



**USAID** | **EAST TIMOR**  
FROM THE AMERICAN PEOPLE

# *Dezenvolve Setor Privadu*

**Quarterly Report**  
**April 1, 2007 – June 30, 2007**

31 July 2007

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## ACRONYMS AND ABBREVIATIONS

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

**DEZENVOLVE SETOR PRIVADU**  
**QUARTERLY REPORT APRIL TO JUNE 2007**  
**SUMMARY**

In April to June 2007 DSP continued its expansion in several areas of work that will define DSP's program of work through 2010, including a substantial increase in rural activities.

**Table 1: Impact and Results**

<b>Intended Impact</b>	<b>Results</b>
Increased volume and value of produce to high-end buyers through farmer and private sector linkages	Over 3.7 m.t. of 10 different graded horticultural products worth more than \$3,500 were supplied to institutional buyers (supermarkets) during this quarter.
Increased production and sales of mungbeans through farmer and private sector linkages	DSP distributed 5.5 m.t. of mungbean seed to 24 farmer groups (315 household/farmers in eight villages) for planting 215 ha with a potential yield of approximately 190 m.t. (worth \$95,000 to \$100,000) based on previous yields in the area.
Increased the number of enterprises accessing commercial services	16 micro to small enterprises accessed training that had not previously received services from the Baucau Business Development Center
New commercial service products	<ul style="list-style-type: none"> <li>▪ Introduced new training course – <i>Stock Control</i> – at the Baucau Business Development Center</li> <li>▪ Developed an agricultural loan product for microfinance institutions. Resulting in access to credit by 110 farmers.</li> </ul>
Continued strengthening the Transportation Truckers Association	<ul style="list-style-type: none"> <li>▪ Additional contract revenues during the quarter of \$94,218</li> <li>▪ After a year of DSP support to date, the association's 34 members and 50 subcontracted, independent truckers have earned \$351,220 in additional revenues.</li> </ul>

## Challenges

Program challenges include:

- Difficulty in accessing packaging and marketing materials to promote Timor-Leste products. DSP was unable to procure plastic or glass bottles for virgin coconut oil without placing a large quantity order. The cost of labeling materials is also excessively high comparative to Indonesia.
- Manufacturing technology is not available locally. For example, replication of hydraulic presses for coconut oil production is non-existent due to limited access to and high cost of simple materials (e.g. stainless steel), and a low level of manufacturing expertise.
- Limited expertise of service providers, including survey institutes, in undertaking complex tasks without extraordinary involvement of project staff and consultants.
- Continued distortion of the horticulture supply industry and other supply chains due to the ongoing crisis in Timor-Leste.

Administrative issues include:

- Continued difficulties in identifying business persons with the capacity and focus to lead the development of business activities such as high-end horticulture supply and marketing. Two commercial services staff positions have been vacant throughout the project.
- Competition for employees from other donors who pay significantly higher salaries than can be justified under USAID rules has hampered recruitment and resulted in the departure of one staff member to a United Nations agency.
- Uncertainty about continuation of the project beyond 2008. An extension of the project to 2010 has been discussed since September 2006. In the last week of the quarter, USAID requested that DAI develop program options for DSP program beyond the planned contract close on 19 July 2008.
- Limited office space creates a difficult working environment. No alternative office space is available in Dili, even at a significantly higher rent.
- The declining value of the US dollar has increased various costs significantly in the past year as most commercial/business inputs are imported (for example, from Australia where the US dollar is worth about 18 percent less than in June 2006. )

## PROGRESS ON PROGRAM ACTIVITIES

This section describes project activities by program area as described in the DSP Year Two Work Plan submitted to USAID/Timor-Leste on 31 August 2006. At the end of June 2007, DSP has operated under the work plan approved by USAID/Timor-Leste for nine months.

### Agribusiness

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

Significant actions for the April – June 2007 period include:

- DSP sent trainees to study horticulture at the Bali Fresh facilities in Bali. The training consisted of a three-month training in horticulture production attended by four persons, and a two-week training in cold chain management and marketing attended by three persons.
- DSP continued to facilitate agreements and deliveries of graded local product by DSP's horticulture wholesaler partner to Dili supermarkets as the initial step in its fresh products initiative. Nine deliveries of 10 different varieties of graded vegetables totaling more than 3.7 m.t., were made during this quarter. The deliveries are worth over \$3,500.
- DSP completed a product search activity aimed at identifying key horticulture sites, production calendars, and potential horticulture areas to supplement the volume of produce that enters the supply chain. Surveys were conducted with 60 farmers from 14 villages from six sub-districts in four districts..
- DSP initiated horticulture seed variety trials through the Timor Institute of Development Studies (TIDS) and the National University of Timor-Leste (UNTL) in June 2007. The trials are being conducted in five villages in Aileu, Ainaro, Baucau and Dili districts, involving 25 farmers. The trials are aimed at assessing the performance of new seed varieties as well as documenting constraints faced by farmers in horticulture production, including pest/diseases and farmer practices.
- DSP identified 24 farmer groups with 315 household/farmers in eight villages and four sub-districts of Suai to participate in the mungbean expansion program, and distributed 5.5 m.t. of mungbean seed as an in-kind loan to the groups based on land area of each group member. Training in seed selection and planting was provided to the groups, and technical assistance provided for troubleshooting. A total of 215 ha of mungbean were planted by the groups, with a potential yield of approximately 190 m.t.
- DSP identified a supplier of packaging in Bali to facilitate a trial marketing initiative of virgin coconut oil produced by
- DSP fielded two consultants (one international, one Timorese) to conduct a fisheries supply chain assessment. The assessment was aimed at identifying key constraints to developing the fisheries/seafood industry.

**Progress by planned activity:**

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

**Objective:** Improve the economic viability of the coconut industry.

**Progress:** During the quarter DSP's focus continued to focus on marketing issues, including packaging and advertising.

- DSP arranged for the importation of new packaging materials. A total of 500 bottles and 1,000 bags with labels were purchased from Bali as the basis of a trial marketing scheme. Marketing will begin during next quarter through the supermarkets and other buyers.
- Posters were developed to promote the product.
- DSP supplied 30 liters of virgin coconut oil (VCO) to the Alola Foundation, who repackaged the oil as a gift item. Alola Foundation has since continued to order additional units.
- A total of 170 liters of VCO were sold to various buyers in Dili through via informal, "word-of-mouth" promotion.

**Next Steps - Coconut Industry:**

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

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

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

**Progress:** DSP continued its activities to assist in the expansion of production and marketing of horticultural products. Trainees were sent to Bali to develop practical skills in horticulture production, cold chain management, and marketing. DSP continued to facilitate sales and deliveries of graded produce to buyers in Dili through a collaborating horticulture wholesaler.

Additional progress in the activity area includes:

- DSP continued to facilitate agreements and deliveries of graded local product by Zero Star, DSP's horticulture wholesaler partner, to Dili supermarkets as the initial step in its fresh products initiative. A total of nine deliveries were made during this quarter, amounting to more than 3.7 m.t. of 10 different varieties of sorted/graded vegetables worth over \$3,500.

- DSP sent four trainees (three women, one man) to Bali to attend a three-month hands-on horticulture production training course. The trainees included two representatives of the farmer group in Lequitura, a representative of Zero Star (a Timorese horticultural wholesaling company), and a person interested in establishing a horticulture input supply business. DSP also facilitated attendance by one additional trainee sponsored by the Ministry of Agriculture, Fisheries and Forestry (MAFF).
- DSP sent three trainees to Bali to attend a two-week training and orientation on horticulture cold chain management and marketing for high-end buyers. The trainees included the owner of Zero Star and two staff members from DSP. DSP also facilitated attendance at the training for two individuals sponsored by MAFF.
- DSP completed the Product Search activity with TIDS and UNTL aimed at identifying key horticulture sites, production calendars, and potential horticulture areas to supplement the produce supply chain. Dr. Merle Menegay had trained seven persons in the survey methodology in the previous quarter. Surveys were conducted with 60 farmers from 14 villages from six sub-districts in four districts. A total of 14 site profiles were completed, one for each village where surveys were conducted.
- DSP initiated horticulture seed variety trials through TIDS and UNTL in June 2007. The trials are being conducted in five villages in Aileu, Ainaro, Baucau and Dili districts, involving 25 farmers. The trials are aimed at assessing the performance of new seed varieties as well as documenting constraints faced by farmers in horticulture production, including pest/diseases and farmer practices. The trials offer an opportunity for the four UNTL agronomy students to conduct practical activities, as well as offer the 25 participating farmers to learn more about production through farmer field visits to see the results of trials in other locations. These trials are ongoing.
- DSP worked with Zero Star and the USAID Small Grants Project (SGP) to develop a grant proposal to establish a horticulture supply chain for high-end clients.<sup>1</sup>

**Next Steps - Horticultural Supply Chain:** The current strategy is to support a closed supply chain approach working with a partnership of producers and an initial wholesaler. The likelihood of being able to deliver the variety, quality and quantity demanded by Dili's small market is increased by a close partnership and clear communication between producers and buyers. Zero Star remains the key marketing participant in the supply chain, and will support the development of specialized production in Lequitura as well as increase the supply of existing products from other growers.

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

- Deliveries of graded product will continue under the initial agreements brokered by DSP between the wholesaler and Dili supermarkets.
- New suppliers will be identified within Aileu and Ainaro districts, as well as in other districts such as Baucau and Liquica.
- DSP in association with the wholesaler will continue to provide demand information to producers and assist in production planning.

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<sup>1</sup> The grant was approved by USAID 19 July 2007.

- DSP will support and monitor sales arrangements to assess pricing issues and viability, and provide business training and other technical support to the wholesaler as identified.
- The cold chain facilities established under the SGP grant will be used to strengthen the supply chain through improved product and reduced wastage.

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

- Special focus will be placed on the Lequitura producer group to follow up on the training received by its two members in Bali. The SGP grant will establish an indoor/outdoor growing facility at the Lequitura SHA during the next quarter.

DSP will continue its research on crops, seeds, and markets to facilitate the development of the horticulture industry.

- Seed trials will be ongoing during the next quarter, and may be expanded further to test seed varieties during the wet season.

**Progress on fisheries/seafood supply chain:** DSP conducted a three week study on opportunities to strengthen the market and supply of local fisheries/seafood products.

- Study was undertaken by a three person team, including an international consultant, Robin Rackowe, together with a local consultant and DSP agribusiness staff member.
- International consultant, Robin Rackowe, completed and submitted a report prepared during the mission from 1 – 29 June 2007.

**Next Steps - Fisheries/Seafood Supply Chain:** DSP will review the findings of the fisheries/seafood supply chain study and identify key initial steps. Initial indications suggest that DSP could partner with a local fish trader to improve the supply chain and identify new markets. The objective would be to replicate the program of work DSP has used to build a strong horticultural chain for horticultural products. This work would likely not begin until the end of 2007.

### **[3] Expand production of cash crop for domestic and export markets**

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

**Progress:** DSP has made significant progress in the mungbean expansion initiative. Covalima district was targeted for expansion in 2007.

- DSP identified 24 farmer groups in Covalima district with 315 household/farmers in eight villages and four sub-districts of Suai to participate in the mungbean expansion program.
  - DSP distributed 5.5 m.t. of mungbean seed to the farmers. Distribution was based on land area of each group member.
  - Training in seed selection and planting was provided to the groups, and technical assistance provided for troubleshooting.
  - A total of 215 ha of mungbean have been planted by the groups, with a potential yield of approximately 190 m.t. based on previous yields in the area.

- Although flooding in the region is likely to affect as much as 20% of mungbean crop, the results are still important to farmers due to the greater losses to the maize crop from both flooding and locusts.
- DSP developed draft production guidelines and instruction cards for village-level training.
- DSP conducted yield samples in association with MAFF in Bobonaro district to ensure data is available on productivity and viability of mungbeans.
- DSP has continued to communicate with potential buyers of mungbeans, including Timor Global, government agencies, and West-Timor traders, to ensure a market exists for the farmer groups at harvest.
- DSP initiated discussions on the possibility of a visit by representatives of a Surabaya import/export association to investigate opportunities for increased trade to Indonesia.
- DSP worked with the Microfinance Institution of Timor-Leste to monitor the progress of the mungbean loan product trialed with four groups with a total of 20 members in Balibo, Bobonaro district.
- Christian Children's Fund (CCF) - East Timor dispersed \$12,500 under a trial mungbean loan product with support from DSP. The loans were to five groups with a total of 98 members in Aldea Holbelis Suco Labarai Suai, Covalima. DSP provided seed to the loan recipients to supplement the loan. Technical assistance on production, harvest and marketing will be provided similar to the other groups supported by DSP.
- DSP staff conducted field visits with clients of Moris Rasik (microfinance institution) to assess viability of credit for mungbean producers. One finding from these field visits was that the timeframe for developing the loan product was too short for the 2007 growing season.

#### **Next Steps:**

- DSP will continue to support the farmer groups in Suai with crop management and harvest, which will commence in August 2007.
- DSP will facilitate visits by buyers to inspect production sites and discuss purchase agreements with producer groups, and assist farmers to coordinate sales.
- DSP will conduct yield samples in association with MAFF in Covalima district to ensure data is available on productivity and viability of mungbeans.
- DSP will monitor loan repayment in Holbelis with CCF East Timor, and assist with troubleshooting and an assessment of the loan product after the initial loan cycle.
- Seed provided to farmers to expand production will be stored by Fini Esperanca, a local NGO, until the next growing season. This seed will then be used to expand production in the next growing season.
- DSP intends to provide support for seed storage, collaborating with MAFF. A request for GrainPro bags will be submitted to MAFF. With proper seed storage, group members will be able to save up to 50kg of seed for planting use next year.
- Potential new seed varieties will be investigated together with buyers to prepare for further expansion and quality improvements for next year's growing season. One potential new cash crop to be investigated is peanuts. Crop rotation with peanuts will improve soil condition and offer a second cash crop after mungbeans.

- DSP will consider supporting a visit by representatives of a Surabaya import/export association to investigate opportunities for increased trade to Indonesia. This will not only focus on mungbeans, but will also include other crops.

## Commercial Services

DSP supports private sector growth by increasing access to technical and business services essential for efficient enterprise operation.

DSP is assisting in the development and growth of the private sector by identifying and addressing the key knowledge and service gaps within the market place. Working closely with public and private sector players and other donors, DSP aims to (1) increase the number of enterprises accessing commercial services, (2) introduce new commercial service products into the market, (3) support the continued development of the Transportation Truckers Association, and (4) develop the accounting skills for both Timorese accountants providing accounting and bookkeeping services and to entrepreneurs.

Significant actions made by the DSP commercial services team for the April – June 2007 period include:

- Developed and launched a new business training course –*Stock Control* – with the International Labour Organization at the Baucau Business Development Center
- DSP worked with the Baucau BDC staff and the International Labour Organization to link 18 micro- to small enterprises to commercial services
- Fielded a Commercial Services Specialist consultant, Marina Krivoshlykova, to survey the accounting needs of, and training available to, businesses within Timor-Leste
- DSP's Commercial Services Specialist, Francelino Boavida, provided training sessions on value chains to the staffs of the Baucau Business Development Center and of the USAID Small Grants Program

### Progress by planned activity:

#### [1] Increase the number of enterprises accessing commercial services

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

**Progress:** DSP continued its pilot program with the Baucau Business Development Center (BDC) to devise new strategies and products to expand the number of enterprises accessing commercial services. Specifically, DSP focused efforts on the two main objectives highlighted in the last quarterly report.

- I. Launch walk-in business counseling services. The first step to creating such a service is for the BDC to link with the training providers and donor programs serving Baucau. During the quarter, DSP facilitated meetings between the manager of the Baucau BDC and the

following organizations to help him better understand their programs and where there are beneficial linkages.

- a. GTZ – agribusiness training
- b. Christian Children’s Fund-MEDI – microfinance institution working with peanut farmer groups
- c. Training Center for Integral Development (CTID) – skills training for young women
- d. Baucau Community Development Center – a local NGO providing agricultural training and market development
- e. Tuba Rai Metin – microfinance institution

The BDC now has map of the other resources available to businesses in Baucau, so they can link clients to services outside of the BDC’s traditional platform of training. The exercise also provided an opportunity for the BDC to market the training it provides. As a result, a women’s group sponsored by CTID producing coconut soap, learned of and signed up for a training course on costing. On 8 May the 5 women member/owners attended training at the BDC to understand how to calculate the input and production costs of their coconut soap.

2. Developing the BDC as a center for market linkages. This is directly tied to one of the mandates of the BDC - to promote local products. Unfortunately, neither Instituto do Desenvolvimento Empresarial (IADE) - the section of the Ministry of Development charged with the development of domestic enterprises - nor the National Director of the Business Development Centers has a clear vision on how to do this, and therefore initiatives at the center-level are lacking. To assist in developing an understanding of the concept, DSP’s Commercial Services Specialist, Francelino Boavida, provided a training session on 8 May on value chain mapping, based on the lessons learned from his participation in the USAID Regional Workshop on Value Chains during the previous quarter.

DSP worked with the International Labour Organization (ILO) to amend its current training platform to provide targeted training for existing businesses. Based on the findings of the business needs survey conducted by DSP in Baucau in March, DSP worked with the Baucau BDC staff and the ILO to launch this training in order to link the BDC into a new market – existing businesses. As a result 16 micro to small enterprises accessed training that had not received services from the BDC before. This success will be described in greater detail in the following section.

**Next Steps - Increase Access to Commercial Services:** June marked the end of DSP’s six month pilot at the Baucau BDC. Early in the next quarter DSP will provide IADE a summary of the lessons learned from the pilot and will provide options on possible program directions for the BDCs. As DSP’s consultant assessing the accounting skills/training in Timor noted:

*“In the immediate term, support to the BDCs and identifying ways to build their capacity is recommended. Although the BDCs are government subsidized, they are the only provider currently offering products for MSMEs and have the geographic coverage that no other provider has. In the immediate future, the BDCs appear to be the only mechanism for reaching a large number of enterprises.”*

There is potential for additional DSP involvement in this area, if suggested initiatives are supported by IADE. For example, if the BDC program is to achieve its mandates of (1) providing business training, (2) promoting local products, and (3) providing business incubation; IADE must make significant investment in and commitment to BDC staff training, funding and to increased management responsibilities at the BDC- level.

## **[2] Introduce new commercial service products into the market**

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

**Progress:** During the quarter DSP worked with the Baucau BDC to adapt their current training materials to meet the demands of the local market. Based on the feedback provided by the Baucau business community, DSP, working with the ILO, adapted a section of their next layer of business training, the *Improving Your Business* module, to target existing businesses. This is a new approach for ILO/BDC. Their approach is to offer the *Improving Your Business* course in full to businesses graduated from the ILO's progressive *Start Your Own Business* and *Managing Your Business* modules.

The result of these joint efforts was a three day training seminar entitled, *Stock Control*. Held from 21-23 June, the seminar was attended by 16 MSME's, represented by 20 owners and staff (12 men and eight women).

**Next Steps - New Commercial Service Products:** Early in the next quarter DSP and the Baucau BDC will conduct follow up interviews with all those attending the *Stock Control* training. The client feedback will allow DSP to make adjustments to the *Stock Control* training, if needed, and identify other key topics that can be addressed by adjusting additional ILO training products to meet the needs of local businesses.

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

**Progress:** In December 2006, DSP co-sponsored with the Associacao de Transportes dos Camioes de Timor-Leste (ATCTL) – Transportation Truckers Association - a customized training for their members by the East Timor Development Agency on basic cash flow management. On April 20<sup>th</sup> the DSP commercial service team conducted a follow up review for members to help them analyze their expenses and income and better understand the information gained by tracking their cash flow.

DSP has centered its support of the association's organizational and management growth around their contract to deliver food aid for the World Food Programme (WFP). On 25 April an ATCTL member transporting WFP food items was involved in an accident resulting in the damage and loss of \$2,000 in commodities. DSP supported ATCTL in addressing the client's needs and concerns. ATCTL's responsiveness and past performance, lead to the WFP reduced their reimbursement claim to \$1,000. This was paid by ATCTL on behalf of the member involved in the accident.

The above setback aside, the WFP contract has continued to benefit the members and subcontractors to the association. For the quarter the results of DSP's efforts have been:

**Table 2: Transportation Truckers Association Revenue by Month and Quarterly Total**

<b>Month</b>	<b>Members/Contract Truckers Benefiting</b>	<b>Revenues</b>
April	59	\$46,515
May	69	\$38,443
June	22	\$ 9,260
<b>Total</b>	<b>n/a</b>	<b>\$94,218</b>

After a year of DSP support to date, the association's 34 members and 50 subcontracted, independent truckers have earned \$351,220 in additional revenues.

**Next Steps - Transportation Truckers Association:** DSP will be providing training to the association's board on management responsibilities, how to run a meeting and will assist them in conducting their first formal general assembly meeting. With the formalization of the association, DSP will then work with the board to set, and assist them achieve, organizational development benchmarks based on feedback from the membership on the direction and services to be offered by the association.

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

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

**Progress:** During this quarter DSP undertook a number of initiatives to advance the level of accounting skills and knowledge in Timor-Leste.

In April DSP issued a request for proposals, for accounting and accounting training services to link quality bookkeeping and accounting support to DSP's agribusiness and other commercial initiatives. DSP only received two proposals. Unfortunately this is an accurate indicator of the lack of accounting services available in Timor. Fortunately, both proposals submitted met DSP's requirements and have been short-listed for possible use to assist DSP in strengthening the accounting skills and practices used by partners. DSP selected one of the vendors, Haksolok Consulting, to perform an accounting skills/processes assessment and to design a plan to improve the bookkeeping and financial management practices of Zero Star, a Timorese wholesaler DSP is working with in our horticulture initiatives.

During the quarter DSP fielded a short-termed Commercial Services Specialist, Marina Krivoshlykova, to assess the existing accounting training available in Timor and to develop strategies to connect businesses to these courses or amend/expand the courses offered to best

improve the accounting skills within the private sector. From May 28<sup>th</sup> – June 30<sup>th</sup> Ms. Krivoshlykova conducted her assessment. Within a market characterized by weak demand and weak supply, she recommended interventions to stimulate the demand through increased awareness of the need for sound accounting and financial management skills, and improving the supply of services by building the capacity of training providers. Specifically, Ms. Krivoshlykova suggested the following activities for DSP to consider:

- Identify and link appropriate training strategies and providers to individual companies
- Assist the BDC build capacity by improving existing and developing new training products
- Improve the capacity of individual consultants to meet the needs of MSMEs
- Stimulate demand, through incentives or promotions such as vouchers, to link enterprises to appropriate training providers.

DSP continued following the development of a possible accounting association. Due to the presidential elections (April 9<sup>th</sup> and May 9<sup>th</sup>) and the lead up to the parliamentary elections (June 30<sup>th</sup>), there was limited action taken by accountants interested in developing an association. However, they have developed a draft constitution which DSP feels shows level of seriousness and commitment. DSP will monitor their progress and provide support as needed to formalize their association, and assist it leverage the government and private sector in improving the accounting skills and standards currently lacking in Timor.

**Next Steps - Accounting Skills:** DSP will focus on the first two recommended activities from Ms. Krivoshlykova report by:

- *Linking appropriate training strategies and providers for individual companies*
  - DSP will closely follow and develop the relationship between Zero Star and Haksolok. In addition to monitoring the improvement of Zero Star' financial management, DSP will be providing feedback to Haksolok and work with them to develop new services, such as a prescriptive accounting assessment, to introduce into the market.
  - DSP will identify opportunities to link other DSP supported enterprises to the services of the accounting firms pre-screened by DSP.
- *Assisting the BDCs build capacity by improving existing and developing new training products* – As highlighted in the previous section, future work by DSP in this area will depend largely on the commitment and support of IADE to truly develop the BDCs in to centers that understand and serve the needs of the businesses in their communities.

In addition, DSP will continue to support the development of a possible accounting association for Timor.

## Financial Services

DSP's financial services activities support financial institutions to expand outreach to micro to small enterprises, both geographically and within the community of potential borrowers. The expected outcome to this approach is to have enterprises generating more income and employment through increased access to appropriate financial services.

DSP supports the expansion of access to credit by (1) working directly with financial institutions to expand their outreach and lending capacities, (2) through direct technical support to the Association of Microfinance Institutions in Timor-Leste (AMFITIL), (3) by addressing enabling environment issues that affect financial service providers or their clients, and (4) by developing new lending products appropriate for Timor.

Significant activities during the April – June 2007 period include:

- Facilitated a meeting between AMFITIL and the Minister of Development, where AMFITIL introduced the benefits of microfinance activities in Timor and the concerns and needs of the industry to the government.
- DSP assisted in the development and linked agricultural loans to the following microfinance institutions and their clients:
  - Moris Rasik – 39 clients linked to DSP's agribusiness initiative in mungbeans
  - Christian Children's Fund (CCF)-MEDI – 98 clients linked to \$11,900 in credit
- DSP's Financial Services Advisor, Milissa Day, returned from her maternity leave on 31 May to complete her two-year contract with DSP.

### Progress by planned activity:

#### [1] Expand distribution and access to financial services

**Objective:** Expand access to credit, savings and other financial services throughout Timor-Leste.

**Progress:** During the quarter DSP linked microfinance client/mungbean farmers participating in DSP's mungbean initiative to a new agricultural loan product. Working with IMfTL, Moris Rasik and, CCF-MEDI; in the Bobonaro and Covalima districts, DSP expanded credit options to 329 microfinance clients. The details of this success are detailed in section [4] – *Expand Agricultural Lending*.

**Next Steps - Expanding Access to Financial Services:** In addition to monitoring the on-going pilot test of an agricultural loan product at the selected MFIs, DSP looks forward to assisting the planned visit of a representative from USAID's EGAT office to assess the potential for a possible DCA program in Timor.

## [2] Increase the quality and availability of financial sector market information

**Objective:** Through technical support to AMFITIL, DSP strengthens MFIs by providing training on financial management systems, communication, outreach, financial reporting, and portfolio management.

**Progress:** During the quarter DSP continued its direct support to AMFITIL through its supervision, monitoring and training of AMFITIL's Administrator, Maria dos Reis. Starting from 26 May, Ms. Dos Reis was on maternity leave. In her absence, DSP's Microfinance Specialist, Osorio Correia provided necessary services to AMFITIL.

DSP assisted AMFITIL in collecting progress reports from each of the MFIs on their operations, challenges, and financial performance. The table below reports on the key indicators (generated via the performance monitoring tools developed by DSP) as of the close of AMFITIL's last reporting period.

**Table 3: AMFITIL Quarterly Performance Monitoring Indicators Period of January to March 2007**

MFI	Borrowers	Portfolio Outstanding	Savers	Savings Portfolio	Portfolio at Risk	Caseload/ Loan Officer	% Operational Self-Sufficiency	% Financial Self-Sufficiency
CCF-MEDI	3,110	\$176,069	-	-	34%	580	114%	109%
Hotflima	1,118	\$62,500	1,118	\$55,000	40%	279		
IMFTL	3,662	\$1,278,988.65	9,611	\$995,104	8%	423	127%	104%
Moris Rasik	9,171	\$1,491,642.00	9,571	\$459,353	1.26%	199	94%	86%
Timor Aid	178	\$18,937	-	-	9%	22	111%	111%
Tuba Rai Metin	3,348	\$178,614	3,348	\$32,785	20%	109	73%	66.3%
<b>TOTAL</b>	<b>20,587</b>	<b>\$ 3,206,751</b>	<b>23,648.00</b>	<b>\$1,542,242</b>				
<b>AVERAGE</b>	<b>3,431</b>	<b>\$ 534,458</b>	<b>5,912</b>	<b>\$ 385,560</b>	<b>19%</b>	<b>269</b>	<b>87%</b>	<b>79%</b>

Of note, the percentage of portfolio at risk has been reduced marginally, to 19% from the 21% reported previously.

### **Next Steps – Increase the Quality and Availability of Financial Market Information:**

Timor's financial sector is very limited, composed of AMFITIL members and branch offices of three international banks. Accordingly DSP has focused its efforts to produce financial market information to microfinance providers only. These efforts have led to AMFITIL's members using the performance measurement tools reported on above. Before the end of 2007, DSP will mark two years of technical support to AMFITIL in this area, and will be fully transferring these responsibilities to AMFITIL. This action is directly linked to DSP's financial support of

AMFITIL's Administrator, which by design ends in October. Therefore, during the coming quarter DSP will transfer to AMFITIL the following activities:

- association administration;
- financial data reporting; and,
- execution of any lobbying efforts targeting the government or commercial banks.

During the next quarter and beyond DSP will continue to serve as one of the technical resources that AMFITIL and its members can draw upon, specifically in the areas of government policy development and development of new lending products.

### **[3] Define the optimal legal and tax status for microfinance institutions operating in Timor-Leste to correct the existing constraints of MFIs operating as NGOs instead of as companies**

**Objective:** Support MFIs achieve a legal status that will help them access commercial funds to assist with expansion and bringing their operations to a sustainable scale.

**Progress:** On May 22<sup>nd</sup> AMFITIL conducted a presentation to Minister of Development on microfinance. The objective was to introduce to the Minister, and key staff in the ministry, to microfinance activities in Timor and their importance in helping poor people in the rural areas. In addition, the session allowed AMFITIL to voice issues, such as their legal standing, to the minister directly in the discussions that followed.

**Next Steps - Clear Legal Status for MFIs:** As an outcome of the meeting with the Minister of Development, AMFITIL was asked to prepare a policy paper on priorities for government action on microfinance. DSP will participate in this process as a technical advisor. The minister promised to use this draft as a basis for his policy recommendations to the Council of Ministers. Soon after AMFITIL's meeting with the Minister of Development, Timor held parliamentary elections, and have yet, as of the writing of this report, form a government. Next steps on this activity are delayed until a government is formed. However, preparation work is still needed, and DSP will facilitate and support AMFITIL in drafting a policy white paper to be submitted to the current, or newly appointed, Minister of Development.

### **[4] Assist MFIs expand product offerings and reach more clients - establish agricultural lending**

**Objective:** To introduce and promote a lending product linking microfinance clients with DSP's agribusiness team efforts.

**Progress:** DSP assisted in the development of new agricultural loans products for two MFIs, and linked DSP agricultural technical assistance in mungbeans to clients of a third. Of the 329 farmers taking part in the mungbean initiative, 137 received a new type of loan from their MFI. These new loans consider the cash flow constraints of farmers, and delay payments on principle until after harvest.

Starting in April DSP's agribusiness and financial services teams conducted field trips to the Bobonaro and Covalima districts to carry out an assessment on the potential for mungbean production expansion and the possibility of developing a new loan product.

DSP held meetings with farmers and explained that Timor Global, an exporter of agricultural products, has indicated an interest in buying mungbeans for export. Timor Global has stated a willingness to buy at \$0.50/kg. Farmers usually sell mungbeans for between \$0.15 and \$0.35 per kilogram. In terms of volume, the buyer has also indicated that they do not have a limit on the quantity they can buy, as their main objective is to bulk up sufficient volume to make this an export product. This generated much interest, and DSP selected 329 farmers to participate.

As result of joint agribusiness/financial services efforts, DSP linked farmers to the following forms of credit:

- 219 recipients of DSP in-kind (seed) credit.
  - 39 are Moris Rasik clients that also received the new agriculture loans
  - 98 are CCF-MEDI clients that also received \$11,900 of credit through the new agriculture loan
- DSP linked 12 IMfTL farmers to the mungbean program. IMfTL provided the farmers \$1,200 in credit from their traditional lending program.

**Next Steps – Establish Agricultural Lending:** DSP will closely monitor the loan repayments linked to DSP's mungbean program, and will conduct follow up interviews with the MFIs and their clients. DSP will apply lessons learned to support the further product development in this important market to Timor. If the agriculture loan proves successful, immediate work can be done with IMfTL to assist them in the development of a like product. Presently the IMfTL farmers in DSP's program have traditional loans and have to make full payments monthly, therefore increasing the risk of non-payment due to the cash cycle in agriculture.

In addition, DSP will be working to identify credit options to support the development of key services that support the agribusiness value chain. Specifically, in the coming quarter DSP will survey and analyze profitability of possible mechanization activities including tractor and processing services associated with DSP's efforts in mungbeans.

## **Enabling Environment**

DSP facilitates business growth by helping to improve Timor-Leste's commercial and legal framework to become more conducive to business formation and efficient operation.

DSP took significant actions in improving the business environment during the January – March 2007 period by contracting a Portuguese speaking legal advisor to review, amend and revise the draft Land Law. At the close of the consultancy in April the consultant will submit to the Council of Ministers a final draft of the Land Law that addresses criticisms of the previous draft law.

### **Progress by planned activity:**

#### **[1] Work to have the Land Law approved by the end of program year two**

DAI field a consultancy for a Land Law Legal Advisor, from 19 January – 19 April 2007. The consultant accomplished all assigned tasks and the new draft Land Law has been presented to the Ministry of Justice for submission to the Council of Ministers. The next steps for the approval of the land law are:

- Reaching an agreement about official final text. The Minister sponsoring the land law bill provides inputs to the land law draft, in consultation with other relevant ministries. The text is submitted to consultation to other stakeholders and sent to the Council of Ministers Land Drafting Unit for comments, prior to formal presentation.
- Approval by the Council of Ministers. The final draft is formally submitted for approval with a technical presentation to the ministers. If approved, the draft is sent to National Parliament.
- Approval by Parliament. The land law bill is presented to the relevant parliamentary commissions and approved by the plenary.

#### **[2] Continue support to the Timor-Leste Business Forum**

DSP has focused on the establishment of The Timor-Leste Business Forum or Fórum dos Empresários de Timor-Leste (FETL) is a common platform to present the private sector views on the key regulatory and legislative issues. DSP has focused on the establishment of FETL as the principal public advocacy group in Timor Leste. DSP will cooperate with other donors to develop a strategic plan and policy manual for the Timor Leste Business Forum.

## MANAGEMENT AND ADMINISTRATIVE ACTIONS

### Administrative Actions:

During the quarter the administrative staff supported DSP program activities including providing the logistical and administrative support to the following short-termed consultants fielded:

- Mr. Iberé Lopes, Land Law Advisor, completed his consultancy.
- Dr. Merle Menegay, Agriculture Specialist (ME Strategic Planning Specialist, Level 1), 23 April – 23 May
- Mr. Robin Rackowe, Fisheries Specialist (ME Strategic Planning [Agriculture] Specialist, Level 1), 28 May – 30 June
- Ms. Marina Krivoshlykova, Commercial Services Specialist (Monitoring and Evaluation Specialist, Level 2), 28 May – 30 June
- Mr. Andrew Fitzpatrick, Project Administration Specialist (Level 3), 3 June – 1 July

Maria dos Reis, DSP's Administrator for AMFITIL, started her maternity leave, effective 26 May. She will return to the project in the next quarter. In her absence, DSP's Microfinance Specialist Osorio Correia will be providing technical support to AMFITIL.

DSP's Financial Services Advisor, Milissa Day, returned from her maternity leave on 31 May, and during the next quarter will complete her two year assignment with DSP.

DSP's Deputy Chief of Party/Commercial Services Advisor was on leave 1 – 27 June.

Staff Departures: Sandra da Cunha, DSP's bookkeeper, left the project for a position with UNDP.

During the quarter DSP reorganized its administrative team along functional lines to better serve the logistical and administrative needs of the project.

### Technical Management:

DSP hired Silverio Tilman as a Agriculture Field Assistant (effective 17 May) to support the technical extension services of DSP's mungbean and horticulture initiatives.

In preparation, support and wrap up of the Fisheries Expert's consultancy, DSP contracted the services of a Timorese Fisheries Expert, Guido Ximenes Sequira from 21 May – 13 July.

**Next Steps – Technical Assistance Management:** DSP has the following planned consultancies for the July - September 2007 period:

- Dr. Merle Menegay will undertake a consultancy in July 2007 that will accomplish two objectives: [1] documentation and analysis of horticultural seed trials begun in

- May/June 2007; and [2] begin documentation of import/export procedures that affect access to agricultural inputs and import/export of food products, with specific reference concerning the terms of Timorese quarantine requirements. Objective [2] supports a previously approved SOW under which we are deferring work until the new government is in place in Timor-Leste.
- A consultant will identify and formulate a response to a practical, immediate, and pressing problem for Dili supermarkets which handle perishable food commodities – how to manage cold storage. The consultant will undertake technical audits during site visits to Dili supermarkets.

## REPORT ON DELIVERY OF WORK DAYS

USAID ordered a total of 8,187 days from various labor categories for the life of the contract. To date the project has delivered a total of 4,685.5 days of labor, or 57 percent of the total labor for the contract. The specific breakdown per labor category and the delivery of days through this reporting period is as follows:

### Long Termed Technical Assistance – US Nationals

Category	Days Ordered	Days for Quarter	Cumulative	% Expended	Days Remaining
Chief of Party	690	72	452.5	66%	237.5
MFI Manager	460	19.5	349	76%	111
Commercial Services Advisor	690	50	413	60%	277
<b>TOTAL</b>	<b>1,840</b>	<b>141.5</b>	<b>1,214.5</b>	<b>66%</b>	<b>625.5</b>

### Short Termed Technical Assistance – US Nationals

Category	Days Ordered	Days for Quarter	Cumulative	% Expended	Days Remaining
Ag. Specialist	100	60	171	171%	(71)
Financial Analyst	-	-	24	n/a	(24)
Commercial Services Specialist	30	-	5	17%	25
Microfinance Specialist	120	18	35.5	30%	84.5
Enabling Environ. Specialist	57	-	30	57%	27
Microfinance Specialist (L2)	60	-	8	13%	52
Project Admin. (L2)	-	-	8	n/a	(8)
Project Admin. (L3)	20	-	24	120%	(4)
Information Technician (L3)	20	-	-	-	20
Researcher/Admin. (L3)	60	-	-	-	60
<b>TOTAL</b>	<b>467</b>	<b>78</b>	<b>304</b>	<b>65%</b>	<b>163</b>

**Long Termed Technical Assistance – Third Country or Cooperating Country Nationals**

<b>Category</b>	<b>Days Ordered</b>	<b>Days for Quarter</b>	<b>Cumulative</b>	<b>% Expended</b>	<b>Days Remaining</b>
Ag. Coop. Advisor (TCN)	460	17	330.5	72%	129.5
Program Director	690	-	234.5	34%	455.5
M&E Specialist	650	63.75	286.25	44%	363.8
Commercial Serv. Specialist	650	61.25	403	62%	247
Microfinance Specialist	650	62.4	407	63%	243
Ag. Coop. Specialists	650	56.75	428.5	66%	221.5
Microfinance - Field	630	33	253	40%	377
Commercial Services – Field	630	-	-	0%	630
Sub-sector Specialist	600	117	394	66%	206
<b>TOTAL</b>	<b>5,610</b>	<b>411.15</b>	<b>2,737</b>	<b>49%</b>	<b>2,873</b>

**Short Termed Technical Assistance – Third Country or Cooperating Country Nationals**

<b>Category</b>	<b>Days Ordered</b>	<b>Days for Quarter</b>	<b>Cumulative</b>	<b>% Expended</b>	<b>Days Remaining</b>
Commercial Serv. Specialist	50	-	-	-	50
Microfinance Specialist	160	-	30	19%	130
Market Specialist	60	41	143.5	239%	(83.5)
MIS Specialist	-	-	14	n/a	
Legal Advisor	-	35.5	62.5	n/a	(62.5)
Systems Admin.	-	-	20	n/a	(20)
Finance & Accounting Specialist	-	-	160	n/a	(160)
<b>TOTAL</b>	<b>270</b>	<b>76.5</b>	<b>430</b>	<b>159%</b>	<b>(160)</b>