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EAST TIMOR

Dezenvolve Setor Privadu

**Quarterly Report
July 1, 2007 – September 30, 2007**

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ACRONYMS AND ABBREVIATIONS

AMFITIL	Association of Microfinance Institutions in Timor-Leste
ATCTL	Associaçao de Transportes dos Camioes de Timor-Leste
BDC	Business Development Center
CCF	Christian Children's Fund
CTID	Training Center for Integral Development
DAI	Development Alternatives, Inc
DCA	Development Credit Authority
DSP	USAID Dezenvolve Setor Privadu Project
ha	Hectares
IADE	Instituto do Dezenvolvimento Emprezarial
ILO	International Labour Organization
IMfTL	Microfinance Institution of Timor-Leste
Kg	Kilograms
MAFF	Ministry of Agriculture, Fisheries and Forestry
MFI	Micro Finance Institution
m.t.	Metric ton
MSME	Micro, small to medium enterprises
NGO	Non-Governmental Organization
SGP	USAID Small Grants Program
SHA	Specialized Agricultural Area
TCN	Third Country National
TIDS	Timor Institute of Development Studies
UNTL	National University of Timor-Leste
USAID	United States Agency for International Development
VCO	Virgin Coconut Oil
WFP	World Food Programme

DEZENVOLVE SETOR PRIVADU

Quarterly Report July to September 2007

Summary

In July to September 2007 DSP continued its expansion in several areas of work that will define DSP's program of work through 2010, including a substantial increase in rural activities. The DSP project made several transitions in the recent quarter, including a reduction in the number of ex-patriate advisors working in the project. A key transition took place in August 2007, when DAI received a two-year contract extension that will provide DSP with the time necessary to develop the business linkages envisioned in the project's work plan. This action removed a key uncertainty about continuation of the project beyond 2008, which had hampered program planning. Additionally, one of DSP's local partners received an important grant from USAID's SGP to begin organized production of high-value horticultural products to meet market demand in Dili. Coupled with the physical production materials, five students completed training in Indonesia sponsored by DSP, creating the potential for a technically sound, fully operational farming operation. Significant technical support was delivered to grower groups.

Table 1: Impact and Results

Intended Impact	Results
Increased volume and value of produce to high-end buyers through farmer and private sector linkages	Over 7 m.t. of 23 different graded horticultural products worth more than \$5,000 were supplied to institutional buyers (supermarkets) during this quarter. The number of buyers was expanded to include all four of Dili's major supermarkets.
Increased production and sales of mungbeans through farmer and private sector linkages	DSP supported 24 farmer groups (320 household/farmers in eight villages) for planting 215 ha of mungbeans. Anticipated yield of 80 m.t. will be harvested in October.
Increased volume and value of coconut oil through farmer assistance and private sector linkages	71 bottles of virgin coconut oil were sold through a supermarket in Dili
Increased the number of enterprises accessing commercial services	Linked Zero Star to the accountancy of Haksolok Consulting Lda.
Continued strengthening to the Transportation Truckers Association	Provided technical support that lead to the association's first general assembly meeting. Additional contract revenues during the quarter of \$41,840 for the 35 members and 27 subcontractors. \$393,060 earned to date.
Increased access to financial services	219 mungbean farmers received credit.

PROGRESS ON PROGRAM ACTIVITIES

This section describes project activities by program area as described in the DSP Year 3 Work Plan submitted to USAID/Timor-Leste on 31 August 2007. Where appropriate, references are made to “carry-over” activities under the Year 2 work plan.

Agribusiness

DSP supports income generation through improved business linkages within supply chains. Agribusiness initiatives focus on identifying markets and buyers for local agricultural goods; assisting producers to increase output, production efficiency, and quality based on buyer specifications; and strengthening business and supply chain management.

Significant actions for the July – September 2007 period include:

- DSP established 2 new production groups for virgin coconut oil in Mota-Ulun, Liquica district and Buruma, Baucau district. A total of 53 persons, 21 male and 32 female were trained during two sessions. Training sessions included using fermentation method to replace traditional system to produce coconut oil. DSP has assisted formation of 2 groups from the trainees and provided production kits.
- Sales of virgin coconut oil from Lita Store totaled 71 bottles during the quarter, from deliver of 115 bottles.
- DSP conducted seed trials in five villages in Aileu, Ainaro, Baucau and Dili districts, involving 25 farmers (completed in October 2007).
- DSP assisted Zero Star to negotiate deliveries to one new buyer, and a total of 16 deliveries were made during this period. The quantity delivered was over 7 tonnes of graded product worth over \$5,000. There were 23 different varieties of vegetables supplied during this quarter.
- DSP provided training in horticulture production to seven households in Lequitura. Training sessions included nursery preparation, seedlings maintenance, proper soil preparation, transplanting and composting. In addition to that, DSP also facilitated farmer exchanges.
- DSP supported 337 farmers organized into 24 groups to plant 215 ha of munbeans in Covalima district (harvest in October 2007). DSP provided training to these groups on seed selection, land preparation, crop management and Integrated Pest Management, harvesting, and post-harvest handling and storage.

Progress by planned activity:

[1] Strengthen small-scale coconut oil enterprises in villages by introducing better technology, production techniques, and appropriate packaging.

Objective: Improve the economic viability of the coconut industry.

Progress: During the quarter DSP's focus on the local market for virgin coconut oil (VCO). Energies continued to focus on marketing issues, including packaging and advertising, however new groups were also established during this period to increase production capacity. Progress and issues experienced to date:

- DSP continued to support the existing groups in Beobe, Viqueque district, and Bahamori, Baucau district.
- DSP established 2 new production groups for virgin coconut oil in Mota-Ulun, Liquica district and Buruma, Baucau district. A total of 53 persons, 21 male and 32 female were trained during two sessions. Training sessions included using fermentation method to replace traditional system to produce coconut oil. DSP has assisted formation of two new groups from the trainees and provided production kits.
 - Training in Baucau reached 33 people. The training was provided at the request of the Chefe do Suco. Of those trained, an initial group of eight persons was formed and equipped with a production kit. The community has requested additional kits so that more of the training participants can start producing this improved oil.
 - Trainees in Liquica included 20 people representing a youth group, veterans, and senior citizens. Orsocotil, a local NGO, requested the training and facilitated the participants. Following the training, DSP supplied 1 production kit to be shared by the groups under the management of Orsocotil. These groups immediately started supplying oil, and as of the date of the report they have already supplied 60 litres.
- A total of 115 bottles of VCO were delivered to Lita Store during the quarter, with sales of 71 bottles.
- DSP has encountered difficulties with the quality of shredder machines available. A number of these machines have been recalled for repairs.
- The cost of coconuts remains an issue that limits expanding production. At present coconuts cost 10 cents per three nuts if collected from the tree by the oil producer, or five cents per nut if already harvested by the coconut tree owner.
- Defining the market for the VCO continues to be a priority. Generating product recognition, market share from the overall cooking oil market, and sufficient turnover for business viability remains difficult, given the current small volumes.

Next Steps - Coconut Industry:

- Supply of packaged VCO on consignment basis to supermarkets and kiosks as trial marketing scheme, together with promotional materials and point of purchase displays as necessary.
- Identify potential business person or organization to fill the wholesaler role and provide professional support in establishing a distribution business.
- Identify, equip and train new groups in VCO production to increase the supply of VCO assuming market demand.

[2] Expand sales of fresh products, increase variety, and improve quality, targeting high-end institutional buyers.

Objective: Develop local supply chain for high-end perishable 'fresh' products.

Progress: DSP continued to expand activities in the horticulture area during this quarter. Deliveries of graded produce were facilitated to buyers in Dili through DSP's partnered horticulture wholesaler, training in vegetable production planning and techniques was conducted, and seed trials continued.

Additional progress in the area includes:

- DSP continued to facilitate agreements and deliveries of graded local product by Zero Star, DSP's horticulture wholesaler partner, to Dili supermarkets. The number of supermarkets was expanded to include all four main supermarkets in Dili. A total of 16 deliveries were made during this quarter. The quantity delivered was over 7.003 tonnes of graded product worth over \$5 thousand.
- Zero Star continues to expand the number of suppliers and products for the business. There were 23 different varieties of vegetables supplied during this quarter. Supply does not only focus on high-value new products, but also mid-range products that have higher volume (e.g. local cucumbers and water crash).
- A total of 5 Formal training sessions were held in Leqitura focused on nursery establishment, seedling preparation and maintenance, proper soil preparation, compost production, and transplanting.
- DSP initiated horticulture seed variety trials through TIDS and UNTL in June 2007. The trials continue in 5 villages in Aileu, Ainaro, Baucau and Dili districts, involving 25 farmers. The trials are aimed at assessing the performance of new seed varieties as well as documenting constraints faced by farmers in horticulture production, including pest/diseases and farmer practices. The trials offer an opportunity for the 4 UNTL agronomy students to conduct practical activities, as well as offer the 25 participating farmers to learn more about production through farmer field visits to see the results of trials in other locations. These initial seed trials are scheduled for completion at the end of October.
- DSP is work with Zero Star and the USAID Small Grants Project (SGP) to mobilize the grant proposal to establish a horticulture supply chain for high-end clients. The grant was approved in September 2007.

Next Steps - Horticultural Supply Chain:

Zero Star remains the key enterprise in the horticultural supply chain. DSP will work closely with Zero Star to promote production of new varieties of products in at least four locations in the central region of Aileu and Ainaro.

DSP will continue to facilitate and expand the supply of graded local horticulture products to high-end buyers:

- Deliveries of graded product will continue under the initial agreements brokered by DSP between the wholesaler and Dili supermarkets.

- New suppliers will be identified within Aileu and Ainaro districts, as well as in other districts such as Baucau and Liquica.
- DSP in association with the wholesaler will continue to provide demand information to producers and assist in production planning.
- DSP will support and monitor sales arrangements to assess pricing issues and viability, and provide business training and other technical support to the wholesaler as identified.
- DSP will support Zero Star to strengthen cold chain management systems and quality control to improve product and reduce wastage.

DSP will develop specialized horticulture areas (SHA) for the supply of new produce ranges to high-end buyers:

- Special focus will be placed on the Lequitura producer group to follow up on the training received by its 2 members in Bali. Outdoor growing will continue, and indoor or protected growing systems will be initiated during the wet season.
- Commercially oriented production will commence in 3 locations during the next quarter. The sites will be linked to Zero Star, with DSP providing support to conduct Production Technology Trials (PTTs) in these locations for wet season production.

[3] Expand production of cash crops for domestic and export markets

Objective: Expand production cash crops, such as mungbeans, through market identification, improved seed, production technologies, seed storage, and farmer coordination.

Progress: DSP has made significant progress in the mungbean expansion initiative in Covalima district:

- DSP assisted 24 farmer groups in Covalima district with 337 households/farmers in eight villages and four sub-districts of Suai to participate in the mungbean expansion program.
 - In the absence of available and affordable seed in Covalima, DSP sourced and distributed 5.5MT of mungbean seed as an in-kind loan to the groups based on land area of each group member.
 - A total of 221 ha of mungbean was planted by the groups, with an estimated yield of approximately 80 tonnes based early harvest data in the area. Yields were affected by flooding which has possibly resulted in a 20% reduction in yield. The results are still important to farmers due to the greater losses to the maize crop from both flooding and locusts.
 - DSP developed draft production guidelines and instruction cards for village-level training.
 - Training in seed selection, planting, crop management, and harvesting was provided to the groups, and technical assistance provided for troubleshooting.
 - DSP has encouraged farmers to save seed for the next growing season. To facilitate this and ensure the quality of seed, DSP requested hermetically sealed GrainPro bags from MAFF. This was supplied to individual farmers together with a bucket with lid from DSP to protect the bags from rodents.
 - DSP has partnered with a newly established local private organization, Fini Esperanca, aimed at providing seed storage and trading services to farmers. DSP assisted Fini Esperanca with storage containers.

- DSP has continued to communicate with potential buyers of mungbeans, including Timor Global, government agencies, and West-Timor traders, to ensure a market exists for the farmer groups. DSP facilitated a visit by Timor Global to inspect the fields and investigate other opportunities for production.
- As of the time of this report, the majority of the mungbean harvest was being bought by buyers in West Timor, however a initial truckload was also sold to Timor Global in Dili.
- CCF East Timor dispersed \$12,500 under a trial mungbean loan product with support from DSP. The loans were to five groups with a total of 98 members in Aldea Holbelis Suco Labarai Suai, Covalima.. Technical assistance on production, harvest and marketing was provided similar to the other groups supported by DSP. CCF is currently conducting an assessment of this loan trial.

Next Steps:

- DSP will continue to support the farmer groups in Suai with harvest and post-harvest seed storage and marketing. Harvest will be complete by the end of October.
- DSP will arrange an assessment by a local agronomist to identify the factors affecting yield levels and yield variations during this initial season, with the aim of informing production improvements for the next planting season.
- DSP will continue to facilitate visits by buyers to inspect production sites and discuss purchase agreements with producer groups, and assist farmers to coordinate sales.
- Seed provided as in-kind credit will be returned to DSP. The seed will be a local organization, Fini Esperanca.
- DSP will monitor seed storage systems provided to individual farmers and to Fini Esperanca in cooperation with MAFF/Seeds of Life.
- DSP will identify new farmers to expand production. A small number of farmers may plant in the November/December period. DSP will also investigate potential to expand into new districts.
- Potential new seed varieties will be investigated together with buyers to prepare for further expansion and quality improvements for next growing season.
- DSP will continue to investigate possibilities of supporting a visit by representatives of a Surabaya import/export association aimed at promoting trade to Indonesia. This will not only focus on mungbeans, but will also include other crops.
- Potential new cash crop to be investigated is peanuts. Crop rotation with peanuts will improve soil condition and offer a second cash crop after mungbeans.

Progress on fisheries / seafood supply chain:

No activities are planned to work on fisheries/seafood supply chain improvement until 2008.

Commercial Services

DSP supports private sector growth by increasing access to technical and business services essential for efficient enterprise operation. DSP's objectives are to (1) increase the number of enterprises accessing commercial services, (2) introduce new commercial service products into the market, (3) support the continued development of the Transportation Truckers

Association, and (4) develop the accounting skills used both by practicing Timorese accountants and entrepreneurs.

Significant actions made by the DSP commercial services team for the July – September 2007 period include:

- Linked the Alola Foundation to two supermarkets as new sales outlets for holiday gift baskets featuring rural-based, women-produced, products
- Assisted the Truck Transport Association hold its first General Assembly
- Supported the inaugural meeting of the Accounting Association of Timor-Leste
- Linked Zero Star to outsourced accounting services and training
- Supported the Tourism Association in producing a tourism guide for an international tourism trade show
- Assisted the Tourism Association and the Directorate of Tourism by having Commercial Services Advisor, Lendell Foan, participate in the Turismo Timor-Leste promotional booth at the Pacific Asia Tourism Association Trade Show in Bali, Indonesia (26 to 28 September).
- Facilitated meetings for DCA Assessment for Mr. Anthony Vaganos from the USAID EGAT office.
- After two years of DSP support, AMFITIL “graduated” and now employs its own administrator and have taken full responsibility of their administration, financial data reporting, and membership services

In Project Year 3 DSP will focus on supporting the commercial success of project initiatives in agribusiness by placing a high priority on developing and strengthening business linkages, especially in the supply chain for agricultural products, and by creating market outlets for other Timorese products.¹ Specifically DSP will:

1. Link businesses to commercial opportunities
2. Improve access to quality business services
3. Improve the quality of services that support the tourism (hospitality) sector
4. Improve accounting and bookkeeping skills and practices
5. Improve credit opportunities for MSMEs in productive sub-sectors

Progress by planned activity:

[1] Increase the number of enterprises accessing commercial services

Objective: Support the growth of the private sector through increasing micro, small to medium enterprises access to technical and business training and other support services.

¹ These refocused objectives are noted in the “Next Steps” where appropriate.

Progress: Partially due to political events, and in part by design, DSP began its transition from increasing access to training in broad terms, to providing targeted technical training and support to firms within the value-chains DSP is working in. Key events and activities from the quarter:

- As highlighted in the previous quarterly report, 30 June was the close of DSP's six month pilot at the Baucau Business Development Center (BDC). It was planned that during this quarter DSP would provide the Ministry of Development's Instituto do Desenvolvimento Emprezarial (IADE) a summary of the lessons learned from the pilot and provide options on possible program directions for the BDCs. Unfortunately, in July violent protests to the announcement of the new government resulted in significant damage to the Baucau BDC.
- On 20 September the DSP commercial services team met with the new Minister of Development to better understand the government's interest in rebuilding the Baucau center, as well as learn of the Minister's intended direction for the program. The Minister informed DSP that for the moment he was not making any changes to the BDC program as he was having an outside assessment of the BDCs conducted. The results of this assessment will be fed into the Ministry's five year plan. DSP provided the Minister input on our findings from the Baucau pilot, and will track the plans of the government moving forward. Until a clear direction and/or support for the BDCs are presented by the government DSP will suspend work with the BDCs.
- During the quarter DSP began transitioning its program to targeted linkages between enterprises and commercial service providers. Specifically, DSP linked Zero Star to Haksolok Consulting Services (an accountancy), to establish accounting and bookkeeping systems, and to provide hands-on and classroom training to owner of Zero Star.

Next Steps - Improving access to quality business services: DSP will focus on providing quality services to augment the businesses along the value-chains DSP is currently working in. During the next quarter DSP will:

- Continue to provide accounting and bookkeeping support and training to Zero Star
- Provide Haksolok qualitative feedback on their services and approach
- Conduct a market assessment of marketing and advertising services available in Dili

[2] Introduce new commercial service products into the market

Objective: Introduce new commercial services and products to assist in the growth of the private sector.

Progress: This activity is directly linked to DSP's work with the BDCs. As part of the feedback DSP provided the Minister of Development from the DSP/Baucau BDC pilot, was information on the modified *ILO Inventory/Stock Control* training course held. However, until clear direction and/or support for the BDCs is presented by the government, DSP will discontinue activities in this area.

[3] Support the continued development of the Transportation Truckers Association

Progress: Since May 2006, DSP has provided direct support to the Transportation Truckers Association. At first, DSP support focused on the management of their World Food Programme (WFP) transportation contract. With the financial success of their contract (see below) DSP is currently focused on developing the association’s overall organizational structure and management. During the quarter DSP assisted the board members in preparing for and running a General Assembly. Significant activities to note:

- 16 July, DSP linked the seven board members to an East Timor Development Agency (ETDA) training on “How to Run a Meeting.” Based on the skills learned, DSP then worked directly with the board to plan and hold the association’s first, formal general assembly meeting.
- On 29 August the association held their first formal General Assembly. During the meeting they achieved the following:
 - Elected a new president
 - Elected new management and audit boards
 - Voted on the following operational matters:
 - Procedures for subcontracting work to non-members
 - Policies on loans to members
 - Increased the number of trucks each member can use on association contracts from three to five
 - Allocated budget for administrative support and operational staff

In addition, DSP continued providing technical support to the association administrator and his operational and client management of the WFP contract. For the quarter the results of DSP’s efforts have been:

Table 2: Transportation Truckers Association Revenue Quarterly Results

Month	Members/Contract Truckers Benefiting	Revenue
July	7	\$ 8,734
August	36	\$ 10,877
September	30	\$ 22,229
Total	n/a	\$ 41,840

Thanks to DSP support to date, the association’s 34 members and 50 subcontracted, independent truckers have earned \$393,060 in additional revenues.

Next Steps - Transportation Truckers Association: DSP will continue to mentor the continued organizational formalization and development of the association by:

- Providing an accounting firm to audit the association’s books
- Identifying and providing accounting/bookkeeping training for the audit board members

- Work with the management board to plan the next General Assembly meeting (per Timorese law, general assembly meeting must be held every six months)

With the success of the first General Assembly, members are seeing both the financial benefits of revised business practices, as well as the empowerment that comes through transparency.

[4] Develop the accounting skills of both entrepreneurs, and those available in the market place

Objective: Increase the quality of accounting skills within Timor-Leste by raising the skills of Timorese accountants to an international standard.

Progress: Following the recommendations from the accounting skills training consultancy of Ms. Marina Krivoslykova, DSP approached the lack of accounting skills in two ways. First, by linking businesses to accounting services within the market place, and secondly by supporting the development of an accounting association that is focused on providing increased skills and training for their members. Specific achievements:

- DSP linked Zero Star to the accountancy of Haksolok Consulting Services. During the quarter Haksolok worked with Zero Star to develop a chart of accounts and cash books, conducted a year-to-date audit and financial report for Zero Star, provided monthly accounting reports, and designed a mixed hands-on and classroom training on bookkeeping and accounting to the owner of Zero Star.
- DSP continued to support the development of the accounting association for Timor. On 26 August the Accounting Association of Timor-Leste was created during a constitutional assembly where 48 members ratified a constitution and elected a management board.

Next Steps – Improved accounting and bookkeeping skills and practices: DSP will continue to provide targeted linkages between MSME's in the horticulture value-chain to the training and services needed to improve their accounting and bookkeeping skills and practices. During the next quarter DSP will:

- Monitor the progress of the directed services and training provide to Zero Star by Haksolok Consulting
- Develop a cash management training for farmers benefiting from DSP technical training in agribusiness
- Link the Truck Transportation Association with an accounting firm to audit their books and design a possible training program for their audit committee.
- Work with the Accounting Association to develop a training platform to improve the skills of their members

[5] Linking businesses to market opportunities

DSP supports various components of the agribusiness value chain. Specifically, DSP will link businesses to information, technology, and/or marketing to connect them to new or expanded growth opportunities.

Next Steps – Linking business to market opportunities:

During the coming quarter DSP will:

- Support a Christmas promotion. Before the 2007 Christmas season, when large numbers of expatriates return to their home countries for leave, gift packages consisting of Timorese-produced products such as coconut soaps and oils, coffee, and Tais handicrafts will be offered for sale at commercial outlets. This promotion will generate an increase in incomes for village producers before the holiday season, the gift packages and the holiday fair will increase awareness of the diversity and quality of Timorese products. Work in this area is underway, as DSP linked the Alola Foundation to two Dili supermarkets as new sales outlets for their holiday gift baskets featuring rurally, mostly women, produced products.
- Work in close partnership with GTZ, JICA and the MAFF, to train 10-15 Timorese fabricators to make mechanical rice-weeders that meet the required quality and cost standards for direct sale to farmers involved in the MAFF/GTZ integrated crop management (rice) production project. It is envisaged that the 10-15 fabricators will be from five different workshops located in Baucau, Manatutu, Viqueque, Maliana, and Suai.

[6] Improving the Quality of Services That Support the Tourism and Hospitality Sector

Hospitality service providers catering to foreigners are currently at the center of economic activity in Timor-Leste. Although tourism and hospitality services are largely being consumed by individuals that are not tourists in the traditional definition, demand for such services is strong and will likely continue to remain strong in the near future. Therefore, DSP has added this new area to its Year 3 work plan.

Progress: DSP began work in this area in September by engaging the Tourism Association of East Timor (ATTL), an active advocate for the needs of the industry, on constraints and needs of the sector. Based on feedback from the association DSP:

- Commenced work on an inventory of the skills training available and the capacity of existing hospitality training providers and identify providers with high potential to meet the training needs identified by ATTL.
- From 26 – 28 September, DSP's Commercial Services Advisor attended, along with the ATTL/Government Tourism Directorate delegation the Pacific Asia Tourism Association's (PATA) trade show. Here DSP met with over 100 tour operators and agencies that are interested in bringing tours to Timor. From these meetings DSP has first hand knowledge as to where Timor's market niche is as well as the expectations

and needs of the tourist upon arrival. This input is critical in assisting the ATTL and the government in developing the necessary training and investments to ensure a positive and continued growth in the tourism sector.

- In preparation for the PATA conference, DSP purchased and donated 200 Timor Tourism Directories distributed to potential tour operators/clients at the conference. The directory provides an overview Timor's history, natural attractions, and a comprehensive nation-wide listing of tour operators, restaurants and lodging.

Next Steps - Improving the quality of services that support the tourism and hospitality sector:

DSP will present its inventory of the hospitality and tourism sector skills training providers to ATTL and enlist their input on key inputs that could better meet the needs of the industry through targeted assistance, including if applicable, facility upgrades, internships, and program design of new or improved training.

Based on the findings of the skills training inventory, and the information gathered from the PATA trade show, DSP will work with ATTL and its members to identify and prioritize the needs of the sector, including skills needs such as: hotel and restaurant management, training of wait staff, tour guide training, areas for investment, etc., and create a map from which to lobby support and development from private sector, donors and the government.

Based on the prioritization of sector needs, DSP will provide technical consultants to assist in the continued development in the sector.

[7] Improve Credit Opportunities For MSMEs:

Financial services are a key element in DSP's support of businesses within the value-chains the project is providing technical support, through targeted, quality commercial services. Within this integrated approach, DSP will be looking for ways to increase credit opportunities for MSMEs working within the sub-sectors that DSP is involved in.

Progress: DSP will improve credit opportunities for MSME by providing services and training to MFI's requesting assistance, linking farmers to MFIs, and more importantly, providing cash management training to DSP beneficiaries, thus strengthening their potential credit/risk ratings. Progress made in the quarter includes:

- DSP facilitated the DCA Credit market assessment that was conducted by Mr. Antony Vaganos from USAID's EGAT office. The assessment was conducted from 12 – 31 August.
- DSP linked microfinance client/mungbean farmers participating in DSP's mungbean initiative to a new agricultural loan product. Working with IMfTL, Moris Rasik and, CCF-MEDI; in the Bobonaro and Covalima districts, DSP expanded credit options for 329 farmers. The Suai branch of CCF-Medi was interested in working with DSP to test the market for a microfinance agricultural loan that had conditions that better met the cash needs and constraints faced by farmers. Specifically, CCF-Medi provided loans to individuals with a balloon payment at harvest, collecting only interest payments weekly. On 25 September

DSP staff members met with CCF's new program director who informed us that he is reviewing all programs, including lending and is not interested in committing to new financial products or lending initiatives. For the moment, DSP will discontinue its work with CCF, but uses looks forward to developing and testing new, appropriate loan products with interested financial service providers.

- The other key activity to note is that starting in August, and based on feedback from the organization, DSP is no longer providing direct technical support the Association of Microfinance Institutions in Timor-Leste (AMFITL). AMFITL has directly hired an administrator and therefore have taken full responsibility for the day-to-day operations of the association. This position was formally funded and supported technically by DSP.

Next Steps –

- Work with MFIs that are interested in using loans to expand production of agricultural products.
- DSP will integrate basic cash management technical agricultural training, thus strengthening the MFI's current or potential client base
- DSP will continue survey and analyze profitability of possible mechanization activities for tractor and processing services associated with DSP's efforts in mungbeans in the other potential districts such as Maliana, Manatutu, and Baucau.
- DSP also will support the extension of rural credit by commercial banks under any possible DCA credit program that may be created.

Enabling Environment

DSP facilitates business growth by helping to improve Timor Leste's commercial and legal framework, to be more conducive to business formation and efficient operation. During Year Three, DSP will collaborate with business associations to improve the quality and dissemination of information available to the local business community and investors.

[I] Understanding government: Awareness and information for the Business Community in Timor Leste

Since Timor-Leste's independence in May 2002 and before that, during the United Nations Transitional Administration of East-Timor (UNTAET), a number of regulations, laws, and decree-laws were introduced in the country. However, little if any efforts were made to ensure that the community at large was made aware of important regulations/legislation, especially in the rural areas. The business community of Timor Leste also suffered from a lack of any way to obtain information about the laws of the country. The situation is made worse because the official language for government documents in Portuguese, and few people in Timor-Leste are able to read the laws and regulations.

Because of the widespread lack of such information about the laws of the country, the Business Forum (FETL) identified dissemination of such extremely important information as a high priority and plans to conduct awareness sessions among members of these communities. These

workshops will serve two purposes. First, business operators will be directly introduced to the laws of the country, and increase their knowledge and understanding of the relevant legislation. Second, the workshops are a way by which businesses self-select for participation in on-going working groups.

Progress:

The first of the workshops was conducted 27 July 2007, on the subject of government land law administration. Registration for the workshop was limited to 30 participants, but only 27 attended. One of the more interesting outcomes of the workshop was the discussion concerning the importance of language. All government laws and regulations in Timor Leste are published in Portuguese language. However, only six of the attendees – less than 25 percent – are able to read Portuguese and must therefore rely completely on the interpretation of government officials.

Next steps:

Additional seminars will be sponsored as topics are identified. The next seminar (24 October) will cover Tax Law. The IFC will collaborate with DSP and FETL to create working groups to deal with relevant regulatory issues over time.

[2] Promoting a constructive dialogue between businesses and the government

In Project Year 3, DSP continues to facilitate and support periodic seminars that involve key government officials and businesses leaders.

The first of these Year 3 seminars took place in August 2007. DSP hosted and facilitated a two-hour dialogue between Timor-Leste's business leaders and President Jose Ramos Horta on 16 August. The President was accompanied by the new Minister for Economics and Development João Gonclaves. Following an address by the President and Minister Gonclaves, two officers from the Forum dos Empresarios de Timor Leste (Business Forum) delivered speeches. In his address, President Horta proposed a tax reduction for business activities, a proposal formally circulated in September.² Under the proposal, to be implemented in January 2008, the current tax system would be replaced with a flat 10 percent income tax with full expensing. The proposed system would render the tax system neutral with respect to different sources of income and would be a powerful incentive for investment. In addition, indirect taxes would be reduced to 5 percent, bringing down the cost of goods and services,

At this dialogue, President Horta specifically thanked USAID for its past support for creating a new land law framework and indicated that the government of Timor Leste will be appreciative of the promised continued support in this important endeavor.

² A Proposal for Domestic Tax Reform, Note for Public Consultations on Tax Reform, Tax Policy Committee, September, 2007

[3] Creating a Network Of and For Women Owned-Businesses

USAID sponsored two participants at the 12th Women Leaders Network Meeting in Australia, June 24 – 27, 2007.³ One purpose of the meeting was to introduce Timorese women leaders to the APEC Women Leader’s Network. An expected outcome from the meeting was that strong and active networks will be developed and opportunities created.

Progress:

Timor Leste’s participants propose to lead a series of periodic seminars at which women from all 13 districts will share their insights into special problems encountered by women-operated business and develop recommendations for ways that women can be more proactive in the business community. Initial themes for the workshops will be ways to motivate and increase the role of women in conducting business as entrepreneurs, managers, investors, and employees. The expected results of this activity are: (a) an increased participation of women in business activity and (b) increased economic activity in the long-run, as the country’s economy becomes more diversified.

Next steps:

The Business Women’s Group of Timor Leste planned its organizational meeting for 3 October 2007 in Dili.⁴

MANAGEMENT AND ADMINISTRATIVE ACTIONS

Administrative Actions and Technical Management:

During the quarter the administrative staff supported DSP provided logistical and administrative support to consultant Dr. Merle Menegay, during the period 05 September – 20 October

DSP hired Tina Papay as a bookkeeper on August 1, to replace Sandra da Cunha.

DSP recruited Hernani Godinho as Business Development Specialist, with an agreement reached in mid-September, that he would join effective October 15 as a part of the commercial services team.

³ The participants were Cristina Costa from Trade & Invest Timor Leste and Kathleen Gonclaves, owner of several local businesses.

⁴ The workshop was highly successful, with more than 70 women business owners/operators attending the workshop. Notable speakers were: Mrs. Kirsty Sword Gusmão, Director of Alola Foundation; Mr. João Gonçalves, Minister for Economy and Development; Mrs. Idelta M. Rodrigues, Secretary of State for Promotion and Equality; Mr. Jorge Serrano, Vice President of the Business Forum of Timor-Leste; and Ms. Milena Pires, Director of UNIFEM.

DSP changed its contract with Guido Sequeira, making him a permanent staff member (Agriculture Technical Field Specialist) effective September 28. He will continue to support the technical services of DSP's in field for fresh vegetables and horticulture activities.

Milissa Day, who had served as DSP's Financial Services Advisor in 2005-06, completed her two-year contract with DSP on 13 July 2007.

DSP Office held a one-day retreat with staff on August 8, to review the project growth over the last year, to be a better function as a team, and to clarify where to move forward.

During the quarter DSP reorganized its administrative team along functional lines to better serve the logistical and administrative needs of each team. The Management team then assigned one staff assistant to be primarily responsible for each team; Didy de Andrade assigned as an administrative assistant for Agriculture team and Nina Sarmento assigned as an administrative assistant for Commercial team.

Procurement

As DSP hired additional staff therefore office has bought more computers during the month of September. Based on the needs of Agriculture Team for the field work, DSP bought one motorcycle (July 15, 2007) which will be used to support the mung bean activities in Suai.

FINANCIAL REPORT THROUGH 30 SEPTEMBER 2007

CONTRACT COST

DAI's contract with USAID to implement the DSP Project has a ceiling price of \$9,988,491 in the following categories:

Workdays Ordered:	\$5,638,744
Other Direct Costs:	\$4,043,285
<u>Grants</u>	<u>\$ 306,462</u>
Contract Ceiling Price:	\$9,988,491

AMOUNT OBLIGATED BY USAID

17 August 2007, USAID obligated an additional \$1,200,000 in funds for the implementation of this task order, bringing the total obligated amount to \$6,000,000.

BALANCE OF OBLIGATED AMOUNT

Amount Obligated by USAID:	\$6,000,000
Expenditures through September 2007:	\$4,130,695 (68.8% of obligated funding)
Funds Remaining vs. Obligation:	\$1,551,795
<i>Funds Remaining vs. Contract:</i>	<i>\$5,857,796</i>

TRAINING, SEMINARS AND WORKSHOPS

During the quarter, DSP conducted 16 training events covering more than 32 total training days. The events included 237 participants, of which 120 are men and 117 are women. The majority of the training events were one-day, practical exercises conducted by DSP's Agribusiness team. These training activities are shown below in Table 3, below.

Table 3. Training, Seminars and Workshops

Month	Dates	Topic	Description	Location	Session Details			Participants		
					Training	Seminar	# days	Men	Women	Total
July	26	Horticulture value chain	Seminar on training programs in Bali attended by business and farmer representatives, and outline of DSP's plan for the horticulture industry	ETDA, Dili		1	0.5	21	5	26
Aug.	25-27	Horticulture production systems	Training in Lequitura in nursery preparation, plot measurement/design, and planting schedules for new crops (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		3	5	2	7
Aug.	31	Mungbean production systems	Training in harvesting techniques and post-harvest handling of mungbeans	Holbolu, Covalima	1		1	6		6
Aug.	15-17	Horticulture production systems	Training in land preparation for production of new crops (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		3	2	6	8
Aug.	22	Awareness of Land Law	Presentation about government land/property regulations	Dili		1		13	14	27
August	28-31	Horticulture production systems	Training in simple nursery production for new crops (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		4	3	4	7
Sept.	12-14	Horticulture production systems	Training in planting seeds in nursery for production of new crops (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		3	3	4	7
Sept.	18-21	Horticulture production systems	Training in transplanting seeds from nursery to field for new crop production (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		4	3	4	7
Sept.	13-15	Coconut oil production techniques	Training on virgin coconut oil production in Liquica, including fermentation process and operation of hydraulic press and shredding machine	Mota-ulun, Liquica	1		3	19	8	27
Sept.	19-21	Coconut oil production techniques	Training on virgin coconut oil production in Baucau, including fermentation process and operation of hydraulic press and shredding machine	Tasi, Buruma, Baucau	1		3	11	22	33
Sept.	27-28	Horticulture production systems	Training in preparation of growing media for new crop production (e.g. chinese cabbage, broccoli)	Lequitura, Aileu	1		3	3	4	7

Table 3. Training, Seminars and Workshops (cont.)

Month	Dates	Topic	Description	Location	Session Details			Participants		
					Training	Seminar	# days	Men	Women	Total
Sept.	3	Mungbean production systems	Training in harvesting techniques and post-harvest handling of mungbeans	Camasa, Covalima	1		1	8	1	9
Sept.	4	Mungbean production systems	Training in harvesting techniques and post-harvest handling of mungbeans	Holbelis, Covalima	1		1	2	10	12
Sept.	24	Mungbean production systems	Training and demonstration on use of farmer-level storage equipment, including GrainPro storage bag	Holbolu, Covalima	1		1	10	11	21
Sept.	25	Mungbean production systems	Training and demonstration on use of farmer-level storage equipment, including GrainPro storage bag	Camanasa, Covalima	1		1	10	7	17
Sept.	26	Mungbean production systems	Training and demonstration on use of farmer-level storage equipment, including GrainPro storage bag	Matai, Covalima	1		1	1	15	16
					14	2	32.5	120	117	237