

# **REVIEW OF AUSTRALIA'S CONTRIBUTION TO PRIVATE SECTOR DEVELOPMENT IN TIMOR-LESTE**

## **MANAGEMENT RESPONSE – JANUARY 2019**

### **Background**

The Government of Timor-Leste has identified economic diversification based on private sector development (PSD) as a key priority for Timor-Leste's future prosperity. A strengthened, more diverse private sector has the potential to create more jobs, increase rural incomes, strengthen skills and build the tax base necessary to fund important public services.

However, as is the case in most developing economies, starting a business in Timor-Leste involves considerable risk. Limited access to finance, poor infrastructure, a low-skilled workforce and the small scale of the Timorese economy all contribute to a lack of competitiveness within the region. Efforts to strengthen the private sector therefore need to be targeted and strategic in addressing complex economic challenges.

The Australian development program in Timor-Leste has adopted an integrated approach to PSD, with six primary investments supporting economic growth and diversification. Collectively, these efforts aim to improve the overall business and policy environment, strengthen market systems and value chains, develop a skilled and productive workforce, and provide opportunities for the development of individual businesses through Australian development programming.

### **Evaluation summary**

The Australian Embassy in Timor-Leste commissioned an independent strategic review of its PSD activities in Timor-Leste to:

- assess the effectiveness of the Australian development program's current approaches to private sector development programming in Timor-Leste
- identify the key contextual strengths, challenges and opportunities in private sector development in Timor-Leste that could be targeted for improved results
- recommend strategic investment approaches and priorities in private sector development in Timor-Leste, to maximise impact and contribution to prosperity.

### **Findings**

#### **Strengthened policy environment for PSD**

Complex policies and regulations cause difficulties for businesses in Timor-Leste. They undermine the ability of businesses to compete, and affect overall performance of the Timorese economy. In response, the Australian development program has helped strengthen the policy and regulatory environment for business by supporting improved public financial management, economic policy and public administration.

Australian support has contributed to a range of economic and legal policies that better meet the needs of the private sector. Australia has also supported improved, more efficient delivery of services by government, which also supports PSD. Achievements include progress on laws related to private investment and consumer protection, and introduction of a credit guarantee scheme. Australian support to 'gender responsive budgeting' has also been key to development of a government planning system that promotes improved women's participation and economic empowerment within government planning and budgeting processes.

However, the review found that when policy and regulatory reforms have been developed, many are not yet implemented in ways that actually support the day to day operations of business. Some of

the barriers to effective implementation of policy reform have included insufficient financial resources and civil servants who are not adequately skilled or supported to implement policy. Frequent political change has also contributed to a loss of momentum for economic and legal reform.

### **Supporting a skilled workforce and productive labour force**

Heavy reliance on foreign workers to fill skilled and semi-skilled jobs highlights the need to develop a skilled workforce that meets the varied needs of the private sector. Currently, only five per cent of Timor-Leste's workforce is employed through the non-agricultural private sector.

All Australian investments in Timor-Leste that were part of this review support skills development and workforce needs, including in areas necessary for PSD. Scholarships, vocational training and the Seasonal Worker Program all help prepare Timorese people for private sector participation. Agriculture investments build skills that help small farming households to benefit from the market place. Efforts to strengthen the capacity of local road building contractors stimulate growth and job opportunities in rural areas.

### **Market systems and business development**

Timor-Leste's private sector is still at a very early stage of development. Poor infrastructure, skills shortages and an over-valued real exchange rate all reduce competitiveness with other economies in the region. In rural areas, low literacy and numeracy restrict options for business development and market engagement.

Australian efforts to strengthen the Timorese private sector are realistic and respond to the many different challenges faced by Timorese businesses. Approaches are informed by high quality research aimed at guiding strategy, including assessing labour needs and examining ways to increase women's contribution to PSD.

### **The overall approach to private sector development in Timor-Leste**

Overall, the Australian development program portfolio has good coverage across the private sector, with different investments responding to specific needs identified as key to PSD. Within the overall approach is a clear focus on the importance of agriculture to most Timorese households. Australian-supported activities in rural areas – including those related to improvements in agricultural production, empowerment of women, rural infrastructure and nutrition - all help the rural poor to more effectively engage markets.

Lessons learned include:

- Investments in research are important in a context of such broad-based need, where almost any activity can be related to PSD in some way
- A shared understanding amongst government and donors has helped the Australian approach to PSD adapt to changing circumstances
- Recognition that extra resources, time and flexibility are needed to support inclusive growth in the private sector has helped to determine realistic performance measures
- Workforce development efforts are starting from a low base. This requires logical, long-term capacity building approaches that are integrated throughout all investments
- Approaches in rural areas must take into account low levels of literacy and numeracy that prevent subsistence agriculture producers from private sector engagement
- Better rural infrastructure (water and roads) supports women's private sector participation through time savings, and improves security of women.

## Individual management responses to the review recommendations

Recommendation	Response	Action plan	Timeframe
<b>Recommendation 1</b> The Australian Embassy should make its PSD strategy publicly available, and clearly describe why, where and how Australian investments will support a strengthened private sector in Timor-Leste. This will improve understanding of Australian strategy amongst PSD stakeholders, encourage collaboration for PSD, and strengthen the effectiveness of Australian investments.	Agree	DFAT will refine and elaborate on existing internal documents outlining the Australian Embassy's approach to PSD in Timor-Leste. Following a period of consultation with relevant stakeholders, the PSD strategy will then be made publicly available, including on the DFAT website.	PSD strategy for the Australian Embassy in Timor-Leste to be made publicly available by end of calendar year 2019
<b>Recommendation 2</b> The Australian Embassy should lead the creation of a PSD Working Group that brings together key ministries, PSD-interested development partners and private sector bodies in quarterly meetings to explore opportunities and links, and to develop a strategy for PSD including priorities for reform.	Partially agree	DFAT will set up a Working Group comprising Australian investments and Australian-funded partners involved in PSD to explore opportunities and links for collaboration between programs on specific PSD issues, and to refine the Australian Embassy's PSD strategy.  DFAT and the GfD program will consult with other PSD stakeholders in Timor-Leste (including other development partners, private sector actors and key ministries) to determine the best mechanisms for strengthening broader PSD coordination and collaboration between private and public sector actors in Timor-Leste. DFAT support for such a mechanism is likely to be facilitative in nature, with a focus on	Working Group of Australian investments and partners to be established end of first quarter 2019  Options for supporting a broader coordination mechanism bringing together government, private sector and development stakeholders to be considered by DFAT before end calendar year 2019

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		supporting the Government of Timor-Leste to lead any such initiative.	
<b>Recommendation 3</b>  While adaptability is vital in the rapidly changing context of Timor-Leste, it is important that Australian efforts to support policy reform remain manageable, and capable of supporting reforms through to completion and implementation that is supportive of Timor-Leste's private sector.	Agree	The GfD program will develop detailed Reform Strategies for each area of PSD-enabling policy reform supported by the program. Reform Strategies will be jointly agreed with Government of Timor-Leste counterparts. They will outline respective contributions and resources required, as well as milestones and performance indicators, from inception of a policy development process through to implementation.	Reform strategies for all PSD policy reforms being supported by GfD to be completed by end September 2019
<b>Recommendation 4</b>  The Australian Embassy should ensure that policy reforms include an implementation plan. This should include reaching agreement with GoTL on policy rollout being supported by: <ul style="list-style-type: none"> <li>cost-benefit analyses, and research that addresses evidence gaps</li> <li>facilitation of a broad-based coalition for policy change</li> <li>government-led implementation plans that address budget needs, systems development, staffing, training, and monitoring and evaluation needs.</li> </ul>	Agree	<p>From 2019 onwards, the GfD program will increase its focus on supporting Government of Timor-Leste counterparts to effectively implement the rollout of approved policy, laws and regulations to strengthen the PSD-enabling environment.</p> <p>From 2019 onwards the GfD program will also increase its support for the development of broad-based coalitions for policy change on particular governance issues, including through grant arrangements with partners and the recent recruitment of personnel specifically focused on building coalitions for change.</p> <p>DFAT will utilise the PSD Working Group (see Recommendation 2) to develop a</p>	Ongoing  GfD's increased focus on implementation of PSD-enabling policy reform will be operational by end June 2019

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		specific strategy and implementation plan for coalition-building on private sector development reform issues, and this will form part of the Embassy's broader private sector development strategy (Recommendation 1).	
<b>Recommendation 5</b> The Australian strategy should involve monitoring, supporting and complementing the efforts of other donors working to resolve land issues – a crucial aspect of the PSD challenge.	Partially agree	DFAT will take this recommendation into account when refining its PSD strategy. While land reform is unlikely to be prioritised in Australia's PSD programs in Timor-Leste over the medium term, further consideration will be given to possible avenues to complement the efforts of other donors working in this area, for example potential GfD support for commercial dispute resolution mechanisms, and reform to secured transactions legislation.	PSD strategy for the Australian Embassy in Timor-Leste to be made publicly available by end of calendar year 2019
<b>Recommendation 6</b> Australian investments should continue to support gender-responsive budgeting. This will help ensure government commitment to services that promote women's economic empowerment, equality and participation in the private sector.	Agree	The GfD program will continue to prioritise gender-responsive budgeting and provide ongoing support to the Government of Timor-Leste in this area. GfD will also increase its engagement with other Australian investments on the topic of gender-responsive budgeting, to explore linkages and opportunities to progress coordinated implementation of key reforms.  DFAT will utilise the PSD Working Group to guide all Australian programs on potential ways they can enhance their utilisation of	Ongoing

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		gender-responsive budgeting policies and systems to promote women's economic empowerment, equality and participation in the private sector.	
<b>Recommendation 7</b>  Deepen the current benefits of the Seasonal Worker Program by providing additional reintegration support to returning seasonal workers to find pathways to employment, establish businesses, access further training or take advantage of new labour mobility opportunities.	Agree	DFAT recognises the importance of providing reintegration support for returned seasonal workers and will consider options for additional support in its new workforce development program.	End of calendar year 2019
<b>Recommendation 8</b>  Australian investments should identify priority reforms to pilot capacity building approaches for mid-level civil servants, focusing on support to development of skills in leadership and management to improve service delivery. In particular, support is needed to strengthen government service delivery to business through ongoing consolidation of agencies such as SERVE, IADE and TradeInvest. This could be done by giving WDPTL greater scope, or by GfD taking a more explicit approach to civil service skills development.	Partially agree	<p>The GfD program will continue to provide support to the Government of Timor-Leste to strengthen its service delivery to business. This includes technical advisory support within central agencies, SERVE and TradeInvest. TOMAK will continue to support IADE to help IADE improve farmers' access to business services.</p> <p>The GfD program will also continue to support Timor-Leste's Civil Service Commission to enhance leadership and management skills across the civil service, through a broad range of government-led initiatives.</p> <p>DFAT is not considering expanding WDPTL or GfD's scope in this particular area in the short term, but this recommendation will</p>	Ongoing

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		be taken into account in future redesign processes of both programs.	
<b>Recommendation 9</b> Capacity-building approaches in rural areas must reflect the complex needs of Timor-Leste's developing agricultural marketplace, and DFAT must accept that progress will be slow.	Agree	<p>DFAT recognises the challenge that skills gaps, particularly low literacy and numeracy, pose for subsistence farmers in Timor-Leste to engage in private sector markets. DFAT recognises that progress to develop the agricultural marketplace will be slow due to these and other challenges.</p> <p>DFAT will continue to promote collaboration between Australian investments that contribute to the development of agricultural marketplaces including through the PSD Working Group (see Recommendation 2).</p> <p>TOMAK and MDF will continue strengthening the skills of farmers and other partners through a range of activities aimed at connecting farmers to markets.</p>	Ongoing
<b>Recommendation 10</b> The Australian Embassy should promote PSD-relevant links between Australian investments, and between Australian investments and those of other actors. These links can occur within sectors (e.g. by deepening the collaboration between TOMAK and MDF, and including Avansa <sup>1</sup> ) or through strategic alliances (e.g. GfD and	Agree	<p>DFAT will continue to promote linkages between Australian investments working on PSD, including through the PSD Working Group (see Recommendation 2). Specific action items to strengthen such linkages will be included in the Embassy's PSD Strategy (Recommendation 1).</p>	Ongoing

<sup>1</sup> Avansa is a USAID funded agriculture project focused on accelerating sustainable and inclusive economic growth in the agriculture sector

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WDPTL collaborating on civil service capacity development).		TOMAK and MDF will continue to strengthen existing cooperation (see Recommendation 12) and also strengthen efforts to influence or cooperate on relevant opportunities with other development partners programs such as USAID's AVANSA.	
<b>Recommendation 11</b> Consider establishing an Embassy driven mechanism for supporting business start-up opportunities (through grants and technical assistance) identified through different Australian investments, in order to help pioneer and promote new approaches in key sectors.	Partially agree	MDF in Timor-Leste currently supports individual businesses to innovate and start up new business models. On some occasions, this includes assisting businesses to start up from scratch.  Additional avenues for Timorese entrepreneurs to access support for business start-up and/or innovation include the Australian Embassy's Direct Aid Program, and the Business Partnerships Platform.  DFAT will consider the possibility of establishing additional grants mechanism(s) to support both returned Seasonal Workers and Australia Awards Alumni to start new businesses (see Recommendation 7 and 14) as part of its new workforce development program.  Any further mechanisms or avenues for broadening access to existing grant mechanisms will be considered further by DFAT during the refinement of the	Possible adaptations to current approach to be considered by end calendar year 2019



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		Embassy's PSD Strategy (see Recommendation 1).	
<b>Recommendation 12</b>  MDF and TOMAK should strengthen their collaboration to make the most of opportunities in specific commodity value chains (e.g. bridging production, value adding, processing and marketing).	Agree	MDF and TOMAK will continue to strengthen existing cooperation established under a cross-program MoU signed in May 2017, including through co-locating regional staff.  Further opportunities to strengthen cooperation on the development of other value chains will be reviewed on an ongoing basis by both programs with input and guidance from the Australian Embassy.	MDF field officer to be co-located in TOMAK regional office by February 2019  Other cooperation ongoing
<b>Recommendation 13</b>  Anecdotal, rural infrastructure investments appear to be an important part of PSD in terms of improving access to markets, as well as giving agricultural producers greater confidence to engage markets or open small businesses. Research to determine the linkage between rural infrastructure investments (of R4D and PNDS) and levels of market participation would be a valuable contribution to better understanding PSD opportunities in rural areas and also the interplay between different Australian investments.	Agree	Australian investments such as R4D, PNDS and MDF already capture some evidence of the linkages between rural infrastructure and levels of market participation within existing program-level M&E systems.  PNDS will finalise economic impact research in 2019. Following publication of this study, DFAT will consider whether commissioning additional research is required, and will consult with PSD Working Group members on the key objectives, scope and likely uses of any such research.	DFAT to consider possible additional research on this topic by end calendar year 2019
<b>Recommendation 14</b>  Explore potential to better support opportunities for youth (who are better educated than their parents) to	Agree	Relevant Australian investments (TOMAK, MDF, WDPTL) will look for additional opportunities to promote farming as a respectable and profitable business and to	Possible adaptations to the Australian Embassy's current approach to be considered by end calendar year 2019

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contribute to better market engagement that helps transition subsistence farming households towards more market oriented approaches.		<p>transition subsistence farming households towards commercial agriculture.</p> <p>DFAT will utilise the PSD Working Group as a vehicle for exploring opportunities and linkages in this area, including potential cooperation with other development partners working to promote youth engagement in markets.</p> <p>TOMAK will strengthen its messaging on youth-engagement issues throughout a broad range of activities in 2019, including promoting agriculture as a good industry to work in and supporting FAO and the Ministry of Agriculture to promote youth in agriculture.</p> <p>DFAT will consider the possibility of establishing additional grants mechanism(s) to support both returned Seasonal Workers and Australia Awards Alumni to start new businesses as part of its new workforce development program (see Recommendations 7 and 11). DFAT will consider ways to ensure any such grants are targeted at providing youth with opportunities for better market engagement.</p>	
<p><b>Recommendation 15</b></p> <p>Investments should consider increasing their use of the Embassy's existing mechanism for accessing specialist</p>	Agree	DFAT will utilise existing regular coordination meetings on gender and disability issues to encourage increased uptake of technical assistance in this area.	Possible adaptations to the Australian Embassy's current approach to be considered by end calendar year 2019

Recommendation	Response	Action plan	Timeframe
technical expertise on options for disability inclusion within development programming.		DFAT will explore avenues to broaden the scope of specialist technical expertise available to investments on the topic of disability inclusion, in order to cater specifically to programs focused on private-sector development and market systems development.	