# EAST TIMOR

## Building a Nation
## *A Framework for Reconstruction and Development*

## JOINT ASSESSMENT MISSION

## MACRO-ECONOMICS BACKGROUND PAPER

*November, 1999*

This background paper is the product of the joint assessment mission of specialists from East Timor, bilateral donor countries, UN agencies, the Asian Development Bank and the World Bank. The contents do not necessarily represent the views of the World Bank or other participating agencies. Furthermore, the figures contained herein may or may not reflect subsequent World Bank figures or estimates. This is merely an informative document to aid in understanding the situation in East Timor.

## MACRO-ECONOMICS

1. ***Pre-Conflict Economy.*** Prior to the recent crisis, East Timor was primarily an agricultural economy, with a single significant export (coffee) and about 90% of the population living in rural areas. Food self-sufficiency was not assured and foodstuffs such as rice, flour, maize and sugar had to be imported. The island was one of the poorest areas in Southeast Asia, with severe problems of illiteracy, malnutrition, malaria, and tuberculosis. According to official statistics, life expectancy in 1996 averaged 52 years, compared with the Indonesian national average of 61.5 years; infant mortality rates were amongst the worst in the world (149/1,000 in 1996 according to UNICEF). An estimated 30% of households – or double the ratio for Indonesia – were below the poverty line. GDP per capita in East Timor amounted to the equivalent of $ 431 in 1996, while the national average was $ 1,153.*

2. Officially, East Timor depended heavily on transfers from the Indonesian government; some 85 per cent of current and investment expenditures were covered by such transfers. Taking into consideration various methods of under-reporting actual exports from Timor and a suspected high level of corruption and other administrative inefficiencies, the actual flow of resources to East Timor was probably considerably lower.

3. ***Current Situation.*** Virtually every piece of equipment and remaining physical infrastructure of the modern sector has been destroyed **[**(see Annex 1)**]**. Soft infrastructure is no longer existent. Administrative structures of the government, including revenue and budget functions, have disappeared. Generalized insecurity and very substantial population relocation – probably more than half the total population – disrupted most agricultural production in 1999 as well as preventing land preparation and planting for the next year. Widespread shooting of livestock significantly reduced herds and will limit the prospects for future herd-building. In all, GDP is estimated to have declined by 40-45 % in 1999.

4. The markets for goods and services completely collapsed. Goods available for sale in local markets are limited to fresh produce, the meager stocks that survived the post-election violence, and the few products offered by returning refugees. Acute shortages are leading to spiraling prices for basic manufactured items (see Annex 2). However, some general market activity is beginning to recover as people return to their home areas, individuals begin to bring in tradable goods, and a general environment of security is restored. Limited public transport is slowly reappearing, but rolling stock remains extremely scarce. Shortages of transport stock and fuel are exacerbating price differentials between Dili and the rural hinterland.

5. The level of destruction in East Timor has exposed the highly segmented nature of the previous economic structure. Modern sectors, including manufacturing and services, were largely controlled by non-Timorese who have left the country, and suffered damage ranging from serious to complete destruction. The Timorese dominate primary agriculture, where output and incomes will be seriously affected as a result of the

* All dollar figures are in United States dollars unless otherwise indicated.

disrupted planting, harvest and commercialization cycles. Virtually all technical expertise was provided by non-Timorese and huge gaps in the set of skills required to sustain the modern economy have been exposed after their departure.

6. There is no administrative or physical ability for a government authority to make payments in the capital or the regions, including civil servant wages or payments for goods and services. Only the shell of the central bank building remains, while the public banking system was systematically dismantled: every vault of any size has been destroyed, the bank buildings have been burned or destroyed, and records and assets were reportedly removed to various parts of Indonesia. Timorese only have access to deposits by traveling to Indonesia and uncertainty over the status of these assets is causing anxiety. Various currencies are now in circulation, including the Indonesian rupiah, US dollar, Australian dollar, Thai baht, and Philippine peso.

7. East Timor's post-violence economy displays significant structural imbalances: retail prices and local wage structures have been highly distorted by the massive presence of the UN administration and international NGOs, while nearly all wage-earning Timorese have lost their previous employment and incomes. An ad-hoc comparison of prices in the Dili market reveals two- or three-fold increases in prices of locally produced meat between August and October 1999. Price increases during the same period are much higher for imported goods: seven times in the case of cooking oil, five times (salt), six times (canned milk), and ten times (laundry soap). Increases in wages are equally significant, at least for those Timorese employed by the UN and other foreign employers: roughly five times for drivers (from the equivalent of $ 40 to $ 227, according to UNAMET guidelines) and about ten times in the case of cleaners and messengers (from about $ 15-20 to $ 175).

8. East Timor needs to start anew. The past can not serve as a good guide to the future. The destruction of the modern sector and the fact that the Timorese were largely excluded from this part of the economy means that the old economic structure, serving primarily an expatriate population, is not a valid guide to what the future economy should be. Business structures have been fundamentally altered, and estimates about tax revenues can no longer be based on old aggregate patterns of income and consumption. Any plan for the future must start from zero.

9. East Timor is different from other post-conflict situations in one very important aspect. There is no apparent need for pacification between different ethnic, cultural or religious segments of the population. The need – and it is enormous because the destruction was premeditated, thorough and massive – is for reconstruction. In a way, it would be more useful to treat the problem as a post-natural-disaster situation, where a vicious hurricane destroyed all buildings and most crops and removed all records and institutional memory.

## A. Short Term Issues

10. **Restart the flow of goods and services:** The existing security situation in East Timor does not allow for the easy flow of tradable goods, particularly from abroad. It is imperative that an agreement with the Indonesian government is reached as soon as

possible to permit border post normalization. Furthermore, the INTERFET operation in the Dili port is of necessity crowding out private sector activity in the harbor, while security checkpoints impede civilian traffic throughout the island. There is a need to make arrangements with INTERFET to share access to port facilities in order to allow importers and exporters of goods to operate as soon as possible.

11. **Transportation:** There is a critical lack of transportation, as most vehicles existing prior to the conflict were either shipped out or destroyed. Help is required for the private sector to acquire vehicles (such as minibuses for public transport and 5-8 ton trucks for coffee transportation) by way of small business financing and/or NGO-managed assistance. Such measures can help reactivate small enterprise activity, enabling residents to return to their home areas and facilitating trade.

12. **Payments system:** There is an urgent need to establish a payments system for both private transactions and government functions from the central level down to the local level to facilitate the payment of civil servants and the private sector. UNTAET has arranged to pay for UN staff and services via its current bankers, Westpac Banking Corporation in Darwin. If possible, this current arrangement should be widened temporarily to permit private sector transactions. In addition, other interested and reputable banks should be allowed to operate as soon as possible, perhaps using armored trucks for mobile services in as many locations as possible outside Dili.

13. **Procurement:** An office at central government level should be set up rapidly, with staff to be trained in international procurement. This will be essential to facilitate donor participation in the reconstruction effort. It is imperative that transitory arrangements, such as for the provision of fuel or telecommunications or banking services, should not be allowed to become local monopolies. Liberal entry rules for multi-firm competition and transparent tendering procedures for natural monopolies must be established as soon as possible.

14. **Currency exchange:** Recent circumstances have resulted in the circulation of several currencies, and individuals need to be able to translate readily between different currencies. There is a need to educate Timorese at all levels on currency exchange and provide public information on daily exchange rates via radio broadcasts and fliers in public places. Money changing facilities should be encouraged and private activity in this area should not be impeded.

15. **Claims:** It is impractical for Timorese to travel to Indonesia to recover their deposits. Therefore, an agreement should rapidly be established between UNTAET and the Indonesian government to permit Timorese to recover their deposits from and pay their debts to the eight Indonesian banks operating prior to the conflict. For this, the banks should be allowed to open facilities in Dili to facilitate the settlement of claims or, should they prefer, the banks should consolidate their assets and liabilities into one or two banks that reestablish operations in East Timor.

16. **Micro-credit:** Micro-credit is an important element for the development of economic activity, in particular the agricultural sector and small entrepreneurial activities. Non-bank entities such as church groups, NGOs and cooperatives normally introduce

these activities. In agriculture, the credit cycle starts in November, so donors should be encouraged to advance with arrangements as rapidly as possible.

17. **Taxes:** It is desirable to begin collecting taxes as soon as possible, especially in the larger urban areas and import points of Dili and Baucau. In the immediate term, possible sources are import duties on non-humanitarian imports and excise taxes. As soon as possible, other sources such as motor vehicle transfer and registration taxes, hotel and restaurant expenses, and house rentals to expatriates should be developed.

18. **Customs office: Customs** offices should be established the airports of Dili and Baucau, the ports of Dili, Kairabela and Com, and customs points at the land frontiers of Mota Ain (Balibo) and Mota Masin (Suai). For practical reasons, Ambino should be considered as a free port, at least for the immediate future.

## B. Transitional Governance and Policy Recommendations

19. Most of the immediate priorities listed above have corresponding policy objectives applicable in the medium term, the fulfillment of which can make an important contribution to the economic health and financial viability of an independent East Timor.

20. In the **real sector**, it is important to establish clear, simple, stable and transparent ground rules for the functioning of private initiative. These include an investment code that facilitates private productive investment, both foreign and local; a legal framework with clear legislation (namely commercial and labor law) and well-functioning courts; and comprehensive regulatory and supervisory legislation and institutions.

21. The importance of financial intermediation in the development process can hardly be overstressed; policy makers should encourage the creation of solid local institutions and the operation of reputable foreign entities, so as to ensure competitive financial markets. In the case of a new economy like East Timor, where financial institutions cannot rely on long-established reputation of their prospective clients, it would seem particularly desirable to encourage the use of risk-sharing or pooling mechanisms, probably supported by NGOs, or credit-guarantee schemes backed by donors. For small-scale entrepreneurs (the vast majority in a predominantly rural situation such as East Timor' s), micro-credit mechanisms are particularly appropriate and should be encouraged by supportive legislation and policies.

22. Several **fiscal issues** merit attention in the near-term. On the revenue side, a simple, comprehensive and just tax system, covering personal and corporate incomes, should be formulated and implemented as soon as possible, to reduce dependence on trade taxes. Also, international agreements relating to natural resource exploitation, namely oil and gas, should be (re)negotiated with a view to maximizing sustainable revenue flows, so that East Timor can afford to reduce its dependence on taxes on the productive activity of small and medium enterprises and individuals.

23. On the expenditure side, every effort should be made to keep the civil service structure lean but well-paid, to ensure that public institutions function well without being

too heavy a burden on taxpayers. In this regard, a transparent budgeting process can be useful in promoting tax compliance by showing taxpayers where their taxes are being used, while an independent audit office provides further assurance of good governance.

24. In terms of **monetary issues**, the transitional period should be used to effect a careful study (with the assistance of the IMF) of alternatives available in terms of an exchange rate mechanism and choice of currency. This study should ensure that producers, savers and consumers can enjoy the benefits of price stability, convertibility and low interest rates. Also, negotiations with the Indonesian authorities need to include the resolution of outstanding claims of Timorese on Indonesian banks and vice-versa as well as the portability of rights to accrued pension and compulsory savings by Timorese in the previous Indonesian administration.

## C. Long Term Issues

25. Long-term objectives for East Timor must take into consideration the current reality. Following centuries of insufficient attention to the development of the economy, East Timor is one of the poorest countries in the world, with unacceptably high levels of illiteracy, infant mortality and preventable illnesses such as malaria and diarrhea. There is a severe backlog to be recovered in education and living standards, requiring significant investments over the medium term. At the same time the prospect of significant offshore natural resources (Timor Gap) requires careful planning to prevent the possibility of large revenue flows from getting in the way of a balanced national development and creating the economic and social problems associated with a "Dutch Disease" situation.

26. In this context the long-term objectives of East Timor are twofold: (i) to ensure the new nation's continued political and economic autonomy and (ii) to establish and sustain a productive and diversified economy with ample scope for the realization of economic initiative at all levels of the population. More specifically, the first objective requires a good government, democratically elected and respectful of human rights, capable of maintaining a stable social and economic environment and of continuing to meet legitimate aspirations of all levels of society. In terms of economic policies, autonomy implies a sustainable management of the country's resources and available external aid, without excessive dependence on foreign borrowing.

27. The second long-term objective requires establishing conditions that are conducive to promoting the maximum effort of all segments of society, namely a liberal economic environment with easy entry and exit for productive and commercial activities, with clear and comprehensive legislation and effective supervisory and regulatory structures for financial activities. The economy's current dependence on coffee production should be reduced by providing incentives for other agricultural, manufacturing and tertiary activity. At the same time, however, the excellent reputation of Timor's coffee suggests that more attention should be given to increasing yields through better management of the crop. If possible, value should be added by more extensive processing and own-label marketing.

28. Every effort should be made to bring the benefits of increased wealth generation to all segments of the population. In many cases this will require providing seed capital for

very small entrepreneurs via micro credit schemes. For historical reasons domestic entrepreneurial resources have not had scope for development, and should now receive training and financial support as well as the opportunity to participate with foreign investors in joint ventures to develop local business opportunities. Increased equity will also be promoted by strong insistence on education and nutritional support for the younger generations and appropriate vocational training for adults.

29. The prospect of significant revenues from petroleum deposits requires careful management. As a first step, the existing treaty on territorial waters and the contracts for oil exploration and extraction need to be renegotiated so as to maximize the benefit to Timor. From the domestic economic point of view, it will be necessary to resist the temptation to utilize petroleum revenues to finance current emergency expenditures. Every effort should be made to balance the budget with minimal recourse to these revenues, which should instead be used to finance additional development efforts in areas such as malaria eradication, education and rural development. After these needs have been met, subsequent revenues should be invested to provide income when the resources are depleted.

30. Two specific issues that need to be addressed are the fiscal sustainability of East Timor after independence, and how to cope with the Dutch Disease type of impact that typically affects economies once UN missions leave.

31. ***Fiscal Sustainability.*** The long-term viability of East Timor as an economy hinges heavily on its ability to have a fiscal policy that is sustainable, and that does not threaten in any way the stability and convertibility of the currency in use. A lean civil administration that operates with three different levels, and that maintains the country's infrastructure, is essential. It is hoped that in the near future, based on this and other studies, a proposed budget will be elaborated that will achieve these goals.

32. On the basis of existing contracts, revenues from oil reportedly amount to some $ 3 million per year, or about 1 % of GDP, but are still being received by Indonesia. In addition, tax revenues amounting to about 15 % of GDP would appear to be feasible if a basic tax structure were put in place; this level is comparable to that of other countries at a similar level of development. Some level of foreign aid will be needed to reach the targeted level of overall revenues, while oil earnings pick up and while the tax system reaches its long term potential.

33. ***Dutch Disease.*** Large UN missions typically bring about a phenomenon called "Dutch Disease" in small countries. With the additional demand for urban services and other non-traded goods and services, labor costs increase, hampering the competitiveness of the economy and leaving it without a sector capable of earning or saving foreign exchange. Income distribution becomes increasingly skewed towards the urban and more upscale segments of the population. This situation becomes particularly serious once the UN mission leaves, depriving the economy from the foreign exchange and the aggregate demand that kept incomes at an artificially high level. The scale of the impact on East Timor's GDP is estimated to be a large percentage of GDP; perhaps comparable to the 1974 windfalls for oil exporting countries during the early 1970s, which ranged between 16 and 30 % of GDP.

34. As in the case of most commodity-exporting countries facing windfalls, the impact of the Dutch Disease in the case of UN missions is especially onerous on the lower income levels of the population. The benefits of the additional demand generally accrue to owners of real estate and to the more educated groups of the population that are hired by the UN mission. Nevertheless, the chain of events that triggers the Dutch Disease can be minimized or corrected with appropriate policy actions. The wage policy followed by the UN mission and the accompanying NGOs is crucial to slow down the rise in the domestic wage level. Moreover, part of the additional demand brought by the expatriate community can be tempered by taxing urban services and luxury goods they consume. At least a significant portion of these temporary revenues should be set aside for funding counter-cyclical actions during the period following the departure of the mission. Once the mission leaves, there is always the recourse of correcting the relative price of non-tradable goods by a suitable change of the exchange rate.

**Annex 1**
**General Conditions in the Modern Sector**

| | |
|---|---|
| Retail/Commercial space (Dili) | 95% stripped and burned, 5% stripped and damaged. |
| Financial Institutions | 8/8 commercial banks 100% destroyed:<br>5/8 commercial banks stripped and burned,<br>3/8 commercial banks stripped and severely damaged,<br>all vaults and safes destroyed,<br>records reportedly removed to Indonesia.<br>Credit cooperative records in Jakarta.<br>Central bank building stripped and severely damaged, vault destroyed. |
| Wholesale Distributors | Buildings, stocks, vehicles 100% destroyed. |
| Warehousing (Dili) | 20% of Dili warehouse capacity completely destroyed,<br>remainder in good condition. |
| Textile factory | Building standing, contents removed. |
| Water bottling factory | Building standing contents uncertain. |
| Coffee processing | Modest damage to facilities outside Dili;<br>moderate damage/removal equipment in Dili. |
| Telecommunications | 12000 lines, most damaged during crisis,<br>Most transmission towers suffered significant damage,<br>Switchboards & telephone cables, significant damage,<br>4000 lines in Dili restored by Interfet, 5000 still disconnected,<br>All 3000 lines outside Dili disconnected. |
| Power | Generators operating in Dili and intermittently in Baucau,<br>All other generators suffered moderate to severe damage. |
| Roads & Bridges | Key roads will be maintained by Interfet/PKO.<br>Bridges not affected by crisis, but many missing/have no causeways.<br>Of the 1414 km of total sealed, gravel and dirt roadways, 448 km (32%) are in good condition (travel speed 60 km/hr), 585 km (41%) are poor (travel speed 30 km/hr), and 232 km (18%) are damaged (<15 km/hr). |
| Ports | Port facilities suffered no structural damage from crisis.<br>All equipment destroyed or inoperable.<br>Few navigation aids, but none operable. |
| Airports (2) | Structures in good condition.<br>All navigation and communications equipment removed. |
| Irrigation Facilities: | |
| Lautem | Good |
| Baucau | Broken |
| Viqueque | Generally good |
| Manatuto | Slightly broken |
| Ermera | Broken/good |
| Liquica | Broken/good |
| Aileu | Broken |
| Manufahi | Good |
| Bobonaro | Slightly broken/broken/good |
| Kovalima | Good |
| Ainaro | Underutilized |
| Ambeno | Good |

## Annex 2
## Basic Consumption and Prices in Dili

In order to evaluate the impact of post-crisis price changes, a list of essential commodities was compiled with the assistance of a group of local Timorese. The list included locally produced commodities and manufactured items imported into East Timor (listed below). A number of focus groups in Dili were then surveyed and asked to provide market prices and the quantities their families consumed both in August and in early November.

Close inspection of the survey results contained in Table 2.2 reveal some of the serious weaknesses of a crude survey of this type. In particular, the total monthly family expenditure figures for these basic goods appear to be excessively high (well over half the annual GDP per capita even in August). Despite these obvious shortcomings, a number of useful elements can be utilized, albeit with extreme caution. The survey data show dramatic changes in both expenditures and consumption, with clear drops in real income and welfare. Total expenditures on the basic consumption basket including rice increased by 162% over the three months, while the quantities consumed declined by 9.4%. When rice is excluded from the calculations (nearly all rice in Dili is currently being distributed through humanitarian agencies), expenditures are estimated to have increased by 202%. The sharpest price rises have been for manufactured products: the cost of that portion of the basic consumption basket has increased by 552%, while consumption has declined by 24%.

**Table 2.1**
**Basic Indices for August – October, 1999**

| | Price-based Index | Quantity-based Index |
|---|---|---|
| All goods | 162% | -9.4% |
| All excluding rice | 202% | -9.4% |
| Manufactured | 552% | -23.9% |

**Annex 2 Page 2**
**Table 2.2**
**Price Survey**
**(Dili)**

| | | | August | | |
|---|---|---|---|---|---|
| **Item** | **Unit** | **Quantity** | **Price(Rp)** | **Quantity per family** | **Total family expenditure per month** |
| Rice | kg | 50 | 150,000 | 2.5 Kg per day | 225,000 |
| Cooking oil (*Bimoli*) | gram | 620 gram | 5,000 | every 3 days | 50,000 |
| Bar of soap | packet | | 1,500 | every 3 days | 15,000 |
| Salt | packet | | 500 | weekly | 2,250 |
| Sugar | kg | 1 Kg | 4,500 | every 3 days | 45,000 |
| Milk | can | 1 can | 4,000 | daily | 120,000 |
| Meat (pork) | kg | 1 Kg | 20,000 | daily | 600,000 |
| Laundry soap (*Rinso*) | kg | 1 Kg | 15,000 | every two weeks | 33,750 |
| Clothing | 1 shirt | 1 piece | 15,000 | | |
| Meat (chicken) | bird | 1 | 20,000 | daily | 600,000 |
| | | | | Total per month Rupiah | 1,691,000 |
| | | | | Total per month US$ | 241.57 |

| | | | October | | |
|---|---|---|---|---|---|
| **Item** | **Unit** | **Quantity** | **Price(Rp)** | **Quantity per family** | **Total family expenditure per month** |
| Rice | kg | 50 | 0 | 2 Kg per day | 0 |
| Cooking oil (*Bimoli*) | gram | 620 gram | 35,000 | every 5 days | 210,000 |
| Bar of soap | packet | | 12,500 | weekly | 56,250 |
| Salt | packet | | 2,500 | every 2 weeks | 5,625 |
| Sugar | kg | 1 Kg | 16,000 | week | 72,000 |
| Milk | can | 1 can | 25,000 | daily | 750,000 |
| Meat (pork) | kg | 1 Kg | 40,000 | daily | 1,200,000 |
| Laundry soap (*Rinso*) | kg | 1 Kg | 150,000 | every 3 weeks | 225,000 |
| Clothing | 1 shirt | 1 piece | 15,000 | | |
| Meat (chicken) | bird | 1 | 50,000 | daily | 1,500,000 |
| | | | | Total per month Rupiah | 4,018,875 |
| | | | | Total per month US$ | 574.13 |

## Annex 3
## Sources of Real GDP Growth in East Timor

Real GDP growth in East Timor has been strong over the past few years, averaging over 10% per year over the three years 1994-1996. The sectoral breakdown of these numbers, as shown below, paints a more revealing picture of economic activity in East Timor.

The largest contributors to real growth were construction, public administration, and other services, which contributed a total of 7.9 percentage points out of the average 10.1% real growth over these years. All of these activities were highly dependent on central government transfers, and benefited primarily the urban population. Moreover, if we assume that the trade, hotels and restaurants sector mainly serve the urban, government-paid population, the total increases to 9.4 percentage points out of the 10.1% total. Agriculture, which employs roughly 93% of the Timorese population, accounted for less than 1% real growth, and this above zero average was largely due to the dramatic rise in world coffee prices experienced in 1996.

The data strongly support the picture of growth generated by government transfer into a modern sector focused on a high-income urban population, with a parallel but distinct low growth rural economy.

**Table 3.1**
**EAST TIMOR**
**Gross Domestic Product**

| | Real Growth Per Year | | | | Contribution to Real Growth | | | |
|---|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | Avg | 1994 | 1995 | 1996 | Avg |
| GDP | 10.0% | 9.4% | 10.8% | 10.1% | 10.0% | 9.4% | 10.8% | 10.1% |
| | | | | | | | | |
| Agriculture | 1.3% | -4.3% | 11.6% | 2.7% | 0.4% | -1.2% | 2.8% | 0.8% |
| | | | | | | | | |
| Mining & quarrying | 4.5% | 14.8% | 14.2% | 11.0% | 0.0% | 0.1% | 0.1% | 0.1% |
| | | | | | | | | |
| Manufacturing | 16.0% | 21.4% | 7.9% | 15.0% | 0.5% | 0.6% | 0.3% | 0.5% |
| | | | | | | | | |
| Electricity & water | 6.0% | 18.1% | 35.1% | 19.1% | 0.0% | 0.1% | 0.2% | 0.1% |
| | | | | | | | | |
| Construction | 14.5% | 16.2% | 5.8% | 12.1% | 3.0% | 3.5% | 1.3% | 2.8% |
| | | | | | | | | |
| Public Administration | 9.2% | 13.9% | 11.6% | 11.6% | 2.0% | 3.0% | 2.6% | 2.7% |
| | | | | | | | | |
| Commerce, hotels &restaurants | 29.3% | 4.1% | 9.6% | 13.8% | 2.7% | 0.4% | 1.0% | 1.5% |
| | | | | | | | | |
| Other services | 9.1% | 20.1% | 16.3% | 15.1% | 1.3% | 2.8% | 2.5% | 2.4% |

## Annex 4
## A Survey of East Timor' s Business Community

A brief survey was conducted in order to assess the existing East Timorese business community, its constraints, and its expectations for the future. The eighteen respondents were from Dili (10) and Ermera (8).

**Previous Activities**

- General construction and trade predominated
  - ♦ Supported by the large volume of infrastructure projects carried out by the provincial government, and a vigorous real estate industry led by East Timorese entrepreneurs
  - ♦ Activities in trade were encouraged by limited access to rural areas by Sino-Indonesian entrepreneurs due to security reasons

- Transportation and agriculture were also prominent but at lower levels
  - ♦ Constrained by lack of capital for investment and working capital
  - ♦ Limited by security constraints imposed by military authorities on the local population
  - ♦ Suffered from appropriation of fertile lands by migrants

**Future Expectations**

- General Commerce
  - ♦ Encouraged by acquired experience
  - ♦ Driven by the perception that trade activities are the most profitable
  - ♦ Seized opportunities created by the withdrawal of Sino-Indonesian traders from the territory

- General Construction
  - ♦ Driven by the perception that the reconstruction of East Timor will provide significant opportunities
  - ♦ Encouraged by previous experience in infrastructure projects during the Indonesian occupation

- Transportation
  - ♦ Perceived as a rapid income generator and as a motivating force for other economic activities
  - ♦ Facilitated by existing road network across the country

- Agriculture
  - ♦ Viewed as the basis for the future manufacturing and processing industry
  - ♦ Will likely be given high priority by the future government
  - ♦ Will likely attract broad technical support from the international community

- Manufacturing Industry
  - ♦ Viewed as the most economically attractive sector in the medium and long term
  - ♦ May be given priority in order to avoid dependence on external markets

- Fisheries
  - ♦ Supported by experience acquired in fish farming and ocean fishing
  - ♦ Stimulated by the richness of existing natural resources
  - ♦ Will likely have large domestic demand
  - ♦ Can develop future links to fisheries-related industry

**Assets**

- ♦ All assets, including buildings, vehicles and machinery were dislocated or burnt
- ♦ Relatively small deposits in Indonesian banks as local businessmen anticipated the violence and minimized bank deposits
- ♦ Only about 50% of financing was formerly provided by the formal banking sector; local businessmen have relatively few banking liabilities since Indonesian banks traditionally limited their access to credit
- ♦ All expect to restart business activities with 100% bank financing
- ♦ Property can be provided as collateral for loans

**Investment Council**

- ♦ Seen as necessary in order to create equity and equal access to opportunities
- ♦ Must be regulated and conducted within a proper legal environment
- ♦ 89% preferred ex-ante investment approvals rather than an ex-post verification process

## Annex 5
## Bank Deposits in East Timor

In the course of visits to the remains of the commercial banks in Dili, records of deposits were collected from papers strewn about the premises. Samples were taken of twenty accounts from each type of account document found and an analysis of the ownership of the deposits was completed based on the account holder's gender and origin. While the documents and the data contained in them were very limited, the results generally tend to reinforce the picture of the rural, low income, Timorese-dominated economy in parallel to the urban, high-income Indonesian-dominated economy.

Three samples were taken of Dili-based accounts: time deposits from one private bank and the regional development bank (BPD), and one sample of passbook savings accounts from the regional development bank. The average balances of both the time deposits and savings accounts from the BPD were nearly the same, about $4,700 per account. The average time deposit value at the private bank was about 45% greater at $6,800. Women held a greater proportion of the deposits at the BPD (55% and 34%) compared to the private bank (16%). The most striking aspect of the data is the extremely small share of deposits by Timorese at the private bank, less than 2% by value compared to 93% and 23% at the BPD. Additional information on the private bank's accounts revealed that 45% of the deposits (by value) were under the names of civil servants, while 2% were owned by active members of the military.

**Table 5.1**
**Sample Accounts in Dili**

| | Pvt bank time dep | BPD time dep | BPD savings |
|---|---|---|---|
| Average deposit | $6,800 | $4,700 | $4,650 |
| Women owners (by value) | 15.6% | 55.1% | 33.6% |
| Timorese owners (by value) | 1.8% | 93.2% | 23% |

Samples of savings accounts taken from the Liquica and Gleno bank branches show a marked contrast to those from Dili. The average balance in these accounts is much smaller at $84, compared to more than $4,500 for similar accounts in Dili, most likely reflecting the lower incomes in the rural areas. The Timorese share of ownership is much greater at 97%, a logical consequence of the urban concentration of non-Timorese. Rural women appear to be much less active in banking than their urban counterparts, with women owning less than 1% of the deposits in Liquica and Gleno.

**Table 5.2**
**Sample Savings Accounts in Liquica and Gleno**

| **Average deposit** | $84 |
|---|---|
| Women owners (by value) | 0.6% |
| Timorese owners (by value) | 97% |

| BANK CENTRAL ASIA -- BCA | | | | | |
|---|---|---|---|---|---|
| ***DILI*** | | | | | |
| **SAMPLE OF CERTIFICATES OF DEPOSIT** | | | | | |
| | | | | | |
| DEPOSITOR | AMOUNT* | | ORIGIN | ACTIVITY | GENDER |
| | Rupiah | US$ | | | |
| NN-01 | 1,000,000 | 142.9 | n | Unknown | M |
| NN-02 | 2,500,000 | 357.1 | n | Unknown | F |
| NN-03 | 5,000,000 | 714.3 | ET | Nun | F |
| NN-04 | 5,000,000 | 714.3 | n | Unknown | M |
| NN-05 | 5,300,000 | 757.1 | n | Military | M |
| NN-06 | 6,000,000 | 857.1 | n | Self empl | F |
| NN-07 | 7,000,000 | 1,000.0 | n | Self empl | F |
| NN-08 | 7,500,000 | 1,071.4 | n | Civil Servant | F |
| NN-09 | 10,000,000 | 1,428.6 | ET | Professor | M |
| NN-10 | 10,000,000 | 1,428.6 | n | Housewife | F |
| NN-11 | 10,000,000 | 1,428.6 | n | Military | M |
| NN-12 | 20,000,000 | 2,857.1 | n | Unknown | F |
| NN-13 | 25,000,000 | 3,571.4 | n | Self empl | M |
| NN-14 | 40,000,000 | 5,714.3 | n | Self empl | M |
| NN-15 | 75,000,000 | 10,714.3 | n | Unknown | F |
| NN-16 | 125,000,000 | 17,857.1 | n | Civil Servant | M |
| NN-17 | 250,000,000 | 35,714.3 | n | Civil Servant | M |
| NN-18 | 250,000,000 | 35,714.3 | n | Unknown | M |
| | | | | | |
| ***Totals and Ratios:*** | | | | | |
| | | | ***By Amount*** | | ***By Number*** |
| **Distribution by Origin:** | Rp. | $ | | | |
| East Timorese | 15,000,000 | 2,143 | **1.8%** | 2 | **11.1%** |
| Other | 839,300,000 | 119,900 | **98.2%** | 16 | **88.9%** |
| | | | | | |
| **Distribution by Activity:** | | | | | |
| Civil servants | 382,500,000 | 54,643 | **44.8%** | 2 | **11.1%** |
| Military | 15,300,000 | 2,186 | **1.8%** | 2 | **11.1%** |
| Other | 456,500,000 | 65,214 | **53.4%** | 14 | **77.8%** |
| | | | | | |
| **Distribution by Gender:** | | | | | |
| Female | 133,000,000 | 19,000 | **15.6%** | 8 | **44.4%** |
| Male | 721,300,000 | 103,043 | **84.4%** | 10 | **55.6%** |
| | | | | | |
| Total | 854,300,000 | 122,043 | **100.0%** | 18 | **100.0%** |
| Average | 47,461,111 | 6,780 | | | |

* A current (Nov. 99) exchange rate of 7,000 rupiahs per US dollar is used.

| BANK PEMBANGUNAN DAERAH -- BPD | | | | | |
|---|---|---|---|---|---|
| ***DILI*** | | | | | |
| **SAMPLE OF CERTIFICATES OF DEPOSIT** | | | | | |
| | | | | | |
| DEPOSITOR | AMOUNT | | ORIGIN | GENDER | |
| | Rupiah | US$ | | | |
| | | | | | |
| NN-01 | 80,000,000 | 11,428.6 | ET | M | |
| NN-02 | 7,000,000 | 1,000.0 | n | F | |
| NN-03 | 23,000,000 | 3,285.7 | n | M | |
| NN-04 | 7,500,000 | 1,071.4 | ET | F | |
| NN-05 | 5,000,000 | 714.3 | ET | M | |
| NN-06 | 100,000,000 | 14,285.7 | ET | M | |
| NN-07 | 1,500,000 | 214.3 | ET | M | |
| NN-08 | 2,000,000 | 285.7 | ET | M | |
| NN-09 | 1,500,000 | 214.3 | ET | F | |
| NN-10 | 45,000,000 | 6,428.6 | ET | M | |
| NN-11 | 1,000,000 | 142.9 | ET | M | |
| NN-12 | 30,000,000 | 4,285.7 | ET | F | |
| NN-13 | 300,000,000 | 42,857.1 | ET | F | |
| NN-14 | 10,000,000 | 1,428.6 | ET | M | |
| NN-15 | 16,000,000 | 2,285.7 | ET | M | |
| NN-16 | 1,500,000 | 214.3 | ET | F | |
| NN-17 | 10,000,000 | 1,428.6 | ET | F | |
| NN-18 | 2,000,000 | 285.7 | ET | M | |
| NN-19 | 5,000,000 | 714.3 | n | F | |
| NN-20 | 10,000,000 | 1,428.6 | n | M | |
| | | | | | |
| ***Totals and Ratios:*** | | | | | |
| | | | ***By Amount*** | | ***By Number*** |
| **Distribution by Origin:** | Rp. | $ | | | |
| East Timorese | 613,000,000 | 87,571.4 | **93.2%** | 16 | **80.0%** |
| Other | 45,000,000 | 6,428.6 | **6.8%** | 4 | **20.0%** |
| | | | | | |
| **Distribution by Gender:** | | | | | |
| Female | 362,500,000 | 51,785.7 | **55.1%** | 8 | **40.0%** |
| Male | 295,500,000 | 42,214.3 | **44.9%** | 12 | **60.0%** |
| | | | | | |
| Total | 658,000,000 | 94,000 | **100.0%** | 20 | **100.0%** |
| Average | 32,900,000 | 4,700 | | | |

| BANK PEMBANGUNAN DAERAH -- BPD | | | | | |
|---|---|---|---|---|---|
| ***DILI*** | | | | | |
| **SAMPLE OF SAVINGS ACCOUNTS** | | | | | |
| | | | | | |
| DEPOSITOR | AMOUNT | | ORIGIN | GENDER | |
| | Rupiah | US$ | | | |
| | | | | | |
| NN-01 | 80,000,000 | 11,428.6 | ET | F | |
| NN-02 | 7,000,000 | 1,000.0 | ET | M | |
| NN-03 | 23,000,000 | 3,285.7 | n | M | |
| NN-04 | 7,500,000 | 1,071.4 | ET | M | |
| NN-05 | 5,000,000 | 714.3 | n | M | |
| NN-06 | 100,000,000 | 14,285.7 | n | M | |
| NN-07 | 1,500,000 | 214.3 | ET | M | |
| NN-08 | 2,000,000 | 285.7 | n | M | |
| NN-09 | 1,500,000 | 214.3 | n | M | |
| NN-10 | 45,000,000 | 6,428.6 | n | M | |
| NN-11 | 1,000,000 | 142.9 | n | F | |
| NN-12 | 30,000,000 | 4,285.7 | ET | M | |
| NN-13 | 300,000,000 | 42,857.1 | n | M | |
| NN-14 | 10,000,000 | 1,428.6 | n | M | |
| NN-15 | 16,000,000 | 2,285.7 | ET | F | |
| NN-16 | 1,500,000 | 214.3 | n | F | |
| NN-17 | 10,000,000 | 1,428.6 | n | M | |
| NN-18 | 2,000,000 | 285.7 | n | M | |
| NN-19 | 5,000,000 | 714.3 | ET | M | |
| NN-20 | 10,000,000 | 1,428.6 | ET | M | |
| | | | | | |
| ***Totals and Ratios:*** | | | | | |
| | | | ***By Amount*** | | ***By Number*** |
| **Distribution by Origin:** | Rp. | $ | | | |
| East Timorese | 150,000,000 | 21,429 | **23.0%** | 8 | **40.0%** |
| Other | 501,000,000 | 71,571 | **77.0%** | 12 | **60.0%** |
| | | | | | |
| **Distribution by Gender:** | | | | | |
| Female | 218,500,000 | 31,214 | **33.6%** | 4 | **20.0%** |
| Male | 432,500,000 | 61,786 | **66.4%** | 16 | **80.0%** |
| | | | | | |
| Total | 651,000,000 | 93,000 | **100.0%** | 20 | **100.0%** |
| Average | 32,550,000 | 4,650 | | | |

| Bank Rakyat Indonesia -- BRI | | | | | |
|---|---|---|---|---|---|
| ***LIQUICA*** | | | | | |
| **SAMPLE OF SAVINGS ACCOUNTS** | | | | | |
| | | | | | |
| DEPOSITOR | AMOUNT | | ORIGIN | GENDER | |
| | Rupiah | US$ | | | |
| | | | | | |
| NN-01 | 115,179 | 16.5 | n | M | |
| NN-02 | 14,082 | 2.0 | n | M | |
| NN-03 | 2,491,527 | 355.9 | ET | M | |
| NN-04 | 6,292 | 0.9 | n | M | |
| NN-05 | 34,431 | 4.9 | n | M | |
| NN-06 | 22,422 | 3.2 | ET | M | |
| NN-07 | 32,183 | 4.6 | ET | M | |
| NN-08 | 15,738 | 2.2 | ET | M | |
| NN-09 | 44,178 | 6.3 | ET | M | |
| NN-10 | 24,223 | 3.5 | ET | M | |
| NN-11 | 20,904 | 3.0 | ET | M | |
| NN-12 | 8,244 | 1.2 | ET | M | |
| NN-13 | 5,310 | 0.8 | ET | M | |
| NN-14 | 43,730 | 6.2 | ET | M | |
| NN-15 | 24,084 | 3.4 | ET | M | |
| NN-16 | 111,956 | 16.0 | n | M | |
| NN-17 | 45,250 | 6.5 | ET | M | |
| NN-18 | 251,536 | 35.9 | ET | M | |
| NN-19 | 34,017 | 4.9 | ET | M | |
| NN-20 | 24,440 | 3.5 | ET | F | |
| | | | | | |
| ***Totals and Ratios:*** | | | | | |
| | | | ***By Amount*** | | ***By Number*** |
| **Distribution by Origin:** | Rp. | $ | | | |
| East Timorese | 3,087,786 | 441 | **91.6%** | 15 | **75.0%** |
| Other | 281,940 | 40 | **8.4%** | 5 | **25.0%** |
| | | | | | |
| **Distribution by Gender:** | | | | | |
| Female | 24,440 | 3 | **0.7%** | 1 | **5.0%** |
| Male | 3,345,286 | 478 | **99.3%** | 19 | **95.0%** |
| | | | | | |
| Total | 3,369,726 | 481 | **100.0%** | 20 | **100.0%** |
| Average | 168,486 | 24 | | | |

| Bank Rakyat Indonesia -- BRI | | | | | |
|---|---|---|---|---|---|
| ***GLENO*** | | | | | |
| **SAMPLE OF SAVINGS ACCOUNTS** | | | | | |
| | | | | | |
| DEPOSITOR | AMOUNT | | ORIGIN | GENDER | |
| | Rupiah | US$ | | | |
| | | | | | |
| NN-01 | 5,810 | 0.8 | n | M | |
| NN-02 | 8,232 | 1.2 | ET | M | |
| NN-03 | 269,186 | 38.5 | ET | M | |
| NN-04 | 6,816 | 1.0 | n | M | |
| NN-05 | 7,854 | 1.1 | ET | M | |
| NN-06 | 33,964 | 4.9 | ET | F | |
| NN-07 | 19,204 | 2.7 | ET | M | |
| NN-08 | 9,172 | 1.3 | ET | M | |
| NN-09 | 12,968,737 | 1,852.7 | ET | M | |
| NN-10 | 27,371 | 3.9 | ET | M | |
| NN-11 | 181,761 | 26.0 | ET | M | |
| NN-12 | 74,897 | 10.7 | ET | F | |
| NN-13 | 179,801 | 25.7 | n | M | |
| NN-14 | 16,678 | 2.4 | n | M | |
| NN-15 | 21,427 | 3.1 | n | M | |
| NN-16 | 31,152 | 4.5 | ET | M | |
| NN-17 | 14,374 | 2.1 | ET | M | |
| NN-18 | 203,842 | 29.1 | n | M | |
| NN-19 | 5,980,181 | 854.3 | ET | M | |
| NN-20 | 8,891 | 1.3 | ET | F | |
| | | | | | |
| ***Totals and Ratios:*** | | | | | |
| | | | ***By Amount*** | | ***By Number*** |
| **Distribution by Origin:** | Rp. | $ | | | |
| East Timorese | 19,634,976 | 2,805 | **97.8%** | 14 | **70.0%** |
| Other | 434,374 | 62 | **2.2%** | 6 | **30.0%** |
| | | | | | |
| **Distribution by Gender:** | | | | | |
| Female | 117,752 | 17 | **0.6%** | 3 | **15.0%** |
| Male | 19,951,598 | 2,850 | **99.4%** | 17 | **85.0%** |
| | | | | | |
| Total | 20,069,350 | 2,867 | **100.0%** | 20 | **100.0%** |
| Average | 1,003,468 | 143 | | | |

## Annex 6
## Macroeconomic Group - List of Contacts and Interviews

Ian Martin, UNTAET
John Bevan, UNTAET
Andrew Ladley UNTAET
Paul Guerin, UNTAET
Ross Ballantyne, UNTAET
Pete MacGuiness, UNTAET
Alan Law, JOC
Gary Wiseman, UNDP

Bishop Carlos Ximenes Belo
Bishop Basilio de Nascimento

Fa. Martinho, Head of Caritas, Baucau
Bud Crandall, CARE Indonesia
Steve Gwynne-Vaughn, CARE East Timor
Al Dwyer, World Vision
Reynaldo __ and team, WB Kecamatan Development Program, East Timor

Mari Alkatiri, CNRT, Timor Gap Portfolio

Joao Bosco, Bank Danamon, Dili Manager
Antonio Vitor, ETADEP, Bank Danamon, Marketing Dept.
Pascoela Maria Rego da Silva, Bank Danamon, Accounting Dept.
Sergio Espirito Santo, BPD Ainaro
Agostinho Antonio Gusmao, BPD Baucau
Nelson de Jesus and group of 5 BPD employees
Sandra Gusmao Martins, BDN
Leila Gusmao Martins, BNI

Joao de Oliveira, businessman
Oscar Lima, businessman
Francisco Kalbuadi, businessman
Foo Hau Kiun, businessman
Lay Chung Pie, businessman
DG Araujo, businessman
Terezinha Goncalves, businesswoman
Amadeu Pinto Ribeiro, businessman
Placido de Araujo, businessman
Felix F. Ximenes, businessman
Americo dos Santos Freitas, businessman
Joaquina Soares Martinus, businesswoman
Fatima Irene G. Corsino, businesswoman
Armando Evangelista, businessman
Jose Cipriano G., businessman
Alfredo Joaquim Moniz, businessman

**Annex 6 Page 2**

Sam Filiaci, NCBA
Sisto Moniz Tarede, Puskud Dili
Germenino Amaral dos Reis, Ai Fu' Ermera coffee cooperative
Mario Sacaio, Dili residents
Ursula Vitor, Dili residents
Miguel F. Soares, Ai Sirimou, Aileu farmer
Subdistrict representatives from Same, Manufahi
Filomeno Aleixo, small businessman in Dili

Jennifer Jungfer, WestPac Bank
Wayne Smith, WestPac Bank
Lt. Terry O' Connor, Master, Dili Port

Ananias da Costa, Ministry of Finance, Dili
Mr. Carlos, Provincial Tax Office, Dili
Francisco Soares, Audit Section, Regional Tax Office, Dili
Mr. Miguel, Bureau of Finance, Baucau
Cancio de Olivera, Customs Office, Dili
Maoises Saldanha Alberto, Customs Office, Dili
Lorenco Atauro, Customs Office, Dili

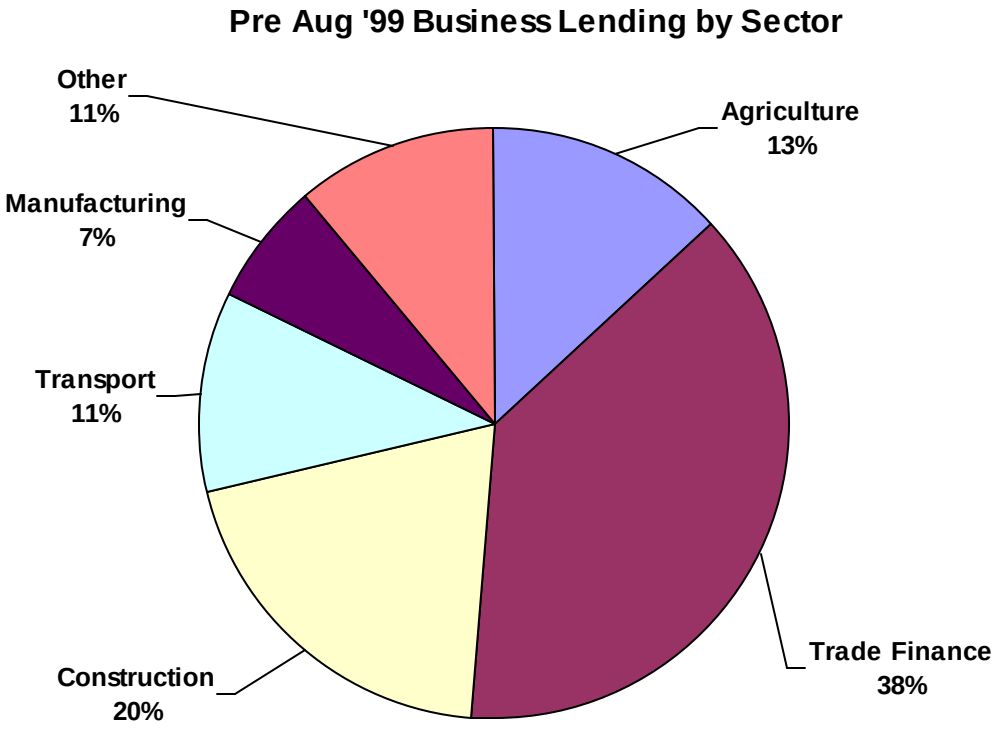
MLOs in Manatuto
MLOs in Ainaro & Ermera
CivPol in Baucau
CAOs in Baucau

**Annex 7**
**Small Business Guarantee/Training Initiatives**

Under Indonesian administration, Indonesian loan applicants dominated bank lending in East Timor.

Of all bank lending under the past administration, consumer loans were reported to represent about 55% of lending. The remaining 45% were roughly divided into the following categories.

Past ethnic and sectoral distortions in the small business sector are expected to end.

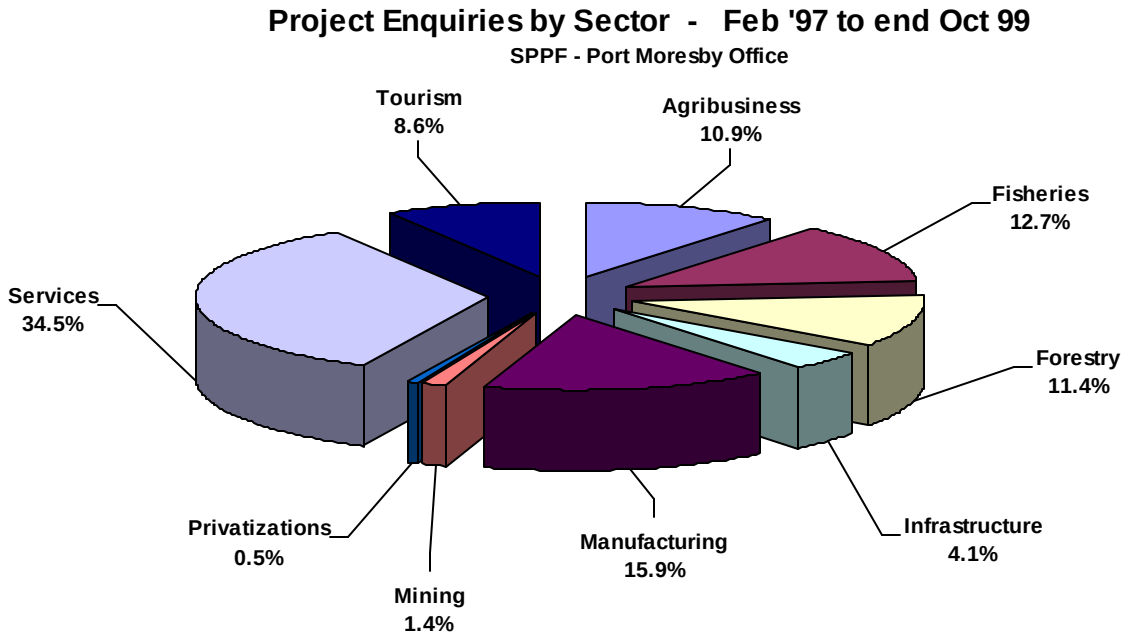



Subject to access to adequate small business skills development and access to business development capital, East Timorese small business promoters are expected to rapidly fill business opportunities in East Timor.

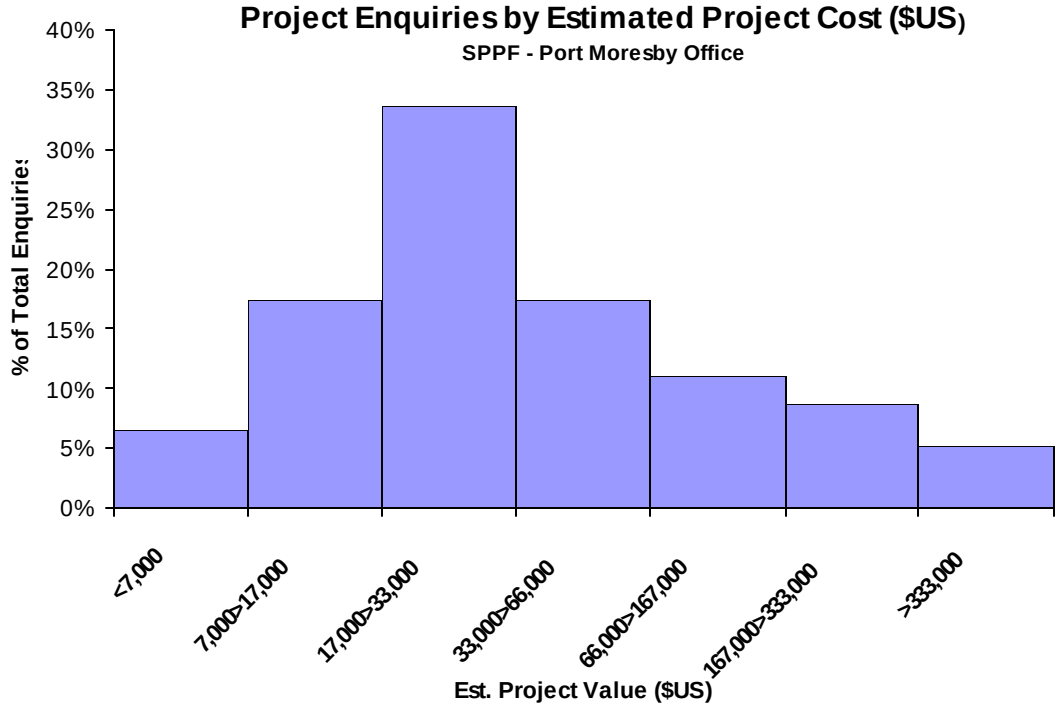
Small business development initiatives have been operating in Papua New Guinea for most of the 1990s. Whilst not directly comparable to East Timor, the spread in sector interest and participation can at least give some indication as to what the East Timor small enterprise scene may look like, if the small business sector is allowed to grow and can achieve some reasonable level of access to finance and business development assistance.

The following graph was compiled from business inquiry data collected from the IFC' s South Pacific Project Facility office in Port Moresby. This office caters to and is targeted specifically at assisting small-scale indigenous entrepreneurs in Papua New

Guinea and gives at least some indication of the likely sector spread for small business and the relative interest small business has shown in participating in those respective sectors.




The following graphic shows the relative size spread of small business proposal inquiries received over 2 years by the IFC' s South Pacific Project Facility office in Papua New Guinea.



On the assumption of some reasonable correlation in small business sector interest and proposed venture size, areas likely to be of most interest and where business development assistance demand is likely to be highest are:

- Services
- Small Scale Manufacturing
- Fisheries
- Agriculture & Agri-processing and
- Tourism/hospitality

Business proposal scale/size where technical and commercial assistance is most likely to be needed is for ventures with a project capital cost of about $ 20,000 to $ 30,000

Behind under-capitalization, the next major constraint to development and reason for failure of small businesses is lack of technical expertise. Even in developing countries where these skills are available, small business operators usually cannot afford the cost of competent professional assistance. One solution to this problem, in both developed and developing countries, has been via purpose created "business advisory agency" funded by government and/or donor agencies.

The small business sector within ET can be expected to suffer identical constraints/problems experienced by small business everywhere in the developing world. Broadly, these constrains include limitations regarding:

- Access to credit/loan finance for business expansion
- Confidential technical/business advice
- Access to experienced "business mentors"
- Access to competent but inexpensive book keeping, legal and MIS advice

***Access to credit/loan finance for business expansion.*** Conventional bank finance providers insist on borrowers providing substantial equity to secure their debt. Small enterprise borrowers often have insufficient collateral to secure the debt needed to fund their proposals. Hence bank lending tends to be limited to strong, obviously creditworthy borrowers or on a fully secured basis against readily realizable collateral, leaving the financing needs for small entrepreneurs largely unmet.

A borrower's equity/security is limited to his or her available resources and invariably fully committed to the business, the lender's credit criteria are invariably rigid and fully extended to those limits, yet a "financing gap" remains. To improve the attractiveness to lenders/creditworthiness of small entrepreneurs' (otherwise viable) business proposals, a means is needed to increase the equity/security component of the borrower's loan proposal to the extent necessary to allow the lender to increase its lending capacity for the proposal.

A solution to the small business financing gap dilemma could be via a "credit guarantee scheme" along the lines of the USA based Small Business Administration or the Small Business Guarantee Scheme operating within Papua New Guinea. Under these schemes, the proposal's financing gap is filled by "additional" lending from the borrower's bank; but the security/collateral for the "gap financing" is provided under a Government guarantee for that portion of the loan.

The borrower pays full commercial interest on the entire outstanding portion of the loan. Loan interest earned by the lenders on the un-guaranteed portion of the loan would be at full commercial rates applicable, whilst that earned on the guaranteed portion is at the prevailing "equivalent Government bond rate" reflecting an appropriate pricing of the risk. The difference in the interest collected and that earned by the lender is paid to the Government as its share of the interest profit; such payments may at least partially offset the costs of administering the guarantee scheme.

To ensure equality in access, and to satisfy loan guarantee demands from a broad cross-section of the small business community, guarantees could be limited to loan proposals with a cap of say $ 40,000, which can be expected to satisfy the majority of small business needs in the medium term.

***Confidential Technical/Business Advice.*** For similar reasons that have limited ET's exposure/experience in senior/strategic management roles in other sectors of society, there is an urgent need to provide business management/technical advice on a confidential basis to small scale entrepreneurs. The advice/assistance under consideration here is the provision of a "sounding board" with whom entrepreneurs can "discuss" their respective plans in confidence and receive considered confidential advice on proposal-specific pitfalls and issues and suggestions on how to best manage the project's risks and issues.

In addition to any "in country" small business technical advice service (business advisory agency) that ET may establish, access to institutions such as the IFC's SPPF personnel would be another such resource available to ET small-scale entrepreneurs, should ET join the IFC. Other sources of assistance available to small businesses include the various Overseas Volunteer Services (AESOP, British Executive Services Overseas), Japanese Overseas Cooperation Volunteers, Tourism Council of the South Pacific, the European Center for the Development of Industry (CDI), UNIDO and the US Peace Corps.

## A. Non-Proposal-Specific Business Training Assistance (SYB-IYB Programs)

In addition to business development assistance offered to small business people with specific business proposals, there may be opportunities to assist, on a general or conceptual basis, those "potential" entrepreneurs who are seeking training/advice on starting new businesses. Programs such as "Start Your Business – Improve Your Business" (SYB-IYB) operated in several South Pacific nations may be useful in accelerating East Timorese small business development.

The SYB-IYB programs are short course/discussion/explanation programs over a few days covering the basic business skills needed by any intending businessperson. The courses usually cover some basic levels of bookkeeping, simple instruction on cash flow management/forecasting and marketing. The underlying principal is to give the intending businessperson the "basic skills/tools" necessary to operate a small business.

SYB-IYB courses could be provided in most major regional centers by small business advisory agency personnel.

To ensure that their business loan guarantee scheme beneficiaries have at least some minimum level of business understanding, some small business guarantee schemes have the successful completion of this sort of program as a condition precedent to issuing a guarantee for a proposal.

***Access to experienced "business mentors."*** There is a degree of similarity in need with that for confidential technical/business advice discussed above. What is contemplated within the context of access to experienced business mentors is the provision of ongoing advice. To some extent, industry peer groups and chambers of commerce can fulfill at least part of this role, especially in areas of industry/sector/geographic issues. Nevertheless, concerns regarding confidentiality and protection of respective competitive positions often act as a discouragement to business people in discussing their "business specific", rather than industry specific or sector specific, problems/concerns with those the business person perceives as an existing or potential competitor.

In developed and some developing economies, "business mentor" services are available to business people through established professional business advisers, lawyers and accountants. In East Timor, for at least the medium term and until a sufficiently large domestic skills pool is developed/trained, access to these services/skills from within the East Timorese community will be difficult and will need supplementing through a small business advisory agency.

***Access to competent but inexpensive book keeping and MIS advice.*** Due to their limited capital base, small businesses are particularly vulnerable to failure consequent from inadequate attention to collection of accounts receivable, supply chain disruptions and/or changes in their operating cost environment.

The same access to skills problems discussed in sections above can be expected in the supply of book keeping accounting and management information services to small business in East Timor. These issues span from the need to understand the difference between revenue and profit, understanding and appreciating implications of changes in operating costs, selling prices and maintenance of operating margins through to the requirement, for both business management and tax compliance purposes, to maintain adequate financial records.

Many East Timorese small business people are expected to suffer difficulties in at least some of these areas and would benefit from assistance offered by a small business advisory agency.

## B. Small Business Guarantees

Given the level of destruction within the East Timorese business community and the low economic base from which they will be commencing activities, both the number of small business loans needing guarantee assistance and the guarantee level of business loans may need to be higher than is the norm.

The destruction/looting of small businesses' assets has eliminated previously existing businesses' asset bases. In the medium term, it is expected that debt guarantees will be needed to levels in excess of what would, under normal business conditions, be considered financially prudent. Once reconstruction of the country is further advanced and business conditions and confidence regain some normality, higher borrower equity/collateral contributions should be achievable.

For the purposes of estimating the level of small guarantee assistance required, it has been assumed that in the near-medium term guarantee levels of 85% to 90+% will be needed to get existing small businesses reestablished and to as assist new entrants to small business to get established.

Currently there are no banks catering to the needs of the small business sector operating in East Timor. Two foreign-based banks are expected to commence limited operations by end 1999.

Conditions under which banks will participate in small business credit guarantee schemes vary from country to county and scheme to scheme. In some countries, banks will accept government backed guarantor' s documentation, whilst in others, banks insist the guarantor deposit funds equivalent to the outstanding guaranteed portion of the loan with the bank

Currently there is little concrete data on the likely number of creditworthy / successful guarantee applicants. For budget estimating purposes it has been assumed that the East Timor small business sector will have the capacity to absorb new business enterprises at about one every two weeks in the first year or two and up to 2 per week after that.

| Yr | Est # of G'tees | Av Proj Cost ($US) | Av G'tee Size | Total G'tee Amt |
|---|---|---|---|---|
| 1 | 25 | 25,000 | 24,000 | 600,000 |
| 2 | 40 | 25,000 | 23,000 | 920,000 |
| 3 | 50 | 25,000 | 21,000 | 1,050,000 |
| 3+ | 60 | 25,000 | 21,000 | 1,260,000 |
| | | | | **3,830,000** |

## C. Small Business Advisory Agency - Business Advice & Accounting Services

A Small Business Advisory Agency could be established initially with a core staff of four to five professionally trained personnel and 2 support staff. The office would be located in Dili but professional staff would make regular routine visits to major regional centers to service client needs and run small business development courses.

There are a small number of qualified East Timorese personnel in country who could operate/manage the agency with assistance on an as needed basis from suitably skilled external business consultants.

Initial establishment capital costs are estimated at:

| **Item** | **Cost (US$)** |
|---|---|
| Office space (re) construction | 75,000 |
| Vehicles (2x) | 50,000 |
| Office Equipment & Furniture | 30,000 |
| Incidental Capital Cost Items | 10,000 |
| **Total Establishment Costs:** | **165,000** |

It is not proposed to offer the small business advisory agency' s services free of charge; but services and courses will need to be heavily subsidized to ensure their affordability to the small business sectors where assistance is most needed.

Annual operating costs including overheads are estimated at:

| **Item** | **Cost ($US)** |
|---|---|
| Operating Costs | |
| Management & Executive Salaries | 230,000 |
| Support Staff Wages | 10,000 |
| Overhead Expenses | 25,000 |
| Training Course Expenses | 70,000 |
| **Total Annual Operating Costs:** | **335,000** |

## Annex 8
## Building Reconstruction of Markets Cost

**Building Reconstruction Costs (US$m)**
**Markets Sector Summary**

| | I. Level of Damage | | | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Construction | | | | |
| Major (and Wholesale) | $0.04 | $0.00 | $1.58 | $1.62 |
| **Sub Total Construction** | **$0.04** | **$0.00** | **$1.58** | **$1.62** |
| Equipment | | | | |
| Market Equipment | $0.00 | $0.00 | $0.02 | $0.02 |
| **Sub Total Equipment** | **$0.00** | **$0.00** | **$0.02** | **$0.02** |
| Base Costs | $0.04 | $0.00 | $1.60 | $1.64 |
| Physical Contingencies | $0.01 | $0.00 | $0.24 | $0.24 |
| **Total Costs** | **$0.05** | **$0.00** | **$1.83** | **$1.88** |