



MDF Case Study No. 2



KICK-STARTING INCLUSIVE GROWTH

Timor-Leste's Transition to a Post-Conflict, Post-Oil Economy

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Australian
Aid 

MDF Market
Development
Facility

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“Timor is so new that anything seems possible.”

BBC Article about young entrepreneurs in Timor-Leste, 2016¹



Boneca de Atauro staff of the newly opened handicraft shop in Dili, celebrate at the opening of the outlet bringing the women's cooperative a strong retail presence in the capital.

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Quick links to lessons learnt



- 🔥 **Lesson 1:** In an early-stage economy, getting an inclusive growth programme started requires additional resources, time and flexibility
- 🔥 **Lesson 2:** Between ‘staying out’ and ‘getting involved’: Careful choices are required when working in a heavily aid and government-dependent private sector
- 🔥 **Lesson 3:** What to focus on when so much needs to be built from scratch? Implications for designing and sequencing partnerships with first-generation entrepreneurs
- 🔥 **Lesson 4:** Beyond ‘business as usual’ in market development programmes: the pros and cons of working with non-commercially oriented entities
- 🔥 **Lesson 5:** Lessons for aspiring entrepreneurs in Timor-Leste: Common features of MDF partners with the greatest potential for growth and impact on poverty
- 🔥 **Lesson 6:** Making the most out of budget constraints: The evolution of MDF’s business engagement hub function
- 🔥 **Lesson 7:** Transformative impact in Timor-Leste: How it compares to other MDF programme countries

The fast read...



- 1 Timor-Leste faces an urgent need to develop a diverse and inclusive private sector:** While oil revenues have helped the country to recover from conflict, a lack of income opportunities in rural and urban areas means that the large majority of Timorese is still poor or at risk of sliding into poverty. Oil funds are likely to run out within the next decade, coinciding with the job market entry of a large cohort of young people.
- 2 MDF is a market development programme pursuing this vision.** It leverages the emerging business interest in the country through individually designed partnerships that promote structural changes in three economic areas – agribusiness, manufacturing and tourism. When MDF started, manufacturing and tourism were virtually non-existent, and there were only very few commercial businesses in agriculture.
- 3 Specific partnership examples illustrate the kinds of investments in new business models and wider business infrastructure that could gradually transform Timor-Leste's economy.** In agriculture, Timor-Leste's first commercial food-testing lab is opening doors for industry stakeholders, forming the basis for increased domestic production and export. MDF partners have also demonstrated that it makes business and development sense to roll-out rural input distribution networks for farmers; that it is possible to substitute imports with local specialty products (e.g. rice); or that focusing on quality management allows coffee exporters the opportunity to access high-end global markets. In manufacturing, Timor-Leste's first iodised salt producer and the first garment factory open up new income sources, in particular for women. And long-term commitments from three cruise ship liners to stop in Timor-Leste provides opportunities for local tour and other tourism companies.
- 4 All of MDF's partners have to manage complex growth constraints arising from operating in a small market with few specialised support functions and the perceived distortions of government or donor interventions.** The partners that have made the most progress in this difficult context share some common features. For example, they already had one profitable business line before venturing into a more innovative, risky investment with MDF's support. They have also been smart identifying niche economic areas that have the potential for growth, e.g. in high-value exports. And, supported by MDF, they have been operating in a highly adaptive way to navigate the challenging operating environment. Conversely, businesses that are heavily dependent on donor or government contracts typically do not have the incentives or capacity to engage in innovative partnerships with MDF. At the same time, MDF appreciates that government orders can help some of MDF's partner businesses get off the ground as commercial growth is typically slow and payback periods are long.



- 5** **MDF has also learnt other lessons specifically related to Timor-Leste's post-conflict and early-stage economy.** The presence of few investment-ready actors and investment opportunities required MDF to be particularly flexible and opportunity-driven, including in defining which parts of the economy it works in; identifying who to work with; and deciding how to support its partners. For example, MDF may support first-of-their-kind businesses in manufacturing, regardless of their specific area of operation. MDF has also been open to working with non-profit entities to introduce innovative economic activities, even though there may be fewer options for expansion and require more hands-on support. And MDF stood ready to tackle the diverse support needs of Timor-Leste's first-generation entrepreneurs. For instance, they often required co-financing for infrastructure and in-house training, before facilitating business engagement with impoverished suppliers or buyers.
- 6** **In addition to supporting individual businesses, MDF has increasingly taken on initiatives to develop a more connected economy.** This involves promoting exchanges and commercial linkages between MDF partners; exploring ways to encourage support services that cater to common business needs, such as finance; and promoting better linkages between businesses and the government to enable demand-led reforms of the business environment. Part of this is also a partnership with the government's investment agency: MDF seeks to transfer knowledge about how to engage with businesses and identify their support needs.
- 7** **When MDF started operating in Timor-Leste, it was not yet sure of the best 'end game' it could aim to achieve through its support.** Based on MDF's experience so far, this is not so much about replicating specific innovations, for instance, but about populating Timor-Leste's nascent economy and stimulating economic dynamism more broadly. Ideally, more businesses become inspired by the promising commercial ventures of MDF partners and gradually allow more people to find work and earn higher incomes. By the end of 2016, MDF helped increase the incomes of 6,000 Timorese, benefitting approximately 19,000 family members.

Why this case study matters

Relevance for economic development stakeholders in Timor-Leste and similar contexts

Timor-Leste, a small island nation in Southeast Asia, has embarked on a remarkable recovery from its history of conflict and underdevelopment. When Timor-Leste officially gained independence in 2002, its economy had been left with minimal infrastructure; the education system was in disarray; and the agricultural production base was largely destroyed. Even data from 2010 suggest that close to 70% of the population may still be poor, measured in terms of education, health and living standards.² And yet, Timor-Leste has now achieved a decade of stability and socio-economic progress. High population growth, if supported by sufficient skills training, provides favourable conditions for labour-intensive industries and growing consumer demand. While recent development has been largely funded by petroleum dollars, pioneering local and international businesses are beginning to realise that the country has important productive investment opportunities.

This case study is about ways to leverage economic opportunities to achieve inclusive growth, despite the many challenges of conducting business in the country. It profiles the work of the Market Development Facility (MDF), a flagship programme of the Australian government, which has focussed on kick-starting the development of promising economic activities, including in agribusiness, tourism and manufacturing. As one of the first programmes in Timor-Leste to use a market development approach, MDF works with and through local businesses and other partners to catalyse lasting improvements in the functioning of the economy. Its

vision is to offer women and men pathways out of poverty through better access to services, employment and income opportunities.

As such, MDF is in a strategic position to contribute to the goals of both the Timorese and Australian Governments (see box). Having operated in Timor-Leste for five years, MDF now sees a need to share what it has learnt so far with relevant stakeholders. This case study offers a hands-on account of:

- **how MDF works and why;**
- **What MDF has achieved to date in working with business and government partners** – including in-depth partnership profiles and short video interviews providing first-hand insights from partners and beneficiaries; and
- **Transferable lessons that can inform the future work of similar donor-funded or government programmes in Timor-Leste.** These lessons are also highly relevant for other market development and inclusive growth programmes, including those operating in small economies emerging from conflict and highly dependent on primary resources. In particular, the case study teases out some of the key differences of working in such contexts and more advanced developing economies. The most important lessons for practitioners are featured in text boxes throughout the case study.



A key priority of [Timor-Leste's Agenda 2030](#) is the creation of a diversified economy in which the private sector is the major source of employment and income. The [Australian aid strategy](#) aligns with this objective. Private sector development, with a particular focus on inclusive economic growth in the Indo-Pacific region, is a central development goal. All aid programmes are required to consider private sector solutions as a first resort to addressing development problems.

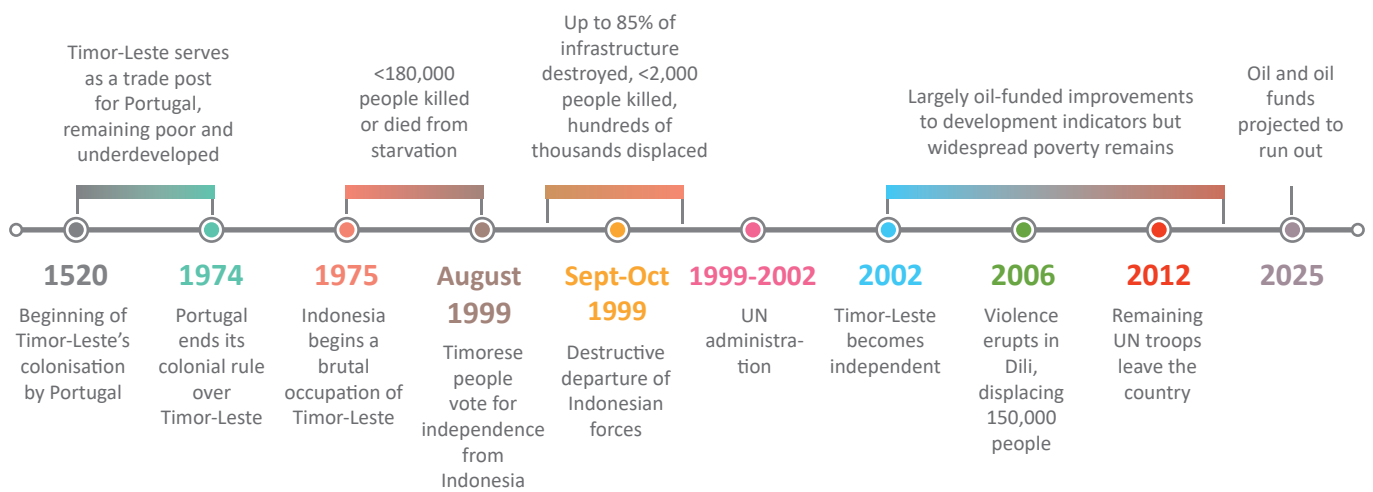
In addition to Timor-Leste, MDF currently operates in four other countries in the Indo-Pacific region: Fiji, Pakistan, Sri Lanka and Papua New Guinea. The programme was launched in Timor-Leste in 2011.

A man in traditional Timorese attire is performing a dance. He wears a tall headdress with black and white feathers, a white tank top, and a colorful skirt with orange, yellow, and blue patterns. He has multiple necklaces and a small basket hanging from his waist. He is holding a long wooden staff. In the background, there is a crowd of people, some in traditional dress and others in modern clothing, under a clear blue sky.

UNDERSTANDING TIMOR-LESTE'S ECONOMY

The importance of private sector development

Key dates in Timor-Leste's history

**Timor-Leste was colonised by the Portuguese in 1520.**

Portugal's tense relationship with its rival, Holland, dominated the region for the next two hundred years as the Dutch colonised the rest of the island, known as West Timor, which has been part of Indonesia since 1945. Timor-Leste essentially served as a Portuguese trade post for exporting sandalwood, coffee, sugarcane and cotton. No significant investments were made in infrastructure, education or healthcare. After Japanese forces brutally took over much of the island during World War II, defeating Dutch and Australian troops with as many as 60,000 Timorese being killed, Portuguese rule was restored in 1945. Portugal's revolution in 1974, however, marked the beginning of its global decolonisation. Timor-Leste first declared itself independent in 1975, but Indonesia invaded shortly after. This marked the beginning of a violent 24-year occupation, during which up to 180,000 people – approximately one-third of the population – were killed or died from starvation and related illness. Under international political pressure, Indonesia agreed to allow a UN-sponsored referendum in August 1999, in which 78% of the Timorese population voted for independence.

While Timor-Leste had experienced limited socio-economic improvements during Indonesian rule, anti-independence militias, supported by the Indonesian military, systematically destroyed the country's limited infrastructure and productive base as the forces departed:

This included the destruction of 70–85% of buildings, schools and businesses, the burning of fishnets and trucks, and the killing of livestock. Up to two



thousand people were killed and hundreds of thousands were displaced. After three years of UN administration, the first democratic government of independent Timor-Leste took over in May 2002. Tensions in the military complicated by other factors are cited as the causes of another flare-up of violence in 2006–07, which displaced 150,000 people from the capital, Dili. Since 2007, Timor-Leste has been peaceful; all remaining UN troops left the country in 2012.

When Timor-Leste became the world's newest nation in 2002, it faced the task of building the country from scratch – including “inventing its government, economy and laws.”³ A local NGO writes:

In 2005, economic pressures are enormous. More than [75%] of the people live by subsistence agriculture. More than 40% of adults cannot read; infant and maternal mortality are [ten times higher] than in rich countries... [Few] have access to clean water or electricity... There is almost no non-oil trade activity. ... Timor-Leste exports products worth just \$7 million, 99% of which is coffee ... [and] imports \$113 million worth of goods...⁵

Since 2005, revenues from large deposits of oil and natural gas under the Timor Sea have allowed the government to invest in infrastructure and improve basic service provision.⁶ This resulted in a significant drop in child mortality⁷ and increases in the years of schooling as well as per-capita income.⁸ And yet, the fundamental economic structure remains largely unchanged and embodies the perils of small island developing nations. According to the UN, they are constrained by a small resource base, which deprives them of economies of scale; small domestic markets and heavy dependence on

a few remote markets for import and export; vulnerability to irregular international transport volumes; the high costs of energy, transportation, communication and servicing; and, as a result, few profitable business opportunities.⁹ Furthermore, only 15% of Timor-Leste's mountainous terrain is cultivatable.¹⁰

There is an urgent need to find ways to diversify state revenue and generate sustainable income opportunities for poor and vulnerable households through the private sector:

Timor-Leste is one of the world's most oil-dependent countries, but oil funds are likely to run out within the next ten years.

More than 90% of the country's state revenues come from oil and gas.¹¹ Of the country's 2015 budget of USD 1.6 billion, 1.3 billion was withdrawn from the Petroleum Fund.¹² At current spending rates, oil funds are projected to be depleted by 2025.¹³

There are only limited signs of economic diversification.

While non-oil GDP is currently growing at about 5% a year – the highest rate in the Pacific region¹⁴ – this is largely driven by infrastructure projects financed by the Petroleum Fund, and not by productive growth in agriculture, services or manufacturing.¹⁵ Even though oil and gas revenues initially helped to deliver a peace dividend to the population, they now clearly risk turning into a ‘resource curse’.

Most Timorese still rely on subsistence or small-scale agriculture and poverty is widespread.

According to data from the latest Survey of Living Standards 41.8% of Timorese live below the national poverty line of approximately \$1.59 per day and 30.3% live below the international poverty rate of \$1.90 per day.¹⁶ There is widespread agreement that the situation may be even more severe. Almost 70% of the population could be suffering from ‘multidimensional poverty’, that is, severe deprivation across measures of health, education and living standards (based on 2010 data),¹⁷ and more may be vulnerable to poverty. And yet, subsidised imports undermine commercial incentives in agriculture – as do government hand-outs of rice and other staples, and direct procurement from farmers above market prices. High labour costs – partly due to the veterans' pensions (given to those who resisted the Indonesian occupation) and a low population density – make it difficult to hire labour and expand production.

More than half of Timor-Leste's population is under 17 and will need jobs soon.

Timor-Leste's population has more than doubled in the last 35 years. The growth rate was 15.51% between 2004 and 2010, and 9.46% from 2010 to 2015¹⁸ – so a large number of young adults will be looking for income sources by 2025 when the oil funds are projected to run out.¹⁹ The population of 1.2 million is largely rural-based, but it is most concentrated in the capital Dili, with 234,000 people.²⁰ Data from 2010 suggest that urban population growth may be twice as high as rural growth.²¹



“...Timor-Leste may face an even worse disaster in about [nine] years. The oil and Petroleum Fund could have vanished... and the post-war ‘baby boom’ will be in their late teens.”

(Joint Response to UN Mission Report 2012, www.wilpf.org)

Access to incomes, jobs and services in both urban and rural areas will, therefore, be vital to consolidate hard-won stability and achieve a more prosperous future. The World Development Report 2011 found that post-conflict countries take 15 to 30 years to transition out of fragility and to build resilience,²² which confirms that Timor-Leste is still in a critical phase for defining its development pathway. While higher per capita incomes have been linked with a lower conflict risk,²³ poverty can be a prime motivator in unrest and civil war.²⁴ Negative economic shocks, as could happen once the oil and gas run out, further increase the risk of conflict.²⁵

And yet, observers note that “too little is being done to plan for a post-oil economy.”²⁶ Initial business activity largely responded to the UN presence, but there has been a lack of strategic support for private investment. As a result of unclear and incomplete legislation and insufficient personnel capacity,²⁷ Timor-Leste was ranked 172 out of 189 places in the 2016 World Bank Doing Business Index.²⁸ Most aid programmes have mainly focused on humanitarian aid, state-building and direct service delivery to the poor, instead of economic development. Critics argue that “aid in Timor-Leste has had little impact on the local economy...and long-term vision.”²⁹

Despite the lack of economic restructuring since 2002, there are early signs of change at all levels:

The Timorese Government has developed a clear vision for inclusive economic development and recently launched major initiatives to improve the business environment.

Timor-Leste's **Strategic Development Plan 2011-2030** is the first government strategy which makes inclusive private sector development a political priority in order to enable Timor-Leste's transition to a middle-income country – including through the promotion of agribusiness, tourism and light manufacturing. The government has also begun to put actions behind words. Key initiatives include:

- **A new package of legislation governing private sector activity** – including a more liberal Private Investment Law; new Export Law, Competition Law, Insolvency and Bankruptcy Law, Land Law, and Consumer Protection Law as well as a reformed Tax Law– all of which have either passed through parliament recently or are currently being developed. Business registration processes are also being simplified.
- **An emerging industrial policy** – including tax incentives and import duty exemptions to foreign and domestic investors, and plans to develop several special economic zones benefitting from targeted support. These zones may include new plantations, new food processing and light manufacturing industries, and new tourist destinations. These could create significant economic benefits and opportunities for poverty reduction, provided that appropriate protection mechanisms are put in place for local communities.
- **Infrastructure investments** – including through small to medium public-private partnerships in rural and urban areas, and large-scale investments in public services, roads and ports. Major roads connecting Dili and secondary towns have recently been renewed or are being completed.

Commerce [in Timor-Leste] is increasing ...[and] businesses are beginning to gain confidence in the young nation.”

US Investment Climate Statement for Timor-Leste (2014)

Business confidence in Timor-Leste is increasing and new investments are being made in the agriculture, manufacturing and service sectors.

Talking to businesses in Timor-Leste, there is a clear sense of optimism and growing confidence in the economy: Local entrepreneurs who left the country during the Indonesian occupation are beginning to come back; some who have been active in Timor-Leste for several years are diversifying into new business lines; others who have been relying on government contracts are expanding their commercial activities. Major foreign investors are now venturing outside the oil and gas sector: Heineken is building the first beverage factory in Timor-Leste.³⁰ Following Portugal Telecom, Indonesian and

Vietnamese telecommunication providers entered the market in 2013.³¹ In addition, businesses from Singapore, China, Indonesia and Australia have recently invested in the tourism, export-import, logistics and consumer goods sectors.³² While manufacturing used to be viewed as unrealistic in Timor-Leste, several new production sites have been developed, and are successfully competing with imported goods.³³ Leveraging this emerging business interest will be crucial for the country's continued development.

2

HOW MDF LEVERAGES
PRIVATE SECTOR
DEVELOPMENT
OPPORTUNITIES FOR
INCLUSIVE GROWTH





Staff of the Balibo Fort Hotel, through MDF support, received training in hospitality and tourism. Here they receive their certificates after stage 3 of the training was completed. All these staff come from the village of Balibo.

In a heavily aid-dependent environment, where a large share of programmes deliver training, cash or goods directly to the poor, MDF promotes a fundamentally different approach: I: It only works with and through businesses and other partners to catalyse lasting changes in the economic systems in which impoverished people live. The following steps and principles are central to this approach:

- Understanding the economy and potential sources of growth:** MDF assesses which parts of the economy have the strongest growth and poverty reduction potential, and what holds back their development. It then drafts engagement strategies which set out pathways for tackling these constraints.
- Identifying partners that can act as agents for pro-poor change in key parts of the economy:** MDF works with private sector or government organisations where appropriate, but most MDF partners are private, profit-driven businesses. Specifically, MDF reviews whether a business innovation has a potential ripple effect on the functioning of the local economic systems. Partners also need to be willing and able to share the costs of activities with MDF. Such ownership is seen as critical to achieve lasting solutions that continue to benefit the poor after the end of the partnership.
- Implementing tailor-made partnerships:** As there is no single solution to the constraints on all its business partners, MDF designs individual support packages, rather than implementing ready-made plans and standardised forms of assistance. Partnership agreements specify the terms and objectives of MDF's assistance. These can be adapted later on because the market environment and business constraints frequently change. MDF regularly monitors business performance, and the impact on beneficiaries and economic systems as a whole, to see what works and what doesn't; and it invests significant staff time to develop close and responsive relationships with partners.



Learn more

For more detailed information on each step of MDF's approach – including sector and poverty analyses, partner selection criteria, partnership agreements and results monitoring, please refer to an earlier case study of MDF in Fiji, [Innovating Private Sector Engagement in the Indo-Pacific Region \(2015\)](#), available for download at www.marketdevelopmentfacility.org.



MDF's use of partnership agreements and MoUs

Written agreements are part of any substantive MDF work with other stakeholders. There are, however, practical and legal differences, depending on the partner. **Formal partnership agreements** are used for projects with businesses: They articulate a budget, financial contributions as well as the legal obligations of each partner. **Memoranda of understanding (MoUs)** are used for generic agreements with institutional partners. They don't involve a specific budget, include only a few legal provisions, and outline shared objectives, areas of collaboration and commitments

“Development is fundamentally about structural change: It involves producing new goods with new technologies and transferring resources from traditional activities to these new ones”. (D. Rodrik, 2007)

In line with Rodrik’s summary of how economies develop,³⁴ MDF’s approach is essentially about changing the structure of Timor-Leste’s economy: first, through tailor-made support to businesses, as defined in partnership agreements; and, through the sum of its partnerships, influencing entire parts of the economy. However, when MDF started working in Timor-Leste, it was faced with a difficult question: What were the viable entry points for inclusive private sector development in a small island emerging from conflict, with only a few early stage economic activities outside oil and gas?

In this context, MDF had to make bold decisions about the most likely future sources of economic growth and poverty reduction. In addition, MDF repeatedly assessed where its support would add the most value. In fact, MDF has entered, and stepped out of, an entire engagement area – the construction sector – when it could not find suitable entry points to promote more inclusive growth. Given that the sector’s growth was driven by government spending, MDF found it was left with little room for manoeuvre to stimulate private investment and innovation. Instead, other areas, which are also prioritised in Timor-Leste’s National Strategic Development Plan 2011-2030, showed better opportunities: agriculture, as well as manufacturing and tourism – both of which are essentially new to the economy.



AGRICULTURE

With the majority of Timor-Leste’s poor living in rural areas, promoting productive growth in agriculture is a critical entry point for generating new economic opportunities. Empirically, “no country has achieved...poverty reduction without prior investment in agriculture.”³⁵ There is also strong evidence that productivity-intensive growth in agriculture is significantly correlated with poverty reduction.³⁶



GREENFIELDS - MANUFACTURING

Manufacturing industries have been essential in driving economic growth and raising living standards in all developing economies,³⁷ and could play a key role in creating jobs for growing urban populations in Timor-Leste. Cross-country research shows that employment-intensive growth in manufacturing plays a major role for poverty reduction.³⁸



GREENFIELDS - TOURISM

Tourism has become a major source of growth in many Least Developed Countries (LDCs), including in those countries that have graduated out of LDC status. Businesses in tourism face relatively low entry barriers and can create jobs for low- and semi-skilled workers, including in remote areas.³⁹

In MDF's experience, the early stage of economic activities as well as institutional structures in each of the three engagement areas, however, meant that programme activities could not 'get off the ground' as easily as in other economic contexts. MDF had to bring in more resources, allow more time and flexibility, and identify strategic partnership opportunities. This is explained further in Lesson 1.



Lesson 1: In an early-stage economy, getting an inclusive growth programme started requires additional resources, time and flexibility.

When MDF started in Timor-Leste, it had to adapt to a number of challenging features of the country's early-stage economy. Overall, these factors meant that MDF was only able to identify three partnerships in its first year, and its portfolio has grown more gradually than in other countries:

- 1. MDF invested in substantial in-house research to gather information that no one else had:** When MDF started, it was faced with a lack of structures to tap into for information and contacts to help build an overview of the economy, the situation of the poor, and potential partner businesses. There were few company offices, no up-to-date government business registers, no functioning business associations and surprisingly limited informal interactions among the few private sector actors. MDF, therefore, had to invest more time into gradually building up a network of informants and doing more research in-house, e.g. for its Poverty and Gender study.
- 2. The presence of few investment-ready actors and investment opportunities meant that MDF had to be particularly versatile and open-minded about which specific activities to support in its engagement areas:** While bigger and/or more advanced developing economies may feature hundreds, thousands or more businesses in the same industry, the situation is very different in Timor. Manufacturing and tourism businesses are often the first of their kind, while agriculture is characterised by few and small businesses, and only features one cash crop – coffee. Therefore, MDF decided to consider a wide range of possible activities that could trigger economic dynamism in agriculture, including in stimulating supply of agricultural produce through improved access to inputs and embedded extension services and increasing demand for local produce through agro-processing. In manufacturing and tourism, MDF had to be ready to respond to any promising partnership opportunities it could find.
- 3. It took MDF longer to build up a qualified national team:** Timor-Leste's history has also taken a toll on the availability of qualified Timorese staff to develop and manage partnerships. Recruiting a national team, therefore, took longer than in other countries where MDF operates.

The table below summarises in more detail the growth constraints and opportunities in each engagement area, as identified by MDF. It also links to specific partnership examples, which are elaborated in the next chapter.





AGRIBUSINESS, PROCESSING AND RURAL DISTRIBUTION



GREENFIELDS: MANUFACTURING



GREENFIELDS: TOURISM

STATUS QUO IN 2012

- **Subsistence and small-scale farming:** Small production volumes; low productivity; poor farmer knowledge of good cultivation practices and use of inputs; old or mismanaged plantations; farmers' low food security
- **Limited access to inputs:** inputs sold in small rural shops are often of low quality and in the wrong season; only a few large, agro-input wholesalers in the city but no formal distribution networks to rural areas and limited knowledge of farmers' needs
- **Limited value addition:** Only small-scale processing, mainly for local consumption
- **Limited access to domestic and international end markets:** High import dependency for staple crops and processed food, in particular in Dili; lack of specialist services, e.g. finance, transport, storage; testing; high costs of local production (labour, transport); cumbersome export processes
- **Market distortion:** The government sometimes acts as a buyer and distributor of products

- **Few successful examples** in manufacturing
- **Lack of business development services and finance** for first-of-their-kind investors, in particular SMEs
- **Lack of relevant skills development programmes** for workers
- **Lack of specialised value chain actors**, e.g. local suppliers, transport and distribution

- **Small tourism industry** largely dependent on weekend trips of international workers, limited to a few locations near Dili
- **Few, destroyed or little developed tourist sites**
- **No marketing** of Timor-Leste as an international tourist destination
- **Lack of business development services and finance** for tourism businesses, in particular SMEs

INCLUSIVE GROWTH POTENTIAL

- **Increasing incomes by connecting farmers to domestic markets:** Meeting a larger share of local staple needs in Dili and the districts; supplying government and donor-funded food security programmes in the near future
- **Increasing incomes by connecting farmers to export markets:**
 - » Exporting agricultural produce and livestock to neighbouring Indonesia
 - » Building on already existing successes in exporting high-value niche products, such as organic coffee, virgin coconut and candlenut oil, peanuts, and spices, to countries with high purchasing power (e.g. Singapore, Australia)

- Creating jobs and incomes in factories and their supply chains, and increasing the availability of affordable, local products to consumers by:**
- Substituting imports with competitive, locally manufactured products
 - Tapping into export markets with specialised niche products

- Creating jobs and incomes for suppliers and workers across Timor-Leste through:**
- Increased numbers of tourists from Australia and other countries attracted to Timor's natural beauty, including mountains, untouched beaches and 170 km of reefs
 - Increased numbers of Dili-based weekend travellers to the districts

EXAMPLES OF RELEVANT INTERVENTION AREAS FOR MDF

Getting more inputs and information to farmers, getting more local produce to markets and adding value to raw materials by:

- Working with Timor-Leste's first specialised agro-input wholesaler in piloting a rural input-distribution network and embedded training services;
- Assisting agro-processors in procuring, processing and quality-testing crops, such as rice and maize, coffee and spices, for national and international markets respectively;
- Supporting agro-traders in introducing integrated contract farming models to provide inputs to their suppliers, and source, grade and package local fruit and vegetables for a growing domestic customer base; and
- Helping businesses organise themselves to engage in dialogue with the government about regulatory and policy issues that obstruct their growth

Working with private sector partners (e.g. manufacturing, service and supporting companies) and the government to:

- Introduce new locally made products and services.
- Enhance the availability of business development services, including finance, in particular for SMEs.
- Develop the necessary skills of workers.
- Stimulate public-private dialogue to align new industrial policy initiatives with private sector needs.

Working with private sector partners (e.g. hotels, tour operators, transport companies, training institutes) and the government to:

- Create accessible tourist sites and adjacent facilities across the country.
- Develop tour packages catering to different clients.
- Improve transport services.
- Improve the availability of training and other business services.
- Help businesses engage in dialogue with the government.

FEATURED PARTNERSHIPS

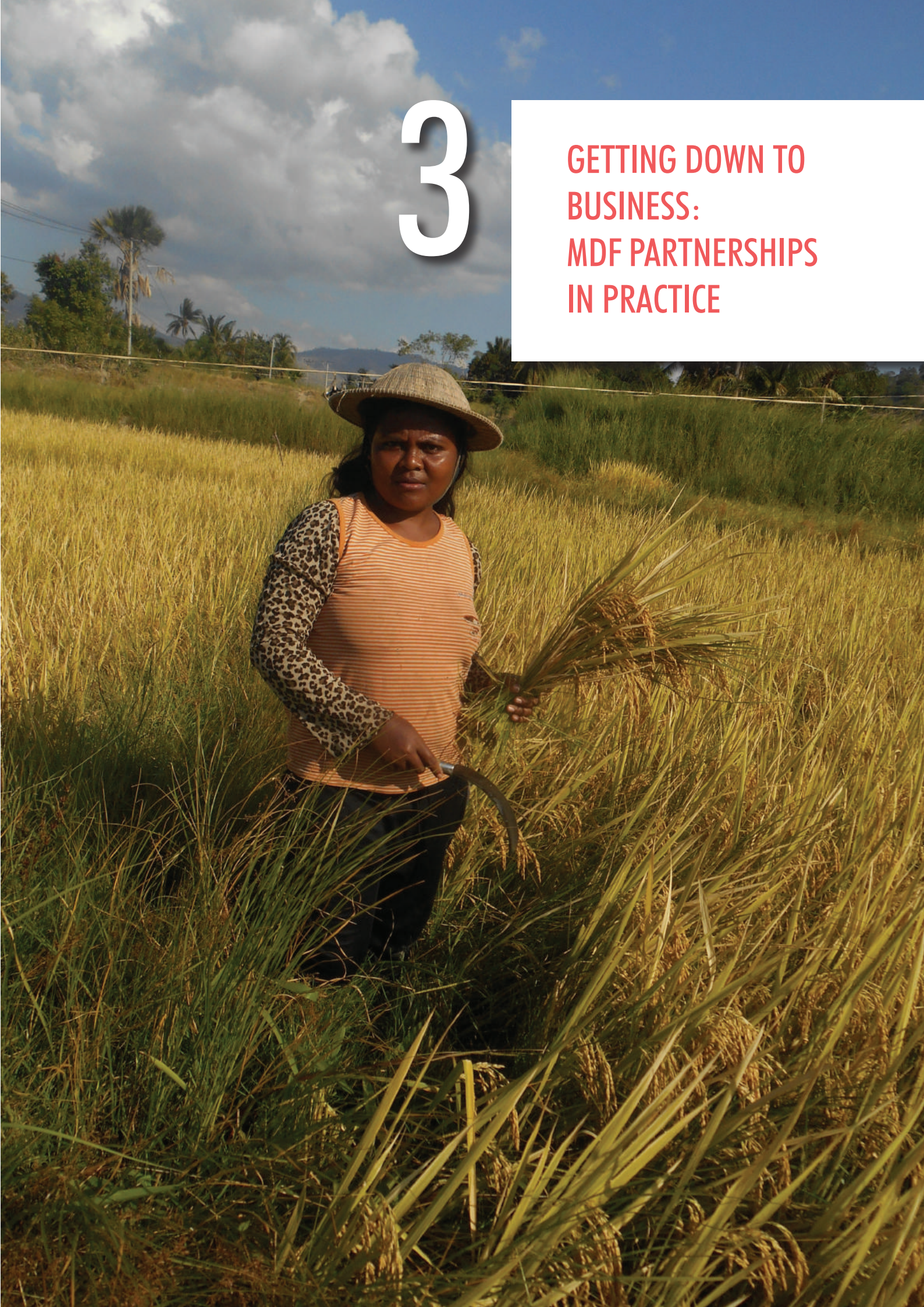
Café Brisa Serena (boutique coffee); **Timor Global** (aflatoxin testing); **Agi Ag** (input distribution), **Acelda** (rice milling); **Commodity Exchange** (spices); **ANSA TL** (association)

NPM Industries (salt processing); **Mahanaim Garment** (garments factory)

Balibo House Trust (hotel), **Dive, Trek and Camp** (local tour company)

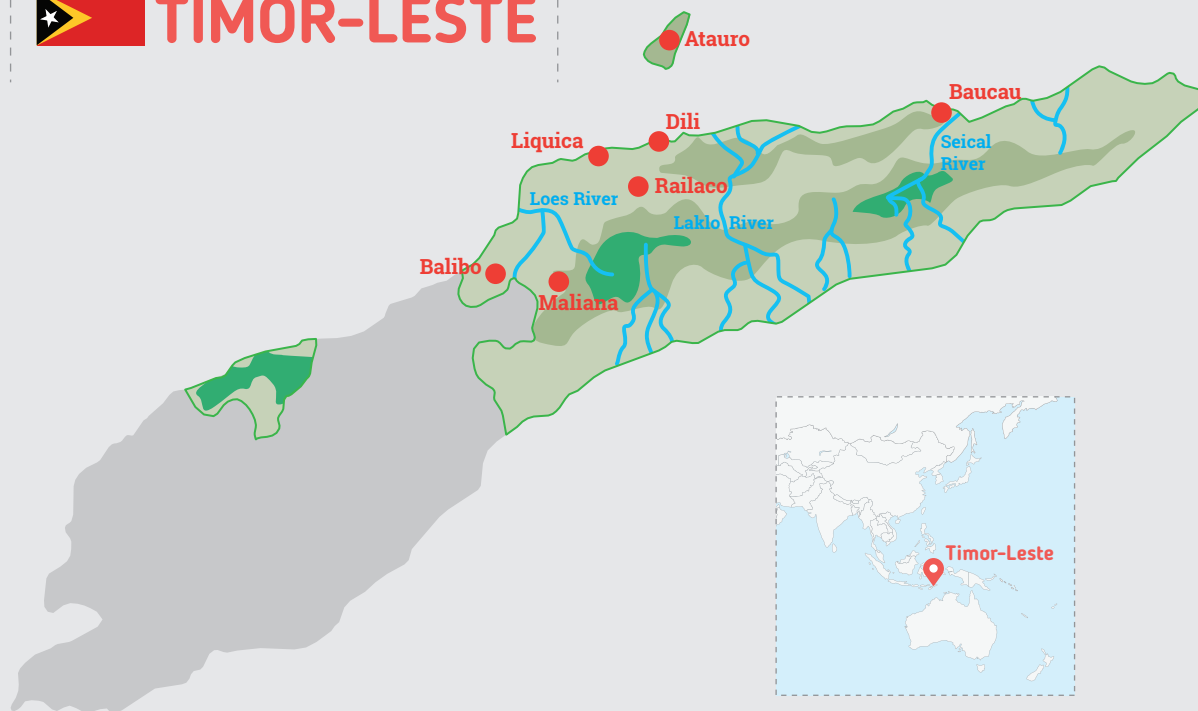
3

GETTING DOWN TO BUSINESS: MDF PARTNERSHIPS IN PRACTICE





TIMOR-LESTE



ALL PARTNERS AT DECEMBER 2016



Agribusiness, Processing and Rural Distribution

- Café Brisa Serena
- Timor Global
- Agi Agricultura
- Acelda
- Commodity Exchange
- ANSA TL
- Nova Casa Fresca
- JYL International
- Kmanek (completed)
- Hamos Habokur Hamatak (H3R) (completed)
- FarmPro (completed)



Greenfields: Manufacturing

- NPM Industries
- Mahanaim Garment
- Liberty Lorosae
- Concrete Product Business



Greenfields: Tourism

- Balibo House Trust
- Dive, Trek and Camp
- Things & Stories
- Boneca de Atauro
- Pousada Alecrim Namrau (Completed)

Cross-cutting

- TradeInvest
- ANZ
- Tuba Rai Matin



During the last few years, MDF has developed a portfolio of about ten partnerships in agriculture to tackle inclusive growth bottlenecks. These cover innovations in input distribution and processing for:

- A range of staple and horticultural crops as well as spices to commercialise their production; and
- Coffee, to further enhance Timor-Leste's competitiveness in the international coffee market.

Indeed, one of MDF's most recent successes has been achieved with a boutique coffee exporter, **Café Brisa Serena**. Most Timorese coffee processors now show falling export volumes against other exporting countries because they don't focus on quality control and export only low grade coffee. Café Brisa Serena instead targets the high-end, high-priced coffee market. It developed linkages with boutique buyers worldwide and sought MDF's support to install an international-standard quality management system to increase buyer confidence and secure larger orders. The system also enables tracing different coffee grades to farmers, as a basis for targeted advice on improvements.

MDF worked with the company to incorporate a so-called cupping laboratory into its business model.

Almost half of Café Brisa Serena's 100 metric tons of coffee sales in the first season after setting up the facility was sold solely because of increased buyer confidence. 540 female and male farmers increased their net income by USD 185 each. And the benefits are set to increase: In its most remarkable achievement yet, Café Brisa Serena has been the leading competitor in Timor-Leste's first National Coffee Festival, in which international judges blind tested coffee samples from all over the country. Six of the top ten coffee samples came from Café Brisa Serena suppliers, including the winning and the third best coffee samples. This success gives a clear sign to other coffee exporters – and government or development stakeholders who may wish to support them – that investing in a cupping laboratory makes strong business and development sense.

Three further partnerships in agro-processing and input distribution are featured in detail below.



PARTNERSHIP PROFILE 1:

TIMOR GLOBAL – THE COUNTRY’S FIRST COMMERCIAL FOOD TESTING LABORATORY



» THE BUSINESS AND INCLUSIVE GROWTH OPPORTUNITIES

Timor Global is a budding agro-processing company which originally focused on two business lines: exporting coffee combined with efforts to diversify into nut and spice exports; and producing maize-based fortified food for school children and lactating mothers under contracts with the government and the World Food Programme (WFP).

Both business lines shared the same constraint: The lack of a local testing facility for food contaminants such as aflatoxins – cancerous chemicals created by some moulds occurring in many staple commodities after bad harvest

and post-harvest management, particularly storage. When Timor Global sourced maize locally in 2010, it turned out to be highly contaminated. Cleaning the factory required a six-month production stop and WFP requested the exclusive use of imported maize to ensure a safe and consistent supply. For Timor Global’s export business, the only way to test nuts and spices was to send samples to Singapore, which cost time and money. Timor Global then had the idea of starting its own commercial testing laboratory to be able to source and process raw materials. As 60% of rural households grow maize, this would also generate new income for female and male farmers.

» MDF PARTNERSHIP ACTIVITIES

MDF worked closely with Timor Global to refine this business idea and to develop a joint plan of activities.

In particular, MDF saw the need to help stem the cost of physical infrastructure – the testing laboratory and a storage silo to maintain grain quality until processing – as a pre-condition for local sourcing and testing services. As part of a second set of activities, Timor Global committed, among other things, to hiring a food safety laboratory expert (facilitated by UNDP and WFP) to implement staff training.

Over time, MDF and Timor Global realised that more active engagement with farmers was required for a consistent supply of good quality maize. Farmers were not familiar with selling to a regular buyer, or the links between quality and price. As aflatoxin contamination

was still common, Timor Global also saw the need to test samples before buying large quantities. As a result, MDF later:

- Contributed to the cost of quick-testing kits that could be used directly at the farm gate; and
- Collaborated with Timor Global in farm-based demonstration events and pilot purchases, by hiring a quick-testing expert to supervise.

All of MDF’s support has been conditional on Timor Global’s fulfilment of its share of costs and activities. In particular, MDF monitored Timor Global’s efforts to invest in building longer-term relations with female and male farmers to meet its sourcing targets, including by offering competitive prices and living up to key commitments such as a regular buying schedule.

» BUSINESS RESULTS AND IMPACT

Timor Global has implemented two initial roadshows to raise awareness about aflatoxins among farmers and has started to buy maize from local farmers based on the quick-testing kits. Timor Global aims to buy local maize at a price competitive to import, which is 42¢/Kg. It is estimated that up to 30% of Timor Global's current requirement of 4,500 metric tons (MT) of maize could be sourced locally in 2017, meaning that more than 1,000 farmers could benefit from extra income. More farmers are expected to benefit once Timor Global's demand for raw materials grows and training sessions help to increase

maize quality and yields. Indeed, the newly found access to a commercial market creates incentives for farmers to upgrade production.

Even though the testing lab is only due to start operations in early 2017, it is already opening new doors to business growth. Timor Global has received an order enquiry from foreign buyers about organic peanuts even before the lab was open. It also sees export opportunities for spices, such as pepper, turmeric and ginger, which can now be tested on site – where six jobs have been created so far.

» SIGNIFICANCE FOR TIMOR-LESTE'S ECONOMY

Beyond Timor Global's impact on its workers and suppliers, the testing lab is of high strategic relevance for Timor-Leste's agricultural sector as a whole:

- **Designed as a commercial lab, it will enable any processors and exporters to get cheaper and faster access to testing services as a basis for accessing domestic and export markets.** This creates strong incentives for businesses to source locally, and unlocks new opportunities for value-added production by small farmers. MDF also sees new business opportunities arising from maize that is unsuitable for human consumption as it could be processed for animal feed.
- **Timor Global also demonstrates that the private sector can fill critical gaps in service-provision where state capacity is weak.** The company had been anticipating the set-up of a national testing lab for several years but finally decided to take matters into its own hands. Instead, Timor Global is now in talks with the government about giving them access to the lab for public testing and certification services. This will be a further critical step for the country's export market access.



MDF partnership video: Timor-Global



Watch the video to see Timor-Global's owner, Bobby Lay, describe the collaboration with MDF and the lab's strategic role.

MDF's work with Timor Global is also a good illustration of how MDF promotes commercial business growth in a heavily aid- and government-dependent environment. Timor Global's maize business stems from donor and government contracts,

and benefits from the support of other development agencies. As a result, MDF had to be savvy about finding its role and promoting a commercial food testing business model. MDF's broader lessons in this regard are summarised below.



Lesson 2: Between 'staying out' and 'getting involved': Careful choices are required when working in a heavily aid-and government-dependent private sector

The combination of a small, heavily state- and donor-dependent private sector makes it harder for MDF to find the right partners:

If firms can do well out of government or donor contracts, they are less likely to agree to the risky and innovative investments needed to stimulate inclusive growth. Even if they agree to work with MDF, they may be less inclined to fulfil partnership obligations or lack the capacity to expand into commercial activities. Finally, it is harder to help companies become viable if they receive donor support at all levels of operations. MDF drew the following lessons for its work:

- 1. Stay away from businesses that depend on donor grants at all levels of their operations or that source their income almost entirely from government contracts.** Ideally, business owners have already had some commercial success, even if that involved defined assistance from external parties.
- 2. Be realistic about businesses' growth opportunities in a nascent economy and the positive role of government contracts in the transition to commercial viability:** While MDF avoids working with public-sector dependent businesses, it has also learnt that government contracts can play a role in allowing businesses to grow and recoup their initial investment costs. In the case of Timor Global, the continuation of publicly-funded school feeding programmes was considered essential for getting the food safety testing business off the ground. Another example is MDF's work with Mahanaim Garment ([see chapter 3.2](#)): Supplying school uniforms to the government provides the company with an important financial backbone while it explores the launch of commercial clothing lines.
- 3. Find niche areas without the involvement of other donors that offer a 'clean slate' for collaboration:** MDF aims to be smart but cautious about which parts of a business operation to support. For example, if another programme works on supply side constraints, MDF would try to focus on marketing.
- 4. Work jointly with other development programmes on ambitious projects:** MDF has actively joined forces with other development partners in more ambitious partnerships. For example, UNDP has provided critical support to Timor Global's laboratory equipment, and the identification and payment of a food safety expert – an area where the agency had previous experience.
- 5. Encourage other programmes to adopt market-based approaches:** MDF has also actively shared knowledge about market-based approaches with the government ([see chapter 3.3](#)) and other donor programmes. For example, MDF found that the most common growth constraint of agricultural input retailers was seed hand-outs by donor and government programmes (see also Agi Ag's partnership profile below). MDF therefore engaged in discussions with a major Australian Government-funded seed programme on market-based alternatives to seed distribution.





PARTNERSHIP PROFILE 2:

SERVING THE RURAL POOR AS CORE BUSINESS - AGI AGRICULTURA'S INVESTMENT IN LOCAL SEED DISTRIBUTION AND EMBEDDED ADVISORY SERVICES



» THE BUSINESS AND INCLUSIVE GROWTH OPPORTUNITIES

Farmers need quality inputs, such as seeds, compost, fertilisers and pesticides, to increase productivity and grow their income from selling their produce. Timor-Leste's farmers often have to travel to the larger urban centres to purchase inputs, which are often of poor quality and don't include instructions on how to use them.

A survey by MDF found that farmer yields are held back by the poor quality and high mortality of seedlings. The first company that saw this gap in rural input access and information as an opportunity to capture an entirely new market is Agi Agricultura (Agi Ag) – a Dili-based distributor of horticultural inputs.

» MDF PARTNERSHIP ACTIVITIES

MDF recognised that Agi Ag had clear commercial incentives to cater to the needs of rural clients but lacked the knowledge and resources to build a distribution system from scratch. Therefore, MDF agreed to provide guidance and financial assistance for the following activities:

- Developing a network of district-based retailers near the farmers' production centres;

- Recruiting and supporting field staff in monitoring input purchase and usage, and training retailers and farmers on the use and benefits of different products; and
- Developing and distributing promotional materials to raise awareness among farmers about the new concept of buying inputs at local retail stores.

» BUSINESS RESULTS AND IMPACT

Agi Ag's distribution model is making progress, if only slowly. Four retailers had been integrated in the network and trained by 2016. These now stock a much larger range of products and sell them to farmers on credit. An impact assessment for two of these retailers found that they had trained 108 farmers in the first year

and more than doubled their revenues from selling inputs. Agi Ag is committed to expanding its retailer network and retaining field extension staff after the end of MDF support – thereby making agricultural advice a core part of its business model.

Most importantly, improved input access is helping farmers to increase productivity and incomes: Farmers report an increased ability to grow vegetables throughout the year; a 10% increase in their total production; and a 7% increase in net income. This largely results from better compost and an appropriate pesticide dosage (about half the amount farmers used before). The compost also

reduced the need for chemical fertilisers and farmers now take safety measures during chemical application. They were also trained in making their own high-quality compost; as a side effect, both a retailer and one farmer have started to sell compost commercially. Key results figures are summarised below.

Farmer benefits from Agi Ag's rural input distribution network and embedded training service

	2014 (Base year)		2016
% of farmers that grow vegetables in both dry and wet seasons	71%	→	81 %
Average total harvest /year (kg)	5,433	→	6002.3
Average net income/year	3,796.6	→	4078

With MDF's support, Agi Ag is also adapting its business model to meet farmers' needs even more effectively, including by targeting products and services at women. Future training will include separate modules for women and men as they typically handle different aspects of the

cultivation process. An MDF survey also revealed that women were particularly concerned about irrigation. Agi Ag therefore is looking into selling lighter tools and new irrigation systems that reduce women's workload.

MDF partnership video: Agi Agricultura



Watch the video on the left to listen to Agi Ag's Technical Advisor, Nilton Aniceto, describe challenges in Timor-Leste's agricultural input sector and how the partnership with MDF helps to address them. In the video on the right, you can hear from a rural retailer in Agi Ag's distribution network as well as two local farmers who have benefitted from Agi Ag's inputs and training

Agi Ag's innovative business model showcases the kinds of changes that are now possible in Timor-Leste's horticulture sector: previously isolated farmers can be connected to input markets; over-stretched government extension services can gradually be replaced by efficient embedded training by retailers; and increasing yields can empower farmers to pay for further inputs, household goods as well as the continuation of their children's education. Feedback from farmers shows that they are increasingly shifting from rice cultivation to horticulture, as it requires less water, and it is easier to compete against imports than in the subsidised rice sector.

There are two important caveats: Among the many practical challenges that 'first movers', such as Agi Ag, face are the continuing import of illegal inputs as well as seed hand-outs by the government and development partners; both of which represent big scaling-up barriers in the input market. To advocate for change, MDF is supporting Agi Ag and others in forming Timor's first input business association ([see chapter 3.3](#)).



PARTNERSHIP PROFILE 3:

TIMOR-LESTE'S FIRST LOCAL RICE BRAND – HOW ACELDA DEMONSTRATES OPPORTUNITIES FOR IMPORT SUBSTITUTION



Acelda is an agro-processor with a mature business in sourcing, processing and exporting candlenut. Its director, Higino da Costa Freitas, aspired to broaden the scope of his business – and the economy – by becoming the country's first commercial rice miller. Rice in Timor-Leste has so far been largely cultivated for subsistence purposes. The country covers its demand almost entirely through 130,000 MT of imported rice, of which 30,000 MT were directly imported by the government for subsidised distribution.⁴⁰ Even if just a quarter of this rice could be produced domestically, this could bring extra income of almost USD 20 million to Timorese farmers.⁴¹

Feedback from local businesses indicates that they find it very difficult to compete in the market due to government subsidised imports and distribution of rice. Those that engage in local sourcing only do so to cater to irregular government buyback initiatives. Many farmers also felt that there was no point in growing rice for sale as there was plenty of cheaper rice on the market.⁴²

» MDF PARTNERSHIP ACTIVITIES

In this environment, it was unclear how long it would take to achieve commercial viability in rice milling, if at all. MDF, however, saw the bigger picture: if Acelda can succeed, other businesses could too – whether in processing rice or other crops for the local market. MDF decided to shoulder part of the cost and risk of the initial investment, including:

- Developing a sourcing plan for purchasing rice paddies from farmers in target areas;

- Setting up a modern processing, packaging and storage facility to enable Acelda to compete with imported rice on taste, freshness and quality; and
- Designing an effective marketing campaign to raise awareness of the product and its qualities.

» BUSINESS RESULTS AND IMPACT

Acelda launched Timor-Leste's first local rice brand 'Fos Timor' in September 2014 and has since become an official supplier of eight supermarkets in Dili. Between 2014 and 2015 its sourcing volume and number of suppliers almost doubled to 154 MT and 374 farmers, respectively. In 2015 each of these farmers earned about USD 90 in extra income. Acelda also employs six staff in the milling factory. In 2016, however, drought prevented farmers from growing surplus rice in Acelda's sourcing area. Acelda also saw a need to improve agricultural practices to boost productivity. To that end, MDF has agreed to help Acelda with the logistics of sourcing from more distant areas not affected by drought. MDF will also support the development of embedded training services

for women and men in line with their specific roles in the production process.⁴³

In the bigger picture, Acelda and MDF have learnt that it is harder than expected to compete in the heavily distorted rice sector – and that the focus needs to be on quality and branding, rather than trying to achieve cost-effective mass production of regular rice. The most significant evolution in Acelda's business model seeks to address this by focusing increasingly on specialty red and black rice. These varieties are relatively new to the local market and could help Acelda secure an extra 55¢ per kg and pass on a premium to farmers.



MDF partnership video: Acelda



In the video, Acelda's owner, Higino da Costa Freitas, explains what motivated him to invest in rice, and how MDF is supporting his evolving business model

Acelda's experience also has wider implications for doing business in Timor-Leste:

- **It demonstrates that there are opportunities for local businesses to capture market share from importers, even if it is small, and boost local, value-added production.** Acelda has also created new links and trust between formal and informal markets: After years of erratic government buyback schemes, it is the first time that farmers have had a regular and commercial buyer.
- **In a context where supply chains are still fragile and the costs of local sourcing are high, Acelda shows that businesses have to be highly adaptive**

and creative to improve prospects for commercial viability (see also Lesson 6). Acelda's planned investment in farmer training and specialty rice production are examples of how it is dealing with these issues. Changes in the policy environment will, however, be required for domestic rice millers to operate on a larger scale. Acelda's owner is very frank about this with the government, and notes that "if the government wants to be active in the sector, it could more usefully assist in the set-up of milling plants in other parts of the country."

Before turning to MDF partnerships in manufacturing and tourism, it is useful to consolidate and contextualise some of the lessons learnt that have emerged from the examples so far and which are indeed relevant across MDF's work. In particular, being a multi-country programme, MDF has gained nuanced insights into structural differences between Timor-Leste and bigger and/or more advanced developing economies, and the implications for how to engage businesses in inclusive growth programming. The table provides a comparative overview of Timor-Leste's private sector:

Structural differences between Timor-Leste's small island, post-conflict economy and bigger and/or more advanced developing countries

Features of Timor-Leste's private sector	Typical features of bigger and/or more advanced developing economies
Predominance of first-generation entrepreneurs with limited sectoral knowledge and business management experience	A mix of young and more mature companies with long-standing experience in a particular sector
Predominance of 'one-man businesses' which rely on one person to manage all aspects of the company	Presence of more SMEs with several skilled or semi-skilled employees performing different roles
Markets are thin and shallow: <ul style="list-style-type: none"> • Few or no value-chain partners (e.g. input/transport providers) and supporting actors (e.g. for finance or skills development) • Low-levels of business specialisation – meaning that business managers have to integrate most supply-chain functions in-house 	Several or many companies are present in key value chains and supporting markets, offering a diverse range of specialised products and services but may not effectively cater to the needs of inclusive businesses, their impoverished suppliers or customers
Businesses are not organised	Private sector organisations exist in different sectors but may not function effectively

In essence, these features imply that private sector development in Timor-Leste is about helping to build businesses and economic systems from the bottom-up, rather than merely improving, adapting or expanding what market players do. Lesson 3 brings together some of MDF's key conclusions for partnership design and sequencing in such contexts



Lesson 3: What to focus on when so much needs to be built from scratch: Implications for designing and sequencing partnerships with first-generation entrepreneurs

- Pragmatic, individually designed support packages to businesses have proven to be especially relevant in Timor-Leste's small and early-stage economy:** Both MDF and first-generation entrepreneurs are on a steep learning curve about how to manage the complexities of business growth, and reach full-scale and profitability. Thus, as illustrated in the examples above, MDF had to be particularly flexible in responding to the needs of business partners at different stages of their development. More standardised and narrow support programmes can struggle to overcome businesses' growth constraints: For example, the Ministry of Commerce has provided simple grants to entrepreneurs interested in manufacturing, but most of the businesses are no longer functional.⁴⁴
- Working with a nascent private sector requires a gradual sequencing of partnership activities – often with an initial focus on the foundations and 'front end' of business operations – followed by deeper engagement with a supply chain or market:** The partnership examples above have illustrated a range of support services that MDF may facilitate or provide in the short term:

Level of business operations	Business foundations	'Front end' of business operations	'Front' and 'back end' of business operations	Wider market and enabling environment
Examples of activities that MDF has facilitated through staff time and co-financing	Support to business management, e.g. business plan development, cash flow management	Construction and purchase of infrastructure and equipment, e.g. for processing, testing and sourcing of raw materials	Technical assistance to the implementation of new business models, e.g. staff training in specialist skills, marketing, and supplier relationships and training	Information-sharing and linkages between businesses, business support services and public-private dialogue (see section 3.3)

While MDF may fill discrete gaps in all of these areas wherever it works, getting businesses started in Timor-Leste has required more substantial engagement around basic issues, such as cash flow management or buying processing machinery, to create the conditions for engaging with impoverished suppliers. MDF has also facilitated different kinds of technical assistance over time, often beginning at the 'front end' of on-site business operations, and then moving to the 'back end', such as supplier training, once the business achieves certain milestones. This is different from many partnerships in more advanced economies, where the financial and managerial capacity of businesses often allows MDF to tackle various inclusive growth constraints at once.

Several of MDF's partnerships illustrate this: In the case of Acelda's rice processing facility or Timor Global's testing lab, MDF started by helping to introduce new facilities and providing support on the marketing side. It then moved on to tackling issues in the supply chain in a second partnership phase (e.g. farmer training and awareness-raising). More recently, MDF has also begun to address wider issues in the market, such as government policies and access to finance (see chapter 3.3).

- **In addition to aligning with business capacity, using a step-by-step approach is necessary for risk management:** Due to high upfront capital investments and the difficult operating environment, many businesses remain fragile for longer than in other countries, and their priority is survival rather than growth. Hence, they typically move more slowly to manage risk. For example, Agi Ag tests new retailers for six months before signing contracts. Overall, a carefully sequenced approach means that MDF's engagement periods may be longer than in other countries.
- **For MDF as a whole, the presence of inclusive growth constraints at all levels makes it more important to plan for a strategic division of labour with other development programmes:** One example of this is the livestock sub-sector: As an entry point, MDF has considered helping an abattoir to expand its facilities and source more meat. However, wider development efforts and business investments are needed on all fronts: There is currently no local producer of animal feed; no commercial vaccination provider; and no effective extension service provision. This means that coordination of engagement areas with other development programmes is ever more important to build the foundations for inclusive growth. One outcome of such considerations is the complementary Australian Government programme, called TOMAK, beginning implementation activities in 2017: One of its foci is tackling production-base issues in communities involved in livestock production as well as legumes and cereal crops.

As outlined in Lesson 3, MDF often performs services and functions that neither its partners nor other market players are currently fulfilling. A defining feature of MDF's approach is its operating principles,

which serve to avoid discouraging market players to provide similar services to MDF, and to avoid open-ended support to businesses without achieving growth. These are summarised in the box below



Do's and don'ts when acting as a facilitator and short-term provider of business services:

- MDF only takes over support functions that the market does not currently provide and MDF's partnership agreements are designed to allow the businesses gradually to take over functions that MDF provided (e.g. paying the salaries of specialised staff). Similarly, MDF's wider engagement strategy is designed to reduce its role in the market and encourage commercial business service providers to take over such functions in the medium term ([see section 3.3](#)).
- Partnership agreements also make the transfer of funds conditional on activities and milestones to be achieved by the businesses. This way MDF has a clear exit strategy once the desired results have been accomplished or if the businesses don't manage to demonstrate any progress.
- And there are boundaries to what kinds of assistance MDF provides. For example, MDF does not 'pay' partners to do things they do not want to do in the long run. Businesses always have to remain in the driving seat, with MDF acting as a reliable partner in their growth journey.





Balibo Fort Hotel in the village of Balibo opened to guests in March 2015.

With most manufacturers being first-of-their-kind investors, they lack support structures and tailored services at all levels – including finance, skills and specialist expertise, backward linkages, logistics, marketing and distribution. MDF seeks to fill such gaps, for a small but growing portfolio of aspiring businesses, currently in the iodised salt, garments, mechanical services, and cook stove industries. MDF's assistance to *Mahanaim Garment and Manufacture* is a great case in

point: Neither the company – even though part of one of the biggest business groups in Timor – nor national training institutions had prior experience in commercial garment production. Therefore, in 2016 MDF supported the company in recruiting skilled professionals from overseas to help in the areas of product design, cutting, worker training and quality control, among others. In the beginning, the factory is to employ 45 Timorese women.

While a few more players already exist in the tourism industry, it faces similar challenges. MDF currently provides strategic support to a tour operator, a hotel and a handicraft business in building or upgrading facilities and machinery, developing new activities and transportation links, and/or enhancing skills and marketing. MDF's work with the *Balibo Trust* illustrates such as multidimensional support package. The Australian charitable trust invested in rebuilding and converting one of Timor-Leste's major rural heritage sites, a Portuguese fort, into a privately managed hotel. To help turn it into a successful

commercial venture, MDF assisted in installing a water connection; cost-sharing the salary of an assistant hotel manager for one year; developing and implementing initial staff training; and marketing. The hotel has been a game-changing investment for Balibo's small community. 20 jobs for women and men have been created so far; community members also benefit from the sales of local weaving and transport services. Visitors to Balibo Fort have increased by 25% within one year of the hotel opening. MDF has now begun a second partnership to build a conference room and more accommodation.



MDF partnership video: Balibo Trust



In the video, Balibo's hotel manager Luisa Dacruz De Arauso Soares and the village chief, Domingo des Assis, describe the hotel's impact on the community.



Lesson 4: Beyond 'business as usual' in market development programmes: the pros and cons of working with non-commercially oriented entities

One way in which MDF has been pragmatic and opportunity-driven in a context with few private sector players was its decision to partner with non-profit organisations: This includes *Balibo Trust*, a charitable organisation, in setting up a commercially driven hotel, as well as a social enterprise and NGO spin-off (registered as Concrete Product Business [CPB]), in manufacturing and marketing fuel-efficient and healthier cook stoves ([see MDF's website for more details](#)). This approach has benefits as well as risks:

- **Advantages:** Working with these non-profit partners has enabled MDF to pilot innovations and to generate benefits for poor communities when no other suitable players were available. As a result, the Balibo hotel showcases the concept of district-based hotels to other potential investors; and MDF's cook-stove partnership illustrates a more viable, market-based approach to generating product uptake than hand-outs. Without MDF, neither partner would have had access to knowledge about strategies to achieve commercial viability. As such, MDF helped to push the boundaries of their operational model towards more sustainable ways of working.
- **Risks:** Because non-profit partners are less familiar with marketing and business management considerations, they are also likely to require additional mentoring and advice, and for a longer period of time. It may even be unclear if or when such partners are able to 'graduate' from receiving external advice on commercial strategy. Overall, non-profit models are likely to scale up more slowly, and be less open to expansion than private, profit-driven business models. As a result, MDF takes special care to balance the extra support needs with the potential benefits of these partnerships. In the future, NGOs could also play their own part in becoming better equipped for rolling out market-based approaches, e.g. by bringing in more staff and advisors with business expertise.

Two further partnership examples in manufacturing and tourism are described in more detail below.



PARTNERSHIP PROFILE 4:

NPM INDUSTRIES – UPGRADING TRADITIONAL SALT PRODUCTION, IMPROVING HEALTH



» THE BUSINESS AND INCLUSIVE GROWTH OPPORTUNITIES

Despite having access to sea salt as well as natural salt lakes, 60% of the salt consumed in Timor-Leste is imported. The demand for domestic salt will increase but local salt collection is dispersed, small scale and based on traditional methods using a decreasing supply of firewood and boilers. Without a large-scale producer to source, store, refine, process and package salt, the local products are uncompetitive. Furthermore, only 45% of the population currently consumes iodized salt, leading to widespread iodine deficiency disorders.

NPM Industries was established in 2011 to develop the local market for iodised salt at a commercial scale.

It started by making independent investments in the construction and installation of a salt refinery plant, a laboratory facility and a warehouse. It was after this, in 2014, that the company engaged in discussions with MDF to assist with its large-scale investment in infrastructure.

» MDF PARTNERSHIP ACTIVITIES

To MDF, NPM's business model was highly promising:

It had the potential to diversify the economy through value-added processing; to introduce more productive salt collection methods; and to lead to higher incomes as well as improved health among poor communities. As a consequence, MDF agreed to help NPM tackle a number of issues by cost-sharing:

- International-standard training for the local in-house chemist managing the iodisation process;
- On-the-job training for two salt refinery technicians managing the facility and quality control;
- Introducing modern, more efficient salt farming technology using geomembranes (sheets of synthetic material which stop the flow of fluids) and solar evaporation techniques, to be used in addition to sourcing from local salt collectors;
- Training for farmers collecting salt from the geomembrane ponds; and
- Marketing the new product through attractive packaging, leaflets and television commercials.

NPM's facility is fully operational, with a total production capacity of 4,000 MT a year. Thus it could fully substitute its product for imported salt (currently about 2,000 MT a year). NPM sourced about 500 MT of local salt in 2015 and was on track to almost double this in 2016. UN and government programmes to support salt producer cooperatives facilitated this expansion. In total, NPM bought salt from 529 salt collectors in the first six months of 2016; of these, 50 female collectors worked in the geomembrane ponds. Apart from a regular income, these women stress the reduced workload compared to traditional salt collection methods. Therefore, they

would like to work for NPM throughout the year, which will require that NPM install rain protection for the ponds. MDF and NPM are discussing ways to address this.

While NPM's salt is similarly priced to imported iodised salt, a major growth barrier is the limited understanding of the product's benefits in rural areas, despite NPM's marketing efforts. A more active government policy including mandatory iodisation and certification would be needed to allow the product to reach full-scale. Meanwhile, NPM is also working on exporting a share of its production to Singapore.



MDF partnership video: NPM Industries



Watch the video for feedback from Ines Correia, a woman working for NPM.



SPECIAL FEATURE: An entrepreneur's growth journey as a symbol Timor-Leste's evolution: The personal story of NPM's owner



The story of NPM industries reflects the evolution of Timor-Leste's private sector particularly well. Its owner Subash Mishra started out as an employee of an international organisation when Timor-Leste was under UN administration. He would soon start up his own business, to provide electrical products and services to the public and foreign aid sector. Inspired by the growth opportunities in the country he decided to move on to something bigger: establishing the first iodised salt processing factory in Timor-Leste. With growing confidence in this business and Timor-Leste's economy, he has set up a third business, *Commodity Exchange*, to export high-value spices including agarwood, clove, pepper and cinnamon. Inspired by high demand and low import tariffs in India and the idea of rejuvenating Timor-Leste's once prospering spice sector, Subash Mishra invested in a processing facility and entered a new partnership with MDF to hire a processing expert and train farmers. Commodity Exchange has started to train 300 farmers in planting, plant management, harvest and post-harvest management of cloves, black pepper and cinnamon; bought a total of 7.5MT of cloves from these farmers; and started to grow seedlings to be distributed to its suppliers.



Lesson 5: Lessons for aspiring entrepreneurs in Timor-Leste: Common features of MDF partners with the greatest potential for growth and poverty impact

The businesses in MDF's partnership portfolio that show the most progress in scaling up their operations and expanding benefits for the poor share a number of common features. The list below offers useful pointers both for aspiring entrepreneurs as well as programmes interested in supporting them:

- **The most promising partners have already had a profitable business line before working with MDF to diversify or expand into new activities.** This means that they understand and accept the long and often unpredictable payback periods that businesses face in Timor.
- **They have been smart and creative in filling major gaps in the market or finding niche areas that have the potential for growth.** This is not straightforward, as Timor-Leste's markets are small in production capacity and buying power. However, several of MDF's most promising partners have either carved out some space in the local economy to substitute their products for imports (e.g. NPM), are addressing previously unmet domestic demand for goods and services (e.g. Agi Ag), or are entering high-value export markets (e.g. Café Brisa Serena, Commodity Exchange).
- **Business owners are willing to be personally and actively engaged in all parts of the business** – given that qualified staff is hard to find.
- **To make their businesses work, several MDF partners are investing heavily in trust- building with their suppliers.** This is because social disruption – as well as inconsistent buying behaviour by the government and traders – have led to farmers' scepticism towards new buyers.
- **They learn and adapt.** In order to be successful, the most promising business partners have been operating in a highly adaptive way, by stopping or changing things that don't work and adding new activities as needed. Initially, this learning process required the assistance of MDF, which functioned as a competent partner in monitoring results and client or supplier feedback.





PARTNERSHIP PROFILE 5:

PUTTING TIMOR-LESTE ON THE MAP FOR CRUISE SHIPS – MDF’S WORK WITH DIVE, TREK & CAMP TIMOR-LESTE



» THE BUSINESS AND INCLUSIVE GROWTH OPPORTUNITIES

Dive, Trek & Camp Timor-Leste (DTCT) is a small but ambitious Dili-based tour operator which seeks to help transform tourism in Timor-Leste. Formed in 2014, it works with eight sub-contractors to provide a variety of country-wide tour packages. It also engages with villages to help them act as service providers in areas such as accommodation, catering and attraction development. So far, these tour packages have mainly catered to international workers in Dili and, increasingly, to business tourists.

As a next step, DTCT wants to promote Timor-Leste as an exotic international tourist destination. It successfully arranged trial visits for P&O Carnival cruise ships in 2015, which led to long-term agreements with three cruise liners to make one-day stops in Dili, four times a year. This means that up to 10,000 tourists could come to the capital and nearby districts for day-trips every year – generating significant additional demand for a range of local products and services, such as restaurants, transport, handicrafts, cultural demonstrations and guided tours.

» MDF PARTNERSHIP ACTIVITIES

As a small tour operator, DTCT required assistance to develop attractive, international standard tour packages and infrastructure to cater to the sudden boost in visitor numbers. MDF’s support focused on the launch of a guided tour bus, the Dili Explorer, which stops at ten sites in Dili and allows tourists to hop on and off throughout the day. MDF cost-shared:

- The development of the Dili Explorer bus service, including a health and safety assessment, installation of bus stop infrastructure, map development and printing; and
- The training of tour guides who will assist tourists at each site

MDF will also support DTCT’s website marketing and online booking tools

» BUSINESS RESULTS AND IMPACT

In the words of DTCT’s co-owner, Kym Miller, she “would not have been able to organise the Dili Explorer, its marketing and tour guide training without MDF’s assistance”. The presence of an attractive tour package through the Dili Explorer will significantly enhance tourists’ experience, making it more likely that tourists come back for longer visits, or encourage others to do so. Positive feedback may also prompt more cruise

ships to stop in Timor-Leste or stay for more than a day. So far, 77 tour guides and 36 bus drivers have benefitted directly from the Dili Explorer. In addition, MDF is actively supporting backward linkages to local suppliers. For example, DTCT is now developing a regular communications system with relevant local businesses, such as souvenir and coffee shops, to inform them about the days of the visits.

Indeed, the key benefit of the bus service is its ripple effect on the tourism industry more widely, by bringing customers to the doorsteps of existing and future businesses selling goods and services to tourists.

Working with DTCT also allowed MDF to start tackling some of the broader constraints in Timor-Leste's tourism infrastructure – such as the lack of accessible money exchange options. Many tourists on one of the first cruise liners were unable to purchase souvenirs and other local goods as they couldn't change money. MDF and DTCT are now collaborating with Moneygram to set up a mobile money exchange station, thereby providing the conditions for businesses to benefit more from the influxes of tourists

More generally, DTCT has enabled Timor-Leste to make a major step into the world of international tourism.

The interest of three major cruise liners points to Timor-Leste's potential as a touristic location and a promising investment destination for businesses willing to take a leading role in this area. MDF stands ready to support new pioneering entrepreneurs in taking the tourism industry to the next level.

3.3

MDF as a business engagement hub-Cross-cutting initiatives to reinforce the transformative impact of partnerships



While MDF's operations initially focused on supporting individual businesses, it has increasingly incorporated functions of a broader business engagement hub in order to develop a more connected economy. Specific initiatives include:

1. Promoting information exchange and commercial linkages between MDF partners;
2. Facilitating support services that cater to common needs across businesses and engagement areas, such as finance and skills development; and
3. Supporting better linkages between businesses and the government to enable demand-led reforms of the enabling environment for private investment

As highlighted earlier, innovative entrepreneurs in Timor-Leste typically integrate a lot of market functions under one roof. This adds to the costs of business operations and slows down their growth. Increasingly, however, new commercial relationships among businesses allow them to bring down these costs, and MDF has informally facilitated such linkages when possible.

- For example, MDF has organised sectoral focus group discussions on shared constraints for businesses; in the agro-input sector this has led to joint efforts to build better relationships between wholesalers and the few, small transport businesses in the country.

- A more recent platform for exchanging market information and forging collaborations is the Agricultural Input Association [ANSA-TL](#), which MDF helped to set up (see below). Some of the bigger players in the association are now entering joint initiatives, e.g. in pooling imports or sharing distribution networks. However, the most remarkable connections are emerging between smaller businesses: Previously isolated agro-input retailers from 13 municipalities plan to pool resources for group buying, an entirely new phenomenon among small, rural businesses.



Across its business partnerships, MDF also helped to substitute for the lack of appropriate business support services in Timor-Leste: In the absence of national training providers – in areas such as food safety testing or commercial garment production – MDF facilitated in-house training to allow businesses to progress. Similarly, the finance sector currently has only a limited ability to cater to the needs of SMEs and farmers. While MDF has helped to bridge this gap, it now sees potential to increase the availability of business services more broadly. Early efforts include:

- **A new partnership between the ANZ bank**, the Chamber of Commerce and Industries and the National Institute of Business Development Support is to deliver ANZ's flagship financial literacy training, MoneyMinded Business Basics to micro and small enterprises across Timor-Leste;
- **A new partnership with Timor-Leste's leading microfinance institution Tuba Rai Metin (TRM)** to adapt its core business model by combining a new financial training programme for women and men in rural households with improved delivery of financial services through rural kiosks; and
- **Serious consideration of new models for skills development and transfer in future partnerships:** For example, MDF could not only cost-share in-house training of technical staff with future business partners but also assist in curriculum development for national training institutes, if there is broader demand for such technical experts. Knowledge transfer is already happening in the Agricultural Input Association, ANSA-TL: Here, the farmer training materials developed for Agi Ag will be made available to all association members. Beyond this, ANSA-TL will be able to champion training needs in the agro-input sector with public and private training institutions.

Indeed, a primary motivation of MDF's support to ANSA-TL has been to create a new platform for connecting businesses with the government – in order to help them better understand legal and regulatory requirements, and collectively advocate changing unfavourable government policies regarding agricultural inputs. The formation of

the association has been driven by member demand, and MDF financed its facilitation through a consultancy and legal support defining the association's goals and structure. MDF also assisted directly in the registration process with government authorities.



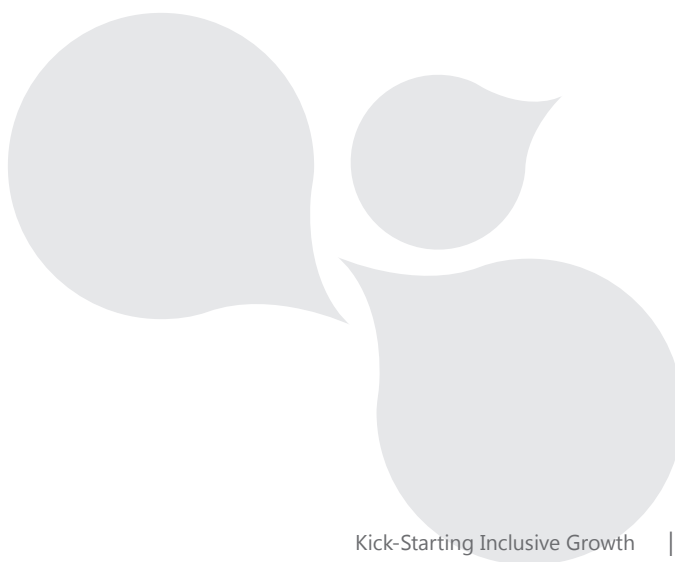
Making private sector voices heard: What ANSA-TL has achieved so far

A few months into its existence, ANSA-TL has already proven to be a turning point in the relationship between agro-input businesses and the government. Probably the most important development has been the presence of an ANSA-TL representative on the National Seed council, which advises the government on seed-related issues. Here, ANSA-TL will advocate for a reduction in free seed distribution to enable a more sustainable, market-driven way of reaching farmers with inputs and information. At the request of association members, the government has also presented information to ANSA-TL about import-related government regulations and procedures, such as quarantine requirements.

More generally – and despite a growing prioritisation of private sector development in public policies – there is still a widespread perception that business growth is happening despite rather than because of the government. As a consequence, MDF has taken on an increasingly strategic role in facilitating a mutually supportive relationship between the government and businesses, beyond support to business associations. It involves:

- **A shift from event-based to issue-driven engagement with the government on private sector development:** This included organising one-to-one meetings with the official advisors of different ministries to explain MDF's work, and facilitating visits to partner facilities and beneficiaries to showcase achievements as well as constraints. Such exchanges have so far focused on agriculture, but MDF is keen to expand them to tourism and manufacturing.
- **A much broader presence in networks that can inform MDF's work with its partners and the overall strategy:** This includes government working groups relevant to MDF's engagement areas, such as the Horticulture and Coffee Working Groups, to keep abreast with new developments and provide feedback on government studies and policy papers.

MDF recognises that, in the long term, its role as a business and market development facilitator should be performed by competent government agencies. On top of its engagement with individual ministry advisors, MDF has begun to forge institutional linkages and knowledge transfer with Timor-Leste's recently revamped investment promotion agency, TradeInvest.





PARTNERSHIP PROFILE 6:

BOOSTING THE GOVERNMENT'S ROLE AS A FACILITATOR OF INCLUSIVE GROWTH: MDF'S WORK WITH TRADEINVEST



Australia's Ambassador to Timor-Leste, Peter Doyle speaks at the MDF/TradeInvest workshop on promoting export opportunities for businesses and strengthening policy and institutions to assist export potential.

» WHY MDF WORKS WITH TRADEINVEST

TradeInvest is a government initiative to serve as a one-stop service provider on all aspects of private investment

– including advice on investment opportunities, licensing, taxes, tariffs or import and export procedures. It also has a mandate for research into and analysis of business environment constraints and recommending government actions to tackle them. Given that an inclusive private sector is only a recent government priority and that TradeInvest staff is relatively inexperienced in this area, there is a need for support and guidance. Ultimately, MDF believes that strengthening TradeInvest offers a highly strategic entry point for boosting the government's ability to engage with businesses and facilitate inclusive growth.

» JOINT AREAS OF ACTIVITY

Based on a Memorandum of Understanding, MDF is currently working with TradeInvest on a range of activities to help it grow into its new role by:

- Enhancing TradeInvest's ability to organise networking events and solicit feedback on reform and support needs from the private sector – through technical support to thematic workshops with potential investors in agribusiness, manufacturing and tourism;
- Facilitating TradeInvest's role in developing policy proposals for the government – by sharing MDF's experiences in studying inclusive growth constraints, identifying promising investors, and adapting support areas and strategies in light of the results achieved; and
- Broadening TradeInvest's business contacts and first-hand experiences with private sector operations – by involving TradeInvest staff in field and partner visits in Timor-Leste and facilitating study visits to other MDF programme countries.

It is expected that within the next five years TradeInvest will have sufficient institutional knowledge and capacity to carry out its mandate without MDF's engagement. This will be an important step forward in enhancing Timor-Leste's business environment and facilitating investment in areas with the most strategic relevance for inclusive growth.



MDF partnership video: TradeInvest



Decio Ribeiro Sarmento is one of MDF's key counterparts in TradeInvest. In this video, he describes some of the government's plans and challenges in promoting a thriving private sector, and how MDF supports TradeInvest in addressing real-life concerns of businesses.



Lesson 6: Making the most out of budget constraints: The evolution of MDF's business engagement hub function

In MDF's experience, temporary budget constraints don't necessarily prevent inclusive growth programmes from engaging in fruitful activities. In fact, MDF's business engagement hub function emerged more strongly when MDF was facing temporary budget cuts. By focusing on promoting better relationships with, and between, different economic actors, MDF made effective use of minimal resources. Being increasingly known by businesses and the government has also made it easier to develop new partnerships once its budget was again increased.

However, the opposite is also true: It was only because MDF had the resources to develop business partnerships in the first place that it gained the knowledge about the economy, business contacts and the credibility it needed to adopt the role of a hub. As such, getting its budget back on track in 2016 and entering partnerships with new businesses has been crucial for MDF to continue learning about the real issues that businesses are facing and feeding new insights back into its engagement work.

4

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POPULATING AN ECONOMY, KICK-STARTING INCLUSIVE GROWTH

Connecting the dots between MDF partnerships and conclusions on ways forward



“People in Timor-Leste recognise the importance of economic diversification more and more, but the idea of developing a private sector is still new. MDF helps by providing strategic support to new and emerging businesses – and does so with relatively limited resources. MDF’s work with its partners shows that it is possible to set up new businesses, demonstrates the impact the private investment has, and helps to build a diversified and prosperous economy.”

(Australian Ambassador to Timor-Leste, Peter Doyle)



By the end of 2016, MDF helped increase the incomes of 6,000 Timorese, benefiting approximately 19,000 family members. For MDF, it is important to look behind these figures, and assess how it helps to change the functioning of the economy more generally and generate lasting benefits that will continue after the end of the programme. While MDF seeks to trigger transformative

changes in any economy it works in, it did not know exactly what ‘end game’ it could aim to achieve in Timor-Leste’s economic environment. Based on the insights detailed in this case study, these changes can be broken down into eight categories – each of which is ultimately about helping the poor to be better integrated into markets and benefit from their growth:

	<ul style="list-style-type: none"> • More businesses populate the economy: More enterprises start up or diversify into new business lines.
	<ul style="list-style-type: none"> • Businesses introduce innovations that affect economic systems more broadly: More businesses introduce specialised functions, more productive ways of working, and/or new products or services that open up access to domestic or export markets, and have the potential to benefit the poor as suppliers, employees or consumers.
	<ul style="list-style-type: none"> • Businesses and markets become increasingly connected: More businesses exchange market information; more businesses enter into cost-saving commercial relationships; more supply chain linkages are created between rural and urban, and informal and formal businesses; domestic businesses can increasingly connect to export markets.
	<ul style="list-style-type: none"> • More businesses achieve resilience and growth: More innovative business models grow and become profitable; more businesses embed activities initially co-financed by MDF into their core business models and gradually expand them.
	<ul style="list-style-type: none"> • Businesses act as demonstration cases for future investment: Encouraged by the successes of MDF partners and inspired by their ways of working, other enterprises invest in new innovations; MDF partners themselves start additional business lines.
	<ul style="list-style-type: none"> • More poor people directly contribute to, and benefit from, growth: A growing number of low-income populations have access to increased incomes and jobs.
	<ul style="list-style-type: none"> • Opportunities for collective business exchanges with the government increase: More business associations provide an effective platform for collectively voicing private sector concerns to the government; government agencies create more feedback and business advisory mechanisms.
	<ul style="list-style-type: none"> • The capacity of the government to respond to private sector needs increases: Government agencies are more aware of business constraints and effective ways of addressing them.

MDF has made significant progress across all these dimensions, showing that it is possible to do business – and kick-start inclusive growth processes – in Timor-Leste. While it is difficult to know if any new investments have been inspired by MDF partners, MDF's team has registered a growing number of credible partnership enquiries. In 2016, MDF formed the highest annual

number of partnerships since the programme's start. What has clearly emerged for MDF is that the kinds of changes it can achieve in Timor-Leste are qualitatively and quantitatively different from the more advanced and bigger economies it is working in. This is explained in Lesson 7.



Lesson 7: Transformative impact in Timor-Leste: How it compares to other MDF programme countries

As a multi-country programme, MDF has learnt that the kinds of inclusive growth outcomes achievable in a post-conflict, small island economy (as listed above) are rather different from 'success' in more advanced or bigger developing economies. Two differences are worth pointing out:

The first one is scale. A recent review of factors influencing the scale of results in inclusive growth programmes found that: *"Getting to scale is easier in countries with 'thick' markets, big actors, and higher population densities. It is also easier to get to scale in industries that are tightly networked, geographically concentrated, and have high market concentration (a large number of small actors), such as banking ..."*⁴⁵ None of these conditions currently applies in Timor-Leste. The small size of its economy means that no single business model is likely to involve more than 1,000 suppliers in the foreseeable future; more often than not, the numbers will be lower. To scale up opportunities for jobs and incomes, a multitude of small to medium-sized investments will be needed.

The second difference is about the nature of the partners' wider ripple effect on the functioning of the economy. One commonly cited scenario is that other businesses replicate the innovations introduced by partners of inclusive growth programmes. However, this seems too simplistic, and many domestic markets in Timor-Leste are not big enough for more than one significant player with the same business model. Another scenario could be for market players to respond to a successful business model, e.g. by introducing dedicated supporting services (such as distribution, finance or training). While this may be possible in Timor-Leste in the future, it is currently unlikely as there are few businesses with significant outreach, and too few specialised value-chain actors to respond to them.

Instead, transforming Timor-Leste's economy is about building more dynamic business systems more broadly. As outlined in the list above, examples of this are a general 'demonstration effect' that investing in new products and services in agribusiness, tourism and manufacturing offers attractive long-term prospects, and a growth in joint initiatives and commercial networks among businesses.

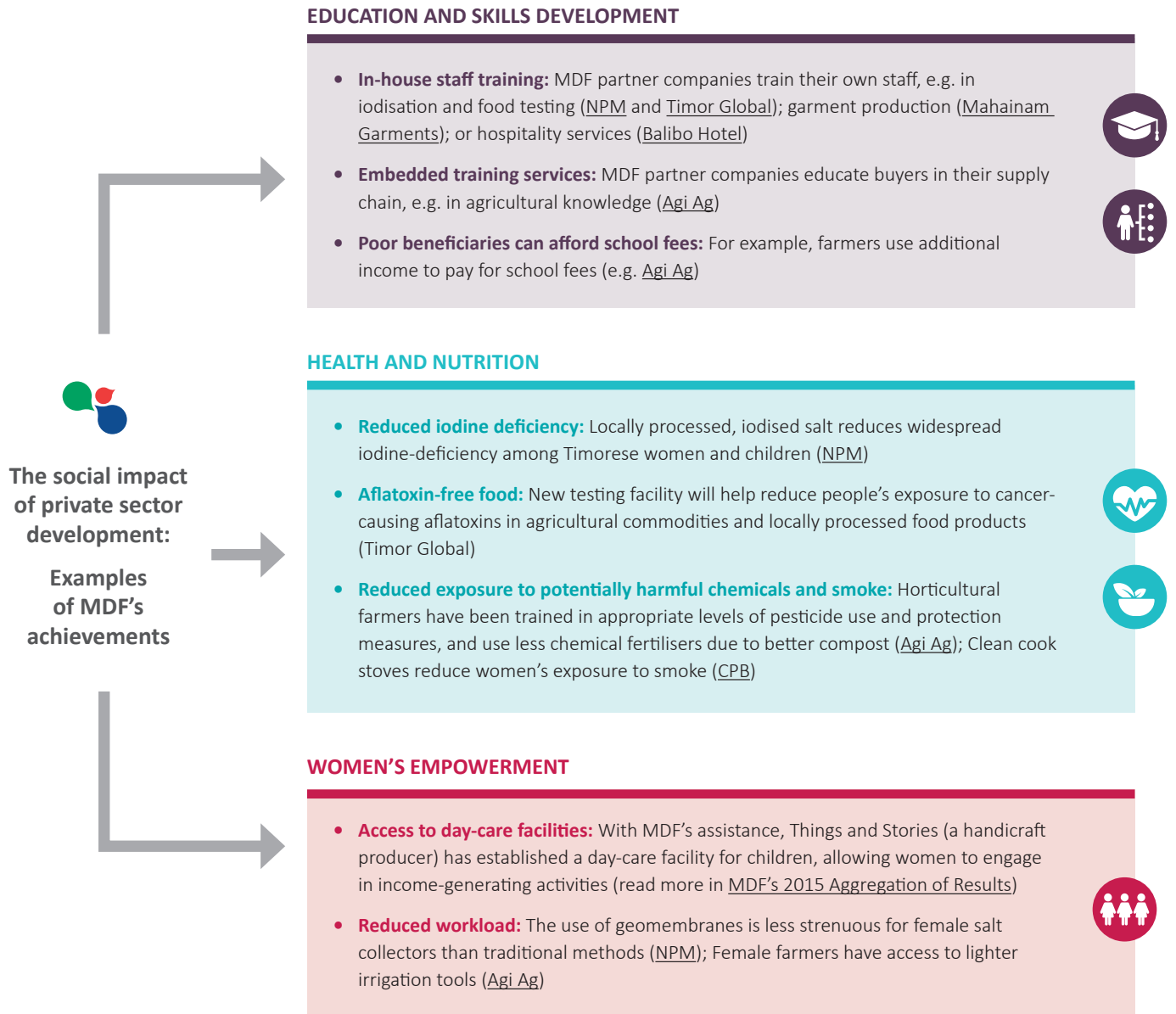


Achieving scale in input access in another small island economy: Aglime in Fiji

High soil acidity is a major problem for agricultural productivity for sugarcane farmers in Fiji. Applying agricultural lime is a simple solution for this, but imports are expensive. MDF partnered with Standard Concrete Industries to produce aglime locally and sell it to farmers at affordable prices. Despite marketing efforts, rural uptake was initially lower than expected. MDF therefore entered a follow-up partnerships with well-established distributors who saw the business case in delivering aglime to the farmgate. By 2016, xxx farmers were regularly using aglime; in the future, 15,000 sugarcane farming households farmers – about 23% of Fiji's farming households- could benefit from increased yields. Read more on the [MDF website](#) or watch this video [here](#).

Alongside economic impact, MDF's partnerships are also producing tangible social benefits. This includes a positive impact on health and nutrition, education and skills development, and women's empowerment, as summarised in the following graphic.

The social impact of private sector development: MDF achievements beyond economic benefits



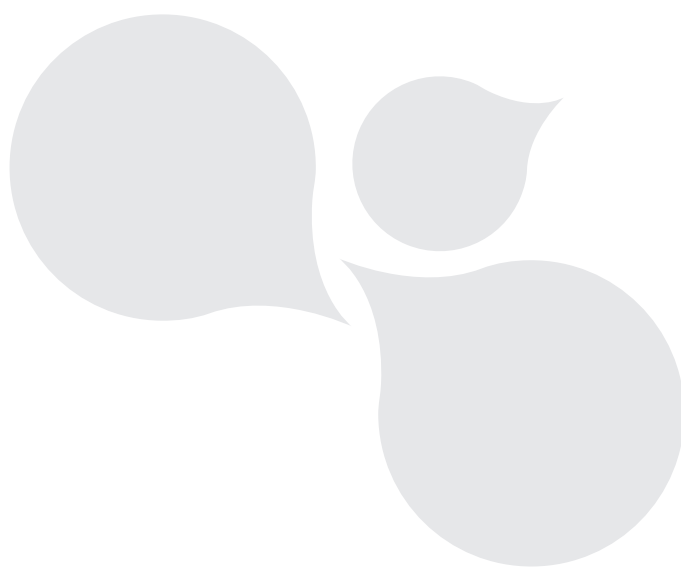
Overall, this case study has shown that private sector development in Timor-Leste has started from a very low base; and the combination of the country's historical circumstances and small island status means that inclusive growth will neither be easy to achieve nor happen very quickly. In fact, sobering interviews with researchers and development practitioners in Timor-Leste point out that the country's development indicators may initially slide backwards in ten years from now: Few if any oil funds will be left to pay for government services, and taxes and jobs generated by the private sector will not yet be sufficient to address the needs of the growing population.

However, this case study also shows that there are distinct investment opportunities which are available to bold entrepreneurs, with the potential to become sources of future growth and poverty reduction.

Economic dynamism outside the oil and gas sector has increased rapidly in recent years; catalysing it further needs to be a priority of the government and development stakeholders. This will require scaling down distortive government policies, such as in the agricultural sector; it also warrants a better regulatory environment; and it will require strategic support services to aspiring entrepreneurs engaged in promising economic activities. These activities and their development constraints will change over time and require the government to learn and to adapt its approaches.

MDF's work illustrates how such adaptive and tailor-made support can look and how it can benefit the poor.

If more businesses follow the examples set by several of MDF's partners, Timor-Leste will be able to increase its prospects for a more prosperous, inclusive and stable development phase.





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