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ANNUAL NARRATIVE PROGRESS REPORT

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<p>Joint Programme No.</p> <p>Joint Programme Title: Inclusive Finance for Under-served Economy (INFUSE)</p> <p>ATLAS No: (assigned by MDTF Office) 00055655 (Award ID), 00067655 (Project ID)</p>	<p>Participating UN Organizations:</p> <p><i>UNCDF, UNDP</i></p>
<p>Implementing Partners:</p> <p>Microfinance Institutions (MFIs) and Financial Services Providers (FSPs)</p> <hr/> <p>Programme/Project Timeline/Duration</p> <p><u>Overall Duration:</u> September 2008 – December 2012</p> <p><u>Original Duration:</u> January 2008 – December 2012</p> <p><u>Programme/ Project Extensions:</u> N/A</p>	<p>Total JP Budget (in US\$): US\$5,000,000</p> <p style="text-align: right;"><u>Pass-through funding</u></p> <p>Govn't of Timor-Leste: US\$ 300,000 Yes</p> <p>UNCDF: US\$ 1,050,000 No</p> <p>UNDP: US\$ 500,000 No</p>

ANNUAL NARRATIVE REPORT OF INCLUSIVE FINANCE FOR UNDER-SERVED ECONOMY PROGRAMME (INFUSE)

I. Purpose

The overall goal of the 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, by increasing sustainable access to financial services for the poor and low-income people, both women and men. INFUSE will focus on increasing access by poor and low-income people to sustainable financial services while taking a sector approach in addressing these issues.

At the end of the 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, 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).

INFUSE Programme in relation with UNDAF

The expected outcome of the programme is that vulnerable groups will have improved access to sustainable financial services. This is in line with the 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: Microfinance institutions are capacitated to increase outreach to the low income populations.

INFUSE is also linked to the following Country Programme Outcome and Output:

- 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 & markets.

The above aims to support the National Priority # 2 on Rural Development under the National Priorities 2009 framework. The relevant objective is to deliver support to Financial Service Providers and to increase access to microfinance services by low-income population by an additional 5,000 clients in 2009 of which at least 50% are women.

II. Programme operation and Implementation

Inclusive Finance for Under-Served Economy (INFUSE) is jointly implemented by UNCDF and UNDP. UNDP, as Administrative Agent, supports administrative and logistical arrangements, while UNCDF provides 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 are outlined according to regulations defined by the UN Development Group (UNDG) in a Joint Programme Document.

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 the Joint Programmes regulations as issued by UNDG.

Although each of the implementing agencies will have their own roles in the implementation of the Joint Programme as governed by the *UNCDF-UNDP Guidance Note dated 2 November 2007*, each of the agencies will have to agree and understand 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.

Government Counterpart

The Government of Timor-Leste (GoTL), specifically the Ministry of Economy and Development (MoED), is the main national counter-part of the INFUSE Programme. The Minister of Economy and Development chairs the investment committee or Management Committee for Inclusive Finance (MCIF)¹ of the Fund for Inclusive Finance (FIF) and provides overall guidance and direction to the programme.

Joint- work: UNDP, UNCDF, Government Counterpart and Other Stakeholders

Co-ordination of funding activities and cohesive stakeholder direction is achieved through the MCIF and the Advisory Group for Inclusive Finance (AGIF).

The MCIF manages the Fund for inclusive finance (FIF), which was established to combine funding from UNCDF, UNDP, MoED and other donors, and acts as an investment committee for approval of grants and loans. Currently each contributor of funding has one representative and the Banking and Payments Authority (BPA) acts as an observer. Donors and private investors interested in promoting and funding development of inclusive finance will also be invited to join to the FIF Investment vehicle and be included in the MCIF.

The programme holds the MCIF meetings at least twice a year which will lead the FIF to coordinate funding to: Financial Services Providers (FSPs) serving the lower income segments of the financial sector, networks, and technical and business service providers in order to make efficient use of public resources, avoiding duplication and over-subscription. The Programme Implementation Unit (PIU), managed by the Chief Technical Advisor (CTA) serves as a secretariat to the MCIF, carries out appraisals of proposals to facilitate review by the Committee, and monitors and reports progress of investees to the MCIF.

¹ This was called Investment Committee (IC) in the original Programme Document.

Stakeholders in the financial services industry are invited to participate in the Programme's Advisory Group for Inclusive Finance (AGIF). The AGIF meets annually to comment on Programme progress and give feedback on gaps in financial services provision and opportunities to increase outreach which will be used as input in the INFUSE annual work plans.

The PIU was established in September 2008. The PIU is headed by the Chief Technical Advisor (CTA) and consists of three national staff: a National Project Officer acting as Deputy CTA (until September 2009, a replacement is under recruitment); an Administration and Finance Officer; and a driver cum clerk. In July 2009 the programme received support from an Australian volunteer through the Australian Youth Ambassador for Development (AYAD) scheme.

The project assurance is provided by an UNCDF Project Officer (backstopped by a UNDP Programme Officer when required). Technical backstopping, advice and overall guidance to the Programme are provided by UNCDF Regional Technical Advisor based in the Pacific. UNDP Senior Assistant Country Director for Poverty Reduction and Environment, and Deputy Director for Inclusive Finance Practice Area, UNCDF-HQ also provides guidance.

Programme Support: During 2009, INFUSE was implemented by the following staff:

- Chief Technical Advisor
- National Administration/Finance Officer
- National Program Officer, who's contract was not renewed and recruitment for a new NPO is ongoing since September.
- Driver
- UNCDF Program Officer, part time for project assurance.
- Australian Youth Ambassador for Development Volunteer since July
- Regional Technical Advisor based in the Pacific providing technical support

The programme team was temporarily seated in UN compound in anticipation of an office space in the Ministry of Economy and Development. However, in an effort to increase accessibility by partners and stakeholders, and to promote visibility of the program, INFUSE moved to a private office location until space in the Ministry comes available. The procurement process for private rental office was begun in November and the PIU moved in January

III. Financial Resources

The INFUSE Programme was originally planned with a USD 5 million budget. As at the end of December 2009, the programme is funded by the MoED, UNCDF and UNDP. The programme was incepted with initial funding of US\$1,050,000 from UNCDF and \$500,000 from UNDP. MoED have contributed US\$300, 000 in 2009.

The Standard Administrative Arrangement (SAA) was signed between the MoED and UNDP, as Administrative Agent (AA), in June 2009 regarding MoED's financial contribution of US\$300,000 to the INFUSE Fund for Inclusive Finance (FIF). The government funds were transferred to the programme's account in August 2009, and a press conference was held with

national media coverage. MoED have indicated that they will commit further funding of US\$ 500,000 through the GoTL over the 3 years until programme completion in 2012.

In December 2009 the Australian Agency for International Development (AusAID), the Australian Government agency responsible for managing Australia's overseas aid program, announced their contribution of approximately Australian \$ 2,500,000 to INFUSE over the next 3 years (2010-2012). The agreement will be signed in early 2010.

IV. Programme Monitoring

On a biannual basis, programme progress is reported against pre-determined target outputs and activities and challenges and issues are identified in these consolidated reports. This annual report, which includes a narrative and financial² component, is prepared and shared with the MoED as well as other donors and contains information on the achievements, challenges and lessons learned during the year.

In terms of the programme outputs specified in the project document, INFUSE revised the targets for Programme Output 2: “Increased Outreach of Financial Services by Sustainable FSPs”. The major reason for this is that financial services outreach baselines and targets were established in 2005, prior to the 2006 civil unrest which resulted in the cessation of a number of microfinance providers’ operations and a reduction in clients for the MFIs which remained operational. Given this, the INFUSE programme has established a baseline for the number of clients of financial service providers serving the low-income segment of the market as at the end of 2008 and accordingly adjusted the targets for client numbers. The target number of financially self-sufficient FSPs was also revised due to this reason. Going forward an additional indicator, the number of financial service access points, will be also captured to measure outreach. The revised programme output targets were shared with the MCIF members, and signed off on in December 2009. (Attached as Annex 1).

The Mid-term evaluation of the Programme is expected to take place in 2010. The main objective is to evaluate INFUSE progress thus far and determine if the extension of the Programme would be recommended.

Additionally, as previously mentioned, the Programme also counts on the Management Committee for Inclusive Finance, who acts as an investment committee for approval of grants and loans and who meet twice a year to discuss and approve strategic actions under INFUSE. The next Meeting of the (MCIF) is scheduled to be held on 11 March 2010.

V. Results: Progress of the Programme activities

Details of activities implemented to support achievement of the Programme’s Outputs during the reporting period (January-December 2009) are summarized as follows.

² The Joint Programme financial report will be prepared when the 2009 financial book is closed, around March 2010.

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 activities were implemented in 2009:

1. INFUSE sponsored one senior staff member of the Banking and Payments Authority BPA to attend the renowned Boulder Institute on Microfinance in Turin, Italy from 20 July to 7 August 2009. The purpose of the training was to improve their knowledge and capacity on: Microfinance Policy, Regulation and Supervision; Management and regulation of Microfinance Institution transformation; and Microcredit methodology.
2. Procurement for a technical consultant to support the development of a regulatory framework for microfinance was initiated.
3. INFUSE participated in the National Priority Working Group (NPWG2) for rural development. The NPWG2 focussed on the development of the rural economy, and with promotion by INFUSE, the increase in financial services was incorporated as a working group target. Progress towards targets was reported quarterly by INFUSE.
4. The first Advisory Group for Inclusive Finance (AGIF) meeting was held in November 2009. Representatives (25) from a wide range of stakeholders in the financial services industry (including government; financial services providers; donors; development partners; technical service providers etc.) participated. Agenda included presentation on INFUSE programme progress to date, activities planned for 2010 followed by discussion on gaps and opportunities.

OUTPUT 2: INCREASED OUTREAH 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 to support Financial Service Providers were accomplished:

1. Management Committee for Inclusive Finance (MCIF) was established in January 2009. Facilitated by the CTA as the secretariat, the first meeting occurred on 26 January 2009, and the second meeting took place on 29 September 2009. In October 2009, the MCIF member policy was formalized and outlines the selection criteria of members and their roles (attached as an annex). The policy also describes the process for approving investments with funding from the Fund for Inclusive Finance (FIF).

2. 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 as follows:

MCIF Meeting 1 – 26 January 2009

- 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.

MCIF Meeting 2 – 29 September 2009

- Tuba Rai Metin/ Basix: 220,000 grants for technical assistance and training (in addition to the US\$ 50,000 approved in January) in parallel with MicroLead’s USD 950,000 grant funding, and up to US\$ 1.48 million for loans or loan guarantees.
- Credit Union Foundation of Australia: grant for up to US\$ 40,000 to develop a Poverty Alleviation Measurement Tool.
- CUFA: grant for US\$ 5000 to conduct a Strategic Planning Workshop and develop a Strategic Plan for the Credit Union Movement of Timor-Leste.
- BPA: Up to US\$ 60,000 for direct technical Assistance to the BPA in developing an enabling regulatory framework for microfinance.

Details of these investments are described in the table attached as an annex, as well as the minutes of the MCIF meetings also attached here as annexes.

3. In addition to aforementioned approvals made by the MCIF, INFUSE also procured additional direct training and technical assistance for FSPs.
 - Institutional assessment of Tuba Rai Metin by MCRIL, April 2009
 - Sponsorship of two staff from Tuba Rai Metin to attend training at the AMiDA Institute of Microfinance Training in Bali, Indonesia, March 2009
 - Sponsorship of one senior staff from IMfTL to participate in the renowned Boulder Institute on Microfinance in Turin, Italy from 20 July to 7 August 2009. The purpose of the training was to improve their knowledge and capacity on microfinance in general.
4. 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 beginning in October 2009.
5. Promotion of Financial Services

In conjunction with UNMIT Public Information Office, INFUSE produced a film in Tetun and English on “Microfinance in Timor-Leste” which was subsequently broadcast on national television and is available on the weblink <http://www.youtube.com/watch?v=mV7gezD44dA>. This resulted in enhanced public awareness and education about the impact of microfinance on clients’ lives and its role in poverty reduction.

Monitoring of recipients of grant funding and loan capital

- Recipients of grant funding and loan capital submit reports as per requirements specified in the Performance Based Agreements including expenditure and narrative reports for grants, and the standard UNCDF performance indicator quarterly report for both grants and loans. In addition, FSPs will be required to post data on the Mix Market annually in March, and conduct annual financial audits.
- The INFUSE team conducted two workshops (October and December) with the two MFIs (MR and TRM) who received grant funding and loan capital to introduce them to the reporting requirements and build their capacity to understand and compute the financial performance indicators required for reporting. The MFIs expressed appreciation for this training.

Measuring Growth in Financial Services Outreach:

As seen in the table below, growth in total number of clients at institutions serving the low income segment of the market (CUFA, IMfTL, Moris Rasik, TRM) has increased by 20% between December 2008 and 2009 from the revised baseline figures (see annex 1 for details).

Growth in Outreach of Financial Services for Institutions serving the low-income segment of the market:

INDICATOR	As at end of Dec. 2008	As at end of December 2009
Total borrowers	22,707	23,285
Total savers	34,733	42,364
Total clients	35,369	42,456

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.

Though no activities were completed in output 3, identification of opportunities (financial education) and development of proposals (development of a poverty measurement tool) was initiated.

- 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.

VI. Lessons Learned

Though the INFUSE program accomplished many goals in 2009, some challenges at the internal administrative and operational levels, will be addressed and considered in the Programme implementation going forward.

VII. Work Plan 2010

In 2010, the following activities are planned to be implemented under each of the following Outputs:

OUTPUT 1: ACHIEVING A POLICY / VISION STATEMENT

Establishment of an enabling regulatory framework for microfinance: Technical assistance will be procured with the aim of promoting the development and outreach of microfinance services in Timor-Leste through the introduction of an enabling microfinance legal framework. The next step on development of supervision guidelines and training for regulators and MFIs may be initiated.

- Continued participation in the National Priority Working Group to promote financial services as part of the objectives on private sector development in 2010.

OUTPUT 2: INCREASE OUTREACH OF SUSTAINABLE FINANCIAL SERVICES

Continued Support to FSPs:

- Moris Rasik: A targeted Request for Proposal (RfP) to MR was requested which should be accompanied by a robust long term institutional business plan with detailed business projections generated by a cash-flow analysis tool so that INFUSE can consider long term funding needs for technical assistance and capital.
 - Tuba Rai Metin: Complementary funding to the Microlead program will continue to be required through 2010 from INFUSE for additional direct TA and capital to TRM.
 - Credit Union network: Based on submission of a robust, long-term strategic plan, INFUSE may support technical assistance and training for the implementation of such a plan.
 - IMFTL: Based on a new, robust business plan, INFUSE may support technical assistance and training for the implementation of such a plan
- Sponsorship for Timorese from FSPs or the central bank to participate in the annual Boulder Institute of Microfinance in July.
 - Support for branchless banking in collaboration with ADB and Bankable Frontiers Associates to A) support BPA in development of branchless banking policy/regulation and B) conduct research on potential for piloting mobile phone Government to people payments.

OUTPUT 3: PROMOTING A BUSINESS SERVICES INFRASTRUCTURE

- Support for Financial Literacy/Education either through soliciting Request for Proposals from technical service providers to establish a new financial education project in Timor-

Leste, funding of potential existing financial education projects, collaborating with the Pacific Financial Inclusion Programme (PFIP), or a combination thereof. There is a demand by MFIs for financial education of clients in order to: enable them to better understand a range of products and services; effectively manage their own finances; and empower them to make sound financial decisions.

- Development and implementation of a poverty measurement tool for use by MFIs to understand their impact on poverty alleviation is anticipated.
- Potential for development of micro-insurance products may be explored depending on the introduction of national insurance carriers (licenses are still pending with the central bank).
- Development of a banking/microfinance training certificate program in collaboration with SEPFPOPE (Secretary for Employment, Vocational and Professional Training).

GENDER MAINSTREAMING: INFUSE targets an increase of approximately 8,500 additional clients served by microfinance institutions in 2010 of which at least 50% will be women.

VIII. Abbreviations and acronyms:

AA	Administrative Agent
BOP	Bottom of the Pyramid
BPA	Banking and Payments Authority
FIF	Fund Inclusive Finance
FSPs	Finance Service Providers
GoTL	Government of Timor-Leste
INFUSE	Inclusive Finance for Under-Served Economy Programme
MCIF	Management Committee for Inclusive Finance
FIs	Microfinance Institutions
MoED	Ministry of Economy and Development
UNCDF	United National Capital Development Fund
UNDP	United National Development Programme

Annex 1: INFUSE Programme - Revised Financial Services Outreach Targets

As of October 2009

INFUSE Programme Outputs

1. A coherent GoTL policy framework for Inclusive Finance
2. Increased Outreach of Financial Services by Sustainable FSPs
3. Enhanced business services infrastructure for the financial sector

Original Output Targets for Programme Output 2

(Extracted from the INFUSE Project Document which also notes that baseline for borrowers and savers to be confirmed at inception.)

1. At least 20% increase in loans outstanding to poor and low-income (BOP) borrowers per year (compounded), totalling **78,100 loans** outstanding by end yr 5.
2. At least 20% increase in number of voluntary savings accounts per year (compounded), totalling **187,100 savings accounts** by end year 5.
3. At least 5 FSPs have reached break-even (FSS \geq 100%).
Financially sustainable FSPs maintain an average Pa
4. R (30 days) of max. 5%.

Revised Output Targets for Programme Output 2

As of October 2009, INFUSE will revise the targets for Programme Output 2 to the following.

1. 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), totalling **73,341 active clients** by Programme end. (A breakdown of product accounts (savings, loans, insurance, other) will be monitored for informational purposes).
2. Introduction of pro-poor financial products through commercial bank and/or mobile network operators (MNOs), resulting in an additional **40,000** clients obtaining access to a secure savings account by Programme end.
3. At least 3 MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) \geq 100%) by Programme end.
4. The 3 financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%.
5. Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009. (Increase to be determined once baseline is known.)

Tables 1 and 2 expound on these targets.

Justification for revising target outputs:

- There are some problems inherent with the target programme outputs for increased outreach of FSPs that are specified in the project document. Specifically:
 - Baseline information underpinning the calculation of target borrowers and savers for Programme end was established in 2005, before the 2006 civil unrest which resulted in the cessation of microfinance operations of 4 non-specialized NGOs, and caused a significant decrease in number of clients for CUs and MFIs who did survive the crisis and still operate today;
 - Baseline data is established as at 2005, and the adopted per annum growth rate (assumed to be in part due to interventions of INFUSE) is applied for 7 years until Programme end (2012) despite the INFUSE Programme initiation being deferred until September 2008, and the programme time frame subsequently being reduced to just over 4 years;
 - The methodology employed to calculate Bottom of the Pyramid (BOP) figures, using self employed people as a proxy for BOP, was incorrect due a mistaken calculation, and its use as a proxy is discussed further below.
- The result is that targets for number of individuals with savings and loans are overstated and the target for number of financially self-sufficient FSPs is overstated.

Explanation on selection of new target outputs:

- Figures for target number of active clients at programme end have been revised downward due to the lower baseline client numbers resulting from 2006 crisis and to reflect the shorter programme term.
- The revised target outcomes effectively capture growth of access to financial services for poor people over the programme term, depth and penetration of services and the sustainability of those financial services.
- Number of active clients (taken to be the higher of an institution's borrowers and savers to avoid possibility of double-counting) is adopted to reflect the goal of increasing poor people's access to all financial services. The breakdown of product accounts will be provided but still client targets will be measured by total active clients.
- The reason for discontinued use of the BOP: There are many challenges to measuring Bottom of the Pyramid (BoP) and obtaining real and accurate data. The previous output target used self employed people as a proxy for BoP, however it is not realistic for INFUSE to regularly collate data on income and occupation of thousands of clients due to resource, capacity, and MIS constraints of FSPs. One possible method discussed to determine self-employed was deducting salaried loans from total MFI loans. However, this does not provide a complete and accurate picture of the financial services provided/utilized. Pro-poor financial services are not just about lending products.
- Instead, the assumption is that virtually all salaried workers are banked and all upper and most middle class persons have access to bank accounts. Therefore, the majority of MFI and Credit Union (CU) clients are of this target population that INFUSE is trying to access. These institutions have an explicit mission to provide services to the poor, and based on research, it is reasonably assumed that non-poor people would use commercial banks rather than MFIs or CUs.
- At the moment, INFUSE will focus on capturing and tracking data for the institutions (3 MFIs and CUs) that it has supported or expects to support over the life of the programme.

When a commercial bank collaborates with INFUSE and designs a product specifically directed at this target market, these clients will be counted as well.

- Baseline data includes all microfinance clients (not specifically savers or borrowers) from Moris Rasik (MR), Tuba Rai Metin (TRM) and Instituicao de Microfinancas de Timor-Leste (IMfTL), and the Credit Unions. INFUSE will capture data for the change in the total number of clients (defined as an individual using one or more of the MFI's product) from these institutions.
- As BoP was defined as self-employed, originally clients with salary guarantee loans from IMfTL and MR were accordingly discounted from the number of poor borrowers. INFUSE will now include salaried loan clients on the following grounds:
 - Individuals with salaried loans may also have a savings account and INFUSE is focused on promoting access to savings for all households.
 - Anecdotally, salaried loans are often used for purposes that should not be discounted such as: support of an extended network of unemployed relatives, family micro-enterprises, school fees, housing improvements, agriculture activities, and health care.
- Data for all clients is less problematic to capture and is more accurate, reliable and informative, rather than trying to determine BOP by unreliable proxies.
- Pro-poor products offered by commercial banks are also assumed to be used by poor clients. However, unless there is a specific agreement of cooperation between INFUSE and a commercial bank or other Non-Bank Financial Institution it is impossible to obtain accurate disaggregated data to reveal their pro-poor products. Data for clients using commercial bank pro-poor services will be included once INFUSE can consistently and reliably capture it. Consequently, INFUSE can only track the growth in number of savers with a pro-poor product which is expected to stem from financial market innovation and introduction of commercial bank pro-poor products.
- INFUSE expects to collaborate with at least one commercial bank and expects that anticipated initiatives with commercial banks will result in development and introduction of a pro-poor savings product that would increase access these depository services by at least 40,000.

Annex 2: INFUSE Programme Output Target on Financial Outreach

Intended Output	Output Targets
<p>Increased outreach of financial services by Financial Service Providers (FSPs) serving primarily the poor and low-income market and overall improvements in levels of FSP efficiency and sustainability.</p> <p>Outreach Indicators for expansion of financial services as measured by:</p> <p>1) Growth of pro-poor financial services as measured by number of clients (where possible disaggregated by gender) served by Microfinance Institutions (MFIs) and Credit Unions.</p> <p>2) Innovation in financial markets and introduction of pro-poor services by commercial banks as measured by increase in number of savers using new pro-poor savings product.</p> <p>3) Sustainability of financial services as measured by viability of MFIs:</p> <p style="padding-left: 40px;">Financial self sufficiency (FSS) ratio of MFIs.</p> $FSS = \frac{\text{Business Revenue (excluding grants and extraordinary items)}}{\text{Total Expense + CFA + ISA + IA}}$ <p style="padding-left: 40px;"><i>Where: CFA is a subsidized cost of funds adjustment</i></p> <p style="padding-left: 80px;"><i>ISA is an in-kind subsidy adjustment</i></p> <p style="padding-left: 80px;"><i>IA is an inflation adjustment</i></p> <p>4) Portfolio quality as measured by Portfolio at Risk (PAR) ratio of MFIs</p> <p>5) Penetration of financial services as measured by growth in number of</p>	<ol style="list-style-type: none"> 1. Increase in the number of active clients of selected FSPs from baseline established as at end of 2008 by 20% p.a. (compounded), totalling 73,341 at programme end. 2. Increase in number of savings accounts due to commercial bank introduction of innovative pro-poor financial products resulting in 40,000 by programme end. 3. At least 3 MFIs have achieved financial break even (FSS ≥100%). 4. Financially self-sufficient MFIs maintain an average PaR (30 days) of max. 5%. 5. Increase in the number of access points of FSPs from baseline established as at end 2009.

financial services access points (e.g. branches, POS, outlets, services delivered by field officers) per district.	
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ANNEX 3: 2009 Approved supports to financial service providers and technical and business service providers.

Description of support provided to FSP	Recipient	Delivery mechanism	Delivery date
Loan for capital of USD 230,000 (The loan will be disbursed in two tranches. The Loan capital agreement for MR was signed in June 2009 and the first tranche of USD 100,000 was subsequently transferred. Disbursement of the second tranche is conditional on MR meeting the following requirements: registering with the Ministry of Justice; use of first tranche to increase portfolio for poor clients; preparation of monthly cash flow statements; and maintaining performance indicators including Portfolio at Risk and Financial Self-sufficiency)	MR	Loan	June 2009 (second tranche to be disbursed in 2010)
Loan for capital of USD 150,000 The loan will be disbursed in three tranches, conditional on TRM meeting criteria such as: undergoing an Institutional Diagnostic; submitting legal registration with the Ministry of Justice (MoJ); establishment of new Board of Directors, and implementation of a cash flow tool. Progress has been made towards fulfilling the requirements for disbursement of the first tranche: INFUSE procured the institutional assessment and rating by MCRIL; TRM have successfully registered with the MoJ; and TRM established a BoD in December 2009.	TRM	Loan	2010-2011
Training course at the AMiDA microfinance training centre for 2 senior staff in Bali, Indonesia on topics including delinquency management and liquidity risk management.	MR	Grant for	April 2009
Exposure visit to a leading MFI called Mitra Business Keel (MBK) in Jakarta	MR	Grant	April 2009
Institutional assessment and rating by MCRIL, an internationally recognized microfinance rating agency. This is a tool used by MFIs to assess all aspects of their institution (governance, finance, operations), and is essential for self-review and also for attracting investors.	TRM	Direct procurement	April 2009
Training course at the AMiDA microfinance training centre in Bali, Indonesia on topics including delinquency	TRM	Direct procurement	April 2009

management and liquidity risk management.			
Boulder Microfinance Training Institute in Turin, Italy (3 week intensive course on multiple topics ranging from MF regulation to Branchless Banking to Poverty Lending)	BPA, IMfTL	Direct procurement	Jul-Aug 2009
Coordinated with the UNCDF MicroLead program to approve a complementary 5-year program for provision of technical assistance with BASICS (a leading MFI from India). A proposal was approved by UNCDF to fund BASIX, one of the best MFIs in India, to partner with Tuba Rai Metin. Basix conducted a 3 week strategic planning in June 2009 and developed a detailed 5 year implementation plan for the provision of in-country technical assistance on all aspects including governance, operations, finance, human resources, etc.	TRM	Direct TA and parallel grant funding and loan capital	Nov 2009 - Dec 2013
Development of a long term Strategic Plan for the credit Union movement in Timor-Leste. As part of the grant a strategic planning workshop with stakeholders in the credit union movement (the National Directorate of Cooperatives (DNC), the Federation, representatives of credit unions) was held.	CUFA	Grant	Oct 2009 - Jan 2010
Grant for development of a Poverty Alleviation Measurement Tool (PAMT) – a survey tool that can be used by organizations to help determine the poverty level of clients and beneficiaries. It is useful in establishing baseline information and facilities assessment of the impact of services on client poverty levels as the survey can be conducted on a regular basis.	CUFA	Grant	2010-2011
English language training (Three TRM senior managers attended English course at the LELY/Lorosae English course in Dili for six months (June – November 2009).	TRM	Grant	June-Nov 2009



Australian Government
AusAID







2009 Annual Financial Progress Report on The Inclusive Finance for Under-Served Economy Programme (INFUSE)

Period of 1 January to 31 December 2009

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

The Inclusive Finance for Under-Served Economy Programme: Timor-Leste

PARTICIPATING UN ORGANIZATIONS ³	
	United Nations Capital Development Funds (UNCDF)
	United Nations Development Programme (UNDP)
CONTRIBUTING DONORS	
	Government of Timor-Leste
	Australian Government - AusAID

INTRODUCTION

The present Report presents annual financial data, followed by short analyses for the Joint UNDP and UNCDF Inclusive Finance for Under-Served Economy Programme in Timor-Leste for the period of 1st January to 31st December 2009. Aimed at reporting on the overall resources transferred to the INFUSE as per Standard Administrative Arrangements, this report does not include financial data related to the Core funds of the Participating UN agencies.

DEFINITIONS⁴

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.

³ Participating UN Organizations that have concluded a Memorandum of Understanding (MOU) with the UNDP Multi-Donor Trust Fund Office, as the Administrative Agent of the INFUSE Timor-Leste.

⁴ Common definitions used by the Multi-Donor Trust Fund Office in Annual Progress reporting.

Donor Commitment

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

Donor Deposit

Cash deposit received by the Multi-Donor 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.

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1. FINANCIAL PERFORMANCE

MDTF office, as Administrative Agent of the **Inclusive Finance for Under-Served Economy Programme (INFUSE) Timor-Leste Joint Programme**, officially reports to donors annually on total contributions received, transfers made to Participating UN Organizations for the implementation of approved projects and the expenditures incurred against these projects.

1.1 Sources, Use and Balance of INFUSE Timor-Leste Joint Programme Fund

During the reporting period from 1 January to 31 December 2009, \$300,000 was deposited into the INFUSE Timor-Leste JP account as contribution from the Government of Timor-Leste. Following the INFUSE JP Annual Work Plan for 2009, of this amount, \$297,000 (99percent per cent) had been transferred to one of the two Participating UN Organisations (UNCDF) by 31 December 2009. In addition, interest income was recorded as \$1,000 in 2009 and the Administrative Agent fee was charged as 1percent, following the Letter of Understanding signed by UNDP and Government of Timor-Leste JPAA in 2009.

Table 1.1 provides an overview of the overall sources, uses and balance of the INFUSE Timor-Leste funds as of 31 December 2009.

Table 1.1 Sources, Uses, and Balance of Funds, as of 31 December 2009, in US\$ Thousands

	Prior Years	2009	Total as of 31 December 2009
Source of Funds			
Gross Contributions	0	300	300
Fund Earned Interest Income	0	1	1
Participating Organization Earned Interest Income	0	0	0
Total - Source of Funds	0	301	301
Use of Funds			
Transfers to Participating Organizations	0	297	297
From Donor Contributions	0	297	297
From Earned Interest	0	0	0
Refund of Unutilized Balances on Closed Projects by Participating Organizations	0	0	0
Administrative Agent Fees	0	3	3
Direct Costs: (Steering Committee, Secretariat ... etc.)	0	0	0
Other Expenditures from Earned Interest	0	0	0
Bank Charges	0	0	0
Total - Use of Funds	0	300	300
Balance of Funds Available	0	1	1

1.2 Donor Contributions

The Government of Timor-Leste, one of the main donors and the main counterpart of the INFUSE Timor-Leste, transferred \$300,000 in 2009, as indicates the table below:

Table 1.2 Total Donor Deposits, cumulative as of December 2009, in US\$ Thousands

Donor Name	Gross Donor Deposits	
	2009	Grand Total
TIMOR-LESTE, Government of	300	300
Grand Total	300	300

1.3 Transfer of Approved Funding to Participating UN Organizations

During FY2009, INFUSE Timor-Leste had transferred approved project funds in the total amount of \$297,000 to UNCDF, one of the two Participating UN Organizations that receive funds through the INFUSE Timor-Leste.

Table 1.3 provides the breakdown of funding by Participating UN Organizations.

Table 1.3 Transfer of Funds by Participating Organization, as of 31 December 2009, in US\$ Thousands

Participating Organization	Funds Transferred		
	Prior Years	2009	Cumulative as of 31 Dec 2009
UNCDF	0	297	297
Total	0	297	297

1.4 Delivery

During the FY 2009, the expenditure of the INFUSE JP was equivalent to 61.93 percent (\$184,000) of the total amount (\$297,000) received by the INFUSE JP along the period, as indicates the table below.

Table 1.4 Financial Delivery Rates, for 2009 and cumulative as of 31 December 2009, in US\$ Thousands

	Total Transfers	Cumulative		2009	
		Expenditures	Delivery in %	Transfer	Expenditures
JP – Timor-Leste INFUSE	297	184	61.93	297	184
Total	297	184	61.93	297	184

1.5 Expenditure

95.1 percent or \$175,000 of INFUSE JP total expenditures in 2009 were for other direct costs. Remaining 4.9 percent or \$9,000 constituted indirect costs.

Table 1.5 Total Expenditure by Category and Reporting Period, in US\$ Thousands

Category	Total Expenditures		% of Total Programme Costs
	2009	cumulative	
Supplies, equipment	0	0	0.00
Personnel	0	0	0.00
Training of counterpart	0	0	0.00
Contracts	0	0	0.00
Other direct costs	175	175	100.00
Programme Costs Total	175	175	100.00
Indirect costs	9	9	5.09
Total Expenditure	184	184	

1.5.1 Expenditures reported by Participating organizations, cumulative as of 31 December 2009

In US\$ Thousands

The total cumulative expenditure in 2009 represented \$184,000. Following the INFUSE JP Annual Work Plan for 2009, 100 percent of those expenditures were carried out by UNCDF, the UN Participating Organization that received the totality of the funds provided by the Government of Timor-Leste to INFUSE JP in 2009.

Participating Organization	Transfers		Expenditures		
	Budget Amount	Funds Transferred	2008	2009	Cumulative
UNCDF	297	297	0	184	184
Total	297	297	0	184	184

1.5.2 Total Expenditure by Participating UN Organization with breakdown by Category, 1 January - 31 December, 2009, In US\$ Thousands

\$175,000 or 100 percent of total programme expenditures in 2009 represented Grants provided by INFUSE JP to Timorese Micro-Finance Institutions (MFIs) partners (Tuba Rai Metin and CUFA - Credit Union Foundation Australia); *Indirect costs* were charged at 5.14 percent of total direct costs. Adjustments to indirect costs will be made at the time of JP completion to ensure that total indirect costs will be in line with prior agreements and will not exceed 7 percent.

Table 1.5.2 Total Expenditure by Participating UN Organization with breakdown by Category, 1 January - 31 December, 2009, In US\$ Thousands

Participating Organization	Funds Transferred	Total Expenditure	Expenditure by Category					Total	
			Supplies, equipment	Personnel	Training	Contracts	Other direct costs	Programme Cost	Indirect costs
UNCDF	297	184	0	0	0	0	175	175	9
Grand Total	297	184	0	0	0	0	175	175	9

1.6 Interest Earned

From 1 January to 31st December 2009, INFUSE Timor-Leste earned interest in the amount of \$1,000, which will become an additional source of income for the Project funding.

2. TRANSPARENCY AND ACCOUNTABILITY OF INFUSE TIMOR-LESTE

The major vehicle for public transparency of operations under Timor-Leste Inclusive Finance for Under-Served Economy Joint Programme (INFUSE) is the MDTF Office Gateway, <http://mdtf.undp.org>. The Gateway is updated regularly and provides the most current information on all information related to the INFUSE Timor-Leste. The public notification of all project approvals made by the INFUSE Timor-Leste Executive Committee, as well as additional information and progress updates on these projects, provides a high level of transparency to national authorities, Donors, the public, and the Participating UN Organizations.