

TECHNICAL ASSISTANCE COMPLETION REPORT

Division : PLCO

TA No., Country and Name			Amount Approved: \$500,000.00	
TA 4509-TIM: Strengthening Microfinance Operations			Revised Amount:	
Executing Agency Ministry of Development and Environment		Source of Funding JSF	Amount Undisbursed: \$116,593.68	Amount Utilized: \$383,406.32
TA Approval Date: 20 Dec 2004	TA Signing Date: 28 Jan 2005	Fielding of First Consultant: 05 Apr 2005	TA Completion Date Original: 31 May 2007	Actual: 31 Dec 2009
			Account Closing Date Original: 31 May 2007	Actual: 24 Mar 2010

Description. On 6 December 2000, the Asian Development Bank (ADB) approved a grant of \$7.73 million for the Microfinance Development Project.¹ The Project was to support community-based opportunities for income generation and sustainable employment. As a result, the Institute for Microfinance in Timor-Leste (IMfTL) was established and registered and the Foundation for Poverty Reduction (FPR) was established as the Trust to hold IMfTL. IMfTL was given a restricted banking license by the Banking and Payments Authority (BPA) of Timor-Leste. Following donor assistance in the start-up phase, IMfTL required follow-on support to consolidate operations and help it grow and attain operational and financial self-sufficiency. ADB's country strategy and program update 2005–2006 for Timor-Leste highlights microfinance development as one of three focus areas, and proposed an additional technical assistance (TA) to the sector in late 2004. In addition, the government requested additional follow-on assistance to support IMfTL. The TA proposed to 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 would then be able to pursue options for divestment/dilution of shares to private sector investors, minimizing and—circumstances permitting—eventually relinquishing government and donor support.

Expected Impact, Outcome and Outputs. The expected impact of the TA was improved income-generating opportunities and job creation among the poor, in particular women. The outcome focused on assisting IMfTL to (i) increase access to microfinance services for poor people, in particular women, (ii) become self-sufficient, and (iii) wholly or partially privatize. The outputs included: (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.

Delivery of Inputs and Conduct of Activities. The design of the TA was appropriate for the circumstances at the time and the terms of reference reflected this. The design and monitoring framework, however, did not take into account difficult issues surrounding ownership of IMfTL and its restricted banking license, which made it impossible to move towards privatization through the TA. The TA initially provided a long-term co-general manager (CGM) to IMfTL. The first CGM began in April 2005 and made some contributions towards achieving the TA outputs. However, due to friction with the General Manager, the consultant resigned in December 2005. Few concrete results were achieved during this period. During 2006, civil violence in Timor-Leste delayed further inputs for most of the year. In late 2006, the TA was extended until May 2009 and in early 2007 a new, full-time CGM was engaged, who undertook a significant program of management and staff training and capacity building, governance improvements, improvements in credit and risk management, operational improvements and business planning. During his engagement, the international rating company, Micro-Credit Ratings International (M-CRIL) was engaged to provide a rating for IMfTL and a human resources specialist was engaged to develop a Human Resources, Compensation scheme and Organization policy manual handbook. Both of these outputs were delivered in early 2008. ADB TA oversight during this time was sufficient.

In early 2008, the TA was transferred from the Special Office in Timor-Leste to the Pacific Liaison and Coordination Office. By this time, it had become clear that IMfTL had not returned to its original focus on microfinance and had instead become a small commercial bank with a loan portfolio focused on payroll lending. Its restricted banking license was preventing its growth, although its ownership structure (i.e., ownership through a Trust) made it impossible to

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.

achieve an unrestricted banking license. A full review of the situation was undertaken in consultation with the government, through TA 6353–REG: Private Sector Development Initiative,² which concluded that IMfTL should be transferred to the government so that it could achieve this unrestricted banking license,³ and then be prepared for eventual privatization. A memorandum of understanding to the effect was signed by ADB and the government on 3 July 2008, and the shares were transferred from FPR to the government on 31 December 2008. In early 2009, the TA was extended again until 31 December 2009 in order to make progress on more of the TA outputs. A legal adviser was engaged to reincorporate IMfTL, experts were engaged to develop a strategy and business plan, and a training needs analysis was undertaken. ADB oversight for the remainder of the TA was significantly improved.

A total of eight individual consulting contracts were awarded. The performance of TA consultants improved over the period of the TA, and by the end of 2009, most of the TA outputs had been achieved. Given the delays associated to the civil violence and the need to re-evaluate the TA in 2008, significant progress was made.

Evaluation of Outputs and Achievement of Outcome. The TA produced ongoing progress reports during the engagement of the two CGMs. In addition, it produced a Human Resources, Compensation scheme and Organization policy manual, a rating report from M-CRIL, a series of strategies and business plans, culminating in a final business plan completed in December 2009, a plan for the reincorporation of IMfTL and a training needs analysis. In terms of the outcomes of the TA, these were partially achieved, though civil unrest led to significant delays. In terms of the specific outputs of the project, they are as follows:

- Strengthened corporate governance and improved capacity of top and second line management as well as staff. This output was partly achieved. Management and staff capacity did improve as a result of training and capacity development, although board engagement continued to be a problem throughout the TA.
- Improved operational and financial performance. This output was achieved, although the performance targets are not appropriate for IMfTL given its move towards payroll lending. Nevertheless, between June 2004 and March 2010, portfolio at risk improved from 16.9% to 2.2%, which is a significant achievement. During the same period, nonperforming loans fell from 7.74% to 1.28% of total loans. Between December 2004 and December 2009, operational self sufficiency increased from 93.5% to 133%.
- Improved client orientation, with a particular focus on women. This output was achieved. Between December 2004 and December 2009, the total value of outstanding loans increased from \$966,000 to \$5.3 million, an increase of 450%. As of March 2010, a cumulative 40,417 loans had been disbursed by IMfTL, of which 54.6% by number and 34% by value were to women. As of March 2010, IMfTL had a total of 35,159 active savings accounts. IMfTL has grown from 3 branches in 2004 to 8 branches across Timor-Leste in 2010 and continues to expand.
- Business plans and a strategic plan for divestment/privatization. This output was achieved. Business plans and strategies were developed, culminating in the final plan that was delivered in December 2009, along with other strategic advice. All business plans included plans for privatization. However, given the transfer to the government, the move towards eventual privatization will be delayed, although no timeline has been agreed.

Overall Assessment and Rating. The TA is rated successful, although circumstances during the TA necessitated some restructuring during its implementation. IMfTL is now one of the only profitable institutions servicing the micro and small enterprise sector in Timor-Leste and the Pacific. It is more efficient from a financial intermediation perspective than any of the other banks in Timor-Leste. The government has encouraged IMfTL to grow and reach out to service the rural poor across the country. Capacity issues remain with management and board, although a further training plan is being rolled out.

Major Lessons. Issues of IMfTL ownership were known before the TA began but not taken into account in design. The design also failed to take into account local capacity issues in Timor-Leste, as well as the fact that IMfTL had already become a quasi-commercial bank before the TA. Therefore, some of the Design and Monitoring Framework targets/indicators were not appropriate.

Recommendations and Follow-Up Actions. ADB is providing follow-on assistance to IMfTL through the TA 6353–REG: Private Sector Development Initiative to achieve the ultimate goal of IMfTL's privatization.

Prepared by: Jeremy Cleaver Designation: Private Sector Development Specialist

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² ADB. 2006. *Technical Assistance to the Pacific Region for Private Sector Development Initiative*. Manila.

³ FPR could not provide the financial guarantees required for IMfTL to achieve an unrestricted banking license. Attempts were made to find suitable buyers for IMfTL that could provide such guarantees, though these failed. The government was the only other party that was able to provide such guarantees.