

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 3556-TIM: Strengthening the Microfinance Policy and Legal Framework		Amount Approved: \$250,000 Revised Amount: N.A.	
Executing Agency: Economic Affairs Department	Source of Funding: TASF	TA Amount Undisbursed \$2,439	TA Amount Utilized \$247,561
Date of Report Dec 2000		TA Completion Date Original Actual May 2001 Dec 2002	
Approval 06 Dec 2000	Signing 05 Feb 2001	Fielding of Consultants 15 Feb 2001	Account Closing Date Original Actual May 2001 Oct 2003
<p>Description</p> <p>In 1999, there was an urgent need to generate employment and expand income-earning opportunities through microfinance development. However, Timor-Leste, at that time, did not have the overall regulatory framework for microfinance development. The TA was prepared to help develop the necessary microfinance policy and legal framework.</p> <p>Objectives and Scope</p> <p>The objectives of the TA were to assist the Government develop and implement sustainable microfinance operations by strengthening microfinance laws and regulations, and by reviewing and revising existing banking regulations to support the establishment of specialized banks such as microfinance or rural banks.</p> <p>The scope of the TA focused on (i) establishment of a microfinance bank, including the preparation of supporting policies and regulations; and (ii) formulation of policies on ownership, licensing and capital requirements to provide financial services to the poor. The TA also prepared the legislation to facilitate the formation and operation of credit unions and cooperatives.</p>			
<p>Evaluation of Inputs</p> <p>The core TA team consisted of a microfinance finance and banking specialist/team leader and a regulation and supervision specialist. The consultants prepared the regulatory framework for microfinance institutions (MFIs) and credit unions (CUs), incorporation papers/documents for the creation of the microfinance bank and credit unions, and other relevant documents. In lieu of the local credit union specialist, a microfinance capacity building specialist (international consultant) was engaged for the advocacy work. The consultant conducted several consultative workshops for stakeholders to facilitate the adoption of the needed policy and legal framework.</p> <p>The first two consultants were fielded in February 2001, while the advocacy consultant was fielded intermittently between March 2001 and November 2002.</p> <p>The TA was expected to be completed in 3 months. It estimated 6 person-months of international individual consultants input, and 3 person-months of domestic individual consulting services. By TA completion, a total of 14 person-months of international consultancy had been required. A qualified domestic consultant was not available; as a result, an international consultant did the advocacy work for the project in order that stakeholders could be better informed of the issues involved in drafting the policy and legal framework. There was no cost overrun. The original completion date was May 2001, while the actual completion was December 2002, a year and a half later than expected. The delay was beyond the control of the project, and was mainly due to the evolving nature of the new nation, and to the fact that several institutional structures were not in place for the TA to make timely progress. Generally, the TA inputs were highly appreciated by the Government and stakeholders. The performance of the Executing Agency in terms of support for TA implementation was satisfactory.</p> <p>Evaluation of Outputs</p> <p>The consultants drafted (i) policies for the establishment of a microfinance bank, including the by-laws for incorporation, ownership, licensing, minimum capital requirements, etc.; (ii) necessary documents for the creation of</p>			

a foundation to act as the initial owner of the microfinance institution; (iii) broad policies and regulations for effective microfinance operations; and (iv) regulations for CU operations.

As a result of the TA, The Foundation for Poverty Reduction (the Foundation) and the Microfinance Institution of Timor-Leste or Instituicao de Microfinancas de Timor-Leste (IMTL) were established through Executive Orders 2001/7 and 8, issued in December 2001. The IMTL was issued a preliminary operating license in May 2002 by the Banking Payments Authority (BPA), the central bank in Timor-Leste. The TA inputs were instrumental in the establishment of the IMTL and the formulation of basic CU regulations.

When the IMTL was established on 12 May 2002, it received \$2 million in equity from the Trust Fund for East Timor (TFET). The IMTL now has three branches. The Dili branch started in May 2002, Gleno in September 2002, and Maliana in November 2002.

The TA was also instrumental in expediting the issuance of IMTL's license. By issuing the license, the BPA authorized the IMTL to (i) receive deposits in the form of demand, time and other types of deposits; (ii) extend credits with a minimum of 65% of portfolio for microcredits; (iii) provide payment and collection services; (iv) issue and administer current account services/checks; and (v) provide safekeeping services for valuables. With the authority to engage in demand deposit accounts, the IMTL created a settlement account with the BPA and became a member of the Timor-Leste interbank clearing system.

To-date, total assets of the IMTL have increased from \$2 million to \$3 million. Repayment is above 90%. Total loans disbursed to 4,974 borrowers have reached \$1.3 million, and deposits from about 5,000 clients have reached \$1 million.

Overall Assessment and Rating

Highly successful. The TA was instrumental in preparing the policies and legal framework for MFI and non-bank financial entities, and in building understanding in Government of the supporting policy framework. This led to the issuance of two distinct Executive Orders by the Government. As a result of the TA, the IMTL was established and is operating with three branches. The TA facilitated the early establishment of microfinance services, particularly in the rural areas. As a result of the TA, the IMTL is operating successfully in Timor-Leste.

Major Lessons Learned

1. In a post-conflict situation, it would be unrealistic to expect that support can be provided exactly as planned, or the recommendations of the TA implemented precisely as envisaged. TA design should enable project implementation to be responsive to emerging needs and issues.
2. In an emerging nation, it is unrealistic to expect that there would be qualified domestic consultants. TA formulation should include careful assessment of domestic consultants' availability.
3. To establish the necessary policy and legal framework for microfinance development, ample time and flexibility are required. It often takes much longer than anticipated for the necessary policies and regulations to be promulgated/implemented.

Recommendations and Follow-Up Actions

1. Further support will be needed to strengthen and eventually divest the IMTL (the Microfinance Institution). In November 2003, a divestment specialist was engaged to review IMTL's current operations and recommend steps for IMTL's future transformation into a commercially sustainable microfinance institution.

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