



**USAID**  
FROM THE AMERICAN PEOPLE

# FINAL REPORT

## TIMOR LESTE—DEZENVOLVE SETOR PRIVADU (DSP) PROJECT

**JULY 11, 2010**

This publication was produced for review by the United States Agency for International Development. It was prepared by DAI. The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

## Table of Contents

<b>Abbreviations and Acronyms .....</b>	<b>3</b>
<b>Background:.....</b>	<b>4</b>
<b>Executive Summary:.....</b>	<b>7</b>
<b>Selected Program Successes:.....</b>	<b>9</b>
<b>Program Challenges:.....</b>	<b>11</b>
<b>Project Year 1 Summary: .....</b>	<b>13</b>
<b>Project Year 2 Summary: .....</b>	<b>15</b>
<b>Agribusiness:.....</b>	<b>15</b>
<b>Commercial services:.....</b>	<b>16</b>
<b>Financial Services: .....</b>	<b>16</b>
<b>Enabling Environment:.....</b>	<b>17</b>
<b>Project Year 3 Summary: .....</b>	<b>17</b>
<b>Agribusiness:.....</b>	<b>18</b>
<b>Commercial Services: .....</b>	<b>19</b>
<b>Enabling Environment:.....</b>	<b>20</b>
<b>Project Year 4 Summary: .....</b>	<b>21</b>
<b>Agribusiness:.....</b>	<b>21</b>
<b>Business Development Services:.....</b>	<b>22</b>
<b>Enabling Environment:.....</b>	<b>23</b>
<b>Project Year 5 Summary: .....</b>	<b>23</b>
<b>Agribusiness:.....</b>	<b>24</b>
<b>Business Development Services:.....</b>	<b>26</b>
<b>Enabling Environment:.....</b>	<b>27</b>
<b>Lessons Learned and the Future of PSD in Timor-Leste .....</b>	<b>28</b>
<b>Annex 1: Significant Contractual and Project Management Actions .....</b>	<b>33</b>

## ABBREVIATIONS AND ACRONYMS

AATL	Accounting Association of Timor-Leste
AEMTL	<i>Associação Empresarial das Mulheres de Timor-Leste</i> (Business Woman's Association of Timor-Leste)
AMFITIL	Association of Microfinance Institutions in Timor-Leste
ATCTL	<i>Associação de Transportes dos Camioes de Timor-Leste</i> (Transportation Truckers Association)
ATTL	Association of Tourism, Timor-Leste
BDC	Business Development Center
CCT	Cooperativa Café Timor
COTR	Contracting Officer's Technical Representative
DAI	Development Alternatives, Inc.
DIT	Dili Institute of Technology
DSP	USAID Dezenvolve Setor Privadu Project
FAR	Federal Aquisition Regulation
ETDA	East Timor Development Agency
FETL	<i>Fórum dos Empresários de Timor-Leste</i> (Timor-Leste Business Forum)
GoTL	Government of Timor-Leste (Democratic Republic of Timor Leste)
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> (German Technical Cooperation)
Ha	Hectare
ICFSJ	Sentru Internasional ba Jornalistas
IFC	International Finance Corporation
ILO	International Labor Organization
IMfTL	Microfinance Institute of Timor-Leste
Kg	Kilogram
MT	Metric Ton
MAFF	Ministry of Agriculture, Forestry and Fisheries
MED	Ministry of Economy and Development
MFI	Microfinance Institution
MSME	Micro, small to medium sized enterprise
MTCI	Ministry of Tourism, Commerce and Industry
SGP	USAID Small Grants Program
STTA	Short-termed Technical Assistance
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
WISE	Women in Economic Self Employment Program, funded by ILO

## **BACKGROUND:**

The República Democrática de Timor-Leste, also known as East Timor, is a small island nation found at the southeastern rim of the Indonesian archipelago, and approximately 400 miles north of the Australian coast. A former repressed Portuguese colony and Indonesian-dominated, annexed territory, the people of Timor-Leste finally achieved independence from Indonesia in a United Nations-sponsored popular referendum in 1999.

Tragically, the violence and civil unrest dating from Indonesia's invasion and unsuccessful attempt at aggressive pacification, after Portugal's departure in 1975, did not end with 1999's referendum. Following Indonesia's official withdrawal from Timor-Leste, a movement of anti-independence militias, supported by the Indonesian military, waged a scorched-earth campaign of retribution, resulting in the deaths of several thousand Timorese people and forcing more than 300,000 from their homes and communities. During this phase of violence and civil strife, most of the nation's infrastructure, including government buildings, businesses, schools, private residences, farms and irrigation systems, were destroyed. This new devastation was inflicted on an economy that was already characterized as one of extreme poverty, strong civil divisions, minimal physical capital, technology and infrastructure, and only a token private sector.

As the Australian-led International Peacekeeping force for East Timor (INTERFET) restored security from 1999-2001 and a UN-backed transitional authority (UNTAET) was installed in 2002, the international community fully recognized Timor-Leste as an independent country on May 20, 2002, after decades of occupation and conflict. The renewal of political instability, during this project's operation, in mid-2006, brought more international security forces back into the country and created cause for the establishment of the longer-term UN Integrated Mission in Timor-Leste (UNMIT). In 2008, the unsuccessful assassination attempt on President Jose Ramos-Horta was a painful reminder of Timor-Leste's violent history and long path ahead toward peace, justice, and prosperity.

Following decades of colonial repression and independence struggle, Timor-Leste suffers from severely damaged physical infrastructure, depleted human capacity, weak governmental institutions, a poor framework for private sector growth, and a high level of economic underdevelopment; As of the writing of this report, Timor-Leste's ranking on the UN Development Programme's (UNDP) Human Development Index is 162 (Out of 182), reflecting a seriously limited standard of living.<sup>1</sup> Despite the discovery and extraction of significant oil deposits in the Timor Sea, Timor-Leste remains Asia's

---

<sup>1</sup> United Nations Development Programme, Human Development Report, HDI Index, 2009.

poorest nation, with GDP Per Capita of only \$379 per annum (excluding oil), just over one dollar per day.<sup>2</sup>

In recognition of this dire situation, of Timor-Leste's rapidly growing population, juxtaposed with its stagnant, non-oil private sector economy, the United States for International Development (USAID) awarded DAI with Task Order # GEG-I-03-02-00011-01, under its AMAP Microfinance Indefinite Quantity Contract, to manage and implement a private sector development project, designed to stimulate private-sector led economic growth in Timor-Leste. The design and implementation of this project reflected Timorese history and economic conditions.

Originally titled, Bolstering Agricultural and Sustainable Agribusiness/Private Sector Reform (BASAR) project, DAI and its subcontractor, ACIL Australia, renamed the project Dezenvolve Setor Privadu (DSP) – Development of the Private Sector – to reflect the program's main goal of spurring private sector development that leads to accelerated national economic growth, one of USAID/Timor-Leste's main strategic objectives. The promotion of rapid, equitable and sustainable economic growth and the broad-based reduction of poverty, driven by private sector development, is also a top priority of the National Development Plan (NDP), as adopted by the new Government of Timor-Leste (GoTL), in 2002.

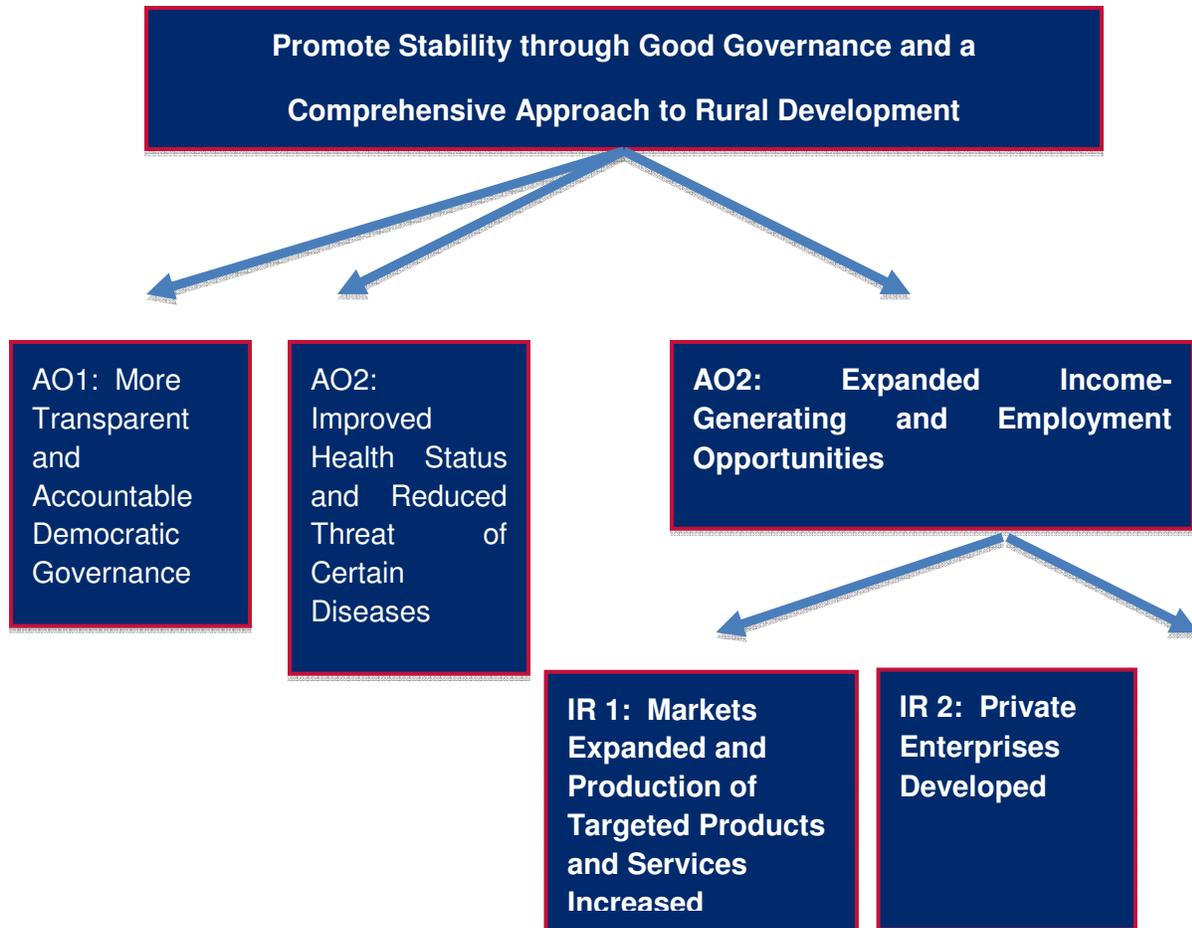
By supporting increasing levels of trade, investment, and private sector productivity, the DSP project was designed to promote business creation and growth, incomes and jobs, for the people of Timor-Leste. While the project's implementation strategy has shifted focus over time, the DSP project remained flexible and responsive in achieving these objectives by working, at various stages, through the following components: commercial services, agribusiness, financial services, and enabling environment.

- DSP supports private sector growth by increasing access to technical and business services essential for efficient enterprise operation.
- DSP supports expanded marketing of improved agricultural products by working with producer organizations to increase output, production efficiency, and quality, and by linking those organizations to buyers.
- DSP provides technical assistance to financial institutions to help expand access to credit, savings, and other financial services throughout Timor-Leste.
- DSP facilitates business growth by helping to improve Timor-Leste's commercial and legal framework to be more conducive to business formation and efficient operation.

Each of these components are integral parts of USAID/Timor-Leste's Strategic Framework (2005-2009), as illustrated on the following page.

---

<sup>2</sup> International Monetary Fund, IMF Statement at Timor-Leste and Development Partners Meeting, 2 April 2009.



**Figure 1:** From “USAID Strategic Plan for East Timor, *A New Nation Moving Forward*, 2005-2009”

Below USAID/Timor-Leste’s country-wide objective, the DSP project achieved its program objectives under Assistance Objective Two (AO2), within Intermediate Results One and Two (IR1, IR2). Through DSP’s five-year implementation of value-chain support activities and private sector strengthening Incomes and productive assets of targeted rural populations are measurably higher; the range and value of agribusiness products from Timor-Leste has been increased; and the number of private firms grew.

## **EXECUTIVE SUMMARY:**

The DSP project has forged market linkages within targeted value chains to develop the private sector of Timor-Leste. Throughout its three components, agribusiness, business development services, and enabling environment, the DSP project offered technical assistance, training, financial and organizational support to Timorese entrepreneurs, businesses, associations, cooperatives, and the GoTL. In targeting specific value-chains within sectors with a high potential to stimulate broad economic growth, the program created more and greater local income-generating opportunities for the people of Timor-Leste. DSP's agribusiness and business development components implemented value chain interventions in economic sectors that will lead the private sector's future contribution to economic growth, because they respond to market demand and are supported by the availability of local resources. In building the capacity of private sector counterparts and clients within these areas directly, DSP's enabling environment component has also been successful in improving the overall business environment in Timor-Leste indirectly, increasing the efficient operation of many other sectors of the private sector economy.

Discussed in more depth in the following annual summaries, the DSP project experienced a rocky beginning with difficulty in adopting a USAID-approved technical vision and clear implementation strategy. This challenge was compounded by the severe disruption caused by the domestic turmoil of 2006 that led to an evacuation of the ex-patriot staff. With appropriate management adjustments and a return to political stability, the project was able to gain its composure and build momentum from Project Year Two onward. After identifying economic sectors and sub-sectors in which to target program interventions, the DSP project wasted no time in capitalizing on market-based opportunities, implementing activities that have generated private sector growth, employment and incomes.

DSP engaged willing rural communities to increase farmer household incomes by commercializing subsistence agriculture and substituting for horticultural imports, first in domestic marketplaces. By integrating training, seed trials and research, technique demonstration, and market development, DSP increased the yield and quality of fresh vegetables produced at Lequitura, Aileu district. A nursery, greenhouse, and irrigation facilities were constructed and DSP provided management training to community leaders in their operation and maintenance. In supporting the establishment of a local distributor and marketing firm, DSP linked these products to retail outlets in Dili, frequented by customers seeking fresh, high-quality produce at competitive prices. The success of this activity precipitated a flagship public-private partnership between USAID/Timor-Leste and ConocoPhillips, which replicated Lequitura's Special Horticultural Area in two additional sites. Horticultural production from each of these sites continues to support community earnings through community-led commercial enterprise and has paved the way for future export competitiveness.

In Timor-Leste's isolated districts of the south coast, the DSP project invested in a commodity production and marketing program, in support of hundreds of mungbean and peanut farmers. By assisting these farmers in developing improved seeds, seed storage, production and processing techniques, and by linking the farmers to traders, DSP boosted incomes and developed more efficient private enterprises on previously underutilized, underinvested lands.

DSP achieved many successes in collaboration with agribusiness activities, assisting distributor and retail outlets in marketing horticultural products from assisted farmer groups. DSP also provided technical assistance to the virgin coconut oil (VCO) value chain, improving processing and packaging techniques, while linking producer groups to commercial distributors, retailers, and markets through activities of the BDS team. The project organized a "*Buy Local Products*" campaign with VCO and other locally-produced goods like coffee and cassava chips, establishing a high-quality brand, providing marketing outreach, and forging an improved commercial relationship between retailers and producer groups. Many of these products were also marketed during successful craft fairs, sponsored by local partners such as the Alola Foundation, with DSP support. Tailoring interventions to the needs of various private sector partners, the BDS component also improved general access to business services. In the case of the Timor Trucker's Association, assistance included more advanced levels of financial management and bookkeeping services in the negotiation and execution of large transportation contracts.

In DSP's last two years of operation, it also began to consolidate gains made in the hospitality sector of the economy, seeking to provide this sector with high-quality promotional materials and handicraft souvenirs, exploitable market information, and well-trained staff people, to compete as an international tourist destination. These efforts will broaden the economic benefits of and accelerate growth created by Timor-Leste's emerging tourism sector.

Sustaining each of the preceding activities, work in the enabling environment facilitated an improved public-private sector dialogue in Timor-Leste, by building the capacity of economic policymakers and business community representatives and advocates alike. Capacity-building activities that achieved this objective included organizational support to Timor-Leste's first national business forum and women's business association, the provision of ongoing advisory services to relevant ministries, and the ad hoc facilitation of private sector representation at international and national trade events and workshops.

Covering each of the preceding areas, this report is an overview of the DSP project's implementation; successful results, challenges, program highlights, and lessons learned. Each Project Year Summary contains significant benchmarks over the course of the program's five-year implementation. Further, more specific information on any of these can be found in annual and quarterly USAID reports.

## SELECTED PROGRAM SUCCESSES:

Intended Impact	Results
<p>Increased production and sales of horticulture produce to high-end buyers through farmer and private sector linkages</p>	<p>The DSP program established the first modern horticultural greenhouse and nursery facility in Timor-Leste with support from an SGP grant. With ongoing technical assistance to Lequitura since 2007, 36 farmer households have produced and successfully marketed over 11,700 kg of local, high-quality horticultural products, with a market value of \$26,821.</p>
<p>Expand opportunities for rural income through agribusiness value-chain support funded by the USAID/Timor-Leste –ConocoPhillips Public-private partnership</p>	<p>Building on the success of the Lequitura SHA, USAID/Timor-Leste signed a public private partnership with ConocoPhillips to replicate this facility in two additional sites, effectively leveraging government resources against social responsibility investment by the private sector. These sites also created community-led horticultural production facilities and linked output to market-driven supply chains. In their initial six months of operation, these sites produced and marketed over \$16,000 in fresh produce.</p>
<p>Increased production and sales of commodities through farmer and private sector linkages within targeted value chains</p>	<p>DSP trained farmers on improved commodity production techniques and linked them to more traders and higher prices in end markets, stimulating more income for over 1,844 beneficiaries. Since 2007, these beneficiaries have produced 512 M.T. of mungbeans and peanuts, of which 332 M.T. were sold by district-level traders supported by DSP. The total value of these 332 M.T. amounted to \$218,000.</p>
<p>Increased production and sales of other commodity products through farmer assistance and private sector linkages</p>	<p>DSP worked with the ILO to organize, train, and provide equipment to rural groups producing virgin coconut oil. Consistent with its value chain approach to sustainable development, DSP identified a viable distributor and end market for VCO. Maintaining flexibility for support to various agribusiness sectors, in 2007, DSP facilitated the negotiation of a sale of 129 young bulls, worth approximately \$21,000.</p>

## Selected Program Successes (continued)

Intended Impact	Results
<p>Improve the quality and increase the quantity of services that support the hospitality and future tourism industry;</p>	<p>DSP's Tourism and Hospitality component provided financial and technical assistance to four local training institutions. These institutions provided classroom and on-the-job instruction in hospitality services to 118 interns, many of whom were subsequently offered full-time jobs in hosting businesses.</p>
<p>Strengthen the capacity of the Ministry of Tourism, Commerce and Industry and Ministry of Economy and Development</p>	<p>DSP has collaborated with MTCI on attendance at international tourism exhibitions and on effective private sector representation at successful international trade shows in Dili. DSP has also offered valuable consultancy services such as a long-term private sector development advisor to the Minister of Economy and Development and economic planning initiative assessments to MTCI.</p>
<p>Connect local products to new and expanded market opportunities</p>	<p>DSP launched Timor-Leste's first-ever local products marketing campaign, the <i>Buy Timor Products Campaign</i>, in May 2008. By promoting producer groups' products and linking them to retail outlets, DSP has facilitated the sale of \$77,000 in high-quality, locally produced goods, including coffee, coconut oil and soap, sea salt, and cassava chips. DSP has also worked with local partners, the Alola Foundation, and MosBele, to bring international consumers together with local vendors at six craft fair events, which have stimulated nearly \$50,000 in sales revenue for the 200+ participating producers.</p>
<p>Promote a constructive dialogue between the private sector and the GoTL</p>	<p>Early in DSP's project life, the project helped create the Timor-Leste's first national business association, FETL. After facilitating workshops between FETL and senior government officials, DSP provided support to other private sector advocates for reform including the Businesswomen's Association, AEMTL, which received office space, equipment and technical assistance.</p>

## Selected Program Successes (continued)

Intended Impact	Results
Strengthen the capacity of the Transportation Truckers Association	Provided financial and contract management training, and organizational development support, to ATCTL, as the association, of 34 members and 50 subcontractors, signed over \$1.5M in commercial contracts with the WFP and Dili Port since 2006. This revenue-generating activity also improved the efficiency of goods importation, critical for business operation within various economic sectors.

## PROGRAM CHALLENGES:

During DSP's five years of operation, several particularly challenging obstacles faced program implementation. While the overall business environment was negatively affected by political violence, weak institutions, and human capacity, other challenges directly affected DSP-supported value chains, like the absence of agricultural input suppliers and machinery technology. These main challenges included:

- Crisis of 2006, Assassination Attempt of 2008, Fluctuating Security Environment:** In April of 2006, the outbreak of violence left many dead and displaced over 100,000 people from their homes. This instability had a very real affect on the project as four national staff lost their homes and all expatriate staff were forced to evacuate the island for about three months. As sporadic violence continued to occur into 2007, travel in and around Dili was often restricted because of neighborhood disputes, illegal roadblocks, and dangerous rock-throwing. Office hours were curtailed occasionally to all local staff safe passage to their homes. Several skirmishes during Parliamentary Elections in 2007 and an assassination attempt on the President, Jose Ramos-Horta, in 2008, marked reminders of past tragedies and the potential for future troubles. High levels of uneasiness and restricted movement hampered the program's efficient operation at times, aside from constraining economic growth more generally by limiting investment and trade.
- Identifying local entrepreneurs, business people, and communities with the willingness and capacity to lead business development activities:** As a demand-driven development project, which prioritizes sustainability, DSP activities worked as much as possible through local partners who needed some type of assistance but were also capable of eventually continuing business creation and expansion independently of donor support. However, from those that were available, including transport, import, and agricultural production firms, many lacked the capacity to lead activities without significant management from DSP staff members and consultants.
- Access to domestic, affordable packaging, labeling and marketing materials to promote Timor-Leste products:** The absence of these materials in Timor-Leste has hampered and will continue to limit the effective marketing of

products in both the agribusiness and commercial services/hospitality value chains. Without quality packaging or labeling, branding and value-added presentation are limited. Products weakened by this impediment included fresh horticultural and commodities products, virgin coconut oil, virgin coconut oil soaps, cassava chips, and assorted handicrafts.

- **Manufacturing technology is not available locally:** Productive machinery such as hydraulic presses for coconut oil production or refrigerator compressors for the storage of perishable foods are non-existent in Timor-Leste. This absence is due to the limited access to and high cost of simple materials like scrap metal or stainless steel, a low level of manufacturing expertise, and the small market for such products in a country of about one million people. This lack of expertise also restricted the ability of the private sector to maintain and repair such machinery as weeders and tractors.
- **Without the presence of an industrial sector in Timor-Leste, manufacturing and/or assembling are not available to supply the expansion of Timorese consumption and corresponding long-term demand for local products.**
- **Limited expertise of business service providers:** The capacity of business service providers, including survey institutes, training centers, and business consultancies, is extremely limited, and those that do operate rely on the extraordinary involvement of project staff members and consultants.
- **Severely limited access to foreign suppliers willing to export agricultural inputs and capable importers:** As a consequence of Timor-Leste's isolated location and high transportation costs based on its remoteness from major trading routes, access to agricultural inputs needed by Timorese farmers is a major constraint. During the course of the project, such limitations included fertilizers, machinery, and greenhouse materials. The small size of the Timorese economy and population precludes attracting the attention of foreign suppliers, most of whom are accustomed to supplying quantities ten or one hundred times the volume required for Timorese production facilities.
- A dollarized economy, high production and transport costs and immature marketing channels have **retarded the growth of an export capability.**
- **Poor Business Enabling Environment:** Aside from political instability, weak mechanisms for contract enforcement, the lack of a land law to govern and adjudicate property ownership, and a burdensome system of regulating business start-up and registration stifles commerce, financial markets, international trade, and trade in Timor-Leste.
- The GoTL continues to **crowd out private sector investment** and business activity through trade subsidies, local development initiatives, transfer payments, failing to lease facilities (as opposed to the current policy of constructing new government-owned buildings), and other government-led activities that are in the venue of private-sector in most other countries. Furthermore, official corruption within these market-distorting activities is perceived as being very high.<sup>3</sup>
- **Physical infrastructure**, including access to roads, water, and electricity continues to be extremely limited, especially in more rural parts of Timor-Leste.
- **Exorbitantly expensive telecommunications** inhibits the communication of market information and business activity, and creates high operating costs.

---

<sup>3</sup> Transparency International, Corruption Perceptions Index, 2009

## **PROJECT YEAR 1 SUMMARY:**

The first year of DSP's implementation was challenged political turmoil culminating in civil unrest during 2006 and by obstacles within the project itself. Project Year 1, from 19 July 2005 to 18 July 2006, was comprised of start-up activities, mobilization of expatriate and recruitment of local staff, the development and adoption of a USAID-approved workplan, and the initial assessments of economic sectors and value chains to effectively target technical activities and resources based on DSP's objectives. Divergent views of such targeting between USAID and the DSP project's Chief of Party (COP) resulted in the eventual departure of DSP's first COP and presented a significant project management challenge during Year 1 of operation. When, in May 2006, armed conflict erupted in Dili, forcing the suspension of local operation, the evacuation of expatriate project staff, and the establishment of a temporary office in Bali, Indonesia.

Despite the obvious setbacks that this dislocation meant, DSP was able still able to set up administrative infrastructure on the ground and make initial technical headway in each component in Year 1.

Under the Financial Services Component, DSP's goals were set to facilitate improved micro, small and medium enterprise (MSME) access to credit, savings and other financial services, as well as to strengthen enterprise level financial management capacity and improve the "bankability" of loan proposals. At the same time, this component would improve financial services provider capacity to meet the demand of these newly capacitated enterprises. In Project Year 1, DSP engaged the Association of Microfinance Institutions of Timor-Leste (AMFITIL) by providing it a performance monitoring system and a short-term Financial Management and Accounting Specialist. DSP also conducted an assessment of the Institution for Microfinance of Timor-Leste (IMfTL), which evaluated the feasibility of restructuring itself into a profitable, more sustainable institution, better capacitated to service the needs of the Timorese people and business community. DSP's Financial Services team also promoted savings account access to rural residents issued by ANZ Bank, and larger salary and business loans from Moris Rasik, one of Timor-Leste's largest MFIs.

DSP's Commercial Services Team spent the first year of project operation designing implementation strategies to improve and expand locally available business services like skills training, accounting, auditing, transportation, and legal. In DSP's Year 1 Work Plan, three key issues were highlighted to address this objective: (1) the need to link businesses with relevant training and financial services (2) the need for more relevant vocational skills and (3) the need to build and strengthen business associations. In Year 1, DSP conducted a survey of all existing training providers and courses offered, identifying gaps in availability and possibilities for such courses to be offered at sustainable, commercial rates. During this time period, DSP also conducted operational assessments of the World Bank-sponsored Business Development Centers (BDCs) and the East Timor Development Agency (ETDA).

At the end of Project Year 1, DSP was able to link the Truck Transport Association (ATCTL) to a new, large procurement contract from the World Food Programme (WFP), which generated nearly \$8,000 in additional revenue for 27 owners and members. Throughout DSP, ATCTL continued to grow, in contract portfolio and the financial management capacity with which to efficiently operate as a business services provider.

Within the Commercial Services Component, DSP's original workplan identified construction, coconuts, and agribusiness as economic sub-sectors with a high potential for job and business revenue creation. DSP used project staff and short-term experts to conduct field studies and market assessments for each of these sub-sectors, to recommend opportunities for project interventions at key value chain constraints, and to build relationships with similarly focused public and private sector counterparts.

To improve all of these value-chains in selected sub-sectors of the Timorese economy, DSP's Enabling Environment Component sought to identify the constraints and barriers to the efficient start-up and growth of businesses, mobilizing and coordinating resources to address these needs accordingly. Upon learning that no one business organization had been established to serve as a unified voice for the private sector community in Timor-Leste, DSP endeavored to assist in creating such a body. With DSP assistance, the Timor-Leste Business Forum (FETL) was created, a widely representative steering committee was established and the first General Assembly meeting was held on April 27<sup>th</sup>, 2006. The President and Prime Minister of Timor-Leste attended the organization's approval of its first constitution on the following day, together with other international donors and 141 leading members of the private sector. The founding of this organization represented a major achievement for the business community of Timor-Leste: the establishment of a body capable of improving the public-private sector dialogue, and increasing the influence of the private sector on policymaking and economic planning.

At the end of Project Year 1, DSP's expatriate staff were working in Bali, the Chief of Party had been removed, and the project was still negotiating with USAID to identify its future primary technical focus. The need for prompt actions in reconstructing the foundations for a growing private sector were never more critical following the crisis of 2006. With this impetus, and opportunity for new direction under new project leadership<sup>4</sup>, DSP capitalized to deliver tangible results that improved thousands of Timorese livelihoods in the following project years.

---

<sup>4</sup> Dr. David Dyer agreed to join DSP as Chief of Party in May 2006 and arrived in Timor-Leste as soon as the evacuation order was recinded.

## **PROJECT YEAR 2 SUMMARY:**

With a USAID-approved workplan, new project leadership, and a more stable political situation in Timor-Leste, the DSP project began to make significant progress in meeting program objectives in Project Year 2. As the operating environment became more permissive, expatriate staff re-entered the country, national staff were able to return to their homes and offices, and some degree of operating safety and security were regained. In close collaboration with USAID/Timor-Leste, DSP adopted a clearer strategic vision to meet its overall mandate of stimulating private sector development to spur economic growth. This vision focused on implementing activities within four primary project components: agribusiness services, commercial services, financial services, and enabling environment. Key accomplishments within each of these are organized as such below, and for each of the following project years.

### **AGRIBUSINESS:**

Supported by initial assessments conducted in Year 1, the decision to support the agribusiness sector was relatively straight-forward. Although over 80 percent of Timorese people are employed in the agricultural sector, this sector contributes less than 30 percent of total GDP, revealing significant underinvestment and productive inefficiencies in agriculture-based value-chains<sup>5</sup>. By targeting these constraints, DSP supported income generation and import substitution through improved business linkages within market-driven 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 during this project year included:

- DSP conducted a demand survey of Dili-based restaurants, supermarkets and institutional buyers for fresh products, identified potential partners for seed and input supplies in cultivating such products, and assessed potential horticultural production sites.
- Simultaneously building the capacity of local survey firms, DSP continued to identify suitable horticultural sites, production calendars, and receptive communities who might be engaged to produce horticultural products to supplement or replace the volume of domestic produce entering Dili markets.
- DSP's agribusiness staff facilitated the delivery of the first 15 deliveries of fresh, graded products, in ten horticultural varieties, to Dili supermarkets. These deliveries totaled over 4 M.T. of produce, with an estimated value of \$4,000.
- Launching its commodities support program, DSP disseminated mungbean market information to 873 farmers in Bobonaro, 26 farmer groups in Covalima, and 3 in Viqueque. DSP designed plans to assist those interested farmers in seed sourcing, crop management, product marketing, and market linkages.

---

<sup>5</sup> CIA World Factbook, 2009

- Following completion of the market information activity, DSP distributed 5.5 M.T. of mungbean seeds to 24 different of these farmer communities for planting on 215 ha of land with a potential harvested value of \$100,000. Twelve agricultural loans of \$1,200 each were also issued to mungbean farmers by IMfTL during project year 1.
- Producer groups, organized and trained by DSP, began to produce virgin coconut oil and soap in Viqueque and Bacau districts.
- DSP facilitated the sale of 129 young bulls by disseminating market information and linking prospective sellers to traders in Lautem, Bacau, Bobonaro, and Suai Districts. Cooperative Café Timor made this purchase for \$20,000, and exported the bulls to West Timor after further fattening them at ranches in Suai. Within this transaction, 31 traders and farmers received professional instruction in bull selection and pricing.
- DSP fielded two consultants to conduct a detailed assessment of the fishing value chain, aimed at identifying key constraints to developing the fisheries and seafood industry.

### **COMMERCIAL SERVICES:**

From Project Year 2, DSP supported private sector growth by increasing access to technical and business services essential to efficient enterprise operation. DSP's activities (1) increased the number of enterprises accessing commercial services, (2) introduced new commercial services products into the market, (3) supported the continued development of the Truck Transport Association, and (4) developed the accounting skills used by practicing Timorese accountants and entrepreneurs.

- With DSP support, ATCTL's 34 members and 50 subcontracted truckers earned an additional \$351,220 in revenues. DSP supported the negotiation process and bid preparation for the association's management of this World Food Program (WFP) emergency food aid contract award.
- Commercial services staff assisted the Ministry of Economy and Development's launch of the Bacau Business Directory. During the second quarter of 2007, DSP also outfitted the Bacau Business Development Center with "Inventory and Stock Control" training, in collaboration with the International Labor Organization.
- In support of the new USAID's Small Grants Project (SGP), DSP provided technical assistance to develop the management structure of the East Timor Development Agency's Business Center.

### **FINANCIAL SERVICES:**

- DSP's financial services activities supported financial institutions to expand outreach to micro and small enterprises, both geographically and within the existing communities of potential borrowers. Although DSP began its work with microfinance institutions in Timor-Leste with the expectation that enterprises would generate more income and employment with greater access to finance, MFIs actually demonstrated a contraction in business lending practices. Moris Rasik and IMfTL dominated nearly 70percent of the market in 2007, and neither

demonstrated a willingness to lend for business expansion. Without the appropriate legal and regulatory environment in place, DSP refocused its scarce resources into technical areas with a greater potential for positive impact. Without neglecting the financial services sector, this component remained distinct in Project Year 2, and was integrated in business development activities during Year 3. DSP provided two consultants to the AMFITIL to facilitate a legal status that will assist MFI's in accessing commercial funds for their future, sustainable operation.

- In connection with the preceding activity, DSP also provided safe working space with communication and data access to MFIs during periods of political stability.
- DSP was able to facilitate access to agricultural loans to mungbean farmer groups from Moris Rasik and the Christian Children's Fund (CCF) – MEDI project. These portfolios included 137 clients.
- In March 2007, a DSP consultant recommended that IMfTL proceed to establish a revolving line of credit for Moris Rasik, with an initial limit of \$100,000 to be provided initially and reviewed at the end of the second quarter (June 2007) for an increase to \$200,000. IMfTL declined to act on the recommendation. Enabling Environment:

In order to improve the business-enabling environment, in such areas as financial sector reform and contract enforcement, DSP worked to empower the private sector to advocate for commercial and legal framework reforms.

- In collaboration with FETL, DSP held the first series of Business Consultation Meetings with the GoTL. These initial meetings improved public-private sector dialogue by illuminating such needs as faster governmental procurement payments to contracted businesses, quicker business registration processing times, and clearer customs and tax policy regimes. The Prime Minister, in attendance at these meetings alongside the President, appointed a special advisor to address these issues that were negatively affecting the efficient operation of the business community.
- In the first quarter of 2007, DSP fielded a Portuguese-speaking legal advisor to review, amend, and propose revisions to the then-current draft land law. Although not adopted, this new draft improved the document's organization, clarity, and made progressive suggestions for land dispute adjudication mechanisms.

### **PROJECT YEAR 3 SUMMARY:**

In Project Year 3, DSP achieved important milestones in each of its three components, agribusiness, commercial services, and enabling environment. As earlier discussed, activities involving financial services were absorbed by DSP's commercial services component during this period of time. These milestones included the cultivation of new production yields and market opportunities for horticultural products and commodities, the significant expansion of the virgin coconut value chain, and the establishment of a new business association for women entrepreneurs. DSP also launched the first *Buy*

*Timor Products Campaign*, promoting an array of locally produced goods in Dili shops and supermarkets. In recognition of these achievements, the DSP project was awarded an \$800,000 increase to its ceiling budget to execute activities related to entrepreneurial education developed by Junior Achievement Timor-Leste, the staffing of a senior-level private sector advisor to the Ministry of Economy and Development, and the implementation of the Poverty Assessment Tool.

## **AGRIBUSINESS:**

As DSP's Agribusiness component developed, it became more organized into two, distinctive programs, one supporting horticultural value chains and the other, commodities. Although both value chains needed support at production, processing, transport, trade, and sale phases, DSP's horticultural interventions were designed to strengthen supply from farmer groups in districts with proximity of high-value markets in Dili. Alternatively, DSP's commodities support targeted mungbean and peanut producers in the southern districts of Covalima, Bobonaro, and Viqueque, facilitating the sale of these products to agents for cross-border trade and/or institutional procurement domestically.

Significant actions in project year 3, supporting both value chains, included:

- Using resources from both the Commercial Services and Agribusiness teams, DSP supported Zero Star, a Dili-based trading company, in the procurement and re-sale nearly 25,000 kg of emergency, supplemental corn-soy feeding blend to Sumaflo, a supplier contracted by the Ministry of Education. The value of these transactions exceeded \$17,000 in this project year.
- Zero Star, identified as the transport, logistics, and marketing partner for the new SHA facility in Lequitura, received significant support in project years 3 and 4 including: the provision of a cold storage truck and storage warehouse in Dili, training on financial management, cold storage techniques, quality control, packaging, and delivery. Zero Star also began a new channel of distribution, the household delivery of "veggie boxes", offering high-quality vegetables on a weekly basis. Soon after this activity's inception, Zero Star began serving a growing list of Dili-based clients.
- In March 2008, DSP began to provide technicians from Joro PT, an Indonesian horticultural firm, to the Lequitura community, advising on greenhouse, nursery, screenhouse and tunnel construction. Much of this production technology was provided by a grant from USAID's Small Grants Program. The construction and set-up of this site continued on through Project Year 4.
- As operation began, the Lequitura site provided an on-site learning opportunity for UNTL and USAID Building Agricultural Capacity through Education and Training (BACET) students, demonstrating the usage of new, output enhancing production technologies. As a demonstration farm, the Lequitura Facility was meant to exemplify the positive effects on productivity of modern farming techniques.
- DSP worked with mungbean and peanut farmers to increase yields in both wet and dry seasons, increasing production for over 1,000 farmers, and linking them to higher prices, traders, and exporters.

- In an effort to improve suitable seed storage, a critical value chain constraint for mungbeans, DSP tested, identified, and disseminated information about improved storage methods, such as the Grainpro plastic bags.

## **COMMERCIAL SERVICES:**

As in the previous project year, DSP's Commercial Services team continued to offer business consultancy services to both new and growing enterprises in Timor-Leste.

- Continuing the work of the Agribusiness team, the Commercial Services staff set up two new VCO production groups and offered each training on modern fermentation techniques. Of the total, initial 462 liter bottle deliveries to Dili by the Acelda company, Lita Supermarket received 115 bottles of VCO, of which 71 were sold. DSP signed a memorandum of understanding with the International Labor Organization to continue to deepen and widen its support to this value chain. The Ministry of Tourism Commerce and Industry began large-scale procurement of VCO to support prices during this time period.
- Working closely with other development partners, GTZ and MAFF, DSP provided technical assistance to Timorese fabricators of mechanized rice weeders, essential for the efficient harvest of rice crops. In the first quarter of this project's implementation, more than 50 such machines, with a value of \$1,275, were produced.
- DSP supported the Aloia Foundation by linking their holiday gift baskets to local super markets and assisting in the organization of the first Christmas Fair, in early December 2007. DSP offered marketing support to mobilize expatriate consumers and trained the 48 participating vendors on basic financial management. This event generated nearly \$10,000 in gross sales revenue.
- In May 2008, DSP launched the first "Buy Timor Products" campaign, to promote the purchase of locally-produced goods from a selected group of local firms. These products earned prime placement within local retail outlets, accompanied by promotional prizes and media.
- In collaboration with the SGP program, DSP assisted with the renovation of the Tais Market by designing a marketing plan and creating promotional materials such as billboards, banners, brochures, and logos. DSP also provided training to 30 vendors, 15 men and 15 women, on bookkeeping and financial management.
- Building the financial management skills of a wider array of local firms, DSP began its support for the Accounting Association of Timor-Leste (AATL), which held its inaugural meeting in the third quarter of 2007. This organization was meant to improve and widen the book-keeping capacity of accounting firms for the benefit of all firms receiving such fee-based consultancy services.
- Continuing its support for SME access to finance, AMFITIL employed its own administrator and took primary responsibility for administration, financial reporting, and membership services.
- Cultivating a stronger relationship with Timor-Leste's tourism association, ATTL, DSP provided the group with a tourism guide and directly staffed this organization's attendance at the Pacific Asia Tourism Association Trade Show in Bali, in September 2007. DSP began to focus more of its BDS activities in tourism-related sectors during this project year, reflecting recognition of potential

short and medium term impact in terms of employment and income-generating activities.

### **ENABLING ENVIRONMENT:**

In project year 3, USAID sponsored two participants at the 12<sup>th</sup> Women Leaders Network Meeting in Australia, June 24 – 27, 2007. The participants were Cristina Costa from Trade & Invest Timor Leste and Kathleen Gonclaves, owner of several local businesses. One purpose of the meeting was to introduce Timorese women leaders to the APEC APEC Women Leader's Network. The Network is a forum for women from across the 21 APEC economies to convey their perspectives to key decision makers within APEC and also for those involved in business and trade to come together to discuss a range of issues and learn from each other. An expected outcome from the meeting was that strong and active networks will be developed and opportunities created.

Timor Leste's participants returned with a resolve to share their experience and decided that they would create an association of Timorese women business owners. They propose to lead a series of periodic seminars at which women from all 13 districts will share their insights into special problems encountered by women-operated business and develop recommendations for ways that women can be more proactive in the business community. Initial themes for the workshops will be ways to motivate and increase the role of women in conducting business as entrepreneurs, managers, investors, and employees. The results and impacts expected to be achieved through this activity are: (a) in the short term, by sharing the information and experience acquired from this exposure to their colleagues in country, may motivate and increase the role of women in doing business; while (b) in the long-run the country's economy becomes more diversified, increased export and investment.

FETL continued to hold consultative meetings with GoTL, educating the business community about relevant legislation's implication on enterprise operation and allowing the private sector a voice in the policymaking process. The President of Timore-Leste, Jose-Ramos Horta, and GoTL ministers, attended several of these workshops, which addressed such issues as tax policy and investment promotion.

DSP hosted a two-hour dialogue between Timor-Leste's business leaders and President Jose Ramos Horta on 16 August. The President was accompanied by the new Minister for Economics and Development João Gonclaves. Following an address by the President and Minister Gonclaves, two officers from the Forum dos Empresarios de Timor Leste (Business Forum) delivered speeches. In his address, President Horta proposed the new government reduce taxes on business activities within the country, make changes policies to encourage more private sector investment, and urged cooperation between the government and the private sector.

DSP facilitated the participation of both AEMTL and FETL at a meeting with representatives with the Millennium Challenge Corporation, which assessed Timor-Leste's business enabling environment for the purpose of designing positive incentives for reform for the GoTL.

## **PROJECT YEAR 4 SUMMARY:**

In July 2009, the DSP project completed its fourth year of operation, further focusing its activities on strengthening private sector value chains in targeted economic sectors in Timor-Leste, agribusiness, tourism and related sub-sectors. Along with encouraging broad business enabling environment reforms, each of these program activities continued to make progress in achieving USAID/Timor-Leste's strategic objective of accelerating economic growth for the benefit of political stability and Timorese livelihoods.

Fortunately for the program, and for the nation of Timor-Leste, this project year was the first year in the project's history in which several political and social disruptions did not interfere with activity implementation. In Project Year 4, agribusiness continued to be a focal point: initiatives in support of this value chain included the completion of the Lequitura Special Horticultural Area and the development of farm gate sales for commodity producer groups. DSP also continued to support the Timor Product Network to certify, brand, and sell high-quality local products. DSP also increased the visibility and marketing potential for such products by organizing such events as the Maubara Craft Fair and effectively mobilizing the purchasing power of the international community in Timor-Leste. By supporting the production and sale of such products to the current international community in Timor-Leste, the DSP project prepared local producers and business operators for demand from future tourists. This preparation takes advantage of the ongoing presence of the international community as a captive audience, their foreign expectations, standards, and spending power. DSP continued reorienting its BDS activities to reflect this goal, initiating such activities as the Hospitality Industry Internship Program (HIIP).

### **AGRIBUSINESS:**

DSP supported income generation through improved linkages within horticulture and commodity crop value chains. Agribusiness activities within this project year addressed (1) Horticultural production, (2) Horticultural production marketing, (3) Cash crop marketing in international and domestic markets, and (4) Communication of "farm gate" marketing processes.

Significant activities within these four primary areas included:

- In the third quarter of 2008, over 1000 sq. meters of cherry tomatoes and bell peppers were planted in the greenhouse and nursery of the newly established Lequitura Special Horticultural Area (SHA). These crops came into full

- production in late 2008, yielding over \$2,000 in value, shared equally between the farmer group and the wholesaler, Zero Star. The second planting at Lequitura created over \$1,200 of weekly revenue during harvest season based on an average yield of 450 kg of produce.
- Students and teachers from the USAID Bolstering Agricultural Capacity through Education and Training (BACET) held a week-long workshop at the Lequitura SHA to production techniques. This site continued to host students and other farmers as a learning facility and a demonstration of the effective group-based commercialization of subsistence agriculture using modern technology and production techniques.
  - U.S. Ambassador Hans Klemm and the President of Timor-Leste, Jose Ramos-Horta, visited the Lequitura SHA to recognize its successful establishment and benefits to the local community.
  - Zero Star increased their deliveries of fresh veggie boxes from 23 to 65, creating an average gross monthly income of over \$2,000. Another institutional buyer, KMANEK, also began making large vegetable purchases at the end of this project year.
  - The first of three 20-minute films to promote the quality of Timor-Leste fresh produce was produced.

## **BUSINESS DEVELOPMENT SERVICES:**

In Year 4, DSP's business development unit operated in two integrated areas: (1) Linking businesses to market opportunities and (2) improving the quality of business services. Both of these areas were approached with the objective of improving the quality of goods and services that support the hospitality and services industry. Such activities in this year included:

- DSP held a series of workshops with the *Timor Product Network* to address issues of product marketing, packaging, and business development. The project designed and procured three Buy Timor product displays for Dili supermarkets and initiated an eight store inventory monitoring system for efficient sales tracking by Buy Timor firms.
- DSP coordinated the attendance of the *Timor Product Network* at the Women's Business Fair, in October 2008, and Expo 2009, held in May.
- In partnership with the Ministry of Tourism, Commerce and Industry, DSP supported the holding of the first Dili International Trade Fair. Also held at the newly renovated Mercado Lama, this event represented more than 70 national and international businesses.
- The BDS team provided comprehensive organizational support to Alola and MosBele in the holding of the 2009 Christmas Fair and Maubara Beach Fair, respectively. These two market-opening opportunities for local producers generated over \$17,000 in the course of two weekends.
- In collaboration with the closing SGP program, DSP presided over the re-opening of the Tais Market. With rehabilitated stalls, vendors were also equipped with basic financial management training and marketing materials.
- DSP staff and consultants surveyed Meti Aut restaurants and hotels to identify the potential impacts on local employment and business revenues of Government-directed area redevelopment.

- As part of DSP's new Hospitality Industry Internship Program (HIIP), 58 of the initially enrolled 62 interns were placed in on-the-job training. The Minister of Tourism, Commerce and Industry and the U.S. Embassy's Deputy Chief of Mission presided over the launch of this program in March 2009. In this project year, four grants, totaling approximately \$200,000, were awarded to local institutions to provide hospitality training to Timorese youth.
- In May 2009, DAI began the management of a USAID subcontract with Junior Achievement, developing localized curriculum and training teachers to provide youth with job skills training.

## **ENABLING ENVIRONMENT:**

From July 2008 to July 2009, DSP supported the improvement of Timor-Leste's business enabling environment by strengthening business associations, providing technical assistance to the GoTL, and improving the dialogue between the public and private sectors:

- In line with building the capacity of business associations to effectively represent the private sector, DSP continued its support for AEMTL by providing technical assistance, office space, computer equipment, and secretarial personnel.
- DSP staffed the Ministry of Tourism, Commerce, and Industry with Senior Advisor, Mr. Colin Heartwell. This advisor provided comprehensive support to the minister on a wide range of issues affecting the business community of Timor-Leste. These areas included the identification and promotion of foreign investment, reform of business regulations, and enhancing financial services for the private sector.
- Based on a U.S. Congressional mandate on foreign assistance programming through USAID's microenterprise office, DSP conducted the Poverty Assessment Tool in July 2008. This household survey documented the fact that just over 51 percent of Timorese people benefitting from USAID's microenterprise programs are considered to be among the 'very poor', earning less than 1 USD per day.
- DSP was not able to engage in any activity related to telecommunication reform based on a stalemate in the contractual re-negotiation between GoTL and Timor Telecom. DSP's SOW was formally amended to remove this activity, reflecting this stalemate.

## **PROJECT YEAR 5 SUMMARY:**

In the last year of operation, DSP continued to make significant progress in its primary areas of technical focus, improvements to targeted agribusiness and tourism/hospitality value chains that foster increasing levels of incomes for the people of Timor-Leste. In consolidating gains made throughout the life of the project, DSP conducted interventions to maximize sustainability beyond the life of the project in Agribusiness Services, Tourism/Hospitality Business Development Services, and Enabling Environment. The fourth component in the project year 5 workplan was the administrative closeout of the program.

In year five, the agribusiness component completed the replication of two, new Special Horticultural Areas (SHAs) as part of a public-private partnership with ConocoPhillips and USAID/Timor-Leste. The Agribusiness team also continued to provide other technical assistance to address critical horticulture value-chain constraints such as access to training, finance, and input supplies. DSP facilitated more business linkages within commodities value chains in southern Timor-Leste by supporting the presence and activity of more traders in rural areas.

In support of the Hospitality/Tourism Sector, DSP provided promotional materials to local retailers created under the Posters of Timorese Tradition campaign, which simultaneously supplemented business incomes while positioning Timor-Leste as an attractive tourism destination. DSP also provided local businesses with valuable market information gathered from consumer and tourist surveys, and furnished tourism enterprises with well-trained hospitality services interns and employees. Successful trade fairs at the Alola Foundation and Maubara again mobilized international buying power for the consumption of local products. Product development and financial management training were offered to these vendors to improve their handicraft offerings and business operation.

To build a stronger business-enabling environment in Timor-Leste, DSP sponsored an entrepreneurial contest, TL BIG, and conducted advisory services related to economic development plans by the GoTL.

## **AGRIBUSINESS:**

The Agribusiness component continued to monitor and offer periodic support to Lequitura while offering more intensive guidance to two new sites at Sarin and Luirai.

Significant actions in this project year included:

- Based on the USAID/Timor-Leste and ConocoPhillips Public-Private Partnership, DSP selected two new SHA sites, constructed greenhouses, irrigation infrastructure and outgrower facilities, and provided management training for community members. Improving on the efficiency of the first site, these new areas used alternative energy methods such as ramp pumps and solar panels.
- As with the Lequitura SHA, DSP linked increasing levels of local expertise, productive infrastructure, varieties produced, and the resulting high-quality yields. DSP also continued to train farmers and middlemen on post-harvest handling and quality control in preparation for product marketing in Dili stores.
- KMANEK supermarket, a major institutional buyer and retailer in Dili, continued to provide in-kind microfinance to farmers' groups in the form of vegetable seedlings. This embedded finance was expanded to other outgrower groups in Year 5. KMANEK replaced Zero Star as DSP's primary private sector partner in vegetable distribution.
- Sixteen trainees traveled to Kintamani, Bali for horticultural training on site management, production techniques, and fresh produce marketing. Agribusiness

- staff assisted local communities in improving crop disease and pest control, identifying new, viable crops like strawberries and brown onions, and in identifying greater water resources for expanded horticultural production in Aileu and Ainaro districts.
- Extension agribusiness staff worked to formalize farmer group cooperatives in the Lequitura area, explaining the benefits of formal registration, group structures, and business skills training.
  - Since January 2008 DSP supported some 1,500 farmers in Suai District and Sub-District Balibo to arrange the marketing of mungbeans and peanuts. DSP facilitates the business connection between the farmers and the traders who purchase these products. Mungbeans were sold mainly for export to West Timor. Mungbeans are a common cash crop produced by farmers in Timor-Leste, particularly in the border districts of Cova Lima and Bobonaro. Farmers traditionally take their own product to market in these areas which means they can only sell small volumes, with high transport costs and little negotiating power over the sale price.
  - The DSP approach to increasing rural incomes by improving marketing and sales of the products has centered on arranging sales points in collaboration with local traders who export to West Timor. During the mungbean growing season DSP Commodities Marketing team field staff surveyed producers in known mungbean production areas to estimate volumes available for purchase. This information was then distributed to traders (such as Leo Atsabe or Comico Timor Diak) who are interested in buying large volumes (greater than 5 m.t., which is roughly one truck load) of mungbeans in a single location. Through negotiations facilitated by DSP staff, the traders offer the farmers in the area a per kilo price. Once the price has been agreed on, a schedule of days in which the traders will operate "sales points" is agreed on and publicized by DSP staff in collaboration with Ministry of Agriculture staff. Traders then visited these field locations to purchase product for cash and DSP assisted with on-ground coordination, packaging materials such as printed sacks and farmer ID cards so that lead farmers can act as focal points for households in their area.
  - To meet a market demand for large quantities of shelled peanuts, DSP collaborated with the Ministry of Agriculture to produce 30 units of hand-operated de-shelling machines for use by farmer groups in Bobonaro, Suai and Baucau Districts. The machines will be installed at 20 sites, to be used by farmers to increase the volume of peanuts sold. One of the obstacles farmers faced before was the lack of equipment to help the farmers to produce large volumes of peanuts ready to sell at one time. By hand, can only de-shell less than 5 kg/farmer/day, and this affected farmers' ability to respond to the traders' demand of 90-100 kg/farmer. In addition to providing the actual peanut de-sheller, DSP provided 20 communities with building materials to construct a basic shelter to cover and protect the de-shelling machines from the weather. The farmers contributed sand and stone, as well as the labor to build the enclosures. The

- basic shelter will be a place where peanuts can be de-shelled and bagged for sale and delivery.
- DSP worked closely with trader Comico Suai Diak to set up and efficiently operate a warehouse for storing approximately 60 tones of products that they normally buy in the region which include mungbeans, peanuts, candlenuts, and coconuts. Comico Suai Diak resells the products mainly to the Ministry of Tourism, Commerce and Industry or to companies in West Timor (Indonesia).

## **BUSINESS DEVELOPMENT SERVICES:**

Consistent with the previous project year, DSP's BDS component focused increasingly on Timor-Leste's emerging hospitality and tourism industry, an area of the private sector with significant capacity to drive non-oil economic growth. To this end, DSP supplied tourism-related businesses with improved marketing materials, well-trained staff members, high-quality, locally produced souvenir products, and increased access to exploitable market information. This focus took form in four workplan components: increasing sales and earning opportunities by responding to end market demand, developing the capacity of partners, identifying and supporting new partners, and developing entrepreneurial skills. Significant actions in this year included:

- In order to identify new market opportunities, DSP conduct exit surveys at the international airport and customer surveys at Dili supermarkets. The information gathered was analyzed and provided to relevant businesses and stakeholders in a position to exploit the opportunities presented therein.
- Successful, market-opening events in the forms of the Alola Christmas Fair and Maubara beach fair continued to bring local producers together with high-value buyers, demonstrating the sales revenue potential for similar events that can be held beyond the life of the DSP project by newly empowered producer groups and organizing bodies.
- DSP continued to provide monitoring support to the Timor Product Network, increasingly handing over inventory maintenance and marketing materials to the producers themselves.
- DSP completed bookkeeping, product presentation, and marketing training for Tais Market enterprises. DSP furnished Tais businesses with record ledgers and product labels as self-regulated activities that assist in financial management and product marketing, respectively. DSP also facilitated a promotional campaign for holiday shoppers in December 2009, increasing revenues in a month of shortened sales activity.
- A DSP-fielded consultant also conducted a review of 28 handicraft artisans, visited retail stores, and provided hands-on technical and product development support to corn husk flower markers, Christmas fair participants, and paper makers.
- Technical assistance provided to the Truckers Association was completed with the successful handover of external audit findings, a financial management manual, and staff trained in business accounting. These systems have aided the

- association in managing scarce resources, re-investing in business operations, and effectively responding to and managing new business opportunities.
- DSP's grants team completed the implementation of the Hospitality Industry Internship Program, recognizing the achievements of 90 graduates, 41 of whom were placed in full-time employment following their practical training.
  - To spur innovation and entrepreneurship, the DSP project held the Timor-Leste Business Ideas for Growth (TL BIG) competition, which drew proposals from around the country seeking financial and technical assistance for a myriad of different business concepts. DSP selected two proposals, one for a printing and computer rental shop in Same, and the other, a modern fish market in Dili, to receive these awards. These winners received mentoring, technical training, and in-kind grants to cover capital investments.
  - Ten posters and corresponding postcards of Timorese Tradition were printed, distributed, and sold, based on winners from a nationwide photo contest. Winners, split between foreign and local photographers, offered compelling imagery, highlighting the unique crafts, culture, and scenic beauty of Timor-Leste. These items generated sales revenues for local retailers and were transported internationally as an outreach tool in tourism promotion.

## **ENABLING ENVIRONMENT:**

- Following previously successful trade expositions, DSP again supported the representation of the private sector at the 2009 International Trade Exposition.
- The Business Women's Association continued to use DSP-provided office space and equipment, and was provided with weekly consultations to support organizational development and advocacy activities.
- After leaving in January 2009, Mr. Colin Hartwell returned in January 2010 as a Senior Advisor to the Minister of Economy and Development, again counseling on economic issues related to trade and investment policies affecting private sector development.
- After consultations with the Ministry of Tourism, Commerce and Industry, DSP fielded two consultants to assess the potential impacts of proposed redevelopment plans for the Meti Aut beachfront. The team analyzed the plan's impact by surveying local businesses and communities and establishing a discussion forum between public and private sector stakeholders. DSP assisted the local businesses to file a successful appeal, allowing commerce to continue within the framework of GoTL's plan.
- DAI subcontractor, Junior Achievement Timor-Leste (JATL), completed work in developing a workforce enhancing educational curriculum for public schools in Timor-Leste. JATL's program for 2010 in the first term of the academic year was conducted in four Public Primary Schools (E.P.P) : E.P.P Número 04 Fatuhada, E.P.P Número 02 Bebonuk; E.P.P de Fomento no E.P.P 12 de Outubro Tasi-Tolu. A total of 71 teachers (including school directors) as well as a total of 3,856 students were beneficiaries.

- In cooperation with USAID/Timor-Leste, DAI fielded consultant Curt Gabrielson to develop a science and mathematics encyclopedia and accompanying educational curriculum for UNTL students. This localized training material provided college students with practical, quantitative training that built the capacity of those entering the workforce.

## **LESSONS LEARNED AND THE FUTURE OF PRIVATE SECTOR DEVELOPMENT WORK IN TIMOR-LESTE**

With five years of in-country operation, working in Timor-Leste's private sector all across the country, DSP has had many opportunities to learn from both successes and actions with less-than-hoped-for results. DSP's flexibility and resilience has allowed it to achieve program objectives despite the many challenges mentioned in an earlier section of this report. In order to do so, the program learned many lessons during project implementation, enabling the real time application of these lessons to both ongoing activities and activities planned for the future. Aside from incorporating these lessons learned, DSP has also shared them with USAID, the donor/NGO community when possible, and private-sector partners, for the benefit of private sector support and economic growth in Timor-Leste. The lessons learned here can be categorized into project management, technical implementation, and broader private sector development issues.

### **PROJECT MANAGEMENT**

As discussed in the summary of Project Year 1, DSP project management experienced rocky beginnings. After the replacement of DSP's first Chief of Party, increasing effectiveness of program implementation quickly became evident as a stronger relationship with USAID/Timor-Leste was forged. With improved communication and agreement on technical direction, DSP was able to overcome early faltering and associated project management challenges.

As DSP established its footing in Project Year 2, the flexibility of its SOW allowed for the efficient focus of resources into supporting value chains within economic sectors most likely to achieve overall program objectives. This contract's flexible SOW and the COTR's effective management of it, continued to show merits as DSP adjusted its annual workplans to reflect more work in agribusiness, less in microfinance, and additional activities like support to Junior Achievement and the Ministry of Economy and Development.

Although the project's SOW proved beneficially adaptable, the budget was not always so. DAI notified USAID of a funds limitation (especially in 2007) that hampered program planning and implementation, and DSP filed two workplans for Project Year 3 – one a shut-down plan to be effective in early 2008.

The structure of the project was also challenging. One challenge was the time period of the project. To create new industries in a country such as Timor-Leste, three years is

simply too brief and five years is barely adequate. Short projects (three year terms) do not allow time to build solid business relationships and potential collaborator firms are skeptical about USAID commitments for such short periods. USAID/Timor-Leste added two additional years to the DSP project, but the extension came only in the third year of the initial project term – effectively creating a second project, with a three-year term. At no point in the project could technical planning extend more than two years.

The inclusion of a mandated grants component in DSP forced the project to undertake activities that may have been performed much more cost-effectively through core technical assistance programming and diverted significant project management resources to create, essentially, a parallel approval and oversight apparatus to issue and manage grants. Moreover, imbedding a grant program in a private sector development program that attempts to instill market values into businesses operating in a nascent market economy delivers conflicting and contradictory messages. Too many opportunities exist in Timor-Leste for companies and organizations to receive goods for free, and this largess is detrimental to developing entrepreneurial spirit.

Very solid and effective DSP-USAID/Timor-Leste communication improved project implementation in almost all areas. The one area of weakness was performance monitoring and evaluation. Although an extensive amount of performance data was collected throughout the project, from the outset, DSP was not able to receive clear guidance from USAID on appropriate, and specific, reporting indicators as part of a clear and comprehensive performance-monitoring plan. Aligning international performance management indicators with those expected from the USAID mission may have improved communication and technical direction still more.

#### **TECHNICAL IMPLEMENTATION**

Through the establishment of successful special horticultural areas (SHAs), DSP learned much about cultural dynamics in group formation, site management, and the importance of community buy-in; these sites were carefully chosen both for their land and for their people. The community's indispensable support and involvement was built over time, by allowing participating households to see early and consistent tangible results, based on the profitable sale of products demanded by the market. This realization had a tremendous amount of demonstrational value beyond the community itself as other USAID project partners, Timorese training centers, and private sector agents used Lequitura as an example of what is possible in Timor-Leste. The immediate rise in incomes from trader activity in southern, commodity-producing sucos also yielded the same type of important community engagement. The demonstration value of the Lequitura project, and its inspirational value, is perhaps DSP's largest contribution in Timor-Leste.

For SHAs and commodity operations to be successful in a market economy, the private and public sector will need to work together on increasing access to agricultural inputs and financing as well as improved systems for watershed management. Obvious activities needed include building infrastructure for year-round water storage and

supporting efforts to like tree-planting, and top soil preservation. Training and community development will continue to be key factors in establishing sustainability.

While DSP's Agribusiness component had two very successful sub-components in its work in horticultural and commodities value-chains, the successes of the BDS component were less balanced over the project's life. In fact, many BDS successes were in support of upstream phases of agribusiness value-chains. Other BDS successes included support to the Trucker's Association, the establishment of Timor-Leste's first buy-local campaign, and support to the handicraft sector through both business training and the mobilization of international buying power at craft fair events. It was only in DSP's final two years that BDS activities began their re-orientation around tourism and hospitality services. Consolidating program activities, like local product marketing and souvenir sales, helps to establish a foundation for a sector with considerable potential to drive private-sector led economic growth.

The tourism and hospitality sector is, in fact, primary among those industries with the greatest potential to lead economic growth in Timor-Leste; foreign visitor spending can have a significant impact on stimulating business development, incomes, and employment. However, as the DSP project has used the current international residents as a resource –especially to focus purchasing power to help specific businesses --, DSP recognizes that expatriates currently in Timor-Leste now are not a group identical to authentic tourists. Resident ex-pats express related, but slightly different consumer preferences and expectations for restaurants, lodging, attractions, and other services offered. In that many development workers have lesser expectations for Timor-Leste as a tourist destination, but will expend significant monies into local restaurants and hotels regardless, they actually may pose a disincentive for further improvement in hospitality infrastructure. The tourism providers in Timor-Leste should set higher standards of excellence.

Although hospitality training did succeed in providing practical skills instruction to develop the Timorese workforce, addressing the need to continue to expand labor demand and create new opportunities in which to place these interns was well beyond the capacity of DSP, or, indeed, any single development project. If job opportunities do not await those Timorese trained to fill them, workforce training only creates frustration, resentment, and cynicism.

In tourism, as in other economic sectors, it must be private investors that build ahead of demand. The role of the donor community and the GoTL should be as facilitators in laying the groundwork for this investment, reforming economic policy, and building infrastructure. DSP has fostered the emergence of training resource centers, souvenir products, and promotional information in support of the tourism sector. These initiatives have sought to equip the private sector with business services that are absent in Timor-Leste, fostering private-sector competitiveness, and supplementing current and future tourist business incomes while marketing Timor-Leste as an attractive destination. More

support to high-level initiatives like a national branding campaign and community projects like eco-lodges will be necessary in the near term for this sector's development.

### **PRIVATE SECTOR DEVELOPMENT ISSUES**

DSP project work, to empower the private sector to advocate for economic reforms to improve the business enabling environment, was frustrated because of civil divisions, an underdeveloped private sector with few larger firms forcing agenda decisions, and a limited capacity to organize or engage smaller stakeholders. Accordingly, DSP's collaborator business associations are still not functioning as fully representative advocates for broad economic reform. In the coming years, these organizations will not only need to broaden their engagement with the private sector, but, along with Timor-Leste's nascent media, will also need to act as watchdogs of newly instated government policies like foreign trade and investment deals.

Working with other donors, especially those active in pushing for such reforms as business registration, procurement, land law, and foreign investment, would be helpful in complementing the efforts of the private sector itself. These macroeconomic reforms are critical for many areas of value chain support to micro and small enterprises to be effective. However, legislation alone cannot address the issue of lacking entrepreneurialism, and healthy capitalist behavior. The long repression of Timorese by foreign occupiers has left a wide void in human capacity and created a culture of dependency, which has limited creativity, innovation, risk-taking, and initiative in the private sector. Likewise, in the public sector, the discovery of oil been a double-edged sword as the impetus to build a national economy led by the non-oil private sector has been significantly weakened.

While providing considerable government revenues, the oil sector is unable to generate domestic employment and other foreign investment. Policymakers should not turn their back on the need for economic liberalization: to pass investment, property, and finance reforms that are necessary to make Timor-Leste conducive to efficient enterprise operation. Chief among these is land tenure and justice sector reform, which affect nearly every economic development challenge facing Timor-Leste. The severely limited legal and regulatory framework in support of financial markets for business development compelled the DSP project to focus its resources in other components. Rather than continuing to support quasi-private sector institutions and organizations, implement price distorting procurement, subsidize competition from imports, and rely on many inflationary, dependence-inducing transfer payments, GoTL should accept a role as a facilitator, rather than a driver, of private sector development.

Among the greatest government services that GoTL could provide to the private sector is responsible withdrawals from the oil fund that are spent prudently on constructing basic infrastructure and providing public health and educational services to the people. As GoTL withdraws from its historically significant role in the economy, there will be more opportunities for the private sector to lead economic growth, more efficiently allocating resources to increase Timorese employment and incomes. As the United Nations

(again) plans to withdraw security forces and attendant consumer spending from Timor-Leste, youth employment and income levels will have great implications in durable political stability.

To sustain business growth, private sector work will need to nourish the business services sector, replacing interventions by donors and NGOs by the private, fee-based offerings of local businesses. Eventually, these offerings should include both sector-specific technical services as well as cross-sector items like business skills training, IT, and management consulting services. DSP's sponsorship of training for Timorese in agricultural production techniques (at Kintamani, Bali, Indonesia) has shown early signs of success and the need for similar, domestic training centers in the future.

As Timor-Leste's most promising sectors, such as agribusiness, grow from those value chains substituting imports to those goods promoted as exports in international markets, they will consume significant business-to-business services. For agriculture specifically, the lack of a viable, well-trained extension service hampers the adoption of efficient agricultural practices that would improve both Timor-Leste's food security situation as well as rural household incomes.

Apart from continued support to DSP-supported value chains, more assistance will need to be provided to other agribusiness sub-sectors, local equipment fabrication and repair, and small-scale food-processing and packaging, all with an eye to developing a light industrial sector in Timor-Leste; an industrial sector will improve export competitiveness, reduce production costs, expand Timorese consumption and drive long-term economic growth.

Currently, there is a prevailing view that multi-national corporations will become more involved in Timor-Leste, especially with passage of a Land Law. At such time, it will be important for the GoTL and the international community (broadly defined to include both donors and international organizations), in consultation with the Timorese private sector, to design corporate social responsibility that sustainably supports market-driven value chains. The USAID/Timor-Leste ConocoPhillips Public Private Partnership has been a major landmark in achieving this type of result, effectively leveraging USAID resources in a public-private partnership, allowing for additional domestic benefit from Timor-Leste's mineral wealth.

While DSP has made significant strides in establishing the value-chain foundations for accelerated business growth in targeted sectors, the private sector continues to need increasing levels of attention and support, to create a thriving, economically robust nation, for the benefit of the Timorese people.

## **ANNEX 1: SIGNIFICANT CONTRACTUAL AND PROJECT MANAGEMENT ACTIONS**

### **2005**

July DAI signed the DSP Task Order on July 18, 2005, initially a three-year project with an expected end date of July 19, 2008 and two option years. The initial obligation was \$3,000,000, of an estimated total amount of \$5,5989,491,

### **2006**

June-August With the direction of relevant embassies, all expatriate staff were evacuated from Timor-Leste during political turmoil

July New COP was fielded

September Task Order (T.O.) Modification #2 provided \$1,000,000 in additional Incremental funding, from \$3,000,000 to \$4,000,000.

### **2007**

April In T.O. modification #4, incremental funding was increased from \$4,000,000 to \$4,800,000.

August T.O. modification #6 exercised the contract's two option years, extending the project's end date from July 20, 2008 to July 19, 2010. This modification also increased incremental funding to \$6,000,000, increased the total estimated amount by \$4,000,000, to a ceiling of \$9,988,491, modified the original SOW, and realigns the budget.

### **2008**

March T.O. Modification #8 increased obligated funding to \$6,500,000.

August Modification #9 expanded the SOW further and increased the total ceiling price by \$799,983.34, to \$10,788,474.34, to pay for these activities. This amendment also activated a dormant grants component and allocated an additional \$2,400,000 in incremental funding.

**2009**

- May T.O. #11 fully funded the task order, increased the project's obligated amount to the contract's total ceiling, \$10,788,474.34.
- August T.O. #12 expanded the SOW for a final time, recognizing additional work created through a public-private partnership with *ConocoPhillips*, providing an additional \$400,000 in obligated and ceiling funding, for a total contract of \$11,188,474.34.
- September Modification 13 to the Task Order provided incremental funding of \$447,675.21 and increased the ceiling price to \$11,636,149.55, fully funding the Task Order.

**2010**

- July In accordance with this task order, the DSP project completes closedown activities by July 18, 2010