

Executive Summary

Joining the ranks of leading policymakers globally, BCTL has not only embraced the mandate to spearhead financial inclusion policy direction as a domestic agenda, but also pledged support for this movement on a larger, more global scale. Timor-Leste has fostered strong partnerships with various multilateral organisations and standard setting bodies in advocating for inclusive finance. The global push towards this collective goal has placed inclusiveness at the forefront of financial sector development, enriched by coordinated efforts to track progress of financial inclusion in countries across the world.

United in the fight for inclusiveness, policymakers across all continents have taken higher accountability to measure, quantify and monitor financial inclusion progress. Comprehensive data and measurement frameworks are therefore vital in ensuring that financial inclusion goals and objectives can be attained, because they function to enable policymakers to diagnose conditions, identify obstacles, set targets, plan policies and assess impact.

Recognizing the importance of the continuity of data collection, monitoring and evaluation, BCTL embarked on this Financial Inclusion 2018 report. This is the second financial inclusion report undertaken by BCTL, which uses extensive and updated supply-side data to assess the dimensions of the measurement framework. As iterated in the first Financial Inclusion Report 2016, three dimensions form the building blocks to achieve inclusiveness, which are access, usage and quality. These are the foundations which enable all citizens to access and utilize a range of financial services which are safe, suitable and affordable.

This Financial Inclusion Report 2018 is structured into seven chapters.

Chapter 1 provides the general overview of the changes and advances in the financial sector which has impacted financial inclusion since 2016.

Chapter 2 explores the level of access to financial services in Timor-Leste, covering data by all banks, deposit taking institutions, regulated and non-regulated financial service providers.

Chapter 3 examines the usage dimension, where utilization of financial services is analyzed by account type and client demographics including their gender, age and location.

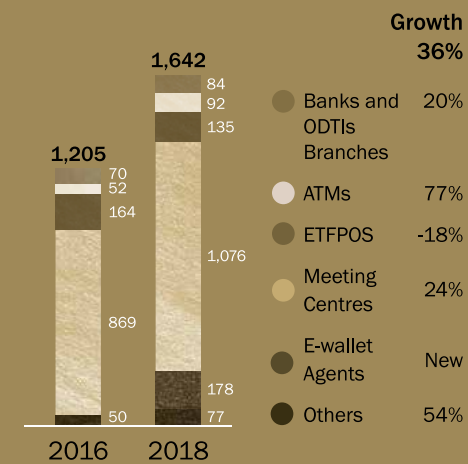
Chapter 4 discusses the quality indicators, which is correlated closely to customer experience in using financial services with linkages factors such as affordability, convenience and fair treatment of clients.

Chapter 5 highlights all the new and current developments and strategies which have contributed to financial inclusion, including the status of the implementation of the action plans under the National Strategy for Financial Inclusion (NSFI) 2017-2022.

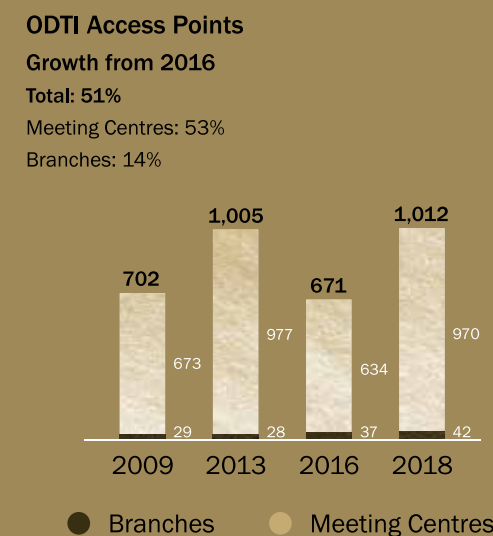
Chapter 6 details the wide-ranging financial literacy programmes in Timor-Leste which are essential to support the financial inclusion agenda.

Chapter 7 delves into the current barriers and obstacles which still exist in the country, and concludes the report by emphasizing the key focus areas for the road ahead in line with the NSFI 2017-2022.

Financial services access points increased 36% in 2018 compared to 2016



ODTI access points increased by 51% in 2018, mostly due to the growth of meeting centres

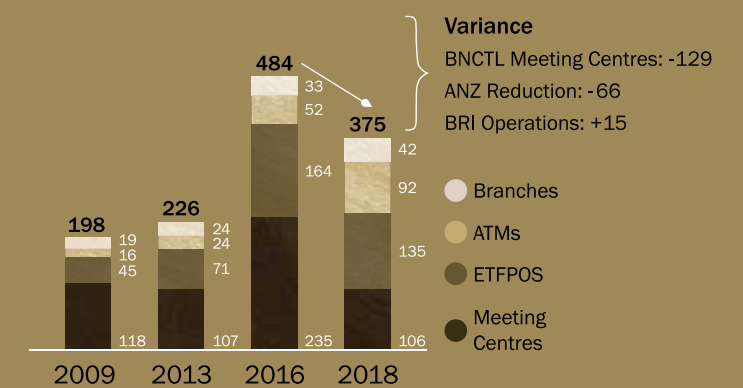


35% of Timorese adults do not use any of the financial services evaluated*

Regulated Account Penetration:
Adults with deposit account at banks or ODTs: 62%
Adults with credit account at banks or ODTs: 9%

*Information on clients was reported by financial service providers and it does not exclude potential overlaps or duplication of clients who are using multiple services or providers.

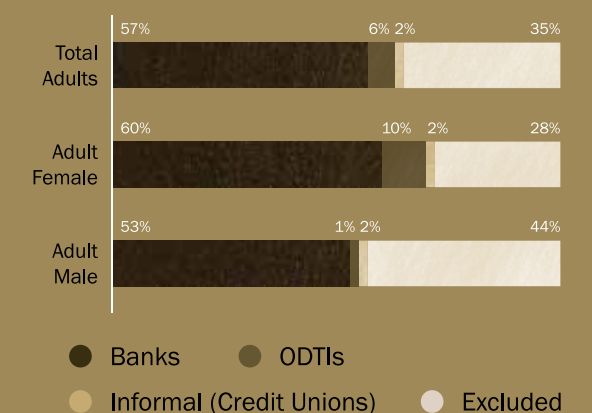
Bank access points dropped 23% in 2018 compared to 2016, due to the reduced number of meeting centres and the termination of ANZ's retail operations



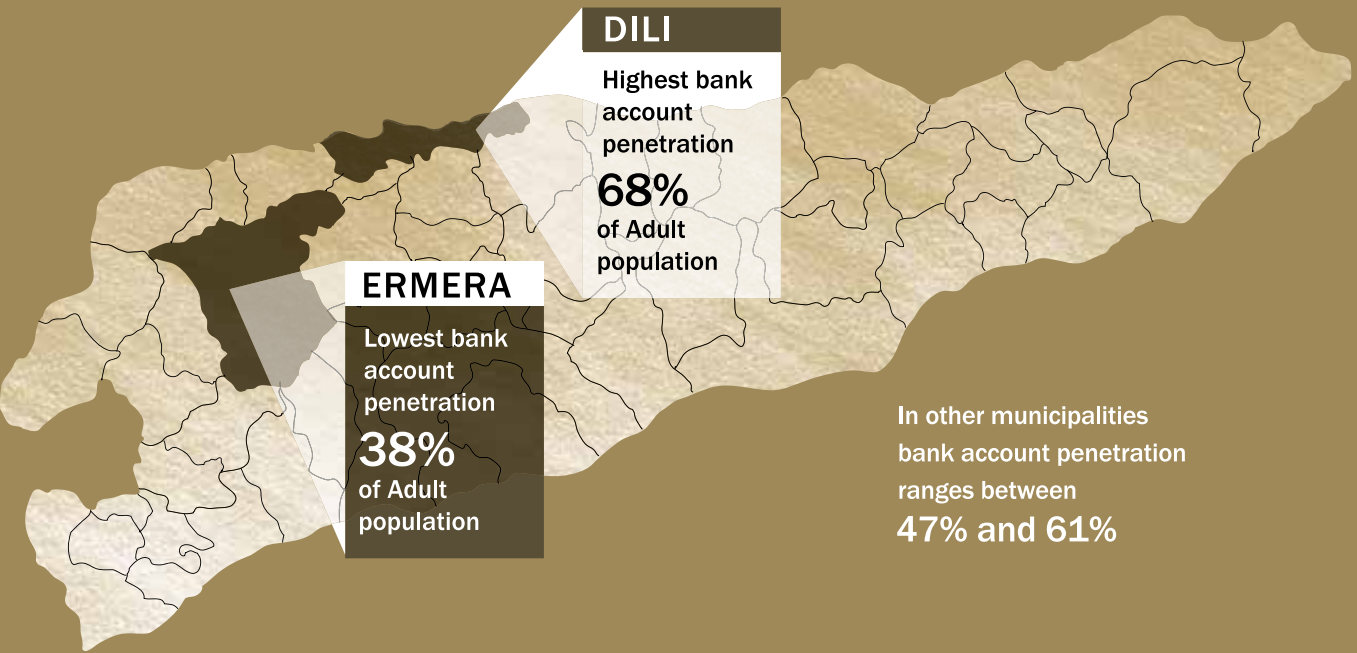
Policies related to access indicators

- The National Switch system will connect banks' ATM and ETFPOS networks, as well as other financial services channels to optimize the distribution of access points across the country.
- An agent banking license has been issued to a financial institution that plans to develop an agent banking network in the country.
- Telemor Fintech is implementing e-wallet services in Timor-Leste and plans to spread e-wallet agents across all sucos. Other proposals for the outreach of similar services are currently being analyzed.

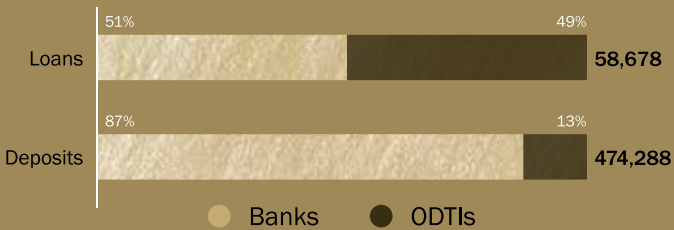
Financial Services Used by Adult Population



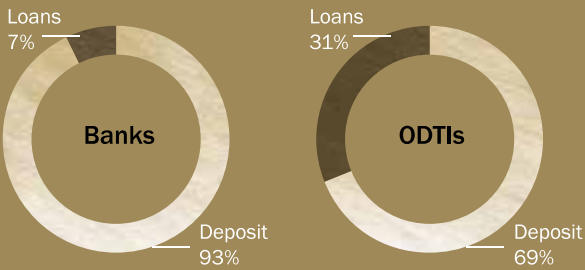
Penetration of financial services by municipality



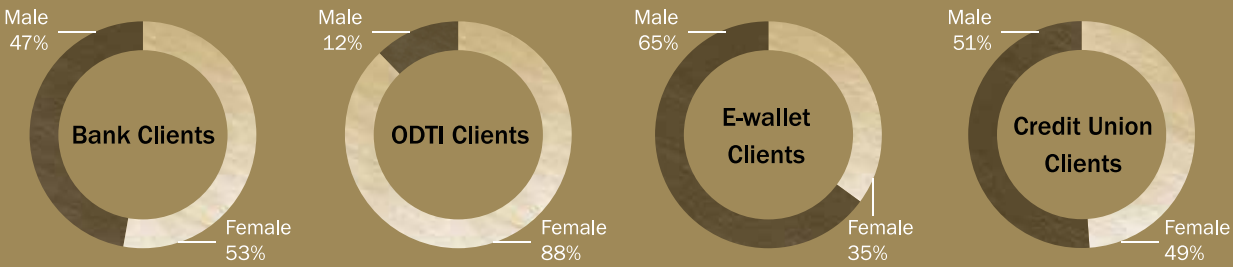
Banks dominate the deposit market with 87% of all deposit accounts (corporate and individuals), however the credit market is equally divided between banks and ODTIs



ODTIs' services are more evenly distributed between deposit and loan accounts compared to banks

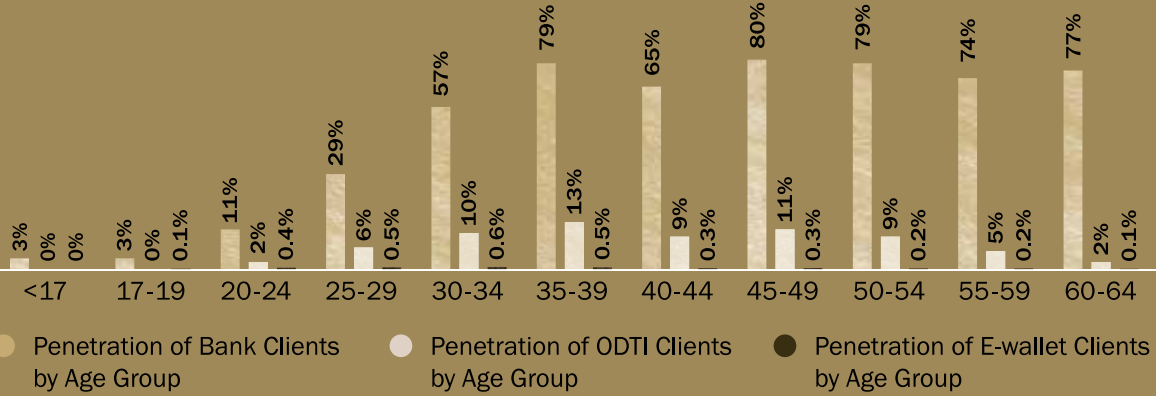


The gender breakdown of clients in the financial sector shows that ODTIs' clients are mostly women, while clients of other financial services providers are more balanced between women and men



Financial services take-up by age:

- Banks have a higher account penetration amongst adults above 35 years old,
- ODTIs' clients are more evenly spread out across age groups
- The initial data for e-wallet show that registered users are concentrated amongst younger client



Policies related to usage indicators

- Government payments to people (G2P) and to businesses (G2B) are done exclusively through bank accounts to improve transparency and efficiency. Social beneficiaries, public employees and services providers or vendors are required to maintain a bank account to receive their payments.
- ODTI regulation allows larger microfinance institutions to apply for an ODTI license to be able to accept deposits above the limits set on microfinance institutions.
- The implementation of the Government Credit Guarantee Scheme (CGS) for SMEs will facilitate their access to commercial bank loans.

Quality indicators are divided in 8 categories:

- Affordability
- Transparency
- Convenience
- Fair Treatment
- Consumer Protection
- Financial Education
- Indebtedness
- Choice

Policies related to quality indicators

- Financial literacy allows Timorese to better understand the services available to them, their rights and obligations, and the benefits financial services can bring to their lives. The financial literacy module developed for elementary school students is already available in public schools around the country. Programmes for youths and adults will be developed in the coming years.
- The Basic Record Keeping and Accounting Training for MSMEs aims to improve overall knowledge of business financial planning and reporting, and consequently, increase MSMEs usage of financial services and access to finance.
- Consumer protection law for the financial sector has been drafted and it will be discussed among key stakeholders for future implementation.
- A demand-side survey will be conducted in the next few years to find out the needs and perceptions of the population in relation to financial services.