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**INCLUSIVE FINANCE FOR THE UNDER-SERVED ECONOMY JP**

**MPTF OFfice GENERIC ANNUAL programme NARRATIVE progress report**

**REPORTING PERIOD: 1 january 2008 – 31 December 2014**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Programme Title & Project Number | |  | Country, Locality(s), Priority Area(s) / Strategic Results | |
| * Programme Title: Inclusive Finance for the Under-served Economy (INFUSE) * Programme Number  UNDP: 00050242 (Award ID), 00061961(Project ID) UNCDF- Core: 00050456 (Award ID), 00062359 (Project ID)  UNCDF-GoTL: 00058333 (Award ID), 00072424 (Project ID)  AusAID: 00060350 (Award ID), 00075947 (Project)   * MPTF Office Project Reference Number:   00055655 (Award ID), 00067655 (Project ID) | | Timor-Leste | |
| *Inclusive Finance* | |
| Participating Organization(s) | |  | Implementing Partners | |
| * United Nations Capital Development Fund (UNCDF) * United Nations Development Programme (UNDP) | | * Ministry of Commerce, Industry & Environment (MCIE) / Government of Timor-Leste | |
| Programme/Project Cost (US$) | |  | Programme Duration | |
| MPTF /JP Contribution (pass-through):   * *AusAid* * *GoTL* | US$ 2,331,150  US$ 900,000 |  | Overall Duration  *2008-2014 (84 months)* |  |
| Agency Contribution | UNCDF: US$ 1,406,054  UNDP : US$ 564,017 |  | Start Date 27 August 2010  Original End Date: 31 December 2012 | |
|  |  |  | Current End Date 31 December 2014  This project is now operationally closed. | |
|  |  |  |  |  |
| Programme Assessment/Review/Mid-Term Eval. | |  | Report Submitted By | |
| Assessment/Review - if applicable *please attach*  Yes No Date: *dd.mm.yyyy*  Mid-Term Evaluation Report *– if applicable please attach*  Yes No Date: *dd.mm.yyyy* | | * Name: Reuben Summerlin * Title: Regional Technical Advisor * Participating Organization (Lead): UNCDF * Email address: reuben.summerlin@uncdf.org | |

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

DEFINITIONS

Joint Programme

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

Donor Pledge

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

Donor Commitment

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

Donor Deposit

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

Project Expenditure

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

**PART I: FINAL NARRATIVE PROGRESS REPORT OF**

**THE INCLUSIVE FINANCE for the UNDER-SERVED ECONOMY [INFUSE] PROGRAMME**

# Executive Summary

This 2014 Consolidated Annual Progress Report under the Joint Programme Inclusive Finance for the Under-served Economy (INFUSE) covers the period from 1 January to 31 December. This report is in fulfilment of the reporting requirements set out in the Standard Administrative Arrangement (SAA) concluded with the Donors. In line with the Memorandum of Understanding (MOU) signed by Participating UN Organizations, the Annual Progress Report is consolidated based on information, data and financial statements submitted by Participating Organizations. It is neither an evaluation of the Joint Programme nor an assessment of the performance of the Participating Organizations. The report provides the Management Committee for Inclusive Finance (MCIF) with a comprehensive overview of achievements and challenges associated with the Joint Programme, enabling it to make strategic decisions and take corrective measures, where applicable.

Main achievements over the year 2014:

* Branchless banking: provided technical assistance to BNU to plan and launch the first mobile money pilot in Timor-Leste after BCTL gave approval. Procured the services of a renowned consulting company (MicroSave) in the field of branchless-banking to help it develop its strategy in this field, with the aim to develop step by step payments and cash-in /cash-out services for the low-income segments leveraging technology and agents.
* Micro-insurance: conducted evaluation of Credit Life (the first micro-insurance product which INFUSE helped develop and offered by NITL through Moris Rasik and Tubai Rai Metin) and recommendations to improve the current product offerings, delivery channels and introduce new products e.g. a savings linked micro-insurance product.
* Financial Services Sector Assessment: documented the setting of financial services in Timor-Leste at a macro, meso and micro level. Opportunities and challenges addressed for building an inclusive financial sector, as well as the role of donors, the regulator and service providers highlighted.
* Savings Groups State of the Sector Assessment: building on INFUSE’s previous studies related to the development of savings groups, Brett Matthews, a leading authority on savings groups, who had completed a similar assessment in the Solomon Islands was hired to produce an assessment and subsequent trainings on action auditing and operational efficiency (based on the recommendations of the assessment).
* INFUSE II scoping: as the current phase of INFUSE draws to a close a scoping exercise for a second phase was implemented. In consultation with stakeholders a consensus building workshop and report on a new access to finance programme, building on the success of INFUSE e.g. branchless banking, micro-insurance and savings groups was developed.

Since the beginning of INFUSE in 2008, the key objectives were to build the capacity and promote the growth of the microfinance institutions serving low-income segments, which in 2014 reached 17,66 clients. In a review of the performance based grants to the MFIs, Moris Rasik (MR) successfully completed the terms to receive the first tranche of the grant ($30,000) by MIS rolled-out to 3 branches meeting the quality indicators in 14/02/2013, as verified by the CTA. However, MR decided to change MIS to a cloud-based system which was previously unavailable. It was agreed that rollout of the funded MIS would not be completed as specified in the grant agreement; therefore the agreement was terminated without disbursing the final tranche ($30,000). Tuba Rai Metin (TRM) received a grant of $40,000 to assist in attracting equity investment, of which one tranche of $25,000 was outstanding to be disbursed according to the following conditions, which were both achieved:

* + Financial audit satisfying the pre-requisites of at least one potential investor
  + Letter of intent from at least one potential investor detailing the prerequisite for financial audit and its ToR
  + TRM successfully completed the audit as per the requirements of the BTCL for its ODTI license and received a letter of intent to invest from three investors: IFC, Grameen Credit Agricole and Base of the Pyramid Asia

Both Grants are now closed and the technical assistance to the MFIs has been transitioned to IFC.

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

This report is presented in two parts. Part I (Sections I-IV) is the Annual Narrative Progress Report and Part II is the Annual Consolidated Financial Report for the pass-through funded portion of the Joint Programme funds. Section I is the Executive Summary; Section II provides a purpose of the Joint Programme; Section III presents an overview of results and an indicator based performance assessment and Section IV presents an overview of the resources.

# Purpose

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

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

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

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

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

INFUSE objectives are also linked to the following Outcome and Output of United Nations Development Programme (UNDP) Country Programme (2009 – 14) in Timor-Leste:

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

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

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

# Results

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

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

*The following key activities were implemented in support of Output 1*

* INFUSE provided substantive inputs on financial inclusion strategies in the Draft 10-year Financial Sector Development Master Plan. INFUSE comments to the draft were published on the BCTL website and the final publication of the Master Plan. INFUSE CTA was invited by BCTL to attend a ceremony for its publication and INFUSE’s contribution was acknowledged.
* INFUSE was asked to provide feedback on the draft Payments System Law to be enacted in 2015. Feedback was given.
* INFUSE provided regulatory advice to consultants hired by BCTL to draft laws on agency banking.
* INFUSE started in November 2013 an ambitious exercise of mapping financial inclusion – seeking to measure the percentage of adults and households with access to financial services for each suco. In March 2014, the map of financial services access points was published. This information enables comparison with the 2009 baseline to determine changes in financial access at suco level. All ‘providers’ of financial services are encompassed in this survey: commercial banks, MFIs, financial cooperatives, savings groups.
* INFUSE produced the Financial Services Sector Assessment (FSSA) to outline the financial services sector in Timor-Leste at a Macro, Meso and Micro level. The report covered existing regulatory frameworks and provided recommendations on a policy level for BCTL and government. These included creating:
  + an enabling environment for credit
  + effective consumer protection regime
  + better financial literacy coordination
  + a comprehensive and standardized financial sector database
* Policy makers and financial service providers were advised to be cognizant of the issues related to marginalised sections of the society especially women in the design and delivery of financial services initiatives.

**OUTPUT 2: INCREASED OUTREACH OF SUSTAINABLE FINANCIAL SERVICES**

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

*The following key activities were implemented in support of Output 2*

At the February MCIF meeting, the decision was made that INFUSE should provide technical assistance to BNU to design and implement a branchless banking or mobile money pilot.

* BNU requested follow-on consultancy from MicroSave to strengthen merchants as an alternate financial services delivery channel for their BB roll out. The focus was to be on addressing strategic, operational and marketing/ communication related barriers and undertaking improvements based on global good practices and local relevance.
* In early September, BNU was given approval from BCTL to undertake a MM pilot. As a result, they requested that the focus of the consultancy be shifted to focus on planning and preparation of the pilot, covering agent segmentation, selection and training; development of key front-end processes; and information communication and education (IEC) related support based on global good practices and local relevance. The consultancy began on October 13th and ended 5th December.
* The pilot was successfully launched, with BNU introducing the first digital financial services product channel in Timor-Leste. A press release on the launch may be found [here](http://www.uncdf.org/en/content/timor-leste%E2%80%99s-first-mobile-money-pilot-launched-expand-access-financial-services).

Also at the last MCIF meting it was agreed that INFUSE would provide technical assistance to assist with scaling up of saving groups by assessing the performance of various savings groups models to identify key principles and methods as best practices; make recommendations on an appropriate registration and reporting system for saving groups and preparing a roll out plan for expansion of saving groups

* Field assessment of SGs involving interviews and spot-checks with 29 groups across 6 districts, with a heavy weighting on Oecusse, where most groups are located. A state of sector report was completed.
* Two workshops were successfully organized to share the findings of his field assessment and to build consensus around priority actions. The first workshop on 2 Sep was for senior management and practitioners from the major international and local NGOs. The workshop agreed that a set of core principles and capacity building were their priority. The second workshop on 3 Sep was to share the priorities of the first workshop with development partners and government ministries and to inform them of the potential role that SGs can play in supporting their ongoing work.
* The priorities were endorsed by the Savings Groups Technical Working Group (SGsTWG) at their 26 Sep meeting.
* A draft training manual covering the topics of the two workshops (translated into Tetum and finalized before end of Dec)
* The Consultant provided advice to several NGOs on capacity issues specific to their organizations.

An evaluation of the Credit Life insurance product was provided by INFUSE, which contracted the services of Denis Garand & Associates.

* The evaluation concluded that there is scope for new products and there is client interest in new products, such as; an education savings product with insurance. Further, MR and TRM clients stated they would like this product, which can be directed to clients with active loans and those with savings.
* MR and TRM were advised to lower their premiums.
* The report recommended that INFUSE should consider doing a demand research study and pricing of such products in partnership with the insurers and the distribution network. This would enhance the capacity of all the players. By building an excellent database on mortality, it will be easier to expand into other life products. If demand research demonstrates need for other products, related to fire, agriculture or other products, it would be wise to commence with a small pilot to develop data and skills; similarly to the approach taken with credit life products.
* The INFUSE programme had less budget than expected and thus, further work on developing the products in micro-insurance could not be executed.
* INFUSE facilitated clarifications by NITL to both distributors TRM and MR of the credit life insurance coverage on issues raised by clients in the field. These clarifications were embedded into an amendment to the distribution contract, which serves as a product information sheet for field officers of TRM and MR. Similarly INFUSE sought to address the lack of end client information on the insurance products: it developed a flipchart to guide the field officer in explaining in simple terms the main aspects of the insurance product.

The follow-up of the investments outstanding in 2014 are described below:

**Tuba Rai Metin:** TRM received a grant of $40,000 to assist in attracting equity investment, of which one tranche of $25,000 was outstanding to be disbursed according to the following conditions, which were both achieved:

* + Financial audit satisfying the pre-requisites of at least one potential investor
  + Letter of intent from at least one potential investor detailing the prerequisite for financial audit and its ToR

TRM successfully completed the audit as per the requirements of the BTCL for its ODTI license and received a letter of intent to invest from three investors: IFC, Grameen Credit Agricole and Base of the Pyramid Asia

* INFUSE continued to monitor the five-year grant agreement from the MicroLead Programme (UNCDF Gobal Thematic) to TRM. TRM had two tranches outstanding, #6 for US$36,000 and #7 for US$30,202. The grant agreement expired at the end of 2013 without several of the disbursement conditions being met, namely:
  + The grant agreement expired without the proper documentation of the final two deliverables being submitted. The grant had already been extended to give BASICS more time to achieve previously agreed upon milestones from 2012.
  + TRM failed to meet the client growth targets
  + BASICS failed to provide evidence that all the training materials for supervisors, field officers and board members were completed and left with the institution. Further, it did not maintain appropriate records as per the agreement to log the number of staff trained and the frequency.

**Moris Rasik**: the grant agreement under which INFUSE provides US$ 60,000 for the roll-out of the MIS to all branches was signed in March 2013. The grant covered branch equipment costs (computers, printers and power back-ups) and the salary of a dedicated IT task force that will assist each branch during the implementation, as well as the transfer of all portfolio data into the MIS.

MR achieved one target on the grant when it rolled the IT system successfully to three branches. As a result, it received one tranche of $30,000 per the grant agreement. However, it subsequently decided to go to a cloud-based IT system, and abandoned the one INFUSE agreed to pay for. As a result, the remaining $30,000 was canceled and the agreement terminated.

**Outreach**

Note: Credit Unions are included in 'Active Clients' but not

in 'Borrowers' and 'Savers' : they don't report such data

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

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

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

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

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

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

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

## *The following key activities were implemented in support of Output 3*

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

* A Savings Groups Advisory, Brett Matthews was procured to support INFUSE activities.
* Field assessment of SGs involving interviews and spot-checks with 29 groups across 6 districts, with a heavy weighting on Oecusse, where most groups are located.
* Two workshops were successfully organized to share the findings of his field assessment and to build consensus around priority actions. The first workshop on 2 Sep was for senior management and practitioners from the major international and local NGOs. The workshop agreed that a set of core principles and capacity building were their priority. The second workshop on 3 Sep was to share the priorities of the first workshop with development partners and government ministries and to inform them of the potential role that SGs can play in supporting their ongoing work.
* The priorities were endorsed by the SGsTWG at their 26 Sep meeting.
* Based on these priorities the following outputs were accomplished:

-      A set of core principles and methods for SGs

-        A code of conduct for SG practitioners

-        A training of trainers workshop (15-19 Nov) on field balancing, international context, cash planning for individual members, and cash security was held in Oecusse (with representation from 12 NGOs)

-        A training of trainers workshop (17-19 Nov) on action auditing was held in Oecusse (with 6 trainers)

-        A draft training manual covering the topics of the two workshops (to be translated into Tetum and finalized before end of Dec)

* Brett also provided advice to several NGOs on capacity issues specific to their organizations.

Mobile branchless banking innovations

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

Promotion of industry dialogue

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

**CHALLENGES AND LESSONS LEARNT**

* + Due to the impending closure of the programme, key personnel were lost from the beginning to mid 2014 including the CTA and National Programme Officer. Towards the end of the programme, the Admin and Finance Officer also left.
  + Due to the quick departure of the CTA in February, an interim programme manager was quickly sought to continue the CTA’s duties.
  + The absence of key personnel meant that resources were stretched, but lessons were learnt on how to compromise with UNDP to use staff for support where needed.

**Qualitative assessment of the results**

## Programme Achievements

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

* Launch of the first [Digital financial services product in Timor-Leste, Dec 04, 2014](http://www.uncdf.org/en/content/timor-leste%E2%80%99s-first-mobile-money-pilot-launched-expand-access-financial-services) called BNU Mobile. The grant was initiated, implemented and successfully completed in 8 months. No handover was necessary.
* Publication of the State of sector report, the establishment of a set of core principles and methods for informal Savings Groups, an training to implementers was completed. Handover over of activity was given to atechnical working group and UNDP
* Grants with MFIs were closed and handover to another TA provider, IFC, was facilitated.
* A mapping of Financial Services provision in the country was completed and shared with two Financial Services Sector Assessments.

## Programme Implementation

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

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

The MCIF, comprising donors to the Programme oversees the INFUSE Fund for Inclusive Finance. The MCIF meets biannually to approve funding of specific activities that promote inclusive finance through using a variety of funding mechanisms including grants, loans, and direct procurement of technical assistance. This flexibility allows the PIU to accept proposals, develop partnerships, and identify needs for targeted technical assistance. It engages the MCIF to evaluate and provide feedback on programme activities. The chair of the MCIF assigned by the 5th constitutional Government is the Ministry of Commerce, Industry and Environment (MCIE).

## Monitoring and Evaluation

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

* On a biannual basis, programme progress is reported against the annual work plan and baseline indicators. Implementation and management challenges and issues are identified in these consolidated reports. These reports, which includes a narrative and financial component, is prepared and shared with INFUSE donors and contains information on the achievements, challenges and lessons learned during the year.
* The MCIF is responsible for monitoring programme progress at its bi-annual meetings convened generally in May and in September.
* The INFUSE PIU monitored recipients of grant funding and loan capital against specific targets, disbursement conditions and reporting requirements outlined in the Performance Based Agreements (PBAs) with FSPs and Technical Service Providers (TSPs). All supported FSPs reported on a quarterly basis adhering to the UNCDF standard requirements and formats for Inclusive Finance.
* The mid-term evaluation of INFUSE took place in August 2010 with its report finalized in May 2011. Progress against the recommendations given in the evaluation were incorporated into reporting to the MCIF and the annual work plan for 2012.

# INDICATOR BASED PERFORMANCE ASSESSMENT

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Expected Outcome** | **Vulnerable groups will have improved access to sustainable financial services.** | | | | |
|  | **Perfor­mance**  **Indicators** | **Planned Indicator Targets** | **Achieved Indicator Targets?** | **Progress to date** | **Reasons for Variance**  **(if any)** |
| **Output 1**  **A coherent GoTL policy framework for Inclusive Finance**  A national policy statement for inclusive finance is developed, consulted and adopted by GoTL, and enabling legislation is in place to support the expansion and consolidation of the financial sector. Coherent, effective and synergetic donor funding based on the national policy framework has been provided. | Indicator 1 | A Policy Statement on goals, strategies and priorities for Financial sub-sector development is adopted by GoTL (Y1) | Partially   * Enabling regulation for microfinance activities, developed with support from technical consultant procured by INFUSE, was approved in December 2010. | * INFUSE advocacy has focused on establishing participation of relevant government ministries and agencies, through collaboration with the MoED, the BCTL and stakeholders in the GoTL, as follows. * The Ministry of Commerce (MCIE) chairs the the MCIF. The BCTL also participates as an observer in the MCIF. From 2013, the Ministry of Finance and the Secretary of State for Private Sector Development have participated to the MCIF as observers. * Provision of technical support to BCTL for legal framework of MFIs, and membership/participation in the AFI * INFUSE provided substantive inputs on financial inclusion strategies in the Draft 10-year Financial Sector Development Master Plan. INFUSE comments to the draft were published on the BCTL website and the final publication of the Master Plan. INFUSE CTA was invited by BCTL to attend a ceremony for its publication and INFUSE’s contribution was acknowledged | * The GoTL National Strategic Development Plan (NSDP 2011-2030) and the action plan for the 2012-2017 legislature dwell little on building a conducive environment for the financial sector to expand access. * Dissolution of MoED has left a vacuum on policy formulation for the private & financial sector as well as Rural Development, yet to be filled-in. |
| Indicator 1.2 | A consolidated Financial Sub-sector Activity Plan for 2007-2012 is developed as part of the NDP 2007-12 (Y2) | Partially  -Annual participation in National Priority Working Groups | - INFUSE participated in Annual National Priority Working Groups 2009, 2010, 2011 | 5th constitutional government in place in August 2012 articulated a 5-year NDP 2012-17 and discontinued the National Priority Working Groups |
| Indicator 1.3 | Principles for Support to the Financial Sub-Sector have been adopted by key donors (Y2) | No | * Donors and stakeholders have been coordinated through INFUSE participation in national priority working groups, private sector development working group, INFUSE advisory group for inclusive finance, and bi-annual MCIF. * Some donors have participated in the CGAP Donors for inclusive finance training * FIDGTL setup and managed by INFUSE | INFUSE managed to raise large participation for FIDGTL and trained donors, but no official support Principles were signed. **NOTE: primary donors active in financial inclusion adhere to best practices** |
| Indicator 1.4 | UNDAF aligned with policy (Y2) | Yes | * Inclusive finance targets incorporated in UNDAF 2015-2020. * Annual reporting on outreach indicators takes place |  |
| Indicator 1.5 | Current and future investments in the sub-sector are reviewed for compliance with national policy framework (Y3-5) | No | * Donors are coordinated resulting in contributions to INFUSE of app. US$3 million mobilized for INFUSE programme, US$1million mobilized from MicroLead for one MFI. * Both MFIs accessed successfully commercial refinancing and have attracted foreign equity investment. | No national policy statement for inclusive finance developed as yet |
| **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 | IIndicator 2.1  Baseline as at Dec 2008 is 35,369 | Increase in the number of active clients (at least 50% women) of selected Financial Service Providers (excluding commercial banks) from baseline established as at end of 2008 by 20% percent p.a. (compounded), totaling 73,341 active clients by project end.  **Targets to be tracked:**   1. **INFUSE supported providers of MF services** 2. **Increase in access to new products and services** | Partially | * Increase in Outreach figures for INFUSE supported MFIs may be seen in Outreach table, above * Gender targets were exceeded. * New product and service targets were met | Note: when setting targets, all MF service providers were included in baseline and projections on the assumption that INFUSE would provide direct support, and would also provide general sector support that would affect their performance.  No results to INFUSE’s attempts to support CUs with sustainable approach.  Support to IMfTL has not been desired as they receive significant support from ADB and the GoTL—this is the largest MFI and contributed to most growth in sector.  Outreach kept on reducing over 2013 at MR due to the quality of its loan portfolio compounded by management issues. TRM resumed growth in 2013. |
| Indicator 2.2 | Introduction of pro-poor financial products by commercial bank and/or mobile network operators (MNOs), resulting in an additional 40,000 clients obtaining access to a secure savings account. | Yes | * Launch of the first [Digital financial services product in Timor-Leste, Dec 04, 2014](http://www.uncdf.org/en/content/timor-leste%E2%80%99s-first-mobile-money-pilot-launched-expand-access-financial-services) called BNU Mobile |  |
| Indicator 2.3 | **INFUSE-supported** MFIs have achieved financial break-even (Financial Self Sufficiency (FSS) >= 100%) by project end | Yes | Operating Self-Sufficiency (OSS)   * MR reports 122.17% as of Dec 2013 and TRM reports 121.95% as of Dec 2014 * MR and TRM access now mostly commercial refinancing, very little concessional |  |
| Indicator 2.4 | **INFUSE-supported** financially self-sufficient MFIs maintain an average PaR (30 days) of no more than 5%. | 1 oYes | * TRM PAR from Dec 2008 to December 2014 decreased 9.2% to 2.28% * Moris Rasik PAR mainted 4.44% as of December 2013 |  |
| Indicator 2.5 | Increase in the number of access points of all Financial Service Providers (FSPs) from baseline to be established at end 2009 | Yes | * MFI penetration and branch targets achieved in Dec 2010 * INFUSE updated in March 2014 the data for access points of all FSPs in 2013 to compare to baseline established at 31 Dec 2009. |  |
| **Output 3**  **Enhanced business service infrastructures for the financial sector**  Private and public business service providers offering high-quality and market-responsive services to the financial sector are available in Timor-Leste, and a professional microfinance association (AMFITIL) is effectively representing the industry in policy dialogues, serving as an information hub for members and the public. | Indicator 3.1 | Competency framework and corresponding learning guides available for use by local training service providers to be able to deliver technical training for microfinance and banking to the financial sector | No | * National Labor Development Institute (INDMO) approved the framework of competencies in October 2011 * Scoping mission undertaken on the implementation of the Certificate with report delivered in November 2013: Determined that no business case existed for offering | Limited demand demonstrated by the scoping mission, no interest from foreign banks |
| Indicator 3.2 | Financial education is promoted through research, social marketing tools and/or activities of local service providers | No | * INFUSE consultant conducted financial education scoping assessment in August 2010, as first step to developing a wider programme. | Central Bank decided to launch own programme without INFUSE support |
| Indicator 3.3 | Private sector entity makes Microinsurance products available for sale to MFI clients | Yes | * As of Dec 2012 14,150 lives are covered through the credit life insurance underwritten by insurer NTIL and distributed by MR and TRM |  |
| Indicator 3.4 | Credit registry available to FSPs in the market  and exploring potential for m-banking (cell phone transactions | **Credit Bureau was established in 2009** | * TRM and MR can and must participate to credit bureau once they are licensed as ODTI. | Credit registry is managed by the BCTL, and as of yet the MFIs do not participate as they need to be licensed as ODTIs to do so. |

# Resources

## Financial Resources:

INFUSE was designed as a GoTL-UNCDF-UNDP partnership with a programmed budget of US$ 5 million, including initial funding of US$1,050,000 from UNCDF and $500,000 from UNDP. At the end of June 2011, the programme is funded by UNCDF, UNDP, the GoTL through the budget of the Ministry of Economy and Development (MoED) and the Australian Department of Foreign Affairs and Trade (DFAT).

Budget Approvals

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

Funding Mobilization***:***

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

Financial & Procurement Processes

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

## Human Resources:

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

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

In addition, the programme receives support from the following:

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

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

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