



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

Department of Foreign Affairs and Trade

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Acronyms and abbreviations

| | |
|----------------|---|
| AAS | Australia Awards Scholarships |
| ADB | Asian Development Bank |
| ASEAN | Association of South East Asian Nations |
| AUD | Australian dollars |
| AACTL | Civil Aviation Authority of Timor-Leste |
| CoM | Council of Ministers |
| CSC | Civil Service Commission |
| DFAT | Australian Department of Foreign Affairs and Trade |
| GDP | Gross Domestic Product |
| GfD | Governance for Development |
| GoTL | Government of Timor-Leste |
| GRB | Gender-Responsive Budgeting |
| GRFE | Guide for Economic Reform and Growth |
| IADE | Business Development Support Institute |
| ICAO | International Civil Aviation Organization |
| IFC | International Finance Corporation (World Bank Group) |
| IMF | International Monetary Fund |
| KRQ | Key Review Question |
| MAF | Ministry of Agriculture and Fisheries |
| MDF | Market Development Facility |
| MECAE | Office of the Coordinating Minister for Economic Affairs |
| MOPTC | Ministry of Public Works, Transport and Communications |
| NCAP | National Civil Aviation Policy |
| PNDS-SP | National Program for Village Development Support Program |
| PSD | Private Sector Development |
| R4D-SP | Roads for Development Support Program |
| SEJT | Secretariat of State for Youth and Labour |
| SERVE | National Institute for Business Registration and Verification |
| SMEs | Small and medium enterprises |
| SQ | (Review) Sub Question |
| SWP | Seasonal Worker Program |
| TOMAK | To'os ba Moris Diak (Farming for Prosperity) |
| TVET | Technical and Vocational Education and Training |
| UNDP | United Nations Development Programme |
| USD | United States dollar |
| WDPTL | Workforce Development Program Timor-Leste |

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A steering committee consisting of Dan Woods (Chair), Joana Custóias, David Freedman, Jonathan Gouy, Louise Maher, Natalie Mendelsohn, Acacio Pinto and Christine Bouchard oversaw the review.

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Executive summary

Background

The Australian Embassy in Dili commissioned an independent review of Australia's contribution to private sector development (PSD) in Timor-Leste. The purpose of the review was to evaluate the relevance and effectiveness of the Australian Government's current approach to PSD and to inform future programming. The review was conducted from July to November 2018.

The review considered Australia's direct and indirect PSD investments, the Embassy's economic, commercial and trade diplomacy activities, and the current context and future directions of the broader private sector in Timor-Leste. The review focused on the overall performance of the Australian Embassy's approach to PSD rather than the effectiveness of individual programs. It also considered the contribution of Australia's PSD approach to gender equality, women's economic empowerment and social inclusion.

Since achieving independence, Timor-Leste has strived to develop its economy. In 2015, an estimated 85 per cent of Timor-Leste's revenue came from oil, and Timor-Leste received a 'green light' rating of satisfactory progress in terms of oil revenue transparency.¹ Over recent years, government spending in Timor-Leste has averaged more than 85 per cent of gross domestic product (GDP).² However, it is expected that oil's contribution to GDP (from current oil fields) will drop to zero by 2022.³ Given this context, the government of Timor-Leste (GoTL) needs to create other sources of revenue. If it does not, its budget will either stay deeply in deficit, resulting in rapid depletion of its Petroleum Fund, or reduced government spending is likely to depress the economy.

The GoTL has identified PSD as key to economic diversification and growth, and recognises that a thriving private sector can soften the impact of reduced oil revenues. The Australian Embassy also sees PSD as critical to Timor-Leste's future, and therefore aims to support the GoTL to diversify the economy and encourage growth by creating more jobs and a stronger private sector.

The Australian development program aims to contribute to several high-level changes in PSD: (1) strengthened policies and regulations that promote PSD and investment; (b) development of a skilled and productive labour force; and (c) stronger business performance that increases private sector activity. Six investments work towards these changes:

- Governance for Development Program (GfD)
- Workforce Development Program Timor-Leste (WDPTL)
- Market Development Facility (MDF)
- To'os ba Moris Diak - Farming for Prosperity (TOMAK)
- National Program for Village Development Support Program (PNDS-SP)
- Roads for Development Support Program (R4D-SP).

1 <https://eiti.org/timorleste#timor-lestes-progress-by-requirement>

2 World Bank, Timor-Leste Economic Report, 2018

3 IMF, *Democratic Republic of Timor-Leste: 2017 article IV Consultation-Press Release and Staff Report*, 2017

Methods

The review adopted a mixed-methods approach, including a literature review, key informant interviews, case study analysis, and an observational rural field trip. Key informant interviews were conducted with 54 stakeholders, including GoTL representatives, Embassy and implementing partners' staff, beneficiaries of DFAT-funded investments, other donors and development agencies interested in PSD, and Timorese and foreign business owners. Key themes from the interviews were arranged by sub-questions and collated in an evidence matrix that guided data analysis. The review was guided by a Steering Committee that commented on preliminary findings and recommendations during a workshop in September 2018, and provided feedback during report drafting.

Main findings

Relevance

The Australian development program's approach to PSD in Timor-Leste is relevant to the context, and addresses many known constraints in a clear and mutually reinforcing way. The focus on PSD also aligns closely with GoTL's strategic development plan to *develop a flourishing market economy with a strong private sector that recognises Timor-Leste cannot rely solely on oil and natural gas reserves, but must diversify its economy*.⁴

The Australian Government's approach aims to address the following broad constraints on PSD in Timor-Leste:

- policies and regulations that hinder PSD and investment
- too few skilled workers to meet current and expected private sector demands
- a lack of economic competitiveness
- under-developed market systems.

The program portfolio has good coverage across the private sector landscape in Timor-Leste, including:

- broad support for policy and legal reform to reduce weaknesses in the business enabling environment
- innovative market systems approaches adapted to Timor-Leste's developing private sector
- support to increase agricultural productivity that helps subsistence farming households adopt production systems that are better informed by the marketplace
- time savings (especially for women) and improved market access through investments in rural roads, water supply and other infrastructure
- a three-pronged approach to workforce development, involving Australian scholarships, vocational training and the seasonal worker program
- appreciation of the need to integrate nutrition, gender, disability, rural disadvantage and the needs of youth.

⁴ GoTL, *Timor-Leste Strategic Development Plan 2011–2030*, 2011

The program addresses these complex issues in an integrated way that is relevant to Timor-Leste's specific needs. The program has closely monitored and adapted to political shifts, supported people interested in economic reform, and partnered with other organisations interested in PSD, such as the Asian Development Bank and International Finance Corporation, to draw on their expertise.

While adaptability is important within Timor-Leste's private sector, program shifts and decision-making must be consistent with an overall strategy for PSD. A challenge for PSD programming in developing economies is that almost every intervention can be explained as relevant to PSD in some way - yet not all will have equal impact in progressing PSD. The activities that Australia supports in Timor-Leste will have variable impacts on PSD. Resource and capacity constraints mean that not every need can be addressed immediately; and there are links between activities that can be potentially strengthened, presenting opportunities for the whole to be greater than the sum of its parts.

Currently, Australia's approach to PSD is described within the Australian Embassy's Economic and Commercial Diplomacy Strategy for Timor-Leste, as well as in the diagram included in **Annex 1**. Australia's strategic approach to PSD in Timor-Leste has not been described in detail in a publicly available document. Clarification of the overall strategy for PSD in Timor-Leste, the specific approaches of investments, their contribution to PSD, and possible links between investments is needed. The publication of such a strategy would give PSD stakeholders a clearer understanding of Australia's strategy, and support development of a community of practice for PSD. Such a strategy would also help to optimise the outcomes of different Australian investments, and contribute to policy reform that deliver practical changes that benefit Timorese businesses.

Effectiveness

Australian support has been important to development of policy frameworks designed to reduce constraints on PSD in Timor-Leste. Much of this work occurs through GfD, Australia's primary mechanism for supporting PSD-related policy reforms. Embassy staff complement GfD's work through consultations with high-level GoTL officials. GfD's work consists of research, advisory and technical support to key ministries, preparation of briefing papers, exposure visits for senior officials, strategic partnering with other organisations, and coordination with other Australian investments in support of policy reform.

While development of some PSD supportive policy and regulatory frameworks have been successful, there remains a need to strengthen implementation. Several of the business-enabling laws that were supported by GfD, and subsequently passed, are not yet operational. This is mostly due to inadequate GoTL financial support for policy rollout. In several cases, implementation guidelines have not been developed. Also, government staff capacity (especially mid-level staff) needs to be strengthened. Political change and recent budget difficulties have also slowed reform.

While Australia supports broad-based PSD, it also invests heavily in agriculture. TOMAK and MDF have conducted high-quality research on value chains and market systems for agriculture. MDF's research focused on promoting trade and links between producers and markets, aiming to understand how to generate new opportunities through support for new products and better marketing. TOMAK has developed a strong evidence base for interventions to increase the yields of agricultural products with high market and economic potential.

Other Australian investments improve market access in rural areas. R4D-SP's support for better rural roads has enabled more farmers to reach markets and sell their products, which boosts programs such as TOMAK and MDF. Support for local governance through the PNDS-SP promotes better decision-making and women's empowerment, while improving infrastructure such as village roads and water supply - both crucial for PSD.

Skills shortages hold back Timor-Leste's development of key economic sectors such as agriculture and tourism. Australia's approach to skills development and workforce needs in Timor-Leste is both deep and broad, addressing various skills gaps, including those that hinder PSD. GfD's efforts to improve government officials' ability to create better economic policy is another important contribution.

While the Workforce Development Program (WDPTL) is specifically focused on developing the workforce, workforce development occurs across all investments. Efforts include developing the technical skills of farmers and brokers, road contractors' skills in procurement processes, hospitality sector vocational training, and skills related to business registration and promoting trade and investment.

Supporting women in the private sector

Australian investments are realistic and strategic in their efforts to promote women's participation and economic empowerment. Across investments, extensive gender focused research has helped build an evidence base for interventions. This is reflected in contextually-relevant approaches to progress women's participation and economic empowerment.

While there have been many individual cases of women's economic empowerment, the overall Australian development program's greatest contribution at this point in time has been foundational work that will enable women's future private sector participation. GfD's support for gender-responsive budgeting (endorsed by the Office of the Prime Minister) encouraged government programs to promote women's participation and empowerment. GfD has also worked to improve the capacity of government officials to develop gender responsive economic policies, including promotion of the importance of women's participation in policy development. GfD has also supported development of gender-sensitive indicators for use within planning and reporting processes.

TOMAK's support to female agricultural extension workers to perform their tasks more effectively and to be treated equally is contributing to greater levels of women's participation in the agricultural sector. GfD and TOMAK also collaborate to improve women's access to and participation in market places, by strengthening municipal regulations to make market places safer and more inviting places for women. R4D-SP and PNDS-SP also improve women's private sector participation and empowerment - better roads mean women can travel and transport goods more easily, and better water infrastructure frees up time for women to engage in markets.

Future directions

GoTL and the broader development community recognise that Australian efforts are key to building a community of practice to progress PSD in Timor-Leste. Some actors commented that while they know Australia is 'supporting a lot of PSD-relevant work', they did not always understand its particular elements or know the right person to speak to about specific issues. Many actors support the idea of a PSD working group that would

meet regularly to discuss key PSD issues and plan responses. The Australian Embassy is uniquely placed in Timor-Leste to support the GoTL in establishing a PSD working group that draws together key ministries, PSD-interested development partners and private sector bodies.

It is also vital that the embryonic nature of Timor-Leste's private sector, and the challenges this holds, continue to be considered in the Australian Embassy's approach to PSD. The need to help build strong foundations for PSD is already reflected in the approaches of different Australian investments, and will continue to be a need into the medium term.

Key lessons learned from Australian PSD programming in Timor-Leste are:

- the need to focus on foundational work to provide a strong base for future PSD efforts
- the importance of setting realistic performance targets that reflect the capacity and contextual issues that currently constrain PSD
- reforms aimed at improving the business enabling environment for PSD need to be underpinned by clear government commitment to see reforms through to action
- programs must conduct research that produces evidence to guide their PSD work, and also ensure that this evidence is communicated clearly to key audiences
- better road and water infrastructure is vital to help agriculture-reliant households to engage in markets and improve their standard of living.



Recommendations

The review findings led to the following recommendations for the Australian development program in Timor-Leste.

General

1. 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.
2. 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.

Business-enabling environment

3. 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.
4. 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.
5. 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.
6. 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.

Workforce development

7. 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.
8. 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.

9. 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.

Business and market systems development

10. 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 Avansa⁵) or through strategic alliances (e.g. GfD and WDPTL collaborating on civil service capacity development).
11. 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.
12. 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).
13. Anecdotally, 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.
14. 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.
15. 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.

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

1. Introduction

Australia has been Timor-Leste's largest development partner since independence in 2002, working to increase its prosperity and stability in a variety of ways. 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 better nutrition, empowering women and girls, and disability-inclusive development.⁶

An aim of the Australian development program in Timor-Leste is to support the Government of Timor-Leste (GoTL) to diversify its economy and grow its private sector by creating more jobs, a stronger private sector, increased rural incomes and helping ensure more people are workforce ready.

This Private Sector Development (PSD) review was commissioned to review the overall approach of the Australian Embassy in supporting PSD in Timor-Leste, and to recommend changes that could strengthen its impact and effectiveness.

1.1 The context

Timor-Leste's Strategic Development Plan (2011-30) states that "Timor-Leste will build a modern, diversified economy based on agriculture, tourism and petroleum industries, with a flourishing private sector and new opportunities". This is expected to guide economic diversification and growth, employment generation and an expanded revenue base to support government programming.⁷

However, Timor-Leste's private sector faces many challenges, from macro-economic policy reform to farm-level issues effecting rural households' engagement in the marketplace). Major challenges include:

- **The policy and regulatory environment.** Timor-Leste ranked 178th of 190 countries in 2017 for ease of doing business.⁸ Difficulties in enforcing contracts and starting businesses, property registration and land tenure uncertainty, poor access to finance and heavy reliance on imports are current weaknesses of the enabling environment for PSD.⁹
- **Workforce weaknesses.** The workforce lacks the skills needed to address the current and expected demands of the private sector.¹⁰ Foreign workers account for about 9 per cent of all employees,¹¹ indicating significant skills shortages in the national workforce. Literacy and numeracy in rural areas is often weak, restricting subsistence farming households from participating in markets.
- **A small underdeveloped private sector.** Businesses in Timor-Leste face difficulties such as the high cost of production and high risk.⁹ Furthermore, Timor-Leste's mainly

6 DFAT, Overview of Australia's aid program to Timor-Leste.

<https://dfat.gov.au/geo/timor-leste/development-assistance/Pages/development-assistance-in-timor-leste.aspx>

7 GoTL, *Timor-Leste Strategic Development Plan 2011-2030*

8 World Bank, *Doing business: measuring business regulations*, 2017

9 Inder & Cornwell, *Private sector driven development in an infant economy*, Monash University, 2016

10 Market Development Facility (MDF) Annual Report, 2016

11 Government of Timor-Leste, *Labour Market Outlook Timor-Leste*, Edition 7, 2018

subsistence-based agriculture sector¹² lacks competitiveness in the region, made worse by poor access to markets.¹³

- **An over-valued real exchange rate.** Timor-Leste's US dollar-based economy means its real exchange rate is overvalued by 27-44 per cent, further weakening its ability to trade.¹⁴
- **Infrastructure weaknesses.** Rural people consider the poor state of rural roads to be the single largest constraint on development.¹⁵ Poor aviation infrastructure and information and communications technology also constrain PSD.

The contribution of oil (from current projects) to gross domestic product (GDP) is expected to drop to zero by 2022, presenting significant challenges for Timor-Leste. Unless alternative revenue sources become available, after that time the country would need to draw more significantly on its Petroleum Fund. This could eventually have a major social impact, given community expectations that government-funded social and veteran's transfers will continue. These transfers accounted for 10 per cent of the total budget in 2017.¹⁶

It is common for the public sector of small states to account for a large share of economic activity due to weak economies of scale in public service provision, but the size of Timor-Leste's public sector makes it unique in the Asia-Pacific region. In Timor-Leste, oil revenues have made the government the largest actor in the economy. During 2012-17, annual government spending was, on average, equal to 87.2 per cent of non-oil GDP.¹⁷ This percentage is more than double the average of Asia-Pacific countries, and double the global average for small states.¹⁸

Timor-Leste's spending on goods, services, and capital projects during 2012-17 averaged 54 per cent of non-oil GDP. This was the single largest source of demand for private businesses operating in Timor-Leste, and highlights the influence of government procurement on business productivity and efficiency.¹⁷

While Timor-Leste has been able to create jobs over the past decade, this has largely been due to growth in the public sector, with much of the rest of the Timorese population still working in subsistence agriculture. This underlines the need to reduce public sector expansion and promote development of sustainable jobs in the private sector. This would allow the economy to take advantage of a youthful population to accelerate growth and prosperity, and to avoid the possible negative social impacts of a large and growing number of unemployed youths and adults.¹⁹

The cost of labour is another significant economic challenge. Timor-Leste's statutory minimum wage of USD 125 per month (170 AUD; including a 13th month of pay) is higher than the minimum wage in most ASEAN states, and high relative to GDP per capita. This suggests that high salaries are reducing competitiveness. At the same time, analysis of the cost of living between countries suggests that Timor-Leste's minimum wage is not

12 Asia Development Bank, *Growing the non-oil economy – a private sector assessment for Timor-Leste*, 2015

13 Inder, Brown, and Datt, *Poverty and the agricultural household in Timor-Leste: Some patterns and puzzles*. Monash Centre for Development Economics and Sustainability Research Paper Series on Timor-Leste, Monash University, 2014

14 IMF, *Democratic Republic of Timor-Leste: 2017 article IV Consultation-Press Release and Staff Report*, 2017

15 GoTL, *Rural Roads Master Plan & Investment Strategy 2016-2020*, 2015

16 GoTL, *2017 Timor-Leste State Budget*, 2016. <http://www.laohamutuk.org/econ/OGE17/16OGE17.htm>

17 Freedman, *Pacific Economic Monitor*, July 2018. <https://www.adb.org/publications/series/pacific-economic-monitor>

18 See graph in Freedman, *Pacific Economic Monitor*, July 2018, p.20

especially generous to workers, with only Vietnam having worse comparative purchasing power parity in ASEAN.¹⁷

Given this overall economic context, economic diversification based on a strengthened private sector is seen as a unique opportunity for government to mitigate the impact of the fiscal shift described above, and to allow it to continue to achieve progress on major human development indicators.

1.2 Overview of Australia's approach to PSD in Timor-Leste

Australia's development program in Timor-Leste is primarily implemented by eight partners in three strategic areas — **economy**, **people** and **society**. Across all investments, priority is placed on improving nutrition, empowering women and girls, and supporting disability-inclusive development.¹⁹

The program takes an integrated approach to PSD, consistent with the GoTL's Strategic Development Plan 2011-2030, which states that:

*to provide jobs for our people and ensure that all parts of our nation benefit from the development of Timor-Leste's natural resources wealth, we must develop a flourishing market economy with a strong private sector... recognising that (Timor-Leste) cannot rely solely on our substantial oil and natural gas reserves, but must diversify our economy.*²⁰

The approach also reflects the Australian Government's *2017 Foreign Policy White Paper*, which prioritises PSD.²¹ In Timor-Leste, Australia's approach to PSD is informed by the Embassy's Economic and Commercial Diplomacy strategy that aims to support PSD initiatives by linking individual PSD investments to the Embassy's broader trade and economic diplomacy efforts. The Australian approach is also premised on aligning, as much as possible, with other development actors interested in PSD, including engagement and collaboration with key donors and development agencies, and the private sector itself.

The *Australian Embassy in Timor Leste's approach to PSD* (**Annex 1**) outlines investments and approaches, programming strategies, influencing activities, and both interim and higher-level changes required to achieve a strengthened private sector. This framework also highlights guiding principles for the PSD approach, such as inclusion of marginalised people, gender, sustainability and the need to promote Timorese leadership and ownership. The *Approach to PSD* was developed from a contextual analysis (**Annex 2**) of factors affecting PSD in Timor-Leste, and currently only exists as a diagram.

High-level change sought through the Australian Embassy *Approach to PSD* has three parts:

- a strengthened policy and regulatory environment that promotes PSD and investment
- development of a skilled and productive labour force
- increased private sector activity by strengthening business performance.

19 DFAT, Overview of Australia's aid program to Timor-Leste.

<https://dfat.gov.au/geo/timor-leste/development-assistance/Pages/development-assistance-in-timor-leste.aspx>

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

21 Commonwealth of Australia, *2017 Foreign Policy White Paper*. <https://www.fpwhitepaper.gov.au/>

Australian PSD work mostly focuses on developing the agriculture, tourism, hospitality and manufacturing sectors, through support for economic policy reform, workforce development and improved rural infrastructure that enables easier access to market for people and produce. The Embassy supports this work by maintaining strategic relationships with both the GoTL and private sector, and supports strengthening of chambers of commerce and business associations, while also assisting local and foreign investors.

Summary of Australian investments

Six primary investments support the Australian Embassies approach to PSD in Timor-Leste. They include efforts to improve the business environment, support market systems and business development, and promote local business through development programming.

Improving the business environment

The PSD focus of the **Governance for Development Program (GfD)** is to improve the business environment, particularly through support to improved policy and regulations and strengthened governance (expected spending 2019-20 - AUD 7.8 million).

The **Workforce Development Program Timor-Leste (WDPTL)** focuses on improving skills for the labour force, as well as institutional support for the Secretaria Do Estado Para A Politica De Formacao Profissional E Emprego (SEPFOPE) and technical advice to improve labour market data (expected spending 2019-20 - AUD 5.9 million).

Market systems and business development

The **Market Development Facility (MDF)** strengthens individual business and market systems development by supporting business people to improve their skills, enhance product and service development, and develop and utilise analysis to solve market constraints (expected spending 2019-20 - AUD 2.1 million).

To'os ba Moris Diak – Farming for Prosperity (TOMAK) supports farmers in Timor-Leste to produce a nutritious and secure food supply, while also helping them transition from subsistence farming to more commercial farming practices (expected spending 2019-20 - AUD 5 million).

Promoting local business through development programming

The **National Program for Village Development Program (PNDS)** is a GoTL program that aims to improve economic growth and human development in villages, including grants for small-scale infrastructure projects prioritised by local communities. Australia's support (PNDS-SP - expected spending 2019-20 - AUD 5.7 million) supports the government to implement the program efficiently and effectively.

The **Roads for Development Support Program (R4D-SP)** supports rehabilitation and maintenance of rural roads, improving access to rural markets (expected spending 2019-20 - AUD 4.5 million).

1.3 Purpose of review

This review had three purposes:

- **Prove (20 per cent):** to assess the effectiveness of the Australian development program's current approaches to private sector development programming in Timor-Leste
- **Knowledge (40 per cent):** to identify the key contextual strengths, challenges and opportunities in private sector development in Timor-Leste that could be targeted for improved results
- **Improve (40 per cent):** to recommend strategic investment approaches and priorities in private sector development in Timor-Leste designed to maximise contribution to prosperity.

The review combined qualitative and secondary quantitative methods to draw conclusions about the performance of the Australian development program in supporting PSD.

The review addressed four evaluation criteria: relevance, appropriateness, model and effectiveness. The review's scope included questions related to Australia's direct and indirect PSD investments in Timor-Leste, the Embassy's economic and trade diplomacy activities, and the current context and future directions of the private sector in Timor-Leste.



2. Key review questions

The steering committee and DFAT developed five key review questions (KRQs) to guide the approach to the review. The review team developed sub-questions (SQs) for the KRQs during the inception period. These KRQs and SQs are listed below.

| REVIEW CRITERIA | KEY REVIEW QUESTION AND SUB-QUESTIONS |
|-----------------|--|
| Effectiveness | <p>1. To what extent has the Australian development program contributed to a stronger and more inclusive private sector in Timor-Leste?</p> <p>a. How effective have the approaches employed within the Australian development program been in supporting an enabling environment for PSD in Timor-Leste?</p> <p>b. How effective have the approaches employed within the Australian development program been in supporting business development and strengthening Timor-Leste's private sector?</p> <p>c. How effective have the approaches employed within the Australian development program been in addressing the skills development and workforce needs of the private sector?</p> |
| Appropriateness | <p>2. To what extent has the Australian development program contributed to women's economic empowerment in Timor-Leste?</p> <p>a. Across different Australian investments, what strategies and actions have been employed to empower women and enhance women's participation in the private sector?</p> <p>b. How effective have such approaches been in women's economic empowerment, and how could these be strengthened?</p> <p>c. How effectively has the program managed potential negative impacts on women from PSD in Timor-Leste?</p> |
| Relevance | <p>3. 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?</p> <p>a. Is the approach, focus and balance of the Embassy's work positioning the Embassy for optimal contribution to PSD in Timor-Leste?</p> <p>b. To what extent has the program demonstrated an adaptive approach to the evolving context for PSD in Timor-Leste?</p> |
| Effectiveness | <p>4. In what ways could the Australian Embassy adapt or strengthen its approach to increase its impact on private sector development in Timor-Leste?</p> <p>a. What can the Australian Embassy learn from PSD initiatives in comparative contexts?</p> <p>b. Do opportunities exist to better support and include marginalised groups within PSD approaches?</p> <p>c. In what way could existing linkages (including between Australian investments, between Australian development programs and Australian trade and economic diplomacy, between Australian programs and other actors promoting PSD, and between the Embassy and the GoTL) be enhanced to optimise efforts in strengthening the private sector in Timor-Leste?</p> |
| Model | <p>5. In what ways can the Australian Embassy's approach and achievements for PSD in Timor-Leste inform private sector development in other contexts?</p> <p>a. What have been the key lessons learned from the Australian Embassy approach to PSD in Timor-Leste?</p> |

3. Methodology

The review included a 19-day in-country mission (20 August to 9 September 2018) to undertake interviews, including a two-day visit to Baucau Municipality.

An eight-person Steering Committee, consisting of DFAT, Asian Development Bank (ADB) and M&E House representatives, was established to oversee development and implementation of the review.

3.1 Methods

This review used a mixed-method approach, consisting of the following components.

- a. A document review and synthesis** was conducted to scope existing knowledge against the KRQs; identify gaps; begin to triangulate existing data; identify further documents, individuals and informants for the review; and generate sub-questions. The review considered documents including GoTL strategic plans, national survey results, and reports; documents about the Australian development program and its investments in Timor-Leste; reports from other bilateral and multilateral organisations in Timor-Leste; and academic papers.
- b. Semi-structured interviews** were conducted during August and September 2018, involving 54 meetings with 95 PSD stakeholders. These included government officials, investment partners, business owners, academics and employees of non-government organisations. **Annex 3** contains a list of these consultations. **Annex 4** contains a summary of the sample. Interview guides enabled the review team to work through the KRQs systematically. At the same time, the approach allowed the respondents to describe their own thoughts about and priorities for PSD.
- c. A rural field trip**, during which eight interviews (with municipality-based government officials, implementing partner staff, farmers and agribusiness owners) were conducted in Baucau Municipality to explore the degree to which Australia's PSD activities are reaching rural areas. This was identified as a priority as eighty per cent of Timorese are subsistence farmers.
- d. Two case studies** were developed based on key informant interviews and document reviews. They were conducted to highlight the potential of the Australian development program to achieve major change when its approaches are evidence based, strategic, integrated and well executed. These case studies relate to aviation policy and Acelda, an emerging national agribusiness.

Review team members took comprehensive notes during interviews, which the Team Leader synthesised as a first step in data analysis. Key themes from the interviews were arranged against the review sub-questions and collated in an evidence matrix to guide data analysis. Preliminary findings and recommendations were presented to the Review Steering Committee on 5 September 2018 in Dili.

3.2 Limitations

The review team noted the following limitations:

- Limited time in the field was a major challenge, given the need to consider the contribution of six different Australian investments to PSD, achieve understanding of the dynamics of PSD in Timor-Leste, and assess women's economic empowerment in rural areas. This was managed through targeted identification of interviewees and use of secondary data to support triangulation of findings
- Poor infrastructure restricted time spent in rural areas. This limited the review's capacity to assess the degree to which Australian actions to promote PSD are achieving traction in rural areas.
- The review was undertaken just two months after confirmation of the Eighth Constitutional Government of Timor-Leste, with several key positions within the Government still not filled. This meant that the review team often had to rely on the perspectives of senior bureaucrats, because their ministers were either not in place or new to the job.

3.3 Report structure

The remainder of this report is structured as follows. **Chapters 4 to 6** focus on specific components of the Australian development program's approach to PSD - strengthening the enabling environment (**Chapter 4**), supporting a skilled workforce (**Chapter 5**), and market systems and business development (**Chapter 6**). To answer KRQs, each chapter presents evidence, findings, and recommendations about the **relevance** of the Australian development program's current approach to this component of PSD (**KRQ 3**), **current activities** being undertaken by investment partners, the **effectiveness** of the current approach (addressing **KRQs 1 and 4**), and the extent to which the current approach supports **women's economic empowerment and inclusion** (**KRQ 2**). In **chapter 7**, a summary findings and recommendations are presented against the KRQs and SQs listed in **Chapter 2**.



4. Strengthening the enabling environment for PSD

4.1 Relevance to PSD

The Australian Embassy considers an enabling policy environment to be essential for PSD, because it will strengthen the conditions in which domestic businesses operate. A focus on structural change reflects global understanding of the way state institutions influence economic performance, the political economy of improving an investment environment, and the factors that drive economic policymaking.²² Interventions to support an enabling business environment are therefore seen as assisting domestic and international trade, as well as private investment. Such interventions generally represent good value for money, as input costs are relatively low and impacts are spread across the private and public sectors.²³

Recommendation 1: 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.

The GoTL (and PSD-interested donors) recognise the importance of and need for structural change. They acknowledge the need to reform the many laws that currently constrain PSD. While there is theoretical commitment to reform within the GoTL, interviewees emphasised that progressing business-enabling reforms is complex and challenging for government, both technically and politically.

Finding: The Australian development program in Timor-Leste aims to support the business enabling environment at multiple, complementary levels. The overall coherence of the Australian program is strategic in that it presents opportunities for linkages between investments that help ground PSD focused reforms.

The Australian investment most directly focused on policy and economic reform is GfD, which operates in two ways. Firstly, it works closely with the Embassy to identify and facilitate progress on key business-enabling reforms. Secondly, it works to strengthen government-provided services such as banking, telecommunications, business registration and business support.

4.2 Current approaches of investment partners

GfD's approach to PSD-enabling reform has focused on strengthening public financial management, economic policy and public administration. Specific approaches have included:

²² World Bank Group, *What's happening in the Missing Middle; lessons from financing SMEs*, 2017

²³ DFAT, *Strategy for Australian Aid investments in private sector development*, 2015, p.8

- research to underpin proposed reforms
- preparation and dissemination of briefing papers to support advocacy and decision-making
- advisory support within key ministries, notably the Office of the Prime Minister and former Office of the Coordinating Minister for Economic Affairs (MECAE)
- technical assistance for specific reform efforts (e.g. civil aviation policy)
- exposure visits for key decision-makers (to support better understanding of the purpose and potential of proposed reforms)
- partnership with other Australian investment partners to support policy implementation.

GfD's achievements in strengthening government service provision through policy reform include:

- strengthened capacity within the national bank - Banco Nacional de Comercio de Timor-Leste - to deliver services and improve critical functions related to credit risk, operational risk, compliance, and audit to sustain the bank's operations as it continues to grow²⁴
- consolidation of the National Institute for Business Registration and Verification (SERVE) as a 'one stop shop' for business registration, replacing a complex process that previously required sign-off from multiple ministries
- further strengthening of the Business Development Support Institute (IADE) to support new and emerging Timor-Leste businesses.

GfD partners with organisations capable of providing high-quality assistance in specific technical areas, including non-government actors (The Asia Foundation, Australian National University, International Republican Institute, the Judicial Systems Monitoring Program and Monash University), Australian government agencies (the Australian Bureau of Statistics) and multilaterals such as the ADB, the International Finance Corporation (IFC) and the Organisation for Economic Cooperation and Development.

Finding: Australia is acknowledged as an important facilitator of PSD in Timor-Leste, and is appreciated for its ability to support and link actors working towards an improved enabling environment for PSD.

The Australian Embassy's direct relationships with most actors interested in PSD-relevant reforms (government, donors and non-government) in Timor-Leste, give it an important facilitating role for PSD. The Embassy can further strengthen coordination and collaboration of actors in supporting GoTL to improve the business-enabling environment and PSD.

Recommendation 2: 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.

²⁴ ADB, Australia provides additional funding to develop Timor-Leste's first commercial bank, 2017.
<https://www.adb.org/news/australia-provides-additional-funding-develop-timor-lestes-first-commercial-bank>

4.3 Effectiveness of current approaches

Adaptive approach to PSD policy development

Australian support to PSD has needed to be opportunistic, due to an environment in which understanding, vision and capacity for economic reform is limited and shifting as political allegiances evolve. Adaptability can be seen in efforts to closely monitor political shifts, support reform-minded people, and draw on the expertise of other PSD-interested initiatives and entities, such as the ADB and IFC.

Finding: Within a context of frequent political change, the Australian development program has been adaptive and opportunistic in engaging PSD opportunities as they arise.

During the Sixth Government, this opportunism led GfD to partner with MECAE, which had a focus on coordination of economic affairs and was led by a Minister interested in reform and able to advocate within the Council of Ministers, the country's key decision-making body. In 2015, GfD provided MECAE with five long-term advisors (two lawyers, two economists and a management planner), and in 2016 appointed short-term advisors in PSD-relevant areas such as agricultural economic policy and civil aviation. These advisors helped to quickly progress key business-enabling laws related to mediation and arbitration, land, bankruptcy, secure transactions, private investment, export promotion and company regulation.

Another example of adaptability can be seen in the rapid mobilisation of GfD support in 2015 to the newly created Unit of Planning, Monitoring and Evaluation, under the Office of the Prime Minister, as a strategic investment to promote evidence-based policy development.

Recommendation 3: 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.

PSD policy reform

Several important reforms supported by GfD have contributed to major changes in the enabling environment for PSD. GfD's support to the Office of the Prime Minister has strengthened the way government ministries plan, manage and report on their finances. 25 ministries and agencies have now linked their financial planning to program and service delivery outcomes for the first time, and the remainder of the government will follow in the next 1-2 years. This should improve the transparency and accountability of decision-making on government priorities and spending, while further consolidating the principle of evidence-based policy development.²⁵

Similarly, GfD's support to the Civil Service Commission (CSC) has helped ensure the strategies and implementation plans of the public service are higher quality, practical, funded and inclusive, including initiatives to ensure that gender and disability are better addressed within strategic planning.

Finding: Australian support has been a key driving force for progression of a wide range of business-enabling laws, both in terms of strengthening policy and improving government services that support PSD.

²⁵ Reported in interviews with GfD and Government representatives

GfD supports the government to make policy-making processes more inclusive. As a result, key government staff from a range of relevant ministries participate more actively in policy development. This helps ensure that staff responsible for implementing reforms have been heard in the policy development process, and therefore have some ownership of the reform as it is rolled out.

GfD contributed significantly to development of the following business-enabling laws, policy frameworks and innovations:

- private investment laws, promulgated by the President, August 2017
- commercial company laws, passed by National Parliament, March 2017
- consumer protection law reform, passed by National Parliament, July 2016
- a credit guarantee scheme, approved by the Council of Ministers, July 2017
- gender responsive budgeting (GRB) being applied in the Annual Action Plans of all institutions in the 2018 General State Budget
- transformation of SERVE²⁶ into a one-stop-shop for business registration and licensing
- restructuring of TradelInvest to encourage and facilitate foreign investment.

GfD has also influenced niche reform opportunities, such as support to development of a National Civil Aviation policy that is compliant with international standards. (See Case Study: *Helping Timor-Leste take flight – a framework for strengthening civil aviation.*)

Challenges in PSD policy implementation

While some business-enabling laws supported by GfD have been passed, few have been implemented, and it will take time before those few laws are effective in enabling PSD.

Finding: Continuing political change has slowed momentum for economic and legal reform, and reduced Australia's capacity to influence the enabling environment and policy reform. This context has been worsened by a budget impasse that has blocked the funds needed for implementation.

Meaningful implementation of reforms needs government willingness and capacity to see reforms through to action. However, there also appears to have been insufficient attention paid to clear pre-agreement between GfD and GoTL on the actions needed to roll out reforms. Even in cases where pre-agreements were reached, these were not always followed through due to changes in personnel and political shifts.

Finding: Even when policy and regulatory frameworks have been developed, it is rare for their practical implementation to have progressed to a degree that benefits businesses.

Consensus across interviews was that the most significant constraints to implementation are:

- insufficient government commitment to budgeting for policy rollout
- lack of guidelines for implementing policy
- inadequate capacity of those government (especially mid-level) staff who will be responsible for implementation, including fundamental problems such as being unable to speak Portuguese.

26 SERVE is the government authority responsible for registration of companies and sole traders, including assessment and verification of their legal status, approval of company names, and management of the business registration database.

Recommendation 4: 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.

Respondents considered that the recent change of government (and leadership in most ministries) has held back reform, because momentum was lost as the new leadership took on new roles. Difficulties with passage of the 2017 budget also meant government operated at reduced capacity, with spin-off effects for the economy and PSD.

Key challenges for the PSD-enabling environment

This review acknowledges the strong coherence and complementarity in the overall Australian contribution to PSD in Timor-Leste, as outlined in the 'Australian Embassy Approach to PSD' (see **Annex 1**), and also that this strategy aligns with DFAT's Economic and Commercial Diplomacy Strategy for Timor-Leste. However, in a context of such varied need and opportunity, there is a risk of 'spreading too thin' and not enough reform being completed and actually contributing to practical improvements for Timorese businesses.

In the context of political change, actors need to identify 'best bets' in the hope that government will connect with and support reforms to meaningful outcomes. This approach holds the risk that well-founded ideas might not stick, so actors must accept that some ideas will fail.

Identifying priority areas for PSD reform is challenging, given it often takes many years for policy changes to have noticeable impact. One informant noted that reforms to Cambodia's private sector that commenced in the late 1990s have only recently achieved impact. Several policy reforms have yet to be bedded down, which is common in complex political contexts such as Timor-Leste, but it remains vital that investments work to ensure reforms go beyond policy frameworks and result in real change.

Multiple respondents identified the need to reform property laws to reduce uncertainty over land tenure, and subsequent problems in using land as collateral for financing investment. While GfD has provided some support to a secured transactions law which addresses the issue of collateral for financing, land law reform is widely seen as a significant impediment to PSD.

Finding: Uncertainty about land and property law is still a major impediment to PSD.

While it is understood that Australia has determined that it will not prioritise land reform within its strategic approach, resolution of land issues remains an important aspect of the enabling environment for PSD.

Recommendation 5: 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.

4.4 Supporting women's economic empowerment and inclusion

The Australian Embassy's approach to PSD prioritises support for women's economic empowerment, seeing it as critical to strengthening women's social status and the welfare of their families, communities and society. Links between women's economic empowerment and overall economic growth are well recognised in international development practice and research.²⁷

GfD's support for the integration of GRB within government approaches and capacity development support for senior women working within the CSC are strengthening the overall framework for women's participation and empowerment in government. GRB demands ministries develop gender action plans, clarifies institutional responsibilities and guides government agencies in considering gender in the planning, budgeting, monitoring and evaluation cycle, and was prioritised by the Office of the Prime Minister in 2017.

Finding: Australian support for GRB influenced development of a budgetary planning system that puts greater focus on women's participation and empowerment within government planning and reporting.

An example of the potential of this mechanism can be seen in the Ministry of Agriculture and Fisheries (MAF) allocating a specific budget to support women in agriculture, including increased financial support for female agricultural extension workers that gives them more equal conditions to men. This example also highlights the potential of synergies between Australian investments, with TOMAK in this case being a strong advocate of a GfD initiative, helping ensure GRB processes were understood and applied at ministry level.²⁸

Finding: While GRB has now been rolled out across all ministries, it is still in early stages. There remains great potential for Australian investments to use GRB to increase women's participation in PSD and women's economic empowerment.

Recommendation 6: 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.

Review participants reported that efforts to empower women working at senior levels of the CSC have strengthened their ability to raise gender issues within government. GfD has also worked closely with the CSC to develop implementation plans for increasing the number of women in the public service, particularly in leadership and management. GfD also noted the need for disability to become part of government planning, but this does not yet have the same supportive frameworks that exist for GRB.

Finding: While Australia has worked to address disability inclusion in policy in Timor-Leste, there is little strategy in place within Australian investments (with the exception of WDPTL) to increase inclusion of people living with disability in PSD approaches.

27 SERVE is the government authority responsible for registration of companies and sole traders, including assessment and verification of their legal status, approval of company names, and management of the business registration database.

28 Interview with TOMAK Team Leader and Gender Advisor

Case Study 1: Helping Timor-Leste take flight - A framework for strengthening civil aviation

Background

Timor-Leste is a remote country, making the need for an internationally certified, well-managed and safe civil aviation system vital. A reliable aviation system enhances connectivity, facilitates trade and investment and stimulates tourism. However, civil aviation in Timor-Leste has faced significant challenges related to infrastructure, human capacity, financial constraints, governance and fragile flight schedules that are undermined by a lack of confidence and low demand for domestic air services.

When Timor-Leste joined the International Civil Aviation Organization (ICAO) in 2002, it was required to develop its own National Civil Aviation Policy (NCAP) if it was to meet international standards. In 2011, the Ministry of Public Works, Transport and Communications (MOPTC) developed the country's first NCAP. While this was an important step forward, its sole focus was MOPTC governance of aviation issues and it addressed only some aspects of aviation safety and security. The initial draft NCAP did not consider economic or financial aspects of the aviation sector, and did not reflect the interests of tourism or economic policy agencies. Siloed approaches to policy development were common at that time, typically involving one government agency working in isolation.

GfD's Approach

Under the VI Constitutional Government, GfD supported the GoTL to develop an evidence-based Guide for Economic Reform and Growth (GRFE) that aimed to promote economic diversification, facilitate private investment and create sustainable employment. The Council of Ministers (CoM) approved the GRFE in November 2016, with aviation as one of its focus areas.

As the GoTL had limited experience in civil aviation and therefore lacked the technical expertise needed to develop and implement a policy to meet ICAO standards, MECAE made a request to GfD to provide an experienced international civil aviation specialist to inform and guide the policy development process. GfD advisors supported MECAE to establish an Inter-Ministerial Working Group (IMWG) to take part in the NCAP revisions. Senior representatives from MECAE, MOPTC, the Ministry of Tourism, Arts and Culture, the Ministry of Finance and the Ministry of Planning and Strategic Investment were part of the IMWG. The Civil Aviation Authority of Timor-Leste (AACTL) and the Administration of Airports and Air Navigation of Timor-Leste were also included.

Results

Through a participatory and consultative process, facilitated and guided by the international civil aviation specialist, the interests of each ministry and agency were considered and discussed in the context of international best practice, and based on evidence and policy research. The final result was an NCAP that draws on evidence and policy research to address all aspects of the aviation sector, including governance, regulation, airports and air navigation services, air transport services, and aviation's contribution to social and economic development. The NCAP lays out a set of priorities to be addressed in order to meet ICAO standards, particularly safety, security and airport infrastructure.

GfD has continued to assist the AACTL, as the entity responsible for implementation of the NCAP, with additional technical and legal expertise to support the development of a strategy and detailed plan for policy implementation, and a new legal framework to support the authority to fulfil its mandate as an autonomous agency, commencing in 2019. This has enabled AACTL to bid for an operating budget that will be independent from the broader ministry, for the first time, in 2019. GfD also supported the development of technical safety and security manuals required for the certification of Timor-Leste's aerodromes.

Lessons

- There was a good level of interest and willingness across ministries to work together.
- The IMWG model strengthened the shared goals, ownership, transparency and quality of the NCAP.
- Strategic use of advisory support strengthened trust and credibility throughout the policy development process.
- Foundations are now in place for AACTL to be resourced and to work towards ICAO audit compliance and aerodrome certification.

5. Supporting a skilled workforce and productive labour force

5.1 Relevance to PSD

A recent review highlights the relevance of workforce development to PSD in Timor-Leste:

Workforce development is central to Timor-Leste - not only to the growth of its economy, but to developing a diversified non-oil economy that is not overwhelmingly dependent on the public sector. Each year over 30,000 Timorese reach working age... meaning 9,000 new entrants to the labour market every year. Currently only about 4,000 new jobs are being created per year. Finding employment for these young people is key to maintaining national stability.²⁹

Opportunities for PSD are impacted by Timor-Leste having insufficient workforce-ready people. While school enrolments have improved, learning outcomes and job readiness remain poor, and are generally perceived by the private sector as poorly suited to their needs. This hinders PSD, because the availability of labor at various skill levels and costs is a key driver of competitiveness.³⁰

In 2017, only 5 per cent of Timor-Leste's workforce was employed through the non-agricultural private sector.³¹ There has been a 5.1 per cent decrease in private sector employment since 2015.³² A recent assessment showed Timor-Leste relies on approximately 7,000 foreign workers to fill gaps in the economy. This equates to 9 per cent of all non-agriculture private sector employees. The proportion of foreign workers is estimated at one in three trades workers, one in four managers, one in five professionals and one in six technicians.^{33, 34}

Finding: Continued heavy reliance on foreign workers to fill skilled and semi-skilled jobs highlights the importance of a broad-based approach to workforce development that meets the varied needs of the private sector.

Interviewees emphasised that a systematic approach to addressing the low capacity base is needed if PSD is to occur. It is also felt that Timor-Leste's workforce development needs are vast and affect every part of the economy. Therefore, targeted, evidence-based workforce development is a priority.

29 M&E House, *Timor-Leste Workforce Development Strategic Review*, 2018, p.8

30 Freedman, *Pacific Economic Monitor*, July 2018

31 UNDP, *National Human Development Report*, 2018

32 GoTL, *Business Activity Survey*, 2016

33 GoTL, *Enterprise and Skills Survey*, 2017

34 M&E House, *Timor-Leste Workforce Development Strategic Review*, 2018

5.2 Current approaches of investment partners

Multiple Australian investments respond to skills development and workforce needs in Timor-Leste, including approaches that take a long-term, systematic approach to PSD. The importance of this was noted in the Workforce Development Review, which found that *workforce development initiatives in countries with a comparable context show there are clear benefits to taking the long view on workforce development and engaging in considered adaptation in response to changing circumstances and new understandings.*³⁵

Finding: Australia's overall portfolio of investments in Timor-Leste is addressing skills shortages that currently reduce opportunities for PSD in both urban and rural areas.

WDPTL is the primary vehicle for workforce development in the Australian development program in Timor-Leste, focusing on technical and vocational education and training (TVET), Australia Awards Scholarships (AAS) and the Seasonal Worker Program (SWP). It also supports the Secretariat for Vocational Training and Employment, the National Directorate of Labour Market Information and the National Institute for Labour Force Development to strengthen their capacity and their evidence base for planning.

Finding: While the three streams of WDPTL operations (scholarships, TVET and the SWP) provide important skills development opportunities they do not cover all needs in the private sector. The private sector seeks training targeted to known shortages.

GfD has worked closely with key ministries to support government officials' capacity to lead economic policy and deliver services. Long-term placement of senior GfD advisors in key ministries has allowed mentoring and sustained support for their broader reform agendas. GfD has also employed national advisors, based on their intimate understanding of context, to support capacity development. It is common for short-term national junior advisors to be mentored by more senior GfD advisors and then moved onto the government payroll.

More generally, workforce and skills development occur across all Australian investments in Timor-Leste, including specific PSD-enabling skills development such as:

- Improving management skills to support improved government service delivery (GfD)
- improving technical capacity within targeted agricultural value chains to achieve greater productivity as a precursor to stronger market engagement (TOMAK and MDF)
- increasing the capacity of aggregators to pioneer and strengthen more dynamic agricultural value chains (MDF). See Case Study - *Enabling more dynamic and growth-focused agriculture*
- strengthening local road building contractors' capacity to comply with complex procurement processes (R4D-SP)
- hospitality worker training to reduce constraints on tourism potential and reliance on foreign workers (WDPTL).

35 M&E House, *Timor-Leste Workforce Development Strategic Review*, 2018

5.3 Effectiveness of current approaches

Finding: Australia's approach to skills development in Timor-Leste is multifaceted and addresses many workforce needs and skills shortages, including shortages that directly reduce opportunities for PSD and the speed at which PSD can occur.

While Australia has invested in TVET through WDPTL, there was widespread agreement among interviewees on the need for higher-quality TVET that responds to careful analysis of domestic and international labour market needs. This was particularly strongly stated by owners of foreign hospitality-related business, who had little confidence in the skills being developed through the current TVET system.

While not conceived specifically as a private sector enabling program, the AAS is important because its alumni often return to senior positions in government and are capable of influencing policy. It is also common for alumni to be active in the private sector and be strong advocates for PSD in Timor-Leste.

Finding: The SWP is important in exposing young Timorese people to new business approaches, and helps to raise capital that could be used to start a business.

The GoTL and the Timorese people regard the SWP as a valuable scheme, giving younger Timorese men and women exposure to Australian work practices in the key sectors of agriculture and tourism/hospitality. Interviewees consider that SWP participants could be helped to maximise the benefit they gain from the experience, both before departure and on return. This is reflected in a recommendation of the Workforce Development Review that is endorsed by this review:

Recommendation 7: 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.³⁵

Finding: There is a need to strengthen the capacity of the middle levels of Timor-Leste's bureaucracy to implement reforms in a way that enables the private sector.

Middle levels of the public service have large skills gaps, which hinder transition of policy into action that supports PSD. Closing this gap requires a strategy for development of leadership and management skills that will enable better policy rollout.

Recommendation 8: 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.

The low literacy and numeracy of people living in rural areas - especially those practising subsistence agriculture - pose a major challenge for PSD. Even if farmers have been supported to improve productivity and engage in markets, poor numeracy and literacy can limit the impact of those benefits.³⁶

³⁵ M&E House, *Timor-Leste Workforce Development Strategic Review*, 2018

³⁶ Interviews with TOMAK and MDF employees

Finding: Skills development in rural areas is hindered by low literacy and numeracy. These skills gaps make it hard to encourage subsistence farmers to engage in markets.

During a visit to a farming household, the review team saw that farming techniques had advanced with TOMAK support. However, the team's questions showed that the farmer was unable to easily quantify his production, had poor understanding of prices, and left marketing to a middleman who bought his produce at the farm gate.³⁷

Recommendation 9: Capacity-building approaches in rural areas must continue to reflect the complex needs of Timor-Leste's developing agricultural marketplace, and DFAT must accept that progress will be slow.

5.4 Supporting women's economic empowerment and inclusion

Women's participation in the Timorese economy and private sector is constrained by a variety of factors including cultural stereotypes, household chores, lack of decision-making power, poor access to resources, and poor infrastructure.³⁸ These problems explain the low number of women who are formally employed in the economy, their low wages compared to men, insecure employment, and poor access to information.³⁸

Australian investments encourage greater participation and empower women through a range of approaches. Women's AAS participation is nearly 50 per cent, Timor-Leste has the highest rate of women's participation of any SWP, and hospitality sector training mostly benefits women.

At the farm level, TOMAK organises field exchanges to develop capacity and promote best practice in women's producer groups, enabling them to advocate for more support and participate in and benefit from MAF planning. This has produced better access to MAF funding, and influenced thinking on support for female extension workers.³⁹

Increasing women's voice and understanding of production systems are vital initial steps in helping agriculture-reliant households to engage in markets. TOMAK has committed heavily to research that raises understanding of gender issues and the challenges women face in the agricultural marketplace. This has allowed more targeted strategies, such as farmer field schools, that enable female farmers to undertake training and participate in nutrition campaigns.⁴⁰

37 Interview with farmer in Garawai village, Baucau

38 State Secretary for Support and Promotion of the Private Sector, *National Strategy and Action Plan for Gender and Private Sector*, 2013

39 *Timor-Leste Country Program Performance Assessment Framework*, 2017

40 Alkter et al., *Gender Crop Production in Timor-Leste*, ACIAR, 2016

6. Market systems and business development

6.1 Relevance to PSD

Timor-Leste's private sector is in an early stage of development and is heavily dependent on demand driven by government spending. An over-valued real exchange rate reduces competitiveness with other regional economies,⁴¹ as do high production costs, especially within the main agricultural commodity of rice. A comparatively high minimum wage also reduces the competitiveness of businesses.

Businesses struggle due to poor infrastructure that restricts market access, increases transport costs and reduce market engagement in rural areas. Skills shortages and poor education also undermine business development, as evidenced by heavy reliance on foreign workers in many core aspects of PSD. In rural areas, low literacy and numeracy reduce options for business development. Agricultural value chains are still very under-developed, with many links either inadequate or missing.

Finding: Decision-making in relation to Australian investments and private sector development must respond to the basic challenges of Timor-Leste's embryonic private sector and its lack of regional competitiveness.

6.2 Current approaches of investment partners

Focused, well researched support at business-level is a highly relevant entry point approach to PSD in Timor-Leste. Research within different investments has been critical in building an evidence base and foundation for PSD-related programming across target sectors, particularly agriculture. This is particularly the case in terms of supporting agricultural producers towards the market place, given that 80 per cent of Timorese households have traditionally been subsistence producers.

Finding: Australian efforts to strengthen the Timorese private sector are informed by research aimed at understanding market systems, identifying demand and guiding business strategy, including assessing labour needs and examining ways to increase women's contribution to PSD.

MDF research has helped identify best bets for market systems development in Timor-Leste. It also informed a decision to pull back from the construction sector, which was initially assessed as having potential. This evidence base guides MDF's approach to PSD in Timor-Leste, which has three elements:

- **Agribusiness** - promoting trade and links between producers and markets, based on supporting growth in yields, development of new products and improved marketing.⁴²
- **Manufacturing** - having identified potential in the garment sector, MDF is supporting business models which enable local manufacturing and create jobs.

41 ADB, *Timor-Leste: Country Partnership Strategy, 2016-20*, 2016

42 MDF, *Kick-starting inclusive growth: Timor-Leste's transition to a post conflict, post oil economy*, 2017

- **Tourism** - despite low competitiveness in the regional economy, MDF targets opportunities in handicrafts, cruise tourism and adventure/dive tourism.

Finding: While it is difficult for Timorese agriculture to compete regionally, agriculture remains central to the livelihoods of most households. Australian investments reflect this fact, tailoring their strategies to the youthful nature of the rural private sector.

In 2017, MDF released *Kick-starting inclusive growth: Timor-Leste's transition to a post-conflict, post-oil economy* as a resource to guide future programming.⁴⁴ This report highlights the need for additional resources, time and flexibility to support inclusive growth in a young economy, especially one so heavily dependent on aid and government resourcing. It also notes the importance of partnerships based on clear agreements that outline the roles and commitments of all parties.

TOMAK's approaches are also informed by extensive research, including detailed investigation of the potential of market systems and value chains. These studies involved an initial scan of selected agricultural products in the TOMAK target area, leading to a list of products and value chains with market potential.⁴³ This was followed by an assessment of farm-level aspects of high-priority crop and livestock production systems,⁴⁴ which allowed for promising value chains to undergo more detailed analysis to fully understand market potential and ways to improve farm productivity.⁴⁵

This research was augmented by studies of the role of aggregators in marketing, of gender and options for inclusion, and of nutritional disadvantage and opportunities.⁴⁶ These studies gave TOMAK insight into the factors affecting farmers' decisions about whether, how and when to engage markets. They also justify their target commodities of ground nuts, mung beans, red rice and shallots.

Other Australian investments have produced research that identifies private sector opportunities and needs. These include workforce and labour needs studies undertaken through WDPTL, and PNDS-SP's studies related to local economic impacts of PNDS infrastructure.

While individual investment programs are targeting key elements relevant to PSD and market systems, there are further opportunities for enhanced linkages and complementarity between investments to further strengthen the contribution of the Australian development program to PSD.

Finding: The Australian program portfolio has good coverage across the private sector landscape, which in theory presents opportunities for linkages, synergies and complementarity between different investments and lays a firm foundation for ongoing PSD-related work.

While DFAT and investment partners acknowledge progress in shifting from a siloed approach to a more programmatic Australian approach with stronger collaboration between investments, they also see potential for this shift to go further.

43 TOMAK, *Market analysis of selected agricultural products: technical report 1*, 2016

44 TOMAK, *Potential for improving on-farm productivity of selected agricultural and livestock enterprises: technical report 2*, 2016

45 TOMAK, *Market system & value chains assessment: technical report 3*, 2016

46 TOMAK, *Gender equality and social inclusion analysis: technical report 8*, 2016

Recommendation 10: 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) or through strategic alliances (e.g. GfD and WDPTL collaborating on civil service capacity development).

Given Australian investments are strategically placed across the private sector landscape, they are well placed to identify opportunities and provide mentoring to initiatives that they rate as having good potential to succeed. Success stories are particularly important in a young private sector, since they provide models for other businesses to follow.

Recommendation 11: Consider establishing an Embassy-driven mechanism for supporting business start-up opportunities (through grants and TA), in order to help pioneer and promote new approaches in key sectors.

6.3 Effectiveness of current approaches

The Australian development program's approach to business development has included identifying, supporting and role modelling business opportunities across sectors, as well as addressing constraints.

At a day-to-day level, Timorese businesses acknowledge benefits to their business from the activities undertaken through Australian investments, including:

- better rural infrastructure allowing easier access to markets (R4D-SP)
- strengthened links within value chains (TOMAK and MDF)
- better links between producers and end markets (TOMAK and MDF)
- higher agricultural productivity that creates new opportunities along value chains (TOMAK)
- a more skilled workforce, reducing demand for foreign workers (WDPTL).

Finding: Australian approaches to market systems and business development reflect a sound understanding of the complex challenges the Timor-Leste private sector faces. Its evidence base allows for tailored responses to the constraints of weak value chains, productivity and low regional competitiveness.

Within R4D-SP, specific procurement approaches ensure Timorese businesses lead on rural road construction, including a process for registration and capacity development of local contractors. Procurement processes also require use of local materials and labour.

Synergies and collaboration between investments can be seen in MDF and TOMAK, with each working to their strengths in supporting agricultural market systems approaches. TOMAK is working with farmers to increase production and market engagement, while linking farmers to MDF-supported aggregators, who offer new ways of engaging the marketplace and strengthening value chains.

Recommendation 12: MDF and TOMAK should strengthen their collaboration to make the most of opportunities in commodity value chains (e.g. bridging production, value adding, processing and marketing).

Improving village infrastructure seems effective in enhancing private sector participation, particularly for women. PNDS-SP reports that improving communities' access to clean water has enabled women to use the time saved to establish kiosks, engage in agricultural markets and establish micro-businesses, such as selling pastries.⁴⁷ R4D-SP and TOMAK report observing a similar dynamic along improved rural roads, with more people travelling to market and opening kiosks (mostly women-run). TOMAK also reports women valuing road and infrastructure upgrades because they reduce personal safety concerns related to visiting markets.

Finding: Women's private sector participation and empowerment are supported through R4D-SP and PNDS-SP; better rural roads and village-level water infrastructure save time, allowing women to engage in markets more productively.

Recommendation 13: Anecdotally, 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.

All Australian investments contribute in some form to advancing the agricultural sector, upon which 80 per cent of Timor-Leste households depend. Australian investments respond to opportunities and challenges for actors in many agricultural value chains. They support improved and expanded agricultural market systems, such as strengthened market understanding and engagement, increased production, better nutritional outcomes, and rural infrastructure that improves access to agricultural markets.

Finding: Australian-supported activities in rural areas (including those related to improvements in agricultural production, empowerment of women, rural infrastructure and nutrition) help create foundations for greater market engagement amongst the rural poor.

6.4 Supporting women's economic empowerment and inclusion

Women's economic empowerment

Effective economic empowerment of women requires investments to acknowledge and work from the current baseline of women's private sector participation and capacity. In addition, long-term strategy is needed to reduce major gaps and constraints.

Finding: Low private sector activity in Timor-Leste means Australian investments must be realistic and strategic in promoting women's participation and economic empowerment.

Research across Australian investments has produced evidence to guide strategy, programming and advocacy for women's private sector participation.

47 PNDS, *The economic impacts of PNDS infrastructure projects*, 2016

Notable results across Australian investments (drawn from the 2017 Performance Assessment Framework) include that in 2017:

- 61 per cent of people with increased income were women
- 43 per cent of people with work-ready skills were women
- 38 per cent of people participating in PNDS priority settings were women
- More women were being elected to suco council positions
- Women's leadership and voice in agriculture, nutrition and market sectors has been strengthened.

Despite widespread interest in supporting rural women in the private sector, there are still few business development opportunities specifically for women in rural areas, even though some finance is available from credit unions, farmer saving and loan groups, and wealthy individuals.⁴⁸

Finding: While isolated examples exist across investments of women being economically empowered in the private sector, the Australian program's greatest contribution has been work that will support women's participation in the future.

MDF has also worked to identify ways to create jobs for women and increase women's income in urban and rural areas. The handicrafts cooperative *Boneca de Atauro* has been strengthened, with MDF support, from a small cooperative into an independent business, through support to better understand market opportunities and link to other MDF-supported activities, such as cruise tourism.

Australian investments also work to mobilise men in support of increased women's participation and/or as advocates against violence, and to support them to more clearly recognise the benefits of women's economic empowerment. Efforts to enlist men as advocates for gender change include:

- GfD's support for GRB, which is being implemented with the Office of the Prime Minister
- TOMAK's farmer field school approach, which recognises that rural women are the 'purse holders' and more skilled than men in day-to-day decisions about food and education purchases
- R4D-SP work at community level includes raising awareness of the benefits of both men and women participating in (and benefiting from) road construction
- PNDS-SP aims to build community-wide support for women participating in decision-making at suco (village) level, which is advancing female-friendly (notably water-related) infrastructure
- WDPTL-initiated surveys highlight men's greater appreciation of women's capacity after participation in the SWP and vocational training.

Finding: WDPTL and PNDS-SP surveys show that women's participation in their activities improve men's perceptions of women's capacity to contribute in new and different ways. This opens the door for greater inclusion of women in PSD activities.

⁴⁸ State Secretary for Support and Promotion of the Private Sector, *National Strategy and Action Plan for Gender and Private Sector 2014–2017*, 2013

Importantly, all Australian programs raise awareness of the need to reduce violence against women, which continues to be a major problem in Timor-Leste.

Support for youth inclusion

Timor-Leste is the second most youthful country in the Asia-Pacific region (second only to Afghanistan), with 73 per cent of its population aged under 35. Cultural norms mean that women are only half as likely as men to be in paid work. While youth tend to be better educated than their parents, national youth unemployment is close to 30 per cent. It is also common for youth to reject a future in agriculture and move to cities.⁴⁹

Literacy and numeracy issues are holding back the agricultural economy; better-educated youth could help subsistence farming households to engage in markets.

Recommendation 14: 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.

Support for disability inclusion

While all Australian investments recognise the importance of disability inclusion, no strategies have yet been developed to support greater participation of disabled people in the private sector.

Finding: While Australian efforts to address disability inclusion within policy are significant, there is only very limited strategy in place within different Australian investments (with the exception of WDPTL) to facilitate inclusion of people living with disability in PSD approaches.

While Australia's Partnership for Human Development works to make disability part of its programming, this does not include ways to involve people living with disability in PSD.

Finding: All Australian investments report that facilitating disability inclusion in PSD is challenging and resource intensive.

Recommendation 15: 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.

49 UNDP, *Timor-Leste Human Development Report*, 2018

Case Study 2: Enabling more dynamic, growth focused agriculture

Background

Timor-Leste depends on agricultural production for economic growth. However, the country faces challenges in expanding production. Challenges related to marketing agricultural produce reduce farmers' incentive to expand production or improve the quality of production. This, in turn, reduces agribusinesses' incentive to invest in supply chains, to add value and produce higher-quality consumer goods. These problems explain low rice yields and farmers' reluctance to move beyond subsistence farming to better organised, more intensive farming practices.

MDF support to Acelda

Acelda is a local agribusiness based in Baucau. From 2004, Acelda began to specialise in sourcing and processing candlenuts into oil, which it exported to international markets. They also sourced and traded other products such as local rice. In 2013, Acelda and MDF started to explore whether Acelda's product range could be broadened to include local products for national markets. Acelda's owner, Higino da Costa Freitas, was motivated to improve market access for rice farmers in Timor-Leste's major rice-producing regions.

The partnership between Acelda and MDF began in 2014, designed to improve the processing and marketing of local rice. They aimed to increase farmers' access to reliable and markets as a means for strengthening the rice value chain. This was expected to motivate farmers to increase their production and earn extra income.

MDF's approach

MDF wanted to find ways to make agriculture more dynamic and focused on growth. MDF's support to Acelda includes:

- Introducing a modern rice milling facility for processing, packaging and storing local rice, to compete with high-quality imported rice
- Designing and implementing an effective marketing campaign - including logo design, packaging support, nutritional information, and a brand launch event
- Coordinating with TOMAK to support further productivity improvements.

Results

The partnership between MDF and Acelda has had many positive results, including:

- Productivity increases and improved processing capacity
- Farmers having the option to purchase threshing and rice milling machines from Acelda through a farmer-friendly payment instalment method
- Acelda becoming able to purchase rice from farmers across Timor-Leste (300 tons in 2018)
- Farmers have increased the area under cultivation due to new technologies and more reliable, safe market offered for producers
- Farmers have higher incomes enabling home renovation, investment in children's education and payment for cultural obligations
- Women face fewer safety threats and save time and cost because they have an assured buyer and do not have to take produce to local markets.

Conclusion

Through targeted, strategic support to a key existing enterprise within the rice value chain, MDF has improved the competitiveness of rice producers and other actors. Impact is best measured at farm level: Acelda's farmers increased their average area of land used for rice farming by 30 percent between 2013 and 2018, reduced the amount of the harvest consumed at home from 65 per cent to 45 per cent, and increased the proportion of the harvest sold to 39 per cent.

Lessons

- Supporting local farms to strengthen value chains can lead to business development in Timor-Leste.
- Strengthened value chains contribute to job creation and income generation for rural producers, suppliers and aggregators.
- New production approaches provide working examples of different ways of doing business.

7. Summary findings and recommendations

Findings and recommendations are presented in **Chapters 4-6**. They cover the three main areas of the Australian approach to PSD: the enabling environment, workforce development, and business and market systems development. In this final chapter, summary findings and recommendations are presented against the KRQs and SQs listed in **Chapter 2**.

7.1 Responses to key review questions

(KRQ 3) To what extent does the Australian development program's approach to private sector development in Timor-Leste focus on the most relevant issues for the context?

Reflections on approach, focus and balance

Finding: Australian program coverage is coherent and addresses known constraints to PSD. Support for PSD-friendly governance reforms strengthens the policy landscape. Infrastructure investments support increased mobility and market access. Skills development strengthens private sector capacity at multiple levels. Business (including farm-level) support improves productivity, market awareness and market engagement.

Economic diversification, based on a strengthened private sector, is a key priority for the Government of Timor-Leste. In response, the Australian development program in Timor-Leste has initiated activities that address known constraints to PSD in a coherent and mutually beneficial way. This focus on PSD aligns closely with 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.*⁵⁰

The various elements of the Australian development program in Timor-Leste respond to different challenges and constraints in Timor-Leste's private sector. While there is room to further strengthen links between investments, they already complement each other.

The program engages with many issues relevant to PSD in an integrated way to address Timor-Leste's needs. Australian investments cover much of the private sector, including:

- Supporting policy and legal reform to reduce weaknesses in the business-enabling environment
- Adapting and pioneering innovative market systems approaches to help businesses to flourish and be role models for others
- Supporting agricultural productivity, so subsistence farming households can take part in markets
- Improving market access through rural infrastructure investments

⁵⁰ GoTL, *Timor-Leste Strategic Development Plan 2011–2030*, 2011

- Promoting workforce development through scholarships, vocational training and the SWP
- Addressing key human development dimensions - nutrition, gender, disability, rural disadvantage and the needs of youth.

Adaptability to the changing context

The Australian development program has shown its ability to engage opportunities as they arise in Timor-Leste's complex political environment. Program staff have closely monitored political shifts, linked with and supported people interested in economic reform, and partnered with other initiatives interested in PSD, such as the ADB and IFC, to draw on their expertise.

While adaptability is important in Timor-Leste's private sector, program shifts and decision-making must remain consistent with an overarching strategy for PSD. A challenge inherent to all PSD programming is that almost every intervention can be related to PSD in some way, yet not all will have the same impact. The Australian development program in Timor-Leste must acknowledge that:

- The activities it supports will have varying impacts
- Resource and capacity constraints mean many activities cannot be done immediately
- Strengthening links and synergies can make the program more than the sum of its parts.

It is important that decision-making about Australian support for PSD be guided by a framework for assessing the relevance and likely impact of proposed activities. Therefore, a key recommendation of this review is to develop a PSD strategy that clearly articulates why, where and how Australian investments will support a strengthened private sector.

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.

Following this recommendation should also bring attention to risks posed by:

- Poor allocation of resources (e.g. underspending on governance and system-level interventions relative to activities with more easily identified beneficiaries)
- Selection of sub-optimal activities at a particular level of intervention (e.g. a focus on a particular governance reform with low PSD impact at the expense of reforms with higher possible impacts)
- Failure to achieve linkages and synergies between activities
- Business-enabling reforms not moving beyond policy into practical changes that benefit businesses.

It is also vital that the youthful private sector and Timor-Leste's low competitiveness continue to be considered in the Australian Embassy's approach to PSD. Although it is difficult for Timorese agriculture to compete in the region, agriculture is central to the livelihoods of most households, and some agricultural imports can be replaced with local products. These facts are reflected in the strategies of several Australian investments in supporting the embryonic rural private sector.

(KRQ 1) To what extent has the Australian development program contributed to a stronger and more inclusive private sector in Timor-Leste?

Enabling environment

Australian support has been a key driving force for many business-enabling laws, working to improve both policy and government service delivery for PSD. Australian support has been important for the development of policy frameworks designed to reduce constraints to PSD in Timor-Leste. Much of this policy-level work occurs through GfD, and Embassy staff support it through consultations with high-level GoTL officials. The work consists of research, advisory and technical support to key ministries, preparation of briefing papers, exposure visits for senior officials, strategic partnering with other organisations, and support for other Australian investments.

While some policy and regulatory frameworks have been developed, their implementation can be improved. Some of the business-enabling laws that were supported by GfD passed through parliament are not yet operational, mostly due to inadequate budgeting for policy rollout. In several cases, no implementation guidelines exist. Also, government staff capacity (especially mid-level staff) needs to be strengthened. Political change and budget impasses have also slowed economic and legal reform.

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.**
- **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.**

Supporting business development and strengthening the private sector

While Australia supports broad-based PSD, it also invests heavily in agriculture. TOMAK and the MDF have conducted high-quality research on value chain and market systems for agriculture. MDF's research focused on promoting greater trade and links between producers and markets. It aims to understand how to generate new opportunities through supporting growth in yields, new agricultural products and improved marketing options. TOMAK has developed a strong evidence base to support its value chain interventions, focusing on specific production systems and locations with market potential.

Other Australian investments contribute to improved market engagement in rural areas. R4D-SP's support to rural road improvement has opened market access greatly. Improved roads allow agriculture products to reach the market, which is key for programs such as TOMAK and MDF. Support for improved local governance through the PNDS-SP promotes better decision-making and women's empowerment, while also contributing to improved PSD-relevant community infrastructure such as village roads and water supply.

Recommendations:

- **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).**
- **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.**
- **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.**
- **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.**
- **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.**
- **Anecdotally, 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.**

Addressing skills development and workforce needs of the private sector

Skills shortages hinder Timor-Leste's ability to develop priority economic sectors such as agriculture, tourism and labour services. Australia's approach to skills development and workforce needs in Timor-Leste addresses a wide range of skill gaps, including those that directly affect opportunities for PSD. GfD's efforts to improve the capacity of government officials to create better economic policy are valuable.

While WDPTL focuses specifically on developing the workforce, workforce development occurs across all investments. Efforts include developing the technical capacity of farmers and aggregators, road contractors' procurement skills, training for hospitality workers, and skills in business registration and promoting trade and investment. There is a perspective within the private sector that efforts in workforce development need to more deliberately address known shortages within the private sector.

Recommendation:

- 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.
- 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.

(KRQ 2) To what extent has the Australian development program contributed to women's economic empowerment in Timor-Leste?

Australian investments are realistic and strategic in their efforts to promote women's participation and economic empowerment, which are based on extensive research. Their approaches are well suited to Timor-Leste and address women's participation and economic empowerment in a logical way.

Australia's greatest gender related contribution has been in supporting women's future private sector participation. GfD's support for GRB has been important in encouraging the GoTL to promote women's participation and empowerment. GfD has also worked to improve the capacity of government officials to develop gender-responsive economic policies and promoted the importance of women participating in policy creation.

Other efforts include developing gender-sensitive indicators for use in planning and reporting. TOMAK's support to female agricultural extension workers to perform their tasks more effectively and to be treated equally is increasing women's participation in the private agricultural sector. GfD and TOMAK also collaborate on improving women's access to and participation in marketplaces through better municipal regulations that make 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 markets.

Research has revealed some potential problems of empowerment for women. Involvement in decision-making bodies can increase women's workloads; this is being addressed to some extent through the time savings due to better water and road infrastructure and women-friendly meeting times and locations. Efforts to raise awareness and enlist men's support of women's economic empowerment have also occurred, which aim to reduce any backlash from men and encourage men to help relieve women's workload.

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.

(KRQ 4) In what ways could the Australian Embassy adapt or strengthen its approach to increase its impact on private sector development in Timor-Leste?

Learning from PSD initiatives in comparative contexts

Timor-Leste's is a new nation state - just 17 years old - and its private sector is also very young. This, and the heavy role of the government within the economy, its dependence on oil, and its lack of competitiveness in the region present unusual problems for PSD.

Finding: Timor-Leste presents unique challenges for PSD due to its scale, location, capacity gaps, subsistence farming traditions, post-conflict status, overvalued currency and economic distortions related to oil wealth.

While Timor-Leste tends to look west to Asia when considering its future, lessons about PSD are more likely to come from Pacific island states, given their similar physical isolation and small markets and scale. One such state is Papua New Guinea, which was dependent on subsistence agriculture, but has recently reduced its reliance on natural resources, dealt with a dramatically overvalued currency, faced balance of payments challenges and has now shifted into niche natural resource and agriculture markets and import substitution.

Finding ways to include marginalised groups

The Australian strategy for PSD could more clearly identify ways to increase inclusion of marginalised groups. Women, people living with a disability and youth are all marginalised in Timor-Leste. Many add very poor people living in rural areas as another disenfranchised group, due to low literacy and numeracy in such households. Supporting marginalised groups to participate in the private sector will be costly, particularly in a challenging context such as Timor-Leste. This assessment is underpinned by the following findings of this review:

- only very slow progress can be achieved in capacity development for PSD - especially in rural areas
- the most efficient approach to PSD would be to work with more capable and better resourced cohorts to support them to pioneer new approaches to market engagement.

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.

Strengthening existing links to optimise PSD efforts

The Australian development program covers Timor-Leste's private sector, making it possible for investments to work together efficiently to promote PSD. GoTL and the broader development community see Australian efforts as key to building a community of practice for PSD in Timor-Leste. Some PSD-interested actors commented that while they know Australia is 'supporting a lot of PSD-relevant work', they did not always understand its elements and found it difficult to identify the right person to speak to about specific issues. Interest exists for a PSD working group to meet regularly to discuss and plan for PSD. The Embassy should consider supporting sector leadership through a PSD working group that draws together key GoTL ministries, PSD-interested development partners and private sector bodies.

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 Avansa⁵¹) or through strategic alliances (e.g. GfD and WDPTL collaborating on civil service capacity development).
- 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.

(KRQ 5) In what ways can the Australian Embassy's approach and achievements for PSD in Timor-Leste inform private sector development in other contexts?

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. These include:

- Investments in research have produced a strong evidence base that justifies the Australian program's approaches to PSD. This knowledge is important in a context of such broad-based need, where almost everything can be related to PSD in some way, yet not all investments will have equal impact.
- The Embassy and Australian investments share an understanding of the complex political and implementation environment in Timor-Leste. This has allowed the Australian approach to PSD to be adaptable and responsive to the shifting circumstances that emerge from political change.
- Recognition that extra resources, time and flexibility are needed to support inclusive growth in Timor-Leste's youthful private sector has helped to determine realistic performance measures for investments.
- Workforce development needs are widespread complex and starting off a very low base. Workforce development actors must identify systematic and long-term approaches that support PSD, and capacity-building must be integrated in all investments, not just seen as the domain of WDPTL.
- Approaches in rural areas must address basic problems of literacy and numeracy that prevent subsistence agriculture producers from more effectively engaging in markets.
- Nutritional disadvantage reduces productivity and market engagement, especially in labour-intensive sectors such as agriculture, and is therefore an important factor in PSD.

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

- Better rural infrastructure (water and roads) supports women's private sector participation through time savings; better roads also improve the personal security of women travelling to markets.
- Evidence exists across the Australian program that men participating alongside women in well-structured activities can improve perceptions of women's capacity, including acceptance that women can contribute to PSD in new and different ways.
- There is a need to make careful, informed choices about PSD approaches when working in a heavily aid and government-dependent economy, due to the ability of social transfers and other government subsidies to distort markets.

7.2 Closing remarks

The Australian development program in Timor-Leste has made considerable progress in integrating PSD approaches within its investments. This has been possible because the program's elements complement each other and can work well together in overcoming constraints to economic growth. Another feature of the program is willingness to invest in basic activities that respond to the challenges posed by a weak policy and regulatory environment, skill shortages and workforce gaps, and the youthful private sector.



Annex 1: Australian Embassy in Timor-Leste: Approach to private sector development

GOAL

STRONG PRIVATE SECTOR IN TIMOR-LESTE

HIGHEST CHANGE

Policy and regulatory environment promotes private sector development and investment

Timor-Leste has a skilled and productive labour force

Increased private sector with businesses that are working well

Principles

INTERIM CHANGE

Legal and policy framework enable private sector development

GoTL implements economic policy and law enabling private sector development

Easy to do Business

Businesses and consumers access and use financial private sector development services

More business activity

People are workforce ready

More local products and services available

Good Infrastructure enables business development

Gender inclusion

INTERIM CHANGE

Decision makers have access to and use evidence in economic policy

Government officials who influence the private sector have the necessary skills and knowledge

Business licensing and regulatory framework promote business activity

Financial services are available

Workforce development initiatives develop work ready skills required by the private sector

Businesses more efficient, capable and competitive

More sellers connected to markets

Farmers create demand and produce in response

More Timorese Businesses able to win and deliver infrastructure contracts

Increased access to markets and greater regional integration

Facilitate equal access for marginalized people

INFLUENCE ACTIVITIES

Support government to use evidence to improve economic policy

Support GoTL to develop / implement private sector development / laws

Conduct research & analysis on private sector development issues

Support delivery of more financial services to businesses and consumers in rural areas

Support government to manage seasonal workers

Give scholarships to Timorese students for university studies in Australia

Support government to collect and share labour market information

Support peak bodies to solve market constraints at the sector level

Support and train businesses to increase their business and networking skills

Support product and services development

Connect producers, customers and intermediaries

Support farmers to increase productivity, grow a wide range of food and connect to markets

Support local contractors bid for & deliver community infrastructure

Australian Development Program provides business opportunity for Timorese businesses

Support Australian businesses and link them to local partners

Bilateral policy dialogue on trade and economic issues

Capacity for sustained change

MINOR APPROACH

System, processes and workforce for enabling environment

Market systems development

Creating and promoting business opportunities through development programs and bilateral trade/investment

INVESTMENT

Governance for Development

Workforce Development

Market Development Facility

TOMAK

PNDS

Roads for Development

SECTOR FOCUS

Agriculture

Hospitality

Tourism

Manufacturing

Annex 2: Timor-Leste PSD context map



Annex 3: List of stakeholders interviewed for the review

| STAKEHOLDER GROUP | NAME | POSITION / ROLE |
|--------------------------------|---------------------------|--|
| Government of Australia | | |
| DFAT | Daniel Woods | Counselor Governance & Rural Development |
| | Natalie Mendelsohn | 1 st Secretary - Development (Governance) |
| | Acacio Pinto | Senior Officer Economic Policy and Statistics |
| | Regan Field | 2 nd Secretary Aid Management |
| | Manuel Guimaraes | Senior Officer, Workforce Development |
| | Peter Roberts | Australian Ambassador to Timor-Leste |
| | Harry Hall | 2 nd Secretary - Economics and Trade |
| | Anita Dos Santos Silva | Coordinator - Community Development and Gender |
| | Erin Gleeson | 2 nd Secretary - Gender, Disability and Community Development |
| | Johnathan Gouy | DFAT Director of Development Economics |
| | Julie Delforce | Senior Agriculture Advisor |
| Investment of DFAT | | |
| Work Force Development Program | Anita Delaney | Deputy Team Leader - WDPTL |
| | Julie Kean | Skills Development & Employment Specialist |
| | Eoghan Walsh | Advisor for Sephope from WDPTL |
| PNDS-SP | Fiona Hamilton | Team Leader |
| | Melinda Mousaco | Deputy Team Leader |
| Roads for Development | Bas Athmer | ILO CTA |
| Governance for Development | Liz Garrett | Director - Operations |
| | Guteriano Neves | Economic Development Policy Advisor |
| | Joao Gomes | Economic Planning Advisor |
| | Leonito de Jesus | Economic Advisor |
| | Maria da Silva | Economic Advisor |
| | Johnny Viegas | Governance Advisor |
| | Sam Porter | Former Economic Advisor MECAE |
| | Carly Munnely | Economic Advisor |
| | Pam Sexton | Advisor |
| | Adilsonio da Costa | Environment and Infrastructure Lead |
| | Georgie McArthur | Former Legal Advisor Law Reform Commission |
| | Flora Brytes | Gender Advisor |
| | Emil Domankusic | Technical Aviation Specialist |
| Market Development Facility | Shariful Islam | Country Director |
| | Zannatul Ferdous | Market Development Advisor |
| | Deepa Manichan | Quality and Inclusion Advisor |
| | Paul Keogh | CEO |
| | Maria dos Reis | Senior Business Advisor |
| TOMAK | Issac Ximenes | Regional Director for Baucau and Viqueque Municipalities |
| | Richard Holloway | Team Leader |
| | Jenny Ikelberg | Value Chain Specialist |
| | Inga Mephram | Gender Specialist |
| M&E House | Louise Maher | Team Leader and M&E Specialist |
| GoTL | | |
| Trade Invest | Ezekiel Babo | Investment Promotion |
| | Decio Ribeiro Sarmiento | Export Promotion |
| | Roberto Lai | External Relations and Marketing |
| AACTL | Sabino Henriques | President Civil Aviation |
| SEFOPE | Juliao da Silva | Secretary of Labour |
| Ministry of Public Works | Rui Hernani Freitas | Director de Estradas, Pontes e Controlo Cheias |
| SERVE | Florencio Sanches | Director |
| Ministry of Agriculture | Agustino Eusebio Guterres | Municipal Director of Agriculture |
| | Moise Lobato | Extension Chief Department |
| | Fernando Egidio Amaral | Director of Agro-Commerce |
| IADE | Hernani Viterbo | Director General |

| STAKEHOLDER GROUP | NAME | POSITION / ROLE |
|---|---|---|
| Enterprise | | |
| Owner | Bruce Logan and Kath Petty | Beachside Cafe |
| Owner | Tony Jape | Timor Plaza and Various Businesses in Timor-Leste / Head of the Hotel Association |
| CC Business Solutions | Christine Carberry | CC Business Solutions -Business Owner |
| Farm Pro Fresh | Peter Dougan | Owner |
| Café Agora | Mark Notaras and Alva Lim | Owners |
| Dive, Trek and Camp Timor | Kym Miller | Manager |
| TOMAK Farmer | Clementino Freitas Jaime Sarmento and Jose Do Rego | Farmer from Garawai Farmer from Venilale |
| ACELDA | Gil Soares Cristina Gusmão Higeno Freitas | Farmer Farmer Managing Director |
| Palm Business and Trade Center/ Palm Spring/Palm Beach | Jackson Lay | Owner |
| Konnekto Employment Agency | Tina da Silva Cruz | Managing Director |
| Other Multilateral & Bilateral | | |
| MFAT | Gabrielle Isaacs | MFAT Programming in TL |
| ADB | Joana Custóias | Private Sector Development Specialist |
| USAID | Toby Rowell Hal Carey Flavia da Silva | Agriculture Lead Economic Growth Lead Tourism USAID Lead |
| World Bank | Pedro Martins | Senior Economist |
| IFC | Soneath Hor | Resident Representative |
| Not for Profit & Academic | | |
| Monash University | Brett Inder | Professor |
| Oxfam | Kathy Richards | Oxfam Country Director |
| La'o Hamutuk | Carly Munnelly Pam Sexton Adilsonio da Costa | Economic Advisor Advisor Environment and Infrastructure Lead |

Annex 4: Summary of stakeholder groups interviewed

| INTERVIEWEE COHORT | # OF MEETINGS | # OF PARTICIPANTS |
|--|---------------|-------------------|
| Government of Timor-Leste - national | 8 | 14 |
| Government of Timor-Leste - municipal (Baucau) | 1 | 2 |
| DFAT staff | 5 | 10 |
| DFAT investment partners | 15 | 33 |
| Development partners | 6 | 8 |
| Private sector | | |
| ■ National | 4 | 4 |
| ■ Foreign | 7 | 9 |
| ■ Social enterprise | 1 | 2 |
| NGO | 2 | 4 |
| Farmers | 4 | 8 |
| Academics | 1 | 1 |
| TOTALS | 54 | 95 |

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