

ASIAN DEVELOPMENT BANK

TAR: TIM 38213

TECHNICAL ASSISTANCE
(Financed by the Japan Special Fund)

TO THE

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

FOR

STRENGTHENING MICROFINANCE OPERATIONS

December 2004

CURRENCY UNIT

Currency Unit – United States dollar (\$)

As of 20 August 2001, the legal tender of Timor-Leste is the United States dollar.

ABBREVIATIONS

ADB	–	Asian Development Bank
IMFTL	–	Microfinance Institution of Timor-Leste
MIS	–	management information system
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	Targeted intervention
Sector	–	Finance
Subsector	–	Microfinance
Themes	–	Sustainable economic growth, gender and development, and private sector development
Subthemes	–	Development of rural areas, gender equity in opportunities, and private sector investment

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by A. Bruun, Pacific Department.

I. INTRODUCTION

1. On 6 December 2000, the Asian Development Bank (ADB) approved a grant of \$7.73 million (subsequently reduced to \$4 million) for the Microfinance Development Project. The Project was to support community-based opportunities for income generation and sustainable employment.¹ As a result, the Foundation for Poverty Reduction and the Microfinance Institution of Timor-Leste (IMFTL) were established and registered with the promulgation of two executive orders in December 2001.² The foundation is governed by its own board of trustees and wholly owns IMFTL, which in turn is governed by its own board of directors. IMFTL was capitalized with \$2 million and began operations on 22 May 2002 when the Banking and Payments Authority issued a provisional banking license.³ On 4 September 2002, the authority issued a license for IMFTL to operate as a quasi-bank.

2. To support IMFTL, ADB provided two associated advisory technical assistance (TA) grants to help microfinance development in Timor-Leste to (i) strengthen the microfinance policy and legal framework (footnote 1), and (ii) to develop microfinance information technology systems to support the installation and adoption of the United Nations, Food and Agriculture Organization, and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) microbanking system as the core banking software for the microfinance bank.⁴

3. ADB's country strategy and program update 2005–2006 for Timor-Leste highlights microfinance development as one of three focus areas, and proposes an additional TA to the sector in late 2004. Since the Project will come to an end on 31 December 2004, the Government has requested additional follow-on assistance to support IMFTL. The ADB Review Mission from 27 July–5 August 2004 concluded that TA is needed to assist IMFTL in becoming self-sufficient. The Government concurs with the goal, purpose, scope, implementation arrangements, cost, financing arrangements, and terms of reference for the TA. The TA framework is in Appendix 1.⁵

II. ISSUES

4. ADB has taken the lead among donors involved in the Trust Fund for East Timor in establishing IMFTL as a demonstration project. Following donor assistance in the start-up phase, IMFTL now requires follow-on support to consolidate operations and help it grow and attain operational and financial self-sufficiency. Following the start of operations, several studies have contributed to IMFTL development: (i) a divestment strategy assessment⁶ of IMFTL completed in November 2003; (ii) a rating⁷ completed on 22 February 2004, assessing financial performance as well as management, operations, and systems; (iii) business plans⁸ for IMFTL,

¹ ADB. 2000. *Report on a Project Grant from the Trust Fund for East Timor and a Technical Assistance Grant from the Asian Development Bank to the United Nations Administration in East Timor for the Microfinance Development Project*. Manila.

² Executive Order No. 2001/7 On the Establishment of the Foundation for Poverty Reduction in East Timor, and Executive Order No. 2001/8 On the Establishment of the Microfinance Institution of East Timor.

³ IMFTL operates and is regulated as a full commercial bank, with a limit on deposits of \$1.0 million

⁴ ADB. 2001. *Technical Assistance to the Democratic Republic of Timor-Leste for Microfinance Information Technology System*. Manila. (TA No. 3743: Small-scale Technical Assistance Projects for \$150,000).

⁵ The TA first appeared in the *ADB Business Opportunities* (Internet edition) on 14 August 2004.

⁶ ADB. 2003. *A Divestment Strategy Assessment*. Manila. (Enterprising Solutions Global Consulting).

⁷ ADB. 2005. *Micro-Credit Ratings International Ltd*. Manila.

⁸ ADB. 2005. *Micro-Credit Ratings International Ltd*. Manila.

completed in April 2004; and (iv) a joint appraisal with the Consultative Group to Assist the Poor⁹ in October 2004.

5. IMFTL has generally performed well in the 26 months since its establishment given the difficult environment in Timor-Leste: (i) sufficiently skilled management resources are scarce; (ii) the country is slowly recovering from a postconflict situation; and (iii) the population is sparse, the geography difficult, and the level of monetization is generally low, especially in rural areas. However, IMFTL continues to sustain modest operating losses. Recent assessments identify various weaknesses in management capacity, operational and financial performance, and product and service delivery.

6. **Competition.** A number of nongovernment organizations and multilateral and bilateral donors provide assistance to the microfinance sector. ADB is providing specific support to IMFTL and is coordinating with other initiatives through the Microfinance Working Group, which consists of the major development partners involved in microfinance and is open to all participants. While competition is seen as useful, overlap in overserved areas is generally avoided, and sharing of bad client lists is encouraged among members.

7. **Market Penetration.** IMFTL has a network of three branches and a head office. At the end of June 2004, IMFTL had 3,100 clients, up from 2,961 at the end of 2003. Over the same period, however, total outstanding loans decreased by 5% from \$770,966.93 to \$569,440.11, primarily due to a marked decrease in activity with the lucrative payroll loan product as a result of increased competition. Outreach varies among customer segments. While outreach to public servants has been good, certain market segments, such as market vendors, need more scale to attain profitability. Outreach to the rural poor has been severely hampered by insufficiently designed products and inefficient delivery mechanisms. The ability to mobilize savings deposits has exceeded expectations with a total of 7,026 savings accounts amounting to \$922,528.41. Deposits exceeded loans by 62%, indicating insufficient capacity to intermediate efficiently between savers and borrowers.

8. **Revenues and Operational Performance.** Operating self-sufficiency¹⁰ in the year to 30 June 2004 has deteriorated significantly to 76% against 106% as of 31 March 2004 due to a combination of falling market share in payroll loans, increased competition, and higher loan-loss provisioning. Performance of the products in IMFTL's portfolio varies widely. The payroll loan has an operating margin of 30%, while microfinance group loans lose a significant 190% of product revenues. The losses call for a careful review of (i) each product's delivery mechanism, design, and market potential; (ii) potential for introduction of new products; (iii) systems and procedures for internal control; and (iv) reengineering required in response to the findings. The board of directors is not sufficiently focusing management on key performance indicators for outreach, efficiency, asset quality, and profitability, nor is it setting performance targets.

9. **Operating Costs and Asset Quality.** In several cases, overhead costs appear to be disproportionately high, or not directly related to revenue generation. IMFTL's current salary structure needs to be reviewed; no staff incentives are available to reward productivity and asset quality. Management of loan delinquencies is lax. The past due ratio¹¹ increased from 3.8% at the end of 2003 to 7.7% on 30 June 2004. Similarly, the portfolio-at-risk¹² increased

⁹ Consultative Group to Assist the Poor, together with Oikocredit (based in the Netherlands) and ADB.

¹⁰ Financial income as a proportion of financial and operating cost and loan loss provisions from 1 January–30 June 2004.

¹¹ The ratio of overdue principal to total loans outstanding.

¹² The ratio of principal at risk to total loans outstanding.

from 9.45% to 16.9% (equivalent to some 10% of IMFTL's equity). This calls for measures focusing on the collection of overdue receivables and implementation of systematic zero-tolerance of loan delinquencies.

10. **Human Resources.** Capacity building is required to address these operational issues. General- and second-line management need to strengthen their capacity to articulate and communicate IMFTL's vision and mission. In addition, skills need to be refined in the areas of (i) organizational diagnostics and implementation of mitigating measures; (ii) adequate supervision of staff through periodic strategic planning and budgeting, as well as regular monitoring against these benchmarks; (iii) identification of client needs and adequate responses with suitable products and cost-effective delivery methodologies; and (iv) establishing, building, and maintaining client relationships.

11. The TA will assist in providing support to IMFTL with a view to ensuring sustainability in the medium to long term by addressing operational issues and increasing its business. IMFTL can then pursue options for divestment/dilution of shares to private sector investors, minimizing and—circumstances permitting—eventually relinquishing government and donor support.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

12. The goal of the TA is to improve income-generating opportunities and job creation among the poor, in particular for women. Building on previous donor support, the purpose of the TA is to help IMFTL (i) increase access to microfinance services for poor people, in particular women; (ii) become self-sufficient; and (iii) divest its shares for whole or partial privatization.

13. The TA will have the following outputs: (i) strengthened corporate governance and improved capacity of top and second-line management, as well as staff; (ii) improved operational and financial performance; (iii) improved client orientation, with a particular focus on poor women; and (iv) business plans and a strategic plan for divestment and privatization.

B. Methodology and Key Activities

14. The TA is a natural follow-on to previous TAs and other donor support. While earlier assistance provided capital and technical input to help establish IMFTL and start operations, this TA will assist IMFTL in becoming fully self-sufficient with a view to reduced dependence on—and involvement of—government and donors. The approach will be to closely engage with IMFTL management, the board of directors, and the Government and legislature to ensure their full ownership of and buy-in to all activities under the TA. The TA will build the capacity of IMFTL's corporate governance and management, operational performance and monitoring, as well as client orientation. The TA will also draw up a strategic plan for IMFTL's future activities.

15. The TA will take into consideration past diagnostic work, including recent work for IMFTL, such as the microcredit ratings study and the appraisal by the Consultative Group to Assist the Poor. Specifically, the following will be undertaken.

16. **Corporate Governance.** (i) Review organizational culture and design, and the remuneration structure to improve productivity, and reengineer as appropriate. (ii) Review the capacity of members of the board of directors and senior management; and identify and execute appropriate general management training, including exposure to other institutions. (iii) Review

operations staff competencies, work ethics, and productivity; and identify and execute appropriate training. (iv) Continuously engage—and ensure ownership and buy-in from—the IMFTL board of directors, management, and staff, as well as the Government on IMFTL business plans, organizational reengineering, and divestment/dilution plans. (v) Undertake policy dialogue with the Government, legislature, and supervisory authorities, as relevant, on microfinance best practices. (vi) Identify and cultivate microfinance champions in Timor-Leste and potential managers inside and outside IMFTL.

17. **Operational Performance and Monitoring.** (i) Provide hands-on training for the board of directors and top and second-line management on organizational diagnostics and mitigation measures, including effective use of management information systems; adequate supervision of staff; identification of and focus on client needs; establishing, building, and maintaining client relationships; monitoring performance indicators; and setting performance targets. (ii) Review and improve the management information system. (iii) Study the feasibility for IMFTL branch or satellite office expansion, and execute plans. (iv) Review operational cost structure (including imputed costs), and implement measures to ensure operational efficiency. (v) Review and strengthen internal financial control and audit. (vi) Implement zero-tolerance delinquency management, and establish referral systems with other multilateral financial institutions and with business development centers

18. **Client Orientation.** (i) Review the market potential of each IMFTL product and adjust the design (including pricing and tenor of loans and savings) and delivery mechanism in particular to target poor rural women. Provide hands-on training at the field level to operations staff. (ii) Review the product mix and consider new products, in particular domestic money transfers, and cross selling of insurance products, as well as wholesale loans to reach poor women

19. **Business Plans and Strategic Plan.** (i) Prepare business plans and update regularly with full buy-in of the board of directors and management; review IMFTL's financial structure, and prepare a strategic plan in consultation with stakeholders for divestment/dilution of IMFTL shares.

C. Cost and Financing

20. The TA is estimated to cost \$590,000 equivalent with a foreign exchange cost of \$500,000 and local currency cost of \$90,000 equivalent. ADB will provide \$500,000 to finance the foreign exchange costs. The TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government and IMFTL will contribute \$90,000 equivalent to finance the remaining local currency cost. Detailed cost estimates and the financing plan are in Appendix 2.

D. Implementation Arrangements

21. The Ministry of Development and Environment will be the Executing Agency for the TA. Two international consultants will be required for a total of 44 person-months: 1 co-general manager and 1 microfinance specialist.

22. The co-general manager (to be recruited for 24 person-months and deployed on a full-time basis) will need banking experience, preferably from a developing country context; management skills; experience with and an appreciation of best practices in microfinance; and preferably be conversant in Bahasa Indonesia and/or Tetum. During the first 3 months, the

consultant will develop, in close consultation with the Ministry of Development and Environment, the detailed terms of reference for the microfinance specialist, and help with recruitment.

23. The microfinance specialist (to be engaged for 20 person-months on a full-time basis) will assist with day-to-day management of field operations and provide hands-on training to field staff. The qualifications of the specialist will include extensive experience with field-level loan processing from identification of clients and loan collection, and ability to converse in Bahasa Indonesia and/or Tetum.

24. Both consultants will be selected and engaged on an individual basis by ADB in accordance with the *Guidelines on the Use of Consultants by the Asian Development Bank and Its Borrowers* using quality-based selection. The outline terms of reference for the consultants are in Appendix 3.

25. The TA will allow for the purchase of 2 laptop computers. Other office equipment will be provided by IMFTL. A vehicle will be provided from the Microfinance Development Project as counterpart financing. Equipment for the TA will be procured in accordance with ADB's *Guidelines for Procurement* and procedures acceptable to ADB.

26. Within 1 month of TA inception, the lead consultant will submit an inception report outlining the work program for the TA. After 3 months of TA inception, an initial report will be submitted containing (i) updated diagnostics and a business plan for IMFTL, (ii) measures taken and plans to improve corporate governance and management capacity, self-sufficiency, and client orientation. The report will also include a work program for TA implementation, and budget projections. Subsequent reports will be submitted every 3 months, and a financial status of IMFTL at least monthly. The final report containing lessons learned and a business plan for IMFTL will be submitted at the end of TA implementation. Implementation will be based on a principle of flexibility to meet evolving and emerging needs.

IV. THE PRESIDENT'S DECISION

27. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of the Democratic Republic of Timor-Leste for Strengthening Microfinance Operations, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Improved income-generating opportunities and job creation among the poor, in particular women</p>	<p>Number of Microfinance Institution of Timor-Leste (IMFTL) savers and borrowers (in particular women) Amount of cumulative loans and savings Amount of outstanding loans and savings</p>	<p>IMFTL management information system (MIS), Government records, consultant reports, client surveys, and Asian Development Bank (ADB) review missions</p>	
<p>Purpose Assist IMFTL to (i) increase access to microfinance services for poor people, in particular women; (ii) become self-sufficient (iii) wholly or partially privatize</p>	<p>Number of IMFTL clients by gender and by product, and demand-driven product and service mix Operational- and financial self-sufficiency Improved professional capacity and attitude of the IMFTL board of directors and top- and second-line management Reduced government and donor exposure to IMFTL; private sector participation</p>	<p>IMFTL MIS, Government records, consultant reports, client surveys, and ADB review missions</p>	<p>Stable peace and order situation</p>
<p>Outputs 1. Strengthened corporate governance and improved capacity of top and second-line management as well as staff. 2. Improved operational and financial performance</p>	<p>Clearly articulated and communicated vision and mission within the first 3 months of consultant deployment; improved professional capacity and attitude of the board of directors and IMFTL management Operating self-sufficiency; financial self-sufficiency; positive operating margin for each product; portfolio-at-risk <5%; increased number of clients per staff; management and the board of directors focused on performance targets</p>	<p>IMFTL MIS, minutes from IMFTL board of directors meetings, Government records, consultant reports, client surveys, and ADB review missions</p>	<p>Conducive policy and regulatory framework governing financial- and microfinance institutions Prime Minister, Government, and donors remain fully committed to IMFTL business plans, including IMFTL divestment</p>

Continued on next page

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
3. Improved client orientation, with a particular focus on poor women	Increase in—and number of new—IMFTL clients by gender; demand-driven product and service mix		Lack of domestic human resources in Timor-Leste
4. Business plans and a strategic plan for divestment / privatization	Business plans developed and updated regularly; strategic plan developed and approved by the IMFTL board of directors		Market potential exists for expansion of outreach/market penetration
<p>Activities</p> <p>1.1 Review organizational culture, design, and remuneration structure to improve productivity, and reengineer as appropriate.</p> <p>1.2 Review capacity of members of the board of directors and senior management; identify and execute appropriate general management training, including exposure to other institutions.</p> <p>1.3 Review operations staff competencies, work ethics, and productivity; and identify and execute appropriate training.</p> <p>1.4 Continuously engage—and ensure ownership and buy-in from—the IMFTL board of directors, management, and staff, as well as the Government on IMFTL business plans, organizational reengineering, and divestment/dilution plans.</p> <p>1.5 Undertake policy dialogue with the Government, legislature, and supervisory authorities, as relevant, on microfinance best practices.</p> <p>1.6 Identify and cultivate (i) microfinance champions in Timor-Leste, and (ii) potential managers inside and outside</p>	<p>IMFTL staff awareness of—and execution on—the IMFTL vision and mission</p> <p>Increased awareness of the board of directors and among top- and second-line management of issues relating to efficient microfinance operations Increased diagnostic- and problem-solving capacities.</p> <p>Government buy-in and management ownership of IMFTL reengineering, and increased accountability to measures taken</p> <p>Confidence built among policy makers; Government does not unduly interfere with operations; sustained enabling environment for microfinance operations</p>	<p>IMFTL MIS, Government records, consultant reports, client surveys, and ADB review missions</p>	<p>Low turnover of existing management and staff Macro- and microeconomic stability</p> <p>Sufficient market potential for IMFTL to reach and maintain self-sufficiency</p> <p>IMFTL operates independent of government influence</p> <p>Investors interested/able to buy shares in IMFTL</p> <p>IMFTL and its board of directors remain fully committed to the transformation process, including measures for increased outreach and operational improvements</p> <p>Fair competition from other banks and microfinance institutions.</p> <p>Market potential exists for expansion of outreach/market penetration</p> <p>Legislature and the regulatory</p>

Continued on next page

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>IMFTL.</p> <p>2.1 Provide hands-on training of board of directors and top and second line management on (i) organizational diagnostics and mitigating measures, including effective use of MIS; (ii) adequate supervision of staff; (iii) identification of and focus on client needs; (iv) establishing, building, and maintaining client relationships; and (v) monitoring performance indicators, and setting performance targets.</p> <p>2.2 Review and improve the MIS.</p> <p>2.3 Study the feasibility for IMFTL branch or satellite office expansion, and execute plans.</p> <p>2.4 Review operational cost structure (including imputed costs), and implement measures to ensure operational efficiency.</p> <p>2.5 Review and strengthen internal financial control and audit.</p> <p>2.6 Implement zero-tolerance delinquency management and establish referral systems with other multilateral financial institutions and with business development centers.</p> <p>3.1 Review the market potential of each IMFTL product and adjust the design (including pricing and tenor of loans and savings) and delivery mechanism, in particular to target poor rural women. Provide hands-on training at field level to</p>	<p>Board of directors and top management focused on key performance indicators for outreach, efficiency, asset quality, and profitability, and staff performance targets.</p> <p>MIS reports consistent with and supporting the business plans, as well as staff incentive plans</p> <p>Profitability of individual products; operational self-sufficiency</p> <p>Fewer cases of internal fraud</p> <p>Increased repayment rate; reduced portfolio-at-risk</p> <p>Demand-driven products and delivery mechanisms introduced/reengineered</p>		<p>authorities provide a sustained enabling environment for microfinance operations</p>

Continued on next page

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
operations staff.			
<p>3.2 Review the product mix and consider new products, in particular domestic money transfers and cross selling of insurance products, as well as wholesale loans to reach poor women.</p> <p>4.1 Prepare business plans and update regularly with full buy-in of the board of directors and management; review IMFTL's financial structure and prepare a strategic plan in consultation with stakeholders for divestment / dilution of IMFTL shares.</p>	<p>Periodic strategic planning and budgeting and performance monitoring at least quarterly; comprehensive business- and financial plan completed for increased outreach, operational- and financial self-sufficiency beyond TA completion</p> <p>Marketable investor prospectus; prospective investors identified</p>		
<p>Inputs</p> <p>2 International consultants</p> <p>Divestment strategy</p> <p>Microcredit rating—risk assessment</p> <p>Consultative Group to Assist the Poor appraisal (joint mission with ADB and Oikocredit)</p> <p>Financial audits</p> <p>Miscellaneous reports such as back-to-office reports and IMFTL monthly reports</p>	<p>1 co-general manager for 24 person-months and 1 microfinance specialist for 20 person-months over 24 months and both on a full-time basis.</p>	<p>Consultant reports</p> <p>ADB review missions</p>	<p>Successful recruitment and deployment of qualified consultants</p>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	335.0	0.0	335.0
b. International Travel	30.0	0.0	30.0
c. Reports and Communications	10.0	0.0	10.0
2. Equipment	5.0	0.0	5.0
3. Training, Seminars, and Conferences	50.0	0.0	50.0
4. Surveys and Assessments	10.0	0.0	10.0
5. Miscellaneous Administration and Support Costs (including cost of translation)	10.0	0.0	10.0
6. Contingencies	50.0	0.0	50.0
Subtotal (A)	500.0	0.0	500.0
B. Government and Microfinance Institution of Timor-Leste Financing			
1. Office Accommodation and Transport	0.0	35.0	35.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	30.0	30.0
3. Others	0.0	25.0	25.0
Subtotal (B)	0.0	90.0	90.0
Total	500.0	90.0	590.0

^aFinanced by the Japan Special Fund, funded by the Government of Japan.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. **Co-General Manager** (international, 24 person-months, full-time)

1. Experience and qualifications required of the consultant include

- (i) a degree in business administration or a related field, with evidence of qualification in microfinance operations;
- (ii) at least 5 years experience in senior level positions of a bank (or similar institution that provides credit and savings services to low income groups), preferably in the developing member countries in the Association of Southeast Asian Nations and/or Pacific islands region; with experience with participatory capacity building and hands-on training; and
- (iii) ability to communicate in Bahasa Indonesia and/or Tetum (would be a strong advantage).

2. The consultant will closely engage with Microfinance Institution of Timor-Leste (IMFTL) management, the board of directors, and the Government and legislature to ensure their full ownership of and buy-in to all activities under the technical assistance (TA). The consultant will build the capacity of IMFTL's corporate governance and management, operational performance and monitoring, as well as client orientation. Responsibilities include the following:

- (i) **IMFTL general management.** Provide hands-on training for general manager.
- (ii) **TA team.** Plan, administer, and manage team functioning under the TA.
- (iii) **Recruitment.** Develop terms of reference for the microfinance specialist and help recruit.
- (iv) **Corporate governance.** (i) Review organizational culture, design, and remuneration structure to improve productivity, and reengineer as appropriate. (ii) Review capacity of members of the board of directors and senior management; identify and execute appropriate general management training, including exposure to other institutions. (iii) Review operations staff competencies, work ethics, and productivity; and identify and execute appropriate training. (iv) Continuously engage—and ensure ownership and buy-in from—the IMFTL board of directors, management, and staff, as well as the Government on IMFTL business plans, organizational reengineering, and divestment/dilution plans. (v) Undertake policy dialogue with the Government, legislature, and supervisory authorities, as relevant, on microfinance best practices. (vi) Identify and cultivate microfinance champions in Timor-Leste and potential managers inside and outside IMFTL.
- (v) **Operational performance and monitoring.** (i) Provide hands-on training of board of directors and top- and second-line management on organizational diagnostics and mitigating measures, including effective use of management information system (MIS); adequate supervision of staff; identification of and focus on client needs; establishing, building, and maintaining client relationships; monitoring performance indicators; and setting performance targets. (ii) Review and improve the MIS. (iii) Study the feasibility for IMFTL branch or satellite office expansion, and execute plans. (iv) Review operational cost structure (including imputed costs), and implement measures to ensure operational efficiency. (v) Review and strengthen internal financial control and audit. (vi) Implement zero-tolerance delinquency management and establish referral systems with other multilateral financial institutions as well as with business development centers.

- (vii) Consider implementation of the free microfinance business planning tool for strategic planning and monitoring.
- (vi) **Client orientation.** (i) Review the market potential of each IMFTL product and adjust the design (including pricing and tenor of loans and savings) and delivery mechanism, in particular to target poor rural women. Provide hands-on training at the field level to operations staff. (ii) Review the product mix and consider new products, in particular domestic money transfers, and cross selling of insurance products, as well as wholesale loans to reach poor women
- (vii) **Business plans and roadmap.** (i) Prepare business plans and update regularly with full buy-in of the board of directors and management; review IMFTL's financial structure and prepare a strategic plan in consultation with stakeholders for divestment/dilution of IMFTL shares

3. The consultant will be responsible for the following reports:

- (i) within 1 month of TA inception, an inception report outlining the work program for the TA;
- (ii) after 3 months of TA inception, an initial report containing updated diagnostics and a business plan for IMFTL; measures taken and the way forward to improved corporate governance and management capacity, self-sufficiency, and client orientation; and a work program for TA implementation, and budget projections; and
- (iii) subsequent reports to be submitted every 3 months (including the rolling implementation plan), and a financial status of IMFTL at least monthly; and a final report containing lessons learned and a business plan/road map for IMFTL at the end of TA implementation.

B. Microfinance Specialist (international, 20 person-months, full-time)

4. Experience and qualifications required of the consultant include

- (i) extensive experience, preferably in developing countries, with field-level microfinance operations, including the entire loan cycle from identification through appraisal, to loan collection and successive loans; successful track-record;
- (ii) extensive experience with coaching/training/capacity building of microfinance field-level staff; and
- (iii) ability to communicate in Bahasa Indonesia (would be a strong advantage).

5. The consultant's work will be focused on managing IMFTL field-level operations with a view to institutional strengthening and capacity building of staff. Specifically, responsibilities will include the following:

- (i) Work alongside branch managers at field level, and report to the general management team of IMFTL.
- (ii) Help and provide guidance on planning, management, and execution of IMFTL field operations on a day-to-day basis, including the entire loan cycle from loan identification, credit appraisal, monitoring, collection, and successive loans.
- (iii) Provide hands-on training to field staff on (a) identification of—and focus on—client needs; and establishing, building, and maintaining client relationships; (b) effective use of the existing MIS; (c) review of staff competencies, work ethics, and productivity, and implementation of appropriate mitigating measures

- (including incentive schemes) to improve productivity, implementation of zero-tolerance delinquency management.
- (iv) At all times, liaise closely with other team members and IMFTL staff to ensure consistency and integration of TA activities, and ensure buy-in to and ownership of all organizational changes by management and staff. Implementation will be based on a principle of flexibility to meet evolving and emerging needs.
6. The consultant will be responsible for reporting to the General Management team.