



OPPORTUNITY INTERNATIONAL
UNITED KINGDOM

REBUILDING A NATION FROM THE ASHES: MICROENTERPRISE DEVELOPMENT IN EAST TIMOR

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1. Applicant Organisation

The Opportunity International Network is a global network of microfinance organisations working in 25 countries in Africa, Asia, Latin America, Eastern Europe and Russia. Since its creation in 1971 Opportunity International (OI) has been providing seed capital and expertise to build locally owned and managed microfinance institutions. The OI partners share a dynamic vision to transform the lives of people living in poverty through the provision of microfinance services – credit, savings and insurance products, complemented with training programmes and advice.

The OI Network's core values are Respect, Commitment to the Poor, Integrity and Stewardship. Our strategy is to create jobs and stimulate small businesses thereby strengthening poor communities. Our method is to work through indigenous partner organisations to provide microfinance services.

Opportunity International UK (OIUK) is a support partner to the network, raising funds and providing technical support to the implementing partners.

2. Background to East Timor

Political Situation

After 25 years of fighting for independence from Indonesia, the East Timorese voted overwhelmingly (78%) in favour of independence on August 3, 1999. This independence came at a devastating cost when in response to the election results gangs of pro-Indonesian militiamen embarked on a reign of terror and many people fled for their lives. In the wake of the militia was a trail of destruction – many lives were lost, and crops, livestock and other means of livelihood were decimated. More than 80% of houses, hospitals, schools, banks and essential services were destroyed.

On September 11, 2001, the UN ratified the results of East Timor's first democratic election. East Timor is now an independent nation for the first time in 400 years.

Poverty

East Timor is one of the poorest countries in South-East Asia, with severe problems of illiteracy, malnutrition, poor health (malaria, tuberculosis), and a destroyed infrastructure. Life expectancy averages 52 years compared to Indonesia's national average of 62 years, the infant mortality rate is very high at 149/1,000, and the GDP per capita amounts to about US\$500 compared to Indonesia's \$1,150. 41% of the population are literate. The 1999 wave of violence resulted in a massive flight and forced displacement and a destruction of about 50% of the homes in the main town of Dili and most of the western parts of East Timor.

Lack of employment opportunities and income generation

With a single significant export (coffee) and approximately 85% of the population living in rural areas, East Timor is primarily an agricultural economy. Both the public and the private sectors suffered an almost total collapse as a result of the violence in 1999. The economy suffered a dramatic supply shock due to disruption of the agricultural cycle and the destruction of local inventories. Now with reconstruction under way, especially in physical and political infrastructure, the need for employment opportunities and income generation is very high. In 2000 the UN Transitional Administration conducted a research study which shows that women represent only 17% of the work force in East Timor. Employment is partly generated in repairing roads and houses but cannot (by

far) provide employment for all on a long term basis. A deep and diversified small enterprise sector is required.

3. Microenterprise Development

In the wake of the devastation, the United Nations, the World Bank and others have confirmed that **microenterprise development** (MED) will play a vital, if not central, element in the reconstruction of East Timor. OI has participated in the World Bank's evaluation visits and in discussions with the key organisations responsible for development

It is becoming widely accepted that the provision of microfinance services plays an important part in poverty alleviation and social development. The vast majority of poor people are engaged in some kind of income generating activity in order to make ends meet. These activities can range from agriculture to simple manufacturing and market trading. Lack of access to financial services is a major constraint to the establishment and expansion of viable micro-enterprises. Without collateral or a credit history poor people have no access to commercial banks and are forced to borrow from moneylenders or loan sharks who can charge exorbitant interest rates of up to 10% a day.

MED addresses this problem by providing financial services, loans, savings and insurance along with business training to assist poor people to develop small businesses and to provide a sustainable income for their everyday needs. MED aims to treat poor people with dignity, meeting their needs without creating dependence and giving individuals a sense of self-worth.

4. Opportunity International and OTL in East Timor

OI has been working in conjunction with its partner organisation, **Opportuniti Timor Leste (OTL)**, providing microfinance services in East Timor for more than five years. During the conflict, OTL was forced to cease operations. However, in early 2000 it re-established its presence in Dili. As microenterprise specialists, normally OI does not get involved with relief efforts. However, in this case OI was in the unique position of having a local partner organisation with indigenous staff who were able to access areas that foreign agencies could not. Working alongside other international initiatives, OI distributed emergency aid and assisted refugees to return to East Timor. Upon arriving home people were faced with burnt-out homes, soaring inflation and few opportunities to generate income to survive.

OI and OTL are committed to extending microfinance and capacity building services in East Timor. OTL currently serves 854 clients, and is aiming to extend its outreach to 6,600 people by 2004. It has currently focused its operations in Dili, but is planning a major expansion into rural areas in mid-2003. It has also established a Training and Information Centre for capacity building.

3. Project Overview

In order to meet the high demand for loans, OTL is looking to expand its **Trust Bank Programme**. Trust Banks are a core feature of OI's programmes around the world. They comprise 15-30 community members who join together to access credit and cross-guarantee each other's loans. Loan sizes are small (OTL's average is £130), the loan term is just four months and repayments are made at weekly meetings. Trust Bank meetings also provide an opportunity for clients to obtain business training and advice from Loan Officers as well as build much needed community spirit amongst participants.

OTL urgently needed funds for its Loan Portfolio. The initial investment required for each Trust Bank is £5,000. This provides loans and training for about 20 people in the first instance. As loans are repaid, funds are recycled and up to 40 further clients and their families benefit within a year.

To ensure that the programme in East Timor is being run efficiently, monitoring and evaluation will be carried out by Opportunity International's regional staff and by OI-UK's Asia Programme Manager, Claudia McKay. A baseline report will be sent at the beginning of the project which will include a detailed member list, a report on the group/local community, some client stories and a group photo. After 6 months, a brief update will be sent with more client stories. And after 12 months, a

final report will be sent with an updated detailed member list, group information, client stories and group photos.

4. Client Story

Fernando Fong's small general store is situated in a busy part of Dili. The shelves are crammed with bright packages of food, shoes and personal items. There is a constant stream of customers. Having lost everything but the shop front in the violence, the Fongs rebuilt their business with 3 loans from Opportunity International.

Mrs. Fong runs the store, while Fernando spends long hours at a sewing machine, making clothing. Both businesses are flourishing, and most of the profit is ploughed back in. The Fongs have now doubled their income and dream of further expansion.

