

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

## COVID-19 Supplementary Report and Recommendations



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## Abbreviations

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

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

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## Introduction

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

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

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

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

## Overview and key messages

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

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

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

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

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

The key recommendations suggested by this report include:

## **IMMEDIATE/SHORT TERM MEASURES**

### **Supply of Finance**

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

### **Demand for Finance**

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

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

- Upgraded business project assessment capabilities to support an expansion of the existing small business loan and guarantee schemes.
- Preparation of effective workout strategies to maximise the prospects for support from commercial banks to implement agreed upon plans.
- Contingency fund set aside to top up the loan guarantee reserve fund.
- More extensive, tailored and subsidised support services for women operating small and medium-sized businesses.

## **MEDIUM AND LONGER-TERM MEASURES**

### **Supply of Finance**

Two options are proposed in the case that a tightening of liquidity results in reduced access to affordable finance for SMEs. These include: 1) A temporary reduction in the statutory



reserve deposits required from the banks, and/or 2) A capital injection into the banks, in the form of concessional loans, for on-lending to SMEs.

Additional mid to long-term measures include:

- The implementation of a collateral shortfall partial guarantee scheme with more generous provisions for women-owned/managed SMEs. It will be important, however, to link this scheme with improved guidance for SMEs to work through their business plans to ensure both a strong pipeline of request through the banks and to minimise call ups of guarantees.
- Fast tracking the implementation and establishment of a credit bureau.
- Active Central Bank of Samoa (CBS) support to FinTech initiatives which aim to pilot or expand solutions such as payments, non-collateralized lending, etc. CBS is already supporting initiatives, such as SkyEye, to launch the country's first ever payments gateway. Additional support to FinTech initiatives through regulatory no-objections, while maintaining regular monitoring of initiatives to ensure client protection and financial stability, could be considered.
- An additional long-term measure which would bring benefits to individuals and enterprises would be the continued expansion of Samoa's mobile money agent networks. It is important to ensure a presence in rural areas, which allow people to easily cash-in and cash-out money. Having a robust agent network can be critical in times of crisis, in which agents can be repurposed to support digital onboarding and literacy for first-time clients and support clients who are receiving emergency government to person (G2P) or government to business (G2B) payments. Given Samoa's geographic location and associated climate-related disaster risks, the establishment of a strong agent and digital finance ecosystem will create micro enterprise jobs while increasing access, convenience and the associated convenience usage of digital finance solutions, which can be leveraged during times of crisis or disaster. However, this requires additional investment in the capacity and management of existing agent banking models, such as that of ANZ, BSP and Digicel, to build and expand their agent networks.

## **Demand for Finance**

Expansion of SBH's mandate to incorporate:

- Operational management of the collateral shortfall partial guarantee scheme, with approval delegated to an independent committee made up of key stakeholders including CBS, Ministry of Commerce, Industry and Labour and other key non-bank stakeholders.
- Possible longer-term funding allocation<sup>1</sup> to support SBH. This potential initiative would involve additional, targeted support for women-owned/managed businesses.

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<sup>1</sup> Initial projections are roughly estimated at between AUD 1 and 2 million (between USD 699,500 and nearly 1.4 million) for such an initiative, however further financial estimates are required.

## **INDUSTRY-SPECIFIC MEASURES**

This study finds that there are strong prospects for robust recovery in the tourism industry. However, the current practical measures to reinforce Samoa's image as a safe destination need to be backed up by adequate government/donor funding for effective destination marketing programs, particularly in Australia.

The SME support programs outlined above would play a crucial ancillary role and the prioritization of tourism-related businesses should be considered. A revitalised tourism sector would provide broad and relatively quick benefits to the entire MSMEs segment, particularly for the women-owned enterprises and women employees that account for a significant portion of the sector.

Ongoing support for the agriculture sector is also important and, within the recommended access to finance measures, attention should be allocated to appropriate and affordable finance for participants at all levels of the supply chain.

# Chapter 1: Impact of the COVID-19 pandemic on MSMEs in Samoa

## 1.1. Overall business impact

The COVID-19 pandemic has had serious economic and social consequences on Pacific Island nations. A recent Pacific Trade Invest Business Monitor survey found that 88 per cent of businesses surveyed have experienced negative impacts due to the pandemic, with nearly two-thirds of business decision makers reporting that the pandemic has also taken a toll on their mental health<sup>2</sup>. The survey highlighted consistent issues being faced among MSMEs, including poor cash flow, negative business impacts due to border closures and business uncertainty because it is unknown how long the pandemic and its aftermath will last (Pacific Trade Invest, June 2020).

In 2019, Samoa was faced with a measles outbreak, which resulted in the declaration of a state of emergency, the cancellation of public gatherings, schools, holiday-related events and more than 80 deaths. Due to mass vaccination efforts, by the end of 2019 and early 2020, the outbreak was under control. However, with the emergence of the COVID-19 threat, the country has had little time to recover, although the recent experience in dealing with infectious disease has allowed the government to be adequately prepared to respond quickly. As a result of both the pandemic and the measles outbreak, adverse economic impacts are evident in Samoa's real GDP, which is forecasted to contract by 6.6 per cent by December 2020 (Minister of Finance, May 2020). Business confidence in the country has also been affected.

As a result, Samoa's private sector is facing the following immediate and potential future challenges:

- Reduced demand in both the domestic and overseas markets is leading to a decline in businesses' incomes, gross operating profits and cash flow.
- An associated disruption to internal and external supply chains, compounded by lower commodity prices that affect the agriculture sector.
- The tourism industry has, and will continue to be, severely impacted over the coming months, resulting in widespread economic fallout.
- It is projected that a likely reduction in remittance inflows will negatively affect consumer spending. To date, however, remittance inflows have only decreased slightly over the first four months of 2020. In April 2019 total remittances were WST 40.25 million (USD 15.2 million) and in April 2020 the total remittance inflow was WST 36.74 million (USD 13.9 million), representing a decline of 7.2 per cent (Central Bank of Samoa, April 2020).
- Weaker business confidence has the potential to reduce domestic and foreign investment.
- Ongoing problems for indebted businesses managing loan repayments.

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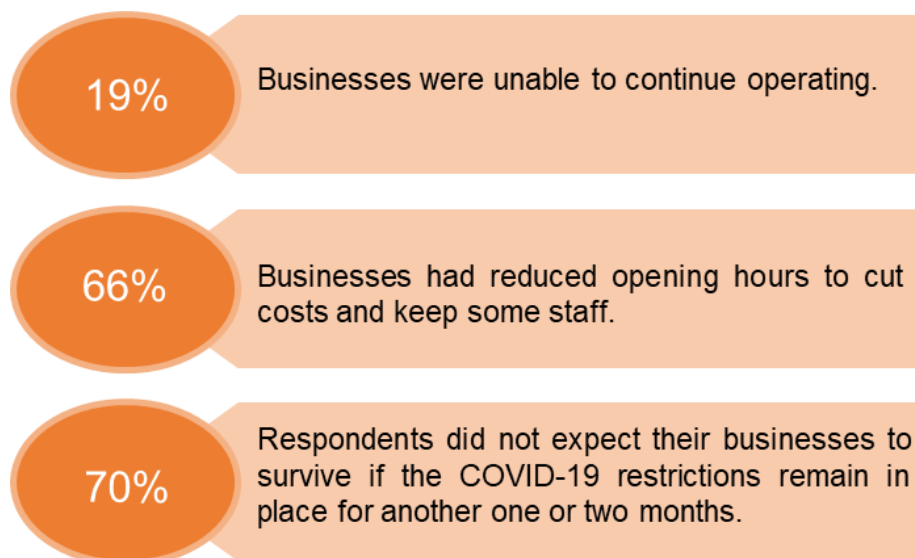
<sup>2</sup> The Pacific Trade Invest Business Monitor survey covered a range of businesses, including many large enterprises. Therefore, while the findings are significant, it is possible that the statistics are even greater than estimated when considering micro and small enterprises.

- Negative impacts on the profitability (and possibly liquidity) of commercial finance providers, with the risk of a consequential tightening of credit for smaller businesses.

Previous experience indicates that there will be a rebound in commodity prices, remittances, and tourism once the COVID-19 pandemic eventually subsides, but the broader economic flow on benefits will depend on the ability of all productive segments of the private sector to survive in the interim and subsequently respond in a positive and profitable manner.

Figure 1 presents a business survey by the Samoa Chamber of Commerce and Industry covering the period of January to May 2020. The survey gathered responses from 218 enterprises, mostly SMEs. The survey found troubling insights due to the COVID-19 pandemic, including the following:

**Figure 1: Business survey feedback, January to May 2020**



*Source:* Samoa Chamber of Commerce and Industry

Significant numbers of staff layoffs were also reported between January and May 2020. A total of 253 men and 186 women were made redundant, and a further 211 men and 212 women were forced to take leave without pay. Interestingly, the most affected employee age groups were between 20 and 40 years old (Samoa Chamber of Commerce and Industry, 2020). It appears that employers are reluctant to lay off their older more experienced workers, which will have implications for youth unemployment. It is important to also note that youth in Samoa are more likely to be unbanked, with 70 per cent of young adults excluded from using any financial services, compared to less than 40 per cent in other age groups (Financial Services Demand Side Survey Samoa, 2015). Lack of access to savings and credit, combined with high unemployment, will have significant consequences for Samoa's young population.

Total unemployment levels increased by only 0.4 per cent in the first quarter of 2020 compared to the same quarter in the previous year. However, the most significant declines in employment levels were seen in the construction sector (a decline of 5.7 per cent), accommodation (5.2 per cent), personal services (4.9 per cent) and transport (4.2 per cent) (Samoa Bureau of Statistics, 2020).

These figures starkly contrast the high business confidence in mid-2019, prior to the business disruptions caused by the measles outbreak. Addressing the economic downturn caused by COVID-19 will require a coordinated response by the government, donors and the private sector. The Government of Samoa reacted quickly and decisively to isolate the country from external pandemic threats, and fiscal responses have already been introduced to reduce the negative impacts on businesses and household incomes. There are, however, limits to the level of borrowings that countries such as Samoa can undertake, given that the country already faces a high public debt level of USD 434 million, which makes up approximately 50.32 per cent of Samoa's GDP (National Public Debt Samoa, 2018). Taking on more debt could lead to greater economic difficulties in the long term. One solution would be to seek grant financing from development partners and unconditional concessionary loans offered by multilateral banks. The recently approved International Monetary Fund (IMF) grant of USD 22 million for Samoa under its Rapid Credit Facility is indicative of the type of available short-term support. Additionally, multilateral finance institutions, such as the Asian Development Bank, already have plans in place to provide funding and technical support for private sector development projects in the Pacific Islands.

Based on past findings of ESCAP's "*Micro, Small and Medium-sized Enterprises' Access to Finance in Samoa*" and the further consultations undertaken post pandemic, this report identifies recommendations for the Government of Samoa to consider. Recommendations are based on immediate to short-term measures, medium-term measures and long-term structural measures which precede the pandemic and have undermined the development of a vibrant MSMEs sector in Samoa.

## **1.2. Impact on microenterprises**

Microenterprises have been adversely impacted by the COVID-19 crisis. These negative impacts and/or subsequent closures (temporary or permanent) have, in some cases, led to increased competition from new entrants seeking income opportunities to replace lost or reduced wages. While there is no available data on this trend, interviews undertaken through this study found women already engaged in microenterprises have reported that more households are now growing vegetables and/or producing items for sale in local markets to replace lost income.

Microenterprises producing handicrafts to sell to tourists from overseas or which supply agriculture inputs to exporters are likely to experience substantially reduced sales. Tourist arrivals have virtually ceased and most hotels have been dormant for several months. Total exports in April 2020 were WST 3.5 million (USD 1.3 million), down from WST 8.6 million (USD 3.2 million) in September 2019.

The overall impact on microenterprises is, however, likely to be less significant than the difficulties and downstream impacts confronting many SMEs because:

- Most microenterprises involve a relatively low capital investment and can usually be resumed or ramped up relatively quickly and at low cost.

- There are usually no significant fixed ongoing costs in a microenterprise and the enterprise can be quickly scaled back or placed in hibernation with little or no continuing strain on cash flow.

On the other hand, many microenterprises do have small loans that require regular repayments, and those involved in small retail outlets will face inventory and ongoing store overhead costs. The majority of informal businesses also have limited access to financial services or government business assistance.

### **1.3. Impact on SMEs**

SMEs have been significantly affected by the COVID-19 pandemic. Income losses and ongoing costs (such as rent, wages of key staff and loan repayments) have depleted cash flow. Although many commercial banks are offering short term loan interest rate repayment holidays, they will be even more risk adverse in the uncertain business environment. The banks' initial focus will be on facilitating debt rescheduling processes for SME clients and it will be even more difficult to secure additional credit. The longstanding challenges faced by SMEs in securing commercial credit – weak finance submissions and inadequate collateral – will be magnified and an overall reduction in SMEs loans can be expected.

Globally, SMEs are typically characterised by relatively limited cash reserves, less inventory, smaller client bases and more limited credit options than larger companies. SMEs are thus more vulnerable to external shocks, and more prone to fail, when the larger economy falters. This is also the case in Samoa, where many SMEs are still recovering from the adverse economic impacts of the measles outbreak in late 2019.

A significant decline in the survival and performance of SMEs will have serious implications for Samoa's economy. SMEs account for approximately 75 per cent of private sector employment and are crucial suppliers for important commodities, goods, and services, based on the definition of an SME as an enterprise employing between two and 25 people (Samoa Bureau of Statistics, 2013). Importantly, a vibrant SME sector offers the best potential for an eventual broad private sector resurgence once the current crisis subsides.

Therefore, particular attention needs to be paid to supporting this segment of the economy. In addition to the necessary short term remedial measures, the current economic challenges should be seen as an opportunity to secure external support to address the core constraints that have inhibited SMEs growth in the long term.

### **1.4. Economic impact on women and women-owned enterprises**

In the Samoan context, 40 per cent of women are banked in comparison to 38 per cent of men, and women entrepreneurs maintain a generally favourable reputation among commercial lenders. However, the women entrepreneur segment globally has been hard hit, suffering substantially greater losses than male-owned enterprises, as a result of pre-existing social and economic vulnerabilities.

Women and girls are often disproportionately affected by crises, such as COVID-19, when existing gender inequalities tend to be highlighted. Currently, women and girls are facing even higher rates of violence, abuse and control from their partners and families. Women are expected to undertake more unpaid domestic work, such as childcare, are less able to access business support networks, and have become even more susceptible to economic hardship.

Women engaged in small scale livelihood activities involving sales in local marketplaces have experienced serious declines in income as a result of many market closures. Cottage industry workers for handicraft production have also suffered as a result of the collapse of the tourism sector, as have women previously employed in the tourism/hospitality sector.

Women in Samoa are traditionally the recipients of overseas remittances, including from family members undertaking contract work in countries such as New Zealand, Australia and the United States. Financial transfers from Samoans participating in overseas work programs in the agricultural sectors of Australia and New Zealand are not expected to be substantially affected by COVID-19 related disruptions, but those working in the hospitality sector are likely to suffer job losses, layoffs and/or repatriation, which will impact the steady income households previously received via remittance inflows.

To date, as noted earlier in this report, there has not yet been a significant impact on the recorded remittance inflows. However, the expectation of interviewees is that overall remittances will decline as a result of weaker economic conditions in the source countries and this will lead to less disposable income in Samoa. Given that women make up a significantly high proportion of remittance recipients - 48 per cent compared to 39 per cent of male recipients - women are expected to face further financial risks (Financial Services Demand Side Survey Samoa, 2015). Potential compounded impacts to households should also be monitored, given that women often spend more on household necessities such as food and education.

Women-owned or managed SMEs could face greater resilience issues than their male counterparts because of their lower access to financial services and assets, information/communication technology, and business networks. These challenges are even more pronounced for self-employed women in small businesses, as well as those in the agricultural sector or engaged in informal employment.

When developing COVID-19 related relief strategies, careful attention should be paid to facilitating market access for women microenterprises. Digital marketplaces, such as the Maua application, are already being used in Samoa to bring increasing numbers of women entrepreneurs into the digital economy. However, support for digital onboarding, particularly for those who are not technologically savvy, is a continued need. Digital literacy support is crucial for e-commerce, digital payments, business promotion and other relevant activities. Women-run SMEs need to be given special considerations in all strategies developed.

## Chapter 2: Measures to assist MSMEs

### 2.1. Government initiatives already announced

The Government of Samoa has reacted quickly to the crisis with the implementation of several fiscal measures. The relevant measures and their expected impact on MSMEs are as follows:

- Provident Fund payouts, the additional one-off pension payment and the payment to citizens during the 2020 census, will inject cash into the economy and partially sustain consumer demand with positive flow-on benefits for local suppliers.
- The planned monetary compensation for all workers who have been laid off, been put on leave without pay, or have had their working hours reduced, will provide a similar stimulus and allow businesses to reabsorb workers once business conditions improve.
- The partial insurance compensation for agriculture and seafood exporters is a practical short-term assistance package for a range of SMEs.
- The government has offered to carry two per cent of the total interest rate of business loans from commercial banks for three months, provided the banks match this reduction. This initiative has not been well received by the banks because of the perceived complicated processes involved.
- Interest relief for clients with loans under the South Pacific Business Development (SPBD) will benefit a broad cross section of women engaged in informal and small-scale business activities.
- Short-term paid trainings for laid off workers from the hospitality sector is a positive measure that will both enhance skills and provide a pool of workers ready to return to the sector.
- There are also plans to introduce an agriculture stimulus package to revitalise the coconut, cocoa, taro and vegetable sectors, but no further details are available at this stage.
- The final measure is a capital injection to the Development Bank of Samoa (DBS) to strengthen its support to sectors impacted by COVID-19. This an important measure for reasons outlined in proceeding sections.

These interventions will be helpful to assist the private sector to weather the current economic turmoil, but there are funding limits on what the government can do to help MSMEs. Therefore, focus must be on support measures that address the key challenges for the re-emergence of a vibrant MSME sector once the constrictions imposed by COVID-19 are resolved and this is likely to require additional external support.

### 2.2. Identifying priority support measures

Based on consultations with financial service providers, businesses, associations and chambers, as well as other key stakeholders, this study has identified the following key pandemic-related challenges faced by MSMEs, as per the table below:



**Table 1. Key challenges, implications and action priority**

Challenge	Implications	Priority Action Ranking
<p>A high percentage of SMEs are indebted (accountants report that almost all of their SME clients carry debt) and are finding it difficult to service credit repayments.</p> <p>The commercial banks are being cooperative in offering interest repayment holidays but have not been receptive to the government's offer of a matching two percentage point interest reduction due to the cumbersome administration requirements.</p>	<p>Despite the banks' cooperation, a relatively high proportion of SMEs may go bankrupt with negative implications for employment and sustainability.</p> <p>An increased failure rate amongst SMEs may further harden the commercial banks' cautious attitudes to SMEs credit.</p>	<p>This should be a top priority. The short, medium and longer-term adverse impacts could be substantial.</p> <p>The government's interest rate offer has not achieved the expected outcomes and alternative strategies are required.</p>
<p>The overall economy is, at best, sluggish and the short-term recovery opportunities for most industry sectors are limited.</p>	<p>The industry with the best prospects for a relatively speedy turnaround is the tourism sector.</p> <p>The flow on employment and income generation for associated businesses, as well as the benefits of confidence building, would be of great advantage to the economy. Women employees and suppliers would be the main beneficiaries of a rebound in the tourism sector.</p>	<p>COVID-19 has, paradoxically, presented an opportunity for the Samoa tourism sector. Australian and New Zealand tourists are likely to be prepared to visit Samoa by the last quarter of 2020 and, with the right strategy, this could see a surprisingly quick turnaround for the industry.</p> <p>This is a priority already recognised by the Government of Samoa but there also needs to be support for involved businesses to secure finance, coupled with a broad destination marketing plan.</p>
<p>Women are likely to be disproportionately impacted by the COVID-19 crisis and this could have longer term impacts of the confidence</p>	<p>Particular attention needs to be given to the needs of women in the changed business environment.</p>	<p>Measures that provide women with increased confidence, preferential access to finance and independent guidance to compensate for their limited</p>

<p>levels of women engaged in both informal and formal business activities.</p>	<p>A reduced number of women with sustainable income earning opportunities, or involved in successful SMEs, will have detrimental economic, and social impacts, including on confidence levels.</p>	<p>support networks, need to be built into broader microenterprise and SMEs support programs.</p>
<p>Women and youth with microcredit loans are facing repayment problems similar to that of SMEs as a result of decreased demand for their products/services. While some informal enterprises may be more adaptable than formal business entities, increased rates of failure and eliminated/reduced household incomes will have adverse impacts on families and communities.</p>	<p>An increase in microenterprise failures would result in sustainability difficulties for the two major finance providers and undermine confidence amongst women and youth. This would also limit the prospects for graduating women borrowers to SMEs loan status which would, in turn, represent a backwards step in fostering more women entrepreneurs.</p> <p>Given the likelihood of more people moving back to their villages and the possibility of reduced remittances, there may be an increased need for microfinance, as well as digital financial services and expanded agent networks.</p>	<p>This has already been recognised as a priority market intervention, as evidenced by the inclusion of tailored assistance in the initial government support package of relief for SPBD clients and a capital injection into the DBS.</p> <p>It will also be important to assist microenterprises to adopt digital financial management, as well as marketing/selling platforms to help overcome logistical, transport and financial access impediments.</p>
<p>Access to appropriate and affordable commercial finance could become even more difficult as credit providers tighten their requirements in a more uncertain and challenging business environment.</p>	<p>It will be more important than ever for SMEs to submit bankable proposals that reassure lenders. Market uncertainties and increased loan defaults will make lenders more cautious and limited access to finance for business recovery efforts</p>	<p>The shortage of bankable SMEs finance submissions is an embedded shortcoming on the demand side of the access to finance equation and rectification measures should now be regarded as an even greater priority.</p>

	would be a brake on the economy.	
Commercial credit suppliers may face liquidity issues if the COVID-19 impacts and restrictions are not resolved within the next 12 months. While the banks report adequate reserves at present, the situation may deteriorate as a result of increased bad loan provisioning, defaults, and reductions in savings.	A “credit squeeze” will have a significantly harsher impact on smaller business than larger corporate bank clients, leading to a serious ripple effect across the entire economy, particularly disadvantaging women entrepreneurs.	The Central Bank of Samoa (CBS) has already introduced more regular bank meetings to review liquidity but should the banks require support to maintain liquidity, it would be useful to develop contingency plans, such as reduced reserve deposit requirements or capital injections through concessional loans.

### Chapter 3: Relevance of ESCAP’s previous recommendations

The key recommendations included in the recently completed “Micro, Small and Medium-Sized Enterprises (MSMEs) Access to Finance in Samoa” report and their relevance in the COVID-19 impacted environment is summarised in the following table.

**Table 2. Previously recommended MSME access to finance activities**

Recommendation	Relevance in changed Business Environment
Provision of effective support for all SMEs to develop and present strong business cases to potential credit providers.	As outlined above, this support is now even more crucial if SMEs are to satisfy the lenders’ expected more stringent assessment processes and this recommended approach remains valid.
An integrated program that focuses on developing local skills and experience to assess the commercial viability of proposed business ventures and assist with the preparation of “bankable proposals”.	This is linked to the support program above and also remains valid.  The involvement of the Samoa Business Hub (SBH) remains important and its role has taken on a new dimension. With the weaker domestic market, the loan guarantees offered by SBH will present higher risks to the organisation. More comprehensive and effective business project assessment and a guaranteed vetting process will be required to ensure that excessive guarantee call ups by credit providers do not undermine the sustainability of the existing guarantee reserve fund.

	<p>The New Zealand funded Business Link Pacific program has increased the subsidies available to SMEs using the services of accredited accountants and others to 100 per cent of the charges for short term business resilience guidance. This program has a limited life span and ongoing similar support will be required.</p> <p>Generous support for women-owned/managed SMEs should be interwoven into this overall program.</p>
<p>A collateral shortfall partial guarantee scheme.</p>	<p>The logic behind this recommendation remains critical in an environment in which lenders are likely to be even more cautious and, given the specific vulnerabilities to economic hardship faced by women borrowers, there is an argument in favour of more generous treatment for this segment of the population.. This could include a 100 per cent guarantee covering up to 60 per cent of the collateral shortfall.</p>
<p>Provision of short-term technical services to DBS to develop the internal skills to provide basic mentoring to microfinance borrowers and to assess/guide delinquent SMEs borrowers on optional work out strategies.</p>	<p>This also remains a valid recommendation given the higher market risks since the previous report. The announced capital injection into the DBS is important but it needs to be backed up by enhanced lending risk assessments if the DBS is to avoid a higher bad loan portfolio.</p> <p>For similar reasons, the DBS should be better able to work with delinquent borrowers to agree on mutually beneficial work out strategies that will reduce the number of disruptive foreclosures/bankruptcies.</p>

As noted above, several key recommendations not only remain valid but are also appropriate responses in the COVID-19 environment.

## Chapter 4: Recommended strategy

Set out below is the recommended strategy to support Samoan MSMEs that have been affected by the COVID-19 crisis. The recommendations focus on practical measures that can be acted upon relatively quickly to address the more challenging business environment, but also include medium and longer-term strategies, some of which were similarly identified in the previous report.

## 4.1. Support for Microenterprises

The following immediate to mid-term support measures are proposed to support microenterprises:

- Continuing principal and interest repayment relief for the DBS and the SPBD clients for another three months, with reviews to determine extensions on a case by case basis. This will require further government funding support, possibly in the form of highly concessional loans.
- Immediate technical and financial support for DBS to roll out their revised microfinance scheme to all parts of the country. This would incorporate technical support to improve the bank's internal record keeping and reporting processes, as well as funding to underpin the expansion of the client base. This expansion will require working capital to establish the program in other areas, as well as funds to provide more loans.

Regarding medium to long-term measures, the following strategies are recommended:

- A strategy for the microfinance sector would focus on the countrywide expansion of the DBS scheme to provide financial options for clients and to maintain competition in the sector.
- A reorientation of the community grants program operated by the Ministry of Women, Social and Community Development (MWCSD) to focus on projects that support women involved in microenterprises, such as common produce handling/storage facilities.
- Active Central Bank of Samoa (CBS) support to FinTech initiatives which aim to pilot or expand solutions including digital payments and non-collateralized lending. CBS is already supporting initiatives, such as SkyEye, which has already launched a women's e-commerce platform. SkyEye is now set to establish the country's first ever payments gateway. Additional support to FinTech initiatives could be provided through promotion such solutions and regulatory no-objections where prudent, while maintain regular monitoring of initiatives to ensure client protection and financial stability.
- An additional long-term measure which would create positive momentum for post-pandemic recovery in Samoa, with significant benefits for individuals and enterprises, would be continued expansion of Samoa's mobile money agent networks. The presence of agents in rural areas would allow people to easily cash-in and cash-out money. Having a robust agent network can be critical in times of crisis, in which agents can be repurposed to support digital onboarding and literacy for first time clients and support clients who are receiving emergency G2P or G2B payment support. Given Samoa's geographic location and associated climate related disaster risks, the establishment of a strong agent and digital finance ecosystem will create micro enterprise jobs while increasing access, convenience and associated convenience usage of digital finance solutions, which can be leveraged during times of crisis or disaster.

## 4.2. Support for SMEs

Measures to support SMEs to survive the current economic downturn and to expand when the economy improves should be a government priority. The proposed support measures, some of which were already recommended in the previous report, are as follows.

### Capital Injection into the DBS

A **short-term** priority recommendation is to take immediate action on the proposed capital injection into DBS to facilitate credit support for SMEs and microenterprises. The bank's existing non-performing loan portfolio in the tourism sector has had a negative impact on its balance sheet and additional funds will be required to support interest/principal repayment holidays and debt restructuring.

DBS will also require support to improve staff capabilities in relation to:

- Assessing new or additional credit applications from existing SMEs clients in the changed business environment, and
- Working with existing clients with delinquent loan accounts to develop effective work out strategies that go beyond short-term repayment relief. These skills will be very important to minimise bad debts and help clients to survive in the medium-term.

This technical support will also assist DBS to eventually restructure its overall non-performing loan portfolio and to minimise the incidence of non-performing loans in the future.

It may prove necessary for struggling SMEs to secure a re-financing package and DBS would be the likely option. Taking on clients with fundamental weaknesses is, however, a risk for the DBS. The bank's capacity to carefully assess potential re-financing submissions and appropriately structure the related credit is of paramount importance. A stream of re-financing requests would place a significant strain on DBS resources and given the expected rise in non-performing loans, support should be provided to improve and expand internal capabilities, backed by additional sustainability funding support.

### Support for SPBD

An additional **short-term** recommendation is funding support for SPBD. SPBD already has a portfolio of women microfinance clients who have graduated to SME loans and this approach warrants additional assistance. A concessional loan to the SPBD, earmarked for additional and extended SMEs credit, would directly and relatively quickly benefit a range of women entrepreneurs with the required skills and discipline to successfully operate a formal business.

### Indirect and Direct Assistance to Commercial Banks

The commercial banks in Samoa have demonstrated a willingness to be flexible with SMEs clients but there can be no assurance that this approach will be maintained for a lengthy period. If the situation persists, banks will have to tighten credit controls and this could result in SMEs foreclosures, unless alternative refinancing options are available. Decisions in this regard are at the discretion of the banks, but the recommended measures below would assist

banks to be patient with non-performing loans while reducing the risk profiles of SME lenders in difficult situations.

The Central Bank of Samoa (CBS) is already engaged with the banks to monitor their liquidity levels and there are two **short term** options that may need to be considered if a tightening of liquidity results in reduced access to affordable finance for SMEs:

- A temporary reduction in the statutory reserve deposits required from the banks, and/or
- A capital injection into the banks in the form of a concessional loan for on-lending to SMEs and/or repackaged lines of credit.

The proposed joint interest rate reduction on commercial loans has not been as successful as hoped. Commercial banks are reluctant to become involved in administratively difficult or disruptive processes and an increase in their liquidity should encourage SME lending more effectively than the proposed government approach, provided these lenders can present bankable proposals.

### **Collateral Shortfall Partial Guarantee**

In a higher risk business environment, credit providers will carefully scrutinise all finance requests and sufficient collateral support is important. Accordingly, the recommended collateral shortfall partial guarantee scheme is particularly relevant and should be implemented as soon as possible with the following more generous, additional criteria:

- Women-owned/managed SMEs would need to provide 40 per cent of the required collateral and the guarantee would cover 95 per cent of the shortfall. The scheme should be closely linked to the Samoa Business Hub support program outlined later in the report to ensure that the involved women do not become over-indebted.
- For an initial period of 12 months, other SME borrowers would need to provide 50 per cent of the required collateral but the guarantee would also cover 95 per cent of the shortfall.

An indicative budget for the scheme is WST 3.6 million (USD 1.4 million).

### **Credit Bureau**

An important regulatory issue that affects access to finance and needs to be addressed in **the medium-term** is the absence of a functioning credit bureau. This would provide assistance and comfort to credit providers and reduce the time required to approve financial applications. The Asian Development Bank (ADB) has undertaken preliminary work on this matter and the government should request further assistance and cooperate in the formalisation of the required regulations and the bureau's establishment.

A related issue is the risk that the current difficult business climate will result in negative reporting on the credit worthiness of SMEs, with an associated negative impact on women entrepreneurs. Measures need to be put in place to compensate for this possible distortion.

## SMEs Technical Assistance Programs

SMEs will require business advisory support in these difficult times. Many will need independent guidance on how to reorganise or reorientate their businesses to counter new challenges, exporters will need help to focus more on the local market and with digital transformation, and almost all will need to develop survival strategies and secure appropriate financial support in the short and medium-terms.

Existing accountants and other business service providers can assist and the Business Link Pacific (BLP) program is providing more generous subsidies to allow SMEs to access short term external guidance. More intensive and affordable support will, however, be required to help SMEs survive, diversify and eventually grow in the longer term.

A **short-term** solution would be to utilise the funds remaining under the ADB-supported Samoa Agri Business Support program (SABS) to provide equity and loan guarantee mechanisms for SMEs in other industry sectors. Although SABS funds may only be sufficient to support between four and six SMEs, this would still be a useful outcome that will also help to boost business confidence.

### 4.3. Samoa Business Hub (SBH)

The Samoa Business Hub (SBH) has an ambitious business plan that builds on its existing services and good performance. This plan has already confronted several resource challenges, which may become even more problematic in the current business environment.

Nonetheless, the SBH can play a pivotal role in sustaining a viable and productive SMEs sector and it has the necessary foundations to undertake a relatively rapid response. Funding support from government/donors will be required to implement the necessary improvements and establish appropriate internal resources.

The recommended **short and medium-term** SBH support measures and the required external support are as follows:

**Table 3. Recommended SBH programs/activities**

Activity/Program	Rationale	Funding
<b>Immediate</b> Expansion of microfinance services to be delayed for at least two years.	Microfinance clients are already reasonably well serviced, and the DBS expansion will further improve service levels. The SBH resources should initially focus on assisting struggling micro and medium sized formal businesses.	Nil.
<b>Short-term</b>	The small business loans would represent a lifeline for small businesses in the difficult	Funding required to provide



<p>Provision of small business loans and associated training courses to be continued and involved staff to be upskilled on business proposal feasibility and assessment processes.</p> <p>An important aspect of this training would be the development of effective work out strategies for borrowers.</p>	<p>environment. Practical, on-the-job staff trainings would reduce the risk of increased bad debts and help business owners to properly understand their best survival and growth options.</p> <p>Professional and effective work out strategies would, where appropriate, be presented to relevant commercial banks and this would greatly improve the possibilities for approved re-financing packages.</p>	<p>additional loans and staff trainings.</p>
<p><b>Short-term</b></p> <p>Loan guarantees provided to banks for the vetted SBH clients, to be maintained but the assessment processes to be upgraded. The guarantee set aside reserve fund to be increased but only in conjunction with the upgrading of skills within SBH in order to reduce the risk of excessive guarantee call ups by banks</p> <p>Stronger business case proposals would increase demand for the guarantees and result in increased SME credit supply.</p>	<p>Strong and respected vetting of business projects would increase the likelihood of lenders agreeing to provide credit to SMEs.</p> <p>The reserve fund to cover call-ups of the guarantees is currently around 165 per cent and a possible increase in call-ups of the guarantee could cause difficulties for the SBH.</p> <p>More stringent assessment processes would reduce risks and place less strain on the reserve fund.</p>	<p>Funding for upgrading the SBH staff skills included above.</p> <p>Set aside reserve fund to be allocated an additional WST2 million (USD 750,000) to be drawn down if required.</p>
<p><b>Medium-term</b></p> <p>Tailored, dedicated assistance provided for women SMEs owners/managers.</p> <p>More extensive support services, coupled with more generous subsidies (such as 100 per cent guarantees for loans).</p>	<p>Women will require tailored support to build confidence in approaching credit providers and independent guidance to compensate for their more limited support networks.</p> <p>Support for women would introduce business plan assessment and recommendations; development of, and support for, the agreed marketing strategy; and appropriate credit/financial</p>	<p>This would involve separate funding for additional resources and outgoings associated with subsidies.</p> <p>A detailed program budget needs to be developed and presented to appropriate donors</p>

<p>The existing Business Growth Incubation Program to be adapted to incorporate more women-only sessions and networking.</p>	<p>structuring to avoid unsustainable indebtedness.</p>	<p>and multilateral agencies.</p>
<p><b>Medium-term</b></p> <p>Implementation of the collateral shortfall partial guarantee scheme for other commercial credit suppliers.</p> <p>SBH clients would be eligible for support under the scheme, but SMEs already benefitting from the SBH loan guarantees would be excluded.</p> <p>Special conditions for women SMEs to be included.</p>	<p>The SBH would be the appropriate organisation to manage the scheme. Guarantee support decisions would be undertaken by an independent multi-party committee, including the Central Bank of Samoa (CBS), but the SBH management would ensure a robust pipeline of worthwhile applications from credit providers.</p>	<p>An initial budget of WST 10 million (USD 3.8 million) would be set aside at the CBS.</p>
<p><b>Longer-term</b></p> <p>Adoption of the BLP program once a clear decision has been made on its future.</p>	<p>It has been informally proposed that the Samoa Chamber of Commerce and Industry take over the Business Link Pacific (BLP). However, it would be more appropriate for the SBH to assume responsibility for the program because of the obvious synergies and learning opportunities for the SBH staff.</p>	<p>Initial injection of funds to continue alongside the subsidy program.</p>

If the SBH can secure the required support and effectively implement the recommended programs there will be two significant outcomes within three years:

- A significant improvement in the commercial sustainability of SMEs in Samoa and a measurable increase in the number of profitable women-owned/managed SMEs, and
- A substantial upgrade in the SBH's capacity to provide practical support to SMEs, which will lay the groundwork for an expansion into more sophisticated business services that will enhance the Hub's sustainability prospects.

## 4.4. Sector Specific Support

Every industry sector, with the likely exception of the digital and communications sectors in Samoa, will be adversely impacted by the COVID-19 restrictions; however, the two key industries particularly impacted are the tourism and agriculture sectors.

### **Tourism Sector**

The tourism sector has suffered the most severe losses due to the closure of international borders. The virtual cessation of overseas tourist arrivals has damaged profits for hotels and related business ventures, which have almost completely ceased operations in an industry that previously accounted for up to 20-30 per cent of economic activity in Samoa, according to the IMF.

The collapse of the tourism industry in Samoa has had direct and indirect consequences for MSMEs, with women involved in related supply and business activities and employment in the industry bearing the brunt of the economic downturn. There is, however, the possibility for the sector to recover quickly if mechanisms can be put in place to attract tourists from Australia and New Zealand – even a small share these two markets would overwhelm the absorptive capacity of the Samoa tourism/hospitality sector and contribute to a quicker than expected economic recovery. Around five million Australians travel overseas for holidays annually and these tourists are unlikely to have safe alternative destinations for some time.

The Government of Samoa is well aware of the situation and remedial measures, and the recently announced measure to provide training for laid off hotel employees is an effective means of ensuring a pool of properly equipped workers ready to resume their positions when the market reopens. Likewise, the current support measures for hotels to introduce improved health and virus protection standards, in conjunction with the upgraded facilities at Faleolo International Airport, will facilitate the appeal of Samoa as a safe and responsible destination. The resumption of regular flight operations and value for money air travel sales will also be crucial.

To complement these measures, it is key for Samoa to undertake effective destination marketing in New Zealand and Australia prior to the opening of international borders in the Pacific region. Competitors such as Fiji, Vanuatu and the Cook Islands have already prepared strategies to promote themselves as a safe destination and are ready to proceed as soon as the travel restrictions are lifted. This type of destination marketing is particularly important in Australia where Samoa is not the typical front of mind choice for holiday travel, and a tourism marketing strategy needs to be undertaken by the government and regarded as a priority program to assist Samoa's economic recovery.

Aiming for a resurgence of Samoa's tourism industry has implications for the proposed recommended MSMEs support programs. Most of the businesses involved in the sector are likely to suffer from cash shortages and unresolved debt obligations necessitating professional guidance to resolve. Businesses will also require assistance to develop an effective medium-term strategy to rebuild while avoiding costly mistakes. For example, hotels that opt to gradually reopen facilities and services could suffer from poor guest reviews, while those

operating despite occupancy rates as low as 25 per cent will probably find that this results in a more negative cash flow outcome than remaining closed.

A necessary component of any government support program for the tourism sector should therefore include measures that will assist MSMEs to be financially and structurally primed to take advantage of the potential opportunities. These measures could include:

- Provision of additional resources in the SBH to provide business advisory service to the sector, either directly or through a subsidy scheme similar to that of the Business Link Pacific (BLP) program.
- An additional injection of funds into the DBS to provide concessional loans to eligible SMEs in the tourism sector. These funds could also be utilised to provide support to tourism-related businesses, along the same lines as the DBS loans provided under government direction following natural disasters. The objective would be to assist tourism-based operators to grow and eventually repay their outstanding debts, and
- Additional funding for the SBH to provide carefully assessed guarantees to support bank term loans and working capital facilities.

A revitalised tourism sector would provide broad and relatively quick benefits to the entire MSMEs segment, particularly for women in business and women employees. This also represents one of the most promising short to medium-term opportunities to rejuvenate the tourism industry and the overall economy.

### **Agriculture Sector**

Another key industry sector that has been upended by the implications of the Covid-19 pandemic is agriculture. Reduced numbers of international flights have affected fresh produce exporters with adverse implications for both the agriculture and seafood sectors. Support for the agriculture sector is important, however a rebound in this sector will take time and the flow-on impacts for MSMEs will be much slower to realise than a rebound of the tourism industry.

Technical and marketing assistance is available from several sources but to facilitate improved access to appropriate and affordable finance for all those involved in the industry, the following medium-term strategies should be put in place:

- Inclusion in SBH's suite of support services tailored packages for input suppliers throughout the supply chain. This would range from very small loans (one step up from microfinance levels) to individual farmers/microenterprises for the purchase of equipment, fertilisers, seeds/seedlings and similar, along with tailored business development advisory services.
- Development of a scheme in partnership with larger buyers/exporters to provide working capital and loans to farmers with repayments deducted by the buyer in the payments for supply. This would upgrade the agricultural supply chains and stimulate the development of effective and mutually beneficial nucleus estates.
- An expansion of SBH's financial products or guarantees to cover export finance facilities (pre-shipment and post-shipment finance). This **longer-term** strategy would be valuable for businesses' dependent on international markets and would provide upstream tangible benefits for women involved in the supply chain.

## Appendix

### List of Parties Consulted

Amanaki Ltd (SME)  
Asian Development Bank, Sydney  
Australian High Commission, Apia  
BDO (accountants, Apia)  
Business Link Pacific, Apia  
Central Bank of Samoa  
Development Bank of Samoa  
Precise Travel Marketing  
Samoa Business Hub  
Samoa Chamber of Commerce and Industry  
Samoa Commercial Bank  
South Pacific Business Development (microfinance and small business loans)  
SynBiz Financial Services  
Vaoala Vanilla (SME)  
WE Accounting  
Women in Business (NGO)

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