SAMOA COUNTRY REPORT

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EXECUTIVE SUMMARY

Samoa has been described as one of the MIRAB (Migration, Remittances, Aid and Bureaucracy) economies in the Pacific, due to its heavy reliance on these. Estimated to be worth around 23% of GDP, remittances are a key component of the current account and balance of payments in the Samoan economy.

Apart from their economic significance, remittances to Samoa need to be understood in a social-cultural context, particularly the traditional concepts of *fa'samoa* (the Samoan way of life/culture) and the *matai* system (traditional village chief) as well as the role of the church. The enforcement of these concepts acts as a social safety net and encourages migrants to send money home to their relatives.

Remittance flows to Samoa are currently facilitated through both commercial banks and non-banking financial institutions (NBFIs). However, the CBS is responsible for statutory supervision of banks only, and some selected NBFIs. Money transfer business are licensed and regulated in Samoa under the Exchange Control Regulations of the CBS. The flow of remittances to Samoa is also affected by various regulations such as the Money Laundering Prevention Act 2000. This makes the facilitation process for remittances more difficult, administratively complex and time-consuming. Furthermore, a recent IMF report found that prudential regulations lack the detailed requirements for effective monitoring and management of the financial system.

The key findings from the study are as follows. The vast majority of households in Samoa receive remittances from abroad. Fifty-six percent of households surveyed had at least one remitter, with a further 38% of households having two remitters. Despite high levels of remittance receipt, the contribution of remittances to the overall household budget is relatively small. The majority of households receive remittances primarily for social occasions (*fa'samoa*) as opposed to conventional household expenditure.

The major source country for remittances is New Zealand (70%), and this is due to the long-standing colonial and post-colonial relationship between the two countries and the current quota system. The prime transfer method for remittances is through international money transfer agencies (Western Union) and international commercial banks. Households in Samoa are generally satisfied with the level of remittance transfer services, though there are concerns regarding financial and geographical accessibility and a lack of variety in the products/services offered.

A number of key policy recommendations have emerged for microfinance institutions from this study. These include:

- exploring the possibility of becoming licensed as a money changing agency
- adopting a partnership approach with other organisations (such as commercial banks) with legislative mandate to explore innovative remittance products.
- introducing innovative remittance-related products and services to clients
- exploring and adopting new technologies to increase the client base and more importantly offer value-added services such as remittance transfers. One of the suggested ways is to embrace mobile-banking technologies (mobile phones, ATM and smart-cards), particularly in the current deregulated telecommunication sector in Samoa.

1.0 INTRODUCTION: MIGRATION AND REMITTANCES IN SAMOA

The objective of this report on Samoa is to investigate how MFIs can enhance the development impact of remittances into Samoan households. Through an in-depth case study of a leading MFI in Samoa – South Pacific Business Development Foundation (SPBD) – this report investigates whether SPBD and other MFIs can leverage the large flow of remittances into the country. This report aims to analyse the role of MFIs as a source of remittance-related financial services for Samoan households, particularly the poor.

The report is divided into five sections. The first section provides a brief outline of Samoa including key information on socio-economic indicators, migration, remittances and the policy and regulatory environment relevant to remittances. Section Two introduces the case study organisation the South Pacific Business Development foundation, Samoa's largest MFI. Section Three details the findings of the field study: including a profile of remitters and recipients, remitting behaviour and remittance usage. Section Four reviews access to and usage of financial services by remittance-receiving households. Section Five highlights the key conclusions from the study, specifically aiming to address the research question of *'can remittances be leveraged by MFIs?'* , and discusses a number of policy recommendations.

Samoa is an island nation located in the Polynesia group in the south-west Pacific. It consists of two main islands, Savai'i and Upolu, with the capital city Apia being located in the latter. Key social and economic indicators are outlined in Table 1. The population is about 179,000, with 22 per cent living in Apia and 53 per cent in small coastal villages. With a per capita GDP of US$2,722 in 2006, Samoa is classified by the World Bank as a middle-income country, and ranks 75th of 177 countries on the UNDP's human development index. On most key human development indicators Samoa performs strongly, with a life expectancy of 66.6, an adult literacy rate of 95.7 and a gross primary and secondary school enrolment rate of 85.7. All Samoans have access to health services and 88 per cent have access to safe water (ADB 2007*a*, 2007*b*).

The Samoan economy is based on agriculture, fisheries, small-scale manufacturing and tourism. It is well-governed by Pacific standards, with a stable, relatively corruptionfree environment and a government committed to strengthening economic management and public sector reform, and the high quality of governance has contributed to economic growth well above the Pacific average, with an average GDP growth rate of 4.3 per cent since the mid-1990s (IMF 2005). As a small open economy, performance is vulnerable to external demand and commodity prices, and since 1990, four major cyclones have caused significant economic setbacks, severely impacting the farm sector in particular. Around two thirds of Samoan households depend on a mixture of subsistence and commercial agriculture, and many wage-earning households engage in supplementary subsistence production, and the frequency of natural disasters, together with over-exploitation of natural resources, is threatening existing living standards, sustainable management and future growth prospects. The shares of fisheries and agriculture in GDP have declined in recent years due to the effects of cyclones and resource depletion, highlighting the growing importance of tourism, which remains a significant and dynamic contributor to the economy.

Table 1: Key social and economic data

Population	
Total population	179,186 (2006)
Annual population growth rate (%)	1.4 (2006)
Urban population (%)	22
Health	
Estimated life expectancy at birth, females	72
Estimated life expectancy at birth, males	65
Infant mortality rate per 1000 live births	12
Total fertility rate	4.8
Economy	
Gross domestic product per capita	$2,722(2006)
Consumer price index	105.8 (2006)
Main industries	light manufacturing, tourism, fishing, construction, subsistence agriculture and remittances
Exports	fish, coconut oil & cream, automotive parts, garment, copra and beer
Major trading partners	Australia, Fiji, Indonesia, Japan, New Zealand, Singapore, Taiwan, US

Source: Central Bank of Samoa Quarterly Bulletin, Samoa Statistics Department (2007)

Traditionally, subsistence production and social safety nets based on extended kinship networks have underpinned an egalitarian social structure and living standards which are high in comparison with other Pacific Island countries. Where hardship exists, it is a function of lack of access to services and opportunities rather than to the means of survival. However, there are signs of emerging inequality with a growth in disparities between urban and rural areas in access to infrastructure and services. Traditional Samoan social structure and associated safety nets are reported to be coming under strain as external influences affect attitudes and aspirations and create pressures for higher cash incomes. The ADB estimates that about 20% of Samoan households are below the national poverty line, and 8% are in a state of food deficiency (ADB 2007*b*).

The lack of income-generating opportunities in the domestic economy is a critical economic and social issue. Neither the formal nor the informal sectors are able to provide remunerative jobs for around 5,000 new labour market entrants annually. The most recent official data sources record an unemployment rate of 4.9 per cent in 2001, rising to 12.2 per cent in the 15-24 age group; however, official statistics understate under-employment and hidden unemployment, indicated by low rates of labour force participation and the clustering of available jobs in part-time, subsistence-based activities such as farming and fisheries. One quarter of urban households, and two thirds of rural households, do not have a wage-earner.

1.1 Migration

Samoan migration increased dramatically in the second half of the last century. In the 1960s fewer than 10 per cent of the population lived overseas, rising to about a third by 1980, and by 2000 there were more Samoans residing abroad than in Samoa itself. It is estimated that about 200,000 Samoans live overseas, including second-generation migrants. About 100,000 overseas residents are Samoan-born.

The Samoan diaspora extends to over 30 different countries. New Zealand is the main destination country, followed by Australia and the US. As a former colony, Samoa has had a close relationship with New Zealand that began in the early 1900s and has continued since independence in 1962. New Zealand has over 130,000 Samoan residents, of whom about 54,000 are Samoan-born, and between 2001 and 2006 the Samoan population in New Zealand increased by 14 per cent (Statistics New Zealand 2006). Under the Treaty of Friendship signed in 1962, New Zealand continues to accept 1,100 Samoan migrants each year, ensuring the reliability of future remittance flows. The Trans-Tasman Agreement of 1973 allowed the free movement of people between New Zealand and Australia, paving the way for a large number of naturalised New Zealanders of Samoan heritage to migrate to Australia. Many of these migrants were subsequently joined in Australia by relatives from Samoa under Australia's family reunion programme. In 2005 over 17,000 Samoan-born migrants resided in Australia (ABS 2005), and the Samoan-born population in the US is estimated at over 16,000 (US Census Bureau 2000). About 5,000 Samoans work in the US protectorate of American Samoa, mostly in the tuna canning industry. Though of the same ethnicity, the two countries were split in late 19th century under the Treaty of Berlin. Under the treaty, the United States took control of American Samoa and Germany Western Samoa, with the latter becoming a New Zealand protectorate and finally an independent country.

1.2 Remittances

With the steady increase in migration over the last few decades, there has been a corresponding increase in remittances, which for many years have been central to the

Samoan economy and household well-being. The economic significance of remittances has increased further in the last decade. Between 1998 and 2005, remittance transfers increased in real terms by an average of 6.4 per cent per annum, and stood at $US98.6 million in 2005/06. Over the same period their contribution to GDP increased from 17 to 23 per cent, making Samoa the world's fourth most remittance-dependent economy, and remittances overtook tourism as the country's main source of foreign exchange, rising from 25 to 38 per cent (IMF 2005). There is some evidence that remittance flows to Samoa increase during economic downturns and decrease during periods of growth. An IMF study estimates that a 1 per cent increase in economic growth in Samoa would slow the growth in remittances by 1.7 per cent (IMF 2005). The counter-cyclical nature of remittances flows is significant in the Samoan context, given the country's vulnerability to external shocks and natural disasters.

1.3 The policy and regulatory environment

Forex licensing

The Central Bank of Samoa (CBS) is mandated under legislation to regulate the supply, availability and international exchange of money. The CBS also functions to supervise and regulate banking businesses and the extension of credit, and to implement measures against money laundering. The CBS, in addition, is responsible for the management of the exchange rate with regard to monitoring foreign currency transactions. It is pertinent to note that Samoa's financial system was liberalised in 1998 which included elimination of direct controls on credit ceilings and interest rates of commercial banks.

Pursuant to the *Central Bank of Samoa Act 1984* and *Financial Institutions Act 1996*, the CBS was appointed as the authority that issues licences to both financial institutions and selected non-bank financial institutions (NBFIs). The Financial Institution Department (FID) of the CBS has statutory responsibility for this function. In addition, the CBS also undertakes the prudential supervision of these licensed financial institutions. Currently, there are two foreign (ANZ and Westpac) and two local commercial banks (the Samoa Commercial Bank and National Bank of Samoa) in the country. Under these regulations, commercial banks are obliged to disclose their financial reports and other relevant information to the public.

In 2001, the Financial Institutions Act 1996 was amended to enable the prudential supervision of non-bank financial institutions (NBFIs). However, this amendment was only applicable to selected NBFIs including the Samoa National Provident Fund, Development Bank of Samoa, and insurance companies.

Through international pressures and commitment to support the global fight against money laundering and terrorism, Samoa introduced the *Money Laundering Prevention Act 2000*. Under this legislation, CBS is mandated to act as the Money Laundering Prevention Authority (MLPA). A special 'financial intelligence unit' at the CBS has been established for this purpose, and it collects information on suspicious transactions and money laundering. Equally, all financial institutions as defined in this legislation are required to report any transaction considered suspect to the MLPA.

The MLPA is further supported by the 'Prevention and Suppression of Terrorism Act' which was adopted in 2002. According to the CBS, more stringent legislation is currently in the pipeline to further strengthen anti-money laundering activities. This current and proposed regulation will no doubt impact on the facilitation process for inward remittance transfers to Samoa. This may make the facilitation process for inward remittance more difficult, administratively complex and time-consuming.

Exchange Control Regulations were introduced in 1999 which allowed the licensing of foreign exchange dealers. These foreign exchange dealers are required to submit periodic statistical reports to the CBS. This piece of regulation opened up the remittance market for players other than commercial banks who hitherto had monopoly control. Currently, according to the CBS, a total of nine licences have been granted, and these dealers offer the public competitive foreign exchange rates. This is particularly important to Samoa given the growing inflow of remittance.

Exchange control regulations set the limit on the sale of foreign exchange transactions (up to SAT$7,000) and outward remittance of foreign exchange up to SAT$80,000 – specifically for the payment of imports by authorised foreign exchange dealers. However, there are no such limits to inward remittance. Nevertheless, the movement of inward remittance are monitored by the CBS in accordance with the *Money Laundering Prevention Act 2000*.

According to the CBS, there are nine approved money transfers businesses in Samoa, are subjected to the provisions of the Exchange Control Regulations. These businesses provide services for both outward and inward remittances transfers to the public at competitive rates. The submission of periodic statistical reports to the CBS is required.

Mobilisation of remittance deposits by non-bank institutions
In addition to the four commercial banks, there is wide range of non-bank financial institutions (NBFIs) operating in Samoa. According to an IMF study (2004), these consist of 20 credit unions; four insurance companies; three money changers; nine approved money transfers businesses; three money lenders; National Provident Fund; Development Bank of Samoa; the Housing Corporation; and relatively small number of MFIs such as the South Pacific Business Development Foundation (SPBD) and the Women in Business Foundation. This study has selected SPBD as the case study and detailed information has been outlined in Section 3.1

Unlike commercial banks, only selected NBFIs are governed by the CBS's prudential regulations. According to the CBS, these include:
- Development Bank of Samoa

- National Provident Fund
- The Colonial Insurance Company Limited
- The National Pacific Insurance Company Limited
- The Samoa Life Assurance Corporation
- The Progressive Insurance Company Limited.

In accordance with CBS's prudential regulations, regular supervision is undertaken to ensure sound financial management. A number of other NBFIs which are not supervised or governed by the CBS continue to operate independently.

Tax treatment of remittances

On the issue of tax treatment of remittances, Samoa does not impose any tax on inward or outward remittance, specifically. Until the late 1990s Samoa imposed a 1% Foreign Exchange Levy on all outward remittance, such a levy (tax) having first been imposed at a time when Samoa had a major problem with its balance of payments and had a real need to preserve its foreign exchange. Samoa repealed this legislation in the late 1990's.

Some inward remittances may be subjected to Samoan income tax if they represent 'income' in accordance with the Income Tax legislation, as Samoa taxes all residents on worldwide source income. Where foreign tax has been paid on such income, Samoan income tax legislation allows a credit for the lesser of the foreign tax actually paid on that income as a part of the total income. In these cases, the remittance itself is still not taxed, rather the recipient is required to disclose all foreign source income in their Samoan income tax returns (and claim a foreign tax credit where such foreign tax has been paid).

Dividends made by Samoan companies, and distribution of trust profits made after the payment of income tax, are exempt from any further income tax. This exemption applies to both residents and non-residents. So any remittance of dividends, or distributions of after tax profits by Trusts, are not subject to any further tax. It is pertinent to note that few Samoans lodge personal income tax returns.

Migration policy in destination countries

As a former colony, Samoa has close ties with New Zealand that began in the early 1900s and continued well after independence in 1962. A strong and continuing migration corridor has been established between Samoa and New Zealand. Under the Treaty of Friendship signed in 1962, preferential treatment and an annual quota system was granted to Samoans to obtain permanent residence in New Zealand. Currently, around 1,100 Samoans are accepted each year for migration under this quota system. In addition, Samoans can also apply for migration to New Zealand via business and family re-union categories. Unlike New Zealand, Australia has discouraged preferential treatment or the establishment of a quota system. This is despite calls for increased movement of short-term labour between Pacific Island Countries (PICs) and Australia, as outlined in the World Bank's recent report on 'Expanding Job Opportunities for Pacific Islanders through Labour Mobility at Home and Away' (World Bank, 2006). Short-term migration is a politically sensitive issue in Australia at present and there has been no common agreement.

2.0 THE SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION

There is significant potential for the development of the microenterprise sector in Samoa, particularly in the context of a nascent economy with limited opportunities for finding formal wage employment. The Government has actively promoted the development of the microenterprise sector through such recent initiatives as the Microenterprise Financing and Savings Mobilisation Project. The success of these projects is constrained by a number of factors. In the rural villages where most Samoans live, economic transactions continue to be based on traditional roles and patterns of reciprocity. As survival needs are met by subsistence production and nearly all households have access to remittances which serve to meet their needs in the cash economy, most villagers have limited understanding of or interest in market-based solutions. The lack of access to ready capital is another factor that constrains the growth of microenterprise in Samoa. Like most developing countries, mainstream financial organisations such as commercial banks have been reluctant to lend for microenterprise development activities due to the lack of collateral and other security. Furthermore, most land in Samoa is communally owned and is therefore not accepted as collateral.

In recent times, Samoa has witnessed the establishment of two Microfinance Institutions (MFIs) who provide microcredit facilities for the start-up of microenterprises. These are the South Pacific Business Development foundation (SPBD), selected as the case study MFI for this study, and the Women in Business Foundation (WIBF). SPBD is registered both as non-profit charitable organisation and as a non-government organisation in Samoa, and re-invests all its income in the organisation for the benefit of its members. Internationally, it is affiliated to the Grameen Bank worldwide microfinance network and is partially funded by the Grameen Trust.

It is governed by a Board of Trustees and headed by a General Manager, with a staff of 13. Its field are carried out by a team of centre managers who form, develop and train the centres in the different villagers. SPBD's focus is on low-income rural households. With only one branch located in the capital Apia, SPBD's main activity is the provision of small unsecured credit to poor women to undertake micro-businesses. These include:

- small plantations and vegetable gardens
- chicken and pig farms, cow farms,
- banana chip, taro chip and potato chip manufacture
- copra production (from the meat of a coconut, used in skin care products)
- clothing production and repair; weaving of fine mats, bags, hats, baskets
- beach fales (small exotic tourist accommodations) operators

- fishing and vending; food preparation and distribution
- roadside and market place trading and vending
- taxi operators
- village lawn maintenance services
- bingo operators

Table 2: SPBD - Key facts (as at 30 September, 2006)

Total # of businesses started	6,271
Total # of loans Issued since inception (Jan, 2000)	12,673
Total ST$ of loans issued since inception	SAT$11,389,258 (US$3,986,241)
Portfolio in arrears over 30 days	3.6%

In addition, SPBD provides unsecured credit for house improvement and childhood education to households who have already established successful micro-businesses. SPBD also offers a micro-savings program with a minimum deposit of SAT$10. Table 2 outlines key milestones achieved by SPBD.

3.0 RESULTS AND FINDINGS

3.1 Research methodology

The fieldwork for this study was undertaken in June-July 2006. The survey area was confined to the main island of Upolu, which contains 80 per cent of the population of Samoa. Respondents were recruited by fieldworkers who accompanied SPBD officers on their weekly visits to villages participating in the SPBD program. Three separate instruments were used to obtain data. Questionnaires were administered to 148 remittance-receiving households, 75 of which were SPBD clients and 73 non-clients. The questionnaire sought information on the migrant's destination and occupation, household composition, income sources and living standards; household savings and expenditures and use of financial services. The quantitative data from the structured questionnaires was supplemented by in-depth interviews with 11 SPBD clients and nine non- clients.[1] Issues raised in the in-depth interviews included remittance usage and savings patterns and motivations for the migration. In addition, two focus group discussions were held, one with SPBD members and one with non-members. The aim of the focus groups was to ascertain the usage of financial services including information on satisfaction levels, accessibility, and desire for new products.

3.2 Demographic and socio-economic characteristics of remitters and recipients

The 148 households participating in the survey were receiving remittances from 227 migrants. Fifty-six per cent were receiving payments from a single remitter, 38 per cent

[1] Participants were selected on their availability and interest in participating in the interviews. After the interviews, the respondents were given a cash gift (SAT$10) as a token of appreciation.

had two remitters and 6 per cent had three remitters. Over 40 per cent of the sample migrants had some post-secondary education, and their educational attainment is broadly reflected in their occupational profile: just over 45 per cent were employed in the skilled and professional categories, while 44 per cent worked in unskilled occupations and 10 per cent were not in the labour force.

Nearly two thirds of migrants had departed more than five years prior to the survey, reflecting the established role of migration in Samoan society. (By contrast, in Fiji, where migration is a relatively recent and growing phenomenon, 60 per cent of migrants had been away for less than five years.) In keeping with Samoa's status as a mature migrant-sending economy (see Table 4 below), the Samoan migrant age profile was somewhat higher than that of the other countries surveyed in this study, with a median age of 41.

New Zealand is by far the most important destination country, accounting for over 70 per cent of the sample migrations, followed by Australia (14 per cent), Western Samoa (7 per cent) and the US (5 per cent). Although the data suggests that individual migrants in Australia and the US send more money home than those in New Zealand (Table 4), most households preferred New Zealand as a destination because of the large Samoan diaspora currently residing there and the close cultural ties between the two countries.

Return migration brings capital and skills to the home economy, helping to offset the adverse impacts of the 'brain drain' on local development. However, the survey findings indicate that like other Pacific Island countries, Samoa is failing to capture the benefits of return migration. The vast majority of migrations are permanent: returnees were present in only nine households, and only seven of the 227 remitters reported an intention to return to live in Samoa. Most of the sample remitters had obtained permanent resident status abroad and had either migrated with their spouses and children or reunited their immediate families post-departure.

Unlike the Asian examples, where most recipients are the spouses of remitters, only 2 per cent of respondents were receiving payments from spouses, a reflection of the preference for family rather than individual migrations. Nearly 45 per cent of remittance recipients were the adult siblings of migrants and 23 per cent were elderly parents receiving remittances from adult children. Twenty-five per cent or respondents were receiving remittances from cousins and other relatives, indicating the important role of extended family networks in ensuring the broad-based distribution of overseas income.

Respondent household sizes were generally large, with a mean of 5.4 persons per household, and 19 per cent of households had seven or more members. Children under the age of 16 were present in 57 per cent of households. Rates of participation in the formal economy were generally low: 27 per cent of households had one local wage-earner and 10 per cent had two. The remaining 63 per cent had no local source of wage income; however, 54 per cent of the respondent households were earning some income from microenterprise activities at the time of the survey. High rates of microenterprise activity among the respondents reflect the presence of SPBD members in the sample and are not indicative of microenterprise ownership among the broader Samoan population.

3.3 Remitting behaviour

Just over a quarter of households (28 per cent) received remittances on a monthly or near-monthly basis, while 67 per cent receive remittances 3-6 times a year. Among the latter group, about half receive regular payments while the other half receive payments on request and for special occasions such as weddings and religious festivals. While there is a wide variation between the sample households in the value of remittance receipts, which range from less than $20 to $2,000 per month (averaged over a twelve-month period), remittances are clustered at the lower end of the distribution, with a mean value of $186, with only 11 per cent of households receiving more than $250 per month (Table 3).

Table 3: Distribution of remittances by size

Monthly remittance	Per cent
Less than $100	29
$100-249	60
$250 or more	11
Total	**100**

Not surprisingly, non-working migrants remit less than wage-earners, at an average $117 per month, while remittances from skilled and unskilled workers are virtually identical, at $US190 and $183 per month respectively. Table 3 indicates considerable variations in remittance size between destination countries, suggesting that the choice of destination country may be more important than the migrant's occupation as a determinant of remitting behaviour, although observations should be treated with caution due to the small sample size.

Table 4: Migrant destination countries*

Destination country	No. of migrants	Mean monthly remittance**
New Zealand	158	166
Australia	32	192
American Samoa	16	161
USA	11	305
Other n.e.s	6	134
Total	**222**	**186**

* All currency values are in US dollars except where otherwise specified.

** A monthly equivalent value was calculated to take account of irregular and infrequent remittances.

In addition to meeting economic needs, remittances in the PICs (and especially in Samoa) perform the important function of maintaining and reproducing centuries-old island cultures and traditions. Remittances in Samoa are underpinned by concept of *fa'samoa*, a traditional governance system that regulates social, economic and political aspects of Samoan life. The basic social unit is the *aiga* (extended family), which functions as a social safety net, providing food, housing and other essentials, raising money and facilitating access to economic opportunities. One of the most important tenets of *fa'samoa* is the concept of *tautua* (service), in which rights to communal property are tied to contributions of goods and service to the *aiga*. Traditionally, individuals met *tautua* requirements through local contributions such as labour on the family plantation. In contemporary Samoan society migration, with the economic opportunities it provides in the form of remittances and facilitation of subsequent migrations by other relatives, is viewed by Samoans at home and overseas as a legitimate form of *tautua*: individuals expect, and are expected, to serve their families no matter where they are (Gough 2006). It has been argued that assistance to the extended family, rather than personal gain, is the primary purpose of most Samoan migration (MacPherson 1994).

The evidence for the 'remittance decay' hypothesis, which postulates a decline in remittances with length of absence from home, remains mixed (Connell and Brown 2005). The sample data is ambiguous with respect to remittance decay. While the 'older' departure cohorts remit less on average than those who have migrated more recently (Table 5), suggesting a decline in remittances over time (Table 5), fewer than 4 per cent of respondent households reported a fall in their remittance receipts. Rather than a universal decline over time, this somewhat puzzling finding seems to suggest differences in remitting behaviour between departure cohorts, which may reflect generally higher skills levels among more recent migrants and their propensity to opt for higher-paying destinations such as the US. The remitting behaviour of second-generation migrants has not been extensively studied; however, some researchers have noted a reduced sense of transnational kinship among overseas-born Samoans, who are more likely than their parents to perceive contributions to their relatives as a burden rather than an investment, and to reduce their remittances following the deaths of both parents (Muliaina 2006). Declining remittances, together with low return migration and tentative evidence that second-generation migrants remit less than their parents, suggest that new migrations have an important role in ensuring the continued reliability of remittances. Thus, Samoan remittances are sensitive to developments in immigration policy in key Pacific Rim destination countries. While skilled Samoans can access overseas labour markets without difficulty, the unskilled rely principally on the New Zealand annual immigration quota of 1,100.

The importance of in-kind remittances in Samoa has been documented by a number of researchers (see for example Connell and Brown 2005) and is confirmed by our survey findings. In addition to cash remittances, 64 per cent of households reported receiving in-kind remittances, with around 90 per cent of those responding stated that they have received consumer durables such as television, microwave ovens and refrigerator, and in one case, a motor vehicle. Other common in-kind items include canned foods and clothing. In-kind remittances are nearly always consumption goods, with only one reported instance of an in-kind transfer of business equipment.

Table 5: Remittances by departure date

Departure date	Percentage of migrants	Mean monthly remittance
Less than 2 years	5.9	377
3-5 years	27.0	213
6-10 years	31.4	158
More than 10 years	35.7	142
Total	**100.0**	**186**

3.4 Remittance usage

In nearly all cases the recipient household head is the main decision-maker regarding the allocation of remittance funds. Only 3 per cent of households reported joint decision-making by the remitter and recipient, and one household reported the remitter as the final decision-maker.

About a third of household income is spent on food and non-food essentials (Table 6). The other significant expenditure items are health and education, and donations to the church. Parallel with the tradition of *fa'samoa* is the role of the church and its significance to the lifestyles of Samoans. Samoans living overseas send regular remittances directly to the church, or to family members to be passed on to the church. More than 95 per cent of respondents reported contributing a share of their previous month's income to the church, and 28 per cent allocated more than a quarter of their income for this purpose. The church is central in Samoan culture and social life, and there are concerns that intense pressures on families to donate for religious purposes may have adverse developmental impacts by diverting funds from consumption and private investment (Islands Business 2007).

Table 6: Household expenditure, May 2006

Item	Percentage of households reporting expenditure	Percentage of household income (all households)
Food and household essentials	100	34.3
Health and education	97	16.5
Housing	39	8.5
Business	50	8.7
Church donations	97	17.1
Savings	74	8.6
Other expenditure n.e.s	83	6.3
Total	**n.a.**	**100.0**

Half of the respondent households reported allocating funds to business investment or expenditure in May 2006, a figure consistent with the 54 per cent who reported earning income from microenterprise activities during the survey period. Nearly three quarters of households reported saving during May 2006. The most commonly cited purpose for savings was education, followed by household goods, housing and traditional and customary obligations. Just over a third of respondents reported allocating some savings for business development, and 13 per cent reported savings to send another family member overseas.

4.0 FINANCIAL SERVICES

4.1 Remittance transfer methods

Respondents were asked to identify the remittance transfer agencies operating in their area. Western Union was the most commonly cited agency, reported by 36 per cent of respondents. Retail outlets such as INK Patch, Big Bear, Mr.Lavalava and Chan Mows handle money transfers in the Apia area, and were cited by urban respondents. International banks, primarily the ANZ Bank, were cited by 18 per cent, while only one household cited the local Samoa Commercial Bank. Sixteen per cent of respondents reported that no remittance transfer agency operates locally and traveled outside their immediate areas to access transfer services, an indication of weak outreach in the more remote rural regions.

International MTOs, particularly Western Union, were the most commonly used transfer method (Table 7). About a third of respondents, mostly from Apia and surrounds, reported using local MTOs, and 10 per cent used international banks, primarily the ANZ Bank. One household reported receiving remittances via the mail.

Table 7: Usage of remittance transfer agencies

Transfer agency	Percentage of households
International commercial banks	10
Local money transfer agency*	32
International money transfer agency**	57
Postal service	-
Total	**99**

* INK Patch, Big Bear, Mr.Lavalava, Chan Mows
** Western Union, IMEX

When selecting remittance receiving organisations, almost 36% of households stated that it is the choice of the remitter. This confirms the fact that almost 96% of households were not aware of the cost of remittance transfers. These are generally incurred by the remitter in the source country. Almost 26% of households' choice of remittance organisations was based on speed of receiving money, and a further 15% of households stated that it was due to accessibility and geographical proximity. These issues were also raised in the in-depth interviews by most of the households.

When asked what was the primary factor determining their choice of transfer agency, 28 per cent of respondents reported that the choice was made by the remitter. Other commonly cited factors were convenience and accessibility (25 per cent), speed of service (19 per cent), reliability (15 per cent) and friendly staff (10 per cent). Only one respondent cited exchange rates, and one cited the lotteries and prizes that are offered by some transfer agencies. Nearly three quarters of respondents expressed a preference for receiving remittances in cash, citing ease of use and liquidity, a particularly important concern for rural clients without ready access to cash withdrawal facilities. Twenty-two per cent stated that they would prefer payment via direct deposit to a bank account, citing safety concerns as well as a preference for saving.

Respondents reported high levels of satisfaction with the cost, convenience, speed and reliability of their existing remittance transfer arrangements, regardless of the type of service used. Although transfer costs are relatively high, at around $36 for bank-based telegraphic transfers and $18-39 for electronic transfers via Western Union, no respondents indicated dissatisfaction with costs, nor did any respondents cite cost as a factor determining their choice of transfer method. This lack of concern reflects the fact that transfer costs are overwhelmingly borne by the sender. Recipients are not charged for MTO transfers, and are charged a small handling fee of $7 for bank-based transfers. Fewer than 5 per cent of recipients were aware of the transfer costs paid by the sender.

4.2 Financial accessibility

Although the majority of respondents stated that they have accounts with the four commercial banks in Samoa, with ANZ Bank the most popular, they make infrequent use of banking services because access is limited by weak geographic outreach. As shown in Table 8, commercial banking services are overwhelmingly concentrated in Apia, with limited access by the 78 per cent of Samoans who reside in rural areas, and the lack of rural withdrawal facilities was cited as the primary reason why most respondents preferred to take their remittances in cash.

Table 8: Geographic spread of banking services

Bank	Branches	Agencies	ATMs
ANZ	Apia (1), Airport (1)	Apia (5), Savai'i (1)	Apia (5), Savai'i (1)
National Bank of Samoa	Apia (1), Upolu (2)	Savai'i (3)	Apia (1)
Samoa Commercial Bank	Apia (1)	0	0
Westpac	Apia (1), Savai'i (1)	0	Apia (1)

SPBD officers travel to the villages on a weekly schedule, but only for loan collection. SPBD clients seeking other financial services have to travel to the SPBD office in urban Apia to obtain loan services, leaving early in the morning, and sometimes have to queue outside for extended periods of time. The loan window is about two hours within which all loans are issued by SPBD staff. However, if there are too many customers, they are asked to come again the following week.

4.3 SPBD products and services

SPBD offers clients micro-loans for undertaking micro-enterprise activities. In addition, SPBD also offers housing and education loans, though the take-up rates for these are significantly less. Furthermore, these loans are restricted to households who have already established successful microenterprises using the loans provided by SPBD as start-up capital. In spite of regulatory constraints, SPBD also offers a micro-savings program with a minimum deposit of SAT$10, which is deposited in a segregated account at Westpac.

46% of respondent households had some outstanding loans/debts. Of these, 64% households had loans with SPBD and 25% of households had loans with banks. For SPBD clients, loans are restricted to micro-enterprise development activities only. Hence, all households have invested in micro-enterprise development activities such as street vending, corner shops and farming. However, in practice, there is no mechanism to monitor if the funds are indeed being used for its stated activities. As long as borrowers pay repayments on time (which might come through remittance), there is no mechanism to monitor usage.

There is the potential to leverage remittances to expand the specialised products offered by SPBD including the housing improvement and education loans. Recommendations for exploring this further will be outlined in Section 7.

For bank-loan customers, most have borrowed the money to spend on *fa'samoa* activities as confirmed in the focus-group discussions. This highlights the significance of the social-cultural elements and the need to spend remittances on this activity.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The findings of this report highlight that migrant remittances do contribute to development outcomes in Samoa, both at the macro and household levels. At the macro level, remittances to Samoa have grown substantially in recent years and are expected to continue to contribute significantly to the national balance of payment figures and to household incomes. At the household level, the contribution of remittances to development outcomes needs to be seen in the context of the socio-cultural context of remitting, which includes maintaining ties among communities across geographic distance.

Remittances tend to be spent on consumption related activities, particularly those activities that are considered part of the *fa'samoa*. Investment related activities such as contribution to microenterprise development is very limited. In this context, the broader definition of development needs to take into account not just microenterprise, but more broadly the various social/cultural dimensions of development – which is what primarily triggers remittances from the migrants.

It is envisaged that the sustainability of remittance flows to Samoa will continue in the future. A number of factors contribute to this. Firstly, strong cultural ties are maintained by the migrants and those back in Samoa through engagement in various cultural activities and the media. Secondly, cultural products such as hand-woven mats (used for special occasions) are exported from Samoa to the diasporas communities in New Zealand and Australia. Remittances from migrants overseas are thus part of a larger network of transactions between Samoans at home and Samoans abroad, in which the cultural concept of *fa'samoa* plays a key role.

With regard to MFIs, the findings of this study) indicate that in the current institutional environment, MFIs find it difficult to leverage remittances funds for development activities. Based on the case study of SPBD, the following key conclusions are derived. These conclusions may also be generalised to other MFIs in Samoa and their ability to leverage remittances.

High percentage of remittance-receiving clients

A vast majority of households in Samoa are remittance recipients. This is also true of the vast majority of SPBD clients. Thus the potential for SPBD to provide their clients with remittance related products and services is significant. The introduction of innovative remittance related products and services would provide increased satisfaction on the part of the clients, and at the same time help SPBD to strengthen its financial sustainability.

Legislative restrictions

From a legislative point of view, the remittance transfer market in Samoa is restricted and undertaken mainly by a limited number of money transfer agencies and commercial banks. This excludes MFIs such as SPBD from participating in this market. Further constraining the free flow of remittances to Samoa has been stringent regulations, particularly those related to anti-money laundering activities. Though such regulations have the potential to capture illegal and criminal monies entering the country, it may cause undue delays for genuine senders and recipients of remittances. This may also lead to increased flow of remittance through informal channels, though the precise magnitude of such transfers has not been definitely estimated yet.

Limited administrative capacity

There is an acute of shortage of administrative capacity within SPBD, coupled with frequent staff-turnover. This is preventing the MFI from expanding its services, particularly its ability to offer specialised products such as those related to remittance transfers, and expanding its outreach to households in rural areas such as in the island of Savaii.

Informal methods of transfer

With the introduction of low-cost budget airlines such as PolyBlue Airlines, travel to Samoa particularly from Australia and New Zealand has become cheaper, and hence more frequent travel is now undertaken by Samoan migrants. This has resulted in remittances being carried as cash by these migrants. Hence, the potential for informal cash remittances is on the increase, and escapes the formal financial services net. This issue has emerged in the in-depth interviews and focus group discussions.

Lack of specialised products and services

The financial products offered by SPBD are limited to loan facilities, specifically micro-loans based on the Grameen model. There is no product variation or specific facilities to cater for savings or remittance related requirements from its clients or outsiders. This is partly related to the legislative and administrative constraints referred to above. Nevertheless, a potential demand and interest for such a service/product currently exists.

Lack of technological applications

SBPD's financial and loan operations are currently done manually. Innovative support technologies such as mobile phones and laptop computers are not utilised. This is resulting in enormous workloads for SPBD staff, which in turn is impacting on its ability to increase outreach to a greater number of clients particularly in rural areas.

5.2 Policy recommendations

The conclusions outlined above indicate that there is potential for MFIs such as SPBD to be able to leverage remittance funds, both for their own financial sustainability as well as providing remittance related product services to its clients. In order to address some of the issues identified in the conclusions, this section outlines a number of key policy recommendations. Although these policy recommendations are specific to SPBD, they can also be generalised to other MFIs in Samoa and their ability to leverage remittances.

1. Operate as a money changing organisation

In Samoa, prevailing legislation restricts the facilitation of remittances to licensed financial institutions such as commercial banks and money changing agencies. While amending the legislation to cater for MFIs to facilitate remittances is an option, it is probably more conducive for SPBD to comply with the legislation and to register with CBS as an approved money changing organisation. However, this would entail fulfilling various requirements for approval and obtaining the licence such as minimum balance and complying with liquidity ratios. Further complicating this issue would be SPBD's status as a registered charitable organisation in Samoa, which restricts it from undertaking relevant banking and quasi-banking activities. Hence, SPBD needs to justify its intended dual role to the CBS in being a charitable organisation as well as its desire to engage in commercial activities in remittance transfers. The latter objective would no doubt help the former in complementing the activities of SPBD and financially strengthening its position.

2. Partnerships approach to MFIs and other financial institutions

If fulfilling the requirements for obtaining approved money changing licence is found to be a difficult task, it is suggested that SPBD explore the possibility of forming partnerships with registered financial institutions who are currently involved in facilitating remittances.

Such a partnership would have mutual benefits to both SPBD and other financial organisations. For instance, commercial banks and approved money changers have the authority to engage in foreign exchange but these organisations do not the have the outreach or the infrastructure to reach clients in rural and peri-urban areas. Even in the urban centre of Apia, accessibility by clients to financial services is proving to be difficult (for instance, banks are only open during certain fixed times, and some ATMs are non-functioning for extended periods). MFIs such as SPBD have the outreach and clients of poor households who they serve through the provision of credit facilities, particularly in the villages and rural areas. Thus, bridging the gap and brokering a partnership approach between these two types of organisation is critical to ensuring that the potential impact of remittances on development outcomes is achieved. Such an approach requires a detailed investigation of various aspects of brokering, forming and maintaining a partnership.

3. Innovation in products and services

In order to satisfy the demands of a majority of remittance-recipients clients, SPBD needs to introduce innovative products and services. These may include:

- foreign currency accounts – to facilitate Samoan migrants to transfer and maintain remittances in foreign currency (the significant currency inflows are New Zealand, Australian and US Dollars)
- local currency accounts – to facilitate migrants to maintain savings account in local currency and to remittances as and when required.
- joint accounts – to facilitate migrants and households in Samoa to operate joint accounts
- specialised products – this may include loan facilities for children's education, housing and house improvements, and remittances linked to micro-enterprise development.

4. Mobile banking

The scattered geographical distribution of villages in Samoa and low accessibility to transport services indicate that there is a need for financial services to be made more 'mobile'. With the difficulties faced by rural households in accessing financial services, the value of bringing such a service to the rural and remote villages have significant potential.

Presently, the ANZ Bank is offering such a service in the form of 'mobile banking'.[2] The replication of this ANZ mobile banking model by SPBD is potentially significant in reaching rural villages both in the island of Upolu and Sa'vaii. The adoption of this model would involve the procurement of relevant technology such as vehicle, computer systems (hardware and software) and communication technologies to link to servers in the Apia office. This type of mobile banking service is also offered in a number of PICs, and has proven to be particularly successful, especially in the Fiji Islands.

5. Mobile-Phone banking

In 2006, the telecommunication industry in Samoa was deregulated providing opportunities for new players to enter the market. Amongst the new players is Digicel Samoa, who are attempting to secure telecommunication market in Samoa by distributing 30,000 handsets free of charge. Currently, 80% of the Samoan population have mobile coverage, and domestic call rates are among the lowest in the world.

These regulatory provisions and infrastructure facilities provide an excellent platform to launch mobile-phone banking services in Samoa. Through such a service, it is envisaged that remittance funds can be leveraged by MFIs such as SPBD in partnerships with approved foreign exchange organisations and telecommunication companies like Digicel in Samoa. The possibility of MFI partnership with commercial banks and other approved foreign exchange organisations has been discussed in section 7.3

The introduction of mobile-phone banking services in Samoa would help overcome one of the key obstacles identified in this study, i.e. geographical inaccessibility to financial services for rural households. This has been particularly evident in rural areas and even in urban Apia where most ATMs are found to be non-functioning at most times. Further, mobile phones can be used by Samoan households to prompt their migrant relatives in New Zealand and Australia to remit money whenever it is required.

Best practice examples of mobile-phone banking are currently evident in a number of developing countries, particularly the G-Cash technology in the Philippines. Further research and investigation for the replication of this and other similar mobile-phone banking technologies to Samoa would be useful.

6. Investigating transaction costs in destination countries

A vast majority of households in Samoa are not aware of the transaction cost involved in sending remittances, as this is generally borne by the sender. The choice of money transfer agency depends to a certain extent on the cost of remitting from destination

[2] ANZ mobile banking is only confined to the island of Upolu. It is still not fully established and does not reach all the villages.

countries like Australia and New Zealand. Transfer costs are relatively high, at around $36 for bank-based telegraphic transfers and $18-39 for Western Union, depending on the size of the transfer.

The Samoan government in collaboration with the approved money exchange organisations should actively pursue dialogue with financial organisations in Australia and New Zealand to negotiate a fixed fee for the transfer of remittance to Samoa. Furthermore, cross-border partnership is one area where organisations in Samoa could forge alliances with financial organisations in Australia and New Zealand to negotiate mutually acceptable transaction costs for the transfer of remittances.

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