

FINAL REPORT

Timor-Leste Investment Advisory Services Project



NATHAN
ASSOCIATES INC.
www.nathaninc.com

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Contents

1. Introduction	1
Project Goals and Objectives	1
General Project Background	2
Project Realignment and Budget Modification	3
2. Project Accomplishments	5
Private Investment Policy	5
Domestic and External Investment Legislation	6
World Bank Funding	8
Investment Opportunity Assessment	9
Letters of Intent for Investment Projects	10
Other Accomplishments	10
3. Project Milestones and Summary	13
Policy Environment	13
Investment Promotion	14
Capacity Building	15
Collaboration with Other Donors and USAID Projects	16
Subnational and Sector Activities	18
Guidance and Input	20
Project and Contract Administration	21
Other Activities	22
Project Financial Status	22
Conclusion	22

Tables

Table 1. Progress toward Milestones under Improving the Policy Environment for Private Sector Investment	14
Table 2. Progress toward Milestones under Improving Investment Promotion through Institutional Strengthening and Promotional Activities	15
Table 3. Progress toward Milestones under Capacity Building and Skills Transfer Activities	16
Table 4. Progress toward Milestones under Collaboration with Other Donors and USAID Programs	17
Table 5. Progress toward Milestones under Support for Investment-related Activities used on Particular Subnational Regions, Zones, and Sectors	19
Table 6. Progress toward Milestones under Other Investment-related Activities	21
Table 7. Progress toward Milestones under Project Administration Activities	21

1. Introduction

This end-of-project report was prepared for the Investment Advisory Services Project in Timor-Leste, implemented by Nathan Associates. The contract effective date was May 29, 2003, and the original estimated completion date was May 31, 2005. However, two one-month no-cost extensions brought the project closing date to July 31, 2005. Although this report is not a contractual obligation, delivering a final report is a natural conclusion to the project. Whereas monthly and quarterly reports focused on project activities for the respective reporting periods, this report gives an account of the overall progress made during project implementation and highlights project achievement.

This report has three parts. The first recapitulates project background and project goals and objectives. The second highlights the project's accomplishments. The third details the activities actually executed during the project against the activities and milestones called for in the two annual work plans. It also summarizes the final financial status of the project.

Project Goals and Objectives

The goal of the Investment Advisory project was to help the Timor-Leste government develop the capacity to promote and retain foreign and domestic investment that supports economic growth and poverty reduction. The project was intended to help strengthen Timor-Leste's business policy framework, including laws and regulations relating to domestic and foreign investment. It was also expected to contribute to the strengthening of the private sector by creating and reinforcing the institutions and mechanisms necessary to support private sector development. The ultimate goal was to help build the capacity of the private sector to create sustainable jobs in the near, medium, and long terms by promoting domestic and foreign investment, thereby generating government revenues and reducing poverty. The project had five main areas of investment advisory activities:

- Improving the policy environment for private sector investment
- Improving investment promotion through institutional strengthening and promotional activities

- Building capacity and conducting skills transfer activities
- Collaborating with donors and other USAID projects
- Supporting investment-related activities in regions, zones, and sectors.

General Project Background

The Timor-Leste government recognizes the importance of investment to the country's future and therefore accords it a high priority in the national development agenda.

Although the project was intended initially to focus primarily on inward foreign direct investment (FDI), the Nathan Associates resident investment adviser recognized early on the intimate relationship between domestic and foreign investment. He therefore dedicated considerable time to ensuring that the investment promotion framework supported both groups of investors equally.

To be sure, FDI is expected to play a key role in the development of a vibrant economy in Timor-Leste. This is already evident in the gas and oil sector where major investments¹ have begun to be made offshore, with more expected, both offshore and on land. However, only by building the capacity and competitiveness of the private sector can income and job creation objectives be achieved on the scale necessary to sustain broad-based growth and development in Timor-Leste.

The contribution of the resident investment adviser was to be understood in the context of three types of ongoing business activity and investment important to Timor-Leste:

- Encouragement of small-scale domestic business activity and investment
- Promotion of overseas investment in sectors other than the gas and oil and mineral resources sectors, as well as upstream investment in petroleum and mineral exploration and extraction as well as in business activities downstream from petroleum and mining
- Promotion and professional management of investment in the extraction of natural gas and oil from both offshore and onshore reserves

The resident investment adviser's activities focused primarily on the first two categories. Given the incipient nature of the domestic business sector, he advised regularly on needs and strategies to support the domestic business sector to benefit from supply chain linkages with foreign businesses and achieve growth in employment, exports, and income.

Although he maintained a close relationship with the petroleum management authority (Timor Sea Designated Authority) and the advisers and ministry staff in this area, this

¹ One investment in the Timor Sea gas field of Bayu-Undan, led by Conoco-Phillips, is projected at US\$1.65 billion on the Timor-Leste side. Total project investment, including the pipeline to Darwin, Australia, is calculated at US\$3.5 billion. The project began operation in 2004/2005.

relationship was mainly of an information-sharing nature. The resident investment adviser did however participate in meetings where the proposed petroleum laws were discussed and consulted regularly with the staff of the Timor Sea Office under the aegis of the Prime Minister's Office to ensure that general investment legislation dovetailed with legislation proposed for the petroleum sector.

Project Realignment and Budget Modification

Two tasks in the original statement of work were deemphasized because these activities were judged to be premature for Timor-Leste's stage of development:

- ***National stock market development.*** The incipient nature of private sector development in the country rendered the development of a stock exchange premature.
- ***Support for local governments in the formulation of investment-related legislation, policies, procedures, and programs.*** Local administration in Timor-Leste is an extension of the central government and does little by way of investment-related legislation, policies, and procedures.

As early as October 2003, the resident investment adviser initiated discussions with the USAID CTO on possible budget modification, or more accurately, budget realignment. This was due to the fact that some budget categories were being underutilized and new project priorities were emerging. The budget realignment did not increase the project budget. Rather, it shifted funds among categories and created one new line item, for an investment conference. One major new task, the investment opportunity assessment, expanded on existing line items such as expatriate labor, travel, and per diem. The resident investment adviser's participation in study tours and investment promotion abroad were likewise accommodated under the travel line item, which was initially only for regional travel.

Furthermore, considering the evolution of the project and the investment priorities that emerged, four tasks were added:

- ***Investment opportunity assessment.*** In the second year of project implementation, an assessment of what the country has to offer in terms of resources, opportunities, and benefits, as well as constraints, markets, and competition from other countries in the region that are also aggressively seeking to attract investment from abroad. The purpose of the assessment was to provide a contextual baseline from which to prepare the investment promotion program in Timor-Leste to meet the needs of both domestic investment and FDI. This activity was carried out between April and July 2005.
- ***Investment conference.*** After investment legislation and regulations were passed and the investment promotion agency and program were set up, an investment conference was foreseen for the last quarter of project implementation (i.e., May 2005). This event, to be held in Dili, was expected to showcase Timor-Leste's foreign investment promotion regime

and program to private sector representatives from potential investor countries as well as potential domestic investors. The conference was intended to send a message to the world that Timor-Leste was “open for business” and is an attractive location to invest.

- ***Study tours abroad.*** After the creation of the Investment and Export Promotion Institute (IEPI), staffers at IEPI and other government departments needed training and capacity building to gain the knowledge necessary to promote and facilitate investment in Timor-Leste. Study tours to countries with experience relevant to Timor-Leste – Cape Verde, Fiji, Mauritius, and the autonomous Chinese enclave of Macau – were considered.
- ***Investment promotion abroad.*** An investment promotion strategy directed at potential markets is essential for success in attracting foreign investors to Timor-Leste. Investors from Australia, Portugal, Malaysia, Singapore, South Korea, and Thailand have already visited Timor-Leste and shown interest in investing there. Thus, visits to at least two of these countries were warranted when the investment regime and program were set up.

2. Project Accomplishments

The project had the following major accomplishments:

- Private investment policy developed and adopted by the government
- Domestic and external investment legislation and regulations developed and passed
- Two investment promotion entities—domestic and external— established
- World Bank contribution of \$800,000 obtained to launch the investment and export promotion institute
- Investment opportunities assessment of Timor-Leste undertaken
- Letters of intent for major investment projects in agribusiness and fisheries signed

Private Investment Policy

The Nathan resident investment adviser began working with the Investment Division of the Ministry of Development and Environment in early July 2003 to assist in the development of a favorable private investment framework in all sectors of the economy. Soon after he arrived in Timor-Leste, after establishing preliminary contacts and reviewing documentation, the adviser noted that the country had no specific private investment policy and that Timorese businesspeople and some high-level officials did not have a favorable view of FDI. Indeed, previous attempts to draft a foreign investment law had languished for more than two years, and the latest drafts were highly protectionist of domestic investors to the detriment of foreign investors. Because this dominant, negative view of FDI was not consistent with either the National Development Plan,² which calls for the establishment of a market economy in the country based on open competition, or international best practices on treating FDI equitably vis-à-vis domestic investment, the need to reach consensus and align domestic sentiment with international best practices was obvious.

After several months of persistent informal contacts and small group consultations by the adviser, a two-day Private Investment Forum was held in December 2003. The forum was

² The National Development Plan outlines Timor-Leste's development strategy through 2020. It was drafted with international technical assistance during the United Nations Transitional Administration in East Timor period and was adopted by the National Parliament as an official strategic document guiding the development of the country.

presided over by the prime minister and was attended by more than 100 people from the private and public sectors. Attendees took part in discussions of wide-ranging issues, from the role of the state in private investment to the needs and servicing of specific private investor groups and the roles of domestic and foreign investors in Timor-Leste. The forum was generally considered a success and a major step in the process of developing a private investment regulatory framework.

The long consultative process preceding the Private Investment Forum created two important positive outcomes. The first was the domestic private sector's favorable opinion of the role of FDI. This change of heart was due largely to two factors: (1) inclusion of a minimum investment requirement in the FDI legislation, mitigating the domestic investors' fear of being crowded out of investment opportunities by FDI, and (2) the potential benefits from linking domestic investment and FDI. The second outcome was that private-public goodwill seemed to improve greatly when the private sector's concerns were taken into consideration by the government early in the process of developing policy.

Domestic investors made it clear from the outset that they wanted to be treated on an equal footing with foreign investors, including having a separate investment law, with the same rights and privileges as those accorded to foreign investors. After the Private Investment Forum, the government finalized and adopted the policy document as an official statement on private investment. This action by the government was a precondition for the development of private investment legislation.

Domestic and External Investment Legislation

TWO INVESTMENT LAWS

As soon as the policy document was finalized, drafting of the investment legislation began. Investment legislation was part of the legislative and regulatory framework needed to guide private sector investment in Timor-Leste. Two round tables were held, in late April and mid-May 2004, to discuss the domestic and external investment draft laws, respectively. These two events constituted high points in the investment legislation development process because they afforded an opportunity to make the draft laws available for public consultation. Smaller consultative sessions with Timorese domestic investors at workshops and other similar gatherings with a view to gauging domestic private sector groups' perceptions preceded the round tables.

Private sector reaction was overwhelmingly positive. In particular, the clarity and ease of understanding of the draft investment laws, the investment guarantees and incentive package proposed, and the consultative process that included private sector input early in the legislative development process were commended. Some development partners, however,

were less enthusiastic about the proposed draft laws and one made extensive written comments criticizing, among other things, the placement of fiscal incentives in the draft laws and the investment-approval mechanism that the government insisted be part of the investment regime.

After public consultation at the round tables and subsequent private reviews with specialized public sector departments and bodies, the two draft laws were revised to take into consideration the comments received that did not run counter to government intentions. The revised draft laws and support documentation were submitted to the Council of Ministers in late June 2004 for review. Following the incentive and investment approval provisions of the two draft laws, the Council of Ministers reviewed the laws twice, once in early July 2004 and again in mid-January 2005, before passing them on February 9, 2005. The laws were then submitted to Parliament, which passed them on May 2. Law No. 4/2005 on Domestic Investment and Law No. 5/2005 on External Investment were published on June 7, 2005, and entered into force the next day.

The two laws are nearly identical in terms of investment guarantees, incentives, and post-entry investor treatment. The differences between the two are (1) a higher minimum investment to qualify for incentives (\$100,000) for external investors than for domestic investors (\$5,000); (2) location of the investor's residency and origin of invested capital (i.e., from abroad or from within the country); (3) right of external investors to repatriate profit and capital; and (4) right of foreign-citizen investors to pursue conflict resolution with the state under rules of the International Center for Settlement of Investment Disputes.³ Otherwise, the two laws treat investors equally and do not discriminate between domestic and foreign investment. Although some noted that one investment law would have sufficed, the government decided to be responsive to domestic investors' preference to have a separate law.

REGULATIONS TO THE TWO INVESTMENT LAWS

To ensure that the Council of Ministers passed detailed regulations for the two investment laws in a timely manner, a legal drafter began working on preliminary drafts as early as February 2005, months before the two investment laws entered into effect. Regulations consist of two sets of decrees regulating the domestic and external investment laws. Each set consists of two decrees, one regulating investment licensing procedures and the other creating an investment promotion institute, including bylaws or statutes. The purpose of the regulations is to create a transparent framework to process investment applications.

In addition to detailing the processes by which domestic and external investment are licensed and the transparent nature of decision making, leaving little room for ministerial discretion,

³ As a member of the World Bank, Timor-Leste is automatically a party to the ICSID Convention.

the regulations create one-stop shops to process and facilitate investment decision making within a 30-day timeframe. This provision specifies that if a formal decision is not given by the minister in charge of investment or the Council of Ministers⁴ within 30 days of the date all required documents are submitted, a decision is automatically triggered by default. Under the default mechanism, the decision may be either in favor or against the proposed investment, depending on the recommendation made by the Investment Commission⁵. This provision of the regulations creates a predictable timeframe for investment decisions and mandates the provision of a justification if an investment is not approved.

After a preliminary review by the Council of Ministers in mid-May 2005, the regulations were approved on July 8, 2005. With the passage of these regulations, Timor-Leste now has a fully established legal and regulatory framework to promote domestic investment and FDI.

The laws also created two investment promotion entities, the Investment and Export Promotion Institute (IEPI), which is called TradeInvest Timor-Leste for marketing purposes – to support FDI and exporters, and the Enterprise Development Institute (IADE) to support domestic investors, primarily small and medium-sized enterprises (SMEs).

World Bank Funding

The concept of a one-stop shop approach to promote FDI was first proposed in the initial draft of the private investment policy document. Although the government immediately accepted the concept, funding to launch the agency and the investment promotion program was unavailable. Initial projections put the cost for operating such an entity and the investment promotion program at about \$500,000 per year.

Taking advantage of the momentum to restructure the World Bank-financed Second Small Enterprises project in mid-December 2003, soon after the Private Investment Forum, the resident investment adviser entered into intense dialog with government leaders and World Bank personnel on the notion of the proposed FDI promotion concept and made a proposal for World Bank support for the one-stop shop agency intended to assist foreign investors and domestic exporters. He found sympathetic ears, and when the Second Small Enterprises project was restructured, \$800,000 was allocated to fund the future investment promotion

⁴ Whether the minister in charge of investment or the Council of Ministers approves an investment request depends on the size and land requirements of the investment. The minister has the authority to approve domestic investment projects of up to US\$10 million and external investment projects of up to US\$20 million requiring less than 5 hectares of tourism land or less than 100 hectares of agricultural land. Investment projects above these thresholds go to the Council of Ministers for approval.

⁵ The Investment Commission is made up of representatives from government departments that are required to provide some type of approval (e.g., environment, customs, labor, agriculture, tourism) and is presided over by an executive director of the relevant (i.e., domestic or external) investment promotion institute. It is charged with reviewing investment proposals to verify that legal and policy requirements are complied with. When the commission completes its review, it prepares a recommendation memorandum for the final decision by the minister in charge of investment or the Council of Ministers.

entity and the proposed program. Although clearly insufficient for the long term, the funding was essential for the initial setup and launching of the investment and export promotion program.

Investment Opportunity Assessment

An Investment Opportunity Assessment was carried out in the second quarter of 2005. This project output was not foreseen in the initial resident investment adviser's scope of work. However, by the end of the first year of project implementation, it became evident that a baseline study would be necessary to gauge investment potentials and challenges in Timor-Leste. Hence, this activity was included in the Year 2 work plan as a key project output.

Fieldwork. The resident investment adviser led a team of two members from the Nathan home office and two staff from the Investment Division of the Ministry of Development and Environment in conducting the field work in April 2005. The data-gathering phase included a day-long workshop with stakeholders. The workshop was opened by the prime minister and three other members of government. Over 80 participants from the public and private sectors attended and some 50 took part in the entire workshop, both in the plenary session and the thematic workgroups. A SWOT (strengths, weaknesses, opportunities, and threats) analysis of investment opportunities and constraints was carried out in both the plenary and workgroup sessions. The workshop afforded an opportunity for stakeholders to express ownership of the ideas early on in the implementation of the study. Other data-gathering approaches included literature review, personal interviews, and team observation of potential investment areas. The Nathan team presented the inception report and briefed government members and USAID/Timor-Leste on the assessment's findings.

Investment Opportunity Assessment Draft Report Validation Workshop. When a draft of the report was completed, a workshop was held to validate the finding and recommendations of the investment opportunity assessment. Some 50 stakeholders attended the half-day workshop and participated in discussions. Stakeholders generally agreed that the findings reflected expectations and presented Timor-Leste, in general, and key economic sectors, in particular, in a realistic light by showing opportunities and constraints faced by the county and by sectors. The list of investment opportunities presented at the workshop was also found helpful in illustrating investment projects in the pipeline and potential investment opportunities available to domestic and foreign investors. The workshop permitted stakeholders to express ownership of the outcome of the assessment. The Investment Opportunity Assessment Report was finalized and submitted to the government and USAID/Timor-Leste in the first week of August 2005.

Letters of Intent for Investment Projects

To move the investment promotion agenda forward, the resident investment adviser negotiated with potential investors and drafted three letters of intent for investments in agribusiness and fisheries between the government and the investors.

Native Cassava Starch Project. A Thai investor group plans to invest US\$7.5 million in native cassava starch production in Timor-Leste. The operations are expected to create employment opportunities for some 10,000 small producers and jobs at the processing plant for more than 100 workers in the southern part of the country. A letter of intent was finalized in early July 2005, with signing expected by month's end. German investors are planning to invest an additional \$10 million in the production of modified cassava starch at a later stage. Production output will be for the export market.

Palm Oil Project. A Malaysian investor group with experience in palm oil production plans to invest US\$20 million to produce high-yield palm oil on some 30,000 hectares. The project is anticipated to provide employment to 6,000 producers on a regular basis in addition to a large number of seasonal jobs. The processing plant is projected to employ about 150 full-time workers. The palm oil project will be located near the cassava project in the southern part of the country. The Minister of Agriculture, Forestry, and Fisheries signed the letter of intent with the investors.

Fisheries Joint Venture. A Korean investor based in Japan is planning to invest \$20 million to set up a comprehensive fisheries operation in the northeastern part of the country. The project, with minority government participation, envisages as many as 50 20-ton fishing vessels as well as fresh fish processing and canning facilities. Initially, the project expects to employ 200 Timorese fishermen and 100 processing and canning workers full time.

Investors in both the native cassava starch and palm oil projects indicated in the letters of intent that a sea port needs to be built in the area where their facilities will be located to support these agribusiness operations.

Other Accomplishments

In addition to its major accomplishments, the project contributed to the following other accomplishments worthy of mention:

- Memorandum of understanding between the Investment Division and the Institute for Investment and Export Promotion of Macau and other Portuguese-speaking countries
- Investment staff capacity building
- Private sector strategy development under Sector Investment Program

MEMORANDUM OF UNDERSTANDING WITH THE INSTITUTE FOR INVESTMENT AND EXPORT PROMOTION OF MACAU

The resident investment adviser accompanied a joint government and private sector delegation to Macau in October 2003 to an economic forum for Portuguese-speaking countries and China. Besides the delegation's making contacts with Macanese investors, the Investment Division signed a multilateral memorandum of understanding with the Macau Institute for Investment and Export Promotion (IPIM) and seven other investment promotion agencies and chambers of commerce from Portuguese-speaking countries. The resident investment adviser reviewed the proposed draft text and accompanied the Investment Division director to the signing ceremony. The memorandum of understanding opened the door to a twinning relationship between IPIM and the IEPI in Timor-Leste in which the Macanese commits to assisting Timor-Leste with institutional and human resources capacity building. Since the memorandum was signed, before the IEPI was established, IPIM funded training and conference attendance activities for Investment Division staff. IPIM management and staff also welcomed the resident investment adviser in late December 2004 during his visit to review investment licensing procedures and a database for reporting FDI progress.

INVESTMENT IN STAFF CAPACITY BUILDING

The project began against a background of extremely limited institutional and human resource capacity in the Ministry of Development and Environment. The resident investment adviser was expected to work as adviser to the director of the Investment Division. However, because the director is currently a member of government, the position is temporarily filled by a lower-ranking staffer who serves as the acting director. The institutional vacuum created by the absence of the director, combined with the limited capacity of the other division staff, created a constraint to capacity building.

Nonetheless, considerable organizational and planning capacity building took place among Investment Division staff members during the project. They gained valuable experience organizing the Private Investment Forum, two round tables on draft investment laws, and the investment opportunity assessment workshops. Staffers had the opportunity to participate in every aspect of the organization and implementation of public events, the first time they had organized events of this size and importance. Improvement in organizational capacity was noticeable from one event to the next. By the time of the last round table in mid-May 2004, the interim director supervised his staff's handling of all details and required only the minimal involvement of the resident investment adviser.

Additionally, the resident investment adviser guided staff in gathering data regularly to report on National Development Plan indicators. By June 2004 division staff was completing much of the planning and reporting documentation required from the division for the National Development Plan under the supervision of the interim director, with limited input from the resident investment adviser. The supervisory and coordination skills of the interim

director improved markedly, as did the staff's performance. These improvements can be attributed to on-the-job training and day-by-day learning.

PRIVATE SECTOR STRATEGY DEVELOPMENT UNDER SECTOR INVESTMENT PROGRAM

The incipient nature of the private sector legislative and regulatory framework in Timor-Leste constitutes a major hindrance to the development of the private investment framework. Much remains to be done in terms of legislation and regulation to support the development of the private sector. The resident investment adviser worked closely with the chief planning adviser (Russell Cheetham), other advisers, and ministry staff in the initial drafting and subsequent revisions of the private sector section of the Sector Investment Program document. To foster interagency coordination, staffers from various ministries and secretariats of state met regularly to discuss cross-cutting issues that affect private sector development in the country. This collaborative work and the intense participation of government staff raised awareness of the importance of teamwork and contributed to staff and institutional capacity building. Finally, the resident investment adviser prepared presentations on private sector development and assisted the vice-minister of the Ministry of Development and Environment in making presentations to development partners in Timor-Leste.

3. Project Milestones and Summary

The project focused on the five areas of investment advisory activities mentioned in Chapter 1. A sixth area of activities included those not foreseen in the statement of work. Monthly and quarterly reports were submitted to USAID on how time was spent and what tasks were accomplished. Monthly and quarterly reporting formats were agreed with USAID CTO and reports were submitted electronically (per CTO preference) with copies to the Nathan home office investment specialist. Quarterly reports also included up-to-date project fiscal and financial data.

Many project activities depended on actions being taken by other government departments. This meant that some project milestones were subject to slippage, though through no fault of the project but because of delays in government action. The Private Investment Forum, for example, was proposed in late August for the end of September 2003. Instead, it took place in mid-December, almost three months later than projected. Similarly, investment legislation was expected to have been passed by the end of 2004, instead of mid-2005, some six months later. Although these delays should not be attributed to a lack of political will on the part of decision makers, but to an overloaded agenda with competing demands and priorities, they nonetheless prevented some institution capacity building and investment promotion activities from taking place as planned in the Year 2 work plan.

Policy Environment

The following four main activities drawn originally from the contract scope of work were included under this milestone heading in the two annual work plans:

- Formulation of a private investment policy
- Preparation and approval of investment legislation and regulation
- Providing inputs into complementary business- and investment-related legislation
- Helping improve the business environment

Table 1 shows that all milestones under this activity were completed.

Table 1

Progress toward Milestones under Improving the Policy Environment for Private Sector Investment

Milestones	Status
Defend and explain two draft investment laws before Council of Ministers	Done
Research investment incentives offered by Southeast Asian countries	Done
Measure fiscal impact of the external and domestic investment laws for government decision making in collaboration with Ministry of Planning and Finance and other government advisers and key staff	Done
Revise the two investment laws, as required, following fiscal impact analysis for final submission to Council of Ministers for approval	Done
Assist Parliament Special Commission in the review and debate of the two investment laws before plenary debate	Done
Draft regulations of the two investment laws in collaboration with the legal specialist for Council of Ministers' approval	Done
Provide written input into business and sectoral laws relevant to private investment promotion	Done
Prepare briefs for the government proposing specific measures to create a business-friendly investment climate in Timor-Leste	Done
Finalize plan to reorganize the Investment Division to complement the IEPA	Done
Conduct investment opportunity assessment of Timor-Leste to provide baseline data and information to develop the investment promotion program	Done

Investment Promotion

The major goal of this activity area was to make a transition from the Investment Division of the Ministry of Development and Environment to two investment promotion entities, IEPI and IADE. The IEPI is responsible for promoting inward FDI and exports of goods and services produced by domestic exporters. If the volume of exports increases enough in the future, a separate export promotion entity may be created by spinning off this component of the IEPI. Until then both activities will be handled by the IEPI, although with the principal emphasis on inward FDI promotion. The World Bank-funded Second Small Enterprises project contributed \$800,000 to launch the IEPI, but more resources must be found for its longer-term development and sustainability.

The IADE was created at the same time as the IEPI to promote domestic investment. However, unlike the IEPI, which obtained initial funding from a World Bank project, IADE has not yet obtained funds for its launch and support its longer-term development.

Table 2 shows that although progress was made, not all milestones were reached in this activity area. This was due primarily to government delays in passing the investment legislation and regulations to create and set up the two investment promotion entities.

Table 2
Progress toward Milestones under Improving Investment Promotion through Institutional Strengthening and Promotional Activities

Milestones	Status
Draft legislation to create IEPA for enactment by government decree	Done
Identify and appoint public and private IEPA advisory board	Recommended organizations and names
Recruit and hire IEPA CEO and key staff	Done
Finalize and test concept of one-stop shop to support investors	Done
Finalize IEPA set-up plan with CEO	Provided draft to CEO
Collaborate with IEPA CEO in drafting 5-year strategic plan	Preliminary draft to CEO
Conduct promotion tours to at least two of the following countries: Australia, Malaysia, Singapore, Portugal	One tour taken to Macau; delay in IEPI setup did not permit more
Complete plan for introducing Timor-Leste on promotional tours	Basic ideas to CEO
Timor-Leste investment promotion folder compiled and printed	Basic information gathered
Timor-Leste investment promotion website launched	Delay caused by late IEPI setup
IEPA open for business	Pending – delay caused by late IEPI setup
Stage investment conference	Postponed until November 2005
Draft memoranda of understanding between specialized government departments whose activities complement investment promotion (i.e., Foreign Affairs, Immigration, Labor and Solidarity, Customs)	Boilerplate prepared

Of the 13 milestones under this area of activity, three were completed. The other 10 were developed as far as possible, but the nonexistence of the investment promotion entities on a timely basis did not permit their full completion. However, work was done to permit implementation as soon as conditions are right. For example, advisory board members have been identified, study tours have been planned, and planning for the investment conference, including a list of invitees, has been completed.

Capacity Building

Investment-related capacity building of government institutions and the individuals that work in them was an important objective of this project. The main counterpart institutions were the Investment Division of the Ministry of Development and Environment and the investment promotion entities.

Capacity building took place on two levels. The resident investment adviser provided best-practice advice to senior government officials on investment-related issues on an ongoing basis. He also provided advice on training for Investment Division line staff in various investment-related and language skills. Additionally, external resources were identified to support training in investment promotion. For example, Investment Division staff

participated in investment promotion training in Japan, China, Macau, Malaysia, and Thailand.

To a great extent, capacity building and skills transfer took place in the form of mentoring—of the acting director and key division staff—and learning by doing. Other staffers benefited from guidance and support in compiling data and information on economics and commerce, land, immigration, labor, taxes, and other areas.

Table 3 shows that although progress was made toward each milestone, not all milestones were reached. As with the Improving Investment Promotion activity area, this was due principally to government delays in passing the investment legislation and regulations to create the two investment promotion entities.

Table 3

Progress toward Milestones under Capacity Building and Skills Transfer Activities

Milestones	Status
Capacity building and skills transfer activities for Investment Division and IEPI staff through on-the-job training.	Done with Investment Division staff, but IEPI staff hired late
Participate in study tours with IEPA and Investment Division leaders to at least one target country (Cape Verde, Fiji, Mauritius).	Prepared Cape Verde visit and arranged financing
Prepare training needs assessment for IEPA and Investment Division staff	IEPI staff hired too late
Inventory of existing major investors prepared	Done
Basic training courses for IEPA and Investment Division staff delivered (computer and investment promotion skills)	IEPI staff hired too late
External resources identified to send Investment Division and IEPA staff for training abroad	Done

Of the six milestones under this area of activity, three were completed and three are pending. However, work was done to permit implementation as soon as conditions are right. For example, a proposal was submitted and approved by the USAID Small Grants Program to finance study tours to Cape Verde and Fiji, and the resident investment adviser traveled to Cape Verde to discuss the study tour program.

Collaboration with Other Donors and USAID Projects

One of the important objectives of the project was collaboration with donors and other USAID-funded projects. Collaboration was particularly close and fruitful with the World Bank and Ireland Development Cooperation, both of which made funds available to support investment-related activities and private sector development. Regular contacts were maintained with the IMF and ADB offices in Dili. Regular contacts were also maintained with AusAID Representative and projects in Fisheries and Agriculture financed by AusAID and

the World Bank. Collaboration with the World Bank yielded \$800,000 of support to help launch IEPI while Ireland Development Cooperation financed the Private Investment Forum and the two round tables to discuss the domestic and external investment draft laws.

Collaboration with other USAID-funded projects, especially the ARD-coordinated Land Law Project, proved particularly helpful in presenting a concerted strategy to the government on land access and real estate property rights, both major concerns to investors, especially foreign investors. Additionally, regular contacts were maintained with the Economic Growth Small Grants Program to identify funding for investment-related activities. For example, terms of reference to support the feasibility study of a business park in Dili and a study tour proposal to Cape Verde and Fiji were presented to the Small Grants Program. Although initial reaction was positive to the business park concept, the government decided to use the site for another purpose, and this idea was not pursued. The study tour proposal, as already indicated, did receive funding. Table 4 give details of progress made toward the milestones in this grouping.

Table 4

Progress toward Milestones under Collaboration with Other Donors and USAID Programs

Milestones	Status
Collaborate with IEPA CEO on development of strategic plan for IEPA	Basic work done with CEO
Collaborate with IEPA CEO on development of promotional program	Basic work done with CEO
Collaborate with business regulatory specialist on development of legislation to create favorable business environment under World Bank's Second Small Enterprises project	Done
Collaborate with Ministry of Agriculture, Fisheries, and Forestry in advancing agribusiness and fisheries project agreements in the pipeline	Done
Provide input to World Bank Sectoral Investment Program process	Done
Collaborate with ARD's Land Law Project in providing inputs to studies and legislation that supports private sector and investment promotion	Done
Collaborate with the economic adviser on cross-cutting issues	Done
Present proposals to Development Alternatives, Inc.'s (DAI) Small Grants Program to support Dili Business Park feasibility study	Preliminary proposal prepared and presented
Present proposal to DAI Small Grants Program for funding of investment promotion and study tours for Investment Division and IEPI key staff	Done – funding approved for Cape Verde
Participate in business opportunity presentations in various regions in Timor-Leste in collaboration with government leaders and Second Small Enterprises project team	Done
Implementation of Investor Roadmap approach to one key sector in collaboration with World Bank Small Enterprise Project II agenda	Worked closely with agribusiness and fisheries

Of the 11 milestones under this grouping of activities, eight were completed. The other three were only partially completed.

Subnational and Sector Activities

Investment-related decisions and actions in Timor-Leste take place at the national level. Some activities, however, have taken place at the regional and local levels. In the past, the central government conducted “open government” sessions at the local level to inform the population about policy and actions in general as well as measures to promote investment and private sector development at the regional and local levels. These events, which continue today, are primarily political and public relations in nature. However, with the recent remodeling of the cabinet, five Secretariats of State for Regional Coordination have been created to stimulate regional development. Secretaries of state report directly to the prime minister and are expected to work closely with IADE and IEPI. The resident investment adviser’s role in this component was mainly to provide policy direction, which was incorporated into the incentive package of the investment laws, and to prepare information for presentation by government leaders at open-government events. Additionally, the resident investment adviser made investment-related presentations at regional gatherings in the Manatuto and Maubisse districts.

Much of the project’s engagement at the subnational level took place in zone-related and sectoral activities. The resident investment adviser provided advice on the need to think of the country in terms of economic zones and natural endowments and thereby assess more realistically the opportunities for promoting investment—as well as the difficulties—in the country as a whole as well as at the regional level. The aim of this approach was to assess critically the capacity for moving people and goods throughout the country, as well as into and out of the country, in the context of investment and business promotion.

Specialized zones and industrial and business parks are being considered as means to create the infrastructure necessary to launch investment initiatives. These include an industrial zone near Baucau, for which a feasibility study has already been conducted, and a business park in Dili, for which the resident investment adviser developed terms of reference to conduct a feasibility study for USAID Small Grants Program support.

In terms of economic sector collaboration, the resident investment adviser also provided advice to various ministries and secretariats of state. In tourism, for example, he participated in the development of sustainable tourism strategies with the Tourism Division and advisers, including a team from the World Tourism Organization that came to strategize the development of a tourism development master plan. The adviser also worked closely with the Secretariat of State for Trade and Industry on SME development and foreign business registration. He worked closely with two advisers at the Secretariat of State for Trade and Industry to move the agenda on industry and trade promotion forward. He collaborated closely with the Ministry of Agriculture, Fisheries, and Forestry, contributing to the development of the fisheries and quarantine legislation and reviewing and advising on major agribusiness and fisheries projects under consideration, including the drafting of several letters of intent. He initiated collaboration with the Immigration Department, and Labor and

Solidarity Secretariat of State on requirements for visas and permits for foreign investors and workers. Moreover, he maintained close collaboration with advisers at the Ministry of Justice to develop legislation and regulations that affect business organizations and registration.

Finally, the resident investment adviser established contacts with business associations and promotional organizations overseas with a view to building linkages and partnering agreements. This agenda is progressing well as a result of the Portuguese-speaking country economic cooperation summit in Macau. Other fruitful contacts included those established with the Australian Chamber of Commerce, the Singapore Manufacturers' Association, Portugal-Timor Chamber of Commerce, and the Thai-Timor-Leste Council for Technical and Cultural Cooperation. All 12 milestones under this grouping of activities were reached.

Table 5

Progress toward Milestones under Support for Investment-related Activities Focused on Particular Subnational Regions, Zones, and Sectors

Milestones	Status
Carry out investment orientation tour to Baucau, Vemasse, Maubisse	Done
Collaborate with Second Small Enterprises project in implementing industrial park technical assistance	Provided input to terms of reference and feedback to inception report
Prepare terms of reference for gas and oil upstream advisory activity for Sec State Investment review	Not required—Norway provided technical assistance
Seek Small Grants support to implement the Dili Business Park feasibility study	Presented terms of reference but government decided to use site for another purpose
Conduct the investment opportunity assessment with Nathan home office specialists	Done
Make investment promotion presentations to visiting overseas delegations	Done
Deliver investment promotion presentations to at least one of the following target countries: Australia, Malaysia, Singapore or Portugal	Presentations made to Thai, Qatari, Malaysian, and Hong Kong investors
Sign at least one partnership memorandum of understanding with overseas business association and investment promotion agency	Prepared draft for Macau and discussed with Mozambique
Prepare profiles of key sectors for investment promotion	Profiles included in Investment Opportunity Assessment
Collaborate in preparation of draft commercial tourism strategy	Done
Collaborate in drafting export-promotion legislation	Export promotion incorporated in investment laws
Review specific projects presented by potential investors and advise government	Done, with Ministry of Agriculture, Fisheries, and Forestry, Ministry of Foreign Affairs and Cooperation, and Secretariat of State for Trade and Industry

Guidance and Input

The resident investment adviser worked closely with the Timor-Leste government on issues that were inherently of an investment nature or that enabled or hindered investment. Although some of this important collaborative work was not included in the Year 1 work plan, by Year 2 good institutional working relations had been established, and most was included in the Year 2 work plan. A brief summary of the activities undertaken in the Guidance and Input on Investment Issues and Projects category, follows.

Parliament. The resident investment adviser worked closely with the national Parliament, especially its Economic and Finance Committee, in reviewing and finalizing domestic and external investment laws, leading to their enactment in June 2005.

Council of Ministers. The resident investment adviser worked closely with the Council of Ministers or Cabinet in preparing draft domestic and external investment laws and the regulations for the two investment laws. The latter were passed by the Council of Ministers in July 2005, thus creating the legal regime and framework to support and regulate domestic and external investment in Timor-Leste.

Ministry of Agriculture, Fisheries and Forestry. The resident investment adviser collaborated with the Ministry of Agriculture, Fisheries and Forestry on policy and legislation development, project negotiation with the World Bank, and inward FDI initiatives in these key sectors. He also drafted letters of intent for investment projects (native cassava starch, palm oil, and fisheries).

Ministry of Plan and Finance. The resident investment adviser collaborated with many departments of the Ministry of Plan and Finance, especially in drafting and revising the private sector development chapter of the Sector Investment Program. Likewise, he established close working relationships with Planning, Customs Department, and Treasury and Revenues Offices—departments of the ministry that will collaborate closely with IEPI in facilitating domestic and foreign investment approvals and implementation. With the Planning Department, he also reviewed and finalized the Millennium Challenge Account concept letter and subsequent preparatory work on the threshold proposal.

Secretariat of State for Trade and Industry. The resident investment adviser collaborated closely with the Secretariat of State for Trade and Industry on policy matters, investment initiatives, and establishing business registration procedures. In the context of the restructuring of the World Bank Second Small Enterprises project, the resident investment adviser participated in the revision of the concept and terms of reference for the economic zone opportunity study to be implemented by the Secretariat of State for Trade and Industry. Likewise, the resident investment adviser worked closely with the business registration unit under the Secretariat of State for Trade and Industry to identify problems and recommend streamlining of procedures under the new Commercial Companies Law. This task was carried out in collaboration with the Ministry of Justice, responsible for registration matters,

including business registration. The resident investment adviser also prepared a brief, recommending ways to streamline business registration in conformity with the requirements of the Commercial Companies Law. Table 6 indicates that all milestones in this activity area were completed.

Table 6

Progress toward Milestones under Other Investment-related Activities

Milestones	Status
Collaborate with Parliament on legislation that affects private sector development and investment promotion	Done
Collaborate with ministries, secretariats of State, and other government entities on activities that support private sector investment	Done
Review and analyze investment projects presented by potential investors and provide opinions and recommendations	Done
Draft memoranda of understanding and revise project agreements presented by potential investors	Done
Undertake other private sector development and investment promotion activities that enhance investment promotion	Done
Meet with select group of foreign investors in Timor-Leste to listen to their concerns	Done

Project and Contract Administration

All project contract and key administrative matters were completed satisfactorily, as summarized in Table 7.

Table 7

Progress toward Milestones under Project Administration Activities

Milestones	Status
Hire project assistant	Done
Prepare first annual implementation report	Done
Prepare project Year 2 work plan	Done
Prepare project budget modification and realignment request for USAID approval	Done
Prepare monthly and quarterly reports for presentation to USAID	Done
Prepare inventory of nonexpendable project property	Done
Send project assistant to advanced PowerPoint training	Done
Prepare end-of-project inventory handover per USAID requirements	Done
Prepare project closeout report for submission to USAID	Done

Other Activities

Participation in AmCham Indonesia Meeting. At the request of the U.S. ambassador to Timor-Leste, the resident investment adviser accompanied the Secretary of State for Investment and the ambassador to a meeting in Jakarta with the American Chamber of Commerce Indonesia (AmCham Indonesia). Because of its ad hoc nature, this was not an activity contemplated under the work plan. The resident investment adviser's principal role was to prepare talking points for the Secretary of State and answer technical questions from chamber members. Subsequently, the resident investment adviser prepared a brief article for the AmCham December 2004/January 2005 newsletter.

Project Financial Status

Financial status of the project as of July 31, 2005, are presented below:

Contract Amount	US\$982,966
Actual Expenditures	US\$422,193
Unexpended Balance	US\$560,773
Percent Budget Used	90%
Percent Complete	100%

Conclusion

The Investment Advisory Services project met all the contractual goals and objectives under Nathan Associates' control in a constantly evolving environment. Investment promotion activities that depended on the passing of investment legislation and regulations and the establishment of the IEPI were initiated later than expected, however, because of delays on the government of Timor-Leste's side, often as a result of its dependence on other policy-related issues.

The two-year project made important achievements at a key moment for Timor-Leste. Today Timor-Leste has established a legislative and regulatory framework and one-stop shops to facilitate and promote domestic and external investment. It has laid the foundations for the promotional superstructure to stimulate domestic investment and attract FDI, with the ultimate aim of generating employment and combating poverty.

As a new nation emerging from a turbulent past, Timor-Leste can be proud that the minimum conditions to regulate and promote domestic investment and FDI have been created. However, investment promotion is a long-term venture. The government must now support IEPI and IADE – including finding resources – for the next decade, and especially for the next five years. Naturally, obtaining a long-term commitment from any one source is difficult. Timor-Leste, as a newcomer, would do well to learn from the lessons of other countries, particularly small states: steadfast long-term commitment and adequate resources are

necessary to sustain investment promotion. Two neighboring countries, Singapore and Fiji, can serve as role models and inspiration for Timor-Leste in charting its course to successfully promote domestic investment and FDI.