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EAST TIMOR

Dezenvolve Setor Privadu

Annual Report

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Introduction

In July 2008, the Dezenvolve Setor Privadu Project completed its third year of operation. The DSP project seeks to strengthen the private sector in Timor-Leste through the provision of technical assistance to commercial enterprises and agribusinesses. While offering direct support to specific businesses and value chains, DSP also promotes a broader, pro-business enabling environment through its involvement with local business associations and engagement with Timorese policymaking institutions. During Project Year 3, DSP continued activities focused on increasing incomes and market efficiencies where enterprise activity already exists as well as stimulating new enterprise activity in rural areas of Timor-Leste where it does not. Both activities continue to further USAID's strategic objective of accelerating economic growth in Timor-Leste.

With the exception of the assassination attempts on 11 February 2008 and subsequent state of emergency, the operation of DSP program activities was not significantly hindered by acute incidences of political disruption or social upheaval. However, a generally high, nearly tangible, level of uncertainty and nervousness has continued to hinder Timorese society at large and the private sector in particular following the 2006 Crisis.

DSP's Year 3 project workplan promised a high level of project involvement in the cultivation of new market opportunities and adoption of new production techniques for the horticultural sector. Through activities like technical assistance to the Lequitura Special Horticultural Area, the DSP project made significant progress in improving agricultural productivity and boosting rural incomes. The collaboration of DSP's commercial and agribusiness services yielded the creation and expansion of the Virgin Coconut Oil (VCO) value chain. DSP's Commercial Services Team launched a successful, "Buy Timor Products," marketing campaign for the promotion of eight other local products, like Café Timor Coffee and Minutil VCO.

These demonstrated project results precipitated the award of an \$800,000 increase in contract ceiling in order to fund an expansion of DSP's SOW. This modification, signed by the USAID Regional Contracts Officer on 1 August 2008, accommodates several activities related to private sector development in Timor-Leste. It funds the issuance of a large grant to Junior Achievement Timor-Leste, a senior-level advisor to the Ministry of Economic Development, a lead negotiator for the Timor Telecom contract renegotiation, and the implementation of the Poverty Assessment Tool (PAT).

In Project Year 3, DSP achieved important milestones in each of its three components, agribusiness, commercial services, and enabling environment. Key accomplishments in these three areas of intervention are described in the following sections.

Program Challenges

As previously stated, the state of emergency stemming from the assassination attempts on 11 February 2008, renewed a general feeling of caution and unease that permeates Timorese society. The imposed curfew and widespread inactivity posed a considerable challenge to DSP's operation during this period of time.

Other challenges facing the DSP project in Year 2 were:

- Continued difficulties in identifying business persons with the capacity and focus to lead the development of business activities.
- Limited expertise of service providers, including survey institutes, in undertaking complex tasks without extraordinary involvement of project staff members and outside consultants.
- Difficulty in locating and accessing quality packaging and marketing materials for Timorese products.
- Severely limited access to foreign suppliers willing to export agricultural inputs in for use by Timorese farmers. The small scale of Timorese agricultural operations coupled with high transportation costs discourages the establishment of input importation companies.
- Related to the proceeding point, the short supply of items like quality seed and harvesting equipment restricts the ability of the agricultural sector to respond to market demand.
- Manufacturing technology is not available locally. This obstacle negatively affected DSP's VCO activity which suffered from difficult to procure and repair VCO production equipment.
- Without the presence of an industrial sector in Timor, manufacturing and/or assembling are not available to provide the expansion of Timorese consumption and corresponding long-term demand for local products.
- On 31 May 2008, Mr. Lendell Foan, DCOP and Commercial Services Advisor, ended his employment with DAI. The search for available replacement candidates, with an appropriate skill set and level of regional experience has been a challenge.
- At the end of project year 3, DSP began looking toward the establishment of a grant making facility in response to a request made by USAID. DSP submitted a draft grants manual to USAID on 30 May 2008. The initial installation of personnel, procedures, and policies related to the start of a new grants program were faced in the final quarter of project year 3.

Selected DSP Successes

Table 1:

Intended Impact	Selected Successes
Increased volume and value of the supply of produce to high-end buyers through farmer and private sector linkages	<ul style="list-style-type: none"> ▪ DSP assisted 211 peanut farmers who produced 62 ha of wet season peanuts during the 2007-2008 wet season. ▪ Fresh produce supplied to Dili Supermarkets totaled 24,960 kg of produce with a retail sales value of \$17, 946 between 19 July 2007 and 19 July 2008. ▪ Direct retail sales of Zero Star Fresh Produces Boxes exceeded 23 by 30 June 2008 adding over \$1000 per month in gross revenue to the business.
Increased production and sales of mungbeans through farmer and private sector linkages	<ul style="list-style-type: none"> ▪ In May 2008, DSP facilitated the direct sale of 39 m.t. of mungbeans in Balibo worth over \$20 000 USD. ▪ With DSP assistance, farmers also sold 9.2 MT of mungbeans to CARE for export to West Timor, Indonesia in April 2008. ▪ Local traders from Viqueque linked to International trader, Timor Global, resulting in a sale of 44 m.t. of mungbeans in October 2007.
Increased incomes generated from business linkages	<ul style="list-style-type: none"> ▪ Created \$14,481 in additional income from direct DSP support across 44 MSMEs, accounting for 92 male and 22 female beneficiaries, from April – June 2008.

<p>Increased the number of enterprises accessing commercial services</p>	<ul style="list-style-type: none"> ▪ Linked Zero Star to the accountancy services of Haksolok Consulting Lda. ▪ Supported three local traders, Caracol, Comico Suai, and Fini Esperanca, in mungbean trade activities, including linkages to institutional buyers like FAO and international traders like Paris Inda and Gaja Madah. ▪ Linked the Transportation Trucker's Association to Tchai, Tjia and Associates to conduct a financial audit.
<p>Increased production and sales of virgin coconut oil (VCO) through farmer assistance and private sector linkages</p>	<ul style="list-style-type: none"> ▪ To date, over 500 liters of VCO produced and delivered to wholesalers and Dili retailers from producer groups. Linked producer groups to the distribution and bottling company, Acelda, who launched VCO under the brandname Minutil in March 2008. ▪ Built Acelda's capacity to offer such services through the provision of inventory control training. ▪ Facilitated a new business opportunity for Acelda in the form of a sales contract with the Golden Star Restaurant in Dili.
<p>Increased promotion and sale of Timor Leste products.</p>	<ul style="list-style-type: none"> ▪ In May 2008, Approximately \$2500 in cumulative sales of eight local products in four outlets during the three day "Buy Local Products Now" campaign.
<p>Continued strengthening to the Transportation Truckers Association</p>	<ul style="list-style-type: none"> ▪ Provided technical support that lead to the association's first general assembly meeting. ▪ Linked the association to additional revenues of \$45,022 for the 35 members and 5 subcontractors in the first quarter of 2008. DSP's support has yielded over \$550,000 in revenue from WFP contracts to date.

Agribusiness Services

DSP supports income generation through improved business linkages for supply chains. The agribusiness initiative focuses 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.

July – September 2007

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 m.t. 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 mungbeans 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.

October – December 2007

Significant actions for the October – December 2007 period include:

- DSP supported farmers accounted for half of the total marketed mungbean crop for the 2007 dry season. A total of 84 MT was harvested by supported farmers. The total sold by the three district traders, partnering with DSP, was 170 MT.
- DSP supported 94 new farmers comprising of 10 groups to plant 54 ha of wet season mungbean crop in Fohorem, Tilomar and Suai Kota.
- DSP supported 211 farmers from 13 groups (139 new farmers) to plant 62 ha of wet season peanut crop.
- Tunnel and netting house production was established in Lequitura as the first demonstration site for new technologies.
- Cold truck delivered and main structure of Zero Star cold storage facility completed.

- STTA, Alex Dalley, joined DSP to review the 2007 dry season planting season and make recommendations on commodity value chains.
- STTA, Merle Menegay, completed his mission in Timor-Leste in October 2007.

January – March 2008

Significant actions for the January – March 2008 period include work in four general areas covering [1] assistance to the Zero Star Company; [2] activities in the Lequitura Special Horticultural Area; [3] support to farmers; and [4] commodity marketing support. Highlights from the quarter for each of the areas include:

1. Zero Star Company

- Zero Star constructed of a cold storage facility in Dili to receive produce, sort, repack and store prior to delivery to clients. The majority of capital for this facility was provided by Zero Star. This facility will enable larger volumes of produce to be procured without significant wastage risks.
- Zero Star introduced a \$10 produce box targeted at individual households. This new marketing strategy will form the basis of a market expansion initiative focused on regular deliveries to individuals through common delivery points (e.g. offices) and restaurants.
- DSP reviewed the management systems and staff requirements of Zero Star, and developed a number of priority systems for effective supply chain planning and management.

2. Lequitura Special Horticultural Area

- Production technology equipment supplied under the USAID Small Grants Program (SGP) grant to Zero Star was delivered to Lequitura in March. This was followed by the arrival of technicians and advisors from Joro PT to advise on site preparation and begin construction of the greenhouse, nursery, screen houses and tunnels.
- Construction of frames for three tunnels and one screen house was completed by the end of March, and construction of the greenhouse commenced.

3. Farmers Groups

- DSP supported 10 farmers groups comprising of 94 new upland farmers to plant 54 ha of wet season mungbean crop in Fohorem, Tilomar and Suai Kota, with an estimated harvest of 59.4 MT (1.1 MT/ha) with farm gate value of between \$26,730 (\$0.45/kg) and \$32,076 (\$0.54/kg) depending if sold to local Suai traders or sold at the border with Indonesia.
- DSP supported 13 farmers groups comprised of 211 lowland (139 new farmers) to plant 62 ha of wet season peanut crops, with estimated harvest of 53 MT of unshelled peanut at a

conservative estimate of 900 kg per ha. This is valued between \$18,550 (\$0.35/kg) to \$26,500 (\$0.50/kg).

4. Commodity marketing support

- DSP conducted a review of the 2007 dry season planting season with recommendations on strengthening the commodity value chain. The report is attached as Annex I to this report.
- DSP facilitated the direct sale of 9.2 MT of mungbeans. These sales were a result of trader farm visits facilitated by DSP, and discussions on possible trader roles in promoting production and marketing through seed storage, in-kind credit, farm visits and scheduled temporary markets at harvest time for aggregating product for transport.
- DSP Agribusiness Specialist, William Bere Ati, visited West Timor, Surabaya and Malang to investigate market opportunities for commodities, and also attended an Indonesia – Timor-Leste trade conference in Malang.

April – June 2008

Significant actions for the April-June 2008 period include:

- DSP continued its facilitation of commercial agreements between Zero Star and Dili Supermarkets. The quantity of product delivered reached nearly 6 m.t. during April and May, a sharp increase over the volume of the previous quarter. The volume of deliveries to other institutional buyers like the Ministry of Education also increased significantly, building on the gains of the first quarter of 2008.
- The agribusiness team also fostered the growth of Zero Star's "retail boxes," building Zero Star's capacity to increase the quantity of highend costumers in Dili, the quantity of graded varieties available, and the quality of service with which they were sold and delivered.
- DSP continued to pursue other means of building Zero Star's capacity through training in financial management, cold storage techniques, quality control, packaging and delivery.
- Staff from DSP participated in the field trips of agricultural students/trainees from UNTL and USAID's Building Agricultural Capacity through Education and Training project. The Lequitura Special Horticulture area, built with grant funding from USAID's Small Grants Projects, continued to be put forth as an example of successful adoption of new production technologies to increase output and improve production efficiency.
- After assisting the planting of wet season mungbean crops in Fohorem, Tilomar, and Suai Kota, DSP assisted with the yield's sale to trader Comico Timor Diak. DSP also provided technical assistance for the marketing of mungbeans in the Bobonaro district. In this region as well, DSP initiated negotiations with Comico through the certification of adequate volume, recommendation on price, and collection procedure.

- In an effort to improve suitable seed storage, one key constraint to commodity production, DSP continued to test new storage methods like Grainpro plastic bags and offer training on proven techniques in preserving more mungbean seeds for longer periods of time. An options paper was submitted to the Ministry of Agriculture, Forestry, and Fisheries (MAFF) regarding seed storage in and around Maliana. The paper covered storage options ranging from traditional methods like coconut and papaya mixtures stored with seed in jerry cans to more sophisticated refrigeration techniques. The paper also catalogued the materials necessary for each option and disseminated this information to members of the Mungbean and Soyabean Working Group.
- In the Suai Lowland, the Agribusiness team facilitated seed storage of the 2007-2008 wet season peanut crop. This seed will be used for the further expansion of planting areas in subsequent seasons.
- Staff member William Ati, attended and successfully completed a study tour in West Timor, Surabaya, and Malang where he learned about informal barriers and charges to cross-border agricultural transactions. He presented the findings of his study tour to a USAID panel.
- In cooperation with the Jesuit Mission of Suai Loro, DSP assisted with the formation of two more Mungbean Marketing Associations that are designed to promote increased sales and increase farmer incomes.
- Following the development of a successful commodity sales approach (described above) DSP has signed an MOU with a commodity trader, Comico Timor Diak, to formalize the assistance which Comico receives from DSP. Under the MOU, one of DSP's Agribusiness Commodities staff members will work with Comico to facilitate candle nut sales in the remote mountainous area of Lolotoe, Suai District.

Commercial Services

DSP supports private sector growth in Timor-Leste by increasing access to technical and business services essential for enterprise operation. DSP's objectives are to (1) increase the number of enterprises accessing commercial services, (2) introduce new commercial services 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.

July – September 2007

Significant actions 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

October – December 2007

Significant actions for the October – December 2007 period include:

- Working with the Alola Foundation, hosted a holiday crafts fair that generated \$9,866 in sales for 48 participating microenterprise artisans and vendors.
- DSP linked 101 MSMEs to business and income opportunities worth over \$124,000.
- Expanded the technical capacity of the commercial services team by adding additional staff members, including a Business Development Specialist, Hernani Godhino on 15 October. With direct experience working for the Instituto do Desenvolvimento Emprezarial, Hernani will be leading DSP’s basic business skills and concepts training development.
- Provided basic training on costing and pricing to 52 women and 12 men, from 21 microenterprises.
- Mobilized a TCN STTA to support DSP’s efforts in linking local fabrication workshops to joint MAFF/GTZ rice expansion program.

January – March 2008

Significant actions for the January – March 2008 period include:

- From 16 – 18 January, DSP conducted an inventory of Timorese products for sale in the high-end supermarkets.
- DSP expanded virgin coconut oil sales and production by:
 - supporting Acelda in delivering 215 bottles of Minutil Virgin Coconut Oil to six Dili retail stores on 7 March;
 - signing an memorandum of understanding with the International Labour Organization on 25 March to coordinate efforts to expand village-level virgin coconut oil production; and
 - linking the Liquica virgin coconut oil producer group to a direct sales agreement with the Golden Star Restaurant in Dili.

April – June 2008

Significant actions for the January – March 2008 period include:

- In the area of business linkages and commercial opportunities, DSP designed, and executed the **“Buy Local Products Now”** marketing campaign on 17 – 19 May directed at increasing sales of Timorese products by upper/middle-income Timorese and the expatriate community. The result was approximately \$2,500 in sales across eight products and four outlets during the three day campaign.
- In collaboration with the Small Grants Program (SGP), DSP assisted with the renovation of the Tais Market by designing a marketing plan and creating promotional materials such as billboards, banners, brochures and logos. Additionally, DSP also provided training to 30 vendors (15 women and 15 men) on skills such as book keeping and financial management.
- In concert with GTZ and the Ministry of Agriculture, Forestry, and Fisheries (MAFF), DSP continued to support Timorese fabricators to make mechanical rice-weeders essential for efficient production in the rice sector. To date more than 50 weeders have been produced and total income from the first delivered weeders reached \$ 1,275.
- As a step towards improving infrastructure for the tourism sector, DSP collaborated with SGP to renovate Ulmera beach. DSP was responsible for providing promotional support and conducting a training needs assessment for the community group.
- In the area of Virgin Coconut Oil (VCO) production, a total of 71 people have been trained in processing coconut oil using the fermentation method under direct supervision by DSP.

Enabling Environment

DSP’s work in the enabling environment – Timor Leste’s commercial and legal framework – is aimed at facilitating business growth. The improvements are those that will help Timor-Leste to be more conducive to business formation and efficient operation. The Year 3 workplan engaged in frequent and constructive engagement with business associations to improve the quality and dissemination of information available to the local business community and investors.

July-September 2007

Significant actions for the July – September 2007 period include:

- DSP initiated a series of workshops in partnership with the Business Form (FETL). The workshop series serves to educate the business community about relevant legislation and discuss its practical implications on enterprise operation. The workshops are also a way for businesses to self-select for participation in on-going working groups. The first such workshop took place on 27 July.

- On 16 August 2007, DSP hosted and facilitated a two-hour dialogue between President Jose Ramos-Horta, the Minister for Economic Development, Joao Conclaves, and Timor-Leste's business leaders. During this dialogue, tax policy and investment promotion were covered.
- From June 24 – 27, 2007, USAID sponsored two Timorese participants in the 12th Women Leaders Network Meeting in Australia. After this introduction to the APEC Women Leader's Network, participants from Timor-Leste proposed an organizational meeting for the Business Women's Group of Timor-Leste in October 2007.

October-December 2007

Significant actions for the October – September 2007 period include:

- On 24 October 2007, the Business Form held a half-day workshop on the tax code in Timor-Leste. Following this, a 2-hour workshop was held on 26 October in order to present recent changes to Timor's Business Code.
- DSP continued to collaborate with the IFC and FETL in order to create working groups that deal with relevant business regulatory issues facing Timor-Leste.
- The Business Women's Group of Timor-Leste held its inaugural, organizational meeting on 3 October 2007. Over 70 women business owners and operators attended the workshop. By 18 December, the Business Women's Group formed a six-person steering committee and had drafted a charter and organizational memorandum.

January-March 2008

After the assassination attempts on the President and Prime Minister of Timor-Leste on 11 February, public gatherings were banned under a declared state of emergency that extended beyond this quarter.

April-June 2008

Significant actions for the April – June 2008 period include:

- On 22 May 2008, DSP facilitated a meeting with FETL and AEMTL leadership and representatives from the Millennium Challenge Corporation.
- The members of AEMTL's held an organizational meeting on 26 April in order to elect officers, establish a committee structure, and set the timetable for ongoing planning. The Women's Association held a successful fundraiser for the organization on 27 June.

Report on Workdays Delivered to Date

As of 1 August 2008, USAID has ordered a total of 16,118 workdays from various labor categories under Task Order #GEG-I-03-02-00011-00. The below report incorporates the replacement of Schedule A.10 per the latest modification to this task order, signed on 1 August 2008. The expend days only considered those days invoiced through 30 June 2008.

Table 2. Workdays Ordered/Expended

Category	Days Ordered	Days Billed to Date (As of June 08 Invoice)	Cumulative % Expended	Days Remaining
LTTA US	2,638	1,643.25	62%	994.75
STTA US	952	452.325	48%	499.675
LTTA – TCN/CCN	11,618	5,063	44%	6,555
STTA – TCN/CCN	910	588.25	64%	321.75
TOTAL	16,118	7,747	48%	8,377.375