



@#&OPS~Doctype~OPS^blank@pidaprcoverpage#doctemplate

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Aug-2024 | Report No: PIDIA00458

**BASIC INFORMATION****A. Basic Project Data**

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Samoa	EAST ASIA AND PACIFIC	P181456	Samoa Finance Sector Development and Resilience Project
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	14-Aug-2024	28-Oct-2024	Finance, Competitiveness and Innovation
Borrower(s)	Implementing Agency		
Independent State of Samoa	Ministry of Finance, Samoa Bureau of Statistics, Central Bank of Samoa		

Proposed Development Objective(s)

To enhance Samoa's financial supervisory, payment, and identification systems for resilience

Components

Financial Supervisory and Payment Systems
Identification Systems
Project Management

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	21.00
Total Financing	21.00
of which IBRD/IDA	21.00
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Development Association (IDA)	21.00
IDA Grant	21.00

Environmental And Social Risk Classification

Low

Decision

Other

Other Decision (as needed)

B. Introduction and Context

Country Context

- Samoa is a lower-middle-income small island developing state (SIDS), highly dependent on remittances, tourism, and agricultural trade.** The country has a population of around 222,382 people (2022) and a GDP of about US\$1 billion. The major drivers of economic activity are tourism, agriculture and fishing, remittances, and aid flows. Up until the global financial crisis, the economy grew at an annual average of 4.5 percent. In the last decade and prior to COVID-19, consecutive economic shocks and natural disasters translated into more volatile and slower annual growth of around 2.5 percent. In 2018, more than one-fifth of the population lived under the basic-needs poverty line (21.9 percent), approximately 3 percentage points higher than the poverty rate in 2013-14 (18.8 percent).¹
- The economy contracted by 5.2 percent on average from FY20-22, primarily due to the impact of COVID-19, followed by a rebound in FY23, with real GDP growing by 8.0 percent.** Post-COVID-19 growth has been driven by a strong rebound in tourism following border reopening and robust remittance inflows. Samoa's small size, geography, and vulnerability to natural disasters, climate change and external shocks have translated into relatively low and volatile GDP growth rates, high risk of debt distress, and significant reliance on development aid. Attracting investment to support private sector growth and employment is difficult, reflecting these intrinsic factors, burdensome business regulations, and restrictive investment policies. In the last decade, Samoa received less than half the Pacific Island Countries (PICs) average of foreign direct investment (FDI) as a share of GDP.
- Samoa is highly vulnerable to extreme weather events, including tropical cyclones, earthquakes, tsunamis, droughts, and floods.** Between 1980 and 2020, Samoa suffered 13 major climate-related and natural disaster events, ranking 6th among the 20 Pacific Island States on the frequency of disasters. Under a very high emissions scenario

¹ Samoa Poverty and Hardship Report 2023



Samoa is expected to experience an increase in temperature in the range of 0.5-1.1°C by 2030.² In addition, rise in sea level is projected to be in the range of 7 percent by 2030, with ocean surges affecting low-altitude coastal plains during storms and cyclones.³ The compounding effects of sea level rise, heightened frequency of extreme rainfall, escalating intensity of cyclones, and ocean acidification will increase Samoa's vulnerability, significantly affecting livelihoods and security. Samoa also tends to suffer more severe economic damage than peers. The loss and damage from the 2009 earthquake and the 2012 tropical cyclone Evan were each equivalent to about 35 percent of GDP and some estimates suggest a cyclone in Apia could likely inflict damage equivalent to 60 percent of GDP.⁴ Rising sea level and increasing heat hazard are also likely to impact potential growth in the main sectors such as agriculture, fisheries, and tourism and disproportionality affect population groups - including project beneficiaries - of rural, less educated and female workers.

Sectoral and Institutional Context

- 4. The Central Bank of Samoa (CBS) is the supervisor and regulator of domestic financial institutions, with banking supervision and regulation requiring substantive improvement that can be aided by the greater use of technology.** The last Financial Sector Assessment Program (FSAP) was undertaken in 2015, identifying significant weaknesses in supervision. While there has been notable progress, gaps remain. The authorities undertake continuous efforts to strengthen risk-based supervision and the conduct of financial statement assessments and on-site inspections. A key challenge is the lack of digitization of the reporting and regulatory processes, which hinders the flow of information between CBS and the regulated financial institutions. Another key challenge is strengthening customer-due-diligence (CDD) and know-your-customer (KYC) practices, with electronic KYC (e-KYC) having the potential to facilitate customer identification for cross-border transactions. Notably, Samoa has faced pressure on its correspondent banking relationships (CBRs),⁵ restricting cross-border payments essential for trade and remittances. Finally, like other supervisors, CBS is facing the challenge of assessing the physical and transition risks to the financial sector from climate and environmental degradation.
- 5. Samoa's bank-dominated financial sector has remained relatively stable despite the COVID-19 pandemic shock.** Banks account for 55.4 percent of the financial sector. As of December 2023, non-performing loans (NPLs) stood at 5.4 percent of the total gross loans, with high provisioning levels at 161.7 percent of NPLs. Banking sector liquid assets to short-term liabilities stood at 36.3 percent, and regulatory capital to risk-weighted assets at 30.3 percent (above prudential norms). Banks have remained profitable, with the return on assets at 3.3 percent and the return on equity at 19.2. Nevertheless, risks remain elevated, requiring CBS's vigilance. Private sector leverage has recently increased, with financial system credit to the private sector reaching 94.6 percent of GDP. Public financial institutions (PFIs) are of systemic importance, requiring reforms on prudential guidelines and stepped-up regulation and supervision.⁶
- 6. There are challenges with financial inclusion - estimates indicate that approximately half of all adults in Samoa are excluded from the formal financial sector.** The 2021 census data indicated that only 30 percent of adults had access to formal financial services and a 2023 UNCDF survey⁷ indicated that 40 percent of Samoans have a current account. The Government has implemented a first National Financial Inclusion Strategy (NFIS) 2017-2020, but

² <https://www.mnre.gov.ws/wp-content/uploads/2021/03/Samoa-Climate-Change-Policy-2020-2030.pdf>

³ According to Samoa Climate Change Policy 2020 there is likely to be an increase in the average maximum wind speed of cyclones by between 2% and 11% and an increase in rainfall intensity of about 20% within 100 km of the cyclone center

⁴ <https://climateknowledgeportal.worldbank.org/country/samoa/vulnerability>

⁵ Two domestic banks had their U.S. dollar CBRs terminated in 2021. Notably, Samoa is on the EU list of non-cooperative tax jurisdictions.

⁶ The most important PFIs, the Samoa National Provident Fund (SNPF) and the Development Bank of Samoa (DBS), account for 32.3 percent of financial sector assets.

⁷ *Assessing Digital and Financial Literacy in Samoa: A Survey on Knowledge, Skills, and Access*. UN Capital Development Fund (UNCDF), 2023.



broader financial services coverage is hindered by a limited branch network, particularly in rural areas, and limited customer demand due to insufficient funds for a bank account. A new NFIS was approved in November 2023 with a focus area on technology-based solutions and is currently under implementation.

7. **Digital financial services (DFS) promise to expand financial inclusion, but constraints remain.** DFS can help overcome geographic barriers and the shortage of bank branches, lower costs, and encourage saving. Currently, cash remains the dominant payment instrument, while the growth of mobile banking transactions is stagnant (both per capita and as a volume share of GDP), and the range of DFS providers is limited. Core challenges include shortcomings in digital infrastructure and the lack of foundational ID systems. Although there is near total 4G population coverage and a high percentage of high-capability devices attached to networks, the population penetration for mobile subscriptions, at 49.7 percent, is less than the average for nine PICs, at 74.15 percent.⁸ Fixed broadband household subscriptions are at just 6.1 percent of the total, significantly lower than the regional average of 27.7 percent. Overall, the sustainability and resilience of internet connectivity are significant concerns.
8. **Addressing the lack of ID systems can support the expansion of DFS and financial inclusion, in addition to other public and private services.** Foundational ID systems make public and private services such as healthcare, education, financial services, and disaster-related social protection more accessible to citizens. However, Samoa has no nationwide ID system and only partial digitization of the civil registration system (posing inconsistent data quality, governance, and data security risks).⁹ Notably, addressing these ID gaps can help with cost-effective CDD and the onboarding of financial service customers, as well as with enhanced KYC to prevent illegal activities and maintain CBRs.
9. **The Finance Sector Plan (2022/23 to 2026/27) aims to modernize Samoa's banking and payments systems, leveraging technology-based solutions.** Key areas of focus include (i) strengthening the national payment system to improve Samoa's capacity to extend financial services; (ii) strengthening CBS's capacity to achieve its financial stability mandate by improving the legal and regulatory frameworks in key areas such as payments and, (iii) replacing the current manual system of data reporting and analysis of information from Samoa's financial system providers. Notably, CBS launched a new national payment system in 2023, supported by the World Bank Group, which is intended to enable more efficient, secure, and inclusive electronic payments.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To enhance Samoa's financial supervisory, payment, and identification systems for resilience

Key Results

10. The achievement of the PDO will be measured by the following results indicators:

- (a) Financial supervisory systems

⁸ Telegeography data for mobile (population) subscriptions as of June 2023. Regional average is calculated as the average from Kiribati, Palau, Samoa, Tonga, Tuvalu, and Vanuatu. Telegeography does not capture data from Nauru, Marshall Islands, and the Federated States of Micronesia.

⁹ For instance, without birth registration, children may be denied essential public services such as healthcare or education. Yet the birth certification rate in Samoa is currently 67 percent, with registration rates in rural areas 5 percentage points lower than that in urban areas. (UNICEF. Completeness of birth registration (%) as of 2020)



- (i) Banking system remains well-capitalized with a capital adequacy ratio above the CBS regulatory minimum of 15%.
- (ii) Average lag between the end of a quarter and the availability of banking sector supervisory information (number of months)
- (b) Payment systems
 - (i) Number of DFS customers per 10,000 adults, of whom female (%)
 - (ii) Change in the average cost of remittances (%)
- (c) Identification Systems
 - (i) Number of people with digitally verifiable ID, of which female (%), reside in rural areas (%)
 - (ii) Number of people who have digitally authenticated themselves at least once with financial service provider

D. Project Description

Project Components

- 13.** The project has three components: (i) financial supervisory and payment systems implemented by CBS; (ii) identification systems implemented by the Samoa Bureau of Statistics; and (iii) project management implemented by the Ministry of Finance.

Component 1: Financial Supervisory and Payment Systems (US\$6mn).

- 14. CBS will implement Component 1.** The two sub-components support financial supervisory and payment systems, which are priorities under the Finance Sector Plan and the NFIS and will strengthen financial stability, inclusion, efficiency, and resilience.

- 15. Sub-Component 1.1 Financial supervisory systems (US\$3.5mn).** This sub-component finances activities to strengthen CBS' supervisory systems. It is expected to improve CBS's identification and mitigation of risks, including climate and environmental-related risks, and enhance financial stability and resilience. There will be two core activities:

- (i) **Financing of a modern supervisory technology (SupTech¹⁰) platform** to facilitate the flow of information between CBS and its regulated financial institutions, enabled by modern data architecture with advanced data validation and analytics. The project will help CBS conduct a SupTech assessment and to digitize its reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions. SupTech will support many of CBS' supervisory phases (i.e., licensing, macro- and micro-prudential supervision, AML/CFT) and address challenges from emerging risks. One objective of the investment in this component is to incorporate key climate related data within CBS's data infrastructure which will facilitate more effective climate risk assessment, regulation and supervision by the Samoan authorities. The narrowing of climate data gaps would also promote the channeling of public and private finance for climate change mitigation and adaptation.
- (ii) **Financing CBS's institutional capacity to assess physical and transition risks to the financial sector** related to climate events. This will include intensive training for CBS staff on measuring, managing and mitigating climate and environmental related risks to the financial sector and activities to assess and improve quality of data needed to analyze climate risk to the financial sector. The activity will also finance planned sector-wide coordination efforts, including a government-industry taskforce to develop long-term climate-resilient strategies to be endorsed by the Samoan government and industry. Capacity-building efforts will be informed by international best practice guidance and frameworks developed by

¹⁰ Use of technology to facilitate and enhance supervisory processes from the perspective of supervisory authorities. (Source: BIS, 2018).



the Network for Greening the Financial System (NGFS), the Taskforce on Climate-related Financial Disclosures (TCFD), and others.

16. Subcomponent 1.2 Payment systems (US\$2.5mn). This sub-component finances activities to strengthen payment systems and promote DFS. It is expected to improve access to formal financial services, expedite short-term disaster-relief in a more efficient and scalable way, and reduce remittance costs. There will be two core activities:

- (i) **Financing implementation costs of the national payment system** including annual software subscription fees under the 2023 CBS-launched system, intended to enable more efficient, secure, and inclusive electronic payments. Depending on the trajectory of payment usage, the sub-component could also include investments in further national payment infrastructure, such as a retail payment switch.
- (ii) **Financing key diagnostics, reforms advisory, and gender-focused financial literacy.** This would include, among other activities, a diagnostic on a retail payment switch and use cases, and advisory support on payments relevant regulations and standards, including the regulatory and supervisory framework, a financial consumer protection regime, competition with an interoperable payment system infrastructure, and regulatory sandboxes for the development of the fintech ecosystem. Notably, the sub-component will also finance gender-focused financial literacy communication materials.

Component 2. Identification Systems (US\$12mn)

17. The Samoa Bureau of Statistics (SBS) will implement Component 2. The two sub-components support the development of the National Digital Identification System (NDIDS) and upgrade of Civil Registration and Vital Statistics System (CRVS), as well as mass registration operations, the issuance of credentials, and integration into public and private sector service delivery. These will enhance public and private services such as healthcare, education, financial services, and disaster-related social protection. Notably, addressing these ID gaps can help with cost-effective CDD and the onboarding of financial service customers, as well as with enhanced KYC to prevent illegal activities and maintain CBRs.¹¹

18. Sub-Component 2.1 National Digital Identification System (NDIDS) and Civil Registration Vital Statistic System (CRVS) (US\$7.6mn). This sub-component finances the development of the NDIDS, the first such system for Samoa, the upgrade of the CRVS and the migration and quality checking of data from the old CRS, the integration of NDIDS and CRS, the development of identity verification and e-KYC functionalities and their integration with public, private, and financial services (including other e-KYC platforms). The sub-component will also include stakeholder consultations, back-office systems (e.g., grievance management systems), consultants to help SBS design, coordinate, and supervise NDID and CRS development,¹² and other technical assistance and capacity development. The NDIDS and CRS will be aligned with the ten Principles on Identification for Sustainable Development, with adherence to international good practices for accessibility and non-discrimination (especially for women, people with diverse sexual orientation or gender identity such as Fa'afafine, persons with disability, the elderly, and other vulnerable populations), personal data protection, and cybersecurity. NDIDS and CRS will incorporate relevant international and open standards, and adopt, where appropriate, digital public goods to maximize country ownership and interoperability, and enable flexibility for future cross-border use cases such as access to services in other countries and travel. The design and implementation of NDIDS and CRS will include a broad consultative process to understand peoples' needs, concerns, and expectations, identify potential barriers to registration and use, and develop communication and education strategies, and a grievance mechanism. The NDIDS and CRS data infrastructure will meet internationally-recognized energy efficient standards and be climate-resilient backup mechanisms that will allow

¹¹ In this context, "e-KYC" refers to sharing data from the NDID with the relying party, based on consent and in line with legal obligations for personal data protection.

¹² This will include cybersecurity and data protection impact assessments, vulnerability, penetration testing, and code reviews.



data to be easily recovered if the primary data infrastructure is affected by to climate-induced shocks and natural disasters. Notably, the NDIDS and CRS will improve the response to climate-induced shocks and natural disasters by ensuring interoperability with the relevant social protection and other registries, allowing the government to quickly roll out response programs and validate the identity of beneficiaries (including without internet connectivity and for those who have lost their physical ID cards).

- 19. Sub-Component 2.2 Registration and credential issuance (US\$4.4mn).** This sub-component finances mass registration operations and the issuance of the Samoa Digital ID Number (SDIN) and physical ID cards (utilizing 2 D barcode technology and not smartcards), developing the ability to issue digital verifiable credentials (e.g., a digital representation of the ID cards and civil registration certificates) into digital wallets¹³, and the development of a smartphone application to allow people to verify themselves remotely for online public and private sector services and to act as a government-recognized digital wallet, including for offline use cases. The verifiable credentials and smartphone application will follow relevant international standards for decentralized identity. The mass registration and credential issuance activities will particularly benefit persons vulnerable to climate change due to geographic and socioeconomic conditions, such as those living in remote areas, the elderly, and people with disabilities, as it allows verification of their identity and entitlements for government support payments, including disaster relief support.

Component 3. Project Management (US\$3mn)

- 20. The Ministry of Finance (MOF) will implement Component 3, which will provide overall support with project supervision and implementation.** It will also provide capacity-building on financial management (FM), procurement, environmental and social (E&S), and monitoring and evaluation (M&E) functions for this project and the broader World Bank portfolio in Samoa. The MOF will utilize existing staff and dedicated consultants.
- 21. Sub-Component 3.1 Project Coordination (US\$1mn).** The sub-component will provide project-specific implementation support to the implementing entities, including project management, stakeholder engagement, E&S, and M&E. It will also finance procurement and FM support and training to grow capacity in staff the implementing agencies as well as relevant office equipment.
- 22. Sub-Component 3.2. Centralized Technical Services Support Unit (CTSSU) for all World Bank projects in Samoa (US\$2 mn).** This sub-component will finance the CTSSU for two years, providing high-level oversight, training and service support with specialists in FM, procurement, E&S, and M&E functions for all World Bank projects in the Samoa country portfolio. This shared services support has in the past been financed by the Samoa Climate Resilient Transport project (P165782) and the Samoa Aviation project (P176272).

Project Beneficiaries

- 11. The direct project beneficiaries are CBS and Samoans, who will use DFS and receive a digital ID, increasing their access to services.** These include public and private services such as healthcare, education, financial services, and disaster-related social protection. Notably, Samoan households will benefit from lower costs for payments and remittance services. Firms will also benefit from greater access to DFS, eCommerce, and market access. Half of the digital ID recipients are expected to be women, and 80 percent from rural areas. Furthermore, CBS's improved capacity for financial supervision will reduce the incidence of financial stress and have a positive impact on economic growth, fiscal affairs, firms, and households.

¹³ These could include wallet functions of smartphone operating systems and open wallets.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

- 12. The social and environmental risk of the project is rated as low.** The project activities can be clustered as i) type 2 of technical assistance for legislative, regulatory, and institutional strengthening actions for financial inclusion and financial stability; ii) technical assistance to develop strong regulatory and supervisory frameworks crucial to enhance the efficiency and safety of payment service provision and to establish the Samoa National Digital ID System (NDIDS). The project typologies are expected to have largely positive and beneficial environmental impacts, including raising environmental and safety awareness of the project staff, as guided in the national environmental framework and paragraphs 14-18 of the World Bank ESS1. Project activities are expected to have largely positive and beneficial impacts across Samoan society with increased access to digital financial services and improvements in national identification systems and civil registry.
- 13. Key social risks associated with the project include:** the potential exclusion of vulnerable groups such as remote and rural residents, people with disabilities, marginalized women and girls, and those with low connectivity or technical literacy; and privacy and data protection risks, including data theft and misuse, identify fraud and discrimination. These risks are predictable and expected to be readily managed through effective stakeholder engagement, effective grievance redress mechanism, and robust project design and implementation such as data minimization and pilot testing mass enrollment. The project will support SBS in establishing special measures, as mandated by the National Digital Identification Act 2024, to facilitate the registration of vulnerable groups. Projects such as the Digital Samoa Project (P180807) will provide better connectivity in rural areas along with technical assistance and capacity building on cybersecurity for the Government of Samoa. This can enhance the reach and security of the NDIDS system. SEA/SH risk has been assessed as low and will be managed through standard SEA/SH prevention and response measures.

Institutional and Implementation Arrangements

- 14. The project is integrated within the institutional framework of the Finance Sector plan under the guidance of the Finance Sector Advisory Committee (FSAC) chaired by MoF with CBS, MCR, Audit Office and SBS as the members.** MOF will serve as the executing agency and focal point for this project. Three Implementing agencies (IA) are proposed: CBS for component 1, SBS for component 2, and MOF for component 3, assisted by two tiers of centralized implementation support. MOF has extensive experience with World Bank financed projects and is familiar with World Bank procedures and requirements. Project management will be led by the Finance Sector Coordination Division under MOF with staff and consultants to support the overall coordination of the project, including sectoral support to procurement, stakeholder engagement, E&S management, and M&E. In addition, CBS and SBS will be supported by the CTSSU housed in the MOF for the first two years of the project, consisting of full-time expert staff experienced in World Bank policies and procedures in the areas of fiduciary, procurement, E&S, and M&E.



CONTACT POINT

World Bank

Rekha Reddy

Senior Financial Sector Specialist

Ji Eun Choi

Senior Digital Development Specialist

Christopher David Miller

Senior Private Sector Specialist

Borrower/Client/Recipient

Independent State of Samoa

Implementing Agencies

Ministry of Finance

Ma. Sa'oletiti Maeva Natacha Betham-Vaai

Chief Executive Officer

Maeva.BethamVaai@mof.gov.ws

Samoa Bureau of Statistics

Leota Aliielua Salani

Government Statistician

aliielua.salani@sbs.gov.ws

Central Bank of Samoa

Margaret Chan-Cheuk Tafunai

Assistant Governor

margaret.tafunai@cbs.gov.ws

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

APPROVAL



Task Team Leader(s):	Rekha Reddy, Ji Eun Choi, Christopher David Miller	
Approved By		
Practice Manager/Manager:	Ilias Skamnelos	22-Jul-2024
Country Director:	Naveed Hassan Naqvi	14-Aug-2024