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Enabling Environment for Sustainable Enterprises



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The Enabling Environment for Sustainable Enterprises in Timor-Leste

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Introduction to the EESE report

- 2016, the ILO collaborated with the CCI-TL and MECAE to assess the business environment in Timor-Leste aims to improve the overall business environment and private sector development
- The EESE methodology was used to analyse political, economic, social and environmental factors in Timor-Leste
- Consultation and validation conducted with tripartite constituents and stakeholders in Dili
- EESE survey, focus group discussions, quantitative and qualitative research to assess the overall environment for building sustainable enterprises against 17 key elements
- Six countries, namely Cambodia, Cabo Verde, Fiji, Indonesia, Rwanda and Vietnam have been selected for comparison to Timor Leste



Introduction to EESE report



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Enabling Environment for Sustainable Enterprises

1. The EESE survey in Timor-Leste
2. Political elements
3. Economic elements
4. Social elements
5. Environmental elements
6. Assessment of the EESE results



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1. The EESE survey in Timor-Leste



- Secondary research
- **EESE Enterprise Survey**
 - 254 companies
 - Six districts: Manatuto, Baucau, Viqueque, Bobonaro, Dili and Liquica
 - 65% less than 10 employees
 - 51% sole traders

Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.



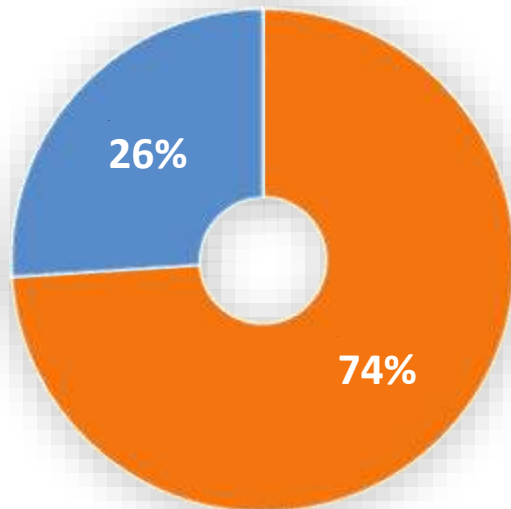
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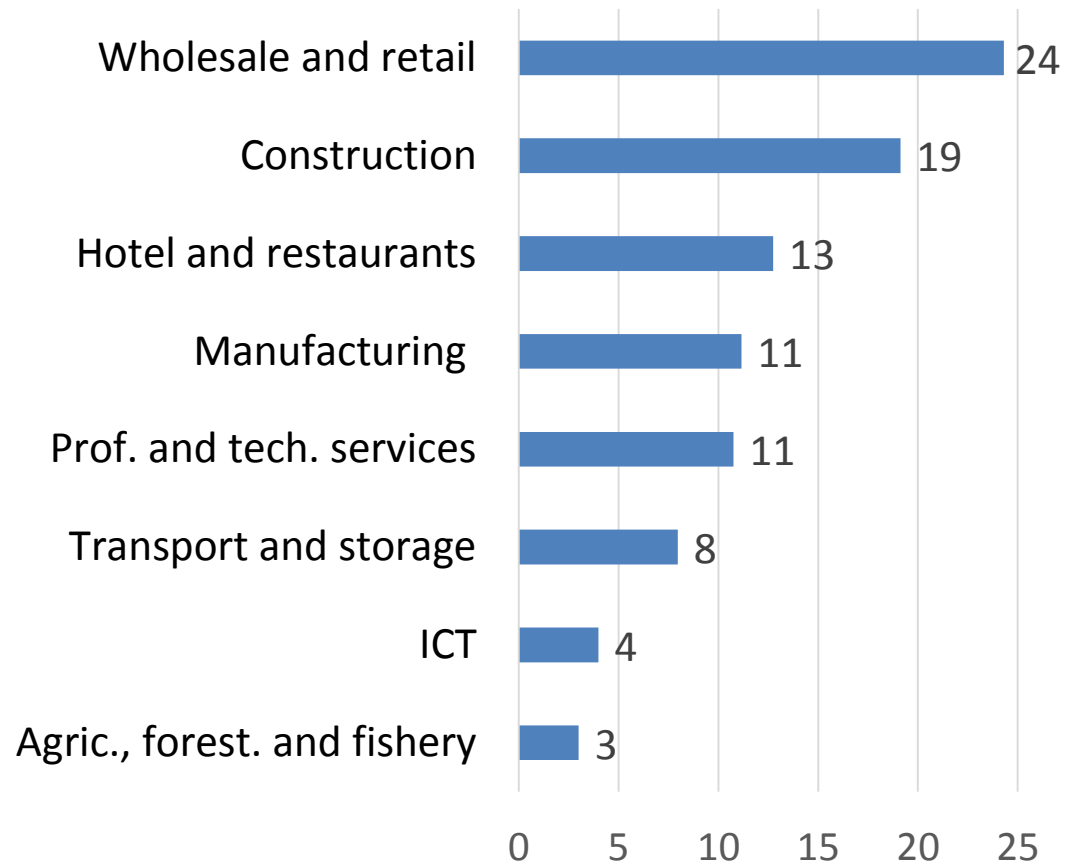
1. The EESE survey in Timor-Leste

Respondents by gender



Male Female

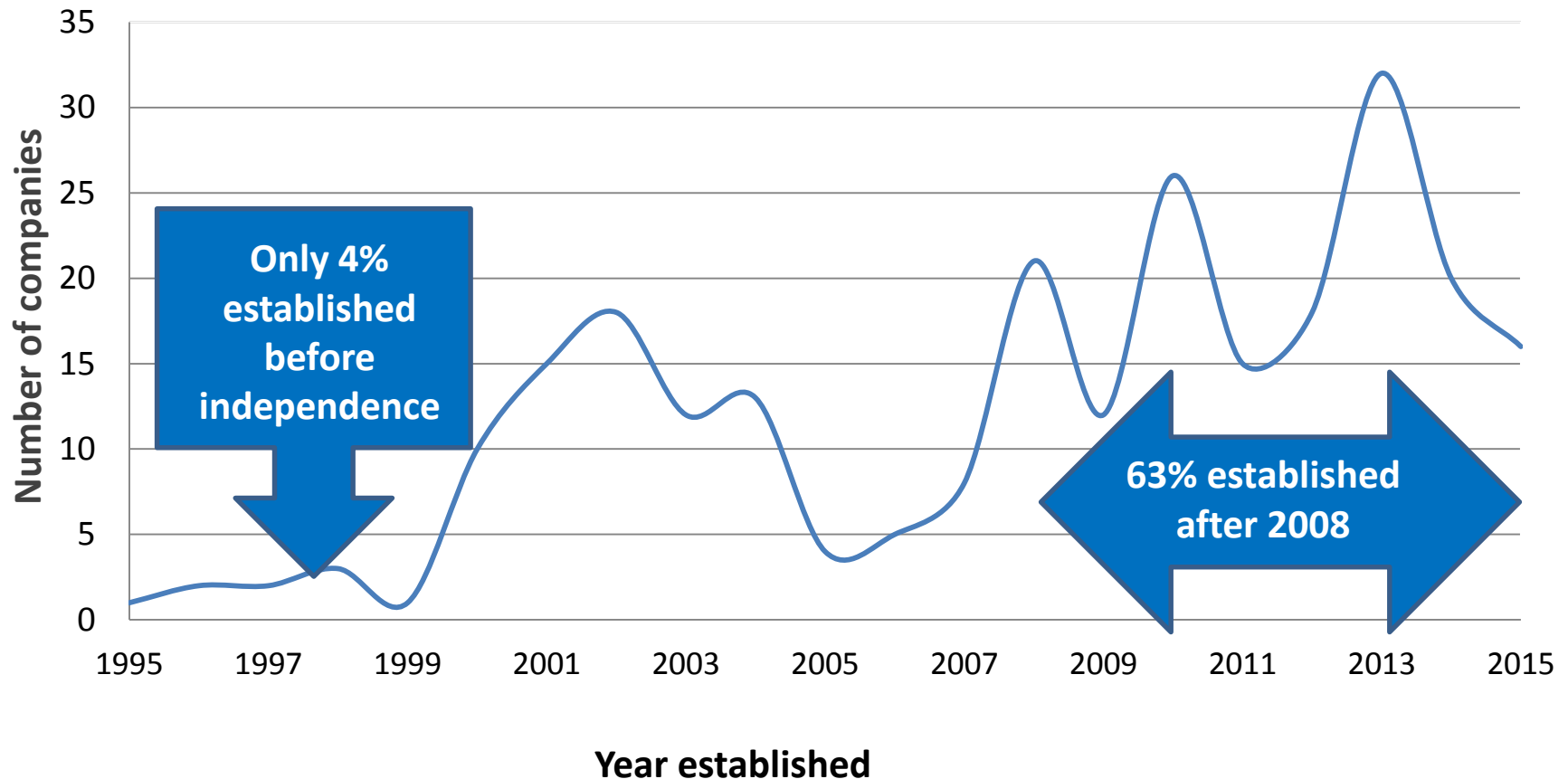
Sector of surveyed companies



Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.

1. The EESE survey in Timor-Leste

Age of surveyed companies



Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.



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1. The EESE survey in Timor-Leste

- Focus group discussions and interviews were conducted in Dili in July 2016 to complement the quantitative research from the EESE survey results
- The sectors represented in the series of discussions included the following:
 - Banking and insurance
 - Agro-industry
 - Tourism and hospitality
 - Oil and gas
 - Informal economy



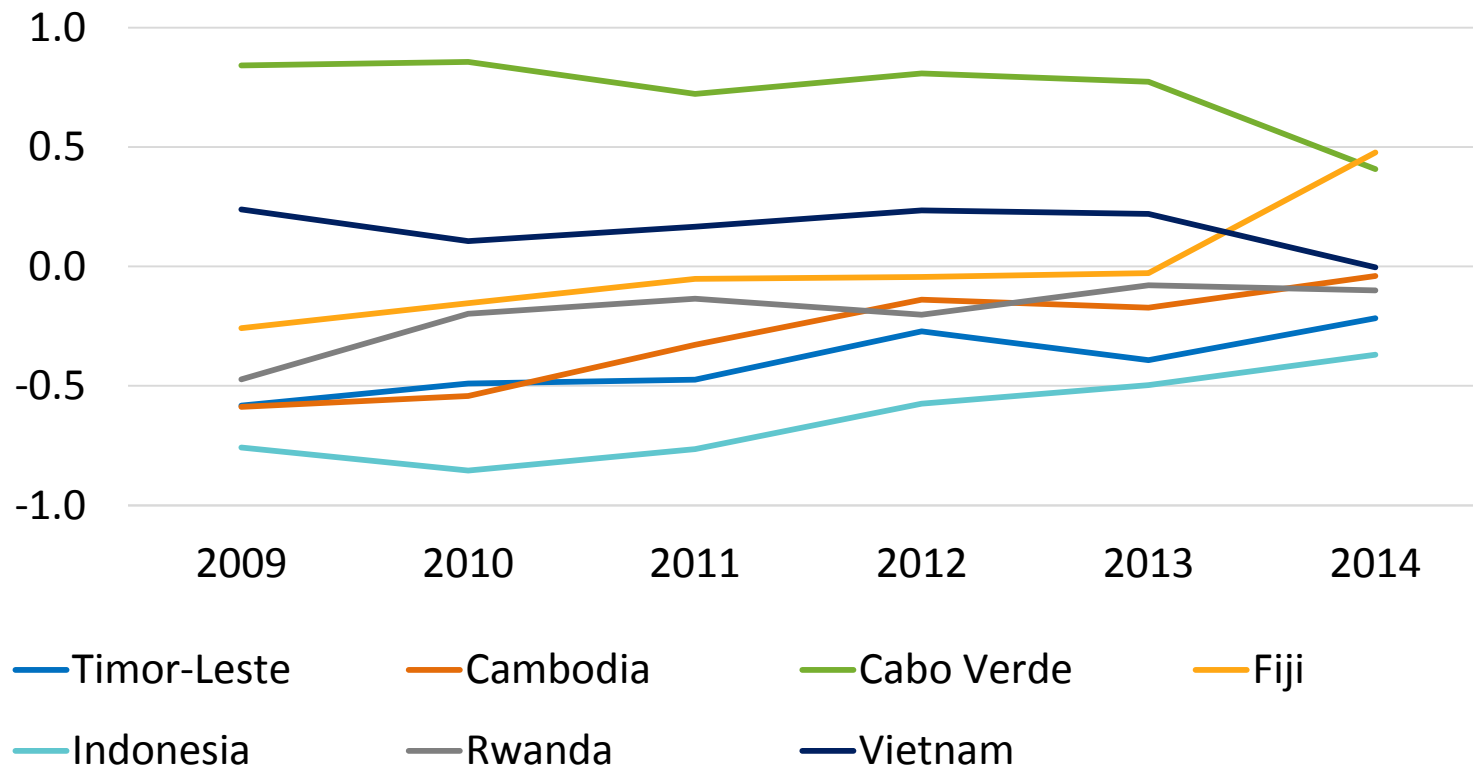
2. Political elements

- Timor-Leste regained its independence in 2002. Although several challenges remain, Timor-Leste country has made significant progress including political stability
- **Key challenge:** freedom of the press appears to be relatively undisturbed, but readership of press is limited by physical factors, and high illiteracy rates
- **EESE survey results:** corruption was identified by respondents as a serious problem

2. Political elements

2.1. Peace and political stability

Political stability and absence of violence, selected countries, 2009-2014



Note: Index ranges from a scale of -2.5 to 2.5. Higher values represent higher political stability.

Source: World Bank: Worldwide Governance Indicators (2016).

2. Political elements

2.2. Good governance

- **Strategic Development Plan (SDP) (2011-2030):** a prosperous and strong nation – Priorities include employment generation and reduction of income inequality
- **Key challenge:** the court system and investigations into criminal charges are often restricted by limited financial and human resources
- **EESE survey results:** Of total respondents, 80% thought that **bribery** and **corruption** negatively affected Timorese economy and society



2. Political elements

2.3. Social dialogue

- The **labour code** includes several provisions for collective bargaining that shows a strong commitment to tripartism
- **2002:** provisions to set up national, district and sectoral minimum wages, and manage dispute resolutions
- **2012:** provisions to guarantee trade unions rights, paid leave, safeguards against workplace discrimination, and guidance for employers to participate in collective bargaining
- **Key challenge:** fragile institutions, lack of capacity of unions and employers' organizations, and government agencies make implementation difficult



2. Political elements

2.4. Respect for universal human rights and international labour standards

- Timor-Leste has adopted seven of the ten main UN human rights conventions
- The 2011 UN Human Rights Council Universal Periodic Review in Timor-Leste assessed the human rights situation, resulting in 125 recommendations of which 88 were accepted in Timor-Leste
- **Key challenge:** excessive use of police force, gender-based violence, slow justice system, violence against children including sexual assault and trafficking



3. Economic elements

- Subsistence agriculture: 24% or 166,600 of working age population
- Agriculture: 51% in 2010 and 40% in 2013
Services: 40% in 2010, and 45% in 2013
Industry: 9% in 2010 and 12% in 2013
- Investment in development and infrastructure are dependent on petroleum revenues (account for 95% of government revenues)
- **Key challenges:** gaps in infrastructure, weaknesses of the legal system, poor regulation, low levels of productivity, and human capital shortages
- **EESE survey results:** access to finance is an obstacle to entrepreneurship



3. Economic elements

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

- **SDP:** medium term national development plan to make Timor-Leste a middle-income country by 2030
- **Key challenge:** widespread poverty, limited human capital (education and skills) and weak institutions, and how best to use wealth resulting from oil to develop sustainably
- **National Employment Strategy:** (launched in 2017) to increase private sector jobs, focusing on unemployed and youth
- **EESE survey results:** 81% of respondents were satisfied with government's efforts to support business formation and growth



3. Economic elements

3.2. Trade and sustainable economic integration

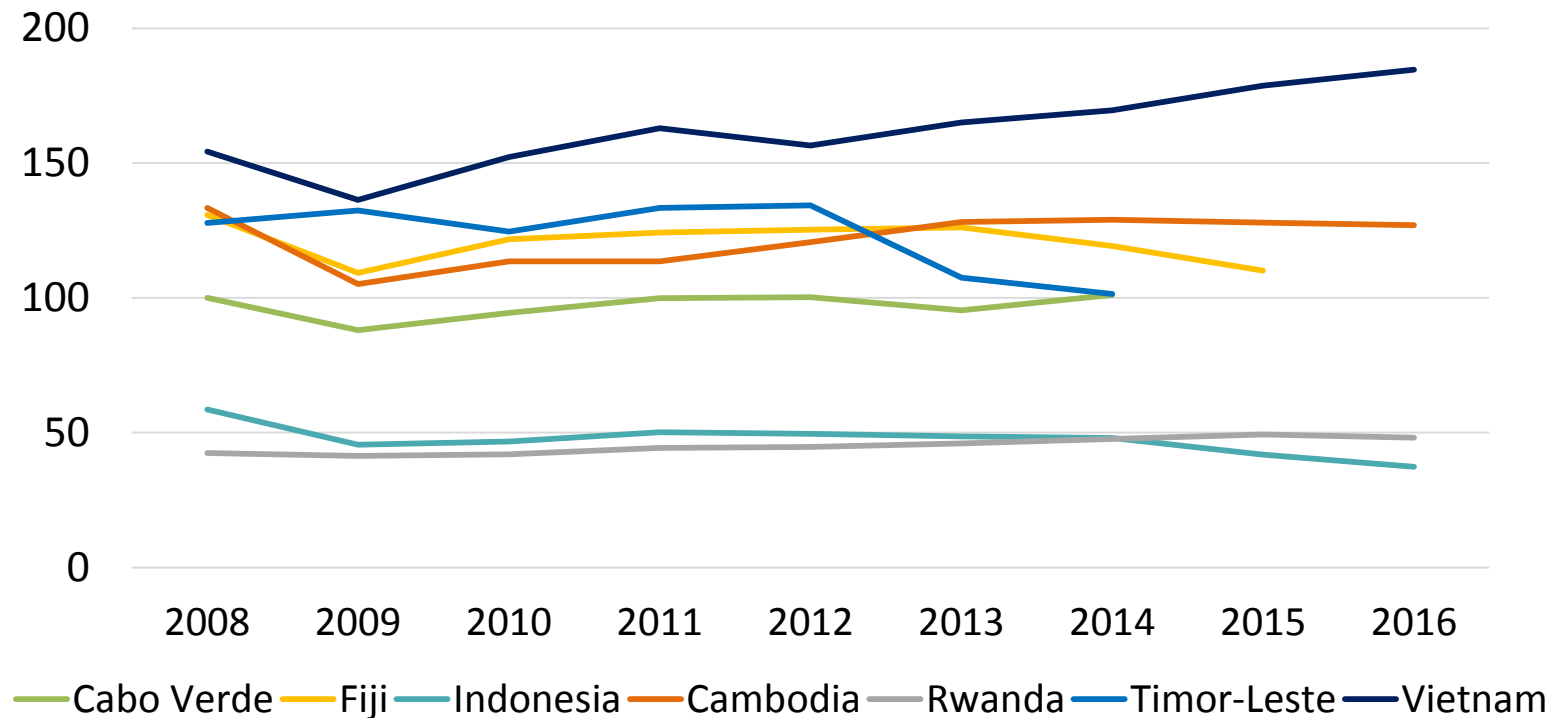
- The government has facilitated establishing businesses for local and foreign investors through tax incentives and creation of institutions (e.g. TradeInvest and SERVE)
- **Key challenge:** oil trade dependence and inefficiencies related to doing business including registering property, enforcing contracts and resolving insolvency
- **EESE survey results:** about 61% of respondents perceived that the government favoured foreign investors over domestic ones
- **2017 World Bank Doing Business:** Timor-Leste ranks at 175 out of 189 countries



3. Economic elements

3.2. Trade and sustainable economic integration

Trade as share of GDP, selected countries, 2008-2016, percentage



Source: World Bank: World Development Indicators (2016).

3. Economic elements

3.3. Enabling legal and regulatory environment

- Infrastructure and provision of basic utilities have improved, but legislation remains unclear in some areas

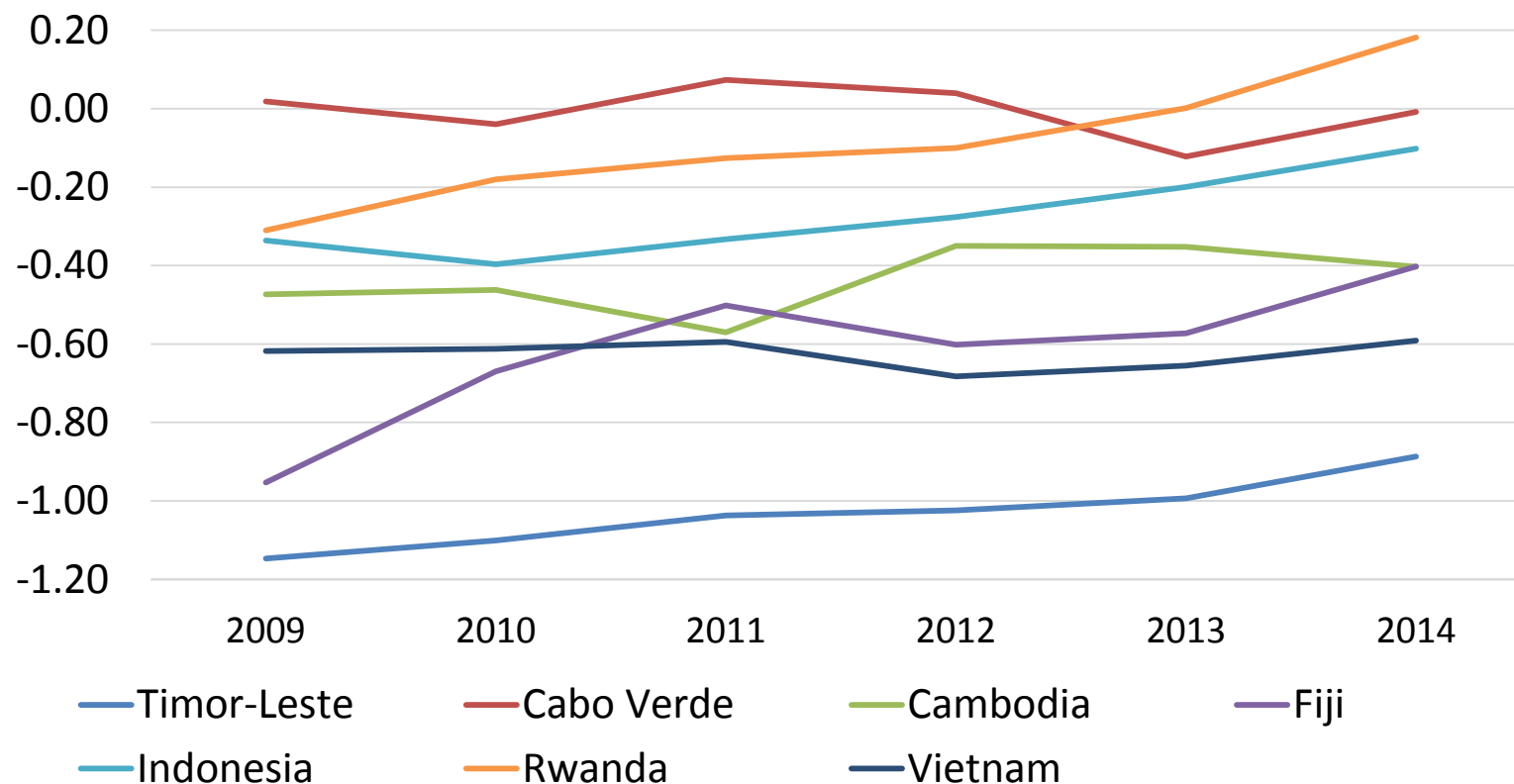
Key challenges:

- Implementation of regulation is difficult, weak and unpredictable
- Lack of comprehensive laws in land and intellectual property
- Limited impartiality of regulatory bodies and supply of qualified personnel
- Legislation is drafted in Portuguese, which makes it inaccessible, since less than 10% of the population speak the language

3. Economic elements

3.3. Enabling legal and regulatory environment

Regulatory quality, selected countries, 2009-2014



Note: Index ranges from a scale of -2.5 to 2.5. Higher values represent better regulatory quality.

Source: World Bank:Worldwide Governance Indicators (2016).

3. Economic elements

3.4. Rule of law and secure property rights

- While the law provides for access to legal representation, public defenders are in short supply

Key challenges:

- Justice system faces a short of human (e.g. judges and prosecutors) and financial resources
- Judiciary processes are slow
- lack of a sound property rights system: tenure insecurity

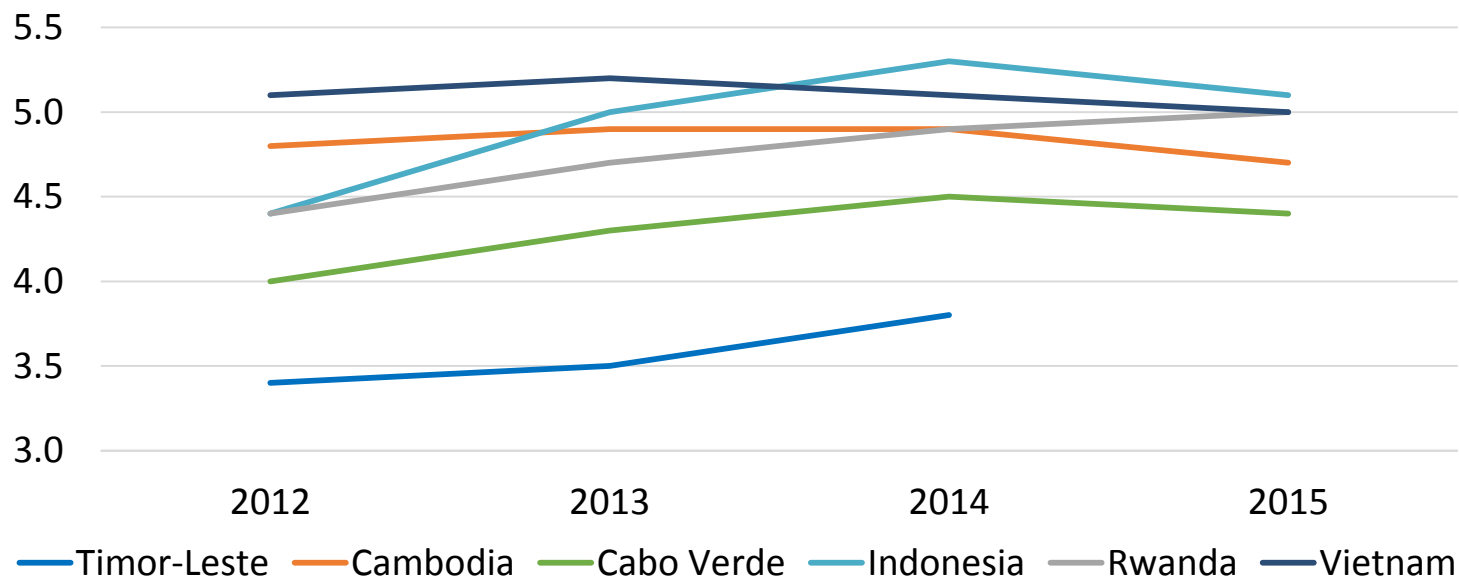
EESE survey results: access to formal financial services constrained by limited formal legal and regulatory structure to enforce loans repayment

3. Economic elements

3.5. Fair competition

- Timor-Leste currently does not have a law protecting competition
- Some sectors remain dominated by state-owned enterprises

Intensity of local competition index, selected countries, 2012-2015



Note: Index ranges from a scale of 1 (limited) to 7 (intense).

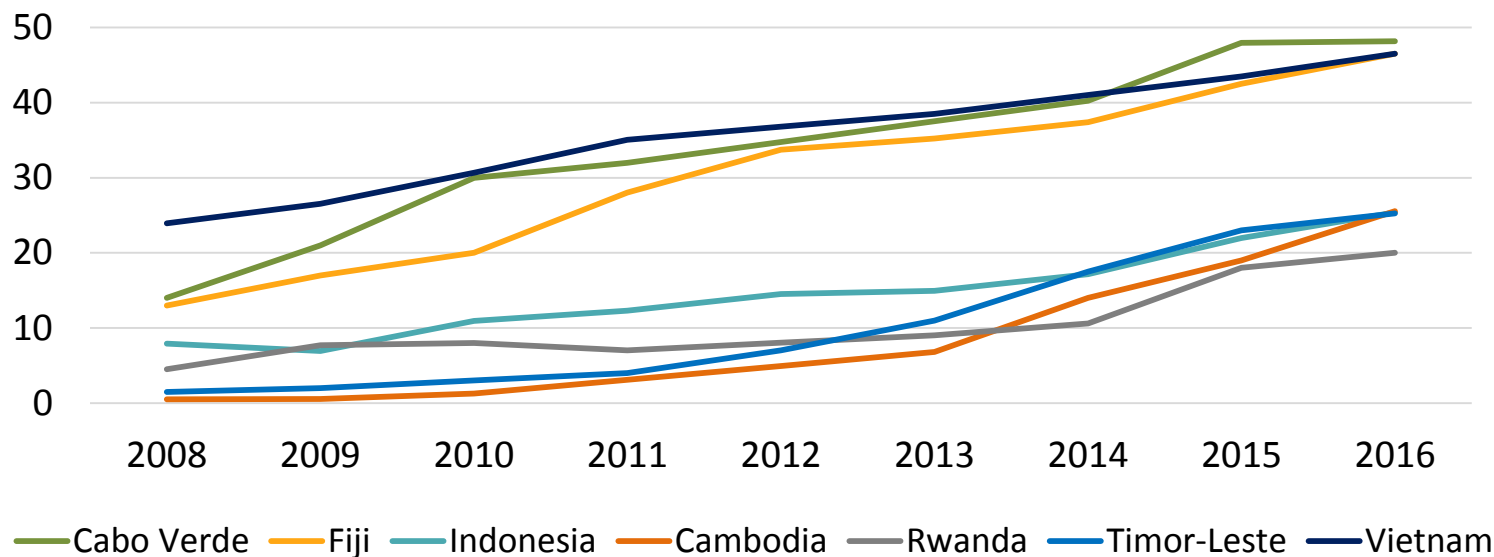
Source: WEF: *Global Competitiveness Reports* (2012-2015).

3. Economic elements

3.6. Information and communication technologies

- The ICT sector requires better legal infrastructure, human resources and power supply
- **Key challenges:** poor connectivity, particularly in rural areas (fixed lines, mobile phones and the internet)

Internet users (per 100 habitants) selected countries, 2012-2015



Source: World Bank: World Development Indicators (2016).

3. Economic elements

3.7. Access to financial services

- The financial sector is at an early stage of development, and needs more and better quality financial services
- **Key challenge:** banks are reluctant to provide credit to enterprises, especially SMEs, due to the lack of the legal framework that deals with loan default
- **Focus group discussions:** general concern about the lack of government supervision setting interest rates, given that interest rates for loans were considered high (at both commercial banks and MFIs)



3. Economic elements

3.7. Access to financial services

EESE survey results:

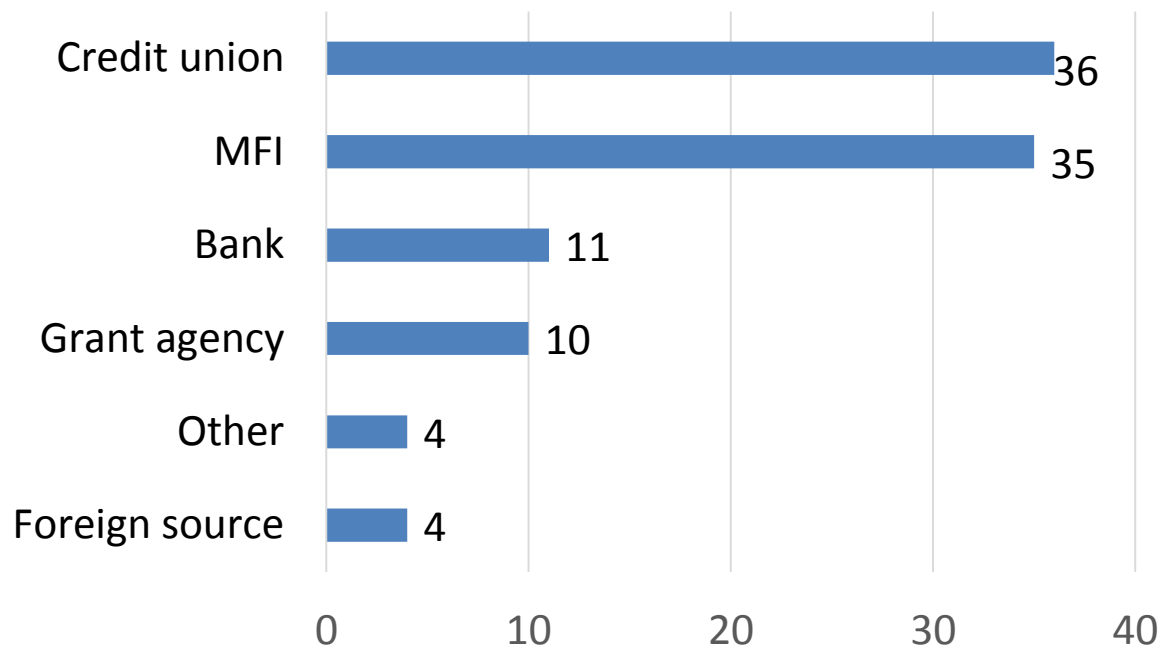
- small enterprises faced greater challenges obtaining financial services than bigger enterprises due to several challenges (collateral, inadequate business plans and business operations, and long processing times, among others)
- enterprises want to access training opportunities, including how to write successful business plans

Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.

3. Economic elements

3.7. Access to financial services

Sources of finance, surveyed companies, per cent



Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.

3. Economic elements

3.8. Physical infrastructure

- **SDP:** improve road conditions using the interest generated from petroleum investment funds

Key challenges:

- Low access to infrastructure and basic services (especially in rural areas) and poor maintenance of roads, and bridges
- Ownership of vehicles and motorcycles, of total households, 14% owned a motorbike, and 5% owned a car or van
- Air travel is expensive and airport facilities are not developed

EESE survey results: administration of infrastructure (customs, port authorities, etc.) was described as lacking consistency, efficiency and transparency



4. Social elements

- Government spending in social development is directly linked to oil revenues

Key challenges:

- Poverty, food insecurity and the rural-urban divide
- High population growth and low life expectancy
- High illiteracy which has led to a skills gap in the labour market and low labour productivity

EESE survey results: vocational training and skills improvement, including soft skills and language abilities need to be addressed



4. Social elements

4.1. Entrepreneurial culture

Key challenges for entrepreneurs:

- Women, youth, disabled and rural population: difficult to become entrepreneurs and enter the formal economy
- Limited access to training to improve their business skills and develop their businesses
- Difficulties accessing finance - high interest rates and lack of information about financing options

EESE survey results:

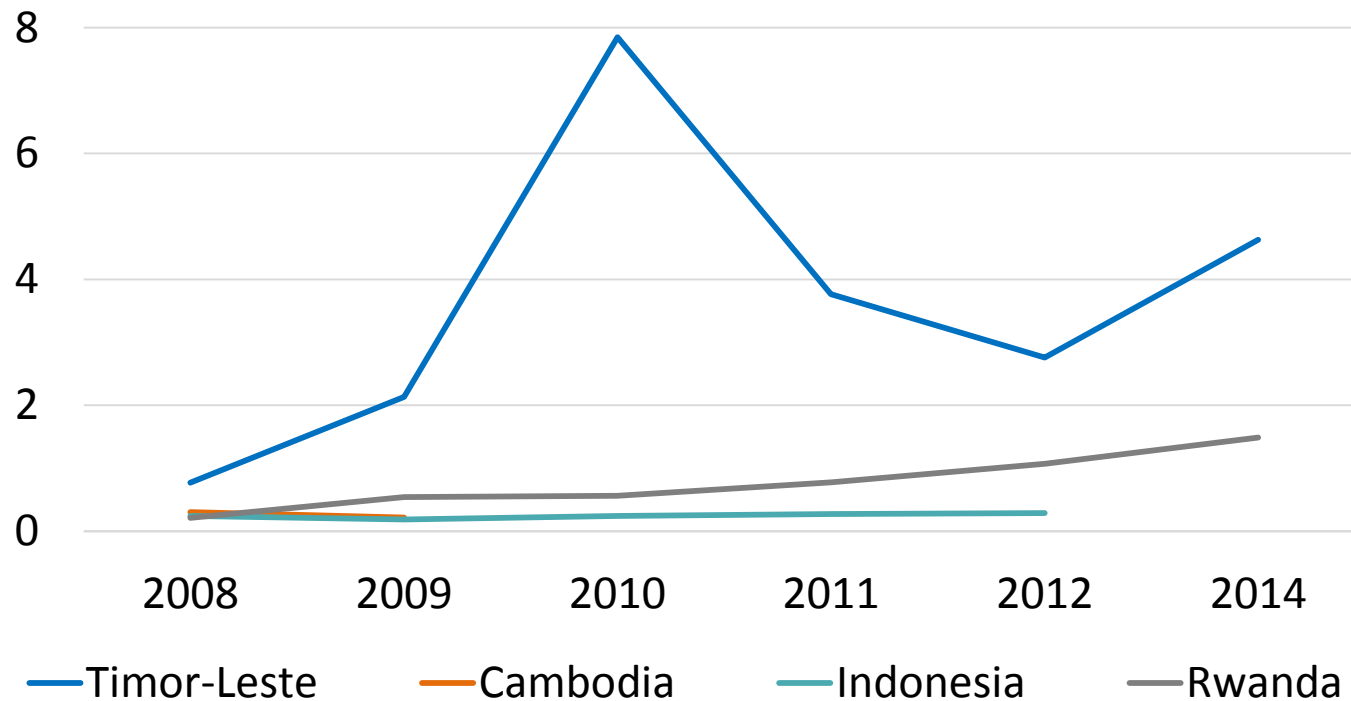
- 82% of respondents said that most young people possessed the necessary technical and business management skills to be successful entrepreneurs.
- However, they also recognized the need for entrepreneurial training targeting young entrepreneurs



4. Social elements

4.1. Entrepreneurial culture

New business density, selected countries, 2008-2014



Source: World Bank: Worldwide Governance Indicators (2016).

4. Social elements

4.2. Education, training and lifelong learning

- Poverty is both a cause and a result of limited access to education

Key challenges:

- Rates of repetition and dropout are high, due to language barriers and poverty
- Differences in enrolment & attainment: fewer girls than boys in secondary and tertiary education; fewer rural than urban students
- Gender wage gap is significant in most sectors except for technicians and associate professionals

EESE survey results: Of total respondents, 1% said TVET system completely met the needs of business community, while 47% said it met some needs of the business community

4. Social elements

4.3. Social justice and social inclusion

Key challenges:

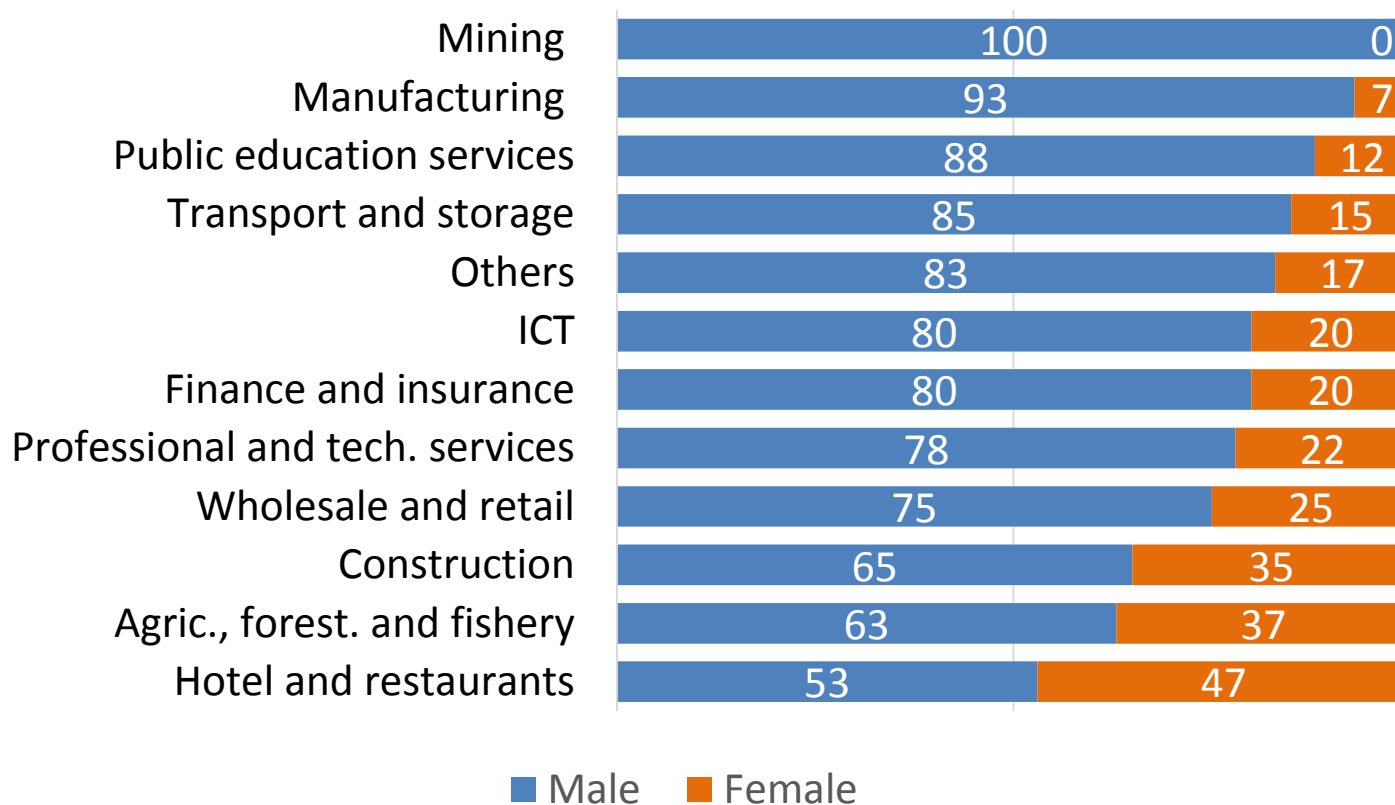
- Income, gender, and spatial inequities between rural and urban areas
- Women: difficulties participating in economic growth include limited access to education, fewer employment opportunities, gender-based violence, lower incomes, and less participation in community planning – Men represent about 70% of the labour force
- The elderly, transgender and disabled people also face discrimination
- Rural areas: parents with debts might offer their children as indentured servants, perpetuating a system of bonded labour



4. Social elements

4.3. Social justice and social inclusion

Gender ratio among owners and managers by sector, surveyed companies, per cent



Source: ILO: *The enabling environment for sustainable enterprises in Timor-Leste*, op. cit.

4. Social elements

4.4. Adequate social protection

- National Health Sector Strategic Plan (2011-2030): provide universal health coverage, and improve family planning, disease control and emergency response
- General Social Security law (Nov 2016) and regulations for contribution and benefits (May 2017): First contributory SP scheme

Key challenges:

- Cash transfers for veterans represent most spending on social assistance, but veterans account for a small share of the population
- Spending on social protection has increased, but the share of poverty has decreased very little since 2010
- Logistics of cash transfers are complicated: limited banking infrastructure – Payments need to be delivered in person on identified payment days, under armed escort in each district



5. Environmental elements

- National Biodiversity Strategy and Action Plan of Timor-Leste (2011-2020): contextualizes the wealth of biodiversity and drivers of biodiversity loss and establishes a plan for national action
- Government also established the National Action Plan for Climate Change

Key challenges:

- Timor-Leste is drought prone and in the path of El Niño
- Food insecurity
- Slash-and-burn agriculture has led to deforestation and soil erosion



5. Environmental elements

5.1. Environmental stewardship

- The 2008 National Disaster Risk Management Policy outlined a proactive, decentralised strategy to manage environmental risk

Key challenges:

- Implementation of environmental policies suffer from a lack of capacity and resources, and lack of clarity of the legal framework
- Water scarcity in parts of the country, and poor water quality and waste management in urban areas
- Climate change: higher temperatures, rising sea level, ocean acidification, more frequent and intense floods, landslides, storms and droughts



6. Assessment of the EESE results

Six priorities were identified for future action

- **Good governance:** institutional capacity and transparency
- **Entrepreneurial culture:** business development and mentoring
- **Access to financial services:** improve ability to access credits and pay loans
- **Physical infrastructure:** rural and urban infrastructure
- **Enabling legal and regulatory environment:** quicker, better and simpler regulatory procedures
- **Education and lifelong learning:** skills development in the education system





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Thank you