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Inclusive Finance for Under-Served Economy (INFUSE)

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REPORT COVER PAGE

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Country, Locality(s), Thematic Area(s)¹

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Participating Organization(s)

- United Nations Capital Development Fund (UNCDF)
- United Nations Development Programme (UNDP)
- Australian Agency for International Development (AusAID)
- Ministry of Economy and Development (MoED) / Government of Timor-Leste

Implementing Partners

-
- United Nations Capital Development Fund (UNCDF)
- United Nations Development Programme (UNDP)
-

Programme/Project Cost (US\$)

MDTF Fund Contribution:

- *by Agency (if applicable)*

Agency Contribution UNCDF: US\$ 1,050,000
 • *by Agency (if applicable)* UNDP: US\$ 500,000

Government Contribution GoTL:
(if applicable) US\$1,000,000

Other Contribution (donor) AusAID: \$2.259,534
(if applicable)

TOTAL: 5,000,000

Programme Duration (months)

Overall Duration 2008 - 2012

Start Date² 27 August 2010

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 End Date,
(if applicable)

Operational Closure December 31st 2012
 Date³

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 Closure Date

Programme Assessments/Mid-Term Evaluation

Assessment Completed - if applicable *please attach*

☐ Yes ☐ No Date: _____

Mid-Evaluation Report – *if applicable please attach*

X Yes ☐ No Date: August, 2010

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¹ Priority Area for the Peacebuilding Fund; Sector for the UNDG ITF.

² The start date is the date of the first transfer of the funds from the MDTF Office as Administrative Agent. Transfer date is available on the [MDTF Office GATEWAY](http://mdtf.undp.org) (<http://mdtf.undp.org>).

³ All activities for which a Participating Organization is responsible under an approved MDTF program have been completed. Agencies to advise the MDTF Office.

Abbreviations and Acronyms	
AA	Administrative Agent
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BASIX	Bhartiya Samruddhi Investments and Consulting Services Ltd.
BDS	Business Development Services
BPA	Banking and Payments Authority
CGAP	Consultative Group for Assistance to the Poorest
CGD	Caixa Geral de Depósitos (currently BNU)
CTA	Chief Technical Adviser
CUF	Credit Union Federation – also referred to as FHM
CUFA	Credit Union Foundation of Australia
DNC	National Directorate of Cooperatives
FHM	Federsaun Hanai Malu (Federation of Savings and Credit Cooperatives)
FIF	Fund for Inclusive Finance
FSPs	Financial Services Providers
FSS	Financial Self-sufficiency ratio
GoTL	Government of Timor-Leste
IC	Investment Committee (for the FIF); also called MCIF
IFC	International Finance Corporation
IMfTL	Instituicao de Microfinancas de Timor-Leste
INFUSE	Inclusive Finance for the Under-Served Economy
INDMO	Institusaun Nacional Desenvolvimento Maun d’Obre / National Labor Force Development Institute
MCIF	Management Committee for Inclusive Finance (IC)
MCRIL	MicroRating International (microfinance rating agency)
MDG(s)	Millennium Development Goal(s)
MDTF	Multi-donor Trust Fund
MF	Microfinance
MFI	Microfinance Institutions
MIS	Management Information System
MoED	Ministry of Economy and Development
MR	Moris Rasik
NGO	Non-Government Organization
NPWG	National Priority Working Group
ODTI	Other Deposit-Taking Institution
PaR	Portfolio at Risk
PIU	Program Implementation Unit
PFIP	Pacific Financial Inclusion Program
TA	Technical Assistance/Assistant
TL	Timor-Leste
TRM	Tuba Rai Metin
TSPs	Technical Service Providers
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WEAL	World Education Australia Limited

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ANNUAL NARRATIVE PROGRESS REPORT OF
THE INCLUSIVE FINANCE FOR THE UNDER - SERVED ECONOMY [INFUSE] PROGRAM

1. PURPOSE

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

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

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

INFUSE Program in relation with UNDAF

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

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

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

INFUSE Program in relation with GoTL National Plans and Priorities

INFUSE objectives were incorporated into the Government of Timor-Leste's National Priorities 2010 framework, specifically within the National Priority # 1: Infrastructure (Roads, Water, and Private Sector Development). The relevant objective is to deliver support to Financial Service Providers (FSPs) and to increase access to microfinance services by low income population by an additional 7,500 clients, of which at least 50% are women, during 2010.

2. RESOURCES

Financial Resources:

INFUSE was inceptioned as a GoTL-UNCDF-UNDP partnership with a programmed budget of US\$ 5mn, including initial funding of US\$1,050,000 from UNCDF and \$500,000 from UNDP. At the end of December 2010, the program is funded by UNCDF, UNDP, the Government of Timor Leste (GoTL) through the budget of the Ministry of Economy and Development (MoED) and the Australian Agency for International Development (AusAID). The MoED contributed US\$300,000 in 2009 and US\$200,000 in 2010. In December 2009 AusAID announced their contribution of AU\$2.5mn total, and the first tranche of US\$732,934 was received in 2010. Table 1 displays the yearly budget and financial contribution from donors.

Table 1: Yearly Financial Contribution by Donor

Funding Source	2008	2009	2010	2011	2012	Total Contribution (USD)
UNCDF	210,000	210,000	210,000	210,000	210,000	1,050,000
UNDP	100,00	100,000	100,000	100,000	100,000	500,000
MoED	-	300,000	200,000	200,000	300,000	1,000,000
AusAID	-	-	732,934	848,665	600,000*	2,259,534
To be mobilized	-	-	-	268,401		268,401
TOTAL BUDGET	310,000	610,000	1,242,934	1,627,066	1,210,000	5,000,000

*Estimated USD amount as per the exchange rate at the time of the announcement of contribution.

Budget Revisions

Minor budget revisions were raised in 2010 in order to: record new donor contributions (AusAID and MoED) and make relevant adjustments to activities listed in the INFUSE Annual Work Plan (AWP). The budget revisions were approved by INFUSE MCIF and are described in Annex 2: Minutes of MCIF meetings held on 11 March and 9 November, 2010.

Funding Mobilization:

- Negotiations continued with USAID regarding a proposal submitted in October 2009 for a request to complete the remaining funding gap.
- Parallel and complimentary funding was facilitated from Monaco Asia Society (MAS) and Monaco International Cooperation to the microfinance sector resulting in provision of a grant (\$60,000 over two years) for technical assistance from Grameen Foundation and a local communication technology NGO, and debt financing (\$500,000 line of credit) from Credit Agricole to one MFI.

Financial & Procurement Processes

- The current turnaround time for administrative and finance/budget processing is lengthy, and processes require persistent follow-up.
- The program experienced delays in moving donor contributions through the Multi-Donor Trust Fund (MDTF) into the INFUSE budget for available disbursement.
- Disbursement to grant/loan recipients experienced frequent delays due to bottlenecks in accessing the budget and errors in the financial management systems.

- Procurement of consultant services experienced delays and bottlenecks due to ambiguous policies and procedures. Guidance in UNDP Programme and Operations Policy and Procedure (POPP) can be unclear, and without specific written circulars or instructions, implementation of policy and procedures can be open to interpretation and/or difficult to navigate.
- Internal budgetary policies and procedures would benefit from clarification and streamlining so that donor fund contributions are processed efficiently and fund disbursements for program activities are better facilitated in a timely manner. This would reduce delays in disbursements to partners and subsequently their ability to achieve their targets.
- Procurement procedures would benefit from clearly written instructions and circulars, and flow charts and check lists.

Human Resources:

During 2010, the INFUSE program implementation unit (PIU) comprised the following staff:

- International Chief Technical Advisor; since September 2008 who's contract expired 31 December 2010. The position was converted from ALD to a Fixed Term Contract starting in 2011.
- International Programme Officer; converted from Australian Youth Ambassador Volunteer to Locally Identified U.N. Volunteer in 2010 for a second year.
- National Programme Officer; position was filled in July after nine months and three rounds of recruitment due to the lack of minimally qualified applicants.
- National Administration/Finance Officer; since September 2008
- National Driver/Clerk; since September 2008
- Two International Interns: one and three-month independent interns in March and December, respectively.

In addition, the program receives support from the following:

- Technical oversight and guidance to the Programme was provided by an UNCDF Regional Technical Advisor based at the Pacific Financial Inclusion Programme (PFIP) in Suva, Fiji.
- Project Assurance was provided by an UNCDF Program Officer backstopped by a UNCDF Program Assistant, based in Dili.
- The regional UNCDF office in Bangkok provided administrative and financial guidance.

3. IMPLEMENTATION AND MONITORING ARRANGEMENTS

Program Implementation

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

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

The investment committee which is called the INFUSE Management Committee for Inclusive Finance (MCIF), comprising donors to the Programme⁴, oversees the INFUSE Fund for Inclusive Finance (FIF). The MCIF meets biannually to approve funding of specific activities that promote inclusive finance through using a variety of funding mechanisms including grants, loans, and direct procured technical assistance. This flexibility allows for the PIU to accept proposals, develop partnerships, and identify needs for targeted technical assistance. And it engages the MCIF to evaluate and provide feedback on program activities.

Monitoring and Evaluation

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

- On a biannual basis, program progress is reported against pre-determined target outputs and activities, and challenges and issues are identified in these consolidated reports. This annual report, which includes a narrative and financial component, is prepared and shared with INFUSE donors and contains information on the achievements, challenges and lessons learned during the year.
- The MCIF is responsible for monitoring programme progress at bi-annual meetings, which occurred in March and November in 2010.
- The INFUSE PIU monitors recipients of grant funding and loan capital against specific targets, disbursement conditions and reporting requirements outlined in the Performance Based Agreements (PBAs) with FSPs and Technical Service Providers (TSPs). All supported FSPs report on a quarterly basis adhering to the UNCDF standard requirements and formats for Inclusive Finance.
- Can we include a para about the field monitoring visits done by Till as the regional technical advisor?
- The mid-term evaluation of INFUSE took place in August 2010. The main objectives were to: evaluate Programme performance thus far against its stated objectives and make recommendations to improve implementation going forward; and to assess Programme performance against the UNCDF's global corporate strategy objectives and draw lessons to inform UNCDF's future strategy debates.

4. RESULTS

OUTPUT 1: ACHIEVING A POLICY / VISION STATEMENT

A national policy/vision statement for inclusive finance is developed, consulted and adopted by

⁴ Primary membership is restricted to those with investments of and above US\$ 250,000.

GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided.

The following key activities implemented in support of Output 1 from January – December 2010:

INFUSE has established key partnerships with the MoED whose Minister chairs the MCIF. In addition during 2010, INFUSE enhanced relations with the Banking and Payments Authority (BPA) which is the precursor to the central bank. Finally, INFUSE's participation in the National Priority Working Groups (NPWG) generated a greater awareness of inclusive finance issues.

- INFUSE procured the services of an expert in microfinance policy and regulations to provide technical assistance to the BPA for development of an enabling regulatory framework for microfinance. The consultant provided support remotely and in country between May and December to:

- Conduct a policy diagnostic to evaluate the regulatory environment and advise on appropriate interventions.
- Provide inputs into the new draft document
- Incorporate parallel policy work being undertaken around branchless banking.

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)* approved on December 17, 2010 and available for download at http://www.bancocentral.tl/Download/Instructions/Pub_Inst_6_2010_en.pdf.

The implications are that the NGO-MFIs will be restricted from mediating savings deposits unless they obtain an ODTI license. To apply for such a license, the NGO-MFIs will be required to first transform into companies as per the commercial companies law. The instruction states current interested MFIs must apply by June 2011 which will require additional technical support and legal advice in the coming months.

- 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.
- INFUSE participated in the GoTL's 2010 National Priority Working Group (NPWG1) for Infrastructure (Private Sector Development). Private sector development was one of the key

goals, and INFUSE advocated for increased access to financial services to be incorporated as a target under this objective and reported on progress quarterly. Participation in this forum gave INFUSE the opportunity to promote awareness of issues pertaining to microfinance amongst a forum of different government agencies, donors, and development partners.

Progress made towards achievement of Output 1 targets during January – December 2010:

Enabling regulation to support the development of the financial sector was promulgated in December. The ODTI Instruction will promote integration of microfinance into the regulated financial system. This goal is clearly explained in the preamble to the Instruction, which takes into account that:

- *All residents of Timor-Leste can benefit from access to financial services;*
- *organizations that specialize in providing financial services to low income populations require regulation that is specific to the risks associated with those services;*
- *specialized regulation for ODTIs will facilitate their organizational development and their ability to grow in a safe and sound manner;*
- *specialized regulation for ODTIs helps protect the banking system against money laundering and criminal activities;*
- *specialized regulation for ODTIs provides protection to their customers and members; and*
- *wider consultations with relevant stakeholders have been conducted.*

Challenges and Lessons Learned

- Procurement of technical services for the work with the BPA on enabling regulation was delayed for reasons already mentioned in Section II. The resulting complexity to re-schedule the in-country work with the BPA, and the need to seek co-funding (eventually IFC agreed to co-fund), impacted on the final outcome of this key output by preventing INFUSE from the opportunity to influence the strategic direction of the legal framework, rather than being reactive and trying to revise the completed instruction. It is anticipated that next year the Pacific region will recruit a Deputy Programme Manager (DPM) to cover the Pacific Financial Inclusion Program (PFIP) (70%) and INFUSE (30%) which will provide much needed operational support, and facilitate access to services procurement through the Pacific regional office.
- Development of a national policy/vision statement has yet to be initiated with GoTL. Given the small technical team (i.e. the CTA and UNV) in the PIU with much time devoted to operations and other ongoing activities, this was not deemed top priority in 2010. It is anticipated that the support from the DPM will alleviate time spent on administration and operations from the INFUSE technical staff who can direct more time towards programmatic activities such as this in the coming year.

OUTPUT 2: INCREASED OUTREACH OF SUSTAINABLE FINANCIAL SERVICES

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

The following key activities implemented in support of Output 2 from January – December 2010:

- The third and fourth meetings of the MCIF took place in March and November respectively, which resulted in approval of the detailed 2010 annual work plan and several funding investments for FSPs and TSPs. Details of these investments are described below.
- INFUSE continues to sustain key partnerships with two Microfinance Institutions (MFIs), Moris Rasik and Tuba Rai Metin (TRM), and details of this support during the reporting period are outlined below.

Support to Moris Rasik:

- A tripartite Performance Based Agreement (PBA) was signed in May for a two year grant of USD\$585,000 for institutional capacity building of Moris Rasik implemented with their TSP World Education Australia Ltd (WEAL). The proposal totaled US\$894,000, including US\$585,000 to be funded by INFUSE and US\$309,000 by WEAL, and was approved by the MCIF in March 2010. To be disbursed in tranches as per targets and milestones achieved, the first two tranches of US US\$300,000 were disbursed in 2010.
- The first tranche of US \$100,000 was disbursed in June to fund the following set of activities.
 - Development of a comprehensive Direct Implementation Plan (DIP) for organizational capacity building, based on staff training needs assessment.
 - Identification of appropriate MIS package identified with a plan for implementation.
 - Finalization of five year business plan and strategic plan, including projections and performance targets.
 - Staff training and capacity building in key areas of financial management, governance, and operational management.
- A second tranche of US \$200,000 was disbursed in November upon completion of the above listed activities in order to support:
 - Implementation of the Management Information System (MIS);
 - Strengthened Human Resource Management through completion of a training needs assessment for staff, development of job descriptions, and finalization of a HR policy;
 - Increased capacity in the area of financial management through workshops and training conducted on cash flow and liquidity management and internal audit and controls;
 - Strengthened governance; and
 - Enhanced client-orientated services and effective communications, through workshops conducted on market research, product development, and development of promotional materials.
- INFUSE also facilitated the development of a partnership between Moris Rasik 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 of credit that became available in December, and for technical assistance (\$60,000 over two years) for staff capacity building on new product development through their relationship with the Grameen Foundation and for communication technology through a Catalpa International, a Timor-Leste based NGO. These activities are in the planning stage.
- Moris Rasik has achieved the minimum targets and milestones set forth in the PBA with the exception of two areas that have been delayed. The implementation of the MIS has proven to be more challenging to roll out given the limitation of staff capacity in accounting and finance procedures, and computer technology. Additional expertise will be sought in the

coming year. The recruitment of new Board of Director members has been deferred due to the new ODTI regulation which will impact the type of board directors MR should recruit.

Support to Tuba Rai Metin (TRM):

- As per the tripartite PBA between INFUSE, Basix and TRM approved in September 2009, MicroLead agreed to fund Basix \$897,595 total for technical assistance, while INFUSE agreed to fund TRM \$271,728 for technical assistance and up to US\$ 1.48 million in loans and loan guarantees.
- Based on compliance with targets and milestones, the first loan of US \$150,000 was initiated for disbursement in June and transferred in August 2010. Followed by a second loan of US\$ 150,000 that was approved for disbursement by the MCIF in November and will be disbursed in 2011.
- The second grant tranche from INFUSE to TRM, US\$ 84,405, was disbursed in November upon completion of the following activities. Simultaneously, MicroLead disbursed their second tranche to Basix \$279,953 for technical assistance towards supporting these same activities.
 - Competent Board of Directors in place and trained;
 - Competent Internal Auditors in place and trained;
 - Key financial policies refined and/ or formulated and put in place including: write-off policy, cash flow analysis, asset-liability management, reserve, and ageing of portfolio; and
 - Trainings completed as per DIP;
 - MIS system upgrade in progress;
 - Plans for introduction of new products in place.
- INFUSE continues to coordinate and monitor the MicroLead Program partnership between Basix, the TSP, and TRM, meeting at minimum every two months to review the progress as per the 4.5 year detailed implementation plan.
- TRM has achieved the minimum targets and milestones set forth in the PBA with the exception of two areas that have been delayed. The implementation of the MIS has also been delayed for the same reasons cited for Moris Rasik. And new product development has been delayed though a plan is in place to develop an agriculture loan product, while the savings products have been deferred due to the introduction of the new ODTI instruction which will require NGO-MFIs to transform into companies should they choose to mediate savings.
- INFUSE continues to assist the MFIs in their search for external financing, and facilitated discussions between TRM and three microfinance investment vehicles (Triodos, Blue Orchard, PlaNis).
- Direct technical assistance was provided by the INFUSE to both Moris Rasik and Tuba Rai Metin to assess and identify an appropriate off-the-shelf MIS package that will formalize the institution's financial and portfolio systems and reporting. INFUSE is providing funding support to both MFIs for the purchase and installation. After much coordination and negotiation, both MFIs agreed to jointly purchase the same package (Abacus from Fern Software) which will result in additional benefits of cost-sharing and human resource capacity building.

Support to Credit Union Foundation Australia (CUFA)

- INFUSE provided a small grant of \$5,000 to CUFA to initiate and lead a strategic planning process with all relevant stakeholders involved in supporting the credit unions (CUs) including the GoTL's Diresaun Nasional Cooperativos (DNC), the Federation of CUs, and several CU representatives. Following on a workshop that took place in November 2009 to initiate the planning process, CUFA drafted a 7-year strategic plan including a detailed implementation plan and submitted to INFUSE in February. However after several rounds of negotiations with CUFA, INFUSE considers this still to be in draft form as it lacked realistic analysis of the sector, clear objectives, or a plan for robust technical and managerial expertise to implement the plan. Most importantly, the stakeholders refused to endorse it. Subsequently, CUFA chose not to continue developing it further, and thus INFUSE did not solicit a follow on proposal from CUFA as the TSP to implement the plan. INFUSE will continue to identify strategies that might support the CU development. The challenge being that the majority of the CUs are very small, remote, with weak governance and low member confidence which would demand significant technical expertise and investment in capacity building.
- In November, the MCIF reviewed and approved a detailed proposal from Mercy Corps (MC) for US\$ 165,205 grant funding, to be disbursed in 3 tranches over 2 years, for development and implementation of a social performance measurement tool—i.e. the Grameen Foundation Progress out of Poverty (PPI) Tool which is internationally recognized, simple to use and non-proprietary. MC will create MOUs to pilot this with TRM and Moris Rasik so they can measure the social impact of their products and services in terms of alleviating the poverty levels of clients. MC implemented this tool in Indonesia and will now adapt it for the TL context. By using the PPI over time, MFIs in Timor-Leste would be able to:
 - Better define and adhere to their missions;
 - Monitor the poverty status of their clients, review impact of their services on client poverty levels, and better design and deliver appropriate financial products and services for the poor;
 - Increase their competitive edge, profitability, and ability to retain clients;
 - Provide timely and accurate information to investors.

With support from the UNMIT GIS Unit, INFUSE developed a map displaying access points of financial services at village level, where FSPs including commercial banks, MFIs and CUs are operating in Timor-Leste as of 31 December 2009. Expected to have a variety of applications, the map can assist FSPs in strategically planning provision of their services in new markets; can indicate to potential customers the location of the nearest access point, and provide a baseline to monitor progress of geographic expansion of financial services in Timor Leste. It can be viewed at: <http://microfinance-pasifika.org/infuse-access-points-in-timor-leste-as-of-31-dec-2009.html>. The map was widely disseminated to stakeholders in April

Progress made towards achievement of Output 2 targets during January – December 2010:

Outreach

As seen in table 2 below, growth in total number of clients at all FSPs serving the low income segment of the market (CUFA, IMfTL, Moris Rasik, TRM) actually declined between January and December 2010. There was a spike in client numbers at IMfTL ending December 2009 resulting from the GoTL's one-time Referendum Funding Package that disbursed funds to small

contractors through IMfTL. Large numbers of accounts were opened for individuals to receive their funds but subsequently closed within a few months. This resulted in an artificially high number of clients at the end of 2009 / beginning of 2010*.

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

Indicator	Number of Microfinance Clients (as at)			Change in Client Numbers
	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2008 - 31 Dec 2010
Active Clients	35,369	58,666*	55,851	20,482
Borrowers	22,707	24,519	27,455	4,748
Women Borrowers	14,028	18,028	19,794	5,766
Savers	34,733	58,575	55,851	21,118
Women Savers	23,812	36,218	35,166	11,355

Notes:

- The table contains total number of clients for financial service providers engaged in microfinance activities in Timor-Leste as at 31 December 2010, along with 2009 and Baseline figures. Data for total active clients is disaggregated by product type and client gender.
- FSPs engaged in the provision of microfinance services include: Moris Rasik, TRM ,IMfTL and CUs

As shown in Table 3, if INFUSE considers all FSPs in the target numbers, it is on track to realize the end of programme outreach target of 73,341 active clients, which represents growth in microfinance clients of approximately 20% p.a. compounded, from baseline. However, as of 31 December 2010, direct support has only been provided to the two NGO-MFIs, Moris Rasik and Tuba Rai Metin both of which have experienced flat growth for the past two years due to a many reasons, including a focus on institution building – (i.e. implementing new MIS, finance, audit, HR systems and building governance/staff/management capacity) as well as the first time write off of approximately 1,000 clients by TRM (most from 2006 civil unrest). It's anticipated that with the capacity building funded through INFUSE, the foundation is being established for considerable growth in the coming years.

Table 3: Client numbers vs. Annual Outreach Targets

As at	Target	Number of All Microfinance Clients	Number of Clients at Moris Rasik and TRM combined
		Result	Result
31 Dec 2008	under revision	35,369	14,112
31 Dec 2009	41,680	58,666	14,030
31 Dec 2010	50,016	55,851	14,734
31 Dec 2011	60,019		
31 Dec 2012	73,341		

Development of original targets included projections for all FSPs providing microfinance services on the rationale that:

- INFUSE is intended to work at all levels of the financial sector to improve access to financial services, enhancing the enabling environment and business service support

- infrastructure; and
- b) At the time that programme targets were established, INFUSE expected to work more closely with other FSPs in the future.

The project document highlights a cross-cutting issue of gender and requires that 50% of the clients served by grantees should be women. As at the end of 2010, women comprised approximately 63% of clients at all FSPs engaged in provision of microfinance and approximately 92% of clients at the MFIs supported by INFUSE. In addition, both MR and TRM were financially self sufficient as at the end of 2010, with PAR ratios below 5%.

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.*

*UNCDF completed the original INFUSE program design in 2005 and revised the document after the 2006 civil unrest, which caused the cessation of many microfinance institutions. As a result, AMFITIL has been inactive since 2007 and currently the few remaining members (4) have resisted any encouragement to re-activate the association at this time.

The following key activities implemented in support of Output 3 from January – December 2010:

MF/ Banking Certificate for Human Resource Development

- With the objective to develop skilled human resources for the financial sector, INFUSE entered into a partnership with the National Labor Force Development Institute (INDMO is the Portuguese acronym) which is under the Secretary for Employment, Vocational and Professional Training (SEPFOPE), and procured technical assistance to support them to develop a standard competencies framework for a MF/Banking Certificate.
- Based on this framework, a training program can be developed to create a workforce that has a minimum level of education and skills to be entry-level staff at a bank or MFI, thereby ensuring basic capabilities and reducing the investments required by each FSP to train their own staff.
- A hired consultant conducted a mission in TL in August to survey industry stakeholders on staffing requirements, and submitted a framework of competencies in December which will be reviewed and submitted for approval to the INDMO Sub-Commission for Administration and Finance in early 2011.
- This is just the first step in a long term process to build a pool of qualified human resources to support the financial sector. The next steps include procuring technical services to collaborate with a local accredited training institute to develop a training curriculum and building their capacity to offer the training course.

Financial Education Programme

- With the objective to build the financial capabilities of MF clients, INFUSE embarked on the first step to developing a wider financial education programme. In August a short-term consultant was procured to conduct an initial scoping and assessment of supply and demand for financial education including identification of the gaps, opportunities, and potential partners in TL. The assessment was intended to inform the development of a Request for Proposals that would subsequently be issued to solicit proposals from TSPs.
- Upon completion of the mission, the consultant was only able to submit part of the deliverables. After many discussions and requested revisions, INFUSE accepted the final submission from the consultant though it was incomplete, and the consultant was only paid for work completed. The final deliverables are insufficient to be used as originally planned so alternative methods of establishing a long-term financial education program will need to be explored.

Challenges and Lessons Learned

- At the administrative and operational procedural levels, procurement of consultants was challenging as INFUSE requested deliverable based consultant contracts, though this is not common practice in TL-UNDP where contracts are typically based only on number of days worked. This resulted in the need to re-issue one consultant contract, and difficulty to hold the other consultant accountable to specific deliverables. Thus, payment disbursements to consultants also became delayed. The overall affect is additional time required by technical staff on administrative procedures and delays in program implementation.
- Despite INFUSE team's current understanding of the need for financial education and the lack of existing institutional partners at the national level with whom to collaborate, the financial education assessment was intended to document this supply and demand, and when the assessment fell short in this objective it resulted in postponement of the next steps. It's anticipated that regional retainer consultants for Inclusive Finance will be permitted in the next year. This will benefit the program by ensuring high quality, recommended expertise can be more easily engaged.

ADDITIONAL ACTIVITIES

Branchless Banking:

- With the objective to support the development of innovations in access to financial services, INFUSE collaborated with ADB's consultant mission from Bankable Frontiers Associates in July to a) support the BPA in development of branchless banking policy/regulation and b) conduct research on potential for piloting Government to People (G2P) payments through innovative technologies.

Cash Distribution

- Based on stakeholder gap analysis in TL, the lack of a cash distribution network has been identified as a key obstacle for FSPs. In December, INFUSE hosted a three month intern who will conduct research on current gaps (costs and inefficiencies) and potential solutions. The report will be finalized in 2011.

Knowledge Sharing:

A few promotional and knowledge sharing activities took place over the reporting period,

including:

- In collaboration with the Pacific Financial Inclusion Program (PFIP), INFUSE hosted an Informal Information Exchange in Dili in March on the “Fundamentals of Inclusive Finance” which was attended by 20 participant stakeholders.
- In conjunction with UNMIT Public Information Office, INFUSE produced two films in Tetun (local language) to broadcast on national television. Both highlighted the work of one MFI in Liquica district on a client’s business and a day in the life of a woman credit officer.
- Promotional stories were developed in conjunction with the UNDP-TL media unit.

5. LESSONS LEARNED

Though INFUSE encompassed many activities and made progress towards output targets during 2010, some challenges were experienced, namely around budgeting, financial, operational and administrative procedures as described in the different sections above. It is anticipated that these experiences will inform and facilitate future procedures; though, this also depends on attention and assistance from many different units and staff, not just the INFUSE PIU.

6. WORK PLAN 2011

In 2011, the following activities are planned under each of the following Outputs and will be approved by the MCIF in the next meeting:

OUTPUT 1: ACHIEVING A POLICY / VISION STATEMENT

- INFUSE will sponsor two staff members of the BPA to attend a Pacific Regional Training for Supervision of MFIs organized by Alliance for Financial Inclusion (AFI) in April in Fiji (as an initial step to more tailored training directly with the BPA).
- INFUSE will procure technical assistance for the BPA to develop supervision guidelines and capacity build staff to assist with the implementation of the new OTDI instruction.
- Participation in the 2011 National Priority Working Group #2 to promote financial services as part of the objectives on rural development.
- INFUSE will promote closer participation of BPA in AFI activities, including the Pacific Financial Inclusion Working Group, as per the demand of the BPA.
- INFUSE will coordinate with donors for the financial sector including IFC’s new Pacific Microfinance Initiative, and continue to seek additional funding to complete the INFUSE funding gap.

OUTPUT 2: INCREASED OUTREACH OF SUSTAINABLE FINANCIAL SERVICES

- Support to Moris Rasik and Tuba Rai Metin will continue as per the signed PBAs and may be expanded due to an increase in scope of capacity building needs stemming from their intentions to apply for an OTDI license. Potential co-funding may be sought through the new IFC Pacific Microfinance Initiative that will begin in early 2011.
- Support to Mercy Corps for development of the PPI tool will be ongoing through 2011.
- INFUSE will further explore potential and strategies to support development of the CUs.
- INFUSE will continue to pursue a branchless banking project, in partnership with a mobile network operator (MNO) and/or commercial bank should the regulatory environment permit.

OUTPUT 3: PROMOTING A BUSINESS SERVICES INFRASTRUCTURE

- Support for Financial Literacy/Education service providers to establish a new financial education program in Timor-Leste will be executed. A TSP will be identified through issuance of an RfP.
- The next step in development of a MF/banking training certificate program in collaboration with INDMO will be initiated through procurement of a technical service provider to transform the competencies framework into a training program curriculum.
- Potential for development of micro-insurance products will be explored with the newly licensed National Insurance of Timor Leste (NiTL) company.
- INFUSE will continue to explore ways to collaborate with stakeholders in support of development of mobile branchless banking innovations.

Note that based on the final mid-term evaluation, some indicators, targets and activities of the INFUSE program may be revised going forward. This will be discussed in the next MCIF meeting.

VIII. INDICATOR BASED PERFORMANCE ASSESSMENT

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)
Output 1 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.	Indicator 1	A Policy Statement on goals, strategies and priorities for Financial sub-sector development is adopted by GoTL (Y1)	- Enabling regulation for microfinance activities, developed with support from technical consultant procured by INFUSE, was approved in December 2010.	- As yet, the national vision statement on inclusive finance has not been developed. - INFUSE advocacy has focused on establishing participation of relevant government ministries and agencies, through collaboration with the MoED, the BPA and stakeholders in the GoTL, as follows.	- The process of developing the GoTL National Strategic Development Plan (NSDP 2011-2030)), to be finalized in 2011, has been prepared by the Prime Minister without consultation from any stakeholders (donors or development partners).
	Indicator 1.2	A consolidated Financial Sub-sector Activity Plan for 2007-2012 is developed as part of the NDP 2007-12 (Y2)	No	- The Minister of Economy and Development (MoED) is the Chair of and participates in the MCIF meetings The BPA also participates as an observer in the MCIF - Targets pertaining to access to MF included in the GoTL's annual National Priority Working Groups - Provision of technical support to BPA for legal framework of MFIs, and membership/participation in the AFI - Inputs were provided by INFUSE to national strategy on rural development.	
	Indicator 1.3	Principles for Support to the Financial Sub-Sector have been adopted by key donors (Y2)	.	- 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.	
	Indicator 1.4	UNDAF aligned with policy (Y2)		- INFUSE targets incorporated in UNDAF.	No national policy statement for inclusive finance developed as yet

	Indicator 1.5	Current and future investments in the sub-sector are reviewed for compliance with national policy framework (Y3-5)		- Key donors approached to contribute to INFUSE resulting in app. US\$3 million mobilized for INFUSE program, US\$1million mobilized from MicroLead for one MFI, and funding for another MFI committed from MAS and Credit Agricole	No national policy statement for inclusive finance developed as yet
Output 2 Increased Outreach of financial services by sustainable FSPs 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	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. (A breakdown of product	- 34,733 clients of FSPs involved in provision of microfinance services (3 MFIs and credit unions) as of Dec 2008 increased to 55,851 as of December 2010, representing 27% p.a. growth (compounded). Of this total, 14,734 are clients of INFUSE-supported MFIs.		
	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.	No	- INFUSE lent support to ADB/Bankable Frontiers Associate's assessment for potential of branchless banking in July 2010.	-Commercial banks and the single telecommunications service provider (monopoly through 2017) are currently not interested in developing new products and/or going down-market
	Indicator 2.3	At least 3 MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) >= 100%) by project end	2 MFIs have achieved FSS	- Moris Rasik FSS from Dec 2008 to Dec 2010: increased from 100.7% to 104.8% - TRM FSS: from Dec 2008 to Dec 2010: increased 89.8% to 112.7	INFUSE does not currently directly support the 3 rd MFI, and as such does not receive full financial reports
	Indicator 2.4	The 3 financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%.	2 MFIs have PAR below 5%	- TRM PAR from Dec 2008 to Dec 2010: decreased 9.2% to 3.7% - Moris Rasik PAR from .88% to 2.5%	
	Indicator 2.5	Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009	- MFI Branch Offices from Dec 2008 to Dec 2010 from 17 to 21	- INFUSE is in the process of collecting detailed data for access points of all FSPs as at 31 Dec 2010 to compare to baseline established at 31 Dec 2009.	

Output 3 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 (AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for members and the public.	Indicator 3.1	AMFITIL membership has increased, and members meet minimum standards of portfolio quality and sustainability (Y3)	No		- UNCDF completed the original INFUSE program design in 2005 and revised the document after the 2006 civil unrest, which caused the cessation of many microfinance institutions. As a result, AMFITIL has been inactive since 2007 and currently the few remaining members (4) have resisted any encouragement to re-activate the association at this time.
	Indicator 3.2	AMFITIL is formalized as a professional association (Y1)	No		
	Indicator 3.3	AMFITIL functions as advocate for the NGO-MFIs serving poor and low-income customers (Y2)	No		
	Indicator 3.4	At least 3 private or public sector providers of high-quality business services to FSPs have established outlets in Timor-Leste (Y5). Priorities include Financial Literacy, credit reference, audit, and exploring potential for m-banking (cell phone transactions)	- Credit Bureau was established in 2009	- INFUSE consultant conducted financial education scoping assessment in August 2010, as first step to developing a wider program. - INFUSE to collaborate with National Labor Development Institute on MF and banking certificate qualifications. - INFUSE lent support to ADB/Bankable Frontiers Associate's assessment for potential of branchless banking in July 2010.	Credit registry is managed by the BPA, and as of yet the MFIs do not participate.

7. ANNEX 1: JANUARY 1– DECEMBER 31, 2010 FUNDING DISBURSEMENTS

Description of Activity	Recipient	Delivery Mechanism	Amount	Disbursement Status
Strategic Plan for the CU network in Timor - Leste. Small grant to conduct a strategic planning workshop with stakeholders in the credit union movement (the National Directorate of Cooperatives (DNC), the Federation, representatives of credit unions) and development of a robust strategic plan.	CUFA	Grant	\$5,000	Feb-10
MFI Capacity Building: First tranche of a two - year grant to cover Moris Rasik's business and strategic planning carried out with support from WEAL, and initial assessment for purchase of a Management Information System (MIS).	Moris Rasik (MFI) and World Ed Australia Ltd (TSP)	Grant (1st tranche)	\$100,000	Jun-10
First loan for capital of USD 150,000	TRM	Loan	\$150,000	Aug-10
MFI Capacity Building: Second tranche of two - year grant to support implementation of the MIS, and capacity building from WEAL in key areas including: human resource management, financial management, strengthened governance; and enhanced client-orientated services	Moris Rasik (MFI) and World Ed Australia Ltd (TSP)	Grant (2nd tranche)	\$230,000	Nov-10
MFI Capacity Building: Second tranche of a three- year grant to fund continued support from BASIX in key areas such as financial management, MIS implementation, Governance and strategic planning, operations, human resources and fund mobilization.	TRM	Grant (2nd tranche)	\$84,405	Nov-10
Second tranche of first loan for capital totaling USD 230,000	Moris Rasik	Loan(2nd tranche)	\$130,000	Nov-10
Exposure visit by two BPA staff to Philippines for an AFI organized review of branchless and mobile banking regulations.	BPA	Direct Procurement	n/a	Jun-10
Follow up workshop in Fiji attended by one BPA staff to follow up AFI exposure visit.	BPA	Direct Procurement	n/a	Aug-10
Attendance of one BPA staff at the AFI Annual Global Policy Forum in Bali in September.	BPA	Direct Procurement	n/a	Sept-10
Consultant to conduct a policy diagnostic and to support the BPA in development of an enabling regulatory framework for microfinance.	Consultant: Mark Flaming	Direct Procurement	\$35,000	Pending
Consultant to work in collaboration with the National Labor Force Development Institute (INDMO) to support the development of the competencies framework for a MF/Banking Certificate, in order to develop skilled human resources for FSPs.	Consultant: Carolyn Blacklock	Direct Procurement	\$40,366	Pending
Consultant to conduct scoping of supply and demand of financial education opportunities in TL,	Consultant: Martin O'Reilly	Direct Procurement	\$17,235	Dec-10