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# PACIFIC FINANCE SECTOR BRIEFS

ADB PACIFIC LIAISON AND COORDINATION OFFICE

▲ Traditional dancers, Samoa.

## SAMOA

**Samoa is located in the subregion of Polynesia in the Pacific.** The country has a total land area of 2,842 square kilometers, consisting of the two large islands of Upolu and Savai'i (which account for 99% of the total land area) and eight small islets. Samoa's exclusive economic zone of 129,000 square kilometers is the smallest in the Pacific. The country's population numbers almost 200,000 people.

**Samoa faces a number of challenges to sustainable growth and poverty reduction.** These challenges include a narrowly based economic structure, significant distances to major export markets, high costs and shortages of infrastructure, limited natural resources, and shortages in human capital and skills. Growth slowed to 0.9% in 2018 due to the closure of a large manufacturing enterprise and a decline in fishing; however, this was offset by growth in hotels and restaurants, construction, and communications and business services. Economic growth is expected to accelerate in 2019 and 2020 to 2% and 3% respectively, driven by increases in tourism and communications, and the benefits of hosting the 2019 Pacific Games (Asian Development Bank 2019). The country's high dependence on tourism, overseas remittances, and aid from development partners leaves the economy highly sensitive to external economic shocks. Similarly, vulnerability to disasters triggered by natural hazards remains a constant threat to the development of Samoa. On average, Samoa loses 1% of gross domestic product (GDP) each year to disasters.

### FINANCE SECTOR OVERVIEW

**Samoa remains moderately monetized, with private sector credit exhibiting slow growth.** From 2011 to 2017, the ratio of broad money (M2) to GDP fluctuated within the 38%–46% range, indicating a moderate monetization of the country's economy (Table 1). Although private sector credit continuously expanded during the period, many structural impediments to accessing finance for households and businesses remained.

### SAMOA AT A GLANCE

#### Population

197,500 (2017)<sup>a</sup>

#### GDP (current \$)

\$855.5 million (2018)<sup>b</sup>

#### GDP per capita

\$4,294 (2018)<sup>b</sup>

#### GNI per capita

\$4,100 (2017)<sup>a</sup>

#### Domestic credit provided by the banking sector (% of GDP)

78.7% (2017)<sup>a</sup>

GDP = gross domestic product,  
GNI = gross national income.

<sup>a</sup> Source: Asian Development Bank.  
2018. *Key Indicators for Asia and  
the Pacific*. Manila.

<sup>b</sup> Source: Asian Development Bank.

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Such impediments included “(i) high collateralization of loans; (ii) large share of customary land, not usable as collateral; (iii) absence of a credit bureau; and (iv) high concentration and limited competition in the banking sector” (International Monetary Fund [IMF] 2015a).

## FINANCE SECTOR STRUCTURE

**Samoa’s financial system comprises almost 30 licensed financial enterprises** (Table 2). The banking industry is composed of two locally-owned and two foreign-owned licensed commercial banks. Meanwhile, the insurance industry is made up of six insurance companies and four brokers. The nonbank financial institutions include the Samoa National Provident Fund, the Samoa Housing Corporation, the Development Bank of Samoa, and the Unit Trust of Samoa. The Central Bank of Samoa (CBS) is the country’s monetary authority and primary regulator of financial institutions.

**Foreign-owned commercial banks and public financial institutions dominate Samoa’s finance sector.** The country’s four commercial banks provide almost 60% of credit to the economy, while the Samoa National Provident Fund and the Development Bank of Samoa account for approximately 30% of credit (IMF 2015a). ANZ Banking Group, a subsidiary of an Australian bank, holds 45% of Samoa’s total banking assets. Meanwhile, Bank South Pacific, which is headquartered in Papua New Guinea, holds 21% of total assets (IMF 2015a). The two locally owned banks, Samoa Commercial Bank and the National Bank of Samoa, control 18% and 16% of the market, respectively (IMF 2015a).

**Although the CBS has made significant efforts to bolster its oversight, there is much still to be done.** The IMF (2015a) has enumerated several areas of reform, including the strengthening of banking supervision and the regulation of all financial intermediaries by the CBS. A framework for coordination between Samoa’s Ministry of Finance and the CBS should be in place to assess the country’s financial stability and conduct contingency planning in the finance sector. Contingency plans should cover the sector as a whole as well as individual systemic institutions. The CBS should regularly analyze systemic risks, including through stress-testing and macrofinancial mapping.

**There is a small and underdeveloped insurance sector in Samoa.** The IMF (2015a) noted that the total assets corresponded to about 5% of GDP in 2015, with premiums at 1.2% of GDP in that year. Nonlife insurance accounted for 85% of premiums, with motor insurance the main nonlife type of business policy. Given the size of the sector, it does not constitute a financial stability risk. However, because the sector is largely unsupervised, the IMF (2015a) is concerned that it may lead to individual company failures and lack of consumer protection and confidence, resulting in reputational damage and the stunting of market development.

**Table 1: Nominal Gross Domestic Product, 2011–2017**

	2011	2012	2013	2014	2015	2016	2017
GDP (\$ million)	745.0	801.0	804.0	802.0	799.0	786.0	841.0
M2 (\$ million)	310.1	306.8	306.1	357.4	342.7	342.6	380.4
M2/GDP (%)	41.6	38.3	38.1	44.6	42.9	43.6	45.2
Private sector credit (\$ million)	476.3	503.6	540.3	579.4	590.5	638.6	686.6
Private sector credit/GDP (%)	64.0	62.9	67.2	72.2	73.9	81.2	81.7

GDP = gross domestic product, M2 = broad money.

Note: Figures were converted from tala to United States dollars using the Asian Development Bank-recognized exchange rates for each year.

Sources: Asian Development Bank and International Monetary Fund.

**Table 2: Financial System of Samoa**

Type of Institution	Number
Commercial banks	4
Insurance companies	6
Insurance brokers	4
Money transfer operators/foreign exchange dealers	13
Other financial institutions	4
<b>Total</b>	<b>31</b>

Source: Central Bank of Samoa.

**Table 3: Consolidated Loans and Advances from Commercial Banks (\$ million)**

	2011	2012	2013	2014	2015	2016	2017
Agriculture	3.9	3.5	3.4	2.6	2.9	1.6	3.7
Industry	142.0	137.6	138.3	139.1	125.7	124.2	132.7
Services	142.8	162.1	166.8	171.1	207.4	231.5	264.5
<b>Total</b>	<b>288.7</b>	<b>303.2</b>	<b>308.5</b>	<b>312.8</b>	<b>336.0</b>	<b>357.3</b>	<b>400.9</b>

Note: Figures were converted using Asian Development Bank’s 2017 exchange rate.

Source: Central Bank of Samoa.

## COMPOSITION OF CREDIT

**Credit in Samoa has expanded, with commercial banks providing most of the supply.** Public financial institutions have provided the necessary credit supply when banks were repairing their balance sheets after disasters.

From 2011 to 2017, credit supply to service industries grew at an average of 11% per year. The share of loans and advances that went to industry diminished at an average rate of 1% per year from 2011 to 2017.

## FINANCE SECTOR PERFORMANCE

**Deposits in Samoa's banks have grown considerably in the wake of economic recovery.** The extensive damage caused by Cyclone Evan in December 2012 led to a mild economic recession in 2013, followed by cautious recovery. From the end of 2013, economic growth gathered pace and there was a sharp rise in deposits, growing 65% from 2013 to 2014. This rise was immediately followed in 2015 by a 12.4% fall in deposits, followed by two years of growth averaging 3% per year (Table 4). A relatively high deposit rate, sustained at an average of 2.6% from 2011 to 2017, provided a conducive environment for higher deposits. Meanwhile, the interest rate on loans declined only marginally, at an average of 2 percentage points over the period.

**Although vulnerability to disasters has affected loan quality in recent years, institutional vigilance is controlling its rise.** Between 2012 and 2014, Samoa's nonperforming loan (NPL) ratio rose from 4.7% to 8.3%, prompting the IMF (2015a) to raise concerns over the ratio and propose the need for close supervisory attention, such as on-site supervision and asset quality reviews, alongside prompt corrective action and a plan for addressing nonperforming loans. By 2017, the NPL ratio had eased back to 4.1%. The CBS is looking at long-term opportunities to improve its monitoring capabilities to provide more responsive and effective bank regulation.

## FINANCIAL INCLUSION

**Financial access in Samoa is high relative to other Pacific island economies, but impediments remain.** The IMF (2015b) observed that Samoa does well in terms of financial inclusion. For example, the country has one of the highest numbers of people with deposit accounts at commercial banks. For every 1,000 people, there are more than 1,800 deposit accounts (IMF 2017). Samoa also has a relatively high level of penetration of business loans. However, most loans require collateral of around 200% of the loan amount, a condition of lending that inhibits greater access to credit.

**However, almost half of Samoa's adult population remains excluded from the formal finance sector.** The National Financial Inclusion Taskforce (NFIT n.d.) reported that only 39% of Samoan adults have a bank account, while 12% have access to other formal services like credit unions, microfinance, and insurance. This means that 49% of the adult population does not have access to formal financial services.

**Several factors drive financial inclusion in Samoa.** Income level and place of residence are important drivers of financial inclusion across the country. In the bottom 40 percentile band of income, around two-thirds of adults do not have access to formal financial services. Conversely, in the top 40 percentile band, only one-third have no access to formal services. Around 60% of adults who derive their income from agriculture are likely to be financially excluded and reliant on informal sources of finance. This suggests that more adults in rural areas are financially excluded than are those in urban areas. Age is also a key driver of financial inclusion. There appears to be higher financial exclusion (at around 65%) among Samoans aged 15–25 years.

**There are opportunities for a higher degree of financial inclusion among women in Samoa.** In lower-income Samoa households, women appear to be more adept at managing household finances (NFIT n.d.). In Samoa, a higher percentage of women (48%) receive remittances than do men (39%), although a large volume of remittances are received through unregulated, traditional money transfer mechanisms.

**Table 4: Finance Sector Performance Indicators**

	2011	2012	2013	2014	2015	2016	2017
NPL ratio (%)	4.4	4.7	7.5	8.3	7.1	5.2	4.1
Deposits (\$ million)	84.1	81.7	86.8	143.6	125.7	127.3	133.4
Commercial bank loans to the private sector (\$ million)	288.7	303.2	308.5	312.8	336.0	357.3	400.9
Deposit rate (%)	2.3	2.5	2.9	3.0	2.5	2.4	2.6
Lending rate (%)	10.0	9.9	10.2	10.0	9.5	9.1	8.8

NPL = nonperforming loans.

Note: Figures were converted using Asian Development Bank's 2017 exchange rate.

Sources: International Monetary Fund and Central Bank of Samoa.

**Table 5: Financial Access Indicators**

Access Indicators	2012	2013	2014	2015	2016	2017 <sup>a</sup>
Number of bank branches	18	23	25	23	25	25
Number of ATMs	33	42	50	50	56	61
Number of depositors with commercial banks	101,666	115,949	112,198	112,368	113,562	
Number of deposit accounts with commercial banks	145,577	186,835	173,619	181,750	222,726	
Number of borrowers at commercial banks	15,313	14,077	12,933	13,226	15,273	
Number of loan accounts with commercial banks	15,936	14,923	14,127	14,378	16,239	

<sup>a</sup> Data as of June 2017.

Sources: International Monetary Fund and Central Bank of Samoa.

These can be costly and time-consuming. A higher proportion of Samoan women (40%) have bank accounts than do men (38%). Despite this, a greater proportion of women (17%) still use informal financial services than do men (12%). Yet 47% of women in Samoa remain excluded from the formal finance sector (Pacific Financial Inclusion Program 2012).

## CHALLENGES IN THE FINANCE SECTOR

**Promoting higher financial inclusion in Samoa entails eliminating key barriers.** High transaction costs discourage greater participation in the formal finance sector. For example, because financial services are concentrated in urban areas, those residing in rural areas must travel greater distances (at higher cost) to access such services. Moreover, since individuals with low and irregular income streams are more likely to reside in rural areas, the already disadvantaged are further impeded in their ability to transact with the formal finance sector. On the other hand, cultural and social barriers in Samoa weaken the need to use a financial institution to safely keep money, address future spending needs, and protect personal property. In many communities, there remains a preference for cash, a lack of planning and budgeting for life cycle events, and a tendency for household members to share accounts (NFIT n.d.). The National Financial Inclusion Strategy, 2017–2020 (NFIT n.d.), spearheaded by the Central Bank of Samoa, has been implemented to target these barriers and increase access and usage of financial services.

The Government of Samoa has made considerable progress implementing the recommendations made in the IMF's 2015 Financial Sector Assessment regarding a lack of clarity on the role of financial institutions with regards to lending and social obligations (IMF 2015a). However, the IMF (2019) emphasizes the importance of completing these reforms, particularly the strengthening of the regulatory and supervisory framework, the development of a framework for governance and performance of public financial institutions, and the establishment of a credit bureau.

**The Government of Samoa has outlined six objectives to achieve a more inclusive financial system.** These objectives are to (i) improve and deepen access to financial services, (ii) empower underserved segments such as women and youth, (iii) promote digital financial services, (iv) increase resilience and decrease vulnerability to economic shocks, (v) improve financial competencies and consumer protection, and (vi) build successful partnerships and establish sector-level coordination for an inclusive financial system (NFIT n.d.). In pursuit of the first objective, the Asian Development Bank, through the Pacific Private Sector Development Initiative, has been helping the Development Bank of Samoa sustainably improve and extend its lending and develop a secured transactions-based lending product for the agriculture sector.

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