through tailored eligibility criteria and/or more extensive support.

Data Collation to Underpin All Proposed Initiatives

Once the definitions of what constitutes small, medium and larger businesses are ratified, regulated finance providers need to consistently segregate finance provision figures in their reporting to provide a clearer picture of what finance is being provided to SMEs and the related improvements/changes in the businesses. Ensuring data collection is gender disaggregated is also essential to improve segmentation and product design. This will also highlight to lenders their performance in the MSME market and possibly stimulate an increased focus on missed lending opportunities.

Improved data is also crucial to effectively monitor any expansion in finance provisions to MSMEs, as well as to assess the impact of support programs and record evidence for the modification of existing mechanisms and/or the introduction of further support or enabling measures.

Initiative 1: Collateral Shortfall Partial Guarantee Scheme

This is a priority project that addresses an evident gap in the market and would be of considerable benefit to growing SMEs, particularly women owned/managed enterprises. Currently no such scheme operates in Samoa and no support agency or donor currently has plans to do so.

Enough collateral support for commercial finance will remain an issue in Samoa given the land tenure system and the limited domestic market for the sale of specialised equipment typically surrendered in the event of default, leading to a very low lender valuation on such equipment.

The proposed initiative would not completely remove these constraints; instead, it would be a risk sharing mechanism that will increase the likelihood of successful SME finance submissions when a collateral shortfall is the only remaining barrier.

The key features and rationale of the proposed scheme, which would be implemented as a two-year pilot, is summarised in the following table.

Table 1
Collateral Shortfall Partial Guarantee Scheme - Key Features

Feature	Rationale
Restricted to bank-nominated collateral shortfall for an SME finance submission, with only a collateral shortfall preventing the provision of credit.	Insufficient collateral nominated by lenders as a major constraint to providing finance to SMEs. SMEs report that this also one of their key problems in securing finance for growth and/or diversification.
Quarantined funds to be located in SBH and a separate independent committee appointed to review finance providers' request for a guarantee. Role of committee to be restricted to checking the eligibility of guarantee	Simple and clear eligibility signed off by a reputable committee, and transparent approval processes will encourage lenders to use the scheme and avoid risk of biased (but well intentioned) approvals by SBH staff. Speedy action on claims against guarantee will be key – most lenders write off bad debts after 3 months.

application and the speedy approval of any claims on guarantee.	A medium-term strategy would be the transfer of the scheme to an independent organisation established with funding from the private sector.
Lenders to undertake due diligence on borrower/business proposal and ongoing monitoring of debt service and business progress. Their role is to submit formal requests for guarantee and in the event of default submit a report on attempted recovery, amount of outstanding finance, and the amount claimed.	Responsibility for accuracy of credit checks and all associated paperwork rests with the lender. Removes need for public or donor funded assessment and support services to the lender.
Eligible SMEs would be established locally owned businesses with good track records, which are able to provide a minimum of 50 per cent of the required collateral. Only one guarantee per individual business.	Excluding unproven start-ups would reduce risks to scheme. Support for locally owned SMEs would contribute to sector development. SME borrower would have "hurt money" (50 per cent at risk collateral) in deal and suffer if project fails. Limit on guarantees provided would ensure spread of benefits across SME sector.
Guarantee limited to 90 per cent of collateral shortfall.	Enough to encourage lenders to provide finance but they would retain some exposure and continue to monitor performance of SME borrower. Experience with a similar scheme in the Solomon Islands has demonstrated that a 90 per cent guarantee is required to satisfy lenders' risk concerns. This scheme initially offered an 80 per cent guarantee but there was no take up by the commercial banks until the guarantee was increased to 90 per cent.
All types of commercial finance for projects in all industry sectors. Exclusion for activities with negative social or environment impacts.	Spreads benefits to productive and socially responsible enterprises across the economy and maximises utilisation. Working capital facilities, trade finance, vehicle finance packages and other finance can be equally important to SMEs as a term loan. Special consideration for women owned/managed SMEs should be included.
Eligible finance provided to SME by lender: between ST 120,000 and 600,000 (USD 45,000 to 230,000).	Avoids complicated business eligibility criteria. Ensures support is focussed on medium size businesses with the potential to contribute to employment generation, and possibly export. Allows for maximum coverage. Assists SMEs to graduate from other support programs with limits of ST 100,000 (USD 38,000) loans.
Maximum allowed unsecured portion of finance for 90 per cent guarantee: ST 250,000 (USD 94,000) per loan.	Ensures maximum possible spread of benefits across the SME sector.

Maximum guarantee ST 225,000 (USD 85,000) per loan.	
Guarantee payout to be reduced (when appropriate) in line with net outstanding credit at time of default.	Guarantee payout to never exceed 90 per cent of net loss to lender. This is an important element of the necessary risk sharing element of the scheme.
No fees for guarantees provided during pilot stage and lenders interest charges for supported finance should not exceed standard SME rates. The pilot will test the market and provide lessons for a likely reallocation to an SME support agency or a fund supported by the banks in Samoa.	Absence of fees will maximise scheme utilisation and impact. Collection of fees during pilot would complicate processes for involved government entity during the pilot phase. Banks should not have a "free ride" by taking advantage of the scheme and also charging fees similar to a high-risk credit provision.

Source: Author.

The natural fit for the scheme is SBH, given that the unused SABS funds and support services are expected to be transferred to SBH. The scheme would also be a useful addition to the SBH's other SME financial support instruments.

This partial guarantee scheme should result in credit and economic additionality – increased lending to other SMEs based on the demonstration impacts of successful ventures, possible encouragement of new, non-bank credit suppliers (such as BSP Finance) and increased numbers of SMEs with sufficient financial resources to prosper and contribute to economic growth. The scheme could also be utilised to support larger SMEs, including SAME members, to secure appropriate finance for their endeavours.

Special consideration should be given to support women owned/managed SMEs. Options could range from simply advising lenders that women owned/managed SMEs would be welcomed, to more generous conditions — 60 per cent collateral shortfall and/or 95 per cent guarantee coverage.

The maximum funding required for this 18 to 24-month pilot scheme would be **ST 5.4 million** (USD 2 million). No allowance has been made for the low overhead costs and assumes a higher than expected average partial guarantee of ST 180,000 (USD 68,000), as well as 30 benefiting businesses over the period.

If an agreed utilisation rate of 150 per cent is acceptable, funding of **ST 3.6 million** (USD 1.4 million) would be required. Unused funds transferred from the SABS project may be enough for this purpose.

In each case at least 50 per cent of the allocated funds would need to be liquid and available for speedy payout of guarantees. Re-insurance to cover unexpected losses is neither possible nor appropriate during the pilot period.

It should be noted, however, that this scheme should not be a stand-alone pilot program. There needs to be associated business planning and assessment services to provide a pipeline of solid business cases to finance providers and to maximise the flow-on benefits of the scheme. This is where initiative 2 discussed below, can support.

Initiative 2: Integrated SME Assistance Program

This program would focus on assisting SMEs to secure commercial finance for their growth and/or diversification, but it would also offer a range of flow-on benefits to other enterprises and the involved organisations.

A key player would the Samoa Business Hub (SBH), which could have an additional and funded support mechanism through the partial guarantee scheme. The Hub's growth and diversification strategy will be introduced in several phases to minimise disruption. There are plans to work in conjunction with existing accountants/business service providers to avoid crowding out these businesses. Linkages can also be developed with other programs such as BLP; to strengthen the capabilities of local business service providers; and the PTI networks, to develop export and investment ready businesses. These interconnections will also support SPBD as clients graduate to SME status.

SBH has the potential to become a strong facilitator of SME development in Samoa and to effectively coordinate support in several areas. One of the most useful SBH roles could be the development of strong finance submissions for SMEs. Set out below is a potential program to develop the necessary internal skills and establish crucial related linkages for maximum impact.

Objectives

The program would address several demand side shortcomings and promote more effective collaboration between key players.

The **core objective** would be to assist SMEs to objectively assess their business growth/diversification plans and, where appropriate, develop "bankable" finance submissions. This would offer a range of benefits to involved SMEs and increase credit provision to the SME sector.

An important objective would be to provide **effective assistance to, and empowerment of, women entrepreneurs.** Women owners/managers of SMEs are cautious about lending and approaching banks for finance and require objective outside assistance to analyse growth options, develop realistic finance projections and prepare strong business cases/finance submissions. They can then approach lenders with confidence and take advantage of the apparent appetite to support women entrepreneurs.

By ensuring the appropriate participation of women, all parties involved in the program would also gain a clearer understanding of their challenges and the most effective empowerment and business strengthening strategies.

The eligibility criteria for women owned/managed SMEs would include businesses with majority women ownership and businesses where day-to-day operations and decision-making are in the hands of women. Furthermore, inclusion of men (women participant's husbands and/or family members) in this process is important, to ensure collective buy-in and support for women and their business goals.

Another important objective would be to **assist SBH to fulfil its potential role** as the key organisation involved in strengthening the SME sector and in coordinating practical support to SMEs. If SBH is to work effectively with more medium size businesses and become financially self-sustaining it will need, inter alia, to develop finance submissions that satisfy lenders' requirements. SBH's ongoing role in supporting smaller enterprises and start-ups would also be enhanced by the improved skills and knowledge imparted to staff by the program.

A related objective would be to **improve the finance submission preparation capabilities of local business service providers** in order to provide sustainable, longer term benefits to SMEs. Lenders have advised that most of the finance submissions presented by local service providers are inadequate. The BLP program will be able to assist SMEs with cost reduction, but to date most of the activities have focussed on the important first stage of improvements in SME financial management processes. Progression to the preparation of properly thought out and convincing finance submissions is required.

The program would also facilitate **improved collaboration and coordination** amongst the various parties involved in the provision of finance and support services. This would be achieved through practical collaboration activities that offer tangible benefits to all involved and include women SPBD clients who are ready to graduate to more substantial business operations and who have proven track records and credit histories to support strong finance submissions.

Upgrading the calibre of SME finance submissions would also have **a medium-term positive impact on credit availability and cost.** Bankable finance submissions can be submitted to a few lenders in Samoa and it is often possible to secure better terms and conditions through market competition. Assuming satisfactory track records for the involved and properly structured SME borrowers, there is also likely to be a positive impact on lenders' risk assumptions of SMEs, without distortionary subsidies that tend to simply give lenders a "free ride".

It is also recommended that SBH introduce an ancillary program to provide practical assistance to women who are returning from overseas work contracts and are keen to establish small businesses.

Program Implementation

The **first stage** would involve the collation of case studies that would be used for both training and initial implementation purposes. These SMEs seeking finance would be sourced from a number of stakeholders —– commercial banks, DBS, SPBD SME "graduates", SAME, accredited BLP service providers, NPF and SBH clients — to develop an appropriate cross section of actual case studies, including at least 50 per cent women owned/managed businesses with several nominations of growth-ready SPBD SME clients (all of whom are likely to be women).

A team would be identified from SBH, business service providers, DBS and elsewhere as required, to work on each case study. Any necessary external resources to provide specialist input on technical, production or market issues would be contracted. An approach would be made to BLP for a 50 per cent subsidy on the work undertaken by the nominated service provider involved in each of the case studies.

The different teams would gather to meet with the SME and work on the preparation of the finance submissions, commencing with a brief workshop on the key issues and the templates/tools to be utilised. One team member would take prime responsibility for the final document, though the other members of the team would remain involved throughout the whole process.

The outcome would be an agreed business strategy/finance submission for presentation to one or more lenders and short term follow up with the relevant SMEs. This would be followed, at an appropriate time, by a workshop involving all participants to discuss lessons learned and the way forward.

The advantages of this approach include:

- Actual experience with typical SMEs and the issues they confront in terms of business planning and preparing finance submissions.
- Effective networking and experience sharing with stakeholders that will lay the foundation for future collaboration.
- Awareness and reputation building with all stakeholders, including lenders, and evidence of the beneficial outcomes.
- Effective, relevant and results-orientated outcomes for involved SMEs, including women entrepreneurs.
- Provision of a strong pipeline of potential candidates for assistance under the collateral

shortfall partial guarantee scheme.

The **ongoing program** would be coordinated by a dedicated manager at SBH who would build on the established linkages to provide a pipeline of potential SME clients. The typical process would involve:

- Identification of potential SME clients from lenders, business service providers, business associations and other organisations DBS and SPBD.
- Initial assessment of the SME's eligibility and the support to be provided. Where appropriate a letter of agreement on the services to be provided and the SME's obligations would be signed.
- Organisation of the resources and funding, as well as monitoring of implementation.
- Vetting of the finance submission to be presented to lenders and follow up on finance provision or other outcome(s), organisation of follow up assistance to the SME (including any SBH support) and a completion report within six months.

The role of the program manager would be challenging but manageable. The number of clients in Samoa is unlikely to exceed 60 SMEs per year, of which around 50-60 per cent will proceed to a formal finance submission. Most of those screened by the program manager would be referred to SBH for other support.

Funding and Financial Arrangements

External funding support would be required to implement the relative costly implementation stage. This would include expected business service provider subsidies from BLP, and the funds transferred from SABS.

Ongoing funding support would be required to cover overheads, fees of service providers and shortfalls in contributions from SMEs. Given the scope and broad benefits of the program, donor and other support funding should be made available.

SME clients would be required to contribute to the costs involved and the amount (between USD 1,500 and 3,000) would only be paid once finance is provided and would constitute the first draw down on this finance. If the submission is geared to attracting equity investment, the transparent success fee would be included in the outgoings supported by the investment.

Specific Assistance to Women Owned SMEs

Women entrepreneurs would be automatically provided with additional support and guidance, rather than by quotas or through complex/confusing eligibility criteria. Established program manager performance targets that stipulate numbers of assisted women would be enough to avoid mission drift.

As already outlined, additional resources would be allocated to assisting women during the proposed business venture's assessment, planning and finance submission stages — this could include short term use of an outside specialist to provide input and guidance.

Following submission of the finance request, each woman client would be entitled to at least three full days of support/mentoring in either proceeding with the venture of determining alternative consolidation/growth strategies. The specific benefits for women would include:

- Support that will allow them and family members to fully understand their business growth options and the most cost-effective finance structuring arrangements. This will allow for informed and prudent decision making.
- Independent and professional mentoring/support during the important finance

structuring and the new or expanded businesses initial stages.

- SPBD women clients deemed ready to graduate to SME status would have access to appropriate guidance and support.
- The women involved in microbusinesses supported by SPBD and DBS would benefit indirectly from the enhanced skills and knowledge of each organisation's staff. The SME graduates would also be effective role models for those interested in moving beyond simply income earning activities.

Monitoring and Evaluation

Monitoring the outcomes of such a program is obviously important but care needs to be taken to avoid monitoring and evaluation processes that are unduly complex and resource hungry.

The key indicators, segregated by gender where appropriate, should include:

- Number of potential SME clients contacted/interviewed by gender and industry sector.
- Number of SMEs provided with advisory services that did not proceed to inclusion in the program.
- Number of formal services provided that includes both those that involved completion of a finance submission or any extensive business advisory services provided.
- Volume and value of finance raised as a direct result of program.
- Growth of supported SMEs, including total income, gross operating profit, employment and, if appropriate, export sales.

This potential program needs to be developed in more detail, but the recommendation represents a practical approach with broad capacity building and private sector development impacts that are currently not operating in Samoa. Importantly, it would facilitate access to appropriate finance for SMEs, particularly those owned/managed by women, with the potential to grow and contribute to social and economic development in Samoa.

SBH would continue with its existing support to smaller businesses and the skills and knowledge imparted by the program would enhance the effectiveness of these services. SBH would also be in a better position to offer value for money client services that will improve its prospects of longer-term financial sustainability.

While the program is not gender-focussed, the support to be provided would be the most beneficial to existing and potential women entrepreneurs and among the expected outcomes is the social benefit of positive female role models. The outcomes and exposure created by the program should also reinforce the already positive attitude amongst lenders towards providing credit to women entrepreneurs.

Initiative 3: Technical Support for Development Bank of Samoa

DBS plays an important role in the provision of SME finance and is frequently the first choice for new or growing small businesses. For reasons already outlined, DBS has not achieved profit targets over recent years and larger non-performing loans, mainly in the tourism sector, represent a drain on the bank's performance and liquidity.

External support is already planned for the expansion DBS's microfinance activities, but its core SME finance activities are not yet included in this support. The bank's SME portfolio is performing reasonably well and the monitoring processes are adequate. DBS management recognises, however, that there are limited internal capabilities to consider effective work out strategies for delinquent and non-performing SME loans.

Short term technical assistance could be provided to key personnel to objectively analyse the core issues confronting SME clients and identify the most effective correction strategies. This could involve:

- Initial brief workshops to reinforce awareness of the issues that confront SMEs and create debt serving problems: break-even analysis, financial and cash flow management, pricing, selling etc. Extensive use of relevant case studies and group decision making exercises will be an important aspect of the training.
- Use of actual SME clients as practical field exercises that would also assist the involved SMEs to work through their options.
- Follow up reviews within the bank to determine the action on each of the delinquent clients and, where appropriate, referrals to other parties to assist the SME. The latter would involve meetings with other agencies/service providers to discuss the identified problems and the required support.

This technical assistance could be spread over three geographic areas of Samoa and made available to around 15 bank employees involved in SME-client relationships. While the workshop handbook and other materials will be important tools, the focus needs to be on practical training exercises and actual case studies.

The objective is **not to** convert bank staff into close business advisors. The outcome should be bank staff who can recognise the fundamental problems confronting their clients, suggest issues that need to be addressed by the SME and refer the customer to other relevant support agencies/service providers, such as SBH. In some cases, the situation could be irretrievable, and foreclosure may be required, but for most of the bank's SME client base the outcome will be advantageous.

An additional beneficial outcome will be the flow-on strengthening of the DBS's assessment of SME finance submissions and its initial vetting of microfinance requests; the core issues are often very similar but vary in size and scale. The practical training and case studies will improve the bank staff's ability to identify potential shortcomings/problems for both microenterprises and SMEs from the outset and, where appropriate, either structure the finance accordingly or refer the potential borrower to other support prior to re-approaching DBS for credit.

The proposed initiatives outlined above could be applied on an individual basis, but it would be more beneficial if all were to be implemented because they would comprehensively address the identified gaps and needs in the market.

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Annex 1: Stakeholders Interviewed for the Study

- Asian Development Bank (Sydney)
- Pacific Rise (Canberra)
- ANZ Bank
- Bank South Pacific
- Central Bank of Samoa
- Samoa Commercial Bank
- National Bank of Samoa
- Ministry of Commerce, Industry and Labour (MCIL)
- Samoa National Provident Fund
- Development Bank of Samoa
- South Pacific Business Development (microfinance)
- Small Business Enterprise Centre.
- Chamber of Commerce.
- Samoa Association of Manufacturers and Exporters.
- Business Linkages Pacific.
- Women in Business Development Inc.
- UNDP/Pacific Financial Inclusion Program
- Ministry of Finance
- Ministry of Women, Social and Community Development
- Samoa Agribusiness Support Project
- Overseas workers program (MCIL)
- Australian High Commission
- WE Accounting
- BDO (accountants)
- SynBiz Financial Services
- Amanaki Hotel (woman owned),
- Vaoala Vanilla
- Treasure Box
- Osana Chips

Annex 2: Commercial Banks Provision of Credit to Private Sector

Data on the commercial banks' provision of credit to the private sector is summarised in the table below. No further information is available on the provision of credit to SMEs or the ownership gender of borrowers.

Table A.1
Commercial Banks Provision of Credit to the Private Sector, December 2019

Industry Sector	Total Credit (ST millions)	Per centage of Total
Agriculture, forestry, fisheries	13.8	1.2
Manufacturing	31.6	2.8
Building and construction	365.9	32.0
Electricity, gas, water	49.7	4.3
Trade	122.4	10.7
Transport, storage, communications	81.1	7.1
Professional and business services	172.2	15.1
Other activities	307.7	26.9
TOTAL	**1144.4 (USD 432 million)**	100.0

Source: CBS data.

There has been no significant change in the relative importance of different industry sectors over the last five years, which reflects both the nature of the Samoan economy and the risk appetite of the commercial banks. The high per centage of credit provided for "other activities" is somewhat distorted by the inclusion under this category of personal loans, not included elsewhere in data collection.

Annex 3: Additional Information on Commercial Banks

The **ANZ** bank has a 16 per cent share of the total domestic credit supply in Samoa. It tends to focus on corporate and commercial clients and has scaled back credit to SMEs, which are generally defined as loans below ST $1 million (USD 380,000). At one stage, the bank had almost 700 small business loans on its books, but to date this has been reduced to around 200 loans. Eligibility criteria has become more rigorous, with a move away from lending to new businesses towards granting advances only to those with established track records and tangible security. SME Credit decisions are processed through the Fiji-based ANZ Operations Hub, which manages commercial / corporate transactions valued up to ST $20 million (USD 7.5 million).

Bank South Pacific (BSP) has an 18 per cent share of the domestic credit market and has a broad spread on customers engaged in commercial activities. Final approval of most commercial credit facilities is made in Papua New Guinea, where BSP is headquartered.

BSP is interested in securing more SME customers and introduced a special facility for this purpose. The Smart Business Model offers unsecured loans up to ST 30,000 (USD 11,000) at an interest rate of 18 per cent and secured loans (supported by a term deposit and acceptable collateral) at 10.95 per cent interest. This facility has not been as popular as expected, with only 56 approved loans totalling ST 800,000 (USD 300,000) in value. Roughly 60 per cent of borrowers under this facility are women entrepreneurs.

It is not clear why the take-up has been lower than expected, but the high interest rate on unsecured loans is an obvious issue and many SMEs are unable to satisfy the collateral requirements. An additional possible reason is the reluctance of some small business operators to approach the larger commercial banks, which they often find intimidating and face difficulties in satisfying their information requirements.

The **Samoa Commercial Bank (SCB)** has an 11 per cent share of the domestic credit market but is more active in SME finance than the other banks. It currently has around 2,000 SME clients (defined as businesses employing less than 20 people), including bakeries, retail stores, tourist operators, sewing/handicrafts, food stalls and small printing operations, but not all are provided with commercial credit. Women-owned and managed businesses represent a high proportion of their customers and almost 75 per cent of the bank's management and staff are women.

A Small Development Loan Scheme for Low Income Earners provides unsecured loans of between ST 1,000 and 10,000 at a low interest rate of 6.5 per cent over a 12 to 36 months period. This facility is regarded as a pro-poor initiative and SCB shareholders guarantee the loans to mitigate the bank's exposure.

SCB's relative success in the SME market is attributed to the bank's hands-on approach with these customers and by taking the time needed to fully understand their business and needs. Acceptable collateral to support commercial loans remains a significant barrier and SCB has made extensive use of the Small Business Hub's (SBH) loan guarantee scheme, which has 145 customers, 35 per cent of whom are women.

The **National Bank of Samoa (NBS)** has a mix of corporate and personal customers and SME clients, totalling around 600 businesses. SME customers are assessed on the usual bank criteria, and the most common barriers to funding provision are poor management/budgetary discipline and collateral shortfalls. NBS has not yet made extensive use of the SBH loan guarantee facility but sees merit in the scheme. Customers with robust management discipline — which generally tend to be larger businesses — provide the most acceptable risk profile for the bank. The bank's spread on loans has declined in recent years, but the bank hopes to reverse this trend if the SBH loan scheme is strengthened to provide an acceptable level of risk and rule out any possibility of reckless lending.

Annex 4: Shortcomings in SME Finance Related Services

Table A.2

SME Growth Stage	Available Support	Appropriateness / Gaps
Business idea formulation	SBH training courses (SYB)	SYB courses are very useful and SBH has demonstrated a professional and effective approach.
	Accountants	Most accountants do not specialise in such advice and tend to focus on financial issues and not the overall business case. Involved costs mean that few potential SMEs approach accountants at this early stage.
	Family and peers	Can offer useful guidance but mostly limited in scope and value.
Start Up	SBH offers generous finance and guarantee support, along with training and mentoring.	Relevant and supportive services but some commercial lenders have reservations about adequacy of SBH's finance submissions.
	DBS is less risk adverse than the commercial banks and provides some initial guidance.	Bank will still require a good business case and collateral, both of which are frequently absent. Proposed supply chain credit program will address gap in market.
	SCB is prepared to consider start up finance and works closely with clients.	Similar to DBS and also cautious in providing finance without a strong business case.
	Other commercial finance providers are very cautious about supporting start-ups and will require a very good business case and collateral for finance. Limited guidance and advice are provided.	BSP developed a special facility aimed at SMEs and start-ups but take-up has been less than expected because of weak business cases. Others quite risk adverse in relation to start ups and sourcing credit is very difficult.
	Accountants	Involvement relates primarily to establishing mechanisms and preparing basic information that can support a finance submission.
	WIB provides extensive support to a limited number of women entrepreneurs.	Effective approach but limited in terms of numbers of women assisted.
	SPBD increasing credit and guidance to SMEs graduating from microfinance.	Useful support, particularly for women.

Growing SMEs seeking additional and more comprehensive credit	SBH guarantees and guidance	Guarantee recently increased to ST100,000 (USD 38,000) but this still restricts coverage to smaller business ventures. Some gaps in training/support to be addressed in revised strategy.
	Commercial lenders provide range of finance products but are not proactive in guiding borrowers.	Shortage of bankable proposals and collateral shortfalls limit credit to growing SMEs.
	DBS offers credit and only limited guidance/support.	Significant credit provider but recognises that bank has shortcomings in relation to ongoing support and effective work out guidance.
	NPF prepared to provide credit and equity investment but no guidance or support.	Similar situation to commercial banks credit issues. Investments limited to small number of high calibre local business ventures.
	Accountants and other business service providers.	Several accountants offer acceptable finance submission preparation services, but commercial lenders are not confident about quality and accuracy of information. Issue being partly addressed by BLP.
	SABS provided financial, and if required an equity injection, for growing agribusiness projects.	Useful financial and technical assistance support but limited to agribusiness sector and has helped only 10 businesses with financial support. Businesses have required ongoing advisory support to ensure adequate debt servicing. Will be absorbed into SBH but not clear at this stage how scheme will operate.
	Limited number of other finance related service providers.	No small-scale venture capital fund or more sophisticated tools such as factoring. Trade credit subject to same criteria as other finance and no specialised finance companies (vehicle finance costs are high).

Source: Author.