



# Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Dec-2023 | Report No: PID284

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

Project Beneficiary(ies) Samoa	Operation ID P181456	Operation Name Samoa Finance Sector Resilience	
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 17-May-2024	Estimated Approval Date 13-Sep-2024	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing (IPF)	Borrower(s) Independent State of Samoa	Implementing Agency Ministry of Finance, Samoa Bureau of Statistics, Central Bank of Samoa	

**Proposed Development Objective(s)**

The SOP Project Development Objective (PrDO) is to increase finance sector resilience and modernize payments and public finance systems in Samoa. The SOP1 Project Development Objectives (PDO) is to increase finance sector resilience and modernize payment systems in Samoa.

**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	17.00
Total Financing	17.00
of which IBRD/IDA	17.00
Financing Gap	0.00

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	17.00
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IDA Grant	17.00
Environmental and Social Risk Classification	Concept Review Decision
Low	The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**1. Samoa is a lower-middle-income small island state, highly dependent on tourism and agricultural trade and vulnerable to natural disasters and external shocks.** The country has a population of less than 200,000 and a GDP of about US\$1 billion. The major drivers of economic activity are tourism, agriculture and fishing, remittances, and aid flows. Growth prior to COVID-19 averaged around 2.5% annually, with volatility driven by consecutive economic shocks and natural disasters. Samoa is extremely vulnerable to climate change impacts due to its geographic location, and climate hazards, such as sea level rise or floods. The economy contracted by 5.4% on average from FY20-22, due to the impact of COVID-19, followed by a rebound in FY23 with real GDP growing by 8.0%. A strong rebound in tourism following border reopening and robust remittance inflows have driven post-COVID-19 growth. Samoa's small size, geography, and vulnerability to natural disasters and climate change have translated into relatively low and volatile GDP growth rates, a structural gap between domestic revenues and expenditures, elevated public debt, high vulnerability to external shocks, and significant reliance on development aid. Attracting investment to support private sector growth and employment is difficult, reflecting these intrinsic factors, plus burdensome business regulations and restrictive investment policy. 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.

### Sectoral and Institutional Context

**2. Samoa's banking system has remained resilient despite the recession triggered by the COVID-19 pandemic.** The Samoan financial sector is dominated by commercial banks and public financial institutions. Banking indicators suggest a resilient system overall, with adequate capital and liquidity, moderate asset quality and high provisions to nonperforming loans (NPLs). There has been some deterioration in asset quality, with increased NPLs particularly for tourism and construction. Samoa has also faced some pressures on its correspondent banking relationships (CBRs), the termination of which have cut off many PICs from cross-border payments options that are essential to trade and remittances. However, NPLs remain near historical averages, high provisioning levels have been maintained,<sup>1</sup> and the banking sector remains liquid with capital above prudential norms.

**3. Samoa's private sector credit to GDP remains below the EAP average, while dependence on remittances has increased during the pandemic years despite relatively high remittances costs.** Private sector credit to GDP increased from 45.2% in 2017 to 53.5% in 2021, at a more moderate pace comparable to upper-middle income peers. Remittances increased sharply in the pandemic years, following the global trend, surging to 33.6% of GDP in 2022, making Samoa the third highest country in the world for remittances as a share of GDP. Remittance costs in Samoa are higher than EAP and

<sup>1</sup> Samoa 2023. IMF Article IV Consultation. March 2023.



global averages, particularly in transactions conducted in bank branches, but have been on a downward trend since 2016, consistent with global trends.<sup>2</sup> For instance, the average cost to send \$200 from Australia to Samoa in the second quarter of 2023 was 8.22%, which, although lower than other PICs, was well above the EAP average of 5.73%. For remittances from Australia and New Zealand, the cost of remittances to PICs remains higher than to ASEAN countries, India and China.

**4. Estimates indicate that approximately half of Samoan adults are excluded from the formal financial sector.** Financial Services Demand Side Survey in 2015 by the Central Bank of Samoa (CBS) indicated that just 39% of Samoan adults have bank accounts and another 12% had other formal financial services (e.g., credit unions, microfinance institutions). More recent census data from 2021 also suggested that approximately 30% share of adults had formal financial services. While the Government of Samoa has implemented its National Financial Inclusion Strategy (NFIS): 2017-2020, challenges remain in providing broader coverage to financial services, including a limited bank branch network, particularly in rural areas and certain islands, and limited customer demand due to respondents reporting insufficient funds for a bank account.

**5. While digital financial services (DFS) in Samoa have been expanded, cash is still a pre-dominant payment instrument in the country.** In Samoa, 78% of population has internet access, but mobile banking transactions (both per capita and volume as share of GDP) have been stagnant in recent years, and the range of DFS providers is limited. In 2023, the CBS launched its new national payment system, enabling a more efficient, secure, and inclusive electronic payments.

**6. Samoa's Finance Sector Plan for the period 2022/23-2026/27 affirms Samoa's interest to modernize Samoa's banking sector for the digital age.** Samoa's financial system has a diverse set of providers including commercial banks, non-bank financial institutions, money transfer operators, mobile network operators credit unions, insurance companies and NGOs providing financial services to small and microenterprises. Some of them are regulated by and report information to CBS on a manual basis. An automated and integrated financial data reporting and analysis platform, envisaged in the Finance Sector Plan, would help CBS to undertake its financial stability mandate. The Plan also aims to modernize and establish robust national payment system and safeguard the stability and sustainability of the financial system. These modernization efforts would be underpinned by strengthening the financial sector legal and institutional frameworks, which would facilitate improved regulation and supervision of the Samoan financial system and more effective implementation of the Samoa Disaster Risk Financing Policy including timely delivery of funds for disaster relief.

**7. Samoa has made significant strides in improving the digital infrastructure, which could serve as a foundation for financial sector modernization.** The ICT infrastructure in Samoa is relatively developed, with near total 4G population coverage and a high percentage of high capability devices attached to networks. Around 98% of the population have 4G coverage while the population penetration for mobile subscriptions (49.7%) is less than the average for 9 Pacific countries (74.15%) and the average in GDP per capita decile (117.20%)<sup>3</sup>. Total fixed broadband household subscriptions is 6.1% which is significantly lower than the regional average (27.7%) and the average in GDP per capita decile (47.8%). However, the sustainability and resilience of internet connectivity, particularly in rural areas, is still a concern. The Digital Samoa IPF (P180807) aims to address some of these issues, including rural connectivity.

**8. Challenges with identification hamper financial inclusion and access to services, and sustain risks associated with inconsistent data quality, governance, and data security.** Foundational identity in Samoa is currently provided by the Civil Registry, which needs modernization. The absence of robust and accessible digital identity creates challenges for some citizens and residents to provide proof of identity (online and in person) or to apply for services such as healthcare, education, or a bank account. Limitations on the completeness or accuracy of the population register may lead to inefficiencies or reduced effectiveness of social protection and disaster relief programs, and permit risks of identity fraud.<sup>4</sup>

<sup>2</sup> World Bank/Remittance Price Worldwide Database

<sup>3</sup> 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.

<sup>4</sup> The [WB report](#) *Scaling Up Social Assistance Payments as Part of the COVID19 Pandemic Response* noted that countries with digital databases and trusted data sharing reached around 51% of their populations, while countries without such a system reached only 16% of their populations.



Without a verifiable digital identity, individuals may struggle to send or receive remittances, apply for loans, or engage in financial transactions, limiting their economic and social inclusion. Inclusive national digital ID also can facilitate customer due diligence which has been a challenge referenced in the termination of CBR and support efforts to broaden financial inclusion by enabling remote onboarding with little or no additional information requested.

#### Relationship to CPF

**9. The proposed project is aligned with the Regional Partnership Framework (RPF) for nine Pacific Island countries (PIC9), including Samoa, for FY17-FY21 (Report #120479, extended by the Board of Executive Directors on February 6, 2020 to FY23).** The RPF is built upon four focus areas: (1) fully exploiting the available economic opportunities; (2) enhancing access to employment opportunities; (3) protecting incomes and livelihoods; and (4) strengthening the enablers of growth and opportunities. The proposed project aligns with focus area 4 as increasing financial sector resilience (Component 1) will contribute to Objective 4.1 frameworks to improve fiscal management developed and maintained. Digital government services delivery, including the national digital ID (Component 2), is highlighted as an important development issue in the Progress and Learning Review of the RPF.

**10. The proposed project is consistent with Samoa's Nationally Determined Contribution (NDC) and the National Adaptation Programme of Action (NAPA).** In the latest NDC, Samoa committed to economy-wide and sector-specific emissions reduction targets for mitigation and adaptation actions in the marine, agriculture, forestry, and land use sectors. Samoa does not have a full National Adaptation Plan yet, but prepared the 2005 NAPA, in which water resources, reforestation, and education and awareness programs were identified as priority areas. The project would not hinder the achievement of these mitigation and adaptation goals. The project will support Samoa to strengthen climate and disaster resilience and enhance the access to sustainable climate financing, which are highlighted in the Pathway for the Development of Samoa (PDS) FY2021/22 – FY2025/26 and Samoa Climate Change Policy 2020.

### C. Proposed Development Objective(s)

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#### Key Results (From PCN)

**11. Project Development Objective Indicators:** (i) Percentage of adults making or receiving digital payments increased (disaggregated by gender); (ii) Average cost of remittances reduced; (iii) **Number of citizens who installed digital ID application and authenticated themselves for a non-face-to-face service (ex: financial service) at least once (by gender).**

**12. Intermediate Results Indicators by Components:**

- **Component 1: Digital Finance for Inclusive and Sustainable Growth:** (i) Issuance of National Financial Inclusion Strategy (NFIS) 2023-2026 and publication of guidelines supporting the competitive environment for payments; (ii) Prototype for the central bank integrated data system developed.
- **Component 2: Establishment of National Digital Identification:** (i) Prototype for the Samoa National Digital ID System developed (SNDIDS); (ii) Operationalization of the SNDIDS in support of at least one priority use case.

### D. Concept Description



**13. Problem Statement.** Samoa faces challenges to build an inclusive and modernized financial system that can leverage opportunities for growth and support resilience and stability across the country. Approximately half of its citizens lack access to formal financial services, and remittances which are more than 30% of GDP are costly and sometimes inefficient. The Central Bank of Samoa (CBS) and SBS also need capacity building to build systems to safeguard financial stability and resilience and to develop improved national identification systems, leveraging advances in digital technology that can be used to develop more efficient and inclusive digital services for the Samoan population.

**14. Project Components.** The project's main components are: (i) financial systems for inclusive and sustainable growth; (ii) establishment of national digital ID system; and (iii) project management.

**15. Component 1: Digital Finance for Inclusive and Sustainable Growth.** This component would be implemented by CBS and supports two sub-components, catalyzing payments and remittances and central bank institutional strengthening, that are priorities in the Government of Samoa Financial Sector Plan (2022) through a combination of legislative, regulatory and institutional strengthening actions for financial inclusion and financial stability goals to underpin sustainable growth. These actions would also support Samoa's resilience to the de-risking of CBRs, linked to the establishment of enhanced Pacific regional CBR services and financial connectivity, to be supported through the proposed Pacific Finance for Growth Project (P502591). The Catalyzing payments and remittances subcomponent aims to support the implementation of the NFIS approved November 2023 with a focus on promoting the use of DFS. It would provide technical assistance to strengthen the regulatory and supervisory framework of the payment system by developing relevant regulations and guidelines, supporting enhanced fintech penetration, and ultimately improving access to formal financial services and reducing remittance costs. The Central Bank Institutional strengthening sub-component aims to strengthen the institutional capacity of the Central Bank to support its mandate to safeguard financial stability and resilience by improving the information ecosystem for managing existing and emerging risks.

**16. Component 2: Establishment of National Digital Identification System.** Establishment of the Samoa National Digital ID System (SNDIDS) is a key priority of the Government. This component focuses on the modernization of the civil registry, strengthening of population data, and creation of a national digital identification system. The SNDIDS will promote inclusion by allowing individuals, including those in remote regions or marginalized groups, to verify their identity, conduct electronic transactions, and access services. The implementation of this component will be led by the Samoa Bureau of Statistics (SBS) in three phases.

**17. Component 3: Project Management.** This component will provide project-specific implementation support including project management, coordination among stakeholders, reporting, and monitoring and evaluation (M&E) and is envisioned to support the Centralized Technical Services Support Unit (CTSSU) providing support to all WB projects.

**18. A series of projects (SOP) approach is proposed to support effective implementation and scale up support over time.** This modular phasing provides for a platform for predictability of development interventions within Samoa, which has longer-term strategies that it wishes to implement across its 2022 Finance Sector Plan. The sequencing of operations could also lower implementation risks associated with a single large and complex operation with many IAs and provides an opportunity for learning and synergies between the operations of the series.

**19. SOP2: Modernizing Revenue and PFM Systems.** The Government of Samoa intends to enhance the efficiency and effectiveness of its Domestic Revenue Mobilization (DRM) and Public Finance Management (PFM) through improved management and control of its revenues and expenditures and the use of digital technologies (Govtech). SOP2 aims to improve systems and processes in DRM and PFM through the modernization of the Revenue Management System (RMS) for the Ministry of Customs & Revenue (MCR) and the Public Financial Management Information System (FMIS) for the Ministry of Finance (MOF).

**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**

The project activities can be clustered as: i) 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 iii) establish the Samoa National Digital ID System (SNDIDS). Social and environmental risk of the project is rated as low. 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. 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 and robust project design and implementation. SEA/SH risk has been assessed as low. The project workforce is relatively small and manageable. The ESCP will outline requirements for standard SEA/SH prevention and response.

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**Borrower/Client/Recipient****Independent State of Samoa****Implementing Agencies**



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**APPROVAL**

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