



USAID
FROM THE AMERICAN PEOPLE

EAST TIMOR

Dezenvolve Setor Privadu

**Quarterly Report
January 1, 2007 – March 31, 2007**

April 30, 2007

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

DEZENVOLVE SETOR PRIVADU
QUARTERLY REPORT JANUARY – MARCH 2007

TABLE OF CONTENTS

Acronyms and Abbreviations	3
Summary.....	4
Impact.....	4
Challenges	5
Progress on Program Activities	6
Agribusiness	6
[1] Strengthen small-scale coconut oil enterprises in villages by introducing better technology, production techniques, and appropriate packaging.....	7
[2] Expand sales of fresh products, increase variety, and improve quality, targeting high-end institutional buyers.....	7
[3] Identify innovative agribusiness opportunities and prospective markets.....	9
Commercial Services	11
[1] Increase the number of enterprises accessing commercial services.....	12
[2] Introduce new commercial service products into the market.....	13
[3] Support the continued development of the Transportation Truckers Association ..	14
[4] Develop accounting skills of both entrepreneurs, and those available in the market place	15
Financial Services.....	16
[1] Expand distribution and access to financial services	16
[2] Increase the quality and availability of financial sector market information.....	17
[3] Define the optimal legal and tax status for microfinance institutions operating in Timor-Leste to correct the existing problem of MFIs operating as NGOs instead of as companies	19
[4] Assist Moris Rasik to expand product offerings and reach more clients.....	19
Enabling Environment	21
[1] Work to have the Land Law approved by the end of program year two	21
Management and Administrative Actions	23
Training Summary	25
Financial Report Through 31 March 2007.....	Error! Bookmark not defined.
Report on Delivery of Work Days.....	Error! Bookmark not defined.

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AMFITIL	Association of Microfinance Institutions in Timor-Leste
ATCTL	Associação de Transportes dos Camiões de Timor-Leste
BDC	Business Development Center
BPA	Bank Payments Authority
CCT	Cooperativa Café Timor
DAI	Development Alternatives, Inc
DSP	USAID Dezenolve Setor Privadu Project
ETDA	East Timor Development Agency
ha	Hectares
ILO	International Labour Organisation
IMfTL	Microfinance Institution of Timor-Leste
Kg	Kilograms
MAFF	Ministry of Agriculture, Fisheries and Forestry
MFI	Micro Finance Institution
NDLP	National Directorate of Land and Property
NGO	Non-Governmental Organization
SHA	Specialized Agricultural Area
TIDS	Timor Institute of Development Studies
TRM	Tuba Rai Metin
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 JANUARY – MARCH 2007

SUMMARY

January – March 2007 was the second quarter that the Development Alternatives Inc. (DAI) managed, USAID Dezenolve Setor Privadu Project (DSP) operated under the work plan approved by USAID in September 2006. DSP continued its expansion in to several new areas of work that will define DSP’s program of work through 2010, including a substantial increase in rural activities.

Impact

Intended Impact	Selected Successes
Increased volume and value of the supply of produce to high-end buyers through farmer and private sector linkages	Initial delivery to supermarket group of 200kg of produce, with wholesale value of \$260, and retail value of \$480 Secured ongoing/repeat orders from initial buyers
Increased trade in live cattle through farmer and private sector linkages.	Sale of 129 young bulls for \$20,000.
Increased production and sales of mungbeans through farmer and private sector linkages	Buyer identified willing to purchase significant quantities and pay higher prices Farmers identified to plant mungbeans.
Increased the number of enterprises accessing commercial services	Linked 134 businesses and other service providers to each other with the <i>Baucau Business Directory</i>
New commercial service products	Establishing walk-in business counseling services at the Baucau Business Development Center Joint DSP/USAID Small Grants Project efforts created the East Timor Development Agency’s Business Center.
Strengthened the Transportation Truckers Association	6 month, \$160,000 transportation contract from World Food Programme awarded Additional contract revenues during the quarter of \$87,000

Expand financial products	12 agricultural loans of \$1,200/each were distributed to mungbean farmers by IMFTL
---------------------------	---

Challenges

Funding

In the last quarterly report DAI stated that funding limitations dictated that DAI would take prudent steps to insure that the existing obligated funding maintained core project activities additional obligated funds become available. DAI's approach was to postpone or restructure approved consultancies, with the intention to maintain rural agribusiness work that could not be postponed without losing a year or more in the project's planned actions. DAI took those steps and did not field any of the planned non-rural agriculture consultancies. Those planned consultancies are now scheduled to start in May 2007 and later.

Program Challenges

Security remains a key challenge to the private sector, and therefore for DSP. Though the holidays at the New Year were mostly calm, there was an escalation in violence during the month of March. For the first time in Timor-Leste's recent history this violence was targeted to foreigners, specifically Australians, and the Australian and New Zealand Embassies evacuated their volunteers and the US Embassy and the UN were imposing curfews on their staff. By the end of the month tensions had eased, but there are concerns that violence will see spikes around the Presidential run-off elections, set for May 9th and the Parliamentary elections set for June 26th.

Security issues aside, DSP encountered the following challenges in implementing its program:

- 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.
- 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.
- Limited potential for microfinance expansion in rural areas without significant changes in the operations of the two largest microfinance institutions.

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.

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 January – March 2007 period include:

- DSP facilitated the sale of 129 young bulls (value of sale: \$20,000). These sales were made by 39 farmers and seven traders. The bulls were assembled by traders based in Lautem, Baucau, Bobonaro, and Suai districts, and sold to Cooperativa Café Timor (CCT). DSP assisted the sale by disseminating information on market price and specifications, and trained 31 traders and farmers in bull selection. Further value will be added to the bulls by CCT as they are fattened in Suai and then traded to West Timor, Indonesia, eventually selling at export for nearly \$40,000.
- DSP has identified potential buyers of mungbeans. One buyer requires large quantities of mungbean and is willing to pay \$0.50 per kilogram throughout the year, much higher than the prices farmers report to receive at harvest time, which ranges from \$0.15 to \$0.35 per kilogram.
- DSP has disseminated mungbean market information to 873 farmers in Bobonaro District, 26 farmers groups in Suai/Covalima, and three groups of farmers in Viqueque District. DSP will provide assistance on seed sourcing, crop management, and market linkages to enable future sales to the identified buyers. Up to 657 farmers from Bobonaro and Suai districts may participate in this initiative, bringing between 100 ha and 235 ha of land into productive use for cash generation.
- DSP facilitated 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. A total of 5 deliveries were made during this quarter.
- Bali Fresh technician and DSP staff held 3 workshops for industry representatives, students, and farmers on approaches to horticulture production and supply chain, and options for Timor-Leste. These workshops were attended by 72 people.
- Specialized horticulture areas were selected to partner with the horticulture wholesaler, and a specialized horticulture training program was devised in order to initiate production of new and improved varieties of produce for the high-end market. The site and trainee selection, as well as the training program, were developed by the Bali Fresh technician who visited Timor-Leste in February 2007.
- DSP designed a product search activity with the Timor Institute of Development Studies (TIDS) and the National University of Timor-Leste (UNTL) aimed at identifying key horticulture sites, production calendars, and potential horticulture areas to supplement the produce supply chain. Dr. Merle Menegay trained seven persons in the survey

methodology, including a team of five students and a supervisor from UNTL, and a representative from TIDS. The field surveys commenced in early April 2007.

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: The current socio-political environment, together with export constraints; dictate that DSP focus its efforts on village-level enterprises and local markets. During the quarter DSP's focus has switched primarily to marketing issues, including packaging and advertising. Progress and issues experienced to date:

- DSP distributed samples of locally produced coconut soap to 4 hotels in Dili and one guest house in Baucau to gain feedback on the soap's quality and learn of the packaging requirements of buyers. Feedback indicates that packaging is of high importance to buyers.
- DSP supplied 30 (330 ml bottles) of virgin coconut oil (VCO) to the Alola Foundation, who repackaged the oil as a gift item. Alola Foundation has since sold 26 bottles, and has ordered an additional 60 units.
- DSP supplied 49 liters of VCO to different buyers in Dili and the districts. Consumers who have tested the product have indicated that the quality is very high however there is a constraint on the appearance of the packaging.
- DSP prepared VCO promotional materials, including a promotional poster for display with the product which explains the uses and health benefits of using coconut oil.
- DSP engaged multiple suppliers in Dili to source bottles for VCO. Sourcing was hampered by supplier requirements for large minimum orders, high costs per unit, and difficulties in obtaining firm delivery prices.
- DSP engaged local printing shops to produce labels for VCO bottles. Locally made labels are expensive and are of poor quality and therefore could lead to consumer skepticism about product quality.
- DSP supplied recycled bottles from Dili to the rural VCO producers who are continuing to sell small quantities of oil in district markets generating supplementary income.

Next Steps - Coconut Industry:

Further expansion of production and technology development will be postponed until inroads are made on the marketing side, including improvements in packaging and labeling.

[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: During this reporting period DSP made real progress in the horticulture area. Initial deliveries of 200kg of graded produce were facilitated to buyers in Dili through a DSP partnered horticulture wholesaler. These initial deliveries were followed by interest in repeat deliveries. Additional progress in the area includes:

- A training and orientation program in specialized horticulture production and marketing was negotiated, trainees selected, and training scheduled in order to promote the production of new and improved varieties of produce for the high-end market. The site and trainee selection, as well as the training program, was developed by the Bali Fresh technician who visited Timor-Leste in February.
- DSP facilitated agreements and deliveries of graded local product by a horticulture wholesaler to Dili supermarkets as the initial step in its fresh products initiative.
- Dr. Merle Menegay returned from February 21st - April 5th for his third consultancy with DSP.
- Dr. Menegay designed a 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. Menegay trained 7 persons in the survey methodology - a team of 5 students and a supervisor from UNTL, and a representative from TIDS. Field surveys will commence in early April 2007.
- DSP developed additional research activities to facilitate development of the horticulture industry, including seed trials and a market watch system. These activities will be mobilized in the second quarter of 2007.
- Bali Fresh technician and DSP staff held 3 workshops for industry representatives, students, and farmers on approaches to horticulture production and supply chain, and options for Timor-Leste. These workshops were attended by 72 people.
- Specialized horticulture growing areas were selected to partner with the horticulture wholesaler.

DSP's horticulture strategy has been slightly modified based on local realities and conditions. Initially DSP believed that a mini-market approach allowing multiple wholesale traders to compete in one location for high-end buyers would be most effective. The revised strategy is to support a closed supply chain approach working with a partnership of producers and an initial wholesaler to demonstrate to both farmers and buyers that local supply is viable. The reasons for taking this modified approach include:

- the cost of establishing a mini-market site, as well as the ongoing risk to assets with the current political and security environment make this strategy risky;
- the absence of multiple traders to enable competition and reduce overheads of running such a facility; and
- lack of trust on all sides of the supply chain, which has significantly deteriorated due to the ongoing crisis in Timor-Leste, leading to intensive support required to promote the horticulture supply chain.

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 that DSP has initiated during this quarter.

Next Steps - Horticultural Supply Chain:

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.
- DSP will support and monitor these arrangements to assess pricing issues and viability, and provide business training and other technical support to the wholesaler as identified.

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

- A three month long training program in the production of high-end vegetables will commence in Bali for 3 female and 1 male trainees, composed of 2 farmer representatives, a representative from the horticulture wholesaler and an input supply person.
- A two-week training in cold chain management and marketing will take place in Bali for the horticulture wholesaler business owner and DSP staff.
- A proposal will be submitted to the USAID Small Grants Program for the establishment of a SHA.

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

- Product searches will be implemented, and information provided to support both the supply of existing product and the development of SHAs.
- Seed trials will be mobilized, aimed at providing preliminary data on benefits of improved seed varieties.
- DSP will investigate a market watch system to provide information on price fluctuations on key horticulture products marketed under the horticulture initiative.

Next Steps – Seafood Supply Chain:

As highlighted in the last quarterly report, DSP is looking at improving the seafood value chain as a strategy to expand the sales of fresh products, increase variety, and improve quality, by targeting high-end institutional buyers. As highlighted in this report's summary, work in this area was postponed due to DSP's funding restrictions. DSP is eager to implement our strategy to initiate improved seafood supply to institutional buyers in the next quarter by engaging a short-termed technical consultant. The consultant will undertake field work to assess existing fishers and trader operations, conduct assessments of those involved in the wholesale and retail of seafood, consult with government stakeholders, and then select key partners for DSP to target supply chain strengthening activities.

[3] Identify innovative agribusiness opportunities and prospective markets

Objective: Investigate, identify and track potential initiatives that will provide markets and opportunities for Timorese farmers.

Progress – Cattle Trade: DSP made strong progress on facilitating the trade of cattle during the first quarter of 2007. Trade in live cattle had decreased since the Timor's crisis in May of

last year due to security issues and a breakdown in trader information and transportation linkages. DSP was able to overcome these issues through the identification of district level traders and cattle owners, providing information dissemination on markets and buyer specifications, and training in cattle selection.

- DSP facilitated the sale of 129 young bulls for \$20,000. These sales were made by 39 farmers and 7 traders. The bulls were assembled by traders based in Lautem, Baucau, Bobonaro, and Suai districts, and sold to CCT.
- DSP disseminated information on market price and specifications, and trained 31 traders and farmers in bull selection. Further value will be added to the bulls as they are fattened by CCT and then traded to West Timor, eventually selling at an estimated total value of nearly \$40,000.
- DSP prepared cattle selection materials to supplement those prepared by the buyers.
- DSP prepared a list of cattle traders and cattle buyers for promotional purposes.
- DSP participated in numerous planning sessions with Ministry of Agriculture, Fisheries and Forestry (MAFF) Agribusiness Division and GTZ in planning additional cattle activities, including breeding programs.

Next Steps - Cattle Trade:

- DSP will continue to facilitate the trade of cattle as requested from private sector traders using DSP's identified network of cattle traders.
- Assistance will include promotion of markets and buyer specifications, and training of traders.

Progress – Mungbeans: DSP continues to investigate opportunities for increasing the domestic supply and export to West Timor of mungbeans and other commodities. Mungbean is a familiar cash crop for most farmers in Timor-Leste as they are traditionally grown intercropped with or after maize, or after rice. The production and trade in mungbeans is minimal at this time due to a lack of confidence by farmers and traders in both the supply and market for this product. A number of buyers are evident, including commodity traders, government programs, and NGOs. DSP has identified one commercial buyer interested in promoting mungbean production that is interested in assembling commercially viable quantities of the product for export to other south-east Asian countries. For 2007 DSP is attempting to demonstrate viability in terms of capacity to grow and to earn profits from this activity.

- DSP has identified potential buyers of mungbeans including a buyer who requires large quantities and is willing to pay \$0.50 per kilogram, a much higher price than what farmers report to receive from the local markets - which ranges from \$0.15 to \$0.35 per kilogram.
- DSP disseminated information on buyer specifications and prices to 873 farmers in Balibo Sub-District, Bobonaro District, 26 farmers groups in Suai/Covalima District, one group in Baboe and two groups in Watulari, Viqueque District.
- DSP identified and assessed potential local organizations that could provide supply chain support.
- DSP developed draft production guidelines and instruction cards for village-level training.

- DSP held discussions with the Microfinance Institution of Timor-Leste and Moris Rasik (both microfinance institutions) on loan products to support mungbean producers, and introduced the market opportunity to their existing loan clients.
- Preliminary information indicates that up to 540 farmers from Suco Leohitu-Balibo, Bobonaro District and 117 farmers from Suai district may participate in this initiative, potentially bringing 100 to 235 ha of land into productive use for cash generation.

Next Steps - Mungbeans:

- In the second quarter and remainder of 2007, DSP will promote this market opportunity and provide production assistance where possible.
- Assistance and training for production will likely include seed sourcing, crop management, and post-harvest grading and handling. Assembling product and facilitating market linkages will be a key part of the strategy.
- DSP will continue discussions with microfinance institutions on product development and client identification to prepare for next year's growing season.
- Potential new seed varieties will be investigated together with buyers to prepare for further expansion and quality improvements for next year's growing season.

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 entrepreneurs.

Significant actions made by the DSP commercial services team for the January – March 2007 period include:

- Assisting the Transportation Truckers Association in the bidding and winning of a contract with the World Food Programme to transport food commodities to its various feeding programs. The six month contract to deliver food to each of Timor's 13 districts is worth approximately \$160,000.
- Conducted a survey of the business training and service needs of Baucau businesses.
- Launched the East Timor Development Agency's (a Timorese NGO) Business Center. DSP provided technical support in the development of the new service funded by the USAID Small Grants Program.
- Assisted the Ministry of Development's Baucau Business Development Center in compiling and producing the *Baucau Business Directory*, linking 134 businesses, NGOs/donors, and service providers to each other.
- Commenced the search for a Marketing Specialist to join the DSP commercial services team. This position will serve as a key link between the commercial services and agribusiness teams, as commercial services looks forward to supporting the marketing

and other commercial service needs of the agribusiness team in the coming quarters. As of the writing of this report, DSP has extended an offer to a candidate and will submit her qualifications for USAID Cognizant Technical Officer approval early in April.

- The commercial services technical staff attended the USAID sponsored, Value Chain Workshop from March 12 – 16th in Cambodia. The conference provided a forum for best practices to be shared amongst regional USAID projects and further developed DSP's technical staffs' skills and knowledge in use of value chains in development program design.

Progress by planned activity:

[I] 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: During the quarter DSP focused on its pilot with the Ministry of Development's Business Development Center (BDC) in Baucau to introduce new products and services to support the growth of the private sector in Baucau. Key highlights from the quarter include:

- A survey of Baucau businesses and their requested services from the BDC.
- On March 6th DSP and the Baucau BDC released the *Baucau Business Directory*. The directory lists 134 businesses, NGO's, and commercial service providers (finance, transportation, etc.) in Baucau.
- Conducted a business needs workshop in Baucau. This was held in connection with the release of the *Baucau Business Directory* and was attended by 10 area businesses.

The main objective for the quarter was to have the staff and the director of the Baucau BDC "come on board" with DSP's plan to seek practical innovations to serve the needs of the community they serve. The director is pro-businesses, however lacks management support and guidance from the national office on program priorities, and is in a constant struggle for financial support. For example, it took four months for the national office to fix the Baucau BDC's printer and two computers. His response to DSP assistance has been highly supportive and with his leadership we were able to quickly survey the businesses of Baucau and compile the business directory. The directory serves two distinct purposes. First, as a directory it serves as a business-to-business guide. Secondly it increased the BDC's exposure in Baucau and connects it to the needs of businesses there. This will lead to more businesses accessing commercial services due to an increased awareness of the Baucau BDC and its existing services. Additionally, the data from the survey will allow the BDC - with DSP assistance - develop new, targeted, topic-based trainings that are in demand from existing businesses.

Next Steps - Increase Access to Commercial Services:

As result of the business survey of Baucau, and the business workshop held in conjunction with the release of the *Baucau Business Directory*, it is clear that the following services are in demand in Baucau:

- financial management training
- trade-based skills training

- market/marketing information

DSP believes that all of these services could be provided by the BDC, however will seek commercial alternatives where possible. For the next quarter DSP will address these identified needs by:

1. Assisting the BDC to launch walk-in business counseling services. This service will link businesses to the business training or technical services needed to assist them in improving and/or expanding their enterprises. The first step to creating this service is for the BDC to link with the other training and donor programs serving Baucau. Early in the next quarter DSP's Commercial Services Advisor will be working directly with the director of the BDC to create linkages to these programs. This will enable the BDC not only to provide business information on BDC training or services, but others such as trade-based skills training or technical expertise that are offered by other organizations in Baucau but are outside the scope and reach of the BDC.
2. DSP envisions that in time the BDC can become a center for market linkages, however, this can only be developed after mastery of their core services – training and business counseling/walk-in services. During the next quarter, DSP's new Marketing Specialist will be working with the agribusiness team in Baucau to address areas to improve the marketing of coconut-based products. This will allow DSP to “ground-test” the efforts required to link products to markets, as envisioned the BDC could do. What DSP learns from these efforts will be integrated into the possible development of the BDC in this area.

[2] Introduce new commercial service products into the market

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

Progress: As a result of joint DSP and USAID Small Grants efforts during the previous quarter, on January 16th the East Timor Development Agency (ETDA) opened their Business Center. The center combines the powers of the internet with business services and also serves as an employment center for graduates of their various training courses. ETDA now offers job recruitment services for the private sector – a first in Timor. As a result, 33 people have got jobs thanks to these new services.

As mentioned in the previous section, DSP held a business workshop on March 6th in conjunction with the launch of the *Baucau Business Directory*. The objective of the workshop was to gain direct feedback from entrepreneurs to determine their training and other business service needs. As a result DSP learned that the current BDC training courses are good at capturing new or potential entrepreneurs, but the nature of the course material and length of the courses are not attractive for active businesses.

Next Steps - New Commercial Service Products:

During the coming quarter DSP will work with the Baucau BDC to adapt current training materials to meet the demands of the business community. Based on the feedback provided by the business community DSP will develop targeted, topic-based training courses and/or workshops. DSP intends to adapt GTZ and/or ILO training materials presently provided to the BDCs to meet this demand. By the end of the next quarter DSP will have a new training product developed and anticipate that at least one training session held.

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

Progress: During the quarter DSP worked with the Associacao de Transportes dos Camioes de Timor-Leste (ATCTL)- “Transportation Truckers Association of Timor-Leste” - on its organizational and operational development.

On February 27th DSP held a workshop for the management board of the association to discuss the formal registration options for ATCTL to become either an association or a cooperative under Timorese law. Also discussed were the advantages and drawbacks for ATCTL of each registration option and the structural changes needed to be made to become compliant with Timorese law. Additionally, during this workshop the management board agreed to have DSP conduct an operational and financial audit of ATCTL and provide feedback and suggestions. This audit will be conducted early in the next reporting period.

DSP continued its support of ATCTL and its management and implementation of a World Food Programme (WFP) shipping contract. As a result:

- On January 16th ATCTL was awarded a second contract with the WFP to transport food commodities to its various feeding programs. The six month contract to deliver food to each of Timor-Leste’s 13 districts and is worth approximately \$160,000.
- DSP assisted ATCTL in the award of a special overland delivery of food assistance to Oecussi. The one month contract resulted in the shipment of 152 metric tons and provided \$16,664 in revenues for 9 truckers.

This support is providing continued benefits for the members and subcontractors to the association. For the quarter the results of DSP’s efforts have been:

Month	Members/Contract Truckers Benefiting	Revenue
January	48	\$48,767
February	38	\$33,412
March	15	\$ 5,048
Total	n/a	\$87,227

With DSP’s support to date (June 2006 – March 2007) the association’s 34 members and 50 subcontracted independent truckers have earned close to \$257,000 in additional revenues.

Next Steps - Transportation Truckers Association:

DSP will conduct a process review of the financial management systems used by the ATCTL. Once completed, DSP will provide the association with input on improved filing and processing procedures to be adopted, and link them to financial management training if needed.

[4] Develop 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: DSP committed in the previous quarterly report to provide the technical support to the possible development of an accounting association. During the quarter there was only marginal interest and action on the part of local and international accountants to self-organize. The following meetings were held:

- January 20th a second organizational meeting was held. The purpose of this meeting was to have the two working groups charged with developing a constitution and the membership requirements present their recommendations. However only 5 people attended this meeting. The meeting was rescheduled for February 3rd.
- The February 3rd meeting though scheduled was canceled by the organizer due to lack of a quorum.

No additional steps were taken by the accountants. This was complicated by the evacuation of Australian volunteers in March, and the general security concerns surrounding the lead up to the presidential elections to be held on April 9th.

Next Steps - Accounting Skills:

DSP will continue to follow this group of accountants for developments. The potential for this group is great as they could, as professional accountants, create an accounting standard for Timor-Leste by which to focus professional and educational training on accounting. Setting standards provides direct benefits, however in the short-term better, if not best, basic accounting and bookkeeping practices and skills need to be transferred to the private sector.

It is encouraging to DSP that the private sector acknowledges this need. As highlighted in the previous section – one of the areas businesses in Baucau seek BDC support is in financial management training. DSP will be developing and testing in Baucau financial management training modules, including basic accounting (bookkeeping), costing and inventory control.

In addition, during the next quarter, DSP will be developing a consultancy to assess the existing accounting training available in Timor-Leste and strategies to connect businesses to these courses or amend/expand the courses offered to best improve the accounting skills within Timor-Leste's nascent private sector.

Financial Services

DSP's financial services activities support financial institutions to expand outreach to small and micro enterprises, both geographically and within the existing 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.

During the quarter DSP's supported financial institutions to expand their outreach to small and micro enterprises through its direct technical support to the Association of Microfinance Institutions in Timor-Leste (AMFITIL). DSP also provided a consultant to conduct an assessment of a possible wholesale loan product for the Microfinance Institution of Timor-Leste (IMfTL).

Significant actions for the January – March 2007 period include:

- Compiled the data for the *2007 Financial Landscape*. This is an update of the financial assessment conducted by consultant Lena Hansen in 2005 for USAID, the Asian Development Bank (ADB) and other stakeholders.
- Supported and strengthened the management of AMFITIL by funding their Administrator, and providing the direct technical support of DSP's Financial Services Advisor and Microfinance Specialist.
- DSP/AMFITIL commenced gathering background information and content for the production of a microfinance promotional video targeting the government, the public and donors.
- Microfinance consultant Tillman Bruett conducted an assessment of the market for and feasibility of instituting a wholesale lending program to microfinance institutions (MFIs) in Timor-Leste.
- DSP began investigating the potential for establishing an agricultural loan product for selected agricultural commodities, including mungbean production and cattle trading.

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 carried out an assessment of the potential for a wholesale loan product for IMfTL. DSP consultant, Mr. Tillman Bruett, worked with IMfTL, Moris Rasik and other stakeholders to assess the feasibility of a wholesale lending product, and the capabilities of IMfTL to become a wholesale lender.

Key findings from the consultancy are:

- The market for wholesale loans in Timor-Leste is limited. In fact, only one loan, to Moris Rasik, is in prospect during the next one to two years because only Moris Rasik is sufficiently creditworthy to meet IMfTL's risk profile.
- During the next few years any wholesale lending is likely to remain as a one-to-one relationship between IMfTL and Moris Rasik. If IMfTL cannot take risk on with Moris

Rasik, then it is unlikely that IMfTL will be able to consider loans to any other local MFI or cooperative.

- No legal or regulatory barriers prevent IMfTL, or any other potential lender, from offering a loan to MFIs in Timor-Leste. The proposed “wholesale lending” is just another loan. The impediment to moving forward with wholesale lending is that no one is actually committed to press IMfTL toward offering this, or any other, new loan product, and Moris Rasik will drive this deal only so long as Moris Rasik believes a loan from IMfTL is a better use of time than seeking funds elsewhere. USAID/DSP does not have a financial interest in IMfTL or significant influence.
- IMfTL’s hesitance to create and make a loan to Moris Rasik has several sources. First, there are no management incentives to make this happen. Second, the loan could be seen as strengthening a competitor. While in fact no lending competition is taking place, IMfTL would conceivably like to have direct access to Moris Rasik borrowers. Finally, there is not a sufficient market for wholesale loans to justify the creation of a product or product team within IMfTL.

At present, there is no need for any additional on-site short-termed technical assistance for this effort. The consultant believes that IMfTL’s new advisor and senior management have the skills necessary to manage a single credit line.

Next Steps - Expanding Access to Financial Services

The ADB has informed DSP that further work on wholesale lending is a management issue for IMfTL and further work is in abeyance.

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

Objective: Through AMFITIL strengthen MFIs by providing training on financial management systems, communication, outreach, financial reporting, and portfolio and crisis management.

Progress: During this quarter DSP completed an update of a comprehensive financial markets study completed in January 2005 and continued to work with AMFITIL to develop better reporting systems. The updated market study was undertaken to determine the current state of the microfinance industry in Timor-Leste and determine the feasibility of adding new products, specifically a wholesale product.

Key points made in the updated report:

- Timor-Leste has a shallow financial system. There are no non-bank financial institutions subject to the Bank Payments Authority (BPA) – essentially Timor’s central bank - supervision and there is no insurance company serving Timor-Leste, nor any leasing finance entities. The main financial service suppliers in Timor-Leste include three foreign-owned, commercial banks; four specialized microfinance institutions, one of which is regulated by the BPA while the other three are NGOs; three savings and credit cooperatives with a membership of more than the 250 people, and at least eight non-financially specialized NGOs.

- The formal financial system consists only of the banking system: three commercial banks, each an overseas branch of a foreign institution, and one local institution operating with a limited banking license

During this quarter DSP continued its direct support to AMFITIL through its supervision, monitoring and training to AMFITIL's Administrator to better facilitate member needs. DSP also assisted AMFITIL collect a progress report of each MFI on their operations including challenges that they faced. DSP also monitored AMFITIL's management of the USAID small grant that supports its operations.

Specific activities during the quarter include:

- On January 5th DSP/AMFITIL provided training on performance monitoring tools MFI managers. The training was attended by managers from: Moris Rasik, the Christian Childrens' Fund-Medi, Tuba Rie Metan (TRM), Timor Aid, and Hotflima. The objective was to ensure data quality on what they area reporting to AMFITIL.
- On January 18th DSP and AMFITIL held a meeting with the microfinance unit of Ministry of Development at AMFITIL's office to provide the government with information on microfinance operations in Timor-Leste.
- On February 9th AMFITIL invited the staff of the Ministry of Development to participate in an AMFITIL members meeting. During the meeting government staff expressed their interest to work with AMFITIL, however it was not clearly stated what area(s) the government is interested in cooperation. AMFITIL suggested a meeting with Minister of Development and the Director of the Microfinance Unit to present data on microfinance operations in Timor-Leste.

The table below shows the most current key indicators (generated via performance monitoring tools) as reported by MFIs to AMFITIL.

AMFITIL Quarterly Performance Monitoring Indicators December 2006 Close

MFI	Borrowers	Value Outstanding Loans (\$)	# Savers	Value Savings (\$)	% at Risk	% Op. Self-Sufficiency	% Financial Self-Sufficiency
Medi-CCF	3,603	205,240	4,636	152,818	36%	-	-
Hotflima	1,118	62,500	1,118	55,000	40%	11%	10%
IMfTL	3,539	1,347,145	8,970	967,165	8%	127%	104%
Moris Rasik	8,308	1,209,897	9,414	391,948	2%	65%	60%
Timor Aid	184	8,027	-	-	9%	40%	38%
TRM	3,161	130,390	3,162	26,038	30%	28%	-
TOTAL	19,913	\$2,963,199	27,300	\$1,592,969			
Average	2,845	\$423,314	4,550	\$265,495	21%	54%	53%

Next Steps - Financial Services Information:

Due to the limited availability of staff members of Television Timor-Leste and the upcoming presidential election on April 9th, the AMFITIL-funded initiative to develop an educational video

for policy makers to improve the government's understanding of microfinance was not completed. During the next quarter DSP will provide technical support in finalizing the scripts and key messages for this product.

DSP will provide AMFITIL technical support in preparing its presentation to the Minister of Development and the Director of the Microfinance Unit. The expected outcome of this presentation is providing the government an understanding of microfinance industry in Timor-Leste before they create any regulatory policies that could adversely effect on microfinance.

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

Objective: Support MFIs to achieve a legal status that will help them access commercial funds and operate more sustainably in the future.

Progress: With the facilitation of a DSP consultant in the previous quarter, there seemed to be a reasonable opportunity for TRM to grow. However with the announcement of Catholic Relief Services on February 9th to step way from microfinance and its decision to terminate its support of TRM, the prospects for continued operation are in doubt.

During the quarter DSP facilitated meetings with three small MFIs that use the self-help group methodology to investigate the possibility of a merger. This would be a great benefit to each of the programs as it could reduce costs and expand outreach compared to their current business models. Unfortunately there is a resistance to change from the current, small and costly programs to this potentially more effective one.

Next Steps - Mergers and Reorganization:

With limited interest in this area by those institutions that would most benefit, DSP is suspending work on this activity.

[4] Assist Moris Rasik to expand product offerings and reach more clients

Objectives:

Facilitate a grant from the USAID Small Grants Program to provide funding for the start-up costs of four new branches in the eastern districts of Timor-Leste.

Progress: DSP facilitated a grant for \$90,840 from USAID Small Grants Program to Moris Rasik which was approved on February 15th. This augments DSP's overall strategy to expand the access of convenient financial services by supporting Moris Rasik to expand its services and to build an efficient and sustainable microfinance institution, active in all 13 districts in Timor-Leste, managed by professionally trained Timorese staff. The grant funds the training for new staff in, as well as the equipment for, the new offices.

Moris Rasik is on track towards their target to be active in all 13 districts and reach operational self-sufficiency by 2008. Their expansion to the eastern districts will deliver financial services to poor households, with a target of 1,000 new loans by the end of 2007.

Next Steps – Moris Rasik Expansion

DSP will monitor the expansion process of Moris Rasik with interest, and stand ready to provide technical assistance if needed. In addition, through the project's support of AMFITIL DSP will be assisting in new staff evaluations and providing additional training, such as AMFITIL's performance monitoring tools, as needed.

[4a] Expand financial product offerings - establish agricultural lending

During the quarter DSP carried out an assessment to explore the possibility of increasing agriculture loans for IMFTL and adding a new loan product (for agricultural lending) to Moris Rasik's existing products. The study was focused on mungbean production, as DSP had identified buyers willing to pay prices higher than the local markets for mungbeans. Field assessments identified Bobonaro, Covalima and Viqueque districts as having high potential for mungbean production.

On February 15th DSP's financial services and agribusiness teams conducted a preliminary trip to Bobonaro and Suai to meet with farmers interested in mungbean production. DSP also met with local traders in Suai to compare experiences on mungbean trade, including quality, quantity and, prices.

Following this trip the DSP team held meetings with IMfTL on February 23rd to discuss agriculture loan products with a follow-up visit to Balibo, Bobonaro district on March 13th. During that time DSP and IMfTL staff met with 10 experienced farmers to discuss mungbean production. The objective of the meeting with IMfTL was to find out the size of agricultural loans that IMfTL need to provide for the crop, disbursement procedures, repayment system, and possible loan guarantees. Furthermore, the capacity of farmers to repay the loan, average land size, production techniques and capacity were also assessed.

As the result of DSP facilitation, IMfTL disbursed 12 loans of \$1,200 to mungbean farmers on March 30th. The farmers are members of four groups in Leohitu, Balibo, in the district of Bobonaro. The loan amount is intended to cover seeds and labor costs only. The loan term is three months, with a single repayment after the product is harvested and sold. The interest will be 4.5% flat (1.5% per month).

DSP conducted a preliminary meeting with Moris Rasik's director Ms. Helen Todd on March 1st to discuss the possibility of Moris Rasik offering new products, specifically agricultural loans for mungbeans. Moris Rasik is positive about this opportunity, and agreed that they would work on an appropriate loan product as long as the market for this product is available. Such a loan would only be offered to existing clients, however as mungbean season is rapidly approaching, there may be insufficient time to mobilize this product for 2007 growing season.

Next Steps – Establish Agricultural Lending

- DSP will conduct a field trip to Suai to discuss with Moris Rasik's clients their capacity to take on an additional loan for mungbeans.

- DSP will assist Moris Rasik to design an appropriate loan product for mungbeans, and discuss further how DSP can support loan clients under this activity.
- DSP will provide technical assistance on production and assist with market linkages at harvest time to IMfTL loan clients in Bobonaro.

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 Counsel of Ministers a final draft of the Land Law that addresses criticisms of the previous draft law.

Progress by planned activity:

[I] Work to have the Land Law approved by the end of program year two

In December 2006 USAID received a request from the Director of Land and Property, accompanied by a letter of support by the Prime Minister, for technical assistance in drafting legislation and help in preparing the draft land law for submission to the Council of Ministers. In response to the request, USAID directed that DAI provide consulting assistance to revise and push this law through to presentation to the Council of Ministers. DAI fielded a Brazilian attorney, Mr. Ibere Lopez, who matched the qualifications requested. Mr. Lopez had previously worked with the USAID-funded Land Law Project, a three year project that ended in March 2006 and yielded the first draft land law for Timor-Leste.

The consultant has five main tasks:

1. Review the existing draft land law legislation with a special focus on property and transfer systems, land registration, treatment of pre-existing land rights, and title restitution;
2. Revise the existing draft legislation to more clearly express certain concepts in Portuguese, as the existing (January 2007) draft was criticized for poor Portuguese language usage;
3. Update the draft legislation to ensure its consistency with Timor-Leste's existing legal framework, as well as the (draft) civil code;
4. Develop a new draft law on expropriation; and
5. Assist the Land and Property Unit of the Ministry of Justice with preparations for a presentation of the entire package of laws to the Council of Ministers and answer questions as necessary.

These tasks have been accomplished, and the new draft Land Law has been presented to the Ministry of Justice for submission to the Council of Ministers.

Specifically, the consultant revised the original land law draft. The draft law was prepared in several versions. The primary change involved a new process for resolving conflicting land

claims, devolving the responsibility to local authorities, as opposed to a central council, as had been proposed in earlier drafts. The current draft is simpler, potentially less controversial, and better organized. The formal characteristics of the draft legislation, such as language, structure of the sections and internal coherence, were adjusted according to appropriate legal standards.

In consultation with the Director of the National Directorate of Land and Property (NDLP) and following discussions with other stakeholders, the consultant introduced into the proposed draft:

- a revised titling system;
- clearer criteria for title restitution/adjudication;
- a mechanism providing adequate tenure rights for investors; and
- an enabling provision for the institution of an expropriation procedure.

Lack of feedback from the Government of Timor-Leste was the main obstacle to the technical assistance for the revision of the Land Law. Although the Director of NDLP has regularly participated in the revision meetings, the Office of the Prime Minister was somewhat absent in the whole process. The few meetings with the Prime Minister's Legal Advisor were not sufficient to obtain the Prime Minister's positions on the main issues that will be tackled by the Land Law.

Next Steps - Enactment of Land Law:

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.

The timeframe for the completion of the approval process is estimated to be about six months, after the new legislative term begins in September 2007. DSP will monitor this process.

MANAGEMENT AND ADMINISTRATIVE ACTIONS

Administrative Management Actions:

During the quarter DSP reorganized its administrative team along functional lines to better serve the logistical and administrative needs of the project. During the quarter the administrative staff supported DSP program activities including providing the logistical and administrative support to the following short-termed consultants fielded:

- Ibere Lopes, Land Law Legal Advisor, from 19 January – 19 April 2007 (Enabling Environment)
- Dr. Merle Menegay, Agricultural Markets Advisor, from 12 February – 5 April (Agribusiness)
- Ronald Serhawan, Bali Fresh Technical Advisor, from 26 February – 3 March (Agribusiness)
- Tillman Bruett, Microfinance Specialist, from 5 - 16 March (Financial Services)

The reorganization provided opportunities for administrative staff to grow professionally with Ms. Diva Cabral promoted from administrator to office manager and DSP's receptionist, Ms. Nina Sarmento promoted to administrative assistant.

During the quarter DSP welcomed two new staff members: Ms. Didy de Andrade who is DSP's new receptionist and Ms. Sandra Cunha who joins as the project's new accountant. The former accountant, Ms. Clara Maia resigned from the project during the quarter.

In response to the unsettled security condition in Timor-Leste, DSP upgraded its office security. During the quarter DSP's offices were fortified with the construction of a 3-meter security fence and the installation of flood lights to illuminate the perimeter of the office.

Technical Management:

March 9th - DSP's Financial Services Advisor, Milissa Day, began maternity leave. She is scheduled to return to DSP in May.

March 12 – 16th the commercial services technical team (Lendell Foan and Francelino Boavida) attended a USAID Regional Workshop on value chains in Phnom Penh, Cambodia.

Next Steps – Technical Management:

DSP has the following planned consultancies for the April – June 2007 period:

- From April 23rd – May 24th Dr. Merle Menegay will implement part two of his consultancy supporting the market development of the high value horticulture initiatives undertaken by the agribusiness team.
- Fisheries value chain assessment – a one month consultancy tentative scheduled to start at the end of May
- Refrigeration/cold chain storage assessment.

- Business development specialist – with a specialization in accountancy training to conduct an accounting needs assessment and possible program design assignment. In addition, the consultant will serve as temporary Commercial Services Team Leader, as Lendell Foan takes leave in June.

In response to USAID's request – DAI will be developing program options for DSP program beyond the planned contract close on July 19, 2008.

TRAINING SUMMARY

DSP Training/workshops					
January - March 2007					
Date	Activities	Number of days	Number of Participants	Organization	Location
January 2007					
4	Training in Bobonaro on cattle trade, including buyer selection criteria and transportation techniques	1	5	Traders and members	Debos, Covalima
16 - 17	Training in Bobonaro on cattle trade, including buyer selection criteria and transportation techniques	2	11	Traders and members	Bobonaro
23	Training in Lospalos on cattle trade, including buyer selection criteria and transportation techniques	1	5	Traders and members	Lospalos
February 2007					
22	Training in Iliomar on cattle trade, including buyer selection criteria and transportation techniques	1	10	Traders and members	Iliomar, Lautem
March 2007					
2	Workshop conducted by Bali Fresh technician on approaches to horticulture production and supply chains, and options for Timor-Leste	1	12	MAFF, MAFP USAID/DSP, USAID/SGP, UNTL	Dili
3	Workshop conducted by Bali Fresh technician on approaches to horticulture production and supply chains, and options for Timor-Leste	1	43	UNTL-Faculty of Agric. Students	Dili
6	Roundtable discussion with Baucau business community on business service needs	1	10	Baucau BDC	Baucau
12	Workshop on approaches to horticulture production and supply chains, and community consultation on options for Sarlala village	1	17	Farmers	Sarlala, Aileu
27	Training for students from UNTL and TIDS staff in 'horticulture crop research' survey methodology	1	7	UNTL - Faculty of Agric. Students	Dili
Total		10	120		

For the first six months of the new DSP Work Plan, the project has delivered training to 256 participants, mostly rural-based, micro enterprises/farmers.