

Business Community in Timor-Leste Part One: Overview

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A Report By:

Peace Dividend Trust

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1. Introduction

This paper is part one of a two part series. It is intended to provide an overview of the private sector in Timor-Leste. The second will examine the national job landscape. The assessments provided are derived from the database of businesses developed by the international non-governmental organization Peace Dividend Trust (PDT) and its Peace Dividend Marketplace Timor-Leste (PDM-TL) project. This database was funded by AusAID and the Government of Norway and built in partnership with the Timor-Leste Ministry of Tourism, Commerce and Industry (MTCI).

PDM-TL collected the information profiled in this report between 1 November 2007 and 30 September 2009. The findings are intended to improve knowledge of and access to domestic businesses. During this period, a total of 2,384 businesses were surveyed, and an individual profile of each business can be found on the PDM-TL Online Procurement Database¹ at: <http://www.BuildingMarkets.org>.

2. Geographic Distribution of the Business Community

Of the 2,384 businesses profiled in the PDM-TL database as of 30 September 2009, 63 percent are located in the capital, Dili. The remaining 37 percent are more or less evenly distributed among the 12 rural districts, based upon PDM-TL's visits to each district center in the first two years of operation.²

After Dili, the PDM-TL database features large numbers of businesses in Baucau and Bobonaro, two of the most populous regional centers. It is important to note that the number of business per district may not create a completely accurate portrayal of each district's economical situation. For example, the number of enterprises in Oecusse may seem disproportionately large due to the fact that PDM-TL's verification team had the benefit of more time to conduct interviews in that district. The following table to the right provides an overview of the geographic dispersion of the businesses included on the database.

Districts	No. of Businesses	% of Total
Aileu	41	1.7%
Ainaro	58	2.4%
Baucau	140	5.9%
Bobonaro	91	3.8%
Covalima	64	2.7%
Dili	1,509	63.3%
Ermera	54	2.3%
Lautem	84	3.5%
Liquiça	64	2.7%
Manatuto	70	2.9%
Manufahi	45	1.9%
Oecusse	117	4.9%
Viqueque	47	2.0%
Total	2,384	100.0%

Table 1: Businesses Profiled in PDM-TL Online Procurement Database (2007-09)

3. Types of Business Activity

The PDM-TL team divided the enterprises into 26 goods and service sectors, which are detailed in Table 2 below. Each of these sectors was further broken up into sub-categories in order to facilitate the search process on the online procurement database (for instance, construction materials and services were differentiated in the 'Construction and Renovation' sector).³

¹ Caveat: Note that although PDM-TL is making every effort to collect reliable data on all Timor-Leste businesses, the Procurement Database should not be considered a comprehensive resource.

² In the second year of operation, PDM-TL Verification teams commenced a program of more intense sub-district coverage.

³ A vast majority of surveyed enterprises qualify for more than one category, which explains why the total number of businesses in the table exceeds the total number of businesses in the study.

The construction sector and retail industry (general stores) are the most prevalent forms of business in Timor-Leste. More sophisticated types of activity, such as insurance companies or legal services, are a rare commodity and are typically based in the capital.

Primary industry⁴ comprises less than eight percent of all businesses, despite a majority of the people's reliance on agriculture as their livelihood. This highlights the extent to which the rural economy remains characterized by subsistence agriculture.

Table 2: Types of Activity in Timor-Leste (2007-09)

Sector of Goods and Services	No. of Businesses Surveyed	Percentage of Total
1. Oil, Fuels and Natural Gas	97	1.8%
2. Construction & Renovation	1042	19.6%
3. Heavy Equipment/Machinery, Generators, A/C & Solar Panels	347	6.5%
4. Vehicles: Cars, Trucks, Motorbikes, Boats, Bicycles	332	6.3%
5. Office: Furniture, Machines, Equipment, Supplies	453	8.5%
6. Home Essentials	494	9.3%
7. Food & Beverages	395	7.4%
8. Primary Industry (incl. Agriculture & Fisheries)	192	3.6%
9. Transportation, Logistics & Courier Services	73	1.4%
10. Information Technologies Services & Equipment	89	1.7%
11. Telecommunication Services & Equipment	84	1.6%
12. Media & Communication	22	.04%
13. Training, Consulting & Scientific Services	95	1.8%
14. Financial & Legal Services	13	0.2%
15. Real Estate & Insurance	6	0.1%
16. Travel, Accommodation & Rentals	148	2.8%
17. Restaurants & Catering	221	4.2%
18. Health & Medicine	134	2.5%
19. Security Services & Equipment	26	0.5%
20. Handicrafts & Artisans	194	3.7%
21. Printing & Copying	71	1.3%
22. Entertainment & Leisure	56	1.1%
23. Other Goods & Services	642	12.1%
24. Laundry, Cleaning Services & Waste Collection	37	0.7%
25. Associations, Unions, Cooperatives & NGOs	6	0.1%
26. Processing & Industry	36	0.7%

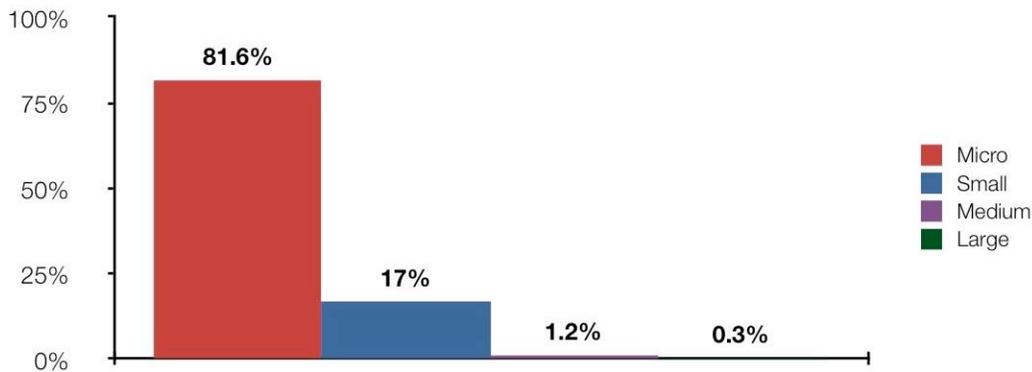
4. Size of Businesses

According to World Bank definitions, 'microenterprises' have up to 10 employees, 'small enterprises' have up to 50 employees and 'medium enterprises' have between 51 and 300 employees. Any business with 301 employees or more is considered 'large.'

⁴ 'Primary industry' includes agriculture, forestry, fishing, mining, quarrying, and the extraction of minerals.

Of the 2,384 businesses included in PDM-TL’s most recently updated Procurement Database, 1,945 (over 81 percent) are microenterprises and another 17 percent are in the ‘small enterprise’ range. Less than two percent of all businesses based in Timor-Leste have more than 51 employees, with only six enterprises⁵ meeting the definition of “large” companies.

Figure 1: Micro, Small, Medium & Large Enterprises in Timor-Leste (2007-09)



5. ‘Age’ of the Business Community

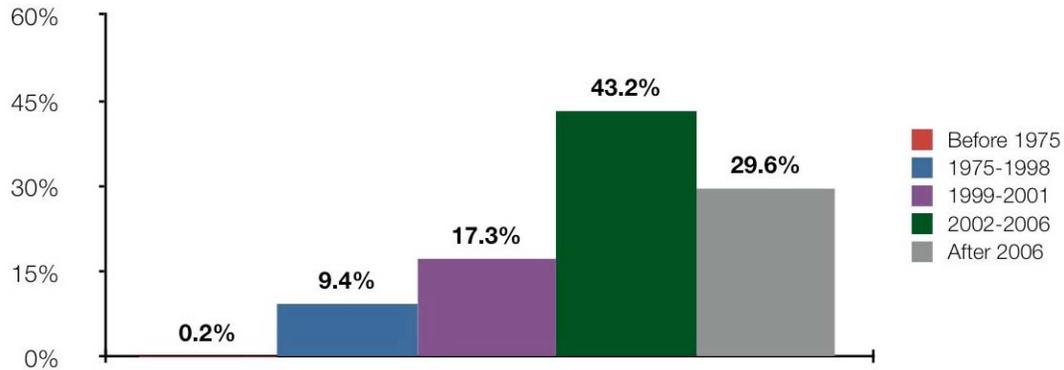
In the course of routine verification activities, PDM-TL asks business owners when they commenced business operations, thereby enabling the generation of an ‘age’ profile of the businesses on the PDM-TL database. The data⁶ indicates that approximately 72 percent – the majority of Timor-Leste based enterprises – were established following independence in 2002.

Major political and social upheavals in the past 35 years, from the Indonesian invasion in 1975 to the 2006 East Timorese crisis, have had adverse economic impact on the domestic business community. Figure 2 (below) shows the number of enterprises launched before, during and after these significant historical periods, as well as those that were still active when visited by the PDM-TL verification staff between November 2007 and September 2009.

⁵ These six companies are: Asia Pacific Assurance Company (APAC) Security, Konekto Employment Agency, Maubere Security, Uniao Pequenas Empresas Distrito Lautem, Timor Global PTE, and Cooperativa Café Timor.

⁶ Five businesses were unable or unwilling to disclose their starting year.

Figure 2: Establishment of the Timor-Leste Business Community

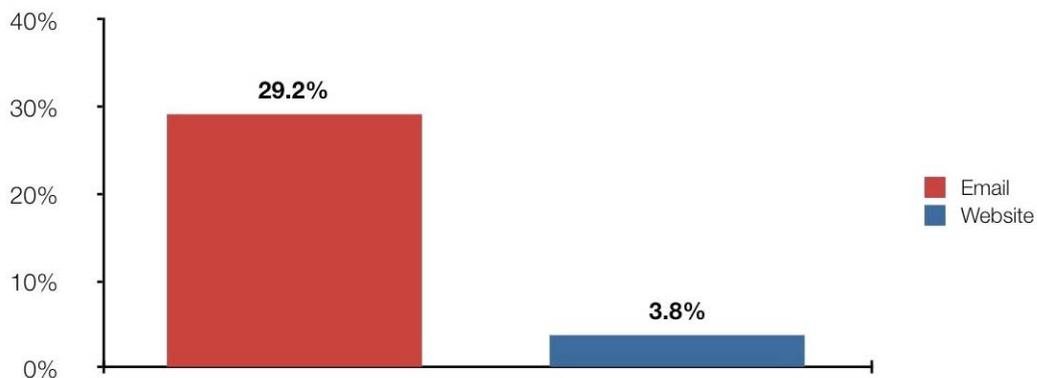


6. Communications (Internet)

The so-called technological gap is very much a reality in Timor-Leste. Regarding internet access, the survey reveals that very few local enterprises use it as a business tool. Only about four percent maintain a functioning website, and many of these enterprises are in fact local branches of international ventures. However, some enterprises, independently or with PDM-TL's assistance, have been successful in setting up and maintaining free blog platforms that function as company websites.

A larger proportion of entrepreneurs (close to one-third) have an email account. However, based upon a large number of 'dead' email accounts, many of these entrepreneurs rarely use them as a means of communication.

Figure 3: Percentage of Businesses Using Internet (2007-09)

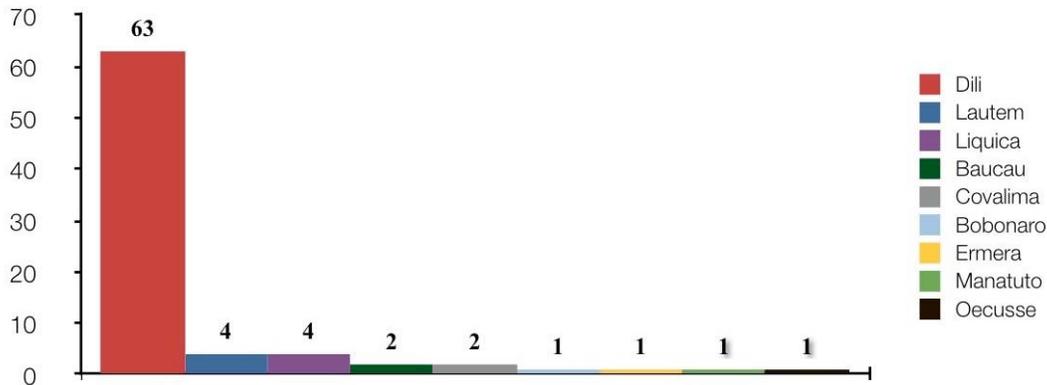


PDM-TL has no systematic data on the number of verified entrepreneurs owning cell phones, because the verification team requests that each business provide at least one cell phone number on which they can be reached, even if the phone is not the personal property of the entrepreneur. As a result, 99 per cent of businesses can be reached by phone, while only a handful (17 in total) cannot.

7. Exportation

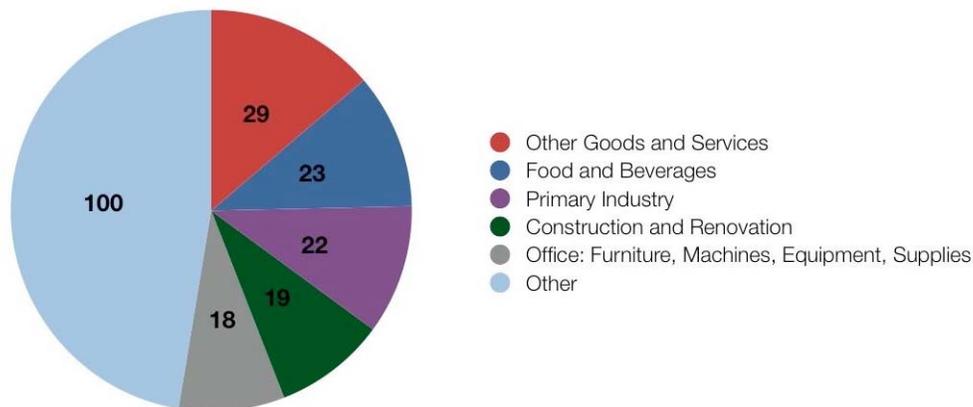
There are currently 79 businesses able to export in Timor-Leste. These businesses are primarily based out of Dili, with 63 out of 79 business located in that district. The districts of Lautem and Liquiça fall behind Dili with 4 exporting businesses each. Baucau, Bobonaro, Covalima, Ermera, Manatuto and Oecusse all have at least 1 business with the ability to export.

Figure 4: Number of Exporting Business by District in Timor-Leste (2007-09)



Each of these businesses operates in at least one sector, while several businesses operate in many. Figure 5 (below) represents the number of times each sector is represented by total exporting businesses.⁷ The main sectors represented are: Other Goods and Services, Food and Beverages, Primary Industry, Construction and Renovation, and Office: Furniture, Machines, Equipment, Supplies. The other 21 sectors make up the remainder of the data.

Figure 5: Number of Businesses Able to Export by Sector in Timor-Leste (2007-09)



8. International Trading Partners

The questionnaire used by the PDM-TL team sought information concerning the extent to which Timor-Leste businesses are linked to the broader international business community. Of the businesses included in the PDM-TL database, 46 percent indicate they are able to directly import some or all of their raw materials or products. The other 54 percent either source local products or purchase products from

⁷ A vast majority of businesses operate in more than one sector, which explains why the sum of businesses able to export by sector greatly exceeds the initial number of businesses able to export.

bigger, more established companies capable of direct importation. Only about three percent indicate that they have the capacity to export any of their products.

Figures 6 and 7 (below) show the main countries involved in commercial exchanges with Timor-Leste. Figure 6 indicates that 965 businesses in Timor-Leste import goods from commercial partners in Indonesia. After Indonesia, Singapore and Australia rank as the main suppliers of imported goods – with 189 businesses importing from Singapore and 185 businesses importing from Australia. Similarly, the leading destination of exports is Indonesia with 43 businesses (represented in Figure 7), followed by Australia and Singapore (18 and 13 businesses respectively).

Figure 6: Number of Companies Importing (2007-09)

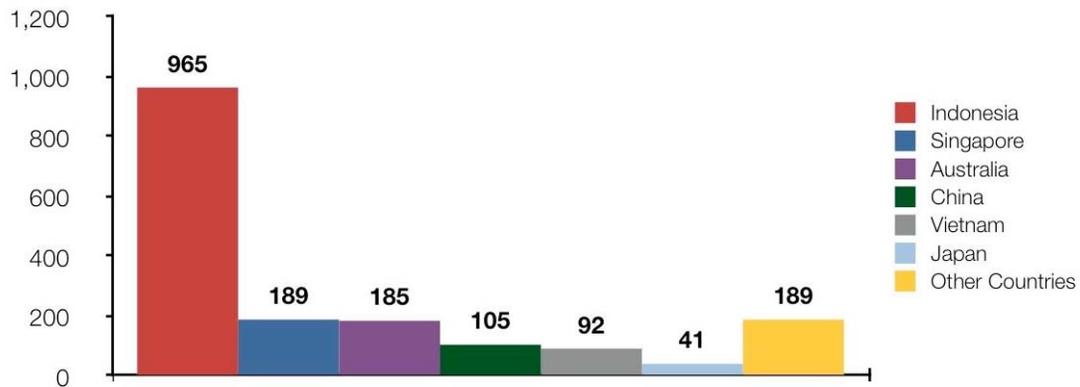
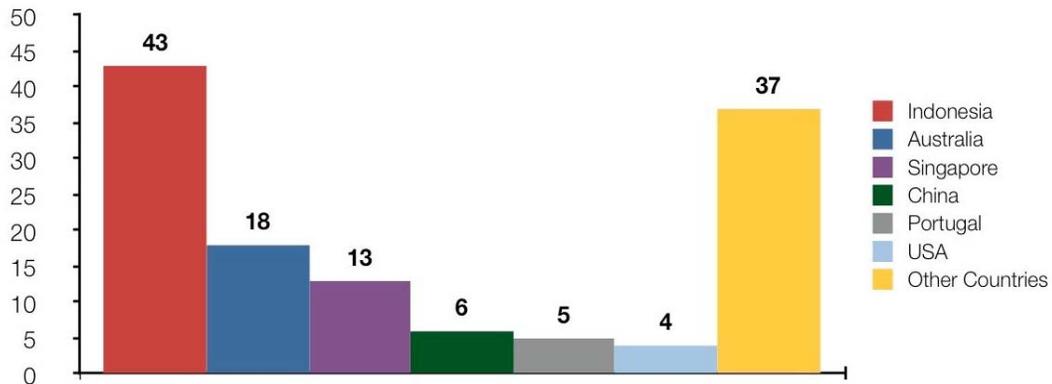


Figure 7: Number of Companies Exporting (2007-09)



9. Ownership & Management

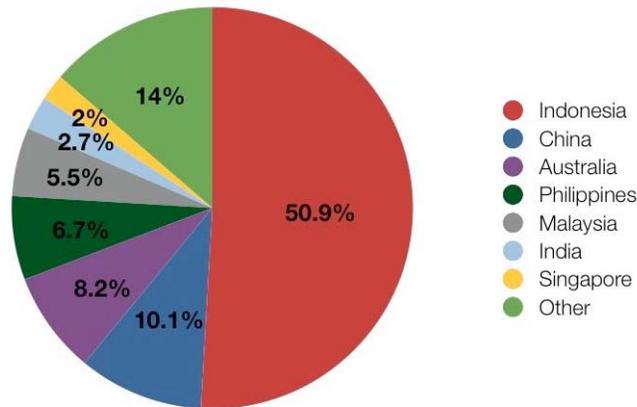
9.1 National Origin

Ownership data collected by PDM-TL indicates that of the businesses featured in the PDM-TL database, over 76 percent of businesses are nationally-owned. International companies make up just 21 percent of businesses and international partnerships comprise less than two percent of all verified businesses.

Of the international business owners featured in the PDM-TL database, the nationalities most represented are as follows: Indonesia (by far the most common with 50.9 percent), China (10.1 percent)

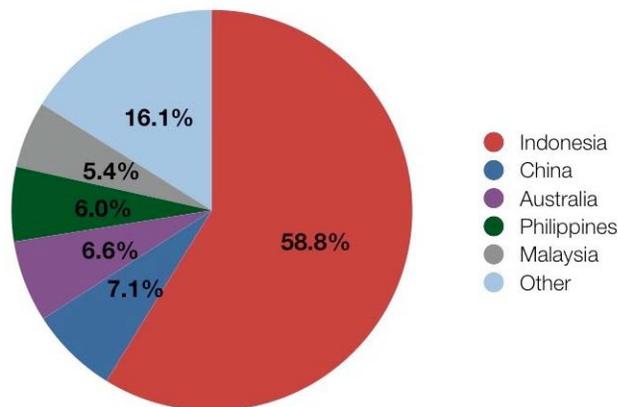
Australia (8.2 percent), Philippines (6.7 percent), Malaysia (5.5 percent). India (2.7 percent), and Singapore (2.12 percent).

Figure 8: Nationalities of Foreign Business Owners in Timor-Leste (2007-09)



Similarly, the survey looked closely at businesses managed, as opposed to owned, by nationals and internationals. The majority of international business managers come from Indonesia (58.8 percent). Other countries include China (7.1 percent), Australia (6.6 percent), Philippines (6.0 percent) and Malaysia (5.4 percent). Figure 9 below gives an overview of the findings.

Figure 9: Nationalities of Foreign Business Managers in Timor-Leste (2007-09)



9.2 Gender

A closely related question concerns the gender of business owners and managers in Timor-Leste. The proportion of female-owned versus male-owned businesses is outlined below, with males accounting for roughly 67 percent of owners and 71 percent of managers:

Table 3: Female and Male Entrepreneurs in Timor-Leste

Gender	No. of Business Owners	% of Business Owners	No. of Business Managers	% of Business Managers
Female	573	24.04%	658	27.60%
Male	1,594	66.86%	1,700	71.31%
Female and male	159	6.67%	19	0.80%
Cooperatives or Undetermined	58	2.43%	7	0.29%

10. Government Registration

By law, all enterprises operating in Timor-Leste are required to register with the Ministry of Tourism, Commerce and Industry (MTCI), Ministry of Justice, and the Department of Notary and Revenue.

The survey reveals that close to 77 percent have registered with these government agencies, while over 11 percent have not. Another 4.7 percent stated that their registration application was being processed by MTCI, which can take up to several months, while an additional 7 percent of the respondents said they were registered but did not provide evidence substantiating this statement.

The main reasons given by entrepreneurs for not registering are overwhelmingly the complexity of the registration process as well as the lack of readily available information on the subject. Another reason cited included the costs involved in the process, which is often perceived as too burdensome for micro-businesses. Other unregistered companies include individual freelancers and newly launched enterprises.

11. Obstacles Faced by Businesses

PDM-TL's survey requested all interviewees to describe what they believed to be the biggest obstacles to good business practices in Timor-Leste. Each business was allowed to provide up to three different answers. The table below gives a summary of all responses, with security, political instability, and lack of capital and other materials being the key concerns:

Table 4: Obstacles to Business in Timor-Leste

Obstacles	No. of Responses	% of All Businesses
Security & political instability	438	14.41%
Lack of capital	385	12.67%
Basic materials & equipment	351	11.55%
Lack of information & marketing	235	7.73%
Infrastructures (electricity, water, roads, phone, etc.)	169	5.56%
Human resources	168	5.53%
Customers (lack of & problems with)	137	4.51%
Miscellaneous/other	125	4.11%
Transportation	123	4.05%
Problems with payments	122	4.01%
Government policies & bureaucracy	110	3.62%
Taxes	84	2.76%
Unfair practices in tendering	83	2.73%

High prices and fluctuation	82	2.70%
Capacity of business	78	2.57%
Business law & registration process	62	2.04%
National economy	59	1.94%
Land conflict & location	55	1.81%
Competition	36	1.18%
Investment law	32	1.05%
Language	30	0.99%
Nature & weather	30	0.99%
Illegal taxes	27	0.89%
Insurance	9	0.30%
Immigration	6	0.20%

12. About PDT and the Peace Dividend Marketplace Project

PDT is a unique non-profit organization dedicated to making peace and humanitarian operations more effective, efficient and equitable by ensuring that international organizations and agencies both understand and maximize the full extent of their operational impact in the countries in which they operate. PDT is headquartered in Ottawa and New York City; has field offices in Afghanistan, Timor-Leste and Haiti; and has carried out project work in twelve countries worldwide.

In Timor-Leste, PDT's PDM-TL project supports long-term economic recovery by increasing procurement of goods and services available in country. When the international community buys and hires locally, a substantive part of their operational spending directly enters the local economy – generating tax revenue, creating jobs and building the local marketplace. This helps the local business community improve and grow, so as to bid competitively for national and international contracts and facilitates the entry of foreign investment. To meet this objective in Timor-Leste, the PDM-TL team provides the following services:

- An Online Procurement Database featuring profiles of over 2,384 verified domestic companies organized by sector and location, enabling international organizations and buyers to gain quick and easy access to local suppliers.
- Business Development Services (Matchmaking and Micro-matchmaking) which facilitate transactions with local suppliers by helping international buyers identify cost-competitive and high-quality domestic products and services. PDM-TL's micro-matchmaking teams strategically focus on creating business relationships in rural areas – providing a significant economic stimulus in the poorest parts of the country.
- Tender Distribution Services that provide a “one shop stop” for domestic businesses looking for new business opportunities. In addition to collecting tenders from the international community, PDT also makes all public government tenders available.
- Market Information, Advocacy and Communications focus on new and existing opportunities to promote local procurement. This includes efforts to widely advocate, educate and disseminate information related to the importance of buying local.

For more information on the project please visit: www.pdtglobal.org.

Annex A: Methodology

1. Methodology

1.1 Systematic Verification: Dili and the Districts

One of the key objectives of the PDM-TL project, financed by AusAID, the Norwegian Ministry of Foreign Affairs and ENI has been to build and maintain a procurement database that will facilitate quick and easy access to information on the Timorese business community. Detailed profiles of over 2,000 local companies and entrepreneurs are available online at www.BuildingMarkets.org.

1.2 Interviews (Dili and the Districts)

The first step of this research project entailed interviewing each business operating in Timor-Leste individually. The first group of verification team members was recruited in October 2007 and a second group three months later. After a training period, the questionnaire was pilot-tested in November 2007 with businesses owned by family and acquaintances of team members.

Formal interviews were then organized according to geographic areas, first in Dili and later in all districts. The team was divided into pairs comprising one interviewer and one note-taker, and sent door-to-door to contact companies and entrepreneurs. Additional ways to find new or previously overlooked businesses included newspaper ads, tips from contacts, or direct, personal communication with business owners.

In May 2008, PDM-TL purchased four ASUS mini-computers for the teams to use during the field trips. Replacing the paper questionnaire with an electronic version allowed for a quicker and more reliable process.

1.3 Master Database and Telephone Check

The second step included a review and full translation of the raw data from the interviews into English,⁸ correction of spelling mistakes and/or rectification of other inconsistencies. Key points of information were later selected and confirmed again directly with the business owners or managers over the phone.

1.4 Online Database

The data was then manually entered onto the online procurement database, parts of which are readily available to the public through the website www.BuildingMarkets.org. Each business is presented individually for the benefit of national and international buyers looking to procure locally. In order to further improve the quality of the information, the website is equipped with a system that permits users to provide feedback, comments, and report errors to the PDM-TL Verification Team.

1.5 Periodic Re-Verification

Once the team completed the first round of verification in all districts, a system to re-verify the data was developed in order to ensure accuracy over time. Each surveyed business is periodically contacted by phone or in person and its profile updated online if necessary. The current 're-verification' program is paying special attention to visiting all sub-districts throughout the country to ensure that more isolated businesses missed during the first round of verification can now be added to the online procurement database.

⁸ Note that from May onwards, all data was entered directly into the mini-computers in English at the time of the interview.

1.6 Evolution of the Questionnaire

The list of questions used for the survey was directly inspired by the questionnaire used by PDT in its pilot PDM project in Afghanistan and adapted to the context in Timor-Leste. For the sake of speed and consistency, the same 32-question list was used for all sectors of activity surveyed. However, a number of questions were either better defined or added over time, according to needs identified on the ground or clarification requirements.

- Previous name or usual name of the business: This question was added when it became clear that some businesses were registered under a different name than the one they are known by the public.
- Percentage of the materials/products (1) produced locally (2) purchased from other shops in Timor-Leste (3) imported directly by the business: The purpose of this question was originally to differentiate the provenance of raw materials in order to estimate a direct impact on the Timorese economy. However, many entrepreneurs buying materials from other businesses in Timor-Leste were unable to guarantee the country of origin, hence the introduction of the alternative “Purchased from other shops in Timor-Leste”.
- Manufacturing/processing capacity (excluding restaurants): This question, added later, highlights how businesses that procure part or all of its raw materials abroad may still have a direct impact on the Timorese economy by using local manpower.
- Obstacles faced by businesses: The original question was accompanied by a list of possible obstacles. It was later decided to remove examples and let the entrepreneurs spontaneously express what they feel would be the most appropriate response(s).
- Certification/accreditation with commercial/professional organizations: The question was added much later to take into account the recognition of international and/or national standards.
- Age of Entrepreneur: Most recently, a date of birth question was added. In due course, the addition of this question will enable PDM-TL to identify entrepreneurs within different age groups (including ‘young entrepreneurs’).

The addition of new questions later in the survey process means that a number of businesses were not required to provide such details, therefore making the data not yet entirely comprehensive. However, the periodic re-verification will allow for the team to fill the gaps within the business profiles.

Annex B: Data

SIZE OF BUSINESS	NUMBER
Micro Enterprises – Up to 10 Employees	1,945
Small Enterprises – 11 to 50 Employees	405
Medium Enterprises – 51 to 300 Employees	28
Large Enterprises – Over 301 Employees	6
Total	2,384

STARTING YEAR	NUMBER OF BUSINESSES
Before 1975	4
1975 – 1988	224
1999 – 2001	414
2002 - 2006	1,031
After 2006	706
No Date	5
Total	2,384

COMMUNICATIONS	NUMBER
Email Address	695
No Email Address	1,689
Total	2,384
Website	90
No Website	2,294
Total	2,384

ABILITY TO IMPORT/EXPORT	NUMBER
Ability Import	1,091
Inability to Import	1,293
Total	2,388
Ability to Export	79
Inability to Export	2,305
Total	2,384

COUNTRY	No. BUSINESSES IMPORTING FROM
Indonesia	965
Singapore	202
Australia	200
China	105
Malaysia	92
Japan	41
Other Countries	189

COUNTRY	No. BUSINESSES EXPORTING TO
Indonesia	43
Singapore	18
Australia	13
China	6



Malaysia	5
Japan	4
Other Countries	37

NATIONAL ORIGIN BUSINESS OWNERS	NUMBER
Timor-Leste	1,834
Foreign Origin	504
Partnerships	46
Total	2,384

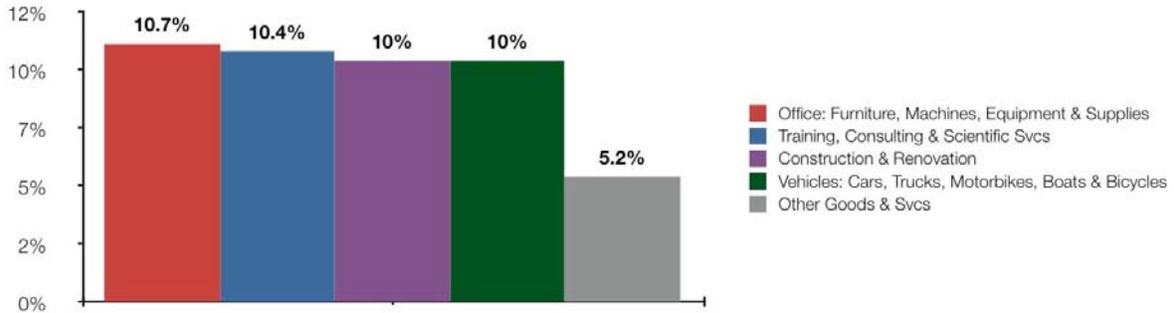
NATIONAL ORIGIN BUSINESS MGRS	NUMBER
Timor-Leste	1,845
Foreign Origin	516
Partnerships	18
No Manager	5
Total	2,384

REGISTERED	NUMBER
Yes	1,826
No	264
In Process	113
Unclear	181
Total	2,384

Annex C: Sectors that Generate Most Requests

The following information was gathered from three of PDM-TL's main services: Matchmaking, Micro-matchmaking and Tender Distribution Services.

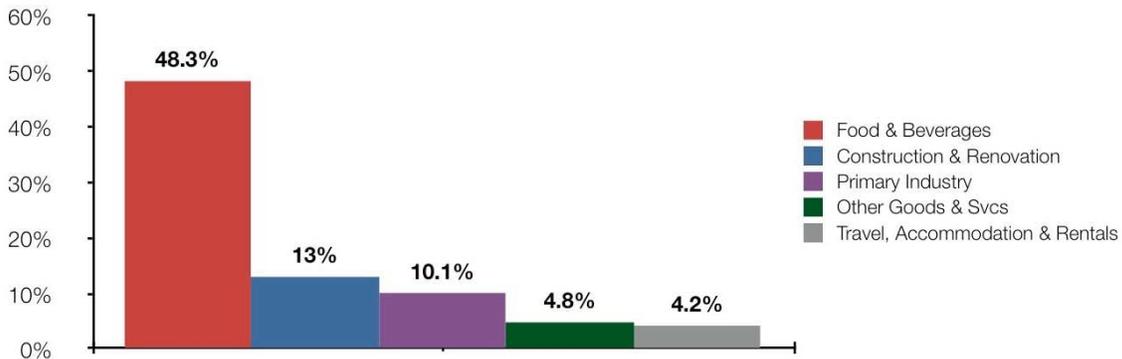
Figure 1: Matchmaking: Largest Quantity of Requests



Number breakdown (out of 402 requests):

Sector 5: 43 requests
Sector 13: 42 requests
Sector 2: 40 requests
Sector 4: 40 requests
Sector 23: 21 requests

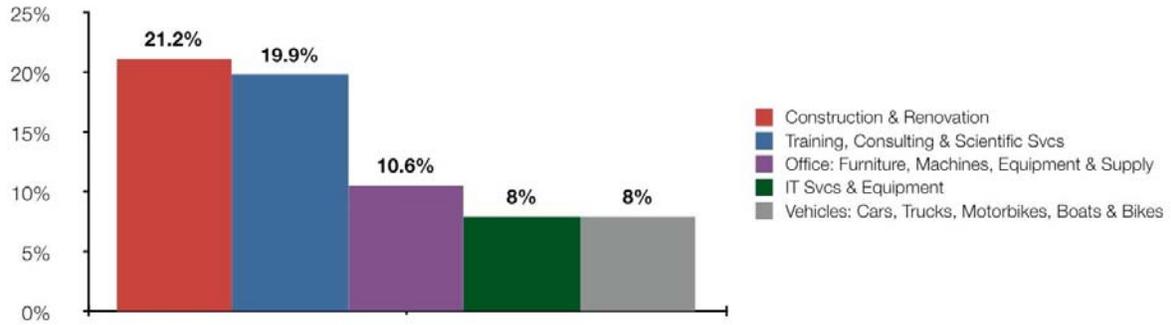
Figure 2: Micro-matchmaking: Largest Quantity of Requests



Number breakdown (out of 5,339 requests):

Sector 7: 2,580 requests
Sector 2: 695 requests
Sector 8: 541 requests
Sector 23: 258 requests
Sector 16: 224 requests

Figure 3: Tender Distribution Services: Largest Quantity of Requests



Number breakdown (out of 377 requests):

- Sector 2: 80 requests
- Sector 13: 75 requests
- Sector 5: 40 requests
- Sector 10: 30 requests
- Sector 4: 30 requests