Progress on Building Timor-Leste’s Financial Sector

Presented at the 2019 Timor-Leste Development Partners Meeting
Dili, 4 July 2019

By Abraao de Vasconcelos, Governor
Topics to be covered

Introduction

Progress Update

Conclusion
Progress on Building Timor-Leste’s Financial Sector

**Evolution of Financial Sector Development**

**Phase 1: Foundation**
- Introduced the required basic legal frameworks for key FIs to operate.
- Established and provide necessary resources to the regulatory and supervisory authority.
- Created necessary conditions to restore basic financial services.

**Phase 2: Consolidation**
- Strengthened supervisory capacities.
- Introduced necessary legal and regulatory frameworks to facilitate expansion, particularly in the payments system sphere.

**Phase 3: Integration**
- Introduced a domestic payments system – Automated Transfer System.
- Integrate banking system platforms via P24 Network.
- Introduce and expose basic financial services to the public.
- Promote financial education programme.

**Phase 4: Innovation**
- Introduce innovative financial services products to meet development needs.
- Promote market conduct and consumer protection.
- Promote digitalization of financial products.
- Modernize legal and regulatory frameworks.
- Promote and empower MSME sector.
**Key Considerations**

- Timor-Leste needs a clear roadmap for development of financial sector.
- Establish clear objectives to support and achieve overall goals for the national development.
- Establish mechanisms to measure the outcome.
A prosperous Timor-Leste with a developed and resilient financial system that brings the benefits of financial services to all Timorese

Financial Sector Development Plan

- Modernising the payments system
- Fostering Financial Intermediation
- Filling the current gap in the supply of long-term capital
- Widening the range of products available
- Building public confidence and participation in the financial system
- Building capacity and developing talent
PROGRESS ON BUILDING TIMOR-LESTE’S FINANCIAL SECTOR

PROGRESS IN THE FINANCIAL SECTOR DEVELOPMENT

1. Establish key legislative framework to support fin sector to develop
2. Introduce various policy frameworks to guide fin sector development
3. Implement two keys payments system infrastructure
4. Integrate banking system infrastructures to facilitate access
5. Promote the establishment of payments service providers
6. Integrating national switch system with regional switch network
KEY DEVELOPMENTS

1. Integrating key financial services is on the core agenda of the Central Bank aiming to have a national payments system that is efficient and promotes competition.

2. 2/4 banks have been integrated and the remaining two will be completed late this year.

3. P24 will be responsible to integrate the services e.g., tax payments, utilities payments, school fees, electricity topup, etc.

4. Preparations are being made to integrate the e-Wallet service provider and regional switch system with P24 Network.

5. Implementing a nation-wide financial literacy programme focusing in the school children.

6. Implementing the credit guarantee programme for small and medium enterprises.
## Financial Inclusion Indicator

### 2016 FIR vs 2018 FIR

<table>
<thead>
<tr>
<th>Category</th>
<th>2016 FIR</th>
<th>2018 FIR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Services</td>
<td>67%</td>
<td>62%</td>
</tr>
<tr>
<td>Any Financial Service</td>
<td>68%</td>
<td>65%</td>
</tr>
<tr>
<td>Financially Excluded</td>
<td>32%</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Adult Population in 2016 – 624,503**  
**Adult population in 2018 – 662,285**

### Banks and ODTIs Client Distribution per Municipality

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Bank Penetration</th>
<th>ODTI Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dili</td>
<td>68%</td>
<td>4%</td>
</tr>
<tr>
<td>Ermera</td>
<td>38%</td>
<td>4%</td>
</tr>
<tr>
<td>Liquiçá</td>
<td>47%</td>
<td>6%</td>
</tr>
<tr>
<td>Manatuto</td>
<td>61%</td>
<td>5%</td>
</tr>
<tr>
<td>Manufahi</td>
<td>55%</td>
<td>7%</td>
</tr>
<tr>
<td>Oe-cusse</td>
<td>52%</td>
<td>6%</td>
</tr>
<tr>
<td>Viqueque</td>
<td>58%</td>
<td>3%</td>
</tr>
<tr>
<td>Baucau</td>
<td>53%</td>
<td>1%</td>
</tr>
<tr>
<td>Bobonaro</td>
<td>50%</td>
<td>4%</td>
</tr>
<tr>
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<td>4%</td>
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<tr>
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</tr>
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<td>4%</td>
</tr>
</tbody>
</table>

**Summarized Financial Exclusion**

<table>
<thead>
<tr>
<th>Region</th>
<th>Financial Exclusion</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
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<tr>
<td>Aileu</td>
<td>4%</td>
<td>50%</td>
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<td>38%</td>
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<td>52%</td>
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</tr>
<tr>
<td>Viqueque</td>
<td>3%</td>
<td>58%</td>
<td>58%</td>
</tr>
</tbody>
</table>
CLIENT DISTRIBUTION BY GENDER

Deposit Accounts Ownership

- Men: 44%
- Women: 56%

Loan Accounts Ownership

- Men: 37%
- Women: 63%

Source: 2018 Financial Inclusion Report
**CLIENT DISTRIBUTION BY AGE**

**Penetration of Bank Clients by Age Group**

- <17: 3%
- 17-19: 3%
- 20-24: 11%
- 25-29: 29%
- 30-34: 57%
- 35-39: 79%
- 40-44: 65%
- 45-49: 80%
- 50-54: 79%
- 55-59: 74%
- 60-64: 77%

**Penetration of ODTI Clients by Age Group**

- <17: <1%
- 17-19: 2%
- 20-24: 6%
- 25-29: 10%
- 30-34: 13%
- 35-39: 9%
- 40-44: 11%
- 45-49: 9%
- 50-54: 5%
- 55-59: 2%
- 60-64: <1%
# Progress on Building Timor-Leste’s Financial Sector

## Financial Sector Access Points Coverage

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2013</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Municipalities</strong></td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13 out of 13 have access points covered since 2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Administrative Posts</strong></td>
<td>86.1%</td>
<td>92.3%</td>
<td>87.7%</td>
<td>93.8%</td>
</tr>
<tr>
<td></td>
<td>56 out of 65 covered</td>
<td>60 out of 65 covered</td>
<td>57 out of 65 covered</td>
<td>61 out of 65 covered</td>
</tr>
<tr>
<td><strong>Sucos</strong></td>
<td>60.0%</td>
<td>62.9%</td>
<td>57.7%</td>
<td>56.6%</td>
</tr>
<tr>
<td></td>
<td>265 out of 442 covered</td>
<td>278 out of 442 covered</td>
<td>255 out of 442 covered</td>
<td>256 out of 452 covered</td>
</tr>
</tbody>
</table>

### Key Changes:
- Total financial services access points increased from 1,205 in 2016 to 1,642 in 2018
  - ODTIs increased meeting centres by 52% compared to 2016
  - Registered e-wallet agents
- Administrative posts covered by financial services access points improved from 57 in 2016 to 61 in 2018
- The number of sucos covered by financial services access points increased from 255 to 256
PROGRESS ON BUILDING TIMOR-LESTE’S FINANCIAL SECTOR

EVOLUTION OF CREDIT MARKET IN TIMOR-LESTE

[Graph showing liquid liability to GDP, lending growth, and loans to GDP over the years 2007 to 2018.]
Bank Credit by Economic Sector

Progress on Building Timor-Leste’s Financial Sector

Total credit in the bank in 2014 was $177 million, and by March 2019 it had increased to $223 million.
CREDIT DEMAND IN THE BANKING SECTOR

Demand for Credit

<table>
<thead>
<tr>
<th>Year</th>
<th>Kréditu ba Empreza</th>
<th>Kréditu ba Individuu</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>67.1</td>
<td>60.2</td>
</tr>
<tr>
<td>2018</td>
<td>51.0</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Credit Approval Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Kréditu ba Empreza</th>
<th>Kréditu ba Individuu</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>93.7%</td>
<td>90.6%</td>
</tr>
<tr>
<td>2018</td>
<td>99.9%</td>
<td>92.2%</td>
</tr>
</tbody>
</table>

Source: BCTL's Bank Lending Survey Report for 2017 and 2018
Topics to be covered

- Introduction
- Progress Update
- Key Notes
SUCCESS FACTORS

Achieving the Goals

- Strong engagement from key stakeholders by aligning their strategies and resource allocation
- Adaptation to current developments in technology – Fintech
- Adaptation of appropriate monitoring mechanisms
Obrigado