



International
Labour
Organization

The enabling environment for sustainable enterprises in Timor-Leste

November 2017

Introduction and overview of the report

With the shared goal of creating more jobs through private sector development, the International Labour Organization (ILO) collaborated with the Chamber of Commerce and Industry of Timor-Leste (CCI-TL) and the Coordinating Minister for Economic Affairs (MECAE) to assess the business environment in Timor-Leste. An enabling environment for sustainable enterprises combines the legitimate quest for profit with development that respects human dignity, environmental sustainability and decent work.¹

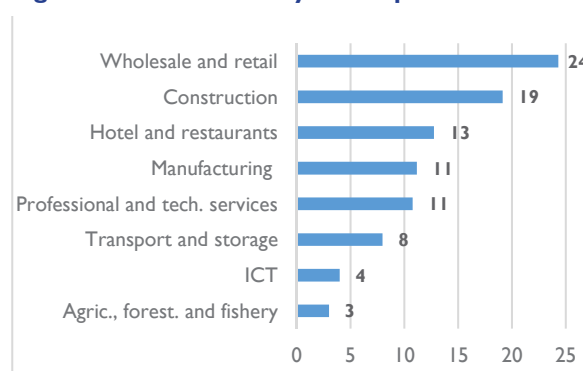
As part of this, the Enabling Environment for Sustainable Enterprises (ESEE) methodology was used to analyse political, economic, social and environmental factors in Timor-Leste.² Six countries, namely Cambodia, Cabo Verde, Fiji, Indonesia, Rwanda and Vietnam were compared to Timor-Leste.³ Additionally, the ESEE enterprise survey and focus group discussions were conducted with representatives of key sectors in Timor-Leste, including, banking and insurance, agro-industry, tourism and hospitality, oil and gas and the informal economy.

This brief synthesizes the findings of the enterprise perception survey, quantitative and qualitative research to assess the overall environment for building sustainable enterprises against 17 key elements.

1. The ESEE survey in Timor-Leste

A total of 254 companies from six districts of Timor-Leste, namely, Manatuto, Baucau, Viqueque, Bobonaro, Dili and Liquica were surveyed as part of the ESEE survey. Of total respondents, 65 per cent had less than 10 full time and part time employees. The majority of those surveyed were in wholesale and retail trade (24 per cent), followed by construction (19 per cent), and hotels and restaurants (13 per cent) (figure 1).

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

Of total respondents, 51 per cent were sole traders or proprietors, 33 per cent were single shareholder companies with limited liability, and 12 per cent were partnerships with limited liability. Foreign companies accounted for 2 per cent of the sample. While age of surveyed companies ranged from one to 20 years, the majority of them (13 per cent) operated since 2013.

2. Political elements

Timor-Leste is a relatively young country, which regained its independence in 2002. Although several challenges remain, Timor-Leste country has made significant progress including political stability. The

¹ This brief is based on ILO: *The enabling environment for sustainable enterprises in Timor-Leste* (Geneva, 2016).

² The ESEE methodology was created in coordination between the Bureau for Employers' Activities (ACT/EMP) and the Enterprises department of the ILO.

³ The comparison countries were selected due to economic, geographical similarities, and/or successes in business environment reforms.

goal of making Timor-Leste a healthy democracy, and developing a diversified economy is constrained owing to fragile and nascent institutions, as well as a limited skilled workforce.

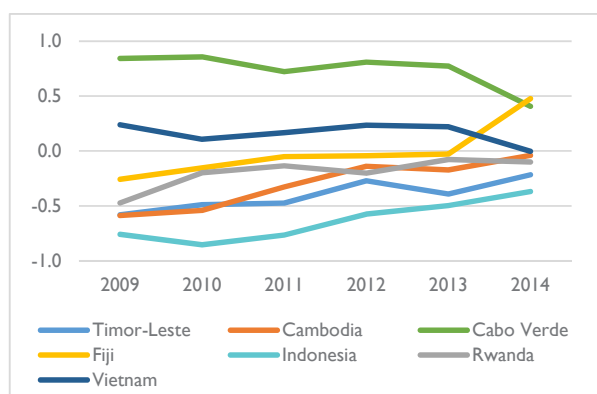
In 2010, Aderito Soares was sworn in as Timor-Leste's first anti-corruption commissioner to investigate repeated accusations of corruption against state officials, particularly with regards to awarding of tenders and contracts for industrial activities. The EESE Timor-Leste Survey identified corruption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

2.1. Peace and political stability

In 2011, the national police took over the maintenance of law and order from the UN Integrated Mission in Timor-Leste (UNMIT). UNMIT used to be tasked with investigating human rights violations committed in 1999, and building capacity in governance, justice and security, before withdrawing from Timor-Leste in 2012. In the same year, largely peaceful presidential and parliamentary elections were held with a turnout accounting for over 70 per cent of the population.

The World Bank's Political Stability and Absence of Violence indicator presents the likelihood that the Government will be destabilised by unconstitutional or violent means such as domestic violence and terrorism. Timor-Leste lags behind Rwanda, Fiji, and Vietnam and Cambodia, but is ahead of Indonesia (figure 2).

Figure 2 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).

2.2. Good governance

Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development.

Timor-Leste's Strategic Development Plan (SDP), running from 2011 to 2030, outlines a twenty-year vision to create a prosperous and strong nation. The SDP describes the plan for transition from the current district structure of governance to a system of decentralised municipalities. Additionally, generating employment, and reducing income inequality are among the government of Timor-Leste's most pressing concerns. Timor-Leste is currently energy-dependent. Revenues from oil and gas in the Timor Sea fund most government expenditure.

Timor-Leste has a unicameral national parliament comprised of 65 members. At least one third of the candidates in each political party's list for the parliamentary elections must be female, as per electoral law. The court system and investigations into criminal charges are often curtailed by limited financial and human resources.

The EESE Timor-Leste Survey results revealed that the main criticism against the government is on the grounds of bribery and corruption. Of total survey respondents, 80 per cent thought that bribery and corruption negatively affected Timorese economy.⁴ Indeed, Transparency International's Corruption Perception Index, showed that corruption in Timor-Leste has worsened slightly since 2012.

In 2015, Timor-Leste's Parliament re-enacted a media Law, which severely restricted the freedom of print and broadcast media. Readership of the press is limited by physical factors, as well as by high illiteracy rates. In fact, the International Telecommunication Union lists Timor-Leste among the world's ten least-connected nations.

2.3. Social dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental to achieve effective, equitable and mutually beneficial outcomes for the society at large. In the process of building industrial relations, the ILO has worked with the government of Timor-Leste to add decent labour standards to the existing priority of job creation. The regulatory framework of industrial relations in

⁴ ILO: EESE Enterprise Survey in Timor-Leste (Geneva, 2016).

Timor-Leste has demonstrated a strong commitment to tripartism.

An initial plan for managing labour relations was established in the Labour Code of 2002, which included provisions to set up national, district and sectoral minimum wages, and manage dispute resolutions. In 2012, workers' rights were further protected with additional provisions to guarantee trade unions rights, paid leave, safeguards against workplace discrimination, and guidance for employers to participate in collective bargaining. Nevertheless, the implementation of the labour law has been difficult due to general fragility of institutions, lack of capacity of unions and employers' organizations, and government agencies.

The formal economy is small in Timor-Leste accounting for 10 per cent of the workforce. In both formal and informal economies, government officials have struggled to implement practices of employment relations where employers' and workers' interests are well represented. Moreover, public sector employees are not governed by the 2012 Labour Law, making the status of their unions uncertain.

The CCI-TL represents the interests of employers in Timor-Leste, providing business services and representing employers' concerns to the government. CCI-TL has focused on consolidating membership, creating a strong relationship with the government and participating in consultation and negotiations of policies affecting business interests.

The World Economic Forum's (WEF) Cooperation in Labour-Employer Relations indicator determines whether labour-employer relations are confrontational or cooperative. Based on latest data, as of 2012, Timor-Leste was comparatively worse off than Cambodia, Indonesia, Rwanda and Viet Nam, but better off than Cabo Verde.

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 has adopted seven of the ten main United Nations (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.

The Ombudsman for Human Rights and Justice (PDHJ) is an independent body that aims to resolve citizens' complaints against government bodies and raise awareness of human rights more generally across government entities. The powers of the PDHJ are limited, in that it can only submit recommendations, with no legal obligation, regarding measures to improve the protection of human rights.⁵ Main human rights problems in Timor-Leste include excessive use of police force, gender-based violence, arbitrary arrests and detention, and slow judiciary processes. Violence against children is high, including sexual assault and trafficking.

3. Economic elements

Timor-Leste has had a relatively high Gross Domestic Product (GDP) growth in the last few years due to exploitation of its hydrocarbon reserves. The oil sector accounts for most of the economic activity. Economic dependence on this sector makes the economy vulnerable, considering that most people earn their livelihoods from subsistence agriculture. Indeed, the dominance of the oil sector has not led to widespread job creation because domestic processing capacities do not exist.⁶ The government is carrying out major reforms to diversify its economy.

Of total labour force in Timor-Leste, as of 2010, 51 per cent worked in agriculture, 40 per cent were employed in services, and 9 per cent worked in industry.⁷

Investment in development and infrastructure are dependent on government spending financed by petroleum revenues. Off-shore petroleum projects in the Timor Sea account for more than 95 per cent of government revenue. The government has directed resources towards improving basic infrastructure including electricity and roads, but success has been limited due to lack of experience and problems in implementation.

The regulatory conditions for the growth of business initiatives are improving. However, despite considerable reductions, the minimum capital requirement for establishing a business remains equal to more than the average annual income.

5 Asia-Pacific Human Rights Information Centre: "Ombudsman for Human Rights: The Case of Timor-Leste" (March 2007).

6 Generally, Timor-Leste's unprocessed oil and gas is sold and piped to Australia for processing.

7 World Bank: World Development Indicators (2016).

The EESE Timor-Leste Survey identified access to finance as an obstacle to entrepreneurship. The institutional framework for private sector growth is weak, and World Bank's 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, and human capital shortages.

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

Sound macroeconomic policies should combine the objectives of creating more and better jobs, combating inflation, and stimulating long-term productive investment.

In Timor-Leste, private consumption has increased due to rising public sector salaries and cash transfers. Public expenditure is the main driver of economic growth, and not increased production, or manufacturing growth. There has been increasing income inequality, which is also defined by differences in rural and urban areas. Other economic drivers, excluding oil, are subsistence agriculture as the main employer, and private consumption is stimulating the demand for goods and services which are mainly imported.

To ensure stability, the government needs to address the challenges of widespread poverty, creating sustainable livelihoods, building human capacity and efficient institutions. While the development of off-shore oil and gas resources has brought led to greater fiscal space, capital-intensive nature of oil industry has done little to further job-creation in Timor-Leste.

The SDP has put forward a medium term national development plan to make Timor-Leste a middle-income country by 2030. The underlying challenge is how best to use wealth resulting from non-renewable resources such as oil and gas, to lift itself out of poverty, and develop sustainably. Moreover, job creation in the formal economy is highlighted in the SDP, especially in tourism and service industries. However, one of Timor-Leste's most important challenges is the development of an educated and skilled workforce. A National Employment Strategy was launched in 2017 to increase private sector jobs, focusing on the unemployed and youth.

The EESE Timor-Leste survey found that 81 per cent of respondents were satisfied with government's efforts to support business formation and growth.⁸ In general respondents working in retail, construction and hospitality were more likely to judge the government's efforts positively than respondents from the financial, insurance and agricultural sectors. However, participants in EESE focus groups highlighted that the government needed to show a more proactive leadership role in legal and regulatory matters.

3.2. Trade and sustainable economic integration

Trade integration can lead to positive outcomes in the economy and employment through efficiency gains.

In the last few years, Timor-Leste has experienced a period of economic growth, based largely on public spending and rising private sector activities. These have largely been driven by the revenues from oil and gas exports. The government has taken steps to facilitate establishing businesses for local and foreign investors alike through tax incentives.

In 2015, the government announced the establishment of TradeInvest under MECAE. TradeInvest is an investment agency to support private investors, promote exports, and make economic and financial policy recommendations to the government. TradeInvest has worked closely with MECAE on the 2017 Investment Reform Map which aims to improve the quality of the investment climate and explore which sectors could attract foreign direct investment (FDI) into the country.

The latest World Bank's Doing Business report recognized Timor-Leste as having the most improved economy in terms of facilitating business start-ups.⁹ The creation of the Business Verification and Registration Service (SERVE), a business registration system, was cited as proof of the government's commitment to the growth of the private sector. Timor-Leste, however, in 2017 still ranked at 175 out of 189 countries. This is associated with issues related to registering property, enforcing contracts and resolving insolvency, among others.

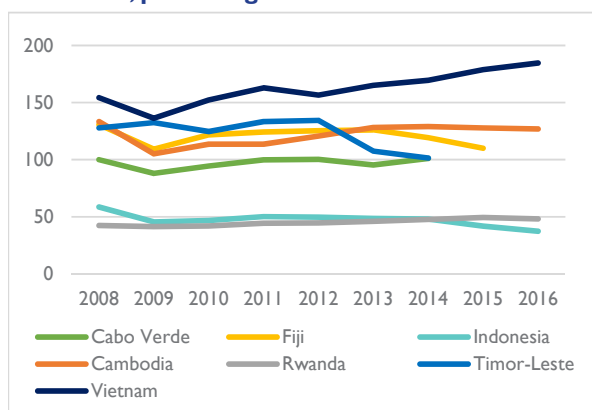
⁸ ILO: *EESE Enterprise Survey in Timor-Leste*, op. cit.

⁹ Government of Timor-Leste: "World Bank Doing Business Report 2015 recognizes Timor-Leste as the most improved economy in facilitating business start up" (29 Oct. 2015).

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 government favoured foreign investors over domestic investors.¹⁰

Trade in Timor-Leste is relatively high as a share of GDP compared to Cabo Verde, Indonesia and Rwanda (figure 3). However, most of this trade is in the oil sector. The non-oil sector reveals a negative trade balance. Based on 2012 data, Timor-Leste's primary imports were electrical machinery, fuel, vehicles and parts, iron and steel products, cereals, and other machinery; coffee accounted for over 60 per cent of the non-oil exports.¹¹

Figure 3 Trade as share of GDP, selected countries, 2008-2016, percentage



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

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 provision of basic utilities have improved in Timor-Leste, legislation remains unclear in some areas.¹²

There are several challenges associated with the regulatory environment in Timor-Leste. Existing regulatory framework in areas of tax, labour, environment and health enables investment. However, there is a lack of comprehensive laws in certain areas including land and intellectual property. The impartiality of certain bodies is questionable and there is a shortage of qualified personnel. Legislation is drafted in Portuguese, which makes it inaccessible,

¹⁰ ILO: *EESE Enterprise Survey in Timor-Leste*, op. cit.

¹¹ U.S. Department of State: *Doing Business in Timor-Leste: 2013 Country Commercial Guide for U.S. Companies* (2013).

¹² U.S. Department of State: *U.S. Relations with Timor-Leste* (2015).

since less than 10 per cent of the population speak the language.¹³

The World Bank's Regulatory Quality Index measures the ability of the government to provide sound policies and regulations that enable and promote private sector development. Lower values of this indicator represent lower trust in the Government. In Timor-Leste, this indicator has improved, and accounted for -0.89 in 2014 compared to -1.15 in 2009.

Timor-Leste is a small, developing country and needs to be supported in creating its own regulatory regime, prioritizing national interests. Overall, implementation of regulation is difficult, weak and unpredictable.

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 and nurturing trust and fairness in society.

The justice system is still evolving and the police, prosecutors and courts are short of human and financial resources. Up to 2014, the government would rely significantly on foreign experts and advisors including judges and prosecutors. While the law provides for access to legal representation at all stages of legal proceedings public defenders are in short supply.

A World Bank study found that a contract enforcement dispute in Timor-Leste takes, on average, 1,285 days to settle, which is among the slowest and most expensive in the world.¹⁴ 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.

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 land, in this way foreigners could set up domestic corporations and acquire land

¹³ U.S. Department of State: *Timor-Leste 2014 Human Rights Report* (2014).

¹⁴ U.S. Department of State: *2015 Investment Climate Statements* (2015).

under the name of these corporations. Foreigners may enter long-term leases though, for a period of up to 50 years, renewable for one time. Tenure insecurity, among people who work in agriculture, is caused by the lack of a sound property rights system.¹⁵ This leads to low investment in land, and unsustainable land management.

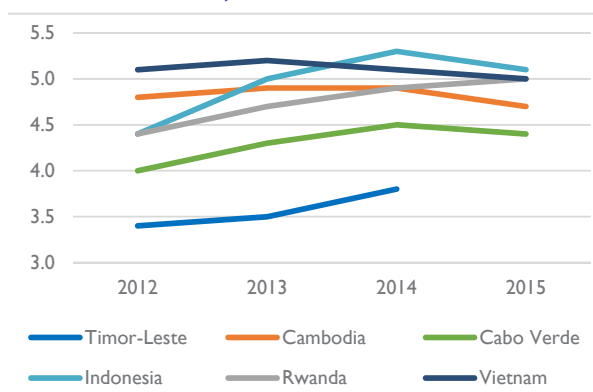
3.5. Fair competition

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.

Timor-Leste currently does not have a law protecting competition, but a competition law is being developed by MECAE. Some sectors remain dominated by state-owned enterprises.¹⁶ In 2011, the government set up TimorGAP, a state-owned petroleum company that partners with international firms to explore and develop Timor-Leste's resources.¹⁷

One of the indicators that measures competition is the Intensity of Local Competition Index. Latest available data show that Timor-Leste's score accounts for 3.5, the lowest among the analysed countries (figure 4).

Figure 4 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).

3.6. Information and communication technologies

With the continuing shift towards knowledge based economies, the use of information and communication technologies (ICT) is fundamental to development

¹⁵ SIDA: *Timor-Leste Environmental and Climate Change Policy Brief* (2008).
¹⁶ U.S. Department of State: *Timor-Leste: Investment Climate Statement* (2015).
¹⁷ Ibid.

sustainable enterprises. Affordable access to ICT enhances competitiveness and innovation. While access to mobile phones and the Internet has been steadily increasing, Timor-Leste still remains a very poorly connected country, particularly in rural areas. The ICT sector requires better legal infrastructure, human resources and power supply.

There is poor access to fixed phone lines, as the network set up by Timor-Telecom, a Portuguese telecommunications company, was established in selected geographical areas, and the rates were high. Mobile phone usage is also low, which is linked to high costs and limited access to electricity, particularly in rural areas. In 2011, an independent regulator, the Autoridade Nacional de Comunicações (ANC), was established to ensure competitive practices by operators, compliance with new regulation, and promotion of greater access to services throughout the country.

A national ICT policy is under development. This could improve access to the Internet and telecommunication and promote growth in many sectors. In Timor-Leste, ICT applications to agriculture have a great potential in Timor-Leste, potentially facilitating better information on weather conditions, innovations to mechanisms of credit delivery and marketing, among others.

3.7. Access to financial services

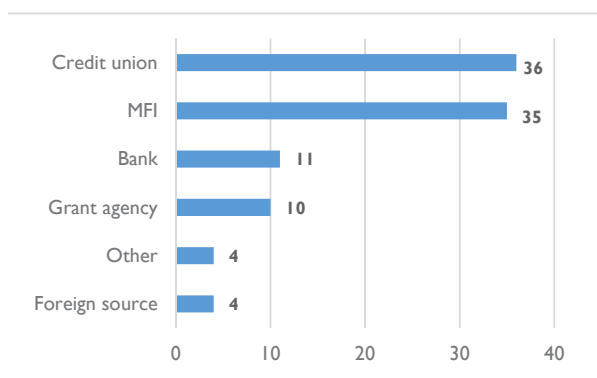
One of the key factors for the development of an economy and its companies is the existence of good and affordable financial services. The financial sector is important for both the promotion of new and existing companies. Sources of financing are often one of the main barriers for existing and potential entrepreneurs.

Latest available data indicate a low level of banking activities in the private sector. The EESE survey in Timor-Leste found that the financial sector is at an early stage of development, and needs more and better quality financial services.¹⁸ Limited access to finance for businesses and households slows down private sector development. In focus group discussions, participants reported that interest rates were too high and raised concerns about the lack of government supervision of microfinance institutions (MFIs), which sometimes offer credit at relatively high interest rates.

¹⁸ ILO: *EESE Enterprise Survey in Timor-Leste*, op. cit.

When asked about main sources of finance, of total EESE survey respondents, 36 per cent reported credit unions, 35 per cent mentioned MFIs and 11 per cent mentioned banks (figure 5). It is worth highlighting that in 2015, there were 76 credit unions in Timor-Leste with more than 8,700 members.¹⁹

Figure 5 Sources of finance, surveyed companies, per cent



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

Banks and MFIs offer credit to SMEs, but require a solid credit history, making it difficult for entrepreneurs to access credit.²⁰ EESE survey respondents reported that challenges related to getting a loan included collateral, inadequate business plans and business operations, and long processing times, among others. In general, banks are reluctant to provide credit to the private sector due to lack of legal framework that deals with loan default. EESE survey results revealed a general perception that small enterprises faced greater challenges obtaining financial services than bigger enterprises.

Surveyed enterprises were eager to access capacity building opportunities, including how to write successful business plans. Two banks currently offer financial literacy workshops to local businesses as part of their corporate social responsibility initiative.²¹ This programme is conducted in partnership with CCI-TL, and directed exclusively at members of the CCI-TI at this point.

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of physical facilities and transportation systems. Moreover,

access to water and energy also plays an important role.

Land transportation is the most utilized mode of transport in Timor-Leste, and provides rural Timorese with key access to basic services.²² While individual vehicle ownership is increasing 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. Both of these figures heavily skewed towards urban residents.²³

The maintenance of roads, and bridges is infrequent, but the SDP focuses on improving road conditions using the interest generated from petroleum investment funds. Maritime transport is also essential, and the government plans to upgrade port facilities by expanding cargo and container capabilities. Air travel is expensive, and current airport facilities have limited the possibility to increase service frequency to major airports.²⁴ A code of operation needs to be enacted to ensure quality and safety of practice, so that air transport providers registers within Timor-Leste, and is regulated by local laws.

The EESE survey revealed complaints about customs and port authorities regarding 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.²⁵

4. Social elements

Poverty and the rural-urban divide pose a continuing threat to social, economic and political stability. Of the 1.2 million Timorese population, 33 per cent is urban and almost 62 per cent is under the age of 24. Population growth rate is relatively high and poverty is widespread. On average, life expectancy is 67.72 years and 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 and women's labour force participation rate is low. Urbanization has also been exacerbated by growing food insecurity in Timor-Leste. As indicated

19 UNDP: *Mobilize Social Business to Accelerate MDGs Achievement in Timor-Leste* (2015).

20 Ibid.

21 Ibid.

22 The Asia Foundation: *A Political Economy of Public Transportation in Timor-Leste* (2015)

23 Ibid.

24 Ibid.

25 ILO: *EESE Enterprise Survey in Timor-Leste*, op. cit.

by EESE survey respondents, 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 contraction due to the reduction of oil-revenues.

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 are an important engine for global economic development.

Across Timor-Leste, women, youth, persons with disabilities and rural populations have significant hurdles to entrepreneurship, and entering the formal economy.²⁶ Women often enter the informal economy as micro entrepreneurs, and an estimated 43 per cent of such enterprises are female-owned.²⁷ These informal enterprises normally employ unpaid family workers.

Entrepreneurs are engaged in a variety of sectors such as construction, trading, and handicrafts, among others. However, they have poor access to finance and training to improve their business development, and limited access to markets to scale up their businesses.²⁸ There are initiatives that promote private sector development and develop business skills. For example, Timor-Leste's Institute of Business Support delivers business skills training and mentoring. However, existing initiatives do not reach most people that lack basic numeracy, literacy, and business development skills.

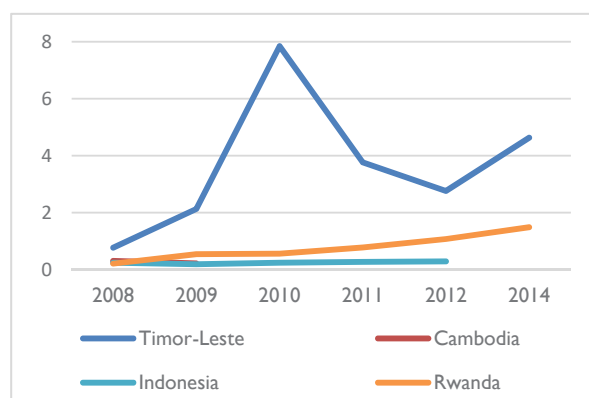
Entrepreneurs of SMEs are not particularly well served by the existing financial market. High interest rates continue to be a barrier to the growth of entrepreneurship, alongside lack of information about financing options. The EESE survey asked about entrepreneurship culture among youth, 82 per cent of respondents said that most young people possessed

the necessary technical and business management skills to be successful entrepreneurs.²⁹ This high level of confidence came largely from surveyed enterprises in the wholesale and retail, construction, and hotel and restaurant sectors.

Despite this optimism, respondents recognized the need for entrepreneurial training for young entrepreneurs. This is associated to the lack of information on the technicalities of starting a business in the current education system.

The World Bank's New Business Density 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 (figure 6). This indicates the increasing attractiveness of Timor-Leste as an economy in which to start a business.

Figure 6 New business density, selected countries, 2008-2014



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

4.2. Education, training and lifelong learning

A well-educated and skilled workforce is key to economic and social development. Training and lifelong learning are important to help workers find decent work, and enterprises find skilled workers. In Timor-Leste poverty is both a cause and a result of limited access to education.

Schooling is delivered in Portuguese and Tetum, the two official languages, with Indonesian and English being accepted as working languages. The government has introduced a policy of bilingual schooling but Portuguese is the preferred medium of instruction. This is problematic because a significant number of students are not proficient in Portuguese.

26 UNDP: *Mobilize Social Business to Accelerate MDGs Achievement in Timor-Leste* (2015).

27 Ibid.

28 Ibid.

29 ILO: *EESE Enterprise Survey in Timor-Leste*, op. cit.

The Constitution declares that primary education is compulsory and free, for 9 years beginning at the age of six. However, the 2007 Timor-Leste Survey of Living Standards showed that 57 per cent of the population did not complete the primary education level, including nearly half of adult females and over one third of adult males.³⁰ Only 14 per cent of the total population completed secondary education.

Rates of repetition and dropout are high, due, in large part, to language barriers. Other reasons for dropouts are often economic, with children needing to join the workforce due to poverty. Adult literacy is low, 63 per cent of men and 52 per cent of women aged 15 or older being literate.³¹ Social protection programs like the Bolsa de Mãe incentivise children staying in school with cash transfers, directed at the children of single or widowed women. This builds human capital through school attendance and encourages better health, nutrition and skills development.

Timor-Leste is formalizing the delivery of vocational training, and creating a regulated Technical and Vocational, Education and Training (TVET). The EESE survey asked companies about the current TVET system. Of total EESE survey respondents, only 1 per cent reported that the TVET system completely met the needs of the business community, while 47 per cent said it only met some needs, and 40 per cent thought that it did not meet most needs. Additionally, EESE survey results revealed that soft skills such as teamwork, responsibility, flexibility and communication were essential, while technical skills and sectoral expertise were often lacking.

Gender disparities in education become more evident at secondary and tertiary education. While enrolment for girls is higher than for boys in primary and secondary education, more male students attend and complete tertiary education than female students. There is a significant difference in educational attainments between urban and rural areas, with rural areas facing greater challenges to completing education. In terms of wages, on average women receive lower wages than men. The earnings gender gap is significant in almost all sectors except for technicians and associate professionals.³²

30 Albergaria-Almeida, P., Martinho, M.: *The Empowerment of Education in East Timor Through In-Service Teacher Training* (2015).
 31 ADB: *Timor-Leste: Country Gender Assessment* (2014).
 32 ILO: *Timor-Leste Labour Force Survey* (2013).

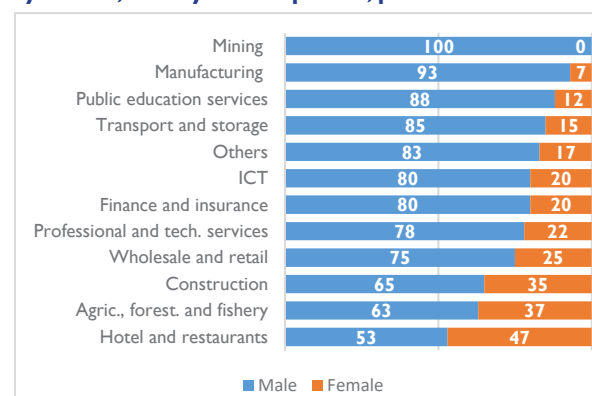
4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Policies for social justice, social inclusion and equality of opportunities for employment promote an enabling environment. Nevertheless, income, gender, and spatial inequities between rural and urban areas are widespread in Timor-Leste.

Women face many challenges to participate in economic growth, including a lack of access to education, fewer employment opportunities, gender-based violence, lower incomes, and reduced participation in community planning. Indeed, the informal economy, and poverty are highly feminised in Timor-Leste. Gender disparities in employment are significant. As of 2009, of total labour force, men accounted for almost 70 per cent.

The EESE Timor-Leste Survey specifically targeted owners or managers of enterprises and found that 74 per cent of the respondents were male (figure 7). Gender imbalances in the EESE Timor-Leste Survey were highly evident in the manufacturing sector, where 93 per cent of owners or managers were men. The greatest gender parity was found in the hotel and restaurant sector where men accounted for 53 per cent, while women totalled 47 per cent.

Figure 7 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.

Timor-Leste is a strongly patriarchal society with social norms dictating gender roles. Women are traditionally assigned caring and reproductive roles and unpaid labour. They are culturally deprived of access to skills development and less able to take advantage of emerging employment opportunities.³³

33 ILO: *Timor-Leste: Decent Work Country Programme 2008 – 2013* (2009).

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. Additionally, domestic violence offenses are among the most frequently reported crimes. Sexual harassment in the workplace is common too.

Other vulnerable groups including the elderly, transgender persons and the disabled, also face discrimination. The Constitution prohibits discrimination against persons with disabilities. However, there is no legislation to mandate accessibility for disabled people.

Additionally, in rural areas parents with debts might offer their children as indentured servants, perpetuating a system of bonded labour. In 2014, a National Commission against Child Labour was established to conduct a national assessment of the scope of the problem.

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. Social protection policies are important to protect the economically vulnerable from unexpected shocks and provide them with opportunities to overcome poverty.

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.³⁴ While both spending on social protection and GDP have increased, the share of poverty has changed very little since 2010.

In 2012, social assistance spending accounted for about 9 per cent of the national budget. The bulk of this goes to cash transfers for veterans' pensions, followed by elderly and disability pensions, and spending on children. Subsidies for goods and commodities, like water, rice and electricity also exist, but in lower volumes. Veterans account for a small per cent of Timor-Leste's population, and receive most of the social transfers.

A high share of the most vulnerable people is covered by cash transfers programme. The logistics of managing cash transfers are complicated in Timor-

Leste, as the limited banking infrastructure means that payments need to be delivered in person on identified payment days, under armed escort in each district.³⁵ Mobile banking initiatives are being piloted, with the use of vehicles. To smooth implementation of its programmes the Ministry of Social Solidarity is developing an information system and database of beneficiaries.³⁶

Medical and health care has been recognized as a fundamental right of all citizens in the Constitution of Timor-Leste. The government is promoting and establishing a national health system that is universal, free, decentralised and participatory.³⁷ The National Health Sector Plan 2011-2030 reflects the government's commitment to providing universal health coverage and achieving health goals in family planning, disease control and emergency response.

5. Environmental elements

Timor-Leste is drought prone and in the path of El Niño, so water management is very important. Besides being food insecure, slash-and-burn agriculture in Timor-Leste has led to deforestation and soil erosion. The government 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 and establishes national actions to achieve priority targets. Timor-Leste has also established a National Action Plan for Climate Change.

5.1. Responsible stewardship of the environment

Sustainable enterprise development is closely linked to appropriate environmental regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

Timor-Leste's environmental challenges are significant. The country is characterized by mountainous terrain, relative isolation, dependence on agriculture, and vulnerability to natural hazards. Natural resource management needs improvement, and sustainable farming and fishing practices must be implemented. Disaster risk management is managed by the Ministry

³⁴ Dale, P. et al: *Peace, Prosperity and Safety Nets in Timor-Leste: Competing Priorities or Complementary Investments?* (2014).

³⁵ World Bank: *Welfare impacts of social assistance in Timor-Leste* (2013).

³⁶ Government of Timor-Leste: "Ministry of Social Solidarity receives support from UNDP" (12 Sep. 2011).

³⁷ Ministry of Health of Timor-Leste: *National Health Sector Strategic Plan 2011-2030* (Dili, 2011).

of Social Solidarity. In 2008 Timor-Leste's National Disaster Risk Management Policy was finalized, outlining a proactive, decentralised strategy to manage environmental risk. Implementation, however, suffers from a lack of capacity and resources, and lack of clarity of legal frameworks.

Environmental problems in Timor-Leste are related to poverty due to the pressure that high population growth puts on the environment. Water is scarce in parts of the country, and poor water quality is an issue in urban areas.³⁸ Waste management and pollution are serious concerns in urban areas, often leading to the pollution of groundwater. Moreover, due to climate change, Timor-Leste is likely to experience higher temperatures, rising sea level, ocean acidification, more frequent and intense floods, landslides, storms and droughts.³⁹

Sustainability and governance issues are linked, and as Timor-Leste establishes efficient governance mechanisms so will its ability to responsibly manage environmental issues increase.

6. Assessment of the EESE results

Timor-Leste is a young and relatively stable democracy. It has made great strides politically, and the pressing need is to successfully transform a largely agrarian society into more 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 government to focus on. High population growth rate could result in a crisis of labour and poverty. If not addressed immediately with measures to improve human resources and boost employment, this potential crisis 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.

A focus on SME development policy is critical to promote entrepreneurship in Timor-Leste. This needs to be linked to a long-term workforce skills development strategy, which will address the improvement of general and vocational education, and enhance technical and soft skills acquisition among Timorese youth. The EESE 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 EESE assessment in Timor-Leste indicate that there is scope for improvement across all the pillars. The following priorities were identified as areas for future action:

- i. Good governance: strengthen institutional capacity to improve transparency in public administration;
- ii. Entrepreneurial culture: support potential entrepreneurs through business development and mentoring programmes;
- iii. Access to financial services: promote access to finance, particularly for SMEs and start-ups, to ensure that entrepreneurs are better able to access credits and pay their loans;
- iv. Physical infrastructure: improve rural and urban infrastructure to promote private sector growth;
- v. Enabling legal and regulatory environment: accelerate and simplify regulatory procedures to facilitate business development;
- vi. Education and lifelong learning: promote skills development in the education system to respond to employers' needs in the labour market.

38 SIDA: *Timor-Leste Environmental and Climate Change Policy Brief* (2008).

39 Mercer, J. et al: *Nation-building policies in Timor-Leste: disaster risk reduction, including climate change adaptation* (2014).

