

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
BASIX	Bhartiya Samruddhi Investments and Consulting Services Ltd.
BCTL	Banco Central de Timor-Leste, <i>formerly Banking and Payments Authority</i>
BNCTL	National Commercial Bank of Timor-Leste, <i>formerly IMfTL</i>
CTA	Chief Technical Adviser
CUFA	Credit Union Foundation of Australia
DFAT	Australian Department of Foreign Affairs and Trade, <i>recently absorbed AusAid</i>
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
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
SGsTWG	Savings Groups Technical Working Group
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

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.

PART I: FINAL NARRATIVE PROGRESS REPORT OF THE INCLUSIVE FINANCE for the UNDER-SERVED ECONOMY [INFUSE] PROGRAMME

I. Executive Summary

This Final Narrative Progress Report under the Joint Programme Inclusive Finance for the Under-served Economy (INFUSE) covers the period from 1 January 2008 to 31 December 2014. This report is in fulfilment of the reporting requirements set out in the Standard Administrative Arrangement (SAA) concluded with the Donors. In line with the Memorandum of Understanding (MOU) signed by Participating UN Organizations, the Annual Progress 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.

Main achievements over the life of the programme:

- **Branchless banking:** provided technical assistance to commercial bank BNU to plan and launch the **first digital financial services pilot in Timor-Leste**, linking a commercial bank and a mobile network operator (MNO). Procured the services of a renowned consulting company (MicroSave) in the field of branchless banking to help BNU develop its strategy in this field, with the aim to develop step by step payments and **cash-in /cash-out services for the low-income segments**, leveraging technology and agents. This is an important first step in bringing banking access to the unbanked segments of society.
- **Micro-insurance:** the **first micro-insurance product** which INFUSE helped develop, pilot and scale up. The service linked a local, regulated insurance company, National Insurance Timor-Leste (NITL) and two micro-finance institutions, Moris Rasik (MR) and Tubai Rai Metin (TRM). The project resulted in over 22,000 people gaining insurance coverage for the first time.
- **Microfinance services:** **supported two MFIs** through technical assistance (TA), grants, loans and a guarantee facility, allowing them to **build institutional capacity, expand geographic outreach, introduce new products and services, attract capital investment** and begin the transition from operating as unregulated NGOs to licensed financial institutions. Support of the MFIs was successfully handed over to International Finance Corporation (IFC) to help the MFIs finish transition to regulation prior to ending of INFUSE
- **Regulation and Supervision:** Supported the Central Bank of Timor-Leste (BCTL) to **join and participate in the Alliance for Financial Inclusion (AFI)** and its Pacific Island Working Group (PIWG) which allowed it to gain access to a peer learning group focused on financial inclusion, as well as global best practices. Also supported BCTL to **develop a licensing and supervision framework** for Other Deposit Taking Institutions (ODTIs) to **ensure safety of financial service providers (FSPs) serving low-income people in Timor-Leste**. Support included development of on- and offsite assessment tools and training of BCTL staff in use of same.
- **Coordination and knowledge generation and dissemination:** Conducted and assisted with generation of research, knowledge products and **knowledge sharing on financial inclusion and digital financial services**. Most significantly, contributed to the development of **Financial Services Sector Assessment, assessment of savings groups and financial services mapping** exercises. Also **played key role in donor coordination around financial inclusion** over the life of the programme.

II. Purpose

The overall goal of the Inclusive Finance for the Underserved Economy (INFUSE) Programme was 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 utilized 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.

INFUSE was designed in 2005 and revised after the 2006 civil unrest in Timor-Leste. The country was chosen for its high level of poverty and the limited access to financial services of poor and low-income people. The overall goal, outcome and outputs of INFUSE are as follows:

Table 1: INFUSE - Goal, Outcomes and Outputs

Concept	Description
Overall Goal	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, by increasing sustainable access to financial services for the poor and low-income people, both women and men.
Expected Outcome	Vulnerable groups will have improved access to sustainable financial services.
UNDAF Outcome	UNDAF Outcome 2: By 2013, vulnerable groups experience significant improvement in sustainable livelihoods, poverty reduction & disaster risk management within an overarching crisis preventions and recovery context. The programme specifically falls into the UNDAF sub-outcome 2.1.5: MFIs are capacitated to increase outreach to the low income populations.
Output 1 (Macro level)	A coherent GoTL policy framework for inclusive finance: 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.
Output 2 (Micro level)	Increased Outreach of financial services by sustainable financial service providers (FSPs): Good practice-based FSPs serving primarily the poor and low-income market make progress towards sustainability and increase their outreach, while maintaining a high portfolio quality.
Output 3 (Meso level)	Enhanced business service infrastructures for the financial sector: 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 (Association of Microfinance Institutions in Timor Leste - AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for members and the public.

Source: INFUSE, Project Document and Mid-year Report January-June 2010

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 – 14) 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.

III. 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.

While the national policy/vision as envisioned at the start of INFUSE was never adopted by the GoTL, the BCTL created a [Master Plan for Financial Development](#) with particular attention to financial inclusion, and also in 2014 made country-specific commitments to the [Maya Declaration](#).¹

The following presents a summary of key activities were implemented in support of Output 1

2009:

- INFUSE sponsored one senior staff member of the Banking and Payments Authority (BPA), precursor to the BCTL, to attend the renowned Boulder Institute on Microfinance in Turin, Italy
- INFUSE actively participated in and supported the National Priority Working Group (NPWG2) for rural development and the Advisory Group for Inclusive Finance (AGIF)

2010:

- INFUSE established key partnerships with the MoED whose Minister chaired the MCIF
- INFUSE contracted experts in microfinance policy and regulations to provide technical assistance to the BPA for development of an enabling regulatory framework for microfinance. The result of this technical assistance was the BPA Governing Board Resolution No. 11/2010 approved Public Instruction No. 06/2010 *On the Licensing and Supervision of Other Deposit Taking Institutions (ODTIs)*. The implications are that the NGO-MFIs will be restricted from mediating savings deposits unless they obtain an ODTI license, increasing the safety of deposits of low-income people.
- INFUSE linked the BPA to the Alliance for Financial Inclusion (AFI), a global network of financial regulators from over 80 countries, which promotes knowledge-exchange and dialogue on key issues through participation in various working groups, with the goal of instilling best practices amongst policymakers. Subsequently, the BPA formally registered as a member of AFI. In 2010, INFUSE sponsored the following exposure visits and trainings for BPA staff:
 - Two senior staff members' participation in a knowledge exchange visit to the Philippines in June regarding the development of policy approaches for mobile phone financial services with the AFI Pacific Islands Working Group;
 - One senior staff member's attendance at the AFI Pacific Islands Working Group follow-up workshop to the exposure visit in Fiji in August; and
 - BPA General Manager's attendance at the AFI Global Policy Forum in Bali in September, which brought together financial sector policy makers to share experience and explore how to increase access to finance through innovative policy.

¹ **The Maya Declaration** is a statement of common principles regarding the development of [financial inclusion](#) policy made by a group of developing nation regulatory institutions during the [Alliance for Financial Inclusion's \(AFI\) 2011 Global Policy Forum](#) held in Mexico.

- INFUSE participated in the GoTL's 2010 National Priority Working Group (NPWG1) for Infrastructure and advocated for increased access to financial services to be incorporated as a target under this objective and reported on progress quarterly.

2011:

- INFUSE sponsored BPA participation in a Pacific Regional Training for Supervision of MFIs organized by AFI (as an initial step to more tailored training directly with the BPA).
- INFUSE completed the technical assistance to the then BPA in development of the supervision regime for ODTIs, funding a consultancy to develop a licensing and oversight manual for ODTIs as well as on-site and off-site monitoring techniques.

2012:

- INFUSE supported 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.
- 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 delivered an early draft of the National Financial Sector Development Plan and a policy document aimed for the Ministry of Finance.
- INFUSE sponsored BCTL to attend a 3-day workshop on insurance regulation organized by the Pacific Financial Inclusion Programme (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 AFI.
- 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.)

2013:

- INFUSE provided substantive inputs on financial inclusion strategies in the Draft 10-year Financial Sector Development Master Plan being prepared by BCTL.
- INFUSE sponsored four staff member of the BCTL to attend a 4-day workshop on insurance regulation organized by the PIWG in partnership with PFIP, ADB and AFI). Timor-Leste was one of the three countries where a case study was developed on insurers' supervision processes, on-site inspection and micro-insurance. The adopted action plan by the national insurance regulators focuses on Inclusive Insurance and moving towards risk-based supervision.
- INFUSE sponsored one manager from the National Directorate of Cooperatives from MCIE to attend the renowned, 3-week Boulder Institute training on microfinance in Turin, Italy.
- INFUSE organized a Financial Inclusion Donor Group for Timor-Leste (FIDGTL), which produced a joint gap analysis of the financial sector in Timor-Leste. Members of the group comprise: ADB, IFC, DFAT, NZ Aid, European Union, International Labor Organization (ILO), International Monetary Fund (IMF), US Aid, Portuguese Cooperation, French Cooperation, US Embassy.

2014

- INFUSE provided feedback on the BCTL draft Payments System Law to be enacted in 2015 as well as draft laws on agency banking.

- INFUSE completed the map of financial services access points. This information enables comparison with the 2009 baseline to determine changes in financial access at suco level. All ‘providers’ of financial services are encompassed in this survey: commercial banks, MFIs, financial cooperatives, savings groups.
- INFUSE produced the Financial Services Sector Assessment (FSSA) to outline the financial services sector in Timor-Leste at a Macro, Meso and Micro level.
- Policy makers and financial service providers were advised to be cognizant of the issues related to marginalised sections of the society especially women in the design and delivery of financial services initiatives.

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.

INFUSE significantly supported the development of two MFIs to strengthen their capacity and put them on a path to sustainability, good governance and solid performance and operations based on best practices. The programme funded the international-level institutional ratings of both MFIs and supported long-term technical advisory services to the institutions². In addition, INFUSE supported another MFI and a Credit Union association.

Further, INFUSE supported regulated, commercial institutions (an insurance company and a commercial bank) to introduce products and channels to reach excluded and unbanked people in Timor-Leste.

The following key activities were implemented in support of Output 2

2009

- In 2009 proposals for grants for training and technical assistance and loans for capital from financial service providers and technical service providers were submitted by the Secretariat and approved the MCIF.
- Moris Rasik:
 - a loan of US\$ \$230,000 for loan capital and US\$20,000 in grants for training/exposure visits.
- Tuba Rai Metin:
 - a loan of US\$ \$150,000 for loan capital and US\$51,200 in grants for technical assistance and training.
 - An additional 220,000 grants for technical assistance and training
 - INFUSE also facilitated co-funding of the Basix’s proposal to the new UNCDF MicroLead program resulting in a partnership between Basix, a leading MFI in India and Tuba Rai Metin, the local MFI. MicroLead awarded Basix with funding of US\$950,000, to provide a comprehensive package of training and technical assistance over the next 4.5 years
 - Institutional assessment of Tuba Rai Metin by rating agency, MCRIL
 - Sponsorship of two staff from Tuba Rai Metin to attend training at the AMiDA Institute of Micro-finance Training in Bali, Indonesia
- IMfTL:
 - Sponsorship of one senior staff from IMfTL to participate in the renowned Boulder Institute on Micro-finance in Turin, Italy

² The ratings of the PIFIs were undertaken by an independent rating agency, MCRIL. MCRIL evaluates an MFI’s performance and risk and assigns a grade or rating according to the assessment. At the broadest level, MCRIL examines the following categories: Governance & Strategic Positioning, Organisation & Management, and Financial Performance. This enables the MFI to better understand its strengths and weaknesses and also provides key information regarding an MFI’s credit worthiness/investment grade level to a potential, external investor.

- CUFA: INFUSE provided a small grant of \$5,000 to Credit Union Foundation Australia (CUFA) to initiate and lead a strategic planning process with all relevant stakeholders involved in supporting the credit unions (CUs).

2010

- MR:
 - A tripartite Performance Based Agreement (PBA) was signed in May for a two year grant of USD\$585,000 for institutional capacity building of MR, implemented with World Education Australia Ltd (WEAL). The proposal totaled US\$894,000, including US\$585,000 to be funded by INFUSE
 - INFUSE also facilitated the development of a partnership between MR with Monaco Asia Society (MAS) and the Monaco International Cooperation. In May, MAS and Monaco pledged their commitment to guarantee financing for loan capital from Credit Agricole with a \$500,000 line
- INFUSE provided support and funding to both MR and TRM to assess, identify, purchase and install an appropriate off-the-shelf MIS package that will formalize the institution's financial and portfolio systems and reporting.
- INFUSE funded Mercy Corps (MC) US\$ 165,205 grant funding for development and implementation of an internationally recognized poverty assessment tool for Timor-Leste

2011

- TRM:
 - INFUSE provided a US\$ 300,000 loan guarantee for TRM at ANZ bank to help establish a relationship between TRM and ANZ, resulting in an opportunity for TRM to secure future re-financing. This arrangement was successful, as TRM later accessed loans from ANZ.
- MR:
 - INFUSE made a grant of US\$ 84,000 for short-term transformation support to help MR meet the deadline issued by the BPA for application for an OTDI license. MR required the urgent legal and transformation support necessary to comply with the deadline.

2012

- 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.
- TRM and MR reimbursed the last installment of their respective loans to UNCDF as per the repayment schedule.
- The poverty assessment tool, the PPI, for Timor-Leste was finalized and is publicly available on the Grameen Foundation website.

2013

- An evaluation of the Savings Groups set up by the UNDP COMPASIS Programme was undertaken in November by an international expert to research their capacity to fulfill effectively basic financial needs of rural communities and their interest in linking with formal financial institutions.
- INFUSE set up a technical working on Savings Groups with other practitioners in Timor-Leste to exchange best practices, develop common reporting and sensitize government to the merits of the SG approach.
- TRM: a grant of \$40,000 for 'technical assistance to equity investment' was made to assist TRM to attract investment necessary to gain ODTI status and to facilitate IFC support to TRM.

2014

- INFUSE provided technical assistance to BNU to design and implement a branchless banking or mobile money pilot based on global good practices and local relevance. The pilot was successfully launched, with BNU introducing the first digital financial services product channel in Timor-Leste. A press release on the launch may be found [here](#).
- An evaluation of the Credit Life insurance product was provided by INFUSE, which contracted the services of Denis Garand & Associates. The assessment was quite positive on the pilot, the product offered, and the potential for further products in country. The evaluation concluded that there is scope for new products and there is client interest in new products, such as; an education savings product with insurance. Further, MR and TRM clients stated they would like this product, which can be directed to clients with active loans and those with savings. The INFUSE programme had less budget than expected and thus, further work on developing the products in micro-insurance could not be executed.
- INFUSE continued to monitor the five-year grant agreement from the MicroLead Programme (UNCDF Global Thematic) to TRM. TRM had two tranches outstanding, #6 for US\$36,000 and #7 for US\$30,202. The grant agreement expired at the end of 2013 without several of the disbursement conditions being met, namely:
 - The grant agreement expired without the proper documentation of the final two deliverables being submitted. The grant had already been extended to give BASICS more time to achieve previously agreed upon milestones from 2012.
 - TRM failed to meet the client growth targets
 - BASICS failed to provide evidence that all the training materials for supervisors, field officers and board members were completed and left with the institution. Further, it did not maintain appropriate records as per the agreement to log the number of staff trained and the frequency.
- Moris Rasik: the grant agreement under which INFUSE provides US\$ 60,000 for the roll-out of the MIS to all branches was signed in March 2013. The grant covered 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 the MIS. MR achieved one target on the grant when it rolled the IT system successfully to three branches. As a result, it received one tranche of \$30,000 per the grant agreement. However, it subsequently decided to go to a cloud-based IT system, and abandoned the one INFUSE agreed to pay for. As a result, the remaining \$30,000 was canceled and the agreement terminated.

Outreach

Table 2 below, presents the growth in total number of clients served by INFUSE's partner financial service providers, MR and TRM through 2013. (Only TRM has published numbers for 2014, so this is the latest available indicators.)

Table 2: Growth in outreach of financial services for MR and TRM

Indicator	Number of Microfinance Clients (as at)						Change in Client Numbers
	4Q08	4Q09	4Q10	4Q11	4Q12	4Q13	4Q08 – 13
Active Clients	14,112	14,030	14,734	19,627	19,401	16,601	2,489
Borrowers	14,112	14,030	14,581	17,036	16,864	14,048	-747
Women Borrowers	13,095	12,799	13,444	15,857	15,000	13,733	638
Savers	13,476	13,915	14,734	16,326	15,287	15,918	2,442
Women Savers	13,470	13,915	14,734	16,326	14,582	15,537	2,067
Assets	4,456,803					11,522,941	7,066,138
Outstanding Loan Portfolio	3,311,599					8,015,193	4,703,594
Deposits	1,336,190					3,586,157	2,249,967
PAR30 (%)	9.1%					3.7%	-6.2%

The project document requires that 50% of the clients served by grantees be women. As of December 2014, women comprised approximately 98% of borrowers and 98% of savers at the 2 MFIs supported by INFUSE. In addition, both MR and TRM were operationally self-sufficient for 2014. Both institutions met their performance targets with a portfolio at risk below 5%: TRM has a PAR₃₀ ratio of 2.88% while MR maintained a ratio of 4.44%. Note, while client growth has not increased over the period significantly, the outstanding loans and deposits have grown dramatically, as have institutional assets.

Both institutions are continuing to implement institutional structural changes needed to comply with Other Deposit Taking Institution licensing requirements, which have hampered their ability to grow in client numbers.

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 dialogues³.

The following key activities were implemented in support of Output 3

- MF/ Banking Certificate for Human Resource Development: With the objective to develop skilled human resources for the financial sector, in 2010 INFUSE entered into a partnership with the National Labor Force Development Institute (INDMO) and procured technical assistance to support them to develop a standard competencies framework for a MF/Banking Certificate. While much work was done on this, including:
 - The framework of competencies, as well as individual units based on the report's recommendations, were finalized

³ UNCDF completed the original INFUSE programme 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. These may be found in the matrix, below.

- The framework and outlines for individual units were translated into Tetun.
 - The INDMO Sub-Commission for Administration and Finance approved of the results in 2011
- A feasibility study conducted in 201X revealed that there was not a business case for implementation, so the project was discontinued.
- INFUSE supported scoping of financial education initiatives in 2010, 2011 and 2013, but feasible opportunities were not found for further support.

2014

Informal Savings Groups: A training of trainers workshop on field balancing, international context, cash planning for individual members and cash security

- A Savings Groups Advisory, Brett Matthews was procured to support INFUSE activities.
- Field assessment of SGs involving interviews and spot-checks with 29 groups across 6 districts, with a heavy weighting on Oecusse, where most groups are located.
- Two workshops were successfully organized to share the findings of his field assessment and to build consensus around priority actions. The first workshop on 2 Sep was for senior management and practitioners from the major international and local NGOs. The workshop agreed that a set of core principles and capacity building were their priority. The second workshop on 3 Sep was to share the priorities of the first workshop with development partners and government ministries and to inform them of the potential role that SGs can play in supporting their ongoing work.
- The priorities were endorsed by the SGsTWG at their 26 Sep meeting.
- Based on these priorities the following outputs were accomplished:
 - A set of core principles and methods for SGs
 - A code of conduct for SG practitioners
 - A training of trainers workshop (15-19 Nov) on field balancing, international context, cash planning for individual members, and cash security was held in Oecusse (with representation from 12 NGOs)
 - A training of trainers workshop (17-19 Nov) on action auditing was held in Oecusse (with 6 trainers)
 - A draft training manual covering the topics of the two workshops (to be translated into Tetum and finalized before end of Dec)

Mobile branchless banking innovations

- INFUSE engaged MicroSave to provide technical assistance to BNU for the design, planning, preparation and launch of the pilot service in Timor-Leste. The efforts of all these institutions enabled a successful and on time launch of the pilot on 3rd December, 2014 in Dili, the capital of Timor-Leste.
- Technical assistance provided by INFUSE covered design of the pilot; agent segmentation, selection and training; development of key front-end processes; and information communication and education (IEC) related support based on global good practices and local relevance.
- The scope of the pilot was agreed as four districts of Dili, Baucau, Ermera and Lautem, with involvement of BNU branches and 15 functional agents to support the services. The service was eventually branded as BNU Mobile for the pilot phase. Timor Telecom has agreed to partner with BNU and power the BNU Mobile wallet. Apart from providing USSD channel and network infrastructure to BNU, Timor Telecom is jointly involved in co-branding, marketing and communication of BNU Mobile services. Timor Telecom is also co-promoting the service by offering bonus talk-time (pulsa) on registration and usage of BNU Mobile. Timor Telecom stores will be additional outlets for BNU Mobile.
- The service marks the first mobile money service in the country and lays the foundation for a new digital payments infrastructure that can be expanded and built upon.

Promotion of industry dialogue around SGs

- INFUSE fulfilled the role of secretariat for the SGs Technical Working Group (SGsTWG) and the group agreed unanimously to continue the SGsTWG after INFUSE wraps up in December, and set their next meeting for 16 Jan 2015 to be convened by Oxfam. They also unanimously ratified the 6 core principles for the safe and effective operation of SGs in Timor-Leste.
- Development partners and government ministries, including BCTL, have been informed of the potential role of SGs in furthering financial inclusion as well as contributing to equitable development – especially of resource-poor rural women.
- INFUSE has been in dialogue and engagement with the central bank of Timor-Leste (BCTL) and BNU for provision of branchless banking /mobile money services in Timor-Leste to enable better access and outreach of financial services to the unbanked and under-banked. The central bank gave an approval to BNU in September 2014 to pilot the first ever mobile wallet in the country.

CHALLENGES AND LESSONS LEARNT

From the 2011 Mid Term Evaluation conducted by UNCDF, the following observations were made from the first 4 years of the programme:

Management

1. **Management/Staffing Challenges: It is important to proactively plan for potential and upcoming staffing changes by putting a human resources plan in place** and consider augmenting or changing current PIU staff to include an experienced individual with advocacy and policy development skills.
2. **Attribution.** When INFUSE was designed, it was thought that it would support more MFIs, including the largest (IMfTL, later BNCTL). However, INFUSE did not significantly support them or credit unions, therefore not appropriate to count their clients as results achieved by INFUSE.
3. **Provide support on UN system policies and procedures for incoming programme managers to increase efficiency and effectiveness.** Appoint a capable mentor/point person and create basic “toolkit” for staff to minimize size of procurement and budgeting learning curves.
4. **Minimize changes to reporting structure.** Multiple changes in reporting lines within both the UNDP and UNCDF created excessive disruptions. To the extent possible, minimize such changes and ensure new arrangements work effectively.
5. **Improve Annual Work Plan documents.** The annual work plans for 2008, 2009 and 2010 all had different formats and varying levels of detail. To maximize monitoring and evaluation value, work plans should be more detailed and consistent with specific activities listed together with timelines. **These were standardized for remaining years.**
6. **Modify interest rate on loans to PIFIs.** The interest rate of 2% charged PIFIs is far below either national commercial rates or that of risk-averse, international microfinance investors. INFUSE stopped lending at concessional rates.

Programme Strategy

7. **Decide if full IF policy vision including a range of Ministries is a relevant objective and if so augment/change current staffing to maximize Output 1 results.** Bolster the strength of existing PIU with stronger relationship building and advocacy skills.
8. **Develop exit strategy.** As the only significant IF programme in the country, INFUSE needs to develop an exit strategy to ensure that sector leadership roles are passed on to appropriate and sustainable institutions. (This was done.)

Further lessons 2012-2014

- Liberalization of the telecommunications sector were not realized until the final years of INFUSE, which limited the ability to move DFS forward. However, in its final month, DFS were successfully launched with INFUSE support.
- Relationships with GoTL partner agencies remain difficult to operationalize:
 - 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 was assigned to the Ministry of Commerce, Industry and Environment in November 2012 but areas of concrete collaboration were difficult to develop due to poor fit of INFUSE's mandate with the MCIE's priorities.
 - INFUSE proposed to assist GoTL on inter-governmental cooperation related to financial services and the financial sector but did not find many opportunities to operationalize it beyond bringing MCIE, BCTL, MoF and SEAPRI to the MCIF meetings to share information around the INFUSE work plan.
- Due to the impending closure of the programme, key personnel were lost from the beginning to mid-2014 including the CTA and National Programme Officer. Towards the end of the programme, the Admin and Finance Officer also left.
- Due to the quick departure of the CTA in February, an interim programme manager was quickly sought to continue the CTA's duties.
- The absence of key personnel meant that resources were stretched, but lessons were learnt on how to compromise with UNDP to use staff for support where needed.

QUALITATIVE ASSESSMENT OF THE RESULTS

Programme Implementation

INFUSE was an UNCDF-led programme implemented jointly with UNDP. UNDP-Timor Leste, was established in country with support units (HR, procurement, etc.) that the INFUSE Programme Implementation Unit (PIU) accesses. UNCDF provided technical assistance and manages the programme. In order to harmonize funding and ensure effective co-ordination in programme implementation, both UNCDF and UNDP roles in the programme were outlined according to regulations defined by the 2003 UN Development Group Guidance Note on Joint Programmement with further clarification in the UNCDF-UNDP Guidance Note dated 2 November 2007. In the course of implementation of this programme, 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 agreed and understood that the administration of this programme 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 procurement of technical assistance. This flexibility allows the PIU to accept proposals, develop partnerships, and identify needs for targeted technical assistance. It engages the MCIF to evaluate and provide feedback on programme activities. The chair of the MCIF assigned by the 5th constitutional Government is the Ministry of Commerce, Industry and Environment (MCIE).

Monitoring and Evaluation

Monitoring was conducted at two levels: programme progress was 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, programme progress is reported against the annual work plan and baseline indicators. Implementation and management 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 its bi-annual meetings convened generally in May and in September.
- The INFUSE PIU monitored 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 reported 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 with its report 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.

2014-specific

Despite a challenging year in which all staff (by December) left the team, and during which the programme was not given \$100,000 in planned funding, INFUSE was able to deliver key results to contribute to financial inclusion in Timor-Leste in 2014.

- Launch of the first [Digital financial services product in Timor-Leste, Dec 04, 2014](#) called BNU Mobile. The grant was initiated, implemented and successfully completed in 8 months. No handover was necessary.
- Publication of the State of sector report, the establishment of a set of core principles and methods for informal Savings Groups, and training to implementers was completed. Handover over of activity was given to a technical working group and UNDP
- Grants with MFIs were closed and handover to another TA provider, IFC, was facilitated.
- A mapping of Financial Services provision in the country was completed and shared with two Financial Services Sector Assessments.

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)
<p>Output 1</p> <p>A coherent GoTL policy framework for Inclusive Finance</p> <p>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.</p>	Indicator 1	A Policy Statement of goals, strategies and priorities for Financial sub-sector development is adopted by GoTL (Y1)	<p>Partially</p> <ul style="list-style-type: none"> - Enabling regulation for microfinance activities, developed with support from technical consultant procured by INFUSE, was approved in December 2010. - In 2014, the BCTL made a commitment to the Maya Declaration 	<ul style="list-style-type: none"> - INFUSE advocacy has focused on establishing participation of relevant government ministries and agencies, through collaboration with the MoED, the BCTL and stakeholders in the GoTL, as follows. - The Ministry of Commerce (MCIE) chairs the the MCIF. The BCTL also participates as an observer in the MCIF. From 2013, the Ministry of Finance and the Secretary of State for Private Sector Development have participated to the MCIF as observers. - Provision of technical support to BCTL for legal framework of MFIs, and membership/participation in the AFI - INFUSE provided substantive inputs on financial inclusion strategies in the Draft 10-year Financial Sector Development Master Plan. INFUSE comments to the draft were published on the BCTL website and the final publication of the Master Plan. INFUSE CTA was invited by BCTL to attend a ceremony for its publication and INFUSE's contribution was acknowledged - INFUSE supported BCTL join and participate in the Alliance for Financial Inclusion (AFI) Pacific Island Working Group (PIWG), and encouraged the BCTL to make a Maya Declaration commitment. 	<ul style="list-style-type: none"> - 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. - Dissolution of MoED has left a vacuum on policy formulation for the private & financial sector as well as Rural Development, yet to be filled-in.
	Indicator 1.2	A consolidated Financial Sub-sector Activity Plan for 2007-2012 is developed as part of	<p>Partially</p> <ul style="list-style-type: none"> -Annual participation in 	- INFUSE participated in Annual National Priority Working Groups 2009, 2010, 2011	5 th constitutional government in place in August 2012 articulated a 5-year NDP 2012-17 and discontinued the National Priority Working Groups

		the NDP 2007-12 (Y2)	National Priority Working Groups		
	Indicator 1.3	Principles for Support to the Financial Sub-Sector have been adopted by key donors (Y2)	No	<ul style="list-style-type: none"> - 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. - Some donors have participated in the CGAP Donors for inclusive finance training - FIDGTL setup and managed by INFUSE 	INFUSE managed to raise large participation for FIDGTL and trained donors, but no official support Principles were signed. NOTE: primary donors active in financial inclusion adhere to best practices
	Indicator 1.4	UNDAF aligned with policy (Y2)	Yes	<ul style="list-style-type: none"> - Inclusive finance targets incorporated in UNDAF 2015-2020. - Annual reporting on outreach indicators takes place 	
	Indicator 1.5	Current and future investments in the sub-sector are reviewed for compliance with national policy framework (Y3-5)	No	<ul style="list-style-type: none"> - 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 and have attracted foreign equity investment. 	No national policy statement for inclusive finance developed as yet
<p>Output 2</p> <p>Increased Outreach of financial services by sustainable FSPs</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>	Indicator 2.1 Baseline as at Dec 2008 is 35,369	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. Targets to be tracked:	Partially	<ul style="list-style-type: none"> - Increase in Outreach figures for INFUSE supported MFIs may be seen in Outreach table, above - Gender targets were exceeded. - New product and service targets were met 	<p>Note: when setting targets, all MF service providers were included in baseline and projections on the assumption that INFUSE would 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.</p> <p>Support to IMfTL has not been desired as they receive significant support from ADB and the GoTL—this is the largest MFI and contributed to most growth in sector.</p> <p>Outreach kept on reducing over 2013 at MR due to the quality of</p>

		<p>a) INFUSE supported providers of MF services</p> <p>b) Increase in access to new products and services</p>			its loan portfolio compounded by management issues. TRM resumed growth in 2013.
	Indicator 2.2	Introduction of pro-poor financial products by commercial bank and/or mobile network operators (MNOs), resulting in an additional 40,000 clients obtaining access to a secure savings account.	Yes	- Launch of the first Digital financial services product in Timor-Leste, Dec 04, 2014 called BNU Mobile	
	Indicator 2.3	INFUSE-supported MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) >= 100%) by project end	Yes	Operating Self-Sufficiency (OSS) - MR reports 122.17% as of Dec 2013 and TRM reports 121.95% as of Dec 2014 - MR and TRM access now mostly commercial refinancing, very little concessional	
	Indicator 2.4	INFUSE-supported financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%.	Yes	- TRM PAR from Dec 2008 to December 2014 decreased 9.2% to 2.28% - Moris Rasik PAR maintained 4.44% as of December 2013	
	Indicator 2.5	Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009	Yes	- MFI penetration and branch targets achieved in Dec 2010 - INFUSE updated in March 2014 the data for access points of all FSPs in 2013 to compare to baseline established at 31 Dec 2009.	
Output 3	Indicator 3.1	Competency framework and corresponding learning guides	No	- National Labor Development Institute (INDMO) approved the framework of competencies in October 2011	Limited demand demonstrated by the scoping mission, no interest from foreign banks

<p>Enhanced business service infrastructures for the financial sector</p> <p>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 members and the public.</p>		available for use by local training service providers to be able to deliver technical training for microfinance and banking to the financial sector		- Scoping mission undertaken on the implementation of the Certificate with report delivered in November 2013: Determined that no business case existed for offering	
	Indicator 3.2	Financial education is promoted through research, social marketing tools and/or activities of local service providers	No	- INFUSE consultant conducted financial education scoping assessment in August 2010, as first step to developing a wider programme.	Central Bank decided to launch own programme without INFUSE support
	Indicator 3.3	Private sector entity makes Microinsurance products available for sale to MFI clients	Yes	- As of Dec 2012 14,150 lives are covered through the credit life insurance underwritten by insurer NTIL and distributed by MR and TRM	
	Indicator 3.4	Credit registry available to FSPs in the market and exploring potential for m-banking (cell phone transactions)	dit Bureau was established in 2009	- TRM and MR can and must participate to credit bureau once they are licensed as ODTI.	Credit registry is managed by the BCTL, and as of yet the MFIs do not participate as they need to be licensed as ODTIs to do so.

IV. Resources

Financial Resources:

INFUSE was designed 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 programme is funded by UNCDF, UNDP, the GoTL through the budget of the Ministry of Economy and Development (MoED) and the Australian Department of Foreign Affairs and Trade (DFAT).

Budget Approvals

- The 2014 annual budget and work plan was approved by the Management Committee for Inclusive Finance (MCIF) in February 2014.

Funding Mobilization:

- The Programme was extended in February 2014, by the MCIF to 31 December 2014 at no additional cost.
- A draft concept note on the follow-on programme (2014-2017) to INFUSE was presented to DFAT
- The GoTL committed at the MCIF meeting held in September 2013 to contribute to the project the remaining \$100,000 from the 2014 budget pending parliamentary approval, to fulfill GoTL commitment of \$1,000,000 to the Programme, however, this did not eventuate with the imminent closure of INFUSE. Hence, the \$100,000 was written off.

Financial & Procurement Processes

- Use of the UNCDF Long Term Agreement for the procurement of branchless-banking consultancy to BNU.
- One direct procurement authorized by UNDP for the recruitment of a community-finance consultant.
- Turnaround time improved for procurement and payment of contractors.

Human Resources:

INFUSE programme implementation unit (PIU) staffing has not changed in 2014, comprising:

- An international Chief Technical Advisor (CTA) with the designation of Technical Specialist (P3 level), who resigned in early 2014 and was replaced by a temporary international.
- A National Programme Officer. (Resigned in August 2014)
- A National Administration/Finance Associate. (Resigned in October 2014)
- A National Driver.

In addition, the programme 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 Programme Manager (based in the PFIP office) provides considerable support on finance and operations.

An Australian Youth Ambassador for Development (AYAD) was finally secured in October 2014: he worked for eleven months for INFUSE, from February to December 2014.