



**USAID**  
FROM THE AMERICAN PEOPLE

**EAST TIMOR**

## *Dezenvolve Setor Privadu*

**Annual Progress Report  
July 19, 2005 – July 18, 2006**

October 16, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

**USAID DEZENVOLVE SETOR PRIVADU**  
**Year One Annual Progress Report**  
**(July 19, 2005 – July 18, 2006 )**

Prelude .....	4
EXECUTIVE SUMMARY.....	5
REPORT ON PROJECT PROGRESS .....	6
<i>Project Management</i> .....	6
<i>Financial Services</i> .....	7
<i>Enabling Environment</i> .....	8
<i>Commercial Services</i> .....	8
<i>Sub-sector Development</i> .....	10
DELIVERY OF REQUESTED LEVELS OF EFFORT (LOE) <b>Error! Bookmark not defined.</b>	
FINANCIAL REPORT.....	<b>Error! Bookmark not defined.</b>
Contract Cost.....	<b>Error! Bookmark not defined.</b>
Amount Obligated by USAID .....	<b>Error! Bookmark not defined.</b>
Balance of Obligated Amount.....	<b>Error! Bookmark not defined.</b>
YEAR TWO – LOOKING AHEAD .....	12
<i>DSP Post-Crisis Strategy</i> .....	12

## ACRONYMS AND ABBREVIATIONS

AMAP	Accelerated Microenterprise Advancement Project
AMFITIL	Association of Microfinance Institutions in Timor-Leste
BDC	Business Development Center
CCN	Cooperating Country National
COP	Chief of Party
DAI	Development Alternatives, Inc
DSP	USAID Dezenvolve Setor Privadu Project
ETDA	East Timor Development Agency
IADE	Instituto do Desenvolvimento Emprezarial
ILO	International Labour Organisation
IMFTL	Institute for Microfinance Timor-Leste
LOE	Level of Effort
LTTA	Long-termed Technical Assistance
MAFF	Ministry of Agriculture, Forestry and Fisheries
MFI	Microfinance Institution
MSME	Micro, Small, and Medium Sized Enterprises
NGO	Non-government organization
STTA	Short-term Technical Assistance
TCN	Third Country National
US	United States
USAID	United States Agency for International Development
WFP	World Food Programme

## Prelude

Development Alternatives, Inc. (DAI) was awarded Task Order # GEG-I-03-02-00011-01 under its AMAP Microfinance indefinite quantity contract on July 19, 2005 to manage and implement the United States Agency for International Development (USAID) private sector development project in Timor-Leste. Originally titled the Bolstering Agriculture and Sustainable Agribusiness/Private Sector Reform Project, DAI and its subcontractor, ACIL Australia, renamed the project to Dezenvolve Setor Privadu (DSP) – Development of the Private Sector - to reflect the project's main goal to spur the development of the private sector. By focusing its efforts on the private sector the project will assist USAID in achieving its strategic objective to accelerate Timor's economic growth.

The DSP project goal is to support economic growth and promote market efficiencies for agribusinesses, commercial enterprises, financial institutions, and the governmental entities that affect businesses. DSP's program approach is to strengthen the business environment in Timor-Leste – the enabling environment-- while offering and strengthening the services that businesses need to grow and contribute to creating jobs and incomes in Timor.

The project assists USAID to achieve its Economic Growth objectives of increasing the number jobs and increasing the income generated from the private sector. The project will achieve these goals through the implementation of programs in four primary project components: commercial services, agribusiness sub-sector development, financial services, and enabling environment. In each program area, the actions support the overall goal.

- **DSP** supports private sector growth by increasing access to technical and business services essential for efficient enterprise operation.
- **DSP** supports expanded marketing of improved agricultural products by working with producer organizations to increase output, production efficiency, and quality, and by linking those organizations to buyers.
- **DSP** provides technical assistance to financial institutions to help expand access to credit, savings and other financial services throughout Timor-Leste.
- **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.

Additionally, the project will be flexible and responsive to the opportunities and needs of the private sector within specific sectors of the economy and will respond to the demand and potential to grow domestic and international markets.

This report covers the period from 19 July 2005 through 18 July 2006 and serves as the first, annual progress report submitted under this task order.

## EXECUTIVE SUMMARY

The first year of the DAI managed, USAID Dezenolve Setor Privadu (DSP) Project was one with challenges. The background of these was the outbreak of violence in May that led to the mandatory evacuation of all USAID expatriate staff that profoundly changed the breadth, scope and working environment in which the project must operate in carrying forward.

In addition, the project experienced more than usual start-up problems, rooted in DAI's initial inability to meet USAID's expectations in work plan activities. For example, while DAI mobilized project staff members in August 2005, the project did not have an approved work plan until November 2005.

Starting on April 28<sup>th</sup>, and intensifying on May 23<sup>rd</sup>, armed conflict erupted in the capital city of Dili. Government and commercial buildings, homes, and businesses were attacked, looted and burned, leading to increasing security concerns within Timor-Leste for USAID contractors. The violence and instability disrupted ongoing and planned project activities, and adversely affected both national and expatriate staff.

On May 5<sup>th</sup> the US Embassy ordered the voluntary evacuation of non-essential staff and dependents. The escalation of violence on May 23<sup>rd</sup> resulted in a mandatory evacuation of all expatriate staff. Following USAID and US Embassy guidance, DAI quickly responded and evacuated all expatriates on the next available commercial flights out of Timor. Australian troops began arriving to Timor on May 25<sup>th</sup> and gradually established control of the capital, although burning and looting continued and tensions remained high throughout the period covered by this report.

On May 31<sup>st</sup> USAID authorized DAI to establish a safe-haven in Ubud, Bali, Indonesia. DSP relocated the Acting Chief of Party and Commercial Services Advisor, Mr. Lendell Foan and the Financial Services Advisor, Ms. Milissa Day to Ubud and created a temporary office there from which to manage DSP project operations, including providing security information and access to safe shelter to DSP's Timorese staff. The other DSP expatriate advisor and Australian national, Mr. Kurt Koomen operated remotely from Darwin, Australia where the Australian Embassy evacuated him to.

During this tense period DAI was actively searching and recruiting for a new Chief of Party. DAI selected and USAID approved Dr. David Dyer. His first action as COP was to participate in a strategic planning meeting with USAID Timor-Leste's Economic Development Officer, the DSP technical advisors and DAI's technical manager of the DSP Project, from June 15 – 19<sup>th</sup> in Bangkok, Thailand to create emergency response strategies for DSP to take once USAID contractors were approved to return to the country.

On June 21<sup>st</sup> USAID approved the return of Kurt Koomen to Timor. This was followed on July 19<sup>th</sup> by the lifting of the evacuation status for US citizens working for USAID. Kurt was joined by Lendell Foan on July 22<sup>nd</sup> and Milissa Day on July 23<sup>rd</sup>. The lifting of the evacuation allowed DAI to mobilize DSP's new Chief of Party, Dr. David Dyer who arrived in Dili on July 28<sup>th</sup>.

# REPORT ON PROJECT PROGRESS

## Project Management

USAID signed its contract with DAI on July 19, 2005. DAI was quick to mobilize a start-up team and its long-termed technical experts and hire local administrative and technical staff as highlighted by the following milestones achieved:

- August 15<sup>th</sup> – DAI start-up team leader and office administration expert mobilize and begin to set up project office space, office systems, and hire administrative staff.
- August 22<sup>nd</sup> – Long-termed technical advisors, Mr. Kurt Koomen (Agribusiness) and Mr. Lendell Foan (Commercial Services) begin work in Timor
- August 29<sup>th</sup> – Microfinance Advisor, Ms. Milissa Day commences work.
- September 1<sup>st</sup> – First Timorese technical staff (Agribusiness) is hired.
- September 6<sup>th</sup> – Start-up assessment team mobilized – consisting of a Financial Services, a Commercial Services and an Agribusiness Expert.
- September 26<sup>th</sup> – Chief of Party, Dr. Ron Black mobilized.
- September 30<sup>th</sup> – Year one work plan submitted to USAID.

The DSP Project commenced in August 2005 with the deployment of a start up team composed of short-termed consultants and the project's long-termed technical advisors tasked to review the economic activities throughout the country and identify sectors that would benefit from project assistance. The result of this activity was the first draft of the project work plan delivered to USAID in September 2005. The work plan was not accepted by USAID because it failed to address USAID expectations. A second abbreviated plan was prepared and submitted and again rejected by USAID due to the fact that the plan did not define program activities in a clear and concise way and did not include a monitoring and evaluation plan. A third work plan was submitted in November 2005 which was conditionally accepted by USAID with the suggestion that both parties revisit the plan at the six-month point in order make any needed changes or adjustments. USAID also noted that DAI had again failed to prepare a monitoring and evaluation plan. Project management submitted the required monitoring and evaluation plan in mid December.

It is clear that during the initial six months of the contract, DSP project management was unable to develop and communicate a vision of the project acceptable to USAID. Therefore, when in April 2006 USAID met with DSP project management and outlined numerous areas of concern related to an unfocused nature of project activities and lack of priority activities in terms of support to targeted sub sectors; DAI determined it was time to make a change in leadership of the project. In mid April DAI informed the Chief of Party of his removal from duty effective May 2, 2006 and commenced a search for a replacement. Effective May 2<sup>nd</sup> DAI appointed Deputy Chief of Party/Commercial Services Advisor, Lendell Foan as Acting Chief of Party. This change in management was facilitated by a DAI Practice Manager who travel to Timor and worked with USAID in providing a transition management plan and refocused technical approach; the details of which will be presented in the section *Year Two – Looking Ahead*.

The delay in obtaining an approved work plan and the changing of project direction hampered the ability of the project to target its program and focus on areas for results. However, despite this handicap the project did accomplish the following achievements during year one.

### **Financial Services**

The overall objective of DSP's financial services strategy is to address the financial constraints to the growth of the private sector in Timor-Leste. The project's goals are to facilitate improved micro, small and medium enterprise (MSME) access to credit, savings and other financial services, strengthen the enterprise level financial management capacity and improve the "bankability" of loan proposals. At the same time, DSP will improve financial service provider capacity to meet enterprise demand. The intended results are MSMEs that generate income and employment through more convenient access to appropriate financial services. Accomplishments through the year include:

#### **Strengthening Microfinance Providers**

- DSP developed the Association of Microfinance Institution of Timor-Leste's (AMFITIL) performance monitoring system. This created one common reporting format for all microfinance institutions (MFI), and is an effective self-regulating tool.
- To support the development of AMFITIL, DSP provided a Financial and Accounting Specialist, Ms. Vida Bautista who:
  - Conducted financial and accounting systems assessments of AMFITIL members and provided on-site training based on findings.
  - Facilitated better information sharing between AMFITIL members including association-wide access to client data for MFIs that exit the market.
  - Hired and trained a DSP funded AMFITIL Administrator to provide association support services to members.
- DSP facilitated access of MFIs to the World Bank Credit Registry Feasibility Study and maintaining follow up to ensure that when the registry is built, MFIs are included.
- DSP conducted an assessment of the Institution for Microfinance in Timor-Leste (IMfTL). The evaluation considered the potential and interest in restructuring IMfTL. DSP worked closely with the IMfTL Board of Trustees on a three year technical assistance and management package to transform the IMfTL into a profitable and sustainable financial institution that could appropriately provide a broad range of service to the people of Timor. The objective was to help IMfTL fulfill its mission to service the needs and demands of low income clients while preparing the institution for eventual sale to appropriate private investors. DSP designed a technical assistance and management package to fit the objectives but concluded it should only be undertaken if IMfTL is granted a class C banking license. When the appropriate banking license is granted, DSP is well positioned to step in to assist the institution in its transformation.

#### **Development of New Financial Products**

DSP worked closely with MFIs and commercial banks to develop new products. This work will lead to the 2007 launch of positive interest savings account from ANZ Bank in rural areas and salary loans and larger business loans from Moris Rasik, a MFI.

#### **Improved Government Capacity and Knowledge of Microfinance**

DSP sponsored the Minister of Development's participation in the CGAP/United National Capital Development Fund training from January 30 – February 3, 2006 in Bangkok, Thailand. It provided the (then Vice-) Minister with a foundation of microfinance knowledge and resources to fulfill his responsibilities as the main policymaker responsible for financial sector issues in the Government of Timor-Leste.

### **Enabling Environment**

To best understand the where DSP can improve the enabling environment in support of the development of the private sector, the project felt it had to vet the constraints and barriers to business from business owners directly. In doing so, DSP learned that there was no one organizational body within the business community to serve as a unified voice for the private sector. DSP endeavored to assist the private sector by creating such a body. This led to the creation of the Timor-Leste Business Forum. DSP employed a consultative process to develop the forum, as highlighted below:

- DSP held consultations with 18 Timorese business associations, private business owners and trade organisations.
- January 2006, 66 participants agreed to establish a steering committee to identify and discussed at least two cross cutting issues that are affecting the private sector in Timor-Leste and to look at options for an inclusive organization to accommodate the various business associations in the country.
- January - April the steering committee (composed of around 15 members) discussed business registration and access to finance issues, prepared the structure of the future organization, met with government and banking leaders and other experts.
- On April 27<sup>th</sup> the steering committee presented its proposal to a General Assembly Meeting of the Business Forum. The proposed structure and constitution were debated and agreed to.
- On April 28<sup>th</sup> 200 participants, including the President and the Prime Minister of the Republic, donors and 141 delegates to the Business Forum held formally witness the presentation and approval of the constitution of the Timor-Leste Business Forum.

The establishment of the Business Forum represents a major achievement for the business community in Timor-Leste, because it will strengthen the dialogue between the public and private sector and increase the business community's influence on major policies and regulations. Its benefits are already being felt. In June and July the Business Forum organized a series of meetings with the Prime Minister, Deputy Prime Minister and Minister for Planning and Finance to discuss problems facing the business community. The problems identified ranged from delays in contract payments by the Government of Timor-Leste, procurement, taxes and custom clearance issues. As a result of the dialogue, the Prime Minister has instructed the Ministry of Planning and Finance to immediately process all the delayed payments, which in some cases were more than 18 months over due, and has appointed a special advisor to deal with problems faced by the private sector in relation to these government departments.

### **Commercial Services**

The Commercial Services team is supporting the strengthening and growth of the private sector by implementing strategies to improve and expand the business services (business skills training,



accounting services, transportation, auditing services, commercial legal services, etc.) that are available in Timor-Leste. As presented in the year one DSP work plan there are three key issues that DSP highlighted to address in the area of commercial services (1) the need to link businesses with relevant training and finance, (2) the need for more relevant vocational skills training and (3) the need to build and strengthen business associations. During the course of the first year DSP:

- Conducted a survey of all training providers and the courses they provide. DSP's ultimate aim is to have such training provided at commercial rates – however it was found that all business training offered in Timor is highly subsidized, and the idea of rate increases is resisted by the donors that support the training institutes/courses.
- Conducted operational assessments of the World Bank sponsored, government implemented Business Development Centers (BDC). The surveys were designed to allow DSP to provide the Instituto do Desenvolvimento Emprezarial (IADE) – the department of the Ministry of Development responsible for the support of domestic investment - feedback on the effectiveness of the BDCs and assist them in the development of additional products and strategies that would allow for greater outreach and value for the communities they are located in. This feedback was to be incorporated to the government's planning to assume both the technical and budgetary support of the BDCs from the World Bank on July 1<sup>st</sup>. DSP was only able to review two of the five BDCs due to the crisis.
- In April the DSP Commercial Services Team traveled to Viqueque to discuss the development of a community-based and supported business center proposal that a Peace Corps volunteer and the Viqueque District Development Office were interested in developing. DSP provided technical input and support in the site selection, space configuration and overall program design for a grant proposal that was submitted to the USAID Small Grants Project. Unfortunately, soon after the events of April 28<sup>th</sup> the Peace Corps were evacuated from Timor and the program remains suspended.
- In April DSP held a series of meeting with the East Timor Development Agency (ETDA) – a Timorese NGO – to assist them in the development of their strategic business plan and identify market niches where they can introduce new products. DSP was able to link ETDA to grant funding to assist them in achieving some of their vision. DSP provided technical support to ETDA in presenting their successful grant proposal to the USAID Small Grants Project to expand their business to include access to the internet, internet-based information services and training. Unfortunately ETDA has been closed since the violence of April 28<sup>th</sup> and have not been able to start the implementation of this project.

### **DSP Support to Commercial Services through the Conflict**

As a result of the conflict that began on April 28th and intensified through the month of May – all providers of business, computer and language training were closed. In addition, many other business service providers closed their businesses or saw their operations severely interrupted. As soon as the fighting ended, and it was evident that Timor once again was going to have an influx of donor aid programs to provide food distribution to internally displaced persons living in camps. DSP, through its support of the development of the Truck Transportation Association, sought to get the private sector involved in this process. These efforts led to the June 26th signing of an open

contract between the World Food Programme (WFP) and the association to transport food aid. As of the end of July, this contract has provided 27 owners/members with \$7,900 in additional revenues.

### **Sub-sector Development**

The original work plan(s) selected the construction and coconut sectors as those that had a high potential to meet USAID's primary objectives for the project: create jobs and increase revenues.

#### **Construction**

When reviewing the construction sector DSP prioritized two policy areas and one practical area for project focus: the adoption and enforcement of building and safety codes that meet international standards, linking vocational training to commercial construction standards and demand, and increase access to higher quality lumber for retail supply. During the year one DSP:

- In partnership with the International Labour Organisation (ILO), created a working group composed of the directors of the vocational training schools. ILO's interest is to develop a standardized curriculum for the schools. DSP serves as a link to the private sector in identifying the minimum skills needed for graduates to get jobs from construction firms upon graduation.
- DSP hired a short-termed international building codes expert to review the proposed existing building codes. To note – AusAid provided an expert to the Ministry of Public Works and has provided a very detailed building codes. However, the Ministry refuses to “officially” accept these codes because they are in English, not Portuguese. The findings of the DSP expert were that the codes are too advance and only part should be implemented to start with as a reflection of the current building market, and as the market develops, add the additional layers. However, until the Ministry changes its position on building codes, DSP involvement in this area has ceased.
- DSP conducted a market demand and supply survey of the lumber supply sector. It was found that all lumber is imported, either directly by the construction companies or by the lumber supply firms. The development of higher quality lumber was the only market opportunity, and is one currently being taken by an existing firm. DSP therefore dropped this activity.

#### **Coconut**

Timor-Leste has an abundant supply of coconuts and therefore coconut was selected as a sector for DSP to investigate further. DSP invested the majority of year one to fully understand coconut production in Timor, the related value-chains and the dynamics and demand of both the domestic and international markets for coconuts and their by-products. Specifically the DSP Agribusiness Team:

- Conducted field studies to document the current uses of coconut products and by-products, and market chains for local coconut oil.
- Market assessments were conducted for coconut value chains for domestic and international markets. In December 2005 DSP engaged a Markets Specialist, Ms. Susan Hahn-Grelling, to conduct a market study of demand and specifications for

coconut products and by-products in international markets. It was found that Timor's current level of coconut oil production and quality does not meet international standards.

- During April – May 2006 DSP engaged a Coconut Processing Expert, Ms. Divina Bawalan, to conduct a review of two existing coconut oil processing facilities, and provided advice on improving quality and efficiency. In addition she conducted a training on the production of virgin coconut oil to 18 representatives from village level enterprises and NGOs.

### **Agribusiness**

As a result of the transition plan submitted to USAID by DAI in May, DSP diversified its sector approach to find broader agribusiness opportunities. Therefore in addition to the above coconut activities, the DSP Agribusiness Team has also provided the following assistance to the development of agribusiness in Timor:

- An agribusiness focus group composed of donors and staff from the Ministry of Agriculture, Forestry and Fisheries (MAFF), was established by DSP to investigate market opportunities and analyze economic production models. Three meetings were held prior to the crisis, two of which focused on rice production, and resulted in an initiative to bring trainers from the University of Hawaii to replicate a production model developed for Timor in 2004/05.
- DSP vetted and procured a local institute – East Timor Insight – to conduct a demand survey for local products of local and international restaurants and shops. However, due to the crisis in May this was postponed and is planned to be carried out in October/November.
- DSP initiated planning sessions and provided advice to MAFF on a number of issues including: tractor leasing, agricultural credit options, and cross-border trade. In support of the latter, DSP vetted and selected a local institute to undertake an assessment of cross-border trade issues however this activity was postponed due to the crisis. A modified assessment is likely to be undertaken by this institute or through short-termed technical assistance at the beginning of 2007.

## YEAR TWO – LOOKING AHEAD

With the lifting of the evacuation notice by USAID for US nationals on July 19<sup>th</sup>, DAI looks ahead to the second year of the project cognizant of two main issues:

- Focusing the goals and vision of the project to be in-line with USAID expectations.
- Responding to the needs of a country, and therefore the economy, in the midst of an on-going security crisis.

To address these goals DAI submitted, and had approved by USAID, a transition management plan. This plan was written based on the findings of the DAI Practice Manager during his trip to Timor in May and the USAID/DAI technical strategy meeting in Bangkok in June.

Starting with year two project resources (including management attention) will be focused on:

1. Identification and support to sub-sectors of the economy with near term potential increase employment and income. DSP project managers will think big, in terms of sectors or linkages that could result in significant employment or income generation or projects that can be replicable in numerous locations.
2. Support to financial service providers intent on expanding nation-wide outreach to small and micro-enterprises. Support provided to financial service providers best positioned to address the needs of small and micro business owners throughout the country has proven to be an effective mechanism in strengthening and increasing employment opportunities in both the formal and informal networks.
3. Support to changes in economic policy that would result in attracting local and international investment. For example in defining efficient road maps for business registration and investment.

However, there is an immediate need to address the negative economic impact the crisis has had on Timor.

### **DSP Post-Crisis Strategy**

Response	Objective	Illustrative Tasks	Districts Reached
<b>PHASE I – Immediate Post-crisis (2 – 3 months)</b>			
Mobilize Timor’s private sector to assist in relief/recovery efforts	Ensure that the private sector is used where possible in the international community’s recovery/relief efforts	Contracting of the Truck Transportation Association to distribute food aid	Dili, Aileu, Baucau, Ainaro, Viqueque, Oecussi
		Sourcing food relief through Timorese produce traders	Ainaro, Aileu
		Timor construction supply firms engaged in	Dili

		reconstruction	
Support the recovery of DSP financial sector partners	Facilitate continued flow of cash to districts	Assist strong MFIs with post-crisis strategic planning  Conduct analysis of IMFTL	Aileu, Ainaro, Cova Lima,  Dili
Rebuild confidence and dialogue between government and private sector	Using the Business Forum, have the private sector assist the government in mapping out steps needed to start economic recovery	As defined by the private sector and facilitated by DSP	

Response	Objective	Illustrative Tasks	Districts Reached
<b>PHASE II – Medium Term Response (4 – 16 months)</b>			
Facilitate business expansion in key areas that are bottlenecks in underlying economy	Create jobs and incomes in districts outside Dili	Business Innovations (matching) Fund for community development initiatives  Market rehabilitation  Expansion of coconut production for cooking oil  Introduction of coconut oil as bio-fuel  Establish contractor assistance network for linking construction firms to reconstruction efforts	All, but starting in Viqueque  Dili  Viqueque, Baucau, Lautem  Viqueque, Baucau, Lautem, Cova Lima  Dili
Expand financial services to MSMEs throughout the country	Facilitate continued flow of cash to districts	Expand into agriculture lending through coconut oil initiatives  Continue to work with Bank Payment Authority, World	Viqueque, Baucau, Lautem, Cova Lima  Dili

		Bank consultants, and local financial institutions to develop a credit registry	
--	--	---	--

This duality – setting development goals, promoting and supporting the strengthening of the private sector whilst continuing to work in a crisis situation will provide continued challenges. DAI is confident that with the new Chief of Party, and the renewed partnership with the USAID Mission, that DSP will be responsive to the special needs and issues that an insecure security situation yield.