



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

Department of Foreign Affairs and Trade

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Background

Australia works with the government and people of Timor-Leste to address their priorities in three strategic areas – **economy, people** and **society**. All programs prioritise improving nutrition, empowering women and girls, and ensuring development is disability-inclusive.

Economic diversification based on private sector development (PSD) is a key priority for the Government of Timor-Leste (GoTL). Private sector development can create more jobs, increase rural incomes, strengthen skills and build a strong revenue base. This aligns with a number of key objectives within the Timor-Leste Strategic Development Plan (2011-30).

There is widespread agreement on the importance and relevance of PSD in Timor-Leste, and acknowledgment that the private sector currently faces a range of challenges. These include challenges in relation to the policy and regulatory environment, workforce skills and access to markets. The small scale of Timor-Leste's economy makes it challenging to compete with other economies in the region. Collectively, these issues mean starting a business in Timor-Leste involves risk. Efforts to strengthen the private sector need to be well researched, targeted and strategic to address economic challenges and identify realistic opportunities.

Australia's approach to private sector development

Six primary investments support the Australian development program's contribution to PSD in Timor-Leste. Collectively, these include efforts to improve the overall business and policy environment, strengthen market systems and value chains identified as having strong potential, and provide opportunities for the development of individual businesses.

Australia is supporting Timor-Leste to achieve:

- a strengthened policy and regulatory environment that promotes PSD and investment
- development of a skilled and productive labour force that supports PSD
- an increase in private sector activity, based on increased business performance and strengthened connections between market participants.

Purpose of the review

In mid-2018, the Australian Embassy in Timor-Leste commissioned a strategic review of their PSD activities in Timor-Leste to:

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

Method

The review sought to answer five Key Review Questions:

- To what extent has the Australian development program contributed to a stronger and more inclusive private sector in Timor-Leste?
- To what extent has the Australian development program contributed to women's economic empowerment in Timor-Leste?
- To what extent is the Australian development program's approach to private sector development in Timor-Leste focused on the most relevant issues for the context?
- In what ways could the Australian Embassy adapt or strengthen its approach to increase its impact on private sector development in Timor-Leste?
- In what ways can the Australian Embassy's approach and achievements for PSD in Timor-Leste inform private sector development in other contexts?

The review was undertaken by an independent team comprising a team leader, private sector technical specialist and a national consultant. The review included a 19-day in-country mission. The methodology for the review involved an initial document review, 54 semi-structured interviews with 95 stakeholders, a rural field trip to Baucau, and two case studies.

Findings and recommendations

To what extent is the Australian development program's approach to private sector development in Timor-Leste focused on the most relevant issues for the context?

Focus and balance of Australian support for private sector development

Australian program coverage is coherent and addresses known constraints to PSD, with the aim of helping diversify Timor-Leste's economy. This focus on PSD aligns closely with the GoTL's strategic development plan to *develop a flourishing market economy with a strong private sector..... recognising that (Timor-Leste) cannot rely solely on substantial oil and natural gas reserves, but must diversify its economy.*¹

Australia supports a range of approaches at different layers of the economy. There is collaboration and an important level of complementarity between different Australian investments. Support for government to introduce PSD-friendly reforms reduces obstacles to growth and investment. Infrastructure projects support increased mobility and time savings, which in turn improve market access and private sector participation. Skills development efforts make it easier for businesses to find employees. Support for businesses helps key personnel understand opportunities and threats, improve productivity, and contribute to more effective marketing.

It is important that there is a sophisticated understanding of the reasons underpinning Timor-Leste's low competitiveness within the region. For example, while it is difficult for Timorese agriculture to compete in the region, agriculture is and will remain central to the livelihoods of most households. This context is well reflected in Australia's approach, with a significant proportion of Australia's program focused on agricultural productivity and marketing – including support to women's economic empowerment.

¹ GoTL, *Timor-Leste Strategic Development Plan 2011–2030*, 2011

Adaptability to the changing context

The Australian development program's approach to PSD has been implemented in a flexible way. This has aided different investments to respond to opportunities as they arise. Flexibility has also helped the program work effectively in a period of political change.

While flexibility is important when supporting Timor-Leste's private sector, it is important that shifts in Australia's approach are guided by a clear strategy for PSD. Not all approaches will have equal impact or return on investment. Decision-making in relation to Australia's approach to PSD in Timor-Leste must therefore acknowledge:

- Activities it supports will have varying impacts
- Resource and capacity constraints mean that not all opportunities to support PSD can be taken immediately
- Enhancing connections between investments can help maximize the contribution of Australia's PSD supportive activities

Given this context, it is important that decision-making about Australian support for PSD is guided by a framework for assessing the relevance and likely impact of proposed activities. It is also important that different PSD interested stakeholders have clear understanding and confidence in Australia's PSD strategy.

Recommendation: 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.

To what extent has the Australian development program contributed to a stronger and more inclusive private sector in Timor-Leste?

Supporting an enabling environment for private sector development

The Australian Embassy considers a supportive policy environment for business to be essential for PSD, because it will strengthen the conditions in which domestic businesses operate and also encourage investment. Australia has made an important contribution to the introduction of many business-enabling laws, working to improve both economic policy and government service delivery for PSD. Much of this policy-level work occurs through the **Governance for Development** (GfD) program, working closely with Embassy staff who consult with high-level GoTL officials on opportunities and constraints to PSD. Activities in support of policy development include research, advisory and technical support to key ministries, briefing papers, exposure visits for senior officials, and support for policy implementation.

While some policy and regulatory frameworks have been developed, many of the business-enabling laws supported by GfD are not yet fully operational. This is sometimes due to inadequate budgeting for policy rollout and the absence of clear implementation guidelines to guide staff. Government staff capacity (especially mid-level staff) needs to be strengthened to support policy implementation.

Another important issue affecting PSD relates to a weak property laws and lack of legal certainty over land ownership. This leads to problems using land as collateral for financing investment, and is therefore viewed as being a constraint on economic growth. For this reason, land law reform is widely seen as a significant opportunity to progress PSD.

Recommendations:

- 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.
- 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:
 - cost-benefit analyses, and research that addresses evidence gaps
 - facilitation of a broad-based coalition for policy change
 - government-led implementation plans that address budget needs, systems development, staffing, training, and monitoring and evaluation needs.
- 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.

Supporting market systems and business development

While Australia supports economic diversification and broad-based PSD, it appropriately maintains a strong focus on agriculture. **To'os ba Moris Diak (TOMAK)** and the **Market Development Facility (MDF)** have undertaken high-quality research to better understand options for PSD in rural areas. For example, MDF's research aimed to identify how to generate new opportunities in rural areas through supporting improved production, new agricultural products and better marketing of agricultural produce.

Other Australian investments also contribute to increased market participation and economic growth in rural areas. Through support to rural road construction, the **Roads for Development Support Program (R4D-SP)** improves market access in remote areas. This complements agricultural production and market development work of TOMAK and MDF, since it allows products and people to reach markets. The **National Program for Village Development Support Program (PNDS-SP)** contributes to PSD by supporting improvements to community infrastructure such as village roads and water supply. PNDS-SP promotes improved village governance, which allows women to participate in decision-making for community needs.

Recommendations:

- 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 Avansa²) or through strategic alliances (e.g. GfD and WDPTL collaborating on civil service capacity development).
- 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).
- Explore potential to better support opportunities for youth (who are better educated than their parents) to contribute to better market engagement that helps transition subsistence farming households towards more market oriented approaches.

² Avansa is a USAID funded agriculture project focused on accelerating sustainable and inclusive economic growth in the agriculture sector

Supporting a skilled workforce and productive labour force needs

Skills shortages have a negative impact on efforts to develop sectors such as agriculture and tourism. Australia's approach to skills development and workforce needs in Timor-Leste addresses a wide range of skill gaps.

Australia's main investment in this area is the **Workforce Development Program Timor-Leste** (WDPTL), which supports vocational training and manages both the Australia Awards Scholarships (AAS) and Seasonal Worker Programs (SWP). Workforce development relevant to PSD also occurs across all Australian investments. Efforts include developing the technical capacity of farmers and aggregators, strengthening contractors' procurement skills, training for hospitality workers, and skills in business registration. However, there is a perspective within the private sector that workforce development needs to more deliberately address the specific needs of the private sector. In addition, middle levels of the public service have skills gaps, which hinder transition of policy into action that supports PSD.

Recommendation: 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 the WDPTL greater scope, or by GfD taking a more explicit approach to civil service skills development.

To what extent has the Australian development program contributed to women's economic empowerment in Timor-Leste?

Australian efforts to promote women's participation and economic empowerment are based on extensive research across different investments. Current approaches to address women's participation and economic empowerment are realistic and strategic. While there have been many individual cases of women's economic empowerment, the major contribution of the Australian development program at this point in time has been to build strong foundations for improved private sector participation of women in the future.

GfD's support for gender responsive budgeting (GRB) has been important in developing government planning processes that better consider, resource and promote women's participation and empowerment. TOMAK's use of GRB to ensure female agricultural extension workers are better resourced and treated equally is a good example of application of GRB. GfD and TOMAK's collaboration on improving women's access to and participation in marketplaces through better municipal regulations is making them safer and more inviting places for women. Women's private sector participation and empowerment is also improved through R4D-SP and PNDS-SP. Better roads save women travel time, and better water infrastructure frees up time for women to engage in business.

Recommendation: 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.

In what ways could the Australian Embassy adapt or strengthen its approach to increase its impact on private sector development in Timor-Leste?

Finding ways to better include marginalised groups

Women, people living with a disability, youth and very poor people in rural areas are all marginalised in Timor-Leste. However, supporting marginalised groups to participate in the private sector is costly. Efforts to better include people who are marginalised require appropriate targeting as progress is slow, especially in rural areas.

Recommendation: Investments should consider increasing their use of the Embassy's existing mechanism for accessing specialist technical expertise on options for disability inclusion within development programming.

Improving links between investments to strengthen PSD

The Australian development program includes many initiatives relevant to PSD. Because of the diversity of Australia's approach to PSD, GoTL and the broader development community see Australian efforts as key to building a community of practice for PSD in Timor-Leste.

Recommendation: 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.

In what ways can the Australian Embassy's approach and achievements for PSD in Timor-Leste inform private sector development in other contexts?

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. These include:

- Investments in research are important in building a strong evidence base. This is 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 of the complex political and implementation environment in Timor-Leste has helped the Australian approach to PSD adapt and respond to changing circumstances brought about by political changes.
- 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.
- Nutritional disadvantage reduces productivity and market engagement, especially in labor-intensive sectors such as agriculture, and is therefore an important factor in PSD.
- Better rural infrastructure (water and roads) supports women's private sector participation through time savings, and improves security of women.

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