

PRIVATE SECTOR DEVELOPMENT

PRIORITIES AND PROPOSED SECTOR INVESTMENT PROGRAM



MINISTRY OF DEVELOPMENT
MINISTRY OF NATURAL RESOURCES, MINERALS AND ENERGY POLICY
MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES
MINISTRY OF PUBLIC WORKS
MINISTRY OF PLANNING AND FINANCE
MINISTRY OF JUSTICE
MINISTRY OF TRANSPORT AND COMMUNICATIONS
MINISTRY OF LABOR AND COMMUNITY REINSERTION
OFFICE OF THE PRIME MINISTER
INSTITUTE FOR BUSINESS PROMOTION
INSTITUTE FOR PROMOTION OF INVESTMENT AND EXPORTS



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PREFACE

This revised version of the Sector Investment Program (SIP) for Private Sector Development has been prepared under the overall direction and guidance of the Ministry of Development in close collaboration with the various other Government Ministries and Agencies that share responsibilities for the development of the private sector, in close collaboration with the Ministry of Planning and Finance.

The document is part of a larger exercise undertaken by the Government of Timor-Leste. SIPs have been prepared for the following sectors:

- A. Basic Service Sectors
 - Education and Training
 - Health Care
 - Social, Civil and Heritage Protection
- B. Production-related Sectors
 - Agriculture, Forestry and Fisheries
 - Natural Resources and Environment
 - Private Sector Development
- C. Basic Infrastructure and Housing Sectors
 - Communications
 - Power
 - Transport
 - Water Supply and Sanitation
 - Housing and Urban Development
- D. Governance-related Sectors
 - Pillars of the State
 - Public Sector Management
 - Local Development
 - Rights, Equality and Justice
 - Security, Peacebuilding and Reconciliation
 - External Relations and Cooperation

Supporting expenditure data and analysis have been provided by the Ministry of Planning and Finance. Unless otherwise specified, these data are drawn from two sources: CFET budget appropriations data have been provided by the Budget Office of the Ministry of Planning and Finance for FY2001/02 onwards. CFET data for FY1999/00 and FY2000/01 are rough estimates based on aggregate data for CFET expenditures included in the National Development Plan. Information about external assistance to Timor-Leste that is included in the reports is obtained from the Registry of External Assistance (REA) database of the Ministry of Planning and Finance. These data have been made available through the generous cooperation of Timor-Leste's Development Partners. Donor data have been supplemented with information provided by individual government agencies that have responsibilities for particular donor-funded projects and programs. The information about these programs includes assistance channeled by donors through international and local NGOs, as well as programs implemented directly by individual

donors. Some data provided by donors are provisional and subject to change as work on individual projects and programs progresses.

The data presented in these reports cover capital and recurrent expenditures and therefore aim to present a total picture of development spending in Timor-Leste. However, as the report indicates, information on these two categories is incomplete in a number of areas. Estimates have been made on the basis of information that is available.

This report reflects policies and programs for this sector as of November 2005.

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AusAid	Australian Agency for International Development
BOT	Build-Operate-Transfer
CBM	Community-based maintenance
CCT	Cooperative Café Timor
CFET	Consolidated Fund for East Timor
CIDA	Canadian International Development Agency
CNRT	Conselho Nacional da Resistencia Timorese (National Council for Timorese Resistance)
CoM	Council of Ministers
EDTL	Electricidade de Timor-Leste
ETTA	Timor Leste Transitional Administration
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
JAM	Joint Assessment Mission
JICA	Japan International Cooperation Agency
JPDA	Joint Petroleum Designated Area
LPU	Land and Property Unit
MD	Ministry of Development
MDGs	Millennium Development Goals
MECYS	Ministry of Education, Culture, Youth and Sports
MoFP	Ministry of Finance and Planning
MoJ	Ministry of Justice
MoPF	Ministry of Planning and Finance
MTCPW	Ministry of Transport, Communications and Public Works
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
OECD	Organization for Economic Cooperation and Development
PER	Public Expenditure Review
PSD	Private Sector Development
RDTL	Republica Democrática de Timor Leste
REA	Registry of External Assistance
SEP II	Second Small Enterprises Project
SIDA	Swedish International Development Agency
SIP	Sector Investment Program
SME	Small and Medium Enterprise
SSLS	Secretary of State of Labor and Solidarity
SSCI	Secretary of State of Commerce and Industry
TA	Technical assistance
TFET	Trust Fund for East Timor
TSP	Transition Support Program
UN	United Nations
UNDP	United Nations Development Program

UNOPS	United Nations Office of Project Services
UNPKF	United Nations Peace Keeping Force
UNTAET	United Nations Transitional Administration for Timor Leste
USAID	United States Agency for International Development
USD	United States Dollars
WFP	World Food Program
WTO	World Tourism Organisation

EXECUTIVE SUMMARY

A popular perception is that government services is the dominant economic activity in Timor-Leste. In fact, the private sector accounts for two-thirds of the Gross domestic Product (GDP) of the country. Even if oil and gas mining is excluded, the private sector accounts for almost 60 percent of non-oil GDP. Equally important is the fact that value added in the non-farm private sector is about 20 percent larger than that of the agriculture sector. Value added in the former is currently estimated at almost \$130 million, compared with a little over \$100 million for agriculture, forestry and fisheries. Moreover, value added by the non-farm private sector is now larger than that of government services. The private sector experienced rapid growth during 2000-2001 under the impetus of donor-funded reconstruction and the build-up of UN personnel. The decline in the UN presence since 2002 has led to contraction in the economy, with adverse effects on the non-agricultural private sector. There has been some contraction in retail services and construction, but in areas such as transportation, growth has continued. The phase down over the past two years of UNMISSET supported activities in has continued to exert downward economic pressures, but economic growth is now recovering.

The Government is very conscious of the importance of a growing economy that is able to generate new employment opportunities. The economy of Timor-Leste is at a critical juncture now. The challenge is twofold. First, although value added in the agriculture sector is now less than that of the non-farm private sector, the former provides employment for three-quarters of the country's labor force at very low levels of productivity. However, agriculture has only limited capacity to create productive new on-farm employment. Most of the output gains in this sector are linked to increasing the very low levels of productivity of the existing labor force. If anything, the agriculture sector can be expected to shed labor.

Second, the growth of the non-farm private sector, which currently employs about 60,000 people, must be accelerated to provide increased employment opportunities for the 15,000 to 20,000 new entrants into the labor force each year. The private sector must increasingly become the primary source of growth in incomes and employment for Timor-Leste. The Government recognizes that a major effort is needed to stimulate private business and investment activity. Part of the solution is related to the further commercialization of agriculture and the production of marketable surpluses for domestic and export markets. Increased agricultural productivity and improved rural livelihoods translate into increased demand for off-farm goods and services. Another part of the solution requires increased private investment that leads to diversification of the economic base. There are important opportunities for business growth and investment in the medium term; these include the construction industry, tourism, and further commercial development of the natural resources of the country. The path toward a stronger private sector also requires that the large investments in the Timor Sea lead to early onshore investments in the non-oil and gas sectors, especially those that involve labor-intensive activities.

The Government has embarked on a major effort to improve the enabling environment for domestic and international private investment in Timor-Leste. It is expected that this achievement will be accomplished over the next four years, thereby laying the foundations for future sustained strong growth led by the private sector. This initiative will be coupled with a more aggressive program, to be undertaken in close collaboration with the domestic and international business community, to attract additional investment to the country. To this end, the Government has adopted a private investment policy and various laws and decree-laws have been passed or are at various stages of drafting or consultation prior to enactment. Chief among the legislation passed which support private sector development are: the Land and Property Law, the Commercial Companies Law, the domestic and external investment laws, the notary decree-law and the

fisheries decree-law. A number of similar key laws and decree-laws are in advanced stage of public consultation, including , the insurance law, the land and property lease decree-laws, the bankruptcy decree-law, among others. Many other key pieces of legislation are anticipated to help buttress private sector development, including association law, chamber of commerce law, export promotion law, environment decree-laws, intellectual property law, competition law, accounting systems decree-law, and social security law, among others. To create an effective private sector framework, these key pieces of legislation need to be adopted, their respective regulations passed, and the responsible entities realigned or set up to administer the type of regulatory system envisioned. Only in this way can the country expect to be able to create productive employment opportunities for new entrants into the labor force and create increased opportunities for productive off-farm employment for the much larger numbers of people currently employed at low levels of productivity in agriculture.

This increased emphasis on the role of the private sector is entirely consistent with past policy pronouncements. The central role of the private sector in national development is enshrined in the Constitution which requires that the economy be based on market principles. The role of private activity as the engine of growth was also underscored in the National Development Plan (NDP), and in the Road Map exercise. More recently, the Government adopted in early 2004 a private investment policy which brings greater focus and clarity to the economic operation leadership role expected of the private sector, both domestic and foreign.

Additionally the Government has been working intensively with Development Partners in providing the necessary capacity building of technical and managerial skills through different projects. The results have been overwhelming in the demand registered and such initiatives are set out to continue for the future.

This SIP then, sets out a detailed program aimed at creating a more conducive environment for the development of the private sector in Timor-Leste. It proposes measures to increase the level of domestic and foreign private investment, thereby creating the conditions for strong and sustained economic growth. The proposed program draws heavily on existing Government priorities as outlined in the NDP, Road Map and Stability Program, as well as the Annual Action Plans of relevant Ministries.

The proposed new programs can be grouped into three broad categories. First is a series of activities aimed specifically at improving the enabling environment for the private sector by addressing current deficiencies in the business environment. These include the following:

- land and property regulatory development;
- business regulatory environment development;
- trade and industrial policy development;
- financial sector policy and institutional development;
- policies for labor and employment generation;
- capacity building for policy-making and business regulation; and
- policy analysis of the economic, including formal and informal, operations.

These initiatives would be complemented by specific programs aimed at promoting domestic business activity and attracting additional foreign direct investment. These programs would give particular attention to the following areas of business activity:

- further development of agri-business, including increased production of specialty crops for export and import replacement;
- development of forestry and fisheries products for domestic and export markets;

- private participation in infrastructure, including perhaps power and water supply;
- development of the onshore hydrocarbon potential and minerals industry;
- development of the tourism potential of the country;
- build capacity of cooperatives, specially related with agriculture production and credit; and
- build on the existing economic sectors fostering demand for local services and products and strengthening and developing supply.

Third, the Government is also proposing a continuation of support for the ongoing microfinance programs that have been supported by various Development Partners. There is a need to build on these successful early interventions and ensure expanded access to microfinance as a complement to other efforts to improve income and employment prospects, especially for rural families. New initiatives will focus on development of credit cooperatives, which is a fast growing sector in promoting credit access to the rural population, as well as the development of the informal sector, where lack of credit generally constitutes a major impediment to development of micro-entrepreneurship initiatives.

For the future, the high price of oil, together with an increasingly good prognosis for oil deposits, provide Timor-Leste with a substantial opportunity. In particular, the opportunity to develop full ownership of a coherent, integrated private sector strategic pathway for the country. The development of such a plan will help Timor-Leste to create enduring jobs quickly.

However, a clear constraint remains inadequate capacity in some areas of the Government to support an ideal level of project activity to accelerate growth of the private sector. Strategies that seek to maximise the prospect of Timorese contractors and small businesses being enabled to win contracts, as a direct result of committed short-term investment by the Government, are important. The most promising areas of opportunity are roads infrastructure and construction opportunities in health and education.

An assessment needs to be made of the feasibility of exploring manganese and marble deposits. Such mining initiatives are likely to be labour intensive and are situated in rural areas of high unemployment. Also, real prospects exist to create jobs through raising the capacity of Timorese engineering contractors in the area of oil-rig and associated supply chain maintenance.

The proposed program calls for total public expenditures of \$29.6 million over the next five years – about the same annual average expenditure as in the past six years. The proposed CFET budget allocations of \$6.5 million would account for one-quarter of the program. The other \$23.1 million needed to implement the proposed program would require donor funding. Of this total, \$8.5 million of support remains to be disbursed from ongoing donor programs. The implementation of the proposed program would require new donor funding in the amount of \$14.6 million over the next five years. Mobilising these resources from the donor community for support of private sector development will be a challenging task. The Government wants to emphasize the important contribution that Development Partners can make in the next few years in helping set the economy on a path of sustained strong growth led by the private sector. A stronger private sector is essential for increased job creation, for improved tax revenues and fiscal capacities and an improved trade balance through reduced imports and increased exports.

I. THE SETTING FOR PRIVATE SECTOR DEVELOPMENT

Evolution of Policies for Private Sector Development

Following Timor-Leste's separation from Indonesia in September 1999, private sector development (PSD) policy was first addressed by the multi-agency Joint Assessment Mission (JAM) of October/November 1999. The JAM addressed several key short-term issues, including restarting the flow of goods and services, transportation, payments system, procurement, currency exchange, claims on deposits in Indonesian banks, micro-credit, taxes and customs. It also provided recommendations for transitional macroeconomic and PSD policies that included the need for clear rules to enable the private sector to restart activity; the crucial importance of financial intermediation, adoption of a tax system that would reduce dependence on border taxes as soon as possible, a sound budget and expenditure process, and decisions on currency and exchange rate mechanisms. The JAM noted that Timor-Leste needed to give close attention to optimizing benefits that would flow from the exploitation of the Timor Gap oil and gas deposits, expedite creation of an efficient and attractive business enabling environment, and improve the productivity of labor, especially in agriculture.

The subsequent UNTAET administration gave priority to several areas. Rates and categories were set for tariffs and excise duties. A sales tax was also imposed, levied at the border. Banking regulations were established, essentially allowing foreign banks to operate in Timor-Leste as branches (rather than subsidiaries or separate entities) and thus subject to the banking and prudential guidelines of their home jurisdiction. UNTAET imposed regulations disallowing Indonesians to own land or carry out land transactions. Interim leasing systems were introduced, allowing what was pre-identified as public sector property to be leased out on a commercial basis to private lessees, thereby providing a source of revenue for the national budget and giving relative certainty of tenure to those tenants. A regulation for business registration was established. Taxes on income, wages and corporate earnings were then introduced. Public sector wage rates were set. Most of these actions were taken during 2000 and the early part of 2001. Early 2001 also saw the adoption of the U.S. dollar as the only official tender.

There was something of a hiatus in PSD-related action by UNTAET as 2001 unfolded. A number of attempts were made to draft laws on important pillars of the business enabling environment. These included attempts to draft a foreign investment law (later to be reworked as a law covering foreign and domestic investment), and a commercial companies law, among others. However, inertia in the production of laws and regulations relating to issues such as bankruptcy, leasing, contracts, land, non-bank financial institutions, cooperatives, NGOs, collateral, loan foreclosure and insurance, and others did not allow much needed progress to be made in the private sector regulatory framework.

During the latter half of 2001 and leading up to independence, the work of UNTAET and the East Timor Transitional Administration (ETTA) focused more on political, constitutional and electoral development, to the exclusion of other aspects of development policy, including private sector development initiatives. However, in the period leading up to Independence, the Government undertook the ambitious and ultimately successful task of producing a report setting out the state of the nation, which served as a precursor for a detailed national planning process, including considerable emphasis on macroeconomic policy settings and PSD. This resulted in the preparation of the five-year National Development Plan for the period extending to 2007, but with a 20-year strategic horizon.

One area in which important progress has been made in the development of legislation and the overall regulatory framework in the past year or so is in the oil and gas sector. Several important pieces of legislation have been passed by Parliament, specifically to regulate oil and gas exploration and production in the Joint Petroleum Designated Area (JPDA) between Timor-Leste and Australia in the Timor Sea. In particular, two laws were passed, one reducing corporate tax from 40 percent to 30 percent and the other providing fiscal stability for the life of the project. While focusing specifically on the JPDA, these laws are expected to have far reaching consequences for more general legislation for the petroleum sector for the whole of Timor-Leste. They have influenced the ongoing work on the petroleum tax law and the petroleum mining code, both of which have been drafted and are currently undergoing consultation among key stakeholders. The impact of the law reducing the corporate tax rate has had an across-the-board fiscal impact by lowering the corporate income tax rate from 40 percent to 30 percent for all of Timor-Leste.

Related to the latter there has been a strong effort of Inter-Ministerial coordination regarding the control of tax obligations by private companies. An integrated system of control has been put in place involving Customs, Tax Office, SECI and Justice, which resulted in higher than expected domestic tax revenues for FY2003/04.

How Significant is the Private Sector?

Macroeconomic setting. After several years of transition, the economy of Timor-Leste remains a mixture of public and private activity with private sector economic activity accounting for about two-thirds of GDP. One of the most significant trends in this period has been the rise in the relative importance of private economic activity. In 2000, agriculture and the non-farm private sector (excluding oil and gas) accounted for about 45 percent of GDP. By 2003 these sectors accounted for 55 percent of GDP. The most recent published national accounts data suggest that these private activities account for about \$212 million of non-oil GDP (Table 1).

The other important point that emerges from the latest national accounts data is that throughout the 2000-2003 periods the value added of the private non-farm sector (again excluding oil and gas) is about 20 percent larger than the agriculture sector. However the agriculture sector employs more than three quarters of the labor force at low levels of productivity.

During the early period of the transition, much of the economic activity in Timor-Leste was driven by donor-funded expenditures on reconstruction and rehabilitation that relied directly or indirectly on private suppliers of goods and services. The level of private activity grew rapidly during the early phase of the transition period, and played an important role in restoring the supply of goods and services. Private business more often than not operated and succeeded despite any meaningful regulatory role carried out by, or policy direction from, the UN administration or Government. As reconstruction slowed in 2002, and UN staff began to leave, the growth of the private sector began to slow down. National accounts data suggest that private non-farm output rose sharply in 2001, declined (in real terms) in 2002 and began to rise again in 2003. The make-up of the non-agricultural private sector has changed rapidly as investors who focused on donor-funded reconstruction business have wound down their activities or shifted to other lines of business. GDP is estimated at about \$400 million in 2004, which means that GDP

per capita in that year was about \$430 based on the provisional estimate from the census that put total population at 924.6 thousand at mid-year.¹

Table 1: Trends in Public and Private Value Added and Investment, 2000-2003
(US\$ millions)

Indicator	Amount				Growth 2000-2003 (% p.a.)	
	2000	2001	2002	2003	Nominal	Real
Non-oil GDP						
Private sector						
Agriculture	81.5	84.7	91.2	97.4	6.1	4.7
Private non-farm	98.2	111.5	110.7	114.7	5.3	2.6
Sub-total	179.7	196.2	201.9	212.1	5.8	3.3
Public sector	136.5	171.7	141.4	123.6	(3.3)	(3.5)
Total	316.2	367.9	343.3	335.7	2.0	0.7
Oil and gas	77.5	44.3	41.5	52.7	(12.1)	(12.5)
Total GDP	393.7	412.2	384.8	388.4	(0.5)	(1.7)
Gross fixed investment	118.8	145.4	118.9	105.0		
Gross fixed investment (% of GDP)						
Private sector	9.5	9.1	5.7	4.4		
Public sector	20.7	26.2	25.2	22.6		
Total	30.2	35.3	30.9	27.0		
Memo item:						
Private sector output (% of GDP)	65.3	58.3	63.3	68.2		

Source: National Statistics Office, January 2005.

Note: Public and private investment are estimated independently from SIP data.

Structure of the Private Sector

The dominance of private agriculture. Although agriculture is the main employer and contributor for private sector non-oil GDP it is characterized by a system of subsistence production. In 2001 there were approximately 140,000 rural households, 57,000 of which were engaged in subsistence farming, producing no saleable surplus, nor generating non-farm income. Approximately 70,000 rural households produced saleable surplus – mainly rice and coffee. Coffee is the main commercial industry within the sector, accounting for almost all of the \$7 million of merchandise exports in 2004. The main market player is “Cooperative Café Timor (CCT)” which is organized under a cooperative system of production “Cooperatives of Organic Coffee”. Timorese organic coffee has reached an important position in world organic coffee market. As the discussion in Chapter IV indicates, there are reasonable prospects for further development of commercial agriculture.

Growth of non-farm business activity. As noted earlier, there are far fewer families engaged in wage employment or business activities the non-farm private sector. As Table 1 indicates, about 34 percent of private production comes from the non-farm sector – mainly from trade, including services related to exports and imports, and construction. With a few exceptions, the sector is mostly made up of informal household activities, and micro and small enterprises. Many enterprises are not registered. Moreover, some registered enterprises may not comply with basic business requirements, including employee contracts and tax payments. To this extent it can be argued that the majority of the economy is informal.² In fact, studies by the UN and ILO suggest

¹ The Overview Report on the SIP exercise contains a more detailed discussion of the results of the census and the demographic forecasts that have been used throughout the SIP exercise.

² There are varying definitions of the informal economy. This report uses the term informal economy to symbolise any form of legal business activity that does not comply with registration requirements, basic

that 50 percent to 70 percent of GDP is produced in the informal economy.³ Data from 1998 estimates that about 86 percent (316,000) of employment was in the informal economy.

Recent data on business license registrations and anecdotal evidence suggest that an increasingly active small business community is emerging in Timor-Leste. At the end of 2004, more than 10,700 licenses had been issued for individually-owned businesses and companies. About one-third of the licenses were for companies.⁴ With support and a favourable business environment, the small business sector can provide employment and income opportunities for significant numbers of people.⁵

Table 2: Issue and Renewal of Business Licenses

Indicator	2000	2001	2002	2003	2004
Licenses issued each year					
Self-owned businesses	3370	1106	768	282	2016
Companies	376	337	696	926	894
Total	3746	1443	1464	1208	2910
Total licenses issued					
Self-owned businesses	3370	4476	5244	5526	7542
Companies	376	713	1409	2335	3229
Total	3746	5189	6653	7861	10771
Licenses requiring renewal					
Self-owned businesses	0	0	3370	5244	5526
Companies	0	0	376	1409	2335
Total	0	0	3746	6653	7861
Licenses renewed					
Self-owned businesses	0	0	95	96	744
Companies	0	0	162	586	918
Total	0	0	257	682	1662
Percent of licenses renewed (%)					
Self-owned businesses	0	0	2.8	1.8	13.5
Companies	0	0	43.1	41.6	39.3
Total	0	0	6.9	10.3	21.1

Source: Department of Trade, SSCI, January 2005.

As Table 2 illustrates clearly, the demand for individually-owned business licenses declined steadily during the 2000-2003 period. There may have been several reasons for the decline, including lack of access to credit. There was a sharp reversal in 2004 when new license issues grew considerably, especially due to an increase in the transport sector where 1,063 individual and 12 corporate licences were issued. Increases in demand for licences were also recorded in the

business employee practices and tax obligations. The SIP does not use the term to refer to illegal activities, such as trade in stolen goods, drug dealing and manufacturing, prostitution, gambling, smuggling and fraud.

³ William J. House, "A Study of the Potential Contribution of the Micro and Small Enterprises (Informal) Sector to the Economic Development of Timor Loro Sa'e". United Nations Development Programme/International Labour Organisation, Project TIM/01/014.

⁴ An individual business costs \$10 for licensing and a company license costs \$100. Licenses issued in 2000 and 2001 were valid for two years, and since 2002 valid for one year.

⁵ The business license registry maintained by the Department of Commerce at the SSCI is an important source of information about the structure and organization of the non-farm private sector. Although the information in the registry requires further development, it is probably the best information repository of the type of economic activity emerging in Timor Leste, and especially in Dili.

retail trade and construction sectors. The growth in 2004 is then explained by the regularisation of an existing transport sector and the remaining growth most likely explained by the increasing amounts of lending at the commercial banks initiated in November 2003 (see discussion below on Implication of Contraction in Public Spending).

Registry information for company licenses suggests that there has been steady growth in this type of business activity. In 2000 and 2001 the number of new company registrations remained in the range of 350 a year, but in 2002 registrations more than doubled, and grew by 33 percent in 2003 to 926, decreasing slightly to 894 in 2004. Also, licence renewal increased sharply in the period 2002-2004 reaching a total of 918 renewals in 2004.

The informal business activity. The second important point that emerges from the data in Table 2 is an indication of the extent of individually owned business activities in the informal sector. At

Table 3: Type & Number of Business Licenses
(As of September 2004)

Business sector	Registrations	
	Number	Percent
Trade		
Wholesale export & import	2588	27.71
Retail trade	2820	30.19
Sub-total	5408	57.90
Construction	1345	14.40
Hotels, restaurants, bars	432	4.62
Tourism	35	0.37
Other services		
Land transport	1200	12.85
Shipping	42	0.45
Business services	178	1.91
Consulting	68	0.73
Information technology	60	0.64
Miscellaneous services	127	1.36
Sub-total	1675	17.93
Industry & manufacturing		
Industry	80	0.86
Manufacturing	61	0.65
Furniture	56	0.60
Workshops	94	1.01
Sub-total	291	3.12
Rural industries		
Agriculture	56	0.60
Livestock	60	0.64
Forestry	1	0.01
Fisheries	38	0.41
Sub-total	155	1.66
Total	9341	100

Source: Department of Trade, SSCI.

end 2004, some 5,500 individually-owned businesses were required to renew their licenses, but in fact only about 744 had done so. At the end of 2004 only 37 percent of issued licenses for individual business were legally valid (only 3 percent of required renewals were completed in 2002, 2 percent in 2003 and 12 percent in 2004). In the case of companies, about 56 percent of issued licenses were legally valid at end 2004 (about 43 percent of required renewals were done in 2002, 42 percent in 2003 and 39 percent in 2004). The number of legally licensed operating businesses in operation in 2004 was 4,572 – 2,760 individual business and 1,812 companies. Although these data represents a significant improvement from 2003, it indicates that approximately 6,200 individual businesses and companies had not reregistered at end 2004, meaning that only 42 percent of issued licences at end of 2004 were legally valid.

There are no reliable data on the number of licensed individual entrepreneurs and companies that have gone out of business, but anecdotal evidence and data for 2004 suggest there is a significant amount of informal business activity, especially in Dili and other main towns. Some 1,662 entrepreneurs renewed their licenses in 2004: a) about one third of them by individual entrepreneurs in the first quarter presumably to qualify for access to bank credits; b) almost 920 corporate evenly spread throughout the year on an average of 77 per month (standard deviation of 27) and; c) the remaining individual spread through the 2nd, 3rd and 4th trimesters. Although much needs to be done to improve the accuracy of the Registry, these numbers suggest the emergence of a potentially important private business sector, some of which is formally recognised and some of which remains informal. To the above must be added a much larger number of micro-enterprises that are beginning to emerge in Timor-Leste with support from microfinance institutions. There is reason for optimism that the foundations are being laid for the development of a small business sector that can help drive growth in the economy.

The composition of small business activity. There has been a clear evolution in the amount and range of small business activity over the past three years. The Registry provides valuable insights into the types of business activity that are emerging in Timor-Leste. Table 3 provides a classification of business registrations by sector as of September 2004. Several important insights emerge:

- Service industries are the dominant form of business activity, accounting for 75 percent of total registrations. Trading activities account for 58 percent of total registrations. Businesses in the trade sector, either licensed or not, include retail shops and kiosks, wholesale traders of imported and exported goods and agricultural-related products from rural Timor, traders in the municipal market places, itinerant hawkers and street vendors. The presence of a substantial international community in the early years of transition led to the emergence of hotels, restaurant and bars. The growth of service industries catering to the large expatriate community has slackened as that community has been downsized, but new opportunities have emerged in import and export trade and in the supply of services under Government contracts. Among transportation the main business are taxis, mini-buses and heavy goods trucks. Miscellaneous services (with less than 35 registries) are extensive, although in very low numbers. They include medical services, fuel stations, aviation, banking, stationery, real estate, and supermarkets.
- Construction activities are the next most important form of business and are the most established production activity after the coffee industry, following the existing demand for reconstruction. The emergence of the construction industry illustrates the way in which the non-farm private sector has been changing in response to changing demand. There are now more than 100 local businesses that are qualified for contracting work in Timor-Leste, a number of whom are qualified for contracts in excess of \$500,000 and some qualified for contracts in excess of \$1 million.
- Production-related activities in industry and agriculture are very limited, accounting for less than 10 percent of the registrations. A survey in 2001 found that the main industries were: furniture making, vehicle repair, tais weaving, tailoring, bakeries, concrete blocks, handicrafts, photo studios, ironsmith, salt-making, coffee grinding and rice milling.⁶ At that time only three percent of surveyed businesses were licensed. The weak development of production-related activities in agriculture, forestry, fisheries, manufacturing and mining is not simply a reflection of weak demand. It is also influenced by the lack of skills, financing and knowledge about these forms of business, some of which require specific know how and substantial initial capital.
- Finally during 2004 the main changes in registrations occur in retail trade, construction and transports reflecting an expected slow down of economic activity with the downsizing of international presence.

The business license Registry also provides insights into other aspects of the small business community that are relevant for policy making. These include the geographic distribution of business activities and business ownership.

- Dili accounts for more than 80 percent of registrations, with the remaining more or less evenly spread through the other districts. The lack of registration units outside Dili is not entirely surprising. Much of the demand for business services is

⁶ Vicente, Queipo (2001), "Survey of Small and Medium Industries in East Timor". Division of Industry, Mineral Resources and Tourism, UNTAET. The sample group comprised 337 establishments, 46 percent of whom were located in Dili, with the rest scattered over the remaining 12 districts.

concentrated in and around Dili, and a business presence in the capital facilitates access to information, credit and other services needed for the conduct of business. But the high concentration in Dili does raise a question about additional measures that can be adopted to promote development of business in other parts of the country. Provisional data suggests that new registrations of business in 2004 were almost exclusively in Dili.

- The majority of small businesses are owned by Timorese. According to the Registry, 80 percent of the licenses issued were to Timorese. Ownership of other businesses is spread among 34 nationalities: including Australian nationals with six percent, Indonesian, six percent, Singaporean, three percent and Malaysia, Portuguese and Chinese each with one percent. No information is available of the size of investment by various groups.

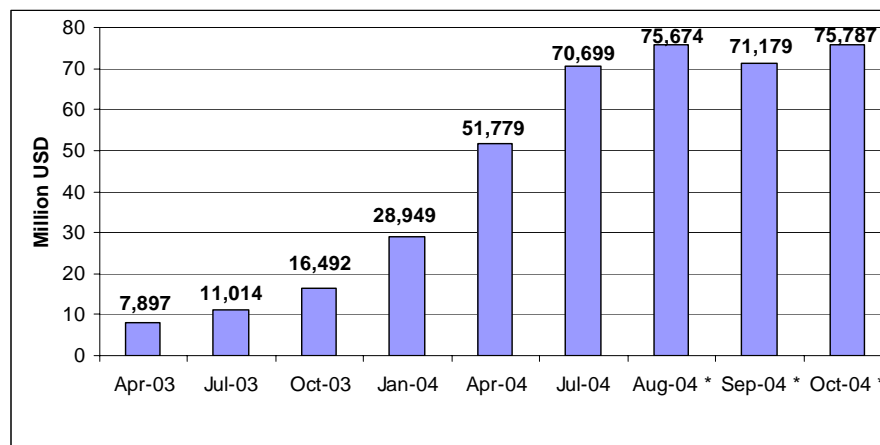
This trend is common among developing nations. According to the World Development Report 2005 about 80% of investment in developing countries is domestic and a large part of the economy happens in the informal sector. Furthermore evidence from other countries also suggests that only strong measures for decentralization can avoid the concentration in the main cities of economic development.

Implications of Contraction in Public Spending

Fixed capital investment in Timor-Leste rose sharply to a peak of \$145 million in 2001, equivalent to about 35 percent of GDP – a very impressive level by any standard (Table 1). This surge in investment spending was driven by donor funded reconstruction and rehabilitation of assets that were damaged or destroyed in 1999 as well as private investment, especially in service-related industries. Since the peak of 2001, there has been a steady decline in investment spending as the most urgent rehabilitation needs in the public sector were met and private investment scaled back with the departure of UN personnel. Total fixed investment had declined to about \$105 million in 2003 and is estimated at \$95 million in 2004, equivalent to about 24 percent of GDP. There are no reliable data on the current stocks and flows of private investment in Timor-Leste. Timor Telecom has spent about \$12 million in developing the national telecommunications network that became operational in December 2003.⁷ Inflows of FDI into other areas have slowed appreciably because of the downturn in the economy.

⁷ See the Communications SIP for further discussion of the telecommunications program.

Chart 1: Outstanding Credit of Commercial Banks to Private Enterprises



Source: Bank and Payments Authority of Timor-Leste, Economic Bulletin

However, there have been very encouraging developments in the supply of domestic credit in the past year. As Chart 1 above indicates, the credit of commercial banks to private and enterprises has increased considerably since June 2004 due mainly to a change in credit policy by one of the operators.⁸ Since June 2003, credit outstanding has jumped from \$9 million to \$75 million at end October 2004. According to BPA data, the main credit sectors as of June 2004 were construction, trade and finance, and to a less extent industry, transport and communication. This pattern is entirely consistent with the earlier mentioned strong growth of domestic construction driven by government contracts and by the housing market. No doubt, some of the expansion has also been associated with increased demand for working capital in the trade sector, given its importance in private business activity. Loan performance has been high with a non-performing loans being only one to two percent. At the same time, the lending rate has declined by about 300 basis points with prime clients now able to borrow at 11-12 percent. The Government hopes that the banking system will continue to strengthen and will be able to lower lending rates further as business conditions improve further and credit risk continues to moderate.

The Government welcomes the decisions of the banking sector to be more aggressive in supporting the needs of domestic business for working capital and investment. The change in lending policy has been an important step forward in ensuring that domestic savings of the country are intermediated to those in the economy who can make effective use of the funds. The surge in lending was supported by a substantial rise in the deposit base of the banking system. From June 2003 to June 2004 deposits (for individuals and companies) rose from \$58.5 million to \$84.7 million, compared with an increase of about \$7 million in the previous fiscal year. As a result the deposit/loan ratio has declined from 6.7 in June 2003 to 1.1 by the latter part of last year. A matter of continuing interest to the Government is the fact that Timor-Leste continues to be a net creditor of the rest of the world, with the total net assets of the banking system increasing from about \$100 million in June 2003 to \$122 million in June 2004. As domestic lending

⁸ BPA numbers account for the three commercial banks operating in Timor-Leste: BNU, Bank Mandiri, the ANZ bank and the Microfinance Institute of Timor-Leste (MFITL). These data do not include the activities of a number of microfinance agencies set up by donors, so it is possible that the increase in credit outstanding may have been somewhat larger than suggested by Chart 1.

conditions improve further, the Government hopes to see a larger share of domestic savings recycled back into the economy in support of business activity and to meet consumer credit needs.

There is no information available on the allocation of the increased credit between working capital and investment. By way of illustration, if 10-20 percent of the increase had been allocated to investment during the January through October 2004 period, this would have added some \$5-10 million to private investment spending in that period. As noted above, total fixed capital outlays are estimated at about \$95 million in 2004, with private investment in the range of \$10 million, compared with the peak level of almost \$40 million in 2001. Private investment has thus declined from almost 10 percent of GDP in 2001 to an estimated three percent of GDP last year. As the later discussion indicates, a major challenge is to introduce policies and programs that will improve the climate for private investment and lift private investment levels to substantially higher levels in support of strong economic growth and improved opportunities for job creation.

II. GOALS AND OBJECTIVES FOR THE PRIVATE SECTOR

Vision and Goals for the Private Sector

For the reasons outlined in the previous chapter, the Government attaches a high priority to an expanded role for the private sector. Indeed, the NDP recognizes that a strong and vibrant private sector is essential for sustained strong growth in incomes and employment in Timor-Leste. In addition to job creation, it will underpin the tax base, diversify revenue sources, create new opportunities, and contribute to human development and outreach to the rest of the world. According to the Plan, the vision for the private sector is an “...*economy that is stable, and that enables a society to be just and prosperous.*”

Strategies for Private Sector Development

The overall objectives. The Plan recognizes that a vibrant private sector requires a healthy and supportive environment for investment that will bring a range of benefits, including a more diversified economy, a greater ability of Timor-Leste to compete with the rest of the world, increased earnings from an inflow of international tourists, and increased commodity exports.

Since Independence the Government has repeatedly expressed its commitment to economic growth through a market-oriented approach, and is generally receptive to supportive ideas and assistance. There is an expectation that Timor Sea investment and subsequent revenues will provide the basis for a more viable economy. There has been a strong focus on ensuring that investment in the Timor Sea produces maximum benefits for the country, for both current and future generations. However, the Government is equally conscious of the risks of excessive reliance on Timor Sea revenues that do not necessarily translate into strong GDP growth and creation of jobs. There is a clear need to diversify the economic base of the country and its export potential.

In pursuing such objectives the Government has adopted the following guiding principles for Private Sector Development:

- A coherent and combined social and economic development strategy for the country that includes human development and employment creation;
- An integrated and holistic approach that includes the contributions of PSD to peace and stability, human resource development, environmentally sustainable

development, functional infrastructure, good governance and democratic development;

- Contributions of PSD to the alleviation of poverty, considering the typical markets in which the poor are directly involved (agriculture and informal economy);
- Establishment of the enabling environment to foster competitive markets, for domestic and international investment, including effective property rights;
- Promotion of entrepreneurship as a source of innovation and change;
- An emphasis on decent working conditions and sustainable use of the environment;
- Promotion of a gender sensitive approach in PSD, as a way, among others, of ensuring that economic development provides broad-based benefits and poverty alleviation.

Sectoral strategies. There are several important dimensions to the strategy of diversified private sector development. These are discussed at greater length in Chapters IV and V. The main elements of the strategy for the sectors include the following:

- Given its importance in the economy, the further development of agriculture is critical to a strategy of sustained strong growth. Rising farm incomes in agriculture that stem from increased productivity can provide an important source of growth in demand for off farm products and services. Much of this development will have to be funded from domestic resources, with some continuing support from the international donor community. The required policies, programs and expenditures are discussed at some length in the SIP for Agriculture, Forestry and Fisheries.
- As the SIP for Natural Resources and Environment makes clear, the country does have significant natural resources that can be developed commercially. These include forestry, fisheries and mineral resources and, subject to further high priority resource assessments, perhaps important reserves of onshore oil and gas. Successful development of these opportunities depends squarely on the success of Timor-Leste in attracting and retaining high levels of foreign direct investment in close partnership with the domestic business sector.
- A third element of the strategy relates to offshore oil and gas operations, which are expected to produce sizeable national revenues in the years ahead. Extending that investment, and leveraging from it to expand onshore investment, ideally in the non-oil and gas sectors, will also increase national income and wealth and will also have a stronger effect on employment generation and diversification of the capital base.
- Government spending is still a significant source of demand that can provide important opportunities for the further development of the domestic private sector. Under current budget planning assumptions, Government recurrent spending on goods and services and construction activities will continue to be substantial. The Government intends to pay close attention to ways in which public spending can help to develop the domestic business sector, while at the same time ensuring that the Government is able to procure goods and services at competitive prices.

Strategies for the formal and informal business sectors. The Government recognizes that the formal and informal business sectors are inter-connected in many ways. The guiding principle for policy is to formalise the informal, not by regulation, but through programs and policies that support and build the sector, and at the same time, strengthen the enabling environment for the further development of the formal business sector.

The formal business sector is expected to increase considerably and take the leading role in economic activity as operators graduate from the informal network economy and new domestic

and foreign investors start their business. The enabling environment for business must also be conducive to this increase. This part of the program would focus on a range of measures, including the enactment of company and investment laws after appropriate public consultation. Parallel to this initiative is a program to attract FDI to Timor-Leste, coupled with measures to build national entrepreneurial capacities for joint ventures with the foreign companies interested in investing in the country. Another important part of the program is to strengthen Government capacities to provide various mandated services for the private sector in an efficient and timely manner, and to build a capacity for much more aggressive investment promotion. Current limited staff and budget capacities are an obstacle to stronger growth in private investment. Chapter V discusses in some detail the Government's plans for creating such an enabling environment.

The network of subsistence, informal business, micro-enterprises and small operators provides a livelihood for a large part of the population and supplies many of goods and services used in Timor-Leste. These operators need to have the opportunities and incentives to grow, improve productivity, and eventually acquire a formal status that in turn will strengthen the labor market and tax base. The Government will therefore focus on creating a supportive legislative and regulatory environment, promoting productivity and fostering the development of these operators. The legislative environment and related requirements for business should not hinder the capacity of these operators to grow. One example of such potential obstacles is the transaction costs associated with registering a formal business activity. Additional measures are also needed to facilitate access to credit, to managerial and vocational/technical training, and to equipment.

The Government must also address a number of other policy issues that bear on the role of the private sector, including for example: (i) closer attention to public tendering procedures and local content rules that promote opportunities for local business; (ii) once suitable arrangements are in place, divesting excessive holdings in land and property which accrued to Government as a result of the first land law; (iii) ensuring that new banking licenses require extension of banking services in rural areas; (iv) establishing clearer guidelines for the respective roles of government and the private sector in the economy, eventually considering the long term necessity of privately managed state enterprises.

Decentralization of economic and social development. The Government is aware that there should be equitable economic and social development among the various districts. The Government hopes to avoid an excessive build up in population and economic activity in and around Dili. The Housing and Urban Development sets out programs whose aim is to ensure decentralized development in the country. The various infrastructure SIPs reinforce this concern by placing emphasis on improved infrastructure serves in all key population centers around the country. Although a great challenge, the identification of industrial zones out of Dili, training centres in other districts and other initiatives of this and other SIPs are aimed at producing the rural development necessary to retain population.

III. ISSUES AND CHALLENGES FOR PRIVATE SECTOR DEVELOPMENT

The Problem of Employment Creation

There are no reliable data for the current composition of employment in the non-farm private sector. The TLSS survey of 2001 provides a basis for estimating the composition of the labor force at that time.⁹ The results are presented in Table 4. The non-farm sector accounted for about 20 percent of the labor force with some 50,000 people employed or looking for work. Women accounted for about one-third of the non-farm labor force. Assuming approximately 10,000 people employed in the government at the time, it is likely that the non-farm private sector accounted for perhaps around 40,000 members of the labor force, employed primarily in services sector. Various surveys suggest that there are typically between 5 to 15 workers per enterprise, with low levels of production and investment per worker. Anecdotal evidence suggests that female workers are primarily found in tais weaving, tailoring, salt-making, bakeries and handicrafts, and are almost totally absent in the other industries.

Table 4: Estimated Labor Force, 2001
(thousands)

Sector	Labor Force	
	Number	Percent
Farm Sector		
Male	148.50	54.7%
Female	70.70	26.1%
Sub-total	219.20	80.8%
Non-Farm Sector		
Male	33.80	12.5%
Female	18.30	6.7%
Sub-total	52.10	19.2%
Total		
Male	182.30	67.2%
Female	89.00	32.8%
Total	271.30	100.0%

The Government is keenly aware of the importance of employment creation. Demographic projections used in the SIP exercise suggest that as many as 15,000 people will enter the labor force each year in the decade ahead.¹⁰ With the departure of UN personnel, the burden of employment creation will fall primarily on the private non-farm sector. With the civil service already at its mature level of around 12,000,¹¹ and a base work force of 40,000-50,000 in the non-farm private sector, employment in this sector would have to grow very rapidly to absorb a good proportion of the total new entrants of 10,000-15,000 a year, many of whom will be looking for work outside of agriculture.¹²

The GoTL developing an overseas workers program, sending 1000 laborers a year abroad. In this way some pressure would be taken from the domestic market and would likely result in an important inflow of remittances from abroad, thereby boosting domestic demand. The government is aware of the economic benefits of such a program, but also the psychosocial implications it may carry, e.g. due to a long absence from the family, being in a foreign country, potential abuse, exploitation and trafficking. Experiences from other countries have shown that women are especially vulnerable in these situations and therefore the GoTL will pay special attention to the creation of appropriate mechanisms to minimize adverse effects these programs have on women and men. Nevertheless, regarding the labour market, this program can only minimize the current unemployment pressures.

⁹ The basis for estimating the number of males and females in the labor force in 2001 is explained in some detail in Annex II of the SIP Overview Report.

¹⁰ See Annex II of the SIP Overview Report for details on these projections.

¹¹ See the SIP for Public Sector Management for a discussion of employment in the public sector.

¹² The Government is also considering the launch of an overseas workers program. Such a program would take some pressure from the labor market and would be an important source of remittance income. For more on this program, see the Education and Training SIP.

With a value added base of only \$130 million and high levels of unemployment and underemployment in the existing labor force, annual output growth of the non-farm private sector will need to be at least 7-9 percent a year in real terms to create meaningful employment for the majority of the new entrants into the labor force each year. The challenge therefore is to develop alternative sources of demand that can drive private business activity.

Promoting Private Sector-led Economic Recovery

What are the possible sources of growth in the private sector? The options are limited, at least for the near and medium-term. Export demand for goods and services from Timor-Leste is very small and for the foreseeable future, will not be a significant factor in influencing the overall growth performance of the economy. The issue then is the extent to which domestic demand can be a source of growth. Private consumption is a significant part of total domestic spending, but with the reduction in UN personnel, such expenditures are unlikely to grow by more than about two percent a year for the next several years. Much of the increase in expenditures would be on food, a substantial amount of which would be produced for self-consumption by rural households.¹³ After allowing for imports, increased private spending on consumption is unlikely to be a significant source of growth in this period – perhaps leading to increased domestic supply of only \$2 million a year or thereabouts.

The Imperative of Accelerating Private Investment

Economic recovery and subsequent sustained growth in incomes and employment thus depends on substantially higher levels of private investment – on whether the domestic and international business community can be persuaded to make larger investments in Timor-Leste over the medium and longer term. Acceleration of investment spending can serve two important purposes at this stage. First, in the short and medium-term it can moderate deflationary pressures in the economy, especially if some of the investment spending is directed to domestically produced goods and services for construction and other civil works. Second, a higher level of aggregate investment, well in excess of 20 percent of GDP, will be required for sustained strong growth of the economy over the medium and longer term. These higher levels of investment can only come from the private sector, given the expected reductions in donor assistance over the medium and longer term and likely capacity and other constraints on the CFET budget. Vigorous action is needed to lift the level of private investment on a continuing basis from the recent levels of six percent to at least ten percent of GDP for the medium term. For the non-farm private sector, the implication is a level of private investment in the range of \$50-80 million a year over the medium-term, compared with current estimated levels of \$25 million a year.

The small size of the domestic market notwithstanding, the Government believes that there are important opportunities in the local market for small and medium businesses, including FDI investors, and that these can complement the larger opportunities for export markets based on the further commercial development of the natural resource and tourism potential of the country. This SIP articulates Government policies and programs designed to achieve these objectives. The challenge here is to increase demand for local products and services, find import substitution markets and identify export opportunities, increasing the links of producers to markets. Parallel

¹³ The import content of these additional expenditures is not known, but could be as much as one third of the total, which would imply an increase in consumption of domestic products of around \$20 million, much of which would be food produced and consumed by households. Only a small part of these incremental consumption expenditures would therefore have an impact on market-based production and employment. The current basket in the consumer price index gives food a weight of 59 percent of household expenditures. Clothing, housing, furnishings, alcohol/tobacco, recreation, transport and health expenditures all have weights of less than ten percent.

and complementary is the need to foster an enabling environment for investment with low transaction costs, to build the capacities of domestic enterprises, with respect to capital adequacy and access to credit and also entrepreneurial skills.

Although the private sector would be expected to take the leading role in many sectors, the Government is aware of low levels of investment in some key sectors of the economy. The Government is considering the need to promote large-scale public enterprises. In the case of infrastructure services steps have already been taken to convert EDTL and the Ports and Airport Authorities into autonomous bodies that can evolve into state enterprises, and at some later stage, perhaps be privatized. In each case, there would have clear objectives for the proposed state enterprise, along with structures that would allow them to develop into privately owned enterprises in the medium term.

Strengthening the Enabling Environment and Entrepreneurship

The main challenge therefore is to create a business environment that is conducive to growth in domestic private investment and to attract foreign direct investment. Improving the enabling environment will require actions on multiple fronts, including the following:

- Land and property rights
- Business regulation
- Trade policy and competitiveness
- Labor policy and employment
- Quality of macroeconomic economic policies
- Development of financial services

The enabling environment will need to be supported by institutional capacities within Government to provide the necessary support for the business community and to respond expeditiously to private sector requests for approvals and authorities that are required for normal business operations, including for example, customs clearances, work permits, and timely response to investors on the adequacy of proposed environmental protection plans associated with proposed new investments. The Government is also aware of the need to create the necessary infrastructure for industrial development to emerge. There are on-going studies for the location of industrial zones that would require additional infrastructure in support of industrial development. The question here is whether such infrastructure will be financed by public or private funds.

The development of the entrepreneurship skills poses another major challenge for the PSD program. A larger number of entrepreneurs capable of entering into partnerships with foreign investors will be necessary to seize FDI opportunities. There is an urgent need to enhance the business and financial skills of Timorese entrepreneurs who can then take advantage of opportunities for domestic investment, on their own or in partnership with foreign investors. The development of business skills also needs to be fostered at the school level to develop a culture of entrepreneurship among future generations. The SIP for Education and Training includes various proposals for development of the business community, labor force skills and related vocational education programs.

Increased Coordination for Private Sector Development

Although there was much private investment during the recent past, often despite the lack of formal regulation, the businesses that are currently looking at establishing or expanding their current investment levels require more formalized arrangements, an improved level of servicing from Government, and stronger signals of Government commitment to private sector development. Such signals have been given with the adoption of the private investment policy by

the Government, enactment of key legislation such as the Commercial Companies Law and the domestic and external investment laws currently undergoing public consultation.

Significant challenges still remain as a result of a lack of the effective coordination of private sector development in Timor-Leste. The Government is aware of the necessity for effective coordination of the PSD-related agenda. A key challenge in this regard is the dispersed nature of responsibility for policy-making and regulation that pertains to the private sector. At least 11 different agencies of government have a role in shaping policies and programs for the private sector. These include the following:

- Ministry of Development.
- Ministry of Labor and Community Reinsertion.
- Ministry of Natural Resources, Minerals and Energy Policy.
- Office of the Prime Minister.
- Timor Sea Office.
- Ministry of Planning and Finance (including Customs).
- Ministry of Agriculture, Forestry and Fisheries.
- Ministry of Foreign Affairs and Cooperation.
- Ministry of Public Works
- Ministry of Justice.
- Ministry of Transport and Communications.
- Banking and Payments Authority.
- Institute for Promotion of Investment and Exports.
- Institute for Business Promotion.

A related issue is the absence of coherent information about the total amount of resources being budgeted in support of private sector initiatives by the Government. Information is fragmented. The Government's spending on various private sector initiatives and support averaged \$550,000 a year over the past six years; and donor spending averaged \$5.4 million a year over the same period (Annex Table 1). There are no formal mechanisms that currently take an integrated view of support for the private sector. The Registry of External Assistance (REA) of the Ministry of Planning and Finance is the sole record of total donor contributions to the sector. In these circumstances it has been difficult to establish clear priorities for Government support for the private sector.

There is a strong case for improved coordination of policies and programs for PSD. The Ministry of Development has increasingly taken lead responsibility for the cross-sectoral issues related to PSD, and these issues are also being addressed by the Sector Working Group (SWG) for Private Sector Development.

Enhancing the complementary nature of many initiatives, seizing of demand opportunities to promote local supply, and synergies between projects and long term development of the human capital, are only a few of the challenges. Improved interagency coordination will lead to more effective exploitation of the potential for enterprise development and job creation. The plans included in the SIPs that deal with basic infrastructure, health care, education, power supply and water and sanitation all need improved coordination with the private sector initiatives envisioned in this SIP, including in particular the geographical location of planned new investments and services and the implications for local business and the supply of labour and skills. Another avenue that will require increased coordination relates to the issue of public tenders and the use of domestic preference rules in the tender process. Local businesses will need to be better informed about prospective tenders if they are to gear up to bid for such opportunities. One possible

channel to implement these initiatives is the Business Development Centers which could include information or courses tailored for specific sectors. Furthermore, the on-going plans of national technical and vocational training could have in mind such requirements if they are available.

A Need for Stronger Policy Making and Service Capacities

The Government seeks to ensure that those civil servants responsible for private sector development are able to improve their capacity and to ensure adequate support for efforts to establish an attractive business environment. The policy-making and service responsibilities of MDE and SSCI are substantial and wide-ranging. They include improving the enabling environment for private investment, a variety of responsibilities for export promotion, regulatory responsibilities, support and promotion of small business and microfinance programs, statistical information on the business sector and oversight and responsibility for development of industrial zones, to name but a few. Severe staff and budget constraints continue to limit the development of capacities to discharge these responsibilities fully and effectively. There is a clear need to strengthen the capacities of MDE and SSCI for policy formulation and regulation.

The Government is also concerned about building capacities for evaluation of the sustainability of various commercial activities that may have budgetary implications. In the short to medium term the Government may be faced with the need to support PSD related programs in which financial sustainability has not been achieved. These may require reallocations of scarce budget resources to keep them going. The challenge is to build up the underlying institutions, processes, systems and human capacities needed for careful evaluation of the merits of private investment proposals that may carry financial obligations of one kind or another for the Government.¹⁴

For both situations project planning and execution should use creative configurations to secure capacity building of staff and institutions throughout project execution and minimize financial requirements on the government budget. In terms of financial sustainability the Government will pay special attention to projects like the Domestic Business Promotion program together with the Support Center for Domestic Entrepreneurial Development, the Agency for Promotion of Investment and Exports (funded by SEP II), the Vocational and Technical Training and depending on the plans that will be set forward, the Industrial Development zones. The continuation of these activities is considered vital to the Timorese economy and employment creation. For these projects the Government will study and analyze different options for ownership and management of the projects, including privatization, public/private/third sector partnerships or others.

Gender dimensions for Economic Development and Poverty Eradication

Evidence from other countries has shown that societies that discriminate on the basis of gender tend to be poorer than those in which there is less gender inequality. The GoTL is aware that promoting the equal participation of women and men in society through equal access to education; employment; land and property; economic services and opportunities; enhancing equal participation in public life and decision making, have important effects, such as the decrease in child and maternal mortality; improvement in public health and hence improvements in overall economic growth and well being. Nevertheless the promotion of gender equality in Timor-Leste remains challenging. According to the Human Development Report 2002, labour force participation for men is approximately 80 percent contrasting with an approximate 40 percent for women. Several factors could explain this situation, for instance women's general lower level of

¹⁴ Specific analysis of sustainability is included in each of the Project Information Sheets (PIS).

education and women's traditional role as caregivers, which leaves women less time and opportunity to pursue education and participate in labor force. An overall pressure of 15,000 new entrants a year into the labor market will pose a great challenge for increasing women's participation.

“The findings indicate a significant gender-gap in earnings with male earnings estimated to be eight times that of female earnings. Women also have higher unemployment rates and lower labor force participation rates. Most women and men in the labor market are in the informal sector, but women tend to be in the lower income generating areas of the informal workforce. There are also emerging trends of sex-segregation in the paid labor force in the urban centres and an emerging gender gap in wages. Women's reproductive work as the primary caregivers in the home is a major constraint to their income-generating activities.” (Findings presented at the workshop of the ADB Gender assessment, held in Dili, 21 of January 2005)

There are two major challenges for women's entry into the labor force:

1. At first it is women's role as primary caregivers in the family. Women rear children, prepare food, maintain the household and take care of the ill. All this work is unpaid and not visible. The recognition of this effort would allow for further consideration and adoption of special conditions to accommodate employment for women.
2. Secondly, it is women's lack of access to resources and social and political participation. Based on cultural expectations and systemic discrimination, it is often difficult for women to compete with men entering the labor force. They have less access to education, technological training, and greater difficulties in looking for work, obtaining credit and acquiring land.

It can also be stated that women's participation in the informal sector is one step towards emancipating themselves from poverty; therefore conditions should be explored to facilitate women's mobility from the informal economy into formal economy. Labor laws can be an important tool in the prevention of exploitation of women, examples are minimum wages.

In addition, women seem to be more at risk of being exploited in the workplace, having lower paid jobs with less job security. Evidence shows that there is a high participation of women in the informal economy, their involvement tends to be in the lowest income generating activities, such as selling fruit and vegetables in markets or working in small kiosks.

The National Development Plan identifies two overarching goals – poverty reduction and speedy, equitable economic growth. It also identifies the promotion of gender equality and gender mainstreaming as core strategies to the attainment of these overarching goals. The gender mainstreaming strategy adopted by the GoTL, involves a comprehensive capacity building exercise to turn programmes and policies more gender sensitive and this responsibility to lie within the different government departments.

In the NDP, the number of women employed in the Private Sector appears as one indicator for the poverty reduction strategy. It identifies strategies and indicators for enhancing women's participation in the private sector. These include a series of measures to create equal opportunities in access to work, including conditions which have a positive effect on work and income in the formal and non formal sectors; and the provision of training for women, particularly to young women in several areas, such as management, development of enterprises and information technology at national, regional and local level with the aim of facilitating women's economic participation. One model to follow and further increase the participation of women is through the Business Development Centers, as they offer training in management and

an entrepreneurship skills programme. As of December 2004, out of the 3,462 trainees, 35 percent were women.

Traditionally women have a significant role in agriculture, specially relating to subsistence agriculture. These vary in the different regions, but generally women have specific tasks, ranging from growing vegetables to tending animals. The division of labour shows that women take on the bulk of the work in agriculture production, however they cannot inherit land, and do not control the income as men are the ones who sell the more profitable goods i.e. livestock and bulk of agricultural production i.e. rice, coffee etc and most often keep and control cash. Women mainly sell vegetables and small agricultural products.

The GoTL considers that apart from efforts to further develop and improve activities in which women are already involved, there should be an effort to integrate women in non traditional roles. Information about markets should be made accessible for women and all training activities should also be targeted to women, as well as access to extension workers. For example the development of cooperatives should contemplate specific women cooperatives. Also, women should have access to micro-credit, as a way to, among others, diminish the pre-disadvantage of the practice that generally women don't have access and control over resources and assets, including land. The later, access to land ownership by women, is constrained by customary law, a situation that affects especially poor women as they do not have the financial capacity to purchase land themselves.

The GoTL is aware and firmly addressing these issues. For instances the Market Construction and Rehabilitation component of Small Enterprise Project II has restructured the Market Management Committees (MMCs) for 49 markets with a women representation of 311 members, corresponding to 48.8 percent of the total members. At the same time further active participation by women needs to be improved as only 27.6 percent of trainees, representing 44 members, in the Market Management Training for MMC were women. This might be explained by the women's traditional roles, which hinder women's social mobility in terms of full engagement in economic activities, participation in training and possible access issues relating to information and services.

Another initiative underway is the gender mainstreaming strategy adopted by the GoTL, involving a comprehensive capacity building exercise to turn programmes and policies more gender sensitive.

IV. SECTOR OPPORTUNITIES FOR PRIVATE INVESTMENT

The extent to which private investment can be increased over the next four years depends on business opportunities and the enabling environment for investment (the latter is discussed in Chapter VI.) Government believes that there are significant opportunities in a number of areas, including the following:

- Construction activities
- Agri-business, forestry and fisheries
- Petroleum and minerals
- Manufactures and services
- Private participation in infrastructure
- Financial sector
- Tourism

Construction Activities as a Source of Employment

Policies and programs for the construction industry are of particular interest at this time because of their potential for job creation. As the earlier analysis indicated, investment expenditures have declined from the extraordinary levels that prevailed during 2001. This has led to contraction in the construction sector and loss of jobs. Value added in construction declined from \$44 million in 2001 to \$29 million in 2003 (both at constant 2000 market prices) – a decline of some 35 percent. Projects such as new construction as well as maintenance expenditures on roads and public buildings, including education and health care facilities and other public and private construction activities (for example, housing and so on) can all contribute employment creation in the sector.

As noted earlier there are more than 100 local construction companies. The Ministry of Transport, Communications and Public Works classifies these companies into three groups, according to the size of contract that they are competent to undertake. The companies belonging to the highest class, A, are eligible for contracting civil works larger than \$500,000, those belonging to class C smaller than \$250,000 and class B companies in between. A small number of companies are classified as Group A and Group B. The majority are in Group C. Local companies typically have only a small amount of equipment at their disposal, and as a result their work capacities are constrained.¹⁵ The challenge will be to ensure that the majority of the construction work goes to local contractors and, where appropriate, uses labour intensive methods of construction. As noted earlier, there has been progress over the past four years in developing a domestic construction industry, but realizing this employment potential will require further concerted action. Policies designed to ensure the further development of the industry are discussed in Chapter V. These include policies that encourage development partners to subcontract to the maximum extent feasible the civil works components of their aid programs to local contractors/businesses. Another option is to adopt a set of procurement rules that give generous preferences to local contractors and foreign contractors bidding on Government tenders that have partnerships with local contractors. For example, local contractors may be given a 30 percent preference in procurement while foreign contractors partnering with local contractors may receive a 15 percent preference.

¹⁵ A telephone survey undertaken for the SIP exercise in 2003 revealed that the total amount of equipment operated by the six companies then classified as Group A was as follows: 61 dump trucks, 9 cranes, 15 dozers and 15 bucket loaders.

Additional support for the industry may also be provided on the supply side. Besides vocational and technical training¹⁶ in order to increase productivity of the work force, one of the constraints for local business is access to machinery and equipment. The development of a leasing industry that provides access to construction equipment at reasonable cost would strengthen the capacity of small firms to compete more effectively.

The Government proposes three new programs that would provide direct support for these initiatives.¹⁷ These are:

- Raising local content in Government and Private Sector Expenditure.
- Industrial development Policy/Strategy.
- Informal Economy Assessment and Support.

Agribusiness, Forestry and Fisheries

The primary commercial agricultural industry is coffee production for the export market. In 2004, year exports of coffee amounted to almost \$7 million, equivalent to more than 80 percent of export earnings. The primary market for coffee is the United States which accounts for about half of total sales. Indonesia, Portugal, Australia and Germany account for a further 36 percent of sales. There is scope for further increases in export earnings. One avenue is through increased processing and value added here in Timor-Leste. In the first quarter of 2004, for example, the average price per kilo for exports to Australia was \$1.38 reflecting a substantial amount of processing prior to export, compared with \$0.93 per kilo for sales to the United States and \$0.54 per kilo for sales to Indonesia.¹⁸ If all the coffee that is produced were sold in the three higher value markets (Australia, Portugal and United States), significant additional export income could be generated, thereby adding significantly to rural incomes and job creation.

Apart from further development of the coffee industry, there are investment opportunities related to other commercial crops to meet domestic demand and in some cases, replace imports, post-harvest processing, storage and marketing, agricultural exports, and food processing. The SIP for Agriculture, Forestry and Fisheries identifies a number of specific opportunities, including expansion of the coconut oil industry to replace imported vegetable, increased production under irrigation, honey production for domestic and export markets, edible bamboo shoots that might be the basis for a canning industry aimed at export markets, and specialty export crops such as vanilla. There may also be prospects for meat and poultry production. (A medium-sized poultry farm was started several years back, but it soon closed in the face of cheaper imports.) There are also prospects for development of forest products industries that center on revival of the sandalwood industry and on specialty products such as rattan for furniture making. Interest has also been shown in investment in fisheries operations, although no licenses for offshore commercial fishing have been issued to date.

¹⁶ The Skills Training for Gainful Employment (STAGE) five year project is worth mentioning here. This project is funded by the European Commission, ILO and UNDP, which, together with the Secretary of State for Labour and Solidarity, will provide demand-driven vocational and enterprise skills training nation wide.

¹⁷ In each section of this Chapter a link is established with the proposed projects that will improve the enabling environment for business or provide direct support to the business sector. Some of the projects have sector-wide implications, including for example the Development of Regulatory Environment, Informal Economy Assessment and Support for Land and Law II. Having this in mind these projects should be read as those more directly focused on sector opportunities. For more information on each project refer to the Project Information Sheets.

¹⁸ See BPA Annual Report, 2003/2004 for further details.

The Government has adopted a multi-pronged strategy for promoting private business in agriculture, forestry and fisheries. The key elements include the following:

- Creation of a more favorable environment for production of marketable agricultural surpluses. The focus is on building market linkages, reducing agricultural production risks based on poor information, strengthening extension services for farmers and undertaking feasibility studies and demonstration projects that show profitable approaches to agricultural production. One of the components of SEP II is focused on markets rehabilitation and providing training for the respective management committees. USAID's support in the coffee industry has provided valuable experience in these matters, by developing cooperative systems of production and marketing in non-coffee crops and strengthening linkages to markets in Dili and overseas. The work of the coffee cooperatives can be used as a case study to be replicated in other areas, if appropriate. The Government will investigate the reasons for the success of the cooperative coffee industry and assess the potential for development of cooperatives in other agricultural related activities. These initiatives may help strengthen farmers' capacities for increased production and marketing of products. Moreover, capacity building of existing cooperatives, through managerial and technical training, is considered necessary in order to consolidate the sector.
- Improved access to rural credit for farmers and rural traders with particular emphasis on support to micro-finance institutions and credit cooperatives. Both groups of institutions are well suited to reach remote rural areas; but to realize this potential these organisations must be strengthened. Another area is through creating the financial sector framework that enables commercial banks to operate in rural areas.
- Another important factor in private sector development in agriculture is land tenure. It is of particular importance for the development of commercial crops and for foreign direct investment. A high priority for the Government is the development of an appropriate regulatory framework for land and property as well as adequate capacities for effective implementation of these laws and regulations.

Support in this area has been secured through USAID through the Bolstering Agriculture and Sustainable Agribusiness/Private Sector Reform (BASAR) project. Even with this important initiative, other avenues for agribusiness development remain to be explored. The proposed PSD projects most directly related to support for the Agriculture, Forestry and Fisheries sector are as follows:

- Cooperative Sector Institutional Framework.
- MicroFinance Expansion.
- Land Law Program II.

Manufactures and Services

Investment in production of manufactures has, to date, been very limited. Most domestic needs are met from imports. Anecdotal evidence points to continued domestic investments in small-scale retail businesses in Dili and district capitals since Independence. A water-bottling factory is in place, and a brick and tile factory opened, but has since downsized. There has been no investment in textile production, despite indications of interest from several foreign investors, apart from small-scale investment in traditional *tais* material. There has been a reasonable level of investment in trading businesses, both formal trading houses in Dili as well as sizable, but less formal trading businesses along the border with West Timor. There has been disinvestment in restaurants targeting internationals, and investment in hotels and guesthouses has levelled off. There are growing indications of increased private sector capacities in a number of areas of manufacturing, including as furniture, *tais* weaving, tailoring or bakeries as well as in services like business services and consulting, information technology and vehicle and electrical repair.

There may be some opportunities for import replacement or for some domestic value to be added to certain types of imports. Scrutiny of import data indicates that imports of food and beverages amounted to \$17.5 million in 2004, including \$7.3 million for cereals. Imports of furniture and related products amounted to almost \$1 million and imports of clothing, textiles and footwear were about \$1.3 million. More careful examination of the possibilities for local production or for local processing of semi-processed articles is warranted.

Table 5: Planned Government Procurement of Goods and Services, FY2004/05 -FY2008/09 (In US\$ '000)

Expenditure Category	Amount
Services	
Vehicle & equipment maintenance	22,369
Professional services	14,586
Travel services	6,665
Training & workshops	5,216
Property rental	3,013
Other services	94,401
Sub-total	146,250
Goods & equipment	
Stationary & other supplies	48,658
Vehicles & equipment	12,347
Furnishings	1,882
Sub-total	62,887
Total	209,137

Source: Budget Paper No.1 Combined Resources
Budget FY2003-2004.

supplies can also be sourced locally, with modest amounts of value added as a result of local processing or preparation.

One potential avenue for further development of domestic business relates to Government spending on goods and services. CFET appropriations data suggest that during the five years to FY2008/09 the Government will spend about \$150 million on various services and around \$60 million on equipment, stationary and other supplies, or about \$40 million a year. (These estimates exclude fuel imports, construction activities and building maintenance.) Information is not available on the extent to which these goods and services are tendered to the private sector and the extent to which domestic business is successful in winning tenders. A high proportion of the services required can be provided locally (maintenance of equipment and vehicles, for example), and perhaps some of the

The growth in spending on these items is projected at about six percent a year, or about \$2-3 million a year. The issue is the extent to which a growing share of these expenditures can be channelled to the local market. Even if the import content of some of the required goods and services is high, there may still be scope for using Government procurement to foster domestic business activities in a way that adds some value and thereby creates employment. A number of other governments have used “domestic content” rules in the public procurement of goods and services. The purpose is to require the successful bidders to add value domestically through training and employment of staff/labour and perhaps use of some locally made products.

The Government also attaches importance to an assessment of the medium to long-term potential of the handicraft industry, including possible opportunities for development of export market that may go hand-in-hand with tourism development.

The Government intends to develop an improved understanding of the bottlenecks for growth of existing companies, as well as opportunities for the production of manufactures in Timor-Leste. In the light of these assessments, it will draw up an action plan to promote increased investment in the sector. Proposed projects more directly related to these activities include:

- Raising local content in Government and Private Sector Expenditure.
- Industrial Development Policy/Strategies.
- Trade Policy Development.
- Informal Economy Assessment and Support.
- Handicraft Supply Chain and Market Assessment.

Petroleum and Mining

The potential of the Timor Sea Project is well known and need not be recounted here. Suffice to say that a production sharing contract with the principal operating company has been signed and the first production from the Bayu-Undan field began in FY2004/05. The Project is expected to generate substantial revenues from royalties and corporate taxes for an extended period.

There has also been a long history of onshore petroleum exploration in Timor-Leste, with the first series of wells being drilled during 1900-1914.¹⁹ Despite the long history of exploration, not much is known about the onshore and near-shore potential, in part because the Government does not have access to any of the records from the exploratory drilling. Non-commercial quantities of oil and gas were recovered from a number of wells drilled, with more than 20 wells having been capped. In addition, over 30 oil or gas seepages have been documented along the southern coast, suggesting further reserves in the area. In 2001 the Timor Oil Company which had carried out much of the exploration during 1910-1975 submitted a proposal for some \$67 million of on- and near-shore exploration and development work. An unsolicited proposal related to the gas seeps was also received from the Independent Oil and Gas Joint Venture. The willingness of these investors to make additional sizable investments in exploration suggests that the country may have important onshore and near shore reserves suitable for commercial development. The Government has commissioned additional survey work to obtain up-to-date and reliable assessments of these resources before entering into discussions with potential investors who may wish to undertake exploration programs. Commercial development of onshore resources would offer significant opportunities for the further development of a range of domestic businesses.

According to trade statistics, imports of petroleum products amounted to about \$36 million in 2004. In the event that offshore or nearshore resources can be brought onshore for further processing, there may be scope for some sales in the local market. More work is needed to determine those areas in which domestic private suppliers and contractors may be able to forge links with the offshore oil and gas industry. These possibilities will be analysed together with the Secretary of State of Mineral Resources and Energy Policy.

Financial Sector Development

From an assessment of the financial services it is clear that further development of the financial sector will be essential for sustained growth of the private business sector. The reconstitution of the financial sector is still at an early stage in Timor-Leste, having experienced a major contraction following the departure of Indonesia in 1999. An important feature of the period was that savings far exceeded lending.²⁰ There was a demand for safe institutional arrangements for savings. In the aftermath of the referendum, Timor-Leste was left with four functional credit unions and no commercial banks. A more insidious effect may have been a loss of trust in financial institutions, given that many depositors lost their funds as a result of the collapse of the financial system and the destruction of records. Three commercial banks have begun operations, but the services are largely confined to major urban centers, namely Dili. Nonetheless, there has been an encouraging growth in deposits and in domestic lending in the past two years. Several other foreign banks have expressed interest in obtaining banking licenses. There has been no

¹⁹ See the SIP for Natural Resources and Environment for a more detailed discussion of the hydrocarbon potential and plans for possible commercial development.

²⁰ Prior to the referendum, Timor-Leste was served by 18 banking units, including five branches of Indonesian state banks, 10 regional development banks and 3 Indonesian private banks. Bank Rakyat operated a number of village banks that provided general savings and loan services at the village level. Moreover, some 27 credit unions were in operation at that time. In early 1999, savings accounts totalled \$68 million whereas loans outstanding amounted to only \$18 million.

investment in non-banking parts of the financial sector, including leasing, insurance and other services. Work on establishing these financial services needs to be expedited. It is expected that the legislation in the insurance and banking areas now undergoing consultation will foster development of the non-banking financial sector.

For the middle and lower level financial market there are four specialized microfinance institutions (one of them regulated by the BPA, MFITL, and the other three NGOs), three credit and savings cooperatives and at least eight non-financially specialized NGOs.

The Financial Services Sector Assessment edited by Association of Microfinance Institutions in Timor-Leste (as of January 2005) estimated a maximum market for financial services of 434,575 people. This estimate includes 275,300 economically active poor people, who can benefit from microfinance services. The estimated minimum market is thus comprised of 58,575 households, of which 46,860 reside in rural areas.

In September 2004, the total outreach of these financial services providers comprise 56,896 savers, with 97.6 percent of the deposits with the commercial banks, and 27,816 borrowers, 47 percent of whom are clients of the specialized MFIs. Therefore the financial service suppliers currently reach 13 percent of the total (maximum) market with saving services, but only 6 percent are accessing credit.

The providers serve each their core segment of the market, and especially the MFIs and the NGOs are reaching the segment of very poor clients. Average loan size outstanding ranges from \$6,600-94,100 among the commercial banks, while loans from cooperatives average \$420. Borrowers of MFIs have an average of \$92 outstanding, while NGOs loans average \$77. While the geographic coverage of the financial service providers spans 11 of the 13 districts in Timor-Leste, the client coverage in each district, with exception of Dili, is still thin at 1-20 percent.

Disaggregated gender data on the financial sector is lacking among the top end commercial banks. This highlights the need to make Banking and Payments Authority data requirements from the commercial banks more gender focused. All lending activities should be evaluated from a gender perspective so that programs can take into account their impact on women and men, correcting and improving procedures.

Nevertheless among the micro-credit operators there is a consistent tracking of gender related information of the operations. In the four specialized micro finance institutions (Institute of Micro Finance, Moris Rasik, Tuba Rai Metin and Opportunity Timor L'orosae) of the 18,926 depositors 72 percent are women, and of whom 70 percent are also accessing credit, in 10 districts across Timor-Leste. Furthermore anecdotal evidence shows that repayment rates of women are higher than those of men. Although these data represent impressive participation, their combined portfolio is only \$1,3 million or 2 percent of that of commercial banks.

The three main credit cooperatives (Naroman, Fitum Naroman and Fini Soromutu) account for 1,997 members of whom 32 percent are women, with 780 borrowers of whom 37 percent are women.

Based on the available information it seems that international support for the micro-finance industry have influenced considerably the gender awareness of the sector, something that is eventually still in early stages at the commercial and cooperative sector. In this case training of lenders and lending staff should incorporate a gender perspective to ensure that women's needs and constraints are dealt with in an efficient and appropriate manner.

Furthermore in order to further expand their operations rurally and tailor more specific products to the needs of poor client, the micro-finance industry requires to have institutional support for performance-based capacity building, guarantees for commercial bank loans and support for industry development among providers.

Banking and financial services need to be further re-established in rural areas. As Annex Table 2 indicates, there has been considerable donor support for the provision of microfinance services. The Small Enterprises Projects funded by TFET, for example, aimed to provide loans to small and medium businesses. The ADB (and other Development Partners) have provided support for the development of microfinance services organizations and for the institutional development of aspects of the financial sector. Training of lenders and lending staff is expected to help ensure that micro-enterprises and small businesses have maximum ability to access formal credit. In the course of preparing the master plan for development of postal services, proposals were developed to extend the range of services to be provided through postal outlets, including postal banking services that provide cash and demand accounts, payments capabilities and certain approved lending. Additional support from Development Partners will be needed to sustain the ongoing programs that provide local communities with access to micro-credit.

Proposed projects most directly related to the provision of financial services include:

- Financial sector framework and policies.
- MicroFinance Expansion.

Private Participation in Infrastructure

With the major reconstruction phase over, the Government feels there is a need to consider additional ways of encouraging private participation in infrastructure. The 15-year BOT franchise with Timor Telecom is operational and the EDTL management contract became effective at the beginning of 2004. Other possible involvement of private investors in infrastructure services might extend to ports as a way of financing expansion and improvements without drawing on the national budget. There is also opportunity for private investment in private land and property that may, in due course, be divested by Government, as well as in carbon reducing investments in the energy sector through which the Government may derive income. Further private participation in infrastructure to support foreign direct investment might also need to be considered. The proposed program would seek to build on the considerable work already done on Timor-Leste's infrastructure and examine the opportunity for greater private investment in infrastructure. This program will determine the extent to which these possibilities are feasible in the near future and the interest and capacity of private sector to emerge in key areas and the way their development should be structured.²¹

Proposed projects most directly related to privately provided infrastructure include:

- Private participation in infrastructure.

Tourism Development

Tourism has the potential to become a major sector of the economy. Beyond Timor-Leste, it is increasingly recognized that tourism contributes to social and economic development creating direct and indirect employment for a large range of people (including men or women, younger and older people, high specialized and non-skill personnel). Tourism has become significant

²¹ The SIP for the Power Sector, for example, indicates that in the event that domestic oil and gas resources are sufficient for commercial development by the private sector, it is likely that private provision of electric power would be feasible and indeed, likely.

contributor to rural development in a number of countries, especially in depressed rural areas threatened by the decline of agricultural activities, where most poor people live. Tourism has also been seen as a new tool for the international cooperation in development.

The tourism sector in Timor-Leste has considerable potential with a large range of high value tourism products. Investment by private businesses will be the key driver of growth in this sector. Private investments in the tourism sector, especially by dive and tour operators and hotels, seem to have grown in the period since Independence, apparently often taking the form of expansion of existing businesses. Further development of the tourism sector, even of modest proportions, has the potential to deliver considerable national development benefits, particularly as a source of employment creation. Specifically the tourism sector can be a major opportunity to enhance women's formal employment. Notwithstanding that, the GoTL is aware of the possible changes to women's and men's role that this industry can induce depending on how it is developed.

As a potential growth industry the tourism sector may represent important opportunities to empower women in economic, social, cultural and political terms. Nonetheless it also bears a high potential for specific discrimination against women, e.g. through the use of stereotypical images of women for the attraction of tourists, inducing the potential for the development of sex tourism. The GoTL is aware of these risks and will seek an equal opportunities policy for the development of this sector, thus ensuring that women and men have the same opportunities to participate at all levels of decision making, in all training activities and hence be able to participate at all levels of the labor force. Policies adopted for the development of the tourism sector will be gender sensitive and will not encourage the development of sex tourism.

The Government intends to take active role in promoting tourism and assisting private sector operators to develop the potential of this important economy. The Government has already, under its own budget, reviewed the potential scope of tourism in Timor-Leste, engaged support from Portugal, Australia, Thailand, Macau (PR China) and worked with the private sector to establish the Tourism Association of Timor-Leste. Also the World Tourism Organization is ready to develop a Project for "Sustainable Tourism Sector Development and Institutional Strengthening" (National Tourism Development Plan) coming out with a short, medium and long term policy for tourism (This project is now being reviewed by the Office of the Prime Minister office and will be funded by WTO and UNDP.) The Government would like to build on these efforts, with a focus on supporting infrastructure development, statistics, policy and regulatory development, planning and zoning, and by underwriting national promotion efforts in support of private operators. The key objective is to build a tourism industry that generates employment, is sensitive to environmental concerns and gender issues and maintains culture.

The main elements of the program will include:

- Attracting foreign direct investment in this sector and capture foreign skills;
- Job creation;
- Promote vocational training in the tourism field;
- Educational campaigns for population's tourism awareness;
- Promote strategic tourism sites and experiences in Timor-Leste;
- International campaigns promoting Timor-Leste as a tourism destination;
- Promote and develop among the tourism private sector the use of new technologies (Internet booking and tourism information);
- Build a tourism industry in Timor-Leste that is environmentally and culturally friendly;
- Support the development of necessary supporting tourism infrastructure;
- Developing a legal and regulatory framework for tourism development; and
- Implement the Tourism Satellite Account.

Proposed projects most directly related to tourism include the Tourism Promotion program.

V. IMPROVING THE ENABLING ENVIRONMENT FOR INVESTMENT

Realization of increased levels of investment will require a significant improvement in the enabling environment for private business and investment, including an improved level of servicing from the Government and greater confidence among potential investors in the fairness and effectiveness of Government institutions. Among the many areas that require further work, the SIP singles out four areas as being of particular importance at this time.²² Donor support for the initiatives outlined in this section is crucial as advances in the business environment are closely linked to the near-term ability of Government to attract and retain further investment.

Legal and Regulatory Framework for Business and Investment

The UNTAET administration introduced basic regulations on taxation, tariffs, duties and excise. Since Independence efforts to introduce an adequate policy and regulatory environment for private business and investment have been accelerated, especially in the past year. Legislation on taxation was modified in July 2003 and notary and registration legislation was adopted in February 2004. Another key piece of legislation passed by Parliament is the Companies Act that regulates business formation and incorporation. An UNTAET regulation on the issuance of bank licenses and bank supervision was adopted. Considerable progress has also been made in drafting banking legislation and insurance legislation, which are currently undergoing consultation of key stakeholders. A private investment policy has been prepared and adopted by the Government, clearly spelling out the policy and regulatory role of the Government, while leaving operational leadership to the private sector as the engine of economic growth in the country. The policy further establishes the venues where focused attention will be paid to different types of investors. For the domestic investor, particularly the SME entrepreneurs, for example, attendance and support will be provided at the five Business Development Centers, strategically located at key regions of the country. External investors (including Timorese emigrant investors) and exporters can receive service support at the Institute for Promotion of Investment and Exports.

Extensive progress has also been made in the creation of the investment legislative framework. Laws to promote domestic private investment and external investment are now in force. While the two investment laws are separate and respectively tailored to the needs of the domestic investor and the external investor, they offer equal treatment and access to all investors. The major distinction between the two laws is the minimum investment threshold required of external investors and the rights to repatriation of profits and capital to which external investors are entitled, aspects which do not apply to domestic investors. The laws also provide fiscal and customs incentives to the respective group of investors. However, fiscal incentives are provided, not on a "tax holiday" basis, but on an earned principle, whereby the basis for reductions on the 30 percent corporate tax rate is the number of full-time workers employed by the particular enterprise. To qualify for fiscal incentives under the laws, FDI investment enterprises must employ double the number of full-time Timorese workers as compared to domestic investments enterprise. The thrust of the two laws is the strong emphasis placed on job creation as a means of fighting unemployment and poverty.

²² A fifth important area related to policies and programs for training the labor force is dealt with in the SIP for Education and Training.

It is an understanding of the Timorese Government that policy making needs to be gender sensitive, for instance information gathering needs to be based on sex disaggregated data, in order to provide correct data on the disparities between women's and men's needs. Special attention will be given to access and control of assets; discrimination in labor markets; access to financial services and market information.

Donor support for development of business-related regulations has so far come from the Foreign Investment Advisory Service (FIAS), Portugal and the relevant component of SEP II, with USAID and UNDP providing additional support. Development of banking and the financial sector regulatory environment has benefited from extensive IMF technical assistance and support.

The proposed program, whose preparatory work is at various stages of development, calls for work on the following:

- Policy, laws, procedures and enforcement;
- Passage of laws on investment, insurance, bankruptcy, collateral, cooperatives, contracts, leasing, and laws supporting trade;
- Credit registry, collateral registry;
- Company and enterprise registration; and
- Improve the information systems of the Business Registration Unit.

Work on other important pieces of legislation that support business development are quite advanced. Likewise, initial drafts of the insurance and bankruptcy laws are currently circulating for initial comments prior to public consultation. While important initial steps to create a more enabling business environment have been taken, donor support for the work will be essential in the near and medium term to help the Government create and implement a functional regulatory environment, including institution and capacity building.

A key challenge will be to ensure maximum Government ownership of the process of developing policy and regulation, ensuring appropriate sequencing of initiatives, maximizing inter-ministerial coordination and implementing a full process of public consultation through the line ministries and parliament. The current SIP exercise has contributed extensively to a broad based inter-ministerial discussion and consultation, thereby promoting ownership and fostering cross sector coordination to minimize duplication of effort and streamline resource planning.

Proposed projects most directly related with these initiatives include the Development of Regulatory Environment.

Land and Property Regulatory Development

The constitution establishes that every individual has the right to private property, but that only national citizens have the right to ownership of land, although the land and property law of 2003 has extended foreign ownership exclusion to all real estate. The main problem at this time is considerable uncertainty about land rights, due in part to the destruction of official records of land ownership in 1999. A related problem is that an estimated 250,000 properties need to be registered (only 3,000 of which were registered prior to 1999) once the necessary legislation is in place.

The Government recognizes that certainty over title to land is central to sustained development of business activities in Timor-Leste. The policy of the Government is to establish a sound legal framework for land and property transactions. There has been substantial progress in this domain. In March 2003, the parliament passed the Land Law. It establishes that the Land and

Property Unit (LPU) in the Ministry of Justice is the legal entity to deal with land and property issues in Timor-Leste. The law confirms that ex-government land of Portugal and Indonesia reverted to the ownership of the Timor-Leste Government. With the passage of the Land Law, the LPU has a clear plan for further work on several other laws pertaining to land and property, for which considerable research and initial drafting have occurred. These include the following 4 main reports:

- Leasing of State Property;
- Land Dispute Mediation;
- Land Rights and Title Restitution;
- Foreign Owner Compliance with Constitution;

And 3 draft bills:

- Leasing of State Property of Private Domain;
- Leasing between private parties;
- Land dispute mediation decree-law.

Additionally a land term glossary have been created, capacity building of University students and staff and organization and implementation of a leasing pilot project with DNTP.

A sequenced approach has been taken regarding the preparation of this legislative agenda and related follow-up work. To expedite matters, registration of non-contested land could be carried out as soon as the resources required for the work are available. Land that is not contested and that is owned by Timorese could be registered. Contested land is estimated to form only 15 percent of properties in Timor-Leste. Based on the provisions of the Land Law referred to above that all disputed property claims were to be submitted within one year period, it is reported that some 12,000 claims have been recorded, half of which were submitted at the Timor-Leste Embassy in Jakarta. With substantial donor support, it may be possible to complete land titling over a five year period, followed by formal registration. The full cost of such a program of cadastre, registration and titling has been estimated to be in the range of \$3-5 million.

In addition to the above legislative agenda, the Government is pursuing a number of other policy issues related to land and property, including regulatory support for formal private transactions in land, and public sale of excess Government land and property. Since foreigners are prohibited from owning land within the country, the Government is also looking at ways to facilitate the leasing of property as a means of promoting foreign investment.

Also in Timor Leste women's access to land has been constrained by customary law, affecting essentially poorer women. The GoTL is considering these aspects under the regulatory framework, in order to further women's access to land and property.

There is a clear need for accelerating capacity building programs for the LPU. There is provision of \$4 million for the Land law program. Timely support from Development Partners for this work program will facilitate Government's current efforts to reduce uncertainty about land titles and improve the climate for private investment. Donor support for land related issues has been principally from USAID, which to date has contributed almost \$2 million. Given its enormous importance in providing the basic conditions to ensure private investment, particularly foreign investment, the Government would welcome a commitment by a donor to take the lead in supporting the proposed accelerated program of work on land and property development for the near and medium term.

The proposed Land Law Program II is most directly related to these initiatives.

Trade Policy

The cornerstone of policy is to maintain a competitive foreign trade regime while reducing the trade deficit through export promotion and import replacement where viable investment opportunities are identified. The trade strategy to be followed should promote an efficient trade system in order to promote PSD, establish a competitive market, and create a favourable environment that supports domestic and foreign traders.

Capacity constraints have meant that the Government has undertaken only limited work on developing appropriate foreign trade policies, aside from what was undertaken by UNTAET. Decisions are also pending on membership options into various regional and international organizations and accession to relevant preferential trade agreements. The Swedish International Development Agency (SIDA) has prepared an initial review of foreign trade policy options for the Government. Additionally, South Korea provided short-term technical assistance in early 2004 to further explore policy options related to foreign trade. However, progress in developing policy both to guide domestic and foreign trade strategies and legislation has been slow.

Short-term technical assistance has been secured through UNESCAP and UNDP technical assistance has also been requested. Nevertheless the magnitude of the trade area and its key importance for the successful development of Timor-Leste private sector requires the Government to seek additional support for its programme.

The objectives are to strengthen the capacities of traders to compete in the local and international markets, increase the interest of traders to pursue the international markets, and create a favourable legislative environment. Additionally, trade policies need to consider the strategic importance of the agriculture sector, and the role of the private sector in promoting improved quality as well as increased production. The Government will consider specific incentives for agriculture related trade.

Particular attention will need to be given on the promotion of women's participation in trade at local and international level by developing appropriate mechanisms to promote women's access to credit; strengthening existing enterprises, cooperatives and small businesses; promoting access to markets; improvement in the quality of products and services; access to appropriate technology, training, transport, and extension services. All policy and legislation developed in this area will need to incorporate a gender perspective developed with gender specialists and in consultation with the Office for the Promotion of Equality.

The proposed program would seek to develop foreign trade policies for Timor-Leste that supports national development objectives. Key elements of the work program include the following:

- Foreign trade policy, include export promotion and diversification, and promotion of border trade with Indonesia.
- Trade-related incentives for investment, including for example, investments in processing fisheries products and adoption of value adding technologies that can boost export earnings.
- Domestic trade policy, including the agriculture related products for local markets.
- Exports promotion policies for local industries and small and medium companies.
- Seek membership of certain regional and international trade groups as appropriate and negotiate preferential trade arrangements with Timor-Leste's main trading partners and or major markets, such as Australia.
- Develop communications programs that explain the benefits of maintaining good trading relations and resisting protective tariffs.

Additionally the Government considers that it has the obligation to promotion a favourable domestic and international trade environment which ensures that the private sector participates in a level playing ground and competitive environment. A competitive private sector will generate value added employment and wealth, and will lead towards achieving the overall economic growth aims of the Government. In this context it is considered necessary to develop a regulatory metrological regime, identify technology requirements and to install operation processes that will ensure reliability of measurements in commercial transactions in the interest of fair trade within and outside Timor Leste. To secure such playing level field it is necessary to set up an audit unit, establish the legal framework and capacitate public servants.

The Government recognizes that the trade environment is closely linked to the development of the banking system, to investment policy for nationals and foreigners, and to land and law program progress. The program most directly related to these various initiatives is the Trade Policy Development Project and the Establishment of a Metrology System.

Capacity Building for Policy Making

One of the major challenges faced by the Government is to build internal capacities for sector analysis and policy development as it relates to the private sector. Government has often stated its commitment to the development of the private sector. Although some progress has been made, significant further strengthening of capacities is still required in most of the agencies responsible for servicing the needs of the private sector and for more aggressive development of policies and programs that can improve the enabling environment for private investment. With very limited staffing and budget allocations, it is perhaps not surprising that much remains to be done in developing the enabling environment for private investment and in establishing a desired capability for investment promotion. While Government has begun to give clear signs regarding the policy, legislation and strategy direction to promote domestic and investment promotion, significant donor support is still needed to help Government lay out and implement strategies and programs in the areas of investment promotion, as a whole, as well as, tailored to economic sector and investor groups, in particular.

Civil servants' skills for technical analysis of sectors need to be enhanced, along with an ability to translate this information into informed government policy. An essential task is to strengthen capacities to understand the socio- and economic situation of the country, what needs to be done to reach such understanding, to use and work with that information in a way that produces policy directions in line with government plans and then measure results and adjust policies. Better policy making will also induce a better legislative environment for the sector. This process has started with the several advisors placed in different government departments, but the MDE and SECI considers that due to its complexity, interdisciplinary nature and level of challenges faced, a more focused program on capacity building for policy making in this institutions is necessary.

The proposed Capacity Building for Economic Policy Making and Institutional Strengthening Program is designed to address these concerns.

VI. POLICIES AND PROGRAMS FOR INVESTMENT AND BUSINESS PROMOTION

To complement the foregoing policies and programs aimed at improving the enabling environment for private investment activities, the Government is pursuing a two-pronged strategy that includes more direct support for the development of the private sector:

- Promote the development of an entrepreneur spirit;
- Support for domestic private investment that, for the most part will be built around small and medium business development;
- Capacity building for cooperatives;
- Support for the informal economy; and
- Promotion of opportunities among international investors aimed at attracting FDI.

Development of Entrepreneurship

The Government recognizes the need to develop entrepreneurship among both men and women, to underpin continued progress towards the objective of an economy driven primarily by the private sector. The cultivation of entrepreneurship within the largely agrarian population must be the basis for increasing production and diversifying the agriculture-based economy to non-farm activities. Additionally it would foster a spirit of self-employment, decreasing unemployment and driving creativity and innovation in the private sector. The vision is to create individual and group capacities and the freedom to identify and seize, business opportunities that may arise.

The Government is still analysing the required framework for the longer term but at this stage action will likely be built around the following five-pronged approach to policies and programs:

- *Increase the awareness of the benefits of entrepreneurship.* The Government attaches importance to implementing a program that would increase public awareness of the benefits of entrepreneurship. Eventually this program could be based on the identification of successful Timorese entrepreneurs and presenting them as role models for building up new economic activities. Given the widespread destruction in 1999, many of the today's Timorese entrepreneurs had to start with very little. These successes provide good examples of achievement under difficult circumstances, of entrepreneurs who seized opportunities and focused their efforts on results.
- *Introduction of business training and entrepreneurship in vocational training at the secondary and tertiary school level.* The program would analyse the ways through which entrepreneurship could be included in the school curriculum for secondary and university levels. Only through generalized access to the principles and paths to entrepreneurship can a broad awareness be built. This curriculum development merges notions from managerial courses with other more focused on entrepreneurship like principles of risk taking, self employment, market opportunities, meeting initial capital requirements, training labor and improving their productivity, business constitution and other matters. Possible directions should be considered to further integrate a gender perspective in this programme. For instance by using examples of women as entrepreneurs and other mechanisms to encourage and foster girls interest for entrepreneurship.
- *Increased support services for entrepreneurs.* The Government also believes it is important to expand the support system that provides potential entrepreneurs with easy access to information and objective advice on the procedures for starting a business tailored to the specific needs of both men and women. The demand for business training in the Business Development Centres (SEP II) to date has been more than overwhelming. These are very good signs of the demand for capacity building among the population. The Government seeks to continue this support, although it is aware that once the current backlog is met, future demand will grow more slowly. Building on this initiative, and in connection with developing a Timorese entrepreneurship spirit, the Government wants to create a support system for people that have had managerial training and would like to start a business can

access support for establishing a business. This would be a service open to the public aimed at augmenting the potential for employment creation, not only for this program, but also for the Domestic Business Promotion and Informal Economy Assessment and Support programs. Other activities to be developed include the promotion and strengthening of a network of women entrepreneurs through policies that support private companies, organizations, cooperatives and women's groups, and their regional and international networks to work together and provide the necessary support.

- *Introduction of a short term management entrepreneurial course for medium to large enterprise entrepreneurs.* In the immediate future, the Government is faced with a major challenge to promote and support a group of entrepreneurs that can be valuable partners in joint ventures with FDI investors. Such capacity building is hardly done overnight but the Government places great emphasis on a program for short to medium term development of entrepreneurs directed to joint ventures with international investors.
- *Baseline assessment of societal attitudes towards entrepreneurship.* In order to better inform policy making there is the need to have an understanding of the societal attitudes towards entrepreneurial and business activities. Experience from other countries indicates that entrepreneurship does not emerge simply out of the existence of a market or education. Efforts to build entrepreneurship as an attitude must focus on particular groups and concerns. For this reason a baseline understanding of the Timorese people in terms of their individual and social identity, power structures and perceptions of "modernity" would contribute greatly to a social understanding of the prospects of entrepreneurship. This study of societal attitudes towards entrepreneurship needs to include a gender perspective, ensuring that policy making takes into account particular needs and constraints of women in entrepreneurship and develops adequate strategies.

In connection with the proposed study on Private Participation in Infrastructure, there may be good opportunities to develop internship programs at privately managed state owned enterprises. This could be started with a pilot on EDTL and latter rolled out to other enterprises. The proposed Development of the Entrepreneurs program would address this range of proposals and issues.

Development of the Domestic Business Sector

The Government recognizes that an important part of an improved enabling environment for domestic businesses is prompt and efficient provision of the services that the Government is required to provide, including for example, information about market opportunities related to Government procurement and construction activities, customs, tax assessments and so on. A more vibrant business community means that the service capacities of the Government must also expand if these needs are to be met in a timely and efficient manner. A program that aims to encourage and support the development of the business sector, especially small and medium business, has been developed. Key elements of the program include improved linkages to markets/information, extension services to increase production, focus on cash crops and marketing, studies of growth opportunities and niche market studies, training and support for businesses and cooperatives and consideration of policy options that would facilitate increased opportunities for local business.

The Government requires additional support from Development Partners to supply business development services, market information services, and analysis and feasibility studies on market opportunities and market linkages. This program would supply business advice, build the

capacity of business associations, and follow on from the outputs of SEP I and SEP II. It would include additional support for market places; including the market management committees, help production cooperatives form and grow, and provide information that help agricultural producers transmit their goods to market profitably. The Government also recognizes the need to promote domestic trade through the construction of markets, warehouses and other storage facilities.

The Government is actively investigating a number of other policy initiatives aimed at promoting the development of the domestic business sector. These include the following:

- The introduction of “domestic content” requirements for Government procurement.
- Adoption of policies that encourage development partners to subcontract, to the maximum extent feasible, the civil works components of their aid programs to local contractors/businesses.
- Adoption of a set of procurement rules that give preferences to local contractors and those foreign contractors that have partnerships with local contractors and suppliers. For example, local contractors may be given a 30 percent preference in procurement while foreign contractors partnering with local contractors may receive a 15 percent preference.
- A further initiative will encourage the oil and gas industry to utilize local materials and workers during the construction phase and source the supply of produce (fruits, vegetables and fish) to the offshore oil and gas workers from Timor-Leste, although stringent quarantine requirements in Australia make it difficult for ships supplying oil and gas operations in the JPDA to taken on fresh produce in Timor-Leste.
- The oil and gas companies would also be encouraged to develop domestic enterprises that would have forward and backward linkages, which would be in the long-term interest of these industries and demonstrate the social responsibility of these companies to the people of Timor-Leste.

The Government recognizes that care is required with the development of these types of policies. Poorly designed policies in these areas can lead to unduly high costs of procurement with high implicit subsidies for the additional jobs that are created. The proposed Domestic Business Promotion program would address this range of proposals and issues.

Capacity Building for the Cooperative Sector

The proposed program would include promotion of cooperatives to undertake production and import of basic products, as well as exports of local products drawing upon the experience of the coffee industry and other successful examples. The development program within MDE is responsible for encouraging and facilitating the development of cooperatives, as well as small and micro-enterprises. The proposed program includes development of policies and initiatives that stimulate the development of cooperatives, including training and mechanisms that provide information to members of cooperatives and feedback from the membership. Training would be provided to cooperative members and leaders in the organization and management of marketing, production and other service (e.g. eco-tourism) cooperatives. Seed capital for the operation of the cooperatives would be mobilized from the commercial banks, where feasible, and other sources. The program also includes the development and maintenance of a registry of cooperatives.

Support for the Informal Economy

To complement the above program aimed primarily at small and medium companies, the Government intends to launch an initiative that focuses on the business needs of the informal economy in agriculture, industry and services. The development of this program of support would be built around a series of related initiatives.

- First, the Government considers that a further assessment of current informal economic activity needs to be developed in order to inform policymaking. The Government needs assistance in executing a study of the business activity, employment status, productivity, investment, and other concerns of formal and informal business/operators. The study would build on previous work in this area, make use of available government information and use sample questionnaires to business/operators to collect additional information. The study would be conducted nationally and, combined with the results from the Census 2004, would be a valuable tool to inform initiatives aimed at promoting PSD. The assessment will be gender sensitive ensuring that current trends and needs which differentiate women's and men's activities in this sector are analyzed and reflected in the policy making process, thus improving women's access and performance in economic activities. Gender specific access issues relating to credit, training and knowledge of entrepreneurship will be assessed and taken into account in order to promote equal participation.
- Second, further work is needed on measures that can strengthen access of people in the informal sector to credit (microfinance expansion and financial sector framework and policies), to training (domestic business promotion and vocational and technical training), and to knowledge about entrepreneurship (entrepreneurship development)
- Third, steps need to be taken to provide small business with improved access to equipment, including for example construction equipment and office equipment. One avenue discussed earlier in this paper is the development of leasing companies that cater to the needs of individual businesses. Another would involve leasing programs that support production and marketing cooperatives as a way of pulling together resources, increasing market links and sharing risks among small operators.

The proposed Informal Economy Assessment and Support program would address this range of concerns.

Promotion of Foreign Direct Investment

The Government has been successful in attracting two major foreign investment ventures. The Production Sharing Contract for the Bayu-Undan oil and gas field has recently been finalized. Over time, this will produce substantial revenue flows to the Government and, well invested, will secure strong inter-generational benefits. Similarly, the ongoing investment program of Timor Telecom is continuing, with a total of \$12 million having been spent to date on the creation of a national network that became operational in December 2003. There is also foreseeable new investment in the banking and insurance sector. Other opportunities to be explored include development of offshore fisheries, a major program of tourism through foreign direct investment and joint ventures, investment in specialty agricultural and wood products that may be exported. The Government wants to give particular emphasis to FDI that generates employment and brings new technologies and management skills, and helps expand access to global markets.

The Investment Division of MD is responsible for encouraging and facilitating new investment, in particular, foreign investment. This will involve the establishment of an enabling environment for foreign and domestic investments and pursuit of projects that can improve the nation's technological profile and provide greater employment opportunities. The proposed programs of the Division, as laid out in the NDP, are wide ranging and include:

- Activities related to the promotion of FDI. These include production of investment literature including an investor information kits, organization of investment forums, and feasibility studies for particular areas of investment.
- Develop and maintain an open and responsible foreign investment framework.

- Streamline procedures for processing and approving proposed FDI ventures, including creation of a “One-Stop Shop” for foreign investors as well as facilitating linkages with potential domestic business partners.
- Development of public information programs that explain the benefits that can accrue to the country as a result of foreign investment.

The proposed work program on foreign direct investment aims to build capacities for FDI promotion, processing and facilitation. It would also support additional work on options for onshore investment by the Government’s major partners in the Timor Sea project, as well as further development of industrial/export processing zones. In the case of the latter program, there is a need for technical assistance that can build on the previous feasibility study work carried out on the industrial zone proposal by the Secretary of State of Commerce and Industry. Although a feasibility study was undertaken for the development of an industrial park in the District of Baucau, the soundness of the study has been questioned, due in part to a lack of demand assessment, among other limitations identified. Focus has shifted to broader approaches to the development of special economic zones by considering a wider sample of options at various points of the country. Resources have been provided under SEP II to carry out an economic zones opportunity study that is expected to present options and alternatives for sound development of special economic zones in Timor-Leste.

Although the restructured TFET-funded World Bank SEP II has included support for FDI (Investment and Export Promotion Agency) and domestic business development during FY2003/04 and FY2004/05 and USAID has provided assistance by way of a long-term investment advisor, additional donor support is required beyond the basic support provided to date. Support for this program is critical, given the importance attached to raising investment levels in the country and accelerating growth of the private sector, in general, and FDI, in particular. These various initiatives would be pursued under the proposed Foreign Direct Investment Promotion program.

VII. EXPENDITURE PROGRAMS AND SOURCES OF FUNDING

Current Levels of Expenditure

Over the past six years, total spending on policies and programs that directly supported the development of the private sector amounted to \$35.6 million (Table 6). Development Partners funded 91 percent of the programs. It is important to note, however, that the analysis in this section does not include donor support for agriculture and for natural resources, including forestry, fisheries, petroleum and minerals. As the SIPs for each of these areas indicate, a number of Development Partners have committed substantial resources for the development of farming and other small scale business activities that are not reflected here.²³

²³ These are discussed in the SIPs for Agriculture, Forestry and Fisheries and for Natural Resources and Environment.

Table 6: Government and Donor Spending on Private Sector Development (In US\$)

Funding source	Annual Disbursements						Total	
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	Amount	Percent
Donor programs	803,500	6,122,948	7,949,634	6,463,561	7,447,867	3,533,129	32,320,639	90.7
CFET appropriations	-	305,000	330,000	894,000	1,058,850	726,000	3,313,850	9.3
Total	803,500	6,427,948	8,279,634	7,357,561	8,506,717	4,259,129	35,634,489	100.0

Source: Annex Table 1.

A striking feature of the pattern of spending over the past six years has been the concentration of donor resources on microfinance programs and support for development of medium and small business development (Table 7). These two areas accounted for two thirds of donor expenditures on PSD programs covered in this SIP.

Table 7: Expenditures Classified by Program Category, FY1999/00 Through FY2004/05 (In US\$)

Program	Funding Source		Total	
	CFET	Donors	Amount	Percent
Management and administration	113,500	-	113,500	0.3
Industrial policy and development	603,450	69,037	672,487	1.9
Trade policy and development	271,750	121,183	392,933	1.1
Land & property policy & programs	1,365,000	3,327,691	4,692,691	13.2
Investment promotion	766,575	578,492	1,345,067	3.8
Labour market policy & programs	-	850,985	850,985	2.4
Financial sector development	-	1,779,648	1,779,648	5.0
Microfinance programs	-	6,317,249	6,317,249	17.7
SME development programs	-	15,144,864	15,144,864	42.5
Construction industry development	-	3,545,108	3,545,108	9.9
Tourism policy and development	193,575	586,382	779,957	2.2
Total	3,313,850	32,320,639	35,634,489	100.0

Source: Annex Table 1.

Negligible amounts of donor support have gone to development of the policy framework for trade and finance and, with the exception of the offshore petroleum development program, the enabling environment for private investment and for tourism development.²⁴ Larger amounts have gone for strengthening capacities in the area of land and property policies and programs.

Priorities and Proposed Expenditure Program

Given the overwhelming importance of promoting private sector led growth in employment and incomes, the Government attaches great importance to more aggressive programs for private sector development in the coming four years and looks to Development Partners for additional support in this important area.

The various agencies of government responsible for private sector development have established a clear set of priorities for the proposed program. The results of the prioritization are set out in Table 8. Five programs have been accorded a high priority status and are proposed for immediate consideration by donors in the hope that implementation can start soon. These priority programs would require new approvals by donors in the amount of \$3.0 million. This level of new commitment for PSD is significantly higher than in any previous year, but it reflects the

²⁴ Support from Development Partners for the offshore oil and gas industry is discussed in the SIP for Natural Resources and Environment.

importance that the Government attaches to a accelerating the development of the business sector and an aggressive program aimed at creating new job opportunities throughout the country.

Table 8: Priority Ranking of Proposed New Program for Private Sector Development
(In US\$)

Program	Start Date	Proposed Annual New Approvals					Total
		FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	
A. High Priority Programs							
Capacity building for policy making	FY2005/06	400,500					400,500
Domestic business promotion	FY2005/06	274,000					274,000
Tourism promotion program	FY2005/06	1,498,000					1,498,000
Development of entrepreneurs	FY2005/06	396,000					396,000
Microfinance expansion	FY2005/06	389,000					389,000
Total new approvals		2,957,500	-	-	-	-	2,957,500
Annual disbursements		535,000	574,500	641,000	622,000	585,000	2,957,500
B. Programs for the Medium-Term							
Development of regulatory environment	FY2006/07		820,000				
Investment linkage concept	FY2006/07		232,000				
Entrepreneurship awards scheme	FY2006/07		143,000				143,000
Financial sector framework & policies	FY2006/07		156,000				156,000
Informal sector development	FY2006/07		378,000				378,000
Trade policy development	FY2006/07		583,000				583,000
Land law program	FY2006/07		4,000,000				4,000,000
Labor policy & skills development	FY2006/07		336,000				336,000
Foreign direct investment promotion I	FY2006/07		2,732,000				2,732,000
Industrial development policies/strategies	FY2007/08			1,077,000			
Raising local content in infrastructure	FY2007/08			447,000			
Establish metrology system	FY2007/08			300,000			
Arts & crafts supply chain alignment	FY2007/08			269,000			269,000
Cooperative sector development	FY2007/08			1,445,000			1,445,000
Total new approvals		-	9,380,000	3,538,000	-	-	12,918,000
Annual disbursements		-	2,182,000	3,850,000	3,080,000	2,540,000	11,652,000
C. Total Approvals							
Proposed total approvals		2,957,500	9,380,000	3,538,000	-	-	15,875,500
Total disbursements		535,000	2,756,500	4,491,000	3,702,000	3,125,000	14,609,500

Source: Annex Table 5.

The priorities for the medium-term consist of the 14 programs that were discussed in some detail in the preceding chapters. These would require new commitments of approximately \$12.9 million in FY2006/07 and beyond. Of particular importance here is the land law program, foreign direct investment promotion and support for the cooperative sector.

The program involves a significant shift in priorities for the use of funds to support private sector development. Whereas in the past six years, a large part of the support went to microfinance programs and SME development, the strategy for the next five years is to place greater emphasis on improving the enabling environment and on promoting domestic and foreign investment. The share of spending on policy development and programs aimed specifically at improving the enabling environment for the private sector account for 44 percent of total expenditures. This compares with 24 percent in the past six years. The proposed program calls for expenditures of \$13.0 million over the next five years on improvements to the enabling environment for private sector development. This compares with a total of \$8.6million in the past six years. Much of the increase in spending on the enabling environment stems from larger programs for the development of industrial and trade policies and land and property policy and programs. The Government believes that additional support in these areas will help lay the foundations for stronger partnerships between domestic business and foreign investment.

Table 9: Proposed Programs to Improve the Enabling Environment for Private Sector Development
FY2005/06 Through FY2009/10 (In US\$)

Program	Disbursements					Total	
	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	Amount	Percent
Management & administration							
Ongoing programs	83,000	116,000	114,000	132,000	141,000	586,000	4.5
Proposed new programs	105,000	94,500	105,000	63,000	33,000	400,500	3.1
Sub-total	188,000	210,500	219,000	195,000	174,000	986,500	7.6
Industrial policy & development							
Ongoing programs	213,540	248,540	248,500	281,500	314,000	1,306,080	10.1
Proposed new programs	-	168,000	410,000	793,000	263,000	1,634,000	12.6
Sub-total	213,540	416,540	658,500	1,074,500	577,000	2,940,080	22.7
Trade policy & development							
Ongoing programs	114,500	145,500	156,500	163,500	175,000	755,000	5.8
Proposed new programs	-	90,000	520,000	189,000	84,000	883,000	6.8
Sub-total	114,500	235,500	676,500	352,500	259,000	1,638,000	12.6
Land & property policy & programs							
Ongoing programs	1,710,000	276,000	285,000	289,000	295,000	2,855,000	22.0
Proposed new programs	-	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	30.9
Sub-total	1,710,000	1,276,000	1,285,000	1,289,000	1,295,000	6,855,000	52.9
Labor policy and programs							
Ongoing programs	-	-	-	-	-	-	-
Proposed new programs	-	168,000	168,000	-	-	336,000	2.6
Sub-total	-	168,000	168,000	-	-	336,000	2.6
Financial sector development							
Ongoing programs	40,853	-	-	-	-	40,853	0.3
Proposed new programs	-	78,000	78,000	-	-	156,000	1.2
Sub-total	40,853	78,000	78,000	-	-	196,853	1.5
Total enabling environment							
Ongoing programs	2,161,893	786,040	804,000	866,000	925,000	5,542,933	42.8
Proposed new programs	105,000	1,598,500	2,281,000	2,045,000	1,380,000	7,409,500	57.2
Total	2,266,893	2,384,540	3,085,000	2,911,000	2,305,000	12,952,433	100.0

Source: Annex Table 1.

The second major element of the program for private sector development relates to providing direct support for the development entrepreneurs and domestic business, including cooperatives and the informal business sector, as well as support for a more aggressive program of investment promotion to attract FDI into tourism and other key industries already identified by the Government as potential growth poles for the Timor-Leste economy. Support for business development amounts to \$16.7 million (Table 10). A large allocation would continue to go to the promotion of domestic business activities with particular emphasis on SMEs, the informal sector, development of entrepreneurial skills, cooperative forms of business and the other programs detailed in earlier chapters of this SIP.

Planned allocations for micro-credit programs and support for SMEs decline from \$15.1 million in the past six years to \$10.3 million during the next five years. The decline in spending in this area is more apparent than real. In formulating the program the Government has taken account of the fact that the domestic banking system has become more active in recycling savings back into the economy, thus reducing – but not eliminating – the need for donor-funded business credit programs.

Table 10: Proposed Programs to Promote the Domestic Private Sector and Foreign Direct Investment FY2005/06 Through FY2009/10 (In US\$)

Program	Disbursements					Total	
	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	Amount	Percent
Investment promotion							
Ongoing programs	40,000	63,000	66,000	70,000	75,000	314,000	1.9
Proposed new programs	90,000	579,000	768,000	515,000	589,000	2,541,000	15.3
Sub-total	130,000	642,000	834,000	585,000	664,000	2,855,000	17.1
Microfinance programs							
Ongoing programs	375,197	-	-	-	-	375,197	2.3
Proposed new programs	142,000	163,000	84,000	-	-	389,000	2.3
Sub-total	517,197	163,000	84,000	-	-	764,197	4.6
SME Development							
Ongoing programs	2,575,000	2,100,000	2,285,000	450,000	600,000	8,010,000	48.1
Proposed new programs	26,000	244,000	751,000	584,000	720,000	2,325,000	14.0
Sub-total	2,601,000	2,344,000	3,036,000	1,034,000	1,320,000	10,335,000	62.0
Tourism promotion & development							
Ongoing programs	275,052	248,093	65,000	75,000	80,000	743,145	4.5
Proposed new programs	172,000	172,000	292,000	426,000	436,000	1,498,000	9.0
Sub-total	447,052	420,093	357,000	501,000	516,000	2,241,145	13.5
Construction industry development							
Ongoing programs	14,080	-	-	-	-	14,080	0.1
Proposed new programs	-	-	315,000	132,000	-	447,000	2.7
Sub-total	14,080	-	315,000	132,000	-	461,080	2.8
Total business development							
Ongoing programs	3,279,329	2,411,093	2,416,000	595,000	755,000	9,456,422	56.8
Proposed new programs	430,000	1,158,000	2,210,000	1,657,000	1,745,000	7,200,000	43.2
Total	3,709,329	3,569,093	4,626,000	2,252,000	2,500,000	16,656,422	100.0

Source: Annex Table 1.

On-Budget and Capital Expenditures

Donor and Government expenditures on private sector development have been disaggregated into those that are “on-budget” and those that are “off-budget”.²⁵ Estimates have also been made for the capital and recurrent components of the “on-budget” expenditures. The results of these estimations are set out in Table 11. Several important points about the strategy emerge from this analysis. First, in the next five years, “on-budget” expenditures would account for 98 percent of total outlays, compared with 44 percent in the past six years. This large shift stems from the reduction in the amount of donor funds that are channelled direct to the private sector via credit and other programs. As noted earlier, the banking and micro-credit programs of the country are increasingly able to use domestic savings to meet these needs. Second, while there is an appreciable increase in the share of “on-budget” expenditures that are allocated for capital spending, the bulk of the new spending goes to the recurrent costs associated with the build up on capacities for investment and tourism promotion, and for improvements in the enabling environment for investment. The proposed program calls for \$3.9 million of capital spending compared with \$1.8 million in the past six years. Recurrent spending, on the other hand, jumps to \$25.2 million during the next five years compared with the past level of \$13.8 million. These high levels of recurrent spending would involve significant amounts of short-term technical and advisory services to be funded by donors designed to build human and institutional capacities in these important areas. The proposed levels of spending on these services would be expected to decline to more sustainable levels in the medium term.

²⁵ On-budget expenditures include all CFET expenditures and those expenditures by donors that are executed in cooperation with government agencies to provide public services or create or maintain public assets. Off-budget expenditures are those donor-funded expenditures that are channeled direct to local communities or the private sector that create no ongoing or future financial obligation for the government budget.

Table 11: Private Sector Development Expenditures by Type of Expenditure

Expenditure Category	FY1999/00-FY2004/05		FY2004/05-FY2009/10	
	Amount	Percent	Amount	Percent
On-budget expenditures				
Recurrent spending				
Donors	11,360,137	31.9	8,004,355	27.0
CFET	2,405,350	6.8	4,286,000	14.5
Proposed new	-	-	12,889,320	43.5
Sub-total	13,765,487	38.6	25,179,675	85.0
Capital spending				
Donors	896,695	2.5	-	-
CFET	908,500	2.5	2,184,000	7.4
Proposed new	-	-	1,720,180	5.8
Sub-total	1,805,195	5.1	3,904,180	13.2
Total on-budget expenditures				
Donors	12,256,832	34.4	8,004,355	27.0
CFET	3,313,850	9.3	6,470,000	21.9
Proposed new	-	-	14,609,500	49.3
Total	15,570,682	43.7	29,083,855	98.2
Off-budget donor expendi	20,063,807	56.3	525,000	1.8
Total expenditures	35,634,489	100.0	29,608,855	100.0
Memo item				
Total donor expenditures	32,320,639	90.7	8,529,355	28.8

Source: Annex Table 6.

Sources of Funding

As Table 12 indicates, the largest support for private sector initiatives has come from TFET, the United States and Portugal during the past six years. These programs accounted for more than 80 percent of all funding for private sector programs. As noted earlier, these data do not include support for agriculture and natural resources where some Development Partners have been providing substantial amounts of direct support for private sector initiatives. The United States, in particular, has been active in these other areas, including \$18 million for development of the coffee industry, and \$1.5 million for capacity building and other support for the onshore petroleum industry. Norway has also emerged as an important supporter for the further development of the petroleum industry. A number of donors have been active in supporting programs aimed at developing private capacities in agriculture, forestry and fisheries. Several Development Partners have also been active in building capacities for environmental assessments, another important area that impinges on the private sector.

Table 12: Sources of Funding for the Private Sector Development Program, FY1999/00 Through FY2009/10 (In US\$)

Sources of Funding	FY1999/00-FY2004/05		FY2005/06-FY2009/10		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Donors						
TFET	16,291,249	45.7	-	-	16,291,249	25.0
United States	8,501,749	23.9	7,550,000	25.5	16,051,749	24.6
Portugal	4,018,252	11.3	-	-	4,018,252	6.2
ADB	1,091,667	3.1	458,333	1.5	1,550,000	2.4
Other donors	8,619,308	24.2	521,022	1.8	9,140,330	14.0
Sub-total	32,320,639	90.7	8,529,355	28.8	40,849,994	62.6
CFET appropriations	3,313,850	9.3	6,470,000	21.9	9,783,850	15.0
Proposed new programs			14,609,500	49.3	14,609,500	22.4
Total funding	35,634,489	100.0	29,608,855	100.0	65,243,344	100.0

Source: Annex Table 1.

The proposed program for FY2005/06 through FY2009/10 requires \$29.6 million of funding. The pipeline of ongoing donor support for private sector development provides for \$8.5 to be disbursed from ongoing programs. The proposed program requires a substantial amount of new donor support over the next five years. The dominant role played by TFET in funding private sector support raises important questions about the strategy for funding these proposed new programs. With the impending phase out of TFET, the Government must now look to other Development Partners to support the private sector program. At this stage, the level of support for these proposed programs that will be forthcoming from Development Partners and agencies is unclear. It would be highly desirable for one or two Development Partners to take the lead in supporting the proposed program. Without specific donor-funded project-based support, many critical areas of priority Government actions are likely not to be carried out since it is not realistic to expect the international private sector to provide the kind of support needed over the next five years.

VIII. SOURCES OF UNCERTAINTY

Several sources of uncertainty surround the proposed program for Private Sector Development. One is that Development Partners will not be prepared to support the shift from the past heavy emphasis on microfinance and SME development to programs that help develop the enabling environment for business activities and promote domestic and foreign direct investment. The second concern is unforeseen delays in the development of the legislation and regulations needed for an improved investment and business environment, without which the private sector will not have an adequately regulated environment to make calculated business decisions. While, as indicated earlier, considerable progress has been made in the ongoing agenda to develop the legislative and regulatory framework, a significant amount of work remains to draft the required laws and regulations. Moreover, the current levels of staffing are modest in relation to the requirements for a substantial increase in capacities to service the private sector; persistent staff constraints may constrain capacities to deliver results in these areas without carefully designed programs of external support.

Third, even with good progress on the work program, the country may continue to face difficulties in attracting substantially larger amounts of private investment. In this case, the weaker growth of the private sector, and especially the non-farm private sector, would have potentially serious implications for poverty reduction, employment creation and improved living

standards. International investors interested in business opportunities that offer attractive combinations of risk and reward will certainly scrutinize closely the willingness and capacity of Timor-Leste to create the necessary conditions before deciding to invest in the country.

The creation of the conditions expected by both domestic and private investors will require considerable investment on the part of Government. Without a conducive private sector regulatory framework and development of infrastructure that support private investment, domestic and foreign investors are not likely make the required level of investments that will have a significant impact in reducing unemployment and poverty. Creation of the enabling private sector framework and investment in infrastructure that can “pull” private investment is time-sensitive. The longer it takes to create the necessary conditions to attract private investment, the greater the likelihood that Timor-Leste will be bypassed by investors. The Government must therefore find the necessary resources to support private sector development in the country, lest unfavourable perceptions among private investors lead to low levels of private investment.

Donor support has been, and continues to be, an important source of development support, albeit to a more limited degree in private development. However, in a day and age where countries are turning to more innovative ways to attract and retain foreign direct investment, the question needs to be asked whether Timor-Leste can afford to wait before making the necessary investments to attract private investment in the country. Will there still be strong private investor interest in five years time or will other more favourable locations emerge to compete with Timor-Leste? A more aggressive approach in the immediate future to attract private investment may very well mark the crucial turning point in Timor-Leste’s economic development.

IX. ANNEX TABLES

Annex Table 1: Actual and Proposed CFET Appropriations and Donor Expenditure Programs Completed, Ongoing and Under Preparation for Private Sector Development FY1999/00 to FY2009/10 (In US\$)

Budget Category	Annual Appropriations										Total			
	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY1999/00-FY2004/05	Percent	FY2005/06-FY2009/10	Percent
Management & administration											Amount	Percent	Amount	Percent
CFET appropriations	5,000	5,000	15,000	29,500	59,000	83,000	116,000	114,000	132,000	141,000	113,500	0.3	586,000	2.0
Proposed new programs	-	-	-	-	-	-	-	-	-	-	-	-	400,500	1.4
Sub-total	5,000	5,000	15,000	29,500	59,000	188,000	210,500	219,000	195,000	174,000	113,500	0.3	986,500	3.3
Industrial policy & development														
Donor programs	22,040	7,917	-	25,000	14,080	7,040	7,040	-	-	-	69,037	0.2	14,080	0.0
CFET appropriations	-	-	134,500	258,950	210,000	206,500	241,500	248,500	281,500	314,000	603,450	1.7	1,292,000	4.4
Proposed new programs	-	-	-	-	-	-	168,000	410,000	793,000	263,000	-	-	1,634,000	5.5
Sub-total	22,040	7,917	134,500	283,950	224,080	213,540	416,540	658,500	1,074,500	577,000	672,487	1.9	2,940,080	9.9
Trade policy & development														
Donor programs	-	79,853	41,330	-	-	-	-	-	-	-	121,183	0.3	-	-
CFET appropriations	-	-	75,500	81,250	115,000	114,500	145,500	156,500	163,500	175,000	271,750	0.8	755,000	2.5
Proposed new programs	-	-	-	-	-	-	90,000	520,000	189,000	84,000	-	-	883,000	3.0
Sub-total	-	79,853	116,830	81,250	115,000	114,500	235,500	676,500	352,500	259,000	392,933	1.1	1,638,000	5.5
Land and property programs														
Donor programs	-	159,675	319,187	1,698,829	1,150,000	1,150,000	-	-	-	-	3,327,691	9.3	1,150,000	3.9
CFET appropriations	-	-	552,000	581,000	232,000	560,000	276,000	285,000	289,000	295,000	1,365,000	3.8	1,705,000	5.8
Proposed new programs	-	-	-	-	-	-	1,000,000	1,000,000	1,000,000	1,000,000	-	-	4,000,000	13.5
Sub-total	-	159,675	871,187	2,279,829	1,382,000	1,710,000	1,276,000	1,285,000	1,289,000	1,295,000	4,692,691	13.2	6,855,000	23.2
Investment promotion														
Donor programs	-	-	71,928	256,564	250,000	-	-	-	-	-	578,492	1.6	-	-
CFET appropriations	300,000	325,000	46,000	46,575	49,000	40,000	63,000	66,000	70,000	75,000	766,575	2.2	314,000	1.1
Proposed new programs	-	-	-	-	-	90,000	579,000	768,000	515,000	589,000	-	-	2,541,000	8.6
Sub-total	300,000	325,000	117,928	303,139	299,000	130,000	642,000	834,000	585,000	664,000	1,345,067	3.8	2,855,000	9.6
Financial sector development														
Donor programs	36,504	157,121	242,698	1,183,221	160,104	40,853	-	-	-	-	1,779,648	5.0	40,853	0.1
Proposed new programs	-	-	-	-	-	-	78,000	78,000	-	-	-	-	156,000	0.5
Sub-total	36,504	157,121	242,698	1,183,221	160,104	40,853	78,000	78,000	-	-	1,779,648	5.0	196,853	0.7
Labour market policy & programs														
Donor programs	-	750,000	100,985	-	-	-	-	-	-	-	850,985	2.4	-	-
Proposed new programs	-	-	-	-	-	-	168,000	168,000	-	-	-	-	336,000	1.1
Sub-total	-	750,000	100,985	-	-	-	168,000	168,000	-	-	850,985	2.4	336,000	1.1
Microfinance programs														
Donor programs	1,355,027	3,145,305	853,871	559,199	403,847	375,197	-	-	-	-	6,317,249	17.7	375,197	1.3
Proposed new programs	-	-	-	-	-	142,000	163,000	84,000	-	-	-	-	389,000	1.3
Sub-total	1,355,027	3,145,305	853,871	559,199	403,847	517,197	163,000	84,000	-	-	6,317,249	17.7	764,197	2.6
SME development														
Donor programs	3,217,681	2,616,504	3,538,205	3,679,817	1,392,657	2,525,000	2,000,000	2,000,000	-	-	15,144,864	42.5	6,525,000	22.0
CFET appropriations	-	-	-	-	-	50,000	100,000	285,000	450,000	600,000	-	-	1,485,000	-
Proposed new programs	-	-	-	-	-	26,000	244,000	751,000	584,000	720,000	-	-	2,325,000	7.9
Sub-total	3,217,681	2,616,504	3,538,205	3,679,817	1,392,657	2,601,000	2,344,000	3,036,000	1,034,000	1,320,000	15,144,864	42.5	10,335,000	29.9
Tourism development														
Donor programs	-	260,009	118,695	45,237	162,441	226,052	184,093	-	-	-	586,382	1.6	410,145	1.4
CFET appropriations	-	-	71,000	61,575	61,000	49,000	64,000	65,000	75,000	80,000	193,575	0.5	333,000	1.1
Proposed new programs	-	-	-	-	-	172,000	172,000	292,000	426,000	436,000	-	-	1,498,000	5.1
Sub-total	-	260,009	189,695	106,812	223,441	447,052	420,093	357,000	501,000	516,000	779,957	2.2	2,241,145	7.6
Construction industry development														
Donor programs	1,491,696	773,250	1,176,662	-	-	14,080	-	-	-	-	3,545,108	2.2	14,080	26.4
CFET appropriations	-	-	-	-	-	-	-	-	-	-	-	4.4	-	47.7
Proposed new programs	-	-	-	-	-	-	-	315,000	132,000	-	-	6.6	447,000	87.8
Sub-total	1,491,696	773,250	1,176,662	-	-	14,080	-	315,000	132,000	-	3,545,108	13.1	461,080	161.9
Grand total														
Donor programs	6,122,948	7,949,634	6,463,561	7,447,867	3,533,129	4,338,222	2,191,133	2,000,000	-	-	32,320,639	80.8	8,529,355	28.8
CFET appropriations	305,000	330,000	894,000	1,058,850	726,000	1,103,000	1,006,000	1,220,000	1,461,000	1,680,000	3,313,850	9.0	6,470,000	25.7
Proposed new programs	-	-	-	-	-	535,000	2,756,500	4,491,000	3,702,000	3,125,000	-	-	14,609,500	47.8
Total	6,427,948	8,279,634	7,357,561	8,506,717	4,259,129	5,976,222	5,953,633	7,711,000	5,163,000	4,805,000	35,634,489	100.0	29,608,855	100.0

Source: Annex Tables 2 and 3.

Annex Table 2: Donor Expenditures on Private Sector Development Programs
FY1999/00 to FY2009/10 (In US\$)

Program and/or Activity	Donor	Annual Disbursements									Total		
		FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	Disbursed	Approved
Industry and trade policy and development													
Industrial development	Norway	22,040										22,040	22,860
Management seminar on industrial development	Japan		7,917									7,917	7,917
Industrial infrastructure improvement	Japan					7,040	7,040					14,080	14,080
Research standards, material reference for industry	Japan					7,040		7,040				14,080	14,080
International trade patterns & analysis	United States		41,220	41,330								82,550	82,550
Trade policy advisor	Korea				25,000							25,000	25,000
Trade policy	Norway		38,633									38,633	38,633
Sub-total		22,040	87,770	41,330	25,000	14,080	7,040	7,040	-	-		204,300	205,120
Financial sector development													
Technical assistance for financial sector I	Portugal		151,944									151,944	151,944
Technical assistance for financial sector II	Portugal			226,611								226,611	226,611
Field visits	Portugal	36,504	5,177	12,503	7,528							61,712	58,114
Financial sector capacity building	Portugal				154,790	154,790						309,580	309,580
Membership International Financial Society	Portugal				804,515							804,515	804,515
Trade, investment & banking policy	Thailand				4,493	5,314						9,807	4,493
Trade, investment & banking policy II	Thailand						40,853					40,853	40,853
Training on business finance	Japan			1,792								1,792	1,792
Training on development banking	Japan			1,792								1,792	1,792
Expert on financing & recruitment	Sweden				211,895							211,895	211,895
Sub-total		36,504	157,121	242,698	1,183,221	160,104	40,853	-	-	-		1,820,501	1,811,589
Property rights and land tenure													
Land Law Project I	United States				1,698,829							1,698,829	1,698,829
Renovation of DTP national office	United States		37,421	37,422								74,843	74,843
LPU training & development	United States		60,000	60,000								120,000	120,000
LPU training for cadastre survey	United States		32,140	32,141								64,281	64,281
Ownership problems & economic growth	United States		30,114	30,115								60,229	60,229
Land Law Project II	United States					1,150,000	1,150,000					2,300,000	2,300,000
Build land conflict resolution skills	Canada			159,509								159,509	159,509
Sub-total		-	159,675	319,187	1,698,829	1,150,000	1,150,000	-	-	-		4,477,691	4,477,691
Investment policy & promotion													
Build sustainable investment & commercial structure	United States			71,928								71,928	71,928
Workshop on investment promotion	Ireland				6,564							6,564	6,564
Investment adviser Office of Director of Investment	United States				250,000	250,000						500,000	500,000
Sub-total		-	-	71,928	256,564	250,000	-	-	-	-		578,492	578,492
Microfinance programs													
Microfinance	ADB	75,000	75,000									150,000	150,000
Strengthen microfinance legal framework	ADB	246,000	4,000									250,000	250,000
Microfinance information technology	ADB		130,000	10,000	10,000							150,000	150,000
Strengthen financial management capacities	ADB				83,334	83,333	83,333					250,000	250,000
Strengthen microfinance operations	ADB					250,000	250,000					500,000	500,000
Microfinance expansion project	United States		45,865	30,000								75,865	75,865
Expansion of Moris Rasik micro-lending program	United States		25,150	25,150								50,300	50,300
Expansion of microfinance to Same	United States			91,507								91,507	91,507
Grants for microfinance	United States	67,696	67,695	67,695								203,086	203,086
Microfinance for Timorese women	United States	25,000	25,000									50,000	50,000
Opportunity International	United States		47,262	47,261								94,523	94,523

Annex Table 2: Donor Expenditures on Private Sector Development Programs
FY1999/00 to FY2009/10 (In US\$)

Program and/or Activity	Donor	Annual Disbursements									Total		
		FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	Disbursed	Approved
Microfinance pilot program	United States		43,305	56,600								99,905	99,905
Reestablish microfinance program in TL	United States		80,993	80,994								161,987	161,987
Women's economic empowerment & livelihood I	United States		43,245	44,244								87,489	87,489
Women's economic empowerment & livelihood II	United States		49,277	49,278								98,555	98,555
Womens program of funds for onlending	Ireland					40,000	40,000					80,000	80,000
Onending funds for microfinance	Ireland				15,000	15,000						30,000	30,000
Impact research on microfinance	Ireland					13,650						13,650	13,650
Women's conference	Ireland				1,865	1,864	1,864					5,593	5,593
Moris Rasik Microfinance	Australia		208,513	30,142								238,655	235,485
Microfinance development project	TFET	930,000	2,300,000	321,000	449,000							4,000,000	4,000,000
Microfinance training course	Malaysia		11,331									11,331	11,331
Sub-total		1,355,027	3,145,305	853,871	559,199	403,847	375,197	-	-	-	-	6,692,446	6,689,276
SME & cottage industry development													
Small scale enterprise I	TFET	3,110,000	700,000	281,249								4,791,249	4,850,000
Pilot to stimulate pottery industry	United States		36,000	53,013								89,013	89,013
Support for water filter project	United States		30,141	51,141								81,282	81,282
Grants for small & medium business	United States	41,265	41,263	41,263								123,791	123,791
Grants for industry & mining	United States	43,281	43,281	43,281								129,843	129,843
Capacity building for microenterprises	United States		40,000	55,575								95,575	95,575
Market development & promotion traditional tais	United States		28,588	28,589								57,177	57,177
Private sector development	United States					350,000	400,000					750,000	750,000
Economic development grants	United States				518,817	828,657						1,347,474	1,347,474
Economic development grants II	United States						2,000,000	2,000,000	2,000,000			6,000,000	6,000,000
Rebuild traditional weaving industry	Japan	23,135										23,135	23,135
Support for microenterprise	ADB					125,000	125,000					250,000	250,000
Training on productivity management	Japan			5,375								5,375	5,375
Training on productivity management	Japan		3,583									3,583	3,583
Small enterprise II	TFET		1,500,000	2,750,000	3,161,000	89,000						7,500,000	7,500,000
Microenterprise project	Australia		193,648	228,719								422,367	398,313
Sub-total		3,217,681	2,616,504	3,538,205	3,679,817	1,392,657	2,525,000	2,000,000	2,000,000	-	-	21,669,864	21,704,561
Labour Markets													
Support for Sec of Labor and Solidarity	Portugal			100,985								100,985	100,985
Strengthen & improve labor relations	United States		750,000									750,000	750,000
Sub-total		-	750,000	100,985	-	-	-	-	-	-	-	850,985	850,985
Tourism development													
Technical assistance for tourism development	Portugal		22,314									22,314	22,314
Community based eco-tourism Aturo Island	Australia		64,839	52,646								117,485	164,616
Community-based eco-tourism in Lauhata &Maumeta	Japan		16,348	16,348								32,696	32,695
Tourism promotion and marketing	Japan						14,080					14,080	14,080
Training program for tourism, Baucau	Portugal		66,586		6,697							73,283	71,768
Development of tourism policies	Portugal		59,922									59,922	59,922
English training for tourism officials	Japan			3,583								3,583	3,583
Support for tourism	EU					143,727	169,389	184,093				497,209	497,209
Support for tourism	Thailand				38,540							38,540	45,000
Tourism II	Thailand					18,714	17,000					35,714	35,714
Tourism III	Thailand						25,583					25,583	25,583
Land of discovery photo archive	United States		30,000	46,118								76,118	76,118
Sub-total		-	260,009	118,695	45,237	162,441	226,052	184,093	-	-	-	996,527	1,048,602
Construction industry developmnt													
Construction policy & administration	Portugal		488,809	1,005,039								1,493,848	1,490,366
SIG construction development	Portugal	38,426	35,941									74,367	74,367
Public market reconstruction	Japan	248,500	248,500	145,234								745,734	745,734
Training on construction management	Japan			26,389								26,389	26,389
Construction management in civil works	Japan						14,080					14,080	14,080
Construction grants	Portugal		639,171									639,171	636,333
Grants for construction	United States		565,599									565,599	565,599
Sub-total		1,491,696	773,250	1,176,662	-	-	14,080	-	-	-	-	3,559,188	3,552,868
Grand Total		6,122,948	7,949,634	6,463,561	7,447,867	3,533,129	4,338,222	2,191,133	2,000,000	-	-	40,849,994	40,919,184

Source: Registry of External Assistance.

Annex Table 3: Summary of CFET Budget Appropriations for Private Sector Development
FY1999/00 to FY2009/10 (In US\$)

Budget Category	Annual Appropriations									Total			
	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY1999/00-FY2004/05		FY2005/06-FY2009/10	
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Percent	Amount	Percent
Office of Minister for MDE (50%)	5,000	9,000	17,500	-	-	-	-	-	-	36,500	1.1	-	-
Office of Vice Minister MDE (50%)	-	6,000	12,000	-	-	-	-	-	-	18,000	0.5	-	-
Minister of Development	-	-	-	35,000	35,000	36,000	37,000	38,000	40,000	35,000	1.1	186,000	2.9
Vice Minister of Development	-	-	-	24,000	24,000	25,000	26,000	27,000	28,000	24,000	0.7	130,000	2.0
Sec of State Tourism & Environment (50%)	-	10,000	12,000	-	-	-	-	-	-	22,000	0.7	-	-
Sec of State Tourism, Environment, Investment (66.7%)	-	-	-	16,000	-	-	-	-	-	16,000	0.5	-	-
Sec of State for Development	-	-	24,000	-	-	-	-	-	-	24,000	0.7	-	-
Permanent Sec for Development	-	-	-	-	14,000	18,000	14,000	14,000	14,000	-	-	74,000	1.1
Sec of State for Trade & Industry	-	19,000	24,000	24,000	-	-	-	-	-	67,000	2.0	-	-
Management & Administration	-	24,000	22,300	82,000	69,000	73,000	75,000	77,000	80,000	128,300	3.9	374,000	5.8
National directorate of Trade	-	54,000	58,100	62,000	80,000	109,000	119,000	125,000	135,000	174,100	5.3	568,000	8.8
National Directorate of Industry	-	113,000	46,000	59,000	62,000	76,000	89,000	113,000	140,000	218,000	6.6	480,000	7.4
Office of Development	-	-	165,800	-	-	-	-	-	-	165,800	5.0	-	-
National Directorate of Development	-	-	-	98,000	96,000	111,000	108,000	116,000	120,000	98,000	3.0	551,000	8.5
National Directorate of Investment	-	-	-	41,000	40,000	63,000	66,000	70,000	75,000	41,000	1.2	314,000	4.9
Department of Tourism & Investment	-	-	-	-	-	-	-	-	-	-	-	-	-
Management & administration (50%)	-	-	17,650	-	-	-	-	-	-	17,650	0.5	-	-
Investment	-	46,000	37,750	-	-	-	-	-	-	83,750	2.5	-	-
Tourism	-	61,000	40,750	-	-	-	-	-	-	101,750	3.1	-	-
Economic Affairs & Development	325,000	-	-	-	-	-	-	-	-	625,000	18.9	-	-
Planning , policy and research	-	-	-	-	24,000	55,000	51,000	67,000	73,000	-	-	270,000	4.2
National Directorate of Tourism	-	-	-	53,000	49,000	64,000	65,000	75,000	80,000	53,000	1.6	333,000	5.1
Directorate of public works, construct minimarkets	-	-	-	-	50,000	100,000	285,000	450,000	600,000	-	-	1,485,000	23.0
Land & Property Unit (MOJ)	-	282,000	231,000	232,000	245,000	276,000	285,000	289,000	295,000	745,000	22.5	1,390,000	21.5
National Office building	-	270,000	350,000	-	315,000	-	-	-	-	620,000	18.7	315,000	4.9
Total	330,000	894,000	1,058,850	726,000	1,103,000	1,006,000	1,220,000	1,461,000	1,680,000	3,313,850	100.0	6,470,000	100.0
Memo item:													
Capital expenditures	49,000	336,500	451,000	52,000	401,000	153,000	428,000	524,000	678,000	908,500	27.4	2,184,000	33.8

Source: Budget Office. Data for FY2001/02 are estimates.

Annex Table 4: Sources of Funding for Private Sector Development
FY1999/00 to FY2009/10 (In US\$)

Source of Funding	Annual Disbursements										Total	
	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	Disbursed	Approved
Donors												
TFET	4,040,000	4,500,000	3,352,249	3,610,000	89,000	-	-	-	-	-	16,291,249	16,350,000
United States	742,841	1,627,960	1,084,645	2,467,646	2,578,657	3,550,000	2,000,000	2,000,000	-	-	16,051,749	16,051,749
Portugal	714,101	830,693	1,345,138	973,530	154,790	-	-	-	-	-	4,018,252	4,006,819
ADB	321,000	209,000	10,000	93,334	458,333	458,333	-	-	-	-	1,550,000	1,550,000
Japan	271,635	276,348	200,513	-	14,080	35,200	7,040	-	-	-	908,316	908,315
Australia	-	467,000	311,507	-	-	-	-	-	-	-	778,507	798,414
European Union	-	-	-	-	143,727	169,389	184,093	-	-	-	497,209	497,209
Sweden	-	-	-	211,895	-	-	-	-	-	-	211,895	211,895
Canada	-	-	159,509	-	-	-	-	-	-	-	159,509	159,509
Thailand	-	-	-	43,033	24,028	83,436	-	-	-	-	150,497	151,643
Ireland	-	-	-	23,429	70,514	41,864	-	-	-	-	135,807	135,807
Norway	22,040	38,633	-	-	-	-	-	-	-	-	60,673	61,493
Korea	-	-	-	25,000	-	-	-	-	-	-	25,000	25,000
Malaysia	11,331	-	-	-	-	-	-	-	-	-	11,331	11,331
Total	6,122,948	7,949,634	6,463,561	7,447,867	3,533,129	4,338,222	2,191,133	2,000,000	-	-	40,849,994	40,919,184
CFET appropriations	305,000	330,000	894,000	1,058,850	726,000	1,103,000	1,006,000	1,220,000	1,461,000	1,680,000	3,313,850	3,313,850
Total	6,427,948	8,279,634	7,357,561	8,506,717	4,259,129	5,441,222	3,197,133	3,220,000	1,461,000	1,680,000	44,163,844	44,233,034
CFET as % of total	4.7	4.0	12.2	12.4	17.0	20.3	31.5	37.9	100.0	100.0	7.5	7.5

Source: Annex Tables 2 and 3.

Annex Table 5: Proposed New Projects and Programs for Private Sector Development
(In US\$ '000)

Program	Possible Funding Source	Proposed Amount	Annual disbursements					Total
			FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	
Management & administration	USAID							
Capacity building for policy making		400,500	105,000	94,500	105,000	63,000	33,000	400,500
Legal & regulatory environment for business								
Development of regulatory environment		820,000		168,000	163,000	163,000	163,000	657,000
Industrial policy and development								
Industrial development policies/strategies		1,077,000			247,000	630,000	100,000	977,000
Sub-total		1,077,000	-	-	247,000	630,000	100,000	977,000
Trade policy and development								
Establish metrology system		300,000			300,000			300,000
Trade policy development		583,000		90,000	220,000	189,000	84,000	583,000
Sub-total		883,000	-	90,000	520,000	189,000	84,000	883,000
Land & property policy & programs								
Land law program		4,000,000		1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Labor policy and programs								
Labor policy		336,000		168,000	168,000			336,000
Investment promotion								
Foreign direct investment promotion I		2,732,000		268,000	578,000	468,000	578,000	1,892,000
Investment linkage concept		232,000			116,000			232,000
Domestic business promotion I		274,000	90,000	90,000	55,000	28,000	11,000	274,000
Raising local content in infrastructure		447,000			315,000	132,000		447,000
Entrepreneurship awards scheme		143,000		105,000	19,000	19,000		143,000
Sub-total		3,828,000	90,000	579,000	1,083,000	647,000	589,000	2,988,000
Financial sector development								
Financial sector framework & policies	156,000		78,000	78,000			156,000	
Tourism policy and development								
Tourism promotion program	1,498,000	172,000	172,000	292,000	426,000	436,000	1,498,000	
Microenterprise & cooperative development								
Informal sector	378,000		189,000	189,000			378,000	
Cooperative sector institution development	1,445,000			320,000	347,000	615,000	1,282,000	
Development of entrepreneurs	396,000	26,000	55,000	105,000	105,000	105,000	396,000	
Arts & crafts supply chain alignment	269,000			137,000	132,000		269,000	
Sub-total	2,488,000	26,000	244,000	751,000	584,000	720,000	2,325,000	
Microfinance								
Microfinance expansion	389,000	142,000	163,000	84,000			389,000	
Total		15,875,500	535,000	2,756,500	4,491,000	3,702,000	3,125,000	14,609,500

Annex Table 6: Classification of Private Sector Development Sector Expenditures by Type of Expenditure
FY1999/00 to FY2009/10 (In US\$)

Expenditure Category	Annual Appropriations										Total			
	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY2009/10	FY1999/00-FY2004/05		FY2004/05-FY2009/10	
											Amount	Percent	Amount	Percent
On-budget expenditures														
Recurrent spending														
Donors	366,105	2,144,216	2,042,820	3,837,867	2,969,129	3,813,222	2,191,133	2,000,000	-	-	11,360,137	31.9	8,004,355	
CFET	285,000	281,000	557,500	607,850	674,000	702,000	853,000	792,000	937,000	1,002,000	2,405,350	6.8	4,286,000	
Proposed new	-	-	-	-	-	448,540	2,543,320	3,778,970	3,331,740	2,786,750	-	-	-	12,889,320
Sub-total	651,105	2,425,216	2,600,320	4,445,717	3,643,129	4,963,762	5,587,453	6,570,970	4,268,740	3,788,750	13,765,487	38.6	25,179,675	
Capital spending														
Donors	248,500	315,921	228,774	-	-	-	-	-	-	-	896,695	2.5	-	
CFET	20,000	49,000	336,500	451,000	52,000	401,000	153,000	428,000	524,000	678,000	908,500	2.5	2,184,000	
Proposed new	-	-	-	-	-	86,460	213,180	712,030	370,260	338,250	-	-	-	1,720,180
Sub-total	268,500	364,921	565,274	451,000	52,000	487,460	366,180	1,140,030	894,260	1,016,250	1,805,195	5.1	3,904,180	
Total on-budget expenditures														
Donors	614,605	2,460,137	2,271,594	3,837,867	2,969,129	3,813,222	2,191,133	2,000,000	-	-	12,256,832	34.4	8,004,355	
CFET	305,000	330,000	894,000	1,058,850	726,000	1,103,000	1,006,000	1,220,000	1,461,000	1,680,000	3,313,850	9.3	6,470,000	
Proposed new	-	-	-	-	-	535,000	2,756,500	4,491,000	3,702,000	3,125,000	-	-	-	14,609,500
Total	919,605	2,790,137	3,165,594	4,896,717	3,695,129	5,451,222	5,953,633	7,711,000	5,163,000	4,805,000	15,570,682	43.7	29,083,855	
Off-budget donor expenditures	5,508,343	5,489,497	4,191,967	3,610,000	564,000	525,000	-	-	-	-	20,063,807	56.3	525,000	
Total expenditures	6,427,948	8,279,634	7,357,561	8,506,717	4,259,129	5,976,222	5,953,633	7,711,000	5,163,000	4,805,000	35,634,489	100.0	29,608,855	
Memo item														
Total donor expenditures	6,122,948	7,949,634	6,463,561	7,447,867	3,533,129	4,338,222	2,191,133	2,000,000	-	-	32,320,639	90.7	8,529,355	