Accompaniment Phase Research

Possibilities and Constraints of PAS Youth Collaborating with Rural Financial Institutions after Receiving $100 Cash Grant

Overview

The PAS program has been exploring various ways in which to disseminate the $100 grant that each student will receive during Phase 2, by meeting with MFIs, banking institutions, credit unions, other NGOs, researchers, and UN agencies, as well as consulting with other practitioners on international best practices.[1]

Options

Some possible options for $100 grant dispersion that have been explored are:

a. Give the money **in cash** to the students, and expect the training will prepare them to spend it properly;
b. Give the money **in cash**, linked with an obligation by the students to write a **brief business plan** and possible workshop on **forming savings groups**;
c. Give the money **in-kind** – i.e. have EDC staff or PAS training partners purchase all the materials for the students (for small business track) or pay for the tuition (for education track);
d. Link with a **microfinance institution** (MFI) to open savings accounts for all the students;
e. Link with a **credit union** to open savings accounts for all the students;
f. Link with a **bank** to open savings accounts for all the students;
g. Link with or support the formation of **Self-Help Groups** (SHGs),which function as informal savings groups. Disperse money into the SHG and have youth (i.e. the members) manage the funds together.

Possibilities of linking with rural financial institutions

A. Microfinance Institutions (MFIs) **[PAGE 3]**

- Tuba Rai Metin (TRM) and Moris Rasik are the only two main MFIs in Timor. They only lend to women
- They are willing to take PAS female participants, as long as the students are willing to go through the MFIs formal training (about 5 weeks) and meet all the obligations of membership
- TRM has presented to PAS students in Baucau, and Moris Rasik is willing to present as well.
- They are NOT willing to open savings accounts for PAS students. They would expect that if a female participant had $100, then they could use it as part of their savings each week (once they have become a member), however the MFI would still expect / want to give at least a $75 loan to them if they joined
    - ➔ **Therefore, partnering with an MFI for the $100 dispersion is not possible**

B. Credit Unions **[PAGE 6]**

- There are between 60 and 70 formerly registered credit unions in Timor, that are structured as savings cooperatives / client-owned banks; however, research shows that in reality there are a lot *less.*
- Credit unions take in members' savings and give out loans, and have a board and credit committee that decide on interest rates, loan repayments, and new membership.
- Many credit unions had trouble with delinquency during 2006 crisis and have become fearful of expanding membership. Also, many of them are rather small, family-run, not open for new members, and have high membership initiation fees.
- However, **CUFA** (Credit Union Foundation of Australia) is working to strengthen credit unions in Timor.
- Credit unions are not MFIs; They take in savings and they give out loans
- You usually have to be a member, but there are exceptions → To withdraw your saving, you must give the credit union 3 months to recollect other outstanding loans so that you can receive your money.
- Membership fee ranges from $2.00 to $100.00; Some small credit unions are run by volunteers
- **Plan Intl's youth program** is connecting their youth participants with a Lospalos credit union.

[1] *Note: During the reporting period the USAID PAS program once again teamed up with EcoVentures, International (EVI) to look at ways in which the program can support PAS Program Youth Participants in becoming more entrepreneurial. EVI Consultant Zaki Raheem conducted this research along with PAS program staff during the course of his 90-day consultancy.*

- ➔ Therefore, while there are limitations with the credit unions, there still appear to be opportunities for PAS to establish credit union membership for students in some districts. **Further district specific information is needed.**

C. Banks **[PAGE 8]**

- *Institucao de Microfinacas de Timor Leste (IMfTL)*
  - IMfTL was an MFI, but has transformed into a bank. It offers a number of microfinance loan products for women and men, and are located in all the districts that PAS is or will be operating.
  - IMfTL offers Passbook Savings for the public to open up a savings account *without* having to have a loan with them.
  - However, IMfTL is presently a D-Level bank, and can only take in a maximum of $1 million of public savings. They have already reached this maximum and so presently would not be able open up savings accounts for PAS youth participants. They are applying to become a C-Level bank which would allow them to take in $2 million in public savings. Management hopes to get this approval within 6 months.
    - **If IMfTL gets it C-Level status, then there is a possibility that PAS could open savings accounts for all participants**, however, since PAS program is ongoing, other options for $100 dispersion must be found.

- *Banco Nacional Ultramarino (*BNU*)*
  - BNU is one of the largest banks in Timor and is an A-Level bank, which allows it to take up to $6 million in public savings. It has been suggested that PAS explore the possibilities of opening up savings accounts for youth participants with BNU.
  - Large and expanding network of surcusals (branches)
    - *Presently* - 6 branches in 6 districts: Baucau, viqueque, suai, ermera, maliana oecussi, dili
    - 3 branches being constructed by April: Aileu, Lospalos, Same
  - BNU has <u>public savings product</u> (i.e. one does not have to have a loan with them to open):
- No opening or closing fee
- $5 to initiate account
- $5 also minimum amount that must be in your account to keep it open

No interest is accumulated for savings
PAS cannot open an account on behalf of them

D. Self-Help Groups / Savings Group **[PAGE 12]**

a. Self-help groups (SHGs) are small, often rural-based, locally run, informal savings groups that use member's money to engage in various group, individual or community based livelihood activities.
b. Some organizations working with SHGs include Plan International, CARE, IOM.
c. SGHs in Timor are generally:
   - Not at a point of professionalism or formality
   - Have limited capacity, especially once the INGO pulls out its funding/support
   - Has members with financial literacy

- *CARE International's Self-Help Groups / Savings groups:* CARE is not implementing their traditional VSLA (village savings and loans associations) trainings in Timor. They have helped start small savings groups, but they are attached to other projects – such as a community road construction project where a savings component is added in to help the members save their earnings from a cash-for-work program.

E. Giving small grant in-kind **[PAGE 13]**

Plan International's Youth Livelihood Program decided to give small grant in-kind instead of cash.

- Working with 20 small groups of targeted youth (about 5-10 in each group); Will award up to $500
- They are also fearful that 'youth' in general are risky and not used to handling money, and so feel more comfortable with buying all the items that to start small businesses, instead of giving them cash.

- Students are encouraged to contribute what they can (i.e. to create a sort of matching grants program)
- Signed MoU with CDE, want to sign MoU with Credit Union in Lospalos and include a VSLA training component along with a large training focus on group dynamics.
- In Lospalos (pilot test), students knew they could apply for $500 and so wrote grants to justify all the money.
- In Aileu project starting in May, they would like to try instead give an overview of how much money students can apply for, but have them actually justify the money with writing out material costs, etc.

Notes on Financial Institutions in Timor Leste and Ideas for Disseminating Small Grant

Microfinance Institutions

Microfinance in Timor
Before 2006, there were nine MFIs. 7 of them closed in 2006 because of high delinquency. Fro example, an NGO such as Children's Christian Fund had lots of delinquency and lots of rural products.
Biggest problem – most of the dislocation during the 2006 crisis was in Dili, so districts were not hit as hard with displacement. And as a result, MFIs mostly working in Dili suffered higher delinquency as they lost track of their clients.

1. **Moris Rasik**
   - Biggest MFI in the country. Uses Grameen model. Local NGO. 12,000 clients. $3 million in lending and $1.5 million in savings.
   - Salaried loans for males
   - Helen Todd started it
   - Contact person – Lola Does Reis – 741-6824 (Interim Managing Director)
   - Head office is based in Aileu
   - They do not have clients in Dili
   - Mostly a group lending program
   - Has external savings
   - 9% of loans come from international banks. Some donor funds.
   - Rasik if lobbying for the government to create a legal definition of an organization such as theirs. Presently, there are legal, reguatled definitions of NGOs and banks, but no "non-financial banking institutions" which exist in many other countries.
   - Savings products:
     - They have a fixed term deposits of 6%. Must keep money for at least 12 months with the institution.
     - Other banks usually offer 0.5-1%
     - 2% for ordinary savings account
     - When they first rolled out the savings program, they received $200,000 immediately because so many people were keen on storing their money somewhere outside the home.
   - Group loan:
     - Full title is Individual Group Loan, since each member of group of 5 receives individual loan but co-guarantees other 4 members.
     - 20-22% interest / month for group loan
   - Salary loan
     - Targets mostly government workers. Loan repayment is immediately deducted from bank account when paycheck is delivered.
     - 32% interest rate on salary loans. Moris Rasik believes it is a higher risk to loan to salaried employees because there is no way to retrieve remainder of loan if person loses their job.
     - Targets mostly males.
     - Can be for up to $5000, though most are for $1500-2000.
     - They have over lent out over $300,000 in salary loans, and have a commitment to have salary loans only make up at most 30% of their portfolio.
     -
   - Family Loan
     - After 3 consecutive loan cycles, a family member of the client can apply for a loan (individual or group? – *not sure*?) up to $5000.
       - Example: Woman opens a little kiosk with her first $100 loan. After first 6-month loan, she a pool table and builds a small canopy so young people in the neighborhood can play pool and buy drinks from her. After 18 months of successful repayment – three 6-month

loan cycles, her son takes out a $2000 family loan to buy a motorbike so that kiosk/pool hall can also provide transport to people who stay and play pool late.

- Follow up – is the investment loan a group loan?
    - No, it's individual!
- They feel having problems with mission drift. Presently they have a pro-poor mission, and declare that if they show up a potential client's house and it 'a very nice house with bricks and made of other expensive materials,' then they will immediately not allow them to join the program, because the program is trying to target the poorest families in the rural areas.
- There is a total of 0.8% delinquency. Every Saturday

- Criteria:
    - They see themselves as pro-poor – and want to serve the actual bottom of the pyramid in Timor
    - They go to a potential client's house and if it seems to be a wealthier home than the regular house in that community, Moris Rasik will assume the family is not at the bottom of the pyramid
    - They believe in CGT (Continuous Group Training) for clients – to continue to instill good credit discipline
    - Each woman in a group should not have to walk more than 1km to a center
    - Targets ages 17-50 year old women (16 too young, and perhaps over 50 their fear that your mortality will not allow you to pay)

- Payments
    - All financial transactions happen at the Center meetings
    - They don't accept double payments before the 18th week of a 25 week loan cycle (6 month loan cycle)
    - "We don't want women using all their savings all at once to pay back a loan because we want them to spend some money on household
- Micro-insurance
    - They are just starting to pilot test a micro-insurance product

- *PAS-Moris Rasik collaboration*
    - Lola dos Reis would certainly be willing to work with PAS female participants
    - Her loan officers can present at various PAS learning centers, if we would like
    - They have a partnership agreement with Concern
        - Concern International (like PAS) gives grants, and Lola stressed that Moris Rasik is *very* wary about grants!

- *Ability to work with PAS ?*
    - Moris Rasik might be partnering with World Education Australia Limited (WEAL) and Good Returns (Kiva-type Australia microfinance organization), so is interested in a Credit Plus model (where credit is linked to businesses services and livelihood training)
    - The Credit Plus model has been focused on since there are so few Business Development Service providers in Timor. However, Lola dos Reis has mentioned that Moris Rasik has also started to explore partnership with CDE, where each and every client would receive some CDE small business training.

2. Tuba Rai Metin

- $106,000 total loans distributed, 3,200 clients, 33 staff
- Only in 5 districts: Dili, Manatutu, Baucau, Viqueque, Lauten
- 3 loan products: $50 - $100 loan; $150 - $500 loan; $500 - $3000
- No savings product
- As a loan guarantee, need 10% of loan in savings
- Had originally USAID and CRS funding

- 2006 crisis:
    - Choice in 2006 (when donor funding ran out)
        - A. close
        - B. go it alone
        - C. Merge
            - ⇨ Chose to go it alone
    - Had 58% delinquency
- Now they are down 9%, trying to get it to 5%
- They are expanding
- Costs:
    - Interest rate: 3% / month ➔ 36 % / year
    - 1% fee for small loan
    - 2% fee for big loan
- Loan sharks in districts
    - 100 – 150%

- *Ability to work with PAS ?*
    - Generally, TRM still has low staff capacity
    - They suffered a great deal with delinquency issues in 2006 and are very risk averse
    - As a result, they would most likely view our PAS youth (particularly those needing loans for start-ups) as to risky to work with

3. Christian Childeren's Fund Youth Livelihood / Apprenticeship and Microfinance Linkage Project

Lessons learned from Christian Children's Fund (CCF) youth livelihoods project formerly managed by Lola dos Reis (Manager of Moris Rasik)

- Used to try to run a program similar to PAS
- Youth MFI linkage project in Baucau with apprenticeships
- Lola dos Reis wrote the proposal
- They have *very* mixed results
    - Psycho-social component was difficult to implement or measure results because the program was targeting youth and discussing issues related conflict resolution and values
    - Program matched youth with carpenters, cooks, artisans, fisherfolk, etc
        - ⇨ Youth got an apprenticeship and then got a microfinance loan
    - Most businesses failed right after NGO's subsidy ended and youth went back to be unemployed (!):
        - ⇨ Women got married and husbands wouldn't let them work
        - ⇨ Men – their businesses failed once the program stopped supporting them
            - Businesses were getting compensated to take on youth as apprentices, and youth were getting money for transport and food;
            - Once businesses stopped getting compensating for working with the youth, then they were reluctant to keep them;
            - And once youth stopped getting money for transport they had not properly saved money to pay for transport themselves.
        - ⇨ They found lots of cultural impediments – both family members and husbands can be reluctant
        - ⇨ Snra. Lola dos Reis thinks that because there is a similar structure to PAS program, that Phase 2 could have lots of problems

Credit Unions

- Credit unions are not MFIs
- They take in savings and they give out loans
- You usually have to be a member, but there are exceptions
- To withdraw your saving, you must give the credit union 3 months to recollect other outstanding loans so that you can receive your money.
- They have a board, a credit meeting, and an annual general meeting
- Membership fee ranges from $2.00 to $100.00
- Some small credit unions are run by volunteers
- 2006, delinquency increased (just like it did for MFIs and banks in general), particularly in Dili crisis escalated.
- There are 6 or 7 credit unions in Dili; and close to 60 are recorded in government database, *however ongoing research from CUFA (Credit Union Foundation of Australia) has shown that there are more like close to 20-30 formal credit unions, and many more informal savings groups.*

- CU overview in Timor
    - Uses Indonesian CU model
    - Regulated by the Directorate of National Cooperatives (DNC)
        - Look after productive cooperatives (e.g fishermen, tais / weaving coops, etc.) and finance cooperatives (i.e. credit unions)
        - Conducts a 3-4 day introductory course on management for new cooperatives focusing on accounts, group dynamics
        - Government body, which helps in the accreditation process
- Biggest struggle:
    - If the project end in September 2010, and each training is only 8 months, and each student only has their $100 for last 3 months of the program, are credit unions really the appropriate mechanism for dispersion of the $100?
- Targeting youth?
    - 2006 was scary for all financial institutions as delinquency everywhere went up, many MFIs closed and many institutions lost clients.
    - Credit unions and MFIs know that they still need more clients to stay viable and they know that the bulk of the population is in Timor are 'youth' so targeting such a population is not a specifi problem.

Case study of credit union in Lospalos that Plan International Youth Livelihoods program is partnering with:

- Name: Fuiloro, name of CU moris foun
- Have operated since 2002 and use school principal office as the office for temporary location.
- Manager: Francisco Xavier da Cruz, he also is junior high school principal,
- Members: currently they have 63 members that come from teachers, community members that live in the area, and some students (who use the credit union as a facility to save)
- Membership fee : $ 10
- Obligatory Saving : $4 per month
- Voluntary saving : at the minimum $2
- Interest for loan : 2%
- Their contact no :
    - Francisco Xavier, Manager (7239663);
    - Vasco Manuel Freitas, Secretary (7313137)

Contact info for CUFA

- Pam Drury pam.drury@cufa.org.au, CUFA country director
- Aleixo Alves Gusmao, Field Officer

Timor Leste - Building Institutional Capacity
Credit Union Foundation Australia
Homepage: www.cufa.com.au
Project Homepage: www.cufa.com.au/introduction/Projects/TimorLeste/index.jsp
Email: gastao.freitas@cufa.org.au

Contact information on credit unions in some districts:

1. Baucau
Credit Union Fitun Lorose,
Rua : Terilolo, Vilanova
Contact person :7323209

Credit Union Fini Naroman, Caibada
Rua: Caibaida, Baucau
Contact Person :7380503

Credit Union Moris Foun (Ouelicai Subdistirct)
Quelicai Centro
Contact Person: 7298014

Credit Union Hakuak Metin (Venilale Subdistrict)
Address: Uai-Laha, Venilale
Contact person:

2. Viqueque
Credit Union Chamao
Contact person: 7272884

3. Aileu
Credit Union Murak-Rai

4. Suai
Credit Union Cotarem
Address: Suai, Covalima
Contact Person: 7404209

5. Lospalos
Credit Union Unidade-Com
Address: Com
Contact person: 7391935

Moris Foun Credit Union
Address: Fuiloro School
Contact Person: 7239663

6.Oecusi
Credit Union Enclave
Credit Union Atoni
Credit Union Nova Vida
Credit Union Comeli
Credit Union Solidaridade Hau ?Ufe

BANKS

IMfTL (Institucao de Microfinacas de Timor Leste)

IMfTL Meeting 1:
Date: 17 February 2009
Time: 9am – 10:30am
Location: IMfTL Main Office, Dili
Staff: Zaki

Meeting with:
1. Mr. Sergio M. Espirito Santo, General Manager (333-9186; smesanto@yahoo.com)
2. Mr. Marcella, Manager

- IMfTL has branches in Dili, Aileu (also covering Ainaro, Same), Same office will open soon, Ermera/Gleno, Maliana, Oecussi, Baucau (also covering Viqueque, Lospalos)

- Unlike Moris Rasik and Tuba Rei Metin, they also have microfinance related loan products for men.

- IMfTL has 4 micro-finance related loan products including group loan to women, micro-group loan for agricultural related activities, market vendors and microenterprises in 9 districts, including Aileu. The group loans allow group members to decide a number of the decisions on who will be in their group and what the money shall be invested in. Also, it is expected that all money is used for investible purpose, but they are not as stringent as Moris Rasik (who track every dollar spent).

    - 1. Microfinance Group loan (for women)
        - 5 people per group, 3-8 groups form a Center
        - Minimum size of Center – 16 people or 3 groups.
        - When first started, this particular loan product allowed men to participate but after frequent delinquency, IMfTl sopped allowing men.
        - Non-collateralized, group guarantee
        - About 5% of IMfTL's portfolio is with this loan product (~$200,000)
        - Loans as small $50 / woman, though average is closer to $100.
        - Sometimes, individual group loans will be made for start-ups, if the woman has shown some business acumen and if the other four friends approve.
        - Weekly loan repayments.
        - 6 month loan, 16% interest rate / year (*cheaper Moris Rasik)*
    - 2. Market vendor loan
        - Micro loan for already established small market vendor stall (targeting self-employment)
        - Loan officer talks to MCC (market coordinator) to ensure that loan applicant is indeed a market vendor in an established market. Applicant must be recommended by the MCC
        - Minimum of $50, and Maximum of $500
        - Lots of problems with this loan product at 2006 crisis
        - Can sometimes goes towards a start-up of a vendor booth
        - About 5% of IMfTL's portfolio is with this loan product (~$200,000)
        - 6 month loan, weekly repayment, 18% interest rate / year
    - 3. Seasonal / agricultural loan
        - Mostly targeted towards group loans for agricultural activities
        - Someone in the group must have a salaried loan and guarantee the group
        - Smallholder farmers in a group should all know each other and most are neighbors.
        - Usually for products such as rice and vegetable cultivation

        - Usually up to $500, though can go up to $1000 for coffee
        - Money is usually for pre-harvest investment
        - Repayment schedule is based on harvest cycle of particular crop, hence coffee and rice ag loans might have different terms
        - Up to 16 month loan repayment, based on type of harvest
            - E.g. coffee – 9 month repayment schedule (coffee is actually a 7 month growing cycle, but farmers are given two more months to plant, harvest and sell before loan is due)
            - E.g. Rice – 6 month repayment schedule (rice has a 4 month growing period)
        - Loan officers will often link with the Government Agricultural Center (AC) to facilitate access to markets, particularly if government is buying the products from the MFI clients
        - The percentage of their portfolio devoted to agriculture loans continues to increase
        - About 10% of IMfTL's portfolio is with this loan product (~$400,000)
    - 4. Micro-enterprise loan
        - Individual loan of $2000-$5000 for already established micro-enterprise.
        - Micro-enterprise defined as a business that's larger than a market vendor (perhaps a small bakery, music store, clothing store, restaurant, etc.)
        - About 15% of IMfTL's portfolio is with this loan product (~$600,000)
        - Loan must have a guarantee with it from client
    - 5. Payroll / salary loan
        - Not a microfinance loan. An individual loan connected with your direct deposit of your paycheck each week.
        - Up to $2000 -- > i.e. up to about 10 times salary
        - Can take up to 2 years to repay

- Advisory services:
    - IMfTL loan officers sometimes provide informal business development advisory services to microfinance clients. This can include suggestions on establishing relationships with buyers in new markets and possible sectors that are saturated, etc.
    - In addition, IMfTL loan officers have sometimes negotiated good prices for bulk order, such as a mung bean contract with their clients and TimorGlobal

- SAVINGS products
    - 1. Plate savings:
        - This savings product is designed for people who are already taking out loans from IMfTL
        - It is designed as a savings product particularly for the group microfinance loans
        - At each meeting, each group member gives $0.05 as a savings
        - However, the management recognizes that this (mandatory) savings is sort of a guarantee for them and the clients more than just a savings product
        - Also, it is a way for IMfTL to help instill savings into their poor clients, particularly those who might actually want to save but are pressured by the family to give all profits to them.
        - The savings are often used in July to help the clients pay for their children's school fees.
        - They are allowed to get all their savings after 6 months, though sometimes it's used to pay during a week when sales were low in their micro-enterprise.
    - 2. Passbook savings
        - This is a savings product for the public.
        - You do not have to have had to a loan with IMfTL to access this savings account
        - Only formal banks in Timor can offer such products (i.e. Moris Rasik cannot take public savings, and IMfTL could only do this once they transformed into a formal bank).

        - IMfTL is a D-rated bank. A 'D-rated' bank can only take up to $1 million as a maximum of public savings. They are planning to be given an upgrade to a C-status within the next 6 months.
            - C level banks can take $2 million in public savings
            - B level banks can take $4 million in public savings
            - A level banks can take $6 million in public savings (i.e. ANZ, BNU)

- They have reached their maximum number of savings accounts / deposit holdings, so are not able to be an option for PAS to open savings accounts for youth.

- However, they are certainly willing to come to the Learning Center in Aileu during perhaps a Livelihood Fair day in either March or April, to discuss their microfinance loan products, discuss about how they analyze micro-enterprise business plans and provide business management services, and the requirements for taking out a loan from them**.** This could perhaps help the youth think about the options for access to finance in their districts if their businesses are able to be successful. ➔ This was discussed further with the branch manager in Aileu.

- Jacob and I think that particularly because they offer loan products to both men and women and are in a lot of the districts where PAS is operating, that it could be a good idea to invite an IMfTL staff to speak to the youth participants.

- The general manager has already spoken to the Branch Manager of IMfTL in Aileu and we will be meeting him this week in the field. - Also, he mentioned that if this pilot presentation for the Branch Manager to present at the Aileu Learning Center goes well, they are certainly open to the possibility of presenting at other PAS Learning Centers.

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IMfTL Meeting 2
Date: 19 February 2009
Time: 9am – 10am
Location: IMfTL Aileu Branch office
Staff: DC Aileu and Maubessi (Luis), Jacob Calar, Zaki Raheem

Meeting with:
1. Mr. Olivio, IMfTL Aileu Branch Manager (373-0022)

- Savings
    - The branch manager reiterated that because of the bank's presence status as a D-level bank, that they are presently not allowed to offer more Passbook Savings Accounts.

- Microfinance loan products (between $50 and $300):
    - MF loans up to $300 need no physical guarantee, only group-lending co-guarantee
    - For the Aileu branch, the average microfinance loan is $300
    - Usually it is groups between 4 and 8 people
    - They DO allow men into the group lending loan structure
        - *This contradicts what the head office says, but could be encouraging for our mixed gender Aileu cohorts to know about.*

- Larger microfinance loan products (between $300 - $5000)

- Any loans above $300, clients need a more formal letter from local government official to ensure the formality status of their business (i.e. larger loans only for legally registered businesses).

- All microfinance loans demand weekly payments

- Loans for starts up or only existing businesses:
  - In general, ALL microfinance loans go to established businesses
  - The Aileu office does not usually give loans for start-up businesses (!)
  - In general, the potential microfinance client show that they have had an established business for AT LEAST ONE YEAR.

- Due diligence
  - Loan officers have a somewhat rigid analytical process in which they determine whether a potential client is applicable – they do not demand a formal business plan, but client must show some understanding of:
    - What they will be using their loan and why
    - How the loan will help them earn more income
    - Basic market assessment questions related to customers, suppliers, transport, costs, etc.

- Livelihood Fairs
  - The Branch Manager is WILLING AND ABLE to come to the Aileu Learning Center to speak about microfinance in general, IMfTL's microfinance loan products, and the process in which loan officers analyze a small business
  - Of the two proposed dates for Livelihood Fairs for the Aileu cohort (March 13th and April 3rd), the Branch Manager said he was available to come to he Learning Center on April 3rd.

- Next steps
  - EDC must write a formal letter outlining our discussion with the branch manager, which must be approved by the Dili office, in order to formalize the presentation that the Branch manager will give on April 3rd.
  - Zaki is drafting the first version of the IMfTL-EDC collaboration letter, Jacob will review. Then we will ask for management approval, translate it, and deliver it to the IMfTL for review.

Banco Nacional Ultramarino (*BNU*)

- BNU is one of the largest banks in Timor and is an A-Level bank, which allows it to take up to $6 million in public savings. It has been suggested that PAS explore the possibilities of opening up savings accounts for youth participants with BNU.
- Large and expanding network of surcusals (branches)
  - *Presently* - 6 branches in 6 districts
    - Baucau, viqueque, suai, ermera, maliana oecussi, dili
  - 3 branches being constructed by April
    - Aileu, Lospalos, Same
- They have an active savings product available to the public (i.e. one does not have to have a loan with them open)
  - No opening or closing fee
  - $5 to initiate account
  - $5 also minimum amount that must be in your account to keep it open
  - No interest is accumulated for savings
  - PAS cannot open an account on behalf of them

<u>Self-Help Groups</u>:

Self-help groups (SHGs) are small, often rural-based, locally run, informal savings groups that use member's money to engage in various group, individual or community based livelihood activities.

- Some organizations working with SHGs include Plan International, CARE, IOM.
- UNDP / UNOPS in cooperation with MAFF has supported SHGs
- SGHs in Timor are generally:
    - Not at a point of professionalism or formality
    - Have limited capacity, especially once the INGO pulls out its funding/support
    - Has members with financial literacy

CARE International's Self-Help Groups / Savings groups

- CARE does not appear to be actually implementing their traditional CARE VSLA trainings in Timor.
- They have helped start small savings groups, but they are often attached to other projects – such as a community-led road construction project where a savings component is added in to help the community members save their earnings from a cash-for-work program.
- It does not look like they have formal training packets to share with PAS, though Ingvild is discussing with her staff (especiall Mr. Luis – whom Zaki met with) to see if there are any materials that they can share.
- CARE never focused specifically on youth and believe that youth are tough to work with because they are 'naughty.' Hence they do think the PAS program is important, and that any program that wants to focus on helping youth start small businesses must combine micro-enterprise development (business development services) with access to capital/finance.
- However, CARE does not believe in giving out small grants to be tied to small business development, so they have a different perspective than PAS in this regard.
- They helped start SHGs in many parts of Timor – 100 in Suai, 15 in Aileu, etc. However, only 5-6 still exist. Usually, CARE has seen that once the INGO leaves, the local capacity is limited and hence the SHG falls apart. -- > ***what can PAS learn from this?***
- The SHG model was inspired by Credit Unions, and can often be considered simply an informal credit union that does not have to report to the government

  Model of CARE's Integrated Rural Development Project
    - Rural road construction where community members are paid for their work
    - Incorporates VSLA into thier program (especially for road construction workers)
    - They get:
        - $4/day
        - $1 of these is put into BNU bank account
        - $1 is recommended that it is put into the savings group, and after maybe 6-12 months, members of SHG begin to lend out at interest to other members
    - They are changing the system because a biweekly individual direct deposit pay check was too cumbersome, so the members will now get all money at end of the project. So it's more like a contract than a weekly paycheck. But since BNU does not offer interest on its savings accounts anyway, then participants are not losing out in this way at least.
    - The project worked with CDE
        - After 6 months, CDE gave a 3 day training on bookkeeping and business development.
        - This was followed by CARE's savings group training.
        - Last week – Week of March 10th, the refresher 3-day CDE course and 2- day CARE's savings training course was conducted for participants in Maliana.
        - Luis (main CARE savings groups trainer) believe Credit Unions sometimes are too burdensome since they have a 7 – 21 day training.

        - He stressed that giving money in the form of small grants *doesn't work*
        - His training notes are not written up as a TOT, so is hesitant to give any documents to PAS

<u>Dispersing cash for livelihoods projects In-kind:</u>
Plan International's Youth Livelihood Program

- Started as a cash-for-work program, which included 'asset mapping' to help the community identify its needs.
- It began by targeting 800 young people in Los Palos
    - 300 in Vocational Training → Worked with Permatil → 10 young people received jobs
    - A lot of youth simply did not get jobs with such a program
- 2009: Working with 20 small groups of targeted youth (about 5-10 in each group)
    - Types of business:
        - 2 opening carpentry shops
        - Fish farming
        - Soy bean farming
        - Raise goats
        - corn grinder
            - → a lot more men than women
    - Logistics:
        - Will be working with CDE (who is already working with WISE and Concern)
        - Will give the youth a template (very basic)

    - Rationale for In-kind
        - With In-Kind, Plan Int'l District / Dili staff do the procurement
        - Plan believes that because they are working with men who are "generally risky," they would rather engage in in-kind grant distribution because they fear that men will simply run away with the money.
        - They are also fearful that 'youth' in general are risky and not used to handling money, and so again just feel more comfortable with buying all the items that you need to start their small businesses, instead of giving them cash.
        - They are trying to promote a matching program
            - Students should be encouraged to contribute what they can (though it is not exactly a matching program because students who qualify will receive some funds whether they contribute or not).
        - The students will sign MoUs with the Plan program (and Suko Chef?)
        - The groups of youth (at least those from the Los Palos), which have between 5 – 10 participants each, have access to UP TO $500 to start a small business.
            - In Los Palos, they told the students that it was $500 and so every student wrote grants to justify all the money.
            - In the Aileu project starting in May, they think that it would make more sense to give a general overview of how much money students can apply for, but have them actually justify the money with writing out material costs, etc.
            - This is certainly a learning experience for PAS, because we even saw in Baucau that because the students were told that they have accesss to $135, they wrote their business proposals in a way to ensure they would get all the money, which often included a final category called 'extra' where they would just write the difference of $135 from the actual material costs.

- Plan will be expanding to Aileu in the next few months
    - They hope to work with 200 youth on small group income generating projects
    - Big component on group dynamics
    - Microfinance component of Aileu project:
        - They started going down the microfinance path but (similar to PAS) saw that the two MFIs were not appropriate for them to work with at this time.
        - Plan to work with credit unions and will be MoU with first big credit union in Lospalos
        - VSLAs
            - Plan to focus on saving-led MF for all groups in Aileu
            - Since they will be working with the youth for 18 months, then VSLAs seem like appropriate formats for such a project