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Enabling Environment for Sustainable Enterprises



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Enabling Environment for Sustainable Enterprises in Timor-Leste

2016



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Geneva

2016

The enabling environment for sustainable enterprises in Timor-Leste

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Foreword

This assessment was conducted in line with the ILO methodology on the Enabling Environment for Sustainable Enterprises (ESEE). This methodology assesses the business environment in terms of the economic, social, political and environmental aspects of doing business. The ESEE methodology was developed in response to the June 2007 International Labour Conference (ILC), which underlined the promotion of sustainable enterprises and called for the strengthening of the institutions and governance systems which nurture enterprises. The conclusions reached at the 2007 ILC discussion identified 17 pillars for an environment conducive to the promotion of sustainable enterprises, which form the basis of the ESEE methodology.

This ILO report provides an overview of the research findings of the ESEE assessment. It identifies the relative strengths and weaknesses of the enabling environment for sustainable enterprises in Timor-Leste. The purpose of the assessment is to stimulate debate and to provide an evidence based report for policy reforms, leading to an environment that is more conducive to the promotion of sustainable enterprises in Timor-Leste. In accordance with the methodology, following a thorough literature review, focus group discussions were organized to identify the most important pillars for deeper analysis. Tripartite participants at a first validation workshop held in May 2016 in Dili, identified the following priority conditions: entrepreneurial culture, enabling legal and regulatory environment, access to financial services, physical infrastructure, and education and lifelong learning. In addition, the findings of assessment stressed the importance of tackling issues pertaining to good governance. With the support of external researchers, a survey was conducted among 254 companies from the six districts of Timor-Leste, namely Baucau, Manatuto, Viqueque, Dili, Liquica, and Bobonaro.

While the work was led by Dr. Farid Hegazy of the ILO, the present report has greatly benefited from inputs from various consultations with and written comments from various stakeholders. Special appreciation is due to the Business Opportunities and Support Services (BOSS) programme funded by New Zealand Foreign Affairs and Trade Aid Programme for the coordination efforts. Special thanks also go to the technical specialists of the ILO, Ms. Miaw Tiang Tang, Mr. Roberto Pes, Ms. Rolly Damayanti and Mr. Owais Parray, as well as to the ILO consultants Saumya Premchander and Miya EunMee Lee for their invaluable research assistance.

The views expressed in the report are the sole responsibility of the authors and do not represent those of the ILO. Similarly, any errors or omissions are the sole responsibility of the authors.

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Abbreviations

ANC	Autoridade Nacional de Comunicações
BNCTL	Banco Nacional de Comercio de Timor-Leste
CAC	Anti-Corruption Commission
CCI-TL	Chamber of Commerce and Industry Timor-Leste
CMATS	Certain Maritime Arrangements in the Timor Sea
CNRT	National Congress for Timorese Reconstruction
EESE	Enabling Environment for Sustainable Enterprises
EITI	Extractives Industry Transparency Initiative
EPI	Environmental Performance Index
FDI	Foreign Direct Investment
FETL	Forum dos Empresários de Timor-Leste
FRETILIN	Revolutionary Front for an independent East Timor
FSP	Fundus Subvensaun Publika
GDP	Gross Domestic Product
GOTL	Government of Timor-Leste
IADE	Institute of Business Support
ICT	Information and Communication Technologies
ILO	International Labour Organization
INDMO	National Labour Force Development Institute
KSTL	Timor-Leste Trade Union Confederation
MECAE	Ministry of State, Coordinating Minister for Economic Affairs
MFI	Microfinance Institution
NGO	Non-Governmental Organization
NRI	Networked Readiness Index
PDHJ	Ombudsman for Human Rights and Justice
PTI	Portuguese Telecom International
RTTL	Radio Televisão de Timor-Leste
SATL	Agricultural Union of Timor-Leste
SDP	Strategic Development Plan
SEPFOPE	Secretary of State for Vocational Training Policy and Employment
SERVE	Business Verification and Registration Service
SJTL	General Workers Union of Timor-Leste
SMEs	Small and medium-sized enterprises
SPTL	Teachers Union of Timor-Leste
TRADEINVEST	Timor-Leste Investment and Export Promotion Agency
TVET	Technical and Vocational, Education and Training
UN	United Nations
UNDP	United Nations Development Programme
UNMISSET	United Nations Mission of Support in Timor-Leste
UNMIT	United Nations Integrated Mission in Timor-Leste
UNTAET	United National Transitional Administration in East Timor
USAID	United States Agency for International Development
WEF	World Economic Forum
WTO	World Trade Organization

Executive summary

With the commitment to boost economic development and diversify a non-oil economy, the Minister of State, Coordinating Minister for Economic Affairs (MECAE) in the VI Constitutional Government of Timor-Leste developed a Guide for Economic Reform and Growth (GRFE). The Guide aims at addressing key constraints affecting businesses, improve regulatory environment, and carry out policies and programmes to promote the non-oil sectors of the economy. The Guide consists of a set of interventions in seven critical areas to accelerate the process of economic development in the short and medium term.

As a representative and voice for private sector in Timor-Leste, the Chamber of Commerce and Industry of Timor-Leste (CCI-TL) has been actively improving the involvement of the private sector in policy dialogue. With the shared goal of creating more jobs through private sector development, the ILO collaborated with MECAE and CCI-TL to assess the business environment and develop plans of action to improve the business environment in Timor-Leste.

The 96th session of the International Labour Conference held in Geneva in 2007, adopted conclusions for the promotion of sustainable enterprises and identified 17 elements of an enabling environment for sustainable enterprises. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

In this context, the ILO is implementing the Enabling Environment for Sustainable Enterprises (ESEE) initiative, which was developed as the ILO flagship programme following the conclusion of the Conference. In Timor-Leste, ESEE was carried out to collect and analyse all the necessary data and to present a report on the findings.¹ In accordance with the methodology, focus groups were organized to identify the most important pillars for deeper analysis. With the support of external researchers and using the ESEE questionnaire, a survey was conducted in May-June 2016 among 254 companies from six districts of Timor-Leste, namely Manatuto, Baucau, Viqueque, Dili, Liquica and Bobonaro. About 66 per cent of the respondents, which is 167 enterprises, were based in Dili.

Based on the ESEE methodology, there are four main segments analysed in this report: political, economic, social and environmental elements. Six countries, namely, Cambodia, Cabo Verde, Fiji, Indonesia, Rwanda and Vietnam, were selected as comparator countries for Timor-Leste. These countries were chosen either because of their economic similarities, and their geographical similarities, e.g. as small island states or because of their successes in business environment reform. This ILO report synthesises the findings of the enterprise perception survey, data collection and a literature review, assessing the enterprise environment against 17 key elements for enabling sustainable enterprises.

Political elements

Following the restoration of independence in 2002, Timor-Leste is establishing itself as a young democracy. Timor-Leste has made significant progress since independence. It is now a politically stable country there are improvements across several socio-economic indicators, and public sector institutions have been established. Timor-Leste still faces challenges to build a healthy democracy, and a diversified economy in the context of fragile and nascent institutions, as well as limited human capital in terms of skilled labour.

¹ For more information please visit the ESEE website www.ilo.org/eese

In 2010, Aderito Soares was sworn in as Timor-Leste's first anti-corruption commissioner to investigate repeated accusations of corruption against state officials, particularly with regards to the awarding of tenders and contracts for goods, services and industrial activities. The EASE Timor-Leste Survey identified corruption as a serious problem. While the freedom of the press appears to be relatively undisturbed, readership of press is limited by physical factors, as well as by high rates of illiteracy.

Economic elements

Timor-Leste has had strong Gross Domestic Product (GDP) growth in the last few years based on exploitation of its vast hydrocarbon reserves. The oil sector accounts for most of the economic activity in the country, and dependence on this sector makes the economy very uneven, particularly given that the majority of the population earns its income from subsistence agriculture. The dominance of oil which tends to be capital-intensive has not led to widespread job creation. Lack of processing capacities means that all the unprocessed oil and gas is sold and piped to Australia for processing. The Government is fully aware of the need to diversify the economy of the country and as a result it is carrying out major reforms.

According to the 2013 Timor-Leste Labour Force Survey, 41 per cent of people were employed in agriculture excluding a substantial number of subsistence foodstuff producers. Another 45.1 per cent were employed in the service sector and 13 per cent worked in industry. Agricultural products include coffee, rice, cassava, sweet potatoes, soybeans and vanilla, while imports include food, gasoline and machinery. The public sector accounts for about half of non-agricultural employment, and the formal labour market remains relatively undeveloped.

Development investment including infrastructure is dependent on government spending which is primarily financed by petroleum revenues. Off-shore petroleum projects in the Timor Sea account for more than 95 per cent of government revenue. In 2005, Parliament approved the creation of a Petroleum Fund to harness petroleum revenues for long-term growth. The government has directed a lot of resources towards improving basic infrastructure including electricity and roads, but with limited experience of procurement, and problems in implementation the results are not optimal.

The regulatory conditions for the growth of business initiatives are improving, but are far from ideal. Despite considerable reductions, the minimum capital requirement for establishing a business remains equal to more than the average annual income. Respondents of the EASE Timor-Leste Survey identified access to finance as requiring improvement. Corruption and nepotism are serious hindrances to economic growth in Timor-Leste; particularly when relating to things like government procurement. The institutional framework for private sector growth is weak, and Doing Business rankings are consistently low, with Timor-Leste standing at 173 out of 189 countries in 2016.

Private sector development has been slow because of gaps in infrastructure, weaknesses of the legal system, poor regulation, low levels of productivity, the persistent shortage of skilled labour and other human capital. Low investment and damage during the independence struggle, physical infrastructure, such as roads, ports and airports also require attention. Electricity production has improved considerably, but consumption is very low owing to low industrial capacity. Internet connectivity is extremely sparse; as of 2014 there were an estimated 12,000 internet users in Timor-Leste which is about 1.0 per cent of the population.

Social elements

Widespread poverty, and the rural-urban divide pose a continuing threat to social, economic and political stability. About 32.8 per cent of the population is urban, with Dili being the only major urban area. The total population was 1.2 million as of July 2015, of which 61.84 per cent are under the age of 24. The high population growth rate of 2.42 per cent, the 30th highest in the world, is reflective of widespread poverty, and renders even more urgent the imperative for inclusive economic growth. Life expectancy is 67.72 years on average, which places it at 165th in the world in comparison with other countries. On average, according to World Bank data, in 2014 each woman had five children, making the total fertility rate relatively high.

Literacy levels are low in Timor-Leste, which has led to a skills gap, when it comes to filling jobs in industry. Most of the population relies on low-productivity agriculture. There is an acute need for skills-development, and language training. The migration of young men to towns has led to rural labour shortages, and the labour force participation rate of women is low. Urbanization has been exacerbated by growing food insecurity in Timor-Leste. Markets are inadequately developed, the rural economy remains largely non-monetised, and urban dwellers remain impoverished, which has led to a shrinking in agricultural production. As indicated by the EESE Timor-Leste Survey vocational training and skills improvement, including soft skills and language abilities need to be addressed.

According to the World Health Organization, public expenditure in health increased from 54 per cent to 90 per cent between 2004 and 2014. However, government spending is directly linked to oil revenues, which are expected to fall in the future, and slow economic growth. There is the need to invest in poverty-alleviation measures, and accelerate socio-economic development to help the economy overcome the inevitable contraction from the reduction of oil-revenues.

Environmental elements

Timor-Leste is drought prone, and in the path of El Niño, so water management is very important. About 25 per cent of land is under agricultural use but just 350 square km, of a total 14,874 square km were irrigated as of 2012. Arable land forms 10.1 per cent, with only 4.9 per cent with permanent crops. Slash and burn agriculture has led to deforestation and soil erosion. In addition, Timor-Leste is food insecure, due to a combination of factors, which further heightens the need for environmental stewardship. Carbon dioxide emissions are also comparatively rather low. Timor-Leste's Government recognizing the importance of environmental sustainability has devised a National Biodiversity Strategy and Action Plan of Timor-Leste (2011-2020), which contextualizes the wealth of biodiversity and drivers of biodiversity loss in Timor-Leste, while setting out national actions to achieve the priority targets and strategies.² Similarly, Timor-Leste has set out a National Action Plan for Climate Change.³

Assessment results and ways forward

The final results of the assessment of EESE in Timor-Leste indicate that there is scope for improving across all the pillars. In order to maximise the impact of future actions, focus should be put on the following: entrepreneurial culture, enabling legal and regulatory environment, access to

² Government of Timor-Leste, 2011.

³ UNDP, 2010.

financial services, physical infrastructure, and education and lifelong learning. In addition, the findings of assessment stress the importance of tackling issues pertaining to good governance.

The below table proposes some concrete measures to address challenges and constraints facing businesses. These measures are in no way exhaustive, but key priorities that will further create an enabling environment for private sector growth and good jobs.

CONDITION FOR ACTION	DESIRED RESULTS	PROPOSED MEASURES
Good governance	Good, effective and transparent public administration; Reduced level of corruption	<ul style="list-style-type: none"> -Improve the efficiency of public administration through good management, better organization and higher level of responsibility; -Improve the system of control and ensure regular (independent) reporting on the efficiency of public administration; -Strengthen the institutional capacities for tackling bribery and corruption; -Intensify the promotion of anti-corruption measures; -Inform the public on corruption affairs and persons involved; -Make public services' procedures known to public; -Improve the capacity for public procurement and audits; -Improve the transparency of the public procurement process at all stages; -Improve control and monitoring over the public resources spent by the state and local authorities; -Raise awareness of government administration on the importance of necessary help and support to SMEs; -Improve the usage of e-services especially for the private sector.
Physical infrastructure	Improved physical infrastructure, which supports private sector growth.	<ul style="list-style-type: none"> -Assure that Strategic Development Plan (SDP) allocations for road and bridge maintenance is maintained or increased and reaches especially rural areas; -Improve rural infrastructure including agricultural feeder roads, water management and irrigation, quarantine and laboratory systems, regular information global prices for agriculture -Accelerate the development/establishment of Tibar Port as an alternative to the current Dili Port. -Conduct feasibility study to use Dili port as marine ship port to support infrastructure for the Tourism sector. -Rehabilitate and update the port in Oecusse as planned as part of Oecusse Special Economic Zone (ZEESM); -Upgrade the airports of Suai and Oecusse to make use of the facility and promote domestic air travel. -Continue to build the capacity of customs, port and quarantine authorities;

CONDITION FOR ACTION	DESIRED RESULTS	PROPOSED MEASURES
Entrepreneurial culture	<p>Improved attitudes towards entrepreneurship;</p> <p>Entrepreneurship is increasingly seen as a career choice by in-school youth;</p> <p>better suitable entrepreneurship and business development programmes available;</p> <p>Out-of-school young men and women equipped with necessary skills;</p> <p>Business mentorship is expanded.</p>	<ul style="list-style-type: none"> - Establish national joint efforts to promote a programme on entrepreneurship culture in in-school and out of school; including soft skills - Continue the annual business plan competition aiming at promoting entrepreneurship amongst the general population. - Develop a unified classification system for small and medium sized enterprises (SMEs), which is applicable for all sectors and ministries. - Improve and strengthen existing programme facilities to assist start up and growth oriented enterprises for priority sectors. - Expand and adapt existing entrepreneurship education to general secondary and tertiary education and align business development training programmes; - Continue and expand business mentoring programme based on review of lessons learned. - Increase the effectiveness of linkage between school and CEOPS (Centre for Employment) for career guidance; promoting soft skills and entrepreneurship.
Access to financial services	<p>Small businesses and starting entrepreneurs are better able to access finance;</p> <p>Small entrepreneurs are better able to manage their money and repay their loans.</p>	<ul style="list-style-type: none"> - Enforce a regulatory framework promoting the provision of financial services (including technology-based services such as payment systems) for SMEs and start-up entrepreneurs including for MFIs and credit cooperatives; - Develop the capacity and provide hands-on support to financial service providers to develop demand-driven financial products (loans, savings, payments, leasing and insurance) for specific market segments (e.g. female and young entrepreneurs, agricultural operators); - Strengthen the capacity of BDS providers to assist entrepreneurs in the loan application process including the development of business plans; - Further-develop and implement a financial education strategy (including topics on savings, investments, budgeting, debt- and risk management); - Provide special credit lines including credit guarantee that comply with individual SME needs. - Develop a national credit guarantee scheme

CONDITION FOR ACTION	DESIRED RESULTS	PROPOSED MEASURES
Enabling legal and regulatory environment	Reduced costs of doing business; Acceleration and simplification of procedures; Higher level of legal security and predictability both for citizens and companies.	<ul style="list-style-type: none"> -Improve the work of regulatory bodies and decrease the number of overlapping bodies; -Improve the communication strategy for government progress of the property rights issue. -Extend the right of ownership of land to legal entities nationally incorporated -Expand forms of alternative dispute resolution (e.g. mediation) to ease capacity issues in courts, enact a mediation and arbitration law and include where appropriate traditional/cultural procedures in revised laws; -Strengthen, expand and develop the capacities of staff of specialized courts (e.g. tax courts); -Increase the number of legal practitioners including magistrates and public defender's office their capacities beyond criminal law (contracts, land and property disputes (rights on real state), administrative and commercial law) - Assure stock of existing and new legislation is provided bilingually (Portuguese and Tetum); - Enact and enforce legislation on contract enforcement; - Continue with labour legislation reforms; - Improve the work of inspection; - Strengthen tax administration capacities and improve their efficiency to better articulate to businesses the tax regime in place; - Continue to reduce the costs of tax burden, paying special attention to sector specificities; - Design and publish a SME definition.
Education, training and lifelong learning	Education system matches the needs of businesses; Increased importance of HRD; Promotion of TVET.	<ul style="list-style-type: none"> -Advocate for a more active participation of employers in education planning and curricula design as well as in education delivery through apprenticeships and/or other forms of practical training; - Promote and enhance university-business links in the area of research and innovation; - Incorporate a business skills component in schools curricula to equip students with entrepreneurial skills, with a particular focus on soft skills; - Further-develop the National Qualifications Framework balancing between the theoretical and practical content in modularized training programmes.

1. Introduction

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The ILO in its aim to support employment has identified factors in the business environment that influence the success of new or existing enterprises. For this purpose, ILO created the EESE methodology. This tool and methodology has been created in close coordination between ACT/EMP and the Enterprises department of the ILO. The tool has been implemented in over 30 countries and currently the ILO in Timor-Leste.

The first step in the implementation of the EESE methodology in Timor-Leste was a presentation of the EESE methodology and preliminary secondary data at a workshop organized in Dili in May 2016.

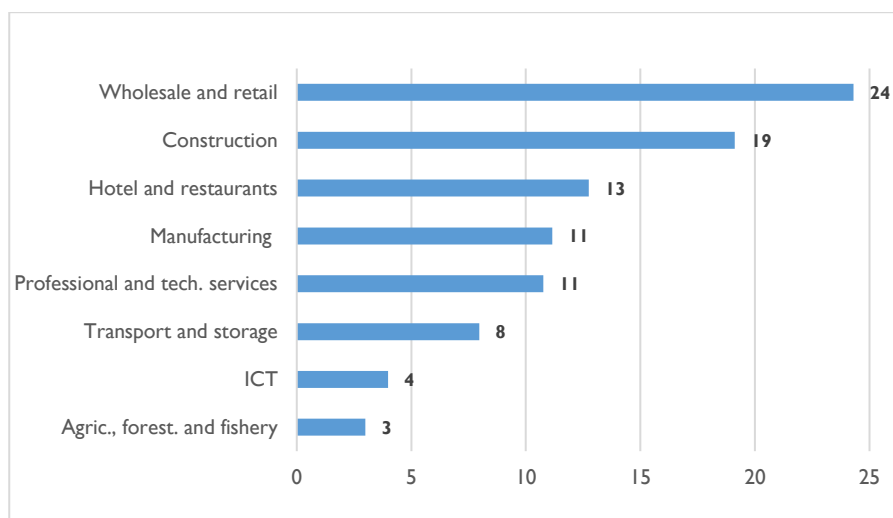
Based on the outcomes of the workshop the following pillars of EESE were identified as the most relevant ones:

- Good governance;
- Enabling legal and regulatory environment;
- Entrepreneurial culture;
- Access to financial services;
- Physical infrastructure;
- Education, training and lifelong learning.

The next step in the process was conducting an enterprise perception survey, interviewing, with the support of external researchers, 254 companies of different scales and sectors from six districts of Timor-Leste, namely Manatuto, Baucau, Viqueque, Bobonaro, Dili and Liquica.

Figure 1 gives the overview of the sector related outline of the sample.

Figure 1 Sector of surveyed companies



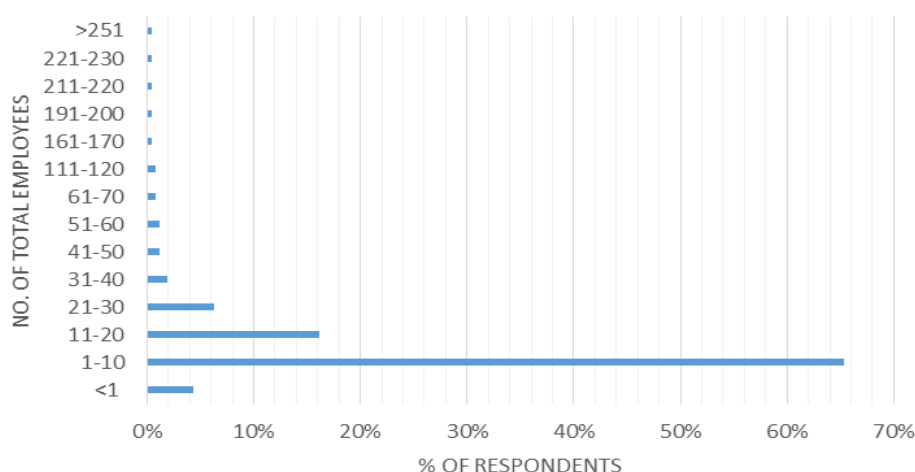
Note: sectors accounting for shares lower than 3 per cent, namely public education services, finance and insurance, mining and other service activities were not included in figure 1.

Source: EESE survey, 2016.

Overall a majority of enterprises were in the wholesale and retail trade (24 per cent), followed by construction (19 per cent) and hotel and restaurant (13 per cent). Respondents from Dili are mostly involved in wholesale and retail trade, professional services, and hotel and restaurant as well as manufacturing. In contrast, in all other districts the majority of respondents are in construction. The only exception is Bobonaro, where more respondents (6 samples) were in wholesale and retail over construction (3 samples).

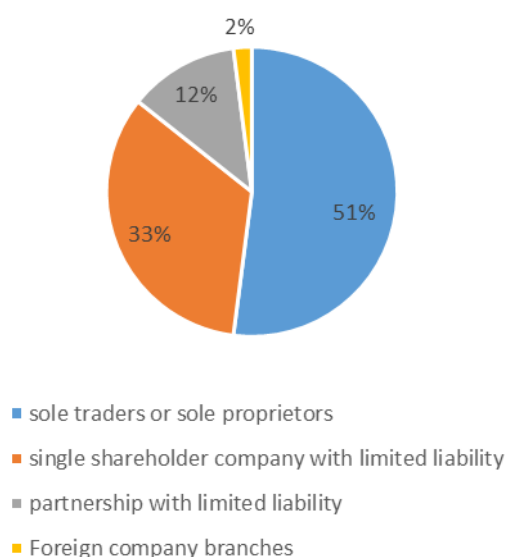
When it comes to the number of employees, of total respondents, 65 per cent had less than ten full time employees (FTEs) and part time employees (PTEs) combined (see figure 2). Furthermore, 4 per cent did not have any additional staff besides the respondent him/herself.

Figure 2 Number of employees in surveyed enterprises



Source: EESE survey, 2016.

Figure 3 Types of surveyed companies

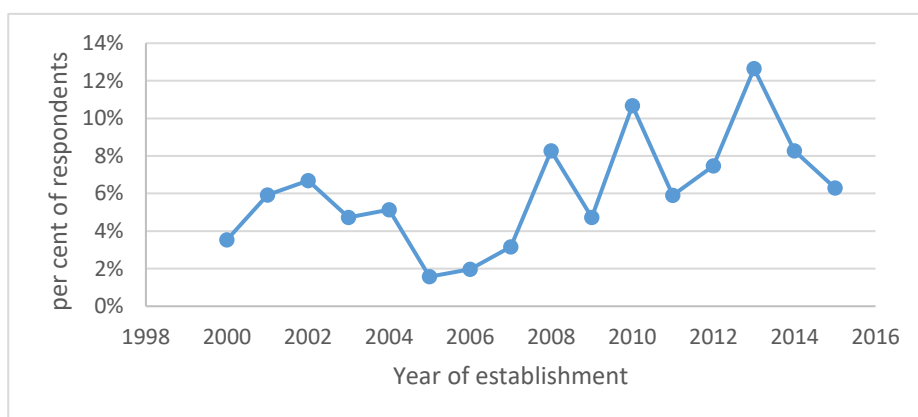


Source: EESE survey, 2016.

In terms of ownership, 51 per cent of the respondents were sole traders or sole proprietors, 33 per cent single shareholder company with limited liability, and 12 per cent partnership with limited liability. Foreign company branches only constitute 2 per cent of the total sample.

Figure 4 shows the structure of the sample related to the 'age' of the companies surveyed. While the years of their business operation mostly varied between 1 to 20 years, the median is 6 years. In terms of highest frequency, it is 3 years (13 per cent), 6 years (10 per cent), and equally either 2 years (8 per cent) or 8 years (8 per cent) (figure 1.2.). In other words, in this survey most enterprises are relatively new firms that were established in 2013.

Figure 4 Age of surveyed companies



Source: EESE survey, 2015.

Upon collection of the survey data, focus group discussions and individual interviews were organized in Dili, Timor-Leste, from late June to early July 2016. Representatives of key sectors provided qualitative input to complement the quantitative data of the survey. The sectors represented in the series of discussions included the following:

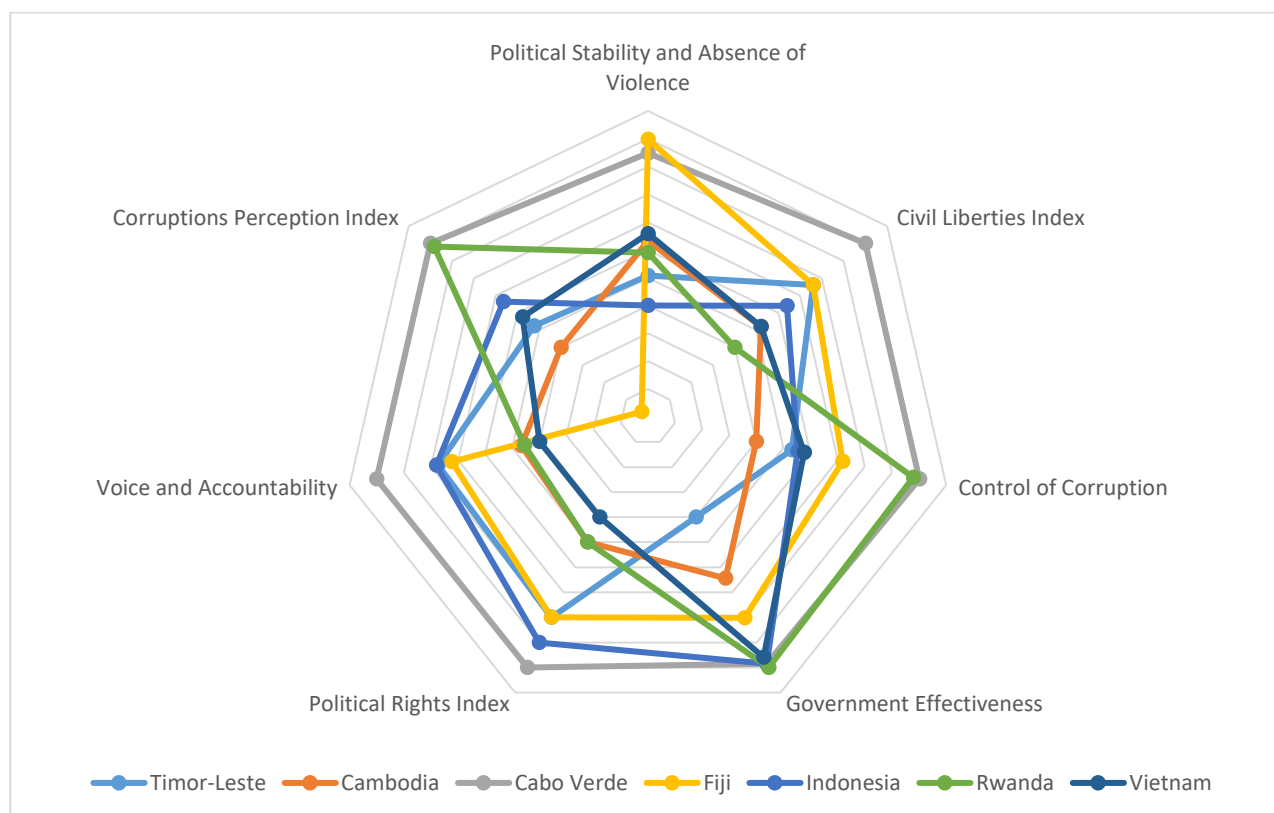
- Banking and insurance;
- Agro-industry;
- Tourism and hospitality;
- Oil and gas;
- Informal economy

On 5 July 2016, the main survey findings were presented to representatives of the private sector from various industries and districts in Timor-Leste. The objective of the workshop was to share preliminary findings of the survey and to receive additional feedback and inputs from the audience.

All these findings were then incorporated into this EESE assessment report and were presented in Dili on September 20th 2016.

2. Political elements

Figure 5 Political indicators for an enabling environment for sustainable enterprises, selected countries



Note: the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Timor-Leste is a relatively young country, having regained its independence in 2002.
- For several years the UN was responsible for maintaining security, and the national police took over law and order in 2011.
- Largely peaceful presidential and parliamentary elections were conducted in 2012.
- The EESE Timor-Leste Survey identifies corruption as a serious issue, despite the existence of many initiatives to combat this.
- The GOTL's Strategic Development Plan (SDP) of 2011 aims to lift Timor-Leste into middle income status by 2030 by leveraging oil and gas resources.
- Generating employment and reducing income inequality are pressing concerns.
- Relations with Australia are strained over the division of oil and gas resources in the Timor Sea.
- The Labour Law of 2012 protects the rights of workers to unionise and strike, but implementation is difficult.
- There is a lack of technical capacity within trade unions and employers' associations alike.
- The Constitution provides for an Ombudsman for Human Rights and Justice, an independent body, which is tasked with examining complaints against government bodies, and complaints relating to human rights violations.

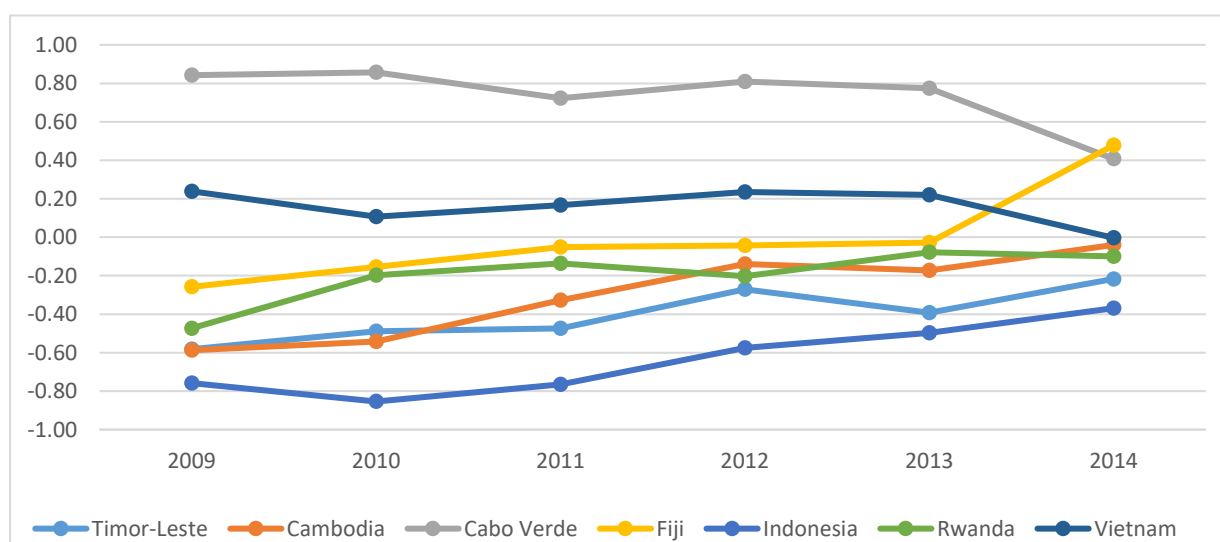
2.1. Peace and political stability

The UN recognized Timor-Leste as an independent country in 2002, setting up the UN Mission of Support in Timor-Leste (UNMISET) to assist with ensuring stability and security in the nascent state.⁴ In 2006 the UN Security Council deployed the UN Integrated Mission in Timor-Leste (UNMIT) in response to the internal crisis, which soon led to a wider break down of law and order.⁵ Poverty and unemployment had exacerbated the unrest.⁶

UNMIT provided interim law enforcement and public service, until Timor-Leste could build the capacity of the national police, and take over responsibility for maintaining law and order. UNMIT was mandated to help organize elections, investigate serious human rights violations committed in 1999, and build capacity in governance, justice and security. UNMIT was also mandated to provide support for donor coordination, and to support the Government in promoting gender equality through building institutions and creating policy. In March 2011, the national police took over the maintenance of law and order, and there have been no serious disturbances since then. In 2012, largely peaceful presidential and parliamentary elections were held with over 70 per cent of the population going to the polls⁷. UNMIT was withdrawn at the end of 2012.

The Political Stability and Absence of Violence indicator presents the likelihood that the Government will be destabilised by unconstitutional or violent means, including domestic violence and terrorism. Based on this World Bank data it is clear that the political situation in Timor-Leste lags behind Rwanda, Fiji, and Vietnam. Cambodia compares closely, but also performs better than Timor-Leste. Except for a dip between 2012 and 2013, which brought its value close to Indonesia, Timor-Leste has seen positive change. In 2014, the value of this indicator was -0.22, while in 2009 this was -.58, indicating improvement.

Figure 6 Political Stability and Absence of Violence, selected countries, 2009-2014



Source: World Bank: Worldwide Governance Indicators.

⁴ UN, 2006.

⁵ BBC, 2015

⁶ BBC, 2013.

⁷ UNMIT, 2012.

Table 1 Key indicators for Political Stability and Absence of Violence, selected countries, 2009-2014

Political Stability and Absence of Violence	2009	2010	2011	2012	2013	2014
The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism.						
Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						
Timor-Leste	-0.58	-0.49	-0.47	-0.27	-0.39	-0.22
Cambodia	-0.59	-0.54	-0.33	-0.14	-0.17	-0.04
Cabo Verde	0.84	0.86	0.72	0.81	0.77	0.41
Fiji	-0.26	-0.15	-0.05	-0.04	-0.03	0.48
Indonesia	-0.76	-0.85	-0.77	-0.58	-0.50	-0.37
Rwanda	-0.47	-0.20	-0.14	-0.20	-0.08	-0.10
Vietnam	0.24	0.11	0.17	0.24	0.22	0.00

Source: World Bank: Worldwide Governance Indicators.

2.2. Good governance

Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development. Timor-Leste faces the challenges of building a healthy democracy, and economy in the context of fragile and nascent institutions, as well as limited human capital.⁸

The situation in Timor-Leste has to be seen in the context of a larger geo-political jostling over hydrocarbons in the Timor Sea. Australia and Indonesia signed a treaty in 1989 to jointly explore Timor-Leste's oil and gas resources, the largest of which is the Greater Sunrise oil and gas field. The legal regime governing the Timor Sea is based on two agreements signed in 2002 and in 2006 Timor-Leste and Australia reached an agreement on the division of billions of dollars of expected revenues from oil and gas deposits in the Timor Sea but the maritime boundary remains in dispute. Australia continues to be one of Timor-Leste's major donor of development aid, wielding a considerable degree of influence over the creation of policy in Timor-Leste. It is important to support Timor-Leste's efforts to independently formulate political, economic and social priorities for development.

Timor-Leste has a unicameral national parliament comprised of 65 members. The head of the state is the President whose role is largely ceremonial. The president is elected by universal suffrage for a term of 5 years. The head of the executive branch is the Prime Minister and he or she presides over a Council of Ministers. At least one third of the candidates on each political party's list for the parliamentary elections must be female, as per electoral law.⁹ In the third legislature started in 2012 women held 25 of 65 seats in Parliament (2014 data), as well as the two powerful positions of Minister for Finance and Minister for Social Solidarity, four vice ministers and four secretary of state positions.

Timor-Leste's parliament faced many challenges, some of which persist. As most people actively involved in political parties were those who principally or directly took part in pursuing the freedom for the country, their education levels were low and access to enabling technology like computers and office facilities was limited. There are committees which are meant to exercise oversight over the executive branch, but these have few staff, and limited resources as well.

⁸ U.S. Department of State, 2015.

⁹ U.S. Department of State, 2014.

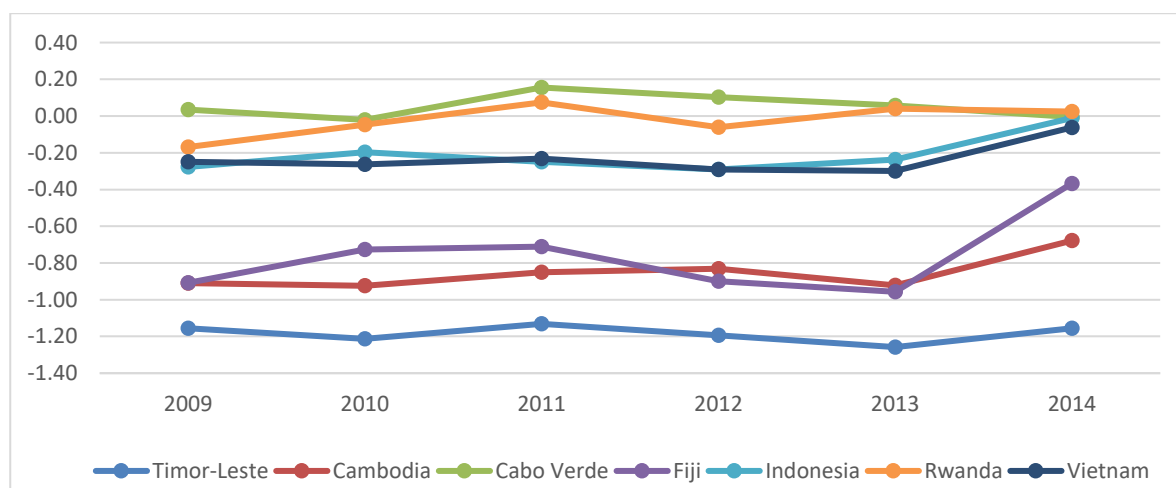
The Strategic Development Plan (SDP), which runs from 2011 to 2030 outlines a “twenty year vision that reflects the aspirations of the Timorese people to create a prosperous and strong nation”.¹⁰ The SDP describes the plan for transition from the current district structure of governance to a system of decentralised municipalities. To prepare for this multiple initiatives targeting increased technical capacity have been launched at the local level.¹¹ Activities to empower the administration at the local level with a bigger role in development exist but financial and human resources remain limited.

Generating employment, and reducing income inequality are among the government’s most pressing concerns. Timor-Leste is currently extremely energy-dependent. Revenues from oil and gas fields in the Timor Sea fund most government expenditure. A few small-scale agricultural exports exist, like coffee, but the volumes are too low to generate significant income. Pragmatically, the GOTL restarted the flow of oil and gas revenues as soon as possible after independence. The existence of vast reserves of petroleum allow the country a degree of independence from donor-driven priorities, and the freedom to spend on development.

All petroleum and related revenues must be paid into the Petroleum Fund. The Petroleum Fund Law of 2005 lays out the founding and management principles of the Petroleum Fund in accordance with the constitution which states that all natural resources, which are essential to the economy, including petroleum, are owned by the state so that they may be used in a “fair and equitable manner”.¹² The Minister for Finance is responsible for the management an investment strategy of the Petroleum Fund with the Central Bank being in charge of operational management. The balance of the fund is invested in international markets for the benefit of present and future generations of Timor-Leste’s people. In 2012 the independent Sovereign Wealth Institute rated the Petroleum Fund as an eight out of ten possible points for transparency, attesting the good governance of the fund.¹³

The indicator “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government’s commitment to such policies.

Figure 7 Government Effectiveness, selected countries, 2009-2014



Source: World Bank, Worldwide Governance Indicators.

¹⁰ GOTL, 2011.

¹¹ USAID, 2013.

¹² Anderson, 2010.

¹³ U.S. Department of State, 2015.

In a range of values from -2.5 to 2.5 with higher values indicating better performance, Timor-Leste in 2014 recorded the value of -1.16. As seen in figure 7, over the period 2009-14, the value of this indicator in Timor-Leste has more or less stayed the same, and much lower than the other countries given for comparison. Over the same period the values improved for Cambodia, Fiji, Indonesia and Rwanda.

Timor-Leste has a limited and financially strapped court system. Investigations into criminal and other charges are often curtailed by the lack of funds, and human resources to carry them out. The judiciary is cited to be closely tied to officials in the government, and court judgements are often seen to follow the opinions of members of parliament.¹⁴ Criminal penalties exist for official corruption, but many challenges exist to implementation of the law.

The Anti-Corruption Commission (CAC) is meant to lead national anticorruption activities. It works alongside the Office of the Prosecutor General and it is the Prosecutor General who is the final authority on criminal prosecutions, though he may direct the CAC to investigate specific cases.¹⁵ In 2010 Timor-Leste's first anti-corruption commissioner was sworn in to investigate repeated accusations of corruption against state officials, particularly with regards to the awarding of tenders and contracts for industrial activity.¹⁶ Several high ranking Officials were found guilty of corruption, while another high ranking official was indicted by the government on charges of corruption and the abuse of power, but the corruption trial was unable to progress.¹⁷

Several donor-led programs to increase transparency and strengthen accountability institutions exist, but they have a long way to go. Their activities include fostering cooperation with organizations in the region including anti-corruption commissions in Indonesia and Hong Kong on subjects like money laundering. Work is also being done to improve procurement capacity, and audits.

The EESE Timor-Leste Survey results show that the main criticism against the GOTL is on the grounds of bribery and corruption. About 80 per cent of all respondents thought that bribery and corruption negatively affected the economy and society; in addition 50 per cent of all respondents thought that the GOTL was not fully committed to fighting corruption.¹⁸

¹⁴ Equal Times, 2015.

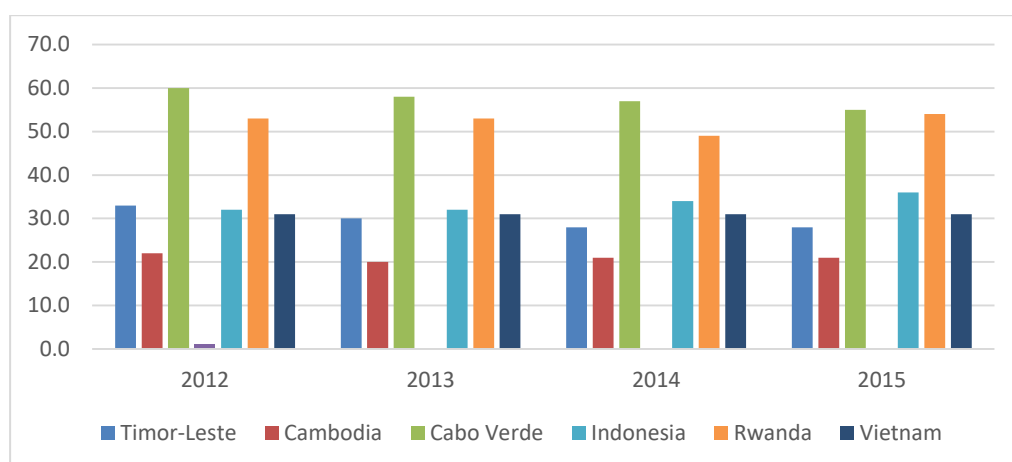
¹⁵ U.S. Department of State, 2014.

¹⁶ BBC, 2015.

¹⁷ Millennium Challenge Corporation.

¹⁸ EESE Timor-Leste Survey, 2016.

Figure 8 Corruption Perception Index, selected countries, 2012-2014

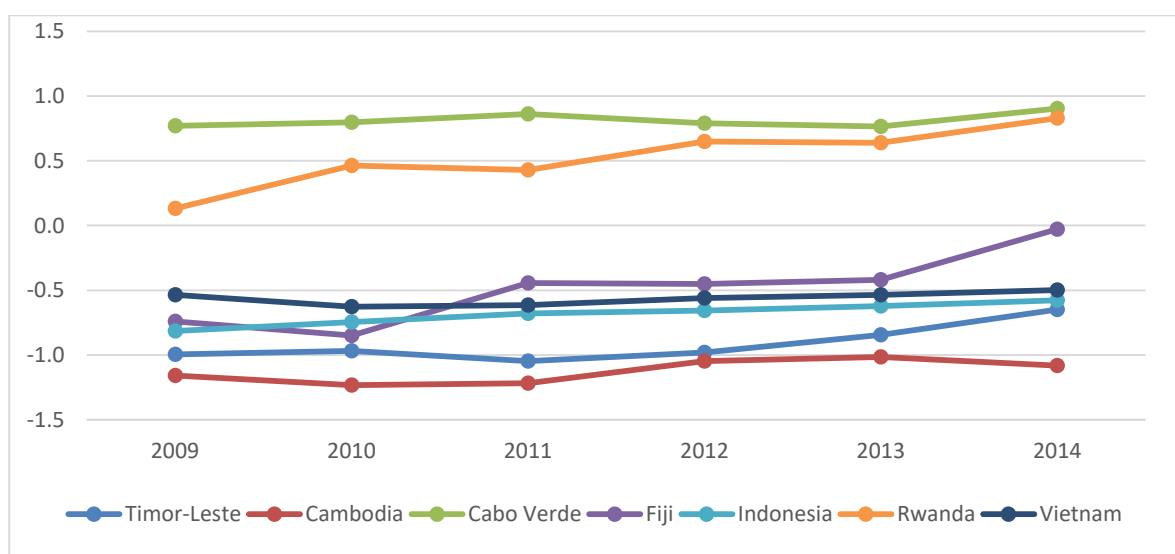


Source: Transparency International Database.

Figure 8 confirms that according to this indicator the situation in Timor-Leste is not positive. Since 2012 the figures have actually worsened slightly, even though a lot of international aid, and Timorese efforts went towards addressing corruption and initiating good governance. Of the compared countries, only Cambodia and Vietnam were worse than Timor-Leste, though Timor-Leste has slid below Vietnam in the last few years. Cabo Verde, Rwanda and Indonesia had better figures overall.

Figure 9 shows the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Based on this, it can be concluded that the Control of Corruption indicator for Timor-Leste is low when compared to other countries subject to this report. While the indicator has been improving, going from -1.00 in 2009 to -0.65 in 2014 Timor-Leste still has a lot of work to do to catch up with countries like Cabo Verde, Fiji, Rwanda, Indonesia and Vietnam.

Figure 9 Control of Corruption, selected countries, 2012-2014



Source: World Bank, Worldwide Governance Indicators.

Timor-Leste is generally viewed as a post-conflict state. While there have been great reforms since 2002, political culture and security forces have not always kept pace with these. With the

increasing pressure to deliver development gains to government, in its inefficiencies may find itself moving towards a state with fewer democratic freedoms.¹⁹

In May 2014, Timor-Leste's Parliament passed a new Media Law, which severely restricted the freedom of print and broadcast media, but after criticism from several parties it was returned to Parliament for revision. A version enacted later that year retains many of the constrictive provisions, including leaving the government with ways to exercise authority over the accreditation and registration of foreign correspondents in the country.²⁰ Journalists often report having trouble accessing information, and being arbitrarily obstructed by government in their work. A culture of deference and hierarchy characterises journalism in the country.²¹ As in many other areas, Human Resource challenges also exist with the professionalism of journalists in relation to verifying news before publishing them as facts.

Readership of the press is limited by physical factors, as well as by high rates of illiteracy.²² Radio is the preferred mode of transmitting information and public radio reaches about 90 per cent of the population.²³ Community radios are popular, often receiving funding from Non-Governmental Organizations (NGOs) and international agencies. Public television reaches a much smaller audience. The International telecommunication Union (ITU) lists Timor-Leste as being among the world's ten least-connected nations. Though the government does not restrict access to content online, physical and economic factors limit access to the internet for all but 11,500 people (2014).²⁴

The law provides for freedom of assembly and association. While government appears to generally respect these, there were reports of security forces applying pressure on groups to prevent them from organising in protest against the government on the subject of corruption.²⁵

Table 2 Key good governance indicators, selected countries, 2009-2014

Control of Corruption The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. Source: World Bank, Worldwide Governance Indicators	2009		2010	2011	2012	2013	2014	
	Timor-Leste		-1.00	-0.97	-1.05	-0.98	-0.84	-0.65
	Cambodia		-1.16	-1.23	-1.22	-1.05	-1.01	-1.08
	Cabo Verde		0.77	0.80	0.86	0.79	0.76	0.90
	Fiji		-0.74	-0.85	-0.44	-0.45	-0.42	-0.03
	Indonesia		-0.82	-0.75	-0.68	-0.66	-0.62	-0.58
	Rwanda		0.13	0.46	0.43	0.65	0.64	0.83
	Vietnam		-0.53	-0.63	-0.62	-0.56	-0.54	-0.50

Corruption Perceptions Index (CPI) The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given	2012		2013	2014	2015	
	Timor-Leste		33.0	30.0	28.0	28.0
	Cambodia		22.0	20.0	21.0	21.0

¹⁹ International Crisis Group, 2013.

²⁰ Freedom House, 2015.

²¹ Ibid.

²² BBC, February 2015.

²³ Ibid.

²⁴ Ibid.

²⁵ U.S. Department of State, 2014.

country and is a composite index, drawing on different expert and business surveys. 0 is highly corrupt while 100 is highly clean. Source: Transparency International	Cabo Verde	60.0	58.0	57.0	55.0
	Fiji				
	Indonesia	32.0	32.0	34.0	36.0
	Rwanda	53.0	53.0	49.0	54.0
	Vietnam	31.0	31.0	31.0	31.0

Government Effectiveness The quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. Source: World Bank, Worldwide Governance Indicators		2009	2010	2011	2012	2013	2014
	Timor-Leste	-1.16	-1.21	-1.13	-1.19	-1.26	-1.16
	Cambodia	-0.91	-0.92	-0.85	-0.83	-0.92	-0.68
	Cabo Verde	0.04	-0.02	0.16	0.10	0.06	-0.01
	Fiji	-0.91	-0.73	-0.71	-0.90	-0.96	-0.37
	Indonesia	-0.28	-0.20	-0.25	-0.29	-0.24	-0.01
	Rwanda	-0.17	-0.05	0.07	-0.06	0.04	0.02
	Vietnam	-0.25	-0.26	-0.23	-0.29	-0.30	-0.06

Voice and Accountability The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. Source: World Bank, Worldwide Governance Indicators		2009	2010	2011	2012	2013	2014
	Timor-Leste	0.07	0.02	0.10	0.06	0.05	0.11
	Cambodia	-0.91	-0.93	-0.91	-0.96	-0.98	-1.08
	Cabo Verde	0.88	0.89	0.97	0.93	0.89	0.98
	Fiji	-0.78	-1.00	-0.98	-0.87	-0.81	-0.09
	Indonesia	-0.03	-0.07	-0.04	0.04	0.00	0.13
	Rwanda	-1.28	-1.31	-1.31	-1.26	-1.18	-1.13
	Vietnam	-1.46	-1.48	-1.42	-1.39	-1.34	-1.34

Political Rights Index The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government ²⁶ . Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. Source: Freedom House, The Freedom in the World Survey		2011	2012	2013	2014	2015	2016
	Timor-Leste	3	3	3	3	3	3
	Cambodia	6	6	6	6	6	6
	Cabo Verde	1	1	1	1	1	1
	Fiji	6	6	6	6	3	3
	Indonesia	2	2	2	2	2	2
	Rwanda	6	6	6	6	6	6
	Vietnam	7	7	7	7	7	7

Civil Liberties Index The Civil Liberties index measures freedom of expression, assembly, association, and religion. Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free. Source: Freedom House, The Freedom in the World Survey		2010	2011	2012	2013	2014	2015
	Timor-Leste	4	4	4	4	3	3
	Cambodia	5	5	5	5	5	5
	Cabo Verde	1	1	1	1	1	1
	Fiji	4	4	4	4	4	3
	Indonesia	3	3	3	4	4	4
	Rwanda	5	5	6	5	6	6
	Vietnam	5	5	5	5	5	5

²⁶ Freedom House Database

2.3. Social dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for all stakeholders and society at large. Formal industrial relations mechanisms were developed in Timor-Leste as part of a larger project of state-formation, unlike in many other countries in South-Asia where they evolved through a process of regime change.²⁷

The process of building industrial relations was driven largely by the United States and the ILO working with the GOTL to add decent labour standards to the existing priority of job creation. The Labour Code issued in 2002 by the United Nations Transitional Administration in East Timor (UNTAET) was drafted with technical support from the ILO. This has meant that the regulatory framework of industrial relations in Timor-Leste has demonstrated a strong commitment to tripartism. The involvement of Global Union Federations has influenced the formation of major trade unions.

An initial plan for managing labour relations was laid out in the Labour Code of 2002, which was implemented by a set of administrative boards, among them a Minimum Wages Board, tasked with setting national, district and sectoral wages, and a Labour Relations Board meant to focus on dispute resolution. The SDP notes that “certainty and predictability in employee-employer relationships” is required for their growth goals to be achieved, and this is to be made possible by implementing the national Labour Law.²⁸

The rights of workers were further protected in the 2012 law with more provisions to guarantee the rights of trade unions, more paid leave, safeguards against workplace discrimination, and directives for employers to obligatorily participate in collective bargaining. The new Labour Law was followed in 2012 by a strike law that “defines and approves the legal regime for the exercise of the right to strike”.²⁹ Under the revised 2012 Labour Law the Labour Relations Board, Minimum Wages Board and National Labour Board were replaced by the National Labour Council and the Labour Arbitration Council. The National Labour Council is composed of government officials and representatives from workers’ and employers’ organizations. It advises on policy and labour regulation, as well as on the national minimum wage.

Though the Labour Law is detailed, processes of implementation remain uncertain, particularly with regard to the legal system. The general fragility of institutions such as the courts in Timor-Leste, lack of capacity on behalf of the unions and employers’ organizations, and government agencies mean that the system is of limited benefit to its stakeholders.

The formal economy is small in Timor-Leste, standing at about 10 per cent. Additionally, a 2004 survey found that over 72 per cent of formal enterprises had fewer than ten employees, and another 19 per cent had less than 20 employees.³⁰ Though the GOTL has tried to establish best-practice industrial relations, employer buy-in has been low, and enforcement is difficult.³¹ This has hampered regularization. Even within the confines of this limited formal economy government officials have

²⁷ Ford, 2016.

²⁸ Ibid.

²⁹ ETUJB, November 2012.

³⁰ Ford, 2016.

³¹ Ibid.

struggled to implement practices of employment relations where employers' and workers' interests are both well represented.

Employers in Timor-Leste are represented by the Chamber of Commerce and Industry (CCI-TL). The CCI-TL represents 19 member associations in different sectors of the economy, and is the main employers' association in Timor-Leste, with a mission to provide business services to members, and to represent their concerns to the government on various issues. Among the things it has advocated for are becoming a part of the Association of Southeast Asian Nations (ASEAN) and the need for expanding the manufacturing industry.³² As stated previously, the Government has officially through Government resolution 17/2012 recognized the CCI-TL as a strategic partner.

CCI-TL has been largely focused on consolidating membership, creating a strong relationship with the government and participating in consultation and negotiations on policies affecting business interests, such as the revision of the Labour Law.³³ Efforts to increase awareness about the Labour Law have increased in recent years, so that local enterprises might meet its requirements, as well as large foreign companies, the vast majority of them being Australian. Implementation of the Labour Law has largely fallen to the trade unions.³⁴

In 2015 there were eight registered trade unions, including seven registered to the Timor-Leste Trade Union Confederation (Konfederasaun Sindikatu Timor-Leste, KSTL).³⁵ KSTL is the umbrella organization for the Agricultural Union of Timor-Leste (Sindikatu Agrikultura Timor-Leste (SATL)); the Construction Workers Union of Timor-Leste (Sindikatu Trabalhadores Konstrusaun Timor-Leste (STKTL)); the General Workers Union of Timor-Leste (Sindikatu Jeral Trabalhadores Timor-Leste (SJTL)); the Maritime, Energy and Transport Union of Timor-Leste (Sindikatu Maritima, Energia No Transporte Timor-Leste (SMETTL)); the Nurses Association of Timor-Leste (Associaaun Enfermeiro de Timor-Leste (AETL)); the Public Service Union of Timor-Leste (Sindikatu da Funsuon Publika Timor-Leste (SFPTL)) and the Teachers Union of Timor-Leste (Sindikatu Professores Timor-Leste (SPTL)).³⁶ Together these unions represent about 8000 workers, which is approximately 9 per cent of waged workers in Timor-Leste.³⁷ The number of members paying dues is much lower though. The KSTL has no formal affiliation to international trade union organizations yet, but has been working closely with the International Trade Union Confederation.

The KSTL has been actively involved with setting the minimum wage through the National Labour Council. They are also active in other policy discussions, and about 30 recommendations made by the KSTL were incorporated into the 2012 Labour law.³⁸

Public sector employees are not governed by the 2012 Labour Law, and being subject to different regulations has made the status of their unions uncertain. Teachers and nurses, as well as government officials have specific legislation addressing them, which has led to internal contradictions. Close to 54 per cent of waged workers are in the public sector.³⁹ According to the 2013 ILO Labour Force Survey 57 per cent of employees, of which 74 per cent are male and 26 per cent are female, have

³² Ibid.

³³ Ibid.

³⁴ Ibid.

³⁵ Ibid.

³⁶ ILO, 2014.

³⁷ Ibid.

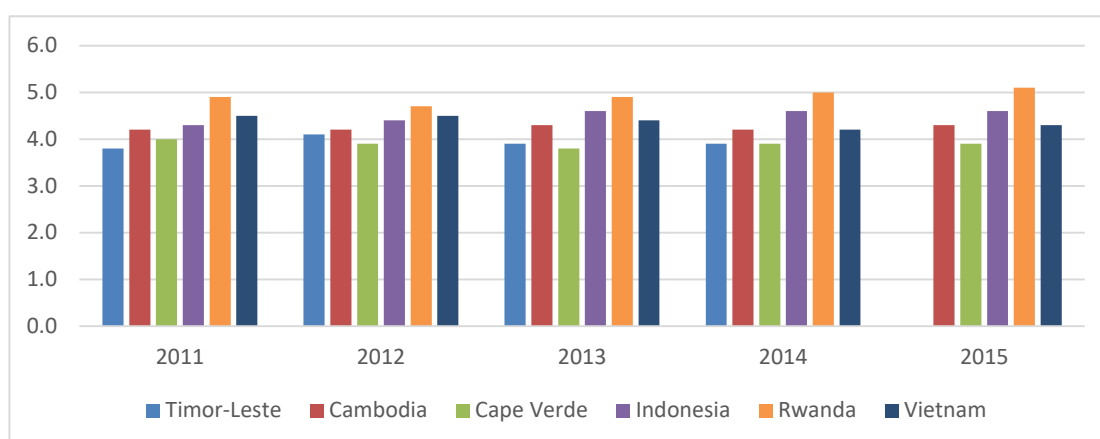
³⁸ Ibid.

³⁹ Ford, 2016.

written contracts. The lack of written contracts in the private sector makes legal guarantees difficult to implement, such as the right to bargain effectively, certain working conditions and the minimum wage.⁴⁰

The Secretary of State for Vocational Training and Employment (Secretaria de Estado Para a Politicia de Formação Profissional e Emprego, SEPFOPE) deals with labour market management and planning, and the vocational education and employment. It is structured into two general and eight national directorates, dealing mainly with employment policy, vocational training, labour relations, and inspections. This reflects the attempt to balance job creation and vocational training with the need for managing industrial relations.⁴¹ Between 2013 and 2014 SEPFOPE dealt with a total of 586 disputes regarding 190 local and 396 foreign-owned companies.⁴² Most of these were resolved through mediation or arbitration, but SEPFOPE staff have struggled to cope due to a lack of legislative guidance, and the lack of expertise in mediation.⁴³

Figure 10 Cooperation in Labour-Employer Relations, selected countries, 2011-2015



Source: World Economic Forum Executive Opinion Surveys in Global Competitiveness Reports.

The indicator relevant to social dialogue is “Cooperation in Labour-Employer Relations”. This indicator determines whether labour-employer relations are confrontational or cooperative. Timor-Leste is comparatively worse off than all of the comparison countries, except for Cabo Verde in 2012 and 2013.

Table 3 Key indicator for cooperation in labour-employer relations, selected countries, 2011-2015

Cooperation in labour-employer relations	2011	2012	2013	2014	2015
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: “Labour-employer relations in your country are: 1 = generally confrontational, 7 = generally cooperative.” Source: World Economic Forum Global Competitiveness Reports.					
Timor-Leste	3.8	4.1	3.9	3.9	
Cambodia	4.2	4.2	4.3	4.2	4.3
Cabo Verde	4.0	3.9	3.8	3.9	3.9
Indonesia	4.3	4.4	4.6	4.6	4.6
Fiji					
Rwanda	4.9	4.7	4.9	5.0	5.1
Vietnam	4.5	4.5	4.4	4.2	4.3

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ibid.

2.4. Respect for universal human rights and international labour standards

Respect for human rights and international labour standards are a distinctive feature of societies that have successfully integrated sustainability and decent work. Timor-Leste adopted seven of the ten main human rights conventions. These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, The Convention on the Prevention and Punishment of the Crime of Genocide, the Convention for the Protection of All Persons from Enforced Disappearance, and the Convention on the Rights of Persons with Disabilities.

The UN Human Rights Council Universal Periodic Review was conducted in Timor-Leste in 2011, to assess the human rights situation in the country. It is due for another one in 2016. The 2011 review made 125 recommendations of which 88, covering a wide range of subjects, were accepted. Just one recommendation, which was to “repeal provisions in the legislation which are discriminatory towards women, including in respect of inheritance, land ownership and legal capacity” was rejected.⁴⁴

Section 27 of the Constitution provides for the Ombudsman for Human Rights and Justice (Provedoria dos Direitos Humanos e Justiça, PDHJ), as an independent body tasked with examining and seeking to satisfy citizens’ complaints against government bodies.⁴⁵ The PDHJ is located in Dili, with satellite offices in Same, Maliana, Oecusse and Baucau. The PDHJ receives and investigates complaints about human rights violations. It also produces an annual report based on which recommendations are made to remedy recurring problems. Set up with bilateral and multilateral aid the human rights awareness activities of PDHJ receive a lot of support, while the activities on strengthening governance are often neglected. PDHJ will continue to receive financial and technical assistance from USAID until 2018 at the very least.⁴⁶ The PDHJ has also been tasked with raising awareness about human rights and promoting best practices in government entities. Correspondingly, in 2015, Two Deputy-Provedors were sworn in to assist the Provedor for Human Rights and Justice, one for Human Rights and one for Good Governance.⁴⁷

The powers of the PDHJ are limited, in that it can only submit recommendations regarding measures to improve the protection of human rights.⁴⁸ Any execution of the recommendations must be undertaken by the General Prosecutor, but they are not legally obliged to do so. The legal and financial dependence of the PDHJ on the government mean that its activities are weakened, especially when addressing issues relating to officials of public institutions.

Principal human rights problems in Timor-Leste include excessive use of police force, gender-based violence, arbitrary arrests and detention, and various inefficiencies linked to an understaffed judiciary that keeps citizens from having speedy and fair trials.⁴⁹ Violence against children is high, including sexual assault and trafficking. While the government generally respects its own laws with

⁴⁴ Universal Periodic Review Responses to Recommendations, 2012.

⁴⁵ PDHJ, January 2014.

⁴⁶ USAID, 2016.

⁴⁷ Asia Pacific Forum of National Human Rights Institutions, 4 August 2015.

⁴⁸ Asia-Pacific Human Rights Information Centre, March 2007.

⁴⁹ U.S. Department of State, 2014.

respect to the prohibition of torture and other degrading treatment, incidents of police brutality against civilians have been documented.⁵⁰

Of the five countries used for comparison, all countries but Vietnam and Timor-Leste have ratified the eight ILO core conventions.

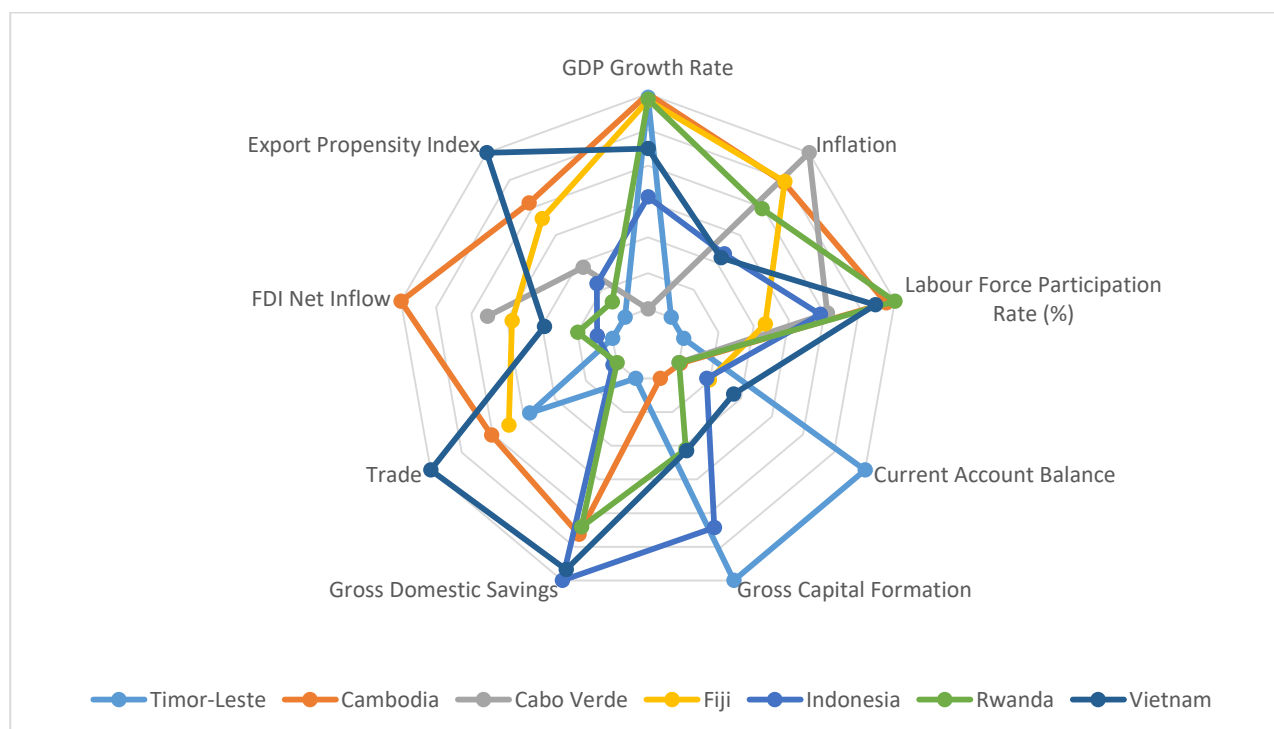
Table 4 Key indicators for human rights and international labour standards, selected countries, 2009-2014

Ratification of Human Rights Conventions It shows the status of human rights referring to ratification of following 10 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities; International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Number of Conventions ratified out of 10. Source: United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC).	As of April 2016	
	Timor-Leste	7
	Cambodia	10
	Cabo Verde	10
	Indonesia	9
	Fiji	6
	Rwanda	9
	Vietnam	8
Ratification of fundamental ILO Conventions It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182). Number of Conventions ratified out of 8. Source: ILO	As of June 2016	
	Timor-Leste	6
	Cambodia	8
	Cabo Verde	8
	Indonesia	8
	Fiji	8
	Rwanda	8
	Vietnam	5

⁵⁰ Ibid.

3. Economic elements

Figure 11 Indicators assessing economic elements of an enabling environment for sustainable enterprises, selected countries



Note: the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The economy of Timor-Leste is closely linked to oil prices, as crude oil and gas are the major exports. The VI Constitutional Government pursues the objective of promoting economic diversification through the development of five strategic sectors: downstream activities in oil and gas, agriculture, fisheries, tourism and manufacturing.
- Income inequality has also risen, as the majority of the population has no access to the growth in the economy that results from natural resource exploitation.
- According to the 2014 Timor-Leste Living Standard Survey poverty rates have been declining.
- The economic focus of the SDP is to improve infrastructure across the country in order to promote private sector development, and to establish a petroleum processing industry along the south coast.
- Royalties from offshore oil and gas deposits are invested in a Petroleum Fund, which is the major source of the finances for government spending.
- The majority of the population lives in rural areas and is engaged in subsistence agriculture, excluded from the formal economy.
- The establishment of SERVE, which processes business registration and licensing has gone a long way towards improving the ease of doing business in Timor-Leste.
- Though Timor-Leste ranks poorly, at 175 of 189 countries in 2017 it has been recognized by the World Bank for its great improvements in terms of facilitating business start-up.
- Regulatory mechanisms are weak, and many lacunae exist which require attending to, for example aviation regulations.
- The legal system lacks human and financial resources.
- The EESE Timor-Leste Survey revealed that access to finance is an obstacle to entrepreneurship and that entrepreneurs require support to produce better business plans.

- Property rights, and land ownership are contentious issues as competing claims exist dating back from different period of occupation. A Land and Property law currently in Parliament is meant to address this.
- The protection of property rights is a major issue hampering investment and economic development as it also affects the growth of credit linkages.
- ICTs are at a very basic level of development in Timor-Leste, and access to them is largely limited to urban areas.
- Financial services are limited, as is banking infrastructure, but new credit avenues are emerging with the spread of cooperatives and microfinance institutions.
- Physical infrastructure requires considerable investment, particularly transport aspects.

3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. Based on official data, the Timor-Leste economy has begun to recover in 2014. Recent drops of global oil prices are likely to show an adverse impact on the economy. Government spending, specially capital expenditures and private sector expansion have contributed to the growth of the economy.⁵¹

Private consumption has been boosted by the rise in public sector salaries, and cash transfers, which lead to an increased flow of money in the economy. Public expenditure is the main driver of economic growth, and not increased production, or a growth in manufacturing. In fact, imports have increased, as inflation has, which means that the burden of inflation is felt by the poor, for whom prices have increased without incomes correspondingly increasing. There has been a rise in income inequality, which is also defined by differences in rural and urban areas. Without a radical shift in policies and resource allocation Timor-Leste will not be able to tackle the high incidence of poverty, which is fuelled by the continuing concentration of economic activities in the capital and a few other areas.⁵²

Drivers of the economy can be divided into three main parts, excluding oil- the largest part of the population is engaged in subsistence agriculture, but productivity and wages are very low; the second is a goods and services sector driven by private consumption; the third engine of the economy is driven by public spending on infrastructure development.⁵³ With modern farming methods yields on both cash crops and food crops could increase improving the productivity for the cultivation of coffee, coconut, peanuts, paddy, cassava, sweet potato and corn, for example. Given the lack of local production both the spending on infrastructure, and goods and services are reliant on imports to meet increasing demand. Spending on infrastructure development includes building offshore petroleum projects, developing electricity infrastructure, roads and bridges, public buildings, health facilities, schools, and clean water projects.

Over three quarters of the poor live in rural areas, and “they use a diverse range of livelihood strategies, from exploiting land assets for own consumption or for cash crops, to sharecropping and other forms of social exchange, to seasonal labour.”⁵⁴ Most of the poor are engaged in small-scale subsistence agriculture with the excess production sold locally. Markets remain relatively uncompetitive. The first supplier of agricultural inputs started operations in Dili in 2012.⁵⁵ An estimate based on the Timor-Leste Survey of Living Standards of 2007 had eight out of every ten workers in the agricultural sector being engaged in subsistence farming; 88 per cent of women worked in agriculture, as did 82 per cent of men.⁵⁶

⁵¹ ADB, 2014.

⁵² UNDP, 2012.

⁵³ U.S. Department of State, 2013.

⁵⁴ ILO, 2015.

⁵⁵ Ibid.

⁵⁶ UNDP, 2012.

The recent peaceful elections were an important first step towards stability. To ensure that this continues the GOTL needs to address the challenges of widespread poverty, creating sustainable livelihoods, building human capacity, and creating efficient institutions of governance and regulation. The petroleum reserves are a tool with great potential for use in furthering growth, but there is also great potential for mismanagement, corruption, and the development of greater inequality. While the development of off-shore oil and gas resources has brought huge revenues, the technology-intensive industry has done little to further job-creation in Timor-Leste because of the lack of production facilities within the country. All gas is piped to Australia for processing depriving Timor-Leste in large part of employment opportunities in the sector with the largest volume of exports and from which it earns the most income.

There is a strong link between conflict and various kinds of economic distress including food insecurity and fragile livelihoods. Economic policy was a key election issue in the elections of 2007 as well as 2012. The governments lowered taxes as an incentive for foreign investment, and focused on export-oriented cropping instead of supporting autonomous agriculture.⁵⁷ Driven by government spending, which more than tripled in the years between 2007 and 2011, economic condition began to improve.⁵⁸ Government spending was made possible by the petroleum fund established in 2005, with Norwegian technical assistance, to manage the revenues from the oil and gas industry. This fund held more than US\$16.5 billion in December 2014.⁵⁹ Despite these efforts youth unemployment and social inequality remain extremely high.

In 2002 the GOTL adopted its first National Development Plan titled *East Timor 2020- Our Nation, Our Future*. A Strategic Development Plan 2011-2030 (SDP) was adopted in July 2011, and puts forward a medium term national development plan to make Timor-Leste a middle-income country by 2030 by promoting economic modernisation using oil and gas revenues to support growth in non-extractives sectors. The underlying challenge is how best to use oil and gas wealth, which the country has access to for a finite period of time, to lift itself out of poverty, and to set itself on the path to sustainable development.

Job creation is extremely important for Timor-Leste and this is highlighted in the Strategic Development Plan (SDP), as is the focus on the expansion of the formal economy especially in tourism and service industries. Expansions have been planned in agribusiness, light industries in food processing, garments, handicrafts and furniture production. The plan is to promote growth in the private sector in rural and urban areas driven by both foreign and local investment. This requires the development of an educated and skilled workforce, the lack of which remains Timor-Leste's primary challenges. There has been an increase in the registration of enterprises from 2010, which the 2016 EESE Timor-Leste survey attributes to the preferential treatment shown to veteran-owned local companies in public tenders, by the GOTL.⁶⁰

The economic focus of the SDP is on upgrading infrastructure all over the country, and on establishing a petroleum industry corridor in on the south coast.⁶¹ This would include the exploitation of the Greater Sunrise fields, work on which is now stalled due to disagreements with Australia, and the establishment of petrochemicals refineries and processing in Timor-Leste. The exclave district of

⁵⁷ Ford, 2016.

⁵⁸ Ibid.

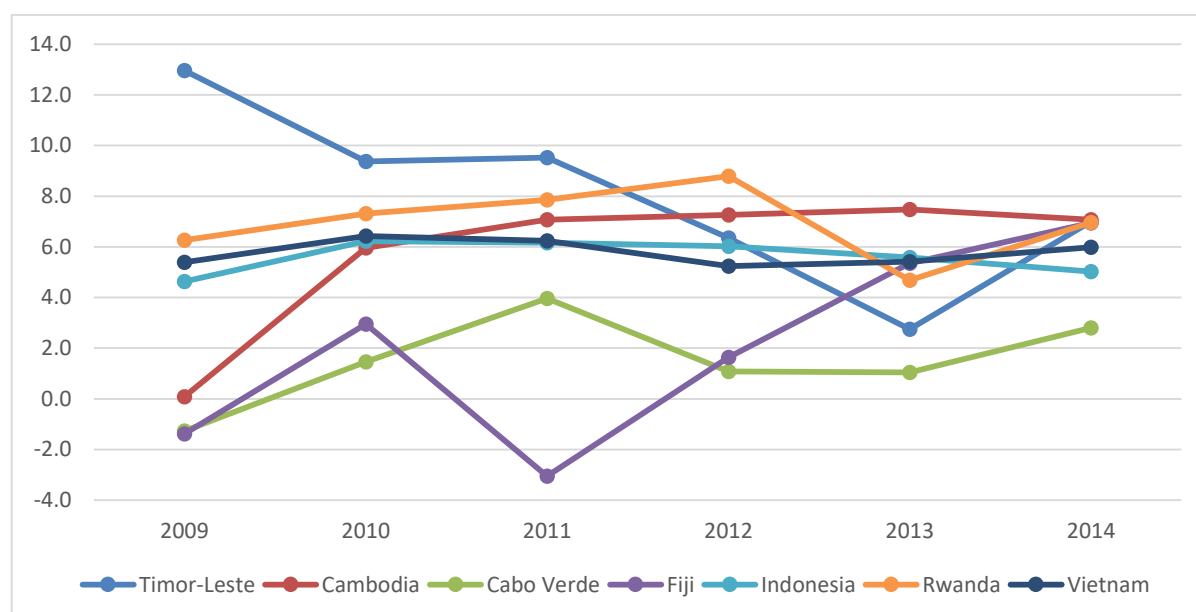
⁵⁹ U.S Department of State, 2015.

⁶⁰ EESE Timor-Leste, 2016.

⁶¹ GOTL, 2011.

Oecusse a Special Economic Zone is being created.⁶² The Government of Timor-Leste (GOTL) has incentivised investments, including tax exemptions for certain sectors and certain areas up to 10 years.⁶³ Investment opportunities in sectors other than oil and gas are increasing, with increased interests in telecommunications, construction and agriculture.

Figure 12 GDP growth rate, selected countries, 2009-2014



Source: World Bank, World Development Indicators.

Government spending, small scale retail activity and agriculture are the other primary contributors to the GDP, in addition to revenues from crude oil. Services, tourism and agriculture are sectors, which the GOTL is seeking to promote, to find ways of employing a growing population. Men in urban areas have benefitted the most from the increase in GDP- men in rural areas saw less improvement in their jobs and incomes, as did women in urban areas, and women in rural areas. The formal economy in Timor-Leste remains small, and as of 2009 employed about 14.6 per cent of the labour force.⁶⁴

As of 2013, about 24 per cent (166,600) of the 696,200 Timorese of working age were engaged solely in subsistence agriculture.⁶⁵ Just 213,000, or 30 per cent of all working age persons were active in the labour force. Of these 45 per cent were in the services sector, 40 per cent in the agricultural sector, and 12 per cent in industry.⁶⁶ The formal economy has expanded since 2001, but this is mostly accounted for by public sector employees. Non-Petroleum producing businesses, in 2014, employed just 59,000 people of whom 81.5 per cent were based in Dili alone.⁶⁷

⁶² U.S Department of State, 2015.

⁶³ Ibid.

⁶⁴ ILO, June 2009.

⁶⁵ Ford, 2016. Note that the World Bank figures as given in the table are different, as the methodologies used by the ILO and World Bank are different Ford is using figures from the ILO Labour Force Survey of 2013, cited elsewhere in this paper as ILO, 2013.

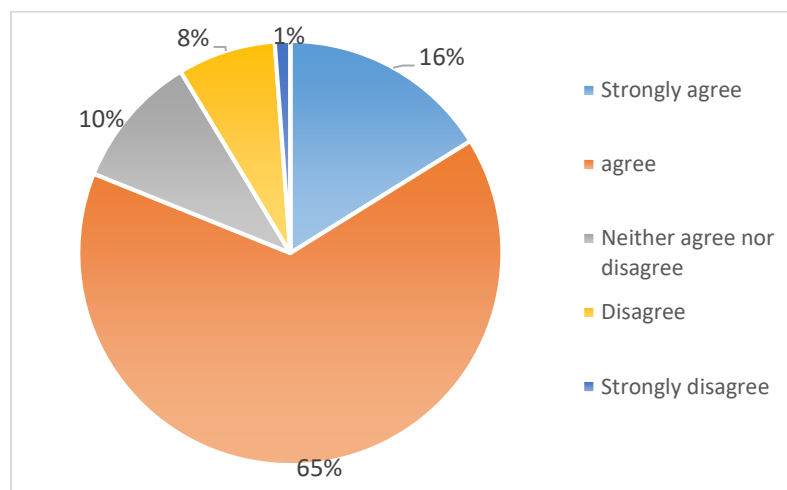
⁶⁶ Ibid.

⁶⁷ Ibid.

There is heavy reliance, in Timor-Leste, on traditional agricultural practices, and the yields are rather low. There is a lot of scope for the development of agriculture as an industry. Most farming in Timor-Leste remains small-scale with small cultivation areas, a lack of access to finance to make improvements to farming inputs and methods, poor technological support, and poor infrastructure, for example roads to transport agricultural produce. Greater support from the government is required to support the development of modern farming methods and greater access to markets.

The EESE Timor-Leste Survey found that a surprising number of respondents, 81 per cent, were satisfied with GOTL efforts to support business formation and growth.⁶⁸ Figure 14 disaggregates the responses by sector to find that in general respondents working in retail, construction and hospitality were more likely to judge the GOTL's efforts positively than respondents from the financial, insurance and agricultural sectors.

Figure 13 Current government as supportive of businesses in Timor-Leste, surveyed companies

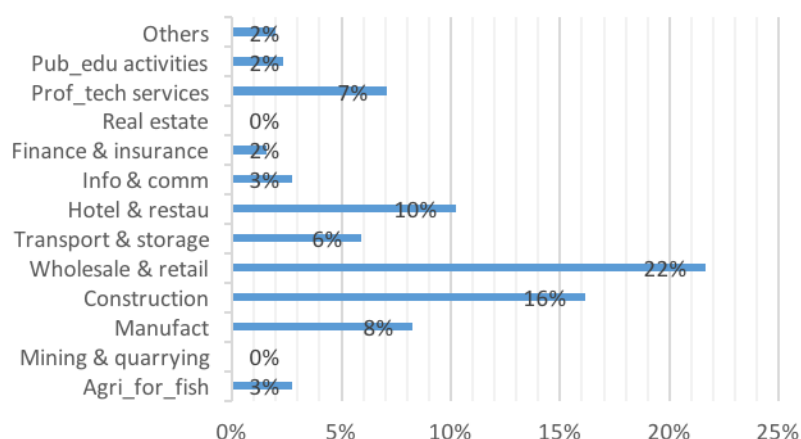


Source: EESE Timor-Leste Survey, 2016.

In focus group discussions conducted as part of the EESE Timor-Leste Survey it emerged that respondents thought the GOTL needed to show more proactive leadership in legal and regulatory issues. Respondents from the financial sector felt that banks needed better protection from irresponsible consumer behaviour, and respondents also felt that the agricultural sector needed greater support.

⁶⁸ EESE Timor-Leste Survey, 2016.

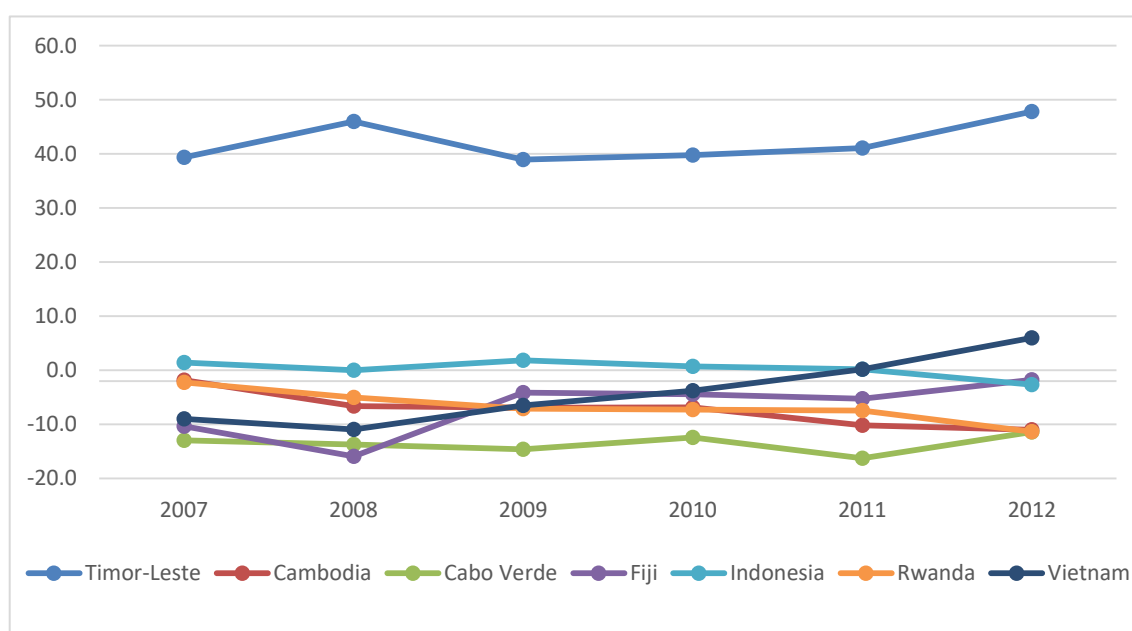
Figure 14 Positive assessment of government support by sector, surveyed companies, percentage



Source: EESE Timor-Leste Survey, 2016.

Both fishing, and tourism remain underdeveloped as sectors of the economy. Returns to labour are rather low, and improving productivity in all sectors is imperative to keep on growing. Timor-Leste had 1.2 million people as of 2015, but with a rapidly growing population the authorities are concerned with expanding the formal economy, to create more and better jobs. It is in this context that the VI Constitutional Government are reviewing and updating the National Employment Strategy, with the main objective of increasing private sector jobs and generating employment for the unemployed, increasing women's participation in the labour market, and enhancing the chances of young people entering the labour market.

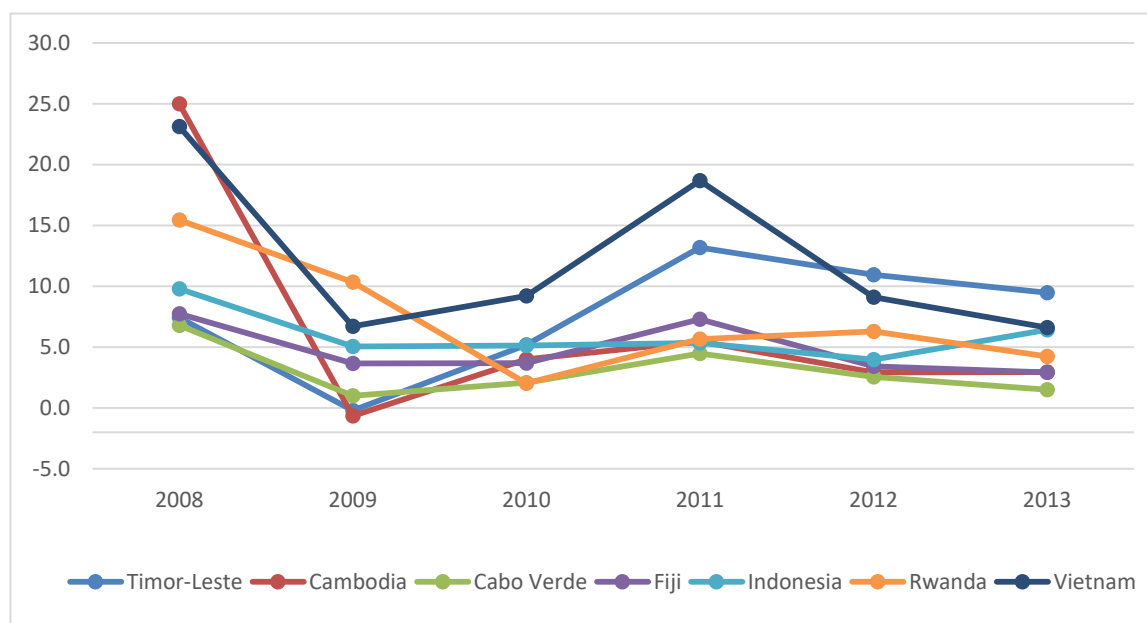
Figure 15 Current account balance as share of GDP, selected countries, percentage



Source: World Bank, World Development Indicators.

The current account balance is high, but for Timor-Leste this is not the best predictor of the health of the economy, as it reflects the income from exports of crude oil. The lack of imports shows low demand for goods in Timor-Leste as nearly all consumer goods and capital goods are imported, along with staples such as rice. Timor-Leste's main trading partner is Australia.

Figure 16 Inflation (average consumer price change), selected countries, percentage, 2008-2013



Source: World Bank: World Development Indicators.

The inflation rate in Timor-Leste has undergone a lot of fluctuation in the last few years. Based on recorded data inflation was -0.21 in 2009, 13.17 per cent in 2011 and 9.48 in 2013. The inflation rate is much higher than for the comparison countries, most of which are seeing deflation in this same period. The high inflation rate reflects the higher demand for goods and services due to increased public spending. Since 2013 inflation in Timor-Leste has dropped significantly to 0.7 per cent in 2014, 0.6 per cent in 2015 and -0.6 per cent in 2016 respectively.⁶⁹

Table 5 Key macroeconomic indicators, selected countries, 2009-2014

	2009	2010	2011	2012	2013	2014
GDP growth rate (per cent)						
Measures the annual percentage growth rates of all value added goods and services produced in the country. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. ⁷⁰						
Annual percentage growth rate of GDP.						
Source: World Bank, World Development Indicators						
Timor-Leste	12.96	9.37	9.53	6.35	2.76	7.00
Cambodia	0.09	5.96	7.07	7.26	7.48	7.07
Cabo Verde	-1.27	1.47	3.97	1.08	1.05	2.80
Fiji	-1.39	2.95	-3.05	1.63	5.35	6.94
Indonesia	4.63	6.22	6.17	6.03	5.58	5.02
Rwanda	6.27	7.31	7.85	8.79	4.68	6.96
Vietnam	5.40	6.42	6.24	5.25	5.42	5.98

⁶⁹ <https://knoema.com/atlas/Timor-Leste/CPI-inflation>

⁷⁰ World Bank: World Development Indicators

Inflation, consumer prices (annual per cent) Measures the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly. Source: World Bank, World Development Indicators	2008	2009	2010	2011	2012	2013	
	Timor-Leste	7.43	-0.21	5.18	13.17	10.94	9.48
	Cambodia	25.00	-0.66	4.00	5.48	2.93	2.96
	Cabo Verde	6.79	0.99	2.08	4.47	2.54	1.51
	Fiji	7.73	3.66	3.69	7.28	3.42	2.91
	Indonesia	9.78	5.05	5.14	5.34	3.98	6.41
	Rwanda	15.44	10.35	2.04	5.67	6.29	4.22
	Vietnam	23.12	6.72	9.21	18.68	9.10	6.60
	Current account balance (per cent of GDP) Current account balance (also called ‘current account surplus/deficit’) is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country’s transactions with the rest of the world. It shows whether a country is ‘living within its means’. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country’s currency in relation to other countries’ currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice - once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners’ savings. Source: World Bank, World Development Indicators	2007	2008	2009	2010	2011	2012
Timor-Leste		39.4	46.0	38.9	39.8	41.1	47.8
Cambodia		-1.9	-6.6	-6.9	-6.8	-10.2	-11.0
Cabo Verde		-12.9	-13.7	-14.6	-12.4	-16.3	-11.4
Fiji		-10.4	-15.9	-4.2	-4.5	-5.3	-1.8
Indonesia		1.4	0.0	1.8	0.7	0.2	-2.7
Rwanda		-2.3	-5.0	-7.1	-7.3	-7.5	-11.4
Vietnam		-9.0	-11.0	-6.5	-3.8	0.2	6.0
Gross Capital Formation (per cent of GDP) Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth. Source: World Bank, World Development Indicators		2008	2009	2010	2011	2012	2013
	Timor-Leste	29.25	43.40	40.04	65.73	55.44	39.12
	Cambodia	18.62	21.36	17.37	17.10	18.53	19.72
	Cabo Verde	48.54	43.79	47.65	47.51		
	Fiji	24.88					
	Indonesia	27.82	30.99	32.88	32.98	35.07	34.05
	Rwanda	24.17	23.63	23.20	23.53	25.89	26.52
	Vietnam	36.49	37.16	35.69	29.75	27.24	26.68

3.2. Trade and sustainable economic integration

Trade integration can lead to positive economic outcomes, which can have positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered.

In the last few years Timor-Leste has experienced a period of economic growth, based largely on public spending and increasing private sector activities. These have largely been driven by the revenues from oil and gas exports. The government is focused on developing the non-petroleum economy, and despite projects about remaining oil and gas reserves there is reason for cautious optimism as Timor-Leste has made big strides towards improving the conditions for investment.⁷¹ Some specific current actions towards improving conditions for investment in Timor-Leste include a new Private Investment Law (in Parliament), a Land and Property Law (in Parliament), a Commercial Companies Law (in Parliament), the development of a Competition Law and the creation of TradeInvest. While taking significant steps to streamline the bureaucracy to make establishing a business easier for local and foreign investors alike the GOTL has also been using tax incentives to invite investment.⁷² Conditions and incentives for domestic and foreign investment are laid out in the Private Investment Law, which also guarantees complete equality before law for international investors.⁷³

In 2015, the GOTL announced the establishment of TradeInvest under MECAE. TradeInvest is tasked with producing reports on opportunities for private sector investment in Timor-Leste, to act as a liaison for private investors, to promote exports and to make economic and financial policy recommendations relating to foreign-trade to the GOTL.⁷⁴ Applications for foreign investment are screened by the TradeInvest, which then presents them to a Private Investment Commission for evaluation based on compliance with national priorities and environmental and social implications among others. Foreign entities may not invest in the postal services, public communications, protected natural areas and weapons production.⁷⁵

TradeInvest is currently working closely with MECAE, on an Investment Reform Map (IRM), which will be finalized early 2017. The objective of the IRM is to improve the quality of the investment climate for both domestic and foreign investors and to explore which sectors can potentially play a key role in attracting foreign direct investment (FDI) into the country.

For processing business registration, and licensing the GOTL has set up a Business Verification and Registration Service (Servico de Registo e Verificação Empresarial, SERVE). SERVE brings together the services of various ministries, particularly those of Finance, Commerce, Industry and Environment and Justice to facilitate business licensing.⁷⁶ Getting a business license can take between 5 days and a month.⁷⁷ According to Serve's own report of 2016, the average number of days to issue a business license is 7.93 days. SERVE can issue business licenses for what it determines to be low risk undertakings, while the Ministry of Commerce and other government agencies must issue them for

⁷¹ U.S. Department of State, 2015.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ U.S. Department of State, 2015.

⁷⁷ Ibid.

medium and high-risk endeavours.⁷⁸ The establishment of SERVE has streamlined the process of registration greatly, and in its first 7 months of operation SERVE registered over 4000 businesses.⁷⁹ According to Serve's own report of 2016, until July 2016, SERVE has registered 12,084 companies since its establishment. Currently MECAE is revising both laws concerning SERVE, namely commercial registration and commercial licencing.

In the 2015 World Bank Doing Business report Timor-Leste was recognized as having the most improved economy in terms of facilitating business start up.⁸⁰ They cited the creation of SERVE as proof of the commitment to the growth of the private sector, as well as the improvements in getting electricity as an enabling factor for businesses. Timor-Leste, however, in 2017 still ranks at 175 out of 189 countries, because of issues with registering property, enforcing contracts and resolving insolvency. All of these have to do with difficulties of creating and enforcing a legal framework around property ownership.

The Private Investment Law does not address foreign investments in natural gas and oil, minerals, and retailing- these are handled through different resolutions and regulations.⁸¹ Special investment agreements authorized by the Council of Ministers are made in the case of foreign investments that are deemed to be of special value to the national development strategy.⁸² For these investments the Council of Ministers may provide incentives relating to customs, taxes, leases of state property, and cost sharing in the training of employees- but the Private Investment Law does not set out the criteria for determining which investments might fall under this category.⁸³ So far three projects, with high political interests have been given special considerations of this sort through special investment agreements, one with ENSUL in 2010, another one with Heineken in 2014 and one with Timor-Leste Cement in 2016.

The EESE Timor-Leste Survey found that the general perception was that local investors were less favoured than foreign investors. Approximately 61 per cent of all respondents thought that the GOTL generally favours foreign investors over domestic ones with only 5 per cent thinking otherwise.⁸⁴ A disaggregation by sector is also provided below.

⁷⁸ The officially gazetted law establishing SERVE lists a number of activities and sectors considered low risk.

⁷⁹ U.S. Department of State, 2015.

⁸⁰ GOTL, 29 October 2015.

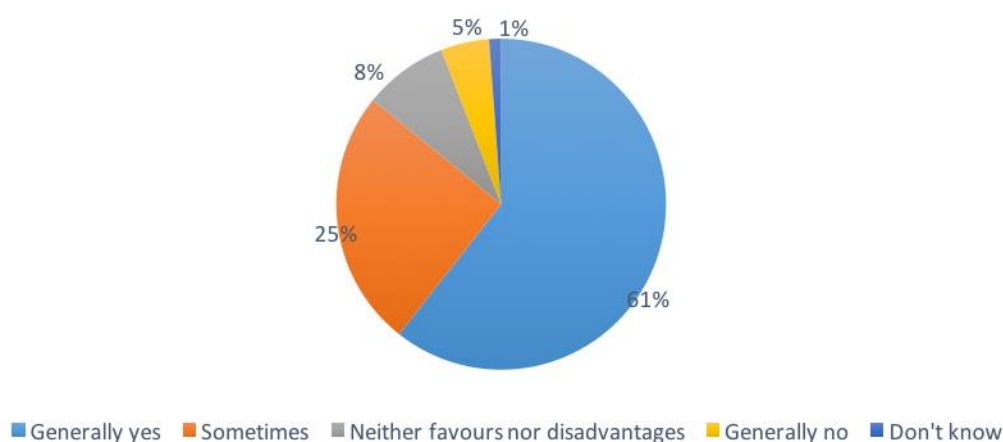
⁸¹ U.S. Department of State, 2015.

⁸² Ibid.

⁸³ Ibid.

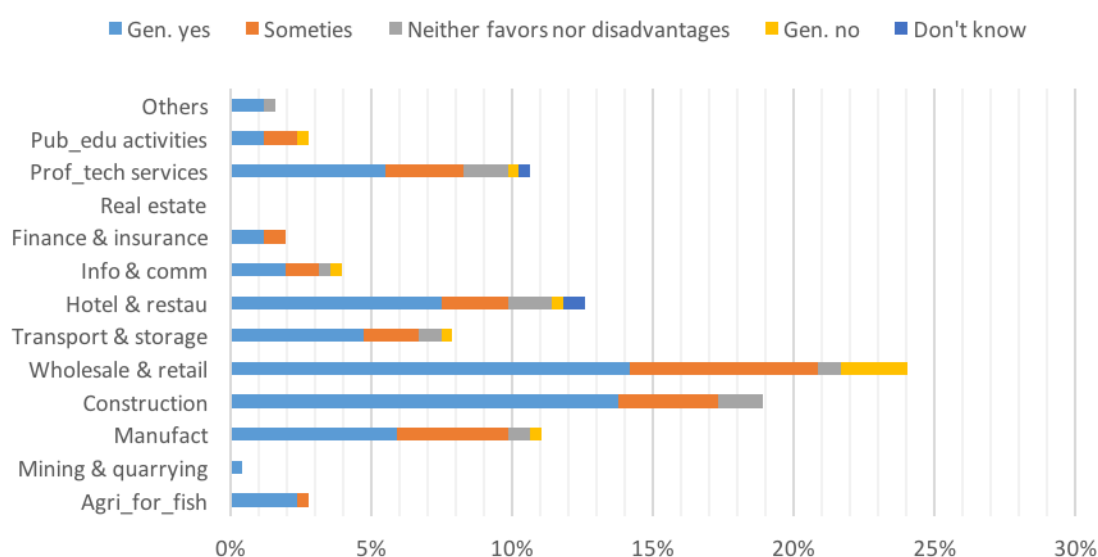
⁸⁴ EESE Timor-Leste Survey, 2016.

Figure 17 Government favours foreign investors over domestic investors, surveyed companies, percentage



Source: EESE Timor-Leste Survey, 2016.

Figure 18 Government favours foreign investors over domestic investors, by sector, surveyed companies, percentage



Source: EESE Timor-Leste Survey, 2016.

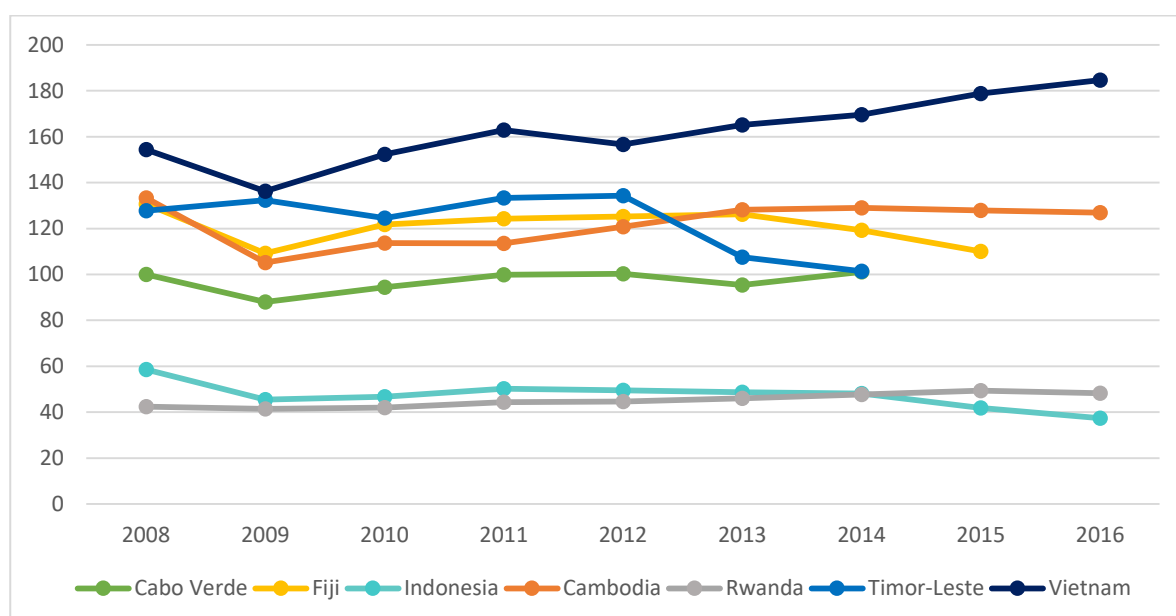
Timor-Leste is not a member of the World Trade Organization (WTO), and so does not follow the WTO's Trade Related Investment Measures (TRIMS). However, the government has accession plans to the WTO within the mandate of the VI Constitutional Government. While there are incentives to domestic investments these are increased for investments in rural zones- that is outside of Dili and Baucau. Domestic investments over US\$50,000 and foreign investments over US\$1.5 million are exempt for 5 years from income, sales and services taxes, as well as exempt from customs duties on imports of goods and equipment. The exemption period is 8 years for investment in rural zones, and 10 years for investments in peripheral zones- Oecusse and Atauro.⁸⁵ A proposal for a new Private

⁸⁵ U.S. Department of State, 2015.

Investment Law was approved by the Council of Ministers in July 2016, and is currently being discussed in the National Parliament. This proposal is intended to modernize the current private investment legal regime and ensuring that the national legislation on investment will act in accordance with guidelines issued by the Association of Southeast Asian Nations Comprehensive Investment Agreement, to facilitate the accession of Timor-Leste to the organization.⁸⁶

The SDP announced that a National Labour Content policy would be developed to require domestic and foreign investors to spend a minimum percentage on employment or training of Timorese workers, but the policy has not yet been fleshed out.⁸⁷ This is a first step in line with the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.⁸⁸ Government procurement procedures are often subject to change, and inconsistent implementation, which, combined with pervasive corruption and deficiencies in personnel capacity can make investment in Timor-Leste difficult.⁸⁹

Figure 19 Trade as share of GDP, selected countries, 2008-2013, percentage



Source: World Bank: World Development Indicators.

Trade is the sum of exports and imports of goods and services measured as a share of GDP. If we analyse the countries used for comparison, Timor-Leste records 103.56 per cent of GDP, which indicates that the volume of trade, in this case led by oil exports, outweigh the gross domestic product. In 2013, Cambodia was at 128.18 per cent and Indonesia at 48.75. Timor-Leste appears to have relatively high levels of trade as a percentage of GDP in comparison to the basket of other countries. However, the overwhelming majority of this trade is in the oil sector. The non-oil sector had a negative trade balance of \$514 million comprised by very high merchandise imports \$553 million and very small merchandise exports of \$39 million.⁹⁰

⁸⁶ Government of Timor-Leste [website](#)

⁸⁷ U.S. Department of State, 2015.

⁸⁸ ILO [Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy](#)

⁸⁹ U.S Department of State, 2015.

⁹⁰ MECAE, 2016.

Timor-Leste depends on imports for almost all of its general and household consumer goods. In 2012, according to the GOTL's General Directorate for Statistics, Timor-Leste's primary imports were in electrical machinery, fuel, vehicles and parts, iron and steel products, cereals, and other machinery; more than 60 per cent of the non-oil exports was coffee.⁹¹

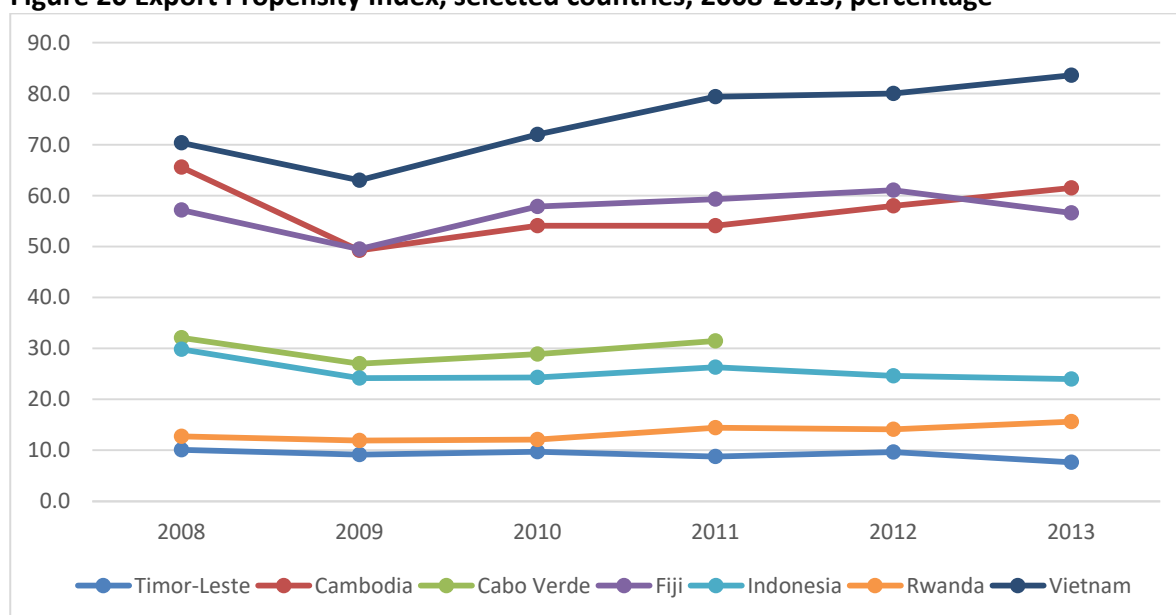
Table 6 Ease of Doing Business Ranking, selected countries, 2013-2015

Country	2013	2014	2015
Timor-Leste	172	172	173
Cabo Verde	121	122	126
Cambodia	137	135	127
Fiji	62	81	88
Indonesia	120	114	109
Rwanda	32	46	62
Vietnam	99	78	90

Source: World Bank: Doing Business Reports.

The Ease of Doing Business Index ranks economies from 1 to 189 (2015), with first place being the best. Based on the latest WB report Timor-Leste is ranked 173rd indicating a large room for improvement. As shown in table 6, Timor-Leste performs very poorly in this context though overall, the regulatory framework for the development of sustainable enterprises in Timor-Leste, is improving.

Figure 20 Export Propensity Index, selected countries, 2008-2013, percentage



Source: World Bank: World Development Indicators.

The Export Propensity Index looks at the share of exports of goods and services in GDP. Timor-Leste performs very poorly on this indicator, with a value of 7.66 in 2013. Rwanda was the next lowest that year with 15.63 while Vietnam was highest at 83.63. For Timor-Leste this means that very little goods and services, with the exception of crude oil, are exported.

⁹¹ U.S. Department of State, 2013.

Table 7 Key trade and sustainable economic integration indicators, selected countries, 2008-2014

Trade (per cent of GDP) Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (GDP). Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100 per cent. Source: World Bank, World Development Indicators		2008	2009	2010	2011	2012	2013
	Timor-Leste	127.95	133.86	125.59	132.34	132.59	103.56
	Cambodia	133.32	105.14	113.60	113.58	120.74	128.18
	Cabo Verde	90.40	79.90	86.92	91.76		
	Fiji	130.72	109.25	121.73	124.19	125.11	125.97
	Indonesia	58.56	45.51	46.70	50.18	49.58	48.75
	Rwanda	40.56	38.71	40.05	44.05	46.09	46.30
	Vietnam	154.32	136.31	152.22	162.91	156.55	165.09
FDI net inflow/GDP, per cent Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP. Source: World Bank, World Development Indicators		2009	2010	2011	2012	2013	2014
	Timor-Leste	5.86	3.25	4.31	3.12	4.23	2.39
	Cambodia	4.91	6.54	6.20	10.26	8.71	10.31
	Cabo Verde	7.42	6.98	5.48	7.83	5.08	7.08
	Fiji	4.88	11.36	11.04	6.72	3.77	6.15
	Indonesia	0.90	2.03	2.30	2.31	2.56	2.97
	Rwanda	2.24	0.74	1.66	2.21	3.43	3.70
	Vietnam	7.17	6.90	5.48	5.37	5.20	4.94
Export Propensity Index= exports of goods and services/GDP, per cent Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. It ranges from 0 (with no exports) to 100 (with all domestic production exported). Source: World Bank, World Development Indicators		2008	2009	2010	2011	2012	2013
	Timor-Leste	10.09	9.17	9.74	8.79	9.65	7.66
	Cambodia	65.54	49.22	54.08	54.08	57.96	61.49
	Cabo Verde	32.10	27.01	28.91	31.47		
	Fiji	57.14	49.51	57.84	59.28	61.02	56.59
	Indonesia	29.81	24.16	24.30	26.33	24.59	23.98
	Rwanda	12.73	11.90	12.10	14.43	14.14	15.63
	Vietnam	70.34	62.97	72.00	79.39	80.03	83.63
Trading Across Border Data Ease of doing business index ranks economies from 1 to 183, with first place being the best. The cost to export is the cost US\$ per container. The number of import and export documents required to carry out an international trade transaction. The time to export and import is measured in days. Source: World Bank, Doing Business Project	Timor-Leste				2013	2014	
	Rank						
	Cost to export (US\$ per container)				410	410	
	Documents to export (number)				6	6	
	Documents to import (number)				7	7	
	Time to export (days)				28	28	
	Time to import (days)				26	26	
	Cambodia				2013	2014	

	Rank		
	Cost to export (US\$ per container)	755	795
	Documents to export (number)	8	8
	Documents to import (number)	9	9
	Time to export (days)	22	22
	Time to import (days)	26	24
	Cabo Verde	2013	2014
	Rank		
	Cost to export (US\$ per container)	1125	1125
	Documents to export (number)	7	7
	Documents to import (number)	7	7
	Time to export (days)	19	19
	Time to import (days)	18	18
	Fiji	2013	2014
	Rank		
	Cost to export (US\$ per container)	655	790
	Documents to export (number)	8	8
	Documents to import (number)	9	9
	Time to export (days)	19	19
	Time to import (days)	22	22
	Indonesia	2013	2014
	Rank		
	Cost to export (US\$ per container)		
	Documents to export (number)	3	4
	Documents to import (number)	6	8
	Time to export (days)		17
	Time to import (days)		23
	Rwanda	2013	2014
	Rank		
	Cost to export (US\$ per container)	\$3,245	\$3,245
	Documents to export (number)	7	7
	Documents to import (number)	9	9
	Time to export (days)	29	26
	Time to import (days)	31	30
	Vietnam	2013	2014
	Rank		
	Cost to export (US\$ per container)	610	610
	Documents to export (number)	5	5
	Documents to import (number)	8	8
	Time to export (days)	21	21
	Time to import (days)	21	21

3.3. Enabling legal and regulatory environment

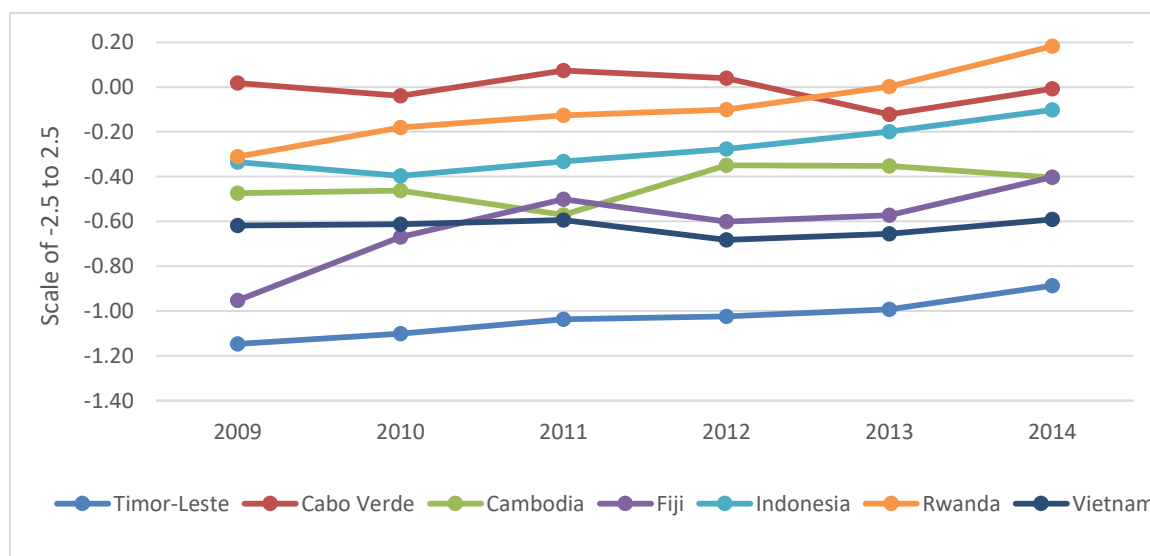
Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. While infrastructure and the provision of basic utilities have improved in Timor-Leste, spurring economic growth, legislation remains unclear and incomplete in some areas.⁹² Dispute resolution and regulatory mechanisms are still nascent, which leaves early entrants into many markets having to navigate unknown territory.⁹³

There are a variety of challenges to smooth navigation of the regulatory environment in Timor-Leste, for citizens and businesses alike. The impartiality of certain bodies is questionable and there is a shortage of qualified personnel. The legal regime is complex, as it combines the influences of laws from the Portuguese and Indonesian eras with more modern Timorese and UN administration-era laws. Legislation is drafted in Portuguese, which makes it inaccessible, since less than 10 per cent of the population speak the language.⁹⁴

Tax assessments are sometimes a contested issue- in 2011 and 2012 the GOTL issues a number of tax assessments to private firms, both foreign and domestics, claiming arrears for several years.⁹⁵ Many of these disputes are yet to be resolved. While the existing regulatory framework in terms of tax, labour, environment, health and safety in general enables investment the lack of comprehensive laws in certain areas inhibits clarity. Land, and intellectual property are just two of the key areas that require greater legislative attention.

In 2010, Timor-Leste was certified as compliant with the Extractives Industries Transparency Initiative (EITI), becoming the first country in Asia and the third country in the world to do so.⁹⁶ EITI is a G8 endorsed initiative, which works towards ensuring transparency of payments and revenues bringing together government, extractives industry members and civil society actors. In 2011, the Ministry of Finance launched a Procurement Portal online, which was meant to increase transparency by providing better access to information in government tenders and procurement contracts.⁹⁷

Figure 21 Regulatory Quality Index, selected countries, 2009-2014, percentage



⁹² U.S Department of State, 2015.

⁹³ Ibid.

⁹⁴ U.S. Department of State, 2014.

⁹⁵ Ibid.

⁹⁶ U.S. Department of State, 2015.

⁹⁷ Ibid.

Source: World Bank: Worldwide Governance Indicators.

The Regulatory Quality Index measures the ability of the government to provide sound policies and regulations that enable and promote private sector development. Despite the guiding of the UN and the plethora of bilateral and multilateral donors there remain serious lacunae in the regulatory regime of the country. The value, however has been improving every year, and in 2014 this was -0.89, compared to Vietnam at -0.59 and Rwanda at 0.18 (the highest of the cohort). The indicator represents the state of regulatory stability in the country with lower values representing lower trust in the Government. After many reforms and legislative changes this indicator has improved and keeping this positive momentum should be a priority. Several major recent and current regulatory and legal reforms to improve business environment by the Government are expected to show in the next measure of the Regulatory Quality Index.

Timor-Leste is a small, developing country and needs to be supported in creating its own regulatory regime, prioritising national interests. The implementation of regulation, which is based on the legal regime and on the technical capacity to monitor processes, is problematic and is described as weak and often unpredictable.

Table 8 Key legal and regulatory environment indicators, selected countries, 2009-2014 and 2014-2015

Regulatory Quality The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. Source: World Bank, Worldwide Governance Indicators	2009		2010	2011	2012	2013	2014
	Timor-Leste	-1.15	-1.10	-1.04	-1.02	-0.99	-0.89
	Cabo Verde	0.02	-0.04	0.07	0.04	-0.12	-0.01
	Cambodia	-0.47	-0.46	-0.57	-0.35	-0.35	-0.40
	Fiji	-0.95	-0.67	-0.50	-0.60	-0.57	-0.40
	Indonesia	-0.34	-0.40	-0.33	-0.28	-0.20	-0.10
	Rwanda	-0.31	-0.18	-0.13	-0.10	0.00	0.18
	Vietnam	-0.62	-0.61	-0.59	-0.68	-0.66	-0.59
Starting a Business Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. The index ranks economies from 1 to 185, with first place being the best. Source: World Bank, Doing Business Project			2014		2015		
	Timor-Leste	Ranking	96		104		
		Days	10		9		
	Cabo Verde	Ranking	78		75		
		Days	10		10		
	Cambodia	Ranking	184		180		
		Days	101		87		
	Fiji	Ranking	160		167		
		Days	59		58		
	Indonesia	Ranking	155		173		
		Days	52.5		47.8		
	Rwanda	Ranking	112		111		
		Days	6.5		5.5		
	Vietnam	Ranking	125		119		
		Days	34		20		

3.4. Rule of law and secure property rights

A formal and effective legal system, which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. In many countries where legal processes are still evolving, the dominant problem is underdeveloped institutions integral to the market economy, chief among these being the security of property rights.

The justice system is still evolving, and all aspects- the police, prosecutors and courts, are short of human and financial resources. Up to 2014 the GOTL used to rely on significant numbers of foreign experts and advisors such as judges, prosecutors and advisors in the judiciary. Legal processes have been severely affected by this. Courts operate in four of the thirteen districts and traditional courts handle the bulk of cases at the local level.⁹⁸ While many additional courts were provided for in the Constitution and in legislation, such as specialized tax courts, these have not yet been established.⁹⁹

There have been very few instances where the enforcement of contracts has been brought to court. A World Bank study found that a contract enforcement dispute takes, on average 1285 days to settle, which among the slowest and most expensive in the world.¹⁰⁰ The EESE Timor-Leste Survey found that access to formal financial services was constrained by the lack of a formal legal and regulatory structure that enforced repayment of loans. There was a declared demand for better enforcement and governance in this regard.¹⁰¹

There is a shortage of magistrates in Timor-Leste- in 2014 there were 22 national judges and four foreign judges. While the law provides for access to legal representation at all stages of legal proceedings public defenders are also in short supply. Legal aid organizations will often provide lawyers to overcome this obstacle to legal access. Some concerns have been raised about the quality of these legal services. The Judicial Training Center (CFJ), in an attempt to regulate and standardize the quality of private legal professionals, implemented courses for private lawyers.

The domestic court system handles the bulk of civil disputes. There are several problems plaguing the domestic court system including a shortage of qualified judges and attorneys, incomplete legislation and language barriers. New legislation is enacted in Portuguese while most prosecutors, police officers, and people do not speak this.

As per the Constitution, the right of ownership of land is granted exclusively to Timor-Leste nationals, which poses a severe challenge for FDI. One way to overcome this challenge would be to allow national legal entities to purchase lands, in this way FDIs could set up domestic corporations and acquire land in the name of these corporations. Foreigners may enter long-term leases though, for a period of up to 50 years, renewable for one time. At present national legislation governing land ownership is inadequate, and often competing claims to property exist dating from the Portuguese colonial administration, the Indonesia occupation era and the post-independence years.¹⁰² The confusion is compounded by a history of displacement and overlapping titles. A 2010 World Bank report that the customary norms and traditional authorities often dictate the resolution of land

⁹⁸ U.S. Department of State, 2015.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ EESE Timor-Leste Survey, 2016.

¹⁰² U.S. Department of State, 2015.

ownership disputes.¹⁰³ In 2012 Parliament passed a set of land laws, which were vetoed by the President, and new drafts are in the process of being debated.¹⁰⁴ The Council of Ministers in March 2016 passed a new Land Law, along with a Law for Territorial Planning. These proposals are currently being discussed in Parliament. Tenure insecurity, among people who work in agriculture, is caused by the lack of a sound property rights system.¹⁰⁵ This leads to low investment in land, and unsustainable land management.¹⁰⁶

According to secondary data, the rule of law still underperforms compared to other countries in the report. The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. From 2009-2014, Timor-Leste improved slightly going from -1.23 to -1.27. Rwanda progressed much better going from -0.49 to 0.08.

Another important indicator in this area is the Property Rights Indicator by the World Economic Forum. In 2014 Timor-Leste was at the level of 2.8 of 7 which is extremely low, and lagging behind all the other comparator countries.

The protection of literary, scientific and artistic work is provided for in Section 60 of the Constitution, however a domestic regime of intellectual property rights is yet to evolve in Timor-Leste. The dearth of domestic legislation makes the degree of available legal protection in this area difficult to gauge.

The related indicator on Intellectual Property Protection is based on the World Economic Forum (WEF) Survey. Compared to all other countries Timor-Leste had the worst result in 2014, and all the years before. In 2014 the value was 2.5, which shows that intellectual property protection is still weak in the country.

Table 9 Key rule of law and property rights indicators, selected countries, 2009-2014 and 2012-2015

Rule of Law Index The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. Source: World Bank, Worldwide Governance Indicators Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.	2009		2010	2011	2012	2013	2014
	Timor-Leste	-1.23	-1.22	-1.23	-1.20	-1.27	-1.17
	Cambodia	-1.09	-1.09	-1.02	-0.97	-0.99	-0.93
	Cabo Verde	0.48	0.42	0.47	0.47	0.48	0.57
	Fiji	-0.76	-0.85	-0.82	-0.80	-0.84	-0.54
	Indonesia	-0.60	-0.64	-0.61	-0.60	-0.55	-0.35
	Rwanda	-0.49	-0.30	-0.31	-0.26	-0.15	0.08
	Vietnam	-0.47	-0.53	-0.48	-0.50	-0.49	-0.31
	Property Rights The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law”.	2012		2013	2014	2015	
Timor-Leste		2.6	2.8	2.8			
Cambodia		3.8	3.6	3.3	3.6		
Cabo Verde		4.0	3.9	3.8	4.0		
Fiji							
Indonesia		4.1	4.1	4.3	4.3		

¹⁰³ Ibid.

¹⁰⁴ SIDA, 2008

¹⁰⁵ Ibid.

¹⁰⁶ U.S. Department of State, 2015.

Source: World Economic Forum, The Global Competitiveness Report.	Rwanda	5.2	5.2	5.3	5.6
	Vietnam	3.5	3.5	3.6	3.9
Intellectual Property Protection The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced". Source: World Economic Forum, The Global Competitiveness Report.		2012	2013	2014	2015
	Timor-Leste	2.9	2.7	2.5	
	Cambodia	3.3	3.2	2.8	2.8
	Cabo Verde	2.9	3.0	3.2	3.4
	Fiji				
	Indonesia	3.7	3.9	4.1	4.3
	Rwanda	4.8	4.7	4.6	5.1
	Vietnam	2.6	2.9	3.1	3.6

3.5. Fair competition

As a precondition for private sector and sustainable enterprises development and growth, it is important to have competition rules, including those ensuring respect for labour and social standards. Additionally, anti-competitive practices at the national level must be eliminated.

Timor-Leste currently does not have a law protecting competition, but MECAE is in the process of developing a Competition Law. Some sectors remain dominated by state-owned enterprises.¹⁰⁷ The GOTL, in 2008, made Timor-Leste's Public Broadcasting Service, Radio Televisão de Timor-Leste (RTTL) into a state owned business known as RTTL, E.P.¹⁰⁸ In 2011 the GOTL set up TimorGAP, a state-owned petroleum company which is meant to partner with international firms to explore and develop Timor-Leste's resources.¹⁰⁹ Partnering with TimorGAP is incentivised for foreign firms by the promise of preferential consideration in tenders.¹¹⁰ The GOTL has shares in Timor-Telecom, a company in which Portugal Telecom is the majority shareholder, and which, until recently, had a monopoly on telecommunications. Several autonomous government agencies exist, among them the Dili Port Authority, and the National Aviation Authority. Timor-Leste is not a member of the Organization for Economic Cooperation and Development, and does not follow their guidelines on the governance of state owned enterprises.

Another aspect of fair competition, one which the EESE Timor-Leste Survey investigated, was the degree of government support for local investors versus foreign investors. Approximately 61 per cent of respondents thought that the GOTL favoured foreign investors over domestic ones, with only 5 per cent of respondents thinking otherwise. This perception of preferential treatment towards foreign firms came largely from the construction and retail sectors.

One of the indicators that measures competition is the Intensity of Local Competition Index. The available data show that Timor-Leste's score was lower than average (3.8) in 2014 which is the lowest compared to the countries analysed in the report.

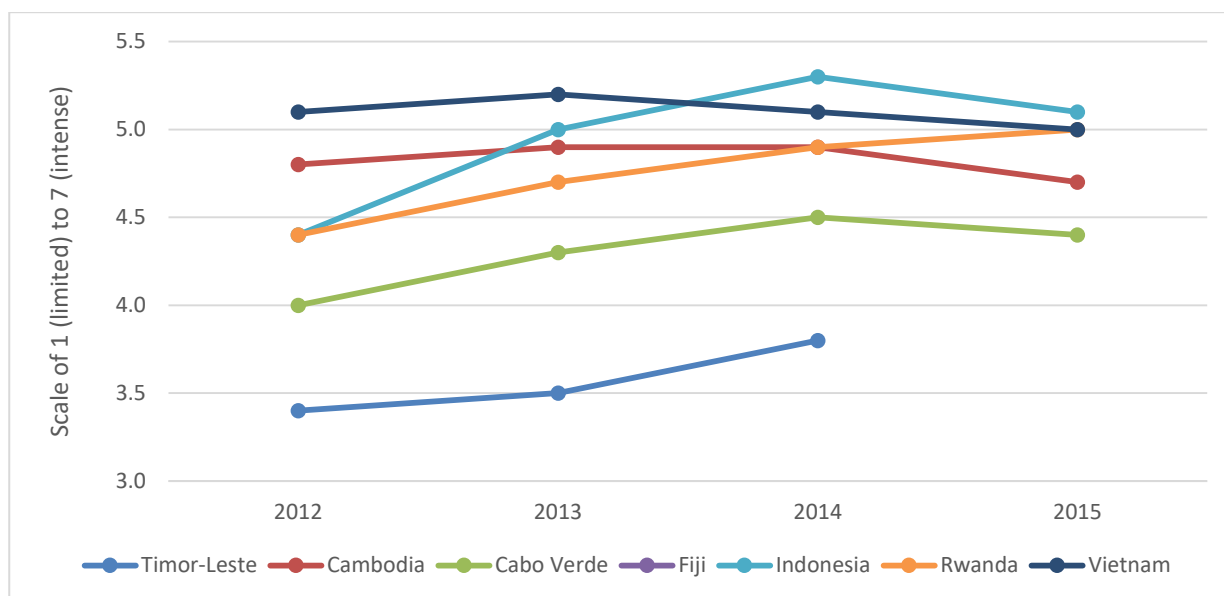
¹⁰⁷ U.S. Department of State, 2015.

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

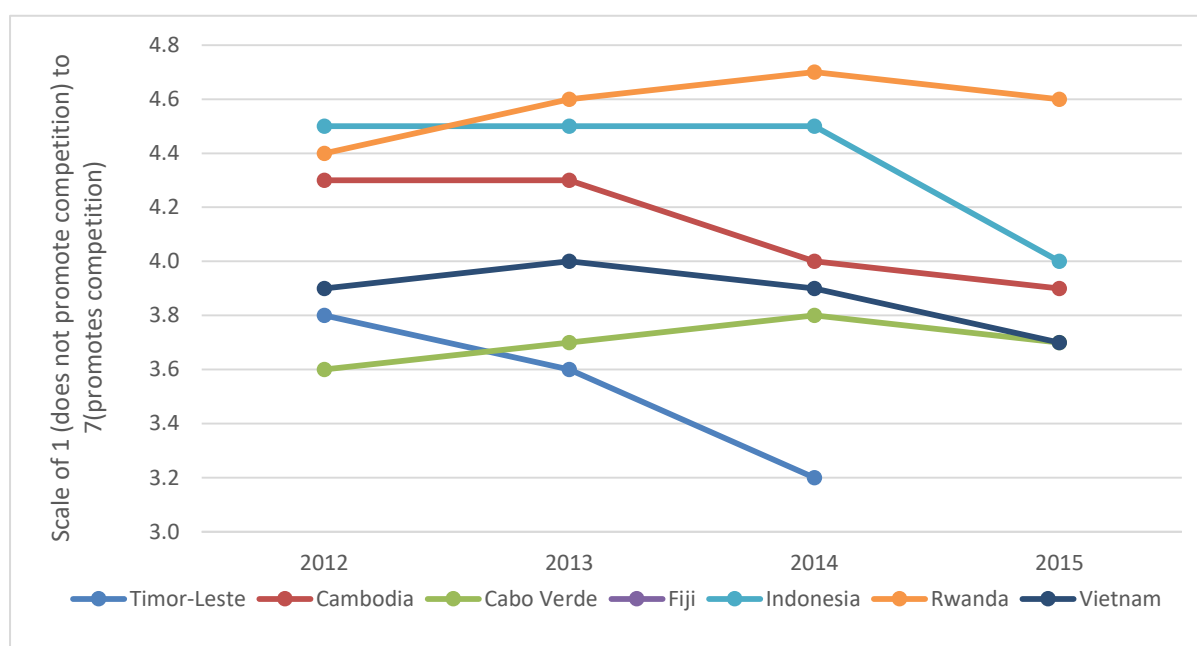
Figure 22 Intensity of Local Competition Index, selected countries, 2012-2015



Source: WEF, Global Competitiveness Reports.

According to the Effectiveness of Anti-Monopoly Policies Index, which is based on annual survey, Timor-Leste, in 2014, with a score of 3.2 still lags behind Cambodia, Cabo Verde, Indonesia, Rwanda and Vietnam.

Figure 23 Effectiveness of Anti-Monopoly Policies Index, selected countries, 2012-2015



Source: WEF, Global Competitiveness Reports.

Table 10 Key fair competition indicators, selected countries, 2012-2015 and 2006-2012

	2012	2013	2014	2015
Intensity of local competition index				
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".				
Source: World Economic Forum, The Global Competitiveness Report.				
Timor-Leste	3.4	3.5	3.8	
Cambodia	4.8	4.9	4.9	4.7
Cabo Verde	4.0	4.3	4.5	4.4
Fiji				
Indonesia	4.4	5.0	5.3	5.1
Rwanda	4.4	4.7	4.9	5.0
Vietnam	5.1	5.2	5.1	5.0
Effectiveness of anti-monopoly policies				
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)".				
Source: World Economic Forum, The Global Competitiveness Report.				
Timor-Leste	3.8	3.6	3.2	
Cambodia	4.3	4.3	4.0	3.9
Cabo Verde	3.6	3.7	3.8	3.7
Fiji				
Indonesia	4.5	4.5	4.5	4.0
Rwanda	4.4	4.6	4.7	4.6
Vietnam	3.9	4.0	3.9	3.7
Extent of market dominance index				
Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".				
Timor-Leste	3.1	3.1	2.9	
Cambodia	4.0	3.8	3.5	3.4
Cabo Verde	3.7	3.9	3.9	3.9
Fiji				

Source: World Economic Forum, The Global Competitiveness Report.	Indonesia		3.9	4.0	4.1	3.8			
	Rwanda		3.8	3.9	4.0	4.1			
	Vietnam		3.7	3.8	3.7	3.8			
New Business Density The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year. Source: World Bank, World Development Indicators			2006	2007	2008	2009	2010	2011	2012
	Timor-Leste				0.77	2.13	7.85	3.77	2.76
	Cambodia	0.20	0.32	0.30	0.22				
	Cabo Verde								
	Fiji								
	Indonesia	0.16	0.17	0.24	0.19	0.24	0.27	0.29	
	Rwanda	0.11	0.16	0.21	0.54	0.56	0.78	1.07	
	Vietnam								

3.6. Information and communication technologies

With the continuing shift towards knowledge based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information and communication technologies (ICT) enhances competitiveness and innovation. Countries that want to increase their competitiveness on the market need to invest in ICT and foster an ICT culture both at company and household levels to increase the usage of ICT in all segments of the community.

While access to mobile phones and the internet has been steadily increasing, Timor-Leste still remains a very poorly connected country in terms of communications and technology, particularly in rural areas. The ICT sector requires better legal infrastructure, human resources and power supply.¹¹¹

Timor Telecom, run by the Portuguese Telecom International (PTI), was the only provider of telecommunications services until recently. They started operations in 2002 and operated with a virtual monopoly until 2011, providing limited services, and charging high prices. The government liberalised the telecommunications sector allowing companies greater access, with the World Bank providing advisory assistance on telecommunications policy and new legislation.¹¹² The exclusive contract with Timor Telecom was renegotiated in 2011.¹¹³ While Portugal Telecom is the major shareholder of Timor Telecom, the GOTL owns about 20 per cent. It took till 2013 for two private foreign companies to enter the telecommunications market in Timor-Leste. Since then Indonesia's Telin and Vietnam's Viettel have both acquired licenses to enter the telecommunications market in Timor-Leste.¹¹⁴

There is very poor access to fixed phone lines, as the network set up by Timor-Telecom focused on a few areas, including Dili, and the rates were close to those for mobile service. Mobile phone usage however, is also low, and this is linked to high costs, as well as the limited access to electricity, particularly in rural areas. Prices for phone services, as well as the internet were extremely high due to

¹¹¹ Da Silva, 2010.

¹¹² World Bank, 2012.

¹¹³ Ibid.

¹¹⁴ Know Your Country, 2014.

the cost of provision and the existence of an absolute monopoly. An independent regulator, the Autoridade Nacional de Comunicações (ANC), was established in 2011 to ensure competitive practices by operators, compliance with new regulation, and the promotion of greater access to services in less commercially viable parts of the country.¹¹⁵

Telecommunications policy is handled by the Department of Infrastructure, under the Ministry of Public Works, Transport and Communications, along with public works, electricity, water, urban planning and transportation. A national ICT policy is under development. Improved access to the internet and telecommunication is likely to promote growth in many sectors; the applications to agriculture in particular have great potential for Timor-Leste. Better information on weather conditions alone could improve agricultural outcomes and incomes for farmers, while the innovations to mechanisms of credit delivery, marketing, and sales of products are innumerable.

There is great potential for the use of technology to further government and development goals. For example, the United National Development Programme (UNDP) and GOTL have a joint project called the Personnel Management Information System, launched in 2007, to improve government human resource management.¹¹⁶ Connectivity between government offices and departments remains poor, which makes implementation difficult. The process is also hindered by the use of different standards for software and hardware across government institutions, which makes integration of their systems hard to achieve.¹¹⁷ There are many barriers to the adoption of ICTs for development in Timor-Leste. The government recognizes ICTs as a priority. The lack of electricity remains a significant hurdle. According to a World Bank report in 2007 only 22 per cent of households had access to electricity, with most of these being in Dili.¹¹⁸

While the “development of the ICT sector in Timor-Leste is still in the early stages, the country has the opportunity to choose to adopt systems that fit the country’s conditions and make use of the latest technologies”.¹¹⁹ These might include open source software, to deal with the lack of resources, and wireless networking technology, as an efficient solution for dispersed communities across mountainous areas.

The Networked Readiness Index (NRI) measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. In relation to the NRI there are substantial differences between the compared countries, with Timor-Leste at the very bottom of the list at the value of 2.8 in 2015.

¹¹⁵ World Bank, 2012.

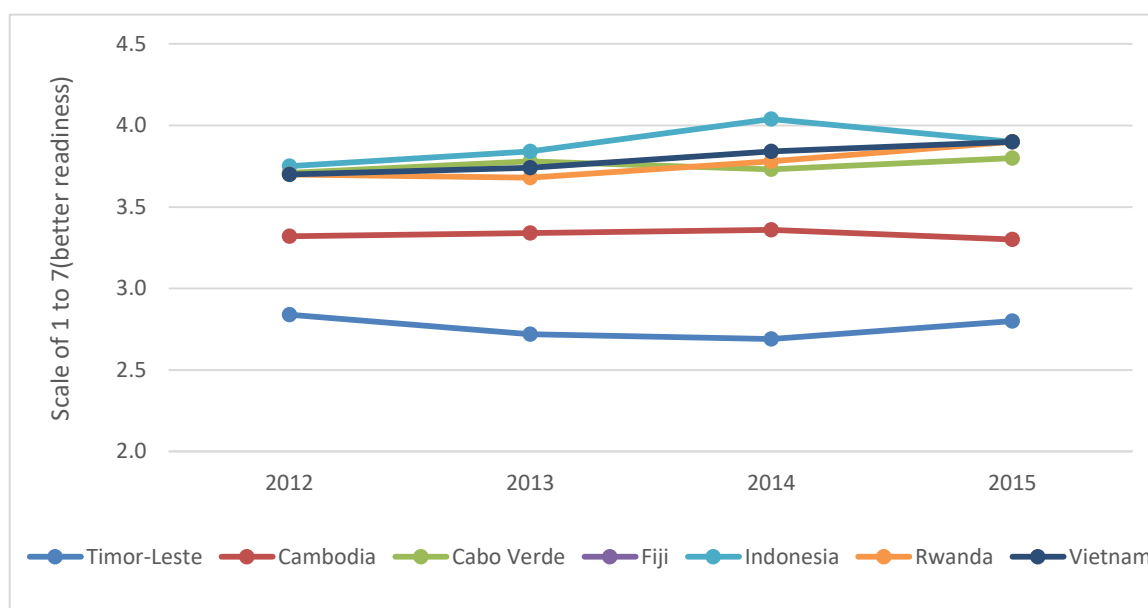
¹¹⁶ Da Silva, 2010.

¹¹⁷ Ibid.

¹¹⁸ Da Silva, 2010.

¹¹⁹ Ibid.

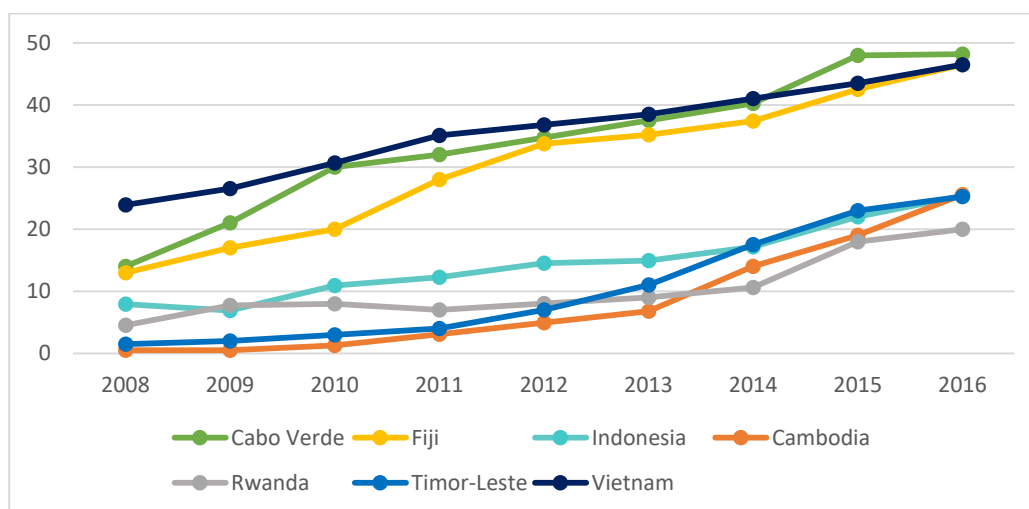
Figure 24 Networked Readiness Index, selected countries, 2012-2015



Source: WEF, Global Information Technology Reports.

The most important indicator for development of ICT in a country is the number of Internet users and the number of mobile and fixed-telephone subscriptions. Timor-Leste is among the least well connected countries in the world and performs poorly on this indicator as well. According to World Economic Forum's Global Information Technology Report, approximately 1.14 per cent of Timor-Leste nationals use the internet. Internet access remains relatively costly in Timor-Leste, as for a long time Timor Telecom was the only ISP provider in the country. Internet cafes in Dili and in the districts exist but the number is low. E-commerce is practically non-existent in Timor-Leste, as internet usage and electricity supplies are low. There is a lack of qualified professionals for web design and web development. ICT imports of hardware and software are largely from Australia, Indonesia and Singapore.¹²⁰

Figure 25 Internet Users (per 100 habitants) selected countries, 2008-2016



Source: World Bank, World Development Indicators.

¹²⁰ Ibid.

Positive shifts in the development of the ICT sector in Timor-Leste are evident over the several past years but they are very slow. Considering that ICT development has to be followed by the investments of companies in research and development, and needs to go along with the provision of basic infrastructure, Timor-Leste needs to make big strides towards improvements in this direction.

Table 11 Key ICT indicators, selected countries, 2011-2015, 2012-2015 and 2009-2014

ICT Development Index (IDI) IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer the number of Internet users; and literacy levels. Scale from 1 to 10, with lower scores reflecting lower development levels. Source: International Telecommunication Union	2011		2012	2013	2015		
	Timor-Leste						
	Cambodia	2.05	2.54	2.61	2.74		
	Cabo Verde	3.18	3.86	4.30	4.62		
	Fiji	3.79	3.90	4.40	4.33		
	Indonesia	3.14	3.70	3.83	3.94		
	Rwanda	1.54	1.74	1.86	2.04		
	Vietnam	3.65	3.94	4.09	4.28		
Networked Readiness Index The NRI measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indexes that measure the environment for ICT, together with the main stakeholders’ readiness and usage, with a total of nine pillars and 71 variables. Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT. Source: World Economic Forum, Global Information Technology Reports	2012		2013	2014	2015		
	Timor-Leste	2.84	2.72	2.69	2.8		
	Cambodia	3.32	3.34	3.36	3.3		
	Cabo Verde	3.71	3.78	3.73	3.8		
	Fiji						
	Indonesia	3.75	3.84	4.04	3.9		
	Rwanda	3.70	3.68	3.78	3.9		
	Vietnam	3.70	3.74	3.84	3.9		
Internet users (per 100 people) The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100. Source: World Bank, World Development Indicators	2009		2010	2011	2012	2013	2014
	Timor-Leste	0.19	0.21	0.90	0.91	1.10	1.14
	Cambodia	0.53	1.26	3.10	4.94	6.80	9.00
	Cabo Verde	21.00	30.00	32.00	34.74	37.50	40.26
	Fiji	17.00	20.00	28.00	33.74	37.10	41.80
	Indonesia	6.92	10.92	12.28	14.52	14.94	17.14
	Rwanda	7.70	8.00	7.00	8.02	9.00	10.60
	Vietnam	26.55	30.65	35.07	39.49	43.90	48.31
Fixed-telephone subscriptions (per 100 inhabitants)	2009		2010	2011	2012	2013	2014
	Timor-Leste	0.27	0.27	0.28	0.27	0.26	0.31
	Cambodia	0.38	2.50	3.63	3.93	2.78	2.34
	Cabo Verde	14.80	14.76	15.19	14.20	13.26	11.62

<p>Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.</p> <p>Source: World Bank, World Development Indicators</p>	Fiji	16.05	15.09	14.96	10.11	7.97	8.54
	Indonesia	14.66	17.01	15.84	15.39	12.30	10.37
	Rwanda	0.32	0.37	0.35	0.39	0.38	0.41
	Vietnam	19.76	16.14	11.32	10.52	7.34	6.01
<p>Mobile-cellular telephone subscriptions (per 100 inhabitants)</p> <p>Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.</p> <p>Source: World Bank, World Development Indicators</p>		2009	2010	2011	2012	2013	2014
	Timor-Leste	32.97	43.82	56.02	55.74	57.38	119.38
	Cambodia	44.31	56.74	94.19	128.53	133.89	132.73
	Cabo Verde	59.83	76.27	80.81	86.03	100.11	121.79
	Fiji	75.08	81.10	83.76	98.18	105.60	98.78
	Indonesia	68.92	87.79	102.46	114.22	125.36	128.78
	Rwanda	23.07	32.75	39.90	49.67	56.80	64.02
	Vietnam	111.37	125.29	141.60	145.02	134.97	147.11
<p>Fixed (wired)-broadband subscriptions (per 100 inhabitants)</p> <p>Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.</p> <p>Source: World Bank, World Development Indicators</p>		2009	2010	2011	2012	2013	2014
	Timor-Leste	0.04	0.05	0.05	0.05	0.06	0.09
	Cambodia	0.21	0.25	0.15	0.20	0.22	0.43
	Cabo Verde	2.26	3.30	4.35	4.02	4.25	3.44
	Fiji	1.51	2.70	2.68	1.55	1.24	1.40
	Indonesia	0.78	0.95	1.12	1.21	1.30	1.19
	Rwanda	0.02	0.04	0.08	0.05	0.02	0.02
	Vietnam	3.64	4.12	4.27	5.26	5.62	6.48

3.7. Access to financial services

One of the key factors for the development of an economy and its companies is the existence of good and affordable financial services. This is of special importance for all kinds of companies, regardless of their size or the sector they operate in. The financial sector is important for the promotion and encouragement of new companies but also to support existing companies to increase production and exports of their products and services. Sources of financing are often one of the main barriers for existing and potential entrepreneurs in most countries. A good financial system includes not only affordable interest rates, but also flexible ways of gauging collateral among others.

Financial services are limited in Timor-Leste and improving the credit culture is seen as key to the expansion of the formal economy. The Banco Nacional de Comércio de Timor-Leste (BNCTL) which was originally the GOTL's microfinance institution, had its mandate expanded in 2011 to include the provision of credit to SMEs. It has a presence in all 13 municipalities. The BNCTL also manages some social transfers, but needs better international partnership to increase the scope of its lending possibilities.¹²¹ There are no monetary caps on loans to single applicants.¹²² The bank recently launched ATMs and the board announced that bank services will be further improved once its SWIFT code is in place.

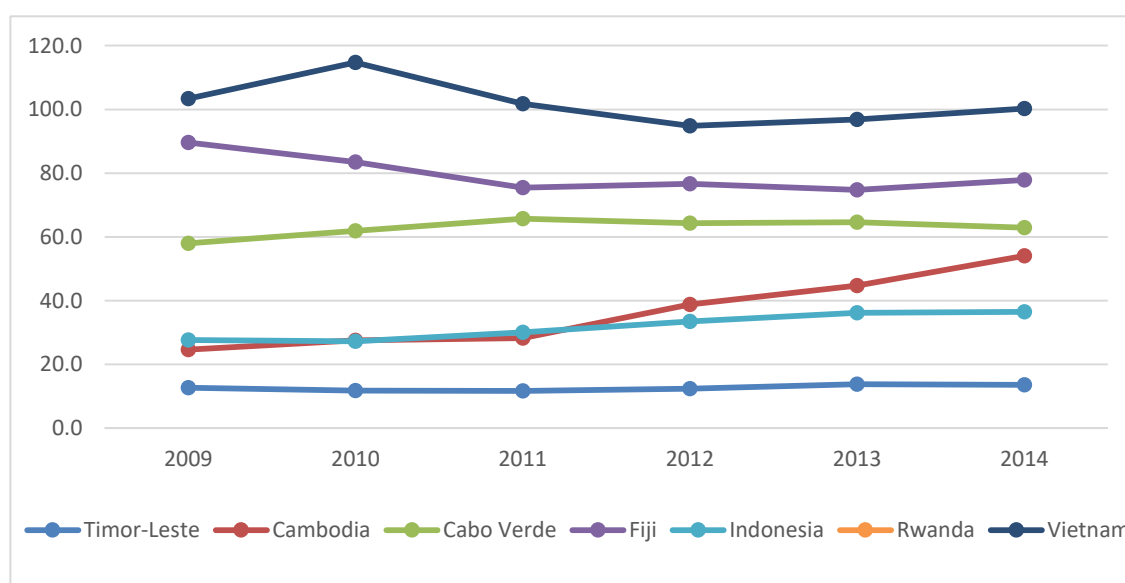
¹²¹ U.S. Department of State, 2015.

¹²² Ibid.

There are three foreign banks operating in Timor-Leste, and these have modest loan portfolios- BNU, ANZ and Mandiri. BNU, part of the Portuguese Grupo Caixa de Depósitos, is present in 12 municipalities, and offers a wide range of financial products to individuals and organizations. ANZ and Mandiri have a much smaller presence. The overall non-performing loan rate was 47.4 per cent in 2014, and credit to the private sector from commercial banks totalled US\$176.7 million at the end of that year.¹²³

The indicator of Domestic Credit to Private Sector (per cent of GDP) refers to financial resources provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment.

Figure 26 Domestic Credit to Private Sector, selected countries, 2009-2014, share of GDP (per cent)



Source: World Bank, World Development Indicators.

According to the latest available data, the share of domestic credit to the private sector as a percentage of GDP is the highest in Vietnam and lowest in Timor-Leste. This indicates a low level of banking activities to the private sector. This is not a favourable situation for private sector development. In focus group discussions, the EESE Timor-Leste Survey discovered that respondents from most sectors found the interest rates too high, which meant that many businesses were financed by personal savings or with the support of foreign aid agencies.¹²⁴ Focus group discussion participants raised concerns about the lack of government supervision of MFIs, which sometimes offer credit at very high interest rates, while banks are required to follow Central Bank rules and regulations.¹²⁵

The EESE Timor-Leste Survey found that the financial sector is at an early stage of development, and needs both a greater number and greater quality of financial service providers, products and services.¹²⁶ There is limited access to finance for businesses and households, and lenders are conscious of the risk associated with lending to small businesses given the rather significant non-performing loan

¹²³ Ibid.

¹²⁴ EESE Timor-Leste Survey, 2016.

¹²⁵ Ibid.

¹²⁶ Ibid.

ratios.¹²⁷ The limitation to credit availability for entrepreneurs and enterprises stifles private sector development and slows the rate of diversification of the oil-based economy that Timor-Leste currently has.¹²⁸

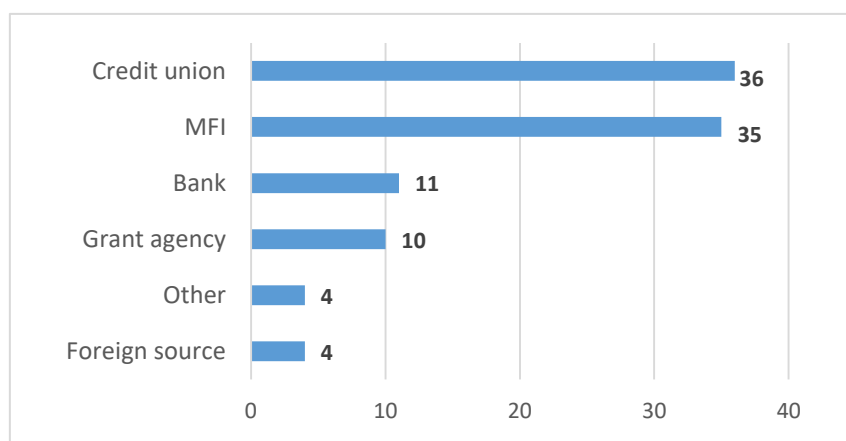
Microfinance offers opportunities for people in rural areas to borrow small amounts of capital and reasonable rates of interest, particularly as most rural areas are underserved by banks. An estimated 5 per cent of the population aged 15-64 has access to microfinance services, though this is highly variable by district.¹²⁹ Currently there are two microfinance institutions (MFIs) in Timor-Leste which operate based on group loans: Moris Rasik and Tuba Rai Metin reach the rural areas, and collect a high volume of deposits.¹³⁰ MFIs tend to be funded by external loans and grants, targeting largely low-income members of society, often with a particular focus on women. The main focus is on providing micro credit though some MFIs do offer saving or remittance services.

Credit unions are generally member-owned where the members share a common bond relating to residence, work etc. They are funded by voluntary member deposits. The collections are used to provide members with lower interest rates on loans, or higher interest rates on savings. Often a larger range of services is offered, with a primary focus on savings, credit, remittances and insurance.

In 2015, there were 76 credit unions in Timor-Leste with a combined total of over 8700 members.¹³¹ Credit unions and savings groups, which are also present in some municipalities (largely Oecusse) also provide basic financial services, and training in basic financial literacy. Both credit unions and savings groups are supported with capacity building and technical assistance by the Ministry of Commerce, Industry and Environment.

When asked about sources of finance 36 per cent of the EESE Timor-Leste Survey respondents pointed to credit unions while 35 per cent indicated MFIs were the primary source. Only 11 per cent of respondents stated banks were their primary source of credit.

Figure 27 Sources of finance, surveyed companies, per cent



Source: EESE Timor-Leste Survey, 2016.

¹²⁷ Ibid.

¹²⁸ Ibid.

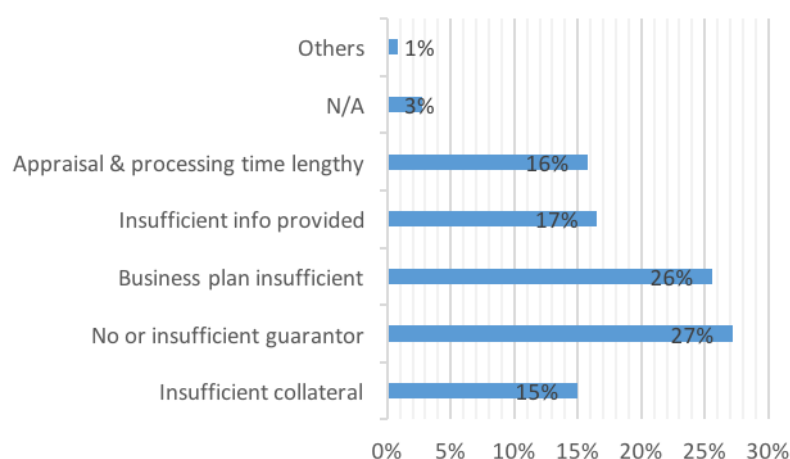
¹²⁹ ADB, 2014.

¹³⁰ UNDP, 2015.

¹³¹ Ibid.

Banks and microfinance institutions offer credit to SMEs, but require credit history - these prerequisites mean that many entrepreneurs have no access to credit.¹³² The EESE Timor-Leste Survey investigated the challenges to getting a loan and the reasons included insufficient guarantors, inadequate business plans and business operations, a lack of information, and lengthy appraisal and processing times. In general it was found that smaller enterprises had greater trouble accessing finance, but that inadequate business plans remained a challenge among big enterprises as well.¹³³ Focus group discussions highlighted that asymmetries of information, risk perception, opportunities and challenges produced divergent behaviour among consumers and suppliers in financial market in Timor-Leste.¹³⁴ Furthermore, MECAE stated that in various discussions/meetings between the public and the private sectors in the past, banks have stated that the main reason as to why they are reluctant to provide credit to the private sector is due to the lack of a legal framework that deals with matters such as collateral, insolvency, land and property, and MECAE has been trying to address these. A 2014 secured transactions reform will allow people to access loans to start or grow a business using moveable assets such as construction machinery, farm equipment, inventory, or accounts receivable.¹³⁵

Figure 28 Problems Encountered when Applying for Financing, surveyed companies, per cent



Source: EESE Timor-Leste Survey, 2016.

Data from the EESE Timor-Leste Survey shows that 64 per cent of respondents believe that small enterprises have greater, or as much difficulty as big enterprises, in accessing credit from banks. 32 per cent found it easy for small enterprises to access finance, but overall the results showed a general perception that small enterprises faced greater challenges in obtaining financial services.¹³⁶ The smaller the number of employees in an enterprise the more likely it was that they perceived difficulties with accessing credit. This is broken down by sector, as perceived in the survey, in the figure below. From the EESE Timor-Leste Survey it emerged that enterprises were eager for more training and capacity building opportunities, including in how to write successful business plans to be able to better access credit. Two banks currently offer financial literacy workshops to local businesses as part of their corporate social responsibility initiative, aimed at improving business management skills along

¹³² Ibid

¹³³ EESE Timor-Leste Survey, 2016.

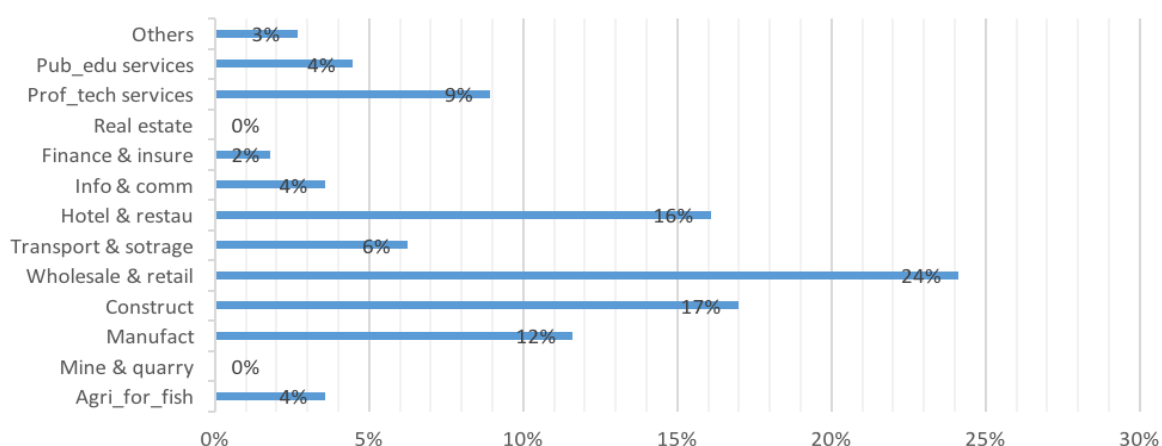
¹³⁴ Ibid.

¹³⁵ Asian Development Bank (ADB), 2014.

¹³⁶ EESE Timor-Leste Survey, 2016.

local entrepreneurs.¹³⁷ This programme is conducted in partnership with CCI-TL, and is directed exclusively at members of the CCI-TI at this point. One MFI also has plans to promote financial literacy with foreign aid; additionally ILO supports IADE to provide training for potential and existing entrepreneurs as well as business counselling for those wanting to apply for loans to banks or MFIs.¹³⁸

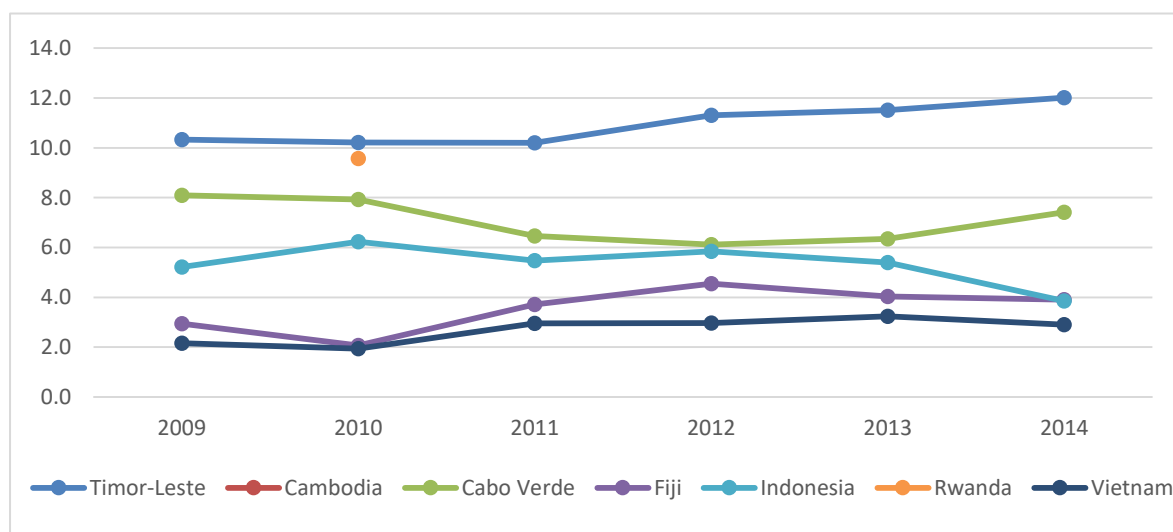
Figure 29 Perceptions of Greater Difficulty for Small Enterprises to Access Credit, surveyed companies, per cent



Source: EESE Timor-Leste Survey, 2016.

The Credit Information Index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. Timor-Leste scored 4 in 2014, meaning that information about financial products was poorly disseminated.

Figure 30 Interest Rate Spread (lending rate minus deposit rate), selected countries, 2009-2014



Source: World Bank: World Development Indicators

The Interest Rate Spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand,

¹³⁷ Ibid.

¹³⁸ Ibid.

time, or savings deposits. The value of this indicator for Timor-Leste is 12.01 per cent and is higher than in all other countries analysed in the report.

Table 12 key access to financial services indicators, selected countries, 2009-2014

Domestic Credit to Private Sector (per cent of GDP) Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises. Source: World Bank, World Development Indicators		2009	2010	2011	2012	2013	2014
	Timor-Leste	12.66	11.74	11.67	12.36	13.78	13.53
	Cambodia	24.59	27.56	28.25	38.78	44.72	54.09
	Cabo Verde	57.96	61.93	65.74	64.32	64.64	62.85
	Fiji	89.62	83.48	75.42	76.69	74.78	77.81
	Indonesia	27.66	27.25	30.08	33.43	36.14	36.52
	Rwanda						
	Vietnam	103.32	114.72	101.80	94.83	96.80	100.30
Credit Depth of Information Index Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions 0=less information to 8=more information. Source: World Bank, Doing Business Project		2013		2014		2015	
	Timor-Leste		4		4		4
	Cambodia		5		5		5
	Cabo Verde		6		6		6
	Fiji		5		5		5
	Indonesia		6		6		6
	Rwanda		7		7		8
	Vietnam		6		6		7
Interest rate spread Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. Source: World Bank, World Development Indicators		2009	2010	2011	2012	2013	2014
	Timor-Leste	10.33	10.22	10.20	11.30	11.51	12.01
	Cambodia						
	Cabo Verde	8.09	7.93	6.46	6.11	6.35	7.42
	Fiji	2.94	2.07	3.72	4.55	4.03	3.90
	Indonesia	5.22	6.24	5.47	5.85	5.39	3.85
	Rwanda		9.57				
	Vietnam	2.16	1.94	2.96	2.97	3.23	2.91

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available such as physical facilities and transportation systems. Access to water and energy also play a pivotal role. All of these factors directly influence business in every country.

Land transportation is the most utilized mode of transport in Timor-Leste, and is key for rural Timorese in accessing many basic services.¹³⁹ The dependence on roads is high, and public transport is important. While individual vehicle ownership is rising in Timor-Leste, the 2010 census showed that 14.3 per cent of households owned a motorbike, and 5.4 per cent owned a car or van, with both of these figures very heavily skewed towards urban residents.¹⁴⁰

Based on the 2015 Draft Timor-Leste Transport Master Plan the country has 8,701 km of roads- 1,440 are classified as national roads, 745 as district roads, 716 as urban roads and 1,700 as core rural roads.¹⁴¹ The maintenance of roads, and bridges is infrequent, but the SDP allocates the improvement of infrastructure significant importance. Poor road conditions, particularly in rural areas are often cited as an impediment to economic and social development. The Government has put emphasis on improving road conditions through the 'emprestimus program'. For sustainability reasons the government has a policy to use only the interest from the petroleum investment funds.

Maritime transport is also essential, as the connections to Oecusse and Atauro are primarily by ferry. There is high demand for ferry services to both Atauro and Oecusse from Dili. The port in Dili is the only international port of entry into Timor-Leste. The wharf is 300 metres long and can accommodate two vessels of with 7 metre wharves.¹⁴² Plans exist to upgrade port facilities by expanding cargo and container capabilities. A cargo port also exists in Oecusse, built with Japanese assistance in 1995, which there are plans to rehabilitate.¹⁴³ There are, in total, six seaports but Dili is the only one with the capacity to handle commercial traffic in agricultural products.

Air travel is expensive, even in comparison with the region, where fares tend to generally be high. Current runway size and airport facilities have limited the possibility of an increase in frequency of services to major aviation nodes.¹⁴⁴ A code of operation needs to be enacted to ensure quality and safety of practice, so that air transport providers may register within Timor-Leste, and be regulated by local laws.

There is an airport in Dili, which handles the majority of international flights. There are also seven smaller airports in Suai, Baucau, Los Palos, Same, Atauro, Maliana and Oecusse. Only three of the eight airports in the country have paved runways suitable for handling commercial jets.¹⁴⁵ Airports in Suai and Oecusse require upgrading to promote domestic air travel, so that at least small aircrafts can land.¹⁴⁶

¹³⁹ The Asia Foundation, 2015.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Ibid.

¹⁴³ Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

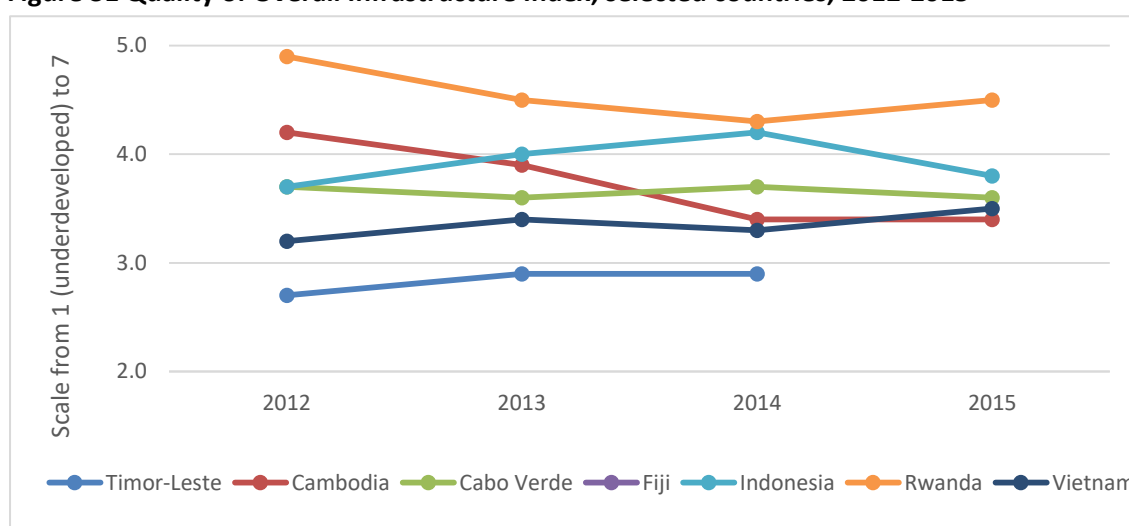
¹⁴⁶ Ibid.

Dili is connected to three international airports- Singapore, Darwin and Denpasar. Air Timor is the country's only airline, and it functions by establishing scheduled charter flights with other existing airlines such as Silk Air and Air North. Prices of airline tickets are very high. No domestic air services exist for commercial air travel within Timor-Leste though NGOs, tourists and government ministries charter planes or helicopters for internal travel. Foreign operated helicopter operators provide connection services to the oil and gas industry with several flights a week going out to oil drilling platforms in the Timor Gap.¹⁴⁷

Transport infrastructure plays a significant role in the growth of the agricultural sector, as well as in tourism. Despite the potential to expand tourism the sector remains underexploited. There is a lack of a cold chain for the storage and transfer of horticultural products. Road conditions are poor, inhibiting transport, and power failures are common, which leads many goods to spoil.

The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient. Timor-Leste has improved in this area since 2012 but performs very poorly relative to the comparator countries. In 2012 the value of this indicator was 2.7 and in 2014 it was 2.9, which is a modest improvement.

Figure 31 Quality of Overall Infrastructure Index, selected countries, 2012-2015



Source: WEF Global Competitiveness Reports

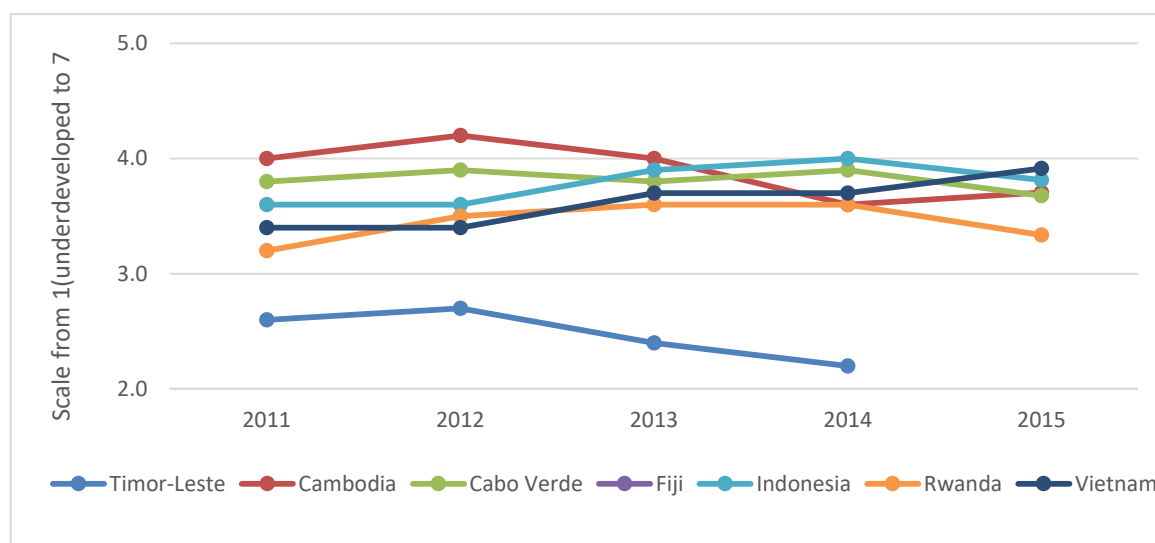
Customs and port authorities were not favourably ranked by the EEE Timor-Leste Survey respondents. The survey revealed complaints about the error rate in processing documents, and the slow pace of work. In general the administration of infrastructure was described as lacking consistency, efficiency and transparency.¹⁴⁸

The Quality of Port Infrastructure Index reflects the level of development of port facilities and inland waterways. According to latest available data from 2014, the value of this indicator for Timor-Leste was 2.2 placing it much lower than Cambodia and Rwanda, which were at 3.6 for the same year.

¹⁴⁷ Ibid.

¹⁴⁸ EEE Timor-Leste Survey, 2016.

Figure 32 Quality of Port Infrastructure Index, selected countries, 2011-2015



Source: WEF: Global Competitiveness Reports

Table 13 key physical infrastructure indicators, selected countries, 2008-2014, 2010-2015, 2012-2015, 2011-2015

	2008	2009	2010	2011	2012	2013
Electric power consumption (kWh per capita) Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants. Source: World Bank, World Development Indicators						
Timor-Leste						
Cambodia	114.18	127.47	143.77	164.53	206.51	220.78
Cabo Verde						
Fiji						
Indonesia	570.32	594.33	636.55	680.68	718.68	787.68
Rwanda						
Vietnam	813.16	917.40	1034.61	1129.73	1243.45	1305.58

	2010	2011	2012	2013	2014	2015
Improved water source (per cent of population with access) Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres a person a day from a source within 1 kilometre of the dwelling. Source: World Bank, World Development Indicators						
Timor-Leste	68.2	69.7	71.2	71.4	71.7	71.9
Cambodia	64.2	66.5	68.8	71.1	73.4	75.5
Cabo Verde	88.9	89.6	90.3	91	91.7	91.7
Fiji	95.1	95.6	95.6	95.6	95.7	95.7
Indonesia	84.5	85.1	85.7	86.2	86.8	87.4
Rwanda	73.1	73.7	74.3	74.9	75.5	76.1
Vietnam	91.3	92.6	93.8	95.1	96.4	97.6

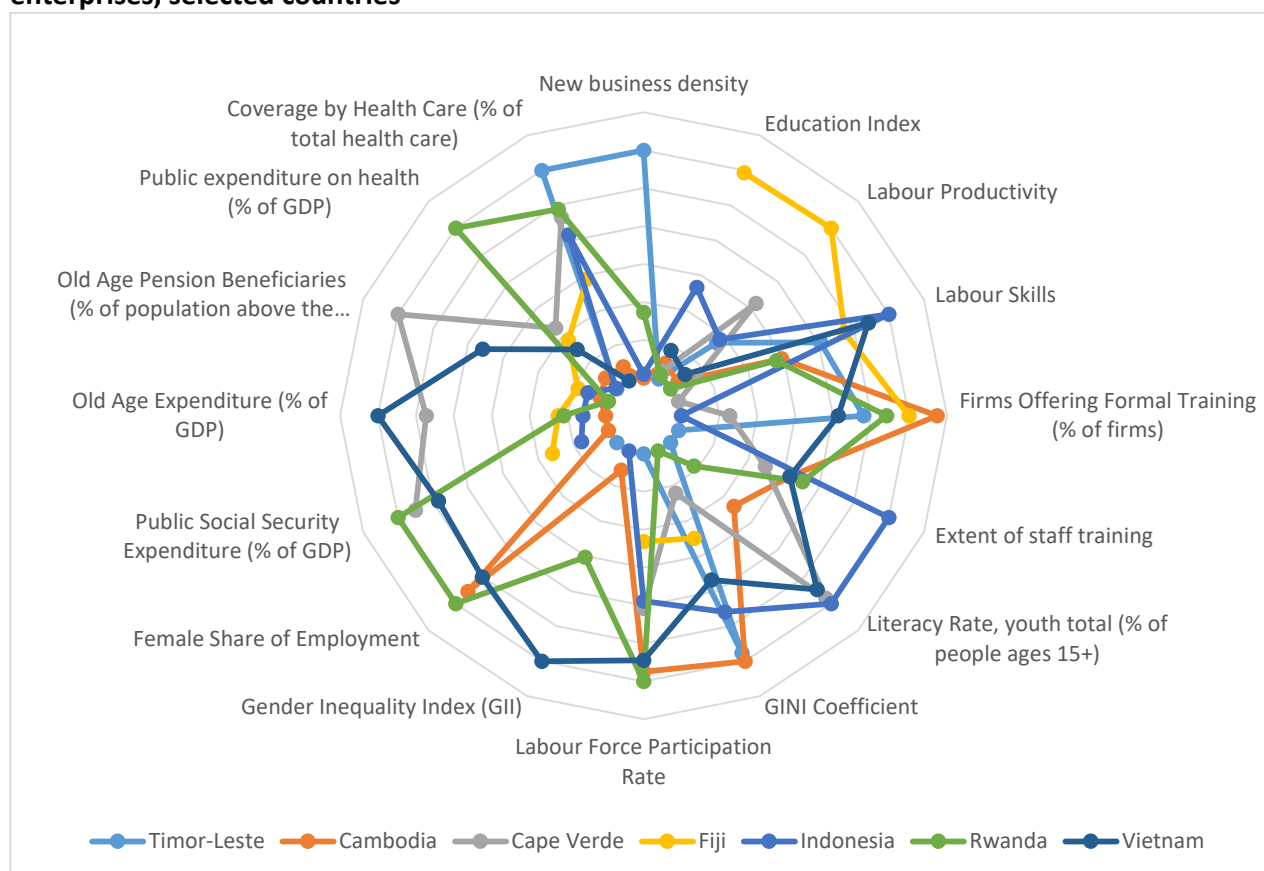
	2012	2013	2014	2015
Quality of Overall Infrastructure Index				
Timor-Leste	2.7	2.9	2.9	
Cambodia	4.2	3.9	3.4	3.4
Cabo Verde	3.7	3.6	3.7	3.6

<p>Survey data: “General infrastructure in your country is: 1 = underdeveloped, 7= as extensive and efficient as the world’s best”.</p> <p>Source:_World Economic Forum, The Global Competitiveness Report.</p>	Fiji				
	Indonesia	3.7	4.0	4.2	3.8
	Rwanda	4.9	4.5	4.3	4.5
	Vietnam	3.2	3.4	3.3	3.5

<p>Quality of Port Infrastructure Index</p> <p>Survey data: “Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world’s best. For landlocked countries this measures the ease of access to port facilities and inland waterways”.</p> <p>Source:_World Economic Forum, The Global Competitiveness Report.</p>		2011	2012	2013	2014	2015
	Timor-Leste	2.60	2.70	2.40	2.20	
	Cambodia	4.00	4.20	4.00	3.60	3.71
	Cabo Verde	3.80	3.90	3.80	3.90	3.68
	Fiji					
	Indonesia	3.60	3.60	3.90	4.00	3.81
	Rwanda	3.20	3.50	3.60	3.60	3.34
	Vietnam	3.40	3.40	3.70	3.70	3.91

4. Social Elements

Figure 33 Indicators assessing social elements of an enabling environment for sustainable enterprises, selected countries



Note: the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- There are significant barriers to entering the formal economy and to entrepreneurship which can only be overcome by improving human resources.
- Business development support is offered in a variety of ways to different target groups, but for people to take advantage of this basic services like education, and basic infrastructure like roads and communication methods need to be improved.
- Schooling is carried out in Portuguese and Tetum.
- Literacy levels are low, but steadily improving.
- Timor-Leste is in the process of formalising the delivery of vocational training- for which there is a national strategic plan since 2012.
- The ESEE Timor-Leste Survey indicated that respondents feel that skills improvement is required in many areas, including technical knowhow, soft skills, ethics, and language abilities.
- Tertiary institutions, like schools and colleges face a dearth of qualified teachers, and the obstacles of insufficient infrastructure.
- Women face many challenges to participating equally in economic growth.
- The rural and informal economies are highly feminised.
- Women face traditional forms of discrimination in terms of property ownership.
- Levels of gender discrimination, gender bias and violence against women are high while

the legal penalties for these seem poorly enforced.

- Several forms of social assistance in the form of cash transfers exist but in terms of volume of money transferred these largely cover veterans.
- Targeting mechanisms to reach the most vulnerable with social assistance exist, but several needy sections of society are left out.
- Legislation for comprehensive social protection is under discussion.

4.1. Entrepreneurial culture

One of the most important pillars for the development of society is entrepreneurial culture. Entrepreneurs make significant contributions to GDP and in many countries represent the main engine for global economic development. Micro and SMEs have been accepted as an engine of economic growth, and of promoting inclusive growth, which makes them key to development. Particularly in countries like Timor-Leste, which is heavily dependent on imports for food, and consumer goods, it is important to first seek opportunities for local production and innovation in these sectors.

While barriers to economic and social development exist for many sections of the population specific groups are particularly marginalised when it comes to participating in economic processes—women, youth, persons with disabilities and rural populations have significant hurdles to entrepreneurship, and entering the formal economy.¹⁴⁹

Given the constraints on women in the workplace, women often enter the informal economy as micro entrepreneurs, and an estimated 43 per cent of such enterprises are female-owned.¹⁵⁰ The non-farm private sector is nearly completely made up of informal household activities, and micro and small enterprises in areas such as weaving, tailoring, salt-making, baking and handicrafts.¹⁵¹ These informal enterprises are nearly always household ventures, and even informal urban enterprises have ten workers or fewer, usually family members who do not receive formal salaries or have fixed working hours.¹⁵²

Entrepreneurs are engaged in activities in a variety of sectors across the country—construction, trading, services, handicrafts, for example, but they have poor access to finance, poor access to training to improve their business development, and poor access to markets to be able to scale up production.¹⁵³ They remain linked to NGOs, if at all, and unable to access viable markets for growth. Market development and linkages need to be prioritised, alongside credit availability and skills building, to create an environment that encourages entrepreneurship.

Timor-Leste's Institute of Business Support (IADE) is an institution coordinated by the Minister of State, Coordinating Minister for Economic Affairs.¹⁵⁴ IADE partners with bilateral and multilateral donors to deliver effective business development services to the emerging private sector. A market systems approach is used to address constraints in the horticulture, cattle, and tourism sectors among others.¹⁵⁵ IADE runs business development service centres that develop key business skills in the districts. Support in terms of mentoring and business consulting are also available. To support the creation of entrepreneurial culture SEPFOPE runs a programme to promote self-employment for graduate students who want to start small businesses.¹⁵⁶ Most proposals come from the sectors of agriculture, and services.

¹⁴⁹ UNDP, 2012.

¹⁵⁰ Ibid.

¹⁵¹ Ibid.

¹⁵² Ibid.

¹⁵³ Ibid.

¹⁵⁴ ILO, 2015.

¹⁵⁵ Ibid.

¹⁵⁶ UNDP, 2015.

Many other different initiatives exist to promote private sector development- all of these, however, serve people who already have the skills that most persons in Timor-Leste lack, basic numeracy, literacy, and business development skills; improving the standard of basic human resources is necessary before the following opportunities can be availed of.

Business promotion and training activities have been undertaken by the CCI-TL, whose members are largely in the construction industry. In the Business Opportunities and Support Services project, supported by Irish and New Zealand aid, and the ILO, IADE and a network of Business Development Centres provide training and counselling to local civil works contractors. The Australian and U.S governments, among others, also conduct projects to promote private sector development in Timor-Leste.

Entrepreneurs of SMEs are not particularly well served by the existing financial market. High interest rates and collateral requirements continue to be a barrier to the growth of entrepreneurship, alongside lack of information about financing options. Flexible loan systems need to be created and publicised by the National Commercial Bank of Timor-Leste. Entrepreneurs face serious challenges in accessing finance, and the bank would help to address this, while being an important facilitator, in general, for strategic economic development.¹⁵⁷ The Minister of State, Coordinating Minister for Economic Affairs is the shareholder representative for BNCTL.

Cooperatives are a key strategy as laid out in the SDP to facilitate market linkages, and support the growth of the non-farm sector in rural areas.¹⁵⁸ As of 2011 there were 92 cooperatives in Timor-Leste with more than 10,000 members in 13 districts.¹⁵⁹ Most of these are financial cooperatives, with some production, and services related activities. The growth in cooperatives is due to sustained support from the GOTL with a focus on building human resources and institutional capacity, as well as providing financial resources.¹⁶⁰ The promotion of networking between businesses and cooperatives remains weak. Many enterprises require support to move out of informality, and expand into regular markets, - this involves legal support regarding processes of registration, and how to expand business operations.¹⁶¹

The EESE Timor-Leste Survey asked currently active business owners about entrepreneurship culture among youth: 82 per cent of all respondents said that most or some young people possessed the necessary technical and business management skills and work ethic to be successful entrepreneurs.¹⁶² This high level of confidence comes largely from the wholesale and retail, construction, and hotel and restaurant sectors surveyed. Young men were thought to have slightly or much better skills by 45 per cent of all respondents asked about the competencies of young people for starting and running a business.¹⁶³ Despite the generally positive attitude, there was an acknowledgement that entrepreneurship training was required as the current education system did not prepare young people to become entrepreneurs, there is a lack of information on the technicalities of starting a business, and a lack of motivation.¹⁶⁴

¹⁵⁷ GOTL, 21 January 2015.

¹⁵⁸ UNDP, 2012.

¹⁵⁹ Ibid.

¹⁶⁰ Ibid.

¹⁶¹ Ibid.

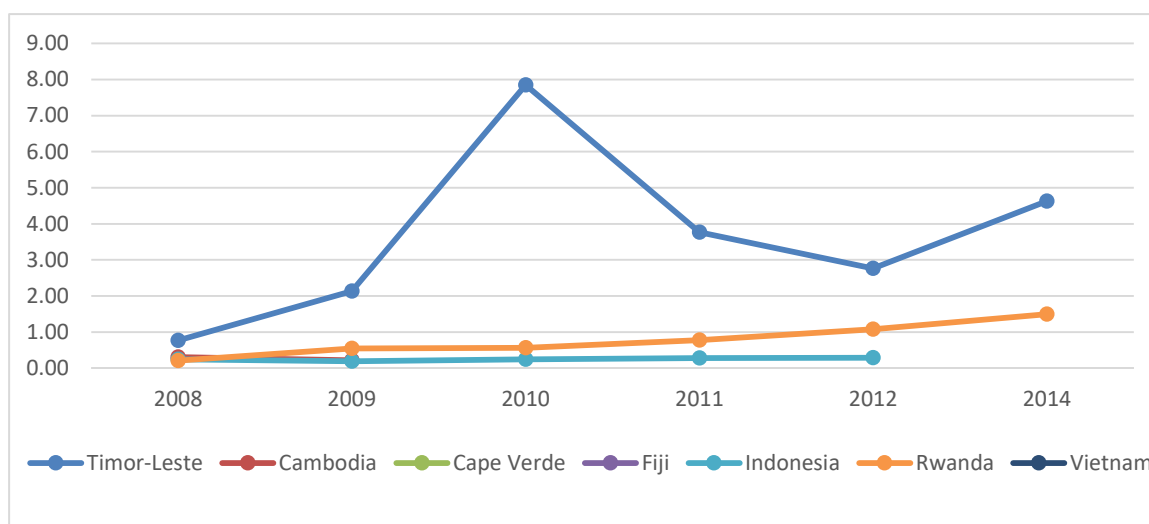
¹⁶² EESE Timor-Leste Survey, 2016.

¹⁶³ Ibid.

¹⁶⁴ Ibid.

Poor infrastructure is a serious barrier to accessing markets, and rural economic development. Just improving transportation facilities alone would promote the ability to scale-up businesses operations, and allow rural entrepreneurs in particular to better physically access markets. Inadequate systems of communication and transportation affect flows of information that are vital for entrepreneurs to function, and make business related decisions. As it stands at the moment small business development is limited- the lack of capital remains a major obstacle to starting or improving a business.¹⁶⁵

Figure 34 New Business Density, selected countries, 2008-2014



Source: World Bank: World Development Indicators.

This indicator shows the number of newly registered limited liability companies per 1,000 working-age people (15-64) in a particular year. Over the past few years, Timor-Leste has improved incrementally, going from 0.77 in 2008 to 4.63 in 2014. This shows the slowly increasing attractiveness of Timor-Leste as an economy in which to start a business, either for locals or for foreign investors.

Table 14 Key business density indicators, selected countries, 2008-2014

	2008	2009	2010	2011	2012	2014
New Business Density The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.						
Timor-Leste	0.77	2.13	7.85	3.77	2.76	4.63
Cambodia	0.30	0.22				
Cabo Verde						
Fiji						
Indonesia	0.24	0.19	0.24	0.27	0.29	
Rwanda	0.21	0.54	0.56	0.78	1.07	1.49
Vietnam						

Source: World Bank, World Development Indicators

¹⁶⁵ ADB, 2014.

4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning are important for helping workers find good jobs, and helping enterprises find the skilled workers they require. A well-educated and well skilled workforce is key to economic and social development and the lack of a well-educated and skilled workforce is often a significant challenge for emerging countries. In Timor-Leste poverty is both a cause and a result of limited access to education, historically and at present.¹⁶⁶

Portuguese and Tetum have been designated as the two official languages, schooling being delivered in these two, with Indonesian being accepted as a working language alongside English. The government has introduced a policy of bilingual schooling but Portuguese is the preferred medium of instruction, which poses a problem as the number of teachers required to teach in Portuguese is greater than the number of those with sufficient grasp of the language.¹⁶⁷ Teachers remain underqualified in many areas, and the GOTL has launched intensive training programmes to remedy this. Portuguese and Brazilian institutions have cooperated with the GOTL to support the delivery of higher education in Portuguese.

Timor-Leste lost a great deal of its qualified workforce in all sectors, including education. 20 per cent of primary teachers, 90 per cent of secondary teachers and most administrators in the education system left the country.¹⁶⁸ The loss of personnel, destruction of property (the violence is estimated to have destroyed 80-90 per cent of school buildings and other infrastructure), and displacement of communities seriously disrupted the educational system. In recent years the GOTL has rebuilt infrastructure for delivering education, made improvements to the curricula, and recruited teachers. The Constitution declares that primary education is compulsory and free, for 9 years beginning at the age of six.

The 2007 Timor-Leste Survey of Living Standards showed that 57 per cent of the population remained uneducated to the primary level, including nearly half of adult females and more than one third of all adult males.¹⁶⁹ Only 14 per cent of the population had secondary education.

The structure of the formal education system was changed in 2008. Primary and pre-secondary schools are compulsory- they are referred to as basic education, and are available free at public schools. Secondary education, which is also free at public schools, consists of high schools, and technical high schools. There is no system to enforce compulsory education, however, and a variety of social, economic, and logistical factors make enforcing this challenging. Tertiary education consists of university, or technical higher education, which is provided at institutes that offer short term specialised courses in technological areas. In 2014 there were 11 institutions of higher education in the country, nine of which are in Dili.¹⁷⁰ The SDP prioritises the updating of curricula, and the development of appropriate, gender-neutral teaching materials at all levels of education.

School enrolments have rapidly increased in the last 10 years. In 2010, 94 per cent of primary school age girls and 92 per cent of boys were enrolled in schools; enrolments in pre-secondary school

¹⁶⁶ Albergaria-Almeida and Martinho, 2015.

¹⁶⁷ Ibid.

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

¹⁷⁰ ADB, 2014.

were 34 per cent for girls and 27 per cent for boy, with 21 per cent for girls in secondary school and 17 per cent for boys.¹⁷¹ While enrolment for girls is higher than for boys in primary and secondary school more boys make the transition to attend or complete tertiary studies.¹⁷²

Rates of repetition and dropout are high, due, in large part, to language barriers since many children do not speak Portuguese or Tetum, the languages of instruction. Other reasons for dropouts are poverty, where poor families need children to work, the lack of schools in proximity of areas with a high poverty prevalence and gender issues. In later stages the reasons are often economic, with children needing to join the workforce. More than 58 per cent of women aged 25 or older have never been to school compared with 43 per cent of men; and only 16 per cent of women aged 25 or older have completed secondary or tertiary education, compared with 25 per cent of men.¹⁷³ Programs like the Bolsa de Mãe incentivise children staying in school with small cash transfers- directed at the children of single or widowed women. This promotes the building of human capital through school attendance which can also be harnessed to promote better health, nutrition and skills development.¹⁷⁴

The Ministry of Education is responsible for developing and implementing education policy at all levels. In 2013, US\$103 million was allocated to education, which was 12.8 per cent of the total state budget.¹⁷⁵ Additional funds were allocated for education infrastructure towards building new preschools, technical and vocational schools, and polytechnics. The National Labour Force Development Institute (INDMO) coordinates competency-based skills training to harmonise curricula, and the participation of the private sector in the determination of priority skills for national investment.¹⁷⁶ INDMO identifies areas of particular interest and works along with the Ministry of Education, and SEPFOP to deliver training. SEPFOP was concerned about youth training and employment, and instructed the ILO to interrogate the relationship between training and labour market outcomes in 2013.¹⁷⁷ The ILO found that the most popular subjects for training were learning to drive motor vehicles, operating heavy equipment, and masonry.

Timor-Leste is in the process of formalising the delivery of vocational training, and is creating a regulated Technical and Vocational, Education and Training (TVET). The process of formalising delivery of TVET is guided by the principles of access and equity, proficiency and relevance. Industry Sub-Commissions in six major areas, among them finance, construction, tourism and hospitality, and automobiles, are responsible for ensuring that the TVET is responsive to demands from industry.¹⁷⁸ This is underpinned by a National TVET Strategic Plan, which was approved by Parliament in 2012.

In the EESE Timor-Leste Survey only about 1 per cent of the total number of respondents thought that Timor-Leste's TVET system completely meets the needs of the business community. While about 40 per cent thought that it does meet most of the needs, an overwhelming majority of 47 per cent said it only meets some needs.¹⁷⁹ There is also a recognized need to improve soft skills, alongside hard skills. Soft skills, such as teamwork ability, responsibility, flexibility and communication are more difficult to measure than hard skills but were recognized by the EESE Timor-Leste Survey respondents

¹⁷¹ Ibid.

¹⁷² Ibid.

¹⁷³ Ibid.

¹⁷⁴ UNDP, 2013.

¹⁷⁵ ADB, 2014.

¹⁷⁶ ILO, 2009.

¹⁷⁷ ILO, 2013.

¹⁷⁸ UNESCO, 2012.

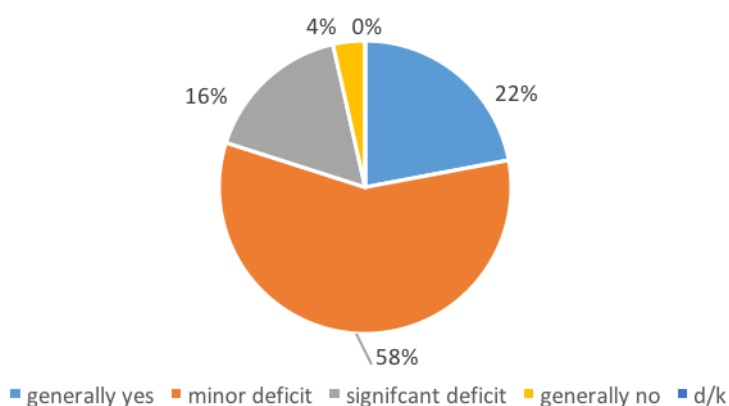
¹⁷⁹ EESE Timor-Leste Survey, 2016.

as being crucial. As MECAE plans on promoting tourism as one the main pillars for economic reform, quality service is anticipated to become more important for growth in the hospitality sector, for example.¹⁸⁰

The EESE Timor-Leste Survey respondents indicated that technical skills of workers in the existing labour market are often lacking, as they do not meet the required level, or are not up to date with increasingly specialised modern standards. Most workers lack sectoral expertise; in one instance a representative from the extractives sector pointed out that the engineering skills of a local worker who has a relevant degree still lags behind the market standard on the job and is therefore less competitive to foreign workers.¹⁸¹ All the evidence from the EESE Timor-Leste Survey indicates that efforts are needed to improve the general and vocational educational curricula, upgrading quality as well as targeting sectoral specificities.

As INDMO develops industry-driven qualifications SEPFOPE improves the capacity of training providers, so that they can meet the changing demand. As more Industry Sub-Commissions are established, and more qualifications developed across sectors more resources will be required to improve skills and upgrade training. At the moment there is a language and numeracy deficit, as young people and trainers entering the system require better skills with English, Tetum and Portuguese, and numeracy.¹⁸² There is a dearth of training providers, learning guides, and assessment tools in both languages, which requires urgent addressing. The tertiary institutions also face the hurdles of a lack of qualified teachers, poor facilities, and poor access to resources like the internet.¹⁸³ The EESE Timor-Leste Survey also highlighted that more relevant and up to date education needs to be delivered. International donors and agencies such as Asian Development Bank, DFAT, ILO continue to support the National Qualification Framework in different sectors and the advancement of relevant skills. The EESE Survey indicated that language skills, as well as other soft skills need to be improved alongside more technical abilities.

Figure 35 Workers have skills demanded by businesses in Timor-Leste, surveyed companies, per cent



Source: EESE Timor-Leste Survey, 2016.

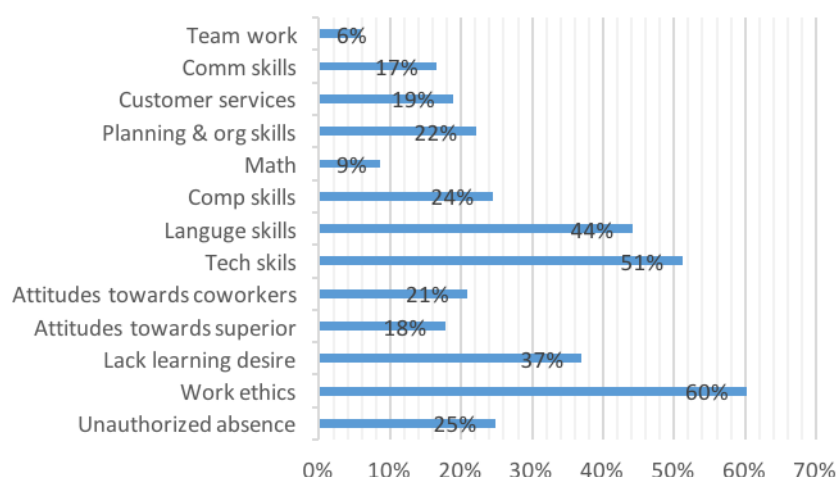
¹⁸⁰ EESE Timor-Leste Survey, 2016.

¹⁸¹ Ibid.

¹⁸² UNESCO, 2012.

¹⁸³ Da Silva, 2010.

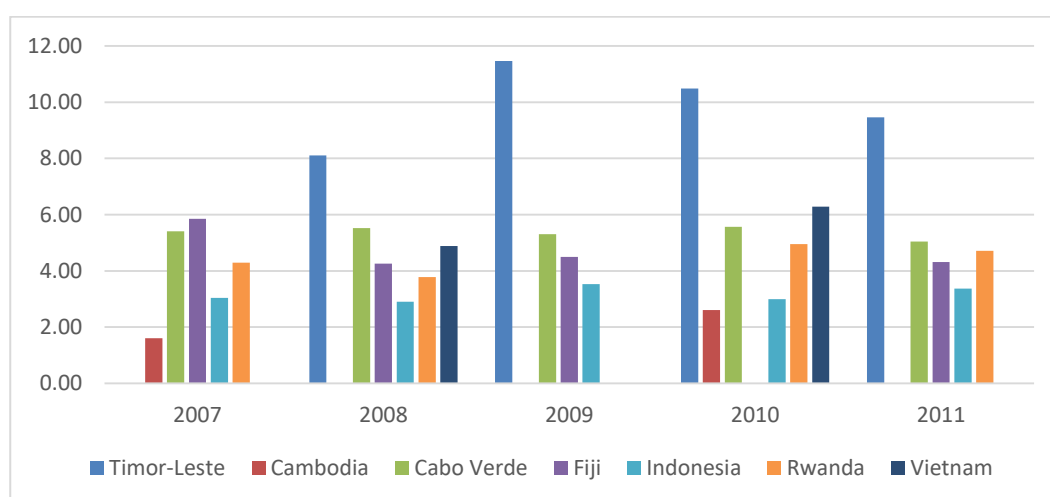
Figure 36 Main challenges related to staff, surveyed companies, per cent



Source: EESE Timor-Leste Survey, 2016.

Vocational training is important, as most adults have a relatively low level of education. Gender disparities become more evident at higher levels of education, as at primary and pre-secondary levels the attainments of boys and girls appear to be similar. Adult literacy is low, 63 per cent of men and 52 per cent of women aged 15 or older being literate.¹⁸⁴ The gender gap narrows for younger people. As with all other things there is a significant difference in attainments between urban and rural areas, with rural areas facing greater challenges to education. On average women receive lower wages than men; the earnings gap is significant in almost all sectors except for technicians and associate professionals where women appeared to receive much higher wages and salaries than men.¹⁸⁵ Employees with secondary education had higher earnings than those with tertiary education. Unemployment and underemployment among young people, particularly under the age of 20 is very high in Timor-Leste. A variety of youth training and employment projects have been initiated with bilateral and multilateral donors to engage youth at the community level.

Figure 37 Public spending on education, selected countries, 2008-2014



Source: World Bank, World Development Indicators

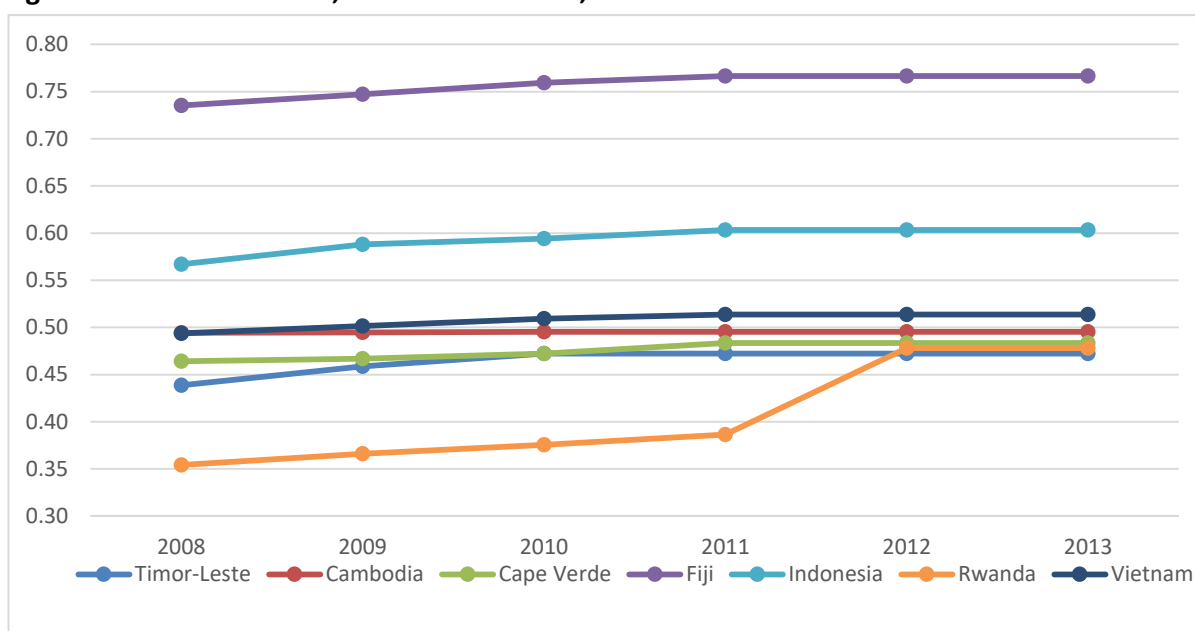
¹⁸⁴ ADB, 2014.

¹⁸⁵ ILO, 2013.

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. The most recent data available for comparison of countries is from 2011 where we see that Timor-Leste easily outspends the rest. In 2011 the public expenditure on education was 9.46 per cent.

The second important indicator is the Education Index. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education.

Figure 38 Education Index, selected countries, 2008-2014

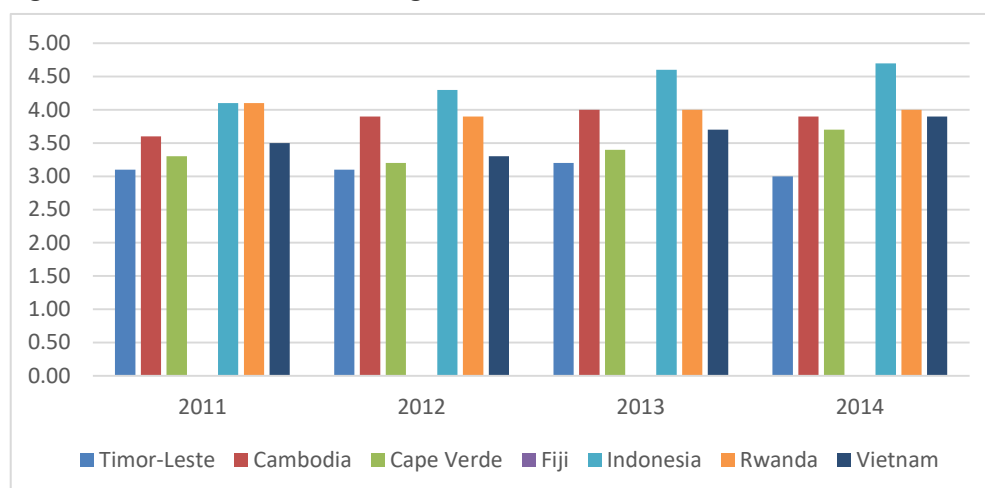


Source: UNDP Human Development Reports

Based on available data, Timor-Leste performs better than Rwanda, for the most part, in the context of the Education Index. In 2013, the value of this indicator was 0.47, only slightly lower than Cabo Verde and Rwanda.

With the indicator Extent of Staff Training the World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources is: (1 = to invest little in training and employee development, 7 = to invest heavily to attract, train, and retain employees)”.

Figure 39 Extent of Staff Training, selected countries, 2008-2014



Source: WEF, Global Competitiveness Reports

In regards to this indicator, Timor-Leste recorded 3.00 in 2014. Compared to other countries, Timor-Leste does much more poorly than Indonesia, Rwanda, Cambodia, Vietnam and Cabo Verde.

Table 15 key education indicators, selected countries, 2006-2011, 2008-2013, 2011-2014 and 2009-2014

Public expenditure on education Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. Source: World Bank, World Development Indicators	2006		2007	2008	2009	2010	2011
	Timor-Leste			8.10	11.47	10.49	9.46
	Cambodia		1.60			2.60	
	Cabo Verde	6.53	5.41	5.52	5.31	5.57	5.04
	Fiji	5.61	5.85	4.25	4.50		4.32
	Indonesia		3.04	2.90	3.53	2.99	3.37
	Rwanda		4.30	3.78		4.95	4.71
	Vietnam			4.89		6.29	

Education Index It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting). Source:UNDP Human Development Reports	2008	2009	2010	2011	2012	2013	
	Timor-Leste	0.44	0.46	0.47	0.47	0.47	0.47
	Cambodia	0.49	0.49	0.50	0.50	0.50	0.50
	Cabo Verde	0.46	0.47	0.47	0.48	0.48	0.48
	Fiji	0.74	0.75	0.76	0.77	0.77	0.77
	Indonesia	0.57	0.59	0.59	0.60	0.60	0.60
	Rwanda	0.35	0.37	0.38	0.39	0.48	0.48
	Vietnam	0.49	0.50	0.51	0.51	0.51	0.51

Extent of staff training The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: “The general approach of companies in your country to human resources	2011		2012	2013	2014	
	Timor-Leste		3.10	3.10	3.20	3.00
	Cambodia		3.60	3.90	4.00	3.90
	Cabo Verde		3.30	3.20	3.40	3.70

<p>is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p>	Fiji					
	Indonesia	4.10	4.30	4.60	4.70	
	Rwanda	4.10	3.90	4.00	4	
	Vietnam	3.50	3.30	3.70	3.90	

<p>Labour force participation rate, in per cent</p> <p>The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed.</p> <p>Source: ILO.</p>		2009	2010	2011	2012	2013	2014
	Timor-Leste	41.40	39.40	39.10	38.90	38.70	38.60
	Cambodia	84.60	84.70	84.80	84.80	84.90	85.00
	Cabo Verde	70.20	70.50	70.80	71.00	71.20	71.50
	Fiji	56.90	56.90	57.00	57.10	57.20	57.30
	Indonesia	70.00	69.90	70.00	70.00	70.00	69.90
	Rwanda	87.30	87.50	87.50	87.30	87.20	87.00
	Vietnam	81.30	81.30	81.60	81.90	82.20	82.50

4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed to promote the creation of an enabling environment. Income, gender, and spatial inequities, between rural and urban areas, are rife in Timor-Leste, and though the Constitution goes a long way towards legislating against some of these there is a lot of work to be done to achieve greater social justice and social inclusion. While women are making great strides in decision-making roles at the higher levels of government, at the local level few decisions are taken with the participation of women leaders.¹⁸⁶ It is against this background that a new law on SUCO elections states that when presenting a list of candidates, one in four candidates must be a woman.

Women face many challenges to participating in economic growth, including a lack of access to education, fewer employment opportunities, gender-based violence, lower incomes, and reduced participation in community planning. The informal economy, and indeed poverty are highly feminised in Timor-Leste. The formal economy employs less than 20 per cent of the labour force, while the rest, mostly women are engaged in the informal economy. Gender disparities in employment are significant.¹⁸⁷ The labour force participation rate, in 2009, was 69.3 per cent for men and 48.1 per cent for women, and only 35 per cent of waged workers in the non-agricultural sector were women.¹⁸⁸

The EESE Timor-Leste Survey specifically targeted owners or managers of enterprises and found that an overwhelming 74 per cent of the respondents were male while 26 per cent were female, even in the small sample selected for the survey.¹⁸⁹ The EESE Timor-Leste Survey revealed that a large gender imbalance in management could be seen in the manufacturing sector, where 93 per cent of the owners of managers from the sample were male; the greatest gender parity in the survey was found

¹⁸⁶ ADB, 2014.

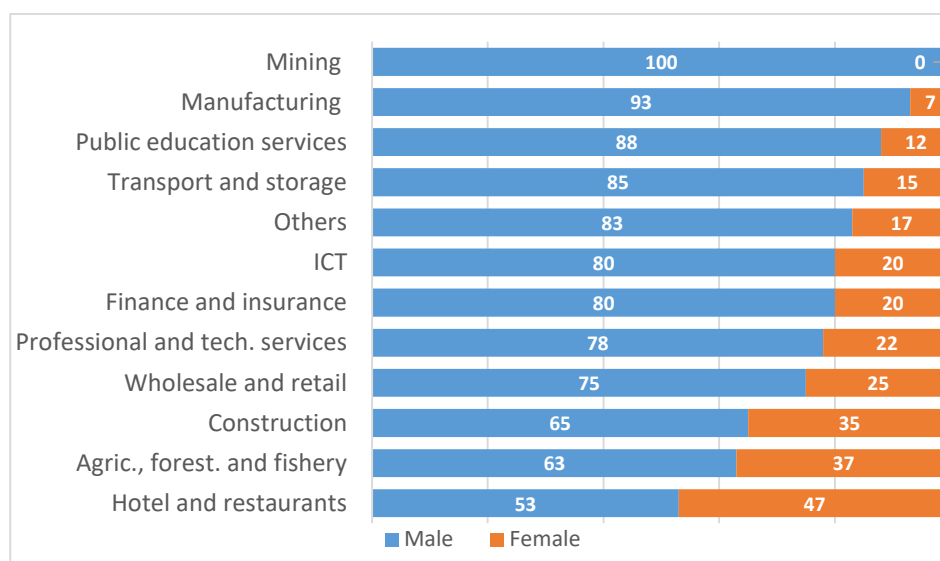
¹⁸⁷ ILO, 2009.

¹⁸⁸ Ibid.

¹⁸⁹ EESE Timor-Leste, 2016.

in the hotel and restaurant sector where the male to female ratio of manager/owners was 53 per cent to 47 per cent.¹⁹⁰

Figure 40 Gender Ratio among Owners/Manager by sector, surveyed companies, per cent



Source: EESE Survey Timor-Leste, 2016.

Illiteracy is also significantly higher among women, particularly in rural areas. Maternal mortality rates are high, at 300 deaths per 100,000 live births in 2011 with skilled medical professionals attending 59 per cent of births in Dili, and only 21 per cent of the births in rural areas.¹⁹¹ While health services have improved with time, vital maternal and health care services are still difficult to access for most people. Family planning, immunisation and emergency care are extremely challenging as well outside of the urban centres of Dili and Bacau.

The national poverty line is US\$0.88 per day, and the minimum monthly wage is set at US\$155 a month.¹⁹² An estimated 37 per cent of the population lives below the poverty line.¹⁹³ About 44 per cent of the population is below 15 years of age.¹⁹⁴ The dependency ratio in Timor-Leste is very high placing a huge burden on the working age population and on social protection policies- there are 96 people outside the working age range of 15-64 for every 100 people within the working age range.¹⁹⁵ The population is both rapidly expanding, and rapidly urbanising. The overwhelming majority of people living outside the capital, Dili, are engaged in subsistence agriculture, or the provision of services, largely removed from the formal economy. Non-oil GDP is a better proxy for income in the country because for the average Timorese there is no direct link from the petroleum sector to the rest of the economy.¹⁹⁶

The Gini coefficient is an indicator of economic inequality in a given country. A value of 0 expresses perfect equality, and a value of 100 maximum inequality. Timor-Leste had a score of 31.56

¹⁹⁰ EESE Timor-Leste, 2016.

¹⁹¹ U.S. Department of State, 2014.

¹⁹² Ibid.

¹⁹³ Ibid.

¹⁹⁴ World Bank, 2013.

¹⁹⁵ Ibid.

¹⁹⁶ Dale et al, 2014.

in 2007. Based on the latest available data, Timor-Leste would be more equal than Indonesia, Rwanda, and Viet Nam, but less equal than Cambodia.

Timor-Leste is a strongly patriarchal society with social norms dictating gender roles. Women are traditionally assigned caring and reproductive roles, unpaid labour for which they are not recognized. They are culturally deprived of access to skills development and are less able to take advantage of emerging employment opportunities, though this is slowly changing.¹⁹⁷ Women have difficulty getting hired, particularly married women. An estimated 40 per cent of microenterprises and 16 per cent of businesses in the formal economy are owned by women.¹⁹⁸ Women are highly active in the informal economy, particularly in agricultural businesses.

Many customary practices discriminate against women even though the constitution asserts their equality. Traditionally women may not own or inherit property, and this is widely the case in rural areas. Demands for dowry are also common. Some efforts to promote gender equality and to coordinate and implement policies to promote gender equality have been taken by the government.

Violence against women is endemic in Timor-Leste, as in many other countries. Rape is a crime punishable by up to 20 years in prison but there are many failures of investigation and prosecution. Domestic violence offenses are among the most frequently reported crimes in the criminal justice system, but investigations by police are often perfunctory, and prosecutors and judges also often fail to uphold the rights of victims.¹⁹⁹ The U.S Bureau of Democracy, Human Rights and Labor found that even if a case was successfully prosecuted sentences were almost uniformly suspended, even when there was significant injury to the victim, with the perpetrators serving no prison time at all.²⁰⁰ The SEPFOP and NGOs offer assistance and shelters to victims of violence, sexual assault and incest.

Other vulnerable groups, the elderly, transgender persons and the disabled, also face discrimination. The law through the Constitution prohibits discrimination against persons with disabilities, there is however no legislation to mandate accessibility for persons with disabilities either, though electoral regulations permit them to request assistance with voting.²⁰¹ People with mental disabilities are often incarcerated with the general prison population and children with disabilities have trouble accessing schools.

Sexual harassment in the workplace is reportedly widespread.²⁰² Girls at schools are also particularly vulnerable to harassment from teachers and their male peers: 35 per cent of girls in grades 4-6 feel unsafe travelling to and from school, and 26 per cent do not feel safe in schools due to sexual harassment.²⁰³ Sexual abuse and incest are serious concerns when it comes to children and their safety. Despite widespread reports of child abuse in various forms few cases are brought to trial, or even investigated.²⁰⁴

Child marriages are still arranged, often between parents in rural areas. In rural areas parents with debts might offer their children as indentured servants, perpetuating a system of bonded labour.

¹⁹⁷ ILO, 2009.

¹⁹⁸ ADB, 2014.

¹⁹⁹ U.S. Department of State, 2014.

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Ibid.

²⁰³ ADB, 2014.

²⁰⁴ U.S. Department of State, 2014.

Forced and compulsory labour are prohibited by law, and there are heavy penalties for human trafficking. The government rarely enforces as it lacks the human and financial resources to do so. Child labour in the informal economy is common, especially in agriculture, street vending and domestic service. Though the government has labour inspectors dedicated to investigating and enforcing labour laws relating to children no prosecutions have been reported.²⁰⁵ In 2014 a National Commission against Child Labour was established to conduct a national assessment of the scope of the problem.

The Gender Inequality Index is a composite index measuring loss in achievements in three dimensions of human development – reproductive health, empowerment and labour market, due to inequality between genders.²⁰⁶ No score is available for Timor-Leste as is the case for other gender related indicators.

Table 16 Key inequality indicator, selected countries, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Gini coefficient							
The GINI index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 represents absolute inequality.							
Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments.							
Source: World Bank, World Development Indicators							
Timor-Leste		31.56					
Cambodia		41.14	35.1	34.65	33.44	31.7	30.76
Cabo Verde		47.19					
Fiji			42.78				
Indonesia			34.11		35.57		
Rwanda					51.34		
Vietnam	37.44		38.15		42.68		38.7

4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. Social protection policies are important in developing, and high income countries, for the role they play in protecting the economically vulnerable from shocks like interruptions to income, and by improving equality of opportunity so that families may escape poverty through educational and health attainments. Social protection is key to inclusive growth and social stability.²⁰⁷

The Constitution of Timor-Leste recognizes the rights of citizens to social assistance and social security under Section 56 and tasks the state with promoting the establishment of a social security system.²⁰⁸ Timor-Leste has a comparably high rate of public spending on social safety nets, but this has not yet led to a commensurate reduction in poverty.²⁰⁹ While spending on social protection has increased, and the GDP has grown, the percentage of the population living in poverty appears to have

²⁰⁵ U.S. Department of State, 2014.

²⁰⁶ UNDP Human Development Reports.

²⁰⁷ Dale et al, 2014.

²⁰⁸ ADB, 2012.

²⁰⁹ Dale et al, 2014.

changed very little in 2010, from the 40 per cent identified in the first poverty assessment for independent Timor-Leste in 2001.²¹⁰ Some human development indicators, like those focusing on nutrition, have worsened.

Social protection measures in Timor-Leste can be divided into three types- labour market programmes, social assistance and social insurance. SEPOPE implements three labour market programs: cash-for-work, labour exchange, and market-oriented training.²¹¹ The cash for work program is linked to the development of infrastructure in the country; it seeks to provide employment to rural communities, with each village entitled to one project of road maintenance, or road building. In this way transport connectivity in rural areas improves, as well as the circulation of money in the rural economy. Labour exchange programs were started in 2009 with South Korea, Australia and Malaysia, where Timorese citizens were sent abroad for employment in agriculture, fisheries and industry.²¹² The GOTL does not provide funding for the beneficiaries, but it does facilitate the process. At the moment there is no link between the labour exchange programmes and the oil-industry that support the economy of Timor-Leste.

There are many efforts at social assistance in Timor-Leste, but they were launched with urgency that did not allow for proper planning and effective targeting- they also suffer from being fragmented in terms of management and accountability.²¹³ The Ministry of Social Solidarity is key to social protection efforts, and implements four large cash transfer programmes, which reach about a third of the population.²¹⁴ Related programs are implemented by another five government agencies- complicating both delivery and assessment mechanisms. Timor-Leste's expenditures on social protections are comparatively high, but the impact on poverty has not been commensurately large yet.²¹⁵ Many who could be categorised as vulnerable do not find themselves the target of transfers by the GOTL.

Prior to 2008 economic hardship was faced by many segments of the population. Expectations of improvement were high, in terms of incomes and the delivery of services. By early 2008, with an increase in global fuel prices the Petroleum Fund balance grew, and Timor-Leste settled into greater social stability. It was in this period, that social spending expanded. The GOTL started to implement cash transfer programs, targeting vulnerable sections of the population, including the elderly, the disabled, and modelled on Brazil's Bolsa Familia, the children of single mothers and widows.²¹⁶ Selection criteria, benefit levels, and beneficiary numbers have changed almost annually since 2008, and it is difficult to estimate the real reach of some of the programs.

In 2012, social assistance spending accounted for about 9 per cent of the national budget, more than was allotted to health and education.²¹⁷ The bulk of this goes to cash transfers for veterans' pensions, followed by elderly and disability pensions, then spending on children. Subsidies for goods and commodities, like water, rice and electricity also exist, but in lower volumes. Because veterans are a small per cent of Timor-Leste's population, and they receive the bulk of social transfers from the GOTL, the poverty reduction benefits from these transfers are minimal. Arguably, for a number of years

²¹⁰ Dale et al, 2014.

²¹¹ ADB, 2012.

²¹² ADB, 2012.

²¹³ Dale et al, 2014.

²¹⁴ Ibid.

²¹⁵ Ibid.

²¹⁶ Ibid.

²¹⁷ Ibid.

a post-conflict nation may need to prioritize on respecting its veterans by providing pensions to ensure that the country does not fall back into crisis again. Though targeting the elderly, disabled and children addresses many vulnerable groups, a high proportion of the most vulnerable people are left out of the transfers programme. To improve outcomes, the structure of social spending in Timor-Leste might merit reconsideration.

Social assistance programs also exist in terms of disaster relief, and a school feeding program managed by the Ministry of Education, where the procurement of food for midday meals for children is managed by the Ministry of Commerce Industry and Environment.²¹⁸ The logistics of managing cash transfers are complicated in Timor-Leste, as the limited banking infrastructure means that payments need to be delivered in identified payment days, under armed escort in each district.²¹⁹ Mobile banking initiatives are being piloted, with the use of vehicles, but to know the time and location of the transfer people need to be informed in advance. Access to technology for informing people by SMS or phone calls is limited, and many persons face significant travel times to reach locations, further complicating delivery. To smooth implementation of its programmes the Ministry of Social Solidarity is in the process of developing an information system and database of beneficiaries.²²⁰

Legislation for social insurance is under discussion. A proposed law to establish a Social Welfare Contributory Regime that will cover every worker in the country was approved by the Council of Ministers and is currently being discussed in the National Parliament.²²¹ The existing framework is fully financed by the state, and applicable only to public servants, while the suggestion is to expand this to all workers in the public and private sector.

Previously a health services delivery system in Timor-Leste, comprised of government administered hospitals, clinics and district health centres existed.²²² The 1999 events lead to the loss of most of the doctors, nurses and senior administrators and the destruction of the facilities, leaving the majority of the population left without access to adequate medical care.²²³

To prevent malnutrition, disease and mental health problems several international NGOs, and civil society actors like the Catholic Church organized the delivery of emergency services. The UNTAET oversaw the rebuilding of medical facilities, and health services delivery systems, in collaboration with local representatives and international actors like the World Bank. In comparison with many other examples of donor-led development, aid given to health sector governance in Timor-Leste was relatively successful, due to strong ownership of the policy and institutional development work by qualified Timorese officials.²²⁴

Medical and health care has been recognized as a fundamental right of all citizens in the Constitution of Timor-Leste. The Constitution has tasked the GOTL with promoting and establishing a national health system that is universal, free, and as decentralised and participatory as possible.²²⁵ The National Health Sector Plan 2011-2030 reflects the GOTL's commitment to providing universal health coverage. Towards achieving its health goals in areas such as family planning, disease control and

²¹⁸ ADB, 2012.

²¹⁹ UNDP, 2013.

²²⁰ Ibid.

²²¹ GOTL, 10 March 2016.

²²² UNU-WIDER, 2013.

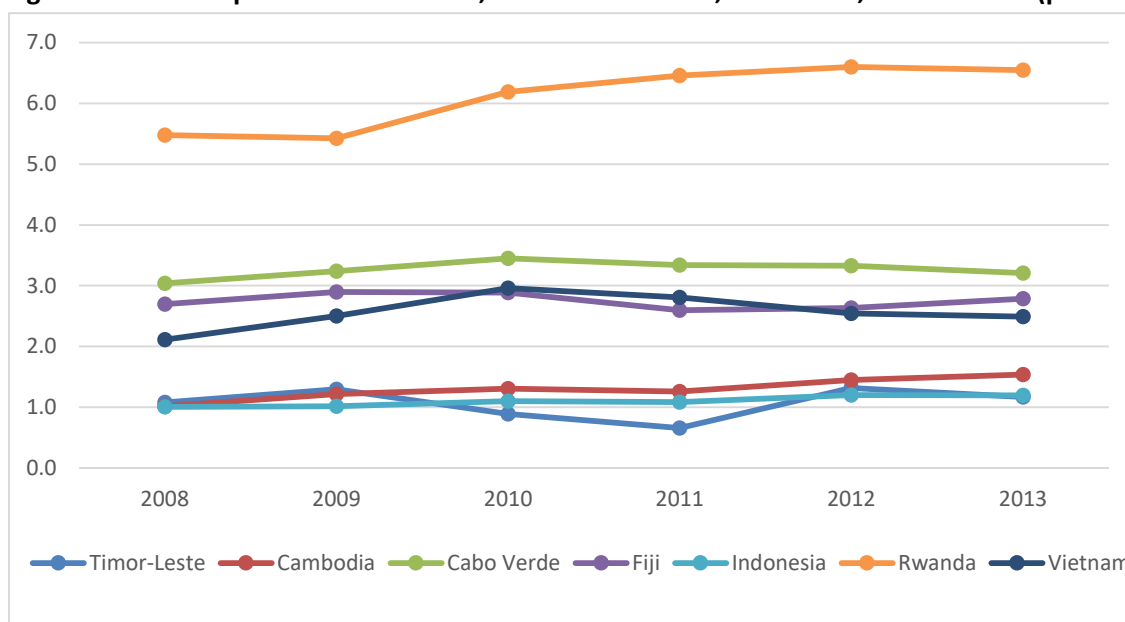
²²³ Ibid.

²²⁴ Ibid.

²²⁵ WHO, 2014.

emergency response, for example, the Ministry of Health has developed a number of strategies, and established a Department of Partnership Management, and a coordination group to optimise the results of bilateral, multilateral and nongovernmental partnerships in this area.²²⁶

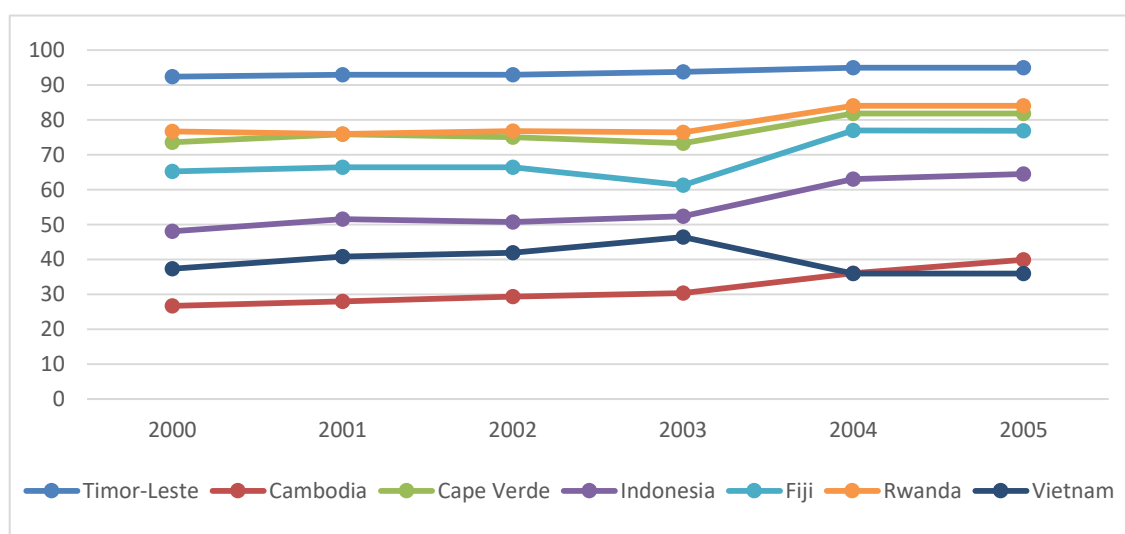
Figure 41 Public Expenditure on Health, selected countries, 2008-2013, share of GDP (per cent)



Source: World Bank, World Development Indicators.

Based on available data for 2013, public expenditure on health in Timor-Leste was 1.17 per cent of GDP. This is quite a low percentage and it is lower than all the comparison countries, except Indonesia and Cambodia in 2008 and 2009. Rwanda leads by a significant amount on this indicator at 6.55 per cent in 2013. The latest available data from the World Health Organization for 2014 record a total expenditure on health as per cent of GDP of 1.5 per cent.

Figure 42 Coverage by Health Care, selected countries, 2000-2005, share of total health care, per cent



Source: World Bank, World Development Indicators.

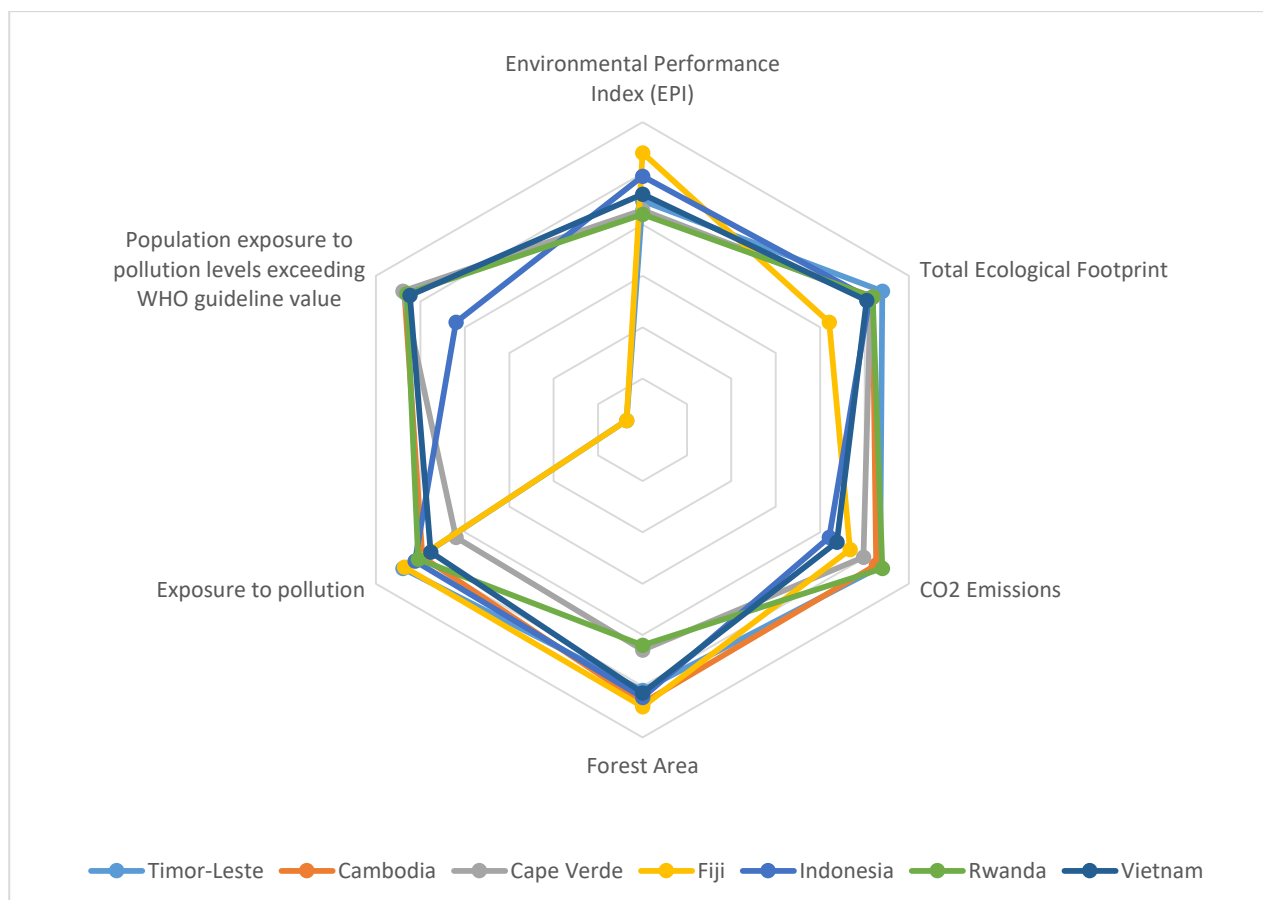
²²⁶ WHO, 2014.

Table 17 Key health indicators, selected countries, 2008-2013 and 2000-2005

	2008	2009	2010	2011	2012	2013
Public expenditure on health (per cent of GDP)						
Public expenditure on health as a percentage of GDP—Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.						
Source: World Bank, World Development Indicators						
Timor-Leste	1.08	1.30	0.89	0.66	1.32	1.17
Cambodia	1.02	1.22	1.31	1.26	1.45	1.54
Cabo Verde	3.04	3.24	3.45	3.34	3.33	3.21
Fiji	2.70	2.90	2.89	2.60	2.64	2.78
Indonesia	1.01	1.02	1.10	1.09	1.20	1.20
Rwanda	5.48	5.43	6.19	6.46	6.60	6.55
Vietnam	2.11	2.50	2.96	2.81	2.54	2.49
	2000	2001	2002	2003	2004	2005
Coverage by health care (per cent of total health care)						
Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator).						
Source: World Bank, World Development Indicators						
Timor-Leste	92.4	93	93	93.8	95	95
Cambodia	26.7	28	29.4	30.4	36.1	39.9
Cabo Verde	73.6	75.9	75.1	73.3	81.9	81.9
Indonesia	48.1	51.6	50.7	52.4	63	64.5
Fiji	65.2	66.4	66.4	61.3	77	76.9
Rwanda	76.7	76	76.8	76.4	84.1	84.1
Vietnam	37.3	40.8	41.9	46.4	36	36

5. Environmental elements

Figure 43 Indicators assessing environmental elements of an enabling environment for sustainable enterprises



Note: the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The majority of the population of Timor-Leste is dependent on agriculture for their livelihood, and this makes environmental stewardship very important.
- The geographic conditions across the country vary highly, and it is prone to both droughts and flooding.
- As a result of climate change Timor-Leste is likely to experience higher temperatures, increased rainfall, higher sea temperatures, increased flooding, landslides and drought.
- Wood is the primary source of fuel and energy in Timor-Leste, and small scale logging needs to be controlled as a matter of urgency so that no further forest cover is lost.
- Pollution is low in Timor-Leste as the environmental problems caused are those related to poverty rather than those due to the growth of industry or increased transportation.
- Water scarcity is an increasing concern in urban areas.

5.1. Responsible stewardship of the environment

Sustainable enterprise development is closely linked to responsible stewardship of the environment; sustainable enterprise development requires appropriate regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

Timor-Leste's challenges of an environmental nature are significant, but not insurmountable. The country is characterised by mountainous terrain, relative isolation, dependence on agriculture, and vulnerability to natural hazards, including droughts, floods, earthquakes and tsunamis.²²⁷ The dependence on agriculture, and high growth rate point to a strong need for environmental stewardship. Natural resource management needs improvement, and sustainable farming and fishing practices must be implemented. Seasonal weather fluctuations have an impact on agricultural productivity, as do ocean acidification and sea-level rise, all three of which are linked to the effects of climate change.²²⁸

Timor-Leste has highly varying geographical conditions. The Ramelau Mountains run east to west along the country, with steeper slopes facing the northern side, and floodplains on the southern side. Timor-Leste's lies in the path of the tropical northwest monsoon, with distinct rainy and dry seasons. The rainy season runs from December to April, when the country receives heavy rain. The south gets two rainy seasons, due to the approaching and retreating monsoon, enabling rice cultivation twice a year, but the lowlands are susceptible to damage caused by high tides and flooding from rivers²²⁹. The northern parts of Timor-Leste experience short rainy seasons, which affects agricultural production, exacerbating the cycle of food insecurity, poverty, and environmental degradation. Flooding is common in the rainy season, which leads to soil erosion and increased pollution in the waterways.

Much of the terrain in Timor-Leste is too steep for cultivation, approximately 44 per cent of the country has a slope of 40 per cent or greater.²³⁰ Indigenous methods of soil conservation exist, to deal with the problems caused by infrequent torrential rainfall that washes topsoil away from the slopes, but the increasing pressures of population growth and poor agricultural practices have made erosion, the lack of soil cover, and diminishing ground water serious issues.²³¹

Arable land forms 10.1 per cent, with only 4.9 per cent having permanent crops on them.²³² 25 per cent of the land is under agricultural use but just 350 square km, of a total 14,874 square km were irrigated as of 2012.²³³ Timor-Leste is drought prone, and in the path of El Niño, so water management is very important. Slash and burn agriculture has led to deforestation and soil erosion.²³⁴ In addition, Timor-Leste is food insecure, due to a combination of poverty, low agricultural productivity and other factors, which further heightens the need for environmental stewardship.

²²⁷ Mercer et al, 2014.

²²⁸ Ibid.

²²⁹ JICA, February 2013.

²³⁰ UNDP.

²³¹ UNDP

²³² CIA World Factbook, 2016.

²³³ Ibid.

²³⁴ Ibid.

As a result of climate change, Timor-Leste is likely to experience the following: higher temperatures, increased rainfall, high sea surface temperatures, a rise in the sea level, ocean acidification, a more variable Asian monsoon, exacerbated flooding, landslides, storms and drought.²³⁵ Warmer temperatures are likely to increase the incidence of diseases like malaria and dengue fever, which are vector-borne. The responsibility for climate change adaptation rests with the Ministry for Economy and Development. A National Adaptation Programme of Action was produced in collaboration with the Ministry of Social Solidarity but financial constraints and a lack of data hinder the process of planning for the long-term impacts of climate change.

As a fledgling state, Timor-Leste is still developing policies and institutional strategies to deal with the impacts of climate change. Disaster risk assessment and management is managed by the Ministry of Social Solidarity.²³⁶ In 2008 Timor-Leste's National Disaster Risk Management Policy was finalized, which outlines a proactive, decentralised strategy to manage environmental risk. Implementation, however, suffers from a lack of capacity and resources at all levels, as well as the absence of specific legal frameworks and laws clarifying the roles of all the stakeholders and entities involved.²³⁷

More than 46 per cent of Timor-Leste is forest area. This is important for carbon sequestration, climate regulation and water availability and as such forests play an essential role in ecological health, and climate change mitigation.²³⁸ Small-scale logging continues to deplete forests in Timor-Leste, which, combined with the widespread practice of slash-and-burn agriculture, and the use of wood for fuel, severely affects the degree of forest cover.²³⁹ Land degradation is associated with poor agricultural practices, and overgrazing.²⁴⁰ Rising food insecurity has led to a conversion of forest lands to agricultural land. The short term household gains result in long term implications for household and national income, as well as ecological balance.²⁴¹

Environmental problems in Timor-Leste are related to poverty, rather than an unmonitored growth of industry and transportation, of which pollution is one of the side effects. The high rate of population growth puts great pressure on the environment. Water is scarce in parts of the country, and poor water quality is an issue in urban areas.²⁴² Waste management and pollution are serious concerns in urban areas, often leading to the pollution of groundwater. Sustainability and governance issues are linked, and as Timor-Leste establishes efficient governance mechanisms so will its ability to responsibly manage environmental issues increase.

The Environmental Performance Index (EPI) is constructed through the calculation and aggregation of several indicators reflecting national-level environmental data.

²³⁵ Mercer et al, 2014.

²³⁶ Ibid.

²³⁷ Ibid.

²³⁸ SIDA, 2008.

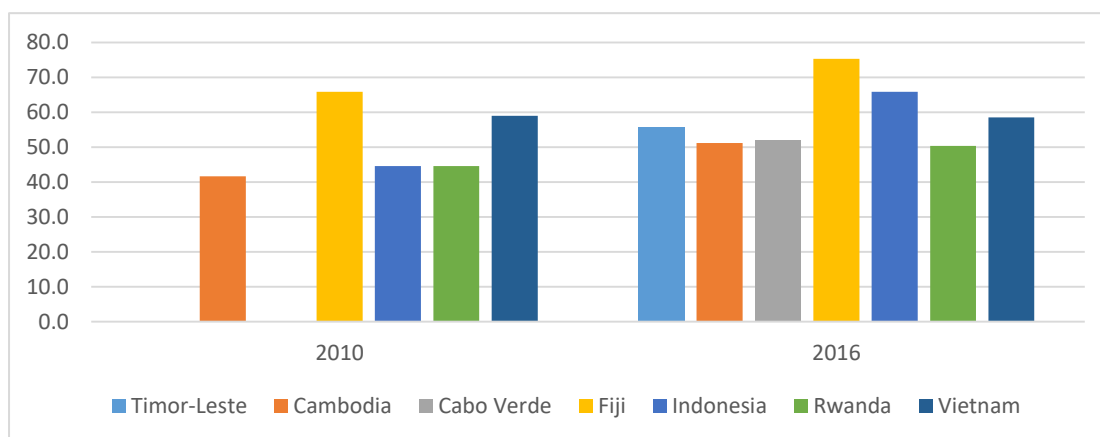
²³⁹ Mercer et al, 2014.

²⁴⁰ SIDA, 2008.

²⁴¹ Ibid.

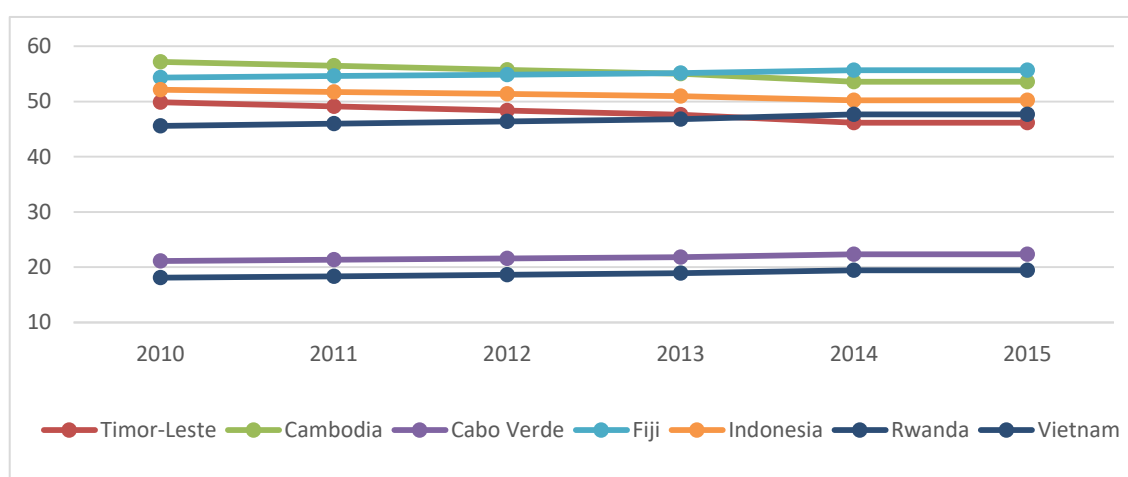
²⁴² Ibid.

Figure 44 Environmental Performance Index (EPI), selected countries, 2010 and 2016



Source: Yale University's Yale Center for Environmental Law and Policy (YCELP) and Columbia University's Center for International Earth Science Information Network (CIESIN).

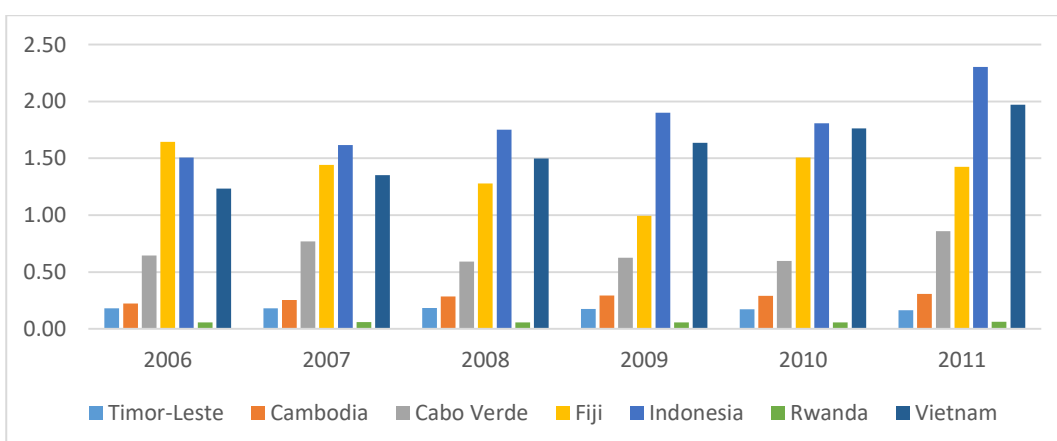
Figure 45 Forest Area, selected countries, 2010-2015



Source: World Bank, World Development Indicators.

The forest area indicator has been recording a drop year on year for Timor-Leste. It has greater forest cover than Cabo Verde or Rwanda, but less than Cambodia, Fiji, Indonesia and Vietnam.

Figure 46 CO2 Emissions, selected countries, 2006-2011, metric tonnes per capita



Source: World Bank, World Development Indicators

Table 18 Key environmental indicators, selected countries, 2010-2016, 2006-2011 and 2010-2015

Environmental Performance Index (EPI) The 2014 Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals.	2010		2016				
	Timor-Leste			55.79			
	Cambodia	41.70		51.24			
	Cabo Verde			51.98			
	Indonesia	65.90		75.29			
	Fiji	44.60		65.85			
	Rwanda	44.60		50.34			
	Vietnam	59.00		58.5			
Performance score from 0 to 100. The higher a country's EPI score, the better positioned it is to maintain favourable environmental conditions into the future							
CO2 emissions (metric tons per capita) Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.	2006	2007	2008	2009	2010	2011	
	Timor-Leste	0.18	0.18	0.19	0.17	0.17	0.16
	Cambodia	0.22	0.25	0.29	0.29	0.29	0.31
	Cabo Verde	0.64	0.77	0.59	0.63	0.60	0.86
	Indonesia	1.51	1.62	1.75	1.90	1.81	2.30
	Fiji	1.64	1.44	1.28	0.99	1.51	1.42
	Rwanda	0.06	0.06	0.06	0.06	0.06	0.06
	Vietnam	1.23	1.35	1.50	1.64	1.76	1.97
Forest area (per cent of land area) Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.	2010	2011	2012	2013	2014	2015	
	Timor-Leste	49.90	49.15	48.39	47.64	46.13	46.13
	Cambodia	57.18	56.46	55.74	55.02	53.57	53.57
	Cabo Verde	21.09	21.35	21.59	21.83	22.33	22.33
	Indonesia	52.13	51.75	51.37	50.99	50.24	50.24
	Fiji	54.35	54.61	54.88	55.14	55.67	55.67
	Rwanda	18.08	18.35	18.63	18.91	19.46	19.46
	Vietnam	45.56	45.98	46.40	46.81	47.64	47.64
Source: World Bank, World Development Indicators							

6. Assessment results and ways forward

Timor-Leste is a young and relatively stable, developing democracy. It has made great strides politically, and the pressing need is to successfully transform a largely agrarian society into a modern and productive one. Most citizens do not have access to basic services, particularly those living outside the capital. Healthcare, education and employment are important areas for the GOTL to focus on, particularly given the limited resources, and limited time. The high population growth rate implies that a crisis of labour and poverty is imminent, and if not addressed immediately, by measures to improve human resources and boost employment, this could have serious effects on political stability and social relations.

After years of upheaval Timor-Leste is facing its first sustained period of peace and stability. Economic growth rates have been strong, but despite the positive indicators the country still struggles with incomplete and unclear legislation, inadequate government and regulatory mechanisms, deficient infrastructure, corruption and insufficient human resources.²⁴³ Timor-Leste is in the enviable position of having access to funds from the Petroleum Fund, and being able to independently finance some, if not all of the required development measures.

The private sector is largely centred around Dili. The most active sectors include wholesale and retail, construction, hospitality and manufacturing. The EESE Timor-Leste Survey found that a majority of enterprises are small or micro, with fewer than ten full-time employees. Most enterprises tended to be in relatively early years of establishment, with 6 being the median, so there is a lot of potential for business growth and expansion. The lack of gender parity in business ownership/management, and in employment was noted in the survey, and there is a need to support female workers and entrepreneurs in Timor-Leste.

A focus on SME development policy is critical to promoting entrepreneurship in Timor-Leste. This needs to be linked to a long-term workforce skills development strategy, which will address, among other things, the improvement of general and vocational education with a view to better technical and soft skills acquisition among Timorese youth. The EESE Timor-Leste Survey identified low motivation among workers, lack of transparency in business practice and a lack of regulatory enforcement as some of the other major challenges.

The final results of the assessment of the enabling environment for sustainable enterprises in Timor-Leste indicate that there is scope for improving across all the pillars. In order to maximise the impact of future actions, tripartite participants at the validation workshop held on 5 July 2016 in Dili identified the following priority conditions: entrepreneurial culture, enabling legal and regulatory environment, access to financial services, physical infrastructure, and education and lifelong learning. In addition, the findings of assessment stress the importance of tackling issues pertaining to good governance.

The table, included in the Executive Summary for reader friendliness, proposes some concrete measures to tackle the various conditions for action. They are meant as an inspiration for stakeholders while discussing the draft and thus are in no way complete or exhaustive.

²⁴³ U.S. Department of State, 2015.

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