



*Empowered lives.  
Resilient nations.*

# **Consolidated Report on Activities Implemented under the Joint Programme “Inclusive Finance for the Under-served Economy” (INFUSE) in Timor-Leste**

**Report of the Administrative Agent  
for the period 1 January - 31 December 2012**

**Multi-Partner Trust Fund Office**  
Bureau of Management  
United Nations Development Programme  
<http://mptf.undp.org>

31 May 2013

## PARTICIPATING ORGANIZATIONS



United Nations Capital Development Fund (UNCDF)



*Empowered lives.  
Resilient nations.*

United Nations Development Programme (UNDP)

## CONTRIBUTORS



Australian Agency for International  
Development (AusAID)



Government of Timor-Leste

# Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>PART I: ANNUAL NARRATIVE PROGRESS REPORT.....</b>	<b>2</b>
<b>Abbreviations and Acronyms.....</b>	<b>3</b>
<b>DEFINITIONS .....</b>	<b>4</b>
<b>1. Purpose .....</b>	<b>5</b>
<b>2. Resources .....</b>	<b>5</b>
Financial Resources .....	5
Human Resources: .....	6
<b>3. Implementation and Monitoring Arrangements .....</b>	<b>7</b>
Program Implementation .....	7
Monitoring and Evaluation .....	7
<b>4. Results.....</b>	<b>8</b>
<b>5. Challenges and Lessons Learned .....</b>	<b>14</b>
<b>6. Indicator Based Performance Assessment .....</b>	<b>16</b>
<b>PART II: ANNUAL FINANCIAL REPORT .....</b>	<b>20</b>
<b>1. Sources and Uses of Funds.....</b>	<b>21</b>
<b>2. Contributions .....</b>	<b>22</b>
<b>3. Transfer of Funds .....</b>	<b>22</b>
<b>4. Overall Expenditure and Financial Delivery Rates.....</b>	<b>23</b>
<b>5. Transparency and accountability.....</b>	<b>25</b>

## EXECUTIVE SUMMARY

This Consolidated Annual Report under the Joint Programme Inclusive Finance for the Under-served Economy (INFUSE) covers the period from 1 January to 31 December 2012. This report is in fulfillment of the reporting requirements set out in the Standard Administrative Arrangement (SAA) concluded with the Contributors. In line with the Memorandum of Understanding (MOU) signed by Participating Organizations, the report is consolidated based on information, data and financial statements submitted by Participating Organizations. It is neither an evaluation of the Joint Programme nor an assessment of the performance of the Participating Organizations. The report provides the Management Committee for Inclusive Finance (MCIF) with a comprehensive overview of achievements and challenges associated with the Joint Programme, enabling it to make strategic decisions and take corrective measures, where applicable.

Main achievements over the year 2012 include:

- Continued assistance to the Central Bank of Timor-Leste (BCTL) in the supervision and regulation of the ODTIs (Other Deposit Taking Institutions), the license tier for microfinance institutions (MFIs);
- Provision of institutional support to Moris Rasik (MR), the largest non-bank MFI as it seeks to qualify for an ODTI license;
- Provision of institutional support to Tuba Rai Metin (TRM), another MFI as it seeks to qualify for an ODTI license, and additionally assisted with financing with ANZ bank through a loan guarantee that was returned in January 2012;
- Continued support to the development and implementation of the Progress out of Poverty Index (PPI) a Timor-Leste specific poverty scorecard that MFIs and other development programmes can use to monitor the poverty levels of beneficiaries;
- Linking of a local insurance company (NITL) with two MFIs (TRM and MR) to provide clients with enhanced credit life insurance coverage. Under the partnership, NITL underwrites the insurance products offered by both institutions. While each institution's products have specific benefits and conditions, both products cover borrower and their spouses with a payout in case of death. Products were derived from a market survey performed by the INFUSE- supported micro-insurance fellow (funded by ILO). Some 14,150 lives are covered through this partnership as of December 2012.

The key outcome achieved is the strong growth in 2012 of the number of clients from financial institutions serving the bottom of the pyramid. This has increased from 81,787 to 147,063 clients. The outreach of the institutions directly supported by INFUSE have plateaued around 19,500 as they focused on strengthening their internal systems.

The Multi-Partner Trust Fund Office (MPTF Office) of the United Nations Development Programme (UNDP) serves as the Administrative Agent for the pass-through funded portion of the Joint Programme. The MPTF Office receives, administers and manages contributions from Contributors, and disburses these funds to the Participating UN Organizations in accordance with the decisions of the MCIF. The Administrative Agent receives and consolidates reports and submits these to the MCIF, through the Resident Coordinator.

This report is presented in two parts. Part I is the Annual Narrative Progress Report and Part II is the Annual Consolidated Financial Report for the pass-through funded portion of the Joint Programme funds. Part I is presented in eight sections. Section I is the Executive Summary; Section II provides a purpose of the Joint Programme; Section III presents an overview of resources; Section IV highlights implementation and monitoring arrangements; Section V provides an overview of the achievement of the Joint Programme and the challenges; Section VI draws on challenges and lessons learned, and Section VII presents an indicator based performance assessment.



## PART I: ANNUAL NARRATIVE PROGRESS REPORT

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="background-color: #e0e0e0; text-align: center;">Programme Title &amp; Project Number</th> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>Programme Title: Inclusive Finance for the Under-served Economy (INFUSE)</li> <li>Programme Number UNDP: 00050242 (Award ID), 00061961(Project ID)                UNCDF- Core: 00050456 (Award ID), 00062359 (Project ID)                UNCDF-GoTL: 00058333 (Award ID), 00072424 (Project ID)                AusAID: 00060350 (Award ID), 00075947 (Project)</li> <li>MPTF Office Project Reference Number:                00055655 (Award ID), 00067655 (Project ID)</li> </ul> </td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Participating Organization(s)</th> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>United Nations Capital Development Fund (UNCDF)</li> <li>United Nations Development Programme (UNDP)</li> </ul> </td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Joint Programme Cost (US\$)</th> </tr> <tr> <td style="padding: 5px;">           MPTF /JP Contribution (pass-through):           <ul style="list-style-type: none"> <li><i>AusAID</i> US\$ 2,331,150</li> <li><i>GoTL</i> US\$ 1,000,000</li> </ul>           Agency Contribution           <table style="margin-left: 20px; border: none;"> <tr> <td style="padding-right: 20px;">UNCDF: US\$ 1,550,000</td> </tr> <tr> <td>UNDP : US\$ 500,000</td> </tr> </table> </td> </tr> <tr> <td style="padding: 5px;"><b>TOTAL: US\$ 5,381,150</b></td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Programme Assessment/Review/Mid-Term Eval.</th> </tr> <tr> <td style="padding: 5px;">           Assessment/Review - if applicable <i>please attach</i>  <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i>            Mid-Term Evaluation Report – if applicable <i>please attach</i>  <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i> </td> </tr> </table>	Programme Title & Project Number	<ul style="list-style-type: none"> <li>Programme Title: Inclusive Finance for the Under-served Economy (INFUSE)</li> <li>Programme Number UNDP: 00050242 (Award ID), 00061961(Project ID)                UNCDF- Core: 00050456 (Award ID), 00062359 (Project ID)                UNCDF-GoTL: 00058333 (Award ID), 00072424 (Project ID)                AusAID: 00060350 (Award ID), 00075947 (Project)</li> <li>MPTF Office Project Reference Number:                00055655 (Award ID), 00067655 (Project ID)</li> </ul>	Participating Organization(s)	<ul style="list-style-type: none"> <li>United Nations Capital Development Fund (UNCDF)</li> <li>United Nations Development Programme (UNDP)</li> </ul>	Joint Programme Cost (US\$)	MPTF /JP Contribution (pass-through): <ul style="list-style-type: none"> <li><i>AusAID</i> US\$ 2,331,150</li> <li><i>GoTL</i> US\$ 1,000,000</li> </ul> Agency Contribution <table style="margin-left: 20px; border: none;"> <tr> <td style="padding-right: 20px;">UNCDF: US\$ 1,550,000</td> </tr> <tr> <td>UNDP : US\$ 500,000</td> </tr> </table>	UNCDF: US\$ 1,550,000	UNDP : US\$ 500,000	<b>TOTAL: US\$ 5,381,150</b>	Programme Assessment/Review/Mid-Term Eval.	Assessment/Review - if applicable <i>please attach</i> <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i> Mid-Term Evaluation Report – if applicable <i>please attach</i> <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="background-color: #e0e0e0; text-align: center;">Country, Locality(s), Priority Area(s) / Strategic Results</th> </tr> <tr> <td style="padding: 5px;">Timor-Leste</td> </tr> <tr> <td style="padding: 5px;"><i>Inclusive Finance</i></td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Implementing Partners</th> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>Ministry of Commerce, Industry &amp; Environment (MCIE) / Government of Timor-Leste</li> </ul> </td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Programme Duration</th> </tr> <tr> <td style="padding: 5px;">           Overall Duration  <i>2008-2013</i> </td> </tr> <tr> <td style="padding: 5px;"> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Start Date</td> <td style="text-align: right;">27 August 2010</td> </tr> <tr> <td>End Date or Revised</td> <td style="text-align: right;">31 December 2013</td> </tr> </table> </td> </tr> <tr> <th style="background-color: #e0e0e0; text-align: center;">Report Submitted By</th> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li><input type="checkbox"/> Name: Cedric Javary</li> <li><input type="checkbox"/> Title: Chief of Technical Advisor</li> <li><input type="checkbox"/> Participating Organization (Lead): UNCDF</li> <li><input type="checkbox"/> Email address: Cedric.javary@uncdf.org</li> </ul> </td> </tr> </table>	Country, Locality(s), Priority Area(s) / Strategic Results	Timor-Leste	<i>Inclusive Finance</i>	Implementing Partners	<ul style="list-style-type: none"> <li>Ministry of Commerce, Industry &amp; Environment (MCIE) / Government of Timor-Leste</li> </ul>	Programme Duration	Overall Duration <i>2008-2013</i>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Start Date</td> <td style="text-align: right;">27 August 2010</td> </tr> <tr> <td>End Date or Revised</td> <td style="text-align: right;">31 December 2013</td> </tr> </table>	Start Date	27 August 2010	End Date or Revised	31 December 2013	Report Submitted By	<ul style="list-style-type: none"> <li><input type="checkbox"/> Name: Cedric Javary</li> <li><input type="checkbox"/> Title: Chief of Technical Advisor</li> <li><input type="checkbox"/> Participating Organization (Lead): UNCDF</li> <li><input type="checkbox"/> Email address: Cedric.javary@uncdf.org</li> </ul>
Programme Title & Project Number																										
<ul style="list-style-type: none"> <li>Programme Title: Inclusive Finance for the Under-served Economy (INFUSE)</li> <li>Programme Number UNDP: 00050242 (Award ID), 00061961(Project ID)                UNCDF- Core: 00050456 (Award ID), 00062359 (Project ID)                UNCDF-GoTL: 00058333 (Award ID), 00072424 (Project ID)                AusAID: 00060350 (Award ID), 00075947 (Project)</li> <li>MPTF Office Project Reference Number:                00055655 (Award ID), 00067655 (Project ID)</li> </ul>																										
Participating Organization(s)																										
<ul style="list-style-type: none"> <li>United Nations Capital Development Fund (UNCDF)</li> <li>United Nations Development Programme (UNDP)</li> </ul>																										
Joint Programme Cost (US\$)																										
MPTF /JP Contribution (pass-through): <ul style="list-style-type: none"> <li><i>AusAID</i> US\$ 2,331,150</li> <li><i>GoTL</i> US\$ 1,000,000</li> </ul> Agency Contribution <table style="margin-left: 20px; border: none;"> <tr> <td style="padding-right: 20px;">UNCDF: US\$ 1,550,000</td> </tr> <tr> <td>UNDP : US\$ 500,000</td> </tr> </table>	UNCDF: US\$ 1,550,000	UNDP : US\$ 500,000																								
UNCDF: US\$ 1,550,000																										
UNDP : US\$ 500,000																										
<b>TOTAL: US\$ 5,381,150</b>																										
Programme Assessment/Review/Mid-Term Eval.																										
Assessment/Review - if applicable <i>please attach</i> <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i> Mid-Term Evaluation Report – if applicable <i>please attach</i> <input type="checkbox"/> Yes <input type="checkbox"/> No Date: <i>dd.mm.yyyy</i>																										
Country, Locality(s), Priority Area(s) / Strategic Results																										
Timor-Leste																										
<i>Inclusive Finance</i>																										
Implementing Partners																										
<ul style="list-style-type: none"> <li>Ministry of Commerce, Industry &amp; Environment (MCIE) / Government of Timor-Leste</li> </ul>																										
Programme Duration																										
Overall Duration <i>2008-2013</i>																										
<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Start Date</td> <td style="text-align: right;">27 August 2010</td> </tr> <tr> <td>End Date or Revised</td> <td style="text-align: right;">31 December 2013</td> </tr> </table>	Start Date	27 August 2010	End Date or Revised	31 December 2013																						
Start Date	27 August 2010																									
End Date or Revised	31 December 2013																									
Report Submitted By																										
<ul style="list-style-type: none"> <li><input type="checkbox"/> Name: Cedric Javary</li> <li><input type="checkbox"/> Title: Chief of Technical Advisor</li> <li><input type="checkbox"/> Participating Organization (Lead): UNCDF</li> <li><input type="checkbox"/> Email address: Cedric.javary@uncdf.org</li> </ul>																										

## Abbreviations and Acronyms

ADB	Asian Development Bank
AFA	National Administration/Finance Associate
AFI	Alliance for Financial Inclusion
AMFITIL	Association of Microfinance Institutions of Timor-Leste
AusAID	Australian Agency for International Development
BASIX	Bhartiya Samruddhi Investments and Consulting Services Ltd.
BCTL	Banco Central de Timor-Leste, <i>formerly BPA</i>
BNCTL	National Commercial Bank of Timor-Leste, <i>formerly IMfTL</i>
BPA	Banking and Payments Authority
CTA	Chief Technical Adviser
CUFA	Credit Union Foundation of Australia
FHM	Federsaun Hanai Malu (Federation of Savings and Credit Cooperatives)
FSPs	Financial Services Providers
FSS	Financial Self-sufficiency ratio
GoTL	Government of Timor-Leste
HR	Human resources
IFC	International Finance Corporation
IIE	Institute of International Education
ILO	International Labour Organization
IMfTL	Instituicao de Microfinancas de Timor-Leste
INFUSE	Inclusive Finance for the Under-Served Economy
MC	Mercy Corps
MCIE	Ministry of Commerce, Industry & Environment
MCIF	Management Committee for Inclusive Finance
MDG(s)	Millennium Development Goal(s)
MPTF	Multi-Partner Trust Fund
MFI	Microfinance Institutions
MIS	Management Information System
MoED	Ministry of Economy and Development, <i>dissolved after Parliamentary elections in July 2012</i>
MR	Moris Rasik
NITL	National Insurance of Timor-Leste
NGO	Non-Government Organization
NPO	National Programme Officer
NPWG	National Priority Working Group
ODTI	Other Deposit-Taking Institution
PAR	Portfolio at Risk
PBAs	Performance Based Agreements
PIU	Programme Implementation Unit
PFIP	Pacific Financial Inclusion Programme
PPI	Progress out of Poverty Index
TA	Technical Assistance/Assistant
TRM	Tuba Rai Metin
TSPs	Technical Service Providers
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
WEAL	World Education Australia Limited

## **DEFINITIONS**

### Joint Programme

A set of activities contained in a common work plan and related budget, involving two or more UN organizations and (sub-) national partners. The work plan and budget forms part of a joint programme document, which also details roles and responsibilities of partners in coordinating and managing the joint activities. The joint programme document is signed by all participating organizations and (sub-) national partners.

### Donor Pledge

An amount indicated as a voluntary contribution by a donor. Pledges are not included in the financial statements. Financial reports will report on legally binding donor commitments and deposits to the INFUSE Timor-Leste.

### Donor Commitment

A donor contribution as per signed Letter of Agreement / Standard Administrative Agreement with the UNDP Multi-Partner Trust Fund Office, in its capacity as the Administrative Agent of the INFUSE Timor-Leste.

### Donor Deposit

Cash deposit received by the Multi-Partner Trust Fund Office for the INFUSE Timor-Leste.

### Project Expenditure

Amount of project disbursement plus un-liquidated obligations related to payments due for the year.

## 1. Purpose

The overall goal of the Inclusive Finance for the Underserved Economy (INFUSE) Programme is to contribute to the achievement of the Millennium Development Goals (MDGs), in particular Goal 1 of cutting absolute poverty in Timor-Leste by one third by 2015, through increasing sustainable access to financial services for poor and low-income people, both women and men. The programme utilizes a sector-wide approach to building an inclusive financial sector, focusing on addressing gaps and impediments at the retail (micro-), infrastructure (meso-), and legal and regulatory (macro-) levels.

At the end of programme implementation, INFUSE aims to achieve the above goal through the following outputs:

- Output 1: Policy development and strategic coordination to enhance the enabling environment
- Output 2: Facilitation of the growth and long-term sustainability of the retail financial service providers (FSPs), so that they can increase their outreach to poor and low-income people; and
- Output 3: Development of financial business support infrastructure (credit registry, audit, information technology, innovative technology, etc.)

### INFUSE Programme in relation with UN Development Assistance Framework (UNDAF)

The expected outcome of the programme is that vulnerable groups will have improved access to sustainable financial services. This is consistent with the UNDAF Outcome 2: By 2013, vulnerable groups experience significant improvement in sustainable livelihoods, poverty reduction and disaster risk management within an overarching crisis preventions and recovery context. The programme specifically relates to UNDAF sub-outcome 2.1.5: Microfinance institutions (MFIs) are capacitated to increase outreach to the low-income populations.

INFUSE objectives are also linked to the following Outcome and Output of United Nations Development Programme (UNDP) Country Programme (2009 – 13) in Timor-Leste:

- Country Programme Outcome 3: Vulnerable groups have improved access to livelihoods
- Country Programme Output 3.1: Rural communities have microenterprises through improved access to microfinance and markets.

### INFUSE Programme in relation with Government of Timor-Leste (GoTL) National Plans and Priorities

INFUSE objectives were incorporated into the Government of Timor-Leste's National Priorities 2011 framework, specifically within the National Priority # 2: Rural Development (Food and Nutrition Security and Sustainable Economic Development). The relevant objective during 2011 is to deliver support to FSPs to increase access to microfinance services by an additional 10,000 clients, of which at least 50% are women, and increase diversity of financial products and services available.

## 2. Resources

### **Financial Resources**

INFUSE was incepted as a GoTL-UNCDF-UNDP partnership with a programmed budget of US\$ 5 million, including initial funding of US\$1,050,000 from UNCDF and \$500,000 from UNDP. At the end of June 2011, the program is funded by UNCDF, UNDP, the GoTL through the budget of the Ministry of Economy and



Development (MoED) and the Australian Agency for International Development (AusAID). UNCDF has agreed to an increase in their contribution by USD0.5 million, which now takes their total contribution to USD1,550,000. Respective contributions are listed below in Table 1 displaying the annual budget and financial contribution from donors (actual through 2011 and proposed for 2012).

Table 1: Yearly Financial Contribution by Donor

<b>Funding Source</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total Contribution (USD)</b>
UNCDF *	190,053	110,007	599,536	385,694	264,711	1,550,000
UNDP	100,000	100,000	100,000	100,000	100,000	500,000
MoED (pass-through)		300,000	200,000	200,000	300,000	1,000,000
AusAID (pass-through)			1,597,575	733,575		2,331,150
<b>TOTAL BUDGET</b>	<b>290,053</b>	<b>510,007</b>	<b>2,497,111</b>	<b>1,419,269</b>	<b>664,711</b>	<b>5,381,150</b>

\* UNCDF Contribution to be increased in 2012 by USD0.5m

#### Budget Approvals

- The 2012 annual budget and work plan was approved by the Management Committee for Inclusive Finance (MCIF) in February 2012.
- The Government of Timor-Leste contributed in 2012 to the project with a funding amounting to \$200,000, leaving a shortfall of \$100,000 compared to committed amount.

#### Funding Mobilization:

- The Programme was extended for 1 year to 31<sup>st</sup> December 2013 at no additional cost awaiting a decision from AusAID on the modalities of its future support to financial inclusion in Timor-Leste. A review team from AusAID was dispatched to Timor early August and submitted a draft report in December 2012. The INFUSE CTA and UNCDF Regional Technical Advisor provided comments to this report.

#### Financial & Procurement Processes

- The office of the Programme has been relocated within the UN compound in February to benefit from a better infrastructure and to better liaise with UNDP support services for a shorter turnaround time for administrative and finance/budget processing. As a result procurement and payment processing are generally faster in most cases.
- The delays for the procurement of consultant services noted by the Mid Term Evaluation have been significantly reduced: for instance the legal advisor to Central Bank was fielded 2 ½ months after the post was advertised.

#### **Human Resources:**

During 2012, the INFUSE program implementation unit (PIU) comprised the following staff:

- A new expatriate Chief Technical Advisor (CTA) was hired on 13<sup>th</sup> January 2012 with a title of Technical Specialist (P3 level). The position was vacant from September 2011 through January but a consultant was hired to handle the interim: he performed a 2-week handover with the new CTA.

- The National Administration/Finance Associate was promoted to National Programme Officer in January. He unfortunately had to keep his former duties until a suitable candidate was found and therefore took on only part of his new duties.
- The National Administration/Finance Associate was filled-in only on 11<sup>th</sup> June 2012.
- The National Driver was in place in January.
- Through the PFIP program and in coordination with the ILO and the Institute of International Education (IIE), INFUSE continued hosting a fellow to work with MFIs to develop microinsurance products for Timor-Leste until October 2012. The fellow split her time between INFUSE and the NITL. She began her work in August 2011.

In addition, the program receives support from the following:

- Technical oversight and guidance to the Programme is provided by an UNCDF Regional Technical Advisor based at the Pacific Financial Inclusion Programme (PFIP) in Suva, Fiji.
- A INFUSE part-time Deputy Program Manager (based in the PFIP office) provides considerable support on finance and operations.=

### **3. Implementation and Monitoring Arrangements**

#### **Program Implementation**

INFUSE is an UNCDF-led program implemented jointly with UNDP. UNDP-Timor Leste, the Administrative Agent, is established in country with support units (HR, procurement, etc.) that the INFUSE Program Implementation Unit (PIU) accesses. UNCDF provides technical assistance and manages the program. In order to harmonize funding and ensure effective co-ordination in program implementation, both UNCDF and UNDP roles in the program are outlined according to regulations defined by the 2003 UN Development Group Guidance Note on Joint Programming with further clarification in the UNCDF-UNDP Guidance Note dated 2 November 2007. In the course of implementation of this program, and in monitoring and reporting on progress, UNCDF, UNDP and other future associated UN agencies will collaborate according to these Joint Programme regulations and Standard Administrative Agreements already in place.

Although each of the implementing agencies have their own roles in the implementation of the Joint Programme as governed by these aforementioned guidance notes, each of the agencies will have to agree and understand that the administration of this program shall be governed by UNDP rules and regulations, which UNCDF also adopts, as defined in the Resource Management Guide within the policy context defined by the Executive Board.

The MCIF, comprising donors to the Programme, oversees the INFUSE Fund for Inclusive Finance. The MCIF meets biannually to approve funding of specific activities that promote inclusive finance through using a variety of funding mechanisms including grants, loans, and direct procured technical assistance. This flexibility allows for the PIU to accept proposals, develop partnerships, and identify needs for targeted technical assistance. And it engages the MCIF to evaluate and provide feedback on program activities. Under the 4<sup>th</sup> constitutional Government of Timor-Leste, the MCIF was chaired by the Minister of Economy and Development (MoED) representing the Government. In the aftermath of the legislative elections held in July 2012, the MoED has been dissolved. The new chair of the MCIF assigned by the 5<sup>th</sup> constitutional Government is the Ministry of Commerce, Industry and Environment (MCIE).

#### **Monitoring and Evaluation**

Monitoring is conducted at two levels: program progress is monitored by UNCDF, UNDP and the MCIF; and the PIU monitors progress of partners and activities. The following monitoring mechanisms are in place:

- On a biannual basis, program progress is reported against pre-determined target outputs and activities, and challenges and issues are identified in these consolidated reports. These reports, which includes a narrative and financial component, is prepared and shared with INFUSE donors and contains information on the achievements, challenges and lessons learned during the year.
- The MCIF is responsible for monitoring programme progress at bi-annual meetings. The last one occurred in February 2012 complemented by a remote consultation in June 2012.
- The INFUSE PIU monitors recipients of grant funding and loan capital against specific targets, disbursement conditions and reporting requirements outlined in the Performance Based Agreements (PBAs) with FSPs and Technical Service Providers (TSPs). All supported FSPs report on a quarterly basis adhering to the UNCDF standard requirements and formats for Inclusive Finance.
- The mid-term evaluation of INFUSE took place in August 2010. The main objectives were to: evaluate programme performance thus far against its stated objectives and make recommendations to improve implementation going forward; and to assess programme performance against the UNCDF's global corporate strategy objectives and draw lessons to inform UNCDF's future strategy debates. The report was finalized in May 2011. Progress against the recommendations given in the evaluation were incorporated into reporting to the MCIF and the annual work plan for 2012.

#### 4. Results

##### **OUTPUT 1: ACHIEVING A POLICY / VISION STATEMENT**

***A national policy/vision statement for inclusive finance is developed, consulted and adopted by GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided.***

*The following key activities implemented in support of Output 1 over January – December 2012:*

- INFUSE continued working to support the BCTL in its efforts to license and supervise ODTLs. The consulting firm that INFUSE hired to provide technical assistance to the BCTL in development of the licensing and supervision regime completed their assignment at end of June. The BCTL still needs to develop the instruments and staff capacity to carry out its supervision responsibilities of this new financial entity, and INFUSE has offered to provide support.
- INFUSE encouraged the BCTL to develop a transitional regime for the two MFIs seeking the ODTI license, giving them time to comply fully with the technical requirements and to find the qualified external investors needed to obtain a license. BCTL accepted the idea; it developed a framework for the transitional regime and communicated to the 2 incumbent MFIs, but has not formalized it yet: few points await clarification, most notably the committal deadline to find qualified external investors.
- INFUSE procured a full-time legal advisor to the BCTL to assist in developing a regulatory environment conducive to a greater and deeper financial inclusion, as well as to mentor its staff in financial inclusion. The legal advisor commenced work early July 2012 for an initial period of 4 months and delivered an early draft of the National Financial Sector Development Plan and a policy document aimed for the Ministry of Finance.
- INFUSE sponsored one staff member of the BCTL to attend a 3-day workshop on insurance regulation in June in Fiji organized by the Pacific Financial Inclusion Working Group (PIWG) in partnership with PFIP, Access to Insurance Initiative (a2ii), Asian Development Bank (ADB) and Alliance for Financial Inclusion

(AFI). Based on the workshop, a draft national microinsurance action plan was drafted, and progress will be tracked and coordinated through the PIWG.

- INFUSE sponsored one BCTL staff member to attend the renowned, 3-week Boulder Institute training on microfinance in Turin, Italy.
- INFUSE arranged and accompanied the BCTL Governor on a series of side meeting with South African mobile money practitioners during GPF 2012. These meetings were organized in coordination with the Centre for Financial Regulation and Inclusion (Cenfri.) These meetings were much appreciated, particularly with representatives of Pep Stores that operate a solution of mobile payments and manages also a network of mobile payments agents.

## OUTPUT 2: INCREASED OUTREACH OF SUSTAINABLE FINANCIAL SERVICES

*Good practice-based Financial Services Providers (FSPs) serving primarily the poor and low-income market make progress towards sustainability and increase their outreach, while maintaining a high portfolio quality.*

*The following key activities implemented in support of Output 2 over January – December 2012:*

At the February MCIF meeting, the detailed 2012 annual work plan was approved, which included several funding investments directly for FSPs now generally without the involvement of TSPs. Details of these investments are described below:

- **TRM** picked the consultancy Social Enterprise Associates (SEA) from the potential consultants short-listed by INFUSE to develop TRM's external equity investment strategy. SEA interacted with TRM's directors and delivered a final report in September. The recommendations from SEA were endorsed by the Board of Directors of TRM in October. The 2<sup>nd</sup> phase of the grant (giving a mandate to a consultant to search social investors on behalf of TRM) has been put on hold for several reasons:
  - IFC since October is again considering investing in TRM, now that the BCTL has switched its position on a single investor funding 2 MFIs in country
  - Agreement between INFUSE and TRM on the selection, the terms of references and the remuneration of the mandated consultant for the 2<sup>nd</sup> phase
- An additional \$72,000 from UNCDF's MicroLead Program was facilitated by INFUSE to fund a junior advisor from Basix for 1 year: his tasks at TRM are to strengthen reporting systems and provide comprehensive training across all levels of the organization. The junior advisor started his mission on 15<sup>th</sup> March.
- **MR**: INFUSE provided in June a US\$ 60,000 grant for the roll-out of its MIS to all branches by end 2013 at the latest. The grant covers branch equipment costs (computers, printers and power back-ups) and the salary of a dedicated IT task force that will assist each branch during the implementation, as well as the transfer of all portfolio data into MIS. The grant agreement was prepared by INFUSE but MR has delayed signing until management issues and MIS roll-out plans are clarified internally.
- In February the MCIF approved \$35,000 to extend the contract of a microinsurance fellow by 6 months. The microinsurance fellow completed her assignment on 29<sup>th</sup> October and the follow-up was handed-over to the INFUSE team.

- With support from INFUSE, NITL developed a partnership with TRM and MR to provide credit life insurance coverage to all their clients. NITL underwrites the insurance which is then distributed by both institutions, each institution having specific benefits and conditions. The new product features (coverage extended to borrower and spouse, with specific beneficiaries designated) are derived from a market survey performed by the microinsurance fellow end 2011. As of December, **14,150 lives are covered through this partnership.**
- With INFUSE support, NITL has signed a Memorandum of Understanding with an ILO programme, 'Enhancing Rural Access,' requiring all contractors to be covered by workers' compensation insurance. As a result even temporary workers will be covered for work-related injuries. The scheme is to be operationalized early 2013.
- The PPI for Timor Leste was finalized at the end of June and is publicly available on the Grameen Foundation website. Mercy Corps has developed with TRM and MR the framework for piloting PPI scoring. TRM has agreed to embed PPI scoring for loan requests, ensuring an exhaustive and regular scoring of all its clients. The piloting of the PPI scoring under Mercy Corps supervision took place in 3 districts with each MFI (Baucau, Liquica, Ermera with TRM, Ainaro/Maubesse, Aileu, Manufahi with MR) over the 2<sup>nd</sup> semester. It highlighted the lack of quality control in the scoring by the field officers of both MFIs, leading to a dual analysis of the data: on one hand analysing to what extent the initial scorings were inaccurate and what can be done about it, on the other hand the actual analysis limited to the sample of PPI scores double-checked by Mercy Corps (100 scores per district). The results are to be shared with the local stakeholders in January 2013 with a final report available in February 2013.

*Monitoring of recipients of grant funding and loan capital January – December 2012:*

- INFUSE completed the World Education Australia Limited (WEAL)/MR grant for institutional capacity building with the term of February 2012.
- INFUSE continues to coordinate and monitor the MicroLead Program partnership between BASIX and TRM, meeting at minimum every two months to review the progress as per the 4.5 year detailed implementation plan.
- TRM returned to INFUSE in January 2012 the US\$ 300,000 loan guarantee that INFUSE provided for TRM at ANZ bank. The objective of the guarantee fund—to establish a borrowing relationship between TRM and ANZ—has been fulfilled: TRM now borrows from ANZ without the INFUSE guarantee.
- TRM and MR reimbursed the last installment of their respective loans to UNCDF as per the repayment schedule. They currently don't rely anymore on any funding from UNCDF.
  - TRM repaid back to the UNCDF MicroLead facility \$302,200 on 21<sup>st</sup> December 2012 (Principal \$300,000 /interest \$2,200).
  - MR repaid back to UNCDF \$231,833.33 on 21<sup>st</sup> November 2012 (Principal \$230,000 + Interest \$1,833.33).
- As per the reporting requirements in the Performance Based Agreements (PBAs) for the grants and loans, both MR and TRM, complied with their submission of the following reports:
  - Submission of their 4<sup>th</sup> quarter and annual reports for 2011.
  - Submission of their 1<sup>st</sup> quarter report for 2012: applicable only to TRM, done.
  - Posting of 2012 data on the Mix Market website: done by TRM for 1Q12, 2Q12, 3Q12 and 4Q12. MR has reported data to TheMix up to 2Q12.
  - TRM and MR submitted their 2011 audited financial statements.
- In February, June, October and December INFUSE and MC had a progress meeting to review advances in creation of the PPI.

**Outreach**

Figure 1 shows that pro-poor FSPs have significantly increased their outreach in 2012. This tremendous growth is mostly the consequence of the requirement by GoTL that all pension payments been made onto a bank account: BNCTL thus experienced a soaring number of new depositors. Clientele is also growing with credit unions and TRM. The number of borrowers, while progressing, remains below programme targets

Figure 1: Financial inclusion outreach and INFUSE targets

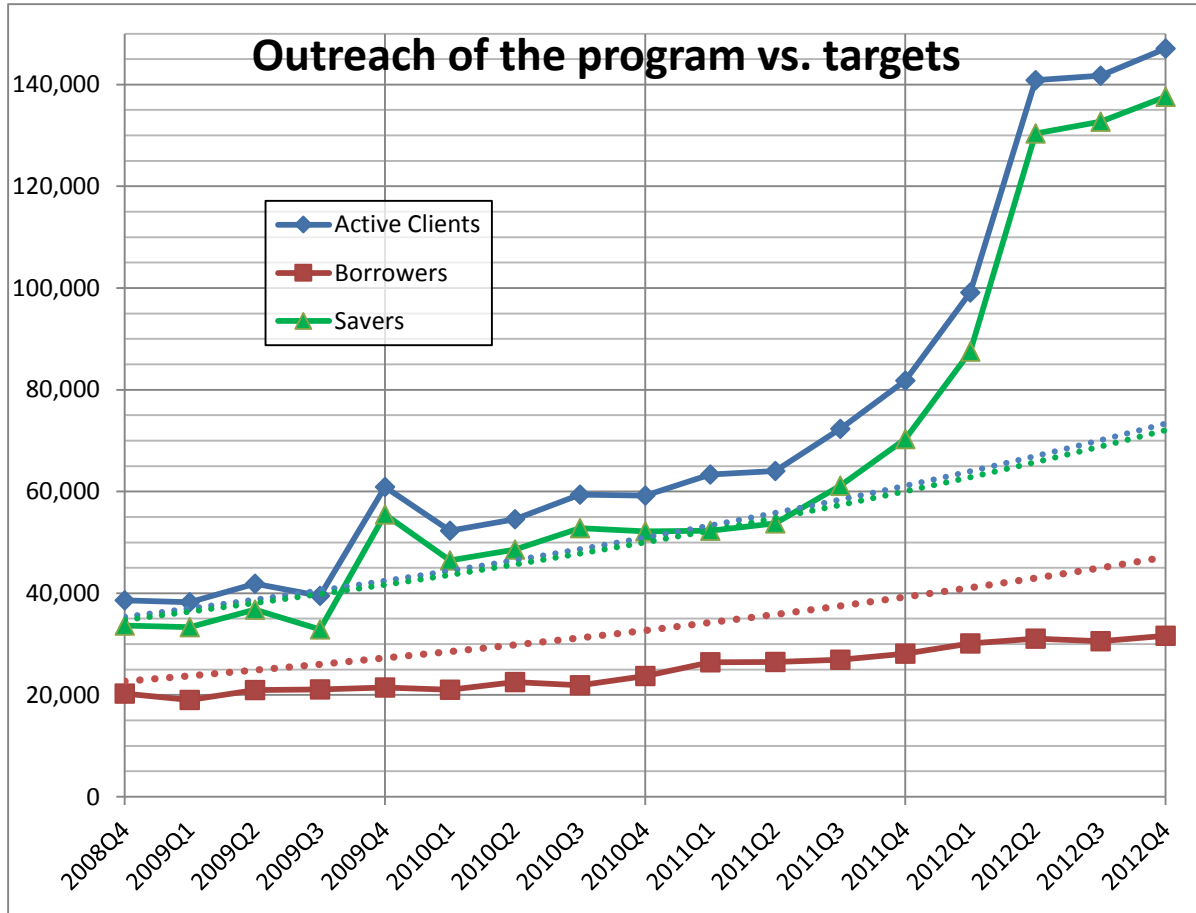


Table 2 below, presents the growth in total number of clients served by INFUSE’s partner financial service providers, MR and TRM.

Table 2: Growth in outreach of financial services for institutions serving the bottom end of the market:

Indicator	Number of Microfinance Clients (as at)					Change in Client Numbers
	4Q08	4Q09	4Q10	4Q11	4Q12	4Q08 – 4Q12
Active Clients	14,112	14,030	14,734	19,627	19,401	5,289
Borrowers	14,112	14,030	14,581	17,036	16,864	2,752
Women Borrowers	13,095	12,799	13,444	15,857	15,000	1,905
Savers	13,476	13,915	14,734	16,326	15,287	1,811
Women Savers	13,470	13,915	14,734	16,326	14,582	1,112

The project document highlights a cross-cutting issue of gender and requires that 50% of the clients served by grantees should be women. As of December 2012, women comprised approximately 89% of borrowers and 95% of savers at the MFIs supported by INFUSE. In addition, both MR and TRM were operationally self-sufficient at end 2012. TRM has a PAR<sub>30</sub> ratio below 5% (3.7% as of December 2012) but MR has a PAR<sub>30</sub> ratio of 8.8%, above its performance target. This is partly due to ongoing difficulties with salary loans and SME loans which are currently being phased out (with a slight improvement over June where it peaked at 9.6%).

The stagnation of the number of active clients and borrowers is due to the halt of the growth decided at MR to tackle its delinquent portfolio compounded by internal management issues (which have also delayed the implementation of the MIS grant from INFUSE). TRM reduced its client growth in 2012 to 10% also because it had to refocus in the middle of the year on the quality of its loan portfolio.

The steep decline of savers is on the contrary fully attributable to the decision by TRM Board to comply with the ceiling to \$1 million on deposits imposed by the ODTI regulation in spite of a growing client demand. TRM decided even to reduce drastically the savings balance requirements at the time of loan application from 20% of the borrowed amount down to 10%.

### **OUTPUT 3: PROMOTING A BUSINESS SERVICES INFRASTRUCTURE**

*Private and public business service providers offering high-quality and market-responsive services to the financial sector are available in Timor-Leste, and a professional microfinance association (AMFITIL) is effectively representing the industry in policy dialogues<sup>1</sup>.*

<sup>1</sup> UNCDF completed the original INFUSE program design in 2005 and revised the document after the 2006 civil unrest, which caused the cessation of many microfinance institutions. As a result, AMFITIL has been inactive since 2007 and currently the few remaining members (4) have resisted any encouragement to re-activate the association at this time. In May, 2011, it was proposed that since these indicators have become obsolete, they should be replaced with targets which reflect activities focused on strengthening sector support services.

## **The following key activities implemented in support of Output 3 from January-December 2012:**

### Financial education

- Identification of all providers of financial education training in Timor.

### Mobile branchless banking innovations

- INFUSE supported a consultancy funded by the ADB to develop a business case and model for the development of a third party payments and cash management provider in Timor-Leste.
- To build on the ADB's work and propose business models, INFUSE supported PFIP staff to conduct market research to inform and accelerate mobile money /branchless banking deployments. The final report and data tables of this market survey were delivered in June 2012.
- Using the results of the above market survey the ADB consultant shared interim results in August 2012. He indicated that the volume of domestic transfers would not allow a third party payments provider to be profitable per se, unless this channel be used for social transfers – which is not at this stage demanded by welfare recipients.
- INFUSE has been approached by a local commercial bank to support the piloting of a mobile-payment system: detailed business plans and technical inputs are needed for INFUSE to evaluate if and how it can support this experiment.

## **ADDITIONAL ACTIVITIES**

### Field survey

- INFUSE carried out a field survey in May to assess the level of satisfaction of the consumers with the services currently provided by its MFI partners, the current shortcomings of the service provision and to gather ideas of improvement that may guide INFUSE's future developments. The results have been collected and analyzed over July and August.
- MFIs' clients expressed generally a high satisfaction with the services provided to them and acknowledged a positive outcome for their household. The major area of concern is that the lending from MFIs is overwhelmingly geared toward financing small retail stores (designated as "kiosks") as the too rigid credit terms hinder the development of value-added activities or new types of activities.
- The survey emphasized the need for financial education exemplified by the inability of the vast majority of respondents to cite their loan terms, and apparently lending not commensurate with their financing needs.

### Financing value chains

- Taking stock of that survey INFUSE is seeking to diversify income-generation lending and is scouting developing value chains in Timor-Leste to check if MFIs could piggy-back onto such developments, particularly TRM which has launched an agricultural loan with little uptake so far.



## QUALITATIVE ASSESSMENT OF THE RESULTS

The most notable progress over 2012 has been towards the sustainable provision of financial services with positive outcomes for the partner MFI's clients:

- The operating processes and the governance of the partner MFIs have been gradually improved: they are no longer dependent on subsidized funding which is an important factor of sustainability. External investment from institutions with expertise in financial services is now being facilitated that should result in more resilient partner MFIs;  
This is illustrated by a coordinated transfer of the technical assistance to these two partner MFIs from INFUSE to the IFC over 2012 and 2013.  
The IFC aims to get them to the grade "investment-ready".
- Micro-insurance covering borrowers is being generalized with risk in better control now that insurance policies are underwritten by a professional licensed insurer; coverage of the product has been increased to face the major shocks to a household's well-being (death of either breadwinner). INFUSE has now to push for an adequate information of the policy holders which is challenging since insurance products are more complex by essence than loan or savings products;
- INFUSE has uncovered that savings interests were too often not paid to the clients of one MFI: it is pressuring the MFI into resolving this issue;
- INFUSE has achieved the buy-in from its two partner MFIs for using the PPI tool on a wide scale: this tool will objectively measure how well the MFIs stick to their mission statement of reaching out to poor households. Actual implementation will take time as well as the quality of the data collected and of the analysis being made but it is a very meaningful first step.

INFUSE is optimistic to support BCTL in 2013 in developing a comprehensive strategy for the financial sector. It will also focus in 2013 on raising the financial capacities of the consumers through financial education championed by BCTL and on developing the banking/microfinance certificate following the validation of its framework of competencies by the national professional training accreditation institution in October 2011. The programme will also seek to expand micro-insurance beyond microfinance activities.

### 5. Challenges and Lessons Learned

- Challenges identified in 2011 annual report related to staffing have been mainly solved:
  - New programme manager in place since January 2012. Local staff turn-over reduced and recruitment of an administrative assistant following the promotion of the former one to the Programme Officer position.
  - A position of Knowledge Management and Research Officer was open under the Australian Volunteer for Int'l Development (AVID) program funded by AusAID in October 2012 but did not receive any appropriate application. An application for a UN Fellow provided through UNDESA Rome did not succeed either.
- The programme relocated within the UN compound, thereby solving power and telecoms issues as well as difficulties in procurement through direct liaison with the UNDP Procurement Unit.

- Relationships with GoTL partner agencies were constrained by external factors, some that could have been mitigated:
  - As an outcome of the legislative elections, the Ministry of Economy and Development (MoED) that initiated the INFUSE programme and was chairing the MCIF was dissolved. The INFUSE programme has been assigned under the purview of the Ministry of Commerce, Industry and Environment in November 2012 but the new ministry has yet to taken up its leadership and guidance role.
  - Relationships with BCTL were temporarily strained due to the termination by UNCDF of the contract of an int'l legal advisor that wasn't meeting the professional standards expected from UNCDF, although her inputs were appreciated by the host organization.

The dual management of following on-site technical assistances by INFUSE and the host organization will be institutionalized, reporting lines and coordination mechanisms clearly delineated.

## 6. Indicator Based Performance Assessment

**NOTE: based on the final mid-term evaluation, revisions to some INFUSE programme indicators, targets and activities were suggested at the May MCIF meeting. The indicators presented below are the revised ones approved at the September 2011 meeting.**

Expected Outcome	Vulnerable groups will have improved access to sustainable financial services.				
	Performance Indicators	Planned Indicator Targets	Achieved Indicator Targets	Progress to date	Reasons for Variance (if any)
<b>Output 1</b> <b>A coherent GoTL policy framework for Inclusive Finance</b> A national policy statement for inclusive finance is developed, consulted and adopted by GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided.	Indicator 1	A Policy Statement on goals, strategies and priorities for Financial sub-sector development is adopted by GoTL (Y1)	<ul style="list-style-type: none"> <li>- Partial: Central Bank committed publicly to formulate a sector-wide strategy in October 2012</li> <li>- Enabling regulation for microfinance activities, developed with support from technical consultant procured by INFUSE, was approved in December 2010.</li> </ul>	<ul style="list-style-type: none"> <li>- INFUSE advocacy has focused on establishing participation of relevant government ministries and agencies, through collaboration with the MoED, the BPA and stakeholders in the GoTL, as follows.</li> <li>- The Ministry of Commerce (MCIE) chairs the the MCIF. The BCTL also participates as an observer in the MCIF</li> <li>- Provision of technical support to BPA for legal framework of MFIs, and membership/participation in the AFI</li> <li>- The BCTL committed publicly to develop a national vision centered on the concept of inclusive finance.</li> <li>- INFUSE provided a legal advisor to BCTL who started drafting this strategy.</li> </ul>	<ul style="list-style-type: none"> <li>- The GoTL National Strategic Development Plan (NSDP 2011-2030) and the action plan for the 2012-2017 legislature dwell little on building a conducive environment for the financial sector to expand access.</li> <li>- Dissolution of MoED has left a vacuum on policy formulation for the private &amp; financial sector as well as Rural Development, yet to be filled-in.</li> </ul>
	Indicator 1.2	A consolidated Financial Sub-sector Activity Plan for 2007-2012 is developed as part of the NDP 2007-12 (Y2)	Partial -Annual participation in National Priority Working Groups	- INFUSE participated in Annual National Priority Working Groups 2009, 2010, 2011	Same as above
	Indicator 1.3	Principles for Support to the Financial Sub-Sector have been adopted by key donors (Y2)	No	- Donors and stakeholders have been coordinated through INFUSE participation in national priority working groups, private sector development working group, INFUSE advisory group for inclusive finance, and bi-annual MCIF.	Multiple competing priorities of INFUSE

				- Some donors have participated in the CGAP Donors for inclusive finance training	
	Indicator 1.4	UNDAF aligned with policy (Y2)	Yes	- INFUSE targets incorporated in UNDAF. - Annual reporting on indicators takes place	n/a
	Indicator 1.5	Current and future investments in the sub-sector are reviewed for compliance with national policy framework (Y3-5)	No	- Donors are coordinated resulting in contributions to INFUSE of app. US\$3 million mobilized for INFUSE programme, US\$1million mobilized from MicroLead for one MFI. - Both MFIs accessed successfully commercial refinancing but have now to attract foreign equity investment.	No national policy statement for inclusive finance developed as yet
<p><b>Output 2</b></p> <p><b>Increased Outreach of financial services by sustainable FSPs</b></p> <p>Good practice-based Financial Services Providers (FSPs) serving primarily the poor and low-income market make progress towards sustainability and increase their outreach, while maintaining a high portfolio quality</p>	<p>Indicator 2.1</p> <p>Baseline as at Dec 2008 is 35,369</p>	<p>Increase in the number of active clients (at least 50% women) of selected Financial Service Providers (excluding commercial banks) from baseline established as at end of 2008 by 20% percent p.a. (compounded), totaling 73,341 active clients by project end.</p> <p><b>Targets to be tracked:</b></p> <p>a) <b>All providers of MF services</b></p> <p>b) <b>INFUSE supported providers of MF services</b></p> <p>c) <b>Increase in access to new products and services</b></p>	<p>ial</p>	<p>- 38,580 clients of FSPs involved in provision of microfinance services (3 MFIs and credit unions) as of Dec 2008 increased to 147,000 as of December 2012, representing 30% p.a. growth (compounded). Of this total, 19,500 are clients of INFUSE-supported MFIs.</p> <p>- The growth of borrowers has been lagging behind, from 22,700 as of Dec 2008 to 47,000 as of Dec 2012, representing 15% p.a. growth (compounded), below the target of 20% p.a. growth.</p>	<p>Note: when setting targets, all MF service providers were included in baseline and projections on the assumption that INFUSE may provide direct support, and would also provide general sector support that would affect their performance.</p> <p>No results to INFUSE's attempts to support CUs with sustainable approach. Support to IMfTL has not been desired as they receive significant support from ADB and the GoTL.</p> <p>Outreach has reduced over 2012 at MR due to the quality of its loan portfolio compounded by management issues. TRM had to slow its growth plans to also control the quality of its portfolio.</p>
	Indicator 2.2	Introduction of pro-poor financial products by commercial bank and/or mobile network operators (MNOs), resulting in an additional	No	- INFUSE lent in-country support to ADB/Bankable Frontiers Associate's assessment for potential of branchless banking in July 2010.	Though commercial banks and the single telecommunications service provider (monopoly through 2017) have not yet engaged in developing new products and/or going down-market, efforts to partner will continue.

		40,000 clients obtaining access to a secure savings account.			
	Indicator 2.3	<b>INFUSE-supported</b> MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) >= 100%) by project end	2 MFIs are profitable	Operating Self-Sufficiency (OSS) - TRM OSS 117.5% over 2012 - MR OSS 115% over 2012 - MR and TRM access now mostly commercial refinancing, very little concessional	FSS indicator cannot be computed objectively due to a lack of benchmark commercial lending rate and the difficulty to separate operating and non-operating grants at the 2 MFIs.
	Indicator 2.4	<b>INFUSE-supported</b> financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%.	at of 2 MFIs has PAR below 5%	- TRM PAR from Dec 2008 to Dec 2012 decreased 9.2% to 3.7% - Moris Rasik PAR again at 8.8% as of Dec 2012 like in Dec 2008.	Hazardous foray of MR into salary loan (salaries not domiciliated at MR): MR has discontinued this product but still suffers heavy loss on the product's loan portfolio
	Indicator 2.5	Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009	1 Branch offices from Dec 2008 to Dec 2010 increased from 17 to 21 and INFUSE supported MFIs are operating in all 13 districts	- INFUSE will update the data for access points of all FSPs in 2013 to compare to baseline established at 31 Dec 2009.	n/a
<b>Output 3</b> <b>Enhanced business service infrastructures for the financial sector</b>  Private and public business service providers offering high-quality and market-responsive services to the financial sector are available in Timor-Leste, and a professional microfinance association (AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for	Indicator 3.1	Competency framework and corresponding learning guides available for use by local training service providers to be able to deliver technical training for microfinance and banking to the financial sector		- INFUSE to collaborate with National Labor Development Institute on MF and banking certificate qualifications.	
	Indicator 3.2	Financial education is promoted through research, social marketing tools and/or activities of local service providers		- INFUSE consultant conducted financial education scoping assessment in August 2010, as first step to developing a wider programme.	
	Indicator 3.3	Private sector entity makes Microinsurance products available for sale to MFI clients		- As of Dec 2012 14,150 lives are covered through the credit life insurance underwritten by insurer NTIL and distributed by MR and TRM	

members and the public.	Indicator 3.4	Credit registry available to FSPs in the market and exploring potential for m-banking (cell phone transactions)	<b>dit Bureau was established in 2009</b>	- TRM and MR can and must participate to credit bureau once they are licensed as ODTI.	Credit registry is managed by the BPA, and as of yet the MFIs do not participate, but INFUSE should support ODTIs to do so.
-------------------------	---------------	---	---	--	---

## **PART II: ANNUAL FINANCIAL REPORT**

## 2012 ANNUAL FINANCIAL REPORT

This chapter presents financial data<sup>2</sup> and analysis of the Joint Programme funds using the pass-through funding modality as of 31 December 2012. Financial information is also available on the MPTF Office GATEWAY, at the following address: <http://mptf.undp.org/factsheet/fund/JTP10>.

### 1. Sources and Uses of Funds

As of 31 December 2012 contributors (the Government of Timor-Leste and the Australian Agency for International Development) have deposited US\$ 3,231,150 and US\$ 15,220 has been earned in interest, bringing the cumulative source of funds to US\$ 3,252,222. Of this amount, US\$ 3,198,838 has been transferred to two Participating Organizations of which US\$ 1,870,415 has been reported as expenditure. The Administrative Agent fee has been charged at the approved rate of 1% on deposits and amounts to US\$ 24,483. Table 1.1 provides an overview of the overall sources, uses, and balance of the Joint Programme funds as of 31 December 2012.

**Table 1.1. Financial Overview (in US Dollars)**

	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
<b>Sources of Funds</b>			
Gross Contributions	3,031,150	200,000	3,231,150
Fund Earned Interest and Investment Income	13,821	1,399	15,220
Interest Income received from Participating Organizations	1,414	4,438	5,852
Refunds by Administrative Agent to Contributors	-	-	-
Other Revenues	-	-	-
<b>Total: Sources of Funds</b>	<b>3,046,385</b>	<b>205,837</b>	<b>3,252,222</b>
<b>Uses of Funds</b>			
Transfer to Participating Organizations	2,274,599	924,239	3,198,838
Refunds received from Participating Organizations	-	-	-
<b>Net Funded Amount to Participating Organizations</b>	<b>2,274,599</b>	<b>924,239</b>	<b>3,198,838</b>
Administrative Agent Fees	30,312	2,000	32,312
Direct Costs (Steering Committee, Secretariat...)	-	-	-
Bank Charges	88	13	101
Other Expenditures	-	-	-
<b>Total: Uses of Funds</b>	<b>2,304,998</b>	<b>926,252</b>	<b>3,231,251</b>
<b>Balance of Funds Available with Administrative Agent</b>	<b>741,387</b>	<b>(720,415)</b>	<b>20,971</b>
Net Funded Amount to Participating Organizations	2,274,599	924,239	3,198,838
Participating Organizations' Expenditure	1,789,165	81,250	1,870,415
<b>Balance of Funds with Participating Organizations</b>	<b>485,434</b>	<b>842,989</b>	<b>1,328,423</b>

<sup>2</sup> Due to rounding, total in the tables may not add up.



Interest income is earned in two ways: 1) on the balance of funds held by the Administrative Agent ('Fund earned interest'), and 2) on the balance of funds held by the Participating Organizations ('Agency earned interest') where their Financial Regulations and Rules do not prohibit the return of interest. As of 31 December 2012, Fund earned interest amounts to US\$ 15,221 and interest received from UNDP amounts to US\$ 5,852, bringing the cumulative interest received to US\$ 21,072. Details are shown in the table below.

**Table 1.2. Sources of Interest and Investment Income (in US dollars)**

	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
<b>Administrative Agent</b>			
Fund Earned Interest and Investment Income	13,821	1,399	15,221
<b>Total: Fund Earned Interest and Investment Income</b>	<b>13,821</b>	<b>1,399</b>	<b>15,221</b>
<b>Participating Organization (PO) Earned Interest Income</b>			
UNCDF	-	-	-
UNDP	1,414	4,438	5,852
<b>Total: Interest Income received from PO</b>	<b>1,414</b>	<b>4,438</b>	<b>5,852</b>
<b>Total</b>	<b>15,235</b>	<b>5,837</b>	<b>21,072</b>

## 2. Contributions

Table 2 provides information on cumulative contributions received by contributor as at 31 December 2012.

**Table 2. Contributions (in US dollars)**

Contributor	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL
Australian Agency for International Development (AusAID)	2,331,150	-	2,331,150
Government of Timor Leste	700,000	200,000	900,000
<b>Total</b>	<b>3,031,150</b>	<b>200,000</b>	<b>3,231,150</b>

## 3. Transfer of Funds

Allocations to the JP Participating Organizations are approved by the Steering Committee and disbursed by the Administrative Agent (AA). The AA has transferred US\$ 3,198,838 to two Participating Organizations (UNCDF and UNDP) as of 31 December 2012. Table 3 provides information on the cumulative amount transferred to each Participating Organization.

**Table 3. Transfers by Participating Organization (in US dollars)**

Participating Organization	Prior Years as of 31 Dec 2011	Current Year Jan-Dec 2012	TOTAL
	Transferred Amount	Transferred Amount	Transferred Amount
UNCDF	1,910,832	757,204	2,668,036
UNDP	363,767	167,035	530,802
<b>Total</b>	<b>2,274,599</b>	<b>924,239</b>	<b>3,198,838</b>

#### 4. Overall Expenditure and Financial Delivery Rates

All expenditures reported for the year 2012 were submitted by the Headquarters' of the Participating Organizations via the MPTF Office Reporting Portal. These were consolidated by the MPTF Office.

##### 4.1 Expenditure Reported by Participating Organization

As shown in table 4.1, cumulative transfers amount to US\$ 3,198,838 and cumulative expenditures reported by the Participating Organizations amount to US\$ 1,870,415. This equates to an expenditure delivery rate of 58%. UNCDF has the highest delivery rate with a reported expenditure amount of US\$ 1,665,813 (62% delivery) followed by UNDP with US\$ 204,602 (39% delivery).

**Table 4.1. Cumulative Expenditure of Participating Organizations and Financial Delivery Rate (in US dollars)**

Participating Organization	Transferred Amount	Total Expenditure	Delivery Rate Percentage
UNCDF	2,668,036	1,665,813	62.44
UNDP	530,802	204,602	38.55
<b>Total</b>	<b>3,198,838</b>	<b>1,870,415</b>	<b>58.47</b>

##### 4.2. Total Expenditure Reported by Category

Project expenditures are incurred and monitored by each Participating Organization and are reported as per the agreed upon categories for harmonized inter-agency reporting. In 2006 the UN Development Group (UNDG) set six categories against which UN entities must report project expenditures. Effective 1 January 2012, the UN Chief Executive Board modified these categories as a result of IPSAS adoption to comprise eight categories. The old and new categories are noted below.

2012 CEB Expense Categories

1. Staff and personnel costs
2. Supplies, commodities and materials
3. Equipment, vehicles, furniture and depreciation
4. Contractual services
5. Travel
6. Transfers and grants
7. General operating expenses
8. Indirect costs

2006 UNDG Expense Categories

1. Supplies
2. Personnel
3. Training
4. Contracts
5. Other direct costs
  
6. Indirect costs

Table 4.2 reflects expenditure as of 31 December 2012. All expenditures reported up to 31 December 2011 are presented in the previous six categories, and all expenditures reported from 1 January 2012 are presented in the new eight categories. In 2012 the expenditure was reported in negative in order to correct the over expenditure of previous years.

In 2012, the highest expenditure was reported on Staff and personnel costs with an amount of US\$ 242,854. Indirect support costs exceed the 7% range due to the fact that some agencies charge indirect support costs up-front.

**Table 4.2. Total Expenditure by Category (in US dollars)**

Category	Expenditure			Percentage of Total Programme Cost
	Prior Years as of 31-Dec-11	Current Year Jan-Dec 2012	TOTAL	
Supplies, Commodities, Equipment and Transport (Old)	150	-	150	0.01
Personnel (Old)	104,037	-	104,037	6.11
Training of Counterparts (Old)	1,403	-	1,403	0.08
Contracts (Old)	189	-	189	0.01
Other direct costs (Old)	1,560,752	-	1,560,752	91.68
Staff & Personnel Cost (New)	-	242,854	242,854	14.27
Suppl, Comm, Materials (New)	-	42,460	42,460	2.49
Equip, Veh, Furn, Depn (New)	-	(297,717)	(297,717)	-17.49
Contractual Services (New)	-	-	-	-
Travel (New)	-	16,887	16,887	0.99
Transfers and Grants (New)	-	-	-	-
General Operating (New)	-	31,334	31,334	1.84
<b>Programme Costs Total</b>	<b>1,666,532</b>	<b>35,818</b>	<b>1,702,350</b>	<b>100.00</b>
Indirect Support Costs Total	122,634	45,432	168,065	9.87
<b>Total</b>	<b>1,789,165</b>	<b>81,250</b>	<b>1,870,415</b>	

## **5. Transparency and accountability**

The MPTF Office continued to provide information on its GATEWAY (<http://mptf.undp.org>) a knowledge platform providing real-time data, with a maximum two-hour refresh, on financial information from the MPTF Office accounting system on contributions, programme budgets and transfers to Participating Organizations. All narrative reports are published on the MPTF Office GATEWAY which provides easy access to nearly 9,600 relevant reports and documents, with tools and tables displaying financial and programme data. By providing easy access to the growing number of progress reports and related documents uploaded by users in the field, it facilitates knowledge sharing and management among UN Organizations. It is designed to provide transparent, accountable fund-management services to the UN system to enhance its coherence, effectiveness and efficiency. The MPTF Office GATEWAY has been recognized as a ‘standard setter’ by peers and partners.