Microfinance in Timor-Leste and Indonesian West Timor: Social hierarchy after international intervention

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Introduction
The analysis presented today forms part of my thesis on women’s economic empowerment in Timor-Leste and Indonesian West Timor. My main ethnographic data today comes from Village number four in mountainous Manufahi district in Timor-Leste.

The three Microfinance providers discussed here are Moris Rasik, Tuba Rai Metin, and the State owned bank Banco Nacional Commercio Timor Leste, BNCTL, which started as a MFI. I look at these three because they are the providers with the biggest coverage in Timor-Leste. I only really draw on the Indonesian West Timor material to explain some historical legacies. I don’t examine microfinance provided by Alola Foundation or Oxfam.

POWERPOINT flow diagram
After Timorese independence in 1999, the number of microfinance providers expanded rapidly (Asian Development Bank, 2005). Then the 2006-7 political crisis caused thousands to flee and non-oil GDP contracted at least 5 per cent. Subsequently many of the microfinance supported businesses, such as kiosks and credit unions (Day, 2010) went bankrupt and many microcredit providers shut their doors.

After the crisis, donors took three steps to consolidate the sector. One, ADB gave their microfinance institute (IMFTL) and its debts to the government of Timor-Leste who turned it into a state-owned commercial bank (FIELD-Support, 2014). Two, a donor-government cooperation, INFUSE (UNCDF, 2014), injected funds into two MFIs, Moris Rasik and Tuba Rai Metin. Under these conditional grants, MFIs had to increase the number of borrowers and aim for operational sustainability (UNCDF, 2014). Three, the cooperation also helped draft a law on MFIs (Banking and Payments Authority of Timor-Leste, 2010) which also required operational sustainability, or profit, and for their wholesale loans to be sourced from commercial lenders.

POWERPOINT Table of three Timorese MFIs vital statistics.
Here are the main microfinance providers currently in Timor-Leste. The injection of funds enabled two MFIs and BNCTL to survive and dominate the credit market. Operational self-sustainability means

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1 The commercial banking sector was also severely disrupted. The Banco Nacional Ultramarino (BNU), a Portuguese owned bank with an average loan size of around 12000 USD, experienced major problems. Around half of its 97 million USD loan portfolio remains non-performing due to clients being unable to service their loans since the crisis (FIELD-Support, 2014, 11)
MFIs have effective interest rates of around 35% per year. The high interest rates result in MFIs being only lending to wealthier citizens, not the poorest of the poor in rural villages, although in absolute terms, all of these people are poor.

Village Elites

[POWERPOINT of hierarchies in ET4].

Many microcredit groups are led by the wife of the village chief like Lucia. Lucia has been a leader of a Moris Rasik microcredit group since 2004 which allowed her to start three businesses, a kiosk, a bakery and a tailor. MFI Senior management told me that village elite capture of microfinance was common in Timor-Leste. Changing these New Order legacies took time, she said. Often, a village chief’s wife prevent’s others from getting big loans, if she permits them, some have to be for her. “She keeps them subdued, she says, you don't help me, you don't cover up for me, I won't approve you[r loan]”.

In the New Order, such control by the wives of the village chiefs of ordinary rural women was written into law and enforced by the government. This system of civil servant’s wives official control over others is termed “state-ibuism” or state-wife-ism. In Timor, this New Order legacy builds on a feudal system where village elites claim an aristocratic or superior lineage and therefore see the political leadership of the village as their birthright. At the village level then, microcredit programs which focus on women clients reinforces the historical and aristocratic dominance of the wife of the village chief, who is in turn subordinate to some male relatives.

(POWERPOINT Road to Ladiki) The road to village number four is terrible, as you can see. The river also makes it impassable in the wet season so many residents buy items such as oil, salt and rice from Lucia’s kiosk. (POWERPOINT of hierarchies in ET4) In Village number 4 all kiosks except one are owned by the wives of the village, and sub village chiefs, but I don’t know how many were started with microfinance. At least two kiosks are supplied with subsidised imported rice by the son of the Liurai, (POINT) the king, who is now a member of Parliament and brings the rice from Dili in government vehicles.

In 2012, Lucia was sick of the repayment schedules and high interest rates of Moris Rasik. So she and her brother, a schoolteacher started their own savings and loans cooperative, which is a common name for group microcredit in Timor Leste. They got a loan from BNCTL with a subsidised interest rate of 12%, and the 15 members use it to borrow for large purchases, such as sending their children to a Catholic boarding school. Members of the cooperative elected Lucia as President because of her experience with Moris Rasik and because she knows “a lot about giving people credit”. Most distressingly, Lucia and her family used the BNCTL microcredit to run a money lending business. Members of the cooperative were charged, depending on the loan amount, between 2 and 4% per month, which is the usual deal. Non-members of the cooperative, however, were charged between 10 and 20% per month, or up to 240% per annum. Cooperative member Brigida, said that many non-members borrowed when someone was ill and could not work to support their families. The Cooperative has 9000 USD in savings made in three years, and members feel pleased with the result and receive payments from it.

POWERPOINT hierarchy WT2. Just to underline my point about New Order legacies, as you can see in this slide showing village number 2 in Indonesian West Timor, the structure is very similar. The village chief is a direct inheritor of the title of king. His wife is the head of the weaving group funded by the gender budget for the village ex-PNPM programme. The products of their weaving group are sold in
the border shop and villagers told me that the profits accrue to the village chief and his wife. I am also quite sure this leading family also ran a money lending business, but I wasn’t able to acquire proof. Here too, microcredit strengthens social hierarchies and give another economic advantage to those who are able to claim the leadership of the village as their birthright.

**Village subaltern classes (EMA KIIK)**

In contrast, many ordinary women fear microcredit because of the high interest rates and over-indebtedness. Back in Village Number Four in Timor Leste Lucia acknowledged the financial stress of borrowing:

> If you borrow a lot of money, and you use it well, that's fine, [...] but if you don’t know how, you just have debt. Then the fear never ends. It's just a struggle against death.

In the same village, people reported furniture taken as collateral by microfinance group members. In another fieldsite in Oecusse, one of the poorest areas in Timor Leste, interviewees said they didn’t want microcredit from Moris Rasik as they were terrified of the debts and having to sell assets to pay them off. Researchers working for NGO Alola found the same thing on the Timorese island of Atauru (Anna Trembath, Damian Grenfell, & Carmenesa Moniz Noronha, 2010). Another interviewee in Oecusse, said she knew a Moris Rasik's client whose husband had killed himself after having sold their house and land to repay their debt.

To sum up, by helping village elites to be economically active, microfinance provides another tool with which to strengthen their political control of village and its petty trade. This concords with other studies of microfinance, that suggest that the majority of people successfully using microfinance are wealthier villagers.

**Agential views of poverty (POWERPOINT poverty graph)** Therefore, I argue microfinance has not reduced poverty. You can see the disappointing results on poverty reduction on this graph from Timor’s 2014 report on the MDGs. Why continue to use microfinance then? I’ll gesture to the broader points about policy and ideology here.

Currently, microfinance and cooperatives are the model for integrating subsistence farmers and women into a market economy in Timor-Leste. Timor Leste’s has made commitments under the 2011 Maya Declaration on including the “unbanked”, and pushed for the extension of micro and SME credit through BNCTL (FIELD-Support 2014, 11). It’s also the model for the new social market free trade zone in Oecusse. A senior Timorese staff member (ET108) there told me they plan to link the 300 existing cooperative groups with industrial production and export in Oecusse’s the social market free trade zone.

One problem with the ideology behind microfinance in Timor Leste is that when women’s microfinance groups go bankrupt, and/or rural women do not lift themselves out of poverty although they have microfinance, a common explanation is that they lack capacity or culture gets in the way. That is, the poor are to blame for their poverty. One evaluation paper suggested the microfinance industry suffered in Timor Leste because of a “a lack of entrepreneurial culture” (Allden, 2009, 278). The national elite in Dili and the donor community also cite culture as a reason for policy failure on

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2 [http://www.afi-global.org/maya-declaration](http://www.afi-global.org/maya-declaration)
poverty. The 2014 MDG report admits their lack of progress failure and lists three challenges to poverty reduction: population growth, lack of data, and that “For cultural reasons people in Timor-Leste spend a high proportion of their incomes on funerals, weddings and other important social events” (Government of Timor-Leste, 2014) and that changing this cultural consumption was the biggest challenge for poverty reduction.

At this policy level, microfinance has been implemented by government and donors as the policy offered to poor rural women, and shows an agential rather than structural approach to poverty. I suggest a focus on social hierarchy both within villages and between rural poor and national elites would be better able to take into account political control or exploitation and explain lack of progress on poverty reduction.
Bibliography


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