



UNCDF SPECIAL PROJECTS IMPLEMENTATION REVIEW EXERCISE – SPIRE –

**Inclusive Finance for the Underserved
Economy (INFUSE) – Timor-Leste**

May 2011

EVALUATION TEAM	
Team leader	Marc DE SOUSA SHIELDS
Team members	Politimi (Polly) Kelekis
UNCDF Evaluation Unit Officer	

**UNCDF Special Projects Implementation Review Exercise (SPIRE)
Mid Term Review: Inclusive Finance for the Underserved Economy (INFUSE)
Timor-Leste**

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BASIC GEOGRAPHIC AND DEMOGRAPHIC DATA

Country Area:	14,874 km ²
Country Population (2009)	1 131 000
Capital City:	Dili
Languages:	Tetum & Portuguese (official languages), Indonesian & English (working languages), 16 indigenous dialects
Religion:	Roman Catholic 98%, Muslim 1%, Protestant 1% (2005)
Project Location:	Programme supports financial services providers with operations in all 13 districts
Source	The World Factbook www.cia.gov



PROGRAMME DATA SHEET

Country:	Timor-Leste	
Programme Title (long):	Inclusive Finance for Under-Served Economy	
Programme Title (short):	INFUSE	
Programme ATLAS Code (by donor):	UNCDF UNDP GoTL/UNCDF AusAID/UNDP AusAID/UNCDF	01853 00012 001971 11234 00471

Financial Breakdown (by donor) as of October 12, 2010		
Commitments:	Currency	
UNCDF	USD	1,050,000
UNDP	USD	500,000
Government of Timor-Leste*	USD	1,000,000
AusAID	AUD	2,500,000
Unfunded amount**	USD	400,000
Total project Budget	USD 5,000,000	

*GoTL donated USD 500,000 and committed an additional USD 500,000.

** Takes into consideration the exchange rate applied for the AusAID contribution.

Delivery to date (per donor) USD :

	2008*	2009	2010 ***	Total to date
UNCDF	61,676.66	- 19,993.09 **	461,869.43	503,553.00
UNDP	90,052.62	120,601.23	122,843.97	333,497.82
GoTL	N/A	183,923.00	132,887.00	316,810.00
AusAID	N/A	N/A	21,292.56	21,292.56
Total to date	151,729.28	284,531.14	738,892.96	
GRAND TOTAL				1,175,153.38

*April - December 2008 (INFUSE became fully operational in September 2008).

** Grants to institutions and other beneficiaries in the amount of US\$208,735 were wrongly deducted from INFUSE UNCDF Trac Funds in 2009 resulting in the negative balance. This mischarge was corrected in 2010.

*** Refers to the period from January to 31st September, 2010. ATLAS system official financial report (Combined Delivery Report) is published and approved on a quarterly basis.

Executing Agency:	UNCDF and UNDP (joint programme)
Implementing Agency:	UNCDF
Approval Date of project:	April 2008
Project Duration :	September 2008 to December 2012 January 2008-December 2012 (original duration)
Project Amendment:	None
Evaluation Date:	August – September 2010
Other current UNCDF projects in-country:	Local Government Support Programme, approved in November 2006 and expected to end December 2011
Previous UNCDF Projects:	Local Government Options Study 2003-2006, Local Development Programme 2004-2006
Previous evaluations :	None

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AMFITIL	Association of Microfinance Institutions in Timor-Leste
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	Federacaun Hanai Malu (Union of Savings and Credit Cooperatives)
FIF	Fund for Inclusive Finance
FPRET	Foundation for Poverty Reduction in East Timor (owner of IMfTL)
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
IFI	Inclusive Financial Institution
IMfTL	Instituicao de Microfinancas de Timor-Leste
INFUSE	Inclusive Finance for the Under-Served Economy (working title)
INDMO	National Labour Force Development Institute
INGO	International Non-Governmental Organisation
MBB MIX	Micro Banking Bulletin Market Information Exchange
MCIF	Management Committee for Inclusive Finance (IC)
MCRIL	MicroRating International (microfinance rating agency)
MDG(s)	Millennium Development Goal(s)
MDTF	Multi-donor Trust Fund
MFIs	Microfinance Institutions
MIS	Management Information System
MoED	Ministry of Economy and Development
MR	Moris Rasik (microfinance institution)
MSMEs	Micro, Small, and Medium-scale Enterprises
NDP	National Development Plan
NGO	Non-Government Organisation
NPWG	National Priority Working Group
ODTI	Other Deposit-Taking Institution (instruction)
PaR	Portfolio at Risk
PIFI	Partner Inclusive Financial Institution
PIU	Programme Implementation Unit
PFIP	Pacific Financial Inclusion Programme
SME	Small and Medium-scale Enterprise
SSOs	Sector Support Organisations
TA	Technical Assistance/Assistant
TL	Timor-Leste
TRM	Tuba Rai Metin (microfinance institution)
TSPs	Technical Service Providers
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WEAL	World Education Australia Limited
WB	World Bank

EXECUTIVE SUMMARY

PROGRAMME PROFILE

i. INFUSE is a USD 5M partnership programme between UNCDF, UNDP, AusAid and the Ministry of Economic Development (MoED) of the Government of Timor-Leste (GoTL). INFUSE was designed in 2005 and revised after the 2006 civil unrest in Timor-Leste. The country was chosen for its high level of poverty and the limited access to financial services of poor and low-income people. The overall goal, outcome and outputs of INFUSE are as follows:

Table 1: INFUSE - Goal, Outcomes and Outputs

Concept	Description
Overall Goal	To contribute to the achievement of the Millennium Development Goals (MDGs), in particular Goal 1 of cutting absolute poverty in Timor-Leste by one third by 2015, by increasing sustainable access to financial services for the poor and low-income people, both women and men.
Expected Outcome	Vulnerable groups will have improved access to sustainable financial services.
UNDAF Outcome	UNDAF Outcome 2: By 2013, vulnerable groups experience significant improvement in sustainable livelihoods, poverty reduction & disaster risk management within an overarching crisis preventions and recovery context. The programme specifically falls into the UNDAF sub-outcome 2.1.5: MFIs are capacitated to increase outreach to the low income populations.
Output 1 (Macro level)	A coherent GoTL policy framework for inclusive finance: A national policy statement for inclusive finance is developed, consulted and adopted by GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided.
Output 2 (Micro level)	Increased Outreach of financial services by sustainable financial service providers (FSPs): Good practice-based FSPs serving primarily the poor and low-income market make progress towards sustainability and increase their outreach, while maintaining a high portfolio quality.
Output 3 (Meso level)	Enhanced business service infrastructures for the financial sector: Private and public business service providers offering high-quality and market-responsive services to the financial sector are available in Timor-Leste, and a professional microfinance association (Association of Microfinance Institutions in Timor Leste - AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for members and the public.

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

THE PURPOSE OF THE EVALUATION

ii. The mid-term review (MTR) of INFUSE is part of a broader UNCDF initiative: the Special Projects Implementation Review Exercise (SPIRE). The SPIRE aims at combining two levels of analysis: (i) reviewing programmes on the basis of their specific design and (ii) connecting them to the UNCDF corporate strategy as a basis for cross-country comparison.

iii. The approach to the MTR— consistent with the SPIRE methodology – is to test the development theory underlying a programme against evidence on its implementation performance. The review focuses on seven core evaluation questions based on the SPIRE inclusive finance (IF) evaluation matrix, including relevant sub-questions and indicators. It has been adjusted to reflect the specificity of the INFUSE programme and to incorporate the issues included in the original terms of reference (ToR) for the review. (See Annex 1 for the ToR and Annex 5 for the full Evaluation Matrix).

OVERALL ASSESSMENT

Overview of Programme Implementation Status

iv. INFUSE began as a UNCDF-UNDP partnership with a programmed budget of USD 5M. The programme began effectively in September 2008, eight months behind schedule. At the time of the review, the programme had made five grants to four beneficiaries, provided two loans, and directly procured the services of three consultants resulting in total funds committed of USD 1,362,701. INFUSE spent 45% of its budget through September 30, 2010. Output 1 received 21% of the funding, Output 2 represented 54%, and Output 3 was 9%. The remaining amount covered programme support expenses. (See section 4.3)

v. The development hypothesis of INFUSE is that the promotion of an effective enabling environment supported by catalytic investments in financial service suppliers and financial sector businesses/institutions will enhance appropriate product/service innovation and the expansion of sustainable access to financial services for low-income persons. More specifically, the programme aims at achieving its expected outcome “vulnerable groups will have improved access to sustainable financial services” using the financial sector development approach and working at three levels: macro, meso and micro.¹

vi. At the mid-term review, the programme’s progress toward achieving its overall goal and outputs has been uneven. The programme has made advances in strengthening local financial service providers (the micro level), moderate progress related to creating an enabling regulatory and policy environment (the macro level), and minimal steps toward enhancing business service infrastructure for the inclusive finance sector (the meso level). A major constraint to strengthening the meso level infrastructure is the dearth of organisations to support. Although a significant amount of work remains to be done, the INFUSE programme implementation unit (PIU) staff still has the potential to achieve programme outputs and related output targets by project end.² Because the programme impact on IF service providers is still nascent improved access to services is minimal; the nature of changes suggest however good potential impacts/access improvements in the near future as per the programme’s overall intended theory of change.

The programme has achieved the following (reviewed by programme outputs):

vii. **Output 1:** At the **macro level**, the programme has had more impact in the legal/regulatory area compared to the policy side – more specifically, facilitating the development and adoption of the national policy statement for IF. Key accomplishments include providing Technical Assistance to the Banking and Payments Authority (BPA)³ to develop the Other Deposit-taking Institution (ODTI) instruction geared to creating an enabling environment for the inclusive finance sector.⁴ The programme also sponsored BPA staff members to attend the Boulder Institute of Microfinance (a renowned microfinance training institute), to improve knowledge and capacity related to inclusive finance and to undertake exposure visits and workshops sponsored by the Alliance for Financial Inclusion (AFI) to the Philippines, Fiji and Bali to review the regulatory issues around mobile/branchless banking. The programme has also secured buy-in from the highest levels of the Ministry of Economic Development (MoED) as evidenced by the fact that the Minister chairs the Management Committee for Inclusive Finance (MCIF)⁵ and actively participates in meetings.⁶ The programme and its government counterpart, the MoED, have not, however, focused on developing an IF policy vision statement. If Output 1 is to be fully achieved the programme should expand involvement of additional government agency staff, including more staff of the MoED and from other ministries, particularly the Ministry of Finance (MoF). Strategically coordinating buy-in and participation of various government ministries and agencies will facilitate the development of a national policy statement for Inclusive Finance.

viii. **Output 2:** At the **micro level**, INFUSE awarded grants and issued loans to two financial service providers, Moris Rasik (MR) and Tuba Rai Metin (TRM). Instead of providing short-term Technical Assistance (TA) as originally envisioned, INFUSE took a more comprehensive and long-term TA involvement approach. Grants to these partners’ inclusive financial institutions (PIFIs) support much-needed Technical Assistance, training and exposure visits for institutional capacity building as well as upgrades to the management information system (MIS). At this stage, the PIFIs have not expanded financial services to additional clients – the total number of clients has remained flat since the inception of programme support (13,440 combined PIFI borrowers). The programme is working on expanding technical and financial support to other financial service providers (IfMTL, commercial banks, mobile network operators or the credit unions). If INFUSE is not able to broaden FSPs participation beyond the current PIFIs, the risk is high that it will not meet the outcome targets of 73,341 active clients (or an additional 40,000 clients obtaining access to a secure savings account), and at least 3 MFIs achieving financial break-even⁷. INFUSE has not worked substantially the credit union system despite the Government of Timor-Leste’s interest in the financial cooperative sector.

¹ The macro level refers regulatory and policy environment; meso to financial sector infrastructure such as credit rating agencies, credit bureaus, sector associations, financial consultants, auditors, etc.; micro to organizations providing financial services clients.

² The exception is the three output targets related to the microfinance association (AMFITIL), which given the current context are no longer relevant nor critical for the development of the inclusive finance sector. See paragraph xiii for additional detail.

³ The BPA is the future Central Bank of Timor-Leste.

⁴ The ODTI will require NGOs to transform if they intend to mobilize and intermediate deposits from the public.

⁵ The MCIF is the INFUSE investment committee.

⁶ The BPA also participates on the MCIF as an observer.

⁷ Measured by Financial Self Sufficiency (FSS) > 100%

ix. **Output 3:** With respect to the **meso level**, the programme has taken initial measures to develop the business support infrastructure for the financial sector, including microfinance. Prior to the unrest in Timor-Leste in 2006 there were a dozen IFIs. After the unrest there were fewer than five and today there are only three IFIs of significance. These institutions communicate closely and coordinate efforts well, and the lack of a microfinance association does not appear to be a significant problem. Thus, the output targets related to the Association of Microfinance Institutions in Timor-Leste (AMFITIL) are largely irrelevant.⁸

x. INFUSE has recently launched two efforts aimed at plugging gaps in the meso level. The first is to create a Microfinance and Banking Certificate programme, in conjunction with the National Labour Force Development Institute (INDMO), to develop relevant competency standards, qualifications and resources in microfinance and banking. Given significant human capacity constraints in the financial services sector (in the country as a whole really), developing a certification programme is a reasonable initial approach to building local capacity. After the training modules are developed, INFUSE will rely on a “newly accredited training institute,” as yet unidentified, to deliver the training.⁹ The ultimate success of this initiative depends on the effectiveness of the unidentified implementing partner.

xi. The second initiative is to develop a financial literacy or education programme for microfinance clients. This approach is also reasonable and useful as financial education enables clients to better manage their financial resources, including credit and savings. Better consumer education will also increase the range and volume of financial services used by the poor.

CONCLUSIONS AND KEY RECOMMENDATIONS:

xii. INFUSE’s progress toward achieving its outcome, outputs and the related output targets has been uneven, as outlined above. The overall outputs of the programme as originally designed remain relevant and support the underlying development hypothesis – that improvements in the enabling environment supported by catalytic investments in IFIs and supporting industry infrastructure will strengthen the IF sector to the point where it is self-reliant and able to attract capital, deposits and loans that impel a sustainable growth process in the industry to serve low-income populations. Redesign of the programme in 2007 did not anticipate the lack of need for a sector association; however, the programme has adapted to address gaps in financial literacy and IFI management. Although the programme has yet to maximize its impact, the team can still attain its expected outcome and outputs by programme end if it accelerates efforts and increases its current staff capacity¹⁰.

xiii. The programme has begun building the capacities of the two most significant IFIs in the country. Although increased capacities are not yet apparent, the long-term TA approach and strategies being implemented have proven in other contexts to be good practice. This should lead to sustainable institutions and improved access to inclusive financial services, although results are not yet on apparent on the ground. The development of good practice policy by the RBM will support these market and institutional aims with its incoming IF regulation, however, the GoTL is pursuing two potentially market distorting financial initiatives that the programme has not be able to influence as per its original mandate.

xiv. The management of the IF programme has been satisfactory overall. The CTA demonstrates extensive microfinance technical expertise, solid country-context expertise, a good contact base and excellent commitment to the mission; however, other staff members are relatively inexperienced. Pending staffing issues including the departure of the International Programme Officer and extended leave of the Administration and Finance Officer have significant implications for programme continuity.

⁸ The three AMFITIL targets are: (1) AMFITIL is formalized as a professional association; (2) AMFITIL functions as advocate for the NGO-MFIs serving poor and low-income customers; (3) AMFITIL membership has increased, and members meet minimum standards of portfolio quality and sustainability.

⁹ TOR, “Technical Consultant to Develop Competency Based Qualifications for a Microfinance and Banking Training Certificate.”

¹⁰ As of the end of August 2010, the UNCDF appointed programme staff consisted of: a Chief Technical Advisor (responsible for overall management and technical advisory/coordination); an International Programme Officer (through the UN Volunteers Programme); a recently hired National Programme Officer; an Administration and Finance Officer; and a driver/clerk. The INFUSE programme implementation unit (PIU) is supported by a UNCDF Programme Officer, a UNCDF regional technical advisor based in Fiji, a UNDP Resident Representative for Poverty Reduction and Environment, the UNCDF regional office in Bangkok, Thailand, and UNCDF HQ

xv. The INFUSE programme has done a good job leveraging additional investment funds into the inclusive finance sector of Timor-Leste, securing funding from the Australian government of AUD 2.5M for 2010-2012. INFUSE is now 3.5 times the UNCDF's initial investment of USD 1,050,000. The programme has also facilitated linkages between FSPs and external funders who are considering investing in the microfinance sector.

xvi. The UNCDF-UNDP management of the partnership has not functioned efficiently. The challenges stem from the lack of an effective communication channel, unclear and bureaucratic institutional processes resulting in procurement and disbursement delays, and confusion regarding roles, responsibilities and work style issues. The partnership dynamics contributed to notable inefficiencies and a minor negative impact on overall programme effectiveness. There is a need to establish more effective communication channels between UNDP country office and INFUSE. In addition, minimizing changes to the reporting structure and providing better support to the PIU staff regarding UN system policies and procedures – especially during the early stages of the programme – would increase efficiency and effectiveness.

xvii. The following recommendations are prioritized based on their impact in influencing the achievement of outcomes and related targets.

Management

1. **Management/Staffing Challenges: UNCDF must proactively plan for potential and upcoming staffing changes by putting a human resources plan in place** and consider augmenting or changing current PIU staff to include an experienced individual with advocacy and policy development skills.
2. **Reporting Accuracy and Attribution.** The current monitoring and tracking system counts the number of active clients of MR, TRM, IMfTL and the credit unions. However, INFUSE does not support IMfTL and has only supported credit unions with a movement-wide strategy session and it is therefore not appropriate to count their clients as results achieved by INFUSE.
3. **Provide support on UN system policies and procedures for incoming programme managers to increase efficiency and effectiveness.** Appoint a capable mentor/point person and create basic “toolkit” for staff to minimize size of procurement and budgeting learning curves.
4. **Minimize changes to reporting structure.** Multiple changes in reporting lines within both the UNDP and UNCDF created excessive disruptions. To the extent possible, minimize such changes and ensure new arrangements work effectively.
5. **Improve Annual Work Plan documents.** The annual work plans for 2008, 2009 and 2010 all have different formats and varying levels of detail. To maximize monitoring and evaluation value, work plans should be more detailed and consistent with specific activities listed together with timelines.
6. **Modify interest rate on loans to PIFIs.** The current interest rate of 2% charged PIFIs is far below either national commercial rates or that of risk-averse, international microfinance investors. INFUSE needs to increase rate on subsequent loans to FSPs to reflect good practice.

Programme Strategy

7. **Decide if full IF policy vision including a range of Ministries is a relevant objective and if so augment/change current staffing to maximize Output 1 results.** Bolster the strength of existing PIU with stronger relationship building and advocacy skills.
8. **Develop exit strategy.** As the only significant IF programme in the country, INFUSE needs to develop an exit strategy to ensure that sector leadership roles are passed on to appropriate and sustainable institutions.
9. **Closely monitor intentions of GoTL with respect to the cooperative sector (credit unions) to ensure sufficient alignment of common interests.** INFUSE is not currently working with the credit unions despite the GoTL and MoED's interest in the sector. It is important that the programme be sensitive to the government's needs and priorities regarding this sector.

1. INTRODUCTION

1. This report presents the findings of the mid-term review of the Inclusive Finance for the Underserved Economy (INFUSE) implemented by UNCDF with UNDP in Timor-Leste. The review was carried out by a team of two international experts between August 2010 and January 2011. A field mission was carried out by the team in the period August 23-29, 2010.

2. The report is structured as follows:

- Chapter 2 presents the evaluation **approach and methodology** based on a declination of the general methodology adopted for the SPIRE according to the specificity of the INFUSE programme;
- Chapter 3 provides a synthetic description of the **country context**, including a description of the national social and economic development, the inclusive finance (IF) sector and the regulatory/policy environment for inclusive finance;
- Chapter 4 describes the **programme**, including its objectives and results framework, the reconstructed development hypothesis and ensuing intervention logic. This is followed by the description of the status of programme implementation – including detailed financial data;
- Chapter 5 presents the **findings** of the review and is structured along the seven core evaluation questions derived from the general IF SPIRE matrix. (See Table 2) Analysis in this section is complemented – where applicable - by references to the analysis of the implementation status of the programme; and,
- Finally, Chapter 6 sets out **conclusions and recommendations**, including an overall assessment of the programme, specific conclusions on the main issues addressed through the seven evaluation questions, and recommendations articulated according to priorities related to the programmes wind-up in 2012 and specific programmatic recommendations.

Annexes present detailed background information as well as further detail on the content of the exercise.

2. PURPOSE OF THE EVALUATION

2.1 SCOPE AND OBJECTIVES OF THE MID-TERM REVIEW

3. The mid-term review (MTR) of the INFUSE is part of a broader UNCDF initiative, the *Special Projects Implementation Review Exercise* (SPIRE). SPIRE has two key objectives:

- Ensure UNCDF compliance with the mandatory evaluation requirements specified in its evaluation policy for the period 2010-2011; and,
- Ensure a quality check of the relevance, effectiveness, efficiency and 'evaluability' of a significant sample of UNCDF's programmes.

4. The challenge presented by SPIRE is, therefore, to formulate an evaluation approach that allows it to assess country programmes against their specific design and to connect reviews with UNCDF's corporate strategy as a basis for cross-country comparisons and for the tracking of progress towards global objectives.

5. The purpose of the MTR is twofold:

- Assess the performance of INFUSE against its intended objectives and make recommendations to assist its implementation over the remainder of its term; and,
- Assess the performance of the INFUSE against the UNCDF's global corporate strategy objectives and draw lessons to inform UNCDF's future strategy debates.

6. The specific objectives of the mid-term review (MTR) are:

- To assist the recipient government, beneficiaries, and the concerned co-financing partners in understanding the efficiency, effectiveness, relevance, and likely sustainability of results;
- To assess the level of satisfaction of programme stakeholders and beneficiaries with the results;
- To assess whether UNCDF and its partners are effectively positioned to achieve results;
- To contribute to UNCDF and partners' learning from programme experience;
- To help programme stakeholders assess the value and opportunity for broader replication of the programme;
- To help programme stakeholders determine the need for follow-up on the intervention, and general direction for the future course;
- To ensure accountability for results to the programme's financial backers, stakeholders and beneficiaries;
- Comply with the requirement of the programme document/funding agreement and UNCDF Evaluation Policy.

2.2 EVALUATION APPROACH AND METHODOLOGY

7. The approach to the MTR — developed consistently with the broader framework established under SPIRE — is to test the development theory underlying the programme against implementation performance. Findings are built incrementally through pre-mission desk work followed by mission field work. The methodology is based on the following main steps, aimed at:

- Establishing the development hypothesis (or 'overall evaluation question') as unifying conceptual framework underlying the programme, from which the specific intervention logic is derived as reflected in the Programme's formulation documents.¹¹ The development hypothesis and the intervention logic serve as common thread guiding the review process;
- Adjusting and fine-tuning the SPIRE IF evaluation matrix (clustering questions, sub-questions and indicators) in order to suit the specificity of the programme. The core evaluation questions are set out in Table 2; a detailed matrix including questions, sub-questions, main findings per indicator and source of evidence is presented in Annex 5: IF Evaluation Matrix.

¹¹ Project Appraisal document.

- Presenting and discussing the conceptual framework and the evaluation questions with the main stakeholders in order to reach preliminary consensus and introduce further adjustments if needed. To this end, the team provided INFUSE staff a briefing phone call prior to the start of the in-country mission.¹² The briefing provided the team with the opportunity of sharing its understanding of the programme (development hypothesis), and presenting a first draft of the EQs and sub-EQs, which were then discussed with UNCDF/INFUSE staff upon arrival; and
- Testing and deepening the review team's understanding of the programme design and its emerging findings and recommendations through a structured dialogue with the programme stakeholders and the service users.

2.3 METHODS AND LIMITATIONS IN DATA COLLECTION

8. A key methodological issue concerns the adjustment and fine-tuning of the SPIRE evaluation matrix to align it with INFUSE's Results and Resources Framework and the original ToR of the Mid-Term Review. (See Annex 1) The fine-tuning of the evaluation matrix prior to the review did not raise particular problems as most issues resulting from the RRF and the ToR were covered by the original SPIRE IF matrix. Changes did not alter the overall orientation and relevance of the matrix as a guiding instrument and it proved a flexible checklist, framing interviews and the data collection process throughout the review.

9. The seven core matrix questions are presented in Table 2 (the detailed Evaluation Matrix is found in Annex 5: IF Evaluation Matrix).

Table 2: Summary of Core Evaluation Questions

1. To what extent does the programme design meet UNCDF's IF intervention logic and meet the needs of the partner country?
2. To what extent has the programme contributed to increased FSP/SSO/GAs institutional capacity?
3. To what extent has the programme contributed to improvement of access to appropriate pro-poor financial services? And to what extent has the programme enhanced the market for IF services?
4. To what extent is the programme likely to result in financially viable (i.e., sustainable) FSPs/SSOs in the longer term, independent of external assistance of any kind, and are there any significant programme phasing-out concerns?
5. How effective has management of the IF programme been?
6. How well have partnerships with donors and governments supported the programme?
7. To what extent were piloted approaches conducive to IF regulatory/policy/ strategy developments?

10. Data collection tools included:

- Documentary analysis: programme design documents, previous missions reports, annual and monitoring reports, investment project proposals, grant appraisal documents (including business development plans and budgets), grant contracts; national and regional policies; conventional and IF financial development policies; UNCDF/UNDP documents; other donors programmes documents, etc.;
- Hard data analysis (quantitative figures from the Mix Market¹³ and consolidated INFUSE reports, PIFI surveys, four Stakeholder surveys and 30 client surveys revenue statistics);
- Individual and group discussions with programme staff at national and local levels;
- Stakeholders' interviews; and

¹² A formal launch note was not provided because originally the INFUSE was to be evaluated as part of the Pacific Financial Inclusion Project. This approach was altered as the evaluation team determined that it was not possible to evaluate both programmes under same the terms of reference.

¹³ MIX Market™ is a global, web-based, microfinance information platform. It provides information to sector actors and the public at large on microfinance institutions (MFIs) worldwide, public and private funds that invest in microfinance, MFI networks, raters/external evaluators, advisory firms, and governmental and regulatory agencies. MIX Market seeks to develop a transparent information market to link MFIs worldwide with Investors and Donors and promote greater investment and information flows. MIX Market currently provides data on over 1800 MFIs, over 100 investors and almost 200 partners.

Read more: <http://www.mixmarket.org/about#ixzz1GhAsfaJb>

- Kick off and debriefing workshops;

11. As a complement to the above described data collection methods - and with the aim of 'testing' the relevance and applicability of an additional tool for possible more extensive use in upcoming SPIRE evaluations - the team distributed a written opinion survey at the stakeholder, PIFI and client levels. (See Annex 8 for a more detailed description and summary results). The surveys also have the role of providing stakeholders with a confidential means to voice their opinions related to programme outputs and management. The survey is used in analysis primarily to support or challenge interview and or management opinions.

12. The review team acknowledges excellent and punctual cooperation by the INFUSE Programme staff in facilitating data and documents collection and in supporting the organisation of stakeholders' meetings and site visits.

13. Table 3 provides a summary of the work plan of the in-country mission:

Table 3: Summary Work-Plan

Period	Location	Activity
Before departure	Home based	Preparation and preliminary sharing with Programme Staff of a draft 'orientation note' with the proposed intervention logic and evaluation matrix
23-27 Aug	Dili	Introductory meetings to programme staff and direct counterparts (UNDP)
		Interviews with main stakeholders (Government, Donors, Grantees)
25-27 Aug	Dili, Manatuto, Aileu	Visits to grantee offices (e.g., Moris Rasik and Tuba Rai Metin) and client visits
29-03	Suva, Fiji	Stakeholder follow ups, ,management interviews, and preliminary elaboration of findings and debriefing workshop with local stakeholders (INFUSE, UNDP and PFIP)

3. COUNTRY CONTEXT

3.1 SOCIO-ECONOMIC CONTEXT

14. In 2007, Timor-Leste ranked 162 out of 182 countries on the Human Development Index at 0.489, and had a per capita income of USD 717, making it amongst the poorest nations in South East Asia.¹⁴ Life expectancy at birth was 60.1 and adult literacy as a percentage of the population over 15 was 50.1%. With population growth at 2.5% per annum, the country has one of the world's fastest growing populations.¹⁵ Timor-Leste is largely rural, with 76% of the population in the countryside, and agriculture accounting for 88% of employment. The country is endowed with significant offshore oil and gas, from which it receives substantial royalties.

3.2 POLICY AND INSTITUTIONAL ENVIRONMENT

15. Timor-Leste gained independence in 2002 following 450 years of Portuguese colonisation and 24 years of Indonesian occupation. The war of independence, notably the actions of the departing occupiers, left much of the infrastructure destroyed and the population displaced.

16. The country was administered for a two year transitional period by the United Nations prior to 2002. Civil conflict engulfed parts of the country during 2006, leading to further population displacement, destruction of buildings and disruption of services. Under the security umbrella provided by the United Nations Integrated Mission in Timor-Leste (UNMIT) political stability was re-established, and a gradual process of social and economic recovery began, mainly benefitting the population in the capital, Dili.

17. The report of the Secretary-General of the UN Integrated Mission in Timor-Leste, dated 12 January 2010 (latest report at the time of the mission), indicates that political developments have been "indicative of continuing stability", notwithstanding the attacks on the President and Prime Minister in 2008.¹⁶ However, "institutions are still fragile and how well they could withstand another major crisis remains uncertain. In addition, many of the underlying factors that had contributed to the 2006 crisis remain. A reasonable goal is to ensure that the democratic institutions and processes established are robust enough to continue addressing these issues without regressions to violence."¹⁷

18. An estimated 80% of the country's population has very low levels of financial literacy. This, combined with absence of access to financial products and services, has a significant impact on national economic development and limits the full economic potential of low income people by denying them the opportunities to attain a fully productive living.

3.3 FINANCIAL AND INCLUSIVE FINANCE SECTOR

19. The financial sector of Timor-Leste comprises three foreign commercial banks; one government-owned non-bank financial institution - Instituição de Micro Finanças de Timor-Leste (IMfTL); two non-governmental organisations (NGO) inclusive financial institutions - Moris Rasik and Tuba Rai Metin; and approximately thirty small credit unions (also known as financial cooperatives). The commercial banks do not extend micro-loans and their services are largely concentrated in the capital of Dili. The two NGO-IFIs and IMfTL operate in all districts in Timor-Leste and have had modest success in achieving outreach in rural areas. Among them, they serve more than 48,500 active clients (includes savers) and 22,500 total borrowers. The client base of the two NGO-IFIs is 13,440 – the large majority of which are low income. Women make up 99% of savings and 92% of borrowing clients, respectively. IMfTL serves a relatively "better off" clientele – low-income salaried workers, particularly government employees. Credit unions vary in size and have an estimated 3,200 members. The

¹⁴ UNDP (2009) Human Development Report, Country Fact Sheet.

¹⁵ ADB and UNIFEM (2005) Gender and Nation Building in Timor Leste, Chapter 2 A, box 6.

¹⁶ Report of the Secretary-General on the United Nations Integrated Mission in Timor-Leste (for the period from 24 September 2009 to 20 January 2010), Section 2 p. 1 & Section 21, p. 8.

¹⁷ Ibid. Section 172, p.44

five largest credit unions serve approximately 55% of the membership base and have 85% of the credit union's combined capital.¹⁸

20. As a result, few poor are attended by the financial system, and population with access to financial services remains low at an estimated 13% financial inclusion.¹⁹ The estimated size of the overall market for inclusive finance services ranges from 275,000 to 320,000.

21. The constraints to growth of the sector include:

- The exceptionally low level of participation in the financial sector (less than many African countries as is the level of financial literacy);
- Distant villages with sparse population and low population densities;
- Low human resource capacity and scarcity of experienced human resources;²⁰
- Weaknesses in financial, managerial and strategic management capabilities at IFIs; and,
- Enabling legal/regulatory environment is not in place yet, although actions are being taken in this regard.

¹⁸ Data as of June 30, 2009, Appendix I: Credit Union Federation of Australia (CUFA) Table of Summary Statistics for all Operational CUs in Timor-Leste, from "INFUSE Support Strategies for Emerging Credit Unions in Timor-Leste, August 2009."

¹⁹ Honohan, Household Financial Assets in the Process of Development. In: J.B. Davies, Editor, *Personal Wealth from a Global Perspective*, Oxford University Press, Oxford (2008).

²⁰ Financial institutions suffer from the human resource deficiencies that affect all areas of national life.

4. PROGRAMME PROFILE

4.1 PROGRAMME DESCRIPTION

22. INFUSE was first designed in 2005 and revised after the 2006 civil unrest in Timor-Leste. The country was chosen for its high level of poverty and the limited access to financial services of poor and low-income people. Access to finance helps important income diversity enhancement, to build human, social and economic assets, and to move from everyday survival to planning for the future. There is substantial unsatisfied demand for financial services in Timor-Leste.

23. The programme is a USD 5M partnership programme between UNCDF, UNDP, AusAid and the GoTL. Formulated in 2006, it has the broad objective of supporting the development of the inclusive finance sector to serve the poor. The overall programme goal 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.

24. More concretely, the programme will attempt to ensure that the majority of Timor-Leste's population have access to an inclusive financial sector offering sustainable, demand-driven financial services, and contribute to the GoTL goal of reducing absolute poverty by 30% by end of 2015.

25. INFUSE's design takes a fairly standard UNCDF financial service sector assessment (FSSA) approach to sector development and has programmatic outputs and activities at each of the micro, meso and macro levels. Through a mix of grants/loans for on-lending, TA grants, training opportunities and networking/advocacy support, INFUSE was designed to support three outputs (see also Table 1, page vi and Annex 4):

- **Output 1 (Macro level) - A coherent GoTL policy framework for inclusive finance:** A national policy statement for inclusive finance is developed, consulted and adopted by GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided.
- **Output 2 (Micro level) - Increased Outreach of financial services by sustainable financial service providers (FSPs):** Good practice-based FSPs serving primarily the poor and low-income market make progress towards sustainability and increase their outreach, while maintaining a high portfolio quality.
- **Output 3 (Meso level) - Enhanced business service infrastructures for the financial sector:** Private and public business service providers offering high-quality and market-responsive services to the financial sector are available in Timor-Leste, and a professional microfinance association (Association of Microfinance Institutions in Timor Leste - AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for members and the public.

26. The hypothesis underlying INFUSE is that improvements in the enabling environment supported by catalytic investments in IFIs and supporting industry infrastructure will strengthen the inclusive finance sector to the point where it is self-reliant and able to attract capital, deposits and loans that impel a sustainable growth process in the industry to serve low income populations. (See Figure 1)

Figure 1: INFUSE Intervention Logic

27. The programmes approach at each level of the financial service sector includes:

- **Micro (client or retail financial provision level)**

INFUSE is to address the constraints to growth of the financial institutions in Timor-Leste. Financial institutions suffer from the human resource deficiencies that affect all areas of national life. All of the FSPs are by international standards small and display weaknesses in financial, managerial and strategic management capabilities. The key to attaining sustainability for the FSPs is growth and retention of customers and asset quality.

INFUSE will support retail financial service providers (e.g. commercial banks, non-bank financial institutions, NGO-MFIs, credit unions, credit cooperatives) to reach substantial scale and attain sustainability with appropriate funding mechanisms, including grants, loans and Technical Assistance (TA), to improve their capacity to manage growth, risk and product development while expanding their customer base at a feasible rate.

- **Meso (inclusive financial sector infrastructure needs: e.g., credit bureaus, sector associations etc.)**

INFUSE is designed to address the lack of ancillary (support) services necessary for a well functioning financial sector. The few existing business support infrastructure organisations in Timor-Leste need to be strengthened. In addition, the key to developing the sector at the meso level is to attract potential private or public sector business service providers to Timor-Leste, so that required business services will be available to the FSPs in a commercially viable manner in the future.

INFUSE was designed to use grant funding to support the development of business support service providers. The programme was also designed to liaise with regional level providers and industry networks to create interest in the market. Exposure visits to Timor-Leste present another means by which INFUSE could inform and attract new providers to serve the sector.

- **Macro (national regulatory, policy and programme level)**

At the macro level the programme was designed to focus on the lack of a coherent national policy/vision statement conducive to good practice IF and to support the development of the legal and regulatory environment in which financial service providers operate. This includes helping the BPA to understand the importance of removing constraints in the enabling environment to support new institutional models and new delivery channels (i.e., mobile and technology based IF sector developments). INFUSE was designed to accomplish this through the provision of technical advisory, workshops, stakeholder meetings and conferences, participation in regional and national forums, and technical training support (e.g., training scholarships). The programme also aimed to enhance donor coordination based on good practices.

4.2 PROGRAMME STATUS IMPLEMENTATION

28. INFUSE began as a UNCDF-UNDP partnership with a programmed budget of USD 5M. The programme began effectively in September 2008, eight months behind schedule, with the following staff: (1) a Chief Technical Advisor (CTA), (2) a National Programme Officer acting as Deputy CTA, and (3) an Administration and Finance Officer. The hiring of the driver/clerk was postponed to 2009 due to the delay in the delivery of the office vehicle. As of the end of August 2010, the programme staff consisted of (1) the CTA, (2) an International Programme Officer (through the UN Volunteers Programme), (3) a recently hired National Programme Officer, (4) the Administration and Finance Officer and (5) the driver/clerk.

29. The INFUSE Programme Implementation Unit (PIU) is supported by a UNCDF Programme Officer, a UNCDF regional technical advisor based in Fiji, a UNDP Resident Representative for Poverty Reduction and Environment, and the UNCDF HQ. The regional technical backstopping was originally from the UNCDF regional office in Colombo, Sri Lanka. This arrangement changed and regional support is now provided by the Pacific Financial Inclusion Programme (PFIP) based in Suva, Fiji and from the UNCDF regional office in Bangkok, Thailand.

30. INFUSE has provided USD 1.4M grants and loans to four organisations and has directly procured consulting services for Technical Assistance and advisory. (See Table 4)

Table 4: INFUSE Grants, Loans and Technical Assistance

Beneficiary	Grant / Loan / TA	Amount	Approval Date
Moris Rasik	Grant	\$20,000	26-Jan-09
Moris Rasik	Loan	\$230,000	26-Jan-09
Moris Rasik-WEAL	Grant	\$583,920	11-Mar-10
Tuba Rai Metin (TRM)	Grant	\$1,200	26-Jan-09
Tuba Rai Metin (TRM)	Loan	\$150,000	26-Jan-09
TRM-BASIX	Grant	\$271,000	29-Sep-09
Consultant to BPA	Direct procurement	\$35,000	29-Sep-09
Consultant for Banking and Microfinance Certificate	Direct procurement	\$40,366	11-Mar-10
Consultant for Financial Education Programme	Direct procurement	\$26,215	11-Mar-10
Credit Union Movement/CUFA	Grant	\$5,000	29-Sep-09
TOTAL		\$1,362,701	

Source: INFUSE management documents.

31. Programme implementation progress per output was uneven at the mid-term point. The programme's accomplishments for each Output follows. (For details see Table 5).

32. Output 1: A coherent GoTL policy framework for Inclusive Finance

The programme had more impact in the legal/regulatory compared to the policy framework. Its primary impact has been to support the development of a legal and regulatory framework through provision of technical advisory support to the BPA and by sponsoring exposure visits and training sessions for BPA staff. Through these activities, the programme is on track to creating enabling legislation for financial sub-sector development. There was no significant progress made on the policy framework, which was to have occurred in Year 1, despite an established working relationship with the Minister of Economy and Development (who is also the Chairperson of the MCIF). Neither INFUSE in its 2009 programme document or 2009 Annual Work Plan nor the Minister have prioritized the drafting of an inclusive finance policy framework. In addition, INFUSE has not yet developed a working relationship with other government ministries, particularly the Ministry of Finance (MoF).

33. Output 2: Increased outreach of financial services by sustainable FSPs

Initial work focused on Output 2. INFUSE supported the development of two existing financial services providers to strengthen their capacity and put them on a path to sustainability, good governance and solid performance and operations based on best practices. The programme funded the international-level institutional ratings of both PIFs and supported long-term technical advisory services to the institutions²¹. In addition, the CTA facilitated introductions to external funders. No progress was made in developing the capacity of the credit union movement as initial efforts proved ineffective.

34. Output 3: Enhanced business service infrastructures for the financial sector

Output three had three specific outputs focused on the strengthening of the Association of Microfinance institution in Timor Leste (AMFITIL): formalization as a professional association; functions as advocate for the NGO-MFIs serving poor and low-income customers; and increased membership, with members meeting minimum standards of portfolio quality and sustainability. When INFUSE was first conceived, there were over a dozen IFIs and an association was relevant. This was prior to civil unrest in 2006 and now there are fewer than five IFIs and only three of any significant size. These institutions communicate closely and coordinate efforts well and the lack of a microfinance association does not appear to be a significant problem, thus the output targets related to the Association of Microfinance Institutions in Timor-Leste (AMFITIL) are largely irrelevant. As a result, INFUSE has not applied time or funding resources to output 3 as articulated.

35. Instead, the programme has focused on financial literacy and financial management capacity development. The first initiative will create a microfinance and banking certificate programme, in conjunction with the National Labour Force Development Institute (INDMO). The programme will develop competency standards, qualifications and human resources in microfinance and banking. At the time of review, development was at the very initial stages and focused on finding an appropriate service provider to deliver the course. The second initiative is to develop a financial education or literacy programme for low-income microfinance clients. A scoping exercise on the supply and demand for financial education is currently underway. During the next stage, INFUSE will use the information to seek a technical service provider to design and implement a more comprehensive financial education programme. Neither initiative has associated progress targets.

²¹ The ratings of the PIFs were undertaken by an independent rating agency, MCRIL. MCRIL evaluates an MFI's performance and risk and assigns a grade or rating according to the assessment. At the broadest level, MCRIL examines the following categories: Governance & Strategic Positioning, Organisation & Management, and Financial Performance. This enables the MFI to better understand its strengths and weaknesses and also provides key information regarding an MFI's credit worthiness/investment grade level to a potential, external investor.

Table 5: Progress against Results Framework

Output Targets	Main Activities
Output 1. A coherent GoTL policy framework for inclusive finance: A national policy statement for inclusive finance is developed, consulted and adopted by the 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. This is a clear intended outcome of the project.	
Policy Statement on goals, strategies and priorities for Financial sub-sector development are adopted by the GoTL. Mid-term Progress: Participation in National Development Plan, working groups in 2009 and 2010. Minimal progress made toward achieving target as MoED had not yet drafted policy statement.	1.1 Assist MOED in drafting and consulting a national Policy statement on Inclusive Finance for GoTL adoption as input to NDP2007-12. Midterm Progress: No significant progress made. No national policy statement drafted yet.
Consolidated Financial Sub-sector Activity Plan for 2007-12 is developed as part of the National Development Plan (NDP) 2007-12 Mid-term Progress: Not yet implemented.	1.2 Assist MOED and BPA in drafting, reviewing and consulting on enabling legislation for financial sub-sector development. Midterm Progress: In process; BPA has drafted ODTI. INFUSE consultant has provided input as have PIFs. Supported BPA staff training and exposure visits. Linked BPA to Alliance for Financial Inclusion resulting in BPA formally registering as a member.
Principles for Support to the Financial Sub-Sector have been adopted by key donors. Mid-term Progress: Main donor, AusAID, disseminated strategy on "Financial Services for the Poor: A strategy for the Australian aid program 2010-15" and AusAID TL participates in CGAP Funder course on inclusive finance.	1.3 Draft good practice principles for sub-sector support adoption by development partners and assist in the review of baseline investment matrix to align investments to the national policy. Align UNDAF with a national policy framework. Midterm Progress: Advisory Group for Inclusive Finance to establish financial sub-sector donor / development partners group for purposes of promoting best practices/principles, reviewing INFUSE investments, providing guidance. ²² Intended to meet annually. INFUSE participates in the annual Timor-Leste Donor and Development Partners' meetings by providing input to the MoED, which highlights the importance of the inclusive finance during annual meeting.
UNDAF aligned with policy. Mid-term Progress: Policy Statement not completed yet. National Development plans and Prime Minister's strategic development plan for 2011-2030 are in line with UNDAF 2009-2013 outcome 2 and sub-outcome 2.1.5: "MFIs are capacitated to increase outreach to the low income populations."	1.4 Introduce microfinance best practices Midterm Progress: In process. Sponsored BPA staff to attend training sessions and industry conferences to improve knowledge of microfinance. Working with Pacific Financial Inclusion Programme (PFIP) to leverage their work in policy/regulatory area. Facilitating presentations on IF best practice to stakeholders.
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	
Baseline for borrowers and savers to be confirmed at inception. Midterm Progress: Baseline data revised (Oct 2009) and includes client data from MR, TRM, IMFTL, and credit unions – institutions that INFUSE	2.1 Mobilize additional investors for a Fund for Inclusive Finance (FIF) and form joint Investment Committee (IC). Midterm Progress: Activities accomplished. INFUSE mobilized additional funding from the GoTL and AusAID. Investment committee established January 2009.

²² The name of the original Programme Steering Committee as referred to in the programme document. Changed to the Advisory Group in November 2009 to avoid confusion with UNDP PSC understanding.

Output Targets	Main Activities
supports or expects to support over the life of the programme. Increase in the number of active clients (at least 50% women) of selected FSPs (excluding commercial banks) from baseline established as at end of 2008 by 20% per annum (compounded), totalling 73,341 active clients by project end. Midterm Progress: Number of active clients as of June 30th 2010: - 13,440 (for MR and TRM, the two IFIs supported by INFUSE); 92% are female. - 51,814 is the total number of clients, including those of IMFTL and credit unions. 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 project end. Midterm Progress: To be done. Have held initial discussions with a commercial bank. At least 3 FSPs have reached break-even (FSS >= 100%) by project end Midterm Progress: TRM and MR are financially sustainable (FSS>=100%). The 3rd FSP is outstanding. The 3 financially sustainable FSPs maintain an average PaR (30 days) of no more than 5% Midterm Progress: Not yet accomplished. Tracking this progress. MR has good portfolio quality and TRM's portfolio quality is improving. To reach 3 financially sustainable FSPs, INFUSE needs to attract another FSP to participate in the programme. Increase in the number of access points of all Financial Service Providers from baseline (to be established at end of 2009, increase to be determined once baseline is known). Midterm Progress: Baseline mapping exercise completed.	2.2 Recruit CTA in consultation with the PSC and IC, establish Secretariat for the Investment Committee (IC), and draft an Operations Manual with eligibility, selection, monitoring and reporting criteria and formats for adoption by IC. Midterm Progress: Activities accomplished 2.3 Issue Request for Proposals to FSPs, receive and appraise proposals based on business plans for presentation to IC with recommendations and standard agreements for signature by the IC upon approval. Midterm Progress: Activities accomplished. Activities (i.e., new rounds of funding) on-going. 2.4 Ensure disbursements to investees as per agreements, and monitor performance against targets set. Midterm Progress: Activities accomplished. This activity is on-going. 2.5 Liaise with industry networks to compare progress in performance, monitor financial sector developments, and report semi-annually to MCIF with recommendations for follow-up. Midterm Progress: On-going communication with PFIP for the Pacific Region. 2.6 Provide short-term Technical Assistance, training, and exposure visit directly to FSPs when urgent needs arise. <i>Midterm Progress: In progress. Long-term TA partnerships. A number of training sessions and exposure visits have been completed; additional training and visits part of future work plans and budgets. (See Table 9 for complete list.) INFUSE team provides direct TA to PIFIs in areas such as board selection, financial ratio use, MIS selection, business planning, linkages with investors.</i> INFUSE funded the development of a credit union strategic plan. Strategic planning workshop was not successful. As a result, current initial draft produced by CUFA produced by the credit unions at the workshop is of poor quality and requires significant revisions. Furthermore, the draft did not have final support of the credit unions themselves.
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.	
AMFITIL is formalized as a professional association Midterm Progress: No longer relevant. AMFITIL functions as advocate for the NGO-MFIs serving poor and low-income customers Midterm Progress: No longer relevant.	3.1 Draft eligibility, selection, monitoring and reporting criteria and formats for the business support services (BSS) window of the FIF for adoption by the MCIF. Midterm Progress: In progress. INFUSE is leveraging the formats, processes and funding window already created for FSPs. The approach taken is to use the gap analysis to identify and target requests for proposals given the country

Output Targets	Main Activities
AMFITIL membership has increased, and members meet minimum standards of portfolio quality and sustainability Midterm Progress: No longer relevant. At least 3 private or public sector providers of high-quality business services to FSPs have established outlets in Timor-Leste. Priorities include financial literacy, credit reference, audit, and exploring potential for m-banking (cell phone transactions). Midterm Progress: Not yet completed. Initial progress made in 2 areas: (1) hired consultant to create a banking and microfinance certification programme in conjunction with INDMO, and (2) hired consultant to undertake research and initial scoping to create ToR for financial education programme. Both consultants were on-the-ground in Timor-Leste in August 2010.	context (small, undeveloped sector with very few and weak BSS providers). 3.2 Issue Request for Proposals to networks and BSS providers, receive and appraise proposals based on business plans for presentation to the Management Committee for Inclusive Finance (MCIF) with recommendations and standard agreements for signature by the MCIF upon approval. Midterm Progress: INFUSE team presents a one-page synopsis of the proposed funding initiative and the supporting documents (per proposal submitted) to the MCIF. The MCIF has reviewed 3: (1) Grant for development of a social measurement tool; (2) TA for financial education scoping mission; (3) TA for support to INDMO on the MF/banking certification. 3.3 Ensure disbursements to investees as per agreements, and monitor performance against targets set. Midterm Progress: In progress. There have been delays to disbursements. Monitoring occurs on a regular basis including quarterly reporting and in-person meetings. 3.4 Liaise with regional BSS providers and industry networks to attract interest for the market. Midterm Progress: Not yet accomplished. No strategic linkages made with regional providers or industry networks; no exposure visits for them to Timor-Leste.

4.3 PROGRAMME FINANCIAL DATA

36. The total five-year budget for INFUSE was USD 5M, with original contributions of USD 1.05M from UNCDF and USD 500,000 from UNDP. The project began with a funding shortfall of USD 3.45M. Additional funding secured after start up included USD 1M from the Ministry of Economy and Development of the GoTL and AUD 2.5M from AusAID. Total expenditures for the period 2008 to third quarter 2010 were approximately USD 1.2 million.²³

37. Table 6 and Table 7 show total programme expenditure per donor contribution and per output from 2008 to 3rd quarter 2010. The data shows that the majority of programme funds (approximately 54%) were allocated to strengthening PIFs (Output 2), in line with anticipated expenses in original project design.²⁴

Table 6: INFUSE Expenditure by Donor from 2008 to Q3 2010*

	Budget	Spent	% of Budget Spent
UNDP	1,009,853	503,553	50%
UNCDF	375,000	333,498	89%
GoTL	500,000	316,810	63%
AusAID**	732,934	21,293	3%
Total	\$2,617,787	\$1,175,154	45%

*The above figures refer to expenditure through 30 September 2010.

**AusAID fund/new contribution was available in August 2010

Table 7: INFUSE Expenditure by Output from 2008 to Q3 2010

	2008		2009		2010		TOTAL	
	USD	%	USD	%	(to Q3)	%	USD	%
1. Output 1: A coherent GoTL policy framework for Inclusive Finance	98,215.87	51	89,178.51	33.7	72,568.86	9	259,963.24	20.6
2. Output 2: Increased Outreach of financial services by sustainable FSPs	3,512.79	2	144,370.12	54.6	535,623.93	66.6	683,506.84	54.3
3. Output 3: Enhanced business service infrastructures for the financial sector	0	0	30,811.67	11.6	86,233.87	10.7	117,045.54	9.3
4. Output 4; Programme Support	90,052	47	0	0	108,862.67	13.5	198,914.67	15.8
TOTAL	191,780.66	100	264,360.30	100	803,286.66	100	1,259,427.62	100

Source: Combined Delivery Report (UNDP/UNCDF official financial Report by ATLAS)

²³ According to input from UNCDF, the discrepancy in total expenditures between Table 6 and Table 7 is due to a gap in the ATLAS system when calculating expenditures based on the Combined Delivery Report (UNCDF/UNDP) *per donor vs. per output*.

²⁴ The original programme document indicated that Output 2 would receive approximately 60% of funds allocated to the three output areas. If we look at funding spent on three output areas (and do not include programme costs – listed as “Output 4”), then Output 2 received 64% of programme funds.

Figure 2: INFUSE Expenditure % by Output, 2008

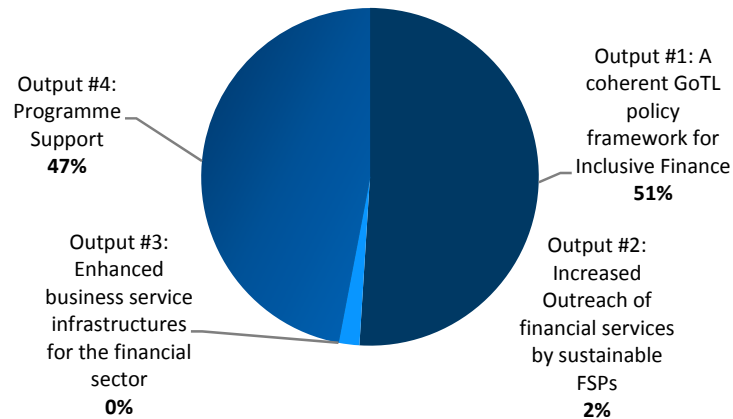


Figure 3: INFUSE Expenditure % by Output, 2009

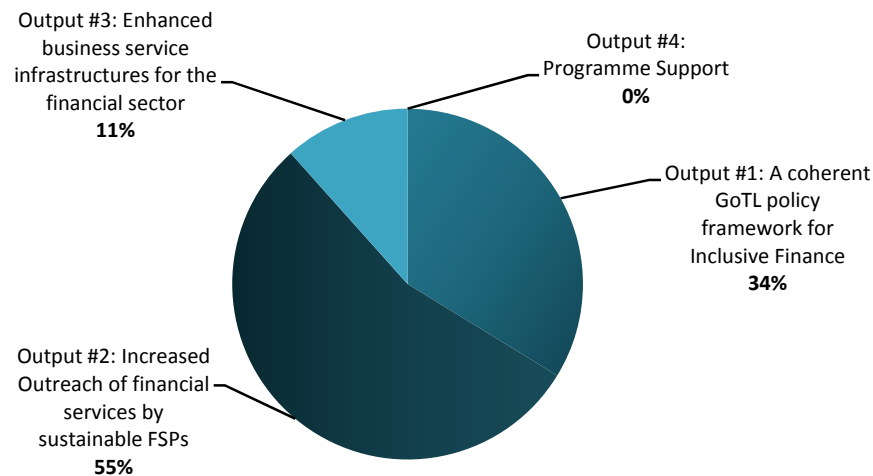
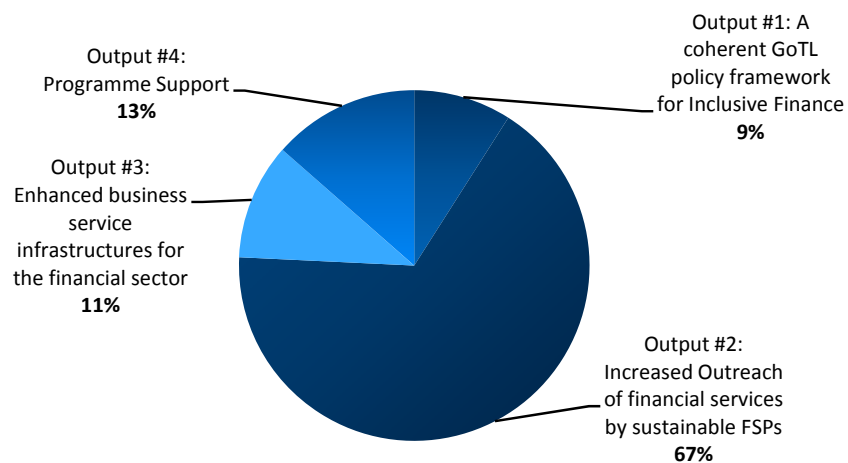


Figure 4: INFUSE Expenditure % by Output, 2010 (to Q3)



5. EVALUATION FINDINGS

38. This chapter reviews findings from the seven evaluation matrix questions and sub-questions. (See Annex 5: IF Evaluation Matrix for Evaluation Matrix Questions).²⁵

5.1 THE PROGRAMME'S DESIGN IS HIGHLY RELEVANT AND MEETS UNCDF'S IF INTERVENTION LOGIC AS WELL AS THE NEEDS OF THE PARTNER COUNTRY IN THE INCLUSIVE FINANCE AREA

EQ 1: "To what extent does the programme design meet UNCDF's IF intervention logic and the needs of the partner country?"

The overall programme design is highly relevant and meets the needs of Timor-Leste – in particular, the need to build sustainable, best-practices financial services providers and to enhance the enabling environment in which financial services providers operate – as reflected in numerous GoTL documents and its National Development Plan. It is well aligned with UNCDF's Inclusive Finance (IF) intervention logic. The programme design could be strengthened with revised output targets for Output 3 to reflect.

5.1.1 The programme meets the needs and supports the GoTL's poverty alleviation goals as they relate to inclusive finance market

39. The programme's intervention logic is consistent with the country's first national development plan, the 2002 National Development Plan, as well as the country's National Priorities Framework for 2009, under National Priority 2 on Rural Development, and with the more recent National Priorities Framework for 2010 under National Priority 1 on Infrastructure (Private Sector Development).²⁶ The programme is also consistent with the Programme of the IV Constitutional Government (2007-2012), "[The] Government intends to implement the following measures [...] to develop micro-credit institutions by promoting relevant regulations and adequate supervision and control mechanisms"²⁷ and the recently released summary of the New Strategic Development Plan 2011-2030 of the Prime Minister's Office in which INFUSE participated officially.²⁸

40. The programme's main government counterpart is the Ministry of Economy and Development (MoED).²⁹ According to the Decree Law/2007, the MoED is responsible for promoting the development of the cooperative sector and inclusive finance, including the policies and laws and regulations required for these areas.³⁰ The Minister of Economy and Development is an active participant in the programme through his role as Chair of the investment committee, known as the Management Committee for Inclusive Finance (MCIF) of the Fund for Inclusive Finance (FIF).

41. According to the 2002 National Development Plan, the Banking and Payments Authority (BPA) is to take the role of a "catalyst for significant growth of savings and credit." The design of the INFUSE programme complements and supports the needs of the inclusive finance sector and the BPA's mandate to:

²⁵ Due to the nature of the INFUSE's outputs and related indicators, findings for each matrix question do not always correspond to a single output and for the most part each question addresses various aspects of each output (related output is indicated at the beginning of each question). The exceptions are Question 5.1, 5.6 and 5.7, which relate to INFUSE design, management performance, and donor/partnership issues respectively. Similarly, matrix questions do not uniquely align specifically with the macro, meso, micro levels of the FSSA approach used by UNCDF. Important alignments with each of these levels are indicated in the text as necessary.

²⁶ The 2010 National Development Plan can be found at <http://www.pm.gov.tp/ndp.htm>.

²⁷ The Programme of the IV Constitutional Government [2007-2012], Presidency of the Council of Ministers, Democratic Republic of Timor-Leste can be found at http://timor-leste.gov.tl/?p=16&lang=en&lang=en#sh_priorities

²⁸ "The government will also facilitate the development of the domestic financial markets, including commercial bank lending for business activity. For example, one of the goals in the agriculture sector will be to encourage banks to provide seasonal credits for farm inputs, so that farmers have a reliable commercial system to obtain seeds, fertilizer, implements, irrigation equipment, and other critical components for farm modernization. The Government will also work to spread microfinance of all kinds, including saving accounts for the citizenry and micro-lending for small businesses." Office of the Prime Minister, "On Road to Peace and Prosperity, Timor-Leste's Strategic Development Plan 2011-2030, Summary Document, April 7, 2010 (full document not released at this time), p. 15. <http://www.laohamutuk.org/econ/10TLDPM/RDTLStratDevPlanSumm7Apr2010En.pdf>

²⁹ In addition to INFUSE, the MoED's portfolio includes Institution of Trade Investment, Institute of Support for the Development of the Private Sector, IMFTL and the mandate to establish a National Development Bank.

³⁰ For the full scope of the functions of the MoED, see Decree Law / 2007 – Structure of the IV Constitutional Government.

- “promote more competition and increasing numbers and types of private banks and financial institutions (including widening rural presence by private banks);”
- “to support donors and NGOs to develop micro savings and credit schemes especially in rural areas;” and,
- “to develop regulations and capacities to promote private superannuation and other savings schemes.”³¹

5.1.2 There is a significant level of buy-in from the Ministry of Economy and Development and the BPA, however, government buy-in needs to be broadened and deepened

42. The MoED, senior officials at the BPA, relevant donor stakeholders and PIFIs all confirmed the relevance of the INFUSE programme and its design during interviews. For example, according to a high-level government official, the programme was “a much-needed project” given Timor-Leste’s emergence from the crisis and the dissolution of most of the country’s MFIs. The BPA supported INFUSE’s approach of donor harmonization for the microfinance sector and expressed its appreciation for the opportunities to build its staff capacity through training and participation in policy dialogues. The programme enjoys buy-in from most stakeholders, including international donors – as evidence by their funding contributions – as well as the BPA and PIFIs, which continue to access programme-funded support.

5.1.3 The programme design meets the needs of the finance sector by addressing gaps and constraints to sector growth

Micro Level

43. The design of the INFUSE programme meets the needs of the financial services sector at the FSP or micro level. The two main constraints to the growth of FSPs that serve the low-income population are severely limited PIFI human resources capacities and funding for on lending and capital investments (e.g., to invest in modern management information systems (MIS)). The programme’s design and funding mechanisms – grants and loans – are appropriate and the emphasis on building PIFI capacity is critical. The design of the programme also includes the ability to work with a broad segment of FSPs, including commercial banks and mobile network operators (for mobile banking services), although the programme has yet to secure the participation of such actors. The design document did not prioritize credit unions and INFUSE management did not prioritize this segment, which is a current GoTL interest.

44. The INFUSE project revised the targets for Programme Output 2 in October 2009 for 3 reasons: (1) the baseline information for the calculation of target borrowers and savers was established in 2005 – before the 2006 civil unrest when the inclusive finance industry had more service providers; (2) the programme’s shorter term – start date was September 2008, 8 months later than anticipated in the project document; and (3) the methodology used to calculate Bottom of the Pyramid (BOP) figures used self-employed people as a proxy. This was determined not to be an accurate proxy (compounded by an error in the incorrect estimate calculation). The MCIF approved the revised targets on December 24th, 2009, and these are appropriate given the country and financial sector contexts.³²

Meso Level

45. INFUSE appropriately focuses on the developing sector services organisations (SSOs) at the meso level because it is virtually undeveloped. There are no financial services training providers, no active microfinance association, and no certified accounting/auditing agencies for inclusive financial institutions³³. The BPA manages the credit registry (credit bureau), launched in 2009 though MFIs do not yet participate.

46. While programme design appropriately addresses meso needs as important, target indicators do not accurately reflect the country context and the redundancy of the Association of Microfinance Institutions in Timor-Leste (AMFITIL) after the civil unrest in 2006. (See §16) Given that many IFIs ceased operations after the 2006 crisis, AMFITIL was essentially defunct.

³¹ <http://www.bancocentral.tl/en/main.asp>

³² For the detailed explanations regarding revised targets and BOP incorrect proxy, please refer to the document entitled, “INFUSE Programme Revised Financial Services Outreach Targets as of October 2009” approved by members of the MCIF on 24 December 2009. The electronic filename is “Note-to-File_Revised Target_signed all Dec09.pdf.”

³³ AMFITIL has been inactive since 2007, and the few remaining members do not see the value in re-activating the association.

47. Furthermore, the dearth of SSOs means that it has taken longer than expected for INFUSE to make progress and achieve results.

Macro Level

48. At the macro level, programme design – specifically Output 1 and its related targets – appropriately addressed a lack of a coherent national policy framework/vision statement for inclusive finance and the need to develop the enabling environment to support the expansion of the financial sector. However, the timeframe envisioned in the design document for “drafting and consulting on a national policy statement of Inclusive Finance for GoTL adoption,” which was two quarters after the launch of the programme, was very optimistic, perhaps unrealistic.

5.1.4 The programme’s expected outcome is in line with the UN Development Assistance Framework (UNDAF)

49. The expected programme outcome 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: MFIs are capacitated to increase outreach to the low income populations.

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

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

5.1.5 The design is flexible and corresponds with UNCDF’s intervention logic

51. The programme design is consistent with the UNCDF FSSA approach – micro, meso, macro levels. UNCDF programme design typically provides flexibility so that management can take advantage of the market opportunities and strategically support IF sector development needs. The design provides for measurable, performance-driven grants and loans, augmented by a range of information, technical advisory and training support tools. The programme provides additionality to sector development – it is more strategic and comprehensive than previous projects, which focused on specific institutions, e.g., ABD’s support to IMFTL. INFUSE also provides critical sources of financing for the sector as external funding assistance is very limited.

5.1.6 The programme supports gender mainstreaming but does not take into consideration environmental themes

52. The cross-cutting issue of gender mainstreaming is incorporated into the design of the INFUSE programme. The project document highlights the special circumstances of women and ensures that women are beneficiaries of INFUSE support by requiring that 50% of the clients served by grantees should be women and that women should participate in training sessions and workshops to build their skills and increase their capacity. Grantees and other stakeholders confirmed the emphasis on ensuring women’s participation. The two PIFI grantees target women as the majority of their client base – 92% of the total number of 13,440 borrowers (as of June 30, 2010) are female. The design does not make any specific mention of environmental cross-cutting issues such as environmental screening or environmental operational performance of grantees.

5.2 THE PROGRAMME HAS BEGUN TO CONTRIBUTE TO INCREASED INSTITUTIONAL CAPACITY OF PARTNER INCLUSIVE FINANCE INSTITUTIONS AND TO A LESSER EXTENT, GOVERNMENT AGENCIES (GAs), BUT HAS NOT YET AFFECTED THE CAPACITY OF SECTOR SUPPORT ORGANISATIONS (SSOs).

EQ 2: "To what extent has the programme contributed to increased institutional capacity of PIFIs, SSOs and GAs?"

The INFUSE programme has made good progress toward strengthening the institutional capacities – specifically, human resource/management capacities, financial capacity, and governance – of its two Partner Inclusive Financial Institution (PIFIs): Moris Rasik (MR) and Tuba Rai Metin (TRM). The programme has also contributed to building the capacity of senior officials at select government agencies primarily by raising awareness of the importance of inclusive finance issues through information sharing and exchange visits. To increase its impact, INFUSE must work with more PIFIs and GAs and incorporate additional staff from these agencies. So far, the programme has not impacted SSOs.

Capacity Building is not a separate output in the INFUSE Results Framework. Instead, the activities within each of the outputs address capacity building to varying degrees. For Output 1, this section covers the activities related to developing the national policy statement for inclusive finance. For Output 2, this section covers the activities related to (a) providing investments and ensuring disbursements as well as (b) providing Technical Assistance, training and exposure visits for PIFIs. Finally, for Output 3, this section covers activities relating to ensuring disbursements to sector support organisation investees and monitoring performance against targets.

5.2.1 The programme should strengthened the human resource (management) capacity of targeted PIFIs

53. The programme's approach to strengthening the human resources capacity at the Moris Rasik and Tuba Rai Metin has been to provide long-term comprehensive Technical Assistance (TA) as opposed to short-term consultancies for specific issues, with the objective of sustainably increase outreach or new client growth. This is an appropriate strategy given the breadth of human resources capacity and systems development needs at PIFIs. In addition to TA, the programme supported human resource development through staff financial training sessions, exposure visits, and institutional assessments. Because the TA projects are just underway at the institutions, there are no tangible quantitative performance effects at this time; however, evaluators note that both the strategy and focus of TA provision, as noted in paragraphs 55-62 is in line with international good practice and should yield outcomes consistent with design intentions.

54. Specific support for each PIFI is assessed in turn.

Table 8: A Snapshot Comparison of Moris Rasik & Tuba Rai Metin		
Indicators (as of 30 June 2010)	Moris Rasik	Tuba Rai Metin
Date established	January 2000	July 2001
Number of Active Borrowers	10,430	3,010
% Women	89.6%	100%
Avg. Outstanding Loan Balance per Borrower	\$396.29	\$189.20
Value of Loans Outstanding	\$4,133,320	\$569,507
PAR > 30 days	2.0%	3.9%
ROA	3.07%*	4.73%*
ROE	6.69%*	6.26%*
Number of personnel	115*	54
*Data as of end of Dec 2009 Sources: IFI Reports to INFUSE and the MixMarket		

55. **Moris Rasik:** The stronger of the two PIFIs receiving support from INFUSE - Moris Rasik (MR) -received an overall rating of α - with a "neutral" rating outlook from MCRIL in March 2009.³⁴ INFUSE's initial grant to MR was for USD 20,000 in 2009 for a 2-week training course and 3 exposure visits to build the capacity of 2 senior staff members. MR's Executive Director attended the training and exposure visits and stated that both approaches were valuable. For example, one set of training provided insight to developing microfinance

³⁴ MCRIL's rating of α - (alpha minus) denotes "reasonable safety, good systems / recommended." The outlook is MCRIL's view point of the future prospects of the organization.

products and an exposure visits to Bangladesh enabled the manager to see different products offerings first-hand. As a result, MR is now piloting both a solar loan lantern product and in-kind loans. (See Table 8 for more support details.)

56. After initial support and assessment, INFUSE approved a two-year USD 583,920 grant in May 2010 to Moris Rasik and its chosen TA provider World Education Australia Ltd, (WEAL)³⁵ for long term institutional capacity building to support:

- development of a strategic business plan;
- purchase of a management information system (MIS); and
- training in financial management, governance and operational management.

57. The first phase of the partnership (the “preparation phase”) was the evaluation, selection and implementation of the new MIS and strategic/business development planning. MR selected the MIS system and completed a new business plan in August 2010. The institutions Board of Directors approved the plan on September 22th, 2010. As per the grant agreement, WEAL and Moris Rasik provided required deliverables to the INFUSE PIU.³⁶ Going forward, WEAL will facilitate training in MIS, team building and leadership. Ideally WEAL will identify a local Timorese with experience to deliver the seminars on team building and leadership. According to the proposed budget, WEAL will contribute more than USD 300,000 to the project in the form of staff salaries, some travel-related costs, MIS costs and various in-country project expenses. WEAL will provide in-kind funding (staff time) and monetary resources from a grant received by a third-party donor.

58. Institutionally, Moris Rasik has a clear organisational chart, and job descriptions for all positions are available. In addition, the evaluation team assessed the written operations manual that includes personnel policies. A separate human resources (HR) manual does not yet exist, but there are plans to develop one. Moris Rasik has recently developed an incentive and performance bonus system. The organisation is registered with the Ministry of Justice, which provides it formal legal status. MR received a β+ rating from MCRIL for the “Organisation and Management” category.³⁷

59. **Tuba Rai Metin:** Tuba Rai Metin received a credit rating of β- (below investment grade) with a “neutral” rating outlook from MCRIL in April 2009.³⁸ TRM began operations in July 2001. Since then, the institution suffered from loss of grant support, abrupt departure of top management and destruction of a branch office and assets during the 2006 civil unrest, and limited staff skills. TRM requires significant long-term Technical Assistance and training to enable the organisation to become a “good” practice IFI. To begin the process of institutional strengthening, INFUSE provided a USD 1,200 grant for English language training for the Executive Director and Finance Manager in 2009. In December 2009, INFUSE approved a second grant to TRM for USD 271,000 as part of a comprehensive initiative to strengthen institution. (See Table 9 for more support details.) The INFUSE grant leveraged funding from UNCDF’s MicroLead programme for USD 897,000, and the Tuba Rai Metin – BASIX partnership was launched. MicroLead provides funding directly to BASIX³⁹ to cover on-site Technical Assistance to TRM for a 5-year period, which will include:

- MIS system development (including hardware, software, installation and training);
- annual external audits and MCRIL ratings;
- exposure visits and trainings;
- document translation;
- client communication strategy;
- funding of an additional senior manager for 3 years.

60. MicroLead and INFUSE harmonized funding and performance targets for this grant. So far, the partnership has resulted in several concrete accomplishments, including the recruitment and launch of an

³⁵ The WEAL-Moris Rasik partnership began before the INFUSE funding and is expected to last beyond the life of the INFUSE programme.

³⁶ The deliverables are the five-year strategic plan, the five-year business plan, the detailed implementation plan (DIP) for organisational capacity building, MIS requirements study and implementation plan, information and communications technology requirements study and implementation plan.

³⁷ The β+ rating denotes “reasonable safety, reasonable systems / recommended, needs monitoring.”

³⁸ The β- rating denotes “significant risk, poor to moderate systems / acceptable only after improvement.”

³⁹ BASIX has over 1.5 million customers in India. It provides financial, agricultural and business development help to poor households.

active Board of Directors (see § 102 and § 103); registration with the Ministry of Justice, which provides TRM with formal legal status; improvements in reporting (including improving reporting formats and creating new reporting templates), and the creation of new manuals.⁴⁰ The BASIX team is also working to change the organisational culture at TRM to prepare staff for the goal of transformation into a microfinance bank by December 2012. BASIX is educating staff on products and services to be better advocates and attract new clients, which will directly contribute to INFUSE's progress toward achieving the targeted number of clients served (Output 2).

61. Both Moris Rasik and Tuba Rai Metin provide quarterly financial indicators and narrative reports to INFUSE. Initially, the quality of the reports was weak but has seen recent improvement for two reasons: the INFUSE team has worked with staff from both institutions to train them on generating key financial and management indicators/ratios for reporting and management purposes; and expert input from WEAL and BASIX. INFUSE also holds formal bimonthly meetings with TRM and quarterly meetings with MR. Informal communication between INFUSE and the PIFIs is more frequent.

62. In addition to strengthening the institutional capacities of Moris Rasik and Tuba Rai Metin, INFUSE is examining potential support for the Institute of Microfinance of Timor-Lest (IMFTL).

63. **Credit Unions:** The programme has also made small steps towards working with the national credit union movement. Working with various stakeholders including the National Directorate of Cooperatives (DNC) of the MoED, the Credit Union Foundation of Australia (CUFA), Hanii Malu (the national credit union federation) and the credit unions themselves, INFUSE provided a USD 5,000 grant to develop a strategic plan for the credit union movement in Timor-Leste. CUFA organised a 5-day workshop in November 2009, at which participated representatives from all credit unions with the objective of designing a national credit union strategic development plan. Ultimately, the workshop proved an ineffective approach – attendees possessed differing levels of understanding and knowledge of financial institutional management, few had experience with strategic planning processes, and the workshop facilitator was not adequately versed in credit union issues nor did she speak the local language. The resulting strategic plan submitted to INFUSE did not have the endorsement of all credit union stakeholders.

64. The **training sessions and exposure visits** outlined in Table 9 **represent a good start to building human resources capacity**. The training sessions have improved senior management's understanding of microfinance best practices and innovations in various areas – e.g., new product development, strong credit practices, and liquidity management – and, if applied, should result in improved microfinance operations at both PIFIS. However, to ensure broader impact and long-term sustainability, future trainings should incorporate mid- and lower levels of staff. Because the training has only recently started and because its impact on human resources will take some time to gestate, impact on financial and management indicators is not yet apparent. (See Table 8 for more performance assessment)

65. **Two areas of concern regarding development of human resources capacity in the IF sector** are:

- i. The programme has had difficulty identifying participants for international/regional trainings outside of Timor-Leste. According to INFUSE, the reasons for the lack of participation include poor English language skills and the reluctance to travel alone to training sessions. Should lack of participation persist, INFUSE may reconsider its approach.
- ii. The second is the lack of progress with respect to building the capacity of the credit unions. The development of credit unions is of great interest for the GoTL, and INFUSE may wish to consider alternative approaches to engaging this segment of the IF sector.

⁴⁰ The registration process was completed on Feb 2, 2010.

Table 9: Capacity Building provided by INFUSE

No	Training/Exposure Visit	FSP/Beneficiary	Number of Participants		Total	% of Women	Year
			F	M			
1	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	Tuba Rai Metin	0	2	2	0%	4/2009
2	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	Moris Rasik	1	1	2	50%	4/2009
3	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	INFUSE programme team, national UNDP staff	1	0	1	100%	4/2009
4	Boulder Institute of Microfinance (Turin, Italy).	IMfTL	0	1	1	0%	07-08/2009
5	Boulder Institute of Microfinance (Turin, Italy).	BPA	1	0	1	100%	
6	Exposure Visit to MBK, Grameen-replicator MFI (Indonesia).	Moris Rasik	1	1	2	50%	4/2009
7	Exposure Visit to Cashpor (India) & Grameen Bank / Grameen Shakti (Bangladesh).	Moris Rasik	1	1	2	50%	6/2010
8	English language training course at LELI.	Tuba Rai Metin	0	2	2	0%	2009
9	Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).	Tuba Rai Metin	1 1	3 2	4 3	25% 33%	10&12/2009
10	Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).	Moris Rasik	1 1	3 2	4 3	25% 33%	10&12/2009
11	Strategic planning workshop (5-day) for Credit Union movement.	Credit union stakeholders	16	35	51	31%	11/2009
12	AFI exposure visit to Philippines.	BPA	2	0	2	100%	7/2010
13	AFI follow-on workshop in Fiji.	BPA	1	0	1	100%	8/2010
14	AFI annual global forum in Bali.	BPA	0	1	1	0%	9/2010
Total			28	54	82		

5.2.2 Increased Governance Capacity of PIFIs

66. Moris Rasik's governance system was strong prior to INFUSE support. According to MCRIL, "MR has a professionally qualified and strong 7 member board comprising 5 external members."⁴¹ One area that MCRIL identified for improvement was the frequency of board meetings. With the grant from INFUSE, WEAL and MR will focus on strengthening governance and improving the knowledge of the board of directors (BOD) in inclusive finance.

67. Prior to receiving grant assistance from INFUSE, TRM's governance structure was very weak. The latest MCRIL rating of April 2009 noted that TRM had a "weak and inactive governing board" and gave TRM a rating of $\gamma+$ for "Governance and Strategic Positioning." A rating of $\gamma+$ denotes "substantial risk, poor systems/needs considerable improvement." The governance structure was modified in November 2009, and with the support of BASIX and INFUSE a new board with five active and professional members was formed.

⁴¹ In 2010, the Board of Directors consisted of 6 members, 4 of whom are external.

Board capacity development will be provided by BASIX supported by INFUSE (e.g., a BoD member went to Cambodia for an exposure visit to a leading IFI in August 2010).

5.2.3 The PIFIs largely provide appropriate offer and some opportunities to women professionals in the sector

68. Moris Rasik's Executive Director is a female, and five out of six members of the board are female. TRM has one female board member and is likely to add another female member. Out of a total staff of 54 people, TRM has 12 female staff (22%); none is on the senior management team.

5.2.4 Financial Capacity Strengthening of PIFIs

69. The programme has contributed to strengthening the financial capacity of both Moris Rasik and Tuba Rai Metin by funding Technical Assistance to improve financial planning capacity and providing loan capital – a USD 230,000 approved loan for MR and USD 150,000 approved loan to TRM. INFUSE has also promoted diversification of funding sources of PIFIs by facilitating introductions with potential international microfinance institution investors, including Blue Orchard, Triodos, PlaNis, and Monaco Asia Society. New funding sources will enable PIFIs to make additional loans and increase outreach once sufficient management capacity is available for sustainable expansion.

5.2.5 Lack of Capacity Building at Sector Service Organisations

70. The programme has not made progress in building the capacity of sector service organisations (SSOs), as envisaged in Output 3 "Enhanced business service infrastructures for the financial sector." (See Table 1 **Error! Reference source not found.**). As noted above in § 34, programme output targets related to AMFITIL are no longer relevant and the programme does not need to support the largely defunct organisation.⁴²

71. Instead, INFUSE has taken initial steps to achieving the fourth output target, "At least 3 private or public sector providers of high-quality business services to FSPs have established outlets in Timor-Leste." Although capacity building of such SSOs has not occurred so far, INFUSE recently launched two efforts: development of a Microfinance and Banking Certification programme and creation of a Financial Education Programme for IFI clients. The goal of the first initiative is to create a Microfinance and Banking Certificate programme, in conjunction with the National Labour Force Development Institute (INDMO), to develop relevant competency standards, qualifications and resources in inclusive finance and banking. The training programme will help to create a workforce that is capable of entering the financial sector, reduce the investments required by each financial institution to train their staff, increase basic competencies among entry-level candidates, and institutionalize the long-term training of inclusive finance and banking experts. Given the low level of capacity and experience constraining growth of the microfinance industry, channelling resources toward this effort is reasonable and, in fact, should benefit the broader financial sector in Timor-Leste. By working with INDMO to create the certificate programme, INFUSE is helping to strengthen a local training organisation as well. At this juncture, however, it is not clear whether this effort will contribute to the expected results of the INFUSE since an as-yet-unidentified, "newly accredited training institute" is to implement the training.

72. The second effort is to develop a financial education programme for inclusive finance sector clients with the long-term result of improving low income client financial and money management skills and developing clients understanding of how to use financial services (credit, savings, insurance) for positive impact on their lives. Supporting client financial literacy/education not only helps clients, it will support more sustainable financial institutions as well. Specifically, education improves clients' basic understanding of financial management leading to improved on-time repayment, better budgeting, improved savings, and prevention of client over-indebtedness. In addition to more responsible use of financial products and services, improved literacy leads to increased demand for a broader array of services, creating a virtuous circle for sector development.

⁴² The three AMFITIL targets are: (i) AMFITIL is formalized as a professional association; (ii) AMFITIL functions as advocate for the NGO-MFIs serving poor and low-income customers; (iii) AMFITIL membership has increased, and members meet minimum standards of portfolio quality and sustainability.

73. To achieve a maximum meso-level impact, the sector will also need to help attract/support potential private or public sector business service providers such as local MIS technicians, local audit firms, and local trainers/consultants, so that required business services will be available to the IFIs in a commercially viable manner. Given the small relative size of the sector, the development of an abundance of vibrant meso level is unlikely within the term of the programme.

5.2.6 Capacity Building at Government Agencies

74. The programme has contributed to building the capacity at select government agencies primarily by raising awareness of the importance of inclusive finance, information sharing, and by supporting exchange/exposure visits as well.

75. At the BPA, INFUSE provided support to the drafting of a legal framework for inclusive finance in its effort to help the government to develop a coherent GoTL policy framework for Inclusive Finance (Output 1). In addition, the programme provided training sessions and exposure visits for the BPA. The BPA commended INFUSE for providing a highly qualified consultant to advise them, who also worked to improve management capacity (See Table 10, items 12-14). At present, the capacity effects have been limited to a few senior officials at the MoED and the BPA.

76. Working towards the same goal, the programme had less impact on GoTL inclusive finance sector finance policy. Neither INFUSE nor the MoED have prioritized the drafting of an inclusive finance policy framework. Beyond the BPA and the MoED, understanding within the GoTL of good practice inclusive finance and related policy is not widely apparent. Building awareness and minimal understanding of such practice has been limited and the programme was unable to successfully reach out with this message and/or training opportunities to other ministries/stakeholders within the GoTL, particularly the influential MoF. The result is several programmes/policies, such as continued support of poor practice inclusive finance at IMfTL (e.g., subsidies and poor lending practice) and serious efforts towards establishing a national development bank.

77. If the full implementation of Output 1 is deemed critical to the programme's overall success, it is not clear whether, after 2.5 years, the programme has the appropriate PIU capacity to work with all significant GoTL actors.

5.3 THE PROGRAMME HAS LAID THE INITIAL GROUNDWORK TO IMPROVE ACCESS TO APPROPRIATE PRO-POOR FINANCIAL SERVICES, BUT IT IS TOO EARLY TO SEE ANY SIGNIFICANT IMPACT ON EITHER INCREASED ACCESS OR ENHANCED IF MARKETS

EQ 3: "To what extent has the programme contributed to the improvement of access to appropriate pro-poor financial services?"

INFUSE-supported TA, training and exposure visits have had a minimal impact on improving existing products to date as both PIFIs are in the initial stages of project execution. Going forward, both PIFIs supported by the programme will broaden product offerings, thus expanding access to more appropriate pro-poor financial services. SSOs are at an earlier stage of project development.

This question relates primarily to Outputs 2 and 3 as it focuses on the programme's effects with respect to improving products and services target at poor and low-income segments of the population and to improving infrastructure.

5.3.1 INFUSE's investments correspond to PIFIs priorities and needs.

78. INFUSE spent considerable time working directly with both the PIFIs and their technical service providers (TSPs) to create an investment programme that directly met their needs and priorities. This included a preliminary "getting to know the institution" phase, where the programme provided small grants for training and/or exposure visits to the PIFIs (see Table 4 and § 55 and § 59 for more details). One of the first tasks of the TA support was to have the institution and the Technical Service Providers (TSP) develop a dynamic strategic plan for each PIFI for use of INFUSE funding including a business plan.

5.3.2 INFUSE's support has minimally impacted service offerings of PIFIs.

79. Given the limited time executing their project plans, PIFI's service offerings have yet to see dramatic change but some improvement due to better understanding of lending processes and client relationships has been reported by PIFI management and clients. Changes to existing products and new product development are expected as PIFIs implement new business plans and continue working with their TSPs. Based on interviews with PIFIs, expanded product offerings may include agricultural loans and housing improvement loans, and PIFIs are exploring potential links with commercial banks to offer improved savings services. Moris Rasik recently received approval to launch an in-kind loan product targeted to the very poor.⁴³ Finally, geographic expansion is part of the latest business plans of the PIFIs. (See § 82 and 83 for details.)

80. Regarding SSOs, the new financial literacy training and management capacity training are still in the development stages. (See § 71 and § 72 for details.)

5.3.3 Market expansion is limited due to the limited capacity of PIFIs and the lack of interest from other potential market entrants

81. The PIFI-TSP partnerships are laying the foundation for future market growth and expansion. The two PIFIs operate in all 13 districts (100% regional presence), and have a minimum of 77% penetration of the sub-districts and approximately 50% penetration at the suco level⁴⁴, the broadest coverage of all financial services providers (although there is potential to extend financial services deeper into the suco and aldeias levels.)⁴⁵

82. Simple geographic coverage, however, does not ensure access for the majority of the population. The estimated size of the overall market for inclusive finance services ranges from 275,000 to 320,000, of which less than 20% of the market is attended by MR, TRM, IMFTL and the credit unions.⁴⁶

83. According to the recently developed business plans, the PIFIs will expand into new areas to achieve penetration and growth targets. Expansion challenges include: (a) the low capacity of FSPs, (b) the lack of infrastructure (both physical and communications), and (c) the lack of access to financing to expand portfolio. It is unlikely that the programme-supported PIFIs will overcome these challenges during the life of the programme. Working with commercial banks, mobile network operators, or with IMfTL to serve the low-income market would improve overall access as well as create innovative, new, useful products and services including branchless banking. To date, INFUSE has not had success attracting significant interest from these actors, though one commercial bank and the national cell phone company have both suggested interest in the market.

5.3.4 The market for IF Services has not been significantly enhanced and levels of competition are minimal. No SSOs have been supported or established.

84. The market for IF services has not changed significantly as a result of INFUSE interventions, and the number of FSPs serving low-income markets remains the same. Annual work plans do not contain enough detail – specific activities broken out, timelines noted, interim targets set – to enable an assessment of progress and, according to targets found in the RRF (as represented in Table 5), the programme is behind on several output targets that would impact on market development.

This said market development impacts would rarely be seen after only two years of programme/project implementation. The review concludes – based on experience in other countries – that as institutions grow, as an enabling environment is developed, and as new players come to the market, increased competition will result. While too early to tell, the majority of these elements seem to be coming together in Timor-Leste, in

⁴³ The highlights of the in-kind loan product are the distribution of cows to clients who will care for the cows and use them for milking or meat. Moris Rasik connects the clients with the district veterinary services. After 1 year, the payback is 1 cow. MR learned about the in-kind product for the very poor during an exposure visit to Bangladesh,

⁴⁴ A suco is a cluster of villages.

⁴⁵ Aldeias are towns, villages and hamlets.

⁴⁶ Commercial banks in Timor-Leste do not provide microfinance services; therefore, they are excluded from the number of clients reached. The 16-18% estimate may overstate the market penetration as some of the loan products offered by MFIs are not serving low-income clients.

part due to the efforts of INFUSE and, in part, to saturation of conventional commercial banking markets and the government's potential upcoming licensing of another mobile network operator.⁴⁷

85. As noted, there is limited demand for reviving the microfinance association in Timor-Leste. However, there is a need to support and build other SSOs, although significant supply-side constraints exist. A possible oversight of emphasis by INFUSE is a stronger effort to support the credit union federation. National federations have played a significant role in IF sector development in many countries (e.g., Mexico, El Salvador) and could plausibly play an important role in the development of the credit union movement in Timor-Leste as well, particularly if linked to the larger, producer cooperative movement, which numbers over 100,000 members in various producer groups (but particularly those related to agriculture), where there are ample supply chain finance opportunities. Significantly, the government is very supportive of the cooperative sector and has made it an MoED priority. Due in part to poor communications and differential work styles between INFUSE, the National Directorate of Cooperatives (DNC) of the MoED, and the Credit Union Foundation of Australia (CUFA), support of the national credit union movement has not been significant, strategic or grounded in a mutually reinforcing relationship.⁴⁸ New perspectives are required to remove current constraints and reenergize future work by INFUSE with the credit union system.

86. On other meso level development fronts, INFUSE will begin to support exposure visits of SSOs to Timor-Leste in order to attract regional financial support services suppliers to Timor (e.g., audit firms, MIS companies, and management consultancies). This work will have some impact if successful but has yet to begin.

5.4 THE PROGRAMME IS VERY LIKELY TO RESULT IN FINANCIALLY VIABLE FSPs IN THE LONGER-TERM; HOWEVER, IT IS UNCLEAR WHETHER ANY FINANCIALLY SUSTAINABLE SSOs WILL EMERGE

EQ 4: To what extent is the programme likely to result in financially viable (i.e., sustainable) FSPs/SSOs in the longer-term, independent of external assistance of any kind?

The Programme is very likely to result in financially viable FSPs – both PIFIs have already reached financial sustainability. Assuming the PIFIs are able to maintain this level of sustainability, then INFUSE would need to support one additional PIFI to reach Output 2 Target 5.⁴⁹ It is currently premature to assess whether any SSO efforts will result in sustainable organisations as INFUSE has not undertaken any significant activities in this segment.

This question relates to Outputs 2 and 3 and covers those activities that aim to improve the sustainability of FSPs and SSOs.

5.4.1 There is evidence that PIFIs will maintain financially viable operations after the end of the INFUSE programme

87. Both PIFIs in the inclusive finance sector – MR and TRM – are financially viable based on the standard sustainability indicators of Operational Self-Sufficiency (OSS) and Financial Self-sufficiency (FSS).

88. **Moris Rasik** achieved OSS by December 2008 (112.1%) and maintained a stable OSS in 2009 (115%) and 2010 (158%).⁵⁰ MR achieved FSS in 2009 (105%). The institution's historical trends show a steady improvement in sustainability since December 2001. Moris Rasik's portfolio quality has been excellent historically, with PAR>30 days below 3%. At the end of 2008, Return on Assets (ROA) became positive at

⁴⁷ Digicel has applied for a license and has the experience in launching a mobile wallet service as evidenced by its work in Fiji, supported by PFIP.

⁴⁸ Of note, is that CUFA has a significant history with the Timor Leste credit union movement and has strong opinions on how development should occur. They have staffed a person out of Australia to provide TA but in the view of many stakeholders, this has not been all that effective. Instead, in-country resident TA support is required. Evaluations and the experience in many similar programmes support this claim (e.g., UNCDF's IF programmes in the Democratic Republic of Congo, Sierra Leone, Asia Pacific, and Malawi).

⁴⁹ "At least 3 FSPs have reached break-even (FSS>=100%) by project end."

⁵⁰ As of June 2010. This significant increase is a result of a decrease in expenses in the year. However, there are discrepancies between financial reports to INFUSE for March and June 2010 quarters, and there appears to have been an error in reporting in financial expenses and rent. Therefore, OSS may change from the reported 158%.

4.78%. Moris Rasik has a diversified base of donors and lenders including INFUSE, Triodos, Blue Orchard, Whole Foods Foundation and Silverton Foundation.

89. **Tuba Rai Metin** achieved OSS by December 2008 (125.5%) and has maintained OSS levels >100% since then. TRM achieved FSS in 2009 (110%), and projections show a steady improvement in both OSS and FSS for the next four years. The institution has had difficulties maintaining good portfolio quality with high PAR rates (9.2% as of December 2008) with a significant share of rescheduled loans. During the period 2006-2009, the institution did not make any write-offs. TRM completed its first write-offs in February 2010. As a result, TRM indicators show a positive trend as the institution begins the process of cleaning its portfolio quality, and it is likely PAR will be under control by the end of 2010. In the next four years (2010-2013), projections show PAR will remain below the 3% threshold. TRM does not have a diversified source of funds. In the past the organisation relied primarily on grant funding from the Catholic Relief Services and USAID, as well as an interest-free loan from ILO of USD 50,000. In 2009, INFUSE approved a low-interest rate loan for USD 150,000. BASIX and TRM are currently speaking with potential investors to raise funds required to obtain a license from the BPA. The partners aim to “transform TRM from an NGO-MFI to a savings-led MFI growing on commercial principles, preferably duly regulated.” Business plan projections show a future equity injection into TRM.

Table 10: A Snapshot of Financial Indicators

Indicators (as of 30 June 2010)	Moris Rasik	Tuba Rai Metin
Gross Portfolio Outstanding	\$4,133,320	\$569,507
PAR > 30 days	2.0%	3.9%
OSS	158.1%	140.4%
FSS	105.08%*	105%*
ROA	3.07%*	4.73%*
Adjusted ROA	-0.2%*	0.1%*
ROE	6.69%*	6.26%*

*Data as of end of Dec 2009

Sources: IFI Reports to INFUSE and the MixMarket

90. Given performance trends, there is no reason to believe that both PIFI's performance will not be maintained going forward fulfilling part of INFUSE's Output 2 goals.⁵¹ To fully reach this Output's objective, however, the programme will need to meaningfully support a third PIFI.

5.4.2 The programme has contributed to strengthening the long-term planning, management and governance processes at the PIFI level, but not the SSO level.

91. INFUSE support has produced initial improvements in the institutions' long-term planning processes at both PIFIs it supports. Both Moris Rasik and Tuba Rai Metin, in partnership with their respective TSPs, recently undertook strategic planning processes and produced viable strategic plans and related business plans and projections. For Tuba Rai Metin, this was the first time the organisation had undertaken a strategic planning effort. Initial progress suggests that the PIFIs will see improvements in management, financial capacity and governance processes through their long-term relationships with their TSPs. (See § 0 - 61 and 66 - 68 for details on management, financial capacity and governance support.) Management and performance reporting is an area that still requires continued attention. INFUSE staff has worked directly with both Moris Rasik and Tuba Rai Metin and TSPs to bring reporting for internal and external purposes to good-practice standards. Stakeholders and this review confirm that report quality and accuracy are improving.

92. If PIFIs progress according to their business plans, long-term support will not be necessary. This said, there is no exit strategy from INFUSE's support should additional capacity development be required after the programme ends. A second exit concern is the presumption that both institutions will be able to tap the private capital markets, attract new donors, and perhaps intermediate savings, to continue their growth.⁵² Planning has begun on this front but it is early yet to conclude that access to capital will be available. Developments in the regulatory environment (for savings capture) and international markets for microfinance capital suggest there is a strong chance that, if the PIFIs continue their performance and growth trajectories, capital concerns will be manageable given donor and investor interest in countries like Timor-Leste.

⁵¹ Historical OSS and FSS figures (2001-2008) taken from MCRIL rating report of March 2009.

⁵² The new, pending regulation is the Other Deposit-Taking Institution (ODTI) instruction

93. As noted earlier, INFUSE's work at the meso level (Output 3) has only just begun and it is not possible to determine the likely sustainability of either its financial literacy or financial sector management courses. It is unclear how far these programmes will advance prior to the end of the programme.

5.4.3 Sustainability of grantees was incorporated in the programme but not the phasing-out strategy of INFUSE itself

94. The initial INFUSE programme design did not specifically articulate an exit strategy. Instead, the design included sustainability indicators for all three of its outputs. Annual work plans do not address programme phase out issues nor did management articulate any phase out planning activities. Clearly, however, the IF sector will continue to require support at all three levels and if no other significant FSSA programme is developed there will be a significant number of gaps left unresolved. Additionally, it is unclear *whether* or *how fully* meso-level activities will be completed before the end of the programme. Therefore, institutions capable of managing and supporting these projects should be sourced as precaution.

5.5 THE MANAGEMENT OF THE IF PROGRAMME HAS BEEN SATISFACTORY, BUT PROGRESS IMPLEMENTING PROGRAMME ACTIVITIES HAS BEEN UNEVEN.

EQ 5. "How effective has management of the IF programme been?"

Overall progress toward meeting objectives found in the RRF has been uneven – the team has made good progress in some areas and minimal progress in others. This is attributable to a number of factors including outdated programme design, lack of staff capacity, lack of relevant skill sets, and unanticipated and overly burdensome administrative and operational issues. Improvements to the UNDP-UNCDF partnership would enhance efficiency and programme effectiveness.

This question more generally assesses the management of the programme in supporting INFUSE's three Outputs.

95. The INFUSE staff has achieved good but uneven progress with respect to implementing the activities in the RRF. The main activities so far have been:

- **Output 1:** Short-term technical support to the BPA to create and finalize new regulations for the IF sector;⁵³
- **Output 2:** Long-term Technical Assistance from TSPs to support MR and TRM strengthen institutional capacity and sustainability in order to increase outreach and provide more suitable products to low-income populations; and
- **Output 3:** Initial development of the Banking and Microfinance Certification in collaboration with INDMO and the beginnings of a financial education programme for inclusive finance clients.

5.5.1 Assessing progress against specific indicators of Annual Work Plans is difficult due to lack of formatting consistency and lack of detail.

96. Progress made against the Annual Work Plans from 2008, 2009 and 2010 is difficult to discern as the documents do not provide adequate detail regarding the specific activities in which the INFUSE programme will engage during the course of each year. More detailed annual work plans would serve as a better guide for effective and on-time implementation of programme activities and would enable better evaluation of programme activities.

97. On the whole, feedback from direct stakeholders (donors, co-funding partners, government, grantees, etc.) is that management performance is good to adequate, and on balance positive, given the staffing constraints, UN system policies and processes and country context. Stakeholders expressed that INFUSE staff is accessible and proactive, and they recognized INFUSE's efforts despite few demonstrable results as of yet. The significant number of stakeholders express concern that INFUSE has not taken the expected leadership role (facilitation, convening power, etc.) and has had limited impact on stakeholder coordination.

⁵³ See footnote 52.

5.5.2 INFUSE's effectiveness in embedding inclusive finance sector interests in government institutions is uneven within and across government ministries.

98. The INFUSE has done a commendable job in attaining high-level support, involvement and funding as well as in maintaining regular, ongoing communication with the Minister of the Economy and Development. In addition, the Vice Minister recently became involved with INFUSE and more MoED staff may become involved at a later date. Contacts with other government ministries are not as well developed. INFUSE has not yet established a productive working relationship with the Ministry of Finance, an important and influential player in the financial services sector (although it has a strong relationship with the International Finance Corporation of the World Bank, which has a dynamic relationships with the MoF). INFUSE has a programmatic relationship with the BPA providing technical advisory and training support to the institution.

99. INFUSE has done a good job executing its roles and responsibilities as the Secretariat for the Management Committee for Inclusive Finance (MCIF – the programme's governing body). The direct programme partners and members of the MCIF are UNDP, UNCDF (through PFIP), AusAID, and the MoED. The MCIF also includes the BPA as an observer-member. The investment committee policy and meeting minutes demonstrate that INFUSE has created an efficient joint management and decision-making process. The donors have delegated the overall workload and day-to-day management of the programme to the INFUSE programme support unit.

5.5.3 The UNDP and UNCDF partnership has not maximized potential synergies or efficiency, which has impacted programme effectiveness, although not significantly

100. The UNDP-UNCDF partnership has suffered from a number of ongoing communication, administrative staff turnover and reporting line challenges⁵⁴. There is a need to establish more effective communications channels between the UNDP and INFUSE. The existing, formal communication channels are (1) both INFUSE and UNDP participate in the MCIF meetings; and (2) INFUSE provides bi-weekly briefings to UNDP.⁵⁵ INFUSE is not physically located in Obrigado Barracks, the UNDP compound in Timor-Leste, yet the programme requires support from UNDP operational offices for back-end, administrative processes for recruitment, procurement, travel, and finance. The physical distance makes it more challenging to establish informal communication channels that could create more efficient work flows and could potentially minimize procedural delays. UNDP is a member of the MCIF, and the head of the UNDP's Poverty Reduction Environment Unit (PREU) is the INFUSE CTA's second supervisor. Despite these existing channels, communications remain poor (e.g., UNDP representatives have very basic understanding of the programme, have initiated a finance project without coordination with INFUSE, have not dedicated sufficient time to INFUSE tasks, and do not fully understand their roles and responsibilities, or if they do, have not fully executed them as effectively as possible). Stakeholders report that conflicting work styles have also played a role in the communication issue – for example, INFUSE's strong technical assistance approach to programme implementation versus the broader concerns (i.e., institutional and political interests) of the UNDP. Poor communications has led to significant procurement and procedural delays. In June 2010, the UNDP appointed a new head of PREU. Therefore, there is an opportunity to strengthen the working relationship.

5.5.4 The UNCDF Regional Office has not played a significant support role but the arrangement with the Pacific Financial Inclusion Programme (PFIP) has been effective and efficient.

101. Multiple changes in the management arrangement and reporting structure – as well as difficulties in institutional processes – have caused some confusion, inefficiency and delays to programme implementation. The current structure involves the UNDP Timor-Leste office, UNCDF's Bangkok office and PFIP, based in the Pacific Centre in Suva, Fiji. PFIP provides technical input and oversight and has made bi-annual visits and maintains frequent contact via email and telephone calls. PFIP also shares relevant documents and lessons learned with INFUSE. PFIP's Technical Advisor sits on the MCIF and is current with challenges, progress and priorities of the programme.

⁵⁴ In less than 3 years since the launch of the programme (September 2008), UNDP has assigned the following people to INFUSE:

- UNDP country director / alternate member of the MCIF: 2
- UNDP focal point/supervisor to CTA / primary member of MCIF: 3
- Participating members in the MCIF: 3 different people for 4 meetings
- UNDP program officer: 6

⁵⁵ In the past, briefings to the UNDP did not take place bi-weekly. This was due to scheduling changes, primarily on the part of the UNDP.

102. The regional office in Bangkok is supposed to provide administrative and financial guidance, although there have been cases of miscommunication between offices that resulted in delays in procuring Technical Assistance. In one instance, due to inflexible procedural issues and/or miscommunication,⁵⁶ INFUSE almost missed an important opportunity to hire a consultant to support the BPA. Due to co-funding from the International Finance Corporation, INFUSE was able to hire the consultant. Unclear or changing institutional processes include conflicting advice regarding appropriate documentation to submit for procurement purposes. The change in procurement offices from the UNCDF Bangkok regional office to the UNDP-TL office caused confusion. The current turnaround time for administrative and finance/budget processing is lengthy, and processes require persistent follow-up. The programme has also experienced delays in moving money from the Multi-donor Trust Fund (MDTF) to the INFUSE budget at a cost of overall programme and specific project efficiency. These issues, coupled with INFUSE staff's initial inexperience in UN procedures/processes, caused multiple delays in programme implementation. Overall programme effectiveness and efficiency is at some risk as a result of inefficiencies and consequent delays in project implementation – some projects may be left unfinished or unsustainable at the end of the programme.

103. The INFUSE programme has three Programme Officers (POs) – a backstopping, UNCDF Programme Officer and two INFUSE staff POs (one of whom is new).⁵⁷ There is no clear delineation of PO roles. In addition, over the life of the programme, the INFUSE PIU has worked with five different backstopping POs. Personnel changes have created difficulties in developing efficient working relationships between UNCDF support staff and INFUSE. The relationship between the INFUSE PIU and the current backstopping Programme Officer is a transactional one, which works on a task-by-demand basis as opposed to a team basis. As a result, the PO is not proactive and understands little about the programme, and INFUSE often takes on work that could be delegated to the PO.

104. There is a lack of clarity around responsibility for INFUSE budgeting as well as mischarges to the budget. Instances of confusion include UNDP charging costs to the INFUSE budget without prior discussion with the CTA (as the budget manager) and reversing underpayment of the CTA. A USD 230,000 mischarge restricted access to this funding for 8 months. These situations required specialized attention that took considerable time, caused a good deal of frustration, negatively affected team morale, created procurement delays (e.g., getting consultants into the field), and adversely affected overall programme efficiency (See § 106-108 for more details).

5.5.5 Fund Transfers to Programme Partners⁵⁸

105. INFUSE has experienced significant delays in transferring funds and delivering technical assistance services to FSPs and Government Agencies. The delays stem from a number of issues including:

- UN procedures are not clear or have changed – e.g., conflicting advice regarding appropriate documentation; changes in procurement offices (regional vs. in-country);
- Submission of incorrect documentation caused delays;
- INFUSE staff is inexperienced in UN procedures/processes – no “toolkit” or document templates available to help staff get “up the learning curve” quickly;
- Turnaround time on procurement is too long and processes require excessive follow-up to complete; and,
- There are delays in moving money from MDTF to the INFUSE budget.

Delays in Disbursements of Funds

- “Delays in disbursements are considerable.”
- “Flexibility is an issue. The UN is slow.”
- “We had to delay our workplan because of UN delays.”
- “Both the approval and disbursement processes take too long.”
- “Debt funding is a long process; it took 3 months to have loan funds disbursed to us.”
- “Consultants are on the ground, and their contracts have not been approved yet.”

106. After signing agreements, procedures to disburse funds can take approximately 6-12 weeks. The disbursement of funding for loans to both PIFIs was delayed due to procedural issues. In a recent example, a

⁵⁶ The evaluation team did not interview the UNDP Bangkok office and, therefore, cannot confirm the reason for the problem.

⁵⁷ The backstopping Programme Officer is the bridge between the INFUSE programme and UNCDF and UNDP systems and requirements. The current PO has responsibility for the UNCDF Local Government Support Programme (LGSP) as well as INFUSE. The PO is located in Obrigado Barracks, the UNDP compound in Timor Leste, not at the INFUSE offices.

⁵⁸ Paragraphs 105, and 107,-99 relate to EQ 3, sub-questions 3.1, 3.2 and 3.3.

loan due in June 2010 was still outstanding as of the end of August 2010. These delays in fund disbursements come with an opportunity cost – the delayed implementation of work plans potentially adversely impacting the growth and outreach targets of PIFIs. Delays also make future planning more challenging because PIFIs feel they cannot rely on the funding. Another example is the lengthy turnaround time to procure consulting services of a regulatory/policy expert to advise the BPA on a legal framework for the provision of inclusive finance services (see §102). The MCIF provided approval for the expenditure on September 29th, 2009, and it took from November 2009 until March 2010 (approximately 5 months) to sort out internal UN issues related to contracting (resulting from per diem and expense limit exceptions). The BPA delayed its work plan as a result of the lengthy turnaround time and ultimately decided to move forward with drafting the Other-Deposit Taking Institution Instruction (ODTI) without technical expertise. BPA missed the opportunity to have expert input on the first draft of the regulation. Based on feedback from interviews, the consultant provided valuable input nevertheless, and work on finalizing the ODTI is ongoing.

107. Review team interviews with INFUSE staff and grantees confirmed the delays outlined above. UNDP in-country staff, however, did not note UN processes and delays as a problematic issue, thereby underscoring the communications disconnect.

5.5.6 Technical Assistance was well managed

108. The overall consensus on the provision of Technical Assistance has been positive. Despite the above-mentioned delays, grantees voiced their satisfaction with the level and quality of technical assistance services. Both BASIX and WEAL are taking a long-term, comprehensive approach to institutional strengthening, and on-site TA support fosters trust and close working relationships between partners.⁵⁹ The PIFIs also appreciated the direct Technical Assistance and advice provided by INFUSE staff, (e.g., on their business plans, in identifying potential board members, in training regarding reporting, etc.).

109. Regarding the TA for the BPA, multiple stakeholders noted that the external consultant procured by INFUSE was very strong. The expert elicited feedback from various stakeholders regarding the draft ODTI instruction. The BPA also noted that expert input and training sessions and exposure/exchange visits were good approaches to staff capacity building. Stakeholders report that provision of more research support to the BPA regarding policy/regulatory issues and innovations in the industry (e.g., policy papers, background documents) would be helpful as the BPA develops a broader strategy for the sector.

110. The Technical Assistance provided to the credit union movement was not well managed. It is the reviewers' opinion, after interviewing relevant stakeholders, that the relationship was poorly managed on a number of accounts. First, it was clear that INFUSE did not necessarily believe fully in the approach of a strategy meeting. And while the reviewer understands the participatory imperative of credit union politics and activities, we concur with INFUSE's opinion that the likelihood of the strategy workshop producing a meaningful credit union strategy was low. CUFA was steadfast in their objective of pursuing the strategy workshop based on their better understanding of the credit union movement and the need for developing a leadership role for the Federation Hanii Malu. INFUSE's limited understanding of how the credit union movement works impaired its ability to communicate with CUFA, and, in the end, due to poor a relationship, any number of more appropriate alternative projects ideas meeting the needs of the Federation could not even be discussed let alone considered. Finally, INFUSE agreed to provide funding as a courtesy and not as a long-term investment despite the growing importance of the cooperative sector to the GoTL and its potential for integration into the IF sector. In the process both institutions have alienated themselves from each other.

5.5.7 Management of capital and TA investments

111. INFUSE's processes and documentation regarding its grant and loan applications are clear and straightforward. The application is not overly onerous given the local context. For due diligence on potential grantee PIFIs, INFUSE paid for MCRIL to conduct a rating assessment of both PIFIs. The system of monitoring grantee performance includes:

⁵⁹ BASIX has 2 full-time staff on TRM premises, as well as short-term consultants for specific issues. WEAL consultants are not on-site full time. Instead, one member of the TA team is on-site approximately 70% of the time, and additional WEAL expertise for specific subjects is brought on as needed and includes assistance with treasury and liquidity management, option for transformation, etc.

- Provision of quarterly progress reports (financial and narrative) that cover the following indicators/areas: outreach, client poverty level, collection performance, sustainability, efficiency, and overall financial performance;
- Formal, regular meetings between INFUSE and PIFIs – bimonthly meetings with TRM and BASIX and quarterly meetings with MR. Informal communication between INFUSE and the PIFIs is more frequent;
- Completion of a basic reporting and monitoring checklist (See
-
- Table 11).

Table 11: Performance Reporting and Monitoring Checklist

Quarterly reporting for FSPs obtained on time.	MR has been in compliance, despite some challenges to report accurately due to capacity issues.
FSPs have audited financial statements.	MR received their audit report for 2009 in July 2010.
FSP has updated (end of year) data posted on the MIX Market (August – See footnote 13 for more information on the Mix Market).	MR has completed the MIX submission for 2009.
FSPs that miss performance targets have received tailored letter as per IEPBAs by 30 March 2009, with copy to FIPA HQ.	Formal letters were not presented to MR regarding targets for 2009, although some were not reached (OSS, number of voluntary depositors, number of borrowers), However, email exchange and verbal discussions have taken place.
Ongoing technical dialogue with FSPs on their development / overall performance.	Positive dialogue regularly takes place between INFUSE and MR.

112. INFUSE did not use best practices guidelines, however, when setting the interest rate for loans to PIFIs at 2% per annum. Staff used UNCDF interest rate guidelines for local development projects (specifically the local infrastructure development)⁶⁰. This stemmed from the inexperience of staff in pricing loan products and inadequate oversight from the regional technical backstopping office. IF sector best practice funding suggests that loans to IFIs should be priced in such a way as not to create dependency on low-cost funds, which can incentivize poor management or provide a market distorting effect (i.e., low cost funding provides an inordinate competitive advantage to one institution over the other). There is no fixed calculation for good practice loan, and rates vary from context to context. National commercial market rates are typically a starting point benchmark for calculating rates, however, from which a risk discount can be subtracted for a donor's superior knowledge of the institution and IF market. International lenders provide guidance as well. Stakeholders' report and the reviewers' extensive knowledge of investment in IFIs suggest that an 8%-10% US - or Euro-denominated loan (including exchange rate risk) is appropriate.

5.5.8 Monitoring and evaluation supporting INFUSE activities is systematic and adequate

113. INFUSE's monitoring system functions on two levels. The INFUSE PIU monitors the progress of its PIFIs primarily through quarterly performance and grants expenditure reports from the PIFIs. The PIU then disseminates the data to the MCIF.⁶¹ The PIFIs are also required to complete annual external audits and to submit financial data to the Mix Market.⁶² The team provided direct Technical Assistance to both MR and TRM on preparing the reports as information provided was not fully accurate or reliable at the beginning of the projects. With TA support from TSPs and new MISs in place, data accuracy and reliability will improve further. INFUSE tranches its funding disbursements to the PIFIs based on performance metric set out in their contracts.

⁶⁰ Complicating loans are the fact that they involve rapid loan repayment times. That is loans have to be repaid within the term of the project which can cause some difficulties on an institution. This conditionality should be factored into the pricing of the loan with appropriate consideration for ensuring that loan does not inappropriately subsidize the institution.

⁶¹ PIFIs report on a number of indicators related to Outreach, Collection Performance, Sustainability, Efficiency, Overall Financial Performance and Targets.

⁶² For more information on the Microfinance Information Exchange or MIX see footnote 13.

114. The PIU also provides the MCIF with bi-annual reports summarizing programme progress delivered as support to the programme's bi-annual investment committee meeting. INFUSE also reports on key targets on access to financial services on a quarterly basis at the National Priority Working Group meetings. INFUSE conducts bi-weekly briefing meetings for UNDP and monthly briefing meetings for the Minister of Economy and Development.

5.5.9 If INFUSE puts in place an effective advocacy mechanism, the programme could better communicate its added value and enhance UNCDF's positioning and catalytic function.

115. The programme lacks a comprehensive advocacy strategy to inform and educate sector stakeholders adequately on critical inclusive finance issues (e.g., best practices in inclusive finance, technological or product innovations that may be relevant for Timor-Leste, lessons learned regarding regulatory approaches to inclusive finance or mobile banking, etc.). Current advocacy mechanisms, including knowledge dissemination and occasional press releases, can be bolstered to generate greater appreciation for INFUSE's and UNCDF's value add in the sector among both MCIF and non-MCIF members. Leveraging INFUSE's relationship with PFIP could be one relatively straightforward way to add value, e.g., disseminating the research and lessons learned from PFIP initiatives. Given current staffing levels and capacity, implementing a comprehensive advocacy strategy may not be feasible. A strategic discussion regarding the value and importance of such an advocacy strategy should occur at the Investment Committee level and a decision made whether to focus on this element of the programme or not, and if so, how.

5.6 THE PARTNERSHIP WITH DONORS AND THE MOED, THE MAIN GOVERNMENT COUNTERPART, SUPPORTS PROGRAMME IMPLEMENTATION WELL, BUT THE UNDP-UNCDF PARTNERSHIP COULD BE STRENGTHENED TO ENHANCE EFFICIENCY AND EFFECTIVENESS OF IMPLEMENTATION

EQ 6. "How well have partnerships with Donors and Governments supported the programme?"

The partnerships with donors and governments have led to good support of the INFUSE programme. INFUSE has led donor coordination and harmonization efforts in its capacity as secretariat of the investment committee. The programme has done a good job in proving its relevance in the Inclusive Finance sector and correspondingly in raising additional funding for programme implementation. The UNDP-UNCDF Partnership could be strengthened so as to promote more efficient and effective operations.

The question relates to Output 1 and the activities related to donor harmonization, coordination and promotion of best practices.

5.6.1 The INFUSE programme has done a good job in mobilizing additional resources for programme implementation.

116. The initial funding for INFUSE came from UNCDF (commitment of USD 1,050,000) and UNDP (commitment of USD 500,000). A notable accomplishment was the funding from the Australian government of AUS\$2.5M over the period 2010-2012. The GoTL also has a funding commitment of USD 1,000,000 over 4 years (2009-2012), and has so far contributed USD 188,423 in 2009, USD 311,577 in 2010 and has budget allocations of USD 250,000 per annum for 2011 and 2012. Funding to the INFUSE programme is now 3.5 times the UNCDF's initial investment.⁶³ Additional discussions are underway with new donors to secure the remaining funding required for full programme implementation.

117. INFUSE has successfully leveraged additional funding into the IF sector in Timor-Leste. The programme has facilitated linkages between its PIFIs and external funders, such as Blue Orchard, Triodos and PlaNis, which are considering investments in the inclusive finance sector in Timor-Leste. INFUSE has collaborated with UNCDF's MicroLead programme to co-fund the TRM-BASIX partnership. IFC provided co-funding for travel-related costs for the BPA regulatory expert. The programme has brokered the recent funding relationship between Monaco Asia Society and Moris Rasik.

5.6.2 The programme has various mechanisms and initiatives underway to promote the harmonization of donor interests.

⁶³ The figure is based on the following formula: Funding committed by UNDP, GoTL and AusAID (\$3,732,330) divided by UNCDF's initial commitment (\$1,050,000).

118. The programme has provided for the harmonization of donors' interests, primarily through donor participation in the investment committee, or MCIF. INFUSE has established relationships with international financial institutions (IFIs), such as the IFC and ADB, and has collaborated with them on initiatives including the potential of branchless banking in Timor-Leste. INFUSE also led the multi-donor IF sector gap analysis exercise for Timor-Leste. As noted, there is no clear exit strategy for INFUSE despite the probable need for sector leadership and the programme needs to increase donor coordination to this end.

119. As regards the UNCDF-UNDP partnership, there may be opportunities for INFUSE to collaborate with UNDP programmes that would link INFUSE to other existing or new projects. There have been missed opportunities to harmonize interests during instances, when UNDP-TL has incorporated inclusive finance elements into its proposals or projects. One example is UNDP's project to start up Self-Help Groups (SHG) in Timor-Leste, to help them to mature, and then to encourage them to access credit from IFIs. In the case of the SHGs, INFUSE could have linked the UNDP team to technical assistance providers who have expertise in the SHG methodology. INFUSE's good practice experience and extensive network of contacts would also ensure that no SHG work would distort markets and put organisations involved on a sustainable path. Improved UNDP-UNCDF communication and coordination of activities would likely result in more effective and consistent programme implementation, as well as in a potentially better SHG programme.

120. The communication challenges noted in § 113 have resulted in the programme being almost uniformly recognized by non-donor stakeholders (and by some donors) as a UNDP programme, despite it being a partnership programme under the leadership of UNCDF. This said, and despite less than ideal communication and partnership relations/efficiencies, key sector stakeholders are unanimous in their appreciation of the UN's approach and role in promoting an inclusive finance sector in Timor-Leste.

5.7 THE PROGRAMME IS CONTRIBUTING TO GOVERNMENT EFFORTS TO CREATE AN ENABLING REGULATORY ENVIRONMENT FOR THE INCLUSIVE FINANCE MARKET, BUT HAS YET TO MAKE REAL PROGRESS ON DEVELOPING A POLICY/VISION STATEMENT FOR INCLUSIVE FINANCE AND PROMOTING IT

EQ 7: "To what extent were piloted approaches conducive to IF regulatory/policy/ strategy developments?"

The programme is contributing to the BPA's effort to develop and pass the ODTI instruction to create an enabling regulatory environment for the inclusive finance market. The BPA has circulated the draft ODTI for external comments and is on track to finalizing the regulations. In the area of policy development, however, the programme and its government counterpart (MoED) have not focused on developing a policy vision statement for the sector. A shift in emphasis to include policy development is necessary if Output 1 is to be fully achieved before the programme's end date.

This question relates primarily to Output 1 and the activities related to developing a national policy, an enabling legal/regulatory environment, and good practice principles for inclusive finance.

5.7.1 The Programme's impact on the IF sector enabling environment is nascent and uneven

121. INFUSE's collaboration with the MoED and the BPA and its participation in the National Priority Working Groups (NPWG) have generated a greater awareness of inclusive finance issues. The programme sponsored BPA staff to attend training sessions and exchange visits that have informed regulators' thinking regarding inclusive finance legal/regulatory issues. These were recognized as important learning opportunities. The BPA is currently in the process of finalizing regulations for the inclusive finance sector; therefore, it is not possible to attribute any growth or sustainability to policy improvements. The programme is on track with respect to the progress envisioned in the programme document – "drafting, reviewing and consulting on enabling IF regulations." According to the programme design document, however, INFUSE is not on track with achieving a policy statement. Within two quarters after the launch of the programme, INFUSE was to have drafted and consulted on a national policy statement of inclusive finance for GoTL adoption – a very optimistic, even unrealistic timeframe. Indeed, the vision/policy statement on inclusive finance has not been developed yet.

5.7.2 The project's results are relatively widely known among key GoTL stakeholders.

122. Timor-Leste is a small country with relatively few players in the inclusive finance. The project's results are relatively widely known among many key inclusive finance stakeholders. Future efforts to publicize results and impact could focus on including the influential Ministry of Finance, the Prime Minister's office, as well as more staff from the MoED and other government agencies mentioned in the original project document, including the Ministry of Agriculture and Fisheries and the Secretary of State for Vocational Training and Employment. The knowledge level of these ministries is uneven but generally low.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 OVERALL ASSESSMENT

123. Overall and more concretely, the INFUSE's progress toward achieving its outcome, outputs and the related output targets has been uneven – putting the team behind schedule as compared to the original programme design. The programme outputs as originally designed remain largely relevant and support the underlying development hypothesis.⁶⁴ Specific output targets, in particular three of the Output 3 targets are no longer critical nor relevant; the programme demonstrated flexibility, however, by focusing on two other gaps at the meso level, financial literacy and financial management capacity. Although the programme has yet to maximize its impact, the team can still attain its expected outcome and outputs by programme end if it accelerates efforts and increases its current staff capacity. Modifications of output targets would be useful.

OUTCOME

124. The INFUSE programme outcome is that “vulnerable groups will have improved access to sustainable financial services”, with a target of some 73,000 active clients and an additional 40,000 clients obtaining access to a secure savings accounts through a commercial bank and/or mobile network operator by project end. At the mid-term point, the programme has laid the initial groundwork to achieve this outcome, but has made little concrete and measurable progress. Adding another PIFI would make achieving this goal much more realistic.

Output One

125. **The Macro Level:** The programme has had more impact in the legal/regulatory area as compared to the policy side. The key accomplishments include: helping the BPA refine the first draft of the ODTI regulation, developing the BPA's senior management knowledge of good practice IF sector regulation, and supporting the development of a proactive good practice regulatory vision.

126. The programme has done a good job securing buy-in from the highest levels of the MoED, although it has not managed to broaden interest/participation from other ministries. The IF sector as a result still has a relatively across the GoTL and has less than effective influence/advocacy/leadership on non-“good” practice policies and projects (e.g., some of IfTL's practice and talks on a National Development Bank). Not surprisingly, to date, the programme has failed to make any significant progress in the drafting of this national IF sector policy vision.

Output Two

127. **The Micro Level:** The programme has adopted a long-term and strategic approach to building the capacity of NGO IFIs -- a sound strategic focus to supporting a sustainable inclusive finance sector. INFUSE awarded grants and issued loans to the only two significant IF financial service providers in the country. The grants are relevant and support much-needed, comprehensive Technical Assistance, training and exposure visits for institutional capacity building as well as upgrades to the management information system (MIS).

128. Despite the valuable support to the PIFIs, the programme must expand technical and financial support to other financial service providers (IFIs, commercial banks and/or mobile network operators) if the programme is to meet its client outcome goals and support at least three sustainable IFIs.⁶⁵

Output Three

129. **The Meso Level:** The programme has taken initial measures to develop the IF sector business support infrastructure, but advances at this level have not been a priority. The Microfinance and Banking Certificate programme and the financial education programme for inclusive finance, as a result, are new initiatives and not fully developed. Given this, there is some risk that anticipated gains will not materialize; but due to gaps in the meso level they are worth the investment. The decision to not support the AMFITIL

⁶⁴ Improvements in the enabling environment, supported by catalytic investments in IFIs and supporting industry infrastructure, will strengthen the IF sector to the point where it is self-reliant and able to attract capital, deposits and loans that impel a sustainable growth process in the industry to serve low-income populations.

⁶⁵ Measured by Financial Self Sufficiency (FSS) > 100%.

was sound. The programme's inability to "connect" with the credit union movement is unfortunate and if not addressed, may be a significant missed opportunity.

6.2 SPECIFIC EVALUATION QUESTION CONCLUSIONS

1. "To what extent does the programme design meet UNCDF's IF intervention logic and the needs of the partner countries?"

130. The INFUSE programme design is highly relevant and meets the needs of Timor-Leste – in particular, the need to build a sustainable, best-practices financial services sector as outlined in various national strategy documents and plans. The programme design also is consistent with UNCDF's Inclusive Finance (IF) Intervention Logic, and it meets the needs of the financial sector in the country. Programme design addresses significant gaps at each of the micro, macro and meso levels of the sector. The design could have been stronger had the targets for Output 3 been revised more accurately after the 2006 crisis, which saw the majority of IFIs fail to obviate the need for the AMFITIL.

2. To what extent has the programme contributed to increased institutional capacity of partner inclusive financial institutions (PIFIs), sector-support organisations (SSOs) and government agencies (GAs)?

131. The programme has contributed to strengthening the institutional capacities – specifically, human resource/management capacities, financial capacity, and governance – of Moris Rasik and Tuba Rai Metin and, to a lesser extent, of government agencies. INFUSE's funding support to provide TA to its PIFIs is supporting the development of senior management capacity, management systems and financial planning capacities. Additional work remains to be done to involve additional staff of MoED, BPA, and other government agencies, including the Ministry of Finance, and to provide leadership/influence on good practice IF sector generally. The programme has not impacted the capacity of any sector support organisation so far. Lack of effective support to the credit union movement represents a potentially important lost opportunity, not only because the movement is closely aligned with the natural market of the producer coop movement, but because it is of growing interest to the GoTL.

3. To what extent has the programme contributed to the improvement of access to appropriate pro-poor financial services?"

132. Given the comprehensive and extensive technical assistance programmes underway at TRM and MR, INFUSE has helped to lay the groundwork for the improvement of access to appropriate low-income persons' financial services. Changes to existing product offerings and geographic expansion are both expected as the PIFIs work with their TSPs to implement their new business plans. Projects are still too new to see impact on the ground, however, it is not likely even with the initiatives at existing PIFIs the programme will meet its outcome targets of 40,000 new clients without the addition of new PIFIs. There is some potential among the commercial banks, mobile network operators, the IMFTL and the credit unions to expand access.

4. To what extent is the programme likely to result in financially viable (i.e., sustainable) FSPs/SSOs in the longer-term, independent of external assistance of any kind?

133. With assistance from external TSPs and external sources of financing, it should be possible for the INFUSE-supported PIFIs to reach very solid financial footing and maintaining sustainability after completion of the programme. INFUSE supported long term TA and enhanced long-term planning. Management and governance processes have yet to be reflected in key performance indicators; however, discussions with the TSPs and PIFIs point to solid advances that should translate to improved overall performance. The programme needs to ensure that PIFIs are prepared for the withdrawal of TSP support.

134. Neither of the two SSO projects in financial literacy or management education is well enough developed to judge their potential sustainability. Given the GoTL's and other donors' commitment to the sector it is probable that successfully launched programmes would attract sufficient support for sustainable operations. The greater market for SSO services such as auditing and consulting will likely attract regional organisations but may require subsidies to be imported (e.g., MCriI services).

5. How effective has management of the IF programme been?

135. The quality of INFUSE management was uneven. Management of Output 2, which required hard technical assistance knowledge and capacity, was good-to-excellent. Management of softer technical areas –

relationship building across stakeholders including donors, the GoTL and the credit union movement – was not consistently good. The partnership between UNCDF and UNDP was sufficiently effective but was beset by confused roles and responsibilities, significant administrative and bureaucratic challenges and work style issues compounded by the communications difficulties. The partnership dynamics contributed to notable inefficiencies and a minor negative impact on overall programme effectiveness.

136. Other management performance considerations include: outdated programme design; lack of staff capacity and relevant skill sets; unclear and bureaucratic institutional processes; and, multiple changes in reporting relations. Stakeholders report that INFUSE staff is generally accessible and proactive, and they recognized INFUSE's efforts despite few demonstrable results as of yet. Concerns among stakeholders include the fact that INFUSE has not taken the expected leadership role (e.g., facilitation, convening power, etc.) and has had limited impact on stakeholder coordination.

6. How well have partnerships with Donors and Governments supported the programme?

137. The partnerships with donors and governments have led to good support of the INFUSE programme and good donor harmonization. This success and the appropriate design have helped to leverage over 3 times UNCDF's and UNDP's initial financial contributions to the programme.

138. This success notwithstanding, there is a need to develop more effective communication channels, formal and/or informal, to nurture and deepen relationships with new and existing stakeholders (e.g., donors and government champions). Nowhere is this more needed than within the UNDP-UNCDF partnership as a strengthened relationship will improve programme efficiency and effectiveness. Current staffing capacity and levels are not likely to achieve this result, however.

7. "To what extent were piloted approaches conducive to IF regulatory/policy/ strategy developments?"

139. INFUSE's collaboration with the MoED and the BPA, and its participation in the National Priority Working Group (NPWG), have generated greater awareness of the importance of inclusive finance in Timor-Leste. The programme is contributing to the BPA's effort to develop and pass the ODTI instruction. The BPA, with technical assistance support from an INFUSE-funded consultant, is in the process of finalizing the regulation. In the area of policy development, however, INFUSE and the MoED have not focused on developing a policy vision statement.

6.3 RECOMMENDATIONS

140. The following recommendations are prioritized, based on their impact in influencing the achievement of outcomes and related targets.

Management

1. **Management/Staffing Challenges: UNCDF must proactively plan for potential and upcoming staffing changes by putting a human resources plan in place** and consider augmenting or changing current PIU staff to include an experienced individual with advocacy and policy development skills.
2. **Reporting Accuracy and Attribution.** The current monitoring and tracking system counts the number of active clients of MR, TRM, IMfTL and the credit unions. However, INFUSE does not support IMfTL and has only supported credit unions with a movement-wide strategy session and it is therefore not appropriate to count their clients as results achieved by INFUSE.
3. **Provide support on UN system policies and procedures for incoming programme managers to increase efficiency and effectiveness.** Appoint a capable mentor/point person and create basic “toolkit” for staff to minimize size of procurement and budgeting learning curves.
4. **Minimize changes to reporting structure.** Multiple changes in reporting lines within both the UNDP and UNCDF created excessive disruptions. To the extent possible, minimize such changes and ensure new arrangements work effectively.
5. **Improve Annual Work Plan documents.** The annual work plans for 2008, 2009 and 2010 all have different formats and varying levels of detail. To maximize monitoring and evaluation value, work plans should be more detailed and consistent with specific activities listed together with timelines.
6. **Modify interest rate on loans to PIFIs.** The current interest rate of 2% charged PIFIs is far below either national commercial rates or that of risk-averse, international microfinance investors. INFUSE needs to increasing rate on subsequent loans to FSPs to reflect good practice.

Programme Strategy

7. **Decide if full IF policy vision including a range of Ministries is a relevant objective and if so augment/change current staffing to maximize Output 1 results.** Bolster the strength of existing PIU with stronger relationship building and advocacy skills.
8. **Develop exit strategy.** As the only significant IF programme in the country, INFUSE needs to develop an exit strategy to ensure that sector leadership roles are passed on to appropriate and sustainable institutions.
9. **Closely monitor intentions of GoTL with respect to the cooperative sector (credit unions) to ensure sufficient alignment of common interests.** INFUSE is not currently working with the credit unions despite the GoTL and MoED’s interest in the sector. It is important that the programme be sensitive to the government’s needs and priorities regarding this sector.

ANNEX 1: TERMS OF REFERENCE



UNITED NATIONS
CAPITAL DEVELOPMENT FUND

FONDS D'EQUIPEMENT
DES NATIONS UNIES

TERMS OF REFERENCE OF MID-TERM EVALUATION: UNCDF INCLUSIVE FINANCE PACIFIC REGION

PACIFIC FINANCIAL INCLUSION PROGRAMME (PFIP)

INCLUSIVE FINANCE FOR THE UNDERSERVED ECONOMY (INFUSE)

Country: Pacific

Programme Number:

Programme Title: Pacific Financial Inclusion Programme (PFIP) and Inclusive Finance for the Underserved Economy (INFUSE)

Executing Agency: UNDP/UNCDF

Implementing Agencies: UNDP/UNCDF

Programme Approval date: PFIP – May 2008 INFUSE – April 2008

Programme Start Date: PFIP – August 2008 INFUSE – September 2008

Programme End Date: PFIP – December 2011 INFUSE – December 2012

Total programme cost: PFIP – \$5 million INFUSE – \$5 million

Attached: Copy of Signed Initial Programme document and Budget:
Copy of latest Budget Revision:

Financing breakdown (in project document)*:

	PFIP	INFUSE
Government	\$0	\$500,000
UNDP	\$250,000	\$500,000
UNCDF	\$1,250,000	\$1,050,000
Donor (EU)	\$550,000	
Unfunded	\$2,950,000	\$2,950,000
Total:	\$5,000,000	\$5,000,000

*note financing has changed from original project document and is listed below.

Mid-term evaluation date:

Audit dates:

A. Purpose, Users and Timing of the Evaluation

Purpose

The **objectives of a UNCDF Mid-Term (MT) Evaluation** are:

- To assist the recipient Government, beneficiaries, and the concerned co-financing partners, to understand the **efficiency, effectiveness, relevance and impact of the programme**, the **sustainability** of programme results, the level of **satisfaction of programme stakeholders** and beneficiaries with the results, and whether UNCDF was **effectively positioned** and **partnered** to achieve maximum impact;
- To contribute to UNCDF and partners' **learning** from programme experience.
- To help programme stakeholders assess the value and opportunity for broader **replication** of the programme.
- To help programme stakeholders determine the need for **follow-up** on the intervention, and general direction for the future course.
- To address ways to better integrate the programmes in the Pacific region
- To ensure **accountability** for results to the programme's financial backers, stakeholders and beneficiaries.
- Comply with the requirement of the programme document/funding agreement and UNCDF Evaluation Policy.

Evaluation timing

- The evaluation is being conducted at the midway point of both PFIP and INFUSE and prior to the UNCDF FIPA annual meeting on September 26 – October 2, 2010 so that the experience of the evaluation may be shared with other UNCDF Inclusive Finance Programmes.
- *The tentative evaluation timing is as follows:*
 - o *Offsite preparation work:* August 8 – 14, 2010
 - o *On-site evaluation:* August 15 – Sept. 3, 2010
 - o *Off-site completion:* Sept. 4 – Sept. 22, 2010

Evaluation collaboration

The evaluation terms of reference, methodology and results will be completed in accordance with UNCDF policies. These will be presented to the members of the Investment Committees of PFIP and INFUSE, which include representatives of the Pacific programmes' funders and governments. The evaluation will be managed by the UNCDF Pacific Regional Financial Inclusion Advisor with the support of the UNCDF Country Technical Advisor in Timor-Leste.

B. Programme profile

a) Country context/status of decentralization in terms of strategy, policy and implementation:

The Pacific area poses formidable challenges that financial service providers face as well as the economic inefficiency of the infrastructure and systems providers use to deliver financial services. Traditional approaches to financial service delivery have been ineffective, largely because of issues endemic to small island developing countries such as high cost of imports, inefficiencies in transport and communications infrastructure, geographic isolation, demographic dispersion, limited income-generating opportunities, and extensive government involvement in the economy. The financial service access frontier has been defined primarily by the limits of traditional institutional models that rely on economies of scale to cover the costs of vertically integrated organisations. As a result, financial service providers, including commercial banks and microfinance initiatives, have struggled to find viable economies of scale outside of principal cities and rural population centres across the region. Several countries in the region have also suffered from conflict and unstable governments that has led to great setbacks in existing microfinance programmes.

UNCDF and UNDP launched two joint programmes in the Pacific region in 2008. Both programmes commenced activities in 2008 with the appointments of the Pacific Regional Advisor in August and Country

Advisor for Timor-Leste in September. In June 2009 it was decided that the two programmes operate more closely and the Regional Advisor assumed the technical support role for Timor-Leste. Both programmes follow a financial sector approach, which involved identifying the cause of financial exclusion at the “macro,” “meso” and “micro” levels of the financial sector. They also have a focus on the “client” level, namely financial literacy. Preliminary gap analyses were conducted during the project design phase and are included in the two project documents. Together, the two programmes have revised these gap analyses, updating them annually, to help inform their annual work plans.

b) Programme summary:

PFIP

- PFIP was started as a joint UNCDF, EU, UNDP programme. In 2009, AusAID also became a funder.
- PFIP was designed by a technical team consisting of UNDP, UNCDF, the EU (and consultants) in 2007. The project document was signed in May 2008
- PFIP commenced activities in August 2008 with the appointment of the Regional Advisor/ Team Leader.
- PFIP sits in the UNDP Pacific Centre (the regional office) in Suva, Fiji and has two UNCDF advisors and a mix of UNDP local staff and long-term consultants as team members.
- The first annual work plan revised its outcome to reach 250,000 clients in the target market segment with new or improved access to savings, money transfers, insurance and loans. It also limited its efforts to the five largest countries in the Pacific region, namely Papua New Guinea, Fiji, Solomon Islands, Vanuatu and Samoa. It can consider projects or assistance in other members of the Pacific Islands Forum (PIF) on a case by case basis. PFIP is overseen by an investment committee consisting of its four funders and a representative of the Pacific Islands Forum Secretariat (PIFs).

INFUSE

- INFUSE was started as a joint UNCDF, UNDP and Government of Timor-Leste (GoTL) programme. In 2010, AusAID also became a funder. The project document was signed in April 2008.
- INFUSE was designed by a technical team consisting of UNCDF and one independent consultant.
- INFUSE commenced activities in September 2008 with the appointment of the Country Technical Advisor.
- INFUSE was originally and temporarily housed in the UNDP TL office in anticipation of an office within the Ministry of Economy and Development, but currently operates out of an independent office in Dili and has a single UNCDF Advisor supported by two UNDP local staff and a UN Volunteer.
- INFUSE is overseen by an investment committee consisting of its four funders (with the Ministry of Economy and Development representing GoTL) and the Regional Advisor for UNCDF, with the central bank as observer.
- Programme targets were revised and approved by the investment committee in October 2009.

c) Programme expected results:

PFIP

- The Logical Framework in the PFIP project document was amended in January 2009 and approved by the PFIP investment committee members.
- The revision states that the mission of PFIP is to increase the number of low-income and rural households, micro and small enterprises that have ongoing access to quality and affordable financial services. The purpose of PFIP is to create or facilitate policies, strategies and partnerships that lead to a broad range of appropriate and sustainable financial services being made available to low income households, micro and small enterprises. The expected outcome of the programme is to increase of 250,000 in the number of persons with new or improved access to approved financial services by the end of 2011.
- PFIP revised its three output areas with the approval of the PFIP investment committee. The major change was to add a fourth output area relate to financial literacy.
- PFIP's budget was revised and approved in by the PFIP investment committee in 2009 and 2010 to reflect the new resources committed by UNCDF, EU and AusAID. Its current approved project budget is \$7.56 million with an unfunded portion of \$1.64 million.

INFUSE

- The targets in the INFUSE Project Document were amended and approved by the investment committee in October 2009.
- The revision states, INFUSE will revise the targets for Programme Output 2 to the following.
 - o 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 project end. (A breakdown of product accounts (savings, loans, insurance, other) will be monitored for informational purposes).
 - o 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.
 - o At least 3 MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) $\geq$ 100%) by project end.
 - o The 3 financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%.
 - o Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2008. (increase to be determined once baseline known)
- No other changes have been made to INFUSE's logical framework or three output areas
- The INFUSE budget was revised in 2010 and approved by the INFUSE investment committee to reflect the new resources committed by the GoTL and AusAID

C. Programme status:

PFIP: Outcome and Outputs

	Description	Indicator	Achieved as of July 2010
PFIP			
Immediate Objective	To increase the number low-income households, micro and small enterprises that have ongoing access to quality, affordable financial services	250,000 additional individuals and/or small and microenterprises in the PICs have access to one or more appropriate financial services by the end of 2011.	As of July 2010, an estimated 145,280 persons have received access to a new financial service. ⁶⁶
Output 1	Policy makers, donors and other stakeholders are supported and empowered to make decisions and take coordinated action and allocate resources to promote financial inclusion.	1. number of impediments or constraints to financial inclusion removed or enabling regulations or policies implemented 2. number of financial inclusion plans or strategies put in place 3. volume of additional resources catalyzed and brought to the region	1. 8 enabling policies have been put in place 2. 1 national and 1 regional plan has been put in place 3. Over \$3.5 million catalyzed for the region
Output 2	Scalable, replicable and sustainable projects created that deliver appropriate financial services to low income persons, small and microenterprises, including women and those in rural and remote areas.	1. number of new or "transformational" clients reached by partners 2. number of clients with a new, appropriate product or service Includes information disaggregated by sex and rural/urban	1. 39,900 2. 125,350 ⁶⁷
Output 3	Knowledge created and shared so that industry has access to local market intelligence and information on global best practices.	1. number of knowledge products tailored to meet the needs of stakeholders 2. number of stakeholders participating in PFIP sponsored events 3. number of hits on PFIP website – specifically its Knowledge Centre; client satisfaction, currency of information posted	3. Seven knowledge products 4. Est. Over 500 participate in events 5. N/A ⁶⁸
Output 4	Financial competency building is embedded in regional and national development strategies with replicable approaches that enable households to improve their financial security and build economic opportunities	1. number of financial competency baseline studies completed 2. number of financial literacy strategies or programmes developed 3. new financial literacy programmes adapted	1. 0 completed 2. 4 strategies completed 3. 1 new programme adapted

⁶⁶ The increase in the number of clients of PFIP partners. Exact figures and breakdown will be made available during the evaluation.

⁶⁷ Breakdown by gender, rural/urban to be provided during the evaluation

⁶⁸ Website launched in July 2010. Up to date hits will be provided during evaluation.

INFUSE: Outcome and Outputs

	Description	Indicator	Achieved as of July 2010
Overall Objective	Contribute to the achievement of the MDGs, in particular the Goal 1 of cutting absolute poverty in TL by one third by 2015, by increasing sustainable access to financial services for the poor and low-income population, both male and female.	- 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 accounts (savings, loans, insurance, other) will be monitored for informational purposes). - 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. - At least 3 MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) $\geq 100\%$) by project end. - The 3 financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%. - Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009	- As of March 2010, 49,592 active clients (71.3%) of financial service providers engaged in microfinance services. - Support provided to two MFIs with the following indicators as of March 2010: 1. Moris Rasik: FSS as end 2009 is 105.8% and PAR as end March 2010 at 1.4%. 2. Tuba Rai Metin: FSS as end 2009 is 105.2% and PAR as end March 2010 is 10.1%. - Baseline access points established as of Dec 2009.
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.	- A Policy Statement on goals, strategies and priorities for Financial sub-sector development is adopted by GoTL (Y1) - A consolidated Financial Sub-sector Activity Plan for 2007-2012 is developed as part of the NDP 2007-12 (Y2) - Principles for Support to the Financial Sub-Sector have been adopted by key donors (Y2) - UNDAF aligned with policy (Y2) - Current and future investments in the sub-sector are reviewed for compliance with national policy framework (Y3-5)	- GoTL new strategic plan to be released in 2010 – process was conducted by PM alone without consultation, but inputs provided by INFUSE to national strategy on rural development. - Inclusive finance targets included in GoTL annual national priority working groups in 2009 and 2010. - Technical assistance currently working with the central bank (BPA) on developing legal framework for MFIs. - INFUSE targets incorporated in UNDAF. - Donor and stakeholders are coordinated through INFUSE participation in national priority working groups, private sector development working group, INFUSE advisory group for inclusive finance. - Key donors approached to contribute to INFUSE resulting in app. US\$3 million mobilized for INFUSE programme, US\$1 million mobilized from MicroLead for one MFI, and future funding for another MFI committed from Monaco.

Output 2	<i>Increased Outreach of financial services by sustainable FSPs</i> 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.	- Baseline for borrowers and savers to be confirmed at inception. - at least 20% increase in loans outstanding to poor and low-income (BOP) borrowers per year (compounded), totalling 78,100 loans outstanding by end year 5 - at least 20% increase in number of voluntary savings accounts per year (compounded), totalling 187,100 accounts by end year 5 - At least 5 FSPs have reached break-even (FSS >= 100%) - Financially sustainable FSPs maintain an average PaR (30 days) of max. 5%	- Baseline established Dec 2008. - Targets revised Oct 2009. - Long term business plans developed for two MFIs and capacity building plans being implemented with technical service providers. - 34,733 savers of microfinance service providers (3 MFIs and credit unions) as of Dec 2008 increased to 49,508 as of March 2010. - 17,559 loans of MF service providers as of Dec 2008 increased to 24,084 as of March 2010. - INFUSE supports two of the three MFIs which have made the following progress on indicators: - Moris Rasik two indicators from Dec 2008 to Dec 2009: FSS increased from 100.7% to 105.8% and PAR is stable from .88% to 1% - Tuba Rai Metin two indicators from Dec 2008 to Dec 2009: FSS 89.8% to 105.2% and PAR increased 9.2% to 16.1%
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.	- AMFITIL is formalized as a professional association (Y1) - AMFITIL functions as advocate for the NGO-MFIs serving poor and low-income customers (Y2) - AMFITIL membership has increased, and members meet minimum standards of portfolio quality and sustainability (Y3) - 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).	- With changes in financial sector subsequent to 2006 civil unrest, AMFITIL disbanded and no longer has the membership to support its revitalization. (3 of 8 original members still operate) - INFUSE consultant to conduct financial literacy scoping assessment in August 2010. - INFUSE collaborates with ADB assessment for potential of branchless banking in July 2010. - Central bank credit registry launched in 2009-MFIs yet to participate - INFUSE to collaborate with National Labor Development Institute on MF and banking certificate qualifications. .

D. Contents And Scope Of The Evaluation

Taking into account the implementation status of the programme and the resource disbursements made to date, evaluate the following questions:

1. Results Achievement

The evaluators will report results against:

1. The indicators related to the outputs of the programme
 2. The Inclusive Finance Evaluation Matrix
- 1.1. Is the project making satisfactory progress in timely achievement of project outputs (as per logframe intended results and indicators), and related delivery of inputs and activities? Are the partners able to achieve the results? In doing so, specifically address, among other things:
- Provide an opinion, to the extent feasible, on whether any of the existing partners (financial or non financial organisations) in the Pacific and Timor Leste are a. ready for formalization and transformation into for profit businesses (i.e., on the path towards sustainability) or b. have inclusive financial products on the path towards sustainability and what would be the positive/negative impacts of this.?
 - Is the programme effective in supporting changes in the enabling environment for inclusive finance and in dissemination and establishment of good practices in the country? With regard to dissemination of good practices:
 - To which audiences?
 - Through what media?
 - Which actors should be responsible for which messages/media?
 - Who should pay for what, i.e., what should the programme budget cover, and what should the government cover and take responsibility for disseminating?
- 1.2. Given output achievement and related delivery of inputs and activities to date, is the project likely to attain its Immediate and Development Objectives? Specifically:
- What are the early indications of whether the project is likely to make a tangible contribution to achieving its overall development and immediate objectives?
- 1.3. Assess the performance of the programme with regard to the High-Level Outcome Indicators in the UNCDF Strategic Results Framework.
- 1.4. Are the results reported through the programme's monitoring/Management Information System validated by evaluative evidence? Analyse any discrepancies.
- 1.5. Assess the significant changes (positive and otherwise) in the country relating to Inclusive Finance during the programme lifetime and assess the programme's contribution to these changes (i.e. the criticality of programme results). What level of value added and consequence can be attached to the programme in the area of Inclusive Finance in the country?
- 1.6. Assess the relative effectiveness and efficiency (cost-benefit, value for money) of the programme strategy compared to other strategies pursued by the Government, other donors or actors to achieve the same outcomes?
- 1.7. Is there evidence of any unintended negative effects of the programme?
- 1.8. What is the level of satisfaction of various programme stakeholders with the programme and the results achieved?
- 1.9. Have the agreed recommendations of the mid-term evaluation of the programme been implemented? How has this affected programme performance, relevance, management etc?
- 1.10. Evaluate any other critical issues relating to results achievement

2. Sustainability of Results

- 2.1 What is the likelihood that the programme results will be sustainable in the longer term, independent of external assistance, in terms of systems, impact on policy and replicability, institutions, capacity, financing, and in terms of benefits at the individual, household and community level?
- 2.2 Are UNCDF and partner strategies for exit/further engagement appropriate with regards to promoting sustainability?

2.4 Ownership: Is sufficient capacity being built so that participating organisations will be able to manage the process by the end of the programme without continued dependence on international expertise? Are the necessary steps owned and driven by the people?

2.5. Is there an added value role for programme partners to play beyond project completion?

In addition to assessing the evaluation questions above, the team should analyze any other pertinent issues that need addressing or which may or should influence future project direction and partners' engagement in the country.

3. Factors Affecting Successful Implementation and Results Achievement

Is project implementation and results achievement proceeding well and according to plan, or are there any obstacles/bottlenecks/outstanding issues on the project partner or government side that are limiting the successful implementation and results achievement of the project?

3.1 External Factors:

- Has the policy environment had consequences for programme performance?
- To what extent have general economic conditions affected programme goals and do they remain conducive to the development and expansion of inclusive financial services being developed by the programme?
- Are there *any other factors external to the programme* that have affected successful implementation and results achievement, and prospects for policy impact and replication?

3.2 Programme-related Factors:

Programme design (relevance and quality):

- Was the programme logic, design and strategy optimal to achieve the desired programme objectives/outputs, given the national/local context and the needs to be addressed?
- In assessing design consider, among other issues, whether relevant gender and or environmental issues were adequately addressed in programme design.
- Is the programme rooted in and effectively integrated with national strategies (e.g. poverty reduction strategy) and UN planning and results frameworks (CCA, UNDAF) at country level?
- Have the programme's objectives remained valid and relevant? Has any progress in achieving these objectives added significant value?

Institutional and implementation arrangements.

- Are the project's institutional and implementation arrangements suitable for the successful achievement of the project's objectives or are there any institutional obstacles that are hindering the implementation or operations of the project, or which could benefit from adjustment? Among other issues, assess:
 - **Project Secretariat:**
 - Assess and evaluate the strategy, structure, performance and utilization of financial resources of the project secretariat as on of the funding mechanisms of the project.
 - Define options for the role and structure of the project secretariat after the end of the project and measures to be taken in order to evolve these structures.
 - Government, namely the Central Bank and the National Microfinance Task Force:
 - To the extent foreseen in the programme, evaluate the Government's technical capacity to:
 - assume ownership through technical and financial control of project secretariat's sector development role.
 - assess technical capacity of the National Microfinance Task force, and their ability to successfully fulfill their respective ToR from the Project Document.
 - ensure an optimal enabling environment for the development of the microfinance industry.

- supervise a sustainable microfinance sector.
 - assess and evaluate the technical assistance foreseen within the project with respect to reaching these capacities.
- Evaluate the capacity of the implementing partners to meet their respective responsibilities in the programme? Are they the most appropriate implementing partners? What capacities are the responsibility of the programme to strengthen, and what capacities are the responsibility of the Government to provide? What is the optimal use of programme resources?
- Investment Committee:
 - Assess and evaluate whether the Investment Committee serves its purpose of ensuring donor coordination within the Government's microfinance policy.
 - Evaluate whether the investments approved by the Investment Committee are likely to contribute to the creation of a more Inclusive Financial Sector? If not, what is missing?
 - Assess whether the Investment Committee is taking sufficient risk in its investments?
 - Evaluate whether the right balance of grants, such that the MFIs will not be dependent on donor funding.
 - Assess whether the investments approved so far represent a potentially solid return on investment?
 - Evaluate whether the results are being achieved in an efficient manner with limited donor funds?
 - All partners:
 - Provide an objective assessment and evaluation of the designated roles, functions and tasks of the different parties involved in the project (as named above) within the project secretariat, , within the Investment Committee as well as within the microfinance sector in general as well as the distribution between them.
 - Assess the coordinating mechanism and its effectiveness of enhancing project performance.

Project management:

- Are the management arrangements for the programme adequate and appropriate?
- How effectively is the project managed at all levels? Is project management results-based and innovative?
- Do management systems, including M&E, reporting and financial systems function as effective management tools, facilitate effective implementation of the project, and provide a sufficient basis for evaluating performance of the programme?
 - Regarding financial systems: assess any bottlenecks in the system of financial disbursement between the project partners and beneficiaries.
 - Regarding M&E, does the project monitoring system include:
 - a. A baseline that enables a good understanding of the target populations and market for financial services.
 - b. Appropriate and cost-effective indicators and related targets linked to the baseline that will enable monitoring of process, output and outcome level performance.

Other: Are there any other project-related factors that are affecting successful implementation and results achievement?

4. Strategic Positioning and Partnerships

- 4.1 Has UNCDF, through this programme and any other engagement in the country, optimally positioned itself strategically, with respect to:
 - UNDP and other UN/donor/government efforts in the same sector in the country?
 - Implementing national priorities, as reflected in national development strategies?
 - UNCDF corporate priorities
- 4.2 Has UNCDF leveraged its comparative advantages to maximum effect?
- 4.3 Has UNCDF leveraged its current/potential partnerships to maximum effect?

4.4 What level of value added and consequence can be attached to the partners' intervention in the area of microfinance?

How effectively has the UNCDF used the IF approach to establish a competitive advantage relative to other UN agencies and to other donors?

- Is the IF approach (compared to other approaches) more effective than other methods / the most effective way of
- Where do the main new opportunities lie for strengthening the competitive advantage of the UNCDF?
- here do the opportunities lie for building complementarity between the UNCDF
- IF and other approaches?

E. Composition of Evaluation team

1. Consultant profiles and responsibilities

The Final Evaluation is to be conducted by a team of three consultants with the profiles outlined below.

Profile specifications for Evaluation Team Leader

- Experience leading evaluations of Micro-finance programmes, including experience using a range of qualitative and quantitative evaluation methodologies to assess programme results at individual/household, institutional, sector and policy level.
- Minimum of ten years accumulated experience in microfinance
- A minimum of five years of microfinance management and/or consulting experience
- Must have evaluation experience in microfinance
- Extensive microfinance training and technical assistance experience
- Comprehensive knowledge of CGAP benchmarks and industry best practices
- Advanced report writing skills
- Experience at the country wide sector level/understanding of building inclusive financial sectors, preferably in Africa
- High level of familiarity with UNDP or UNCDF programming

Responsibilities

- Assembling, team, organising schedule,
- leading the evaluation team in planning, conducting and reporting on the evaluation.
- Documentation review
- Deciding on division of labour within the evaluation team
- Use of best practice evaluation methodologies in conducting the evaluation
- Leading presentation of the draft evaluation findings and recommendations in-country
- Conducting the debriefing for UNCDF HQ and regional staff
- Leading the drafting and finalization of the evaluation report

Profile specifications for Evaluation Team members:

- A minimum of three years of management experience with an MFI or related technical service institution.
- Microfinance training and technical experience
- Knowledge of CGAP benchmarks and industry best practices
- Familiarity with the financial sector approach, including policy and regulatory issues
- Familiarity with branchless banking

Responsibilities

- Documentation review
- Contributing to the development of the evaluation plan and methodology
- Conducting those elements of the evaluation determined by the lead consultant
- Contributing to presentation of the evaluation findings and recommendations at the evaluation wrap-up meeting
- Contributing to the drafting and finalization of the evaluation report.

F. Tentative Workplan for the Evaluation mission

Dates	Offsite	Suva, Fiji	Dili, Timor Leste	Port Moresby, PNG
	Finalize TOR Assemble Evaluation Team Schedule Travel			
14 Aug		Arrive		
16-20 Aug		Orientation for ET Finalize methodology Review documents interviews International conference calls		
21 Aug			Arrive	
22 Aug			Debrief	Arrive
23 Aug				
22-26 Aug		Interviews, Visits	Review documents Interviews Visits	Interviews, Visits
26 Aug			INFUSE Stakeholder Debrief	Depart
27 Aug			Depart	
30 Aug		Stakeholder debriefing (PFIP)		
31 Aug		UNCDF Debriefing Depart		
1-10 Sep.	Draft evaluation report			
13 Sep.	Provide draft evaluation report for comment			
16 Sep.	Debriefing with HQ			
22 Sep.	Final Report			

ET= Evaluation Team

RA = Regional Advisor

CTA = Country Technical Advisor

G. Mission Costs and Financing

Provided to UNCDF HQ

H. Management of the Evaluation Mission

The consultants for the evaluation are recruited and managed by the Evaluation Unit in UNCDF, New York. See attached document which spells out Roles and Responsibilities of the key stakeholders involved in the evaluation exercise.

ANNEX 2: LIST OF REFERENCES

- Access to Financial Services, Consolidated Quarterly Reports of the INFUSE Programme
- Annual Report of Inclusive Finance for Under-served Economy (INFUSE) 2008, May 2009
- Annual Report of Inclusive Finance for Under-served Economy (INFUSE) 2009, February 2010
- Business Plan (July 2010-June 2015), Moris Rasik, September 2010
- Business Plan (2010-2013), Tuba Rai Metin
- BWTP, Industry Update, "Microfinance in Timor-Leste," June 2010
- CIA World Factbook, Timor-Leste, August 3, 2010
- Grant Agreement between the United Nations Capital Development Fund (UNCDF) and Bhartiya Samruddhi Investments and Consulting Services Ltd. And Tuba Rai Metin, December 2009
- Grant Agreement between United Nations Capital Development Fund (UNCDF) and Moris Rasik, February 22, 2009
- Grant Agreement between the United Nations Capital Development Fund (UNCDF) and Moris Rasik and World Education Australia Limited (WEAL), Technical Service Provider (TSP), May 2010
- Grant Agreement between United Nations Capital Development Fund (UNCDF), United Nations Development Programme (UNDP), and Ministry of Economy and Development (MoED) and Tuba Rai Metin, March 2009
- IMfTL "Moving Forward," Presentation for Round Table Discussion with Key Stakeholders, July 7, 2009
- INFUSE Annual Work Plan 2009
- INFUSE Annual Work Plan 2010
- Joint Programme Document, "INFUSE – Inclusive Finance for the Under-Served Economy (2008-2010)"
- Joint Programme: UNITED NATIONS CAPITAL DEVELOPMENT FUND and UNITED NATIONS DEVELOPMENT PROGRAMME, TIMOR-LESTE, Revision of Clarification of management and coordination arrangements
- Loan Agreement, Timor-Leste, between the United Nations Capital Development Fund (UNCDF) and Moris Rasik, May 2009
- Loan Agreement, Timor-Leste, between the United Nations Capital Development Fund (UNCDF) and Tuba Rai Metin, Loan No 1, June 2010
- MicroRating International (MCRIL) Rating for Moris Rasik, March 2009
- MicroRating International (MCRIL) Rating for Tuba Rai Metin, April 2009
- Meeting Minutes with Credit Union Foundation of Australia (CUFA) regarding the Strategic Plan for the Credit Union Movement of Timor-Leste, May 10, 2010
- Meeting Minutes of the Management Committee for Inclusive Finance (MCIF), 26 January 2009
- Meeting Minutes of the Management Committee for Inclusive Finance (MCIF), 29 September 2009
- Meeting Minutes of the Management Committee for Inclusive Finance (MCIF), 11 March 2010

Microfinance Donor Group, Situational and Gap Analysis, Timor-Leste

Mid-year Report of Inclusive Finance for Under-served Economy (INFUSE) 2010, August 2010

Terms of Reference (TOR), Timor-Leste, Situational Analysis of Credit Unions

Terms of Reference (TOR) for Special Service Agreement (SSA), Technical Consultant to Conduct a Policy Diagnostic for Inclusive Finance

Terms of Reference (TOR) for Special Service Agreement (SSA), Technical Consultant to Conduct Scoping Assessment for Financial Education Programme

Terms of Reference (TOR) for Special Service Agreement (SSA), Technical Consultant to Develop Competency Based Qualifications for a Microfinance and Banking Training Certificate

Timor-Leste Development Partners' Meeting 2009, Statement of the IFC, April 4, 2009

UNDP Performance Evaluation Form for Technical Services Provider Hired under Grant Agreement, for Credit Union Foundation of Australia (CUFA), April 15, 2010

ANNEX 3: LIST OF PEOPLE MET

Organisation	Person	Title
INFUSE	1. Marcella Willis	CTA
INFUSE	2. Kate McKinnon	Programme Officer
INFUSE	3. Adalgisa Marcal	Admin/Finance
INFUSE	4. Carlos Lay	Programme Officer
UNCDF	1. Diogo Maior	Programme Officer
Ministry of Economy and Development	1. Joao Goncalves	Minister
UNDP	1. Mikiko Tanaka	UNDP-CD
UNDP	2. Nick Beresford	Head of Operations / DCD
UNDP	3. Lin Cao	Head of PREU
Banking and Payments Authority (BPA)	1. Abraao Vasconcelos	GM
Banking and Payments Authority (BPA)	2. Maria Jose Sarmento	Deputy GM
Banking and Payments Authority (BPA)	3. Pascoela da Silva	Head of Supervision
Banking and Payments Authority (BPA)	4. Bartholomeu Tillman	Division of Licensing & Regulation Officer
Moris Rasik	1. Lola dos Reis	GM
Tuba Rai Metin	1. Angelo Soares	CEO
Tuba Rai Metin	2. Subhash Jindal	Basix TSP / lead TA
DNC (National Dir of Cooperatives)	1. Bonifacio Correia	Director of Cooperative
DNC (National Dir of Cooperatives)	2. Agos Novanto	Advisor
Credit Union Foundation Australia (CUFA)	1. Peter Mason	Director based in Australia
AusAID	1. Jeff Prime	First Secretary, Development Cooperation
USAID	1. Mark White	Head of Office
NZAID	1. Sarah Wong	Representative
ANZ	1. Chris Durman	GM
WEAL	Guy Winship	ED of WEAL, the TSP for Moris Rasik
IFC	Milissa Day	Advisor Private Sector, Acting Country Manager

ANNEX 4: INFUSE OUTPUTS & INDICATORS

Excerpts taken from original Programme Document and revised Output 2 document.

Programme components

Output 1: A coherent GoTL policy framework for Inclusive Finance

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.

Main Activities

1.1 At the policy level, the MoED will spearhead the process of developing the vision statement in consultation with Ministry of Agriculture and Fisheries, Secretary of State for Vocational Training and Employment, Ministry of Finance, Ministry of State Administration and Territorial Management, and the BPA. In addition, the FSPs (e.g. commercial banks, NBFIs, NGO-MFIs, credit unions, credit cooperatives) serving the sector will be consulted. Training opportunities⁶⁹ will also be provided to main stakeholders involved in the Sub-SIP process. With an agreed vision for the sector, the MoED will facilitate its inclusion as an input to the next National Development Plan. The Chief Technical Advisor (CTA) will provide technical assistance in the process.

1.2 The INFUSE Programme will provide training opportunities and technical assistance as necessary to the MoED and the BPA to study emerging trends, review, revise or draft new legislation to enable the agreed development strategy for the sub-sector and ensure that identified constraints are addressed. Legislation for review could include:

- NGO Law and Association/Foundation registration;
- Banking and Non-bank financial institution legislation and regulations;
- Other business legislation relevant to the Financial Sector;
- Legislation and regulation for credit unions and cooperatives.

1.3 Based on the National Policy Statement on Inclusive Finance, the programme will work with development partners to facilitate harmonization and alignment of current investments to the new policy, and to provide recommendations for strategic or operational adjustments. As donor agencies have played a large role as investors in the currently subsidized microfinance industry, INFUSE in close collaboration with other donor-funded projects, will also provide technical assistance to the donor community, including UN Agencies, to coalesce and harmonize their support to the sector under a set of Principles for Good Practice Funding of Inclusive Finance, which will enhance coherence and alignment of investments to national policies. UNDP and UNCDF will promote the alignment of the UNDAF with these principles and the Government's policy statement.

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.

Main Activities

2.1 The FIF will be established, combining the available funding resources for FSPs from UNDP, UNCDF and any other interested funding agencies. The purpose of the Fund is to assist promising FSPs with appropriate grant and loan funds to address key institutional weaknesses, resulting in increased outreach and improved sustainability within a competitive environment.

2.2 The FIF will be directed by the IC comprising all interested current and future funders of FSPs and financial sub-sector development (see draft TOR for the IC in Annex 3). The FIF-IC takes joint investment decisions based on agreed criteria, in response to applications received and appraised by a Secretariat led by the CTA (see draft TOR for the CTA in Annex 5). To ensure that funding is driven by demand, the business plans and proposals from the applicant FSPs will form the basis for the appraisals.

⁶⁹ Scholarships will be provided for Government policy makers and legislators to the CGAP Microfinance Course in Turin, Italy (Boulder course).

2.3 Applicants to the FIF will be selected in an open and transparent process, and upon approval of an investment or a funding package (grants, loans and/or technical assistance), the IC will sign performance-based agreements for grant or loan funds with the FSP, defining amount, nature and timing of support as well as monitoring indicators, targets and reporting requirements. The Secretariat will monitor performance over time, and report to the IC. Key selection and performance indicators will include positive trends in outreach (scale); portfolio quality and financial self-sufficiency (commercial viability).

2.4 In addition to the support through the FIF, short-term technical assistance, training, and exposure visits will be provided directly to FSPs, not through the FIF, when urgent needs arise. This support is opportunity-based and therefore typically not foreseen in the larger, longer-term the agreements signed between the Investment Committee and FSPs. This increases the flexibility of the INFUSE Programme to quickly respond to and support such opportunities.

Output 3: Enhanced business services infrastructure 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.

Main Activities

3.1 Through a special window of the FIF as supervised by the IC, grant funds will be made available to support the establishment (start-up phase) of a business support infrastructure for the financial sector. The criteria for eligibility, appraisal, and selection, monitoring and reporting will be adopted by the IC, and the process of application, contracting, monitoring and reporting will mirror that set for FSPs. The target applicants for support from this window of the Fund will include professional associations of FSPs, such as AMFITIL and CUF, and providers of business services to FSPs (e.g. adult literacy, training, audit, ratings, credit reference bureaus, Cash-In-Transit service providers, MIS and Internet Communications Technology (ICT/cell phone -telecoms), etc.), including private companies, private, public and professional institutes, universities, and consultants.

3.2 Applicants to the FIF will be selected in an open and transparent process, and upon approval of an a funding package (grants and/or technical assistance), the IC will sign agreements for grant with Business Support Service (BSS) providers, defining amount, nature and timing of support as well as monitoring indicators, targets and reporting requirements. The Secretariat will monitor performance over time, and report to the IC. As the group of potential grantees will not directly work with individual customers, but contribute to the strengthening of the FSPs as institutions. Therefore, priority will be given to proposals that contribute to financial transparency (accurate performance monitoring, public reporting to customers and commercial investors); product diversity and innovation (market research, testing of new products, services and technologies to reduce transaction costs); and competitiveness (increasing the range of providers to ensure that services offered are competitively priced, and client responsive).

3.3 As BSS providers are almost absent in Timor-Leste, the CTA will liaise with regional BSS providers and industry networks to attract interests for the market. Exposure visits to Timor-Leste will be provided directly to BSS providers when needs arise.

Expected End of Programme Situation

The INFUSE Programme has a planned lifespan of five years, ending in 2012. It will concurrently support retail FSPs to strengthen their capacity to serve more customers in a better and more sustainable way; promote the establishment of a business infrastructure to provide viable and market-responsive support services (training, technical assistance etc.) in future; and strengthen the enabling environment for the sub-sector through the development of a clear and comprehensive policy framework, better legislation, and enhanced donor coordination based on good practices.

Successful achievement of these three outcomes will ensure that the financial sub-sector of Timor-Leste is inclusively serving the majority of the population including the BOP, and enhance the capacities and linkages to commercial funding to enable sustainable continuation of service provision, without a continued need for donor funds. It is thus expected that INFUSE can close out at the end of 2012, leaving a well-coordinated, consolidated and self-sufficient sub-sector supported by private sector service providers within a truly enabling policy and legislative environment, in which national stakeholders continue to consult and identify solutions to arising constraints.

ANNEX 5: IF EVALUATION MATRIX

EVALUATION QUESTION No. 1: DESIGN & RELEVANCE	To what extent does the program design meet UNCDF's IF intervention logic and meet the needs of the partner country?
Sub-questions & Indicators	Findings and sources of information
Q 1.1. To what extent does the program meet the needs of the partner country? ▪ Consistency between the goals, intervention logic and principles of the program and those of the recipient country's relevant national strategy document ▪ Degree of embedment of program into existing national framework / no evidence of a parallel program structure ▪ Degree to which program addresses gaps not filled by others	The programme's intervention logic is consistent with Timor Leste government documents including: • 2002 National Development Plan; • National Priorities Framework for 2009 (National Priority 2 on Rural Development); • National Priorities Framework for 2010 (National Priority 1 on Infrastructure - Private Sector Development). • Programme of the IV Constitutional Government (2007-2012); and • New Strategic Development Plan 2011-2030 of the Prime Minister's Office. The programme's main government counterpart is the Ministry of Economy and Development (MoED) which is responsible for promoting the development of the cooperative sector and inclusive finance, including the policies and laws and regulations required for these areas. The Minister of Economy and Development is an active participant in the programme through his role as Chair of the investment committee, known as the Management Committee for Inclusive Finance (MCIF) of the Fund for Inclusive Finance (FIF). According to the 2002 National Development Plan, the Banking and Payments Authority (BPA) is to take the role of a "catalyst for significant growth of savings and credit." The design of the INFUSE programme complements and supports the needs of the inclusive finance sector and the BPA's mandate to: • "promote more competition and increasing numbers and types of private banks and financial institutions (including widening rural presence by private banks);" • "to support donors and NGOs to develop micro savings and credit schemes especially in rural areas;" and, • "to develop regulations and capacities to promote private superannuation and other savings schemes." There are some non alignment issues including the preliminary discussion on the creation of a National Development Bank (few such banks have ever followed good practice and few have not had market distorting effects such as subsidized rates or overly generous terms and conditions); and GoTL involvement in ImfTL which has had some market distorting effects on commercial markets already). <u>Source of information</u> ▪ Document analysis, Interviews ▪ Financial Sector law and regulations ▪ Superintendence of Banks and or Central Bank ▪ Ministry of Finance/Planning ▪ Donors

EVALUATION QUESTION No. 1: DESIGN & RELEVANCE	To what extent does the program design meet UNCDF's IF intervention logic and meet the needs of the partner country?
Sub-questions & Indicators	Findings and sources of information
EQ 1.2 To what extent is the program aligned with government financial sector development plans. ▪ Degree of consistency between the program's interventions and national legislation and strategy for financial inclusion ▪ Program design has taken into account sector's development/ absorption capacity and context	The design of the INFUSE programme design addresses two main constraints at the at the FSP or Micro Level: • severely PIFI limited human resources capacities; and • provision of loan capital and funding for on lending and capital investments The programme's design and funding mechanisms – grants and loans – are appropriate and the emphasis on building PIFI capacity and can work with a broad segment of FSPs, including commercial banks and mobile network operators (for mobile banking services), and credit unions. This is consistent with government interest found in 1.1 save the programme's minimal official support for the credit union system in which there is a growing GoTL interest. The INFUSE project revised the targets for Programme Output 2 in October 2009 for 3 reasons: (1) the baseline information for the calculation of target borrowers and savers was established in 2005 – before the 2006 civil unrest when the inclusive finance industry had more service providers; (2) programme's shorter term – start date was September 2008, 8 months later than anticipated in the project document; and (3) the methodology used to calculate Bottom of the Pyramid (BOP) figures used self-employed people as a proxy. This was determined not to be an accurate proxy (compounded by a error in the incorrect estimate calculation). The MCIF approved the revised targets on December 24, 2009 and are appropriate given the country and financial sector contexts. At the Meso Level which is largely undeveloped, the programme was designed to address: • developing a microfinance sector association; • developing sector services organizations (SSOs) generally; • financial services training providers; and • certified accounting/auditing agencies for inclusive financial institutions. Programme target indicators do not accurately reflect the country context and the redundancy of the Association of Microfinance Institutions in Timor-Leste (AMFITIL) after the civil unrest in 2006. Given that many IFIs ceased operations after the 2006 crisis, AMFITIL was essentially defunct. At the Macro Level, programme design addressed two main gaps: a lack of a coherent national policy framework/vision statement for inclusive finance • the need to develop the enabling environment to support the expansion of the financial sector. The timeframe envisioned in the design document for “drafting and consulting on a national policy statement of Inclusive Finance for GoTL adoption,” which was two quarters after the launch of the programme, was very optimistic, and unrealistic. <u>Source of information</u> ▪ Document analysis, Interviews ▪ Financial Sector law and regulations ▪ National financial Law and regulations ▪ MoED ▪ BSP

EVALUATION QUESTION No. 1: DESIGN & RELEVANCE	To what extent does the program design meet UNCDF's IF intervention logic and meet the needs of the partner country?
Sub-questions & Indicators	Findings and sources of information
EQ 1.3 To what extent does the program meet the needs of the finance sector (e.g., fill gaps and overcome constraints for growth given the national/market context)? ▪ Micro level – IFI & client level needs ▪ Meso level – inclusive financial sector infrastructure needs (e.g., credit bureaus, sector associations, etc.) ▪ Macro level – national regulatory, policy and program level.	▪ Donors See 1.3
EQ 1.4 How well is the program integrated into the Country Program Action Plan (CPAP) and UN Development Assistance Framework (UNDAF)? Degree of explicit/implicit integration of UNCDF's development-related projects within CCA/UNDAF	The expected programme outcome 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 prevention and recovery context; and • UNDAF sub-outcome 2.1.5: MFIs 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; and • Country Programme Output 3.1: Rural communities have microenterprises through improved access to microfinance and markets. <u>Source of information</u> ▪ Document analysis ▪ Interviews ▪ UNCDF documents and guidelines ▪ UNCDF staff and government officials, and representatives of other UN agencies
EQ 1.5 How does the program design correspond to UNCDF's IF intervention logic? ▪ Consistency between program design and UNCDF's standard IF program ▪ Degree to which UNCDF intervention	Consistency between program design and UNCDF's "standard IF program" or approach which addresses gaps at the micro, meso, macro levels. UNCDF programme design typically provides flexibility so that management can take advantage of the market opportunities and strategically support IF sector development needs. The design provides for measurable, performance-driven grants and loans, augmented by a range of information, technical advisory and training support tools. The programme provides additionality to sector development – it is more strategic and comprehensive than previous projects which focused on specific institutions, e.g., ABD's support to IMFTL. INFUSE also provides critical sources of financing for the sector as external funding assistance is very limited. Generally the approach uses tools

EVALUATION QUESTION No. 1: DESIGN & RELEVANCE		To what extent does the program design meet UNCDF's IF intervention logic and meet the needs of the partner country?	
Sub-questions & Indicators		Findings and sources of information	
provides additionality to sector development ▪ Degree to which intervention logic employs UNCDF's competitive advantage (i.e., catalytic capital)		associated with the FSS approach including: • Familiarity and knowledge of GoM needs and actors generally; • Use of grants, TA, and convening capacity to catalyze appropriate regulatory and policy change; and • Use of grants, TA, and loans to encourage growth and innovation in the application of a sector development approach. <u>Source of information</u> ▪ Document analysis ▪ Interviews ▪ UNCDF documents and guidelines ▪ UNCDF staff and government officials, and representatives of other UN agencies ▪ Other partner donors	
EQ. 1.6 How well has the program integrated cross cutting issues given program objectives? ▪ Evidence that the program docs address the issues of participation of institutions and promotion of gender ▪ Evidence that the program docs makes consideration of environment themes		Gender INFUSE design highlights the need to address the special circumstance of women; to this end: • Fifty percent of new clients served – savings or credit -- by PIFI grantees should be women. • Design insists all interventions, monitoring and evaluation ensure gender is mainstreamed, by assisting “institutions willing to explore and implement innovative methodologies that provide an increasing access to financial services rural poor women.” Design omits consideration of women in decision making positions within grantee organizations or, more generally, in the sector including the GoM; nor does it mention incidence of women as management/staff of PIFIs, or management at INFUSE itself. Environment The design does not make any specific mention of environmental cross-cutting issues such as environmental screening or environmental operational performance of grantees. <u>Source of information</u> ▪ Document analysis ▪ Interviews ▪ Relevant beneficiary IFIs, and government institutions	
EQ 1.7 To what extent is the program owned (buy-in) by the government and/or Central Bank and/or Bank Superintendence? ▪ Degree of involvement of the government and/or Central Bank and/or Bank Superintendence in program design, and implementation.		See 1.1 above	

EVALUATION QUESTION No. 1: DESIGN & RELEVANCE		To what extent does the program design meet UNCDF's IF intervention logic and meet the needs of the partner country?
Sub-questions & Indicators	Findings and sources of information	
Level of HR and Institutional Capacity		
EQ 1.8 To what extent is the program owned (buy-in) at FSP/SSO level (e.g., sector associations, credit bureaus, information providers, consultancies etc.)?	Design considered the input of all FSFs including the three significant IFIs, commercial banks, and to a lesser extent credit unions, but design focused primarily on delivering tradition support provided to IFIs.	
Degree of participation of appropriate FSPs/SSOs	<u>Source of information</u> - Document analysis, Interviews - MoED - BSP - Donors	

EVALUATION QUESTION No. 2: CAPACITY BUILDING		To what extent has the programme contributed to increased Financial Service Providers/Sector Support Organizations /Government Agencies (FSPs/SSOs/GAs) Institutional capacity ⁷⁰
Sub-questions & Indicators	Findings and sources of information	
E.Q. 2.1 To what extent has the programme contributed to increased Human Resource (Management) capacity at FSPs, SSOs, Government Agencies?		
EQ 2.1.1 How well has the IF program strengthened human resource management capacities of FSPs/ SSOs/Government Agencies (GAs)s ⁷¹ ▪ Organisation chart ▪ Clear division of roles (human resources, well written job descriptions,) ▪ Human resource manuals / procedures / tools in place and their quality ▪ Decision-making processes and procedures established and accepted ▪ Regularity of report-back meetings ▪ Regularity and quality of written reports ▪ CGAP Appraisal and /or CAMEL management indicators	Micro Level The programme’s approach to strengthening the human resources capacity at the Moris Rasik and Tuba Rai Metin has been to provide long-term technical assistance with the objective sustainably increasing outreach or new client growth. The programme’s primary approach to improving capacity has been to fund long-term, comprehensive TA as opposed to short-term consultancies for specific issues. This is an appropriate strategy given the breadth of human resources capacity and systems development needs at PIFIs. In addition to TA, the programme supported human resource development through staff financial trainings, exposure visits, and institutional assessments. <u>Specific activities</u> vary by PIFI but generally include: • MIS system development (including hardware, software, installation and training); • annual external audits and MCRIL ratings; • exposure visits and trainings; • document translation; • client communication strategy; • funding of an additional senior manager for 3 years; • development of a strategic business plan; • training in financial management, governance and operational management; and	

⁷⁰ For this section, some questions and sub questions apply only to FSPs, while others to SSOs and government agencies (GAs) and are marked as such. Not all programs will have significant GA or SSO activities.

⁷¹ Sector Support Organizations are those found at the meso level or between financial institutions and national financial regulators. They provide invaluable infrastructure for the viable functioning of a sound financial sector, generally, and an inclusive financial sector, specifically. Example SSOs include credit bureaus, microfinance sector associations, consumer finance education organizations, consumer finance protection organizations, tax and legal firms specializing or with specialization in inclusive finance, information technology firms, consultants, etc.

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	Board management and training. The following table outlines specific activities. Capacity Building provided by INFUSE <table><tr><th rowspan="2">No</th><th rowspan="2">Training/Exposure Visit</th><th rowspan="2">FSP/Beneficiary</th><th colspan="2">Number of Participants</th><th rowspan="2">Tot</th><th rowspan="2">% of Women</th><th rowspan="2">Year</th></tr><tr><th>F</th><th>M</th></tr><tr><td>1</td><td>Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).</td><td>Tuba Rai Metin</td><td>0</td><td>2</td><td>2</td><td>0%</td><td>4/2009</td></tr><tr><td>2</td><td>Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).</td><td>Moris Rasik</td><td>1</td><td>1</td><td>2</td><td>50%</td><td>4/2009</td></tr><tr><td>3</td><td>Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).</td><td>INFUSE program team, national UNDP staff</td><td>1</td><td>0</td><td>1</td><td>100%</td><td>4/2009</td></tr><tr><td>4</td><td>Boulder Institute of Microfinance (Turin, Italy).</td><td>IMfTL</td><td>0</td><td>1</td><td>1</td><td>0%</td><td>07-08/2009</td></tr><tr><td>5</td><td>Boulder Institute of Microfinance (Turin, Italy).</td><td>BPA</td><td>1</td><td>0</td><td>1</td><td>100%</td><td></td></tr><tr><td>6</td><td>Exposure Visit to MBK, Grameen-replicator MFI (Indonesia).</td><td>Moris Rasik</td><td>1</td><td>1</td><td>2</td><td>50%</td><td>4/2009</td></tr><tr><td>7</td><td>Exposure Visit to Cashpor (India) & Grameen Bank / Grameen Shakti (Bangladesh).</td><td>Moris Rasik</td><td>1</td><td>1</td><td>2</td><td>50%</td><td>6/2010</td></tr><tr><td>8</td><td>English language training course at LELI.</td><td>Tuba Rai Metin</td><td>0</td><td>2</td><td>2</td><td>0%</td><td>2009</td></tr><tr><td>9</td><td>Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).</td><td>Tuba Rai Metin</td><td>1 1</td><td>3 2</td><td>4 3</td><td>25% 33%</td><td>10&12/2009</td></tr><tr><td>10</td><td>Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).</td><td>Moris Rasik</td><td>1 1</td><td>3 2</td><td>4 3</td><td>25% 33%</td><td>10&12/2009</td></tr><tr><td>11</td><td>Strategic planning workshop (5-day) for Credit Union movement.</td><td>Credit union stakeholders</td><td>16</td><td>35</td><td>51</td><td>31%</td><td>11/2009</td></tr><tr><td>12</td><td>AFI exposure visit to Philippines.</td><td>BPA</td><td>2</td><td>0</td><td>2</td><td>100%</td><td>7/2010</td></tr><tr><td>13</td><td>AFI follow-on workshop in Fiji.</td><td>BPA</td><td>1</td><td>0</td><td>1</td><td>100%</td><td>8/2010</td></tr><tr><td>14</td><td>AFI annual global forum in Bali.</td><td>BPA</td><td>0</td><td>1</td><td>1</td><td>0%</td><td>9/2010</td></tr><tr><td colspan="3">Total</td><td>28</td><td>54</td><td>82</td><td></td><td></td></tr></table>								No	Training/Exposure Visit	FSP/Beneficiary	Number of Participants		Tot	% of Women	Year	F	M	1	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	Tuba Rai Metin	0	2	2	0%	4/2009	2	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	Moris Rasik	1	1	2	50%	4/2009	3	Academy for Microfinance Development in Asia (AMiDA); 2-week training course (Bali, Indonesia).	INFUSE program team, national UNDP staff	1	0	1	100%	4/2009	4	Boulder Institute of Microfinance (Turin, Italy).	IMfTL	0	1	1	0%	07-08/2009	5	Boulder Institute of Microfinance (Turin, Italy).	BPA	1	0	1	100%		6	Exposure Visit to MBK, Grameen-replicator MFI (Indonesia).	Moris Rasik	1	1	2	50%	4/2009	7	Exposure Visit to Cashpor (India) & Grameen Bank / Grameen Shakti (Bangladesh).	Moris Rasik	1	1	2	50%	6/2010	8	English language training course at LELI.	Tuba Rai Metin	0	2	2	0%	2009	9	Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).	Tuba Rai Metin	1 1	3 2	4 3	25% 33%	10&12/2009	10	Training on proper reporting to INFUSE and using ratios for management purposes (2 training workshops and ongoing support).	Moris Rasik	1 1	3 2	4 3	25% 33%	10&12/2009	11	Strategic planning workshop (5-day) for Credit Union movement.	Credit union stakeholders	16	35	51	31%	11/2009	12	AFI exposure visit to Philippines.	BPA	2	0	2	100%	7/2010	13	AFI follow-on workshop in Fiji.	BPA	1	0	1	100%	8/2010	14	AFI annual global forum in Bali.	BPA	0	1	1	0%	9/2010	Total			28	54	82		
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EVALUATION QUESTION No. 2: CAPACITY BUILDING	To what extent has the programme contributed to increased Financial Service Providers/Sector Support Organizations /Government Agencies (FSPs/SSOs/GAs) Institutional capacity ⁷⁰
Sub-questions & Indicators	Findings and sources of information
E.Q. 2.1 To what extent has the programme contributed to increased Human Resource (Management) capacity at FSPs, SSOs, Government Agencies?	
	Meso Level INFUSE has taken initial steps to achieving the fourth output target, “At least 3 private or public sector providers of high-quality business services to FSPs have established outlets in Timor-Leste” by supporting the development of: • Microfinance and Banking Certification programme and creation of a Financial Education Programme for IFI clients; and • A financial education program for inclusive finance sector clients with the long-term result of improving low income client financial and money management skills. Both efforts are still too nascent to judge capacity building effects. Macro Level The programme has contributed to building the capacity at select government agencies primarily by raising awareness of the importance of inclusive finance, information sharing, and by supporting exchange/exposure visits. At the BPA, INFUSE provided support: • expert input to the drafting of legal framework for inclusive finance; and • training and exposure visits for senior BPA staff. The BPA commended INFUSE for providing a highly qualified consultant to advise them which also worked to improve management capacity. (See Table in above, items 12-14) INFUSE has influenced understanding of good practice inclusive finance at the MoED as evidenced by Ministers and Deputy Ministers understanding of the topic and generally approach to supporting INFUSE at IC meetings. This influence has not reach across government ministries however as evidenced by several programmes/policies, such as continued support of poor practice inclusive finance at IMfTL (e.g., subsidies and poor lending practice) and serious efforts towards establishing a national development bank. <u>Source of information</u> ▪ CGAP Appraisal (light version of sample IFIs institutions) ▪ Analysis of PIFI data collected by project ▪ Interviews of staff ▪ IFI financial data (audited/unaudited) ▪ PSM collected IFI/SSO data
EQ 2.1.2 To what extent has the program contributed to the strengthening of the financial capacity at IFIs/SSOs? ▪ Capital adequacy & liquidity ratios ▪ Diversification of funding sources ▪ Cost of capital ▪ Financial management capacity (e.g., number of dedicated financial management personal etc)	The programme has contributed to shortterm strengthening the financial capacity of both Moris Rasik and Tuba Rai Metin by funding technical assistance to improve financial planning capacity and providing loan capital – a USD 230,000 approved loan for MR and USD 150,000 approved loan to TRM. INFUSE has also promoted diversification of funding sources of PIFIs by facilitating introductions with potential international microfinance institution investors, including Blue Orchard, Triodos, PlaNis, and Monaco Asia Society. New funding sources will enable PIFIs to make additional loans and increase outreach once sufficient management capacity is available for sustainable expansion. The loans strengthened PIFIs balance sheet by adding assets and decreased cost of capital (loans were 12% under commercial bank rates, a rate justified by INFUSE’s greater appreciation of market risk). <u>Source of information</u> ▪ CGAP Appraisal (light version of sample IFIs institutions) ▪ Analysis of PIFI data collected by project

EVALUATION QUESTION No. 2: CAPACITY BUILDING	To what extent has the programme contributed to increased Financial Service Providers/Sector Support Organizations /Government Agencies (FSPs/SSOs/GAs) Institutional capacity ⁷⁰
Sub-questions & Indicators	Findings and sources of information
E.Q. 2.1 To what extent has the programme contributed to increased Human Resource (Management) capacity at FSPs, SSOs, Government Agencies?	
	▪ Interviews of staff ▪ IFI financial data (audited/unaudited) ▪ PSM collected IFI/SSO data
EQ 2.1.3 To what extent has the program contributed to increased institutional capacity at IFI/SSO governance level? ▪ Composition of Board Directors ▪ Governance manuals in place ▪ Training for Board of Directors	There have been no reported changes of governance structure, composition or quality as a result of INFUSE, although, when questioned, PIFI's are aware of the importance of an empowered, independent board with significant business, finance, legal, and government relations experience. The review observed that while there is this understanding, high caliber board members are difficult to recruit and by PIFIs' own admission, boards often have the required mix of professional backgrounds and depth of capacity. <u>Source of information</u> ▪ Interviews ▪ Manuals ▪ Board and Management Interviews ▪ Governance Manuals
EQ 2.1.4 To what extent are the IFIs providing appropriate services and opportunities to women? ▪ Percent Women Active Clients ▪ Products are appropriate for Women ▪ Women in Senior Management Positions, including Board ▪ Percent Women of IFI staff	Products, Services and Service Delivery Performance based contracts for all grantees include a target of 50% of all clients being women. Two products are specifically designed for women: Women in the Sector The program has had no direct current impact on the number of women in Senior Management Positions or on the Board of Directors nor do any project or trainings deal with such. <u>Source of information</u> ▪ Interviews ▪ Document analysis ▪ IFI Board and Management ▪ IFI indicators on women clients
EQ 2.1.5 To what extent are IFIs/SSOs aware of existing environmental finance regulations (if any), environmental risks to portfolio and/or significant environmental impacts due to financing activities? ▪ Degree to which environmental factors apply ▪ Policies in place ▪ Performance M&E indicators in place at SSO/IFIs	The programme has not contributed to environmental issues as there are no environmental demand issues, regulations or policies in place. PIFIs do not consider any environmental portfolio risks or have any environmental policies in place either for lending or management. <u>Source of information</u> ▪ Interviews ▪ Documents ▪ IFI records ▪ Board and Management Interviews ▪ GA records and interviews

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
EQ 3.1 How effectively have funds from the program been transferred to IFIs and SSOs? ▪ Timely and transparent information on available funds ▪ Timely disbursement ▪ Correspondence between information on funds, released and received amounts	INFUSE has experienced significant delays in transferring funds and delivering technical assistance services to FSPs and Government Agencies. The delays stem from a number of issues including: • UN procedures are not clear or have changed – e.g., conflicting advice regarding appropriate documentation; changes in procurement offices (regional vs. in-country); • Submission of incorrect documentation caused delays; • INFUSE staff is inexperienced in UN procedures/processes – no “toolkit” or document templates available to help staff get “up the learning curve” quickly; • Turnaround time on procurement is too long and processes require excessive follow-up to complete; and, • Delays in moving money from MDTF to the INFUSE budget. After signing agreements, procedures to disburse funds can take approximately 6-12 weeks. The disbursement of funding for loans to both PIFIs was delayed due to procedural issues. In a recent example, a loan due in June 2010 was still outstanding as of the end of August 2010. These delays in fund disbursements come with an opportunity cost – the delayed implementation of work plans potentially adversely impacting the growth and outreach targets of PIFIs. Delays also make future planning more challenging because PIFIs feel they cannot rely on the funding. Another example is the lengthy turnaround time to procure consulting services of a regulatory/policy expert to advise the BPA on a legal framework for the provision of inclusive finance services. The MCIF provided approval for the expenditure on September 29, 2009, and it took from November 2009 until March 2010 (approximately 5 months) to sort out internal UN issues related to contracting (resulting from per diem and expense limit exceptions). The BPA delayed its workplan as a result of the lengthy turnaround time and ultimately decided to move forward with drafting the Other-Deposit Taking Institution Instruction (ODTI) without technical expertise. BPA missed the opportunity have expert input on the first draft of the regulation. Based on feedback from interviews, the consultant provided valuable input nevertheless, and work on finalizing the ODTI is ongoing. Review team interviews with INFUSE staff and grantees confirmed the delays outlined above. UNDP in-country staff, however, did not note UN processes and delays as a problematic issue thereby underscoring the communications disconnect. <u>Source of information</u> ▪ Interviews ▪ Document analysis ▪ UNCDF ▪ IFIs/SSOs Delays in Disbursements of Funds – “Delays in disbursements are considerable.” – “Flexibility is an issue. The UN is slow.” – “We had to delay our workplan because of UN delays.” – “Both the approval and disbursement processes take too long.” – “Debt funding is a long process; it took 3 months to have loan funds disbursed to us.” – “Consultants are on the ground, and their contracts have not been approved yet.”

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
EQ 3.2 How effectively have technical assistance (TA) services been delivered to IFIs and SSOs? ▪ Timeliness of services ▪ Meeting needs of IFI business plans ▪ Quality of services ▪ Quality of the TSP if applicable	The overall consensus on the technical assistance provision has been positive. Despite the abovementioned delays, grantees voiced their satisfaction with the level and quality of technical assistance services. Both BASIX and WEAL are taking a long-term, comprehensive approach to institutional strengthening and on-site TA support fosters trust and close working relationships between partners.⁷² The PIFIs also appreciated the direct technical assistance and advice provided by INFUSE staff, (e.g., on their business plans, in identifying potential board members, in training regarding reporting, etc.). Regarding the TA for the BPA, multiple stakeholders noted that the external consultant procured by INFUSE was very strong. The expert elicited feedback from various stakeholders regarding the draft ODTI instruction. The BPA also noted that expert input and trainings and exposure/exchange visits were good approaches to staff capacity building. Stakeholders report that provision of more research support to the BPA regarding policy/regulatory issues and innovations in the industry (e.g., policy papers, background documents) would be helpful as the BPA develops a broader strategy for the sector. The technical assistance provided to the credit union movement was not well managed. It is the reviewers' opinion, after interviewing relevant stakeholders, that the relationship was poorly managed on a number of accounts. First, it was clear that INFUSE did not necessarily believe fully in the approach of a strategy meeting. And while the reviewer understands the participatory imperative of credit union politics and activities, we concur with INFUSE's opinion that the likelihood of the strategy workshop producing a meaningful credit union strategy was low. CUFA was steadfast in their objective of pursuing the strategy workshop based on its better understanding of the credit union movement and the need for developing a leadership role for the Federation Hanii Malu. INFUSE's limited understanding of how the credit union movement works impaired its ability to communicate with CUFA, and, in the end, due to poor a relationship any number of more appropriate alternative projects ideas meeting the needs of the Federation could not even be discussed let alone considered. Finally, INFUSE agreed to provide funding as a courtesy and not as a long-term investment despite the growing importance of the cooperative sector to the GoTL and its potential for integration into the IF sector. In the process both institutions have alienated themselves from each other. <u>Source of information</u> • Quarterly and annual reports • Interviews • Review of IFI and SSO business plans • Interviews with IFI.SSO ▪ IFI/SSO business plans ▪ Interviews with managers • TA selection decision making process guidelines

⁷² BASIX has 2 full-time staff on TRM premises, as well as short-term consultants for specific issues. WEAL consultants are not on-site full time. Instead, one member of the TA team is on-site approximately 70% of the time, and additional WEAL expertise for specific subjects is brought on as needed and includes assistance with treasury and liquidity management, option for transformation, etc.

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
EQ 3.3 How effectively have capital and TA investments been managed by the responsible unit (e.g., PSU or third party contractor)? ▪ Detailed and transparent grant/loan application processes ▪ Implementation of projects on time (according to budget) ▪ Existence of investment implementation plan ▪ Detailed best practice due diligence guidelines ▪ Regular inspections of IFI/SSOs business plan progress	See 3.2 INFUSE's processes and documentation regarding its grant and loan applications are clear and straightforward. The application is not overly onerous given the local context. For due diligence on potential grantee PIFIs, INFUSE paid for MCRIL to conduct a rating assessment of both PIFIs. The system of monitoring grantee performance includes: • Provision of quarterly progress reports (financial and narrative) that cover the following indicators/areas: outreach, client poverty level, collection performance, sustainability, efficiency, and overall financial performance; • Formal, regular meetings between INFUSE and PIFIs – bimonthly meetings with TRM and BASIX and quarterly meetings with MR. Informal communication between INFUSE and the PIFIs is more frequent; • Completion of a basic reporting and monitoring checklist (See Table10 below) INFUSE did not use best practices guidelines when setting the interest rate for loans to PIFIs at 2% per annum however. Staff used UNCDF interest rate guidelines for local development projects (specifically the local infrastructure development). This stemmed from the inexperience of staff in pricing loan products and inadequate oversight from the regional technical backstopping office. IF sector best practice funding suggests loans to IFIs should be priced in such a way as not to create dependency on low-cost funds which can incentivize poor management or provide a market distorting effect (i.e., low cost funding provides an inordinate competitive advantage to one institution over the other). There is no fixed calculation for good practice loan and rates varies from context to context. National commercial market rates are typically a starting point benchmark for calculating rates however from which a risk discount can be subtracted for a donor's superior knowledge of the institution and IF market. International lenders provide guidance as well. Stakeholders report and the reviewer's extensive knowledge of investment in IFIs suggest that a 8%-10% US - or Euro-denominated loan (including exchange rate risk) is appropriate. <u>Source of information</u> • Quarterly and annual reports • Interviews • Review of IFI and SSO business plans • Interviews with IFI.SSO ▪ IFI/SSO business plans ▪ Interviews with managers ▪ TA selection decision making process guidelines
EQ 3.4 Do implemented investments correspond to IFIs/SSOs priorities and needs? ▪ Degree of correspondence between IFI/SSO business (development) plan, budget and actual investments (TA and Capital)	INFUSE spent considerable time working directly with both the PIFIs and their technical service providers (TSPs) to create an investment programme that directly met their needs and priorities. This included a preliminary "getting to know" the institution phase, where the programme provided small grants for training and/or exposure visits to the PIFIs (see Table 4 and paragraphs 55 and 59 for more details). One of the first tasks of the TA support was to have the institution and the (TSP) supplier develop a dynamic strategic plan for each PIFI for use of INFUSE funding including a business plans. <u>Source of information</u> ▪ Business plan reviews ▪ Interviews ▪ Program strategy documents

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
	- Program start up documents - Program reporting documents - IFIs, SSOs
EQ 3.5 To what extent has the program enhanced the market for IF services	
3.5.1 To what extent has FSPs product and service offering improved? - Existence of new FSP products and services - Improvements in FSP products and services - Improved access by women/minorities to FSP products and services (is design appropriate for needs) - SSO service offering's usefulness / quality to support the Inclusive Finance Sector	Given the limited time executing their project plans, PIFI's service offerings have yet to see dramatic change but some improvement due to better understanding of lending processes and client relationships has been reported by PIFI management and clients. Changes to existing products and new product development are expected as PIFIs implement new business plans and continue working with their TSPs. Based on interviews with PIFIs, expanded product offerings may include agricultural loans and housing improvement loans, and PIFIs are exploring potential links with commercial banks to offer improved savings services. Moris Rasik recently received approval to launch an in-kind loan product targeted to the very poor.⁷³ Finally, geographic expansion is part of latest business plans of the PIFIs. (See paragraphs 81 and 83 for details.) Regarding SSOs, the new financial literacy training and management capacity training are still in the development stages. <u>Source of information</u> - Business plan reviews - Interviews - Program strategy documents - Program start up documents - Program reporting documents - IFIs, SSOs
3.5.2 To what extent do services meet the needs of low-income clients? - Increase in number of low-income clients (the demand for services) - Product design appropriate to the needs of the poor - Low balance/credit limits - Terms & conditions conducive to income cycles? - Clear & transparent pricing - Geographically accessible - SSO service offering, usefulness, quality to supporting FSPs	Basic loans products satisfy demand for small commercial, trade enterprise, and some mixed commercial/consumption loans. There is demand for savings loans but currently no PIFI offers savings, this will change when the BPS issues its regulations on Other Deposit Taking Financial Institutions and the two PIFIs transform to comply with new regulations. <u>Source of information</u> - Business plan reviews - Interviews - Program strategy documents - Program start up documents - Program reporting documents - IFIs, SSOs - Client, PIFI and Stakeholder surveys

⁷³ The highlights of the in-kind loan product are the distribution of cows to clients who will care for the cows and use them for milking or meat. Moris Rasik connects the clients with the district veterinary services. After 1 year, the payback is 1 cow. MR learned about the in-kind product for the very poor during an exposure visit to Bangladesh,

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
3.5.3 Are new market areas being served? - Extent to which current markets are being served (i.e., market penetration rates) - Growth of outreach / (increase in the number of new poor markets (urban and rural) being developed) Size of overall market being targeted and extent to which the program is meeting its penetration targets?	The PIFI-TSP partnerships are laying the foundation for future market growth and expansion. The two PIFIs operate in all 13 districts (100% regional presence), and have a minimum of 77% penetration of the sub-districts and approximately 50% penetration at the suco level, 74 the broadest coverage of all financial services providers (although there is potential to extend financial services deeper into the suco and aldeias levels.)⁷⁵ Simple geographic coverage however does not ensure access for the majority of the population. The estimated size of the overall market for inclusive finance services ranges from 275,000 to 320,000, of which less than 20% of the market is attended by MR, TRM, IMFTL and the credit unions.⁷⁶ According to the recently developed business plans, the PIFIs will expand into new areas to achieve penetration and growth targets. Expansion challenges include: (a) the low capacity of FSPs, (b) the lack of infrastructure (both physical and communications), and (c) the lack of access to financing to expand portfolio. It is unlikely that the program-supported PIFIs will overcome these challenges during the life of the programme. Working with commercial banks, mobile network operators, or with IMFTL to serve the low-income market would improve overall access as well as create innovative, new, useful products and services including branchless banking. To date, INFUSE has not had success attracting significant interest from these actors, though one commercial bank and the national cell phone company have both suggested interest in the market. <u>Source of information</u> - Interviews - Program strategy documents - Program reporting documents - IFIs, SSOs - Client, PIFI and Stakeholder surveys
3.5.4 Is there greater competition for the low-income market? Number of FSPs in low-income markets. Variety of competing products Variety of markets serviced by multiple FSPs (market overlap)	The market for IF services has not changed significantly as a result of INFUSE interventions, and the number of FSPs serving low-income markets remains the same. Annual work plans do not contain enough detail – specific activities broken out, timelines noted, interim targets set – to enable an assessment of progress and according to targets found in the RRF, the programme is behind on several output targets that would impact on market development. This said, market development impacts would rarely be seen after only two years of programme/project implementation. The review concludes – based on experience in other countries – that as institutions grow, as an enabling environment is developed, and as new players come to the market, increased competition will result. While too early to tell, the majority of these elements seem to be coming together in Timor-Leste, in part due to the efforts of INFUSE and, in part, to saturation of conventional commercial banking markets and the government's potential upcoming licensing of another mobile network operator.⁷⁷ <u>Source of information</u>

⁷⁴ A suco is a cluster of villages.

⁷⁵ Aldeias are towns, villages and hamlets.

⁷⁶ Commercial banks in Timor-Leste do not provide microfinance services; therefore, they are excluded from the number of clients reached. The 16-18% estimate may overstate the market penetration as some of the loan products offered by MFIs are not serving low-income clients.

⁷⁷ Digicel has applied for a license and has the experience in launching a mobile wallet service as evidenced by its work in Fiji, supported by PFIP.

EVALUATION QUESTION No. 3 DELIVERY	To what extent has the program contributed to improvement of access to appropriate low-income person's financial services?
Sub-questions & Indicators	Findings and sources of information
	▪ Business plan reviews ▪ Interviews ▪ Program strategy documents ▪ Program start up documents ▪ Program reporting documents
3.5.5 Are sector SSOs providers being established / supported (e.g. FSP auditors, credit bureaus, FSP associations etc. – if applicable)? ▪ Number of SSOs supported - Mechanisms of support	On other meso level development fronts, INFUSE will begin to support exposure visits of SSOs to Timor-Leste in order to attract regional financial support services suppliers to Timor (e.g., audit firms, MIS companies, and management consultancies). This work will have some impact if successful but has yet to begin. As noted, there is a limited demand for reviving the microfinance association in Timor-Leste. However, there is a need to support and build other SSOs, although significant supply-side constraints exist. A possible oversight of emphasis by INFUSE is a stronger effort to support the credit union federation. National federations have played a significant role in IF sector development in many countries (e.g., Mexico, El Salvador) and could plausibly play an important role in the development of the credit union movement in Timor-Leste as well, particularly if linked to the larger, producer cooperative movement which numbers over 100,000 members in various producer groups (but particularly those related to agriculture) where there are ample supply chain finance opportunities. Significantly, the government is very supportive of the cooperative sector and has made it a MoED priority. Due in part to poor communications and differential work styles between INFUSE, the National Directorate of Cooperatives (DNC) of the MoED, the Credit Union Foundation of Australia (CUFA), support of the national credit union movement has not been significant, strategic or grounded in a mutually reinforcing relationship.⁷⁸ New perspectives are required to remove current constraints and reenergize future work by INFUSE with the credit union system. <u>Source of information</u> ▪ Business plan reviews ▪ Interviews ▪ Program strategy documents ▪ Program start up documents ▪ Program reporting documents ▪ IFIs, SSOs
3.5.6 Do SSOs meet the needs of FSPs? • Quality of products & services provided	See 3.5.5 <u>Source of information</u> ▪ Interviews ▪ Program strategy documents ▪ Program reporting documents ▪ IFIs, SSOs

⁷⁸ Of note, is that CUFA has a significant history with the Timor Leste credit union movement and has strong opinions on how development should occur. They have staffed a person out of Australia to provide TA but in the view of many stakeholders, this has not been all that effective. Instead, in-country resident TA support is required. Evaluations of and the experience in many similar programs support this claim (e.g., UNCDF's IF programmes in the Democratic Republic of Congo, Sierra Leone, Asia Pacific, and Malawi).

EVALUATION QUESTION No. 4: SUSTAINABILITY		To what extent is the program likely to result in financially viable (i.e., sustainable) IFIs/SSOs in the longer-term, independent of external assistance of any kind?																												
Sub-questions & Indicators		Findings and sources of information																												
4.1 To what extent are FSPs/SSOs Agencies preparing the phasing out following the exit of UNCDF?																														
4.1.2 To what extent was a phasing out strategy incorporated in program design? ▪ CGAP Appraisal and /or CAMEL management indicators ▪ Governance improvements (see 2.1.5 above)		Both PIFIs in the inclusive finance sector – MR and TRM – are financially viable based on the standard sustainability indicators of Operational Self-Sufficiency (OSS) and Financial Self-sufficiency (FSS)																												
		Moris Rasik achieved OSS by December 2008 (112.1%) and maintained a stable OSS in 2009 (115%) and 2010 (158%). ⁷⁹ MR achieved FSS in 2009 (105%). The institution’s historical trends show a steady improvement in sustainability since December 2001. Moris Rasik’s portfolio quality has been excellent historically with PAR>30 days below 3%. At the end of 2008, Return on Assets (ROA) became positive at 4.78%. Moris Rasik has a diversified base of donors and lenders including INFUSE, Triodos, Blue Orchard, Whole Foods Foundation, Silverton Foundation.																												
		<table><tr><th colspan="3">A Snapshot of Financial Indicators</th></tr><tr><th>Indicators (as of 30 June 2010)</th><th>Moris Rasik</th><th>Tuba Rai Metin</th></tr><tr><td>Gross Portfolio Outstanding</td><td>\$4,133,320</td><td>\$569,507</td></tr><tr><td>PAR > 30 days</td><td>2.0%</td><td>3.9%</td></tr><tr><td>OSS</td><td>158.1%</td><td>140.4%</td></tr><tr><td>FSS</td><td>105.08%*</td><td>105%*</td></tr><tr><td>ROA</td><td>3.07%*</td><td>4.73%*</td></tr><tr><td>Adjusted ROA</td><td>-0.2%*</td><td>0.1%*</td></tr><tr><td>ROE</td><td>6.69%*</td><td>6.26%*</td></tr></table>		A Snapshot of Financial Indicators			Indicators (as of 30 June 2010)	Moris Rasik	Tuba Rai Metin	Gross Portfolio Outstanding	\$4,133,320	\$569,507	PAR > 30 days	2.0%	3.9%	OSS	158.1%	140.4%	FSS	105.08%*	105%*	ROA	3.07%*	4.73%*	Adjusted ROA	-0.2%*	0.1%*	ROE	6.69%*	6.26%*
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ROE	6.69%*	6.26%*																												
*Data as of end of Dec 2009 Sources: IFI Reports to INFUSE and the MixMarket																														
Tuba Rai Metin achieved OSS by December 2008 (125.5%) and has maintained OSS levels >100% since then. TRM achieved FSS in 2009 (110%), and projections show a steady improvement in both OSS and FSS for the next four years. The institution has had difficulties maintaining good portfolio quality with high PAR rates (9.2% as of December 2008) with a significant share of rescheduled loans. During the period 2006-2009, the institution did not make any write-offs. TRM completed its first write-offs in February 2010. As a result, TRM indicators show a positive trend as the institution begins the process for cleaning its portfolio quality and it is likely PAR will be under control by the end of 2010. In the next four years (2010-2013), projections show PAR will remain below the 3% threshold. TRM does not have a diversified source of funds. In the past the organization relied primarily on grant funding from the Catholic Relief Services and USAID, as well as an interest-free loan from ILO of USD50,000. In 2009, INFUSE approved a low-interest rate loan for USD150,000. BASIX and TRM are currently speaking with potential investors to raise funds required to obtain a license from the BPA. The partners aim to “transform TRM from and NGO-MFI to a savings-led MFI growing on commercial principles, preferably duly regulated.” Business plan projections show a future equity injection into TRM.																														

⁷⁹ As of June 2010. This significant increase is a result of a decrease in expenses in the year. However, there are discrepancies between financial reports to INFUSE for March and June 2010 quarters, and there appears to have been an error in reporting in financial expenses and rent. Therefore, OSS may change from the reported 158%.

EVALUATION QUESTION No. 4: SUSTAINABILITY	To what extent is the program likely to result in financially viable (i.e., sustainable) IFIs/SSOs in the longer-term, independent of external assistance of any kind?
Sub-questions & Indicators	Findings and sources of information
4.1.2 To what extent has the programme improved long term planning, management, and governance processes at FSP/SSO level? ▪ CGAP Appraisal and /or CAMEL management indicators ▪ Governance improvements	INFUSE support has produced initial improvements in the institutions' long-term planning processes at both PIFIs it supports. Both Moris Rasik and Tuba Rai Metin, in partnership with their respective TSPs, recently undertook strategic planning processes and producing viable strategic plans and related business plans and projections. For Tuba Rai Metin, this was the first time the organization had undertaken a strategic planning effort. Initial progress suggests that the PIFIs will see improvements in management, financial capacity and governance processes through their long-term relationships with their TSPs. (see also 2.1.1-2.1.3) Management and performance reporting is an area that still requires continued attention. INFUSE staff has worked directly with both Moris Rasik and Tuba Rai Metin and TSPs to bring reporting for internal and external purposes to good-practice standards. Stakeholders and this review confirm that report quality and accuracy are improving. As noted earlier, INFUSE's work at the meso level (Output 3) has only just begun and it is not possible to determine the likely sustainability of either its financial literacy or financial sector management courses. It is unclear how far these programmes will advance prior to the end of the programme. The programme has made small steps towards working with the national credit union movement. Working with various stakeholders including the National Directorate of Cooperatives (DNC) of the MoED, the Credit Union Foundation of Australia (CUFA), Hanii Malu (the national credit union federation) and the credit unions themselves, INFUSE provided USD5,000 grant to develop a strategic plan for the credit union movement in Timor-Leste. CUFA organized a 5-day workshop in November 2009 at which representatives from all credit unions with the objective of designing a national credit union strategic development plan. Ultimately the workshop proved an ineffective approach – attendees possessed differing levels of understanding and knowledge financial institutional management, few have experience with strategic planning processes, and the workshop facilitator was not adequately versed in credit union issues nor did she speak the local language. The resulting strategic plan submitted to INFUSE did not have the endorsement of all credit union stakeholders. The trainings and exposure visits outlined in Table 9 represent a good start to building human resources capacity. The trainings have improved senior management's understanding of microfinance best practices and innovations in various areas – e.g., new product development, strong credit practices, and liquidity management – and, if applied, should result in improved microfinance operations at both PIFIs. However, to ensure broader impact and long-term sustainability, future trainings should incorporate mid- and lower levels of staff. Because the training has only recently started and because its impact on human resources will take some time to gestate, impact on financial and management indicators is not yet apparent. (See Table 8 for more performance assessment) <u>Source of information</u> ▪ CGAP Appraisal (light version of sample IFIs institutions) ▪ Interviews of staff ▪ IFI financial data (audited/unaudited) ▪ PSM collected PIFI data

EVALUATION QUESTION No. 4: SUSTAINABILITY	To what extent is the program likely to result in financially viable (i.e., sustainable) IFIs/SSOs in the longer-term, independent of external assistance of any kind?
Sub-questions & Indicators	Findings and sources of information
4.2 To what extent was a phasing out strategy incorporated in program design?	
4.2.1 Was sustainability designed in the formulation process? ▪ Number of indicators in the original logical framework ▪ FSPs/SSOs were involved upstream in the drawing up of UNCDF's program, its implementation and its evaluation ▪ PSU arrangements to steer FSPs/SSOs towards sustainability	The initial INFUSE programme design did not specifically articulate an exit strategy. Instead, the design included sustainability indicators for all three of its outputs. Annual Work Plans do not address programme phase out issue nor did management articulate any phase out planning activities. Clearly, however, the IF sector will continue to require support at all three levels and if no other significant FSSA programme is developed there will be a significant number of gaps left unresolved. Additionally, it is unclear if or how fully meso-level activities will be completed before the end of the programme, therefore, institutions capable of managing and supporting these projects should be sourced as precaution. <u>Source of information</u> ▪ GA, SSO, IFI Interviews ▪ Program strategy documents ▪ Program start up documents ▪ Program reporting documents
4.2.2 Does the intervention design articulate a clear and workable exit strategy for UNCDF? ▪ Mechanisms in place to replace UNCDF	There is no clear mechanism in place to replace UNCDF. See also 4.2.1.

EVALUATION QUESTION No. 5: PROGRAM MANAGEMENT	How effective has management of the IF program been?
Sub-questions & Indicators	Findings and sources of information
EQ 5.1 How well are IF sector interests embedded in government institutions (if applicable) Management arrangements, appointments/secondments	The INFUSE has done a commendable job in attaining high-level support, involvement and funding as well as maintaining regular, ongoing communication with the Minister of the Economy and Development. In addition, the Vice Minister recently became involved with INFUSE and more MoED staff may become involved at a later date. Contacts with other government ministries are not as well developed. INFUSE has not yet established a productive working relationship with the Ministry of Finance, an important and influential player in the financial services sector (although it has a strong relationship with the International Finance Corporation of the World Bank which has a dynamic relationships with the MoF). INFUSE has a programmatic relationship with the BPA providing technical advisory and training support to the institution. The Director of Cooperatives MoED is not well integrated into the INFUSE despite GoTLs growing interest in financial cooperatives. INFUSE has done a good job executing its roles and responsibilities as the Secretariat for the Management Committee for Inclusive Finance (MCIF – the programme’s governing body). The direct programme partners and members of the MCIF are UNDP, UNCDF (through PFIP), AusAID, and the MoED. The MCIF also includes the BPA as an observer-member. The investment committee policy and meeting minutes demonstrate that INFUSE has created an efficient joint management and decision-making process. The donors have delegated the overall workload and day-to-day management of the programme to the INFUSE programme support unit. For more details on sector interests embedded in government institution see 1.1 – 1.3 <u>Source of information</u> - Document analysis - Interviews - Program reports - Work plans - INFUSE staff
EQ 5.2 How effectively have program managers delivered on the annual work plans? Achievements against targets	Progress made against the Annual Work Plans from 2008, 2009 and 2010 is difficult to discern as the documents do not provide adequate detail regarding the specific activities in which the INFUSE programme will engage during the course of each year. More detailed annual work plans would serve as a better guide for effective and on-time implementation of programme activities and would enable better evaluation of programme activities. On the whole, feedback from direct stakeholders (donors, co-funding partners, government, grantees, etc.) is that management performance is good to adequate, and on balance positive, given the staffing constraints, UN system policies and processes and country context. Stakeholders expressed that INFUSE staff is accessible and proactive, and they recognized INFUSE’s efforts despite few demonstrable results as of yet. The significant number of stakeholders express concern that INFUSE has not taken the expected leadership role (facilitation, convening power, etc.) and has had limited impact on stakeholder coordination. <u>Source of information</u> - Document analysis - Interviews

EVALUATION QUESTION No. 5: PROGRAM MANAGEMENT	How effective has management of the IF program been?
Sub-questions & Indicators	Findings and sources of information
EQ 5.3 How effectively have program managers managed the interests of all partners (if joint program is applicable) ▪ Workload sharing proportional to investment ▪ Clear roles defined and maintained ▪ Efficient joint management and decision making ▪ Satisfactory execution of responsibilities ▪ Satisfactory institutional recognition	▪ Program reports, ▪ Work plans ▪ INFUSE staff The UNDP-UNCDF partnership has suffered from a number of ongoing communication, administrative, staff turnover and reporting line challenges. There is a need to establish more effective communications channels between the UNDP and INFUSE. The existing, formal communication channels are: • both INFUSE and UNDP participate in the MCIF meetings; and • INFUSE provides bi-weekly briefings to UNDP.⁸⁰ INFUSE is not physically located in Oribigado Barracks, the UNDP compound in Timor-Leste, yet the programme requires support from UNDP operational offices for back-end, administrative processes for recruitment, procurement, travel, and finance. The physical distance makes it more challenging to establish informal communication channels that could create more efficient work flows and could potentially minimize procedural delays. UNDP is a member of the MCIF, and the head of the UNDP's Poverty Reduction Environment Unit (PREU) is the INFUSE CTA's second supervisor. Despite these existing channels, communications remain poor (e.g., UNDP representatives have very basic understanding of the programme, have initiated a finance project without coordination with INFUSE, have not dedicated sufficient time to INFUSE tasks, and do not fully understand their roles and responsibilities, or if they do, have not fully executed them as effectively as possible). Stakeholders report that conflicting work styles have also played a role in the communication issue – for example, INFUSE's strong technical assistance approach to programme implementation versus the broader concerns (i.e., institutional and political interests) of the UNDP. Poor communications has led to significant procurement and procedural delays. In June 2010, the UNDP appointed a new head of PREU so there is an opportunity to strengthen the working relationship. <u>Source of information</u> ▪ Interviews with program stakeholders ▪ Program documents and reports ▪ UNCDF government and other relevant donors' staff ▪ Donors' programs documents and reports ▪ IFIs and SSOs and PSU
EQ 5.4 To what extent has the regional office ensured oversight and guidance functions? ▪ Number of visits ▪ Existence of clear mechanisms / instruments to share information and provide feedback ▪ Sharing of lessons learnt ▪ Responsiveness to requests for TA	Multiple changes in the management arrangement and reporting structure – as well as difficulties in institutional processes – have caused some confusion, inefficiency and delays to programme implementation. The current structure involves the UNDP Timor-Leste office, UNCDF's Bangkok office and PFIP, based in the Pacific Centre in Suva, Fiji. PFIP provides technical input and oversight and has made bi-annual visits and maintains frequent contact via email and telephone calls. PFIP also shares relevant documents and lessons learned with INFUSE. PFIP's Technical Advisor sits on the MCIF and is current with challenges, progress and priorities of the programme. The regional office in Bangkok is supposed to provide administrative and financial guidance, although there have been cases of miscommunication between offices that resulted in delays in procuring technical assistance. Unclear or changing institutional processes include conflicting advice regarding appropriate documentation to submit for procurement purposes. The change in procurement offices

⁸⁰ In the past, briefings to the UNDP did not take place bi-weekly. This was due to scheduling changes, primarily on the part of the UNDP.

EVALUATION QUESTION No. 5: PROGRAM MANAGEMENT	How effective has management of the IF program been?
Sub-questions & Indicators	Findings and sources of information
	from the UNCDF Bangkok regional office to the UNDP-TL office caused confusion. The current turnaround time for administrative and finance/budget processing is lengthy, and processes require persistent follow-up. The programme has also experienced delays in moving money from the Multi-donor Trust Fund (MDTF) to the INFUSE budget at a cost of overall programme and specific project efficiency. These issues, coupled with INFUSE staff's initial inexperience in UN procedures/processes, caused multiple delays in programme implementation. Overall programme effectiveness is at some risk as a result of inefficiencies and consequent delays in project implementation – some projects may be left unfinished or unsustainable at the end of the programme. The INFUSE programme has three programme officers (POs) – a backstopping, UNCDF Programme Officer and two INFUSE staff POs (one of whom is new).⁸¹ There is no clear delineation of PO roles. In addition, over the life of the programme, the INFUSE PIU has worked with five different backstopping POs. Personnel changes have created difficulties in developing efficient working relationships between UNCDF support staff and INFUSE. The relationship between the INFUSE PIU and the current backstopping programme officer is a transactional one, which works on a task-by-demand basis as opposed to a team basis. As a result, the PO is not proactive and understands little about the programme, and INFUSE often takes on work that could be delegated to the PO. There is a lack of clarity around responsibility for INFUSE budgeting. Instances of confusion include UNDP charging costs to the INFUSE budget without prior discussion with the CTA (as the budget manager) and reversing underpayment of the CTA. These situations required specialized attention that took considerable time, caused a good deal of frustration, negatively affected team morale, created procurement delays (e.g., getting consultants into the field), and adversely affected overall programme efficiency. <u>Source of information</u> ▪ Document analysis ▪ Interviews ▪ Program reports, ▪ INFUSE staff ▪ Regional office staff
EQ 5.5 How well has program helped align objectives of government departments/ ministries, Central Banks and/or Superintendencies? ▪ Complementary IF policies ▪ Complementary IF projects	See EQ 1.1-1.3, 5.1 and 5.3.

⁸¹ The backstopping Programme Officer is the bridge between the INFUSE programme and UNCDF and UNDP systems and requirements. The current PO has responsibility for the UNCDF Local Government Support Programme (LGSP) as well as INFUSE. The PO is located in Oribigado Barracks, the UNDP compound in Timor Leste, not at the INFUSE offices.

EVALUATION QUESTION No. 5: PROGRAM MANAGEMENT	How effective has management of the IF program been?										
Sub-questions & Indicators	Findings and sources of information										
EQ 5.6 How well is monitoring and evaluation linked into the needs of the management? Up to date indicators of project progress, regular and informative reports	INFUSE's monitoring system functions on two levels. The INFUSE PIU monitors the progress of its PIFIs primarily through quarterly performance and grants expenditure reports from the PIFIs. The PIU then disseminates the data to the MCIF.⁸² The PIFIs are also required to complete annual external audits and to submit financial data to the Mix Market.⁸³ The team provided direct technical assistance to both MR and TRM on preparing the reports as information provided was not fully accurate or reliable at the beginning of the projects. With TA support from TSPs and new MISs in place, data accuracy and reliability is will improve further. INFUSE tranches its funding disbursements to the PIFIs based on performance metric set out in their contracts. The PIU also provides to the MCIF bi-annual reports summarizing programme progress delivered as support to the programme's bi-annual investment committee meeting. INFUSE also reports on key targets on access to financial services on a quarterly basis at the National Priority Working Group meetings. INFUSE conducts bi-weekly briefing meetings for UNDP and monthly briefing meetings for the Minister of Economy and Development. Performance Reporting and Monitoring Checklist <table border="1"> <tr> <td>Quarterly reporting for FSPs obtained on time.</td><td>MR has been in compliance, despite some challenges to report accurately due to capacity issues.</td></tr> <tr> <td>FSPs have audited financial statements.</td><td>MR received their audit report for 2009 in July 2010.</td></tr> <tr> <td>FSP has updated (end of year) data posted on the MIX Market (August – See footnote 13 for more information on the Mix Market).</td><td>MR has completed the MIX submission for 2009.</td></tr> <tr> <td>FSPs that miss performance targets have received tailored letter as per IEPBAs by 30 March 2009, with copy to FIPA HQ.</td><td>Formal letters were not presented to MR regarding targets for 2009 though some were not reached (OSS, number of voluntary depositors, number of borrowers) , however, emails and verbal discussions have taken place.</td></tr> <tr> <td>On-going technical dialogue with FSPs on their development / overall performance.</td><td>Positive dialogue regularly takes place between INFUSE and MR.</td></tr> </table> <u>Source of information</u> - Project Documents - Project reports - Meeting notes - M&E data - Project reports - M&E documents - PIU - Regional staff	Quarterly reporting for FSPs obtained on time.	MR has been in compliance, despite some challenges to report accurately due to capacity issues.	FSPs have audited financial statements.	MR received their audit report for 2009 in July 2010.	FSP has updated (end of year) data posted on the MIX Market (August – See footnote 13 for more information on the Mix Market).	MR has completed the MIX submission for 2009.	FSPs that miss performance targets have received tailored letter as per IEPBAs by 30 March 2009, with copy to FIPA HQ.	Formal letters were not presented to MR regarding targets for 2009 though some were not reached (OSS, number of voluntary depositors, number of borrowers) , however, emails and verbal discussions have taken place.	On-going technical dialogue with FSPs on their development / overall performance.	Positive dialogue regularly takes place between INFUSE and MR.
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On-going technical dialogue with FSPs on their development / overall performance.	Positive dialogue regularly takes place between INFUSE and MR.										

⁸² PIFIs report on a number of indicators related to Outreach, Collection Performance, Sustainability, Efficiency, Overall Financial Performance and Targets.

⁸³ For more information on the Microfinance Information Exchange or MIX see footnote 13.

EVALUATION QUESTION No. 5: PROGRAM MANAGEMENT	
How effective has management of the IF program been?	
Sub-questions & Indicators	Findings and sources of information
EQ 5.7 Is M&E data and reporting being used to make strategic decisions about service delivery and for purposes of drawing lessons from experience ▪ Use of data from M&E to make strategic investment decisions ▪ Use of data from M&E to make technical assistance and capital investments. ▪ Use of data and reports to transmit lessons to local and national policy-makers	See EQ5.6 The programme lacks a comprehensive advocacy strategy to inform and educate sector stakeholders adequately on critical inclusive finance issues (e.g., best practices in inclusive finance, technological or product innovations that may be relevant for Timor-Leste, lessons learned regarding regulatory approaches to inclusive finance or mobile banking, etc.). Current advocacy mechanisms, including knowledge dissemination and occasional press releases, can be bolstered to generate greater appreciation for INFUSE's and UNCDF's value add in the sector among both MCIF and non-MCIF members. Leveraging INFUSE's relationship with PFIP could be one relatively straightforward way to add value, e.g., disseminating the research and lessons learned from PFIP initiatives. Given current staffing levels and capacity, implementing a comprehensive advocacy strategy may not be feasible. A strategic discussion regarding the value and importance of such an advocacy strategy should occur at the Investment Committee level and a decision made whether to focus on this element of the programme and if so, how. <u>Source of information</u> ▪ Project Documents ▪ Project reports ▪ Meeting notes ▪ M&E data ▪ Project reports ▪ M&E documents ▪ PIU ▪ Regional staff

EVALUATION QUESTION No. 6: PARTNERSHIP AND COORDINATION	
How well have partnerships with donors and governments supported the program?	
Sub-questions & Indicators	Findings and sources of information
EQ 6.1 Has the partnership mobilized additional resources for program implementation / replication? ▪ Evidence of synergies with other programs as a result of UNCDF's intervention / complementary efforts with relevant initiatives in the sector	The initial funding for INFUSE came from UNCDF (commitment of USD1,050,000) and UNDP (commitment of USD500,000). A notable accomplishment was the funding from the Australian government of AUS\$2.5M over the period 2010-2012. The GoTL also has a funding commitment of USD1,000,000 over 4 years (2009-2012), and has thus far contributed USD188,423 in 2009, USD311,577 in 2010 and has budget allocations of USD250,000 per year for 2011 and 2012. Funding to the INFUSE programme is now 3.5 times the UNCDF's initial investment.⁸⁴ Additional discussions are underway with new donors to secure the remaining funding required for full programme implementation.

⁸⁴ The figure is based on the following formula: Funding committed by UNDP, GoTL and AusAID (\$3,732,330) divided by UNCDF's initial commitment (\$1,050,000).

EVALUATION QUESTION No. 6: PARTNERSHIP AND COORDINATION	
How well have partnerships with donors and governments supported the program?	
Sub-questions & Indicators	Findings and sources of information
(related to specific geographic markets or nationally). - Establishment of new donor/government/private sector partnerships established with local market and/or national actors - Leveraging of additional investment funds into the sector (Additional donors' resources ratio to UNCDF; Additional private sector investments in sector traceable to program; Increased IF sector savings - Up-scaling and replication (Increased client outreach - see measures above 3.7; Number of IFIs in new market areas; Number of IFI products being copied / replicated; Number of SSO copied / replicated)	INFUSE has successfully leveraged additional funding into the IF sector in Timor-Leste. The programme has facilitated linkages between its PIFIs and external funders, such as Blue Orchard, Triodos and PlaNis, who are considering investments in the inclusive finance sector in Timor-Leste. INFUSE has collaborated with UNCDF's MicroLead programme to co-fund the TRM-BASIX partnership. IFC provided co-funding for travel-related costs for the BPA regulatory expert. The programme has brokered the recent funding relationship between Monaco Asia Society and Moris Rasik. <u>Source of information</u> - Interviews - Project data - Program documents and reports
EQ 6.2 Has the partnership favoured the harmonization of donor's interests? - Evidence of coordination and partnership arrangements - Pooled funding mechanisms - Sectoral/thematic platforms - Joint national/global initiatives - Evidence of cross-fertilization among programs	The programme has provided for the harmonization of donors' interests, primarily through donor participation in the investment committee, or MCIF. INFUSE has established relationships with international financial institutions (IFIs), such as the IFC and ADB, and has collaborated with them on initiatives including the potential of branchless banking in Timor-Leste. INFUSE also led the multi-donor IF sector gap analysis exercise for Timor-Leste. As noted, there is no clear exit strategy for INFUSE despite the probable need for sector leadership and the programme needs to increase donor coordination to this end. Regarding the UNCDF-UNDP partnership, there may be opportunities for INFUSE to collaborate with UNDP programmes that would link INFUSE to other existing or new projects. There have been missed opportunities to harmonize interests during instances when UNDP-TL has incorporated inclusive finance elements into its proposals or projects. One example is UNDP's project to start up Self-Help Groups (SHG) in Timor-Leste, to help them to mature, and then to encourage them to access credit from IFIs. In the case of the SHGs, INFUSE could have linked the UNDP team to technical assistance providers who have expertise in the SHG methodology. INFUSE's good practice experience and extensive network of contacts would also ensure any SHG work would not distort markets and put organizations involved on a sustainable path. Improved UNDP-UNCDF communication and coordination of activities would likely result in more effective and consistent programme implementation as well as the potential for a better SHG programme. The communications challenges noted in 5.7 has resulted in the programme being almost uniformly recognized by non-donor stakeholders (and by some donors) as a UNDP programme despite its being a partnership programme under the leadership of UNCDF. This said, and despite less than ideal communication and partnership relations/efficiencies, key sector stakeholders are unanimous in their appreciation of the UN's approach and role in promoting an inclusive finance sector in Timor-Leste.

EVALUATION QUESTION No. 6: PARTNERSHIP AND COORDINATION		How well have partnerships with donors and governments supported the program?
Sub-questions & Indicators	Findings and sources of information	
	<u>Source of information</u> - Document analysis - Stakeholder Interviews - UNCDF and UNDP staff - PIU staff - Donors representatives	
EQ 6.3 Has the partnership enhanced UNCDF positioning and catalytic function? - Effective partnership with UNDP and other key actors in place [e.g. Awareness/appreciation by staff and key stakeholders; evidence/ recognition of value-adding synergies and joint implementation mechanisms] - Effective advocacy mechanisms in place [e.g. degree of generation/diffusion of innovative knowledge; Effective strategic alliances at the corporate level in place] - Degree of recognition of UNCDF's approach and role among partners [Standing of UNCDF within donors community/appreciation by key SH; Alignment/ involvement in implementation of national/ donors strategies/priorities; Opportunities for further engagement/ strategic partnership]	See 5.3 5.7, 6.2 <u>Source of information</u> - Document analysis - Stakeholder Interviews - UNCDF and UNDP staff - PIU staff - Donors representatives	

EVALUATION QUESTION No. 7: POLICY AND STRATEGY		To what extent were piloted approaches conducive to IF regulatory/policy/strategy developments?
Sub-questions & Indicators	Findings and sources of information	
EQ 7.1 Did programs induce policy improvements in the inclusive finance sector? (if relevant/applicable) Awareness/appreciation of national decision-	Through a variety of activities including a grant of USD 125,000 and advisory/TA support to the RBM, the program has increased the awareness and appreciation of national decision-makers and other key stakeholders of the need for a sound regulatory environment for inclusive finance and is laying the tracks for future developments. The program has had a role in four key regulatory and policy actions/activities:	

EVALUATION QUESTION No. 7: POLICY AND STRATEGY	To what extent were piloted approaches conducive to IF regulatory/policy/strategy developments?
Sub-questions & Indicators	Findings and sources of information
makers and other key stakeholders ▪ Sectoral reforms initiated/completed ▪ New IF sector appropriate regulations enacted ▪ IF sector appropriate norms and procedures applied	<u>Source of information</u> ▪ Document analysis ▪ Stakeholder Interviews ▪ UNCDF and UNDP staff ▪ PIU staff ▪ Donors representatives
EQ 7.2 To what extent did policy improvements lead to growth or sustainability of the sector? ▪ Clear and efficient regulations ▪ Clear and applicable enforcing mechanisms and rules ▪ Complementary initiatives, i.e. appropriate low-income economic support programs	INFUSE's collaboration with the MoED and the BPA and its participation in the National Priority Working Groups (NPWG) have generated a greater awareness of inclusive finance issues. The programme sponsored BPA staff to attend trainings and exchange visits that have informed regulators' thinking regarding inclusive finance legal/regulatory issues. These were recognized as important learning opportunities. The BPA is currently in the process of finalizing regulations for the inclusive finance sector; therefore, it is not possible to attribute any growth or sustainability to policy improvements. The programme is on track with respect to the progress envisioned in the programme document – "drafting, reviewing and consulting on enabling IF regulations." According to the programme design document, however, INFUSE is not on track with achieving a policy statement. Within two quarters after the launch of the programme, INFUSE was to have drafted and consulted on a national policy statement of inclusive finance for GoTL adoption – a very optimistic, even unrealistic timeframe. The vision/policy statement on inclusive finance has not been developed yet. <u>Source of information</u> ▪ Document analysis ▪ Stakeholder Interviews ▪ UNCDF and UNDP staff ▪ PIU staff ▪ Donors representatives
EQ 7.3 Did programs foster governments' commitment towards pursuing the MDGs? • National strategies/strategic partnerships. • Public commitments to IF as part of MDG strategies. • IF sector development linked to other government initiatives	The programme foster government's commitment to the MDGs but to date have not seen any results on the ground other than preparing PIFs for sustainable growth. <u>Source of information</u> ▪ Document analysis ▪ Stakeholder Interviews ▪ UNCDF and UNDP staff ▪ PIU staff ▪ Donors representatives

EVALUATION QUESTION No. 7: POLICY AND STRATEGY	
To what extent were piloted approaches conducive to IF regulatory/policy/strategy developments?	
Sub-questions & Indicators	Findings and sources of information
EQ 7.4 To what extent were desired regulatory changes achieved? (if applicable) ▪ Existence of new/addition to existing low-income financial regulatory regime ▪ Quality of low-income regulatory change	The INFUSE provided expert input on and training support to the BPS's drafting of regulations for Other Deposit Taking Institutions. <u>Source of information</u> ▪ Document analysis ▪ Stakeholder Interviews ▪ UNCDF and UNDP staff ▪ PIU staff ▪ Donors representatives
EQ 7.5 Are the project's results known and influential among key IF sector stakeholders in the region? ▪ IFIs/SSO organizations opinion ▪ Citations in new standards and guidelines for IFI/SSO management among sample IFIs ▪ Question key stakeholder or decision-makers in the field of IF	Timor-Leste is a small country with relatively few players in the inclusive finance. Future efforts to publicize results and impact could focus on including the influential Ministry of Finance, the Prime Minister's office, as well as more staff from the MoED and other government agencies mentioned in the original project document including the Ministry of Agriculture and Fisheries and the Secretary of State for Vocational Training and Employment. The knowledge level of these ministries is uneven but generally low. <u>Source of information</u> ▪ Interviews ▪ Document analysis ▪ Central Government ▪ Main donors

ANNEX 6: FINANCIAL PERFORMANCE OVERVIEWS

Moris Rasik and Tuba Rai Metin Performance Comparison

	East Timor IFI		Benchmark IFIs			
Indicators	Moris Rasik	TRM	Pacific Islands	Haiti	Rwanda	Indonesia
Number of MFIs in sample	1	1	3	5	6	16
Data as of date	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD
Total assets	5,206,785	753,494	2,760,000	15,012,756	3,784,986	3,687,559
Offices	15	5	9	20	7	5
Personnel	115	34	103	274	51	52
Financing structure						
Capital/asset ratio	46.84%	75.32%	11.00%	12.16%	37.73%	16.43%
Debt to equity ratio	1.14	0.33	1.10%	2.08	1.7	5.09
Deposits to loans	46.80%	23.76%	35.10%	0.00%	56.25%	56.16%
Deposits to total assets	34.24%	13.79%	28.30%	0.00%	38.04%	42.24%
Gross loan portfolio to total assets	73.17%	58.02%	55.30%	77.72%	74.63%	76.52%
Outreach indicators						
Number of active borrowers	10,487	2,838	7,082	13,785	1,473	6,251
Percent of women borrowers	88.23%	99.47%	-	70.32%	70.97%	47.48%
Number of loans outstanding	11,193	2,838	7,082	13,852	1,473	6,251
Gross loan portfolio	3,809,869	437,162	2,227,000	13,176,337	3,004,826	1,925,201
Avg loan balance per borrower	363	154	240	497	852	507
Average loan balance per borrower / GNI per capita	65.89%	27.94%	26.30%	64.32%	166.45%	22.79%
Number of depositors	9,572	2,823	10,732	0	18,209	12,781
Deposits	1,783,022	103,880	782,000	0	1,933,811	1,102,191
Avg deposit balance/depositor	186	37	73	n/a	50	108
Overall financial performance						
Return on assets	3.07%	4.73%	-4.60%	1.19%	0.41%	3.73%
Return on equity	6.69%	6.26%	38.70%	33.84%	0.68%	12.69%
Operational self sufficiency	114.56%	116.41%	95.70%	105.18%	111.64%	134.99%
Financial Self-sufficiency	105.08%	105.00%	86.30%	86.87%	100.38%	123.09%
Efficiency						
Operating expense/loan portfolio	26.29%	39.90%	44.50%	43.21%	31.03%	17.51%
Personnel expense/ loan portfolio	12.96%	21.25%	23.40%	27.09%	13.09%	11.81%
Cost per borrower	80	-	117	127	360	64
Cost per loan	77	-	117	127	360	64
Productivity						
Borrowers per loan officer	202	189	208	174	134	252
Deposit accounts per staff member	157	97	283	0	299	187
Risk and liquidity						
Portfolio at risk > 30 days	1.38%	17.35%	0.90%	7.77%	7.33%	10.34%
Write-off ratio	0.27%	0.00%	-	9.38%	0.57%	1.08%
Non-earning liquid assets as a % of total assets	23.09%	41.47%	14.40%	15.75%	18.59%	17.44%

Source: Mix Market data at www.mixmarket.org; information is self-reported to the Mix.

ANNEX 7: CGAP APPRAISAL “LITE”

Given that the application of this modified CGAP Lite Analysis is usually applied in over a very short period of time, the purpose is to not to necessarily offer an exhaustive analysis. Rather the spreadsheets act as a guide for the evaluator to assess where information is available and time permits major elements of an IFIs performance. This version is not accredited or sanction by CGAP and is a product of ES Global Consulting. Time and data limitations are usually most often found around management performance.

PFI Performance & Outreach								Page 1
	ANSWER FOR ALL PFIS							
Overview Description		PFI 1	PFI 2	PFI 3				
	Answer guide							
Age (in years)								
Project start date	month/year							
Project close date	month/year							
Institutional Type								
No Status	If this is status indicate with a "1"							
Self Help (including ROSCAs)								
NGO rotating credit (not a formal MFI)								
Financial Cooperative (savings)								
Non Financial Cooperative (no savings)								
Credit Union								
Non Bank Financial Institution								
Commercial Bank Government Owned								
Commercial Bank Private								
Development Bank (non agricultural)								
Development Bank (agricultural)								
Specialized MFI(government owned)								
Specialized MFI (non governmental)								
Community Group								
Local Government								
Wholesale fund (government)								
Wholesale Fund (private)								
Other								
Credit	Indicate incidence with a 1							
Individual								

Group									
Consumption Lending									
In-Kind Lending									
Individual									
Group									
Savings									
Voluntary									
Demand									
Term									
Bonds									
Obligatory									
Other Products									
Remittances									
Insurance									
Project Type									
Financial Stand Alone									
Mixed Financial and Non Financial									

PFI Performance & Outreach									
	ANSWER FOR ALL PFIs - INFORMATION TO COME FROM QUESTIONAIRES								
Performance & Outreach		PFI 1			PFI 2			PFI 3	
	Answer guide	T 1	T 2	T 3	T 1	T 2	T 3	T 1	T 2
Client Information									
Number of active borrowers(active loans as of date of information)	#								
Percentage of borrowers that are women	%								
Number of active voluntary savers (where savings are not tied to disbursement)	#								
Percentage of savers who are women	%								
Average Loan Size (outstanding)									
Product One									
Product Two									
Value of voluntary savings balance (does not include forced savings or cash collateral)	\$								
Average savings balance	\$								

Value of loan portfolio (current not cumulative, lent to clients and not yet repaid)	\$								
Portfolio at Risk (30 days: if not available state period)	%								
If PAR is not available report other indicators used (e.g., arrears rate, repayment rate)									
Indicator 1	%								
Indicator 2	%								
Average Outstanding Loan Size	\$								
Average Outstanding Balance/GNI per Capita	\$								
Operational Self Sustainability Ratio (see def below)	%								
FSS Ratio (if data is available)	%								
Administrative Efficiency (administrative costs excluding financial costs as % of avg. net portfolio)	%								
Number of active loans per loan officer (end of period)	#								
Outstanding portfolio per loan officer (end of period)	\$								
Savings Balance per staff member	\$								
Yield Gap (Actual Yield as a percent of portfolio) / (Expected Yield as a percent of portfolio)	%								
Non-earning liquid assets/Total Assets	%								
Cash as a percent of total savings	%								
Equity as a percent of Total Assets	%								
Total Liabilities	\$								
Total Commercial Liabilities	\$								
Net Commercial Liabilities as a percent of Total Assets	%								

PFI Performance & Outreach									Page 5
	ANSWER FOR MISSION COUNTRY PFIS ONLY								
CGAP Lite (continued)	Answer guide	PFI 1	PFI 2	PFI 3					
	System able to produce reports from previous time periods with accuracy								
	Portfolio balance reconciled regularly with accounting system								
Internal control and audit.	Existence of internal audit function, reporting to the board								
	Basic reconciliations in place of portfolio, loan balance, cash, bank accounts and insurance balances								
	Basic cash handling policies in place and implemented including cash counts, loan officers not handling cash and double signature on check								
	Evidence that fraud is dealt with in a timely and appropriate manner								

Client Impact				
Target Clients	PFI 1	PFI 2	PFI 3	
Describe Project's Target Clients	Use comment feature			
Percentage Poor Clients	%	%	%	
Percentage of borrowers that are women	%	%	%	
Average Loan Size	\$US	\$US	\$US	
Average Loan/GNI per capita	%	%	%	
Percentage of savers who are women	%	%	%	
Average savings size	\$US	\$US	\$US	
Client Asset Growth Impact	0 to 5	0 to 5	0 to 5	Note: subjective indicators based on RES and CE evaluation
Client Income Growth Impact	0 to 5	0 to 5	0 to 5	Note: subjective indicators based on RES and CE evaluation
Client Health Impact	0 to 5	0 to 5	0 to 5	Note: subjective indicators based on RES and CE evaluation
Client Education Impact	0 to 5	0 to 5	0 to 5	Note: subjective indicators based on RES and CE evaluation

Other Indicator Index

0 = not enough information to make an informed observation

1 = Low & 5 = High

Lessons Learned	
Please note that the following list is representative and not comprehensive Please add ideas and items as they occur	
Stakeholder Participation	
Processes for involving poor	
Processes for decision making	
Representing the poor	
Differentiated Financial System	
Institutional Level	
Legal & Regulatory Level	
Supporting PFI Performance	
Internal tools or techniques	
External tools or techniques	
Innovations	
Product	
Service	
Marketing	
Management	
Technology	
Credit Methodology	
Project Management	
Process	
Tools	

ANNEX 8: INFUSE SURVEY RESULTS

INFUSE - Service User Survey (N=30)

Question	% Responding
1 How long have you used the services from this MFI?	
a. Less than 1 year	33.3%
b. 1 to 3 years	23.3%
c. More than 3 years	43.3%
2 Do the financial services you use meet your needs?	
a. Not really	23.3%
b. Mostly	0.0%
c. Entirely	76.7%
d. No opinion	0.0%
3 Have the financial services been getting better since you began using them?	
a. They are the same	20.0%
b. They are better	76.7%
c. They are much improved	3.3%
d. No opinion	0.0%
4 Are services closer to your home than the ones you used before?	
a. Yes	63.3%
b. No	3.3%
c. Did not use others before	33.3%
5 Are the services provided by your MFI less expensive than those services you used before?	
a. Did not use others before	40.0%
b. Yes	43.3%
c. No	6.7%
d. About the same	10.0%
e. Don't know	0.0%
6 How would you compare the services of the MFI with other providers you know of or may have used? (banks, credit unions, etc.)	0.0%
a. Have not used other services before	66.7%
b. They are the same	20.0%
c. They are better	10.0%
d. They are much better	3.3%
e. No opinion	0.0%
7 Does the information you get from your MFI explain services in a clear and understandable way?	0.0%
a. Information is not readily available	16.7%
b. No	3.3%
c. Sometimes	3.3%
d. Most of the time	3.3%
e. Always	73.3%
f. No opinion	0.0%
8 If you are a woman, do you feel the services you get from your MFI meet your needs?	

a. Don't know	0.0%
b. No	13.3%
c. Sometimes	13.3%
d. Most of the time	20.0%
e. Always	53.3%

INFUSE

Stakeholder Survey (N=4)

Rating Scale: 1 = very poor 2 = poor 3 = good 4 = very good 5 = excellent

	Programme Stakeholder Survey	1 very poor	2 Poor	3 Good	4 very good	5 Excellent
1	Rate the consistency of the programme design with specific national poverty reduction priorities.	0.0%	33.3%	33.3%	33.3%	0.0%
2	Rate the extent to which the programme design is aligned with government(s) financial sector development plans/strategy.	33.3%	0.0%	66.7%	33.3%	0.0%
3	Rate the extent to which the programme meets the needs of the finance sector.	0.0%	25.0%	0.0%	50.0%	25.0%
4	Rate the extent to which the following actors are engaged in the programme:					
	a. Government and/or Central Bank and/or Bank Superintendence	0.0%	25.0%	25.0%	25.0%	0.0%
	b. Private Sector (non finance)	25.0%	50.0%	25.0%	0.0%	0.0%
	c. Inclusive finance sector business	25.0%	25.0%	50.0%	0.0%	0.0%
	d. Non governmental organisations/associations	0.0%	25.0%	50.0%	0.0%	25.0%
5	Rate how well the programme has strengthened the capacities of the following actors in the inclusive financial sector:					
	a. Financial Service providers	0.0%	33.3%	0.0%	66.7%	0.0%
	b. Government agencies	0.0%	66.7%	33.3%	0.0%	0.0%
	c. Central Bank/Bank Supervisor	0.0%	33.3%	66.7%	0.0%	0.0%
	d. Donors (not including UNDP/UNCDF)	0.0%	33.3%	33.3%	33.3%	0.0%
6	Rate how effectively funds from the programme have been transferred to financial service providers and/or other project partners.	33.3%	33.3%	33.3%	0.0%	0.0%
7	Rate how effectively programme services/support has been delivered to the financial service provision partners and or other project partners.	0.0%	33.3%	0.0%	33.3%	33.3%
8	Rate the extent to which the programme has enhanced the market for inclusive financial services.	25.0%	0.0%	75.0%	0.0%	0.0%
9	Rate the extent to which the programme supported the development of financially viable financial service providers.	0.0%	25.0%	0.0%	75.0%	0.0%
10	Rate the extent to which financial services offered by financial service providers participating in the programme meet the needs of low income clients	0.0%	33.3%	33.3%	33.3%	0.0%

	Programme Stakeholder Survey	1 very poor	2 Poor	3 Good	4 very good	5 Excellent
11	Rate the performance of the programme's partnership.	0.0%	50.0%	25.0%	25.0%	0.0%
12	Rate the extent to which the programme supported appropriate inclusive finance sector regulatory/policy/strategy developments.	0.0%	25.0%	50.0%	25.0%	0.0%
13	Rate the extent to which financial service providers met the needs of women.	25.0%	0.0%	0.0%	50.0%	25.0%
14	Rate the extent to which financial service providers are aware of existing environmental finance regulations, environmental risks to portfolio and/or significant environmental impacts due to financing activities.	0.0%	33.3%	66.7%	0.0%	0.0%

ANNEX 9: MANAGEMENT RESPONSE MATRIX

- **The Evaluation Team Leader** will use this Evaluation Follow-up Matrix to summarise the key findings and recommendations of the evaluation, and propose responsibilities and timeline for follow up.
- **The Portfolio Manager** will subsequently discuss the recommendations and proposed follow-up responsibility and timeline with program stakeholders and record agreed follow-up actions, responsibilities and timelines in this matrix, and use it monitor their implementation.
- **The Director of Practice Division** is responsible for oversight, to ensure timely implementation of agreed follow up actions.
- **The Evaluation Unit** will periodically report to UNCDF Senior Management and the Executive Board on progress in implementing agreed follow up to evaluations, as part of its accountability function.

UNCDF Management Response Template

[Name of the Evaluation] Date: February 2011

Prepared by: Marc de Sousa Shields	Position: Team Leader	Unit/Bureau: ES Global
Cleared by:	Position:	Unit/Bureau:
Input into and update in ERC:	Position:	Unit/Bureau:

Overall comment: The Programme is relevant and targets important gaps at the micro, meso and macro levels of the inclusive finance sector. At the macro level (Output 1), GoTL plans for a national development bank and work in the IF market by the IMfTL require attention if INFUSE wishes to influence a government wide good practice policy/ regulations, an approach which seems to be developing at the BPA. Strategic attention to the GoTL interest in the cooperative finance sector should be made. At the micro level (Output 2), the programme has seen best practice TA strategies for both its main IFI grantees, and should see positive effects in terms of both increased access to IF services and poverty alleviation impacts in the future. Output Three, or the meso level, was not redesigned with full appreciation for evolving country and financial sector context; design was sufficiently flexible however, to address other needed meso level needs, specifically financial literacy and IF management training. The programme has thus made advances towards meeting the terms of all its outputs; because interventions are still quite recent, however, few results are measurable. Management of INFUSE has been hampered by a late start, complex and changing partnership relationships and staff with strong technical banking skills which are not ideally suited to broader communications and networking objectives, particularly as they relate to Outputs 1 and 3. The programme's accomplishments suggest, however, that the underlying development hypothesis of the programme is sound even if the programme has not shown significant effects on the ground to date.

1. Evaluation Recommendation 1: Decide if full IF policy vision including a range of Ministries is a relevant objective and if so augment/change current staffing to maximize Output 1 results.				
Management Response:				
Key Action(s) proposed by the evaluation team	Time Frame	Responsible Unit(s)	Tracking*	
			Status	Comments
1.1 Internal and limited external stakeholder interviews to determine if national IF vision is required.	Q2 2011			
1.2 If no , determine if more modest measures are required to ensure good practice IF sector development vision can be instituted across key government agencies.				
1.3 If yes , assess if current staff has the capacity/skill set for undertaking policy vision project.	Q2 2011			
1.4 Develop plan and execute.	Q 2 - 4 2011			
2. Evaluation Recommendation 2: Proactively plan for potential and upcoming staffing changes by putting a human resources plan in place and consider				
Management Response:				
Key Actions proposed by the evaluation team	Time Frame	Responsible Unit(s)	Tracking	
			Status	Comments
2.1. Develop staff HR needs map based on remaining projects/tasks.	Q2 - 2011			
2.2 Develop recruiting plan.	Q2 - 2011			
3. Evaluation Recommendation 3: Improve Reporting Accuracy and Attribution.				
Management Response:				
Key Actions proposed by the evaluation team	Time Frame	Responsible Unit(s)	Tracking	
			Status	Comments
3.1 Define credible programme attribution measurement, consulting internal and external stakeholders.	Q2 2011			
3.2 Measure attribution.	Q2 – Q4 2011			

4. Evaluation Recommendation 4: Develop Exit Strategy.				
As the only significant IF programme in the country, INFUSE needs to develop exit strategy to ensure sector leadership roles are passed on to appropriate and sustainable institutions.				
Management Response:				
Key Actions proposed by the evaluation team	Time Frame	Responsible Unit(s)	Tracking	
			Status	Comments
5.1. Develop communications strategy for wind-up.	Q2 2011			
5.2 Work to transfer prepare key projects to new donor/supporter programmes/projects.	Q2 2011			
4.3 Work to transfer program knowledge and networks to key stakeholders.	Q2-4 2011			
5. Evaluation Recommendation 5: Modify interest rate on loans to PIFIs.				
Management Response:	Time Frame	Responsible Unit(s)		
Key Actions proposed by the evaluation team			Tracking	
			Status	Comments
5.1. Prepare instructions for UNCDF rate setting protocol and ensure that rates are not unreasonably below market rates.	Q2 2011			
5.2 Distribute rate setting protocol (across programmes if desired)				
6. Evaluation Recommendation 6: Intensify work to develop a credit reference bureau.				
Closely monitor intentions of GoTL with respect to the cooperative sector (credit unions) to ensure sufficient alignment of common interests				
Management Response:	Time Frame	Responsible Unit(s)		
Key Actions proposed by the evaluation team			Tracking	Tracking
			Status	Status
6.1 Gauge GoTL interest in advancing credit union sector.	Q2 2011			
6.2 Contract credit union development plan if GoTL interest warrants.	Q2 2011			
6.3 Work with CUFA and Hanii Malu (the national credit union federation) to develop realistic and stakeholder approved credit union strategic plan.	Q3 and Q4 2011			

Evaluation Recommendation 7: Support for UN Systems and Procedures				
Provide support on UN system policies and procedures for incoming programme managers to increase efficiency and effectiveness.				
Management Response:				
Some Key Actions proposed by the evaluation team	Time Frame	Responsible Unit(s)	Tracking	
			Status	Comments
7.1 Define UN systems mentor for all UNCDF staff.	When CTA or lead staff are hired.			
7.2 Develop short manual for major UNCDF/UNDP policies and procedures.	N/A			
8. Evaluation Recommendation 8: Minimize changes to reporting structure.				
Multiple changes in reporting lines within both the UNDP and UNCDF created excessive disruptions. To the extent possible, minimize such changes and ensure new arrangements work effectively.				
Management Response:	Time Frame	Responsible Unit(s)		
			Tracking	
			Status	Comments
N/A				
9. Recommendation 9: Improve Annual Work Plan documents. The annual work plans for 2008, 2009 and 2010 all have different formats and varying levels of detail. To maximize monitoring and evaluation value, work plans require more detailed and consistent work plans with specific activities listed and timelines.				
Management Response:	Time Frame	Responsible Unit(s)		
Key Actions proposed by the evaluation team			Tracking	Tracking
			Status	Status
9.1 Undertake review of current work plans (include work plan from other programmes as well if desired), include internal and external UNDP-UNCDF staff.				
9.2 Develop basic annual work plan template.				
9.3 Test template.				
9.4 Employ standard templates and definitions across program reports, contracts and appraisals.				