AN ASSESSMENT OF THE
HUMAN RESOURCES, SKILLS TRAINING
AND
BUSINESS SERVICES
IN TIMOR LESTE
JUNE 2005
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<th>ACRONYMS</th>
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<tr>
<td>ADB   Asian Development Bank</td>
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<tr>
<td>AusAID Australian Agency for International Development</td>
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<td>AVI   Australian Volunteers International</td>
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<td>BDC   Business Development Centre</td>
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<td>DIT   Dili Institute of Technology</td>
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<td>ETDA  Timor Leste Development Association</td>
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<tr>
<td>GoTL  Government of Timor Leste</td>
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<tr>
<td>IFC   International Finance Corporation</td>
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<tr>
<td>ILO   International Labour Organisation</td>
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<tr>
<td>JICA  Japan International Cooperation Agency</td>
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<tr>
<td>L&amp;S   Labour and Solidarity</td>
</tr>
<tr>
<td>MoAFFNR Ministry of Agriculture, Forestry, Fisheries and Natural Resources</td>
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<tr>
<td>MoECYS Ministry of Education, Culture, Youth and Sport</td>
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<tr>
<td>MFIs  Micro Finance Institutions</td>
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<tr>
<td>NGO   Non Government Organisations</td>
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<tr>
<td>NTA   National Training Authority</td>
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<tr>
<td>NVTA  National Vocational Training Agency</td>
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<tr>
<td>PIU   Project Implementation Unit</td>
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<tr>
<td>PSD   Private Sector Development</td>
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<tr>
<td>SEP II Second Small Enterprises Project</td>
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<tr>
<td>SME   Small, Medium Size Enterprises</td>
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<tr>
<td>STAGE Skills Training for Gainful Employment</td>
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<td>TFET  Trust Fund for Timor Leste</td>
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<tr>
<td>TIDS  Timor Institute of Development Studies</td>
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<tr>
<td>UN    United Nations</td>
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<tr>
<td>UNDP  United Nations Development Program</td>
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<tr>
<td>UNIDO United Nations Industrial Development Organisation</td>
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<tr>
<td>UNTAET United Nations Transitional Agency of Timor Leste</td>
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Executive Summary

1. The Business Culture in Timor Leste

1.1 Major Characteristics

Entrepreneurial Traditions
- Family responsibilities sometimes undermine potential entrepreneurs
- The bulk of the labour force live in a non-cash economy and/or are involved in informal income earning activities
- Women are sometimes held back by cultural constraints

Public Perception of Business
- Many want the trappings of success and often divert scare capital to purchase expensive taxis/vehicles or other equipment
- There exists some ‘jealousies’ of others’ success
- There is a limited understanding of market forces

Understanding of Business Management
- There is a general lack of understanding of the need to generate cashflows
- Reliance on an on-going government ‘safety net’ is slowly being negated usually by enterprises learning from mistakes
- The key issue is that new enterprises face challenges in effective financial management

1.2 Current Initiatives

- There are a few BDC training programs for start-ups and existing businesses
- Some associated business training is being undertaken by NGOs – Oxfam, Concern etc
- Some associated business and work training (more ethics training) linked to vocational training
- ILO’s ‘Stage’ project focussing on rural poor, is about to commence
- Institutional strengthening of Civil Service programs is focusing on a more ‘customer-oriented’ approach
- Natural Resource Management Project (World Bank, EU, MoA,F,F) will commence shortly

1.3 Possible Future Initiatives

- Introduce basic savings concepts in primary school curricula and basic business concept studies at junior secondary level
- Introduce wide media program to instil basic business concepts and benefits of a vibrant business sector
- Formalise business associations and chambers
- Support individual SMEs which can operate as ‘role models’ whose owners can become business mentors
• Include ‘work and business ethics’ components to all vocational training programs

2. Human Resources

2.1 Major Characteristics

*Availability of a pool of vocationally-trained skilled workers*

• Training and technical certification varies from institution to institution
• No consistency of core competencies – these are often dictated by the ‘donors’
• Range of vocational courses are limited and not meeting market demands – eg tourism/hospitality, mining petroleum, agribusiness are neglected
• There is only limited formal training happening outside Dili
• Placements and ‘on-the-job’ training is limited due to the small size of the economy
• Numerous private institutions provide training in basic office skills, accounting and IT
• There is only limited language training

*Basic business and management training*

• BDCs provide comprehensive business short term training in relevant business disciplines, but
  ① Affordability for ‘follow-up’ at times creates a problem
  ② Trainers have limited business experience
  ③ Gender imbalance (only 3 women trainers)
• There are some very basic business training programs available through various institutions
• Vocational training institutions occasionally offer business training but never as a complementary course to the vocational course itself

*Basic business training for start-ups*

• BDCs have offered a range of ‘start up’ programs
• Some business ‘start up’ training is undertaken informally as follow-up to technical training (usually by in-experienced NGOs) – effectiveness diluted by lack of follow-up
• High percentage of start-ups fail because of poor understanding of basic business concepts
• Limited training (or advice) on “what makes a good idea a viable business” – i.e. project identification and analysis

*Financial management training*

• BDCs are planning to offer various financial management training programs
• There is currently no training available on ‘preparing a case for finance to a funding institution – banks, MFIs’
• “Help” to prepare a case for finance for existing businesses is limited and/or non-existent

**Quality production and management techniques training**

• TQM not recognized by most small businesses
• Training of these concepts is occasionally incorporated into vocational training curricula – some more than others
• Internationally accepted QA standards are embraced by larger, mainly foreign-owned, companies and training is carried out ‘in house’

**Foreign business experience, knowledge training**

• Many post-conflict businesses, established by ‘returnees’, bring with them some knowledge and experience of ‘another’ economy
• Otherwise limited knowledge of international business trends
• Some internationally-funded NGOs apply practical knowledge based on their own experience and networks

**Internet/computer technology training**

• Numerous private institutions and government technical/tertiary bodies offer basic IT training - courses range from introductory to more complex
• Not regarded as high priority by many small businesses which do not have access to computers or the utilities necessary to operate them

### 2.2 Current Initiatives

• The establishment of a “National Vocational Training Agency” to license institutions and standardize accreditation/certification will harmonise qualifications
• BDCs will focus more on ‘existing businesses’ in their provision of training and other services
• MoL&S, ILO, EU, UNDP “STAGE” program will address many issues at the institutional and private sector level
• Stronger cooperation between agencies is being developed – particularly between government, NGOs and the private sector
• Donor-funded training projects are being increasingly monitored and coordinated
• Training at the district level – with a focus on agri-based entrepreneurial subjects – since the restructure of the Ministry of Agriculture, Fisheries and Forestry and the Natural Resources Management Project
• Statistical information is being institutionalized

### 2.1 Possible Initiatives
• Train and utilize “selected” livelihood-focused NGOs to add basic business training to their core roles
• Incorporate private sector membership to boards such as NVTA
• Establish a donor-funded ‘scholarship’ program for trainees to study/gain work experience overseas
• Ensure BDC/STAGE ‘MOU’ develops into a ‘strong’ mechanism through which the two programs can complement each other
• Language courses could be incorporated into all training programs
• Basic ‘savings’ and ‘work ethics’ should be incorporated into all training programs
• Establishment of a national ‘mentor’ scheme to provide local mentors to a younger entrepreneurial class
• Establishment of small ‘incubator’, business advisory services as an extension to the markets rehabilitation project

3. Business Services

3.1 Characteristics

*Business development services*

• Most SMEs recognise that they need help
• Generally unwilling to pay for professional services
• Some distrust of government which is seen to lack customer focus
• BDCs provide the only real effective business services, have a wide reach and an increasingly positive reputation
• Most other business development services are provided on an ‘ad hoc’ basis and the effectiveness/appropriateness is unknown or questionable
• That said, many businesses feel that they have ‘no one to turn to’ for practical, affordable and on-going business advisory services

*Legal services available for dispute resolution and other services*

• Limited legal assistance available as yet though the framework has already been developed
• SMEs want to do the ‘right thing’ but government institutions are not properly resourced to monitor compliance
• Awareness of the existing regulatory environment is either non-existent, limited or engenders a culture of “abuse”
• Existing lawyers trained under Indonesian system are not recognised
• No Bar Association or formal disputes tribunal

*Accounting/auditing services*

• No formally recognized accounting/auditing services available as yet
• Large foreign-owned enterprises import auditors to ensure compliance and avoid risk of expulsion
• There are three locally-based accountants who are not regulated or recognized and offer only a limited range of services - usually out of reach in terms of affordability for most SMEs
• Third tier accountants are basic ‘bookkeepers’ - an activity usually handled ‘in-house’
• Lack of compliance usually results in many enterprises not formalising their operations or bothering to re-register

**Business insurance**

• There is no insurance (business or otherwise) available in Timor Leste as yet

**Business planning, marketing and sales services**

• BDC training is available for existing businesses but no consultancy on a ‘fee for service basis’, is available
• Limited ‘funding proposal’ assistance available
  o Caliber varies
  o Banks complain that the funding proposals are inadequately documented
• Various NGOs provide funding preparation assistance and their effectiveness (and successes) vary
• Most business planning left to individual entrepreneurs, the majority of whom rely on limited or no market information.

**Access to modern, affordable office/production equipment**

• Varies from ‘not bad’ in Dili to ‘non-existent’ in most other districts
• Computer hard and software abounds in government offices. Computer use in the private sector varies and limited use sometimes relates to lack of servicing availability
• Basic tooling equipment servicing can be carried out – anything more sophisticated requires expensive dispatch overseas or the import of expatriate technicians.
• Electricity supply in regional/rural areas is either non-existent or unreliable
• Basic ‘incubator’ style industrial estates or trade zones do not exist as yet

**Industry-specific and/or production technology services**

• Some agri-based outreach programs exist – e.g. for coffee
• Some NGO ‘Livelihood’ programs specialize in processing techniques
Suitable and affordable problem solving Services

- Concept of ‘work out’ approach to customers with loan arrears is not widely adopted
  - Most banks/MFIs opt for recovery action
  - But most loan sizes are too small for time-consuming bank initiated assistance
- Government services not yet customer/private sector focused enough to provide practical and/or immediate assistance
- Non-existent ‘mentor’, chamber or association, women-in-business assistance is available

3.2 Current Initiatives

- Notary Act has been passed.
- BDS programs under SEPII are covering many issues including:
  - Business Training
  - Market rehabilitation
  - Government private sector dialogue
  - Feasibility of trade zones
- Institutional strengthening is happening at the government level with expected positive outcomes
- Government increasingly focused on adopting the concept of the private sector as the ‘engine to growth’ and is taking a more coordinated ‘whole of government’ approach in relation to:
  - Policy
  - Donor programs

3.3 Possible Initiatives

- Institutionalise an effective dispute tribunal mechanism
- Expand BDS’ ‘market rehabilitation’ program to incorporate basic ‘incubator-style’ business advisory services including advice on repayment of loans
- Establish a recognized ‘accounting and auditing’ fraternity.
- Formalize the establishment of a Chamber of Commerce and business associations including possibly private sector driven business groups e.g
  - ‘Private Sector-Government Think Tank’
  - ‘Timor Leste-Portugal’ Business Association’
- Introduce the concept of business “clustering” in both Dili and at the district level
- Develop a mechanism by which strong linkages with overseas organisations, associations, chambers and training institutions can be established
- Formalise a ‘women in business’ association

4. Access to Information
4.1 Characteristics

**Availability of information on domestic market opportunities, regulations, licensing requirements etc**

- There is a very limited awareness and understanding of local rules, regulations and compliance issues
- The “bubble” economy created unrealistic expectations regarding sustainability of many businesses
- Niche market opportunities are often diluted by immediate, saturated and uncontrolled competition

**Availability of information on foreign markets, trade regimes, opportunities etc**

- Limited knowledge of the “mechanics” of export
- Extension services for cash crop farmers (e.g. coffee) is providing some information to growers/traders on what constitutes a reasonable ‘farm gate’ price for their produce
- Expectations are at times unrealistic regarding what prices can be achieved in foreign markets

**Information on sources of finance and microfinance**

- Limited - services are not really marketed but pitched to more educated and ‘cashed-up’ enterprises
- Some limited newspaper advertising

**Information on government procurement opportunities and processes**

- Most aware of the opportunities but at times have unrealistic expectations of what is involved in winning government contracts
- Most are unaware of the tendering/selection process and blame real or perceived “non-transparency” and “corrupt practices” when their tenders are unsuccessful

4.2 Current Initiatives

- Establishment of Export and Investment Promotional Centre
- Various donor-funded programs operating within ministries to form a conduit for information gathering – mechanisms need to be established to disseminate it!
- Some industry-specific information gathering exercises are being undertaken by the likes of TIDS – e.g. Furniture manufacturing report

4.3 Possible Initiatives
• Identify five key industry sectors and prepare ‘practical’ studies of these in relation to:
  – Size of the domestic and export market
  – Domestic and import competition
  – Quality standards and trade regimes
  – Customers’ requirements including payment terms
• Establish databases within all relevant ministries in relation to:
  – Latest technical standards and R&D
  – Export/import controls
  – Packaging
• Institutionalise an information and statistical data base within the Export and Investment Promotion Centre and also within each of the BDCs
• Disseminate daily commodity buying prices through a mobile phone service – e.g. coffee prices
• This information will only useful if it can be
  – Accessed easily
  – Up-dated often
  – Disseminated widely
BACKGROUND

This report analyses the business training and business services sectors in Timor Leste and recommends a number of initiatives for the strengthening of these important sectors of the economy. In analyzing and reviewing these two sectors, the consultant undertook to put into perspective the current business cultural issues and the SMEs access to information which impact directly upon and supports some of the findings of the review.

The review was undertaken for the World Bank in Washington DC and involved a three-week fact-finding visit to Timor Leste in May and June 2005. The review was undertaken by John Callander who has extensive experience in private sector development in developing economies of the Asia-Pacific region. Assistance was provided by personnel from the World Bank office in Washington and Timor Leste including Ms Elizabeth Huybens, Mr Bernard Drum, Mr Rui Hanjan and Ms Johanna Johansson.

An extensive contact and consultation program was undertaken in Timor Leste. Those interviewed included a wide cross section of small and medium size business operators, accountants, banks, training institutions, government agencies, business associations and development agencies. The details of those interviewed are set out in Appendix 1.

A number of reports on the subject were also consulted and reviewed. These included, amongst others, the recently completed survey of Urban Enterprises in Timor Leste, the Labour Market Survey and the Final Report on the Business Development Services Small Enterprise Project II. A bibliography of those reports consulted is contained in Appendix 2. In particular, this report should be read in conjunction with the recently completed “Labour Market Survey” dated July 2005 and the “Urban Enterprises Report”, May 2005. Most of the findings of these two reports were confirmed during the field visit contact and consultation process.
PART A

The Human Resources, Business Training and Business Services Sectors in Timor Leste
1. THE BUSINESS CULTURE IN TIMOR LESTE

Businesses in Timor Leste currently operate in a difficult environment. This environment represents challenges to any proposed small business strengthening program and it cannot be assumed that successful programs in other developing economies can be automatically transposed to Timor Leste.

1.1 Entrepreneurial Traditions

There is not a strong business culture amongst a reasonably high proportion of the population. This obstacle to private sector development is compounded by other cultural issues, viz:

① Family responsibilities sometimes undermine potential entrepreneurs – the pressures on business owners and even those in formal employment to share their good fortune can be almost impossible to resist;

② Bulk of the labour force live in a non-cash economy and/or are involved in informal income earning activities – village life can possibly be described as ‘subsistence affluence’

③ Women are generally engaged in traditional home duties and for those who venture into business activities are sometimes held back by gender bias - despite their proven track-record in terms of financial management;

There are numerous exceptions throughout Timor Leste where people have managed to balance business, work and social responsibilities.

1.2 Public Perception of Business

There is a mixed public perception of business in Timor Leste. Many people want the trappings of success and often divert scarce capital to purchase an expensive vehicle or taxi with limited knowledge or experience of basic market forces.

Culturally, there are examples of ‘jealousies’ of the success of others in the community and there are few examples of notable indigenous business persons who stand out.

In summary, there is a limited understanding of basic market forces, especially issues relating to:

① Customers – who are they, what are they prepared to pay, are their buying decisions based upon price, delivery?
② Competition – where is coming from – locally or imports?
③ Solvency – what will make a business sustainable if it runs short of cash?

1.3 Understanding of Business Management
From those interviewed in the private sector during the field work, there seems to be a lack of understanding and entrepreneurial discipline of the need to generate a cashflow in order to monitor and keep a business solvent. For example, a basic understanding and 'survival' mechanism following the departure of the United Nations was lacking and many businesses did not have in place contingencies once this lucrative market had contracted.

Consequently, many small businesses in the services sector in particular, are in the process of, or have already closed down.

This shortcoming is linked to more cultural entrepreneurial characteristics but it can also be compounded by an historical reliance upon government to fall back upon when 'things go wrong'. This is slowly being eroded often by enterprises learning from mistakes.

While there are many exceptions to this view, new enterprises in Timor Leste face the challenge of effective financial management and an appreciation that survival and success is based upon entrepreneurial discipline and a clear understanding of market forces.

1.4 Current Measures to Improve the Business Culture in Timor Leste

There are a number of business training programs currently being implemented in Timor Leste. Probably the Business Development Centres have the widest reach with their regional presence and the various courses offered range from basic start-up entrepreneurship to financial management. The lack of resources to ensure effective follow-up, however, does tend to undermine the sustainability of such programs and it is vital that this singularly important training project is expanded to incorporate on-going monitoring and interface with its clients.

There are also some associated business training programs undertaken by various NGOs such as “Oxfam” and “Concern”. These programs are often not structured and/or are undertaken on an ‘ad hoc’ basis in concert with other more general intervention projects. Furthermore, some of these NGOs are too poorly resourced to offer effective business management and business cultural awareness programs.

There is some associated business and work training (which is more ethics training) linked to vocational schools. This ‘ethics training’ is designed to instill employment skills and discipline with individuals and it incorporates various models for sole business operators and the entrepreneurship linked to ‘running a single-man operation’.

The recently commenced “Skills Training for Gainful Employment” (STAGE) project, jointly implemented by the Ministry of Labour and Solidarity, ILO, European Union and UNDP, aims to provide institutional strengthening to the Ministry, increase the capacity of training providers and design and implement a program of market-orientated skills training. The focus of the design stage will be to ensure that basic entrepreneurship and business cultural issues are included.
At present, there are some institutional strengthening programs being implemented in various ministries with an aim to reorientate the public service to a more ‘customer orientated’ focus.

The characteristics of some of the current vocational training programs in Timor Leste are contained in Appendix 3.

2. CHARACTERISTICS OF THE HUMAN RESOURCES AND BUSINESS SECTOR IN TIMOR LESTE

2.1 Characteristics of Human Resources in Timor Leste

The employment structure in Timor Leste is little different to that of similar least developed and immediate post crisis economies. In short, most workers are engaged in informal agricultural production based at a ‘household’ level. In the non-agriculture sector, about 50 percent of employment is based in the private sector; the remainder is engaged by government.

While the availability of up-to-date labour statistics is extremely weak, the following figures obtained from various sources, estimates the size and some of the characteristics of the labour market in Timor Leste as at June, 2005:

- The agriculture sector employs about 80 percent of the total workforce. This is made up of around 140,000 households (approx 700,000 people);
  - 57,000 households are solely subsistence farmers
  - 70,000 households produce some crops for market

- The non-farm sector makes up the remaining 20 percent (approx 40,000 people) of the workforce with the private sector engaging 34 percent and the government sector around 37 percent (about 12,000 – 14,000 people).

- Unemployment is as high as 20 percent in Dili/Baucau. In rural areas underemployment and low productivity tends to dominate though this varies across the regions.

- Unemployment tends to be higher amongst educated males though this is not unusual in a least developed country such as Timor Leste.

- Urban unemployed is highest in the 15-24 year age group and reduces as the age group increases

- Participation rates by men is significantly higher than for women

- Between 15,000 – 18,000 people enter the workforce each year.

- While labour laws are currently being developed, employment is currently based on basic ILO models with some correlations to Australian Labour laws.
2.2 Characteristics of the Business Sector in Timor Leste

The business sector in Timor Leste is a diverse and vulnerable group. In summary:

- Some 10,800 businesses were registered at the end of 2004.
- These were made up of 30 percent corporate entities and 70 percent individual entrepreneurs.
- Most sole operators and small businesses are household-based micro-enterprises. Most (about 80 percent) of registered business entities are based in Dili.
- There is a high attrition or non-renewal rate and many businesses fail, others simply revert to informal status.
- There is a high rate of unpaid family helpers in most business operations.
- Most of the informal and formal sectors have an annual turnover of no more than US$10,000.

Their characteristics and the implications for effective government policy to enhance the sector can be summarized as follows:

<table>
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<tr>
<th>Type of Business</th>
<th>Characteristics</th>
<th>Implications for a Business Development Service</th>
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<tr>
<td>Indigenous small business</td>
<td>① Poor business knowledge ② Limited or no collateral for new or expansion ③ Problems handling family demands ④ Poor financial management ⑤ Limited understanding of market concepts ⑥ Weak cashflow and dependence on informal loans ⑦ Employees are often family members who may not be suitable but cannot be sacked</td>
<td>These small business entrepreneurs need extensive and basic guidance on business principles and management. They are either unwilling or unable to pay for commercially priced business advisory services</td>
</tr>
<tr>
<td>Expatriate managed small</td>
<td>① Clearer understanding of business concepts but frequently do not have a business plan ② Often undercapitalized and/or unwilling to borrow from banks at high interest rates ③ Confronted by a difficult and fragmented market that can strain cashflow. ④ Often use relatively simple technology ⑤ Confronted by cultural impediments that are frustrating</td>
<td>Some of these businesses have reasonable growth prospects but they still require a good deal of business planning assistance and guidance. These entrepreneurs are more likely to contribute to the cost of such services but their cashflow position and general attitude mean that it will be extremely difficult for a business assistance program to secure close to cost recovery.</td>
</tr>
<tr>
<td>businesses</td>
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</tbody>
</table>
| Indigenous owned and managed medium sized business | Subject to problems if the manager does not have the ‘right’ contacts.  
| Relatively few in number  
| Tend to be overseas educated/experienced and more dynamic entrepreneurs who have resisted family obligations  
| Have usually developed reasonable assets but can suffer from poor cashflow and weak financial management  
| Business planning is ‘ad hoc’  
| Key staff are frequently family members who may not be the most suitable | This group of entrepreneurs should be a key target for a business advisory service. They are in desperate need of assistance and appropriate guidance would result in beneficial business development, economic and social outcomes.  
These entrepreneurs are also more likely to contribute to the cost of such services but their cashflow position generally mean that it will be extremely difficult for a business assistance program to secure close to cost recovery.  

| Expatriate or foreign owned and managed medium sized businesses | This represents most of the medium sized businesses in Timor Leste. With a decline in the economy many of these businesses have shed expensive expatriate staff and in some cases the ‘technical’ manager has taken over the managerial role.  
| Reasonably well capitalized but prone to cashflow problems in a declining market  
| Confidence in the economy and government has declined and many are in ‘survival mode’.  
| Business planning is weak and export ambitions are frequently not realized | For economic and general private sector development reasons this group cannot be overlooked.  
A slightly more sophisticated business advisory service is required but it would focus on key business planning.  
Export development should be included in the services offered.  
These potential customers are more likely to pay close to commercial rates for effective and practical business advisory services. |

### 3. HUMAN RESOURCES AND SKILLS IN TIMOR LESTE

#### 3.1 Demand for Skilled Workers

Excepting the tourism industry, the current demand for skilled workers in Timor Leste is limited by the size of the domestic economy and the limited current potential to export goods and services.

Demographic projections suggest that as many as 15,000 people will enter the labour force each year over the next decade. It is foreseen that the burden of employment creation will fall primarily on the private non-farm sector and with the public service already at its mature level of around 12,000, and a base work force of 40,000-50,000 in the non-farm private sector, employment in this sector will need to grow rapidly to absorb a good proportion of the total new entrants, many of whom will be seeking work outside of agriculture.
Some pressure of this will be relieved by the GoTL developing an overseas workers program, sending 1,000 labourers a year off-shore on a contractual basis. This would be seen as a double benefit with these workers remitting funds from abroad, thereby having the flow-on effect of increasing domestic demand for goods and services. The government is aware, however, of the risks involved in actively pursuing this policy, viz: potential abuse, exploitation, absence from home and adaptability to a new environment. It is foreseen that women, in particular, are especially vulnerable in these situations and appropriate mechanisms would need to be put in place to minimize adverse effects these programs may have.

Regardless, this program can only minimize the current unemployment pressures.

The rate at which demand for skilled non-farm workers will increase depends upon the business opportunities generated by an enabling environment to stimulate investment, be it local or from overseas. The government believes there are significant employment opportunities in a number of sectors that will result in increased employment opportunities.

3.2 Construction Activities

There has been a contraction in the construction industry in Timor Leste since the boom period immediately following independence which has led to a loss of jobs. Value added in construction declined from US$44 million in 2001 to US$29 million in 2003 - a decline of 35 percent. The government recognizes that projects such as new and maintenance construction activity on roads and public buildings, including education and health care facilities as well as housing activities can all contribute to employment creation in the sector.

There are over 100 local construction companies in Timor Leste. These are divided into three groups:

1. Group A: Contracting and civil works of value larger than US$500,000
2. Group B: Contracting works of value between US$250,000 and US$500,000; and
3. Group C: Contracting works of value less than US$250,000

The majority of construction businesses fall into Group C where capitalization is only very small and, therefore, their capacity to tender for larger projects is constrained.

The challenge will be to ensure that the majority of the construction work goes to local contractors and, where appropriate, uses labour-intensive methods of construction. Further, the government needs to institute policies to encourage development partners to subcontract to the maximum extent feasible the civil works components of their aid programs to local contractors/businesses. Adding to this, the government needs to adopt a set of procurement rules that give generous preferences to local contractors and foreign contractors which develop partnerships with local firms. It has been suggested that local contractors may be given a 30 percent preference in procurement while foreign contractors partnering with local contractors may receive a 15 percent preference.
In terms of the supply of skilled workers for the construction sector, additional support may also be provided on the supply side. The Skills Training for Gainful Employment (STAGE) five year project is worth mentioning in that this project, funded by the European Commission, ILO and UNDP, will provide demand-driven vocational and enterprise skills training nationwide.

### 3.3 Agribusiness, Forestry and Fisheries

The primary commercial agricultural industry is green bean coffee production for export sales. In 2004, export coffee sales represented more than 80 percent of the nation’s total export earnings. There is scope for increasing the value of coffee exports by increased value-adding to the product. This will, therefore, present many challenges especially given that processed coffee exports globally represent only around 2-3 percent of total coffee exports. That said, increased green bean coffee sales to more lucrative markets than Indonesia, would have a positive effect on rural incomes and job creation at this level.

Apart from coffee, in the agricultural sector alone there are other opportunities that could be explored to improve the livelihoods of rural families, reduce the dependence on imported products and generate potential export income. The sub-sectors worthy of further exploration include:

- Expansion of the coconut oil industry to replace imported vegetable oils,
- Honey production for domestic consumption and export sales,
- Bamboo shoots for canning operations for domestic and export consumption,
- Niche export market spices such as vanilla beans, birds eye chilies and cardamom;

Poultry production was dominated by a medium-sized poultry farm but closed several years ago due to cheaper imports. In the face of the avian crisis and stricter controls on the trade in poultry products, there is an opportunity to reinvigorate the industry.

There are also prospects for development of forest products industries that centre on revival of the sandalwood industry and already an UNIDO project is revitalizing the rattan and furniture making industry on the outskirts of Dili through an integrated program of product design and training.

Interest has also been shown in investment in fisheries operations, although at the time of the report’s preparation, no licenses for offshore commercial fishing have been issued.

The government has adopted an integrated strategy for developing the agriculture, forestry and fisheries industries. The three characteristics of the strategy include the following:

- Focus on production of marketable produce through market linkages programs, strengthening extensions services and to reintroduce and strengthen through various capacity building programs existing cooperatives, through managerial and technical training;

- Improve access to rural credit for farmers and rural traders with particular emphasis on support to microfinance institutions and cooperatives; and
The institutionalization of an effective land-tenure framework and the development of capacities for effective implementation of these laws and regulations.

Support in this area has been secured through USAid. The Bolstering Agriculture and Sustainable Agribusiness/Private Sector Reform (BASAR) was about to commence shortly after the completion of this report.

### 3.4 Manufacturing and Trading

As most domestic needs are met by imports, manufacturing activity is very limited. Most domestic investment is earmarked for retail/wholesale operations in Dili and district capitals.

Apart from a water-bottling plant and a brick and tile factory (which has downsized over the past 12 months) manufacturing is limited to small-scale clothing and uniform operations and small furniture manufacturers. There are a few bakeries but most other manufacturing/production is limited to household-based industries such as cake decoration and tais weaving. The handicraft industry is extremely small and opportunities for investment should be explored to expand this sector.

With the downturn in the international presence in the country, there has been a disinvestment in restaurants targeting international patronage and the investment in hotels and guesthouses has leveled off. Limited computer services are available with most servicing undertaken off-shore in Singapore and Australia.

There may be some opportunities for import replacement or some domestic value-adding to certain types of imports. Imports relating to food and beverage in 2004 totaled US$17.5 million with textiles, clothing and footwear amounting to US$1.3 million. Furniture, including office fit-outs, represented more than US$1 million in imports.

The government also attaches importance to an assessment of the medium to long term potential of the handicraft industry, including possible opportunities for development of export markets in concert with the tourism industry. The IFC-PENSA project in Bali could well be approached to adapt their current handicraft program in Timor Leste.

### 3.5 Tourism

Tourism has the potential to become a major sector of the economy and would contribute to the absorption of increased levels of employment – both directly and indirectly. The sector is recognized as an important industry to develop given that a large range of people could be absorbed into the industry – both men and women of all ages, skilled and unskilled.

The industry in Timor Leste presents itself with a large range of high value tourism products and investment by the private sector will be the key driver of growth. Investment in dive and tour operations and hotels has grown since independence usually in the form of the expansion of existing businesses.
The government plans to take an active role in promoting tourism and assisting private sector operators to develop the potential of this sector. Already it has reviewed the potential scope of the industry, engaged support from Portugal, Australia, Thailand, Macau and worked with the private sector to establish the Tourism Association of Timor Leste. Also the World Tourism Organization is ready to develop a project for “Sustainable Tourism Sector Development and Institutional Strengthening” in developing a short, medium and long term strategy to accelerate the growth of the industry.

The key objective is to build a tourism industry that generates employment, is sensitive to the environment and gender issues and maintains local culture. The main elements of the program will include:

- Attraction of foreign investment in the sector and the transfer of foreign skills
- Job creation
- Promotion of vocational training in tourism
- Educational and awareness programs on the benefits of tourism
- Promotion of strategic tourism sites
- International campaigns promoting Timor Leste as a tourism destination
- Development of tourism-related technologies to improve the sector (e.g. internet bookings and promotion)
- Focus on environmentally and culturally sensitive tourism programs
- Develop a legal framework for tourism development; and
- Implement the Tourism Satellite Account.

### 3.6 Petroleum and Mining

The potential for the Timor Sea Project is well known and the first production from the Bayu-Undan field began in 2004/05. The project is expected to generate substantial revenues from royalties and corporate taxes for an extended period.

Despite a long history of exploration, not much is known about the onshore and near-shore potential, in part because the government does not have access to any of the records from the exploratory drilling. Non-commercial quantities of oil and gas were recovered from a number of wells drilled, with more than 20 wells having been capped. In addition, over 30 oil or gas seepages have been documented along the southern coast, suggesting further resources in the area. The government has commissioned additional survey work to obtain up-to-date and reliable assessments of these resources before entering into discussions with potential investors who may wish to undertake exploration programs. Commercial development of onshore resources would offer significant opportunities for the further development of a range of domestic ‘spin-off’ businesses and create employment opportunities amongst the skilled, semi-skilled and unskilled population.

### 4. AVAILABILITY OF VOCATIONALLY TRAINED AND SKILLED WORKERS
Timor Leste is an agri-based economy with 80 percent of the population involved in agricultural activities, often on a self-employed, subsistence basis. Urban unemployment, particularly in Dili and Baucau is around 20 percent and is highest amongst the educated.

Of major concern to the government is the inability of the current labour market to absorb high levels of urban youth and the increasingly young population in the country presents key social and economic challenges for the country in the immediate future.

Based on the survey of Urban Enterprises in Timor Leste and across the full spectrum of employment categories (except managerial) less than half of workers are fully proficient in their core competencies in their jobs. The survey concluded that most lack basic language proficiency (Portuguese/English), customer service skills, administrative and financial skills.

Training and technical certification varies from institution to institution. The government is currently drafting a legal framework to establish a National Training Authority (NTA) which would be responsible for the development of a certification system. Most formal enterprises, however, provide some training to their employees, most of which is undertaken on-the-job. Skills acquisition in the rural sector is undertaken either at home, on the farm and in the village from older members of the family and the community. Very little is through formal off-the-job formalized education and training. Agricultural extension programs are generally the only formalized training programs operating in rural areas and at present these are few in number and vary in quality and effectiveness.

At present there is no consistency of core competencies throughout the country. These are often dictated by ‘donors’ to institutions and it is the case that, for example, a two year trained electrician from two differently funded institutions will graduate with different minimum skills. The new NTA will be mandated to address this issue.

The current range of vocational courses on offer at the different institutions are limited to basic trades (electrical, plumbing, basic construction etc) and are not aligned to meeting labour market demands. Consequently, the tourism/hospitality, mining petroleum and agribusiness sectors are neglected. Again, NTA and the STAGE programs will hope to address this issue.

Apart from a few agricultural extension programs, there is limited formal vocational training happening outside Dili. Some institutions have been offering subsidized accommodation on campus to encourage non-Dili based students to relocate for training purposes and others offer meals and a per diem allowance. This is, however, becoming unsustainable in some cases and the subsidizing of student living costs is a matter of concern with donors and training institutional management.

Similarly, placements and ‘on-the-job’ training is limited mainly due to the small size of the economy and currently there is no national apprenticeship scheme operating in the country.

Numerous private institutions and NGOs offer short-term (3-6 month) training in basic office skills, bookkeeping and computer technology. Opportunities for these graduates to be absorbed into the formal employment sector is limited and often the training, especially IT, is not sufficient for many computer service companies to localize positions.
There is also very limited language training available in Timor Leste. Whilst initial confusion over the choice of the country’s official language at the time of independence, resulting in two languages, Portuguese and Tetum, being officially recognized, all school text books, legislation and manuals are in Portuguese. The majority of the population, however, speaks Tatum and Indonesian Bahasa is more widely spoken than Portuguese. Against this backdrop, English knowledge and usage is limited and there are very few courses available for training in other languages such as Japanese and Mandarin.

5. VOCATIONAL TRAINING IN TIMOR LESTE

Technical and vocational education and training institutions in Timor Leste are characterized as being either formal or informal. Formal institutions operate within the Ministry of Education, Culture, Youth and Sport (MoECYS) qualifications framework and it is this that defines their ‘formality’. They are comprised of government and Catholic Technical High Schools and the Government’s Polytechnic Institute. Technical high school courses are three years, leading to a technical diploma. The diploma issued by the MoECYS is considered equivalent to a Senior Secondary Diploma. Graduation from junior secondary school is a pre-requisite for entry to technical high schools.

Institutions that do not fall within the MoECYS’s qualifications framework are regarded as non-formal. “Non-formality” does not imply anything but teaching methods used or the quality of the education and training provided, only that the institution is not part of the MoECYS’s qualifications framework. Entry to courses is usually open, the selection of applicants often taking into account the circumstances of applicants – disadvantaged applicants (ex-combatants, family members of ex-combatants) may be given preference. Courses are usually six months to one year in duration. Institutions not accredited to the MoECYS, issue their own certificates outside any formal certification network. The new NTC is aimed at addressing this issue.

5.1 Formal Vocational Training Institutions

Technical high schools cater for students aged 15-17 years. It should be noted that the cost of educating technical students in relation to the cost of senior secondary general education is around 3.5 times as much.

There are a total of nine technical high schools in Timor Leste. The following table provides details that characterize these schools:

<table>
<thead>
<tr>
<th>Technical High Schools 2003</th>
<th>1st year</th>
<th>2nd year</th>
<th>3rd year</th>
<th>Total</th>
<th>Teachers</th>
<th>Student/Teacher Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>STM Becora</td>
<td>150</td>
<td>111</td>
<td>79</td>
<td>340</td>
<td>56</td>
<td>6.1</td>
</tr>
<tr>
<td>SMEA Becora</td>
<td>294</td>
<td>311</td>
<td>239</td>
<td>844</td>
<td>21</td>
<td>40.2</td>
</tr>
<tr>
<td>SMKK Becora</td>
<td>40</td>
<td>150</td>
<td>40</td>
<td>230</td>
<td>18</td>
<td>12.8</td>
</tr>
<tr>
<td>SPP Natarbora</td>
<td>88</td>
<td>68</td>
<td>10</td>
<td>166</td>
<td>31</td>
<td>5.4</td>
</tr>
<tr>
<td>SMEA Same</td>
<td>175</td>
<td>120</td>
<td>70</td>
<td>365</td>
<td>12</td>
<td>30.4</td>
</tr>
<tr>
<td>SPP Maliana</td>
<td>106</td>
<td>-</td>
<td>-</td>
<td>106</td>
<td>16</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Total Government</strong></td>
<td><strong>853</strong></td>
<td><strong>760</strong></td>
<td><strong>438</strong></td>
<td><strong>2,051</strong></td>
<td><strong>154</strong></td>
<td><strong>13.3</strong></td>
</tr>
<tr>
<td>STM Fatamuka</td>
<td>83</td>
<td>73</td>
<td>62</td>
<td>218</td>
<td>28</td>
<td>7.8</td>
</tr>
</tbody>
</table>
The student-teacher ratios appear relatively low for a number of the schools although on an international basis this figure is generally average. The schools providing business studies, the SMEAs, have the highest ratios and are presumably more in line with general secondary schools. The schools providing the technical classes, the STMs, have the lowest ratios.

The technical high schools suffered a varying degree of damage during 1999. At STM Becora, for example, a great deal of equipment and materials was stolen. The automotive school has been re-equipped to some extent, using finance provided by ILO, but the other courses – welding, electrical, computer – remain without usable equipment and very few supplies. As a result much of its work is completed at a theoretical level. Despite these poor circumstances, STM Becora claims to have over twice as many applicants as it can accommodate.

A government Polytechnic (the Dili Polytechnic) located in Hera has on average 400 students in mechanical, civil and electrical engineering.

5.2 Non-Formal Sector

The non-formal sector falls outside the qualifications framework administered by MoECYS. Non formal institutions are free to set their own standards, to choose their own pre-requisites for entry to courses and to issue their own certificates of completion. The institutions can be divided into the following main groups:

5.2.1 Catholic Vocational Training Centres

There are four Catholic vocational centres in Timor Leste. These are the Agricultural Training Centre at Dare, the Comoro Skills Centre in Dili administered by Don Bosco, a Catholic business studies school and a health (nurses’ aid) school.

One such centre is the Don Bosco School which has some 85 trainees in one-year courses in electrical trades, welding and carpentry. Students are given 10 months institutional-based training followed by 2 months on-the-job training with employers. The school reported that it sometimes receives applications from graduates of the 3-year diploma courses at STM Becora but usually rejects them in favour of disadvantaged students. It is worth noting that graduates of STM Becora’s welding and electrical courses will have had hardly any more practical experience, given the current lack of equipment at the school, than applicants at Don Bosco. While applicants for Don Bosco’s electrical trades course must have some education and be sufficiently literate to manage the course requirements, applicants for the welding and carpentry courses may be accepted even when they have a minimum or even no education achievements.

5.2.2 Donor-Financed Vocational Training Centres
There are two donor-financed institutions providing non-formal training, typically in fields such as building and construction, automotive and electrical trades.

The Tibar Centre is financed by the government of Portugal and is located in Tibar, near Dili. It is financed until 2006 when it is expected to revert to government management through the Secretariat of Labour and Solidarity (L&S). The Centre provides, for example, stipends to students who attend which are likely to be unsustainable if the Government takes over management of the institution. The Centre offers eight month courses and is introducing hospitality, catering and tourism-related subjects. Graduates are issued with and get to keep tool-kits upon graduation as well as a US$350-600 grant to start their own businesses. They are also provided some basic business planning training. With the support of the government, the Centre approaches companies to see if they will accommodate more training, three months per employee, and the Centre pays 40-60 percent of the wages.

The Centre is administered by a Board which also provides micro-credit. Graduates proposing ‘feasible’ business plans undertake a 2-4 week basic accountancy course and can access loans, at no interest, up to US$1,500. Subsequently, the Centre monitors the progress of the business and provides advice. The Centre is also commencing courses in Horticulture and Floriculture and has purchased the necessary equipment. There are 14 local students involved for only four hours per day, in order that they are not removed from their own farming activities for too long. They are currently producing vegetables for the local Dili restaurants and hotels and have an arrangement with the Dili District Administrator to take flower plants into Dili parks.

The Senai Centre which is financed by the Government of Brazil is located in Becora. The Centre will revert to management by the MoECYS within the next two years. The MoECYS is likely to incorporate the Centre into its existing framework but is unlikely to operate the institution in its current form. Currently, the Centre offers 6-month courses, with two intakes a year and plans to reduce the course duration in an attempt to increase its intake. The Centre gives preference to the disadvantaged including ex-combatants.

5.2.3 Post-secondary Education and Training Institutions

There are about 18 non-government training institutions. All of these are not regulated at present, including the seven self-styled universities. There are also three self-styled academies and eight institutes. These eleven institutions provide courses that were more directly related to developing technical and vocational skills.

One such institute is the Dili Institute of Technology (DIT). DIT is well-regarded and it has established relationships with two Australian tertiary institutions that focus on vocational and tertiary education. It is receiving technical assistance from Victoria University which offers both higher education as well as technical and further education courses under the Australian TAFE sector. DIT also has an association with the Canberra Institute of Technology, the major TAFE sector institution in the Australian capital. DIT is not accredited by MoECYS and issues its own certificates which range from Level 1 to Level 4 courses. Most students are disadvantaged groups with a preference again, given to ex-combatants.
5.2.4 Other Non-government Vocational Training Centres

There are over 40 other non-government training centres, mostly administered by NGOs including some run privately for profit. These training centres are not regulated although, in the division of responsibility between MoECYS and L&S, they would come under L&S. Over half these centres are based in Dili, many providing computer courses and a few courses in sewing.

One such Centre is The Timor Leste Development Association (ETDA) commenced in 2001, with Australian Aid funding and later some additional Spanish funding. Australian Volunteers International (AVI) Advisers trained six local trainers. ETDA is now 50 percent self sufficient, as companies pay some of the operating costs and students US$25 for a course.

ETDA course applicants are mainly unemployed 21-25 year olds, mainly with no prior work experience. 2,700 are registered and 42 private companies and the United Nations and the government are registered users. The program has recently been extended to the Districts.

Clients are trained mainly in basic administration and finance. Courses run for six months and 60 percent of students are female. There is also basic computer training in Microsoft Word, Excel and Powerpoint.

ETDA monitors available jobs, via press and word-of-mouth and employers also source graduates directly from the Association. Placement of graduates, however, is extremely hard given the limited number of opportunities that exist for trained administration staff. The government, for example, took 15 trainees on work experience but retained only two.

The Japanese Government is providing horticulture classes with 40 students at the Timor-Leste Training Centre at Liquica.

6. ENTERPRISES TRAINING IN TIMOR LESTE

6.1 Basic Business and Management Training

The Second Small Enterprise Project (SEPII), funded by donors through the Trust Fund for Timor Leste (TFET) is implemented by the Project Implementation Unit (PIU) of the Ministry of Development and Environment. The project’s major objective is private sector development and in particular capacity building of small and medium size enterprises through comprehensive short nine day business training courses and workshops. At the time of the report’s preparation, four Business Development Centres (BDCs) had been established in each of Dili, Baucau, Maliana and Oe-Cusse. A fifth BDC at Maubessi is currently being realized.

Whilst the courses and workshops have covered a wide range of business-related topics, including basics of business start-ups, business and marketing planning etc, there are gaps in their delivery especially in relation to a lack of appropriate ‘follow-up’ and business
consultations at the enterprise level. Further, although they have attended a ‘train the trainers’ induction course, most of the course trainers are recent graduates and have limited or no actual business experience. There is also a major gender imbalance amongst the trainers with only 3 women trainers delivering various courses. It should be noted that there is an absence of practical training programs on the fundamentals required in relation to actually identifying the factors that make a business opportunity viable.

Beyond the training provided by the BDCs there is no other ‘practical’ business training occurring throughout the country though very basic instruction is available through various private institutions.

Some vocational training institutions occasionally offer business training as an option for graduates to finding full-time employment. Again, the ‘practicalities’ of running a small business are often overlooked and course outlines indicate that this training only covers basic bookkeeping/accounting skills and avoids the mechanics of analyzing business opportunities and starting-up and financing a small enterprise.

### 6.2 Basic Business Training for Start-Ups

As mentioned above, the Business Development Centres offer courses for business start-ups and these include basic entrepreneurial skills and business plan development. Business ‘ideas’ are sometimes referred to lending institutions for evaluation but it is often the case that a lack of tangible market analysis and opportunities are overlooked in these proposals. This indicates a lack of emphasis that the basic prerequisites in starting a successful business such as, identification of customers, beating the competition and cash, is tended to be overlooked in this basic training.

Some business ‘start up’ training is undertaken informally as follow-up to technical training (usually by inexperienced NGOs) and its effectiveness is diluted by a lack of follow-up.

As a result, the understanding of what makes a business successful, a high percentage of start-ups fail because of poor understanding of basic business concepts. In short, there is limited ‘practical’ training (or advice) on “what makes a good idea a viable business” and the failure rate is further exacerbated through the lack of practical ‘hand-holding’ follow-up.

### 6.3 Financial Management Training

Over the next 12 months, the Business Development Centres are planning to offer various financial management training programs for existing businesses. This type of business training is in great demand because, as mentioned above, most businesses are failing because they do not have the discipline or the understanding of managing money efficiently.

Currently there is no training available on ‘preparing a case for finance’ for consideration by a bank or a microfinance institution. Not one of the three banks, nor the other financial institutions are interested in providing this service to small entrepreneurs and
therefore, the gap is filled by inexperienced bookkeepers, unrecognized ‘accountants’ or NGOs with limited business experience.

6.4 Quality Production Training

Total Quality Management is not recognized by most small businesses in Timor Leste although the training of these concepts is incorporated into vocational training curricula with a varying degree of emphasis.

Internationally accepted Quality Assurance standards are implemented by larger, mainly foreign-owned, companies where training of these concepts is carried out ‘in house’.

6.5 Foreign Business Experience and Training

Many post-conflict businesses established by former Chinese, Indonesian and expatriate Timorese now returning to Timor Leste bring with them knowledge and experience of ‘another’ economy, its market forces and minimum business requirements. Otherwise, there is an exaggerated opinion by new locally-owned small businesses of their ability to even understand the basic mechanics involved in exporting products overseas.

There is also limited knowledge of international business trends and these are not covered in the business training modules, be it at the BDC, training institution or NGO levels.

6.6 Internet/Computer Technology Training

Numerous private institutions and government technical/tertiary bodies offer basic internet/computer skills training. These courses range from introductory word and spread sheet usage to more complex applications. It should be noted, however, that computer use is not regarded as a high priority by many small businesses which do not have access to computer hardware/software or the utilities necessary to operate them.

6.7 Current Initiatives to Improve Business Training

The proposed establishment of a “National Vocational Training Agency” will have the mandate, through the Ministry of Labour and Solidarity, to license training institutions throughout Timor Leste. It will, following on-going consultations with training providers, standardize accreditation/certification methods and minimum qualifications. This is a particularly important initiative and will form the basis for training providers to develop new and/or re-align their existing training modules.

The Business Development Centres are proposing to focus more on delivery of training to ‘existing businesses’ rather than a focus on ‘start-ups’. Courses offered will identify particular issues, such as financial planning, business growth options etc. While the financing of the BDCs under SEPII remains a contentious issue, it is likely that the survival of these centres will only be guaranteed by subsidies from government and
donors in the medium to longer term. Attached (Appendix 4) is a proposed outline of a training concept authored by the consultant that could be adapted by the BDCs in offering a course in simple project identification including viability measurement.

The five year ILO and Ministry of Labour and Solidarity’s, Skills Training for Gainful Employment (“STAGE”) program, which focuses upon rural poor and community based training covering all industries (except agriculture), will liaise closely with the BDCs following the signing of an MOU in May, 2005. The target group of the training is the generation of small enterprises to increase employment and can provide follow-up credit for start-ups. The funding is for NGOs, community groups and individuals on a proposal basis. The introduction of this project is timely given the change in focus to training of existing businesses by the BDCs.

The UNDP has a five year Professional Training Program that provides grants for access to vocational training. Further, UNIDO is funding two projects associated with entrepreneurial development. The first focuses on the establishment of a bamboo and rattan skills development centre with a focus on export and import replacement. The second project will train young people in entrepreneurial skills.

Since 1999, most training needs have been described as ‘donor-driven’ often with the training based upon a model already operating in the donor country. The government is currently taking an increasingly active role in ensuring closer cooperation between government agencies and their donor partners and the projects, themselves, are being increasingly monitored to ensure maximum benefit.

There is also an increased focus on agri-based entrepreneurial training under the restructure of Ministry of Agriculture, Fisheries and Forestry and Natural Resources Management Project. This project has the objective to increase the level of entrepreneurial and skills-based training at the rural level and fill the gap of agri-based entrepreneurship under the STAGE program. The training itself will be for the establishment or expansion of agri-based and fisheries small businesses.

The gathering and analysis of statistical information, currently limited and out-of-date, is being institutionalized and a central registry for this information will be available within the next few years.

### 7 GAPS IN THE PROVISION OF SKILLS TRAINING IN TIMOR LESTE

<table>
<thead>
<tr>
<th>NEED</th>
<th>SERVICES AVAILABLE</th>
<th>ADEQUACY/APPROPRIATENESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vocationally Trained employees</td>
<td>Many training institutions and NGOs undertaking ad-hoc skills transfer</td>
<td>Lack of uniform accreditation and training tends to be donor rather than market driven.</td>
</tr>
<tr>
<td>Guidance and training on understanding basic business concepts, including avoidance of cultural</td>
<td>BDC training programs are the only country-wide project.</td>
<td>BDC training programs are good but all efforts are sometimes undermined by a lack of on-going and long term follow-up.</td>
</tr>
</tbody>
</table>
impediments | BDCs are providing practical advice
---|---
Individual guidance on feasibility of proposed new projects or expansion plans and preparation of funding proposals | BDCs provide some limited training. Some smaller business people provide limited advice on a free basis. Almost no such assistance is available to this sector
Business management and planning assistance | BDCs Smaller accountancy Individuals BDCs not capable and inexperienced Great majority of small indigenous businesses have to fend for themselves
Business recovery assistance/guidance | No ‘work-out’ philosophy and the banks are unwilling to assist. Very little support is available and small indigenous businesses in trouble frequently fail. These entrepreneurs cannot afford accountancy fees when they are in trouble.
Technical Support and Guidance | Some extension services by Ministry of Agriculture, Fisheries, Forestry A limited number of NGOs Overseas volunteer programs (but cost sharing requirements limit their reach) Some NGOs provide specialised technical guidance but this is usually focussed on the agriculture/fisheries sector in a particular area. Most entrepreneurs in other areas receive almost no technical support or guidance.

8 THE BUSINESS SERVICES SECTOR IN TIMOR LESTE

Nearly all business services in Timor Leste disappeared in 1999 with the exodus of the Indonesians and many Chinese along with the destruction of business-related records in both the public and private sectors.

Currently, most business and financial services are offered through the branches of foreign banks and some microfinance enterprises with offices only in Dili. Accounting and auditing services are restricted to a two or three service providers and business insurance is not available at present.

The lack of these essential services tends to inhibit the prospects of any early foreign investment in the country though a focus by government to develop and legislate a transparent and compatible business regulatory environment is becoming more of a reality.

8.1 Recognising the Importance of Business Development Services
Most SMEs recognise that they need help but are generally unwilling to pay for professional services and there is some distrust of government which at present lacks the capacity to deliver a customer-friendly focus.

The Business Development Centres provide the only real effective business services. They have a wide reach and an increasingly positive reputation. For many of the ‘start-up’ clients, however, there is a resistance, if not an inability, to pay the even a US$10 training fee and it is hoped that these aspiring entrepreneurs will be identified under the ILOs STAGE program as the BDCs move to concentrate more on assisting existing businesses.

Most other business development services are provided on an ‘ad hoc’ basis and the effectiveness/appropriateness is unknown or questionable. That said, many businesses feel that they have ‘no one to turn to’ for practical, affordable and on-going business advisory services.

8.2 Legal Services for Business

At the time of preparing this report, there was little progress in policy and regulatory matters relating to the small business sector. However, there has been donor-funded technical assistance to accelerate the introduction of a clear policy and a legal framework.

Until now an UNTAET regulation on business registration and taxation (that was modified in 2003), tariffs, duties and excise has been used to regulate business activities in the country.

Despite this stop-gap measure, it is evident from consultations with various small business operators that they “want to do the ‘right thing” but government institutions are currently not strong enough to neither implement business regulations nor monitor compliance which tends to be cumbersome and in some cases complicated. For this reason, many small businesses have reverted to the informal sector or simply do not comply. Further, awareness of the regulatory environment is either non-existent, limited or engenders a culture of “abuse” and there is little assistance accorded confused business owners by those government agencies mandated to administer the current legal framework.

Another problem facing small businesses is the absence of proper legal representation. Most existing lawyers were trained under the Indonesian system, are not recognized and therefore, there at the time of this report’s preparation, there is no formal bar association or formal disputes tribunal.

8.3 Accounting/Auditing Services

There are no formally recognized accounting/auditing services available in Timor Leste.

Large expatriate-owned enterprises engage foreign (usually Australian) auditors to ensure compliance and avoid the risks of expulsion. This reflects their high charges and the comfort factor provided to the customers from dealing with a ‘known brand’. The full
range of services is offered to these companies ranging from taxation advice to the organization of work permits.

Three locally based accountants are not regulated or officially recognized and offer only a limited range of services which are usually out of reach in terms of affordability for most SMEs.

Third tier accountants are basic ‘bookkeepers’ who are usually family members who, in some cases may have undertaken basic business accounting training or a friend who is employed formally or informally by the enterprise.

A lack of compliance usually results in many enterprises not formalizing their operations at the outset or bothering to re-register.

8.4 Business Insurance Services

There are currently no insurance or prudential laws covering business in Timor Leste though a ‘draft’ Insurance Law is currently before the Council of Ministers.

The inability to obtain business insurance is of concern to existing businesses particularly in relation to their business expansion plans as it has a direct impact on access to finance. It also has a detrimental effect on the potential to attract long term foreign investment.

8.5 Business Planning, Marketing and Sales Services

The Business Development Centres have been providing training to start-ups but there are no formal consultancy services available on a ‘fee-for-service’ basis. Most advice to existing SMEs is on an ‘ad hoc’ basis and that advice is usually unrealistic or questionable.

There is limited ‘funding proposal’ assistance, although the BDCs deliver modules on this topic. The caliber of that which is available varies in quality and the banks complain that the funding proposals are inadequately documented and supported by insufficient market research.

Various NGOs provide funding preparation assistance and their effectiveness (and successes) vary from organization to organization.

In summary, most business planning is left to individual entrepreneurs, the majority of whom rely on limited or no market information.

8.6 Access to Modern, Affordable Office and Production Equipment

The availability of office and production equipment varies from ‘not bad’ in Dili to ‘non-existent’ in most other districts in the country.
There is significant computer hard and software usage in government offices mainly based in Dili but computer use in the private sector varies and limited use sometimes relates to a lack of servicing availability and/or unreliable public utilities.

Basic tooling equipment servicing can be carried out ‘in country’ but anything more sophisticated requires dispatch overseas or the contracting of expensive expatriate technicians.

Electricity supply in regional/rural areas is either non-existent or unreliable and the basic ‘incubator’ style industrial estates that have emerged in neighbouring developing countries do not exist as yet. The ‘Markets Rehabilitation Project’ which is part of the SEPII program would have a ‘captive audience’ should this project be extended to incorporate SME training and assistance on site.

8.7 Availability of Industry-Specific Production Technology Services

Some agri-based outreach programs, conducted by the Ministry of Agriculture, Fisheries, and Forestry have been implemented but their effectiveness to date has varied in delivery and success. The World Bank/European Community funded rice rehabilitation project is designed to increase yields by 50 percent but its success to date is debatable.

Some NGO ‘food security’ and livelihood programs have been implemented in various remote rural areas but their sustainability is dependent upon the on-going presence of the NGO itself. A successful outreach program by the Catholic Church-run CONCERN project is pitched towards women entrepreneurs in Los Palos and involves the processing, storing and packaging of peanut based food products and tropical fruit. Using agri-specialists, the NGO itself has introduced a range of production techniques suitable for the relatively poor status of the environment in this remote regional centre.

The UNIDO-funded bamboo and rattan project has also introduced various modern production and manufacturing technology though the sustainability of this project is heavily dependent upon a lucrative local and/or export market.

8.8 Business Problem Solving Services

The concept of a ‘work out’ approach to customers with loan arrears is not widely adopted. Most banks/MFIs opt for recovery action and it should be noted that most loan sizes are too small for time-consuming bank initiated assistance.

Government services are not yet customer/private sector focused enough to provide practical and/or immediate assistance to struggling businesses and as a consequence, many become unregistered and return to an informal status.

A Tourism Association is a loosely formed group of mainly expatriate operators that advises government on issues relating to the industry. Otherwise, there is a lack of any formal chamber of commerce and the Chinese Business Association is regarded, unjustifiably, with some suspicion. Further there is a no association incorporating
women-in-business nor a young entrepreneur mentor scheme. The formal establishment and recognition of these organizations would provide a vehicle through which struggling business operators could seek assistance.

8.9 Current Initiatives to Improve the Business Services Sector

The economy of Timor Leste was devastated by the events of 1999. Seventy percent of the industrial base was destroyed and while the economy recovered as a direct response to the UNTAET spending stimulus, much of the improvement has been eroded with the downsizing of the United Nations presence in the country.

The Government has identified key challenges facing the country including;

1. An improvement in productivity in all sectors; and
2. Creating an enabling environment for the private sector (including agriculture) to generate jobs and economic growth.

To this end, it is increasingly focused on adopting the concept of the private sector as the ‘engine to growth’ and is taking a more coordinated ‘whole of government’ approach in relation to policy development and the coordination of donor programs.

Already the business services sector is being enhanced by the drafting of a business regulatory framework incorporating more user-friendly compliance and the development of investment, insurance, company registration, leasing and laws supporting trade. The challenge is, however, to ensure that information on application and compliance issues are widely disseminated and in the most user-friendly manner.

9. ACCESS TO BUSINESS INFORMATION

9.1 Information on the Domestic Market

The “bubble economy” during the UNTAET period created unrealistic expectations regarding sustainability of many businesses and very few SMEs had any business planning experience to put in place viable contingency plans for when there was the inevitable downturn. There are no agencies involved in local domestic market research and the dissemination of information when highlighting any market opportunities. If it is the case that the Business Development Services of the Ministry take on domestic investment promotion, then it will be important that they also explore domestic market opportunities and have the technical skills to document these and promote them to existing or prospective enterprises.

Niche market opportunities that have existed from time to time are often exhausted by immediate, saturated and uncontrolled competition. This is highly evident in the local Dili-based taxi industry and the street food vendors who all promote the same product/service at the same price with little regard to basic market forces.
9.2 Information on Export Markets

Information on export markets is limited to the knowledge brought back to the country by Indonesian, Chinese and expatriate Timorese who have lived overseas for many years. Their expectations, however, are often unrealistic and as a result only unprocessed coffee beans are sold to markets in the USA and Asia.

Knowledge of export pricing, packaging, quality, freight and export documentations is relatively non-existent and the recently established Investment and Export Promotion Centre will need to identify overseas niche market opportunities for the very few export products that, at present, would have any chance of success.

Extension services undertaken by the Ministry of Agriculture, Fisheries, Forestry for cash crop farmers (e.g. coffee) is providing some information to growers/traders on what constitutes a reasonable ‘farm gate’ price for their produce but as most farmers operate on a subsistence basis, selling only excess production, this becomes rather academic and irrelevant to them.

9.3 Information on Sources of Finance and Microfinance

The banks and microfinance institutions do not really market their financial services and SMEs tend to hear by word of mouth of the availability of various lending products. The promotion of lending services tends to be pitched at more educated and ‘cashed-up’ enterprises.

9.4 Information on Government Procurement Opportunities and Processes

Most businesses are made aware of government tendering opportunities but at times have unrealistic expectations of what is involved in the application and selection processes.

One small uniform manufacturing operation in Dili, for example, could not obtain information from the relevant tender assessment panel why an Indonesian company had been selected to supply uniforms for the nursing staff of the general hospital. There tends to be a real or perceived “non-transparency” and prevalence of “corrupt practices” when their tenders are unsuccessful and the government officials whom they approach have little knowledge of the selection process themselves.

9.5 Current Initiatives to Improve Access to Information

The establishment of the Investment and Export Promotion Centre will have a mandate to gather, analyse and disseminate information to potential overseas investors on business opportunities in Timor Leste. This will, however, require ‘in-house’ training of its existing staff and the development of a clearly thought out and achievable medium
and long term strategy based upon the identification, documentation and promotion of specific business opportunities.

There are various donor funded programs operating within ministries to increase the capacity of government to collect, analyse and disseminate information relating to the promotion of a vibrant private sector in Timor Leste. The key, however, will be to prepare up-dated information on an on-going basis and disseminated this to the domestic business community in a user-friendly format. For example, an excellent commercially written market report was prepared by TIDS on the furniture manufacturing industry in Timor Leste. This report needs to be disseminated in a summarized version to potential and existing furniture manufacturing operators with guidance on how best they can use this commercially-valuable information.

10. IMPLICATIONS FOR GOVERNMENT POLICY MAKERS

Part B outlines some possible initiatives in developing an effective business support and training program but it needs to be recognised at this stage that:

1. Any program needs to take into account the cultural diversity and characteristics of Timor Leste;

2. Without effective political and government support in terms of an enabling environment the future of the business sector will be limited;

3. An extensive program designed to overcome most of the impediments to a more vibrant SME sector will require a significant program entailing substantial costs and will require considerable resources and political support;

4. All segments of the SME sector need assistance if they are to contribute to economic growth and employment generation;

5. The indigenous potential entrepreneurs and small business operators require a tailored assistance program that guides them through the difficult Timor Leste business environment;

6. The domestic market in Timor Leste is not large and it would be counterproductive to encourage a large number of new small businesses which are likely to fail and thereby crush entrepreneurial spirit of those involved;

7. The financial impediments to small business will not be easily overcome in the medium term;

8. Limited progress can be achieved until the infrastructure shortcomings in several crucial areas are rectified;

9. There is a reluctance and an inability to pay commercially viable fees for business advisory services amongst most SMEs and any assistance program will need to be subsidised for some time; and
There is a profound scepticism about the practical value of any business assistance program that is administered and delivered by the government – an effective SME training development program should therefore involve a delivery mechanism that is outside government.

Development and implementation of an effective SME training assistance program in Timor Leste will be a daunting task. The approach must be coordinated and must address the practical needs of SMEs in an effective manner.

Against this backdrop, it is important to recognise that the SME sector in Timor Leste can become a major source of formal employment and increasingly the best option for economic growth. Unless the sector can be vitalised and expanded, the decline in the nation’s economic and social development indicators will almost certainly accelerate.
PART B

SME Development
In relation to
Business Culture, Business Training, Business Services and Business Information

Some Initiatives for Consideration
1. INITIATIVES

Under the four major themes discussed above, some potential initiatives for consideration by government policy makers, donor agencies, NGOs and the like can be summarized as follows:

1.1 Business Culture

- The introduction of basic savings concepts in primary school curricula and basic business concept studies at junior secondary levels
- The introduction of a wide media program to expose basic business concepts and benefits of a vibrant business sector
- Formalise business associations and chambers
- Support individual SMEs which can operate as ‘role models’ whose owners can become business mentors
- Include ‘work and business ethics’ components to all vocational training programs

1.2 Human Resources

- Train and utilize “selected” livelihood-focused NGOs to add basic business training to their core roles
- Incorporate private sector membership to boards such as NVTA
- Establish a donor-funded ‘scholarship’ program for trainees to study/gain work experience overseas
- Ensure BDC/STAGE ‘MOU’ develops into a ‘strong’ mechanism through which the two programs can complement each other
- Language courses could be incorporated into all training programs
- Basic ‘savings’ and ‘work ethics’ to be incorporated into all training programs
- Establish a national ‘mentor’ scheme
- Establish small ‘incubator’, business advisory services as an extension to the markets rehabilitation project

There is undoubtedly a strong need for business training in Timor Leste – virtually all of the relevant programs revealed that most potential and existing entrepreneurs have inadequate knowledge of even basic business principles.
The key lessons for such training programs are that they should incorporate the following key elements:

- an approach and materials geared to the capabilities of the participants (in rural areas these need to be “down-scaled”);
- a payment structure that is manageable but not cheap (indeed, most providers have found that families will find the money to pay for training that is regarded as benefiting the participant);
- a focus on practical examples and case studies that are relevant to the audience;
- inclusion of a family member who is more able to absorb the training and mentor the intending entrepreneur.

On the other hand, most of the training providers recognise that the outcomes have been limited because:

- there was no follow-up assistance/guidance;
- enthusiastic participants could not secure financial support for their proposed project;
- other impediments (market constraints, transport infrastructure etc) discouraged the participants from proceeding.

The fundamental shortcoming of no follow up advisory support services is being addressed by several providers including the BDC and ILO programs.

1.3 Business Services

- Institutionalise an effective dispute tribunal mechanism
- Expand BDS’ ‘market rehabilitation’ program to incorporate basic ‘incubator-style’ business advisory services including advice on repayment of loan options
- Establish recognised ‘accounting and auditing’ fraternity.
- Formalize the establishment of a Chamber of Commerce and business associations including possibly private sector driven business groups e.g
  - ‘Private Sector-Government Think Tank’
  - ‘Timor Leste-Portgual’ Business Association’
- Introduce the concept of business “clustering” in both Dili and at the district level
- Develop a mechanism by which strong linkages with overseas organisations, associations, chambers and training institutions can be established
Formalise a ‘women in business’ association

### 1.4 Access to Information

- Identify five key industry sectors and prepare ‘practical’ studies of these in relation to:
  - Size of the domestic and export market
  - Domestic and import competition
  - Quality standards and trade regimes
  - Customers’ requirements including payment terms

- Establish databases within all relevant ministries in relation to:
  - Latest technical standards and R&D
  - Export/import controls
  - Packaging

- Institutionalise an information and statistical data base within the Export and Investment Promotional Centre and also within each of the BDCs

- Disseminate daily commodity buying prices through a mobile phone service – e.g. coffee prices

- Of course, information is only useful if it can be
  - Accessed easily
  - Up-dated often
  - Disseminated widely

### 1.5 Key Success Factors of a Successful SME Intervention Program in Timor Leste

Accordingly, a successful private sector development program in Timor Leste would need to incorporate the following key factors:

- Whether the program is nation-wide or region/sector specific, it should not be too ambitious and it must have a long term strategy.

- The program should either provide or coordinate with other stakeholders to provide:
  - training in basic business principles – there is a substantial and ongoing need for this training in Timor Leste;
  - individual business advisory services;
  - provision of information on the market opportunities/constraints, and
  - facilitation of access to appropriate and affordable credit where feasible.
The national and provincial government roles should focus on establishing a conducive environment for private sector growth – infrastructure, realistic and welcoming regulatory environment and the provision of those technical extension services that cannot be supplied by the private sector.

The management team needs to be carefully selected and remunerated appropriately. While an expatriate manager/adviser may be appointed for the early stages, a key objective must be a capacity building program of the locally-engaged staff from the very outset.

All beneficiaries must have ownership of a program and those not prepared to commit to the required contributions should not be included.

There should be no “handouts” nor any expectation that grants or cheap loans will be available after the business person has been provided with training or other assistance.

An important element of the planning process should be the maximum possible integration with other programs and coordination with potential stakeholders and supplementary service providers.

A “graduation” process whereby the entrepreneur/SME is provided with additional support services to grow the business. The costs of the services provided would increase in concert with the sophistication of the services.

The implementation of such a program that incorporates most of these features, irrespective of its scale, will not be an easy task in Timor Leste.

2 FACTORS IMPACTING ON AN SME DEVELOPMENT TRAINING PROGRAM IN TIMOR LESTE

Before analysing the options for SME training programs in Timor Leste, it is worthwhile considering a number of key factors that would underpin any such program.

The features common to the majority of programs are as follows:

<table>
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<tr>
<th>Common Feature</th>
<th>Rationale</th>
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<tbody>
<tr>
<td>Careful planning with clear program objectives</td>
<td>Each program must be targeted at fulfilling an identified need and there are clear objectives from the outset.</td>
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<tr>
<td>A focus on the market opportunities and market linkages</td>
<td>Programs must relate to identified market opportunities for a venture.</td>
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<tr>
<td>Delivery outside of government mainstream</td>
<td>While some programs can be effectively implemented by a government agency, most must be provided with ongoing funding and technical expertise from donors. The actual delivery of the service/support should be by</td>
</tr>
<tr>
<td>Strict selection criteria for participants</td>
<td>A careful selection of the participants/beneficiaries and their obligations and rights should be defined from the outset. Programs geared to developing or expanding individual businesses should have very strict selection criteria and operated on the basis of working with those prepared to make the necessary commitment.</td>
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<tr>
<td>Beneficiaries must take ownership of the project.</td>
<td>Beneficiaries should be obliged to contribute to the costs and/or make a substantial “in kind” contribution.</td>
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<tr>
<td>An integrated, phased development approach.</td>
<td>Programs should involve a package of support services- access to funding, planning, marketing and ongoing support.</td>
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### 2.1 Business Environment and Institutional Impediments

It is evident that there is a range of macro-level impediments to SME development in Timor Leste. Many of these could not be addressed by a program that focuses only on practical assistance to individual SMEs.

The question therefore arises as to whether it is feasible to undertake a firm-level intervention type program, when the broader impediments may undermine or even negate some of these efforts.

This issue represents a real dilemma when considering an SME development program in Timor Leste. The weak government institutions, the relatively underdeveloped infrastructure, some counterproductive cultural issues and other factors make it difficult for new and existing SMEs to prosper. It could be argued that these fundamental impediments need to be addressed before the private sector can adopt its traditional role of capitalising on the opportunities in the market.

There are, however, a number of counterpoints against this argument, viz:

While the cultural impediments will take a long time to change, a start needs to be made in the interests of future generations;

While the market is fragmented and the economy weak, there are several strengths within the Timor Leste business environment that can support a more vibrant private sector;

The situation in Timor Leste has reached a point where the SME sector needs practical assistance if the economy is to avoid potentially disastrous consequences.

The inextricable link between a positive environment and private sector development cannot be denied and, in many respects, SMEs are even more dependent on an enabling environment for their survival and growth. On the other hand, the situation in Timor Leste is fickle enough for neither the government nor donors to focus solely on improvements to the enabling environment.
The recommended strategy in this report attempts to balance the evident need for practical assistance to SMEs with some targeted institutional strengthening activities that will have a direct impact on the SME sector. Beyond this there are a range of necessary improvements to the country’s infrastructure, governance and the civil society that need to be addressed by all those interested in the future of Timor Leste.

2.2 Focus of Assistance Program

Another crucial consideration is the levels at which an SME development program would focus its attention.

In this regard, there are several options, as the following summary table indicates.

<table>
<thead>
<tr>
<th>OPTIONS FOR INTERVENTION BY AN SME DEVELOPMENT PROGRAM</th>
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<tr>
<td>Segment</td>
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<td>--------------------------------------------------------</td>
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<tr>
<td>Informal Sector</td>
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<tr>
<td>Very Small indigenous businesses and potential entrepreneurs already in the formal sector</td>
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</table>
again, it would be sensible to develop linkages with existing programs/agencies involved in this area.

| Medium sized indigenous businesses | While there are a relatively small number of such businesses in Timor Leste, many represent appropriate role models and have the potential to grow. It could be argued, on the other hand, that these medium sized businesses should not be provided with assistance if this dilutes the resources available for the needy smaller businesses.  

On balance, there is a strong argument in favour of assisting the medium sized indigenous businesses because:

① Most have some prospects for growth and they would generate both employment and wealth in various areas of the country;

② These businesses need a great deal of assistance and effective intervention that reduces failures will have substantial benefits for the business community and the society as a whole; and

③ An increased number of dynamic indigenous medium sized businesses in Timor Leste will help off-set the perceived and real domination of the expatriate owned/managed “successful” businesses. |

| Small and medium sized expatriate owned/managed businesses | There may be a tendency to regard these types of businesses as being able to “look after themselves” and to therefore not include in any SME development training program. As outlined in Part A, many of these businesses have superior skills/knowledge and are more likely to survive and grow without outside intervention.  

If, however, a broader economic and development perspective is adopted, there are factors supporting the inclusion of these businesses in an SME assistance program in Timor Leste, viz:

① They are confronted by similar business environment and institutional impediments as are their indigenous counterparts;

② Most of these types of businesses are more likely to grow and provide the country with the consequent employment, import replacement/export, government revenue and wealth creation benefits;

③ Their expatriate management does not automatically mean that they would not benefit from intervention (indeed, the declining expatriate management levels mean that these businesses increasingly need assistance); and

④ These businesses are more likely to make a worthwhile financial contribution to the business advisory services they receive. |

| Government institutions (institutional strengthening) | Rather than a direct business intervention approach, it could be determined that the focus should be on strengthening the role and delivery capabilities of relevant government institutions. |
The problems with adopting this approach in Timor Leste include:

- The private sector’s distinct distrust of programs involving “the government” at any level;
- The substantial timeframe that would be required to achieve any tangible outcomes;
- Sustainability of such programs given the personnel involved.

While the role of government in providing a conducive environment for private sector development should not be ignored, it is evident that an SME development program with medium term beneficial objectives cannot rely on the active involvement of government alone in the provision of the types of practical services required by these customers.

Non-government organisations (NGOs)

Another option could be to concentrate efforts on the strengthening of those NGOs and training institutions already involved in private sector/SME assistance programs. These NGOs would range from individual bodies in small centres to these with a broader reach (e.g. the Business Development Centres)

Some of the non-commercial NGOs provide effective support services but in most cases they would not represent an effective SME development service without substantial support because:

- Their agenda focuses on poverty alleviation or assisting disadvantaged groups rather than practical small business development;
- Their resources are extremely limited; and
- Their future sustainability is often doubtful.

This is not to say, however, that some NGOs should not be incorporated into an SME development program in Timor Leste. There are opportunities for mutually beneficial cooperation but it should also be recognised that many of the NGOs would not be appropriate partners in an effective business development program.

In essence, therefore, an SME development program in Timor Leste should:

- Include a cost-effective mechanism to channel the small percentage of potential entrepreneurs in the informal sector into the formal business sector;
- Provide a tailored support service to both potential entrepreneurs in the formal economy, as well as the full spectrum of existing SMEs;
- Develop linkages with existing NGOs;
- Provide limited institutional strengthening to selected and capable government bodies and only in these areas that impact directly on SMEs.
Provide a demonstration to government on how to provide an appropriate environment for private sector development, and

Showcase to other government departments how effective interventions through focussed and strategic efforts can be made – e.g. BDCs.

2.3 Cost Recovery/Sustainability

The issue of cost recovery by an SME development training program in Timor Leste is problematic. There are cultural and economic factors that will severely limit the fees that can be recouped from the target customers.

While it can be argued that a ‘hand-out’ mentality is not an appropriate attitude for potential and existing entrepreneurs, it has to be accepted that there will be attitudinal barriers to any program attempting substantial full cost recovery.

In addition, the economic/commercial impediments to full cost recovery include:

- The almost universal weak cash position of most indigenous entrepreneurs (stemming from both cultural and management issues); and
- The weak cash positions of most small businesses which has been exacerbated by the economic slowdown following the departure of the United Nations.

The experience of the BDC programs, however, indicates that some potential entrepreneurs and small businesses are prepared to pay for worthwhile training. There has been some resistance to the charges but they have been generally accepted and in most cases the fees cover the cost of the individual training course but not the overhead costs.

Whether this success can be translated into securing cost recovery for most intensive, one-to-one business advisory services is, however, doubtful. A typical small business in Timor Leste would be unwilling/unable to pay several thousand dollars for such services and even most the medium sized businesses would not be prepared to pay such amounts for an untried business advisory service.

From the industry contact program undertaken in Timor Leste in preparation for this report, it seems the larger the business the greater likelihood of better cost recovery but this could lead to a fundamental dilemma for a business development organisation which is mandated to achieve financial sustainability. Under such a scenario, the training program would obviously focus on the larger potential clients, while potential entrepreneurs and struggling small businesses would either be ignored or be allocated scant resources.

Accordingly, the implications for an SME development training program in Timor Leste are:
It should be accepted from the outset that training programs providing a broad range of services across the SME sector will find it almost impossible to become financially self-sustainable;

The target total cost recovery of between 10%-15% would be the maximum achievable and the balance would need to be funded by donors/government;

Any focus on achieving financial self-sustainability would erode the program’s benefits to the indigenous small business sector;

Any overt involvement by government will increase the difficulties in securing fees (there is a perception that services provided by government should be “free”); and

Even the modest cost recovery objective will be undermined if the services/assistance provided is not regarded by the customers as practical and beneficial.

These may be unpalatable conclusions for donor agencies and the Timor Leste Government, but they reflect the realities of the environment in which an SME development training program would need to operate.

2.4 Perceptions of Business

It is important also to take into account the perceptions of the potential “customers” of an SME development training program in Timor Leste. These will have a profound impact on the success or otherwise of the program and they have implications for the types of services offered and, of course, cost recovery mechanisms.

These perceptions and the implications for an effective program can be summarised as follows:

<table>
<thead>
<tr>
<th>Perception</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government officials cannot provide practical guidance on business matters</td>
<td>A program that relies on utilising government officials only for business level intervention will face credibility problems but can work as the BDC concept has illustrated.</td>
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<tr>
<td>Local business advisors lack the necessary practical experience – sometimes there are concerns over integrity</td>
<td>It will be difficult to subcontract business development work to most local business advisors/consultants without substantial training and back-up. Potential candidates in this area would need to be carefully selected from amongst the small number of good and reliable practitioners.</td>
</tr>
<tr>
<td>The most effective training assistance is one-to-one consultations that relate to the entrepreneurs/business’ situation and that offer</td>
<td>Training courses can play an introductory role but the best results will be achieved through one-to-one consultations by experienced experts. This is,</td>
</tr>
</tbody>
</table>
practical strategies and solutions

Expatriates are often more able to provide the type of broad business knowledge and experience that is required by most SMEs.

This common perception does not augur well for the longer term development of effective in-country business advisory services but it should not prevent progress towards this goal. It may mean, however, that some overseas resources will be required to initially develop the program, firmly establish its reputation and then gradually hand over to local service providers.

The key problem is perceived as a “lack of money” to start a business and the banks are not interested in helping.

The problem is not actually a shortage of money (banks are quite liquid) but rather a shortage of ‘bankable proposals’. This needs to be addressed primarily through assistance/guidance to SMEs but a program that also incorporates tailored financial packages and the institutional strengthening of financial institutions should be developed.

Loans, particularly from the banks, do not necessarily have to be repaid on time. If such repayments cannot be made the bank should be patient and/or write-off the debt.

There is an obvious misconception about financial responsibility amongst many indigenous SMEs and this need to be addressed in training programs. Also, both the enterprises and banks require assistance in developing a mutually rewarding “work out” philosophy and any progress in this area will have far-reaching positive outcomes for the private sector as a whole.

It will be clear from the outset that an effective SME business development training program in Timor Leste:

① Needs to be structured in such a way that it will provide reputable and practical assistance;

② Should focus on the provision of one-to-one consultations; and

③ Cannot ignore the perceived and real financing difficulties confronting the potential customer base.

3 SERVICES/SUPPORT TO BE PROVIDED

The provision of effective SME training programs must be measured against a simplified, typical SME growth cycle and only then can the gaps be identified and the opportunities for an effective program become evident.

3.1 Gaps in the Provision of Needed Services

Set out below is a summary table that identifies the gaps in the provision of training services to SMEs in Timor Leste.

<p>| GAPS IN THE PROVISION OF SERVICES TO SMEs |</p>
<table>
<thead>
<tr>
<th>Growth Phase</th>
<th>Services Required</th>
<th>Adequacy of Current Services</th>
<th>Possible SME Development Intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENTREPRENEUR CONSIDERS NEW BUSINESS</strong></td>
<td>Guidance on basic business concepts</td>
<td>BDC and some technical training institutions provide basic information but no one-to-one guidance</td>
<td>New STAGE project intervention will cover this. BDCs need to continue their advice to potential entrepreneurs</td>
</tr>
<tr>
<td></td>
<td>Advice and information on business regulations</td>
<td>BDC to a limited extent</td>
<td>Roles should be taken by BDCs. Market Rehabilitation project should disseminate information</td>
</tr>
<tr>
<td></td>
<td>Advice on feasibility of proposed project</td>
<td>Some accountants provide basic advice.</td>
<td>Role of BDC training to strengthen ‘viability’ training modules. STAGE needs to incorporate this part of the cycle.</td>
</tr>
<tr>
<td></td>
<td>Guidance on funding options for new business</td>
<td>No effective service is provided</td>
<td>To be included in initial reviews of projects. Should be integral part of STAGE project.</td>
</tr>
<tr>
<td><strong>ENTREPRENEUR ESTABLISHES NEW BUSINESS</strong></td>
<td>Basic business planning and development guidance</td>
<td>Limited training by BDC</td>
<td>Provision of individual consultations and guidance including development of business plan</td>
</tr>
<tr>
<td></td>
<td>Access to start-up capital</td>
<td>Commercial banks, microfinance, friends and relatives Limited guidance</td>
<td>More intensive provision of assistance and training by BDCs in preparation of ‘bankable proposals’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Selective institutional strengthening projects with banks and MFIs to provide more meaningful assistance.</td>
</tr>
<tr>
<td><strong>BUSINESS PROGRESSES THROUGH DIFFICULT INITIAL STAGES</strong> (frequently confronted by cashflow and other problems)</td>
<td>Business management and survival techniques/strategies</td>
<td>Limited extent by BDCs</td>
<td>Ongoing advisory services provided by BDCs</td>
</tr>
<tr>
<td></td>
<td>Financial and cashflow management.</td>
<td>Limited extent by BDCs</td>
<td>Ongoing advisory services and refinement of business plans by BDCs</td>
</tr>
<tr>
<td>BUSINESS GROWS AND POSSIBLY DIVERSIFIES</td>
<td>Additional financial support to sustain company and fund growth</td>
<td>Accountants and family members provide services in this area but tend not to integrate approach with marketing strategy. Banks provide no assistance.</td>
<td>Ongoing advisory service and refinement of business plan. Institutional strengthening of Banks and MFIs</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Technical assistance in terms of production, supply, sourcing of inputs</td>
<td>Some government ministries providing limited assistance</td>
<td>Coordination of a program to assist business to access assistance through in-country NGOs, volunteers and/or suppliers. Provision of basic guidance and information by the expanded role of BDCs</td>
<td></td>
</tr>
<tr>
<td>Advice on adherence to government regulations and obligations (including tax)</td>
<td>Limited compliance advice by government</td>
<td>BDCs and strengthened more “customer friendly” public service.</td>
<td></td>
</tr>
<tr>
<td>BUSINESS GROWS AND POSSIBLY DIVERSIFIES</td>
<td>Business expansion strategy and implementation</td>
<td>If SMEs can afford accountants, it can access reasonable services in this area. No other effective service available.</td>
<td>Review of growth options and development of business plan by the BDCs expanded services</td>
</tr>
<tr>
<td>Additional funding to sustain growth and to acquire equipment</td>
<td>No real services available</td>
<td>Preparation of ‘bankable proposals’ based on business plan. SME venture capital fund and/or guarantee scheme to provide appropriate funding.</td>
<td></td>
</tr>
<tr>
<td>Technical assistance in terms of production, supply, sourcing of inputs etc</td>
<td>Some government ministries providing limited assistance</td>
<td>Coordination of available assistance from various agencies by the BDCs</td>
<td></td>
</tr>
<tr>
<td>Advice on satisfying government regulations and obligations</td>
<td>Most accountants provide an acceptable service but their fees are not within the reach of most SMEs</td>
<td>BDCs and strengthened more “customer friendly” public service.</td>
<td></td>
</tr>
</tbody>
</table>
**BUSINESS DEVELOPS TO POINT WHERE THE MOST EFFECTIVE GROWTH OPTION MAY BE EXPORT**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Current Situation</th>
<th>Proposed Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of most profitable growth</td>
<td>Review of most profitable growth options.</td>
<td>Export knowledge by new Investment and Export Promotion Centre is not strong enough yet to offer realistic advice.</td>
</tr>
<tr>
<td>options.</td>
<td></td>
<td>A business expansion planning service, incorporating export planning and training to be developed and offered by the Investment and Export Promotion Centre.</td>
</tr>
<tr>
<td>Development of an export strategy</td>
<td>Development of an export strategy</td>
<td>No assistance available.</td>
</tr>
<tr>
<td>No assistance available</td>
<td></td>
<td>Development of an export promotion strategy in cooperation with various overseas agencies (the latter providing the required market research).</td>
</tr>
<tr>
<td>Financial support to implement</td>
<td>Financial support to implement export strategy</td>
<td>Banks not willing to lend for export.</td>
</tr>
<tr>
<td>export strategy</td>
<td></td>
<td>Development of bankable proposal as part of export plan. Facilitation of procedures required to access grants and specialist assistance from various overseas agencies.</td>
</tr>
<tr>
<td>Export documentation and</td>
<td>Export documentation and financial facilities</td>
<td>Limited assistance available restricted to freight companies.</td>
</tr>
<tr>
<td>financial facilities</td>
<td></td>
<td>Export training programs required to be implemented by new Investment and Export Promotion Centre</td>
</tr>
</tbody>
</table>

It is evident from the above that there are a number of crucial areas where an SME support service could provide effective assistance. These cover a broad spectrum and include:

1. Practical guidance on the **viability** of proposed new business ventures and business expansion projects;

2. Preparation of “bankable proposals” for assessed viable businesses for consideration by commercial banks and microfinance lending institutions as an integral component of a business plan;

3. Advice, guidance and specialist assistance to all types of enterprises; and

4. An associated institutional strengthening program for those bodies which have a director involvement in private sector development.

### 3.2 Focus of Support Services to be Provided
There are a broad range of impediments to a more vibrant private sector in Timor Leste and a cost-effective SME development program cannot be expected to address nor overcome all of these impediments.

In simple terms, these impediments and the likely value of an SME development program can be summarised as follows:

<table>
<thead>
<tr>
<th>IMPEDIMENT</th>
<th>ROLE OF AN SME DEVELOPMENT PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural attitudes and traditions</td>
<td>Effective and successful projects resulting from a program could have a positive impact on cultural attitudes. An associated publicity program could also help develop some changed thinking.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Limited direct impact although practical examples of this impediment could increase pressure on government for needed improvements</td>
</tr>
<tr>
<td>Small market</td>
<td>Program cannot overcome this impediment but it could:</td>
</tr>
<tr>
<td></td>
<td>Prevent entrepreneurs from entering ‘doomed’ ventures because of the limited market opportunities;</td>
</tr>
<tr>
<td></td>
<td>Assist more businesses to grow and prosper and thereby increase the total market; and</td>
</tr>
<tr>
<td></td>
<td>Through an effective export development program, assist businesses to look at export as an option</td>
</tr>
<tr>
<td>Weak government institutions and support</td>
<td>Scarce resources should not be wasted on unproductive institutional strengthening projects for government agencies with limited capabilities. On the other hand, selective institutional strengthening and the demonstration impact of an effective private sector development program would have a direct influence on government programs and, eventually, on government policy.</td>
</tr>
<tr>
<td>Weak business culture and understanding</td>
<td>An SME development program that provides practical assistance and one-to-one consultations could eventually have a significant positive impact on this endemic problem.</td>
</tr>
</tbody>
</table>

### 3.3 Potential Role for World Bank and/or other Donors

In many respects the World Bank is a logical organisation to implement and coordinate an SME development training and support program in Timor Leste. This role would also be consistent with the Bank’s intention to adopt a broader role in Private Sector Development.
The factors supporting a lead role by the World Bank include:

- Its broad general and practical experience in private sector development in the region and other developing nations throughout the world;
- The Bank has a major office facility in Dili and a wide network of contacts throughout the regional areas of the country;
- Its knowledge of the business environment in Timor Leste;
- Its access to financial and business development experts with the skills to provide effective assistance to the sector;
- Its good relationship with commercial banks in Timor Leste;
- Its linkages with the IFC and other World Bank Group agencies with the necessary prestige/influence to coordinate activities.

The World Bank has also undertaken a number of SME-related projects in Timor Leste that are particularly relevant to a broader SME assistance program. These projects include, but are not limited to:

- Establishment and coordination of the Business Development Centres;
- Markets rehabilitation project; and
- Establishment of the Investment and Export Promotion Centre.

The World Bank would, therefore, be the most appropriate agency to both implement and coordinate an SME development program in Timor Leste and the recommended strategy assumes that the Bank will receive the necessary support from its current stakeholders and other donors to adopt this role.

**4 RECOMMENDED SHORT TERM PROGRAM**

The recommended program in the short term (ie 2005-07) would be as follows:

**4.1 Development of an Appropriate Government SME Policy**

The Government of Timor Leste does not at present have a realistic policy for the strengthening/expansion of the private sector and this needs to be addressed. A realistic and supportive policy would have a positive impact on both the local and overseas business communities’ perceptions of Timor Leste.

The issues are, however, whether any assistance should be provided to the Government to prepare such a policy and, if so, at what stage would a policy be appropriately endorsed and acted upon by government.
It is recommended that such assistance be provided only once the lessons learnt from the SME development program can be analysed and incorporated into the policy. Accordingly, this project has been designated as a longer term activity.

The rationale behind the timing for the project is as follows:

1. The various projects completed over the previous few years will provide a great deal of relevant data and case studies on which an appropriate policy can be based.

2. The legal and regulatory environment will have been in place for a ‘trial’ period and this can be refined accordingly.

3. The Chambers of Commerce, once formalised will be in a stronger position to contribute effectively to the policy development; and

4. The practical “hands on” experience gained by a cross-section of government officials will, hopefully, assist in the formulation of a realistic, enabling and investor friendly policy.

4.2 Expanding Role of the Business Development Centres

The success of the BDCs could be sustained if it were re-established under an NGO or contracted to a Chamber of Commerce if they were to be established under strict guidelines.

The framework would be:

**Location:** Maintenance of BDC presence in each of the current five locations;

**Services Provided:** full range of business advisory services, project feasibility, funding proposal, “work out” programs for business, management and marketing (including export development) services on a graduated fee schedule. These services would be available to all potential entrepreneurs, small businesses and medium size enterprises.

**Coordination with Other Programs:** A crucial partner will be the ILO managed SIYB program and this cooperation will require close and ongoing liaison

**Audit:** Organisation must be subject to rigorous audit procedures on both a regular and ad hoc basis.

**Performance Measures:** These would revolve around the number of new customers provided with appropriate and acceptable services, the number of new ventures established, employment generated, funding secured for new projects etc. One of the performance indicators would also be how many entrepreneurs were prevented from proceeding with a new venture that was fundamentally flawed.

4.3 Trial Business Linkages Project
A Business Linkages concept may offer considerable scope for SME development in Timor Leste.

The essence of this concept which has worked successfully in other developing economies is that small enterprises, through training and nurturing become empowered to supply inputs to larger local businesses (or even larger overseas enterprises in Indonesia or northern Australia) would offer unlimited prospects for these smaller businesses to expand. This is worthy of support and could be handled by the current infrastructure provided by the Business Development Centres.

### 4.4 Institutional Strengthening Program

While the focus of any SME development training program should not be on broad institutional strengthening projects, there are several areas where the World Bank could play a useful role in improving the performance of both government bodies and NGOs.

The relevant projects could include:

1. Provision of technical assistance to selected local areas for the preparation of private sector development strategies for their particular area

2. Secondment of government officials to work on specific projects (including “hands on” direct involvement in the day to day activities of the Bds). Middle management officials would be the target group and on the basis that their experience will eventually be translated into more relevant government policies in relation to private sector development.

3. Specific projects to assist the government regulatory bodies to provide more effective information to the private sector especially on business registration procedures and costs involved in this process

4. Coordination of the Investment and Export Promotion Centre’s activities with the related programs of other agencies.

5. Institutional Strengthening and establishment of business chambers and consideration for the establishment of a formal Chamber of Women Enterprises and Chamber of Indigenous Enterprises.

It should be remembered that the success of any institutional strengthening at the government level will be determined by the following factors:

1. Effort and resources can be wasted if there is limited or no Timor Leste government commitment to ongoing funding;

2. Longer term positive outcomes are difficult to achieve in light of frequent staff changes, coupled with a tendency amongst staff not to pass on benefits from the institutional strengthening (experience has shown that in some cases the trained staff will not pass on the benefits of the training to their work colleagues for personal and/or cultural reasons);
Such programs with an emphasis on private sector development are particularly difficult to implement because of the limited business understanding in the public sector; and

Any institutional strengthening programs for government agencies must be carefully planned from the outset, be tailored to the strengths and weaknesses of the agency and focus on in-situ/ “on the job” training and guidance.

4.5 Assistance to Financial Institutions

While this is part of a wider review, it will be vital for any business development training program to incorporate direct involvement with financial institutions in Timor Leste. Such activities could include:

1. Introduction of a ‘credit scoring’ approach to loan applications
2. Training modules at Beds on ‘work out’ strategies
3. Training of key staff in provincial branches on the basics of export documentation and finance;
4. Training and the provision of information on the programs available to assist Sees (microfinance schemes etc)
5. A ‘tailored’ training and information program, funded primarily by the banks, for loan officers.

4.6 Coordination with other Agencies/Programs

The success of this approach can be measured by the way in which it is coordinated through other agencies, donors, training institutions that are provided assistance to the business sector in Timor Leste.

While efforts have been made already by the World Bank in Dili to establish inter-agency support mechanisms, there is a need to ensure the maximum possible level of integration of existing and potential development projects.

It is vital therefore, that the World Bank:

1. Meet with the relevant agencies in Timor Leste and overseas to discuss potential cooperation (this process has commenced in a general sense); and
2. Develop proposals and MOUs with relevant agencies to implement joint activities and/or to ensure a seamless approach to enhancement of the private sector in Timor Leste.

The relevant agencies include, inter alia, the following:

1. ILO
Further, NGOs should be incorporated in the ‘whole of government’ approach

Close coordination should also be maintained with the various banks. These institutions can be an extremely valuable referral source in the following areas:

1. Loan applicants who require business planning assistance;
2. Existing customers who are planning to expand but face difficulties in satisfying the banks’ criteria; and
3. Customers who are “in trouble” and require professional help in developing a survival strategy.

4.7 Public Awareness

It will be evident that the recommended approach focuses on practical projects that will provide tangible benefits to both individual entrepreneurs/businesses and the SME sector as a whole.

This does not mean, however, that there should be no effort to improve/change community attitudes to private business in Timor Leste, nor should the cultural impediments to a more vibrant private sector be ignored. The practical nature of the ILOs SIYB program will assist in this regard but there is an opportunity to undertake a broader public awareness program.

The key features of this program will involve:

1. Brief 60 second “fillers” on local radio (these can be prepared a reasonable cost)
2. These “fillers”/community announcements would focus on the realities of operating a small business, its key success factors, why relatives should not pressure business owners for goods/money and the types of assistance that is available; and
3. The project would be sponsored by one or more banks or larger companies to eliminate any direct costs to the project.

5 LONGER TERM APPROACH
The medium and longer term approach (2007 onwards) for private sector development in Timor Leste should incorporate the following key elements:

### 5.1 Expansion of the Business Development Centres

During a second evaluation of the Business Development Centres’ Activities (post 2005), the future expansion of the concept will be formulated.

The expansion will take into account the lessons learnt from the pilot and the evaluation will consider:

1. The viability of an expanded service to several key centres, with appropriate subcontracted service providers in nearby and outlying areas;
2. The potential for cost recovery, based on the experience gained from the previous few years operations/activities;
3. How any such expansion can be effectively integrated into a seamless SME strengthening program.

The objective would be to provide, either on a direct or contractual basis, practical one-to-one assistance to SMEs across a broad range of services and to achieve the maximum possible level of financial self-sustainability.

A strategy would also be put in place to gradually transfer the provision of such services to local providers/companies. It could be premature and potentially counterproductive to try and facilitate the establishment of useful SME service providers in Timor Leste until such time as these various fundamental issues can be properly assessed.

### 5.2 Expansion/Consolidation of the “Backward Linkages” Approach

In a similar manner, the outcomes from the pilot “Backward Linkages” approach would be assessed before the end of 2006 to determine the most appropriate way forward.

The options that could be considered include:

1. An expansion of the program to various regions, possibly in tandem with the establishment of more business advisory services.
2. A refinement of the approach and/or its consolidation into another program;
3. An expansion/diversification into the flow-on business associated with the large resource gas/oil projects (this could be fully or partly funded by the resource developers themselves).

It should be assumed that this “Backward Linkages” methodology proves beneficial for SME development in more isolated areas and that a modified or even expanded program could be justified.
5.3 Assistance to Financial Institutions

The short term programs in providing assistance to the financial institutions in Timor Leste should be reviewed and assessed.

Such a review process will:

1. Assess the outcomes secured, with particular reference to the improved level of services provided to SMEs.

2. The need for ongoing support services and/or modified technical assistance; and

3. The potential to convert the assistance program into a fee for service contract to the (possible) expanded Business Development Centres.

There would be an obvious need to coordinate this evaluation with the consideration of an expanded role for the Business Development Centres throughout the country.

It should not be assumed, however, that the assistance programs for the banks will automatically continue. There are both practical and institutional limitations on the banks’ absorptive capacity.

5.4 Coordination with Other Agencies

There must be on-going coordination with other agencies to ensure that the cooperation developed in the short term is maintained and that any new entrants/programs are effectively integrated. The World Bank will continue to play a pivotal role in such coordination.

5.5 In-Country Resources/Representation

Currently, the World Bank representation in Timor Leste encompasses, amongst others, their existing office in Dili and in-put into the Business Development Centres. The World Bank will, however, need to consider its future representation in the country. This will be strongly influenced by factors not limited to:

1. The decision on whether to proceed with a more extensive Business Advisory Service network; and

2. The need for technical assistance to the commercial banks;

Only when all these and other factors are taken into account, can the details of the World Bank’s in-country representation be properly determined. It is clear, however, that the selling, promotional and representation needs of an expanded role in Timor Leste will require an expansion of the World Bank’s resources.
6 RISKS AND ISSUES

There are clearly a number of risks involved in implementing the recommended approach in the difficult Timor Leste environment. On the other hand, effective measures are required to stimulate a more vibrant and feasible SME sector in this young country.

There are a number of risks, however, and these can be summarised as follows:

<table>
<thead>
<tr>
<th>RISK</th>
<th>IMPLICATION</th>
<th>CONTINGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to recruit appropriately qualified and experienced advisors/trainers for the Business Development Centres</td>
<td>Service will have poor credibility and will not achieve expected outcomes</td>
<td>Scale down scope of services rather than reducing standard of recruited advisors</td>
</tr>
<tr>
<td>Undue attention to cost recovery in the early stages</td>
<td>Benefits to potential entrepreneurs and small businesses will be reduced considerably</td>
<td>Source additional funding rather than distort program</td>
</tr>
<tr>
<td>Failure to develop effective coordination with other agencies</td>
<td>Several key elements of the approach will be undermined</td>
<td>Scale back approach to fewer programs</td>
</tr>
<tr>
<td>The ILO program no longer operates</td>
<td>This will increase work load on the Business Development Centres</td>
<td>The performance measures for the BDCs will be adjusted accordingly</td>
</tr>
<tr>
<td>Government refuses to cooperate with the approach</td>
<td>Would have a significant impact</td>
<td>Scale back approach to these programs that require virtually no direct support from government</td>
</tr>
<tr>
<td>The existing programs are curtailed by withdrawal of donor funding</td>
<td>Value of these projects will be seriously jeopardised if they are not allowed to operate for an appropriate period</td>
<td>Switch focus to financial sector programs</td>
</tr>
<tr>
<td>Disruptive political interference and/or jealousies within the private sector or various training institutions</td>
<td>The threat in this area should not be underestimated and could undermine a number of programs or even the entire approach</td>
<td>Maintain program outside of the formal government structure and ensure all relevant business groups are consulted and involved.</td>
</tr>
</tbody>
</table>

As can be seen, the key risks can be countered in a number of ways and, indeed, the structured nature of the recommended approach is intended to minimise the overall risks.

The various stakeholders in any private sector development program in Timor Leste must accept that there are inherent risks and eventually decide whether these are
acceptable, especially when weighed against the alternative of doing nothing to provide effective assistance to a somewhat demoralised and declining private sector.

After all, the status quo is clearly untenable and the future of the economy of Timor Leste can only be described as bleak. In this context, it is surely time to take bold decisions.