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REMITTANCE MOBILIZATION STRATEGY FOR TIMOR-LESTE

Executive Summary

Ministry of Finance and Ministry of Foreign of Affairs
and Cooperation

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Implemented by:  **IOM**
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Executive Summary of Remittance Mobilization Strategy

Introduction

This strategy is a Remittance Mobilization Strategy for the Government of Timor-Leste (GoTL) which is designed to incubate and scale strategic approaches that can help to leverage remittances to contribute to the socio-economic development of Timor-Leste. The strategy reflects the evolving economic landscape of Timor-Leste which is accelerating a need to create innovative financial tools to diversify the economy of the country to safeguard its future prosperity.

The Timorese diaspora, as a maturing repository of financial and non-financial diaspora capital, is fast-emerging as a key co-creator of sustainable development in Timor-Leste. In advancing the inaugural *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*, and *National Diaspora Engagement Action Plan, 2023 – 2027*, the GoTL has signalled the growing policy and developmental importance of the Timorese diaspora in contributing to the prosperity of the country and its communities abroad.

Therefore, this strategy is designed to be coherent with the national policy and national action plan by providing a short and incisive strategic approach to contribute to some of the key recommendations of those documents in relationship to remittance mobilization. The strategy has three sections.

Section one outlines the current challenges that this strategy must respond to. Section two outlines the potential opportunities that remittance mobilization, through the lens of diaspora financing, can provide for the development of Timor-Leste. Section three provides the core pillars of the strategy and the recommended actions to deliver impactful change on how remittances can be moved for collective impact through inclusive remittance frameworks.

Section 1 – Remittance Mobilization for Timor-Leste: Embracing the Challenges

There is no strategy to actively improve and facilitate the sending of remittances to and from Timor-Leste. So far, the Government of Timor-Leste has mainly been involved in monitoring remittance flows (inwards and outwards). Money transfer operators as well as commercial banks are required to submit quarterly reports on remittances to the Government (Timor-Leste Migration Governance Indicators, IOM 2019).

It is imperative to acknowledge that any strategic framework to mobilize remittances for Timor-Leste will be in response to challenges that are shaping the macro-economic landscape in Timor-Leste as well as intrinsic challenges in how remittances are currently being sent to and utilized in Timor-Leste. In their recent positional publication, *Timor-Leste: Pathways for a New Economy and Sustainable Livelihoods*, the World Bank explore foundational considerations on the economic necessity for developing this strategy in response to the economic realities facing Timor-Leste in the next 10 years. It states that:

Timor-Leste is one of the world's most oil dependent countries; more than half of the GDP and nearly 90% of exports are oil related. Massive scale up of public spending, driven by oil revenues, has been the main driver of growth and job creation. Given the large fiscal deficits and the finite nature of petroleum reserves, Timor-Leste faces the risk of a fiscal cliff. Under

the current spending trajectories, the Petroleum Fund may be fully exhausted in less than ten years.¹

The immediate need to diversify the economy therefore centralizes focus on remittance mobilization as, since 2018, it has emerged as the largest source of non-oil income for Timor-Leste.² From 2015 to 2021, the level of remittances inflow to Timor-Leste has more than doubled from 62 million USD to an estimated 171 million USD in 2021. Based on World Bank estimations, remittances equated to 8.7% of GDP in Timor-Leste in 2021.³

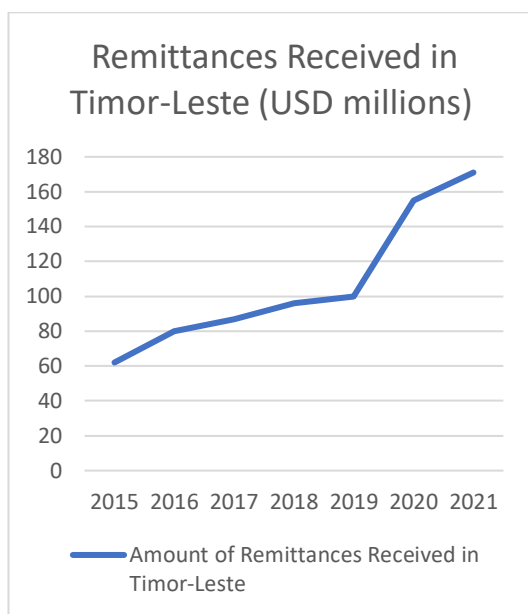


Figure 1 Remittances Received in Timor-Leste (USD)

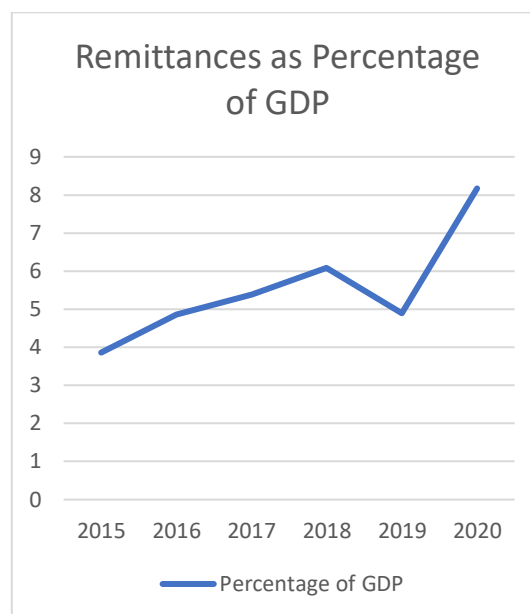


Figure 2 Remittances as Percentage of GDP in Timor-Leste

The potential emergence of remittances as a central contributor to the diversification of the economy in Timor-Leste is also amplified by the fact that such flows have been established as resilient sources of income. This is showcased in the fact that despite early negative projections on the potential impact of COVID-19 globally on remittances, the World Bank in their projections for 2021 noted that it expects:

remittance flows to low- and middle-income countries (LMICs) to reach \$589 billion in 2021, a 7.3 percent increase over 2020. Remittances now stand more than threefold above official development assistance and, excluding China, more than 50 percent higher than foreign direct investment.

This recovery follows the resilience of flows seen in the second half of 2020 which almost compensated for the disruption suffered during the second quarter; flows for the year recorded only a modest 1.7 percent decline in the face of one of the deepest global recessions.⁴

¹ World Bank. (2022). Timor-Leste: Pathways for a New Economy and Sustainable Livelihoods. Dili.

² M. Rose. (2019). Remittances and Economic Diversification in Timor-Leste. DevPolicyBlog. Available at <https://devpolicy.org/remittances-and-diversification-in-timor-leste-20191106/>.

³ Data showcased here accessed across a range of sources including Central Bank of Timor-Leste Annual Report, IOM's Migration Data Portal, and World Bank Remittance Data.

⁴ D. Ratha. (2021). Global Remittance Flows in 2021: A Year of Recovery and Surprises. World Bank Blog, 17 November. Available at <https://blogs.worldbank.org/peoplemove/global-remittance-flows-2021-year->

Furthermore, in the local context and despite concerns of the potential negative impact on remittances of COVID-19 on remittances from seasonal workers, a World Bank interim report on remittance trends during the pandemic reported that this “translated into significantly smaller decreases in remittances,” and that:

While 68 percent of seasonal workers saw their earnings fall, only 47 percent sent less money home. Similarly, 36 percent of PLS [Pacific Labour Scheme] workers experienced income losses, yet only 18 percent reduced their remittances. Notably, about 40 percent of the seasonal workers who earned less during the crisis either maintained or even increased their remittances, often at the expense of their own consumption and savings.⁵

Similarly, as showcased in the recent Central Bank Annual Report, remittances received from overseas Timorese increased again in 2021. The economic necessity of leveraging such diaspora finance for development is pinpointed by both this deepness of commitment as well as by the fact that in 2022, remittances regionally are expected to grow. This priority has already been acknowledged and supported by public institutions in Timor-Leste. However, key organizational, operational, and attitudinal/behavioural challenges remain in mobilizing remittances.

Organizational Challenges

The organizational challenges relate to the formal institutionalization of organizational collaboration that can build an ecosystem of collaboration to mobilize remittances. The *Timor-Leste National Diaspora Engagement Policy 2023 – 2027* provides formative analysis and action on how to embed a systematic whole-of-government and whole-of-society approach to implement diaspora engagement.

The reality for the GoTL is that to fully mobilize remittances for development purposes in Timor-Leste, they will have to manoeuvre from a role of facilitator and implementor across different aspects of the engagement process. At the core of this is designing a clear collaborative organizational instrument that allows for optimal design and delivery of such remittance mobilization.

Operational Challenges

Beyond the organizational challenges, two key operational challenges immediately emerge. The first focuses on relevant data collection, processing, and application to strengthen research and development on remittances. This is inherently linked to the organizational challenges also. The immediate focus of this remittance mobilization strategy, therefore, must be to address these organizational and operational linkages in ensuring an effective coordination structure upon which to gather and share data to inform and identify the correct types of financial instruments suitable for remittance mobilization based on the current legislative capacities in Timor-Leste.

Building the operational and organizational base through this strategy organically pinpoints to the other main operational challenge – the current legislative and policy base within Timor-Leste. Previous analyses relating to remittance mobilization in Timor-Leste have identified some operational

[recovery-and-surprises#:~:text=In%202021%2C%20we%20expect%20remittance,higher%20than%20foreign%20direct%20investment..](#)

⁵ D. Doan & K. Petrou. (2022). Labor mobility and remittances in the Pacific during COVID-19. World Bank, 24 February. Available at <https://blogs.worldbank.org/eastasiapacific/labor-mobility-and-remittances-pacific-during-covid-19>.

limitations in areas such as limited number of licensed financial service providers in the remittance market⁶ and inadequate legal foundations for a market economy.⁷

These market conditions provide constraints on the type of interventions that could be generated through this remittance mobilization strategy. Therefore, emanating from the organizational coordination structure at the base of the strategy, a substantive process of legislative and fiscal policy commitments can be enacted to ensure more conducive market environments are created in the mid and long-term to diversify the use of diaspora finance.

Attitudinal/Behavioural Challenges

Underpinning the steps for progress noted thus far to advance a more coordinated organizational and operational approach to mobilizing remittances through diaspora finance instruments is the fact that the Timorese diaspora and recipients of their remittances are currently engaging in a highly individualized manner. The transition towards more collective impact orientated goals to support socio-economic development in Timor-Leste will then have to address these attitudinal and behavioral components also.

In their annual report for 2020, the Central Bank of Timor-Leste provided instructive assessment of such characteristics. In their assessment of remittances sent to Timor-Leste through money transfer operators, they estimated the purpose of remittances to be primarily focused on family (96 per cent of remittances sent).⁸ The clear commitment to family reflects the highly individualized motivations that are driving remittance exchanges in Timor-Leste. Across the region, this was amplified on the recipient end also where, during COVID-19, about 91 percent of households using remittances for food and daily expenses in the Pacific region.⁹

Echoing contemporary discussions around migration and remittances as a livelihood strategy, it is important for this strategy to begin a process of education and engagement to inform on potential diversification on the uses of remittances both at an individual and collective level. This pinpoints the need for a coherent community outreach and financial education plan for those in the diaspora and in the local market through this strategy. This will help shape openings to advance the attitudinal and behavioural base in how remittances are sent and used. This aligns with IOM's 3E approach to engage, enable, and empower diasporas for development.¹⁰

Therefore, to develop this strategy as one of action, the following components emerge as key enablers of such a vision.

⁶ The Foundation for Development Cooperation. (2007). Leveraging Remittances with Microfinance: Timor Leste Country Report. Brisbane. Available at <https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-leveraging-remittances-with-microfinance-timor-leste-country-report-dec-2007.pdf>.

⁷ World Bank. (2022). Timor-Leste: Pathways for a New Economy and Sustainable Livelihoods. Dili.

⁸ Central Bank of Timor-Leste. (2020). Timor-Leste and the Pandemic – Economic Resilience and the Global Challenges: Annual Report. Dili.

⁹ D. Doan & K. Petrou. (2022). Labor mobility and remittances in the Pacific during COVID-19. World Bank, 24 February. Available at <https://blogs.worldbank.org/eastasiapacific/labor-mobility-and-remittances-pacific-during-covid-19>.

¹⁰ For more information on IOM's 3E strategy, please see IOM. (2013). Diasporas and Development: Bridging Societies and States. Diaspora Ministerial Conference Report, International Dialogue on Migration No. 22, Geneva. Available at https://www.iom.int/sites/g/files/tmzbd1486/files/2018-07/DMC_Final_Conference_Report_0.pdf.



Figure 3 Timor-Leste Remittance Mobilization Strategy: A Process to Address Challenge

The first phase of work will be focused on aligning the internal coordination and legislative work with community engagement practices to build market readiness for remittance mobilization. This will specifically identify new product offerings aligned with diaspora needs. The next phase of work will be to initiate collective development offerings in active diaspora impact markets through the brokerage of key international and local actors. This provides space for enactment of legislative work to be ongoing whilst providing the evidence base for the market readiness of the diaspora to evolve their financial contributions towards collective development offerings. The final phase then leverages the legislative innovation that will follow to target dormant diaspora impact markets to shape scalable collective developmental offerings to the Timorese diaspora.

The successful delivery of this strategy based on the current challenges in mobilizing remittances as diaspora finance in development will be contingent on three key factors: the long-term multistakeholder leadership of actors across the diaspora engagement ecosystem in Timor-Leste and the diaspora; the development of a strategic implementation plan through this strategy; and understanding the various diaspora finance instruments and opportunities to help shape this implementation plan.

Section 2 – Diaspora Finance and Developmental Opportunities

In terms of understanding the current application of remittances in Timor-Leste, given the predominant focus on familial commitment by remittance senders, the explorative work of the ILO on remittance use by recipients showcases an instructive framework for understanding current use of remittances in Timor-Leste. They note that recipients allocate spending across:

- Human Capital (e.g., education and health care, reduction of child labour).
- Physical Capital (e.g., Micro-enterprises, property and purchase of machinery).
- Financial capital (e.g., savings and investments).¹¹

Similarly, existing research has amplified how international cooperation partners and financial institutions in many countries have transformed remittance into productive uses by: linking the transfer of remittance into financial services in particular those receiving remittance to have access to

¹¹ G. Moreno-Fontes Cammartin. (n.d.). The Effective Use of Remittances in Promoting Economic Development. ILO. Available at https://www.un.org/en/development/desa/policy/publications/general_assembly/eitconference/2aprpm_moreno.pdf.

saving and investment programmes; encouraging microfinance institutions and credit unions to diversify product services and management of remittance targeting beneficiaries in vulnerable economic conditions; transforming and using remittance as microcredit to support micro, small and medium entrepreneurship development.¹² Aligning these capacities through the mobilization of remittances with the current developmental aims and strategies of the GoTL, particularly in the context of the planned economic recovery priorities for a post-pandemic Timor-Leste, pinpoint the opportunities of remittance mobilization for the country.

With preliminary challenges and rationale established in considering how this remittance mobilization strategy can meaningfully contribute to the development of Timor-Leste, it is imperative to provide a brief synopsis of the scope of interventions that such a strategy can design. This includes assessment of what type of roles the diaspora can play through diaspora finance as well as the direct offerings that can be built to embed these roles.

The potential roles of diaspora in shifting remittances to more sustainable uses for development are based in the frameworks of diaspora capital and diaspora direct investment (DDI). The lens of diaspora direct investment provides a useful scope for the interventions to be wired across this strategy.



Figure 4 Different Roles of Diaspora in DDI (Ardovino and DeBass, 2009)

These are defined by Ardovino and DeBass as follows:

- The brain gainer role for the diaspora focuses on the deposits of “knowledge and technology as well as capital and access to advanced markets in developed countries” that can be mobilized in the diaspora. This also includes advisory roles that diasporas can play through such interventions to domestic businesspeople and government.
- The altruist technologist positions the diaspora as “major conduits of technology and business know-how to their home countries,” with an ability for “importation of technologies in tune with local realities and cultural sensitivities.”
- The brave capital investor role makes them “less averse to political risk and economic shocks than others” with their commitment outlasting other types of foreign investors.
- The catalytic role is as first mover which can, in turn, lead to generating avenues for commercial diplomacy.¹³

Achieving these forms of impact will require engagement through different diaspora capital as outlined in the *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*. The diaspora capital

¹² Government of Timor-Leste. (2019). Draft Policy on Remittance and Reintegration of Workers. Dili.

¹³ M. Ardovino and T. DeBass. (2009). DDI: The Untapped Potential for Development. USAID.

wheel provided below shares critical insight into how remittance mobilization can derive impact in different developmental activities.

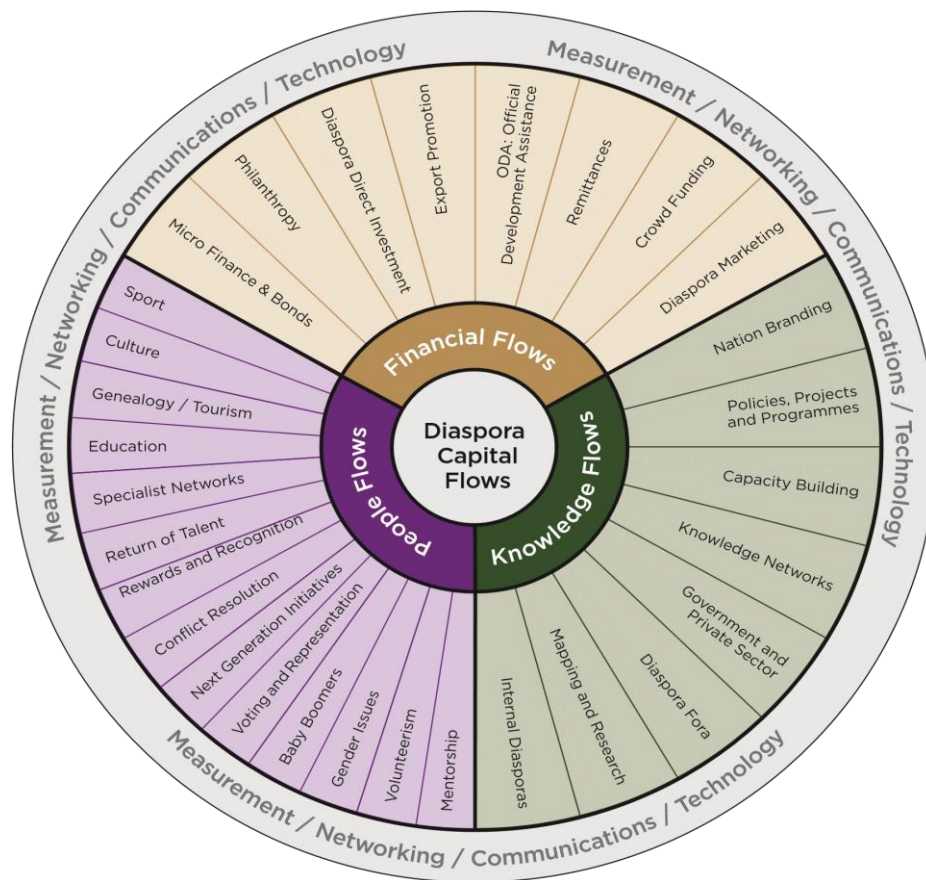


Figure 5 Diaspora Capital Wheel (The Networking Institute, 2019)

The people flow of diaspora capital pinpoints some indicative sectoral alignment for remittance mobilization, but it is the intersection of knowledge and finance flows which will determine the outcomes of each phase across this strategy. These are as follows:

Phase	Knowledge Flow Engagements	Financial Flow Engagements
Individual Change	Policies, Programmes, and Projects; Capacity Building; Diaspora Fora; Government and Private Sector; Mapping and Research.	Diaspora Marketing; Remittances (Product Offering).
Initial Collective Offerings	Policies, Programmes, and Projects; Capacity Building; Mapping and Research. Diaspora Fora; Government and Private Sector; Mapping and Research.	Philanthropy; Microfinance; Crowdfunding.
Scalable Collective Offerings	Policies, Programmes, and Projects; Capacity Building;	Diaspora Direct Investment; Diaspora Investment in Infrastructural Development.

Table 1 Impact of Diaspora Capital across process in Remittance Mobilization Strategy

An important consideration for this strategy is how to align its focus with established insights on how to generate further impact from the benefits of remittances. These have been categorized in two broad areas focusing on “strengthening the remittances infrastructure,” and “leveraging the use of remittances for development.”¹⁴

The first area has the primary focus of tackling transaction cost which can come from promoting increased competition, increased transparency, and encouraging innovative money transfer technologies.¹⁵ These are primary legislative concerns that will ultimately determine the product portfolio that can be offered at the individual level to begin to work towards the aim of phase one on individual change.

The second broad policy area of leveraging remittances for development pinpoints some procedural and collective offerings that may inform innovative use of remittances in Timor-Leste. Key policy steps to address this issue include “government incentives to ensure remittances are spent on development, such as tax breaks, special deposit accounts, matching funds, investment vehicles, and civil society initiatives. These include cross-selling of other complementary financial services, channelling remittances through micro finance institutions and securitisation of remittances.”¹⁶

Section 3 – Timor-Leste Remittance Mobilization Strategy

The recommendations of the strategy are designed to ensure a phased implementation across the pillars to ensure the institutional, informational, and implementation components for successful remittance mobilization are achieved. In total, they strive to design and deliver a holistic package of diaspora financing for the development of Timor-Leste. The delivery of these strategic recommendations will be contingent on the active co-creation of legislative, technical, and operational support from a variety of actors in Timor-Leste and in the diaspora.

The recommendations are divided into three key pillars:

- Pillar 1 – Policy, Procedural, and Product Development.
- Pillar 2 – Community Impact: Financial Education and Empowerment.
- Pillar 3 – Diaspora Investment and Infrastructural Development.

These pillars have the following recommendations (inputs) that will lead to the following outcomes.

¹⁴ J. Hagen-Zancker. (2016). Potential products and policies to leverage productive use of migration and remittances. ODI. Available at https://assets.publishing.service.gov.uk/media/57a08999e5274a31e0000188/Products_and_policies_to_leverage_use_of_migration_and_remittances_58.pdf.

¹⁵ J. Hagen-Zancker. (2016). Potential products and policies to leverage productive use of migration and remittances. ODI. Available at https://assets.publishing.service.gov.uk/media/57a08999e5274a31e0000188/Products_and_policies_to_leverage_use_of_migration_and_remittances_58.pdf.

¹⁶ J. Hagen-Zancker. (2016). Potential products and policies to leverage productive use of migration and remittances. ODI. Available at https://assets.publishing.service.gov.uk/media/57a08999e5274a31e0000188/Products_and_policies_to_leverage_use_of_migration_and_remittances_58.pdf.

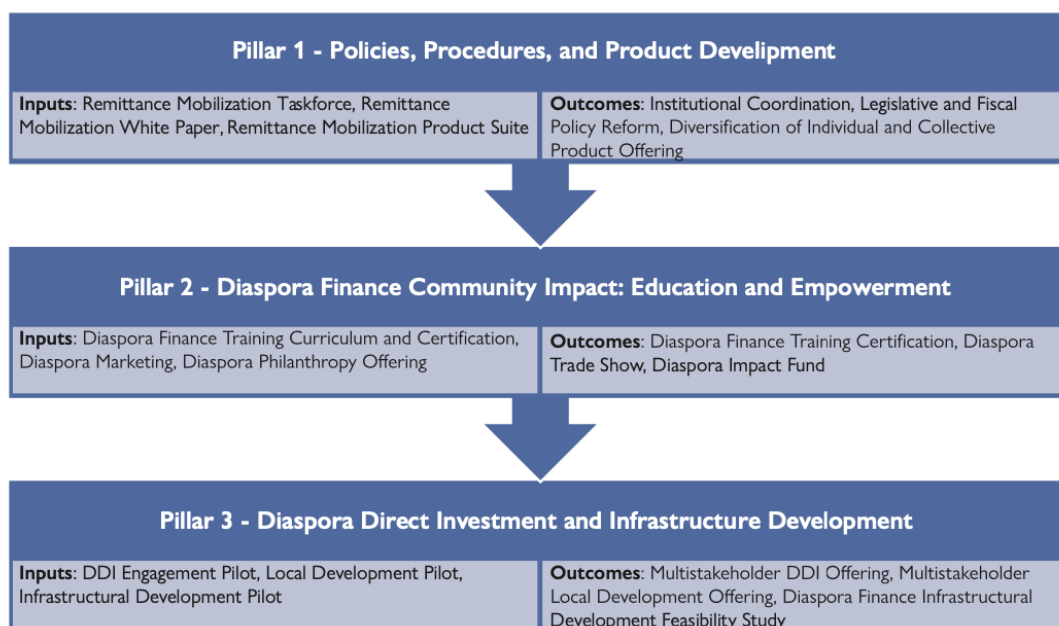


Figure 6 Timor-Leste Remittance Mobilization Strategy: Pillars, Recommendations, and Outcomes

Execution across these pillars is designed to be cyclic with pillar one laying the foundational base for pillar two. This pillar then examines market readiness for scalable interventions through pillar three based on the legislative and fiscal policy development nurtured in pillar one.

Pillar 1 – Policies, Procedures, and Products

The expected deliverables of this pillar of the strategy are to:

- Create a collaborative institutional apparatus to link governmental actors, remittance market service providers, and implementation partners to mobilize remittances for development through a holistic engagement of diaspora finance.
 - This apparatus can be derived from the governance framework and code of commitments advanced in the *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*.
- Ensure a robust system of research and development is embedded in the design and delivery of remittance mobilization through governmental and market expertise.
- Produce strong policy base for remittance mobilization engagements through governmental positions and decision making.
- Address policy and procedural issues to develop a diversified suite of remittance offerings to unlock the individual and collective mobilization required to ensure remittances are centralized as a key contributor to the developmental vision of the GoTL and the Timorese diaspora.
- Culminate in the formalization of a set of incentives and initiatives through existing and new products for remittance mobilization in Timor-Leste.

These deliverables are framed to ensure the execution of evidence-based interventions in the short, mid, and long-term based on the current legislative environment in Timor-Leste. It advances opportunities for legislative and fiscal policy innovations, based on market expertise, to produce new tools to mobilize remittances. The key recommendations to achieve these deliverables include the creation of a Remittance Mobilization Taskforce, Remittance Mobilization White Paper, and the development of a Remittance Mobilization Product Suite.

Pillar 2 – Diaspora Finance Community Impact: Education and Empowerment

The expected deliverables of this pillar are to:

- Create a Diaspora Finance Training Curriculum for remittance senders and recipients to understand different ways to use their financial capital for development.
- Create a certified Diaspora Finance Training Programme that can inspire remittance senders and recipients to mobilize their remittances for developmental use.
- Enact a strategic multi-platform diaspora marketing strategy to inform remittance senders and recipients on the new offerings designed in pillar one.
- Institutionalize a market readiness ask of the diaspora through diaspora philanthropy and humanitarianism, aligned with the recommendations of the *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*.

These deliverables are framed to establish and verify the market readiness of the Timorese diaspora and local recipients to embrace new ways of applying their remittances for development. They are also strong commitments to continue a service-driven mindset to remittance mobilization by centralizing the importance of community advancement through education and empowerment. The key recommendations to achieve these deliverables are the creation of a Diaspora Finance Training Curriculum and Certification, Diaspora Marketing Strategy, and a Diaspora Philanthropy Offering (i.e., Global Timorese Impact Fund as per activity 4.2 of *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*).

Pillar 3 – Diaspora Direct Investment and Infrastructural Development

The expected deliverables of this pillar are to:

- Develop a “go-to” digital portal for the promotion of diaspora direct investment and diaspora financing for development in Timor-Leste to ensure access to verifiable real-time insights on investment opportunities for the diaspora in Timor-Leste.
- Design and execute a programmatic, multi-stakeholder offering in diaspora direct investment that prioritizes key areas of economic transformation to contribute to the economic diversification of Timor-Leste.
- Strategize and deliver a specific range of interventions to mobilize remittances to contribute to local and rural development in Timor-Leste.
- Deliver a situational analysis on the development of a potential diaspora investment facility to support infrastructural development in Timor-Leste to leverage the impact of this strategy to reassert an implementation leadership role for the GoTL in mobilizing remittances.

These deliverables are structured to ensure that there is an evolutionary shift from the social impact awareness of the previous pillar towards more programmatic forms of diaspora direct investment. Again, the range of activities foreseen in the *Timor-Leste National Diaspora Engagement Policy, 2023 – 2027*, specifically around diaspora economic capital, can be key enablers of this pillar’s recommendations. The recommendations to achieve these deliverables are the development of pilot offerings around diaspora direct investment in the form of a multistakeholder DDI programme, a diaspora financing pilot for local development in the form a component on this issue within the multistakeholder DDI programme, and scoping assessments for launch of a potential infrastructural diaspora finance vehicle through a feasibility study on the topic.

Implementation of Remittance Mobilization Strategy

The implementation of the strategy is to be driven through the remittance mobilization taskforce which can be developed as a key subsection of the governance framework advanced in the *Timor-*

Leste National Diaspora Engagement Policy, 2023 – 2027. This will ensure streamlining of governance procedures and reporting.

It is recommended that the chair of the remittance mobilization taskforce will be an appointed representative of the Ministry of Finance. The taskforce should comprise of no more than 10-15 key representatives that cut across the key governmental and marketplace representatives required to drive the deliverables of the strategy.

The taskforce should meet quarterly and issue an annual report to provide overview of their activities. By committing to the code of commitments and governance advanced in the national policy, the taskforce can contribute to standardization of operating procedures on diaspora engagement in Timor-Leste.

Conclusion

This *Timor-Leste Remittance Mobilization Strategy* sets out a clear process through which the GoTL can begin to embed diaspora finance as a key contributor to the socio-economic wellbeing of Timor-Leste. The growing depth of commitment displayed by the global Timorese community through the strengthening of their remittance flows to Timor-Leste pinpoint diaspora finance as a priority area of developmental importance for the GoTL to meet the challenges and opportunities emerging in a post-pandemic climate. This strategy outlines a process through which the GoTL, in conjunction with local, diaspora, and international cooperation partners can enact a cycle of engagements that will provide creative and long-lasting impacts for development through diaspora finance.