

Banco Central de Timor-Leste

Timor-Leste

National Strategy for Financial Inclusion

2017-2022

DRAFT

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EXECUTIVE SUMMARY

In recognising the value of inclusive finance and its significance for sustainable social and economic progress for the nation, BCTL has coordinated efforts to design and develop the National Financial Inclusion Strategy to drive the financial inclusion agenda forward. The strategy and action plans which are well constructed are required to define the process and ways to move forward, towards the country's vision of financial inclusion. This strategy document outlines the roadmap of action plans to be achieved over the period from 2017 to 2022.

This document is centred on the importance of clearly defined action plans as an effective and efficient way to bring real, quantifiable changes and improvements in financial inclusion for the country. The forward looking action plans were designed based on evidence on the ground, following BCTL's data collection efforts published in the Financial Inclusion Report, and they are customised to Timor-Leste's social, economic and cultural setting. In addition to data collection, other key components which were taken into account in developing the strategy include targets and objectives, planning and coordination, strategy implementation, as well as monitoring and evaluation. These components are quintessential to build solid policies which are credible, pragmatic and impactful for the target segments on the ground.

This document is structured into four chapters. The first chapter provides an overview of the current level of financial inclusion in the country, and the reasons for the continued persistence of financial exclusion. This chapter intends to set the context and give insights into the challenges which need to be overcome. The second chapter iterates the country's commitment to financial inclusion and aspirations for the future. This chapter also discusses the rationales and building blocks for designing, developing and executing the National Financial Inclusion Strategy.

The third chapter of the document details the broad strategies and specific action plans to reach the desired goals. The broad strategies cover the areas of access and channels, products, capacity building and institutional arrangements, as well as financial literacy and consumer protection. The fourth chapter will highlight the necessary enablers or supporting mechanisms for successful strategy implementation. This includes a data measurement framework, a coordination structure for the strategy, and an enabling regulatory environment for the financial sector. Finally, the last chapter summarizes key conclusions and fundamental considerations for financial inclusion strategy to aid policy discussions for the future.

CHAPTER 1: FINANCIAL INCLUSION IN TIMOR-LESTE

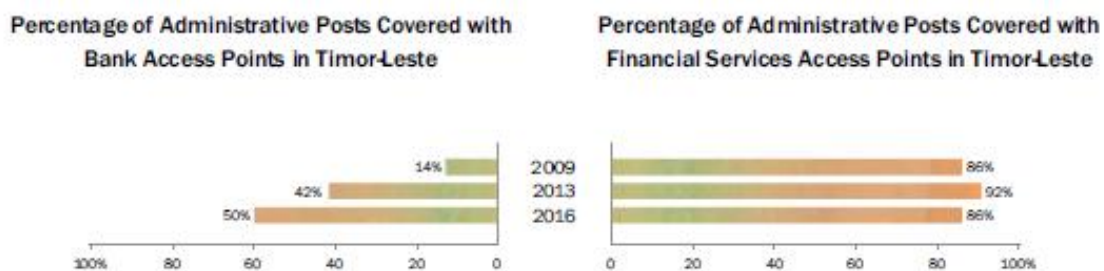
The introduction of sound and robust financial sector policies has contributed immensely to financial inclusion efforts over the years and Timor-Leste has shown promising advancements. BCTL has led a range of financial inclusion initiatives to improve access to financial services for all Timorese, especially to the underserved segments of society in rural areas.

1.1 CURRENT LANDSCAPE OF FINANCIAL INCLUSION

In recent years, BCTL has initiated multifaceted policies and initiatives which have played a big part in catalysing financial inclusion. BCTL has, amongst others, introduced measures to modernise the payments systems, launch agent banking, pilot e-wallet, develop access to credit infrastructure, provide training to MSMEs, as well as implement a range of financial literacy programmes and consumer protection regulation. This has led to remarkable improvements in fostering inclusiveness in the financial sector.

As at 2016, all municipalities in Timor-Leste are covered by financial services access points. A deeper look into the data reveals that the majority of administrative posts, 88% of 65 administrative posts, have access to financial services. The banking institutions in particular have intensified their outreach of financial services in the country, where bank access points increased from 198 in 2009 to 484 in 2016, while non-bank institutions continued to perform a complementary role in bridging the gap in areas where banks are unable to serve. In Timor-Leste, about 64% of the adult population currently use financial services, with the largest share of account ownership in banking institutions.

Diagram: Key Financial Inclusion Data



Percentage of Adults Living in Administrative Posts with Bank Access Points in Timor-Leste



Percentage of Adults Using Financial Services in Timor-Leste



1.2 IDENTIFYING OPPORTUNITIES FOR FINANCIAL INCLUSION

An analysis of the current landscape of financial inclusion in Timor-Leste has also uncovered some underlying challenges which often lead to prolonged financial exclusion. A key challenge is the deployment of access points, which are largely concentrated in urban areas. Currently, there are still 8 administrative posts yet to be served by any financial services provider. The unserved rural segments of society have no option but to travel great distances to access financial services. Additionally, it was also found that the features of financial products and services available in the market are lacking in terms of user friendliness, convenience and affordability. Clients will continue to resist using financial services if the products are complicated and expensive to use, preferring to save and transact in more traditional methods. There is also a need to introduce supporting infrastructure to provide capacity building for financial services providers so they can better manage risks, as well as training and education to nurture the more vulnerable low-income and rural segments, including the micro and small business sector. Similarly, the lack of financial literacy and adequate consumer protection frameworks also act as a barrier to financial inclusion. When communities remain unaware about financial services, they are unable to make informed choices and continue form distrust towards the financial system.

These challenges are core financial inclusion barriers evidenced in many developing countries in the world, including Timor-Leste. In identifying these weaknesses, it presents an opportunity for policymakers to address these gaps and make positive strides in boosting efforts towards greater financial inclusion.

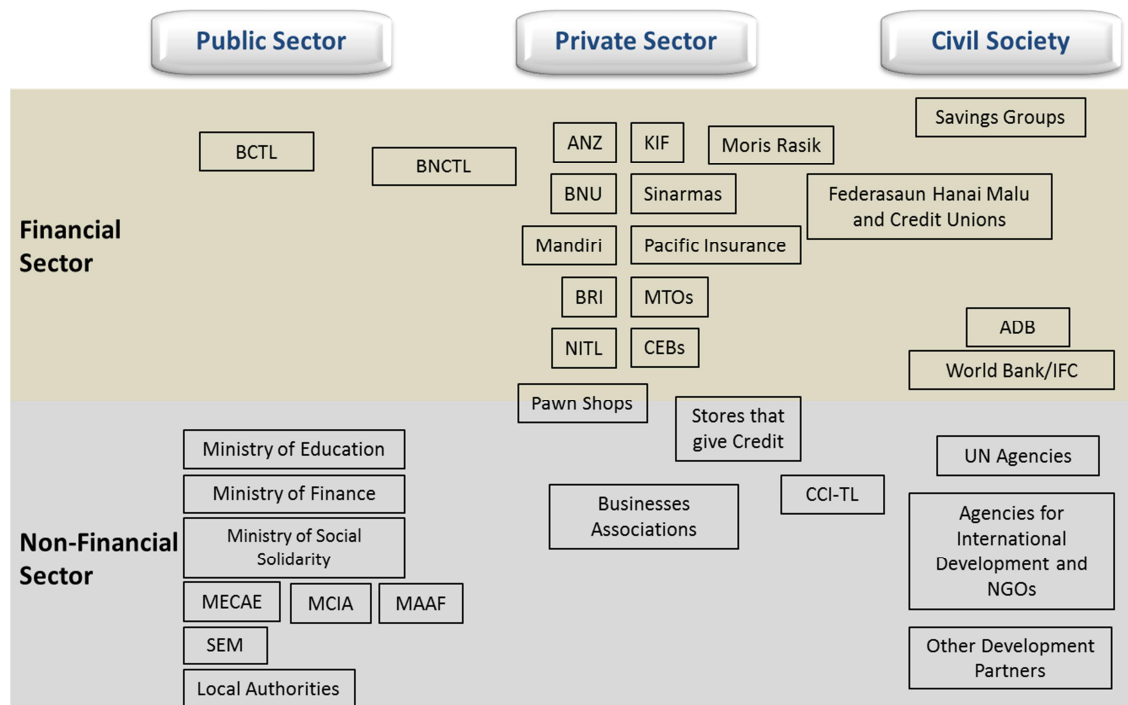
1.3 IMPORTANCE OF THE NATIONAL FINANCIAL INCLUSION STRATEGY

The understanding of the current state of financial inclusion in Timor-Leste allows all policymakers and financial inclusion stakeholders to answer the key question of where the country currently stands today. It is through such understanding of the nation's current achievements and existing policies that enable policymakers to identify the strengths, weaknesses, opportunities, and risks in developing comprehensive and impactful policies for financial inclusion. This knowledge enables targets and goals to be set for the future, which is fundamental to reinforce commitment for the financial inclusion agenda.

The National Financial Inclusion Strategy therefore acts as a framework of well-constructed action plans to achieve commitments made to financial inclusion.

A national strategy is essential to foster more effective and efficient processes to achieve financial inclusion objectives through engagements with public and private sector partners, structured implementation and monitoring mechanisms to ensure success of the strategy.

Diagram: Stakeholders Involved in Financial Inclusion Development



As there are many financial inclusion stakeholders from the public and private sector, as well as civil society groups from both the financial and non-financial sector, this framework is also crucial to enhance productivity and reduce duplication which can arise from uncoordinated efforts.

Financial inclusion is not only imperative for the development of the financial sector, but its significance extends to the country's socioeconomic development in entirety.

For BCTL in particular, as the Central Bank, financial inclusion is a key priority which brings significant benefit towards the macroeconomic and financial stability objectives for the nation. Increased financial inclusion enables consumption smoothening over time, and encourages households to convert their savings from physical form of wealth or cash to deposits. These changes in the behaviour of firms and households would consequently enhance the effectiveness of monetary policies including interest rate tools and policies to maintain price stability. Financial inclusion is also strongly linked with the objectives of financial stability. The advancement of financial literacy and education especially, would cultivate well-informed decision-making from both financial institutions and consumers, which are grounds for responsible financing practices to lower risks associated with financial deepening. For these reasons, the implementation of the National Financial Inclusion Strategy will be integral to the development of the financial sector. Therefore, this strategy will complement and support existing financial sector development strategies including the Financial Sector Masterplan, a comprehensive roadmap for the development of the financial sector over the decade to 2025.

More importantly, the National Financial Inclusion Strategy will also contribute extensively to the country's Strategic Development Plan 2011-2030 which envisions Timor-Leste to be a prosperous and strong nation by leading the country's transition to an upper middle income country by 2030. A stable, healthy and more inclusive financial system play a key role in economic development through expanding access to financing, leading to increased productivity across all industries including rural, agriculture, oil, gas and tourism. Access to appropriate financial tools and services fosters greater participation of firms, households and women in the financial system and economy. This leads to poverty alleviation and reduction in income disparities for more equitable growth. From the social

capital aspect, participation in the financial sector provides the avenues for Timorese to build their savings and manage financial risks, empowering them to reach long term goals such as education for their children, savings for retirement and healthcare. Promoting inclusiveness also puts safeguards in place through financial education and protection frameworks, facilitating greater trust in the financial system. This encourages increased transactions, as well as private sector and foreign investments. It is evident that financial inclusion is not only imperative for the development of the financial sector, but its significance extends to the country's socioeconomic development in entirety.

With the growing advocacy for the importance of strategic plans and coordinated actions to achieve financial inclusion commitments globally, BCTL initiated the process to design the National Financial Inclusion Strategy for Timor-Leste. The National Financial Inclusion Strategy is intended to achieve Timor-Leste's vision and commitments to financial inclusion.

2.1 FINANCIAL INCLUSION COMMITMENTS

BCTL formally embarked on the journey towards achieving financial inclusion by making commitments under the Maya Declaration, as part of the Alliance for Financial Inclusion (AFI) network commitment to financial inclusion. Under this global pact, BCTL pledged to:

- I. Promote the extensive use of digital financial products and to facilitate the introduction of agent banking arrangements to cover 75% of administrative posts.
- II. Review the regulatory framework for consumer protection and introduce appropriate provisions, including planned amendments to the banking law.
- III. Publish a financial literacy strategic plan and launch a pilot national financial literacy campaign covering all municipalities.
- IV. Complete a study of SME finance and introduce a pilot credit guarantee scheme.

These commitments were the driving force behind the country's thrust towards expanding financial inclusion in the recent years. These commitments have also paved the way for enhanced, and more organized efforts to broaden financial inclusion, including nationwide data collection initiatives which resulted in the Financial Inclusion Report 2016. This landmark initiative was vital to provide data and evidence to inform future financial inclusion policies.

2.2 DEFINING FINANCIAL INCLUSION

The strengthening of commitments to advance financial inclusion in the recent years has required policymakers to clearly define its meaning. BCTL has undertaken the leading role to engage financial inclusion stakeholders in the country to obtain input and feedback on the key components which

define financial inclusion. The consensus achieved links financial inclusion with bringing disadvantaged segments of society into the regulated financial system. These disadvantaged or vulnerable groups include the rural, poor, women and children, where financial inclusion enables them to be empowered with the right knowledge and the ability to use affordable financial services in a safe and efficient manner. Financial inclusion facilitates all members of society to learn and be able to save, increase investment, raise productivity and manage risks. These are essential financial tools for the progress and financial health of all communities.

Financial inclusion is the delivery of essential financial services to all segments of society, including vulnerable and low-income groups, at affordable costs.

2.3 STRATEGY DESIGN AND FORMULATION

The national strategy provides a more organized, well-resourced and comprehensive methodology to increase and intensify efforts towards improving access to financial services. The World Bank Group recommends six main building blocks¹ to effectively design and execute National Financial Inclusion Strategies. BCTL has adopted this approach in developing Timor-Leste's National Financial Inclusion Strategy.

The six building blocks comprises of:

I. Data and Diagnostics

The content and priorities of the national strategy are informed by data and diagnostics. In Timor-Leste, BCTL's supply-side data collection and analysis have permitted a more thorough understanding of the current level of financial inclusion and the opportunities to enhance financial inclusion. BCTL also plans to explore ways to obtain both supply and demand-side data on financial

¹ World Bank Brief, "Overview: Financial Inclusion Strategies," 2015.
<http://www.worldbank.org/en/topic/financialinclusion/brief/national-financial-inclusion-strategies>

inclusion through collaborations with Governmental Agencies and focus group discussions with specific target groups and key stakeholders.

II. Targets and Objectives

Based on the financial inclusion data, targets and objectives can be set for the short, medium to long term period. These targets and objectives should reflect the real needs of the underserved. BCTL has come up with a set of measurable indicators to measure and assess financial inclusion progress over time.

III. Leadership and Coordination

It is vital to ensure high level and working level coordination of the formulation and implementation of the national strategy. BCTL has taken a leading role, with a clear mandate and dedicated human resources, to build and structure the development of this strategy.

IV. Strategy Formulation

The design and development of the national strategies often require partnerships, feedback and input from financial inclusion stakeholders from the public, private and civil society groups. BCTL continues to organise technical consultations, workshops and working groups to consolidate feedback, solutions and obtain buy-in from partners.

V. Strategy Implementation

There is a need to prioritize and sequence the strategy's action plans over an agreed timeframe, with transparency on the roles and responsibilities of the partners and stakeholders involved. These steps would ensure structured implementation with highest levels of efficiency and effectiveness.

VI. Monitoring and Evaluation

Monitoring and evaluation provides checks and balances to ensure that the action plans are on track to achieving the intended results. This form of surveillance allows policymakers to obtain data to fine-tune or modify action plans for better outcomes. This process is also crucial to inform the formulation of ensuing strategies in the future.

2.4 VISION FOR FINANCIAL INCLUSION

The vision is the focal point of the collective National Financial Inclusion Strategy. For Timor-Leste, the vision statement for financial inclusion was carefully deliberated to ensure that it encapsulates all the elements and ambitions for inclusiveness of the financial system.

The vision for financial inclusion is to create an inclusive financial system that brings the benefits of financial services to all, including unbanked people and communities, towards the objectives of reducing poverty and enhancing shared prosperity.

This vision signifies that financial services would be accessible, easy to use and meet people's needs, irrespective of their demographic group, over their lifetime. BCTL hopes that Timorese will benefit meaningfully from using financial services, by inculcating the knowledge and motivation to use them effectively. It is envisioned that all Timorese will be able to use financial accounts for transactions, instil the culture of savings, build resilience against unforeseen adverse events, and have access to fair and comprehensible financial education and advice.

As a milestone in the quest for universal access, BCTL aims for 75% of the adult population to have formal, regulated bank account by 2025. BCTL together with the Government and all partners seek to gather expertise and resources to work towards this goal to benefit every segment of society in the country, regardless of gender, age group and geographical location. This vision anchors all key drivers of financial inclusion towards this united goal and aspiration.

The vision of financial inclusion, together with the identification of barriers to financial inclusion, has guided and steered the establishment of priority areas for expanding financial inclusion. BCTL will adopt four broad strategies which form the pillars to support the vision of financial inclusion. The execution of the specific action plans identified under each broad strategy will also be prioritised and sequenced along the targeted timeframe.

Diagram: Vision and Broad Strategies

Vision			
To create an inclusive financial system that brings the benefits of financial services to all, including unbanked people and communities, towards the objectives of reducing poverty and enhancing shared prosperity.			
Broad Strategies			
Enhance Access Points & Payments Systems	Specialised & Affordable Financial Services	Capacity Building & Supportive Infrastructure	Financial Literacy & Consumer Protection



3.1 ENHANCE ACCESS TO FINANCIAL SERVICES & MODERNIZE PAYMENTS SYSTEMS

The low presence of financial services access points in remote geographical regions remain a primary obstacle to achieving financial inclusion. This broad strategy aims to encourage innovation to enhance access to financial inclusion through modernisation and reforms of financial services channels. This will be achieved through the following action plans:

- I. Implement the National Switch platform in collaboration with private sector partners to connect all ATM and POS networks of financial services providers to facilitate payment transactions between individuals, businesses and the Government.
- II. Promote E-wallet as a channel by incentivizing financial institutions to enhance the existing infrastructure, improve product offerings and resolve current limitations, especially issues related to client identifications.

- III. Deploy branchless banking channels by identifying potential agents or providers in target areas. This will be supported by the implementation of facilitative regulation, as well as training and development for banks and agents.
- IV. Leverage on the usage of mobile vans to widen outreach to unserved areas and enhance the financial products and services provided.
- V. Expand the roles of meeting centres of banking and microfinance institutions to provide more financial services, beyond deposit and credit products.
- VI. Encourage research and development to spur innovative channels such as virtual money, stored value or cash cards.
- VII. Encourage membership in Credit Unions as a safe and suitable non-bank alternative to access financial services for Timorese.

The targeted timeframe for the action plans are as follows:

Action Plans	Key Implementing Agencies	Priority (High, Medium, Low)	Time Frame
I. Implement the National Switch platform	<ul style="list-style-type: none"> BCTL Private Sector Partners 		By 2019
II. Promote E-wallet as a channel	<ul style="list-style-type: none"> BCTL Participating Financial Institutions (Fis) 		By 2020
III. Deploy branchless banking channels by identifying potential agents or providers in target areas	<ul style="list-style-type: none"> BCTL Participating Fis Selected Agents 		By 2020
IV. Leverage on the usage of mobile vans to widen outreach to underserved areas	<ul style="list-style-type: none"> BCTL Participating Fis 		By 2018
V. Expand the roles of FI and MFI's meeting centres	<ul style="list-style-type: none"> BCTL Participating Fis Participating MFIs 		By 2019
VI. Encourage research and development to spur innovative channels	<ul style="list-style-type: none"> BCTL Participating Fis Telcos 		By 2022
VII. Encourage membership in Credit Unions as a safe and suitable alternative to Banks	<ul style="list-style-type: none"> BCTL Credit Unions 		By 2021

 High Priority
  Medium Priority
  Low Priority

3.2 DEVELOP A RANGE OF SPECIALISED AND AFFORDABLE FINANCIAL SERVICES

A critical factor in advancing financial inclusion lies in the understanding of the financial needs of the underserved segments of society. The target groups require financial products and services which are simple and affordable to meet their basic, yet distinct financial needs. Suitable financial products and services have the potential to improve the standards of living of underserved communities by giving them the opportunity to transact, save and increase productivity in a safe and secure manner. The following measures will be pursued to enrich and diversify product offerings for the underserved:

- I. Undertake efforts to understand market needs through the establishment of focus groups, surveys or leveraging on the national census to ascertain barriers, customers' preference and expectations. These insights will be constructive to design new, customised products to meet the needs of various client segments across all income levels, location and industries.
- II. Improve pricing strategy to enhance affordability of financial services to ensure that low income clients are able to use financial services.
- III. Collaborate with interested banks to launch products for the underserved, including rural and low-income clients.
- IV. Study the feasibility of introducing a basic savings account with no bank fees and charges, to be made available to all Timorese at all financial institutions nationwide.
- V. Focus on developing micro-savings products with minimal fees and low account opening deposits, combined with reasonable returns, to encourage low-income households to inculcate the savings habit to fulfil long term goals.
- VI. Explore the viability of micro-insurance as a product to provide the underserved with adequate financial protection against unexpected adverse events.
- VII. Build on existing product development initiatives for the SME and micro-finance target groups and continue to support this sector.

The targeted timeframe for the action plans are as follows:

Action Plans	Key Implementing Agencies	Priority (High, Medium, Low)	Time Frame
I. Undertake efforts to understand market needs through focus groups, surveys or leveraging on the national census	<ul style="list-style-type: none"> • BCTL • Government Agencies 	H	By 2018
II. Improve pricing strategy to enhance affordability of financial services	<ul style="list-style-type: none"> • BCTL • All FIs 	H	By 2018
III. Collaborate with interested banks to launch products for the underserved	<ul style="list-style-type: none"> • BCTL • Participating FIs 	H	By 2022
IV. Study the feasibility of introducing a basic savings account with no bank fees and charges	<ul style="list-style-type: none"> • BCTL • Participating FIs 	M	By 2021
V. Focus on developing micro-savings products	<ul style="list-style-type: none"> • BCTL • Participating FIs 	M	By 2021
VI. Explore the viability of micro-insurance	<ul style="list-style-type: none"> • BCTL • Participating Insurance Companies 	M	By 2021
VII. Build on existing product development initiatives for the SME and micro-finance target groups	<ul style="list-style-type: none"> • BCTL • Participating FIs & MFIs • Government Agencies 	L	By 2022

 High Priority
  Medium Priority
  Low Priority






3.3 CAPACITY BUILDING FOR FINANCIAL SERVICE PROVIDERS AND STRENGTHEN SUPPORTING INFRASTRUCTURE

The effective delivery of inclusive financial services also relies on competent and adequately trained regulators, supervisors and financial services professionals. In addition to that, the financial sector should be fortified with resilient and supportive infrastructure to facilitate financial inclusion. It is therefore crucial to establish policies and instil best practice to bolster human resource development and institutional arrangements through these actions:

- I. Emphasize the development of capacity building programmes and knowledge sharing mechanisms for financial services and policymakers in Timor-Leste. These mechanisms for knowledge sharing include peer-to-peer learning, workshops and training.
- II. Promote active involvement in international networks by learning and sharing knowledge in global forums, conferences and working groups.

- III. Collaborate with financial services providers to design structured financial inclusion capacity building modules for staff, particularly in the area of credit products, to better manage risks of financial institutions.
- IV. Adopt appropriate and supportive regulatory framework to set up the Credit Guarantee Scheme to boost access to financing for MSMEs.
- V. Establish the National MSME Council, a high-level working group consisting of all agencies involved in the development of the MSME sector to formulate policies, particularly in the area of access to financing and training, and also serve to coordinate programmes across Ministries and Agencies throughout the country.

The targeted timeframe for implementation are as follows:

Action Plans	Key Implementing Agencies	Priority (High, Medium, Low)	Time Frame
I. Emphasize the development of capacity building programmes and knowledge sharing mechanisms for financial services and policymakers	<ul style="list-style-type: none"> • BCTL • Training Provides 		By 2020
II. Promote active involvement in international networks by learning and sharing knowledge in global forums, conferences and working groups	<ul style="list-style-type: none"> • BCTL • Government Agencies 		By 2018
III. Collaborate with financial services providers to design structured financial inclusion capacity building modules for staff	<ul style="list-style-type: none"> • BCTL • Participating FIs • Training Provides 		By 2020
IV. Adopt appropriate and supportive regulatory framework to set up the Credit Guarantee Scheme to boost the MSMEs access to finance	<ul style="list-style-type: none"> • BCTL • International Partners 		By 2019
V. Implement the National MSME Council with all agencies involved in the development of the MSME sector to developmental policies	<ul style="list-style-type: none"> • BCTL • Government Agencies 		By 2022

 High Priority
  Medium Priority
  Low Priority

3.4 IMPLEMENT FINANCIAL LITERACY AND CONSUMER PROTECTION FRAMEWORKS











Financial literacy and consumer protection have received greater recognition as key enablers for financial inclusion. Therefore, a comprehensive and holistic approach towards consumer protection




and education is essential to empower all Timorese, particularly the underserved communities, to enhance their knowledge and capabilities to utilise financial services effectively and responsibly. It is also important to cultivate values of mutual responsibility, among the financial services providers and clients, where both sides can participate effectively in the financial system. To achieve these objectives, the following multi-pronged approaches will be carried out:

- I. Continue to prioritize the National Strategic Plan (NSP) for Financial Literacy, comprising of a nationally coordinated network of financial education programmes and awareness campaigns over a five year period of 2016-2020.
- II. Enrich financial education material to include diversified financial products and services, with particular attention to insurance products.
- III. Develop an evaluation process to assess levels of consumer literacy and awareness, and utilise this data to further augment education programmes.
- IV. Organise regular knowledge sharing sessions by BCTL to disseminate information to the public.
- V. Incentivize financial services providers to provide training and advisory to customers on their products and services.
- VI. Offer existing financial clients, such as clients of the Hau-nia Futuru programme, access to customized financial education programmes.
- VII. Introduce financial education programmes tailored to demographics, for instance, specific syllabus for children, youths, adults and veterans, as well as the MSME sector.
- VIII. Continue to enhance regulatory frameworks for consumer protection, by building on the Consumer Protection Law that was passed in July 2016, to inculcate public confidence in the financial system through the introduction of appropriate codes of conduct, consumer protection rules, and institutionalizing formal avenues to seek redress and manage disputes.
- IX. Develop specific consumer protection regulation for financial services that promote and safeguard transparency. Key information should be simple and easily communicated to equip customers with all relevant information including obligations, pricing structure and any amendments to the terms and conditions.
- X. Set up alternative dispute resolution systems, to encourage prompt resolutions and reduce the dependency on the lengthy judiciary process. This includes, among others, an

Ombudsmen or Consumer protection office which can be accessed online or with dedicated telephone lines.

The targeted timeframe for implementation are as follows:

Action Plans	Key Implementing Agencies	Priority (High, Medium, Low)	Time Frame
I. Continue to prioritize the National Strategic Plan (NSP) for Financial Literacy	• BCTL		By 2020
II. Enrich financial education material to include diversified financial products and services	• BCTL		By 2018
III. Develop an evaluation process to assess levels of consumer literacy and awareness	• BCTL		By 2019
IV. Organise regular knowledge sharing sessions by BCTL to disseminate information to the public	• BCTL		By 2017
V. Incentivize financial services providers to provide training and advisory to their customers on their products and services	• BCTL • Participating FIs		By 2018
VI. Offer existing financial clients access to customized financial education programmes	• BCTL • Participating FIs		By 2019
VII. Introduce financial education programmes tailored to demographics	• BCTL • Participating FIs		By 2022
VIII. Continue to enhance regulatory frameworks for consumer protection , by building on the Consumer Protection Law	• BCTL		By 2022
IX. Develop specific consumer protection regulation for financial services that promote and safeguards transparency	• BCTL		By 2018
X. Set up alternative dispute resolution systems	• BCTL • Government Agencies		By 2020

 High Priority
  Medium Priority
  Low Priority

These four broad strategies are all equally important in laying the foundations for sustainable financial inclusion. All the action plans and programmes recommended will be implemented over the period from 2017 to 2022, with prudent management of time and resources to attain the highest impact of policies for the target segments of population. These action plans will contribute to different dimensions of financial inclusion and the success of the nation is contingent on all these broad strategies working collectively in driving financial inclusion.

CHAPTER 4: AN ENABLING ENVIRONMENT TO FACILITATE NATIONAL FINANCIAL INCLUSION STRATEGY

The comprehensive, multi-pronged action plans are designed to cohesively elevate and escalate financial inclusion towards the vision. In order to successfully implement this strategy, it is also necessary to build an enabling environment to ease the operations of these action plans.

A facilitative setting is absolutely indispensable, as it positions the readiness of the financial sector to adapt to and accept changes that bring inclusiveness.

To support the National Financial Inclusion Strategy, BCTL recommends for the bolstering of the financial inclusion measurement framework, the establishment of a national coordination structure for the national strategy, and the strengthening of the regulatory environment of the financial sector.

Diagram: Key Enablers to Support Broad Strategies and Vision

Vision			
To create an inclusive financial system that brings the benefits of financial services to all, including unbanked people and communities, towards the objectives of reducing poverty and enhancing shared prosperity.			
Broad Strategies			
Enhance Access Points & Payments Systems	Specialised & Affordable Financial Services	Capacity Building & Supportive Infrastructure	Financial Literacy & Consumer Protection
Key Enablers			
Data & Measurement Frameworks	Coordination Structure for National Financial Inclusion Strategy	Facilitative Regulatory Environment	

4.1 DATA COLLECTION AND FINANCIAL INCLUSION MEASUREMENT FRAMEWORK

A financial inclusion measurement framework with accurate and reliable data sources is central to the financial inclusion policymaking process. When policymakers have clear and consistent performance indicators, policymakers will be able to diagnose the current state, detect gaps, set targets, design strategies and monitor policy impact. Hence, a measurement framework with clearly defined indicators is fundamental to monitor progress effectively, and inform future policies.

BCTL has launched data collection operations, commencing with supply-side data collection which has successfully resulted in the mapping of geographical location of financial services access points in the country, provided insights into the penetration of financial services and information on product features. These findings were documented in BCTL's inaugural Financial Inclusion Report 2016, a significant milestone in the nation's path towards an inclusive financial sector. The data initiative also facilitated the creation and application of a measurement framework, encompassing the dimensions of access, usage and quality indicators for financial inclusion.

Diagram: Financial Inclusion Measurement Framework

Access	<ul style="list-style-type: none">• Financial access points by Municipality, Administrative Posts and Sucos• Access points per adult population• Access points per square area
Usage	<ul style="list-style-type: none">• Penetration of deposit accounts per adult population• Penetration of loan accounts per adult population• Penetration of insurance policies per adult population
Quality	<ul style="list-style-type: none">• Ease of deposit/savings account application• Ease of loan account application

Demand-side data is also pivotal to complete the financial inclusion measurement framework. It complements supply-side data by providing key information such as financial needs of customers, their perceptions and willingness to participate in the financial system. BCTL is in the development stages of preparing a demand-side data strategy to better understand financial inclusion and whether the needs of the customers are sufficiently being met by existing financial products and services.

When supply and demand side data are used in combination, the findings it offers can be used to measure and monitor the effectiveness of the National Financial Inclusion Strategy and assess progress over time to ensure that the strategy remain relevant, keeping abreast with latest financial inclusion developments.

4.2 COORDINATION STRUCTURE FOR NATIONAL FINANCIAL INCLUSION STRATEGY

A coordination structure is the main body accountable for spearheading financial inclusion reforms and coordinating policies to propel financial inclusion.

A coordinating structure is important to organize and synchronize action plans, to manage resources and enhance efficiency of strategy implementation to reach their envisioned objectives.

To improve the coordination process, cooperation amongst all financial inclusion stakeholders with clear lines of accountability is critical. To achieve this, BCTL also aims to set up a dedicated division within the Central Bank to lead and coordinate the National Financial Inclusion Strategy. The roles of the coordinating structure are detailed below:

Diagram: Roles of Coordinating Structure for National Financial Inclusion Strategy

Consult Financial Inclusion Stakeholders

Consult partners and stakeholders, including Government Ministries, Agencies, Financial Services providers, regulators, supervisors, private sector players and civil society groups to reinforce collaboration and partnership.

Align Financial Inclusion Strategy

Integrate and align the National Financial Inclusion Strategy under a framework with clear timelines and targets.

Monitor & Evaluate Strategy

Monitor and evaluate strategy impact for all action plans under the National Financial Inclusion Strategy

Conduct Policy Reviews

Conduct policy reviews and champion policy discussions to ensure the National Strategy remain relevant in view of the changing context and growth of the financial sector in the country.

Raise Awareness

Raise awareness on issues related to financial exclusion and urge partners and stakeholders to collaborate and take accountability for their roles in developing a more financial inclusive society.

Form International Partnerships

Form partnerships with international stakeholders including multilateral organizations and country networks to encourage knowledge sharing and peer-to-peer learning.

As the Central Bank, BCTL has historically been the main organisation directly involved in promoting financial inclusion as part of its mandate. Therefore, BCTL will continue to take a leading role in championing discussion and debate, as well as coordinating efforts with other Governmental Agencies and private sector stakeholders.

4.3 STRENGTHENING REGULATORY ENVIRONMENT FOR THE FINANCIAL SECTOR

A facilitative regulatory environment in the financial sector is also a key enabler to attain the goals of the National Financial Inclusion Strategy. Laws and regulation set the underpinning conditions of the financial sector, shaping and impelling its development. A principle based approach, as opposed to a prescriptive approach, to setting regulation can support financial services providers and other stakeholders in providing better solutions to target groups and the underserved communities.

As a key enabler, it is therefore vital to strengthen the regulatory environment of the financial sector through the application of sound, prudent and accommodating directives. BCTL will focus on drafting and tabling financial law, regulation and guidelines in the areas of banking, new products and services, as well as anti-money laundering. The enforcement of these laws and regulation play an important role to warrant safeguards, transparency and accountability of all financial sector participants. These steps bring heightened stability, leading to enhanced trust and broader participation in the financial sector. These are necessary requisites to foster greater financial inclusion.

This report is the most important instrument to accelerate the pace of financial inclusion in Timor-Leste. The National Financial Inclusion Strategy will utilize and employ the key enablers which are critical to achieve the vision, serving as a comprehensive roadmap to build on actions to broaden financial inclusion.

The development of the National Financial Inclusion Strategy in Timor-Leste has integrated the following components, in line with global best practices as advocated by the World Bank Group²:

Diagram: Components of National Financial Inclusion Strategy



- I. **Stock-taking:** Data and diagnostics provide the opportunity to introduce evidence-based and prioritized policies.
- II. **Targets and objectives:** The introduction of clear indicators and targets provides clarity on what needs to be accomplished and affirms ownership of objectives.
- III. **Strategy-building:** Strategy design and development involve consultations from stakeholders from both the public and private sector to ensure comprehensive and wide-ranging actions are put in place, and in line with the commitments made.

² World Bank, "Financial Inclusion Strategies Reference Framework," 2012.
<http://documents.worldbank.org/curated/en/801151468152092070/pdf/787610WP0P144500use0only0900A9RD899.pdf>

- IV. **Public sector actions:** The public sector, including BCTL and the Government will be responsible for policy and regulatory reforms, financial infrastructure development, coordination frameworks, tailored capacity building, as well as justified interventions or technical support.
- V. **Private sector actions:** Financial institutions will need viable business models to innovate and introduce new services, adapt existing products and processes, as well as roll out new delivery mechanisms.
- VI. **Progress-monitoring:** Monitoring and evaluation is essential to track and examine progress, to ensure that strategy remain on the right trajectory in achieving its intents.

The design and development of the national strategy also captured a few key considerations which are pivotal in promoting a cohesive framework for the progression of financial inclusion. First of all, financial inclusion is connected to financial sector determinants, including aspects of stability, integrity and market conduct. The strategy was prepared by taking into account the analysis and intents of each of those components, to circumvent policy mismatch and divergence. Secondly, the strategy was built based on existing knowledge, including the evidence gathered through BCTL's data initiatives which revealed the current gaps and the opportunities to close those gaps. There needs to be a continued focus on enhancing financial inclusion knowledge and analysis through data collection, monitoring and knowledge sharing platforms to understand and identify appropriate policy development for the future, in line with the ever evolving financial sector. Finally, moving forward, financial inclusion is not the responsibility of the public sector alone. It is an area where BCTL, as the mandated financial sector regulator, can take a leading role. However, this role has to be complemented by dynamic and cooperative public and private sector actions. Obtaining buy-in from all partners is critical, as their response plays a decisive role in shaping financial inclusion solutions for the country.

The National Financial Inclusion Strategy is a demonstration of the nation's utmost commitment to the financial inclusion agenda.

The national strategy represents more articulately conveyed plans for financial inclusion in the country, which are in line with the goals of the Financial Sector Masterplan 2014-2025. This report represents a pledge to execute the strategy and all action plans for the benefit of Timorese, and it serves as a reminder and map to chart the path of the financial system towards the vision of an

inclusive financial sector. The strategy will not only assist in the expansion and maturity of the financial sector, but also perform principal functions in inclusive and sustainable socioeconomic development, reaffirming the goals of the Strategic Development Plan 2011-2030. The National Financial Inclusion Strategy is a call for action, to harness and align all efforts to achieve desired outcomes of inclusiveness and sustainable growth for the country.