



Strategic Plan for Financial Sector Development

2025



2035

TOWARDS AN INCLUSIVE AND
MODERN FINANCIAL ECOSYSTEM:

Shaping the Future of Finance

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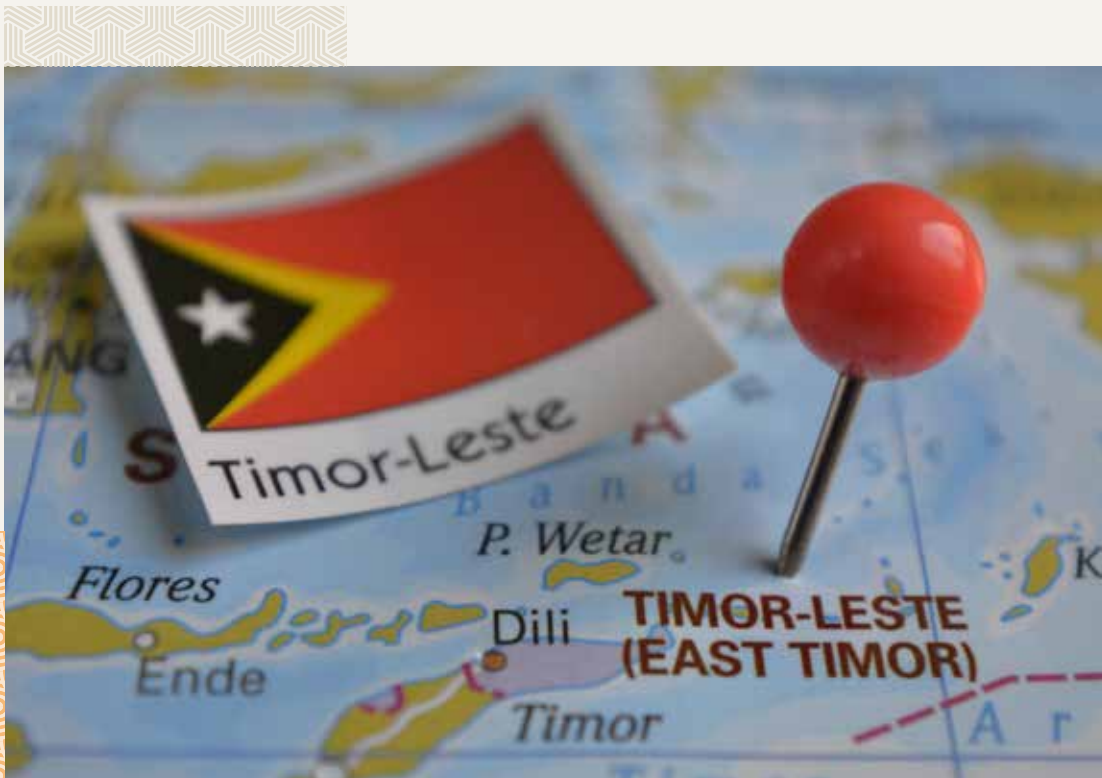




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Foreword from the Prime Minister

It is with great pride and anticipation that I present our nation's *Strategic Plan for Financial Sector Development*. This document is more than a blueprint; it is a testament to our unwavering commitment to sustainable economic diversification, modern and inclusive development, and the empowerment of our private sector as the backbone of our economy.

Our vision for the future is clear: a resilient economy that thrives on diversity, inclusivity, and sustainability. The strategic plan outlines the pathways to achieve this vision, setting the stage for significant strides in job creation and poverty alleviation. These goals are not just economic imperatives; they are moral imperatives that underscore our dedication to improving the quality of life for all our citizens.

Central to our strategy is the development of a robust financial sector that serves as a catalyst for growth. We recognize that a modern financial system is essential for mobilizing resources, fostering innovation, and driving productivity across all sectors. By enhancing the efficiency, accessibility, and stability of our financial markets, we are laying the foundation for a more dynamic and inclusive economy.

The approach to economic diversification is holistic and forward-thinking. We are committed to leveraging our natural resources sustainably while expanding into new and emerging sectors. This requires fostering an environment where businesses can thrive, innovate, and compete on a global stage. The private sector will play a pivotal role in this transformation. We are dedicated to creating a business-friendly climate that encourages investment, nurtures entrepreneurship, and supports small- and medium-size enterprises.

Inclusivity is at the heart of our development agenda. We understand that economic growth must be shared to be meaningful. This strategic plan prioritizes financial inclusion, ensuring that all citizens have access to the financial services they need to participate fully in the economy. This includes targeted measures to support underserved communities, reduce income inequality, and promote equitable growth.



Job creation is a cornerstone of our strategy. By stimulating diverse economic activities and supporting the private sector, we aim to create a wealth of employment opportunities across the country. This will not only reduce poverty but also enhance social stability and foster a sense of purpose and dignity among our people.

The road ahead is challenging, but our resolve is strong. The success of this strategic plan will depend on the collaborative efforts of all stakeholders, including government departments, financial institutions, private enterprise, civil society, and international partners. Together, we can build a resilient and prosperous Timor-Leste where every citizen has the opportunity to thrive.

I extend my deepest gratitude to all those who have contributed to the development of this strategic plan. Your dedication and expertise are invaluable as we embark on this transformative journey.

Let us move forward with confidence and determination, united in our vision and steadfast in our commitment to a brighter, more prosperous future for all.

**Kay Rala Xanana
Gusmão**
Prime Minister

Message from the Governor

At Banco Central Timor-Leste, we are steadfast in our commitment to advancing the financial sector of Timor-Leste, as outlined in our newly revised *Strategic Plan for Financial Sector Development 2025-2035*.

The *Strategic Plan* is structured around four pillars:



1 2 3 4

1. Enabling Financing for Development
2. Promoting a Modern Payments Landscape
3. Enhancing Access to Finance
4. Modernization of the Financial Sector

Over the past decade, we have made significant strides, particularly in modernizing our payment systems and enhancing financial access. Today, a growing share of payments is digitally processed directly between bank accounts, and increasingly through mobile wallet services provided by fintech companies. Although cash usage remains prevalent, the infrastructure for more advanced and convenient payment options is well established. We anticipate a rise in the adoption of electronic payments as their benefits become more apparent.

Our efforts have also expanded financial services to previously underserved populations. According to BCTL's 2022 Financial Inclusion Report, 64% of adults in Timor-Leste now have a bank account, up from 57% in 2018, with a notable increase in the use of e-wallet services provided by fintech companies. The volume of transactions through these services has nearly quadrupled since 2020, surpassing those within the traditional banking system. Looking ahead, our focus will shift towards implementing seamless and real-time payment systems, including the introduction of an eCentavos.

However, challenges remain in financing for development under the first pillar. A significant portion of Timor-Leste's savings continues to be invested abroad due to underdeveloped local investment channels. Current legal and institutional frameworks also hinder sufficient lending for business and housing needs, with most bank loans predominantly financing consumer goods. Additionally, there is a lack of capital market channels for funding riskier business investment, and public infrastructure.



A key priority for the next decade is to enhance the foundations that allow more domestic savings to be invested in local private sector businesses and housing. Special emphasis will be given to developing Timor-Leste's micro, small, and medium-size enterprise (MSME) sector, a critical source of employment and potential growth.

To facilitate the financial sector's contribution to national development, poverty alleviation, and job creation, it is crucial to achieve integrated progress across several different areas of policy. These include legal frameworks for finance, telecommunication and internet systems for modern finance, and training in the necessary skills and knowledge for both providers and users of financial services. While these areas of policy mostly fall outside BCTL's direct responsibilities, we are well positioned to play a coordinating role among relevant agencies, aligning with our mandate to be both independent and an integral part of the government's efforts to bolster the nation's economy.

In fulfilling this role, BCTL faces new challenges and demands, and under the Strategic Plan, we are committed to enhancing our capabilities. This will be achieved through practical experience, regional collaboration—particularly with ASEAN countries—staff training, and other capability- development initiatives.

BCTL looks forward to working with all stakeholders in Timor-Leste's financial sector, with fellow Government ministries and agencies, and with Timor-Leste's development partners in giving effect to this Strategic Plan over the decade ahead.

Helder Lopes
Governor

Executive Summary

Timor-Leste's financial sector has experienced notable growth under the *Master Plan for Financial Sector Development 2014-2025*, particularly in the evolution of the payment system. While cash transactions still dominate, the beginnings of a shift toward digital payments is underway. This shift is expected to advance further under the Strategic Plan 2025-2035, propelled by the rapid advance in technological development. It is a shift that should greatly facilitate trade by enabling payment across distance and help integrate more businesses and households into the formal economy.

The financial landscape in Timor-Leste has also expanded, now encompassing five banks, two licensed Other Deposit-taking Institutions, two general insurance companies, and one life insurance company, along with numerous money transfer operators. Despite this expansion, the challenge of effectively channeling local savings into investment in Timor-Leste remains.

There are also demographic challenges and opportunities, with over 65% of the population aged below 30 years. This youthful demographic will drive demand for new financial products and services while also presenting challenges related to employment and education. The new Strategic Plan aims to improve the financial sector's role in funding enterprises, especially MSMEs and those in rural areas, which includes a particular focus on women-owned businesses, and in vital sectors such as housing and the development of productive economic activities. Achieving these goals will require robust partnerships across multiple stakeholders, including the government, BCTL, financial institutions, businesses, civil society, and development partners.





Given the historical reliance on petroleum revenues, notably from the now-depleted Bayu Undan field, and the uncertain prospects for the Greater Sunrise field, coupled with projections that the Petroleum Fund will be exhausted by 2035, Timor-Leste faces a crucial need to diversify its economy. These factors will undoubtedly also impact the future financial sector landscape, necessitating a shift towards sustainable financial practices. The financial sector is identified as a key driver for broader economic development and diversification, which is essential to enhance living standards, reduce poverty, and provide employment opportunities for the nation's growing, young, workforce. This will require adaptation and innovation to meet emerging challenges and opportunities.

The Strategic Plan 2025-2035 for the decade ahead comprises four pillars.









Strategic Pillar 1 focuses on enabling greater financing for development. Several specific programs are designed for the broader financial sector's contribution to accelerate economic development. Some of the programs are enabling in nature, such as putting in place the frameworks required for secured lending and supporting the development of business record-keeping and accounting. Others include a more direct role for the government and other related parties, such as by participating in co-financing structures.

KEY ACTIONS

-  Create three specialized funds to empower informal agricultural producers and micro-businesses by addressing their financial and technical needs, promoting and transforming micro-retailer businesses into banking hubs, and supporting training for farmers and business management.
-  Introduce a revised credit guarantee scheme for the MSME sector to encourage broader participation from financial institutions and make credit more accessible to entrepreneurs, particularly women-owned businesses, by addressing their unique challenges.
-  Develop mortgage products along with enhanced legal and regulatory frameworks, to facilitate housing finance.
-  Create the necessary conditions to support

KEY TARGETS

-  Formalize 50% of identified informal businesses within 5 years, including 50% women-owned.
-  Expand market access for 50% of agricultural producers and other micro-businesses, ensuring half are women.
-  Train 10,000 farmers and small business owners within 10 years, of which at least 50% are women.
-  Establish 1,000 micro-retailer businesses as financial service agents within 5 years, ensuring a significant percentage are women-owned.
-  Increase financial inclusion in target areas by 90% over 10 years, with a specific focus on women.
-  Increase the credit guarantee fund to \$50 million within 5 years and provide \$70 million in MSME loans within 10 years.
-  Resolve land title issues and create a minimum of 5,000 new housing units through mortgage financing within 5 years and

MSME access to credit by implementing a secured lending reform to facilitate the use of movable property as security and establishing business record-keeping and accounting practices to improve financial management among businesses.

- ③ Enact the new law for and complete the development of the collateral registry within 3 years.
- ③ Establish the accounting professional body within two years and complete the development of business record-keeping and accounting practices within 3 years.

Strategic Pillar 2 seeks to build on the considerable progress already made in establishing a modern payments landscape. It is focused on advancing the different elements of core digital infrastructure already in place and operational, moving towards seamless and real-time payments. This pillar recognizes the significant contribution and role of fintech in ‘democratizing’ digital payments. The implementation of eCentavos is also important to facilitate a speedy modernization of the financial system, enhance payment efficiency, and promote financial inclusion. At the same time, the transition to digital payments and finance introduces new challenges, such as the need for modern broadband and telephony infrastructure and addressing the cyber-related risks that accompany digital technology.





KEY ACTIONS


- ③ Develop necessary infrastructure and promote the adoption of instant payment solutions across financial institutions
- ③ Improving shared digital infrastructure by upgrading the P24 retail payment system, integrating it into the ASEAN regional switch system
- ③ Encourage banks and fintech companies to develop payment gateways.


KEY TARGETS


- ③ Encourage banks and financial institutions to introduce real-time payment platforms within 5 years.
- ③ Achieve 80% adoption of instant payments among businesses within 5 years.
- ③ Ensure 90% inter-operability among financial institutions and payment service providers within 5 years.
- ③ Upgrade the P24 retail payment system to support real-time processing and a wider range of transactions within 3 years.


 Supporting fintech innovation by allocating seed funding for fintech solutions


 Implement a secure and accessible digital Centavos (“eCentavos”) to modernize the financial system, enhance payment efficiency, and promote financial inclusion in Timor-Leste.


 Develop a robust cybersecurity framework to protect key digital infrastructure and ensure secure financial transactions.


 Expand high-speed internet coverage, especially in underserved and rural areas.


 Integrate the P24 payment system with the Indonesian switch system within 1 year.

 Achieve a 75% increase in the usage of the P24 retail payment system by businesses within 5 years.

 Construct at least two state-of-the-art data centers within 5 years.

 Allocate at least \$5 million to support innovation in fintech industry within 10 years.

 Review and develop regulatory requirements and streamline licensing processes within 3 years.

 Establish a cybersecurity operation center within 5 years and conduct annual training and campaigns for financial sector employees and IT professionals.




Strategic Pillar 3 focuses on micro-finance and support for micro, small, and medium-size enterprises. It recognizes that enterprise development for MSMEs critically depends on combining financing provision with support for capability development. Therefore, the steps identified under this pillar include initiatives to enhance the capabilities of Timor-Leste’s entrepreneurs, with a particular emphasis on supporting women entrepreneurs, in line with the broader goals of the *Strategic Plan*. This integrated approach aims to provide comprehensive support that fosters sustainable growth and development for MSMEs.

KEY ACTIONS

-  Provide targeted financial services and support to citizens and micro, small, and medium-sized enterprises through the expansion of micro-loan programs and the offering of mentorship and training programs to enhance financial inclusion.
-  Develop and promote innovative financial products tailored to the needs of the underserved population in rural areas to enhance financial inclusion, provide economic opportunities, and empower rural communities by offering accessible and relevant financial services, including insurance products.
-  Implement a comprehensive financial literacy program, including digital financial literacy, to enhance overall financial literacy and support the adoption of modern financial services by implementing those programs in schools and universities, conducting community workshops, and running nationwide campaigns.

KEY TARGETS





-  Allocate \$25 million to microloan products within 5 years, ensuring at least 40% of microloans are disbursed to rural areas.
-  Reduce average loan processing time by 50% within 3 years.
-  Train 1,000 MSME owners and employees within 5 years through 100 workshops and seminars annually.
-  Reach 2,000 MSME participants through workshops and seminars within 5 years.
-  Implement mobile banking and digital payment solutions within 3 years.
-  Design and introduce microinsurance, savings, and investment products within 3 years.
-  Introduce digital financial literacy into the education curriculum for all grade levels within 5 years annually.
-  Enroll 2,000 students in digital financial literacy programs annually.
-  Conduct 50 community workshops annually, reaching at least 500 participants and training 100 local trainers annually.









Strategic Pillar 4 focuses on updating the legislative and regulatory frameworks for banking and finance in Timor-Leste. This includes completing an update to the banking law, which commenced in 2017, and enhancing BCTL's bank supervision framework based on Basel standards. Additionally, a money-laundering and financing of terrorism risk assessment will be conducted as required by international standards. Preliminary work will also be undertaken to explore the future development of a capital market in Timor-Leste. BCTL will take initial steps in this direction by issuing BCTL certificates and conducting preparatory work to enable bond issuance by the government.







KEY ACTIONS

-  Review and update the existing banking law to align with the current state of development in the financial sector, recent Basel standards, and international best practices.
-  Develop detailed guidelines for the implementation of Basel III requirements and IFRS 9 standards and conduct targeted on-site examinations to ensure banks' compliance.
-  Conduct a national ML and TF risk assessment to update the last risk assessment conducted in 2014 and determine the vulnerabilities in Timor-Leste's financial system.
-  Implement Central Bank certificates by developing operational guidelines and system applications to facilitate the trading of the securities.

KEY TARGETS

-  Complete the finalization of the draft banking act review within six months.
-  Conduct public consultation sessions and incorporate feedback within one year.
-  Submit the finalized draft banking act to Parliament for approval within one year.
-  Ensure all banks align their statutory reporting with Basel III and IFRS 9 requirements within three years.
-  Conduct initial targeted on-site examinations within one year.
-  Introduce automated monitoring tools within three years.
-  Engage an independent ML/TF expert within six months and complete the national ML/TF risk assessment and develop the strategic plan to implement the findings within one year.



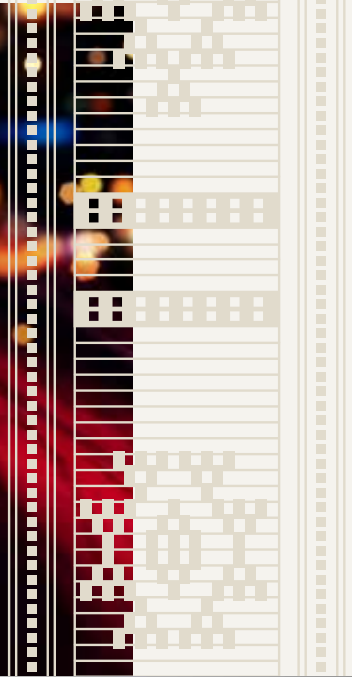
-  Assist the Ministry of Finance in preparations for the issuance of government bonds.
-  Modernize the Central Bank's reserve management capabilities, which include the introduction of automated systems for trading, security registration, and custodian services.
-  Lead the preparatory work for the possible creation of a capital market in Timor-Leste, including conducting a feasibility study.
-  Complete the development of the operational framework for issuing central bank certificates, including system development, and issue the first batch of certificates, within two years.
-  Complete the development and approval of the legal and regulatory framework, establish the operational and technical infrastructure, and issue the first series of government bonds within three years.
-  Establish the Task Force on capital market development within one year and complete the comprehensive feasibility study report within three years.

Implementation

The *Strategic Plan* includes a comprehensive implementation plan that specifies individual projects and initiatives to be sequenced throughout the Plan's 2025-2035 horizon, with targets set for each. Recognizing that several elements of the Plan lie outside of BCTL's direct policy and operational responsibility, such as the legal frameworks for using movable property and land as security in lending transactions, and the internet and telephony infrastructure crucial for modern finance, there is a need for coordination amongst different government agencies.

Additionally, collaboration with financial sector stakeholders, development partners, and professional and educational/training bodies is essential. BCTL will take the lead in coordinating these efforts to ensure a unified approach to achieving the Plan's objectives.

BCTL will also report on the progress of the Strategic Plan annually in its *Annual Report*, ensuring transparency and accountability in the implementation process.

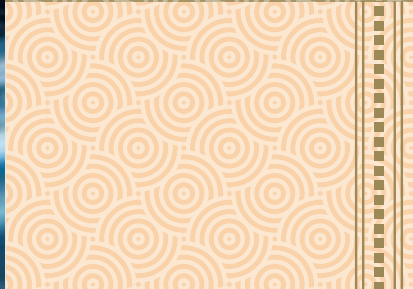
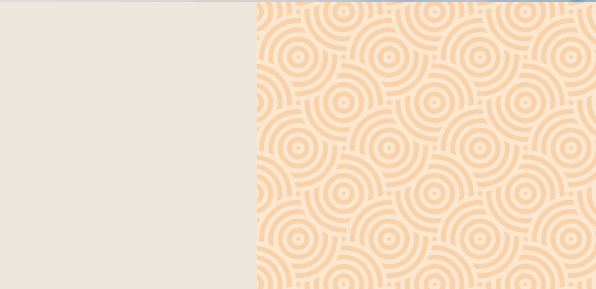
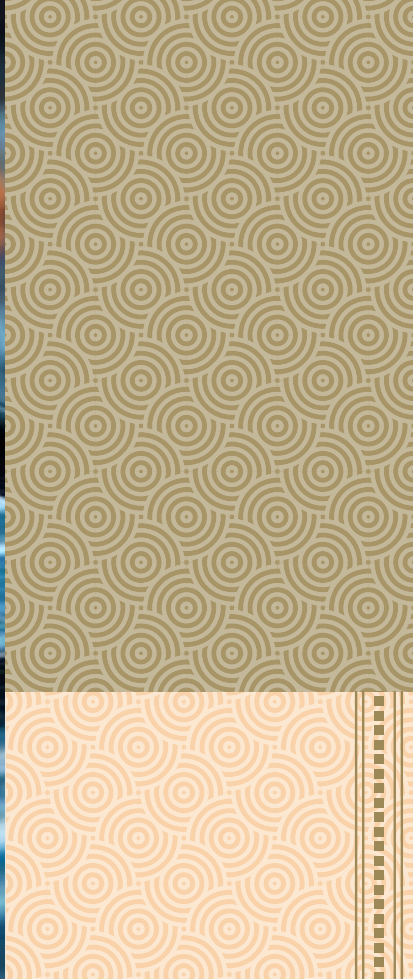




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Economic context

As outlined in the Government's Strategic Development Plan 2011-2030, Timor-Leste aspires to become an upper middle-income country by 2030. To achieve the vision, some key priorities have been identified by the government as areas for development, such as economic diversification and strengthening the private sector.

The nation's economy has historically relied heavily on income from the oil and gas sector, with those revenues having been invested in the Petroleum Fund. This fund provides substantial financing for the government's budget, supporting much of the onshore economic activity within Timor-Leste. The government uses these funds to develop core infrastructure, enhance human capital, and strengthen society.

Timor-Leste currently faces several economic development challenges, including:



- a) **Depletion of oil and gas resources:** The country's primary gas field is nearing depletion, significantly impacting on oil and gas revenues. This creates a pressing need to transition away from reliance on these finite resources.



- b) **A need for economic diversification:** Despite efforts to diversify the economy, Timor-Leste's economy remains heavily dependent on petroleum revenues. Achieving successful diversification is critical for sustainable growth.



- c) **A need for private sector development:** Private sector is still underdeveloped. Hence, continue creating an enabling environment that fosters private sector growth is paramount for achieving economic stability and expansion.



- d) **Institutional capacity constraint:** There are challenges in building and maintaining institutional capacities required for effective governance and economic management.



- e) **A need for sustained returns from the Petroleum Fund:** The Petroleum Fund is now relying for its future sustainability on investment returns, making maintenance and enhancement of returns on its investments crucial.

Timor-Leste's domestic economic activity is dominated by the government and a small number of large firms, with the government and ultimately the petroleum sector serving as the source of much of the income that sustains that activity, either directly or indirectly. By contrast, the level of economic activity and income generation within the MSME sector is very shallow. The majority of Timor-Leste's working age population is engaged either in near subsistence-level economic activity or is unengaged. In this sense, Timor-Leste's economy has a large 'missing middle'.

For the near-term, Petroleum Fund revenue will be pivotal in driving the economy. However, the effectiveness of this fund in fostering economic development over the longer term will depend on:



1. Sustainable Management: Ensuring that the Petroleum Fund is managed prudently to support long-term economic stability and growth, rather than merely providing short-term benefits.



2. Economic Planning: Aligning the Fund's usage with strategic economic planning and diversification efforts, to support sectors beyond oil and gas.



3. Private Sector Engagement: Leveraging Petroleum Fund revenue to stimulate and support private sector growth, which can drive innovation and job creation.



4. Investment in Infrastructure and Human Capital: Utilizing Petroleum Fund revenues to invest in infrastructure and education, which are critical for long-term economic development and productivity.

Addressing the challenges and effectively leveraging Petroleum Fund revenues will be key to achieving sustainable economic growth and development for Timor-Leste.

Timor-Leste has significant potential for broad-based economic growth, particularly in the production and supply of goods and services within the local economy for local consumption.

In most economies, the majority of economic activity involves locals producing a wide range of goods and services for local consumption. However, most economies also possess specific areas of comparative advantage.



The government has identified three key sectors with significant potential to sustain economic development, these being:



1. **Agriculture** – where there is much potential to enhance productivity and value addition, which would improve food security and create employment.



2. **Tourism** – by leveraging Timor-Leste’s cultural and natural assets to develop a sustainable tourism industry that generates revenue and jobs.



3. **Downstream industries in oil and gas** – through developing downstream industries to maximize value from (expected future) offshore oil and gas fields and to create an industrial base.

These sectors are expected to spearhead the country’s economic growth, with that reducing dependency on oil and gas revenues and leading to sustainable economic development overall.

The development of the financial sector plays a crucial role in supporting private sector-led economic growth, making it a key factor in Timor-Leste’s sustainable economic development.

Recent economic developments

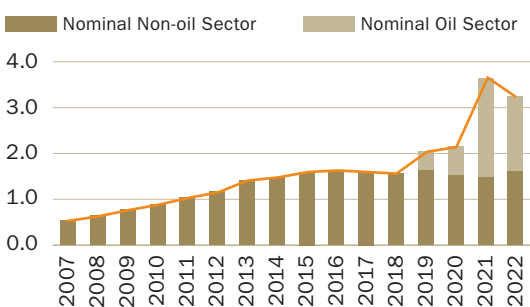
When reviewing the performance of the Timor-Leste economy, the petroleum and non-petroleum sectors are usually considered separately (figure 1), although separate oil GDP data is not available prior to 2019. However, figure 2 shows the government’s revenue from oil and gas as far back as 2006 and highlights the dominance of the oil and gas sector during the decade 2007-2014.

The non-oil component of GDP has also demonstrated remarkable resilience and potential for sustainable growth.

GRAPH 1

Nominal Oil GDP: Total, Oil, and Non-Oil

(in billions of USD)

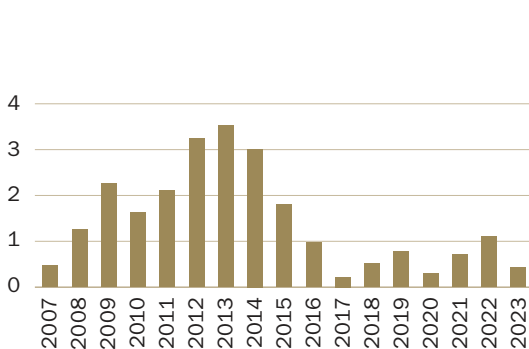


Source: Central Bank of Timor-Leste

GRAPH 2

Oil Revenues

(in billions of USD)



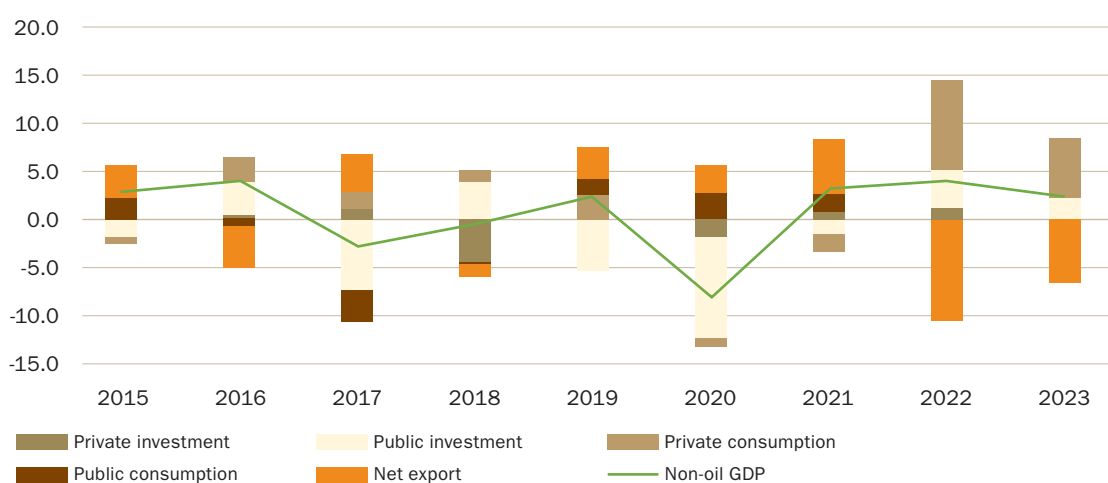
Source: Central Bank of Timor-Leste

The non-oil component of GDP also expanded strongly in 2007, 2008, and 2009, with double digit rates of expansion. This growth was driven by substantial government expenditure aimed at developing infrastructure to support long-term private sector achievement. However, this progress was offset by negative growth in 2017, 2018, and particularly in 2020 when the economy contracted by 8.3 per cent. This contraction resulted from delayed government budget approvals, political uncertainty, and the impact of the COVID-19 pandemic, which undermined the progress made in the preceding years.

Following the pandemic, the government in 2021 significantly increased public expenditure, leading to a rebound in (non-oil) economic growth to 2.9 per cent. In 2022, GDP grew by 4 per cent, driven primarily by a surge in public and private investment, along with increased private consumption. However, growth is estimated to have slowed to 2.3 per cent in 2023, mainly due to low budget execution following the election, highlighting the challenges that still exist in maintaining consistent growth.

GRAPH 3

GDP - Contribution to Growth



Source: BCTL

The government targets economic growth to average 5 per cent per annum over the next five years with, from 2030 onward, the private sector as the primary driver. The financial sector is anticipated to play a key role as an enabler of that development.

As Timor-Leste moves toward ASEAN membership, opportunities to attract more private sector investment are likely to increase, fostering growth. Accession to full ASEAN membership is also expected to enhance Timor-Leste's economic and financial integration with ASEAN member countries, providing a platform for greater regional collaboration and trade.

The financial system – an overview

Banking system

Timor-Leste's financial landscape has expanded to encompass five banks and two licensed ODTIs. As a result, the banking sector has experienced significant growth over the past decade.

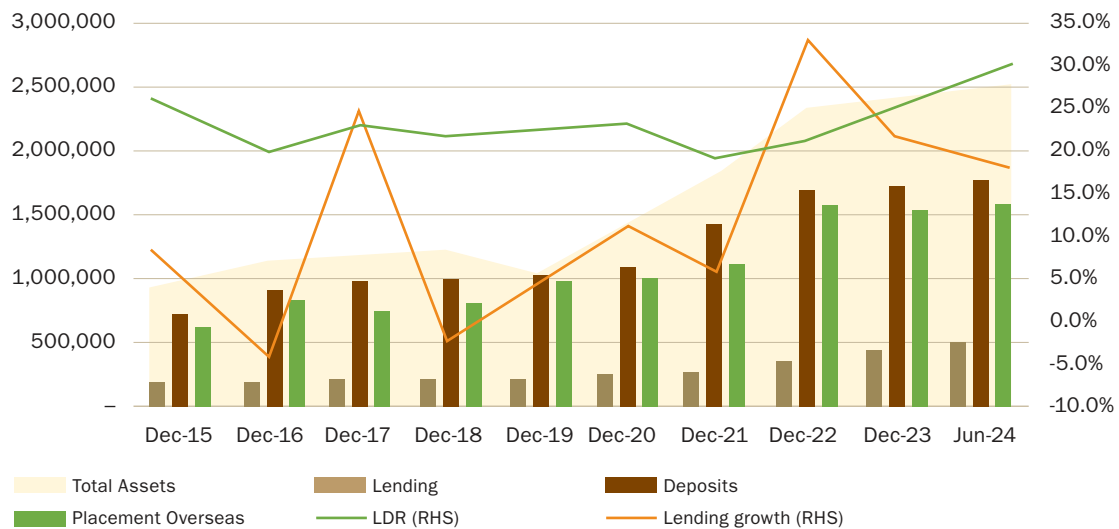
Figure 4 shows development of the banking sector, with the total assets have grown substantially, from \$927.8 million in December 2015 to over \$2.53 billion by June 2024. This growth in assets reflects the increasing accumulation of deposits and the expansion of the banking sector's balance sheet. However, the growth in lending has not kept pace with the expansion in assets, representing only a fraction of the total asset growth. The disparity between asset growth and lending highlights a cautious and risk-averse approach within the banking sector. The consistent rise in deposits without a proportional increase in lending indicates that banks are accumulating funds but are hesitant to deploy them within the domestic economy.

A significant portion of the liquid funds in the banking sector has been placed overseas rather than being invested domestically. This conservative approach limits the potential impact of the banking sector on local economic development, as it constrains the availability of credit for businesses and individuals. The substantial funds placed overseas represent missed opportunities for investment in key sectors within Timor-Leste, which could stimulate economic growth and development. This trend limits the banking sector's contribution to the local economy, suggesting a need for strategic policy interventions to encourage greater lending within Timor-Leste. Such policies will be crucial in ensuring that the growing liquidity in the banking sector translates into meaningful economic development, fostering growth across key sectors of the economy. These initiatives will be further detailed in the next part of the *Strategic Plan*.



GRAPH 4

Banking sector development



Source: BCTL

Lending market

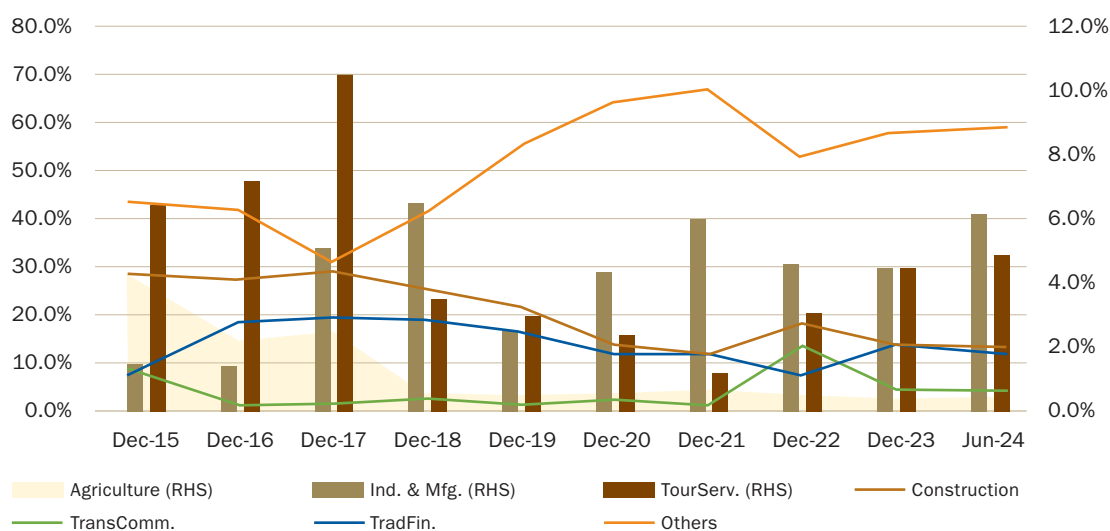
Lending to productive sectors in Timor-Leste has remained low despite significant growth in the banking sector over the past decade, with a notable decline in the agriculture sector from 4.5% in December 2015 to just 0.4% by June 2024. This decline is attributed to the high-risk nature of agricultural investments, challenges in valuing agricultural assets, and competition from imported products. Similarly, lending to the tourism and services sector has fluctuated, reflecting its perceived high risk, while lending to the industrial and manufacturing sector has also been volatile due to market uncertainties and the need for substantial investments in technology, infrastructure, and human capital.

In contrast, lending to individuals has grown substantially, from 43.1% in December 2015 to 59.2% by June 2024, driven by an expansion in retail banking services and increased demand for personal credit. While this suggests greater financial inclusion and the possible emergence of an emerging consumer base, it also raises concerns about sustainability and the potential for increased household debt. Banks must balance this growth with prudent risk management to avoid a rise in non-performing loans.

Targeted interventions and policies, such as agricultural finance, credit guarantee programs, and tailored financial products, are needed to address these challenges and support economic diversification.

Figure 5 shows the distribution of lending by economic sector over the past decade.

FIGURE 5
Distribution of lending by economic sector



Source: BCTL

Other financial institutions

The insurance industry in Timor-Leste is still in its early stages of development, currently consisting of two general insurers and one life insurer. The primary risks covered include credit default (in cases of death or loss of employment), personal accident, travel, and motor vehicle accidents, with limited coverage for fire, civil liability, and engineering risks.

The potential for the insurance industry in Timor-Leste to expand and diversify depends largely on the overall rate of economic development. As the country progresses, both firms and households will acquire more assets that require insurance protection and will have greater income to afford the cost of insurance premiums.

Public capital markets in Timor-Leste are not yet developed, consistent with the current level of economic and financial maturity. In capital markets, borrowers and lenders transact directly without intermediaries, a system that typically emerges only after strong financial institutions and legal frameworks are in place. The operation of capital markets relies on high standards of public financial reporting, as investors must independently evaluate a wide range of investment opportunities, from low-risk government bonds to high-risk speculative investments. Currently, the necessary preconditions for a public capital market in Timor-Leste have not been established.

Nevertheless, Timor-Leste possesses a sizeable pool of investible capital, primarily held by the Petroleum Fund and, since 2017, by the Social Security Fund. The Social Security Fund is a contributory social security scheme for employees and employers, which began in 2017. It provides pensions for old age, disability, and survivors, as well as allowances for maternity, paternity, adoption, and work accidents. As of 2023, there were 146,000 registered worker participants and 4,700 employers in the scheme, with a reserve fund of approximately USD 200 million. This scheme operates alongside non-contributory pension arrangements that offer a basic pension for the elderly and those unable to work.

The Petroleum Fund, established in 2005, has been invested entirely in global capital markets. This approach reflects the need for global diversification due to the Fund's size and the underdevelopment of Timor-Leste's capital market. Currently, the resources of the Social Security Fund are held on term-deposits with banks in Timor-Leste. These funds could potentially be invested in capital market products as the market develops.

Timor-Leste's payments system

Alongside the institutional landscape outlined above, Timor-Leste now has in place a relatively well-developed modern and interoperable electronic payments system for making domestic payments. The main elements are:

The R-TiMOR System

The **R-TiMOR** system, launched in April 2015, is a domestic interbank clearing and settlement system in Timor-Leste. It operates as a hybrid system that processes and settles individual RTGS payments according to real-time gross settlement (RTGS) principles, while also handling the processing, netting, and settling of bulk payment instructions. This system enables real-time electronic payments between individuals, companies, other entities, and government organizations via banks, and with the balances of bulk payments also settled (on a deferred net settlement basis) through the TiMOR system.

At the time of the TiMOR system's launch, all banks operating in Timor-Leste, including the Central Bank, were direct participants in the



TiMOR system. In February 2018, the Ministry of Finance joined as a direct participant, integrating TiMOR with its Government Resources Planning (GRP) system. The Central Bank plays a key role in coordinating and operating the system, focusing on enhancing its efficiency and effectiveness. The implementation of the Direct Processing module, or Straight Through Processing (STP), since 2017, has further ensured secure and efficient execution of payments.

By the end of 2023, all licensed banks and the Ministry of Finance were direct participants, while most autonomous agencies, municipalities, and special funds became indirect participants. The system allows these indirect participants to process payments directly using the GRP system from their workplaces, thereby extending the reach and functionality of the TiMOR system across various governmental and autonomous entities in Timor-Leste.

The National Card and Payments Switch

In March 2017, the Central Bank engaged an international payments provider to implement the P24 National Card and Payment Switch, a retail inter-connection payment system that operates 24/7. Officially launched in December 2018, the P24 system initially integrated the ATMs of Caixa Geral de Depósitos, SA (BNU-Timor) and PT. Bank Mandiri (Persero) Tbk. Over time, other banks such as Banco Nacional de Comércio de Timor-Leste (BNCTL) and PT. Bank Rakyat Indonesia (Persero) Tbk joined, allowing P24 cardholders to conduct transactions at any ATM displaying the P24 logo.

In October 2020, a Tax Payments feature was added to P24 ATMs, enabling cardholders to pay taxes electronically without visiting a bank. Additionally, three authorized e-wallet operators offer electronic wallet services through a cloud-based model. While interoperability across different e-wallet platforms is not yet available, a “mobile switch” feature was completed in 2020 which allows fund transfers between bank accounts and e-wallets.

The P24 system also integrates international payment schemes, including Visa, UnionPay, and Mastercard, enhancing its functionality. BNU Timor has integrated Visa services, while BNCTL and BNU Timor have added UnionPay and Mastercard acquiring capabilities, respectively. BNCTL has also been working on issuing contactless and 3D Secure UnionPay International cards, with these services expected to

be available in the second half of 2024. This integration of international card services further contributes to Timor-Leste's payment system being modern, efficient, and capable of supporting economic growth.

In September 2023, the Central Bank completed the integration of tax payments through point-of-sale (POS) devices, offering an alternative method for taxpayers to pay taxes without visiting a bank ATM. By June 2024, the Central Bank, in collaboration with the Ministry of Finance, launched the payment of Customs duties & taxes through P24 ATMs, which streamlines customs clearance processes, promotes efficient trade activities, and enhances the country's digital economy.

A regional integration project with Indonesia is underway, aiming to link P24 with Indonesia's National Payment Gateway (GPN). Once completed, this will allow seamless transactions between Timor-Leste and Indonesia, paving the way for broader regional integration with ASEAN countries. This initiative is part of the ongoing efforts to modernize Timor-Leste's payments system and support economic development.

Further initiatives are planned to expand the P24 system, including the introduction of advanced financial products such as public transport digitalization, digital loan processing, insurance, and investment platforms. These developments are crucial for keeping Timor-Leste's financial infrastructure aligned with global standards and ensuring continued economic growth.

Assessing the actual progress

The P24 national switch system and fintech services, particularly mobile wallets, have become essential to Timor-Leste's financial infrastructure, demonstrating significant growth and impact.

The P24 system, which facilitates a variety of transactions including cash withdrawal, transfers, and payments, etc. has seen its transaction volume grow from 123,068 transactions valued at \$10.56 million in December 2018 to over 6.34 million transactions worth more than \$550.11 million by 2023. The surge in 2022, with nearly 4 million transactions valued at \$350.08 million, was particularly notable, largely driven by the COVID-19 pandemic, which accelerated the adoption of digital financial services. As of June 2024, the P24 system has already processed over 3.11 million transactions valued at \$279.67 million, indicating its continued growth and importance.



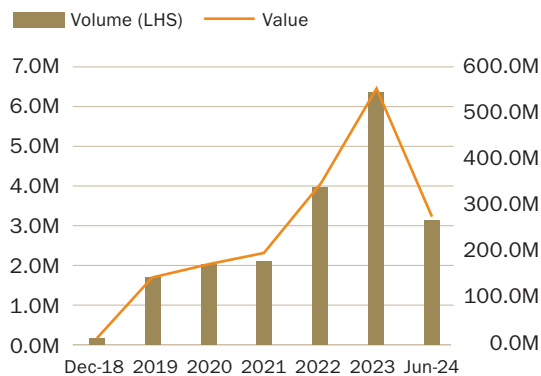
Similarly, fintech services have rapidly gained traction. Starting with just 10,693 transactions valued at \$64,682 in December 2018, mobile wallets reached 9.83 million transactions worth \$88.23 million by 2023. The COVID-19 pandemic also played a significant role in this growth, as seen in the leap to 6.92 million transactions valued at \$66.09 million by 2021. By June 2024, mobile wallets had processed over 2.57 million transactions valued at \$18.33 million, showing sustained use and impact.

These figures highlight the widespread adoption and benefits of digital financial services in Timor-Leste, particularly during challenging times like the pandemic. The growth in transaction volumes across both the P24 system and mobile wallets underscores their critical role in enhancing financial inclusion, providing convenient and accessible financial services, and supporting economic resilience. As these digital platforms continue to expand, they will play a pivotal role in the modernization of Timor-Leste’s financial sector, aligning with the strategic objectives of the forthcoming Strategic Plan.

Figures 6 and 7 below show the indicators of trends in payment volumes, and values, across the P24 and Fintech operations.

FIGURE 6

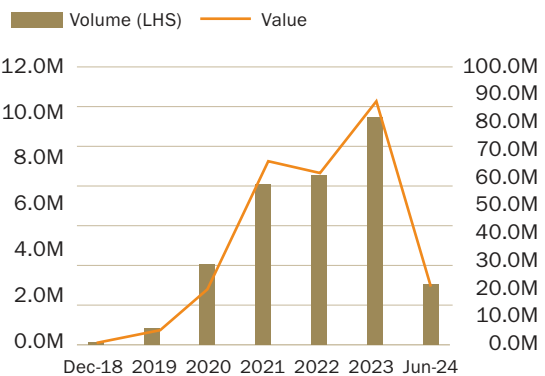
P24 Operation



Source: BCTL

FIGURE 7

Fintech Operations



Financial inclusion and literacy

Over the past decade, Timor-Leste has made remarkable progress in advancing financial inclusion, a goal championed by BCTL. Recognizing the pivotal role that financial inclusion plays in economic development, BCTL has placed this objective at the core of its mission. By facilitating access to regulated financial services, financial inclusion is expected to empower individuals and households to manage their finances more effectively, save for future needs, invest in income-generating activities, access credit for education and business ventures, and protect themselves against unforeseen financial shocks. These capabilities will collectively contribute to improving the standard of living for many while also fostering a more resilient and inclusive economy.

These efforts are also instrumental in supporting businesses, particularly by increasing access to capital, which enables them to grow, create jobs, and enhance efficiency. Furthermore, the focus on financial inclusion will help bridge the gap for marginalized groups, promoting more equitable and sustainable economic growth across the country.

The progress in financial inclusion over the past decade in Timor-Leste underscores the effectiveness of BCTL's strategic focus and commitment. While significant strides have been made, the focus must now shift to closing the remaining gaps, particularly in reaching the most remote areas like Aldeia and continuing to promote gender equality in financial service usage. These ongoing efforts will be critical in achieving the ambitious goals set out in the Strategic Plan for Financial Sector Development 2025-2035, as Timor-Leste continues its journey toward a more inclusive and prosperous future.

Access to financial services

Graph 8 illustrates the expansion of financial services access points in Timor-Leste from 2009 to 2022 across municipalities, administrative posts, and villages (sucos). By 2022, financial services had achieved 100% coverage in all 14 municipalities, a consistent achievement since 2009. Similarly, access in administrative posts has steadily improved, reaching 100% coverage (67 out of 67) in 2020 and maintaining this level in 2022.

The most significant progress has been observed in sucos, where coverage increased dramatically from 60% (265 out of 442 sucos) in 2009 to 94% (423 out of 452 sucos) by 2022. This improvement






highlights successful efforts to extend financial services to even the most remote areas of the country.

The overall expansion of access points reflects BCTL’s commitment to enhancing financial inclusion and ensuring that all regions, especially rural areas, have access to essential financial services. This increased accessibility supports broader economic participation, enabling individuals and businesses in all areas to engage with the formal financial system, thereby promoting economic growth and resilience across the nation. The goal moving forward will be to achieve full coverage at the suco level, further integrating remote communities into the financial system.

GRAPH 8

Financial services access points coverage

	2009	2013	2016	2018	2020	2022
 MUNICIPALITIES*	100% 13 out of 13 have access points covered since 2009					100% all 14 covered
 ADMINISTRATIVE POSTS**	86% 56 out of 65 covered	92% 60 out of 65 covered	88% 57 out of 65 covered	94% 61 out of 65 covered	100% all 65 covered	100% all 65 covered
 SUCOS***	60% 265 out of 442 covered	63% 278 out of 442 covered	58% 255 out of 442 covered	57% 256 out of 442 covered	84% 379 out of 442 covered	94% 423 out of 442 covered

* Atauro became Municipality in Jan. 2022
 ** 2 new Post Administratives were also created in Jan. 2022
 *** 10 new Sucos were created between 2016 & 2018.

Source: BCTL’s 2022 Financial Inclusion Report

Usage of financial services

Graph 9 provides insights into the usage of financial services by the adult population in Timor-Leste in 2022, highlighting both overall trends and gender differences. In 2022, 64% of the total adult population utilized banking services, 6% accessed services through ODTIs, and 22% used e-wallets.








Gender analysis reveals that women are generally more engaged with traditional financial services than men. Specifically, 65% of women used banking services compared to 62% of men, and 10% of women accessed ODTIs compared to only 2% of men. However, men showed

a higher engagement with e-wallet services, with 27% of males using these platforms compared to 18% of females. This suggests a gender gap where men are more inclined to adopt digital financial services like e-wallets, while women prefer more traditional banking and ODTI services.

The data indicates that financial inclusion efforts in Timor-Leste have been effective in increasing overall engagement with financial services, but there are distinct gender preferences that should be considered in future strategies. The focus should be on bridging the digital gender gap and encouraging broader adoption of e-wallets among women, while continuing to expand access to traditional banking services.

GRAPH 9

Financial services access points coverage

	 Banks	 ODTIs	 E-wallets
 Total Adult Population	64%	6%	22%
 Female	65%	10%	18%
 Male	62%	2%	27%
 Gender Gap*	3%	8%	-9%

* Female rates minus male rates

Source: BCTL's 2022 Financial Inclusion Report

Graph 10 shows bank client distribution in Timor-Leste by gender and age group, highlighting trends in financial inclusion. Older adults, particularly those 65 and above, have nearly universal banking engagement, with 100% coverage in this group.

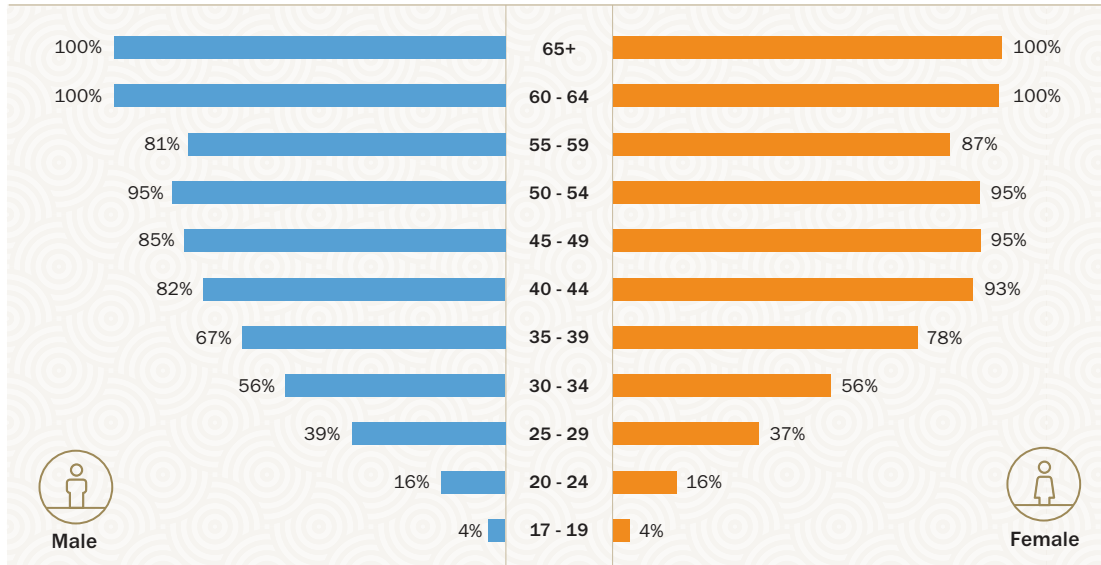
In middle age groups, there is a slight decline in bank clients, with women generally more engaged than men. For example, in the 45-49 age group, 82% of males and 99% of females are bank clients.

These reveal gender disparities, particularly in middle and younger age groups, indicating a need for targeted efforts to engage younger populations and address gender gaps in banking access.

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GRAPH 10

Adult population using financial services in 2022



Source: BCTL's 2022 Financial Inclusion Report

Financial literacy programs

BCTL and its stakeholders have continued to implement and expand financial literacy programs. BCTL signed a Memorandum of Understanding (MoU) with the Ministry of Education, Youth, and Sports (MEJD) to develop a Financial Literacy module for elementary education, train teachers, and potentially integrate the module into the national curriculum. Another MoU was established with the Federação Cooperativa de Credito Hanai Malu (FCCHM), a credit union federation, to provide financial literacy training to selected FCCHM members, focusing on enhancing knowledge for managing personal and micro/small business finances.

Additionally, BCTL has collaborated with the Instituto Nacional de Formação de Professores e Profissionais de Educação de Timor-Leste (INFORDEPE), Instituto de Apoio ao Desenvolvimento Empresarial (IADE), and the Timor-Leste Chamber of Commerce and Industry (CCI-TL) on various financial literacy and training initiatives. Another significant effort is the Há'u-Nia Futuru savings program, designed for children up to 17 years old, with the primary goal of promoting formal financial inclusion for children and their families.

Digital Village Program

The Central Bank, in collaboration with the commercial banks and fintech companies, launched a national Digital Village Program in late 2020 targeting the promotion of digital financial services in rural communities. This initiative aims to accelerate the adoption of digital financial transactions among rural populations, introducing them to the conveniences and efficiencies of modern banking and payment systems. The program has been met with considerable enthusiasm from the community, reflecting a positive reception towards digital innovations.

Through educational campaigns and hands-on workshops, the program educates residents on how to securely manage online transactions, save, and invest using digital platforms. By facilitating access to digital financial tools, the program is expected to enhance economic activities in rural areas by reducing transaction costs, improving access to financial products, and increasing financial inclusion. In the medium to long term, the Digital Village Program is anticipated to yield substantial benefits for the rural communities, such as greater economic opportunities, improved financial literacy, and broader social inclusion. This initiative marks a significant step towards bridging the digital divide and fostering sustainable economic development in Timor-Leste's more remote areas.





Enabling Financing for Development



Promoting a Modern Payments Landscape



Enhancing Access to Finance



Modernization of the Financial Sector



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A Blueprint for the Next Decade

This part presents a strategic vision for advancing Timor-Leste's financial sector over the next decade, with a strong emphasis on inclusivity and empowerment. Structured around four key pillars, the blueprint ensures that all citizens, regardless of their background, have access to the financial tools and opportunities necessary to succeed. The first pillar, "Enabling Financing for Development," focuses on creating a robust financial ecosystem that can effectively mobilize resources, drive inclusive economic growth and empower marginalized communities. The second pillar, "Promoting a Modern Payments Landscape," is dedicated to developing a secure and efficient payments infrastructure that supports the digital economy and makes financial services accessible to everyone, fostering empowerment through technology. The third pillar, "Enhancing Access to Finance," aims to remove barriers to financial services, particularly for underserved populations, by expanding access to credit, savings, and investment opportunities. This pillar highlights the critical role of financial inclusivity in empowering individuals and businesses to fully engage in the economy. Finally, the fourth pillar, "Modernizing Legislative Frameworks for the Financial Sector," seeks to update and strengthen the regulatory environment, ensuring it supports innovation while maintaining stability and protecting consumers. By fostering a transparent and accountable financial system, this initiative empowers citizens and businesses alike, laying the foundation for a resilient and inclusive financial sector that will be central to Timor-Leste's broader economic development goals.







STRATEGIC PILLAR 1:

Enabling Financing for Development





Specialized funds to support development

The informal sector, which encompasses a diverse range of small and micro enterprises, faces multiple barriers to accessing finance from traditional banks. These barriers include lack of formal documentation, insufficient collateral, low financial literacy, perceived high costs of finance and complexity of loan application processes, and banks' risk aversion towards small-scale operations. These challenges necessitate the creation of specialized funds to provide targeted financial support and bridge the gap until these businesses can transition to the formal economy and access traditional banking services.

A significant portion of these informal enterprises is owned and operated by women, particularly in rural areas. Empowering these women is essential for fostering inclusive economic growth and ensuring equitable access to financial resources. Targeted support for women in rural areas can help overcome the unique challenges they face, such as limited geographic mobility, lower levels of education, and additional cultural barriers.

Although the government has introduced a credit guarantee scheme to mitigate risks and encourage lending, banks remain reluctant to use the facility. To address this, the specialized funds should include tailored financial products and services, including designed specifically for women entrepreneurs in rural areas. This could involve simplified loan processes, flexible collateral requirements, and financial literacy programs aimed at building their capacity to manage and grow their businesses.

Contributions to the funds may come from the Government, development partners, and financial institutions.

Support for informal economic agents in the productive sector

This specialized fund is designed to provide financial support to informal economic agents, particularly those engaged in the productive economic sector, with a strong focus on empowering women. The scope may also include funds for emergency support, as needed. The fund's primary focus is on supporting and enhancing the productivity and sustainability of key areas such as agriculture, small home industries, tourism-related businesses in key tourist destinations, and other relevant sectors.



STRATEGIC PILLAR 1:

Enabling Financing for Development

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of key areas such as agriculture, small home industries, tourism-related. By targeting informal sectors, the fund aims to promote economic activities in rural areas, formalize their operations within a predetermined timeframe, improve their market access, and boost their overall economic contribution.

More specific elements of this proposal include:

- a). Conducting a comprehensive needs assessment to identify the financial and technical requirements of informal agricultural producers, with a particular emphasis on the needs of women. Based on these findings, funds will be allocated, prioritizing high-impact areas and crops with significant growth potential. This financing will be co-partnered between the Government, interested financial institutions, and development partners.
- b). Delivery of capacity building and technical assistance, which are crucial components of this strategy covering modern agricultural practices, product development, marketing for home industries, customer service excellence, sustainable tourism practices, etc. Core training may include financial planning, investment, and risk management, with specific programs designed to empower women entrepreneurs.
- c). Development of microfinance products tailored to the needs of informal economic agents, including low-interest loans, grants, and revolving credit facilities, with a focus on accessibility for women-owned businesses.
- d). Encouragement of saving by informal businesses to help build a financial buffer, and of various risk mitigation measures.
- e). Financing support for agricultural development including provision of access to improved seeds, fertilizers, and farming equipment to boost productivity, with a particular focus on women farmers.
- f). Promotion of rural enterprises involved with supporting the establishment and growth of agro-processing units, crafts, and tourism-related businesses, with an emphasis on empowering women in these sectors.



- g). Development and strengthening of market linkages and associated infrastructure development. Access to markets will be facilitated through cooperative formations and partnerships, establishing connections with buyers, cooperatives, and agribusinesses, and the securing of better prices. Mobile technology will be utilized to provide real-time data on prices, demand, and other information, with targeted initiatives to ensure women benefit from these advancements.
- h). Investment in essential infrastructure, including storage facilities, irrigation systems, and transportation networks, which will further support the growth and sustainability of informal economic agents in the productive sector, with particular attention to the needs of women entrepreneurs.

TARGETS:

1. 50% of the identified informal agricultural producers and other micro/informal businesses to become formalized within five years; with the specific goal of 50% of those including women-owned businesses.
2. Achieve expanded market access for at least 50% of those agricultural producers and other micro/informal businesses, ensuring at least half of them are women.
3. Establishment of and/or provision of support for 200 agricultural cooperatives and/or farmer associations over ten years, with a focus on women's participation and leadership.

Promote and expand micro-retailer businesses as financial institution agents

This fund aims to support the establishment and expansion of micro-retailer businesses, transforming them into agents for financial institutions integrated with the P24 payment system network. By leveraging the extensive network of micro-retailers, the fund seeks to enhance financial inclusion, especially in underserved rural and peri-urban areas. These micro-retailer businesses will provide a range of financial services, including banking, insurance, and remittances, with a strong focus on empowering women entrepreneurs. More specific elements of this proposal include:

- a). Development and delivery of training and certification programs for micro-retailer owners, with specific initiatives to encourage and support women. These programs will cover financial services, compliance, and customer service. Upon successful completion of training, these micro-retailer businesses will be certified as official agents for various financial institutions.
- b). Provision of financial and technical support to aspiring micro-retailer entrepreneurs, prioritizing women, through start-up grants and low-interest loans. Ongoing technical support will ensure the efficient and secure delivery of financial services.
- c). Equipping micro-retailer businesses with the necessary technology, such as point-of-sale (POS) systems, QR codes, and mobile banking applications. Robust cybersecurity measures will be put in place to protect transactions and customer data, with additional support for women-led businesses to ensure their success.
- d). Promotion of partnerships among financial institutions to expand the range of services offered through micro-retailer businesses. Favorable terms will be negotiated to ensure the profitability and sustainability of these micro-retailers, with a particular focus on creating opportunities for women entrepreneurs.

TARGETS:

1. Establish at least 1,000 micro-retailer businesses as financial service agents within five years, ensuring a significant percentage are women-owned businesses.
2. Increase financial inclusion in target areas by 95% over ten years, with a specific focus on women in these communities.
3. Facilitate at least 250,000 financial transactions through micro-retailer agents annually, with efforts to track and increase the participation of women in these transactions.

Supporting training for farmers and business management

The fund dedicated to supporting training for farmers and informal small business owners aims to enhance their technical skills, financial literacy, and business management capabilities, with a strong emphasis on empowering women. By improving their knowledge and skills, this initiative seeks to foster sustainable economic growth and development.



It will include:

- a). Development of training facilities and resources featuring tailored curricula that cover agricultural best practices, financial management, marketing, and entrepreneurship, with specific modules designed to address the unique challenges faced by women. This approach will extend to other sectors covered under the scheme. Training centers will be equipped with appropriate facilities and resources in strategic locations, with an emphasis on accessibility for women. Partnerships with local educational institutions, civil society, and industry experts will ensure the delivery of high-quality training programs.
- b). Establishment of a monitoring and evaluation framework to assess the impact of the training programs, with a focus on the progress of women participants. Feedback from participants will be used to continually improve the training content and delivery methods, ensuring they meet the specific needs of women farmers and entrepreneurs.

TARGETS:

1. Train 10,000 farmers and small business owners within ten years, with a target that at least 50% of the trainees are women.
2. Improvement in the business management practices of the participating entrepreneurs within five years, with a particular focus on enhancing the skills and capabilities of women participants.

Credit Guarantees for MSMEs

In 2019, the government introduced a scheme aimed at providing credit guarantees for Micro, Small, and Medium-size Enterprises (MSMEs) to reduce the risk for lenders and increase access to credit for small and micro businesses. However, despite the potential benefits, banks showed little interest in participating in the scheme, with only one bank initially taking part. This bank eventually ceased its involvement, highlighting the challenges in implementing such initiatives.





By addressing the barriers to credit access, the scheme seeks to empower entrepreneurs, particularly women, who face additional hurdles in securing financing. Under this Strategic Plan:

- a). A revised MSME credit guarantee scheme will be developed and implemented, with enhanced incentives to encourage broader participation from financial institutions. This revised scheme will focus on making credit more accessible to women-owned MSMEs, addressing the unique challenges they face.
- b). The government will increase the amount available for the guarantee program. This financial backing will ensure the sustainability and effectiveness of the credit guarantee system, with a dedicated portion aimed at supporting women entrepreneurs.
- c). Awareness campaigns will be conducted to inform MSMEs and financial institutions about the availability and benefits of credit guarantees. These campaigns will specifically target women entrepreneurs to increase their uptake of credit guarantee programs.
- d). Training will be provided for financial institutions on utilizing credit guarantees, to expand their lending portfolios. This training will include modules on addressing the specific needs of women-owned MSMEs, equipping lenders with the knowledge and skills to effectively implement and benefit from credit guarantee programs.
- e). A monitoring and evaluation framework will be established to assess the impact and effectiveness of credit guarantee programs. Regular evaluation will include specific metrics on the participation and success of women-owned businesses and feedback from MSMEs and financial institutions will be obtained to improve program design and implementation. Continuous improvement based on stakeholder feedback will enhance the relevance and impact of the credit guarantee initiatives.

TARGETS:

1. Government to increase the guarantee fund up to \$50 million within five years.
2. Guarantee cover of \$70 million in MSME loans to be provided within ten years, ensuring that a significant portion of the guaranteed loans are to women-owned businesses.



3. Reach 1,000 MSMEs through awareness campaigns within three years, with specific efforts to target women entrepreneurs.
4. Increase the number of MSMEs accessing credit guarantees by 30% within three years, with a focus on supporting women-owned MSMEs.
5. Conduct annual evaluations of the credit guarantee program, including assessments of its impact on women entrepreneurs.

Financing for housing development

This initiative to promote a financing mechanism for housing development aims to provide accessible and affordable financing solutions to improve living conditions and stimulate economic development in. By establishing a structured mortgage system, this initiative will seek to increase homeownership, enhance property values, and promote financial inclusion in Timor-Leste.

A critical component of this effort is resolving land title and registration issues to ensure the security and attractiveness of mortgages for both borrowers and lenders. More specifically:

- a). Mortgage products will be developed, featuring flexible terms, lower down-payment requirements, and affordable interest rates. Micro-mortgages will be introduced for small, incremental housing improvements and new construction, catering specifically to the financial capacities of populations.
- b). The legal and regulatory framework to support housing finance will be enhanced. Property rights and land registration systems will be strengthened to provide clear titles and reduce legal uncertainties. Regulations governing mortgage lending practices will be established to ensure transparency, consumer protection, and assist risk management.



- c). The process of obtaining and verifying land title to formalize land ownership will be simplified and expedited, ensuring security of tenure for homeowners. Additionally, a digital land registry system will be finalized to improve access to accurate and up-to-date land ownership information.

There will be steps to partner with banks, ODTIs, finance companies, and cooperatives to offer mortgage financing to households. Government-backed mortgage guarantee programs and insurance products may be created to reduce the risk for lenders, encouraging them to extend credit to borrowers.

TARGETS:

1. Facilitate the creation of a minimum of 5,000 new housing units through mortgage financing within five years.
2. An increase in homeownership rates in over the next decade.
3. Development of partnerships with at least 10 financial institutions to offer mortgage products.
4. Resolution of land title and registration issues to provide clear and secure land ownership.

Transforming financial sector growth through strategic partnerships and international investment

This Strategic Plan aspires to build a robust, inclusive, and dynamic financial landscape through the strategic use of public-private partnerships (PPP) and foreign direct investment (FDI) incentives.

These initiatives will be crafted to attract investment, distribute risks, and boost the efficiency and effectiveness of development projects. By focusing on sectors such as agriculture, small home industries, rural housing, and tourism-related businesses, the plan aims to foster economic growth and drive technological advancement. Attention will be given to:



- a). Identifying potential projects through feasibility studies, focusing on areas where PPPs and FDIs can be most effective, such as agriculture, housing, small industry, housing microfinance, service delivery, etc. Projects that align with the strategic goals of enhancing financial inclusion and supporting informal economic agents will be prioritized.
- b). Establishing clear legal and regulatory frameworks to ensure transparency, accountability, and fair risk-sharing.
- c). Developing incentives and support mechanisms, such as tax breaks, grants, and co-financing arrangements to attract private investment.

TARGETS:

1. 1. Initiate 5 projects within the first five years, focusing on high-impact areas such as agriculture, small industries, housing etc.
2. Attract at least \$200 million private investment in the financial sector over ten years.
3. Achieve a significant increase in job creation and economic activity in rural and underserved areas.

Secured lending reform

Development of possibilities for secured lending is a critical component of the strategy for financial sector development and improving access to credit. The availability of mechanisms by which borrowers can offer effective security in support of their applications to borrow is crucial for expanding access to credit. This initiative aims to strengthen the legal and regulatory framework for secured lending, ensuring borrowers can offer and, if necessary, lenders can reliably enforce their security. This reduces risk for lenders and enables more credit to MSMEs, which in most cases struggle to secure financing.

Initially developed with assistance from the Asian Development Bank in 2015, the reform focused on developing a comprehensive secured transactions law as a necessary and prior condition for establishing a collateral registry. Once established, this registry would allow lenders to record security interests in movable assets, providing transparency and legal certainty. The International Finance Corporation (IFC) later supported refining the legal framework.

Despite progress, it is essential to complete the secured lending reforms by passing the law, finalizing regulatory details, and fully establishing the collateral registry. Completing this initiative will strengthen the financial infrastructure, promote lending, and support sustainable economic growth.

Enabling the use of movable property as security

This project focuses on establishing and operationalizing a system for using movable property as security for loans, along with the associated arrangements for registering, releasing, and, where necessary, enforcing that security. These arrangements require a combination of legal and operational elements, tailored to fit within Timor-Leste's legal framework. Both lenders and borrowers need to develop working familiarity with secured lending and borrowing practices, particularly where such familiarity is currently lacking. Steps to be taken to complete this project are to:

- a). Finalize and submit the draft law to the National Parliament. This legislation will provide the legal foundation for the registry and the operational processes involved.
- b). Begin the infrastructure development which includes both physical and digital infrastructure for the collateral registry.
- c). Develop the standard operating procedures (SOPs) for processing registrations, releases, and enforcement of security interests.
- d). Design and implement training and capacity building programs for financial institution staff and businesses.

TARGET:

1. Enact the new law within one year.
2. Complete the development of the collateral registry and fully operationalize within two years.

Land as security

Land is generally the most reliable form of security due to its immovability. Unlike movable property, which can be difficult to locate or may no longer be owned by the borrower if security enforcement is required, land remains in a fixed location and usually cannot be sold without the mortgage being released. However, effective use of land as security requires certainty of legal title, which is currently lacking for significant portions of land in Timor-Leste.



Although most land boundaries have been established by cadastral survey, many plots have multiple or disputed titles from previous administrations or indigenous claims. Conversely, much rural land is not disputed and awaits the necessary administrative arrangements for issuing certificates of title, allowing it to be used as mortgage collateral. To enable this to happen requires:

- a). Completion of the administrative arrangements needed for land to be used as mortgage security in lending/borrowing transactions. These arrangements broadly parallel those needed for security interests in moveable assets to be registered, and released, or enforced. Such arrangements, comprising part of the nation's legal framework, normally are housed in the Ministry of Justice (or Commerce Ministry).
- b) Completion of development of the legal framework and administrative arrangements needed to support the use of land as mortgage collateral.

TARGET:

1. By the end of 2027, establish and operate the registry facilities that enable the effective use of land by borrowers and lenders in support of borrowing and lending.
2. Issue land certificates of title progressively as disputed titles are resolved.

Business record-keeping and financial accounting

Finance is essentially an information processing industry. One of the core functions of banks and Other Deposit-Taking Institutions (ODTIs) is to evaluate the ability of borrowers to generate the income needed to service their loans. This requires borrowers to provide lenders with financial information that evidences their business and financial track record and prospects. For businesses seeking credit, this means maintaining appropriate business records and providing financial information in support of their credit applications.

The extent of information required varies depending on the amount of credit sought. For micro and small businesses, a reliable record of cash flow might be sufficient; for larger loans to larger firms, financial statements prepared in accordance with recognized accounting standards (and for large firms, with those audited) are typically required.

Currently, the maintenance of business records and preparation of accounting information is not well-established in Timor-Leste, with that impeding firms of all sizes from obtaining access to credit. This lack of record-keeping raises the risk and cost of the available credit. To address these matters, the following is planned:

- a). Engagement with relevant financial, commercial, government, and educational bodies to establish the steps needed to embed the development of, and training in, business record-keeping and accounting practices in Timor-Leste.
- b). Establishment of a professional body to oversee the development of the accounting profession in Timor-Leste, including to manage relationships with similar bodies in ASEAN and other regional neighbors.
- c). Collaboration with stakeholders to develop and implement business record-keeping and accounting standards that are fit for purpose in Timor-Leste and supportive of credit application processes.
- d). Development of comprehensive training programs in business record-keeping and financial accounting at senior high school, technical, and university levels.

TARGETS:

1. Enact accounting standard law within two years.
2. Establish the accounting professional body within two years.



3. Complete the development of business record-keeping and accounting practices in Timor-Leste within three years.
4. Complete the design of training manuals within three years.

Upgrade of credit registry

Timor-Leste's current credit reporting registry, housed within the BCTL, plays a critical role in enabling lenders to report credit defaults and assess credit applications based on the applicant's credit history. The registry is fully operational and actively used by financial institutions. However, there is room for improvement to further strengthen the registry's effectiveness and usability.

The proposed enhancements aim to expand the scope of the registry to include both positive and negative credit reporting. This expansion will enable borrowers who consistently meet their debt repayment obligations to build a positive credit history, potentially improving their access to credit in the future. Additionally, the review will consider broadening the definition of a credit event to include not only the credit performance of the primary counterparty but also the performance of guarantors, thereby providing a more comprehensive view of creditworthiness. These measures include:

- a). Expand credit reporting scope to include both positive and negative credit reporting to allow borrowers to establish a positive credit history.
- b). Assess the inclusion of guarantor performance in the definition of a credit event, in addition to the primary counterparty's performance.
- c). Develop and integrate necessary system enhancements to support the expanded reporting scope and revised credit event definitions.

TARGET:

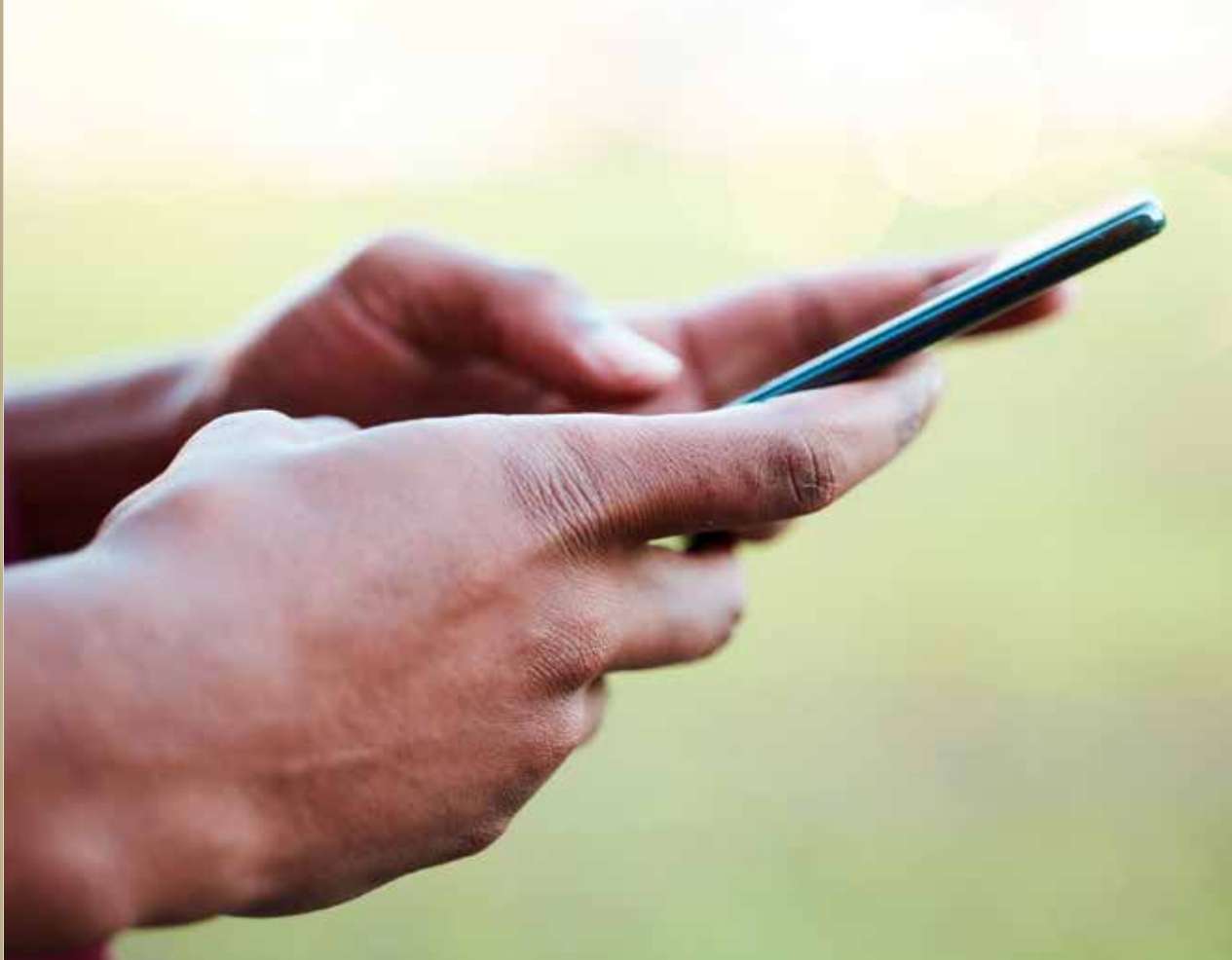
1. Achieve the integration of both positive and negative credit reporting within the credit registry within one year.
2. Complete the assessment of including guarantor performance in the definition of a credit event within one year.
3. Develop and fully integrate the necessary system enhancements to support the expanded reporting scope and revised credit event definitions and ensuring full operational capability within three years.





STRATEGIC PILLAR 2:

Promoting Modern Payments System Landscape





Promoting instant payments system

Promotion of instant payments system is essential for enhancing the efficiency of financial services. This initiative aims to develop the necessary infrastructure and encourage the adoption of instant payment solutions across key financial institutions. Steps to be taken include:

- a). Encouraging key financial institutions to invest in real-time payment infrastructure or platforms that facilitate instant money transfers and payments.
- b). Ensuring interoperability between different financial institutions and payment service providers by connecting to the P24 system, enabling seamless transactions across various platforms.
- c). Encouraging the adoption of instant payments among businesses, government ministries and agencies, and consumers through incentives and awareness campaigns.
- d). Seeking collaboration with banks and fintech companies to integrate instant payments into their service offerings, making real-time transactions a standard part of financial services.

TARGETS:

1. Urging banks and other financial institutions to introduce real-time payment platforms within five years.
2. Achieve 80% adoption of instant payments among businesses within five years.
3. Ensure 90% interoperability amongst financial institutions and payment service providers within five years.



Develop shared digital infrastructure

Developing shared digital infrastructure is vital for supporting secure and efficient financial transactions. This initiative focuses on creating centralized infrastructure that can be used by various financial institutions and service providers, including the integration and enhancement of existing national retail payment systems. This initiative aims to ensure interoperability of payment gateways introduced by banks and fintech companies, to increase transaction efficiency, and enhance financial inclusion. Specifically, the plan is to:

- a) Upgrade and modernize the P24 retail payment system to support a wider range of digital transactions and ensure real-time processing capabilities. Compatibility with emerging payment technologies and standards will be ensured to future-proof the system.
- b) Integrate the P24 payment system into the regional switch system within ASEAN member countries.
- c) Encourage banks and fintech companies to develop and introduce their own payment gateways.
- d) Facilitate partnerships between banks and fintech companies to promote interoperability and seamless integration of different payment systems.
- e) Provide regulatory support and guidelines/protocols to ensure secure and standardized payment gateway operations. Standardized protocols will be developed and implemented.
- f) Encourage investment in state-of-the-art data centers to support the storage and processing of financial data. The use of cloud computing and data analytics will be promoted to enhance the efficiency and security of financial services.
- g) Promote and conduct awareness campaigns to educate businesses and consumers about the benefits and functionalities of digital financial services.
- h) Offer incentives to encourage businesses to adopt and integrate the national retail payment system into their operations.

TARGETS:

1. Upgrade the P24 retail payment system to support real-time processing and a wider range of transactions within three years.
2. Integrate the P24 payment system with Indonesian switch system within two years.
3. Achieve a 75% increase in the usage of the P24 retail payment system by businesses within five years.
4. Construct at least two state-of-the-art data centers within ten years.

Fintech innovation support

Supporting fintech innovation is essential for driving financial inclusion, enhancing customer experiences, and fostering a dynamic financial ecosystem. The program also aims to create a thriving fintech ecosystem, fostering innovation and collaboration, and driving the development of cutting-edge financial technologies that enhance financial inclusion and economic growth. Elements of the overall program to support fintech innovation will include:

- a). Allocation of seed funding for promising fintech solutions that address specific financial inclusion challenges or enhance the payments landscape.
- b). Consideration of incentive programs, such as tax breaks and subsidies, for fintech companies that demonstrate significant impact on the financial sector.
- c). Establishing partnerships between fintech companies and academic institutions to foster research and development of new financial products and technologies.
- d). Establishing fintech hubs to bring together startups, financial institutions, investors, and regulators for collaboration and networking. Events such as hackathons, workshops, and conferences will be organized to promote knowledge sharing and innovation in the fintech sector.



- e). Developing regulatory-friendly frameworks for the fintech industry, including simplified licensing processes to accommodate new fintech business models and technologies. Public-private partnerships will be encouraged to leverage the strengths of both sectors in supporting fintech innovation.
- f). Funding and resources may be provided for collaborative projects that aim to address financial inclusion and enhance the digital payments ecosystem.

TARGETS:

1. Allocate at least \$5 million to support innovation in fintech industry within ten years.
2. Review and develop regulatory requirements and streamline licensing processes within three years.
3. Organize at least 2 fintech-related events annually, including hackathons, workshops, and conferences.

Implementation of eCentavos

The implementation of eCentavos aims to modernize the financial system, enhance payment efficiency, and promote financial inclusion. By introducing eCentavos, the initiative would seek to provide an inclusive, secure, efficient, and accessible digital centavos for all citizens. Planned steps are to:

- a) Conduct a comprehensive feasibility study and research on the potential benefits, challenges, and implications of implementing eCentavos. This phase will gather insights from various stakeholders, including lessons learned from other central banks, analyze existing technologies, and evaluate the economic, social, and technical aspects of eCentavos.
- b) Conduct pilot testing in a controlled environment with careful monitoring and evaluation against predefined key performance indicators. This controlled approach ensures that all aspects of the eCentavos are tested comprehensively.
- c) Undertake full-scale implementation of eCentavos. This will involve a comprehensive rollout strategy to ensure smooth implementation of the eCentavos.

- d) Coordinate with financial institutions, government agencies, and other stakeholders, this being essential to align efforts and support the implementation.
- e) Undertake public awareness campaigns and to provide educational resources to inform citizens about eCentavos, its benefits, and how to use it effectively.

TARGETS:

1. Complete the feasibility study which includes review of the existing digital payment systems and CBDC projects in other countries, and the associated technical requirements, within one year.
2. Launch pilot tests in at least five municipals in 2026.
3. Achieve full-scale implementation by 2028.

Strengthening cyber-security

Strengthening cybersecurity is crucial to protect digital infrastructure from threats and ensure secure financial transactions. The initiative focuses on developing a robust cybersecurity framework and increasing awareness and training on cybersecurity best practices; by way of:

- a) Developing a cybersecurity framework including robust regulations and standards for financial institutions and digital service providers.
- b) Introducing regulatory frameworks for financial data protection to ensure the privacy and security of sensitive information.
- c) Establishing a national cybersecurity operation center within the financial sector to monitor and respond to cyber threats in real-time, providing a coordinated and proactive approach to cybersecurity.
- d) Cybersecurity training and awareness, which will be a key component of this initiative. Regular cybersecurity training programs will be conducted for financial sector employees and IT professionals to ensure they are equipped with the latest knowledge and skills to protect against cyber threats.
- e) Public awareness campaigns which will be launched to educate citizens on safe online practices and fraud prevention, fostering a culture of cybersecurity awareness and vigilance.



TARGETS:

1. Establish a cybersecurity operation center within five years.
2. Conduct annual training for financial sector employees and IT professionals in cybersecurity.
3. Conduct annual cybersecurity awareness campaigns.

Improved broadband and mobile internet access

Enhancing broadband and mobile internet access is essential for creating a connected and inclusive digital economy. This program focuses on expanding high-speed internet coverage, especially in underserved and rural areas, to ensure that all citizens have access to reliable and affordable internet services. It will include:

- a) Seeking partnership with telecom companies regarding expansion of broadband coverage to underserved and rural areas, by offering various incentives and supports.
- b) Support for the deployment of mobile internet infrastructure to ensure widespread access to 4G and 5G networks. Subsidies for mobile internet costs may be considered for low-income households to promote digital financial inclusion.

TARGETS:

1. Achieve 100% broadband coverage in rural areas within five years.
2. Ensure 90% of rural households have access to mobile internet within five years.







STRATEGIC PILLAR 3:

Enhancing Access to Finance





Microfinance and MSME support

The microfinance and MSME support program aim to enhance financial inclusion by providing targeted financial services and support to citizens and micro, small, and medium-sized enterprises (MSMEs). This program recognizes the crucial role of MSMEs in driving economic growth, job creation, and poverty reduction. It comprises the following elements:

Expand micro-loan programs

Expanding microloan programs aims to provide accessible and affordable credit to MSMEs, particularly those underserved and in rural areas. This initiative will help entrepreneurs to start or grow their businesses, thereby fostering economic development and job creation. It will:

- a) Promote partnerships between ODTIs, banks, and other lenders to expand the availability of micro-loans. This collaboration will ensure a broader reach and more substantial support for MSMEs.
- b) Developing micro-loan products with flexible terms and lower interest rates tailored to the needs of MSMEs. These products will be designed to meet the specific financial challenges and requirements of small businesses.
- c) Simplifying loan application procedures to make it easier for MSMEs to access financing. By working with lenders to MSMEs to reduce bureaucratic hurdles, it is expected that it will be possible for more businesses to secure the funds they need.
- d) Implementing digital platforms for loan applications to reduce processing time and improve accessibility. This digital approach will make the application process more efficient and accessible, particularly for businesses in remote or underserved areas.

TARGETS:

1. Allocation of about \$25 million to microloan products is envisaged, within five years.
2. Ensure at least 40% of microloans are disbursed to rural areas.
3. Reduce average loan processing time by 50% within three years.



Mentorship and training programs

Mentorship and training programs aim to equip MSMEs with the skills, knowledge, and support needed to grow and succeed. This initiative will provide entrepreneurs with access to experienced mentors and training resources, covering various aspects of business management, financial literacy, and technical skills. It will:

- a). Create training modules covering essential business skills, financial management, marketing, and digital literacy. These modules will provide MSMEs with the foundational knowledge needed to effectively manage and grow their businesses.
- b). Partner with educational institutions, industry experts, and civil society to deliver high-quality training programs.
- c). Organize workshops and seminars on various business topics to provide MSMEs with practical knowledge and skills. These events will offer hands-on learning opportunities and foster networking among participants.

TARGETS:

1. Develop and launch training modules within three years.
2. Train 1,000 MSME owners and employees within five years.
3. Conduct 100 workshops and seminars annually.
4. Reach 2,000 MSME participants through workshops and seminars within five years.

Innovative financial products for rural empowerment

This program aims to develop and promote innovative financial products tailored to the needs of the underserved population in rural areas. These products will enhance financial inclusion, provide economic opportunities, and empower rural communities by offering accessible and relevant financial services, including insurance products.

By implementing these innovative financial products and services, the program will aim to empower rural communities, enhance financial inclusion, and support economic growth in underserved areas. Specifics include support for:

- a). Implementing mobile banking and digital payment platforms to facilitate easy access to financial services, enabling rural populations to conduct transactions, save money, and receive payments securely and efficiently.

- b). Developing micro-insurance products to protect rural populations against risks such as health issues, crop failures, and natural disasters, etc. These products will offer affordable premiums and simplified claims processes to ensure accessibility.
- c). Introducing savings accounts with low minimum balance requirements and investment products that cater to the financial goals of rural communities, encouraging savings and financial planning.

TARGETS:

1. Implement mobile banking and digital payment solutions within two years.
2. Design and introduce microinsurance products within three years.
3. Launch savings and investment products within three years.

Financial literacy programs

The Central Bank will implement a comprehensive Financial Literacy Program to enhance overall financial literacy and support the adoption of modern financial services. This program will target individuals and businesses on financial tools and services, including budgeting, saving, investing, credit management, and digital finance. A key component will be digital financial literacy, covering online banking, mobile payments, cybersecurity, and digital financial management. The curriculum will be accessible to various segments of the population, including children, youth, rural communities, and small business owners.

This program will build on the current initiatives directed at children in elementary schools and small businesses, and will include the following elements:

Implementation of school and university programs

Integrating digital financial literacy into the education system is essential for preparing students to manage their finances in a digital world. This program aims to equip students at all educational levels with the necessary skills to navigate the digital financial landscape, fostering a generation that is financially literate and capable of leveraging digital tools for economic participation and growth. It will:



- a). Develop a digital financial literacy curriculum in collaboration with educational experts, teachers, and financial technologists, covering essential topics such as online banking, digital payments, budgeting apps, and cybersecurity.
- b). Offer resources and support to teachers to assist them to integrate digital financial literacy into their lesson plans, including training materials, lesson guides, and access to financial technology tools.
- c). Develop, for offering to universities, specialized digital financial literacy courses for university students on topics such as digital investments and financial technology, ensuring that students receive in-depth knowledge relevant to the digital financial sector.
- d). Organize guest lectures and workshops at universities, to be led by industry experts to provide students with practical insights and hands-on experience in digital financial literacy.

TARGETS:

- 1. Under the existing financial literacy program, update and introduce digital financial literacy into the education curriculum, for all grade levels, within five years.
- 2. Train 200 teachers in financial literacy annually.
- 3. Enroll 1,000 students in digital financial literacy programs annually.

Conduct community workshops

Community workshops aim to bring digital financial literacy training to local communities, making it accessible to individuals who may not have the opportunity to receive formal education on digital financial skills. These workshops will be tailored to the specific needs of different community groups and delivered in convenient locations. They will include:

- a) Organizing regular digital financial literacy workshops in community centers like sede Suco or Aldeia and other accessible locations. Workshop content will be tailored to address the specific needs and interests of different groups, such as seniors, low-income families, and rural residents.

- b) Partnerships with employers, to develop workplace digital financial literacy programs.
- c) Train-the-trainer programs, which will be developed by recruiting local volunteers, teachers, and community leaders to become digital financial literacy trainers.

TARGETS:

1. Conduct 50 community workshops annually, reaching at least 500 participants across various communities.
2. Train 100 local trainers annually.
3. Develop and distribute training resource kits within five years.
4. Establish an online platform for trainer collaboration and support within three years.

Awareness campaigns

The nationwide campaign aims to raise awareness about the importance of digital financial literacy and provide practical information on using digital financial tools safely and effectively. This campaign will leverage various media channels to reach a wide audience, ensuring that all segments of society are informed about the benefits and opportunities of digital financial literacy. It will:

- a). Create engaging and informative content to highlight the importance of digital financial literacy through videos, infographics, articles, and social media posts. Content will be tailored to address the specific needs and challenges of different demographic groups, such as children, teenagers, adults, and seniors.
- b). Establish partnerships with national and local media outlets to broadcast digital financial literacy messages through television, radio, newspapers, and online platforms.

Implement a mechanism to measure the effectiveness of the campaign.

TARGETS:

1. Reach 50,000 individuals through various media channels within five years.
2. Conduct annual surveys and focus groups with at least 1,000 participants.



STRATEGIC PILLAR 4:



Modernization of the Financial Sector





Modernizing legislative frameworks for the financial sector

Review of the existing banking law

The Central Bank aims to review and update the existing banking law to align with the current state of development in the financial sector. This initiative is intended to create a comprehensive regulatory regime applicable to all financial institutions under the Central Bank's jurisdiction. For banks, the revised Banking Act will strictly adhere to the recent Basel standards, ensuring that the regulatory framework meets international standards and best practices. The process will involve finalizing the draft Banking Act review initiated in 2017, conducting public consultation sessions, and subsequently submitting the revised law to Parliament for final approval. This will include:

- a). Finalizing the draft Banking Act review initiated in 2017. This involves revisiting the draft created in 2017, incorporating recent developments, Basel standards, and best practices in the financial sector, and ensuring that the draft reflects the current needs and future goals of the banking industry in Timor-Leste.
- b). Conducting public consultation sessions to gather feedback from stakeholders. BCTL will engage with financial institutions, industry experts, legal professionals, and the public to collect feedback on the proposed changes to the banking law.
- c). Submitting the finalized draft Banking Act to Parliament for approval. This step includes preparing necessary documentation and advocating for the law's approval to ensure its timely enactment.

TARGETS:

1. Complete finalization of the draft Banking Act review within six months.
2. Conduct public consultation sessions and incorporate feedback within six months.
3. Submit the finalized draft Banking Act to Parliament for approval within one year.

Financial consumer protection

The financial consumer protection program aims to establish a robust framework that safeguards the fundamental rights and interests of consumers in Timor-Leste's financial sector when using financial products

and services. As the financial landscape continues to evolve, there is a growing need to ensure that consumers are adequately protected from unfair practices, have access to transparent information, and can confidently engage with financial products and services. This program will focus on finalizing and implementing the Consumer Protection Law, which will lay the foundation for consumer rights in financial transactions. Additionally, specific regulations introduced by BCTL will detail the law's implementation, ensuring that financial institutions adhere to high standards of consumer protection. These will include

- a). Review and finalize the draft Financial Consumer Protection Law, ensuring it aligns with international best practices and the specific needs of Timor-Leste's financial sector.
- b). Develop and introduce a BCTL regulation that provides detailed guidelines and procedures for the implementation of the Financial Consumer Protection Law within financial institutions.
- c). Launch nationwide awareness campaigns to educate consumers about their rights and the protections offered under the law and regulations.
- d). Update the current mechanism within BCTL for consumers to lodge complaints and seek redress in cases of unfair practices or disputes with financial service providers.

TARGETS:

1. Finalization of the Financial Consumer Protection Law within two year.
2. Introduce the BCTL regulation detailing the implementation of the Financial Consumer Protection Law within two years.
3. Update the current consumer complaint mechanism within BCTL to be fully operational within three years.



Implementing the Basel framework

In 2022, the Central Bank mandated all banks, including Other Deposit-taking Institutions (ODTIs), to adopt the Basel III requirements, which encompass capital and liquidity adequacy and sets minimum requirements for those. Additionally, BCTL mandated the full adoption of IFRS 9, and a new set of Chart of Accounts was also introduced. To assist banks in properly implementing these requirements, BCTL will ensure that statutory reporting requirements are met and conduct targeted onsite examinations. By following these steps, BCTL will facilitate a smooth transition for banks and ODTIs to the Basel III framework and IFRS 9 standards, ultimately enhancing the stability and resilience of Timor-Leste's financial system. Specifically, BCTL will:

- a). Develop and disseminate guidelines for banks to align their statutory reporting with Basel III and IFRS 9 requirements, and ensure adherence to the statutory reporting requirements. Training sessions will be provided to help banks understand and comply with these guidelines.
- b). Conduct targeted on-site examinations to assess the banks' compliance with the instructions. They will focus on verifying the accuracy of statutory reports and the adequacy of liquidity and capital management practices.
- c). Monitor and review the implementation process by establishing a monitoring system to regularly review the progress of Basel III and IFRS 9 implementation across banks. The findings from these reviews will be used to make necessary adjustments and provide additional support where needed.

TARGETS:

1. Ensure all banks align their statutory reporting with Basel III and IFRS 9 requirements within one year.
2. Conduct initial targeted on-site examinations within one year.
3. Introduce automated monitoring tools within three years.



Conduct national ML and TF risk assessment

A national Money Laundering (ML) and Terrorist Financing (TF) risk assessment involves evaluating the vulnerabilities in and threats inherent to Timor-Leste's financial system, from illicit activities such as money laundering and terrorist financing. The objective of an assessment is to identify, assess, and understand the risks associated with these activities, and to develop effective strategies and measures to mitigate them. BCTL will:

- a) Engage an independent expert in the field of ML/TF to conduct the risk assessment. This step involves selecting and hiring an expert with extensive experience and knowledge in ML/TF risk assessment to ensure a comprehensive and accurate evaluation of the vulnerabilities within and threats to country's financial system.
- b) Conduct a thorough outreach program to gather input from key stakeholders. This will include engagement with financial institutions, law enforcement agencies, and other relevant stakeholders through workshops, seminars, and surveys to gather valuable insights and information on the current state of ML/TF risks in the financial system.
- c) Develop a strategic plan to implement the findings from the risk assessment. This strategic plan will outlining specific actions, timelines, and responsibilities for addressing the identified risks.
- d) Update existing instructions based on the findings of the risk assessment and the results of the Mutual Evaluation by the APG. Current instructions will be reviewed and revised, as applicable, to address identified risks and vulnerabilities, and ensure compliance with international standards and best practice. The necessary policy changes to strengthen the overall framework for combating ML/TF activities will be implemented.

TARGETS:

1. Engage an independent ML/TF expert within one year.
2. Complete the national ML/TF risk assessment and develop the strategic plan to implement the findings within two years.
3. Conduct outreach programs and gather stakeholder input for the review of the relevant instructions and regulations within nine months.
4. Review and update existing instructions and implement necessary changes within 18 months.

Development of the financial market

Implementing issuance of Central Bank certificates

The Central Bank adopted policies in 2021 to issue in Timor-Leste a Central Bank Certificate. This initiative is to serve as a tool to manage liquidity in the financial system, thereby laying the foundation for promoting financial market development in Timor-Leste. BCTL under the Strategic Plan for 2025-2035 will:

- a). Develop and approve the operational guidelines and system, including the application framework. This involves creating detailed operational guidelines that outline the processes and procedures for trading in the Central Bank Certificates. The system application framework will include the development of necessary software and technological infrastructure to support the smooth operation and monitoring of these certificates.

- (b). Conduct outreach sessions to inform financial institutions about the new instrument. The outreach will ensure that all relevant stakeholders are well-informed and prepared to participate in the new system.

TARGETS:

1. Complete the development of the operational framework, including system development, within eighteen months.

2. Issue the first batch of certificates within two years.

Supporting government bond issuance

In 2017, the Government included in its 5 years plan an intention to issue bonds as part of its broader strategy to develop and strengthen the financial market in Timor-Leste. Preliminary work has since been undertaken to lay the foundation for this initiative. The issuance of government bonds is expected to provide secure investment opportunities for investors, to assist with managing public debt, and to finance development programs. Additionally, these bonds will serve as a benchmark, which will be the basis for financial instrument valuation, enhancing the overall stability and growth of the financial system.

Specific steps will be to:

- a) Develop and approve legal and regulatory framework for government bond issuance. This involves drafting and enacting comprehensive legislation and regulations governing issuance, trading, and redemption of government bonds. The framework will ensure transparency, investor protection, and alignment with international standards.



- b) Establish the operational and technical infrastructure for bond issuance and management. This includes setting up robust systems for issuing, trading, and settling government bonds, as well as developing the necessary technological infrastructure to support these activities. Additionally, it involves training personnel to efficiently manage the bond issuance process. These systems will ensure the smooth operation and reliability of the bond market.
- c) Conduct outreach and educational sessions to inform potential investors about government bonds. These sessions will aim to inform both institutional and retail investors about the benefits, risks, and mechanics of investing in government bonds. The outreach will help build investor confidence and promote widespread participation. It will also highlight how the bonds are tied to the development initiatives outlined in the government's Strategic Plan.

TARGETS:

1. Complete the development and approval of the legal and regulatory framework within three years.
2. Establish the operational and technical infrastructure within three years.
3. Issue the first series of government bonds within three years.

Strengthening BCTL operational capabilities

The Central Bank aims to modernize its reserve and investment management capabilities to enhance portfolio services, financial stability and market efficiency. This initiative will involve automating trading, security registration, and custodian services, and capacity advancement, thereby improving operational efficiency and transparency. Additionally, BCTL plans to offer to financial institutions a diverse range of investment instruments, such as term deposits, contributing to a more dynamic and resilient financial market. This will include:

- a) Development and implementation of automated systems for trading, security registration, and custodian services. This involves selecting and deploying advanced technological solutions to automate trading operations, maintain accurate security registers, and streamline custodian services. The automation will reduce manual processes, enhance accuracy, and improve overall efficiency in reserves management.

- b) Diversification of the range of investment instruments offered to financial institutions and other entities in Timor-Leste. BCTL will introduce a variety of investment options, including term deposits and other financial instruments, to provide financial institutions and other entities with more opportunities to manage their portfolios effectively. This diversification will help institutions optimize their returns and manage risks better.
- c) Implementation of comprehensive training programs to equip BCTL staff with the necessary skills in reserves and portfolio management. Additionally, BCTL will offer workshops and seminars for financial institutions to understand and utilize the new investment opportunities effectively.

TARGETS:

1. Complete the development and implementation of automation systems within three years.
2. Introduce and offer to Timor-Leste's financial market a diversified range of investment instruments.
3. Conduct ongoing training and capacity-building programs for BCTL staff and financial institutions.

Capital market creation

Establishing robust capital markets involves creating a strong legal and regulatory framework, developing essential infrastructure like a stock exchange and settlement systems, and ensuring financial institutions and market-makers provide liquidity. Macroeconomic stability, high corporate governance standards, and advanced technology are also crucial. Favorable tax policies, an efficient legal system, and public education on capital markets foster broad participation.



This Strategic Plan includes the essential preliminary steps required to establish a capital market. By the end of the plan, the aim is to ensure that the minimum conditions are in place for further consideration and decision. The preliminary steps are to:

- a). Conduct a thorough feasibility study engaging independent experts within three years.
- b). Establish a task force comprising representatives from key stakeholders such as government agencies, financial institutions, and key stakeholders.

TARGET:

1. Establish the Task Force within one year.
2. Complete the comprehensive feasibility study report within three years.





Blueprint to Reality: Framing the Implementation Strategy

With any strategic planning exercise, formulating the plan is a first stage in the process, implementation is the larger and longer task. This chapter sets out the proposed approach to implementation of this *Strategic Plan*.



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Coordination of implementation

There are many interdependencies in financial sector development, and many elements of this Strategic Plan extend beyond finance, narrowly defined.

Key components of the Strategic Plan for the decade ahead focus on the ‘infrastructure’ — primarily ‘soft’ rather than ‘hard’ (physical) infrastructure — that needs to be in place for Timor-Leste’s financial sector to advance to the ‘next level’ and thereby play a greater role as an enabler of Timor-Leste’s overall economic development. This infrastructure includes the telephony and internet systems over which modern finance is conducted, the framework of laws, codes of conduct, and administrative machinery that supports financial exchange—such as borrowing and lending, saving and investing—as well as the education and training systems that equip people with the knowledge and skills needed to navigate modern finance.

It follows that a broad range of parties must participate in the process of financial sector development. These include financial institutions, users of financial services, fintech and IT firms, the education and training sector, business groups, relevant civil society entities, and technical and professional service providers, such as providers of bookkeeping, accounting, and legal services. A correspondingly wide range of government and policy agencies is also involved. These include BCTL, the Ministry of Justice, the Ministry of Finance, the Ministry of Education, , and the Ministry of Transport and Communications. Additionally, several development partners are contributing in various ways to financial sector development in Timor-Leste.

This makes it evident that coordination of policy development and implementation will be vital for achieving the best possible progress. Without such coordination, it is likely that while some elements of progress will be made, others will lag, with the overall rate of progress constrained by that in the slowest areas.

It is therefore proposed that BCTL, in addition to performing its usual roles in regulating and supervising financial institutions, distributing currency and operating the payments system, will take on the role of coordinating implementation of the Strategic Plan overall. In this coordination role, BCTL will liaise and collaborate with the other government agencies, the financial sector, development partners,

and other stakeholders regarding their contributions to financial sector development in Timor-Leste. This coordination role for BCTL will take place within, and not involve any change to, existing governmental arrangements in relation to the Council of Ministers. It will not affect BCTL's independence in relation to its roles and duties under the Organic Law of the Central Bank of Timor-Leste.

To assist with coordination, it is proposed that BCTL will establish a Financial Sector Development Working Group (FSDWG), chaired by the Governor of BCTL. The main role of the FSDWG would be periodically to convene to review progress under the Strategic Plan and to consider the tasks for the upcoming year or two. The FSDWG could comprise a core membership, including BCTL (chair), the ministries in relevant areas covered under this Strategic Plan, and financial institutions, with other agencies participating as the subject matter requires. BCTL would establish a small team (secretariat) to support the work of the FSDWG.

Prioritisation and monitoring of implementation

The Strategic Plan 2025-2035 includes a very considerable program of work.

In addition to the coordination role referred to above, the FSDWG will monitor progress against the priorities and targets set and will review and adjust the scheduling as appropriate (circumstances invariably change as a decade unfolds). It is envisaged that at each of its regular meetings a standing item will be review of an updated 'progress report', along the lines of the format below (to be updated by the FSDWG secretariat ahead of each FSDWG meeting).

BCTL will include reporting on progress in its Annual Reports.

Capacity and capability development

For implementation to be effective, the requisite level of capability and capacity is also required.

Timor-Leste, being a young country, is building that capability and capacity, which can be strengthened further in a range of ways. Those include:



- Drawing on international sources of capacity development, such as: from the IMF's Singapore Training Institute and the Pacific Financial Technical Training Centre (located in Fiji); support available through the network of regional (including ASEAN) central banks; and from the skills and experience embedded in foreign investment in Timor-Leste, in particular that in the financial institutions and fintech firms.
- Training provided by local educational institutions (for example, at the professional and technical levels by Universidade Nacional Lorosa'e (UNTL), the Dili Institute of Technology, and other providers of professional and technical/vocational training within Timor-Leste.
- Where necessary, engaging experts from abroad. But that will be with a view to ensuring that, under those arrangements, there is also capability transfer to Timor-Leste counterparts.

Contributions to capability development can also be made by financial sector and professional interests Representative bodies such as a Bankers' Association, a Law Society and a Society of Accountants play important and active educational, training and professional development roles in their respective fields. One of the hallmarks of a professional body is that it contributes actively to the development of the profession.



References

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ANZ	Australia and New Zealand Banking Group
ASEAN	Association of Southeast Asian Nations
BCTL	Banco Central de Timor-Leste
BNCTL	Banco Nacional de Comércio de Timor-Leste
BNU	Banco Nacional Ultramarino
BRI	Bank Rakyat Indonesia
CBDC	Central Bank Digital Currency
FDI	Foreign Direct Investment
FinTech	Financial Technology
GDP	Gross Domestic Product
GPN	Gerbang Pembayaran Nasional
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ODTI	Other Deposits-Taking Institution
ML/TF	Money Laundering/Terrorist Financing
MoU	Memorandum of Understanding
MSME	Micro, Small, and Medium Enterprise
PPP	Public-Private Partnership
R-TIMOR	Rede Transferência iha Momentu Reál

LIST OF FINANCIAL INSTITUTIONS LICENSED BY BCTL

Commercial Banks

BNU Timor-Grupo Caixa Geral de Depositos (branch of Caixa Geral de Depositos, Portugal)

Australia and New Zealand Bank (ANZ) Banking Group, Timor-Leste Branch

Banco Nacional de Comercio de Timor-Leste (BBCTL)

PT. Bank Mandiri(Persero) TBK. Dili – Timor-Leste Branch

PT. Bank Rakyat Indonesid (Perrsero), TBK, Timor-Leste Branch

Other Deposit-taking Institutions

Kaebauk Investiment no Finansas (KIF)

Servisu Finanseiru Moris Rasik, SA

Insurance Companies

Sinarmas Insuranc, SA (SMI)

Federal Insurance Timor, S.A (FIT)

Sinar MAS Life Insurance, S.A. (SMLI)

Fintech Companies

Telemor Fintech, LDA

Tellin Digital Solution, LDA

Money Transfer Operators

Sahabat Loro Sa'e, Unipessoal, LDA "Money Transfer"

Island Dream Money, LDA "Money Transfer"

Sister Motor II Unipessoal, LDA "Money Transfer Operator"

Boa Ventura Unipessoal, LDA "Money Transfer Operator" Baratu Group "Money Transfer Operator"

Iistana Group "Money Transfer Operator"

Foho Osan Mean Group "Money Transfer"

Pacific Holdings, Unipessoal, LDA "Money Transfer"

Alexander Money Transfer, Unipessoal, LDA

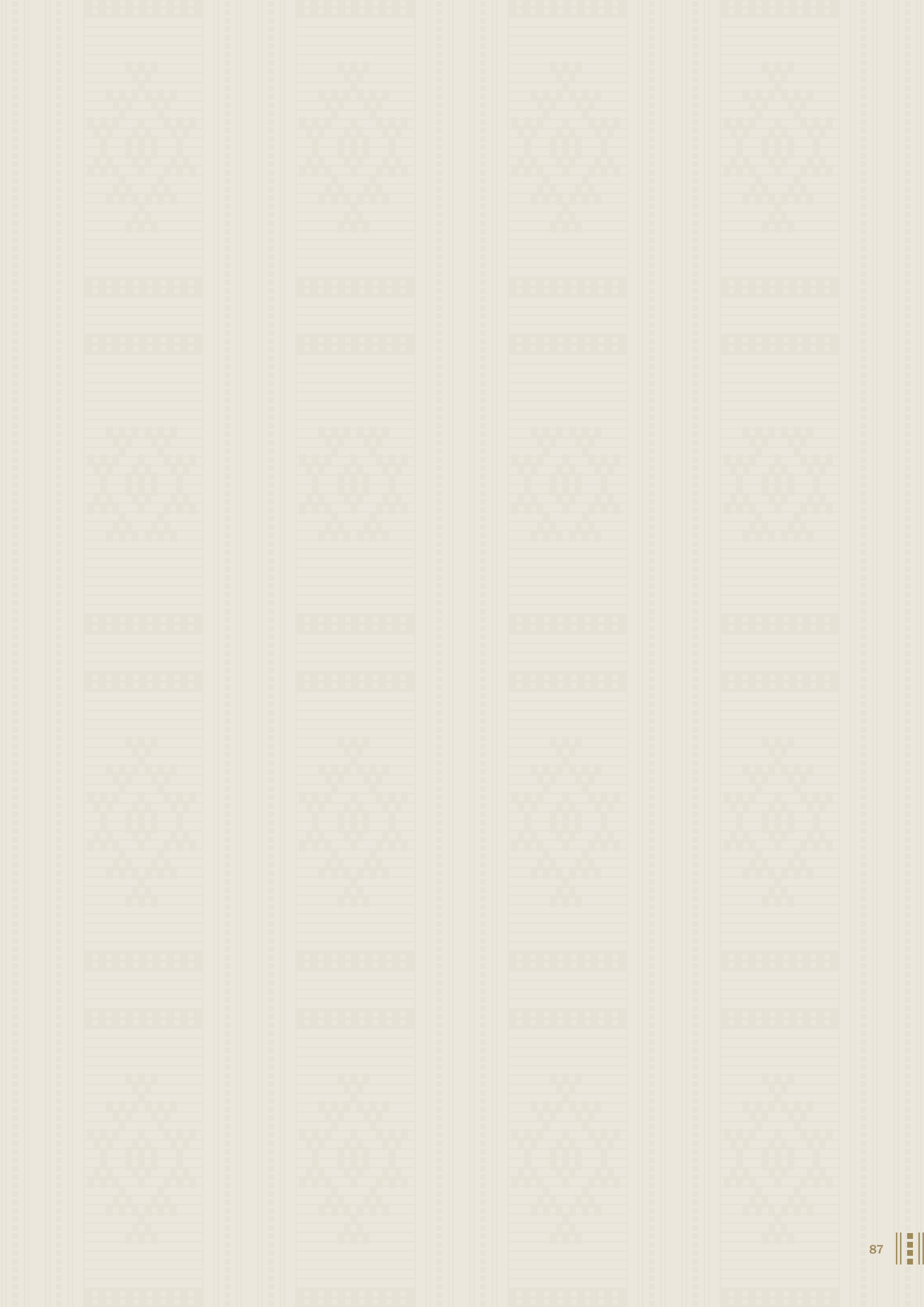
Currency Exchange Bureau

Global Ex, CEB

Sahabat Loro Sa'e Unipessoal, LDA

Island Dream Money, LDA "Currency Exchnage Burreaux"

VFinancial Money Exchange, Unipessoal, LDA





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