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PREFACE

BY THE GOVERNOR



“
We at the Banco Central de Timor-Leste believe financial inclusion brings positive change for the people’s life, the development and stability of the financial sector, and the country’s economy as a whole.”

For this reason, the BCTL keeps its commitment to champion and advocate for inclusive finance in Timor-Leste through innovative approaches to increase access points, modernize payments systems, enhance the usage of financial services and intensify financial literacy programs in the country.

The COVID-19 pandemic imposes constraints on how we live and do business. The Government and the Central Bank have been developing programs to support our society to overcome these challenging times. The pandemic put additional pressure on achieving greater financial inclusion levels and digitalizing public services to deliver aid programs more efficiently.

For the first time in history, a comprehensive financial services market survey (Demand-Side Survey) was carried out in Timor-Leste. The survey, an essential step in the financial inclusion path, allows a better understanding of the customers’ perceptions, needs, and limitations. This third Financial Inclusion Report consolidates data from demand (customers) and supply-side (financial services providers).

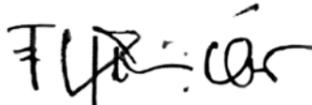
Over the last years, the BCTL has focused its efforts on improving access to financial services across the country. This report shows progress in all dimensions of financial inclusion. The access to financial services has improved significantly from 2018. The number of access points increased by 200%, mainly driven by e-wallet services. Currently, all Administrative Posts are covered by financial services access points, and 391 out of 452 of the sucos have at least one financial service access point.

The impressive growth of e-wallet services signals the potential to transform the financial sector in Timor-Leste. The connection of the e-wallet to the P24 system allows clients to transfer amounts between bank accounts and e-wallet accounts, contributing to spread out the banks’ services beyond the banks’ access points. The e-wallet added convenience to clients’ day-to-day financial transactions and can change the way people access and use financial services. The usage of financial services increased over time, and the BCTL will focus on accelerating the financial services uptake process in the following years.

The market survey results enabled us to complete a comprehensive quality measurement framework and track how it progresses. The BCTL and stakeholders continue to implement and scale up financial literacy programs.

Finally, the BCTL wishes to express our appreciation to everyone that contributed to this report. The FIR 2020 would not be possible without the financial services providers’ collaboration by collecting and sharing the data and the teams involved in implementing the demand-side survey.

The Banco Central de Timor-Leste will continue to work with relevant stakeholders to create an enabling regulatory environment with robust financial infrastructure balanced by the financial system’s safety, stability, and integrity. This report contributes to building up our financial inclusion knowledge and awareness to develop practical, achievable, and evidence-based policies to achieve more inclusive and sustainable development for our country.


ABRAÃO DE VASCONSELOS
 Governor

EXECUTIVE SUMMARY

The Banco Central de Timor-Leste continues to push the financial inclusion agenda, develop policies, bring new technology, and foster partnership among financial sector players to accelerate financial sector development.

The financial inclusion path relies on continue monitoring and evaluation of comprehensive data that builds up to the measurement frameworks. The data enables policymakers to diagnose conditions, identify obstacles, set targets, plan policies and assess impact, and more importantly, to ensure Timor-Leste can attain its financial inclusion goals and objectives.

The BCTL is committed to conducting regular data collection, monitoring, and evaluation. This report is the third Financial Inclusion Report undertaken by BCTL. The report is enriched by extensive and updated supply-side data and the results of the first Financial Services Demand-side Survey (DDS) in Timor-Leste. The data allows a more comprehensive assessment of the measurement framework that includes access, usage, and quality indicators. These dimensions set the foundation to enable citizens to access and utilize a range of financial services which are safe, suitable, and affordable.

The data on access points, usage of financial services (accounts, clients, products), and quality indicators reflect the end of the 2020 position unless stated otherwise.

The Financial Inclusion Report 2020 is structured into seven chapters:

- ◇ **Chapter 1** provides an overview of the developments in financial services and their impact on financial inclusion in the previous two years since the FIR 2018.
- ◇ **Chapter 2** analyses the distribution of financial services access points across the country, highlighting areas with limited financial services available. This analysis includes data from banks, other deposit-taking institutions, e-wallets, and other regulated and non-regulated financial services providers.
- ◇ **Chapter 3** evaluates the use of regulated financial services by the number of clients and type of accounts.
- ◇ **Chapter 4** measures the quality indicators based on demand-side data (market research survey results), and data provided by the financial services providers.
- ◇ **Chapter 5** highlights the key results from the Demand Side Survey (DSS), a market research survey on customers' evaluation of the financial services available.
- ◇ **Chapter 6** provides an update on the main financial literacy programs, activities, and events over the last two years.
- ◇ **Chapter 7** summarizes the key points from the report and defines the line of action for the following years.

FINANCIAL SERVICES ACCESS POINT EVOLUTION

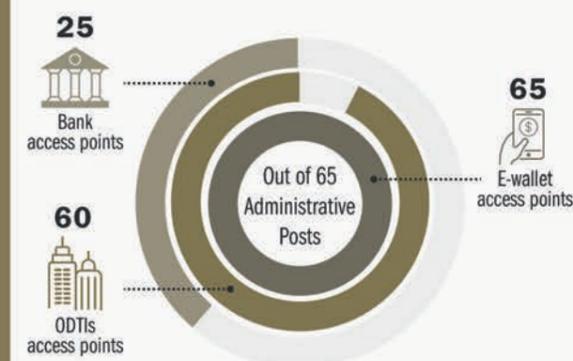
Financial Services access points tripled in the last two years.

All types of financial services increase the number of access points, except insurance. The e-wallet services had the most significant progress.

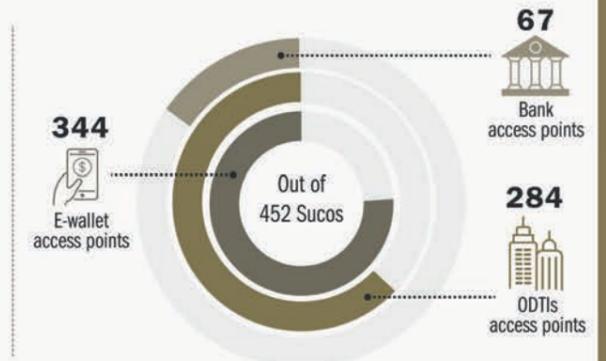
■ BANKS ■ ODTIs ■ E-WALLETS
■ COOPERATIVES ■ OTHERS



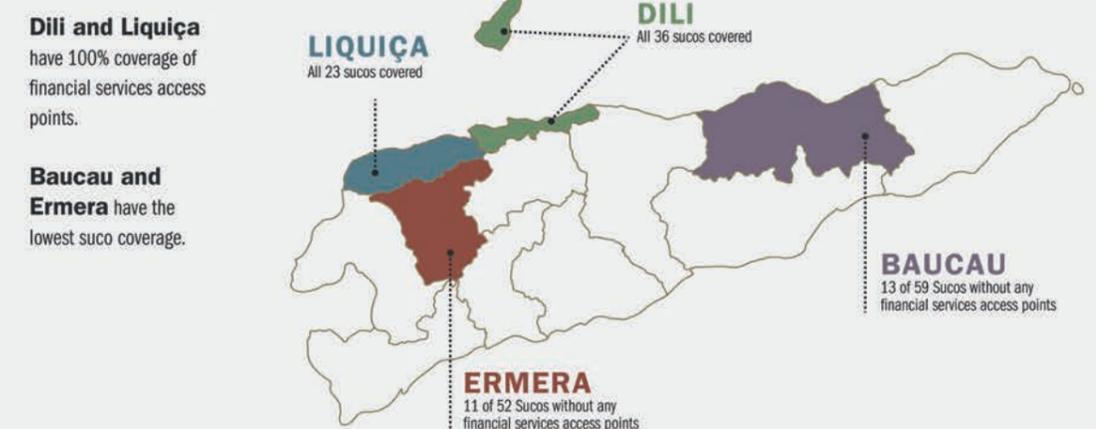
BANKS, ODTIs, AND E-WALLET ACCESS POINTS COVERAGE BY ADMINISTRATIVE POSTS



BANKS, ODTIs, AND E-WALLET ACCESS POINTS COVERAGE BY SUCOS



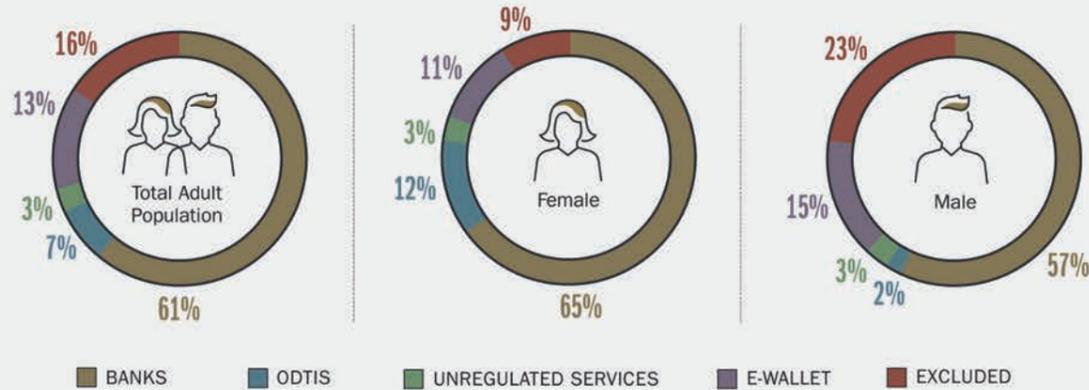
MUNICIPALITIES WITH HIGHEST AND LOWEST NUMBER OF SUCOS COVERED BY FINANCIAL SERVICES ACCESS POINTS



ADULT POPULATION USING FINANCIAL SERVICES IN 2020

Timorese adults are using more financial services compared to 2018.

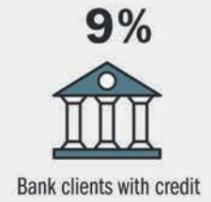
On the gender perspective, women use more financial services than men.



ACCESS TO CREDIT

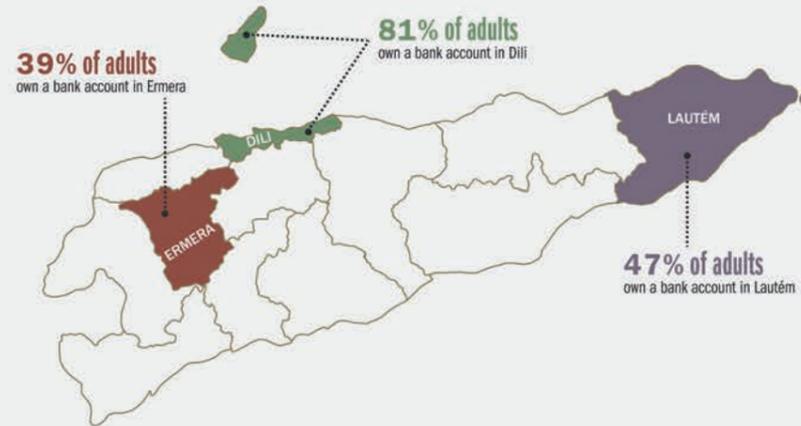


While 68% of adults own deposit/saving accounts with banks or ODTI's, only a smaller share can access credit products.



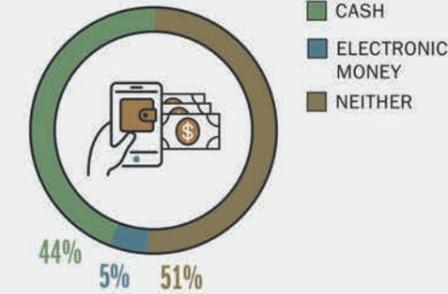
PERCENTAGE OF ADULTS WHO OWN BANK ACCOUNTS BY MUNICIPALITY

Dili is the municipality with the highest share of adults using bank services, while Ermera and Lautém are the municipalities with the lowest percentage of adults using bank services.



PREFERENCE BETWEEN CASH & ELECTRONIC MONEY

The e-wallet services can make financial services more convenient and efficient for clients. However, the key challenges to further promoting e-wallet services are awareness, trust, and digital literacy.



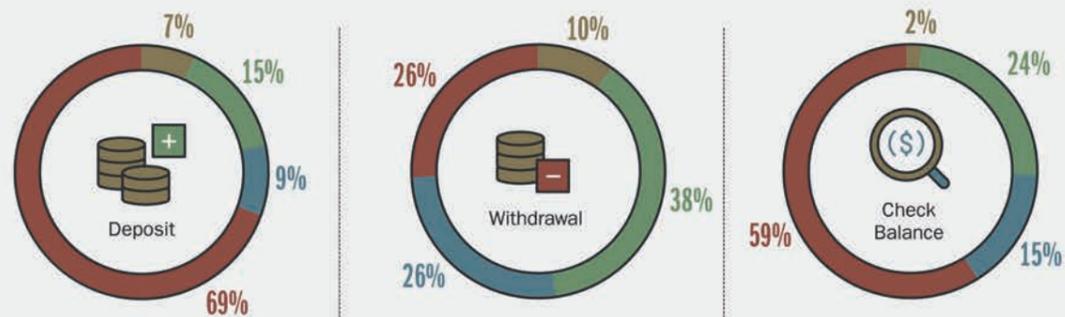
MAJOR CONCERS ABOUT ELECTRONIC MONEY



NOTE: MORE THAN ONE ANSWER WAS ALLOWED

*Electronic money is credit and debit card, mobile banking, internet banking, MOSAH Telekom Digital Money, and TPRY Telekom.

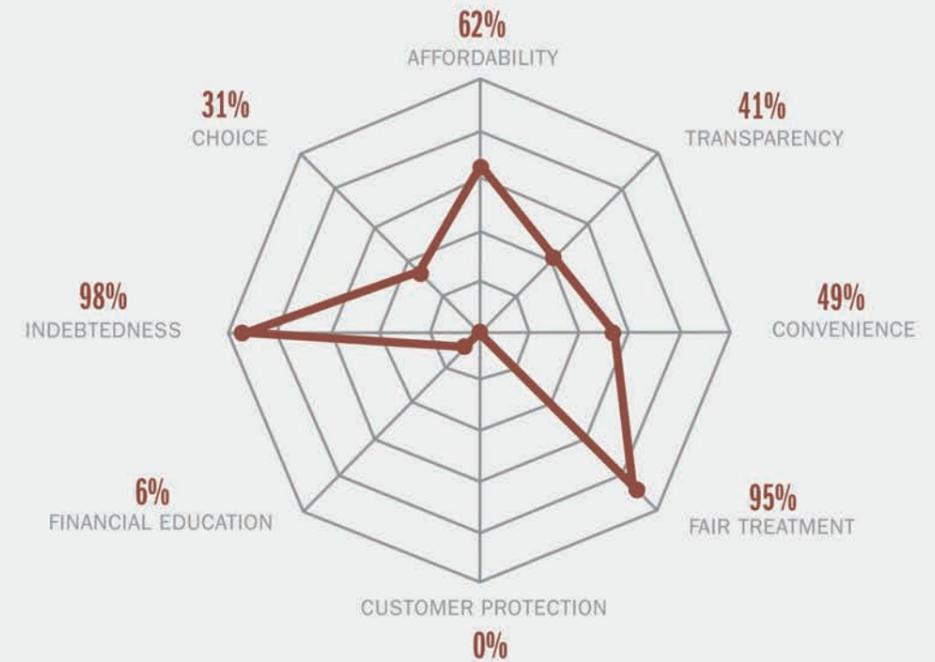
FREQUENCY OF BANK TRANSACTIONS PERFORMED BY ACCOUNT HOLDER



Bank clients use their accounts primarily to receive payments from the government and other sources.

Legend for frequency: 4+ TIMES PER MONTH, 1 - 3 TIMES PER MONTH, A FEW TIMES A YEAR, NEVER.

2020 QUALITY INDICATORS



Quality indicators evaluate 8 categories—closer to the outside border in the chart reflects good quality results. Consumer protection and financial education are the areas with more significant opportunities for improvement.

01

FINANCIAL INCLUSION DEVELOPMENTS

Since the 2018 Financial Inclusion Report, many changes and improvements have happened in the financial sector, from the advances in technology for new product features, to the first financial services demand-side survey.

DIFFERENCE BETWEEN SUPPLY AND DEMAND-SIDE DATA



The demand-side survey focuses on customers' perceptions of the financial services



The supply-side survey collects data from the financial services providers.

FINANCIAL INCLUSION M&E: DEMAND-SIDE SURVEY

The financial inclusion measurement is essential to accelerate the journey towards a more inclusive financial sector. BCTL has planned to conduct a Financial Services Demand-Side Survey (DSS) to unveil critical challenges and financial inclusion barriers. The DSS is nationwide quantitative market research about perceptions, preferences, and needs related to the financial services, missing from the previous FIR.

The previous FIR, issued in 2016 and 2018, analyzed the financial services providers' data (supply-side) only. While the information shows the country's financial inclusion level, it does not provide details from the customers' perspective.

The BCTL's partnership with The Asia Foundation Timor-Leste made the DSS project possible despite the pandemic restrictions. The Asia Foundation coordinated all the data collection, validation, and consolidation process.

The first DSS in Timor-Leste took place in the second half of 2020. More than 900 adults Timorese from all municipalities and the Região Administrativa Especial de Oé-Cusse Ambeno (RAEOA) responded to the questionnaire regarding financial services and financial behavior. The data collection took place in October and November 2020.

The DSS questionnaire covered a wide range of topics, such as bank account ownership, reasons for not use bank services, saving and borrowing behavior, financial resilience, and usage of non-regulated financial services.

The main findings from the DSS are summarized in chapter 5 of this report.



MODERNIZATION OF THE NATIONAL PAYMENT SYSTEM

The National Payment System developments allow electronic payments between any two individuals, companies, other entities, and Government organizations through R-TIMOR participants. All commercial banks are participants in the R-TIMOR system, the Ministry of Finance, and other indirect participants, such as Autonomous Agencies, Municipalities, and Special Funds. The system enables direct and indirect participants of the Ministry of Finance to process their payments directly through Government Resources Planning (GRP) from their offices.

National Switch and National Card

The National Switch's implementation, named P24 (the "P" associated with Pagamentu, Pagamento, Payment, and Pembayaran in twenty-four hours), already offers a full range of payment services. ATM with the P24 logo can be used by bank cards with the P24 feature regardless of the issuing bank. To achieve the complete interoperability of the ATM network, commercial banks are in the process of upgrading their clients' debit cards to include the P24 functionality.

Payment of Government Fees and Taxes in ATM

In October 2020, the BCTL completed the tax payment feature's implementation in the P24 system, allowing bank clients to pay their taxes electronically through ATMs with the P24 logo. It is an essential step in the e-government strategy to simplify and make government services more efficient in the future. Facilitating people access to these services is a crucial strategy of the Central Bank to modernize, strengthen and develop the financial sector to support economic growth.

Integration of E-wallet Services to P24 System

Since October 2020, the MOSAN e-wallet service is connected to the Mobile Switch through the P24 system. The P24 system connection allows transfers between e-wallet to bank accounts and vice-versa (B2W2B), facilitating bank clients to access their accounts and transact electronically without visiting a bank branch or ATM, using the MOSAN e-wallet application in their smartphones, as well as the USSD (Unstructured Supplementary Service Data) for phones without internet access. The TPAY e-wallet service is in the process of offering similar functionalities.

International Connectivity

The BCTL started the process to connect the National Payment System to international payments systems. The P24 system is already connected to the VISA system through BNU Timor. It has completed the VISA contactless acquiring, issuing, and Visa 3D Secure protocol compliance with the VISA requirements.

In 2020 BNCTL, initiated acquiring services (electronic transactions acceptance and process) with Union Pay International that will be integrated into the P24 systems. Once the certification is completed, it will enable the Union Pay cardholders to perform transactions in Timor-Leste.



In 2020, the Central Bank initiated a regional integration project as part of the National Payment System strategy. It started with the Prima network by PT. Rintis Indonesia will enable P24 cardholders to withdraw money and perform balance inquiries in ATM with PRIMA logo in Indonesia. Cardholders of the PRIMA ATM network can perform the same ATM transactions in equipment with the P24 logo in Timor-Leste. The connection process is expected to be completed before the end of 2021.

Digital Village Campaign

The Central Bank has launched the Digital Village campaign in Maubisse, Ainaro, on 29 November 2020. The campaign aims to promote digital financial services among Timorese in rural and urban areas. During the launch event, all payment transactions in the market area were done through MOSAN e-wallet to encourage people to experience the digital payment tool. Local authorities and representatives from all financial services involved in the service attended the event.

E-WALLET SERVICES

The most significant change in access to financial services from the FIR 2018 is the impressive growth of the e-wallet agent network. In 2018 the Telemor Fintech (branded MOSAN) was the only e-wallet service provider, and it was a pilot project, with only 178 e-wallet agents across the country. Currently, Telemor Fintech and Telin Digital Sollution (branded TPAY and linked to Telkomcel) offer e-wallet services, and there are 2,579 e-wallet agents. E-wallet agents can register new clients, top-up e-wallet balance, performing withdrawals, and transferring cash between the users. The e-wallet service is the largest in access points network among the different types of financial services.

CREDIT GUARANTEE SCHEME FOR MSMEs

In July 2019, the Central Bank launched the Credit Guarantee Scheme (CGS)¹ for SMEs, and in August 2020, micro-enterprises were included as target beneficiaries for the scheme. The program aims to facilitate Micro, Small, and Medium Enterprises (MSME) access to finance. In this program, the Credit Guarantee System shares with the bank lender the credit risk associated with MSMEs' loans.

The main changes from the amended introduced in August 2020 are:

- ◇ Micro enterprises were included in the eligibility criteria for the CGS program.
- ◇ It included the total assets parameter to complement the number of employees as criteria to classify enterprises between micro, small, medium, and large enterprises (large enterprises are not eligible for the program).
- ◇ The eligible sectors were expanded to include Trade and Services sectors.
- ◇ Exclude the interest rates parameter that bank lenders stipulate for loans under the program.
- ◇ Expand the share of risk taken by the Credit Guarantee System from 70% to 100% in exceptional cases.

The Credit Guarantee System is managed by the BCTL and implemented by lending institutions approved by the BCTL. The CGS program benefits only MSMEs, economically viable proposals owned by Timorese, and operating in Agriculture, Tourism, Industry and Manufacturing, Transport, Trade, and Services sectors.

¹ Decree Law N.º 32/2020 from 26 August, and decree law n.º 23/2017

COVID-19 IMPACT

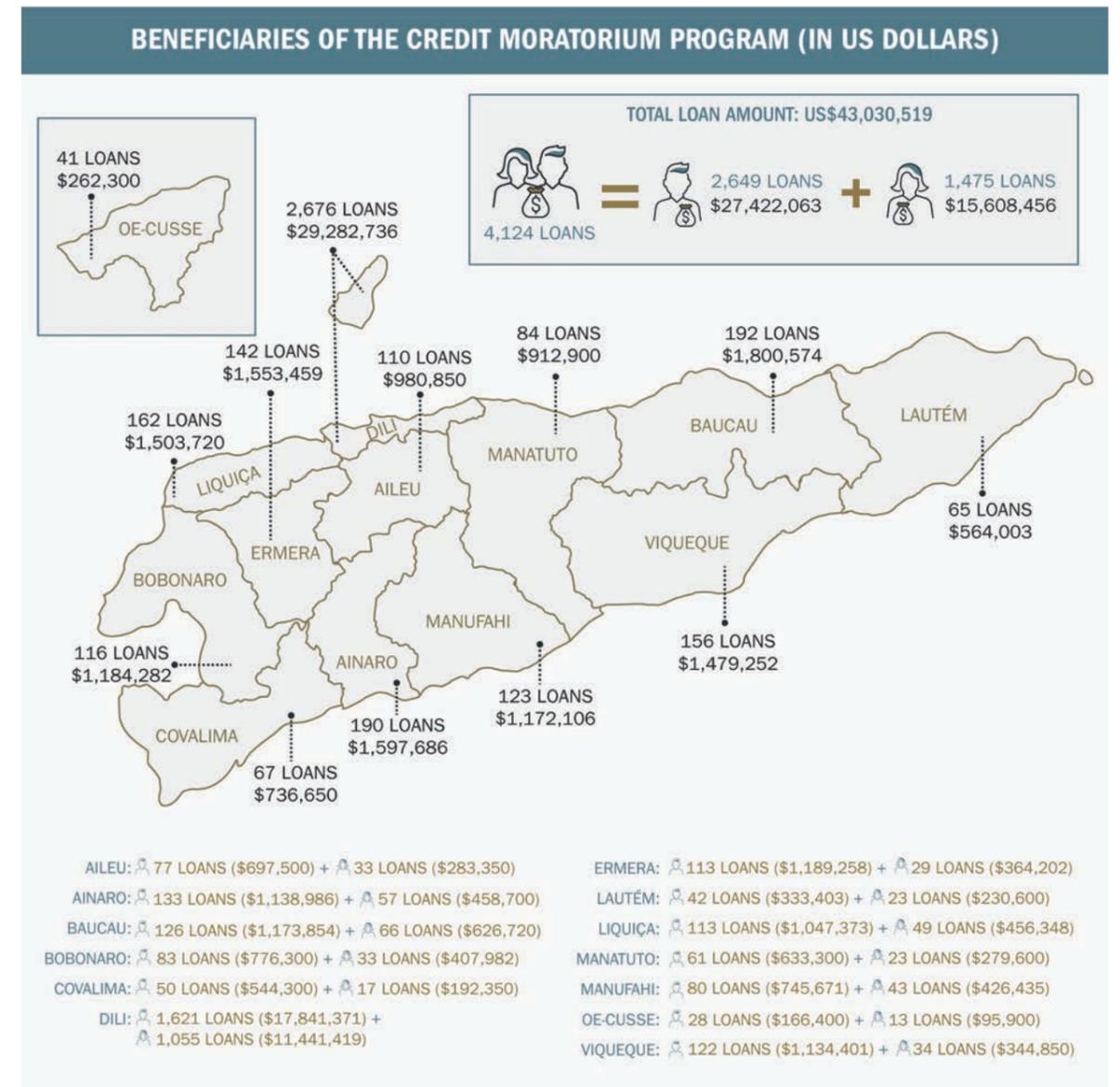
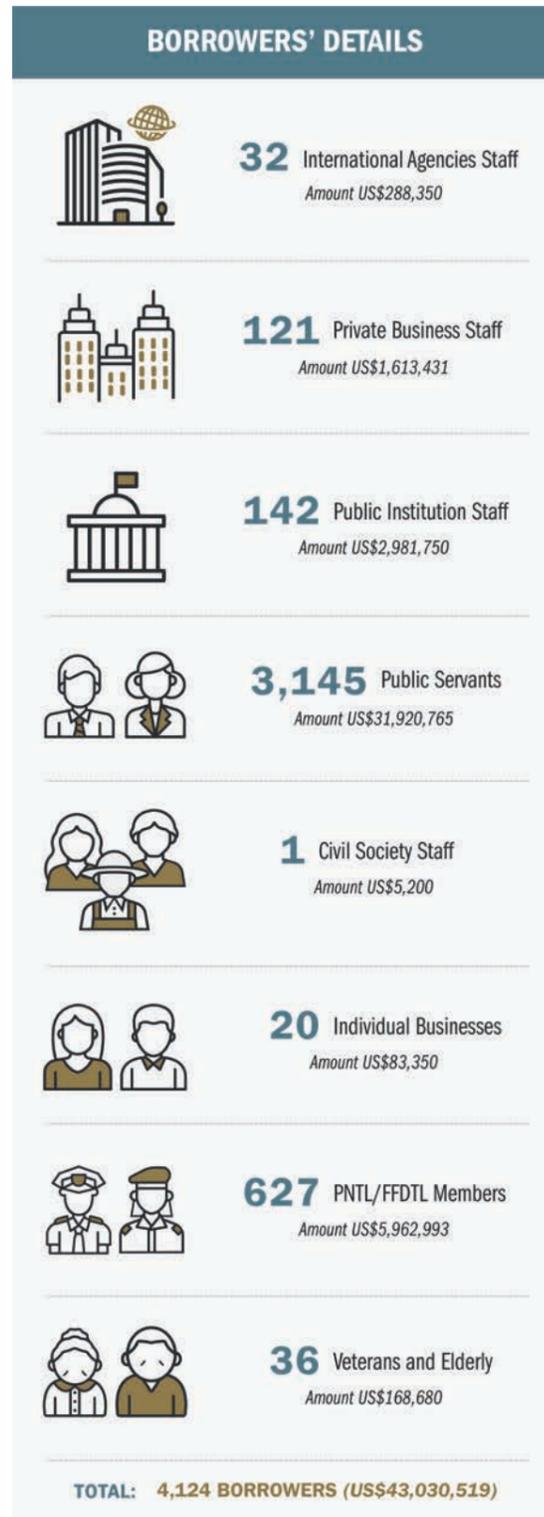
To minimize the impact of the COVID-19 pandemic in the financial sector, the BCTL introduced special working arrangements for financial institutions during the state of emergency and different levels of movement restrictions imposed by the Government. All financial institutions continued to provide essential services to the public while fully observe the health and safety procedures set by relevant authorities. In the areas under the health fence during the lockdown periods, financial services were limited to reduce the face-to-face contacts and halt the local transmission. The most significant measures adopted were:

- ◇ Branch and offices services hours changed to 9:30 to 14:00.
- ◇ Bank institutions monitor the ATM network closely to guarantee all terminals are fully operational and able to perform withdrawal transactions all the time.
- ◇ Financial institutions guarantee that all electronic payment channels are fully operational with a minimum of 98% uptime.
- ◇ Change in the daily amount limit for withdrawals at ATMs to US\$1,000.00.

The Central Bank also requested clients to use electronic channels for financial transactions to reduce face-to-face contact and immediately inform the banks if an ATM terminal is not working properly.

Credit Moratorium Program

Besides other government measures, BCTL launched a credit moratorium program to support the economy, benefitting businesses and households affected by the COVID-19 outbreak. The program offered the possibility to pause the loans for three months; during this period, borrowers paid only 40% of the interest costs. The program contributed with the remaining 60% of the interest paid to the bank lender (no principal repayment during the three months). The COVID-19 Financial Assistance Program covered the cost of the program. Individuals and established businesses with ongoing loans were the direct beneficiaries of the program.



The participating banks received a total of 6,321 clients' applications for the moratorium program. After reviewing the applications based on the program criteria and the evaluation from the lender (commercial bank) and the Central Bank, a total of 4,135 applications successfully joined the moratorium program; the great majority (4,124 out of 4,135) are individual borrowers.

The COVID-19 pandemic increased the urgency to attain greater financial inclusion levels, together with a robust and up-to-date database of citizens and businesses. Higher levels of financial inclusion and digitalization would enable the Government and NGOs to increase efficiency in the direct grants programs, facilitate the process, and add speed and security at a reduced cost of the grant distribution. At the same time, also minimize face-to-face contact handling physical money (bills and coins).

02

FINANCIAL INCLUSION ACCESS INDICATORS

The first step on the financial inclusion path is facilitating access to financial services through geographic distribution of brick-and-mortar branches, offices, and other distribution channels. This chapter analyses the distribution of financial services access points and the evolution of the financial inclusion access indicators. A diverse range of financial services access points is evaluated, including banks, regulated deposit-taking institutions, and non-banks, to present a complete picture of the country's financial services outreach. The chapter includes an in-depth analysis of banks' services, deposit-taking institutions, and e-wallet services.

FINANCIAL INCLUSION ACCESS POINTS

The total number of financial services access points jumped from 1,642 to 4,925 during 2019 and 2020, a remarkable 200% increase. Most of the growth resulted from the increased network of e-wallet agents across the country, all types of financial services, except insurance, increased their number of access points since 2018.

The table below shows the number of access points from the different types of financial services and channels.

However, for financial inclusion, not only the number of access points matters, the location of these access points is equally important to make financial services easily accessible to all, urban and rural areas. The following maps show the distribution of the different types of access points². (See Figures 2.1 and 2.2)

FINANCIAL SERVICES ACCESS POINTS

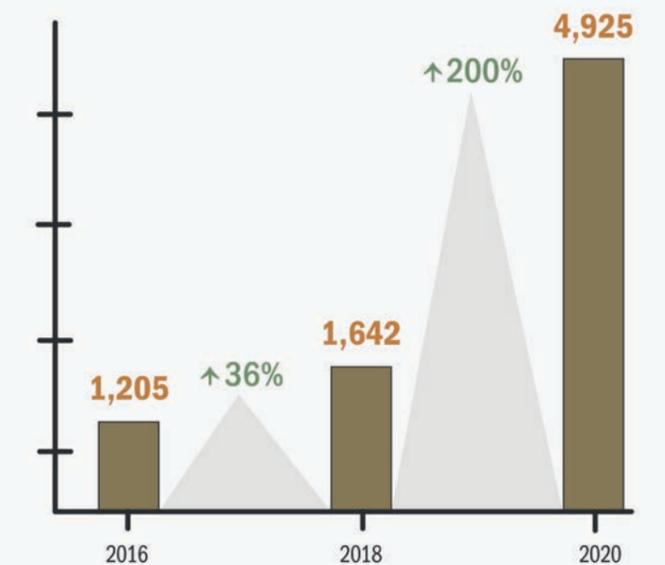


Table 2.1. Financial Services Access Points Evolution

TYPE OF FINANCIAL SERVICES	2016	2018	2020	GROWTH OF 2020 OVER 2018
Bank Services: branches, sub-branches, ATM, EFTPOS, and meeting centers	484	375	397	6%
Other Deposit Taking Institutions (ODTI): field offices, meeting centers	671	1,012	1,234	22%
E-wallet Services: agents and merchants accept it as form of payment	-	178	3,182	1688%
Insurance Companies	2	2	2	0%
Currency Exchange Bureaus (CEB)	2	3	5	67%
Money Transfer Operators (MTO)	14	20	22	10%
Other Credit Providers: pawnshops and microcredit services	N/A	9	15	67%
Credit Cooperatives: Credit Union and Multi-sectorial Cooperatives with credit service	32	43	68	58%
TOTAL	1,205	1,642	4,925	200%

² The maps are available at the Banco Central de Timor-Leste website.

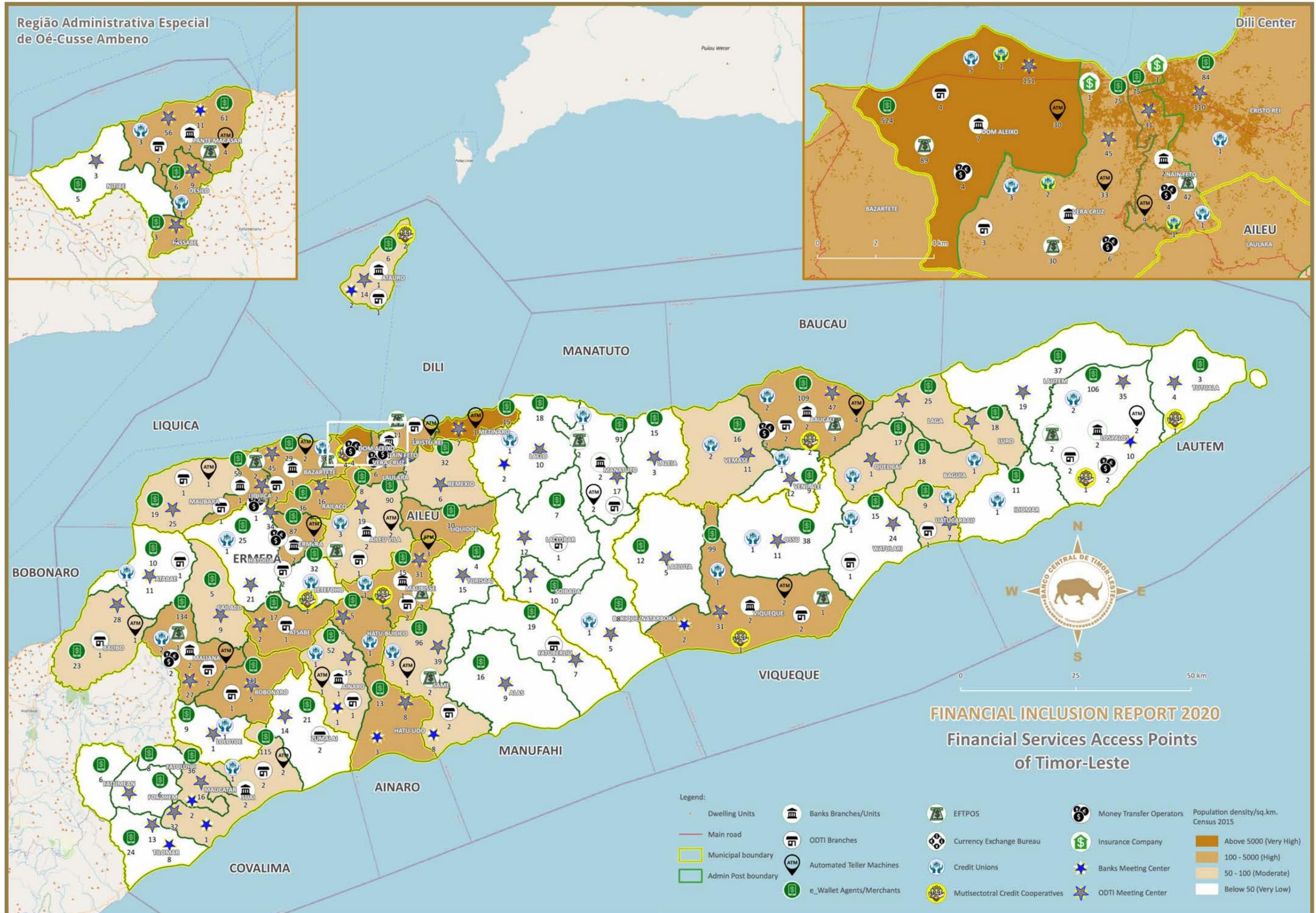


Figure 2.1. Geographic location of different types of access points across Timor-Leste

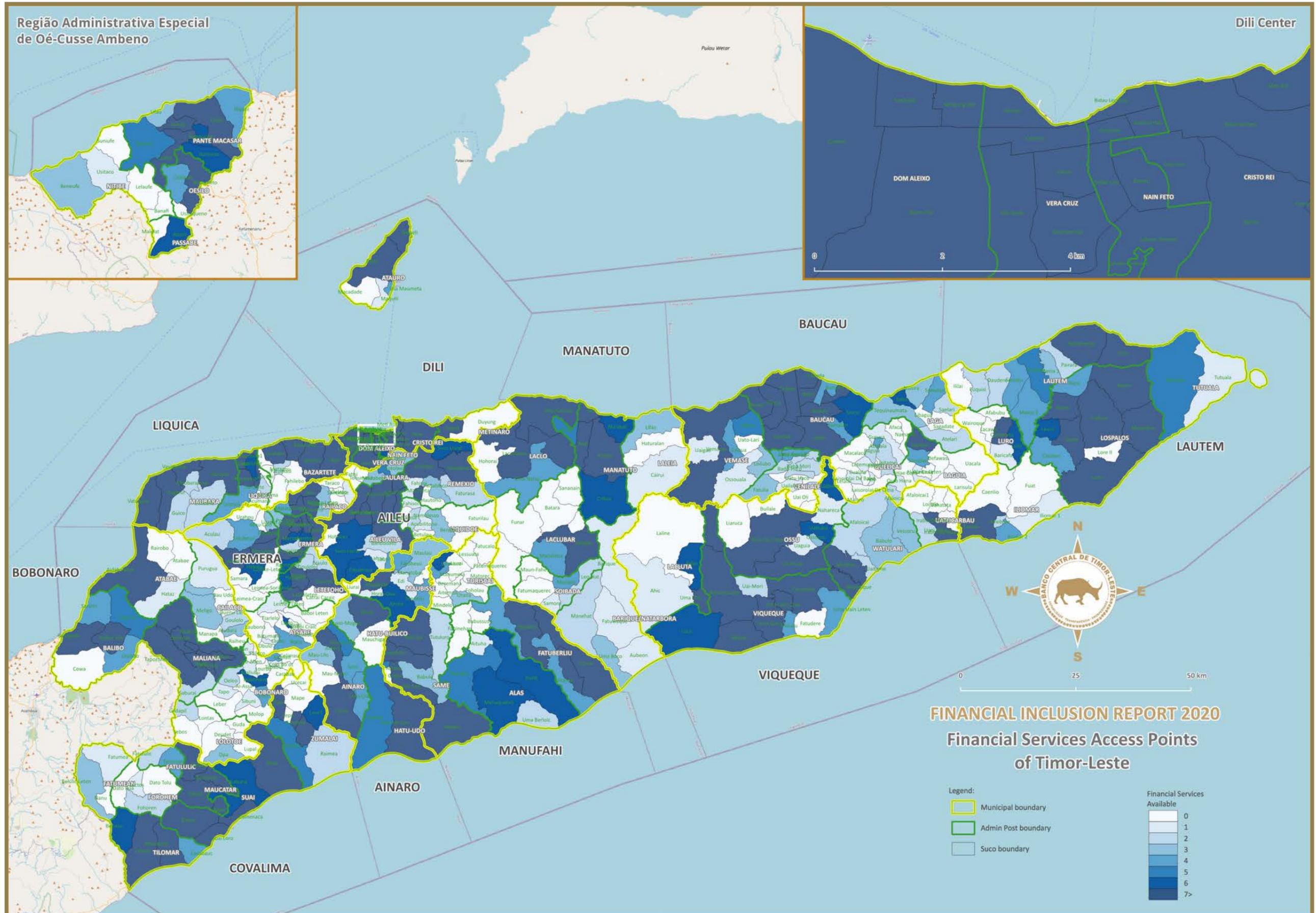
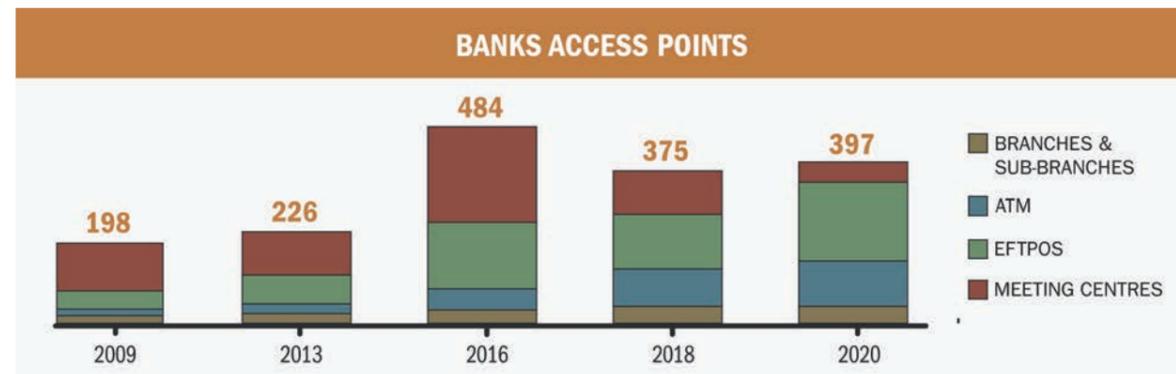


Figure 2.2. Heat map portraying the geographic concentration of financial services access points per suco



Banks Access Points

There are five commercial banks operating in Timor-Leste:

- ◇ BNU Timor, from the Grupo Caixa Geral de Depósitos
- ◇ Australia and New Zealand (ANZ) Bank Timor-Leste Branch
- ◇ Banco Nacional de Comércio de Timor-Leste (BNCTL)
- ◇ Bank Mandiri Timor-Leste Branch
- ◇ Bank Rakyat Indonesia (BRI) Timor-Leste Branch

The commercial banks' access point had a marginal 6% increase from 375 in 2018 to 397 in 2020. An increasing focus on ATMs and Electronic Funds Transfers at Point of Sales (EFTPOS) to spread out services for clients' convenience, benefiting only the fraction of bank clients with debit cards. The gradual reduction in the meeting centres may highlight the movement from group loans to a more personalized service offer from BNCTL. The number of bank branches remained at 42 since 2018.

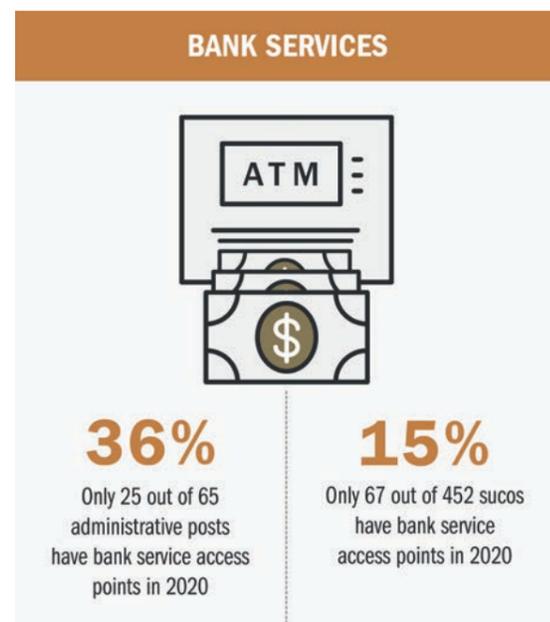
Two banks, BNCTL and Mandiri, offer the bank "móvel" services (bank vehicles). The bank móvel makes and collects payments and other similar services for clients in areas with significant demand concentration or difficult access areas.

The graphic on "Banks Access Points" shows the increase in the banks' access points since 2009.

The drop in the banks' access points from 2016 to 2018 reflects the reduced focus on meeting centres as a distribution channel and a bank that terminates its services to individual clients to target corporate clients only.

Despite the increase in the banks' access points, branches, ATM and EFTPOS are primarily located in the main urban area of each municipality, resulting in a large number of the unserved regions, 40 out of the total 65 administrative posts, and 386 out of the total 452 sucos³ without any bank service access points in 2020.

The map on the bank branches network and their circular coverage area shows the bank branch's outreach. An estimated 33.6% of the population, equivalent to 395,960 individuals, reside within 5 km of a bank branch (in a straight line). The 10 km distance covers more individuals, 562,865, or 47.8% of the population. Hence 52.2% of the people need to travel more than 10 km, for many hours, to use bank services, such as open a bank account, make a payment, or even collecting payments from Government. (See Figure 2.3)



³ Sucos are villages in Timor-Leste.

Other Deposit-Taking Institutions Access Points

The access points from the two other deposit-taking institutions operating in the country, Keabauk Investimentu no Finansas (KIF) and Servisu Finanseiru Moris Rasik (SFMRSA), increased by 22% from 1,012 in 2018 to 1,234 in 2020, primarily due to the increase of meeting centres.

ODTIs collect deposits and give loans to individuals. The SFMRSA follows the microfinance guidelines from Professor Mohammed Yunus, concentrating its offers to women through solidarity groups, with regular gatherings at the meeting centres. While KIF has shifted its operations to individuals, not using meeting centres anymore.

ODTIs access points are widely distributed compared to commercial banks; its services covered 60 of the 65 administrative posts and 284 sucos out of the total 452 sucos in 2020.

E-wallet Services Access Points

The e-wallet services showed the most significant change in access points from 2018 to 2020, from 178 access points to 3,182. There are currently two FinTech⁴ offering e-wallet services in Timor-Leste, the Telemor Fintech (branded MOSAN) and Telin Digital Sollection (branded TPAY linked to Telkomcel). In the FIR 2018, only Telemor Fintech was piloting its service.

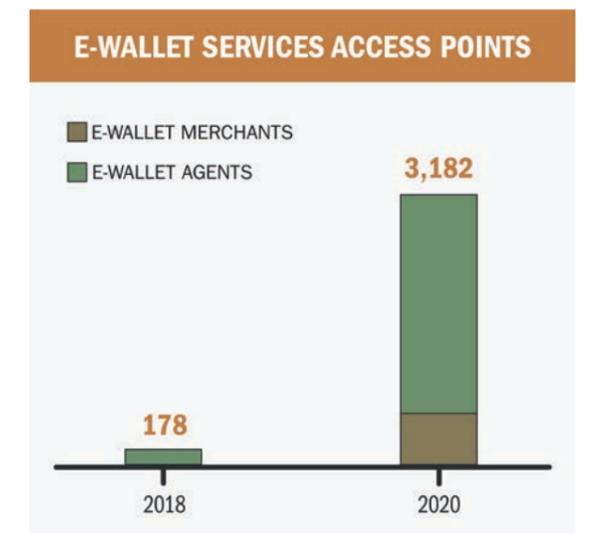
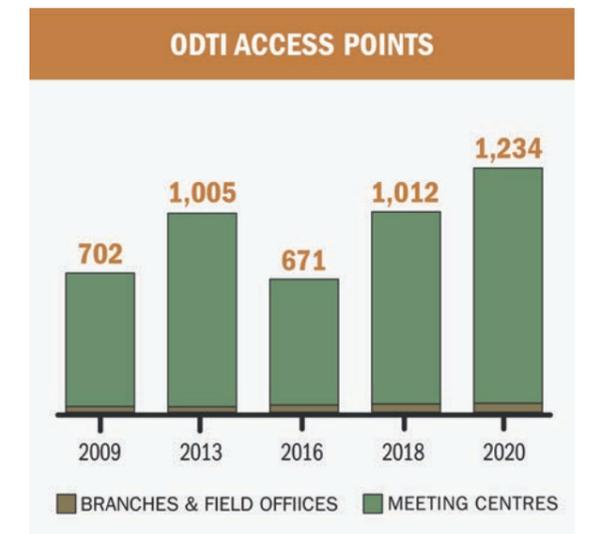
The significant increase in the number of access points results from intensive promotion campaigns across the country. The low costs associated with e-wallet access points allow the services to scale up fast in recent years. The two types of access points for e-wallet services are the agents and merchants. The e-wallet agents are responsible for registering new clients, top-up the e-wallet balance, performing withdrawals, and transferring cash between the users. The e-wallet merchants accept payments through the e-wallet service.

Bank Account Connectivity

The MOSAN e-wallet service is already connected to all four commercial retail banks (BNCTL, BNU Timor, BRI, and Mandiri). This connection allows transfers between e-wallet to bank accounts⁵ through the P24 system, facilitating bank clients to access their accounts and transact electronically without visiting a bank access point or using the debit card. (See Figure 2.4)

⁴ FinTech is the term for business that uses technology to enhance or automate financial services and processes.

⁵ Only transfers from Bank Mandiri accounts to MOSAN e-wallet account are not yet operational. The transfers from MOSAN e-wallet account to Mandiri accounts are operational.



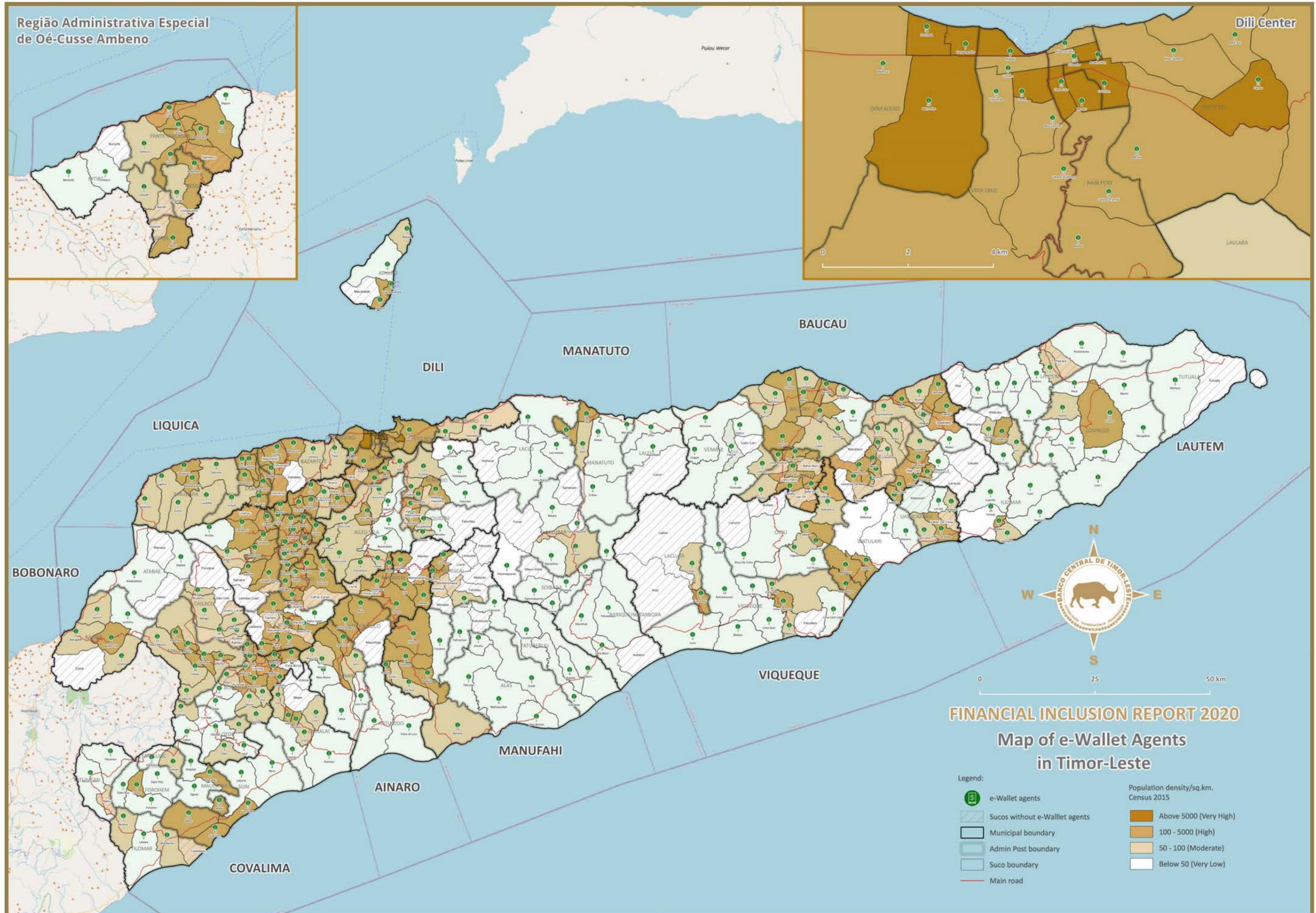


Figure 2.4. Distribution of the e-wallet agents and merchants across Timor-Leste

FINANCIAL INCLUSION ACCESS INDICATORS

The distribution of financial services access points, considering all types of financial services, covers all 12 municipalities and RAEOA, and for the first time, all the 65 administrative posts. At the suco level, 391 sucos have at least one financial services access point, but 61 sucos without any financial services; people living in these sucos need to commute to use financial services.

The following table details the analyses by the different types of financial services at the end of 2020.

COVERAGE OF ACCESS POINTS BY MUNICIPALITIES, ADMINISTRATIVE POSTS & SUCOs					
	2009	2013	2016	2018	2020
 MUNICIPALITIES	100% 13 out of 13 have access points covered since 2009				
 ADMINISTRATIVE POSTS	86.1% 56 out of 65 covered	92.3% 60 out of 65 covered	87.7% 57 out of 65 covered	93.8% 61 out of 65 covered	100% all 65 covered
 SUCOS	60% 265 out of 442 covered	62.9% 278 out of 442 covered	57.7% 255 out of 442 covered	56.6% 256 out of 452 covered	86.5% 391 out of 452 covered

Table 2.2. Coverage of Type Financial Services by Geographic Regions 2020

ACCESS POINTS COVERAGE	MUNICIPALITY	ADMINISTRATIVE POSTS	SUCOS
TOTAL NUMBER OF ADMINISTRATIVE UNIT	13	65	452
With Any Type of Financial Service	13	65	391
With Bank Service	13	25	66
With ODTI Service	13	60	284
With E-wallet Service	13	65	343
With Other Financial Services*	13	35	64

* Other Financial Services includes: Insurance, MTO, CEB, Credit Union, Multi-sectoral Cooperatives that includes Credit, Other Credit Providers

The next table evaluates the number of access points relative to the country size (area and population). These indicators allow a more comprehensive analysis and a more straightforward comparison analysis between countries.

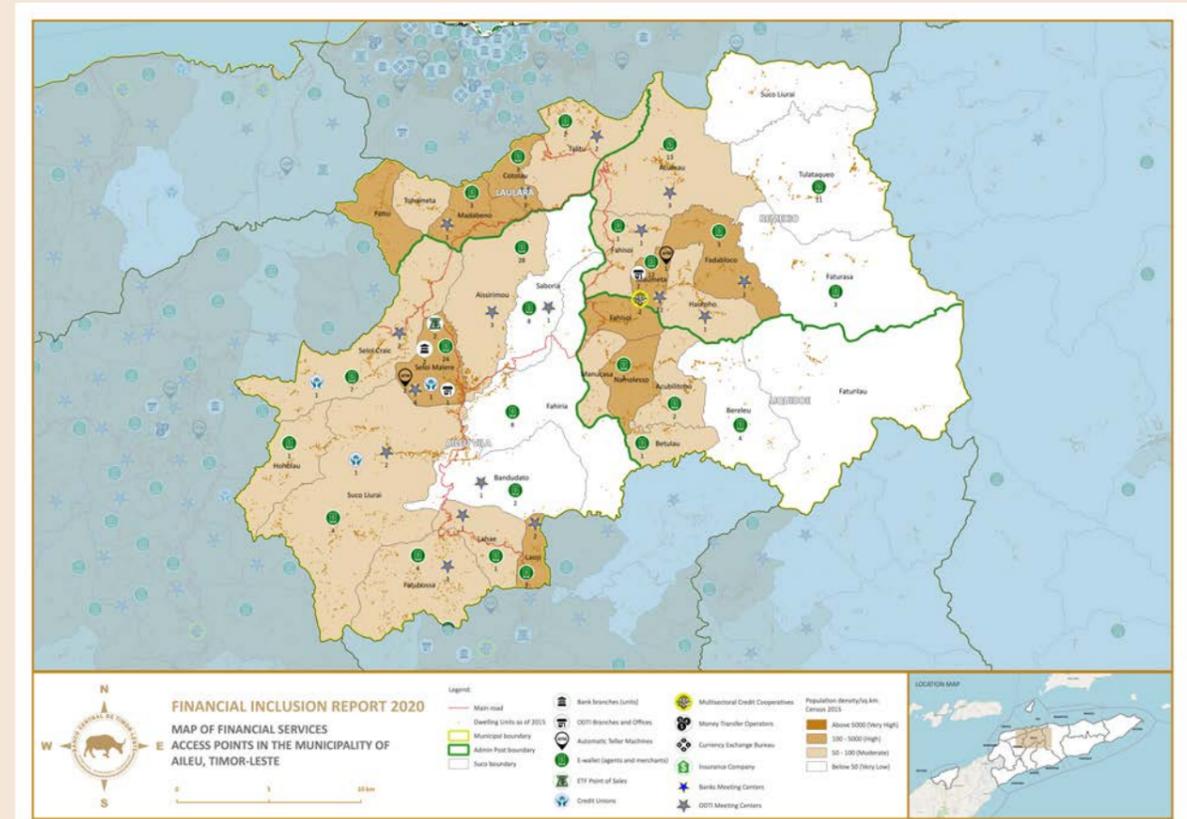
Table 2.3. Access Indicators Relative to the Adult Population and Geographic Area at End-2020

ACCESS INDICATORS	PER 10,000 ADULT POPULATION	PER 1,000SQ KM
Bank Branches	0.63	2.82
ATM	1.69	7.53
EFTPOS	2.91	12.98
ODTI Access Point	18.63	82.99
E-wallet Access Point	48.05	173.44
Cash-in and Cash-out Access Point*	41.96	186.89

* These include banks and ODTI branches, ATMs and e-wallet agents, apply The Alliance for Financial Inclusion (AFI)

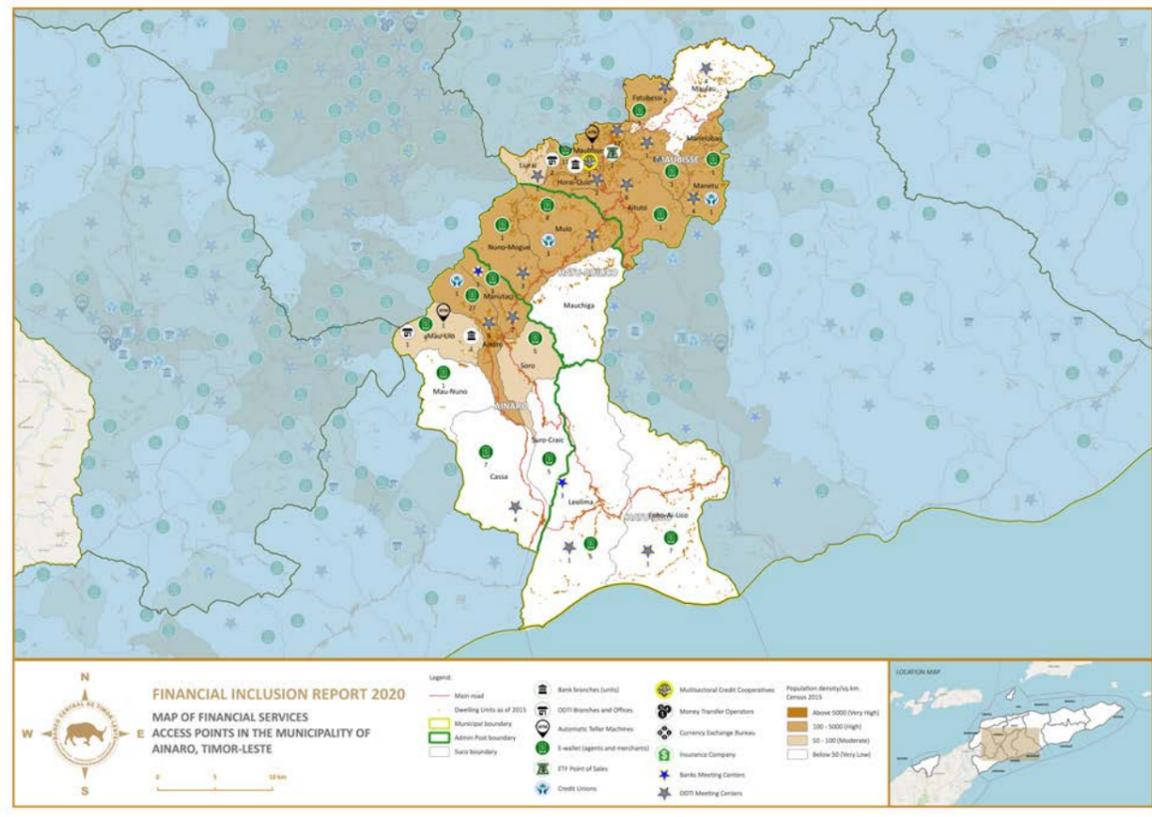
FACT SHEET

ON FINANCIAL INCLUSION IN MUNICIPALITIES



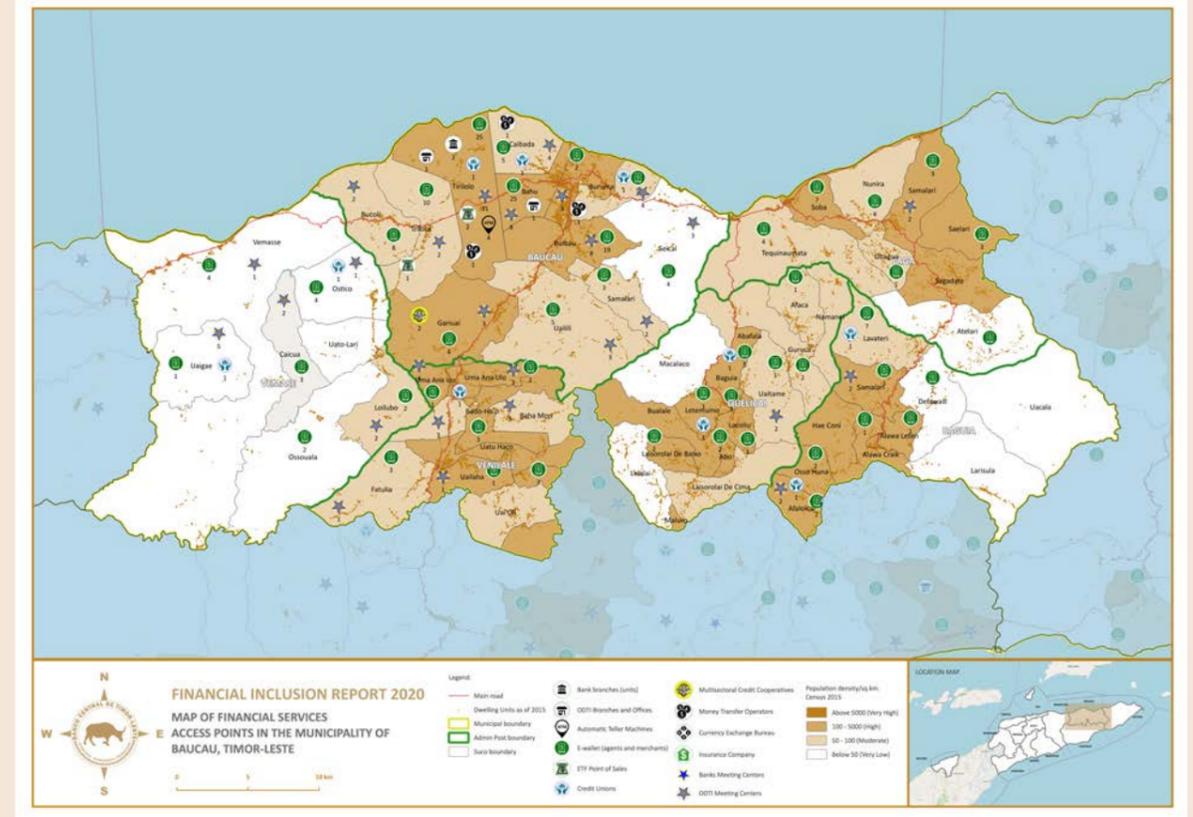
Aileu Municipality

- » **Population:** 48,837
- » **Total land area:** 736 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 33
- » **Unserved Sucos:** 7 (Lequitura, Fatisi, Tohumeta, Fahiso - Liquidoe, Faturilau, Manucassa, and Suco Liurai-Remexio)



Ainaro Municipality

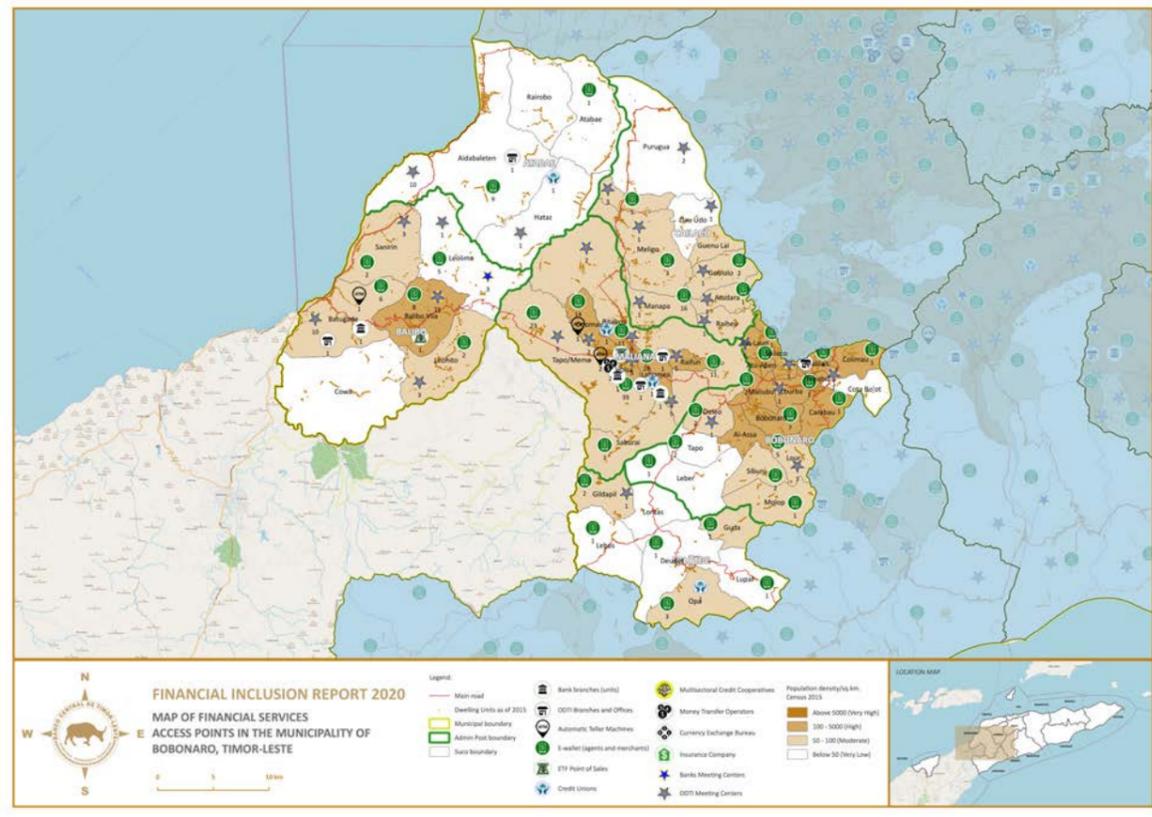
- » **Population:** 63,136
- » **Total land area:** 803 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 21
- » **Unservd Sucos:** 2 (*Mauchiga and Manelobas*)



Baucau Municipality*

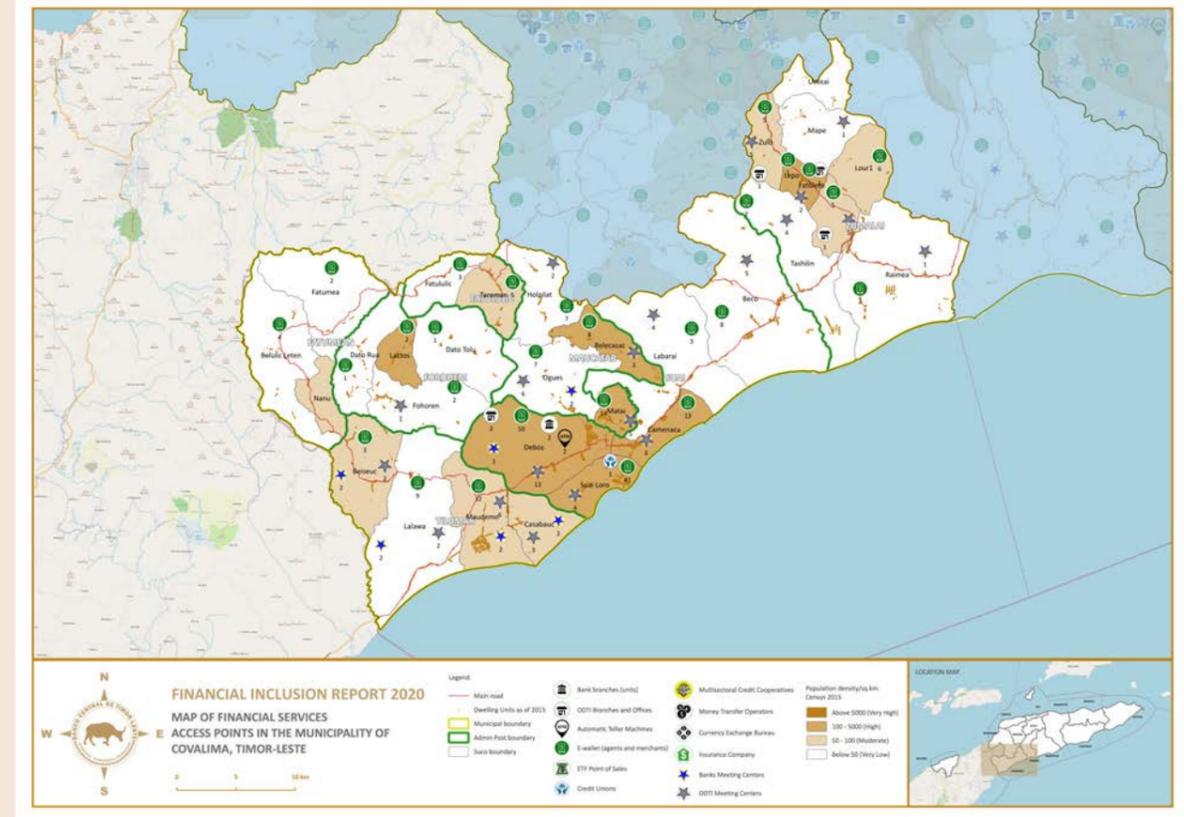
- » **Population:** 123,203
- » **Total land area:** 1,504 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 59
- » **Unservd Sucos:** 13 (*Hae Coni, Larisula, Uacala, Sagadate, Bualale, Laisorolai De Cima, Lelalai, Macalaco, Maluro, Namanei, Uato-Lari, Uai Oli, and Uatu Haco*)

* The municipality with the largest number of unserved sucos.



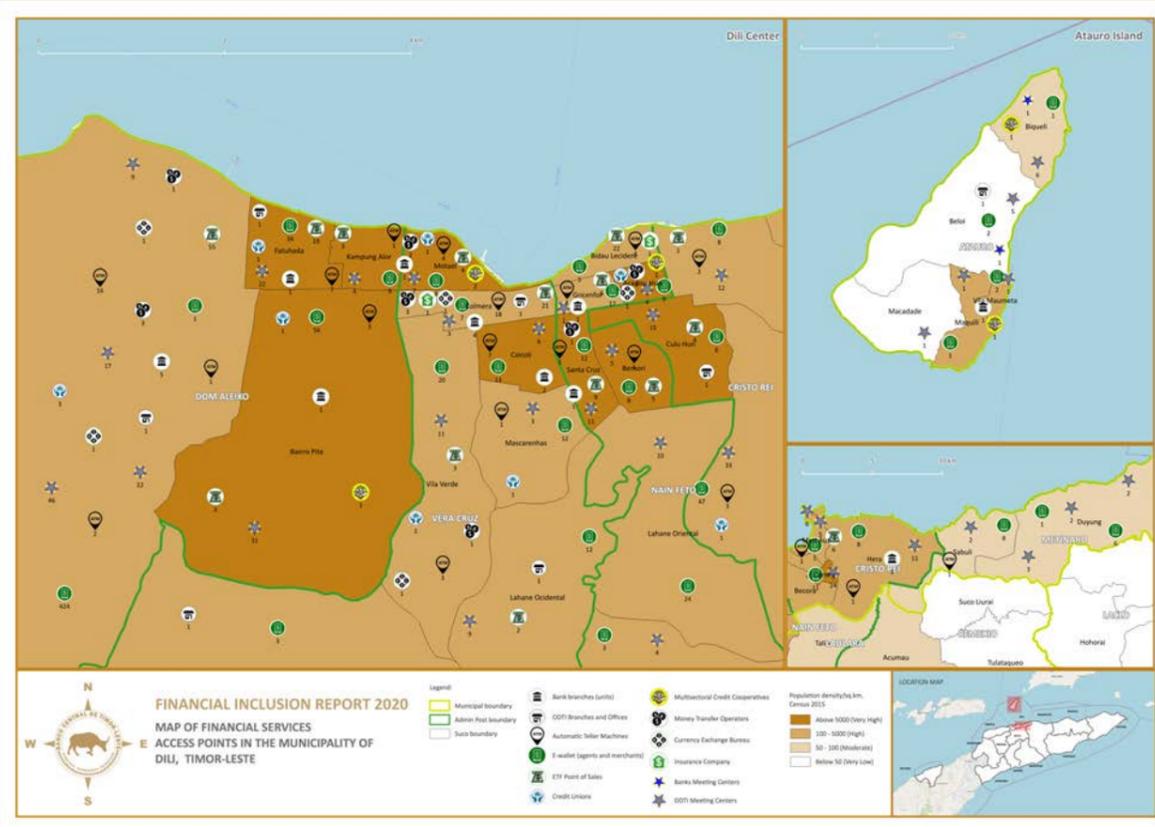
Bobonaro Municipality

- » **Population:** 97,762
- » **Total land area:** 1,378 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 50
- » **Unserved Sucos:** 6 (*Rairobo, Cowa, Ai-Assa, Cota Bo'Ot, Guenu Lai, and Lontas*)



Covalima Municipality

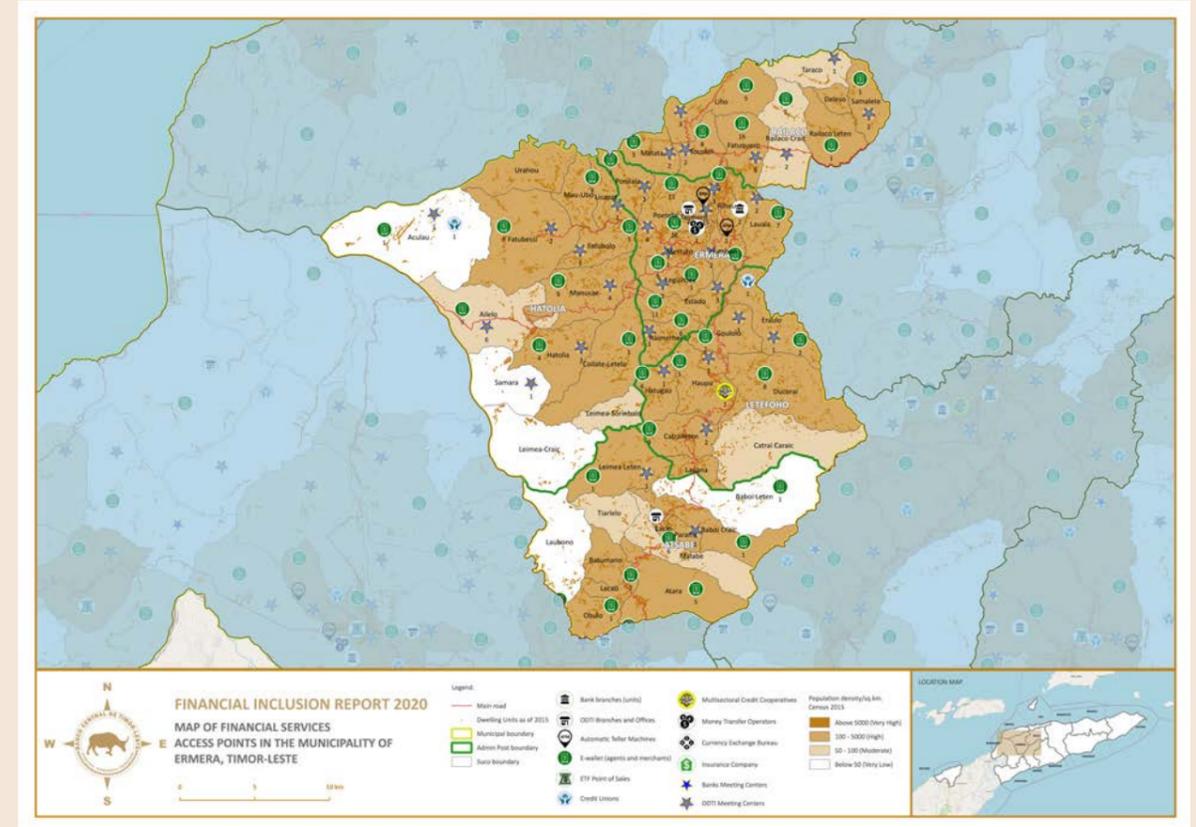
- » **Population:** 65,301
- » **Total land area:** 1,199 sq km
- » **Number of Administrative Posts:** 7
- » **Number of Sucos:** 30
- » **Unserved Sucos:** 2 (*Nanu, and Ucecai*)



Dili Municipality*

- » **Population:** 277,279
- » **Total land area:** 364 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 36
- » 100% of Sucos covered by Financial Services Access Points
- » Administrative and Economic Capital of Timor-Leste

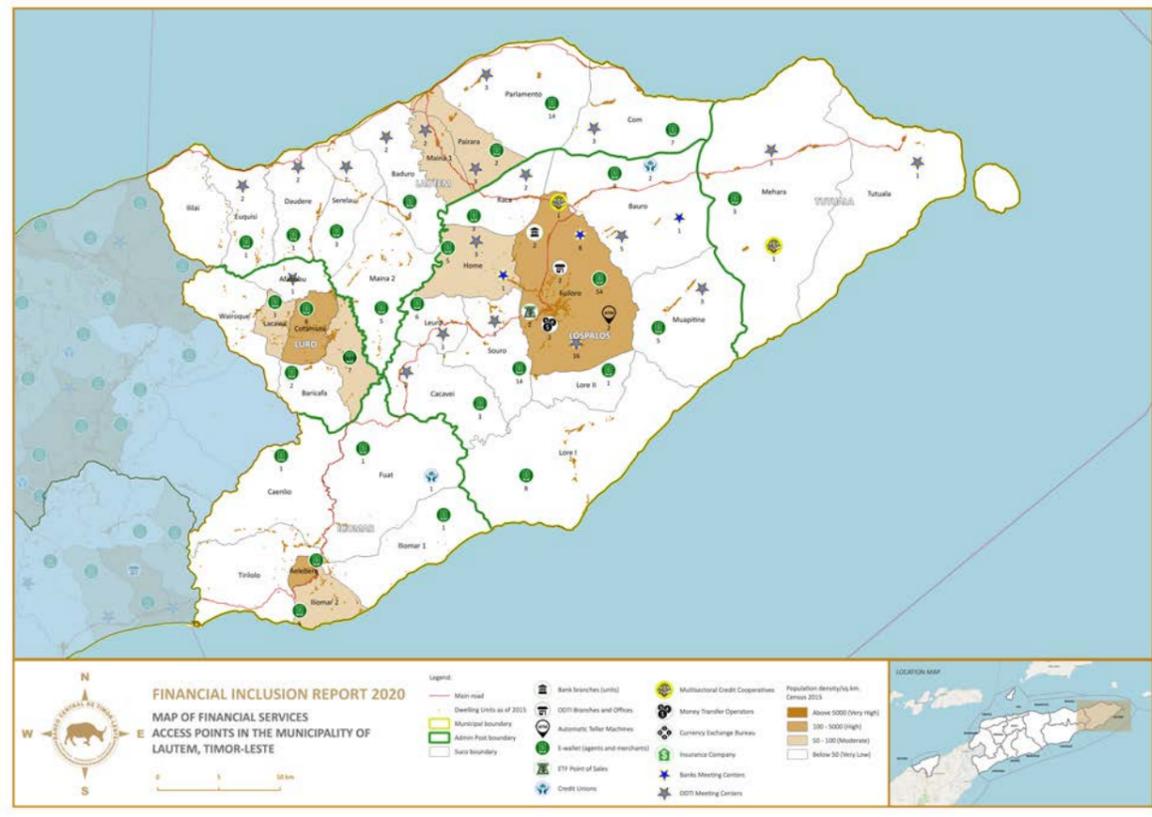
* One of two municipalities where all sucos are served by financial access points, together with Liquiça.



Ermera Municipality*

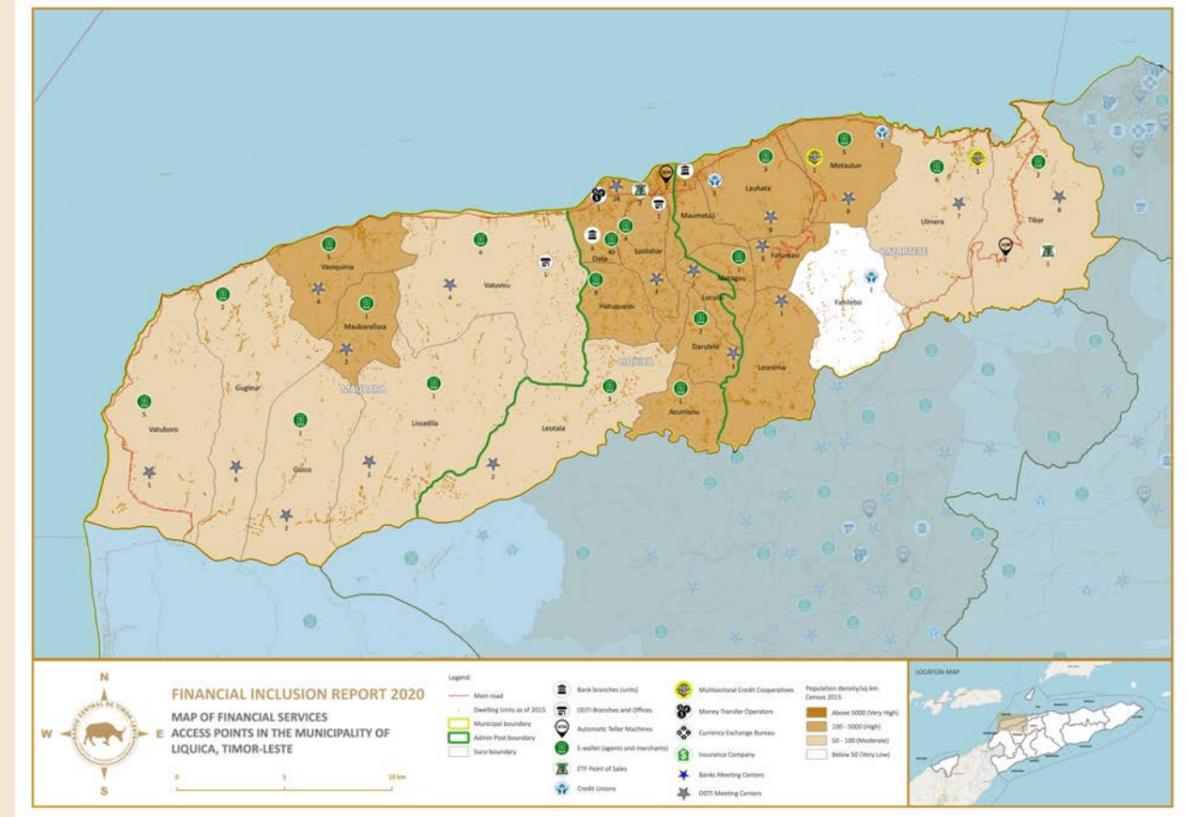
- » **Population:** 125,702
- » **Total land area:** 756 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 52
- » **Unservd Sucos:** 11 (Batumano, Laubono, Malabe, Tiarlelo, Leimeia-Craic, Leimeia-Sorinbalo, Mau-Ubo - Hatolia, Urahou, Catrai Craic, Lauana, and Deleso)

* The municipality with the second largest number of unserved sucos.



Lautém Municipality

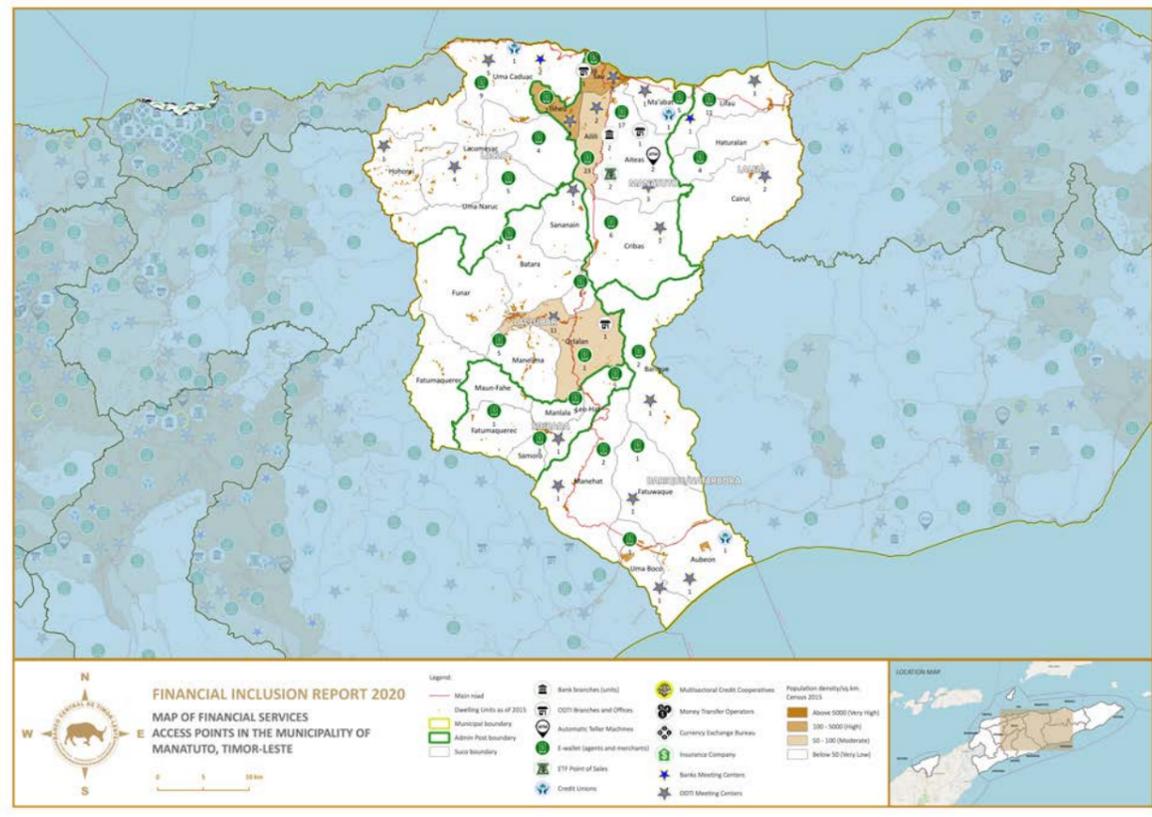
- » **Population:** 65,240
- » **Total land area:** 1,817 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 34
- » **Unservd Sucos:** 3 (*Tirilolo, Ililai, and Wairoque*)



Liquiça Municipality*

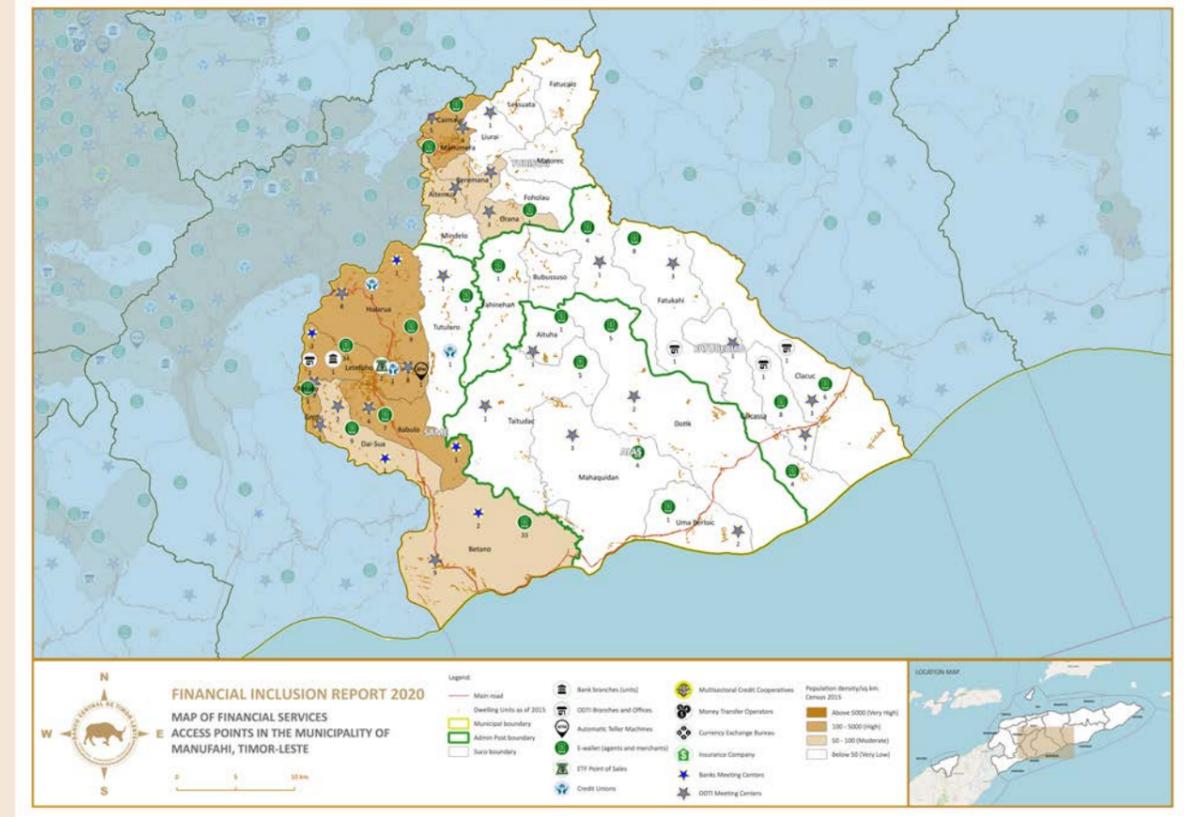
- » **Population:** 71,927
- » **Total land area:** 560 sq km
- » **Number of Administrative Posts:** 3
- » **Number of Sucos:** 23
- » 100% of Sucos covered by Financial Services Access Points

* One of two municipalities where all sucos are served by financial access points, together with Dili.



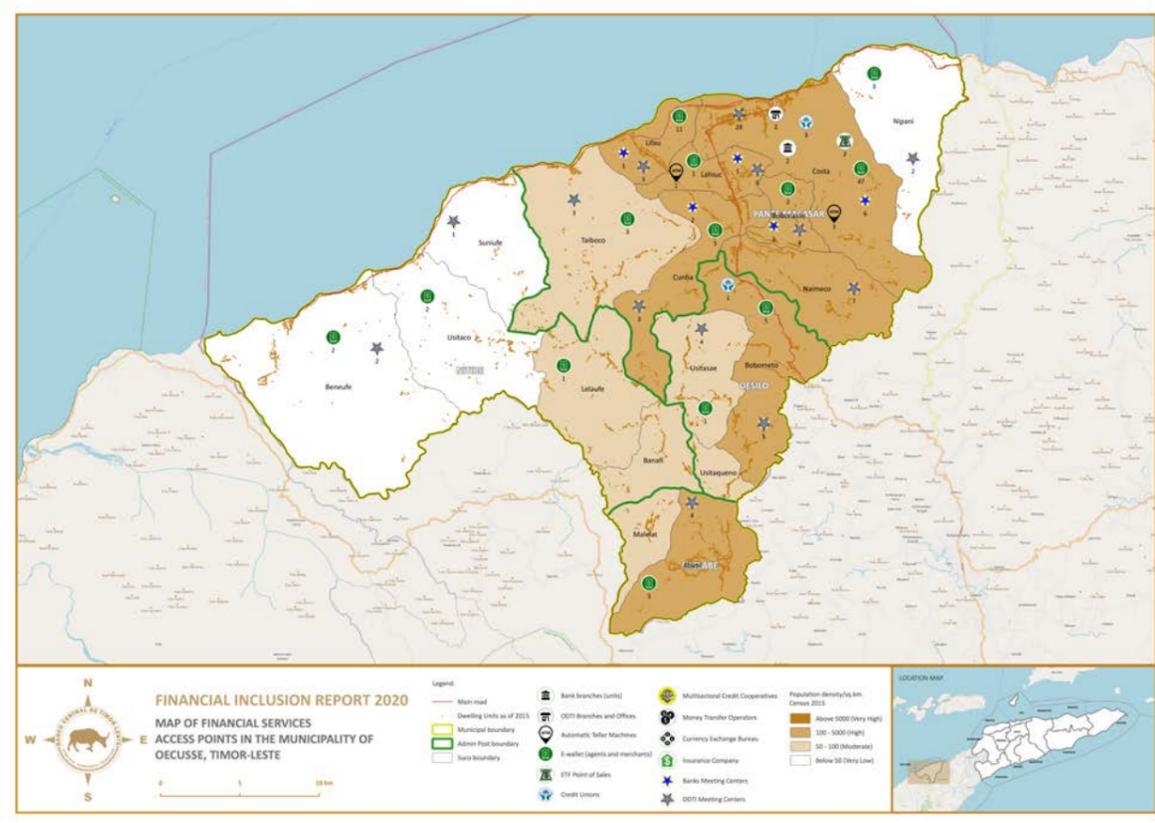
Manatuto Municipality

- » **Population:** 46,619
- » **Total land area:** 1,783 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 31
- » **Unserved Sucos:** 4 (*Laicore, Fatumequerec-Laclubar, Funar, and Maun-Fahe*)



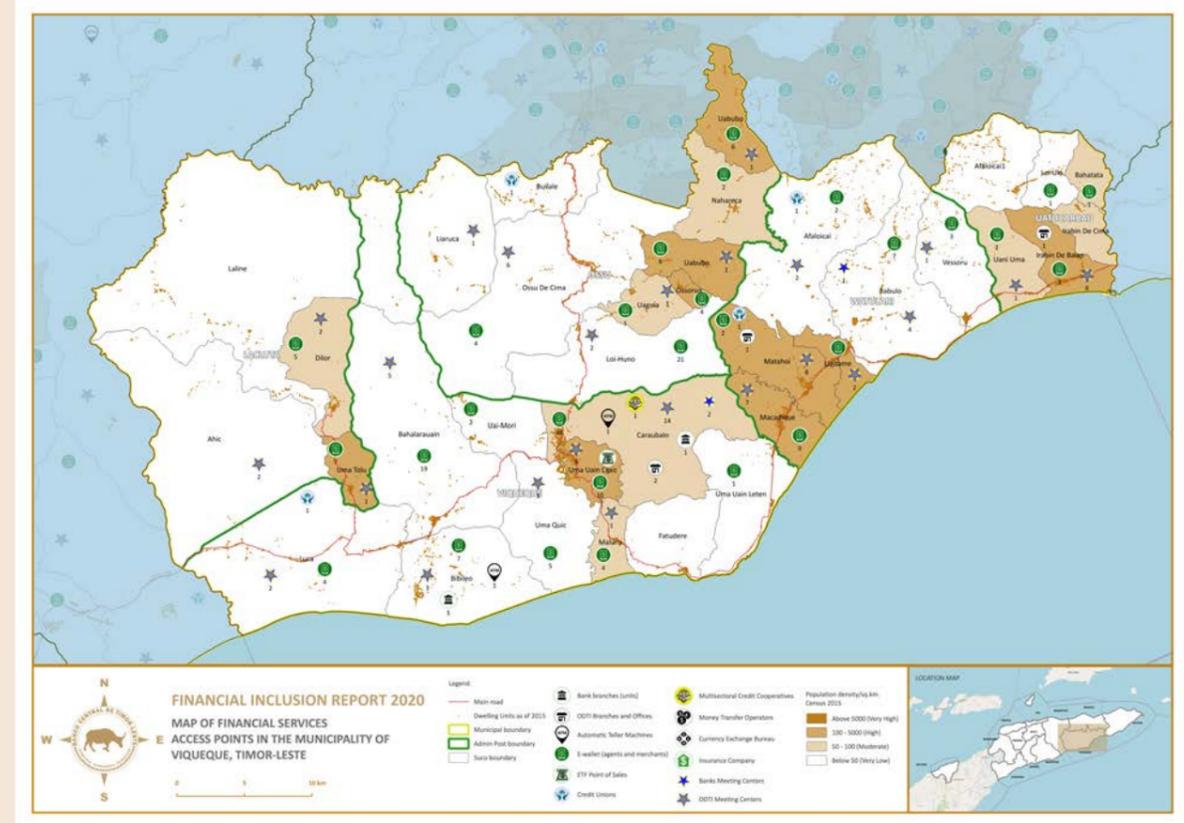
Manufahi Municipality

- » **Population:** 53,691
- » **Total land area:** 1,333 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 29
- » **Unserved Sucos:** 6 (*Bubususo, Fatucalo, Foholau, Lessuata, Matorec, and Mindelo*)



Região Administrativa Especial de Oé-Cusse Ambeno

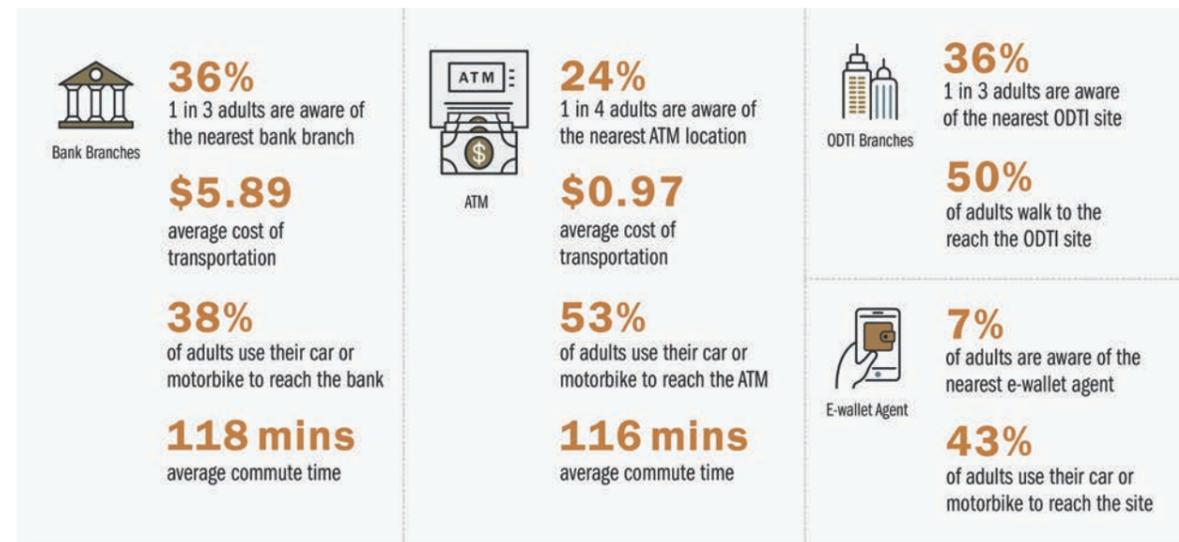
- » **Population:** 68,913
- » **Total land area:** 814 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 19
- » **Unserved Sucos:** 3 (*Banafi, Usitaqueno, and Malelat*)



Viqueque Municipality*

- » **Population:** 76,033
- » **Total land area:** 1,873 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 36
- » **Unserved Sucos:** 4 (*Laline, Afaloicai/ Uatucarbau, Irabin De Cima, and Fatudere*)

* The largest municipality.



ACCESS TO FINANCIAL SERVICES FROM THE CUSTOMERS PERSPECTIVE

The DSS includes a set of questions regarding the awareness of the closest financial services access point, transportation mode to the access point, cost of the transportation, and time required to reach the access points.

Bank Branches

Only 36% (1 in 3) of the adults know the bank branch's location near their house or work. Regarding the mode of transport used to go to the bank, most use their car or motorbike (38%). On average, people incur \$5.89 of transport cost; an average commute time of 118 minutes, almost 2 hours.

ATM

Only 24% (1 in 4) of adults know the ATM location near their house or service. The mode of transport used to go to the ATM is mostly car or motorbike (53%) or walking (25%), incurring on average \$0.97 in transport cost and average time spent of 116 minutes, almost 2 hours.

ODTIs Branches, Field Offices or Meeting Centres

Similar to banks' location, 36% (1 in 3) of adults know the site of an ODTI access point near them. The mode of transport used to go to the ODTI is mostly walking (50%) and own a car or motorbike (30%).

E-wallet Agent

Despite having the best distribution among all types of financial services, only 7% of adults are aware of the e-wallet agent near them. The low awareness probably reflects the unfamiliarity with the service or the nomenclature. The transport used to access an e-wallet agent is mostly car or motorbike (43%) and walking (26%).



KEY TAKEAWAYS

Easy access to financial services is essential to promote financial inclusion. Despite the increase in the number of financial services access points since 2016, there are still 61 sucos with no financial services available.

Over the last years, it was not only the number of access points that increased, but the geographic distribution coverage has also improved, as showed in the increased coverage of the administrative posts and sucos. However, Timorese's awareness of access points seems low, even for the bank branches, as only 36% know the nearest branch. Only 7% of Timorese know the location of e-wallet services, even with an impressive distribution network present in 76% of sucos.

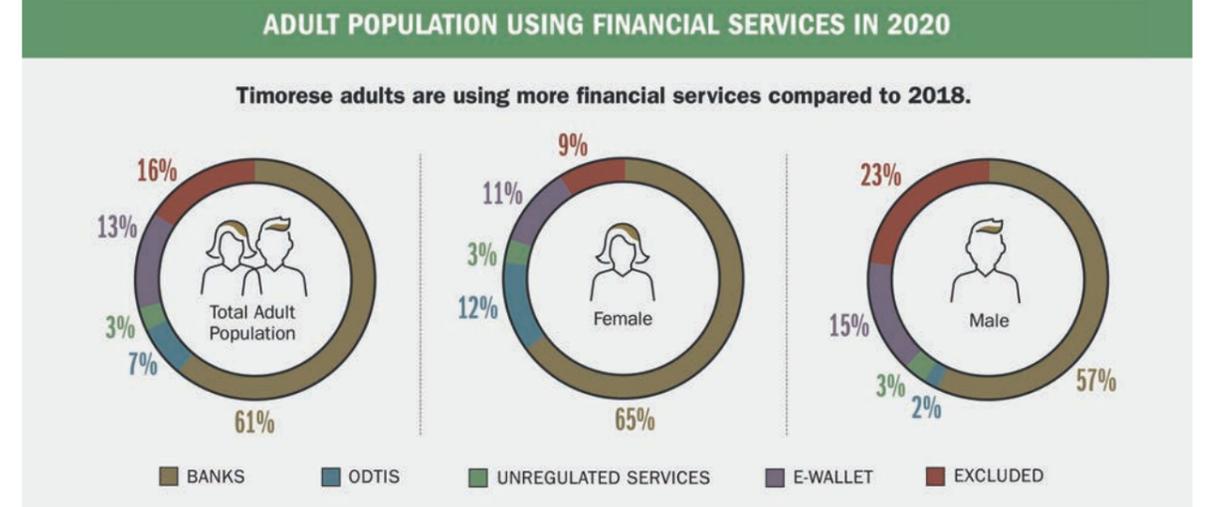
The BCTL launched the "Digital Village" awareness campaign in November 2020 to inform Timorese about digital channels to access financial services and promote its usage, including access to bank accounts through the e-wallet account.

Given the importance of access to financial services, the BCTL will continue to work with financial sector providers to develop policies to improve and facilitate access and information regarding the use of financial services.

03

FINANCIAL INCLUSION
USAGE INDICATORS

Easy access to financial services is a requisite for financial inclusion; however, the main objective of convenient access is to encourage more people to effectively use financial services to enhance their financial health and build better lives. Usage of financial services is, therefore, the backbone of an inclusive financial system.

KEY FINANCIAL INCLUSION
USAGE INDICATORS

The usage indicators evaluate the number of financial services clients relative to the country's adult population and types of accounts. The Financial Strand graphic summarises the critical aspects of financial services usage. By the end of 2020, around 61% of the adult population were bank clients, 7% were ODTI clients (ODTIs are also regulated financial institutions). The most relevant non-regulated financial services are the credit unions and multi-sectorial cooperatives that include credit services; 3% of the adult population were members of such cooperatives. The Village Savings and Loans Associations (VSLA) are also a relevant source of non-regulated financial services; however, no data is available for this service. Around 13% of the adult population were e-wallet clients. Assuming there is a minimum overlap of clients from different financial services types and providers, 16% of the adult population were excluded from all the financial services evaluated.

Currently, e-wallet offers payment facilities and money transfer services, not yet the full range of financial services, such as investments and savings options and access to credit. Hence e-wallet clients do not experience the benefits from financial inclusion. Additionally, the overlap between e-wallet clients and other financial services clients can be significant, an issue that needs to be addressed in the following reports.

Compared to 2018, all indicators improved, bank account ownership increased from 57% to 61%, ODTI share grew from 6% to 7%, non-regulated financial services also improved from 2% to 3%, and e-wallet increased from a pilot project with few clients to 13% of adult population using the service by the end of 2020.

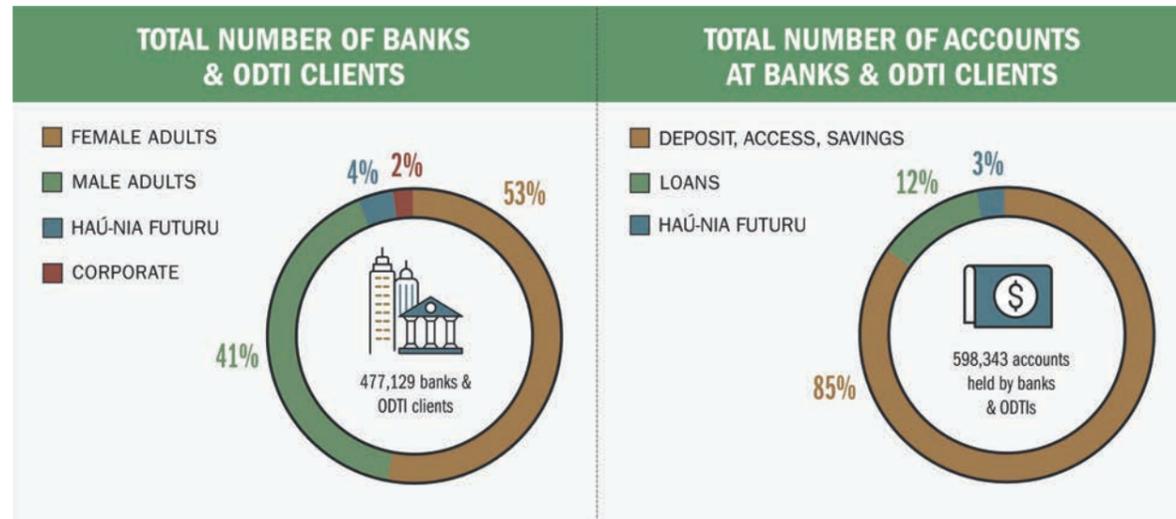
A significant proportion of the adult population has access to regulated financial services (banks and ODTIs) 67.6%, but only an estimated 14% of adults use credit products from banks and ODTIs.

By the end of 2020, there were 477,129 clients from banks and ODTIs, an 8.6% increase from 2018 439,446 clients. Among financial services clients, individual clients represent the majority, while corporate clients represent only 2.5% of the client database.

The volume of accounts has also increased by 11.8%, from 535,407 in 2018 to 598,343 in 2020.

Important Note: It is essential to highlight that the usage indicators in this report are calculated based on supply-side data. Due to the characteristics of the data and consolidation method, the indicators and ratios are consistently over-estimated. The main issues are:

- ◇ The data from each financial service is consolidated by client level. Hence, a client with accounts in more than one financial service provider will be counted as many times as the number of providers used.
- ◇ The Census 2015 is the latest available data. Ratios for account penetration are calculated based on the outdated data from the Census 2015.
- ◇ The supply-side data does include database issues, as clients' age and address may be incorrectly recorded. Since the FIR2016, many banks and deposit-taking institutions have improved their client database and minimized inconsistencies.



USAGE OF BANKS SERVICES

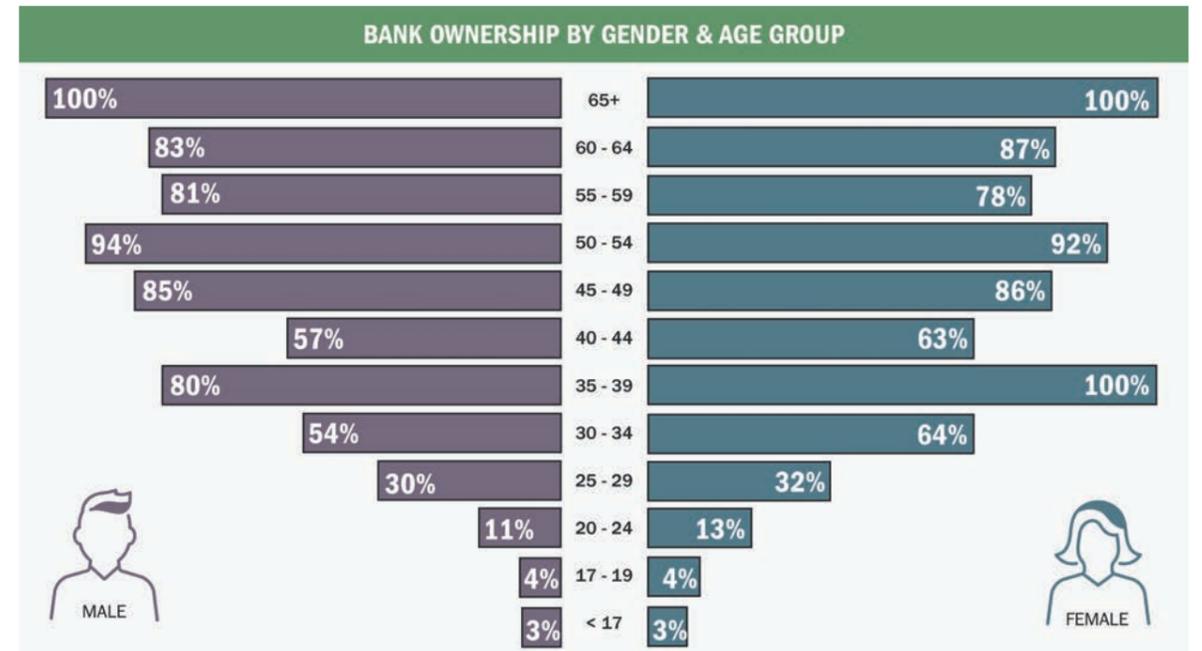
Banks are the predominant financial services providers by the number of clients and accounts in Timor-Leste. There were 431,799 bank clients by the end of 2020, a 7.7% increase compared to 400,886 by the end of 2018. Most of the clients are individual clients, 97% of total banks clients.

Among individual clients, women represent 53% of clients and have a significantly larger bank account penetration rate, 65% compared to 57% of men. The banks also offer bank accounts to younger clients below 17 years old; most of these accounts are the Ha'u-Nia Futuru accounts, special savings account for kids.

Around 24% of the deposits and savings accounts had debit cards associated with them. The banks with larger penetration of debit cards per deposit and savings accounts are BRI and Mandiri.

There were 496,085 bank accounts by the end of 2020, 12% more than in 2018 when there were 444,407 accounts. In 2020, only 7.9% of the accounts were credit products, resulting in around 9% of banks' clients with some active credit product (loans).

Banks classify accounts as non-active if the account has no transaction (banks charges excluded) over the period of 3 to 12 months, depending on the bank. These accounts are likely to be closed if they are not re-activated. From the 496,085 bank accounts by the end of 2020, 16% were classified by the banks as non-active accounts.



Bank Clients by Age Group

The adults aged 65 and above are the group with the highest penetration of bank accounts, as this group is eligible for Government elderly social benefits paid through their bank accounts.

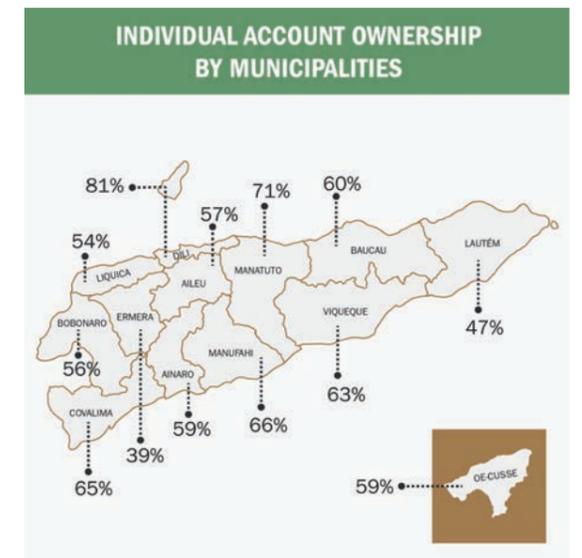
The 35-49 and 50-54 age groups come next, with an average bank penetration rate of 93% for both age groups. The graphic shows further detail of gender ownership of bank accounts.

As mentioned at the beginning of this chapter, accounts ownership ratios are overestimated due to the consolidation method and population data used, resulting in segments that appear with 100% bank account penetration.

On the other hand, youth and young adults are the segments with the lowest bank account penetration.

Bank Clients by Municipalities

The bank account ownership by municipalities shows Dili, the country's capital and the location of most of the bank branches, with the highest bank account penetration (81%), followed by Manatuto (71%), Manufahi (66%). The municipalities with the lowest penetration rates are Ermera (39%) and Lautem (47%).

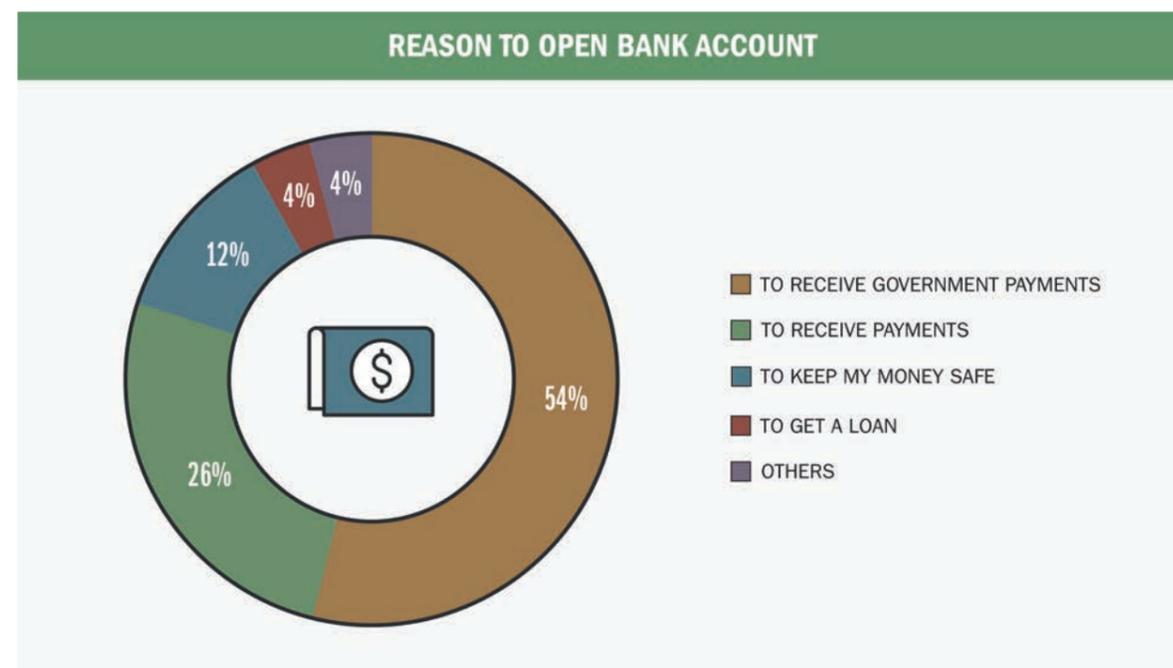
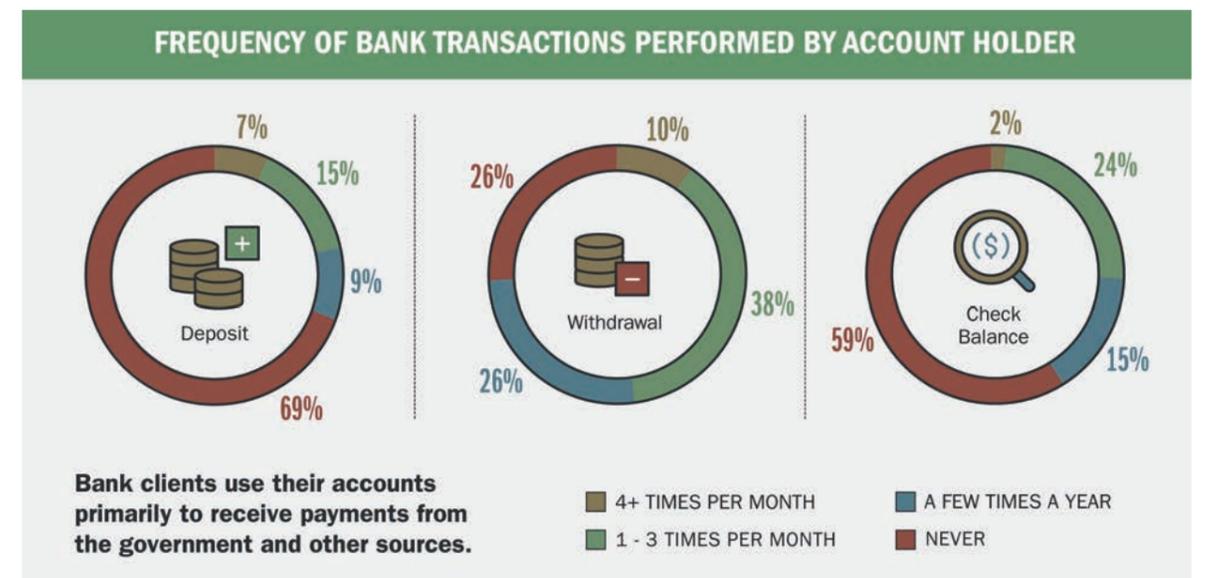
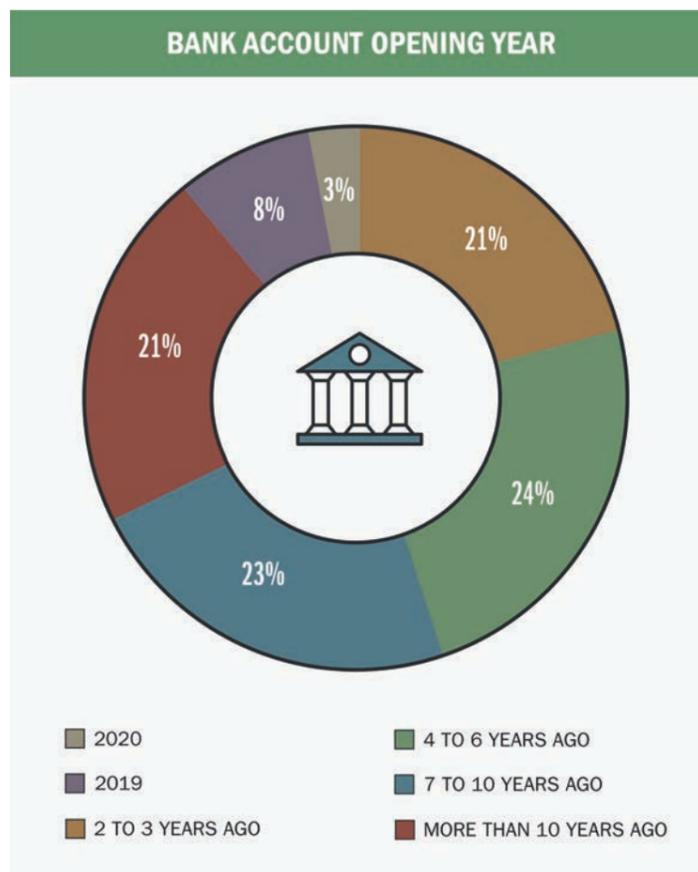


Banks Services Usage from the Demand-Side Survey (DSS)

According to DSS estimation, 60% of adults own a bank account, in line with the supply-side data. In the DSS, only 45% of adults interviewed declared to have a bank account. An additional 15% stated that they didn't own a bank account or did not know. However, they informed that they receive regular payments from the Government, either salary or veterans payments (7%) or social benefits (7%); hence, they do own a bank account.

The number of accounts opened last year was significantly lower than in previous years, a potential COVID-19 restriction impact.

The main reason to open a bank account is to receive payments from the Government (54%) or payments in general (26%).



Regarding the bank account usage, only a few bank clients maintain regular monitoring of their accounts' balance, only 26% check the balance monthly, and almost 2/3 never check their balances. The clients who check their account balances regularly do it in the ATM (55%) and at the bank branch (39%). The graphic shows the frequency of account transactions performed by the account holder.

Regarding the bank account usage in the previous 12 months, clients used it primarily to receive payments from the government and other sources. Less than 1 in 5 clients (19%) used their accounts to save money, and a smaller share used their accounts to send or receive remittances.

The use of a bank account as a mailbox, cashing out all money received immediately, is a common practice in Timor-Leste. 3 in 4 bank clients (78%) prefer to cash out the payments received in the bank account as soon as possible instead of cashing out as needed. 7% of them were not even aware they could leave the money in the account, while others are concerned about convenience (24% and 6%); and 8% to avoid additional fees.



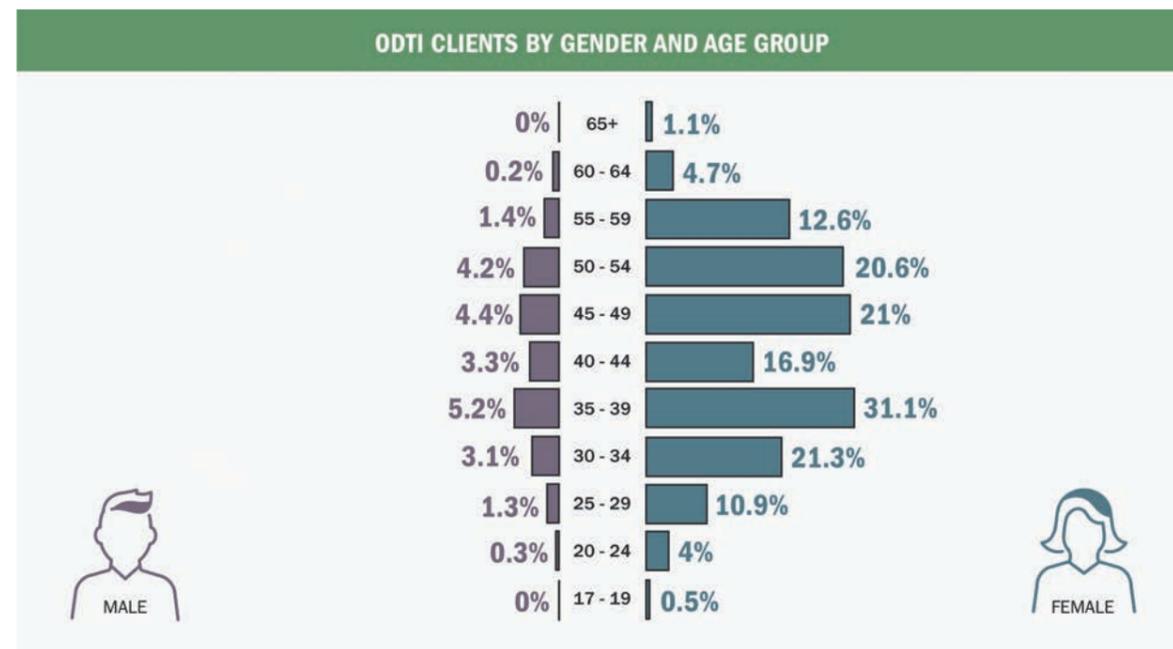
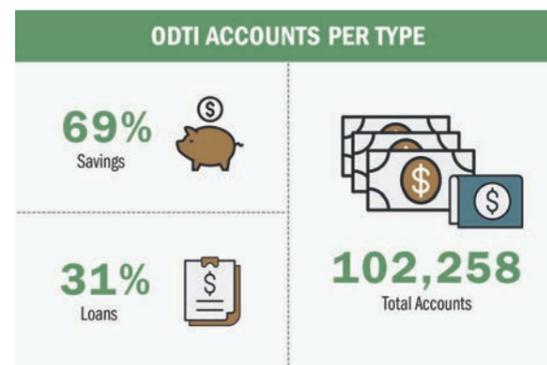
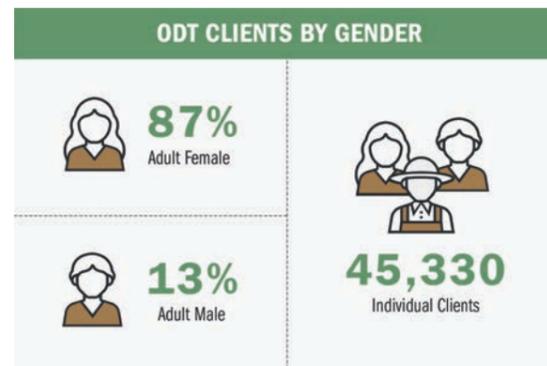
USAGE OF OTHER DEPOSIT-TAKING INSTITUTION SERVICES

The Other Deposit-Taking Institutions are focused on credit products, while savings and deposit accounts complement their client value proposition. At the end of 2020, ODTIs had 45,330 individual clients, a 17.6% increase from 2018. ODTIs clients are majority women, 87% of clients. Among the clients, almost 70% have an active loan in 2020, similar to 74% in 2018.

ODTIs have a high ratio of accounts per client due to the significant credit uptake and mandatory saving (or collateral savings) requirements during the loan periods. At the end of 2020, ODTI had 102,258 accounts and an average of 2.3 accounts per client.

ODTI Clients by Age Group

ODTIs serve clients from all age groups, starting with 17 years old. The age group with the highest account penetration is between 30 to 39 years old. Differently than banks, the account penetration decreases drastically for older age groups.



USAGE OF E-WALLET SERVICES

The two e-wallet services operating in Timor-Leste, MOSAN and TPAY have experienced substantial growth in transactions and clients. There were around 70,000 average active clients per month in the last three months of 2020.

Regarding the client profile, slightly more men (58%) use the services than women (42%).

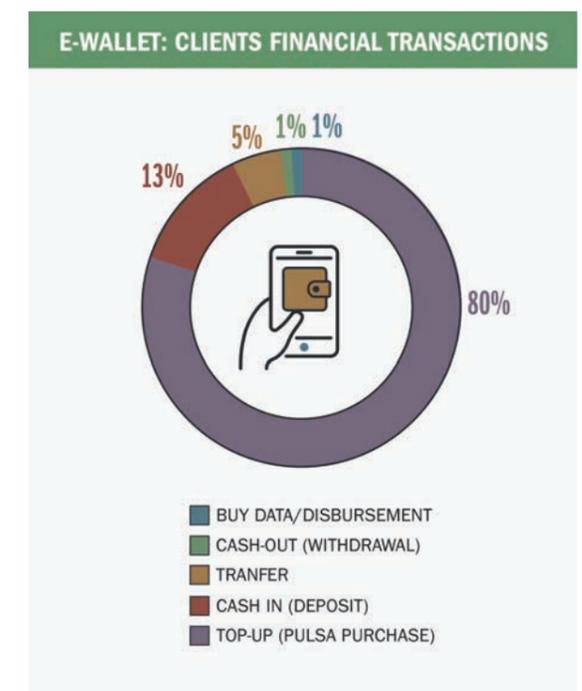
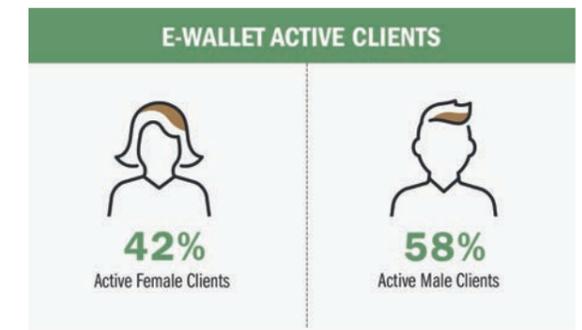
The e-wallet services offer a wide range of financial transactions, such as:

- ◇ Cash Transfer between clients
- ◇ Cash-In (deposits in the e-wallet account)
- ◇ Cash-Out (Withdrawal from the e-wallet account)
- ◇ Top-up phone balance (pulsa purchase)
- ◇ Buy data and other disbursements
- ◇ Utility payment (payments to merchants)

The number of financial transactions has increased around 10% per month during the second half of 2020. In the last quarter of 2020, there were approximately 370,000 financial transactions per month. The average transaction value is US\$8.00, as 80% of financial transactions are the "top-up"(pulsa purchase).

The recent integration of the e-wallet services into the P24 allows clients to transfer money from bank accounts to e-wallet accounts, with the potential to facilitate bank clients to perform an extensive range of services without going to the bank or ATM. Even a debit card would not be necessary to pay stores and withdrawals, as e-wallet agents are widespread through the country, with a much more extensive distribution network than banks.

The e-wallet scores well on the qualitative aspects, as the fee structure is simple and easy to understand. The agents' network is huge compare to other financial services, adding convenience by minimizing the time to commute and to be served. The extensive distribution network allows clients to choose between agents according to their preferences, incentivizing agents to provide better services. The use of e-wallet reduces the handling of bills and coins between people, an essential aspect during the COVID-19 pandemic, as money can transmit the virus.



The e-wallet service has the potential to transform the financial services in Timor-Leste. The critical challenges for e-wallet adoption are clients' awareness, trust in the service, and a basic level of digital literacy. Additionally, based on the DSS results, only 26% of the adult population own smartphones and can access to the full range of upcoming services available through the e-wallet.

E-wallet Clients by Age Group

The e-wallet service has a higher penetration among younger age groups, aged between 20 and 39. Young adults may find it challenging to present employment contracts or prove stable income to access bank services. In contrast, the e-wallet service only requires a valid national ID and a telephone number (from Telemor for MOSAN and Telkomcel for TPAY), with no fixed monthly fee.



KEY TAKEAWAYS

The uptake of financial services has improved over the years; primary financial services (banks and ODTIs) have increased the number of clients, resulting in a declining share of the adult population excluded from financial services.

The DSS provided helpful information on how clients use their bank accounts and why. A significant proportion of clients lack the basic understanding of bank services available to them and even understand if they own a bank account. They should be informed about checking their bank account balance regularly, saving money in their bank accounts, for example. An informative campaign would assist clients in using financial services more productively.

The distribution of bank clients by municipalities is very irregular; for example, Ermera and Lautém have the lowest bank account penetration, signaling a potential market for promotional campaigns.

Among the different financial services, the e-wallet service has grown the most. The recent integration of e-wallet services into the P24 system will increase its relevance in the following years. The e-wallet service has the potential to transform the financial services in Timor-Leste, adding convenience and efficiency in all payments between people, businesses, and Government.

In the following years, Fintech companies plan to introduce other convenient services such as payment of tax, utilities, and transportation. The e-wallet services can contribute significantly to the payment system environment in Timor-Leste while facilitating access to financial services in remote areas.

The DSS results offer valuable insights to financial services providers to develop better products and services for their clients, to empower Timorese with tools to improve their financial health. While continuing investing the financial literacy programs and informative events will help Timorese better evaluate and encourage the usage of financial services, enabling them to escape from poverty, recover from adverse situations, and reach their life goals.



04



FINANCIAL INCLUSION QUALITY INDICATORS



In addition to access and usage indicators, the quality indicators complement the framework to measure financial inclusion. The quality indicators evaluate if the services delivered can meet the customers' needs and expectations. The Alliance for Financial Inclusion (AFI)⁶ defines eight dimensions to assess the quality⁷ of the financial services available, based on six principles, usefulness and relevance, conciseness, specificity, simplicity, improvement, and client perspectives. This chapter measures the quality indicators in terms of affordability, transparency, convenience, fair treatment, consumer protection, financial education, level of indebtedness, and choices; based on information from supply and the demand-side survey.



⁶ The Alliance for Financial Inclusion (AFI) is a global network of central banks and other financial inclusion policymaking bodies in developing countries to share, develop and implement tools and resources to foster financial inclusion policies.

⁷ Alliance for Financial Inclusion, August 2016. Guideline Note 22: Indicators of the Quality Dimension of Financial Inclusion.

AFFORDABILITY

The affordability indicators evaluate the cost of bank services and products relative to the minimum wage and the customer view. The indicators' calculations use the information from the supply-side and demand-side surveys.

Average monthly cost to have a basic account, based on the official minimum wage.

This indicator is calculated based on the average of the prices from all the four commercial retail banks, the reasonable monthly use of a bank account with a debit card, and the minimum wage of US\$115.00. The services considered are the monthly account maintenance fee, cost of the debit card, and four ATM transactions.

The average monthly cost to have a basic personal account is US\$1.76, or 1.5% of the minimum wage.

Percentage of clients who stated that the charges for financial transactions are expensive.

According to the DSS responses, almost half of the bank clients do not pay fees on their accounts, as their accounts are required to receive regular government payments.

Around 1 in 4 bank clients are not aware of the fees charged by the banks.

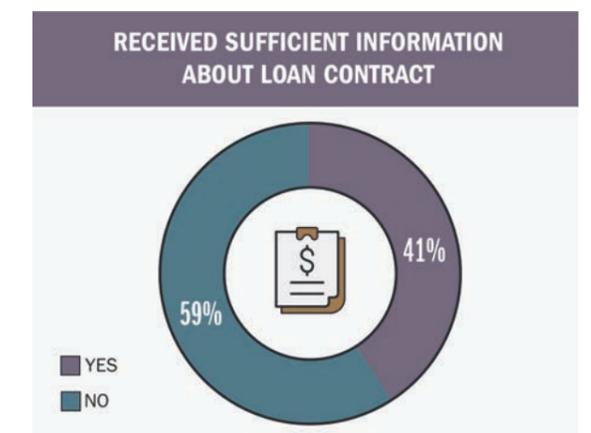
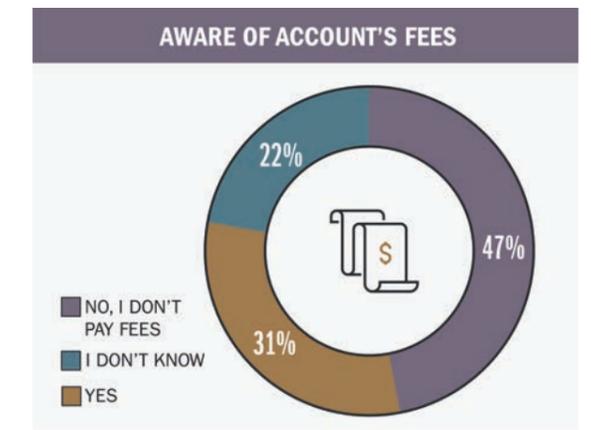
Among the clients who pay financial services fees and are aware of the amounts, 23% spend less than \$1.00, and 32% between \$5 to \$10.00 on average per month, while 13% pay more than \$100.00. Around 38% of clients stated that the bank fees charged are expensive.

TRANSPARENCY

Access to right and relevant information is crucial for financial inclusion. The indicator measures the client's perception of the information received when contracting a loan.

Percentage of clients who believe they have received clear and sufficient information about financial services at the start of the loan contract.

Only 41% of clients believe they receive clear and sufficient information from the financial service providers at the start of the loan contract.



CONVENIENCE

The ease and comfort of accessing and using financial services are evaluated mainly by the waiting time spent in the branches to perform the desired transactions.

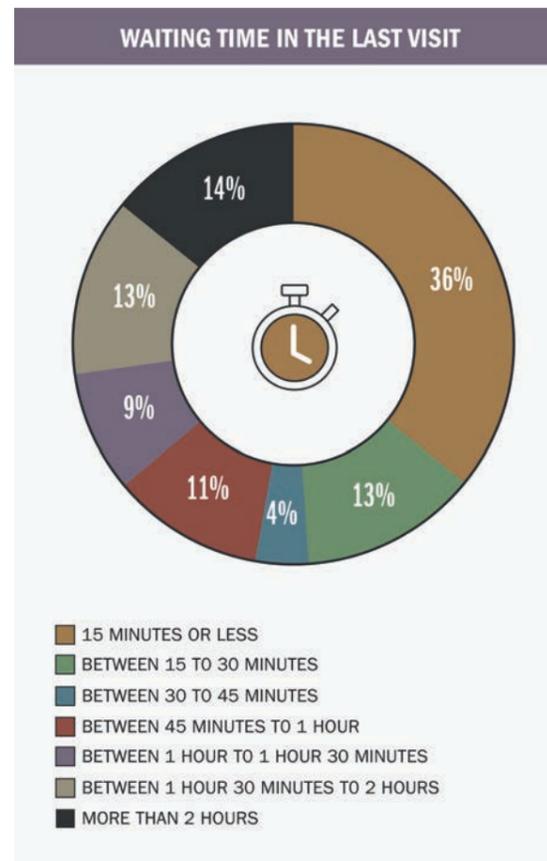
Percentage of people who are not comfortable with the average time spent waiting in a queue at financial institution branches (bank and non-bank agent).

Around half of bank clients waited less than 30 minutes in their last visit to the bank branch. While 1/3 (36%) waited for more than 1 hour, in extreme cases, clients waited for more than one day to be able to perform the financial transaction they wanted in the branch - they had to return to the bank in the next day to finalize the transaction.

Around 50% of people waited more than 30 minutes at the branch on their last visit.

Average time spent queuing at a branch of a financial institution bank and non-bank agent.

According to customers, in their last visit to the branch, the average waiting time in line to be attended was 1.5 hours.



FAIR TREATMENT

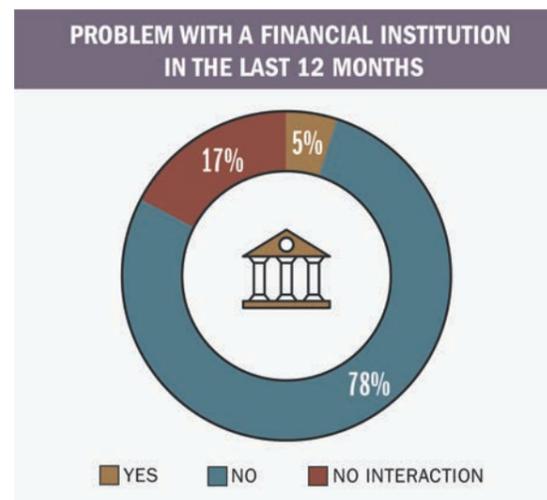
This indicator measures the customers' perception of how fair the financial services staff treats them.

Percentage of users who have felt mistreated by the staff of a financial institution.

Among the financial services users, 17% mention having almost no or minimal interaction with any staff.

5% of users stated they felt mistreated by a financial institution's staff in the last 12 months.

However, only a few clients escalated to the financial sector regulator or a consumer protection authority.



CONSUMER PROTECTION

This category is focused on the rules and regulations to ensure customer protection.

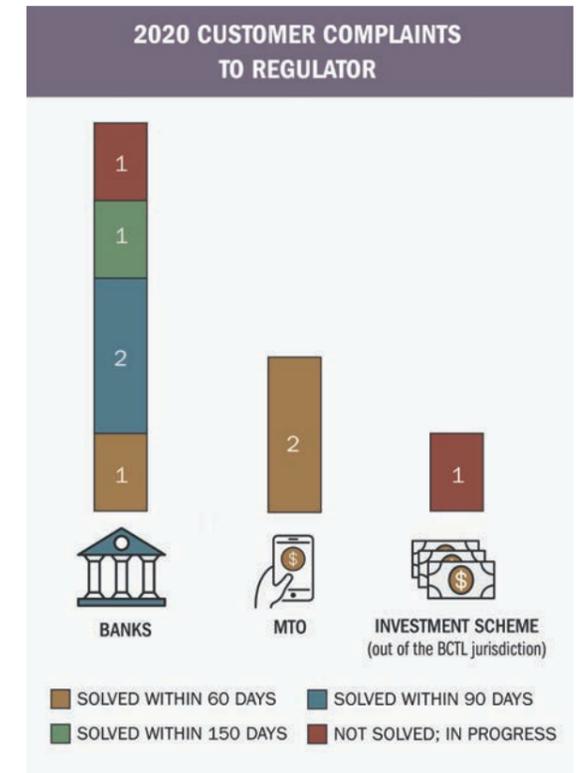
Percentage of consumers who have contacted a consumer protection authority to solve a problem regarding financial services within the last three to six months and had their issue resolved within two months.

In the last six months, the BCTL solved all two complaints (100%) related to financial services under its jurisdiction within 60 days.

There were only eight client complaints raised to BCTL in 2020, summarized in the graphic. In one of the cases, BCTL is, working with the financial institution to find the solution to solve the issue raised by the client. An awareness campaign to inform financial services clients how to proceed with their complaints against a financial service institution would be beneficial.

Percentage of clients whose deposits are covered by a deposit insurance fund.

There is no deposit insurance fund in Timor-Leste; hence 0% of clients deposit covered.



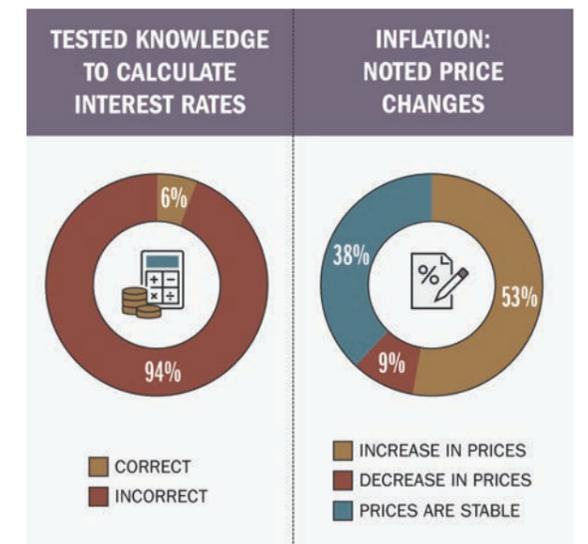
FINANCIAL EDUCATION

Financial knowledge allows customers to evaluate and select providers and financial products specifically for their needs and monitor and control financial matters to achieve their financial objectives.

Percentage of adults who know the definitions of these basic financial terms: rate, risk, inflation, and diversification.

Only 6% of adults can calculate a simple percentage correctly.

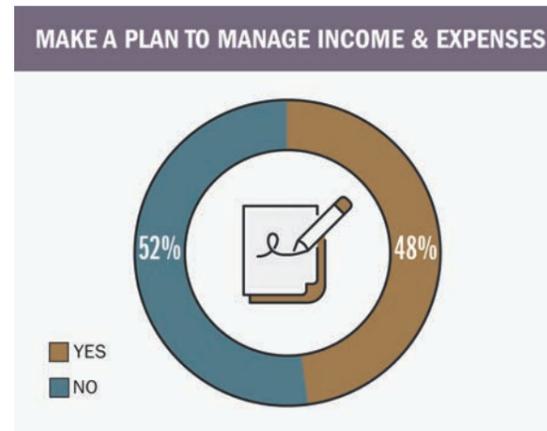
Timor-Leste has a low inflation rate, and customers perceived it differently depending on the products they buy and where they live. 53% noted the price of things increasing compare to a year before, 9% said that the prices decreased, while 38% believe prices did not change.



Percentage of adults who prepare a budget each month.

One in two adults (48%) mentioned making a plan to manage income and expenses every month.

One in five adults (21%) keep a diary of their spending. And 1 in seven adults prefers to save money for bills separate from day-to-day expenditures.



INDEBTEDNESS

Indebtedness level is an integral part of promoting financial inclusion. The expansion of credit access must be aligned to borrowers' capacity to repay their loans' installments and healthily manage their finances.

Percentage of borrowers who are more than 30 days late with a loan payment.

BCTL monitors the non-performing loans by values, not by the number of borrowers. At the end of 2020, the loans classified as a non-performing loan (late on the loan repayments for more than 30 days) represented 2% of the loan amount.

CHOICE

Finally, having choices among financial services providers is also essential to ensure clients can choose providers based on the quality of services.

Percentage of administrative units in urban areas with at least three different branches of formal financial institutions.

In all urban areas (100%), there are at least three different regulated financial institutions, considering urban areas only the central city in each municipality. The regulated financial institutions are the commercial banks and deposit-taking institutions.

Suppose only commercial banks are accounted for this indicator, just in Dili, out of the municipalities (7.7% of urban areas) had at least three different banks operating. Of the five banks, only BNCTL and BNU Timor maintain bank branches outside of Dili.

Percentage of administrative units with at least three different branches of formal financial institutions.

There are at least three different branches of formal financial institutions in 20 out of the 65 Administrative Posts, or 31% of them (commercial banks and deposit-taking institutions).



KEY TAKEAWAYS

Quality indicators measure the level of excellence of the services available and how the customers and non-customers evaluate them. It is the first time all the quality indicators are calculated, as many indicators rely on demand-side data.

The quality indicators enable regulators to monitor progress, deepen the existing understanding of society's challenges and expectations, and develop and strengthen policies that will improve the services available to the overall population.

The indicators show that in all eight categories of quality, there is potential for improvement.

- ◇ **Affordability:** 62% of clients do not consider bank fees expensive.
- ◇ **Transparency:** 41% of clients stated to have received clear and sufficient information when contracting a loan.
- ◇ **Convenience:** 49% of clients have waited in line less than 30 minutes in their last visit to the financial institution branch.
- ◇ **Fair treatment:** 95% of customers had no complaints about feeling mistreated by a staff of a financial institution.
- ◇ **Consumer protection:** 0% of deposits covered by a deposit insurance fund.
- ◇ **Financial education:** 6% of adults can perform a simple percentage calculation correctly.
- ◇ **Indebtedness:** 98% of total loans amounts are up to date with payments installments or with less than 30 days past due.
- ◇ **Choices:** in 31% of administrative posts, there are less than three different branches of formal financial institutions.

05

INSIGHTS FROM THE DEMAND-SIDE SURVEY

The market survey on financial services is commonly called the Financial Services Demand-Side Survey (DSS). The DSS conducted in 2020 offered insights into customer preferences, behavior, and reasons to use the financial services available. The DSS data complements the supply-side data collected regularly, allowing a better understanding of financial inclusion issues.

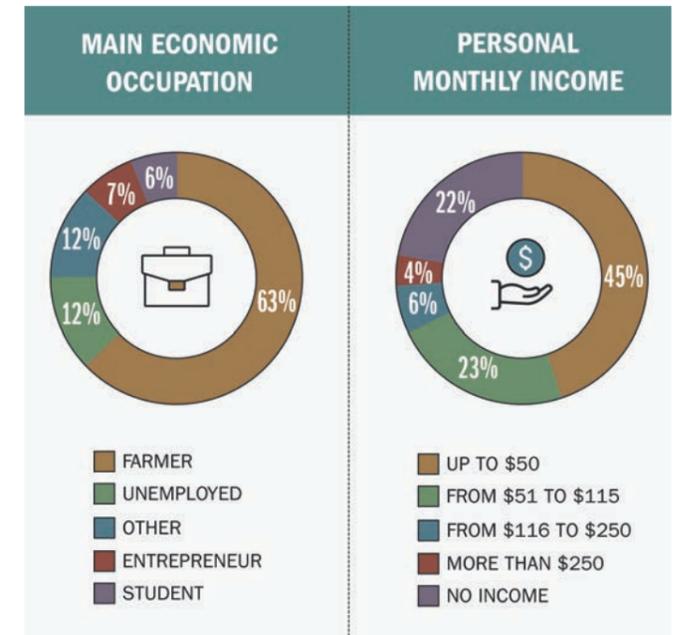
UNBANKED OVERVIEW

The lack of stable income seems to influence the ability to own a bank account even though 10% of people who do not have a bank account had estimated monthly income above the recommended minimum salary.

The lack of documents seems not to be a significant barrier based on the mandatory documents required, as only 3% did not have any of the identification documents required. However, some banks may require proof of income, as internal policy, which excludes farmers, start-up entrepreneurs, and other self-employed people.

Most of the unbanked mentioned not having enough money to have a bank account as a reason to be unbanked. As more than one answer was allowed, qualitative issues were also cited: location, high cost of bank services, lack of trust, and lack of understanding of the function or process to open an account.

Among the unbanked, 8% use some else's bank accounts when necessary to save money (4%), to send money (2%), or to receive money (2%).



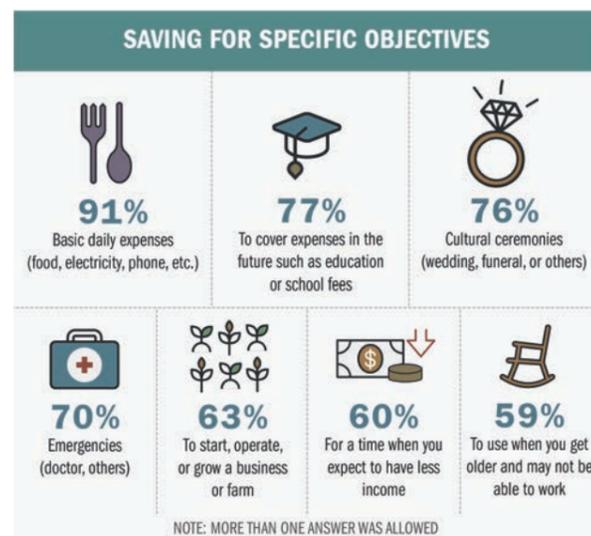
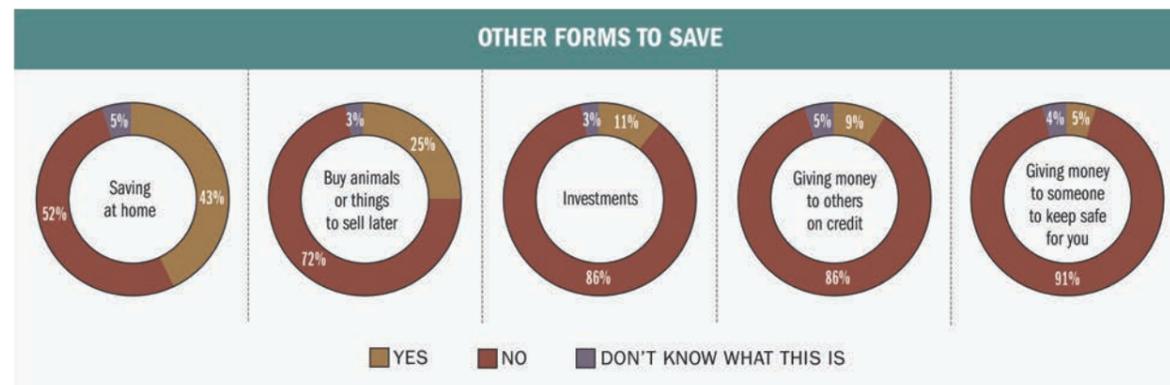
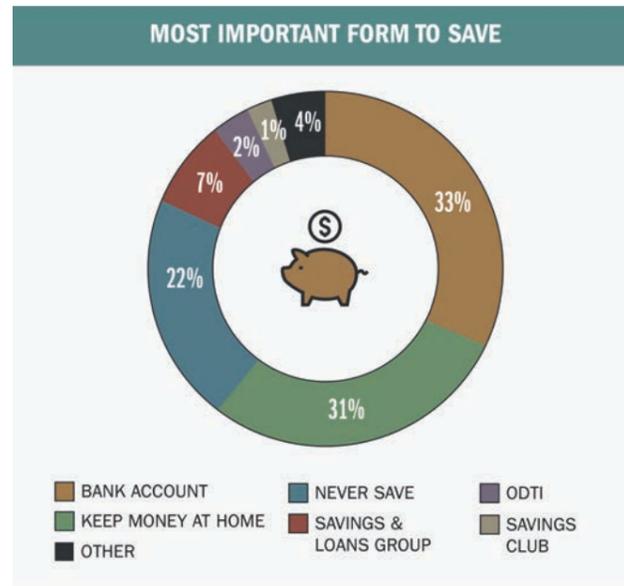
SAVING BEHAVIOR

Banks are considered the most important form to save money (33%), followed by keeping the money at home (31%). Unregulated financial groups, such as Savings and Loans Groups (or VSLAs), Savings Clubs (arisan), were mentioned more often than ODTIs and Credit Unions. A significant 22% do not save at all.

The diagram on “Other Forms to Save” shows the relevance of non-financial services as a way to save.

People are more inclined to confirm they save money in the last 12 months if asked about specific objectives.

The main reasons for not saving are related to income level, but some mention the preference to spend (49%) or not knowing how to save (7%).



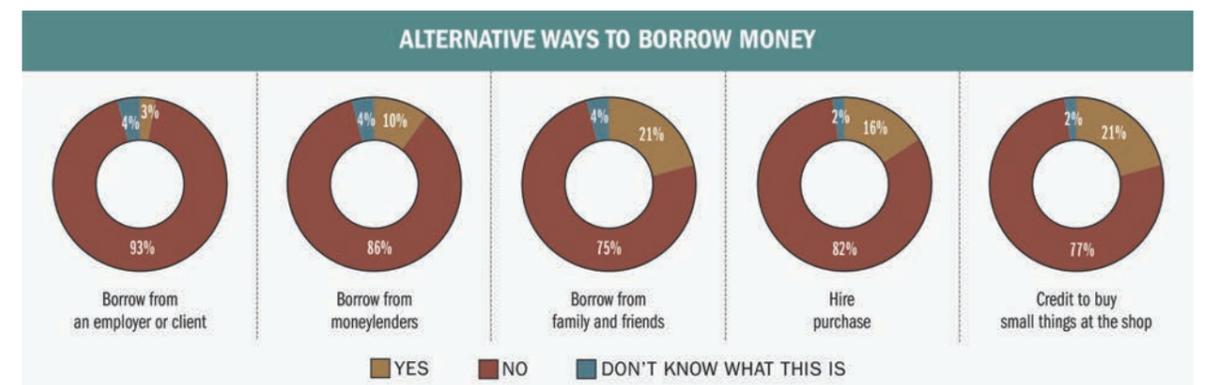
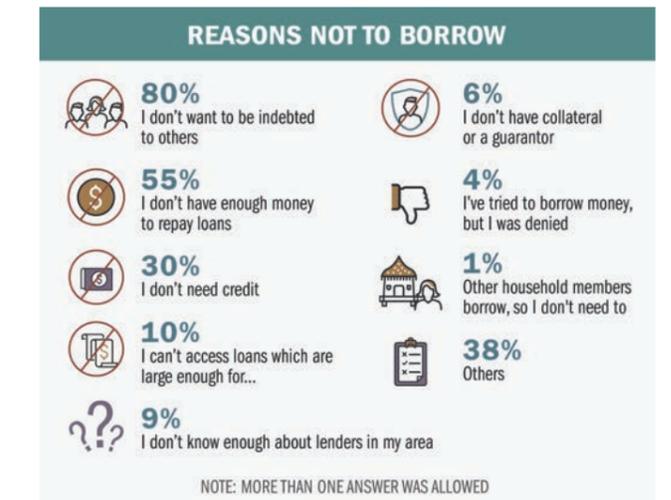
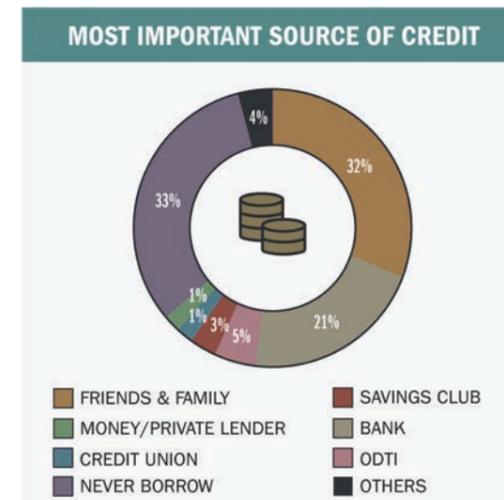
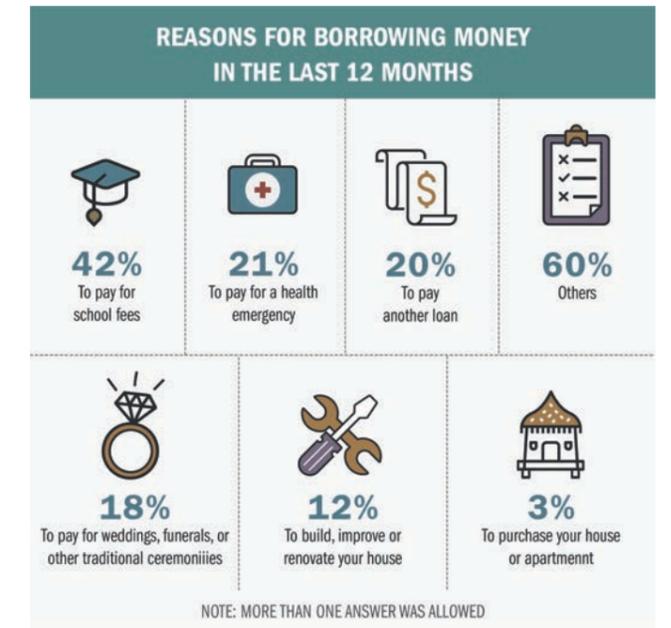
BORROWING BEHAVIOR

Among the main reasons to borrow money are paying for education and paying for a health emergency.

A concerning 20% of borrowers admitted getting a loan to pay another loan.

Regarding the sources and forms to borrow money, the family's member or friends is the preferred source to borrow money, followed by banks, ODTIs, and Credit Unions. Among alternative methods to borrow money, buy small things (food, clothes) to pay later is very popular.

A significant 33% of adults never borrow money, and they don't even consider credit sources. Avoid being indebted is the main reason to avoid borrowing. 30% do not need credit. Other reasons are the limited access to loans, not being able to repay, and not fulfill the requirements.

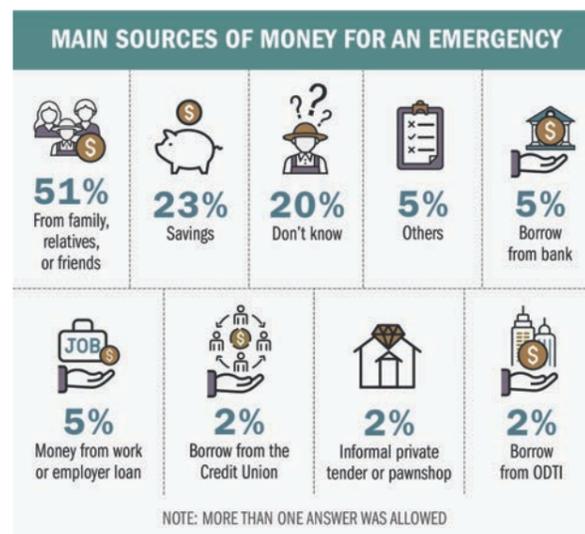
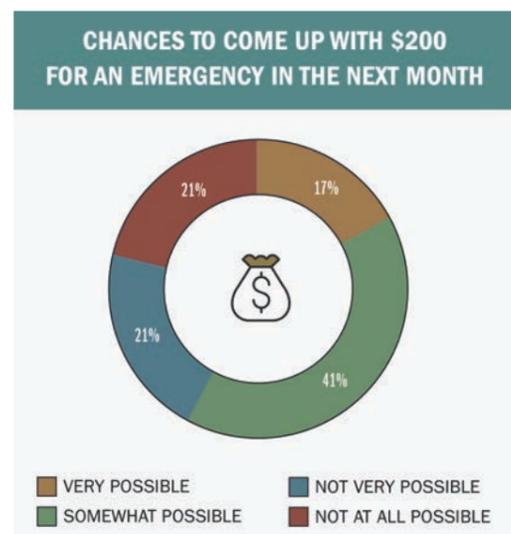
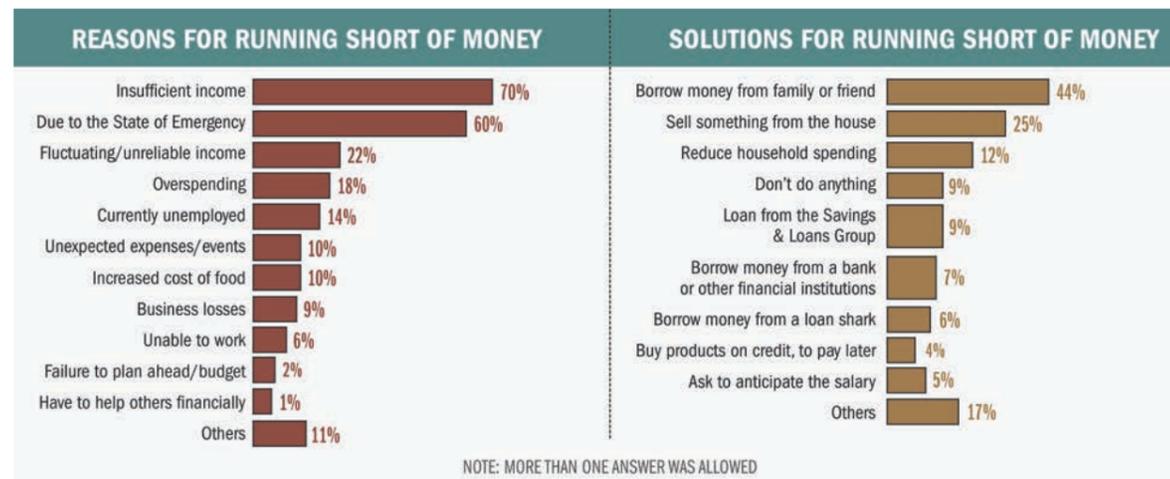
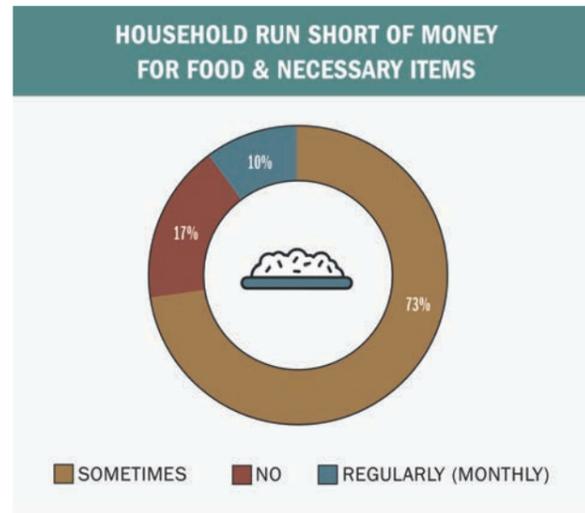


FINANCIAL RESILIENCE

Regarding the frequency of households run short of money for food and necessary items, 83% mentioned that the household had experienced a lack of funds for essential items in the past 12 months.

The main reasons mentioned were the low income (70%) and the COVID-19/State of Emergency (60%). The solution for the situation was to borrow from family or friends or to sell something.

On the financial safety net (the strategy to cope with unexpected financial needs), only 58% of responders felt they would be able to come up with an extra US\$200.00 in one month and mostly rely on families and friends.



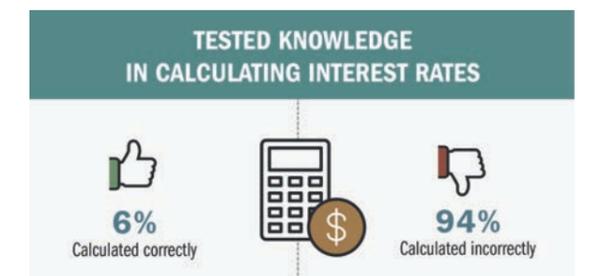
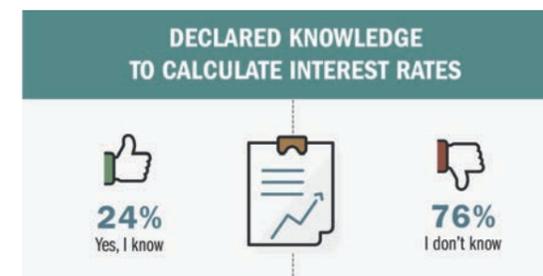
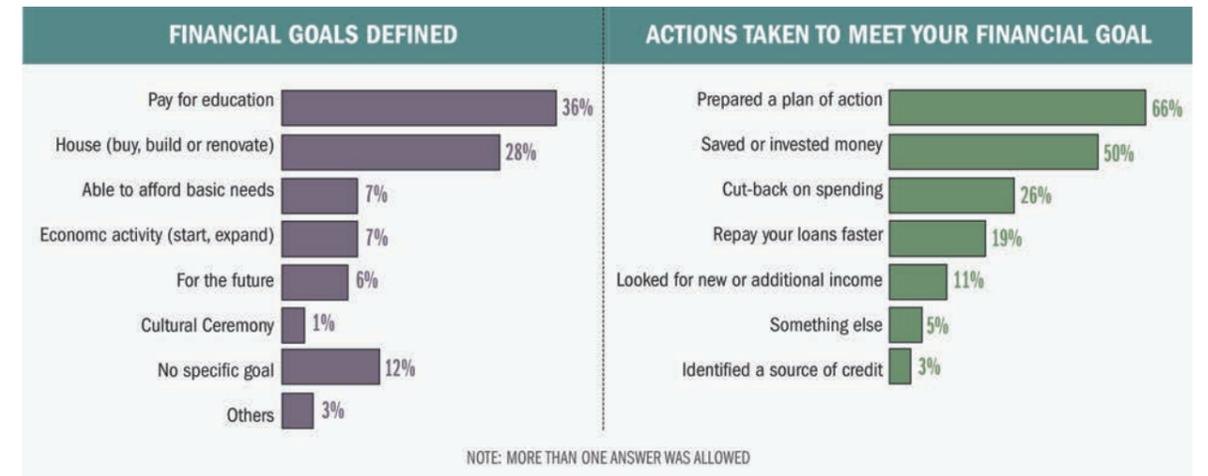
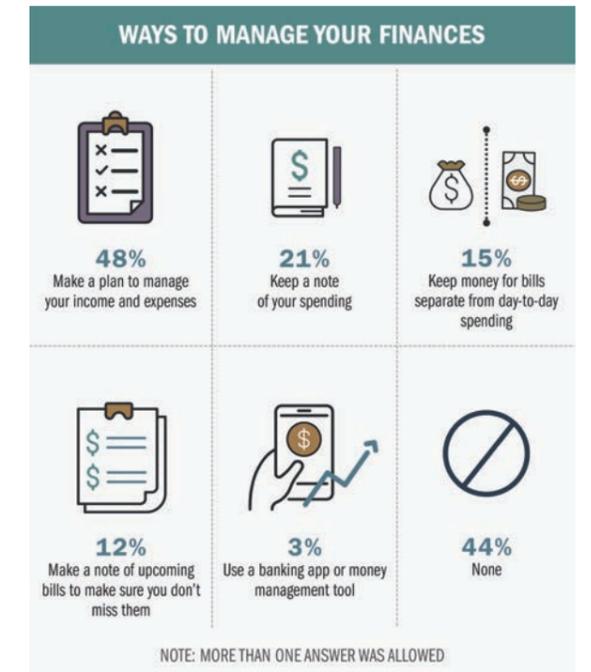
FINANCIAL LITERACY

Around half of the respondents use some tools or strategies to manage their finances better and meet their financial obligations, it is a conscious effort to manage their finances. The most common mechanism is to plan how to manage income and expenses, but only 1 in 5 keep note of the expenses.

Research suggests that defining a clear goal leads people to save more and regularly than those without a defined purpose. 53% of adults mentioned having defined financial goals to pursue. Most of the Timorese financial goals are related to afford education for themselves or their children; buy, build or renovate a house is the second most mentioned financial goal.

As important as setting financial goals, it is to take action to achieve the goals. The actions often mentioned are related to managing the money better (save, invest, plan) or finding additional income. 3% rely on credit to achieve their goals.

Regarding the ability to calculate percentages, 1 in 4 people declared able to perform calculations with percentages. However, only 1 in 17 people (6%) could calculate 10% of 100 correctly.

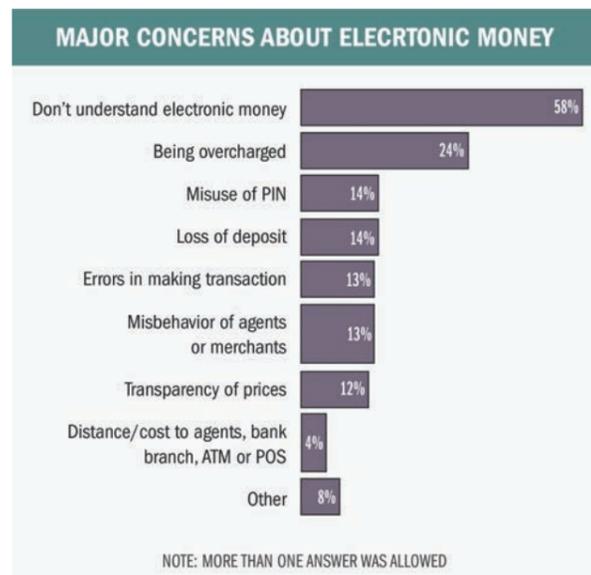
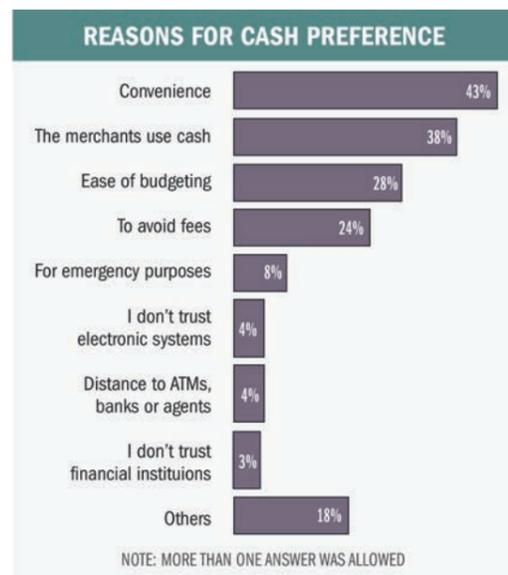
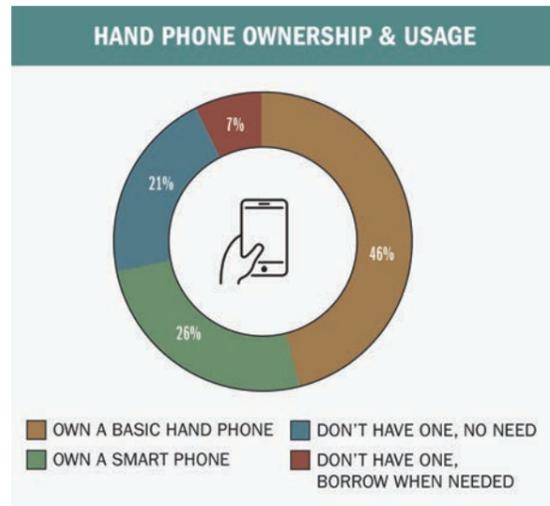


DIGITAL FINANCIAL SERVICES

Among adults, 72% have a hand-phone, of which only 26% were smartphones. Smartphone owners use the internet primarily for accessing social media platforms.

The use of the internet for emails and work-related activities (13% of answers) may indicate a potential use of hand-phones for financial services. 4% of adults are already using for payments and transfers, and 2% for bank services.

When asked about their preference between cash and electronic money, 51% answered “neither”, highlighting the unfamiliarity of the term electronic money. Among the ones who responded, 91% preferred cash.



KEY TAKEAWAYS

The demand-side survey is an essential step in the financial inclusion path. The Financial Inclusion M&E framework requires both the supply-side and demand-side survey data to perform a comprehensive evaluation of the financial inclusion scenario.

The first DSS conducted in Timor-Leste indicated issues of understanding financial services terminology, financial literacy skills, digital awareness, and prevalence of unregulated financial services.

The DSS results indicate the importance of continually investing in financial literacy programs focused on adults. It also suggests that financial services providers could organize regular information sessions for clients about financial products available, the costs related, how to monitor the services received, and how to protect themselves from scams and fraud.

The DSS results will enable stakeholders and BCTL to develop evidence-based policy solutions to address the gaps better, promote and monitor financial inclusion, encourage new product developments, and prioritize action plans.

06

FINANCIAL LITERACY

Timor-Leste's Financial Literacy movement focuses on evaluating economic opportunities and risks and how to manage them through savings, insurance, and financial education. The National Financial Education Awareness campaign, launched on 29 November 2014, focuses on three key pillars: Plan, Save and Protect. BCTL promotes Financial Literacy by conducting awareness activities throughout the country and implementing programs for children, adults, and MSME.

**FINANCIAL LITERACY PROGRAM IN ELEMENTARY SCHOOLS**

In 2016, the Central Bank and the Ministry of Education, Youth and Sports (MEJD) signed a Memorandum of Understanding (MOU) to develop a Financial Literacy module for the first and second cycle of elementary education, train teachers, and potentially integrate it into the national curriculum.

In February 2019, the BCTL and the Instituto Nacional de Formação de Professores e Profissionais de Educação de Timor-Leste (INFORDEPE) organized a workshop to identify the weakness, challenges and to redefine the strategy to scale up the Financial Literacy Program to all public schools.

Early March 2020, the BCTL signed the second MOU with MEJD to continue implementing, monitoring and evaluating the Financial Literacy Program in elementary schools.

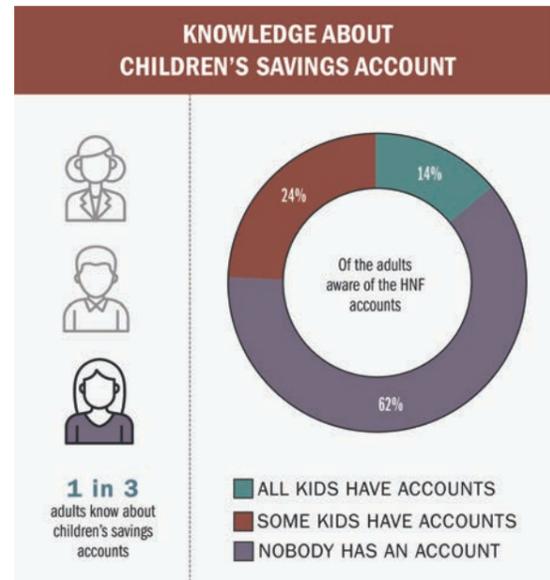
In 2020, due to COVID-19 restrictions, teachers' training and financial literacy classes had to be halted. The BCTL and INFORDEPE took the opportunity to revise the teaching module and develop the guideline to train teachers.



CHILDREN SAVINGS ACCOUNTS: HA'U-NIA FUTURU

The BCTL launched the children's savings accounts "Ha'u-Nia Futuru" (HNF) on 28 August 2015. The account is designed for children from birth up to 17 years old to save money for their education; there are no fees for this account. All commercial retail banks offered the products with similar conditions. Currently, there are around 20,000 HNF accounts, with more than US\$7 million in balance.

According to the demand-side survey data, 1 in 3 adults knows about the children's savings account. Among the adults aware of the HNF account, 38% mentioned the household children have the HNF account.



NATIONAL SAVING DAY

In 2014, the Central Bank launched the nationwide awareness campaign to improve financial literacy focuses on three key pillars: Plan, Save and Protect. The National Savings Day, celebrated on 29 November, aims to raise awareness about personal and small business finances, promoting a change in the spending behavior to encourage the habit of saving. The Ha'u-Nia Futuru account is widely publicized during the National Saving Day to influence parents and children to start saving.

In 2019, the celebration of the National Saving Day happened in Maliana, Bobonaro. The celebration included a poetry and speech competition among students from ten local elementary schools. The competition took place in November, and the winners received a symbolic prize on 29 November. Also, the celebration included a drawing competition that involved students from 14 elementary schools spread across eight municipalities.

In 2020, due to COVID-19 restrictions, BCTL celebrated National Saving Day with a writing competition among students from the third cycle of elementary education and students from secondary education. The competition was open to students from public and private schools. The MEJD and CARE International, a non-government organization, supported the initiative. The prizes distributed were deposited in the HNF accounts for the top three winners from each category.



FINANCIAL LITERACY TRAINING OF TRAINERS PROGRAM

In August 2019, BCTL signed an MOU with the Federação Cooperativa de Crédito Hanai Malu (FCCHM, a credit union federation) to train selected FCCHM's members on Financial Literacy for adults. The training aims to enhance and promote the knowledge on how to manage their personal and business finances. The training took place on 3 to 5 September 2019 for 26 FCCHM members from 12 Municipalities and RAEOA. The participants who completed the training were committed to delivering the training to the other members of their original credit union.



BASIC RECORD-KEEPING AND ACCOUNTING TRAINING FOR MSME

The BCTL is committed to supporting Micro, Small, and Medium Enterprises (MSME) to foster economic activity and create jobs. It designed an initiative to improve MSME's business skills in financial reporting and facilitate access to financial services.

The BCTL developed the module on Basic Record-Keeping and Accounting Training for MSME and piloted it in 2016. In 2018, the BCTL established cooperation with Instituto de Apoio ao Desenvolvimento Empresarial (IADE) and Chamber of Commerce and Industry Timor-Leste (CCI-TL) to offer the training at no cost to interested MSME. Until 2019, 272 participants completed the training.

In 2020, the BCTL conducted a comprehensive evaluation of the MSME training program to understand the results and define its next steps. BCTL surveyed participants, and the results show participants are positive regarding the training, as it offers them a methodology to manage the business finances. However, some of the training topics were quite complex for most micro and small businesses. Consequently, only a few participants could implement the reports and controls; the basic daily cash management is well understood and implemented by most training participants.



KEY TAKEAWAYS

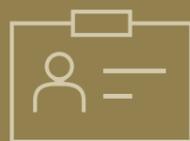
Financial literacy skills equip individuals to understand, evaluate, and select the financial products that better attend their needs in different life stages. BCTL is committed to promoting Financial Literacy as the foundation for a well-functioning financial sector. Collaboration with key stakeholders, such as the MEJD, INFORDEPE, and Banco de Portugal, has contributed to developing, implementing, and scaling up financial literacy at elementary schools.

Over the following years, BCTL will enhance the collaboration with key partners to further promote financial literacy initiatives to a broader range of target groups to reach out to as many segments of society as possible to empower them with Financial Literacy skills.

07

FUTURE OF FINANCIAL INCLUSION

The Financial Inclusion Report 2020 consolidates and analyses data from supply and demand to evaluate how Timor-Leste is evolving towards its financial inclusion agenda.



FUTURE OF FINANCIAL INCLUSION

The report shows progress in access indicators, as the distribution network has improved, covering all administrative posts and a large share of sucos. The multiplication of e-wallet agents has the potential to ease access and usage of services even further. Indeed, facilitating access to financial services is a complex task. Despite the progress, more is needed to facilitate citizens' access to financial services, mainly the ones living in rural areas.

The usage indicators also showed progress in absolute numbers. However, there are barriers to overcome to promote a more intensive usage of the financial services available. Financial services clients do not fully understand the services available; they are not comfortable with the financial products; and need support to improve their financial literacy skills, including math calculations. The BCTL will continue to focus on financial literacy programs and encourage financial services providers to educate customers about their products and services actively. There is also a need for new and simpler products designed based on customers' needs and limitations.

The e-wallet services' recent connection to the P24 system will transform the way clients use financial services, addressing some of the critical financial inclusion challenges. The e-wallet services are easily accessible and attractive to younger clients, the segment with lower bank account penetration. The e-wallet offers simple products with an easy-to-understand fee structure. It developed a convenient distribution channel, either through smartphones or e-wallet agents and merchants.

In the following years, the BCTL will work with financial services providers to improve the usage and the quality of services offered to ameliorate the customers' perceptions towards the financial sector.

Timor-Leste is experiencing remarkable financial sector development. The BCTL has led the development of a safe, stable, and facilitative regulatory environment to foster financial inclusion. The Financial Inclusion Report 2020 has delivered the pledges to report customers' opinions accurately, to serve as a reference for the financial inclusion path, and to identify the next steps towards a sustainable financial inclusion that will bring benefits to all.

ACRONYMS AND ABBREVIATIONS

AFI	Alliance for Financial Inclusion
ANZ	Australia and New Zealand Bank (ANZ) Banking Group
ATM	Automated Teller Machine
BCTL	Banco Central de Timor-Leste
BNCTL	Banco Nacional de Comércio de Timor-Leste
BNU	Banco Nacional Ultramarino, from the Grupo Caixa Geral de Depósitos
BRI	Bank Rakyat Indonesia
CCI-TL	Câmara de Comércio e Indústria de Timor-Leste
CGS	Credit Guarantee Scheme
COVID-19	Corona Virus Disease - 2019
DSS	(Financial Service) Demand-Side Survey
EFTPOS	Electronic Funds Transfer Point of Sales
FCCHM	Federação Cooperativa de Credito Hanai Malu
FIR	Financial Inclusion Report
GRP	Government Resources Planning
HNF	Ha'u Nia Futuru
IADE	Instituto de Apoio ao Desenvolvimento Empresarial
INFORDEPE	Instituto Nacional de Formação de Professores e Profissionais de Educação de Timor-Leste
KIF	Kaebauk Investimentu no Finansas
MEJD	Ministério da Educação, Juventude e Desporto (Ministry of Education, Youth and Sports)
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
ODTI	Other Deposit Taking Institutions
P24	National Switch with Payments available for twenty-four hours per day
RAEOA	Região Administrativa Especial de Oé-Cusse Ambeno
SFMRSA	Servisu Finanseiru Moris Rasik
SME	Small and Medium Enterprises
USSD	Unstructured Supplementary Service Data
VSLA	Village Savings and Loans Associations



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