



**GOVERNMENT RESOLUTION No 34/2022
of 16 November**

POLICY AND STRATEGY FOR THE PRIVATE SECTOR

The economic crisis caused by the COVID-19 pandemic continues affect strongly the economies around the world, with particular incidence in developing countries, such as Timor-Leste.

Consequently, the livelihood of our people has been severely affected, further aggravated by the floods that hit the national territory in April 2021.

Meanwhile, the instability generated by the Russian-Ukrainian conflict, particularly in the demand and supply of basic foodstuffs, is having negative effects at a global level, with unpredictable implications on the programs of the Government of Timor-Leste, jeopardizing the economic recovery of the country.

However, these damaging events may enhance a new paradigm of economic opportunities, especially for the private sector.

Considering it essential and indispensable that the State continues to promote development conditions for the national private sector, as the engine of the economy, relaunching the economic recovery on sustainable and lasting bases.

With this Resolution the Government intend to achieve, namely, the objectives of the expansion of the private sector, considering it as the main engine of economic growth, the reduction of unemployment implying the creation of conditions for more employment opportunities, through the improvement of the business environment, the diversification of the economic base of Timor-Leste and the promotion of social and economic inclusion, encouraging small and medium companies, in the sense of their commitment in the formal economy.

It is also foreseen to adopt an integrated and holistic approach by the Government, in the sense that the development of the private sector represents a transversal challenge, involving numerous Government agencies and activities in a broad and integrated manner, and it is not desirable and prudent to confine this issue in a single, department, office or agency, provided that each one plays its role, being also foreseen the possibility of creating a Business Development Council, responsible for the creation and growth of businesses, investment and

employment opportunities in Timor-Leste, through its leadership role in terms of Government coordination, as well as the adoption of specific measures for the private sector.

The aforementioned body also has the mission to develop special programmes for the revitalisation of Small and Medium Enterprises in Timor-Leste, including start-up businesses, support funds for business creation and expansion, training and education programmes and business development centres.

The above-mentioned body also has the mission to develop special programs for the revitalization of Timor-Leste's Small and Medium Enterprises, including start-up businesses, support funds for business creation and expansion, training and education programs and business development centres.

Thus,

The Government resolves, under the terms of subparagraph n) and o) of paragraph 1 of Article 115 and subparagraph a) of Article 116 of the Constitution of the Republic, the following:

Article 1
Approval

The Policy and Strategy for the Private Sector, the text of which is an integral part of this resolution, is hereby approved.

Article 2
Instruction on coordination of implementation

The Government member responsible for the coordination of economic affairs shall ensure and coordinate the implementation of this Policy, and the other Government members responsible for the relevant areas shall provide all the necessary collaboration for the better and more effective enforcement of this Policy.

Article 3
Entry into Force

This resolution shall enter into force on the day following its publication.

Approved by the Council of Ministers on 26 October 2022.

To be published.

The Prime Minister,
Taur Matan Ruak

ANNEX
(referred to in Article 1)



VIII CONSTITUTIONAL GOVERNMENT

Private Sector Policy and Strategy

**For the Development and Empowerment of the Private Sector and Small
and Medium Enterprises**

Timor-Leste is Open for Business

2022

OPEN FOR BUSINESS

BOOSTING TIMOR-LESTE'S ECONOMIC GROWTH AND EMPLOYMENT THROUGH THE PRIVATE SECTOR DEVELOPMENT

Within the framework of private sector development of Timor-Leste's economy and the livelihood of our people were severely affected by the COVID-19 pandemic and the floods that ravaged the territory in April 2021. Meanwhile, the instability generated by the Russian-Ukrainian conflict, particularly in the demand and supply of basic foodstuffs is having negative effects globally, with unpredictable implications for the programs of the Government of Timor-Leste, undermining the economic recovery of the country. However, on the other hand, these damaging events may enhance a new paradigm of economic opportunities, especially for the private sector.

The economy and development in Timor-Leste have been supported by revenues from oil and gas resources as well as government funding since 2007. However, Timor-Leste cannot continue to rely, in perpetuity, solely on public, Government funding. Oil and gas projects may provide or generate revenues; however, it is not ensuring an increase in the employment rate. The response found by other countries in a similar situation has been to tackle structural challenges in the economy, remove barriers to private sector development and get the economy back on track to achieve development goals.

The Strategic Development Plan (SDP) 2011-2030 sets out a comprehensive set of strategies and actions to promote national development in the long term, aiming for an annual growth of 7 % in gross domestic product (GDP), on a base, and progression of the country's status to upper-middle income. However, it appears that the investment of public funds has not been sufficient to meet the SDP aspirations. It will be necessary immediately to reorient the country's economic policies by directing them towards private sector development, targeting investment growth vectors, education and employment opportunities for our people.

The Government began the implementation of the COVID-19 Economic Recovery Plan in August 2020, the impact of which helped moderate the worst of the economic turmoil experienced in 2021. A modest recovery is expected in 2022, underpinned by strong fiscal support and a recovery of rising private consumption. Much still depends on our ability to continue to maintain control of the virus, through specific restrictive prevention measures and the vaccination that began in April 2021.

The post-COVID-19 recovery will need to build on many of the key directives contained in the Economic Recovery Plan, especially in removing structural and institutional impediments to investment, job creation, innovation and competitiveness. There is also a need, in the short term, to encourage the development of small and medium-sized enterprises (SMEs).

The policy and strategy that is advocated seeks to add to the impetus gathered in previous strategies and plans. It focuses on the development of the private sector in Timor-Leste, and in particular, enhancing and promoting the role of small and medium enterprises, to achieve the greatest impact on our economic growth and prosperity.

The role of the private sector in Timor-Leste's development

Timor-Leste has made substantial progress towards socio-economic development and socio-political stability since the restoration of independence in 2002. However, GDP growth rates have not kept pace with these rates of development and have even contracted in recent years. This is therefore an indication that progress is falling short of development goals.

To this date, much of Timor-Leste's economic activity has been driven by public sector spending, especially on the construction of the state's built structures and major road infrastructure. Government budgets have become increasingly dependent on the Petroleum Fund. There is therefore an urgent need to diversify revenue sources, as continued reliance on the public sector to drive economic growth through the Petroleum Fund cannot be reliably guaranteed for many more years.

Formal sector employment (outside the public sector) represents a small share of total employment in Timor-Leste. The informal sector, which includes subsistence agriculture, street vendors and other sales - accounts for approximately 60% of total employment. The remaining employment is absorbed by the public sector.

Although, the formal sector is small in terms of the number of people each firm employs, it is huge in terms of the number of firms. It is estimated that SMEs account for between 95 % and 98 % of formal sector enterprises.

Key pillars of private sector activity in Timor-Leste include:

- **Oil, gas and mining** - taxes and royalties from the Bayu-Undan field are channeled into the Petroleum Fund, which was valued at almost US\$19 billion in December 2020.
- **Agriculture** - while about 66% of Timorese families depend on agriculture for their livelihoods, the economic performance of our industry has not been profuse. In effect, the supply of our agricultural production does not keep pace with domestic demand, causing

an undesirable increase in food imports. It should be borne in mind, however, that there is enormous potential in the agricultural sector, requiring investment in the modernisation of production, namely through the application of agricultural practices using improved seed varieties that are more productive and have a high yield; the creation of storage and logistics infrastructures, along with the use of new approaches to business management, aimed at rapidly increasing the productivity and competitiveness of the sector.

- **Fisheries** - despite being an island nation with abundant marine resources, our country has not been able to take advantage of the opportunities available in fisheries and aquaculture. Our neighbouring countries continue to highlight how fisheries and aquaculture can be successful sectors of activity in supporting SME development. There is an opportunity to make more and better use of Timor-Leste's natural resources if the government can overcome key issues such as: logistical availability, managing access to cold chain warehouses that allow for longer shelf life of perishable fisheries products, throughout the production cycle from catch to final consumer.
- **Agribusiness and horticulture** - coffee is the second largest export product of Timor-Leste, after oil and gas. If there is support and access to external markets, the government could build on the success achieved in this area, diversifying and improving the production of the various cash crops already in existence and broadening the access of the supply chain to achieve added value, i.e. added value to products, including those of an organic nature, namely, provision and fair trade for products such as cassava, vanilla, cloves, cinnamon and other spices.
- **Tourism** -East Timor represents a new frontier and opportunities for investors and tourism operators. Key opportunities exist with regard to culture tourism, ecotourism based on the natural environment and adventure tourism. However, challenges need to be addressed, including intense competition in the Asia-Pacific region and limited supply of adequate infrastructure, skills and knowledge in the area, as well as lack of concerted advertising and marketing activities in the target markets and rising costs in passenger air transport.
- **Manufacturing** - areas identified with growth potential include agroindustry of food products for domestic and foreign markets; construction materials - cement, marble and ceramics; small-scale production of textiles, manufactured wood products, salt extraction and capturing and bottling of mineral water, among other possibilities.

There is much economic potential for the private sector to support the further development of these key sectors in Timor-Leste. Other developing nations, such as Cape Verde, have targeted private sector development alongside other structural reforms and achieved significant improvements in economic outcomes.

This policy and strategy, together with other prominent and well-designed sectoral policies, will help unlock the potential of the private sector and contribute in developing these opportunities.

Comparative Analysis: Private Sector Development*

Cape Verde is a small island economy that has implemented private sector development policies to achieve investment and employment opportunities for its people.

Background

When Cape Verde achieved independence in 1975, it faced significant challenges to economic development, including lack of infrastructure and limited education and employment opportunities.

Despite its small market size, scarcity of natural resources and relative distance from global markets, sustained economic growth was achieved as the Government pursued private sector development along with other structural reforms.

Major reforms

Throughout the 1980s, the economy was centrally planned with economic activity largely focused on import substitution. Although growth was achieved for a period of time, it was not sustainable and began to slow down. With the election of a new government in 1991, reforms were implemented aimed at transitioning Cape Verde to an open market economy and attracting foreign investment.

Key policies included trade liberalization and privatization of state-owned enterprises (including telecommunications, water, energy and banks). Subsequent reforms included improving the regulatory framework and improving the environment for investors (such as through import tax exemptions on construction materials).

Impacts of reform

Cape Verde officially graduated from least developed country (LDC) status in 2007-one of only four countries to have achieved this.

Cape Verde's economic success was underpinned by its transition from a centrally planned economy dependent on remittances and Official Development Assistance (ODA) to a market-oriented economy where private capital flows are the dominant source of external finance.

Private sector-driven foreign investment has transformed the economy and has been crucial to the development of the tourism industry, which now accounts for a quarter of GDP and 10 % of employment. Investment in other sectors, particularly fisheries, has also contributed to growth - canned tuna processing and production now generate significant exports and employment.

Supporting private sector development:

- Increased foreign investment, trade volumes and connectivity to global markets;
- Reduced dependence on ODA and remittances;

- Sustained economic growth - GDP has more than tripled since 2000;
- Reduced unemployment - the unemployment rate has halved since the early 2000s;
- Reduced poverty and increased social and economic inclusion as Cape Verde's people entered the labour force and earned higher incomes.

The Government of Cape Verde continues to emphasise the importance of the private sector for sustainable economic growth - for example, the Strategic Plan for Sustainable Development 2017-2021 emphasised the need to collaborate with international partners and the private sector in the pursuit of economic diversification.

**Sources: IMF World Economic Outlook database; World Bank 2021, 'Cape Verde Economic Update: Recovering from Crisis - Restoring Fiscal Sustainability and Leveraging the Private Sector for a More Resilient and Sustainable Recovery'; African Development Bank 2012, 'Cape Verde: A Success Story'*

The needs to act now

We must act!!! - It is a imperative time!

Timor-Leste must take specific measures in view of the imperative for a faster recovery of economic activity in the country. The policy effort should now focus on the expansion of the private sector, considering it as the main driver of economic growth, income and employment. It is vital for small economies such as Timor-Leste to encourage local producers to expand to prevent the implementation of the recent fiscal stimulus from translating into higher prices and inflation and increased imports. It should, however, be noted that the war between Russia and Ukraine is producing negative effects on the global economy with unpredictable risks if it continues for a longer period.

Much of our attention in the very recent past has been focused on encouraging investment by multinational companies in large projects. However, there is a strong tradition of involving local companies through government contracts, especially companies engaged in construction for housing and in infrastructure such as ports, roads and airports.

One key area that receives less attention in Timor-Leste is SMEs. Although small, they enjoy great potential to provide employment and development opportunities for many people in Timor-Leste. They tend to be able to respond quickly to a supportive business environment and invest and generate more employment.

It therefore appears that SME development provides us with a better opportunity to boost private sector development in Timor-Leste, to extend the benefits in education and training, employment, investment and economic growth.

Private sector development is critical to:

Reduced unemployment - the private sector is the largest creator (generator) of jobs in the vast majority of countries. Job creation lags behind the dropout rate, resulting in a substantial increase in unemployment. A young and rapidly growing population can generate a competitive advantage if employability conditions exist. Continuous unemployment and

underemployment are especially debilitating for the younger section of the population. SMEs are quick to expand employment opportunities when they see that the business environment is changing and recovery is underway.

Poverty reduction - job creation is the most effective measure to decrease poverty rates and much of the new employment in most countries comes from growth in activities taken over by the private sector.

Diversifying the economic base - encouraging business development outside the petroleum area and fostering related or supporting activities is key to making Timor-Leste more resilient and reducing risk.

Reduce reliance on public sector revenues - Timor-Leste's existing sources of public funding are limited and will not be able to support the country's economy indefinitely. Wealth creation is needed. Private sector development and investment provide a faster, more durable source of growth.

Increasing social and economic inclusion - encouraging SMEs is a crucial step in moving away from subsistence farming and engagement in the formal economy. Registered businesses pay taxes and provide more job security in skilled jobs.

Increasing productivity growth - companies and entrepreneurs invest in innovative ventures and new production facilities. They bring with them know-how transfer that promotes capacity building, as well as a strong and harsh competitive environment that stimulates innovation and progress.

Efficient infrastructure provision (delivery) - The private sector is a growing alternative source of finance to meet infrastructure investment needs and to ensure the most efficient forms of service provision and management.

Preparing for economic integration and expanding trade and investment connectivity - The private sector in Timor-Leste has strong and deep commercial and cultural ties with neighboring countries, trade and investment partners regionally and globally. The private sector will be at the forefront in seeking additional opportunities as the Association of Southeast Asian Nations (ASEAN) integration agreements and World Trade Organization (WTO) accession are finalized and concluded.

Many businesses feel that the current conditions in Timor-Leste are not supportive of business and private sector development. SMEs in Timor-Leste report that they have had many difficulties in articulating and reconciling themselves with the diversity of current regulatory, financial and administrative arrangements and supports needed to establish themselves and to prosper. Even large multinational companies, which have invested significant resources in Timor-Leste, report various types of constraints.

Companies operating in Timor-Leste report difficulties in:

- Limited access to affordable finance;

- Lack of collateral - tight restrictions on the use of land, buildings and movable property as collateral;
- Limited opportunity to purchase land and obtain title or registration of property titles;
- Poor management and business skills;
- Contract administration, commercial dispute resolution and insolvency;
- Difficulties in hiring workers, increasing their skills, productivity and competitiveness;
- Difficulties in obtaining coordinated and coherent information from policy, legislative and regulatory due diligence.
- Difficulties in obtaining information on investment incentives and other concessions;
- Providing better management and coordination to overcome cross-cutting issues;
- Instability in licensing registration - during the licensing process changes in licensing requirements occur that make it difficult to start/start a business;
- Poor judicial knowledge and experience in commercial issues and dispute resolution.

The government recognises that these constraints exist and that addressing them is critical to securing the benefits of increased private sector development in order to achieve our development goals, increase prosperity, reduce poverty, and tackle inequality. The challenges are broad and far-reaching. Boosting economic growth and prosperity through private sector development requires a range of cohesive measures and broad initiatives to overcome current barriers.

Long-term structural reforms must be pursued with vigour and commitment to ensure predictability and effective private sector participation in the economic development of the country. This is a commitment that cannot be postponed and whose implementation requires time and resources. However, the sooner the decision is made to proceed with the respective structural policy reforms, the sooner the benefits will be achieved.

Timor-Leste is Open for Business

It is wanted people in Timor-Leste and around the world to know that Timor-Leste is “Open for Business”.

Successive Governments of Timor-Leste have enacted key fundamental legislative platforms designed to provide the economic foundations for business activity and to support further private sector development. The current Government is continuing this process of developing key legislation, policy and reforms. But, much more needs to be done to

implement the legislative and policy requirements that instill confidence and assurances to the private sector to establish and develop in Timor-Leste.

The objective of this policy and strategy is to contribute to economic growth and prosperity:

- Increasing the number of businesses operating in Timor-Leste;
- Increase the number of private sector investments;
- Promote the growth of employment opportunities in the private sector, directed especially to the Timorese youth;
- To increase the availability of credit from financial institutions.

The main focus will be to provide the necessary impetus for SMEs to establish and prosper in Timor-Leste, as well as develop access to international markets to support the demand for domestically produced goods and services. It believes that SMEs are the key to stimulate Timor-Leste's economic recovery.

Focusing on SMEs allows us to provide more opportunities for employment, education and training and to increase domestic production. It allows us to direct our attention to those industries and sectors that are deemed important and necessary, and of opportunity for rapid economic growth. And it will therefore provide greater opportunities to improve the integration and participation of women, young people and people living in regional communities.

Our policy and strategy will focus on prioritising existing reforms that benefit the private sector, addressing obstacles to private sector development and providing incentives and support to businesses to establish and operate in Timor-Leste. The government will ensure harmonization and alignment of this policy with other sector policies in areas such as agriculture, fisheries and aquaculture, building and construction, mining, manufacturing and processing, and tourism.

To maximize our chances of success, the government will seek to establish partnerships with businesses, industry associations, banking institutions, education and training institutions, international development assistance partners and others to assist in the design and review of our proposed strategic initiatives.

The Government will collaborate with public institutions involved in supporting private sector businesses, including TradeInvest, IP. and SERVE, IP. and seek the support of parliamentarians and other key related entities to ensure broad engagement in the implementation of this policy.

The Government is committed to working in partnership with the business community to increase the contribution of the private sector to economic growth and prosperity. The government will work with the business community to refine this policy and to ensure that the measures to be taken reflect the needs and priorities of the business community and the wider community. The government will also continue to engage with industry and business

leaders relevant to the wider community in the course of implementing this policy and strategy to ensure that it is refined and adjusted to reflect emerging priorities and experience.

Timor-Leste must act now to accelerate its economic growth and development. Supporting the development of the private sector, including through SMEs, is an important complement, given the steps already taken by Timor-Leste to achieve WTO accession and ASEAN integration.

Timor-Leste has articulated with key stakeholders - from Government and the private sector - the draft policy and strategy and received broad support for the policy and proposed strategic initiatives. These stakeholders look forward to bilateral engagement and a coordinated approach for the implementation of these important initiatives to ensure that the private sector can grow and prosper in Timor-Leste.

Our Strategy

Our strategy builds on existing policies, including Timor-Leste's Strategic Development Plan 2011- 2030 and the Economic Recovery Plan 2020, constraints arising from the COVID-19 pandemic, and aligns with existing processes to achieve economic integration with ASEAN and WTO accession. Private sector development will be crucial to maximize the benefits of Timor-Leste's trade reform and accession plans.



1. Open for Business

Central to our strategy is a commitment to being Open for Business. As part of this commitment, the government will strive to work in partnership with Members of National Parliament to achieve (multi-party) commitment and support to private sector development. This will provide confidence to the people of Timor-Leste who seek to invest or develop skills that will support the growth of the private sector.

Key strategic initiatives to support this Open for Business approach include:

- **Establish a clear and achievable policy and strategy** – the government is committed to establishing a clear and achievable policy to develop the private sector, particularly small and medium enterprises. Our policy will set out specific, measurable, achievable, and time-bound targets. Our strategy will include initiatives to be implemented realistically and practically in the short and medium term. It will include a Roadmap setting out priorities and actions, responsibilities and timelines for implementation. This strategy will be supported by the development and implementation of more detailed sectoral plans that integrate broader and more specific actions at the sectoral level, including for agriculture, fisheries and aquaculture, construction, manufacturing and tourism.
- **Promoting a consistent Open for Business message** – the government will undertake a communications and engagement programme led by us, Government, signalling our commitment to private sector development and proposed initiatives. The initial programme will focus on defining and prioritising the key elements of our strategy to

encourage private sector development through a working group comprising, in addition to Government representation, leaders from the business community, banking institutions, education and training institutions, development support partners and others. The Government will also conduct an awareness and enlightenment campaign in the public sector on the role and importance of the private sector in achieving the Government's objectives.

- **Adopt an integrated and holistic approach to Government** - Private sector development represents a challenge that cuts across numerous Government entities and activities. Hence, it is not prudent and desirable to confine the issue to a single entity. It is crucial to ensure that each entity plays its role.

This strategy proposes actions and an implementation roadmap that will need to be adopted across Government as well as agencies, including regulatory bodies and other institutions. The strategy will evolve as circumstances change and as the needs of the private sector and other partners change. Given the importance of the initiative, the government propose the following key pillars for our approach:

- The Prime Minister will sponsor the approval of this policy and the, eventual, related policy changes;
 - The Minister overseeing economic affairs will be responsible for policy coordination and oversight of government and private sector stakeholders on this policy and strategy, including its future review;
 - Relevant ministries will be responsible for specific initiatives requiring changes in policy and legislation that are within their remit;
 - A new body will be responsible for monitoring the implementation of this policy, including coordinating actions between public entities and applying specific measures where necessary.
- **Establish an Enterprise Development Council** - the Enterprise Development Council will be responsible for business creation and growth, investment and employment opportunities in Timor-Leste, through its leadership and government coordination role, and the adoption of specific measures, including:
 - Establish an optimal contact point for businesses seeking to start or expand, including in targeted and specific industry sectors;
 - Facilitate access to start-up finance, business premises, technology support and compliance with legislation, regulations and related business registration requirements;
 - Support capacity building, mobilise local human resources with the necessary skills, as well as the design of incentives and training grants

- Develop special programs for the revitalization of Timor-Leste's SMEs, including business start-ups, support funds for business creation and expansion, training and education programs, and business development centres
- Work with other government agencies to promote a favorable business environment in Timor-Leste.

To ensure and maximise trust in the Business Development Council, it will be important to prevent politicisation of this body. The Board will include members with recognized experience in business development and management. It will be accountable for its performance to the Government of Timor-Leste and will report to the Government member responsible for economic affairs.

The Business Development Council will work closely with TradeInvest, IP. while maintaining its independence and specificity, and cannot underestimate that its business focus is to establish and encourage the growth of small businesses rather than trade and foreign investment.

It is recognised that the Council will need to have strong links with the Chamber of Commerce and Industry and TradeInvest, IP. In determining the composition of the Council, consideration will be given to including a representative from the Chamber of Commerce and Industry on the Council.

- **Companies Act** - The Government of Timor-Leste approved the Companies Act, Law No. 10/2017, of 17 May, as well as Government Decree No. 28/2017, of 12 July, to speed up procedures for the commercial registration of companies. This latter legal provision included forms and application templates - in Portuguese and Tetum - to facilitate, in time and costs, the preparation of legal documents for the incorporation of commercial companies.
- **Extend registration to small and medium enterprises** - SERVE, IP. is now operational, but business registration needs to be extended to capture community and non-profit organisations and cooperatives under a "one-stop-shop" process. Encouraging large numbers of informal sector producers to register as a "company" would be a useful step to encourage their entry into the formal market economy.
- **Consolidate the business licensing framework** - the legislative framework for business licensing, currently being reviewed and amended by the office of the Coordinating Minister for Economic Affairs, will need to be complemented by the enactment of the legal framework for sectoral licensing. The implementation of these amendments, and the respective sectoral licensing, will require coordination between public entities, particularly for the licensing of economic activities that actually require licensing.
- **Finalize the insolvency law** - the VIII Government has recently approved the request for legislative authorization to the National Parliament, regarding the Insolvency Law. It is expected that the respective request will be approved by the National Parliament soon.

The Insolvency Law is a complex piece of legislation that requires an effective framework of complementary laws and procedures. Its implementation will require capacity building and training of human resources.

2. Encouraging and supporting business start-ups

- **Review taxation and other government incentives** - Timor-Leste's current tax arrangements should be reviewed to consider the implementation of a value added tax (VAT) regime and the costs imposed by the government for the establishment of SMEs to ensure that there are adequate incentives for business creation, including start-up's and the transition from the informal sector to the formal sector with employees.
- **Identify small-scale public-private partnerships** – the government will work with the private sector to identify and establish partnership mechanisms to enable certain public services to be outsourced by Government to the private sector. This could include the acquisition and leasing of existing state assets and properties to provide tourism services.
- **Improving the start-up and expansion support mechanisms for small and medium enterprises** – the government will deepen the seed funding scheme for SMEs that wish to start, grow and expand their business activities in Timor-Leste. The credit scheme, complemented whenever necessary with recourse to grants, oriented towards priority sectors such as agriculture, fisheries and aquaculture, manufacturing, tourism and cultural activities. Support for the main traditional arts and crafts - filigree, weaving and traditional textiles - will also be included in this scheme. A main focus will include encouragement for young people and people with clear entrepreneurial skills and also provide a training ground for others.
- **Leveraging development assistance partnerships** – the government will push development assistance partners to accelerate and prioritise emerging plans for private sector development. The additional investment in Enterprise Development Centres established under the various small business projects is a valuable resource that deserves more support from the international community and the Government of Timor-Leste. The new Business Development Council will seek to strengthen these programs.
- **Digitising Government processes for business** - priority will be given to the further deployment of digital platforms to support critical business processes across Government. This measure requires the passage of legislation to ensure that online platforms can be used to support government processes. The digitisation of procedures requires the creation of human resource valences and the development of communication material and guidance guides to ensure that human resources and businesses can effectively use these digital platforms.
- **Fast-tracking fibre optics to support increased digitisation of business operations** - the Government has entered into an agreement with the Australian Government to

secure fibre optic cable from North Australia to Timor-Leste. This agreement is currently being implemented and is expected to be concluded shortly. On the other hand, the current Government has also approved alternative proposals for private investment in optical fibre. The establishment and operationalization of fiber optic connections in the country allows the digitalization of public and private services, boosting the speed and efficiency of transactions and, consequently, the economic and social development of Timor-Leste.

3. Improving access to credit and financing

- **Enhancing credit schemes to support SMEs** - it is important to review and update the existing credit guarantee scheme to assess and ensure its suitability to the needs of SME investors. The main focus will be to enable greater access to credit for start-up business and micro-enterprises and cooperatives and to reduce the cost of credit. The review should include clarifying the terms of government support for SME credit and the conditions for participation in the scheme.
- **Complete the development of the land title registration system** – Timor-Leste will complete the legislative programme and establish a functioning system for the registration of land titles and other important assets. These measures are designed to provide clear property rights to support collateral against which borrowers can apply for credit and creditors can have access in the event of business failure.
- **Review of banking laws** – The government will need to review banking laws with particular emphasis on increasing competition and improving access to credit to finance business investment needs. The authorities will need to be sensitive to the emerging importance of a variety of non-formal and cross-border sources of credit and appreciate their contribution to financing the growth of economic activity in Timor-Leste. This review will aim to consider the provision of credit, either from private banks or through non-bank lenders, which may present financing with more competitive conditions and properly secured (safeguarded).
- **Establish a code of conduct for lending to SMEs** – the government will work with banking institutions to ensure that their existing codes of practice are expressed in simple terms that are easy to understand and meet the needs of SMEs. The codes should be simplified in their expression of legal and other requirements and clearly express issues related to the definition of the financing and the type of collateral to be accepted to secure the credit. Furthermore, banking institutions should expressly state how they will administer the requirements, including the recovery of collateral in the event of default.

4. Building business capability

- **Building business management skills** – the government will work with industry associations and education and training institutions to develop professional accreditation and courses related to business planning and management. Areas of emphasis will include strategic planning, business case development, accounting and finance, contract management and marketing. It is intended to assess how these

professional courses are delivered, including the possibility of support for the development of a professional business school.

- **Adopt national accounting and auditing standards** – the government will work with accounting professionals to develop and apply agreed national accounting and auditing standards to be adopted by companies in accordance with the Companies Act and the Tax Act. This measure seeks to structure and develop accounting skills for SMEs.
- **Include business skills in school curricula** - General secondary school curricula should be updated to incorporate education on the role of the private sector, and introductory level business skills, including accounting, finance and law. In addition to increasing financial literacy, the initiative will develop skills and opportunities for students on the possibilities of future ventures and understanding how the monetised economy works.
- **Enhancing relevant business skills in Technical-Vocational Secondary Education (ESTV)** – the government will upgrade ESTV programmes to incorporate into vocational training information on the importance of the role of the private sector and enhance education and training in business and administrative and technical skills in specific areas (including agriculture, horticulture, and tourism, etc.). Scholarships will be provided to encourage new trainees to improve their skills in relevant areas through part-time participation in ESTV courses and provide a "second chance" for older students to return to ESTV to gain relevant and necessary skills in the event that they start a job as a trainee.
- **Train trainers in business skills** – the government need to increase the number and training capacity of our schools and the ESTV system to teach business skills and financial literacy. The government will provide scholarships to fund training and development opportunities for professionals trained in business skills. Doing so is critical to rapid progress including the teaching of basic business skills in schools and the ESTP system.
- **Provide grants and incentives for vocational training** – the government will establish a funding scheme that will provide tax relief and/or grants to businesses to encourage them to enhance the capabilities of their employees through vocational training in business skills or in technical areas related to participation in specific sectors (especially, in agriculture, horticulture, fisheries, construction, manufacturing, tourism, accommodation, hospitality and related areas). The scheme will be managed by the new Business Development Council proposed here.

5. Improving contractual and dispute settlement mechanisms

- **Establishing faster and simpler mechanisms and procedures for resolving disputes over breaches of contract** – the government will promote the adoption of relevant legislation to introduce faster and simpler mechanisms and procedures for resolving disputes over breaches of contract, including related regulations if necessary.

- **Increasing the capacity of courts to adjudicate civil matters, including in relation to contractual and commercial disputes** – the government will need to expand funding so that courts have the capacity to schedule and adjudicate civil matters in a timely manner, and to provide training to improve judicial knowledge and experience in relevant commercial and business matters
- **Apply alternative dispute resolution mechanisms** - Parliament passed Law No 6/2021 of 31 March approving the Legal Regime of Voluntary Arbitration, which applies to both domestic and international arbitration cases. The government will work with our development assistance partners to seek seed funding for the establishment of a pre-funded panel of arbitrators and mediators to accelerate its operation and speed up dispute resolution.

6. Developing and improving access to international markets

- **Securing Timor-Leste's agreement and engagement with WTO, ASEAN and other organizations** – the government is working, so that Timor-Leste has open market access at regional and global level, in a transparent and accountable manner, with international market access standards. This work will support further expansion of national business activity, enabling access to international and export market advantages and opportunities.
- **Revitalize Timor-Leste's marketing and investment promotion** – the government will revitalize our marketing and promotion efforts by establishing the Timor-Leste Marketing and Investment Promotion Council with a key focus on identifying international markets for domestic production, integrating small businesses in Timor-Leste into global and regional supply chains.
- **Revitalise participation in international trade and investment fairs** - there is a need for Timor-Leste to actively participate in international trade fairs that provide opportunities for our country to demonstrate that it is open for business. These fairs tend to provide an important opportunity for marketing and exposing to the business world our quality products, goods and tourism experiences.
- **Finalise certificate of origin accreditation requirements** – the government will finalise the processes that certify where goods are grown, produced or manufactured. Certification of origin is increasingly required by foreign importers when exporting to specific countries, when requested by the recipient for customs clearance, or when stipulated in a certification of origin letter of credit, will give confidence to international buyers that goods certified as originating in Timor-Leste are genuine.

Monitoring performance against this policy and strategy

The objectives of this policy and strategy are to contribute to economic growth and prosperity by:

- Incremental increase in the number of enterprises operating in Timor-Leste
- Increase in the number of private sector investments;
- Increased employment opportunities in the private sector, particularly for the Timorese youth
- Increased availability of credit from financial institutions.

The Business Development Council will develop a set of simple key indicators and metrics to assess performance and provide a "traffic light" report to constantly monitor performance. These reports will be taken into account in the consultations and performance discussions to be held under this strategy.

Progress in the delivery of each of the initiatives and the strategic outcomes achieved under this policy will be actively monitored and evaluated.

- **Quarterly** - the Business Development Council will meet quarterly to monitor progress against agreed strategy implementation milestones and to address any emerging issues.
- **Annually** - a forum will be held with key stakeholders to share progress in implementing the initiatives undertaken and encourage relevant feedback to improve the actions achieved and identify further emerging priorities. This will involve a wide circle of relevant stakeholders such as:
 - Large and small, new and established companies;
 - Domestic and foreign owned companies;
 - Chambers of commerce and industry associations;
 - Development assistance partners, including multilateral banks.
- **Within 5 years** - before the end of the implementation period, the Government shall undertake a formal review of the results of the execution of this policy and consider whether or not it is necessary to update the policy with new initiatives to enhance the contribution that the private sector can make to Timor-Leste's economic growth, including through foreign investment and international trade.

These forums with key stakeholders, facilitate evaluation and allow us to consider whether the adopted strategy and roadmap need to be updated with emerging priorities.

Developing a roadmap for implementation

This Open for Business policy and strategy will be built in partnership with business, the community and across Government. The government will develop a roadmap, in consultation with key stakeholders, that will set out the implementation mechanisms for the various initiatives in our strategy to promote private sector development.

The government will focus our performance over the next three to five years, starting in 2022. While this timeframe includes election periods and the possibility of a change in Government, our consultation and engagement will be inclusive of all political parties, recognizing our common interests in developing a prosperous Timor-Leste.

The next phase of our policy and strategy development process will engage with key stakeholders, namely the private sector to ensure that our policy intent and strategic initiatives are supported, providing a better opportunity to contribute to Timor-Leste's economic growth through the development of enabling environments for the private sector, particularly for SMEs.

Our subsequent engagement in this policy and strategy will also allow us to prioritize the implementation of various initiatives and update the development of an implementation roadmap.

Our roadmap will indicate those programs and activities to be implemented immediately (short term), those programs and activities that should be carried out in the next 1-2 years (medium term) and those that will take three or more years (long term) to implement.

The roadmap will set out:

1. The priority, sequence and timetable of initiatives over the next five years;
2. The main responsibilities and accountabilities within Government for overseeing the implementation of each of the strategic initiatives;
3. The key stakeholders who will be instrumental in partnering with Government in developing detailed approaches to each of the strategic initiatives.

Next Steps

The next steps to be considered in the Road Map include the following. Examples are provided of the priorities (within each step) that may be subject to refinement, according to the interest of key stakeholders.

Step 1: 2022 – Start

- Commit the Government of Timor-Leste to initiate this strategy;
- Communicate that Timor-Leste is "Open for Business
- Establish the Business Development Council;
- Initiate the consultation framework;
- Initiate legislative and regulatory reviews (e.g. of banking provisions);
- Update this roadmap.

Step 2: 2023 - Most Immediate Actions

- Implement more urgent measures - especially those involving administrative changes;
- Prepare and submit enabling legislation where necessary (from reviews);
- Prepare regulatory changes and budget amendments to fund new schemes and assistance;
- The Business Development Council and TradeInvest, IP. to indicate "Open for Business" programmes and support;
- Continue consultation;
- Review performance and update roadmap.

Stage 3: 2023-2025 - Medium term

- Implement measures (taxation/taxes, credit support, assistance schemes, school curricula for business competencies, etc.);
- Develop digitalisation tools and establish digital systems for interaction with the private sector (e.g. tax and business registration);
- The Business Development Council and TradeInvest, IP. to present "Open for Business" programmes and support;
- Consult, review performance and update the roadmap.

Stage 4: 2026 onwards - Consolidation

- Implement legislative and regulatory changes;
- Communicate changes and provide guidance to practitioners;
- Apply new digital tools across the Government of Timor-Leste;
- Build capacity and expertise through training and development programs;
- Review performance, update Roadmap and extend or expand strategy where necessary

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