



Submission No 51

## **Inquiry into Australia's Relationship with Timor-Leste**

Name: Mr Michael Johnston

Organisation: ANZ Bank



Mr John Carter  
Inquiry Secretary  
Inquiry into Australia's relationship with Timor-Leste  
Committee Secretary  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
Department of House of Representatives  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600  
AUSTRALIA

3 April 2013

**ANZ Submission to the Joint Standing Committee on Foreign Affairs,  
Defence and Trade Inquiry into Australia's relationship with Timor-Leste**

Dear Secretary,

***Executive Summary***

ANZ has a long-standing, substantial and growing presence in the Asia-Pacific region. This includes our operations in Timor-Leste, where there is significant potential for further future development and expansion.

ANZ's regional presence means it is well-placed to take advantage of the increasing trade and investment flows between Timor-Leste and the Asia-Pacific region particularly in natural resources. ANZ's AA rating places it in a strong position to provide finance and financial service to our Australian and Timor-Leste customers.

ANZ is highly supportive of efforts of the Australian Government to aid development and capacity building in Timor-Leste. We are also supportive of the recent approach of AusAID which focuses on the role of business in delivering improved aid and development outcomes. ANZ believes that business has a considerable contribution to make to help develop people-to-people links as well as assisting in developing financial and other governance infrastructure.

**1. ANZ in Timor-Leste**

ANZ has had a presence in Timor Leste since 2001. We are the only Australian bank operating in the country and one of only three international banks including BNU (Portugal) and Bank Mandiri (Indonesia). ANZ plays a key role in the Timor-Leste financial services sector and is the only AA rated bank with regional access to the ANZ Super Regional network.

**Group Corporate Affairs**

Level 10, 833 Collins Street, Melbourne

Australia | Phone (03) 8654 3459 | Fax (03) 8654 8886

Email Michael.Johnston2@anz.com |

Since 2001 our business has grown rapidly. The ANZ network in Timor-Leste now comprises 2 branches and 6 ATMs, servicing Retail, Commercial and Institutional customers. ANZ Timor-Leste has 52 employees.

ANZ Timor Leste has brought new services and expertise in the areas of international transactions, trade services, and electronic banking services to the Timorese community. For example, we have recently introduced internet banking for our customers in Timor Leste.

Today, ANZ Timor Leste offers comprehensive products and services for individuals as well as businesses. ANZ's retail product capability includes savings accounts, term deposits, foreign exchange and unsecured lending. Our product capabilities for businesses include cash management, global markets, transaction banking and global loans.

The scope to expand our business and product offering is significant. New products such as mortgages and commercial lending, for instance, will benefit significantly from the Transitional Land reform which is scheduled for December 2013.

We also see our role in Timor-Leste as broader than the provision of commercial banking services. ANZ ensures that our role in developing countries, particularly in the Pacific, is tailored towards providing financial education and assistance to residents and the Government.

As an example of this commitment, ANZ has recently piloted our flagship financial literacy program for Pacific countries, Money Minded Pacific, in Timor Leste. Money Minded Pacific was established because we wanted to make a long term difference to the financial wellbeing of our staff and members of the Pacific community.

Money Minded Pacific involves workshops run by an external facilitator with involvement from local business leaders and provides participants with information on financial products, making money last until payday, planning for the future and being able to say 'no'. The pilot provided 150 Timorese with the training primarily through The Crystal Foundation but also non-government organisations such as CARE International. The pilot was rolled out to the Timor-Leste community in 2012 and to date, has received excellent feedback from attendees. The program is anticipated to grow as it becomes more established in the local community. In other Pacific communities where the MoneyMinded pilot has been rolled out, the program has resulted in nearly 75 percent of participants increasing their savings after participating.

In addition, ANZ has provided technical expertise and funding to Microfinance Institutions operating in Timor-Leste. This involved ANZ volunteers assisting Microfinance Institutions to become (or remain) sustainable by building their expertise in areas such as credit risk, back office services, systems technology expertise and outreach expansion.

We have also assisted with the seasonal workers scheme and pre-arranged opening of accounts in Australia for 6 seasonal workers from Timor-Leste.

## ***2. Opportunities for deepening existing commercial links and developing new ones***

While Timor Leste is one of the poorest countries in the Asia-Pacific region, it has made considerable progress since independence. Economic growth in Timor-Leste is predicted to be the highest in the Pacific in 2012-13 and 2013-14.

The Timor-Leste economy is primarily dependent on government spending, which is financed by petroleum revenues. Income to the Timor-Leste Petroleum Fund are invested overseas or, subject to approval, provided to the Timor-Leste Parliament for domestic spending. The Fund currently sits at over \$11.5 billion and will continue to grow as Timor-Leste's petroleum and gas exploration and extraction activities expand.

Domestically, the Timor-Leste Government has recently announced five years of spending on public infrastructure. The Timor-Leste Government had allocated \$1.4 billion towards this infrastructure program for 2013.

We believe these investments will not only provide significant benefits to the local community, but also provide opportunities for business to work with the Timor-Leste Government and community. ANZ's expertise in infrastructure and natural resources has seen us assisting the Timor-Leste Government both in an advisory capacity and also with financial transactions as it grows its infrastructure base.

ANZ is optimistic about growth prospects and future for Timor-Leste's economy and democracy particularly as the Government executes its strategy.

### **3. Barriers and impediments to trade and investment with Timor-Leste**

Currently, tariff and non-tariff barriers to trade in Timor-Leste are relatively low for commercial foreign banks wishing to enter the market. ANZ is currently engaged with the Central Bank over regulatory reform, including strengthening Central Bank Oversight of the financial sector.

We will continue to engage with the Central Bank to ensure strong, stable financial markets for Timor-Leste and the ANZ business. The Central Bank, for instance, has advised that they are shortly to move to Real Time Gross Settlements between banks. This reform will mean payments between banks are made in real time preventing the build up of large unsettled balances and reducing the risk of interbank settlement.

More broadly, the Timor-Leste economy remains at a formative stage and the barriers to trade are primarily due to structural and development issues. Key barriers to trade, investment and economic growth in Timor-Leste include human capital shortages, cross-cultural and language barriers, lack of infrastructure, an incomplete legal system and an inefficient regulatory environment.

To this end, ANZ supports efforts by the Australian Government, AusAID and Austrade to undertake capacity building exercises to Timor-Leste's skill base and governance architecture.

ANZ's priority in relation to the development of the Timor-Leste economy to facilitate greater security for foreign banks in the development of transitional land laws which are currently under consideration by a Committee of the Timor-Leste Parliament. The passage of transitional laws clarifying the ownership and rights over land in Timor-Leste is an important step to ensuring ANZ can grant finance secured by a land-based asset. This would allow greater and less risky granting of finance to Timor-Leste customers.

ANZ also supports AusAID's increased focus on engaging with the private sector to improve aid outcomes. We believe there is significant scope for increased cooperation between government and business in Timor-Leste to ensure that aid funding helps improve economic and social outcomes.

In particular, funding on Timor-Leste should focus on those cultural and social barriers to trade and further investment by Australian companies such as addressing access and knowledge of banking services, improving educational and health incomes and involving business in the delivery of critical public infrastructure in Timor-Leste.

Over time increased capacity will create opportunities for local business to engage more in regional trade and increase appreciation among Timorese of trade as an important part of long-term, sustainable economic development.

In support of the Australian Government's efforts, in 2010 ANZ provided pro bono services of a senior and experienced executive to the Timor-Leste Government to act as

a personal adviser as the Government was beginning the process of seeking funds through external borrowings and to assist in establishing efficient transaction systems.

Yours sincerely

A handwritten signature in black ink, appearing to read 'MJ', followed by a long, horizontal, wavy line that extends to the right.

Michael Johnston  
Head of Government and Regulatory Affairs, ANZ