



Review of Australia's contribution to private sector development in Timor-Leste

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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.

Purpose

The Australian Embassy in Timor-Leste commissioned an independent strategic review of their 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 inadequate staffing capacity for policy roll-out. 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 5 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

The review identified a range of lessons learned about the Australian development program's approach and achievements to PSD in Timor-Leste, which may inform PSD in other contexts. Key lessons 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.

Recommendations

The review made 15 recommendations for further strengthening Australia's contribution to PSD in Timor-Leste. These are summarized below, and described in detail in the complete report.

- Policy reform efforts need to be supported by an implementation plan
- Australian investments should pilot more capacity-building approaches for mid-level civil servants
- Australian investments should leverage gender-responsive budgeting processes.
- Australia's strategy for PSD should be clearly described in a PSD Strategy document.
- The Australian Embassy should support creation of a PSD Working Group
- Connections between Australian investments and with other actors should be strengthened
- A mechanism and fund to support business start-up opportunities should be established
- Explore potential to better support young people to contribute to market engagement.
- Undertake research to determine the link between rural infrastructure and market participation.
- Provide additional reintegration support to participants of the Seasonal Workers Program.

DESIGN

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