



SOCIO-ECONOMIC IMPACT
ASSESSMENT OF COVID-19 IN
TIMOR-LESTE, ROUND 2, 2021:
Micro, Small and Medium
Enterprises Survey



Research Team

Dolgion Aldar (SEIA-2 Team Leader, UNDP), Vikram Gharti (MSMEs Survey lead), Roderick Buiskool (IUNV UNDP), Firuz Shukurov (Country Economist UNDP), Manlaibaatar Zagdbazar (Data and modelling expert), Enkhbayar Sundui (CAPI Expert), Avelino Maria de Jesus Marçal (MSME survey focal point GDS), Martinho Celcius Yeros (MSME survey focal point, GDS), Cristino Gusmao (National Director of Economic and Social Statistic GDS), and Munkhtuya Altangerel (Resident Representative, UNDP Timor-Leste).

Acknowledgement

The Micro, Small, and Medium Enterprises (MSMEs) Survey as part of the Socio-Economic Impact Assessment of COVID-19 in Timor-Leste, Round 2 (SEIA-2) was led by UNDP and conducted in collaboration with the General Directorate of Statistics of the Ministry of Finance in Timor-Leste, and the Ministry of Coordination for Economic Affairs (MCAE).

Great appreciation is extended to Mr. Elias dos Santos Ferreira (Director General of Statistics) and Mr. Cristino Gusmao who led the GDS team and provided essential support for the preparation and implementation of the data collection in challenging times under COVID-19 restrictions. We appreciate the hard work of the GDS trainers Antonio Claudio Belo, Octaviana Maria de F. S. Lemos, Nani Rolanda P. C. Costa, Alzira Doutel, Laura de Jesus Moreira, Domingos Antonio da Costa Freitas, Alsindo Martins, Domingos Sebastião Freitas, Rosantina da Costa Cruz Sarmento, Geovania Maria da C Vieira and Joao Soares Gusmão. We also would like to thank Silveiro Martins Pinto, Finance Officer of GDS who provided valuable support at all stages of the survey.

Technical Team of Ministry for the Coordination of Economic Affairs provided valuable inputs to the design of the questionnaire: Cesar Dias Quintas, Emanuel Antero Garcia da Veiga, Florentina Smith, Fernando Carvalho de Araujo, Yoan K. Castells, Leonesa Fortes, Sara López and José Manual de Andrade.

SEIA-2 team expresses its gratitude to the UN Resident Coordinator, Roy Trivedy, and the entire UN Country Team in Timor-Leste for providing overall guidance and support. This study benefited from comments and feedback from all UN agencies in Timor-Leste including Ricardo Santos from UNDP, Frank Eelens and Bart de Bruijn from UNFPA, Rita Fernandes from ILO, Claude Mpirat from UNCDF, Gerson Alves from RCO, Carol Boender and Wai Shan Chan from UN Women, and the UN Volunteers. In addition, UNDP staff Lazima Onta-Bhatta, Angelina Gusmao, Cosme Boavida, and Ahmad Zubair provided invaluable support throughout the SEIA-2.

We thank the dedicated team of supervisors and interviewers from 13 municipalities who interviewed the communities and collected quality data whilst adhering to COVID-19 safety protocols. We would also like to sincerely thank all the businesses in all municipalities across Timor-Leste who participated in the questionnaires and interviews for being open and willing to share their stories and experiences. We would also like to thank the numerous individuals in government offices, institutions and organizations around the country who shared their time, expertise, and insights to understand the impact of COVID-19 on micro, small, and medium enterprises within the country.

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List of Abbreviations

ADB	Asian Development Bank
BNCTL	Banco Nacional de Comércio de Timor-Leste
COVID-19	Novel Coronavirus 2019
CSOs	Civil society organizations
EAs	Enumeration areas
ERM	Economic Recovery Measures
GDS	General Directorate of Statistics, Ministry of Finance
GoTL	Government of Timor-Leste
ILO	International Labour Organization
KII	Key informant interview
MCAE	Ministry for the Coordination of Economic Affairs
MoF	Ministry of Finance
MoH	Ministry of Health
MSSI	Ministry of Social Solidary and Inclusion
MSMEs	Micro, small, and medium enterprises
PPE	Personal protective equipment
RAEOA	Special Administrative Region of Oé-Cusse Ambeno
SDGs	Sustainable Development Goals
SEIA	Socio-Economic Impact Assessment (SEIA-1 refers to SEIA Round 1 in 2020, SEIA-2 refers to SEIA Round 2 in 2021)
SIDS	Small island developing state
SoE	State of Emergency
TAF	The Asia Foundation
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WHO	World Health Organization

Executive Summary

Background

The global economic downturn due to the COVID-19 pandemic is having a disproportionate impact on low-income and emerging economies. Timor-Leste experienced the largest GDP contraction since its independence, significantly worse than the income loss during the 2006 civil unrest, and the 2017 political deadlock (IMF, 2021)¹. In March 2021, the Government of Timor-Leste (GoTL) introduced lockdowns and other restriction measures to prevent the spread of COVID-19. These restrictions along with the global economic slowdown and oil price uncertainty plunged the local economy into severe contraction with expected real GDP per capita to slip down to the 2009 level. Timor-Leste's non-oil businesses, represented mostly by micro and small enterprises, continue to be squeezed by the fallout of the COVID-19 crisis with looming long-lasting negative outcomes.

Based on the rapid Socio-Economic Impact Assessment of COVID-19 (SEIA-1) conducted by the United Nations (UN) with the technical lead of the United Nations Development Programme (UNDP) Timor-Leste in 2020, the private sector had been heavily impacted by the pandemic with 81.0 percent of micro, small, and medium enterprises (MSMEs) reported a loss of income, 26.0 percent reporting difficulty in paying staff, and 65.0 percent reported a drop in demand. The businesses surveyed in SEIA-1 reported that there had been a more negative impact to women employees of MSMEs compared to men.

The Government introduced an economic stimulus package through the dedicated COVID-19 fund to support living standards, preserve jobs, and protect businesses to mitigate negative repercussions of public health protection-related restrictions. The government's fiscal response to COVID-19 has been significant and helped offset some of its indirect impacts. These measures provided some relief in mitigating income losses, even if they were delayed by planning and implementation challenges. Overall, \$333.2 million was allocated for the COVID-19 Fund (MoF, 2020), of which \$228.5 million was specifically allocated for '*social support and economic rescue to the population, affected by activities to prevent and fight the disease COVID-19 (MoF, 2020)*'.² This was one of the largest relief packages in the world – representing 21.1 percent of the forecasted \$1.582 billion GDP in 2020 (GoTL, 2020)³ compared to 1.7 percent to 6.6 percent of GDP for developing countries in Asia and the Pacific⁴. On 23 April 2021, the allocation to the COVID-19 Fund was further increased to \$217.5 million.

The resource allocation faced competing choices between health, social and economic priorities. The public health measures were crucial to prevent the spread of COVID-19 in 2020, however they had a considerable downturn impact on economic activity. Most of the fiscal support has been

¹ Estimation varies from 6.8 percent (World Bank) to 8 percent (Ministry of Finance and General Department of Statistics)

² Relatorio Financeiro Annual do Fundo COVID-19, Ano Fiscal de 2020.

³ 8th Constitutional Government, Economic Recovery Plan, August 2020.

⁴ UN ESCAP, 2021, Economic and Social Survey of Asia and the Pacific 2021, Towards post-COVID-19 resilient economies.

spent on households through measures, such as cash transfers (in May 2020) and emergency food distribution (December 2020 – May 2021). Additionally, stimulus policies were also adopted to support MSMEs, which included \$42 million for employment social security subsidy, \$7 million on wage subsidy providing 60 percent of wages for registered firms, \$5 million on a credit moratorium, and about \$3.87 million on utility subsidies (electricity and water) (MoF, 2021)⁵.

The economic stimulus and response package, consisting of 19 strategic measures, was further enhanced through a short-term economic recovery plan (GoTL, 2020)⁶. The purpose of the plan was to counteract the expected negative effects of COVID-19 on the economy, support households and businesses, and cushion the economic impact of the health emergency. Two cornerstones of the government economic recovery plan, which included saving jobs and supporting MSMEs income, were discharged through the following components:

- Economic resumption support grant (recovery subsidy) - the purpose was to have employers resume economic activity.
- Social security Contributory exemption - the objective was to support the liquidity of businesses.
- Special support for informal sector workers - to support all self-employed and informal sector workers.

Scaling up the rapid SEIA-1 conducted by the UNDP in 2020, the SEIA-2 MSME survey expands both the themes and the coverage of the MSMEs to assess the impact of market conditions on MSMEs and their employees due to the prolonged COVID-19 pandemic and the associated state of emergency (SoE) in Timor-Leste. UNDP, with the Ministry of Finance - General Directorate of Statistics (GDS), and Ministry for Coordination of Economic Affairs (MCAE), conducted SEIA-2.

The aim of the assessment is to inform the economic recovery responses and policy decisions to support the private sector and MSMEs in Timor-Leste. The scope of the MSME survey was:

- To assess the impact of COVID-19 on operations and outlook of formal and informal MSMEs
- To assess the impact of COVID-19 on MSME employees
- To assess the impact of government measures on MSMEs
- To provide in-depth analysis of the impact on MSMEs by different stratification
- To provide policy recommendations to effectively support business continuity of MSMEs through the pandemic and its challenges.

Studying the impact of COVID-19 on MSMEs is crucial in the context of Timor-Leste. MSMEs are critical for employment, where the share of youth Not in Employment, Education, and/or Training (NEET) is 21 percent (ILO, 2016)⁷. The 2020 UNDESA report on MSMEs and the Sustainable Development Goals, estimates that globally four out of five new jobs in the formal sector were

⁵ Ministry of Finance, 24 August 2021, Progress Execution COVID-19 Fund.

⁶ Government Resolution 28/2020, August 19, 2020, on Approving of Short-Term Economic Measures to Mitigate the Impact of Economic Hardship Caused by COVID-19 Under the Economic Recovery Plan.

⁷ Timor-Leste Labour Force Survey 2016.

generated by MSMEs. In addition, informal MSMEs generally engages and employs poor and marginalised people⁸.

Methodology

The data for the SEIA-2 MSME survey was collected between 3 August and 28 August 2021 from all 13 municipalities. A mixed-method approach was used to collect the data for formal and informal MSMEs:

Sampling for formal MSMEs. The survey used two datasets to ensure completeness of the sampling frame. The first dataset included a list of 7,710 firms from the Ministry of Finance (MoF) that were operational and paying taxes before the COVID-19 State of Emergency (SoE). The second dataset of 4,304 firms was obtained from SERVE and included MSMEs that were registered in 2020.

The sampling method had a two-stage sampling. In Stage 1 in municipalities outside of Dili, sucos with more than ten MSMEs were identified to avoid the costly and time-consuming exercise of finding and interviewing businesses whereas in Dili, random sampling from all sucos was conducted. In Stage-2, a systematic sampling of MSMEs was conducted.

Sampling for informal MSMEs. Given the nationwide coverage of the SEIA-2 Household survey, the survey dataset was used to create the sample frame for the MSMEs in the informal sector. Through the household survey, own-account workers and unregistered businesses were identified and the sample of informal businesses was drawn from the individuals' database. Out of 4292 households interviewed (with 14,134 individuals aged 15-65 years old) in the household survey, 3,188 individuals from 1,295 households were identified as informal workers who only sell or mainly sell agricultural products or were self-employed with unregistered businesses. They fit our definition of informal MSMEs and formed our sample frame.

The sample of informal businesses consisted of 404 MSMEs in 23 sucos. Enumerators visited identified informal businesses and households (if the business is home-based) after the household survey. To reduce travel cost and time, the suco selection between formal and informal were aligned. Where there were only a limited number of informal MSMEs in the sucos, all were selected into the sample. To the extent possible, we selected sucos where both formal and informal MSMEs overlapped.

Therefore, the results of this survey for both the formal and informal MSMEs are representative of the distribution as found in the survey and not nationally representative.

Data collection: Face-to-face interviews were conducted with **1,086 MSMEs** (708 formal, 378 informal) via CAPI (computer-assisted personal interview) method. Three sets of questionnaires were prepared for active, closed and yet to start businesses. A total of 13 key informants and in-depth interviews were conducted with government stakeholders, MSME owners and the private sector. With COVID-19 movement restrictions, the SEIA-2 MSMEs study is the only comprehensive research undertaken for the business sector in the country with the GoTL support. In addition, the

⁸ 2020 UNDESA report on MSMEs and the Sustainable Development Goals

assessment of the informal sector under SEIA-2 uses the recommended approach outlined by the Asian Development Bank⁹.

Key findings of the SEIA-2 MSME survey

This study highlights how the COVID-19 SoE magnified many of the underlying vulnerabilities within the country, including lack of basic infrastructure, reliance on imports, limited productive activities in the country, limited access to government services and limited technological capabilities. COVID-19-related negative impacts on formal and informal MSMEs in urban and remote areas have been exacerbated by the prolonged SoE. The employees of the MSMEs have also been impacted, however, the impact was more severe on women than on men.

Although some MSMEs were able to take advantage of the market conditions and grow, most MSMEs reported being negatively impacted due to the prolonged COVID-19 related SoE. The MSMEs segment consisted of 65.3 percent formal and 34.7 percent informal enterprises; the proportion of informal business outside of Dili was 51.6 percent. **The private sector in Timor-Leste is concentrated with micro enterprises which accounted for 92.4 percent of the MSMEs in our survey.**

At the time of the fieldwork, 19.7 percent of MSMEs were inactive and 80.3 percent were active. Many of the active MSMEs were struggling with the prevailing market conditions with **38.2 percent reported being very concerned, and overall, 90.1 percent reported being concerned about the sustainability** of their enterprise.

Most formal MSMEs, particularly in Dili, were impacted by the SoE restrictions. Informal MSMEs remained less effected by the restrictions but they were also impacted by the emerging market conditions due to the SoE restrictions. It should be noted businesses that stopped their activities during the SoE only micro businesses while all small and medium businesses are currently active.

Key findings for active businesses:

- **Severity of impact by sector:** The key factors influencing the severity of COVID-19 impact on formal and active businesses are the closure of business operations, supply disruptions, and decrease in income. Using a structural equation model, the study identified tourism, accommodation, and arts and crafts as being severely impacted. Cafés and restaurants, retail trade of imported goods, transport, and private construction were identified as moderately impacted. Other sectors were mildly or not impacted.
- **Disruption to supply chain:** 50.5 percent of MSMEs reported it was taking them longer to receive supplies and for most of these enterprises, the delay ranged from a few weeks up to three months. In addition, 3.3 percent of MSMEs were unable to receive their supplies during the SoE. Due to supply disruptions, formal businesses in construction, infrastructure, and other services lost more revenue than other formal businesses and 31.1 percent of all formal businesses experienced supply disruptions since March 2020.

⁹ ADB, 2011, A handbook on using the mixed survey for measuring informal employment and the informal sector.

- **Access to market/customers:** During SEIA-1 in 2020, 77 percent of the businesses had reported access to market was a major difficulty with limited transport. Although access to the market had improved since, 33.9 percent of the MSMEs still could not reach customers at the time of the survey. Only 4.0 percent of the businesses surveyed had adjusted their operating model and selling from fixed locations to reach customers and adapt to the market conditions.
- **Inflationary pressure:** Like many island nations, Timor-Leste imports most of its products from other countries and is impacted by inflation in those countries. The price of supplies had increased for 37.3 percent of the MSMEs, mainly for daily consumables and consumer goods. Additionally, 25.2 percent of the businesses also reported an increase in their operating expense. Some of the increase in cost had been transferred to consumers with 34.1 percent of MSMEs increasing their sales price.
- **Demand and sales:** The restrictions on the movement made it difficult for businesses to reach their customers, and lockdown also reduced demand from institutional or business customers. International border closure crippled tourism and other businesses that primarily relied on tourists. MSMEs have had to increase their sales price to cover the increase in their operations and supply cost. Against this backdrop, it is no surprise that 72.0 percent of the MSMEs reported reduced demand for their products and services. Domestic sales to private customers had decreased for 77.1 percent of the MSMEs, domestic sales to business customers had decreased for 24.3 percent and exports had dropped for 3.6 percent of MSMEs.
- **Impact to income:** The income of 66.4 percent of the MSMEs had decreased in 2020, compared to 2019. Decrease in income was proportionally higher for the informal sector with 70.1 percent, compared to 63.9 percent in the formal sector. Few MSMEs, 8.7 percent of total surveyed, reported an increase in income made up of 12.7 percent of formal MSMEs and 2.3 percent of informal MSMEs.
 - Most formal businesses (70.4 percent), especially micro-businesses responded that their income decreased.
 - Despite more MSMEs reporting a loss in income, the dollar value of the increase reported was higher than the loss in income reported, however, the amount of increase was concentrated to few businesses in the infrastructure construction sector. Female-owned businesses income dropped by 21 percent, while male-owned and joint-owned businesses income increased by 97 percent and 105 percent respectively.
- **The expected income** for 2021 had 41.9 percent of formal and 40.0 percent informal businesses projecting a decrease in income in compared to baseline year of 2019. This sentiment is the same in all groups (regardless of sector, size, gender of owner, location, formality, and involvement in international trade).
- **Use of technology:** Use of technology remained low in Timor-Leste with 44.3 percent of the MSMEs reporting that they did not use any technology for their business. With the formal sector, information technologies (IT) capabilities existed with 74.4 percent, but only

27.2 percent of informal businesses reported they had IT capabilities. Most of the IT capabilities used by businesses were limited to telephone order taking, the use of internet, social media, and smartphone. The underlying infrastructure to support e-commerce and online transactions were almost non-existent. Few banks had introduced electronic fund transfer point of sale machines which were used at retail stores. Two telecommunication companies had introduced mobile wallet and fund transfer services, and recently banks and telecommunication companies had introduced bank-to-wallet and wallet-to-bank features, but acceptance of these technologies remained low.

- **Economic support measures:** The awareness of GoTL economic recovery measures varied by location and the registration status of the MSMEs. More than half (57.0 percent) of the MSMEs reported they were aware of the support measures; outside of Dili, the awareness dropped to 39.4 percent of the MSMEs compared to 65.9 percent of MSMEs in Dili. The awareness was also lower with informal businesses with 44.9 percent reporting they were aware of the support measure.
 - Proportionally, more female-owned informal businesses (51.3 percent) were aware of government support measures, compared to male-owned informal businesses (37.4 percent). Female-owned formal businesses had less participation (42.7 percent) than male-owned (48.0 percent) and jointly owned (64.9 percent).
 - For informal businesses, a lesser proportion of male-owned informal businesses participated (32.9 percent) in the programmes compared to female-owned (39 percent) and jointly owned informal businesses (62.5 percent)
 - The support measures available for formal and informal MSMEs were attached to eligibility requirements. Therefore, the participation in support measures was even less than MSMEs' awareness. Other than electricity subsidy, which was a universal support measure, 10.2 percent or fewer MSMEs participated in any individual support measures. The effectiveness of economic support measures for MSMEs remained low despite GoTL effort who allocated the biggest fiscal policy for COVID-19 prevention and economic recovery in the region.
 - Looking at key policies and support measures aimed at MSMEs to mitigate the negative impact, MSMEs were most aware of and participated in the electricity subsidy, the employees payment subsidy, and the employer social security contribution postponement. Although the participation rates were not statistically different between impact severity groups, severely affected MSMEs participated more in government measures such as electricity subsidy and employees payment subsidy.
- **Female-owned businesses:** In terms of an increase in sales price, 30.0 percent of female-owned businesses reported an increase in their sales price, compared to 34.9 percent for male-owned businesses, and 40.3 percent for jointly owned businesses. At the same time, a higher proportion of women-owned businesses reduced their sales prices for their products and services, at 17.2 percent, as compared to only 11.3 percent of male-owned businesses, and 14.7 percent of jointly owned businesses. In terms of the cost of supplies,

39.3 percent of women-owned businesses reported an increase in the cost of supply, compared to 36.3 percent of male-owned businesses. Women-owned businesses faced higher costs than men-owned businesses, yet they remained more conservative with their pricing strategy than men-owned businesses with fewer women increasing prices and more women reducing prices to adjust to the market conditions. More women-owned businesses were sensitive to the market conditions and adjusted their price accordingly rather than increasing sales price in a market that was already stressed with low demand.

The pricing strategy adapted by women-owned businesses led to proportionally better outcome for income of the women-owned businesses. Overall, higher proportion, 9.4 percent, of female-owned businesses reported an increase in income as compared to 8.6 percent of male-owned businesses; and lower proportion, 63.3 percent, of female-owned businesses reported a decrease in income, compared to 67.9 percent of male-owned businesses. Despite proportionally reporting better outcomes with income, 44.2 percent of female-owned businesses reported being very concerned, compared to 33.6 percent of male businesses in terms of business continuity.

Key findings for inactive businesses:

- **Closed businesses:** Smaller sized businesses were impacted more than bigger-sized MSMEs. The closed businesses consisted of 90.9 percent micro-businesses and 9.1 percent small businesses; there were not any medium-sized businesses that had closed in the survey. Almost half, 49.7 percent of the closed enterprises were MSMEs in the infrastructure construction sector which was heavily impacted; 72.4 percent of MSMEs in the sector were inactive.
- **Registered inactive enterprises:** Approximately 3.6 percent of the enterprises in the survey had registered their businesses but were yet to start their business. Of these, 58.0 percent reported they would start after the COVID-19 pandemic, 18.0 percent said they would start in the next 12 months, and the rest did not know when and if they would start.

Key findings for employment in the MSMEs:

- Employment in MSMEs dropped in 2020 with a 15.9 percent decrease in full-time employment and a 23.3 percent decrease in part-time employment. The shrinkage in employment was mainly driven by closed businesses, 41.1 percent of which had employees who lost their jobs. Active MSMEs had 5.1 percent growth in full-time employment and 1.8 percent growth in part-time employment. Despite the growth in employment with active MSMEs, employment for women in active MSMEs also fell, and the average income for all employees decreased.
- **Employment with MSMEs has rebounded drastically in 2021** and the calculated increase in full-time employment was 74.5 percent and the part-time job was 33.8 percent. This finding is consistent with the SEIA-2 household survey results. However, this does not mean the income for these employees has increased or the employment quality has improved.

Supporting MSMEs and recommendations

Considerations shared during the SEIA-1 in 2020 remain valid and some of the same considerations were shared during SEIA-2 in 2021. This included **financial assistance programmes** such as small loans, credit guarantees, cash transfer or other agricultural inputs (to purchase and prepare the goods they need to restart their business), **tax relief** to relieve the loss of income, **clear communication** about rules and guidelines for government support programmes, **demand generation** for local MSMEs through government driven promotion(s), and **keeping the market open safely**.

The top three feedback received from active businesses during the MSMEs survey for policy recovery measures and economic support included the quick reopening of the market (89.6 percent), support for self-employed (21.9 percent), and financial credit support programmes (14.8 percent). Considering the feedback received, and the findings of the survey, some key recommendations for policymakers to consider strengthening the private sector and to improve the reach of government economic support measures are outlined below.

Improving the reach of government programmes:

- Better communication of support measures, particularly targeting MSMEs outside of Dili and informal MSMEs, using local government agencies and civil society partners.
- Simplify requirements and make it easier to apply to improve participation.
- Maximise distribution of the existing loan guarantee scheme and finance MSMEs in the targeted productive sector of the economy.
- Consider better alignment of the government handouts and grants to ensure the positive multiplier effect. So far, public spending in Timor-Leste overlooks the supply-side constraints and as a result, has failed to simulate the private sector. Public spending is yet to have a lasting positive impact on the economy.
- Promote investment incentives and tax breaks for private sector investment in agriculture, tourism, and other productive sectors.
- Prioritise recommendations from development partners (ADB, World Bank), to provide a legal framework for businesses to enforce contracts and to protect the investment of minority shareholders. Lack of an enforceable legal framework is a deterrent to investment and investors.

Financing private sector and Injecting capital:

- Relax regulatory restrictions for lending, particularly given the low loan to deposit ratios in Timor-Leste.
- Consider introducing partial guarantee schemes to support other productive and innovative sectors of the economy.
- Consider targeted support to informal MSMEs in the post-pandemic package, if any.
- Support banks and lending institutes develop loan products based on moveable collateral such as equipment, inventory, or accounts receivables. Provide training on how these products work if needed.
- Consider loans to support all participants in a value chain, from producers to retailers to consumers, e.g., when supporting the agriculture farmers, also support transportation businesses and the retailers that sell the produce and restaurants that use the product.

- Consider using social security funds to support the private sector develop needed infrastructure and help generate returns for the fund through investment in the local economy.
- Promote private and public investment opportunities for the Timorese diaspora overseas to invest in Timor-Leste and increase remittances.

Enable digital capabilities:

- Invest in technology infrastructure for digitalization and develop the digital workforce.
- Improve IT capabilities of existing entrepreneurs through targeted training programmes. The entrepreneurs should feel comfortable using available e-payments and fund transfers which simplifies/enables transactions.
- Facilitate the transfer of technologies that are already available in ASEAN countries.

This summary highlights key information provided by the respondents and reveals underlying vulnerabilities faced by the MSMEs in Timor-Leste. The SEIA-2 MSME Survey could be used by decision-makers to inform short and medium-term economic recovery and private sector development policies and budgetary allocations of line ministries and municipalities to support MSMEs. It is important to recognize that the disruptions of COVID-19 provided an opportunity to assess the current conditions and think for the way forward for the private sector and MSMEs' development in Timor-Leste. The reliance on imports and how supply chain disruptions could, therefore, impact the basic staple for food security such as rice, became evident during the SoE. Part of the COVID-19 fund was used to procure rice for food security. Reliance on external economies is also putting inflationary pressure on the market conditions in Timor-Leste. While the credit portfolio in the market has grown since 2019, it is mainly driven by consumer loans rather than productive loans. Forward-thinking is needed to develop a comprehensive programme that reduces reliance on imports of basic needs, protects people during disaster and pandemic scenarios, generates local employment, and lifts the population out of the poverty traps.

The pandemic accentuated the inequalities, and the recovery path to building back better and greener needs to engage the youth and marginalized population of Timor-Leste. It is important to improve formal and non-formal education systems to increase skillsets that meet the demand of the market, as well as foster entrepreneurship skills. Formal and informal MSMEs, through their entrepreneurial spirit, have been playing a critical role in generating employment in Timor-Leste and were the fastest-growing employment in the 2015 census. The path towards recovery and development needs to include a focused approach to engage an increasing number of youths, and marginalized people in entrepreneurship addressing the social needs of the community while creating jobs.

I. Introduction and context

1. Background

Timor-Leste recorded its first positive case of COVID-19 on 21 March 2020. The GoTL declared its first national State of Emergency (SoE) on 28 March 2020 to prevent the spread of COVID-19 and implemented measures listed in Government Decree No. 3/2020 (Government of Timor-Leste 2020) including domestic and international travel restrictions, closure of schools, and physical distancing. The first SoE had an end date of 26 June 2020, but this has been extended through monthly renewal since. There have also been sanitary fences and home confinements with varying degrees of restrictions and duration in different municipalities during the SoE.

To counteract the public health measures and shutdown of the economy, GoTL introduced an economic stimulus package through the dedicated COVID-19 Fund. It aimed to support living standards, preserve jobs, and protect businesses. MSMEs have been supported through various measures, wage subsidy, social security contribution waiver, credit moratorium, and electricity and water utility subsidies. Overall, \$195 million was transferred through the COVID-19 Fund in 2020. This was one of the largest relief packages in the world representing 13 percent of Timor-Leste's non-oil GDP in 2020 (World Bank Group 2021). The Fund has been further increased to 17.7 percent of non-oil GDP in 2021.

To understand the impact of the pandemic and government measures on people's lives and inform the country's recovery policies, the United Nations Timor-Leste with technical lead from UNDP conducted a rapid socio-economic impact assessment in 2020 (SEIA-1). The fieldwork for SEIA-1 covered five municipalities, namely Dili, Baucau, Bobonaro, Viqueque and RAOEA, and it was conducted from 22 June 2020 to 14 July 2020. SEIA-1 observed changes in livelihood, employment, food security, health care, education, other basic services, and shifts in supply, demand, income, and employment in MSMEs because of the GoTL's measures. The assessment found that COVID-19 restrictions severely affected MSMEs and their employees, especially self-employed and own-account workers identified as vulnerable employment¹⁰. The results were socialized among policymakers, development partners, and civil society and broadly welcomed as beneficial to guide their work in pandemic responses, including the economic recovery plan of the country.

Measuring the impact of the pandemic on micro, small, and medium enterprises (MSMEs) is crucial to safeguard Timor-Leste's economic recovery. MSMEs play an important role in creating decent jobs, contributing to economic growth, and reducing poverty and inequality. The impact on the mental health of people from lockdown, cost of keeping education facilities closed, preventing more people from falling below the poverty line and the wellbeing of the population are critical decisions and important obligations of the GoTL. The trade-offs between COVID-19 related public

¹⁰The final report can be accessed online here:

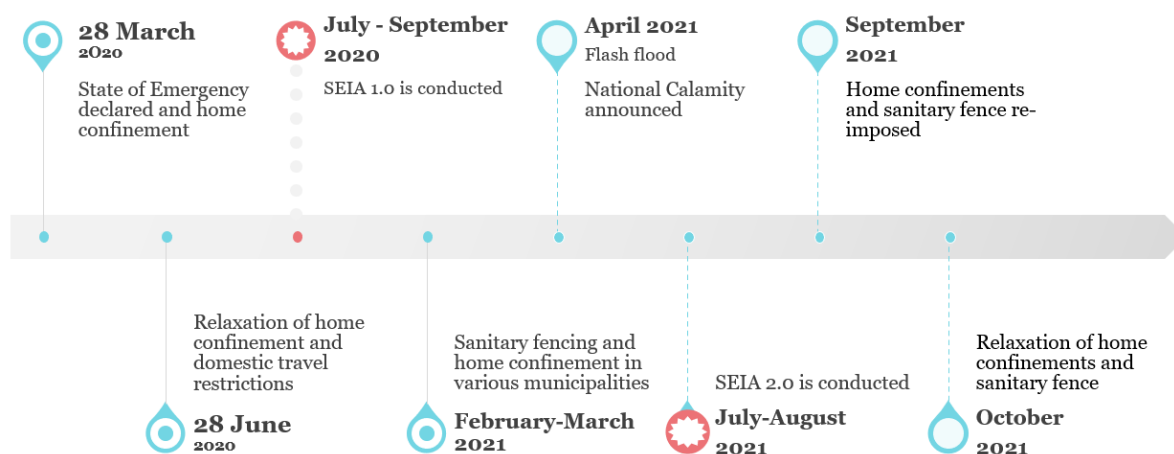
<https://www.tl.undp.org/content/timor-leste/en/home/library/poverty/socio-economic-impact-assessment-of-covid-19-in-timor-leste.html>

health prevention measures and safely opening the economy requires a conscious discussion and consideration of available information.

Several additional restrictions and government support measures had been implemented since SEIA-1. However, there was a lack of nationwide business surveys to assess the impact of government policies on MSMEs and how they are coping. While some of the socio-economic impacts of COVID-19 were immediate, the full effects of the COVID-19 crisis are evolving with the prolonged pandemic from a persistent virus and its variants. may take time to develop. Considering these factors, stakeholders expressed a need for detailed data that can be disaggregated by different private sector participants, namely MSMEs.

Therefore, UNDP Timor-Leste, in close partnership with the General Directorate of Statistics (GDS), and the Ministry for the Coordination of Economic Affairs (MCAE) initiated a nationwide survey of MSMEs as part of the wider Socio-Economic Impact Assessment of COVID-19, in 2021 (hereinafter referred to as SEIA-2). SEIA-2 expands upon the SEIA-1 findings to provide a longer-term view of the pandemic's impacts and the effects of government economic stimulus and support measures, with comprehensive coverage of every municipality in Timor-Leste. Fieldwork for SEIA-2 was conducted between July and September 2021 in 13 municipalities.

Figure 1 Key stages of the State of Emergency and SEIA-1 and SEIA-2 surveys



The purpose of this study is to identify the impacts of COVID-19 and related SoE activities on individuals, households, communities, as well as MSMEs in Timor-Leste and to develop recommendations to inform further recovery interventions. Specifically, the purpose of the MSME survey was to:

- Assess impact on formal and informal MSMEs
- Assess the impact and effectiveness of GoTL measures on MSMEs
- Study impact on MSMEs by different stratification (industry, location, ownership, etc.)
- Comparative assessment of impact on MSMEs with Asia Pacific region
- Policy recommendations to effectively support business continuity of MSMEs through the pandemic and its challenges.

This report presents findings related to the impact of COVID-19 as well as government response and recovery measures on MSMEs. The findings related to individuals, household and communities and government measures are presented in a complementary and separate report.

2. Methodology

2.1 Assessment framework

The SEIA-2 research questions and indicators largely rely on the SEIA-1 framework, which was in turn informed by multiple sources with UN and additional sources:

- 'How to Integrate Gender in COVID-19 Socio-Economic Assessments' guide (UNDP 2020). Gender considerations and a human-rights-based approach were integrated throughout the survey tools development, analysis, and report writing stages as cross-cutting themes.
- It draws upon International Labour Organisation (ILO) and Asian Development Bank's guidelines for identifying and surveying informal MSMEs.

The research questions in the SEIA-2 MSMEs survey include:

1. How has COVID-19 impacted micro small and medium enterprises in the formal and informal sectors?
2. What was the impact on MSMEs income due to the COVID-19 and government measures?
3. How have the MSMEs adapted to the new normal and what is their outlook?
4. What was the impact on Employment and who was most impacted? What are the impacts on women as they relate to unemployment?
5. How are MSMEs coping with market conditions from the prolonged pandemic situations?
6. How responsive and effective were GoTL's COVID-19 economic support measures? How does it meet the need of the different types of MSMEs?
7. Which targeted support and recovery measures will be appropriate to minimize long-term impact and help MSMEs and the economy towards recovery?

Table 1 MSME Survey Assessment Framework

Category	Indicators
Impact on business operations	Disruptions in the supply of materials for materials
	Disruptions in access to market and customers
	Changes to the business model
Turnover & Expense	Change in sales and revenue
	Change in demand
	Change in cost of Supply
	Change in cost of operation
	Impacts to cashflow
	Change in income
Workforce	Change in number of workforces
	Change in Salary

Impact on business outlook	Business continuity outlook
Government economic Recovery Measures	Impact of government economic measures
	Impact of Cesta Basica

A component of the study includes assessment of the information on economic recovery measures and the perception of the impact of government support on MSMEs including their revenue, expenditure, workforce, supply, and demand. The financial viability of MSMEs to operate in current conditions remained at the core of MSME assessment; that revenue of MSMEs is more than cost and that cash flow from their current business is adequate to maintain their trade. The SEIA-2 was forward-looking with the assessment of MSME's sentiment.

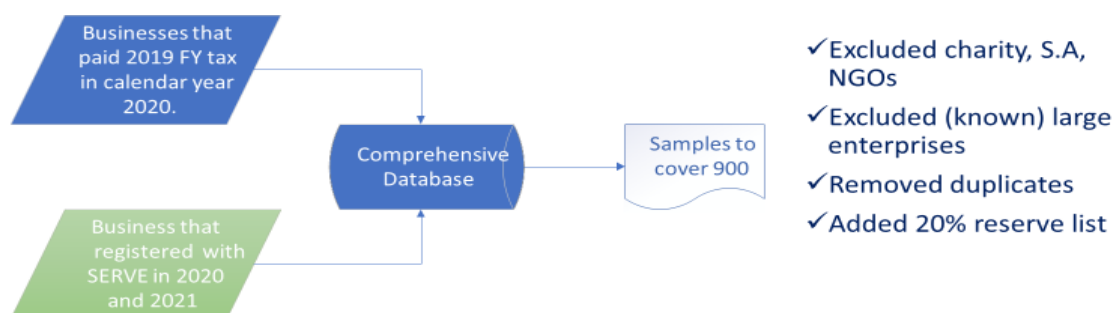
2.2 Sampling methodology

Sampling for the formal MSME survey

The formal MSME surveyed used two datasets to ensure completeness. The two sets were made up of MSMEs that were operational and paying taxes before the COVID-19 State of Emergency (SoE) and MSMEs that are newly registered in 2020 or after. The master list of firms is obtained from two sources: the Ministry of Finance (7,710 firms) and SERVE (4,304 firms). The list of businesses that paid 2019 taxes in 2020 was obtained from the Ministry of Finance database while the list of businesses that registered in 2020 and 2021 was obtained from SERVE. Each of the dataset was reviewed, analysed, and cleansed and reconciled. The datasets were merged, and duplicates removed to develop one pristine set of MSMEs database.

To identify formal MSMEs according to the definition provided by the World Bank, the dataset removed not-for-profit organizations, state-owned entities, foreign company branches, subsidiary companies, and joint-stock companies. To define the sample frame, the dataset was examined for any duplications, incomplete contact information, and/or invalid tax identification number (TIN) code. The final sample frame includes 9,924 formal MSMEs.

Figure 2 Sample frame for formal MSMEs



The calculated sample size was 563 MSMEs which was based on using a 10 percent margin of error and a 95- percent confidence level. The sample size provides results that should be statistically representative at the national level for four key indicators listed below:

1. Loss of income due to COVID-19
2. Change in jobs (percentage of staff who lost jobs or job creation)

3. Difficulty in paying staff wages and support received from the government (as part of the 3 economic measures)
4. Logistic constraints for supplies (difficulty in accessing goods domestically)

Although the calculated sample size is 563, after re-assessing the quality of MSME contact information, 900 MSMEs were selected. Additional 180 MSMEs were selected in the replacement list. In particular, 270 MSMEs were selected in the sample and 54 MSMEs in the replacement outside Dili and 630 in the sample, and 126 in the replacement within Dili. The selection process is exhibited in the picture below.

The sample size assumes a non-response of 10 percent from existing and operational MSMEs, which will be proportionally represented in the MSMEs sample. Sample size has been developed with an assumption of an average staff size of 8 across different types of micro, small and medium enterprises.

The sampling method is a two-stage random sampling.

- Stage 1 – Outside of Dili, sucos with more than ten MSMEs were identified to avoid the costly and time-consuming exercise of finding and interviewing businesses scattered throughout the country and having enough replacement for non-responding ones. After identifying sucos with ten or more MSMEs, one to three sucos were randomly selected for each municipality from that identified sucos covering 22 sucos in total. For Dili, the capital city, all sucos were selected.
- Stage 2 – MSMEs are chosen randomly within the selected sucos.

Sampling for the informal business survey

Household surveys were recommended as the best means to capture the informal sector. The principle behind this method was to identify those own-account workers and businesses that belong to the informal sector during the household and individual interviews. Using this approach, the sample of informal businesses was drawn from the individuals' database from the household survey conducted in June 2021.

In the household survey, the two-stage cluster sampling approach was applied to reduce travel time and costs. At first, enumeration areas (EAs) were selected with probability proportional to size. Then, 20 households were randomly drawn in each selected EAs. Out of 5000 households interviewed in the household survey, 3,188 individuals from 1,295 households are identified as informal workers who only sell or mainly sell agriculture products or are self-employed with unregistered businesses. These 3188 informal workers from 1,295 households fit our definition of informal MSMEs and form our sample frame.

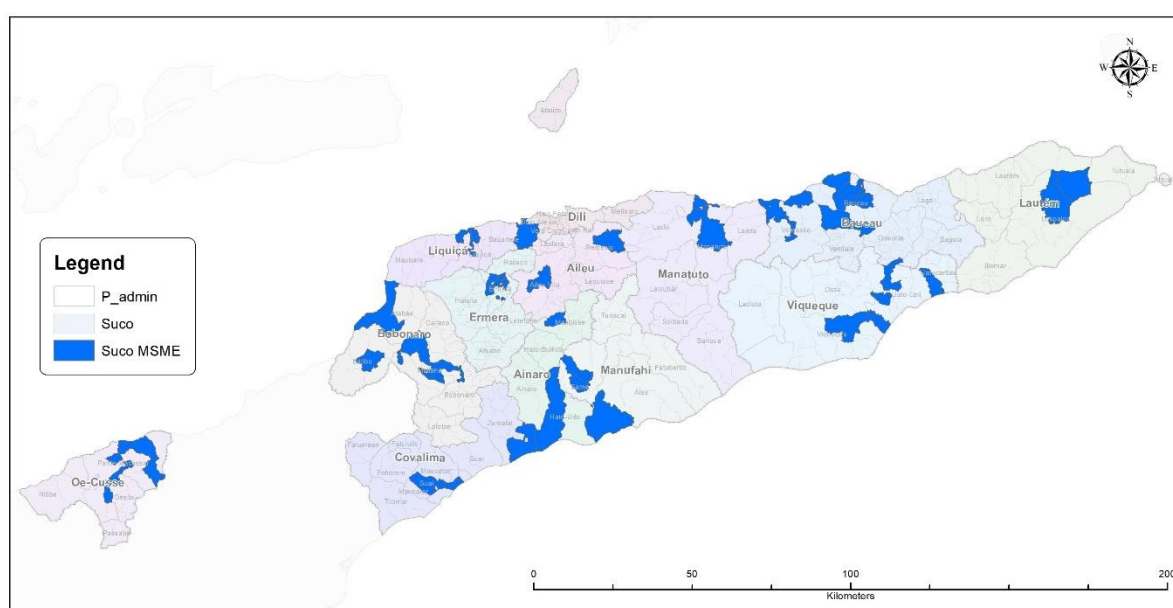
From the logistics perspective, two approaches were considered by the SEIA-2 team. The first one considered household enumerators using the business questionnaire immediately after the identifying of the household members involved in informal sector activities, and the second considered enumerators visit identified informal businesses and households (if the business is home-based) after the household survey. SEIA team opted for the second option by deploying a dedicated team of enumerators, trained to conduct interviews with informal MSMEs, to the identified and sampled sites.

To reduce travel cost and time, the sucos selection between formal and informal were aligned. In many sucos, there were only a limited number of informal MSMEs. Therefore, we included all informal MSMEs of selected sucos into the sample. To the extent possible, we selected sucos where both formal and informal MSMEs overlapped.

For the survey, sample weights were calculated to address the unequal MSME selection probabilities, nonresponse, and under-coverage. Separate weights were calculated for household-level data, individual-level data, and respondent-level data.

Details on a number of samples for formal and informal MSMEs from each of the municipalities, at suco level, are included in *Annex 1 Formal and Informal MSME Sampling*. The sucos from where data was collected for MSMEs is illustrated in the figure below.

Figure 3 Distribution of enumerator areas



2.3 Data collection methods

The SEIA-2 is a micro-level, mixed-method, and cross-sectional survey. The data for the study was collected between 3 August 2021 and 28 August 2021. Data was collected for 708 formal and 378 informal MSMEs, a total of 1,086 MSMEs.

Questionnaires. The assessment used the computer-assisted personal interview (CAPI) method to collect survey data in the field to improve quality assurance, allowing for real-time data monitoring, reducing time to undertake each survey, and obtaining more reliable databases. All questionnaires were administered face-to-face by 36 trained interviewers (out of which 12 were female) and 12 supervisors (out of which 6 were female and 6 were male).

Key informant interviews (KIIs). A total of 6 KIIs, involving 2 women and 4 men, were conducted from government stakeholders, development partners, and the private sector. A general interview guide was being developed by the SEIA-2 team. All interviewees were interviewed via Zoom and face-to-face by interviewers who received training to address the topics covered in the research. Through this method, we aimed to identify the impacts of COVID-19, gather information on

existing resource gaps, and identify potential changes and measures needed for improved response and recovery.

Table 2 Number of interviewee participants in KIIs

Types of KIIs	Male	Female
Banco Nacional de Comércio de Timor-Leste (BNCTL)	1	-
The Asia Foundation	1	-
USAID	1	
Ministry of Trade, Commerce, and Industry	1	-
Halo Dili	-	1
Fatima Cafe	-	1
Total	4	2

In-depth interviews. Four in-depth interviews (with 2 women and 2 men) were conducted with representatives from each group identified including women business owners, informal business owners. The aim of the in-depth interviews was to obtain **narratives** and **cases** to illustrate the current situation. The interviewees were selected from those who participated in the questionnaires and based on their stories.

Desk review. A review of similar SEIAs surveys and MSMEs surveys conducted in similar contexts were consulted to inform the design of the SEIA-2 MSME survey. Government decrees and regulations on COVID-19 measures, reports on recommendations, and responses are undertaken by development partners and national NGOs were also included in the desk review.

2.4 Data analysis

As information was gathered using tablets, the quality of the raw data set was considered satisfactory with only a minimal amount of structural and consistency errors. A database was constructed in SPSS with variables related to MSMEs. After the construction of the databases, a quality assessment was made to identify possible problem areas. In many cases, 'other, specify' was indicated when one of the pre-coded categories could have been chosen and these 'other' responses were coded and integrated into the analysis. Data were analysed to get perspectives from different vantage points.

Descriptive analyses – The MSME data was analysed using descriptive methods. It was disaggregated by gender of owners, rural/urban, municipality, size of MSMEs, and workforce. Descriptive analyses will be conducted for the various key indicators including the proportion of MSMEs reporting: reduced logistic services; change in operations; change in income change in the workforce, a positive/negative outlook and positive/negative overall impact of government policies.

Qualitative data (transcripts from KIIs and IDIs) were analysed to develop emerging trends.

2.5 Limitations and challenges encountered

There were several limitations to this study, due to specific constraints related to COVID-19 including available time, restricted travel and contact conditions and general constraints such as data gaps in national statistics. The limitations included:

- **Non-experimental design** – Although the survey population includes groups that are differently exposed to the COVID-19 measures, the survey setting did not allow a-priori identifying these groups. The survey assessed the situation of MSMEs before and after the COVID-19 SoE but cannot control for other factors influencing the present situation.
- This is a **micro-level socio-economic impact assessment**. The study focuses on MSMEs, their needs, and their responsiveness to their needs. It was not the goal of this study to conduct macroeconomic modelling of the COVID-19 impact and political effects. The SEIA-2 did not measure the long-term impact of COVID-19.
- **The Easter Floods** presented a methodological challenge to SEIA-2 design. As the SEIA-2 field survey was implemented after the Easter Floods, the questionnaire needed to be substantially revised to allow understanding of the different impacts of COVID-19 and the Easter Floods, especially in Dili where the impact of the flood was significant.
- **Recall bias**. To identify the baseline situation for MSMEs, **the** reference period prior to the first SoE of 2019 was used. Also, to differentiate the impact of the Easter Floods from COVID-19 impact, the reference period of March 2020 was used in some indicators. These references might have created a recall bias in the responses for questions.
- **The availability of secondary data was limited**. This constrains the triangulation and contextualization of the survey findings.
- **Confinement of August 2021**: Mandatory confinement at the end of August 2021 prevented the enumerators from collecting some data in Dili. A total of 1086 MSMEs were interviewed.

3. Context

3.1 Private Sector context

Timor-Leste, a young small island developing state (SIDS), has made remarkable progress in human and economic development. Around 23 percent of its approximately 1.3 million people live in Dili, the capital city. The country's Human Development Index value increased from 0.505 to 0.626 between 2000 and 2018. Life expectancy grew by 20.8 years and expected years of schooling increased by 2.6 years. Timor-Leste has achieved a medium human development status because of these gains and is now 131 position 131 out of 189 countries (UNDP 2019). The country's economy has been one of the fastest growing in the world since its independence in 2002, with GDP per capita increasing from \$453 in 2004 to \$1,381 in 2020 (World Bank 2021). *Annex 3 GDP of Timor-Leste of the report* provides trend of non-oil GDP.

Timor-Leste is a dollarized economy, characterized by high imports, a low productive sector, and high levels of public spending fuelled by the country's oil wealth. There has been limited investment in, or growth in output from, productive sectors such as agriculture and manufacturing (ADB, 2015). Outside of oil, the private sector in Timor-Leste comprises mostly of micro-businesses operated by own-account workers and a few small businesses. The majority of the businesses are concentrated in the capital city of Dili.

Like other SIDS with a low productive sector, Timor-Leste relies heavily on imports. Retail – groceries, and convenience, has the greatest number of MSMEs and together with Retail trade –

imported goods, mostly selling imported goods and products. They account for more than half of the MSMEs in the country. The private sector is also closely linked to and relies on public spending. Infrastructure construction has the second-highest number of MSMEs. Political impasse, duodecimal budget, and COVID-19 pandemic, all in the last four years, and the culmination of these issues have impacted the sector since 2018. The agriculture, horticulture, and fisheries sector have the third highest number of businesses, and most, over 95.4 percent in our survey, of these businesses are informal businesses.

The private sector has largely focused on resale, public spending and is fuelled by own-account workers. Many micro and small enterprises are informal businesses employing a large number of own-account workers and self-employed. The informal MSMEs have played a key role in employment growth in Timor-Leste. The 2015 census data showed that the overall employment growth had been achieved through the growth of self-employment, particularly own-account employment, and employment in services. The share of own-account workers in total employment increased from 50.2 percent in 2010 to 57.3 percent in 2015 (Mehran & Crisanto, 2015). In addition to providing employment for self-account workers, the informal employer MSMEs employ two people on average. Furthermore, including formal enterprises, MSMEs employ six people on average. The role of MSMEs and the private sector is vital to improving employment in the country.

Private sector development is crucial for Timor-Leste's economy given the important role MSMEs play in employment and poverty reduction (ADB, 2015). There are some constraints to the development of the private sector in Timor-Leste which has been previously identified by other stakeholders. Some of these constraints include the dollarized economy which makes that the cost of labour comparatively higher compared to countries in the Asia Pacific region. Timor-Leste is ranked 181 among 190 economies in the world (World Bank, 2020) for ease of doing business. More notably, it ranked last in the world for contract enforcement. Timor-Leste also ranks very low in terms of getting credit and protecting minority investors.

The lack of a legal framework that underpins the private sector, access to finance, financial management capabilities of businesses, workers capabilities, cost of labor, protection of minority interests, and geographic isolations are some of the key constraints that impact investment in the private sector and deter foreign investments.

Political and budget uncertainty. The COVID-19 pandemic also overlapped with political uncertainty and impasse ongoing in the country since 2017. In March 2018, the parliament was dissolved without approving a budget for 2018, and the Parliament failed to approve the state budget for the year 2020. The Government operated under a regime of monthly duodecimal budgets¹¹ for the first half of 2018 and the full year of 2020. Infrastructure spending and MSMEs in the infrastructure sector were directly impacted, and Timor-Leste's private sector which relies heavily on government spending was impacted under the duodecimal budget regime.

¹¹ This regime allows monthly budget appropriations of up to one-twelfth of the previous year's state budget.

3.2 COVID-19 response and recovery measures in Timor-Leste

The objective of the SEIA-2 MSME survey is to understand the impact of the COVID-19 pandemic and the related measures of GoTL on MSMEs. Understanding the types of restrictions and economic recovery measures the GoTL implemented underpins the survey design. The key government measures between February 2020 and August 2020 directly impacting MSMEs and their employees are discussed in this section.

3.2.1. Restrictions/containment measures

The first positive case of COVID-19 was registered in Timor-Leste on 21 March 2020. A week later, on 28 March 2020, the first national State of Emergency¹² (SoE) was declared to prevent the spread of COVID-19, with an end date of 26 June 2020. Accordingly, the implementation measures of the SoE, including actions such as domestic and international travel restrictions, closure of schools, and physical distancing, were listed in Government Decree No. 3/2020 (Government of Timor-Leste, 2020). Timor-Leste recorded a few positive cases with no local transmission identified and no fatalities during the first SoE. Movement restrictions were eased, and schools were reopened on 26 June 2020 ending the lockdown phase of the SoE.

Timor-Leste, with its preventative measures, managed to control the spread of the virus and contain cases within quarantine and isolation facilities in 2020. The first case of public transmission was recorded on 26 February 2021, almost 11 months after the first recorded case. Dili quickly followed with the first case of community transmission on 7 March 2021. In early 2021, infections number increased in border municipalities of Timor-Leste, namely Bobonaro and Covalima, and in Dili, the capital city. A series of “sanitary fence” and mandatory confinements were imposed starting from February and March 2021, respectively¹³. Timor-Leste recorded its first death of COVID-19 on 6 April 2021. This second phase of lockdown and restrictions were limited to municipalities with a high number of cases and restrictions in and out of ring-fenced municipalities were restricted.

On 4 April 2021, tropical cyclone Seroja caused flash floods and landslides which took 34 lives and damaged infrastructure in Dili and other parts of the country. It affected over 30,000 households and 2,163 hectares of agricultural land (UN RCO 2021). The GoTL declared a state of National Calamity¹⁴ from 8 April 2021 to 4 August 2021 which eased the mandatory confinement to allow humanitarian aid to reach the flood victims (UN RCO 2021). A surge of COVID-19 positive cases after the State of National Calamity resulted in the third phase of restrictions in September 2021¹⁵. This included varying degrees of restrictions from sanitary fences to home confinements in different municipalities. Since the initial Decree, the SoE has been renewed monthly. The type of containment measures has varied through time depending mainly on the spread of the virus,

¹² Law No. 1/2020 of March 27 – 1st State of Emergency Authorization

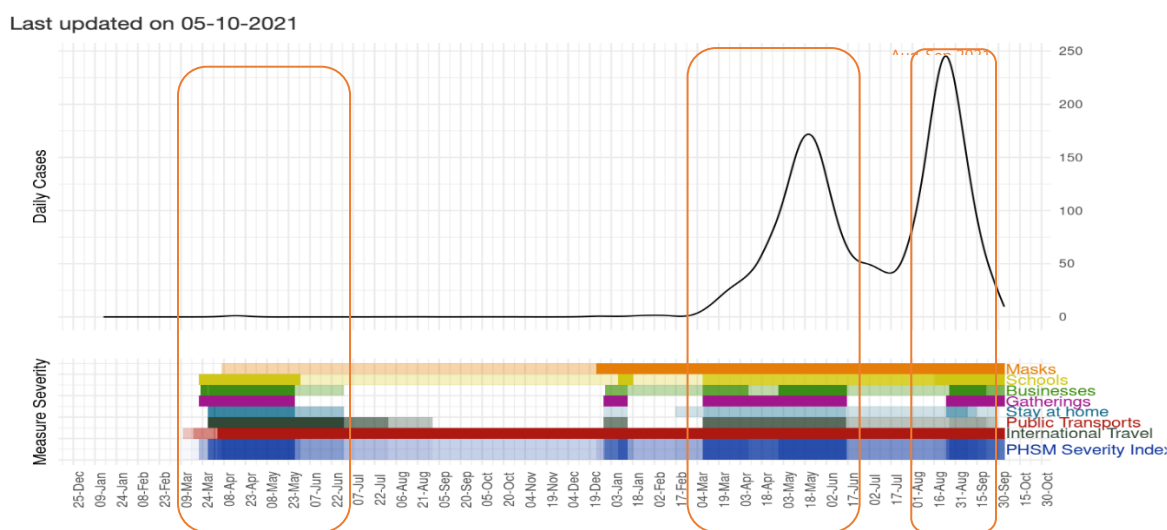
¹³ Sanitary fence and home confinement were imposed in Covalima and Bobonaro on the 16 February, in Dili on the 8 March and in Baucau on the 15 March.

¹⁴ Government Resolution No. 32/2021 of 9 April – Declares calamity situation due to the occurrence of floods in the municipality of Dili, on April 4 of 2021

¹⁵ Government Resolution No. 115/2021 of 26 August - Imposes the General Mandatory Confinement of the Population of the Municipality of Dili

natural calamity, and economic conditions. Figure 4 illustrates the timeline and the severity of restriction measures.

Figure 4 Severity of GoTL Measures



Source: WHO, Regional Office for South-East Asia website - <https://experience.arcgis.com> (18/10/2021)

The period under sanitary fencing varied for municipalities. Sanitary fencing in Dili, Baucau Ermera, and Covalima lasted for 5 months or longer, and for 4 months or less in other municipalities.

Figure 5 Duration of sanitary fences by municipality by month

	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Aileu				■								
Ainaro				■	■	■	■					
Baucau					■	■	■	■	■		■	
Bobonaro				■								
Covalima				■	■	■	■	■		■	■	
Dili					■	■	■	■	■	■	■	
Ermera						■	■	■	■	■	■	
Lautem							■	■				
Liquica							■	■				
Manatuto												
Manufahi											■	
Viqueque					■	■	■	■				
RAEOA		■	■							■		

Source: <http://www.mj.gov.tl/jornal/> (02/10/2021)

3.2.2. Policies to address impact of COVID-19

Policies for reducing the negative economic impact and economic recovery consequential to the COVID-19 Pandemic.

To prevent the negative impacts on the Timorese economy resulting from the preventive public health measures to control the pandemic, as discussed in section 3.2.1, the GoTL's adopted strategic measures to support the population, employment, and the local businesses.

On 30 April 2020, the government approved an economic stimulus and response package consisting of 19 strategic measures. The purpose of this package was 'to counteract the expected negative effects of the COVID-19 on the economy' for a three-month period, from May to July, and 'to support households and businesses, cushioning the economic impact of the health emergency'. The measures mostly targeted to households; the ones that benefitted businesses are listed below.

Table 3 MSMEs related measures from the first 19 strategic measures approved by the GoTL in 2020 (SEIA 1 report)

Measures	Description
Subsidize sea freight transport between Dili - Atauro – Oecusse	Guarantee 2 round trips/month
Support permanent cargo transport (24h) between the port and the warehouse	Ensure a safe and effective distribution
Guarantee production by purchasing agricultural and aquaculture production factors	Supports agriculture and aquaculture production Supported informal agriculture MSMEs
Credit Moratorium	Loan restructure and partial payment of interest.
Implement emergency credit lines and guarantee mechanisms	Line of credit to businesses and bank guarantees for importers of essential goods
Short-term liquidity support	Through reduced obligations (e.g., social security, loan repayment) and employment support measures
Employment Support Measures	Extraordinary, temporary support to private sector employers and workers - aimed to maintain employment. Grants to eligible interested parties included: <ul style="list-style-type: none"> - An extraordinary allowance to employees if employment is suspended or hours reduced. - Exemption from the duty to pay social security contributions. - Extraordinary allowance in case of loss of income to individual entrepreneurs; self-employed workers; managers and administrators and domestic service workers.
Electricity support measure	The value of \$15.00 equivalent to 62.5kHh for businesses. 50% Exemption of the tariffs for electricity consumption for post-paid customers during the SoE;
Rent exemption on state properties	The exemption prevails for a period of 3 months (1 April 2020 until 30 June 2020)

Short-term economic recovery measures

In August 2020¹⁶, the GoTL's approved a package of four short-term economic recovery measures for mitigation of crisis impact under the first phase of the economic recovery plan until the end of the year.

¹⁶ Government Resolution No. 28/2020 of August 19 – Approval of short-term measures for mitigation of Economic Crisis Impacts Resulting from the Pandemic of COVID-19 under the Economic Recovery Plan

These measures included an allocation of a basic basket (Cesta Básica), the creation of a cash subsidy and a contributory exemption to employers and individual entrepreneurs, and special support for informal workers.

The first measure approved was “Cesta Básica” which aimed to support basic needs of families and contribute to the fight against hunger and to contribute to the improvement of the food and nutritional diet of Timorese families affected by the decrease in income.

The Recovery Subsidy and the Contributory Exemption aimed to support employers and individual entrepreneurs to resume economic activity and to increase the immediate liquidity of the beneficiary entities. These measures were applied between July and December 2020 and subsidized employers and individual entrepreneurs calculated in the loss of turnover and number of employees, as well a social security contribution exemption of 6 percent for all workers.

The “special support for informal workers” measure cover between October to December 2020 and had the objective to support informal sector workers or self-employed. To be eligible for a subsidy of US\$36, workers had to register in the social security and had the obligations to maintain contribution for 6 months.

The table with economic recovery measures is included as Annex 2 Economic Recovery Measures of this report.

Economic measure of 2021

The Council of Ministers approved the Law Proposal draft on 24th March for an amendment to the 2021 General State Budget. The approved amendment¹⁷ to the 2021 General State Budget to respond to Easter floods and to the impacts of COVID-19 was promulgated by the President on 4 May 2021.

It included additional funds to finance the new economic support measures. The amendment had 6 key focus areas including 1. Employment support, 2. Moratorium on credit, 3. Exemption from tuition fees, 4. Food acquisition, 5. Support to frontline professionals and 6. COVID-19 prevention and mitigation measures.

The credit moratorium and employment support helped the private sector and its employees. The 2021 measures included \$2M for loan moratorium, the period of the moratorium was extended for nine months. It also included 45.3 million will go to the National Institute of Social Security to implement employment support initiatives which included 3 months support for:

- 70 percent of salaries for employees of businesses forced to close
- 50 percent of salaries for active businesses
- 85 percent of income for entrepreneurs, self-employed domestic workers, managers, or administrators provided they are registered with INSS
- Exemption from social security contribution for employees and employers

¹⁷ Law No. 8/2021 of May 3 – First Amendment to Law No. 14/2020 Of 29 December, General State Budget and Approval of Supporting Socioeconomic Measures

- Unemployed contributing workers were eligible for some support (40 percent of conventional remuneration)
- Electricity and rent subsidies

The allocation to the COVID-19 Fund for 2021 was US\$287.6 million, of which \$104.7 million has been spent as of the 24th of August 2021 (MoF, 2021)¹⁸.

3.3 Defining MSMEs in Timor-Leste

The definition of micro, small and medium enterprises is often based on the local economic situations and can vary from one country. Definitions of MSMEs can be based on the number of employees, income, assets, or revenue, etc. Few local and international organizations have developed their own definition of MSME for Timor-Leste and there is no clear consensus on the definition. Even our partner in this survey, the General Directorate of Statistics (GDS), has its own definition for distinguishing “big” and “small” businesses.

The World Bank definition of micro, small and medium businesses for Timor-Leste is based on a number of employees. Micro enterprises are defined as enterprises with 1-9 employees, small enterprises with 10 to 49 employees and medium businesses have 50 to 100 employees. The World Bank’s definition for MSME in Timor-Leste was used for categorizing the size of businesses.

The SEIA-2 MSME survey included an assessment of MSMEs in the formal and informal sectors. The definition of formal and informal MSMEs is provided below.

Formal MSMEs:

These are registered businesses that have registered with SERVE, MoF, or the Ministry of Justice. They pay their tax when due and include newly registered businesses. The definition of formal MSME excludes registered businesses that do not pay taxes or have remained dormant.

Informal MSMEs:

Unregistered household enterprises, that employ one or more non-registered employees, and produce all or part of its goods/service for sale or barter. Characteristics of informal businesses:

- Operating without a registration
- Not an informal worker that works for other people
- May have employees or household members helping in the business
- Self employed
- Includes agricultural sector (farming, animal and/or fishing products) workers producing only or mainly for trade.

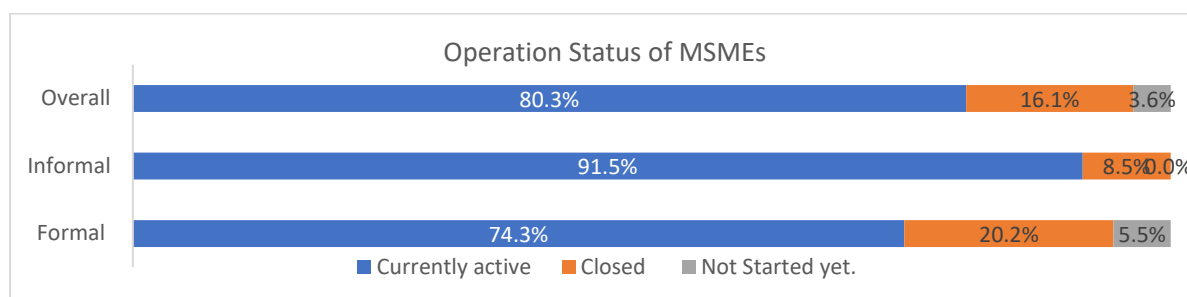
¹⁸ MOF, 2021, Progress Execution Covid-19 Fund, 24th August 2021.

II. Impact on MSMEs

4. Description of MSMEs participating in the survey

The impact of COVID-19 on market conditions has led to several business closures in 2020 and 2021 around the globe and here in Timor-Leste. At the time of our fieldwork, 19.7 percent of the MSMEs were inactive which was made up of 16.1 percent of the MSMEs that had decided to close their business and 3.6 percent of the MSMEs that had decided not to start their business under the COVID-19 SoE conditions. MSMEs are resilient and 80.3 percent remained active.

Figure 6 Percentage of participating MSMEs' operation status

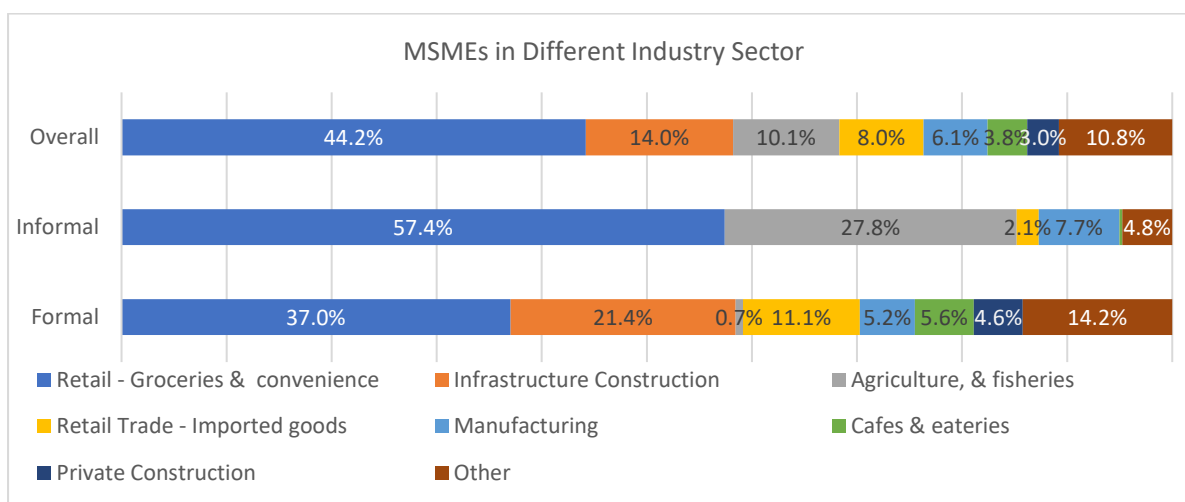


The MSME in Timor-Leste was concentrated with micro enterprises, 93.8 percent of the MSMEs employed nine or fewer employees. The MSME data collected included 5.6 percent small businesses with 10 to 49 employees and 0.6 percent medium sized enterprises with 50 or more employees.

Private sector business / farm provided 6 percent employment as per the 2015 census report¹⁹. Most MSMEs did not have any employees and were businesses run by self-employed and own account workers. Of the active businesses, 45.8 percent of the MSMEs were own account workers. The 2015 census data showed own account workers accounted for 57.3 percent of total employment driving the biggest growth in employment from the 2010 census. The 2015 census categorised own-account workers as vulnerable employment. The remaining 54.2 percent of MSMEs employed workers and 38.2 percent employed 1-5 employees, 9.3 percent employed 6-10 employees and 6.7 percent employed more than 10 people. On averages, employer MSMEs had approximately six employees.

¹⁹ Mr. Farhad Mehran & Sr. Francisco Crisanto, 2015, Timor-Leste Population and Housing Census, Analytical report on labour force, Volume 10

Figure 7 MSMEs in different industry sectors



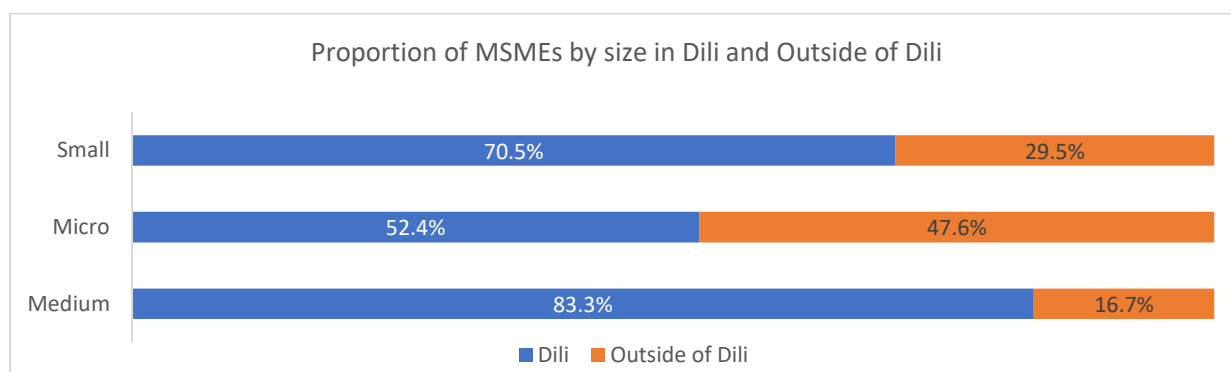
The highest number of MSMEs were in Retail – groceries and convenience sector accounting for 44 percent of all MSMEs and 57.4 percent of the informal MSMEs. The second largest sector with 14 percent of MSMEs was Infrastructure construction. All MSMEs in infrastructure construction were formal businesses and depended on government infrastructure spending. Approximately 10.1 percent of MSMEs operated in the agriculture sector making it the sector with the third most MSMEs. Most were informal enterprises and the agriculture sector accounted for less than one percent of formal businesses. Retail trade of imported goods and the manufacturing sector made the top five sectors and 82.5 percent of MSMEs operated in these sectors.

With regards to international trade, 77.6 percent of the MSMEs did not directly engage in international trade but 18.3 percent were involved in international trade, import and/or export activities buying and selling imported goods in Timor-Leste. The remaining 3.6 percent were yet to start and their dependence on international trade was not evident.

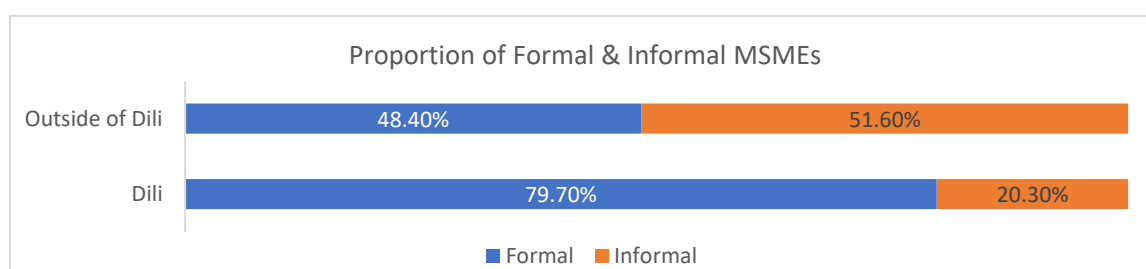
Dili had 53.6 percent of MSMEs and the remaining 46.4 percent were from outside of Dili. Since most of the businesses were micro businesses, the proportion of micro businesses in Dili and outside of Dili were similar to the distribution of overall MSMEs. Dili accounted for approximately 52.4 percent of the micro businesses, 47.6 percent were from outside Dili.

Dili had a proportionally higher percentage of small businesses, accounting for 70.5 percent of all small enterprises in our survey. Baucau and Ermera each accounted for approximately 6.6 percent of the small enterprises; the rest were distributed among six other districts.

Most of the medium enterprises were in Dili. Outside Dili, only Baucau had a medium enterprise.

Figure 8 Percentage of MSMEs in Dili and outside of Dili by size

Formal enterprises accounted for 65.2 percent of all MSMEs while 34.8 were informal MSMEs. The proportion of formal MSMEs in Dili was significantly higher than outside of Dili. Almost four out of five MSMEs in Dili were formal enterprises. There were more informal than formal MSMEs outside of Dili. Informal MSMEs were mostly own account workers and only 14.7 percent of informal MSMEs had an average of two employees. Of the 34.8 percent informal MSMEs, 34.6 percent were micro enterprises.

Figure 9 Percentage of formal and informal MSMEs in Dili and outside of Dili

Timorese owned 80.6 percent of the MSMEs and another approximately 2.9 percent of the MSMEs had joint ownership with Timorese and foreign nationals. Foreign nationals owned 16.5 percent of the MSMEs in Timor-Leste. Foreign national ownership of small enterprises was proportionally higher at 21.3 percent. Most of the foreign owners were from Chinese followed by Indonesian. Together, they accounted for 74.8 percent of foreign ownership of MSMEs.

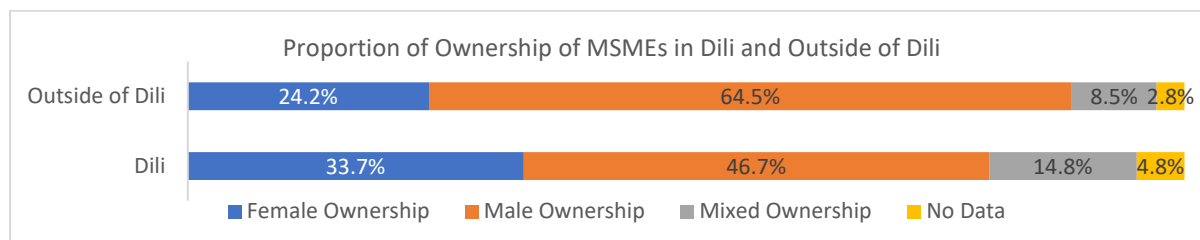
More than half, 54.6 percent, of the MSMEs were owned by males while 29.3 percent were owned by females and 11.9 percent were jointly owned by male and female partners. Sexes of the owners for 3.9 percent of the MSMEs, all closed and micro enterprise, were not captured.

Of the 29.3 percent of female-owned enterprises, 24.6 percent were active and 4.7 percent were inactive at the time of our fieldwork. More female-owned enterprises were in Dili than the rest of the country. Dili had 18.1 percent and the rest of the country had 11.2 of the 29.3 percent of the women-owned MSMEs. Regarding the registration status, 17.4 percent of the women-owned MSMEs were formal and 11.9 percent were informal.

Female and joint ownership was proportionally higher in Dili and accounted for approximately 48.5 percent of MSMEs in Dili compared to 32.7 percent outside of Dili. Male only ownership of MSMEs was proportionally higher outside Dili; 64.5 percent of MSMEs outside of Dili were owned by males

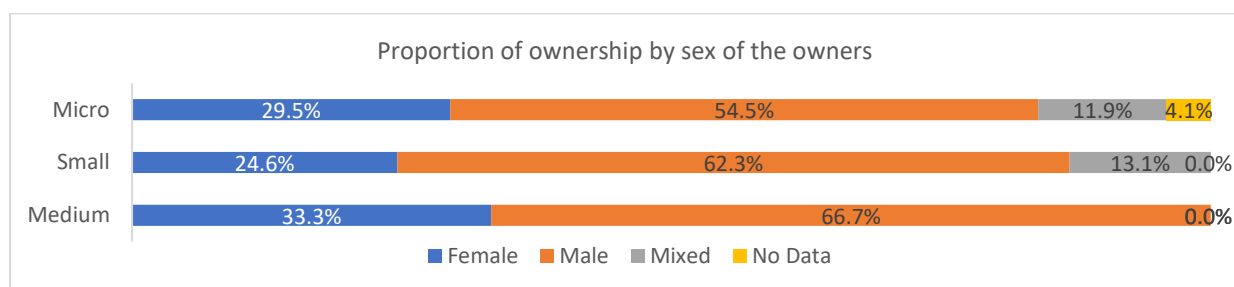
compared to approximately 46.7 percent male ownership in Dili. Figure 10 shows ownership as a proportion of all MSMEs in Dili and outside of Dili.

Figure 10 Percentage of male, female and joint ownership



The women's ownership of micro business is in line with the 29.3 percent women ownership of all MSMEs, but women's ownership of medium size businesses is proportionally higher at 33.3 percent and proportionally lower for small businesses at 24.6 percent. Figure 11 shows the proportion of ownership by the size of enterprises.

Figure 11 Percentage of micro, small and medium enterprises by owners' sex



The proportion of female operated MSMEs that had closed (25.1 percent) was less than the proportion of active women-owned businesses (30.6 percent), demonstrating that a lesser proportion of women-owned businesses had closed and were marginally more resilient to prolonged COVID-19 market conditions.

The MSMEs data collected for SEIA-2 were first grouped into two broad categories of active and inactive MSMEs for assessment. The active category included MSMEs that had remained operational, and the inactive category consisted of MSMEs that had closed or had registered but had not started. The assessment of active MSMEs is in section 5 Assessment of Active MSMEs and the inactive MSMEs are in section 7 Assessment of Inactive MSMEs of this report.

5. Assessment of Active MSMEs

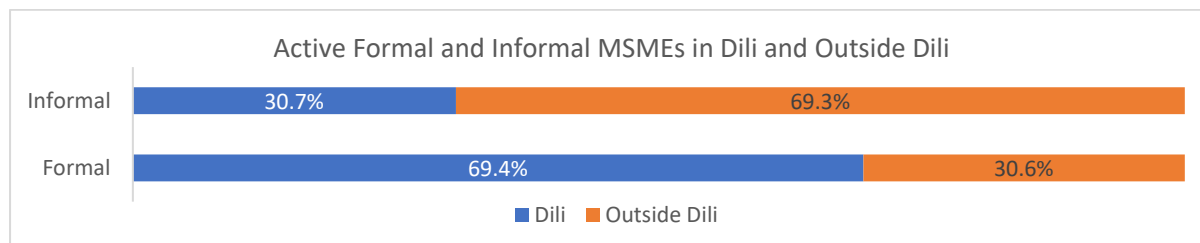
Overview

The percentage of active MSMEs in the data collected for SEIA-2 MSME survey was 80.3. This section of the report focuses on the assessment of MSMEs that were active during the fieldwork. Active MSMEs included 92.3 percent micro enterprises, 7.0 percent small enterprises and 0.7 percent medium enterprises. All medium enterprises in the data collected were active. More than

1 in 2 active MSMEs were owned by males. The male ownership of active MSMEs was 54.6 percent, female ownership was 30.6 percent and joint ownership was 14.8 percent.

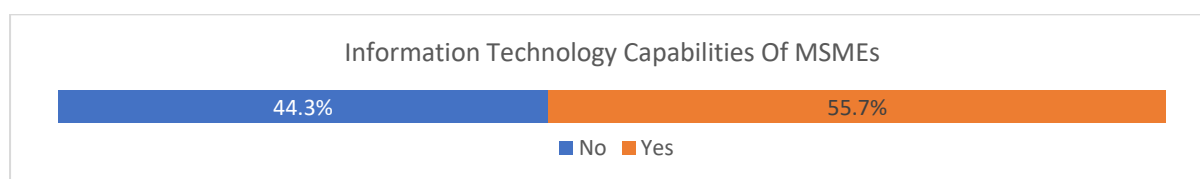
Active MSMEs included 60.4 percent formal and 39.6 percent informal enterprises. More of the active formal enterprise in our survey were in Dili. The proportion of informal MSMEs in and outside of Dili was almost exactly opposite to the proportion of formal enterprises.

Figure 12 Percentage of formal and informal active MSMEs



The use of information technology (IT) amongst MSMEs is mostly limited to the use of the internet, social media, telephone, and smartphone. The proportion of MSMEs that reported having IT capabilities and using IT was 55.7 percent while 44.3 percent responded they do not use information technologies for their businesses.

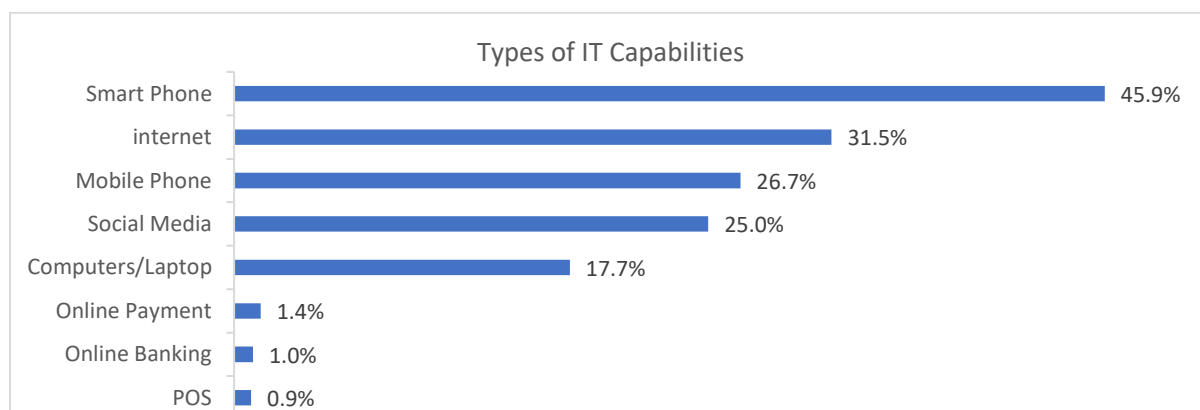
Figure 13 Percentage of MSMEs with information technology capabilities



One of the characteristics of the informal sector, as defined by International Labour Organisation (ILO), is that it operates with a low level of technology. The SEIA-2 MSME survey also found that a significantly lower proportion of informal MSMEs in Timor-Leste use technology compared to formal counterparts. The proportion of MSMEs in the informal sector that used IT was 27.2 percent and it was 74.4 percent, in the formal sector.

The IT capabilities of MSMEs in Timor-Leste were concentrated on the use of phones, the internet, and social media. There is a significant drop-off in other IT capabilities. The types of technology used, based on multiple responses option question, are detailed in Figure 14 below.

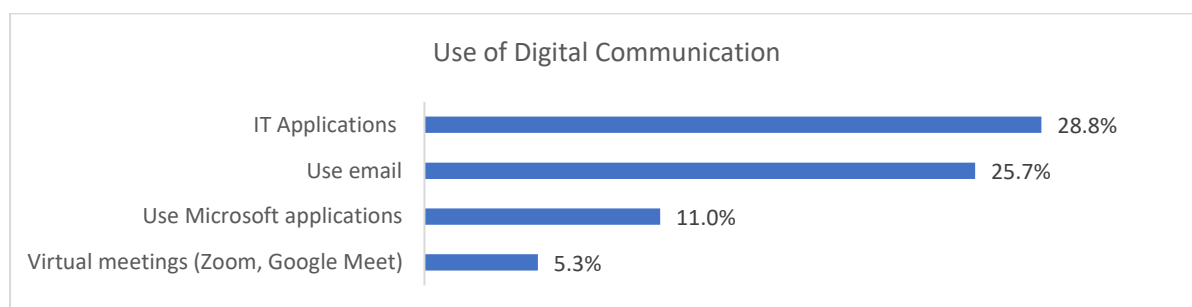
Figure 14 Percentage of MSMEs by types of technology used



The technologies that facilitate e-commerce and digital transactions were used by less than 2.0 percent of MSMEs. Some were using social media to promote and market their products, but only a small proportion could accept digital payments. Despite some e-payment options available in the market, people's trust in digital payments was low as highlighted in the 2020 annual report of the Central Bank of Timor-Leste.

The use of digital communication was also low; 28.8 percent used applications such as WhatsApp or Facebook for business communication, 25.7 percent used e-mails, 11.0 percent used Microsoft suite including outlook, and 5.3 percent used virtual meetings such as Zoom/Google meet.

Figure 15 Percentage of MSMEs by types of digital communication



Workforce in 2021

The active MSMEs were owned by 689 male and 415 female owners as individual owners or in partnership. In addition to the owners, 54.2 percent of MSMEs employed staff when the survey was conducted. Micro enterprises employed 46.1 percent, small enterprise employed 37.9 percent and medium enterprises accounted for another 15.9 percent of the employment. Small and medium enterprises employed almost 53.8 percent of employees despite accounting for just 7.7 percent of the active MSMEs.

MSMEs in Dili employed 69.7 percent of the employees while 30.3 percent of the employees were outside of Dili. The majority of the employment, 87.0 percent, in MSMEs were full-time and 13.0 percent were part-time employees.

Formal enterprises generated 95.1 percent of the employment and informal MSMEs generated 4.9 percent of the employment. The employment in MSMEs was proportionally dominated by male employees, 64.4 percent of full-time and 77.8 percent of the part-time employees were male. Females were employed for 35.6 percent of the full-time and 22.2 percent of the part-time employment with MSMEs.

Micro enterprises in Dili had the highest rate of female employment. They employed women in 46.8 percent of full-time employment and 39.1 percent of the part-time employment. Micro enterprises outside of Dili also employed a higher proportion of women in full-time roles, compared to small and medium enterprises outside of Dili.

Medium enterprises in Dili employed zero women for part-time roles. The only medium enterprise outside of Dili in our survey only employed full-time male workers. Detail of full-time and part-time employment for males and females by micro, small and medium enterprise in Dili and outside of Dili is detailed in the table below.

Table 4 Percentage of male & female employment by size of enterprise and location

Location & Size	Full-Time		Part-Time	
	Male	Female	Male	Female
Dili				
Micro	53.2%	46.8%	60.9%	39.1%
Small	67.2%	32.8%	71.6%	28.4%
Medium	65.6%	34.4%	100.0%	0.0%
Outside of Dili				
Micro	70.1%	29.9%	82.2%	17.8%
Small	73.3%	26.7%	78.8%	21.2%
Medium	100.0%	0.0%	0%	0%

The top five sector generating employment in MSMEs included:

1. Retail – groceries & convenience,
2. Infrastructure construction,
3. Manufacturing,
4. Retail trade – imported goods, and
5. Cafes, restaurants and other eateries

The top five sectors accounted for 78.9 percent of all employment and 76.4 percent of all full-time employment. Retail – groceries & convenience accounted for 34.6 percent of the full-time employment and Infrastructure construction employed 45.1 percent of the part-time employees individually.

The top five industries with the most FEMALE full-time employment were:

1. Retail – groceries and convenience,
2. Cafes & eateries,
3. Manufacturing,
4. Retail trade – imported goods, and
5. Wholesale.

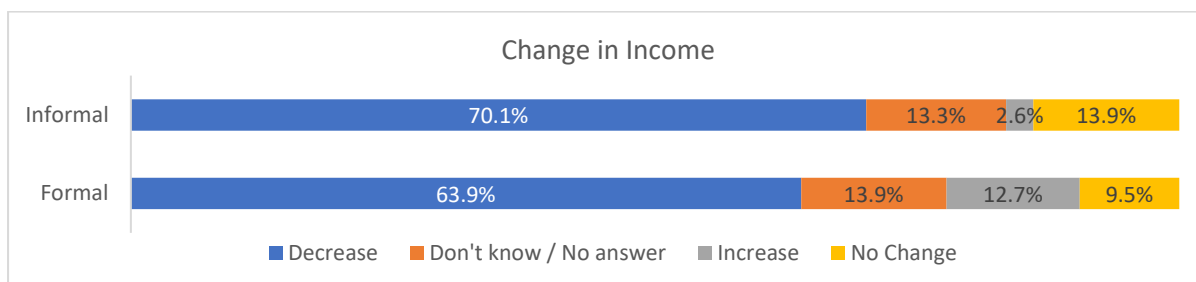
In addition to the formal employment, MSMEs engaged additional 627 informal family workers.

5.1 Impact on MSMEs' Income

The COVID-19 infection prevention measures and the consequential market conditions have impacted the income of most MSMEs in Timor-Leste. The income for 66.4 percent of the MSMEs had decreased in 2020 compared to 2019. The income had increased for the 8.7 percent, remained the same for 11.2 percent, and 13.6 percent did not provide information on the impact to their income.

A higher proportion of informal enterprises, 70.1 percent, reported a decline in 2020 income compared to 63.9 percent of formal MSMEs. Only 2.6 percent of informal MSMEs reported an increase in income compared to 12.7 percent of formal MSMEs.

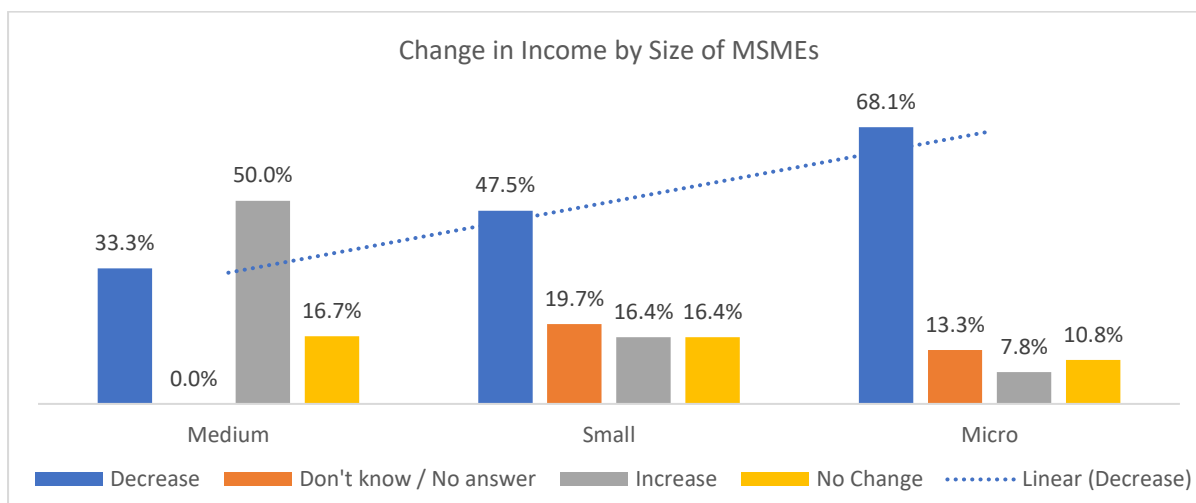
Figure 16 Percentage of MSMEs with change in income



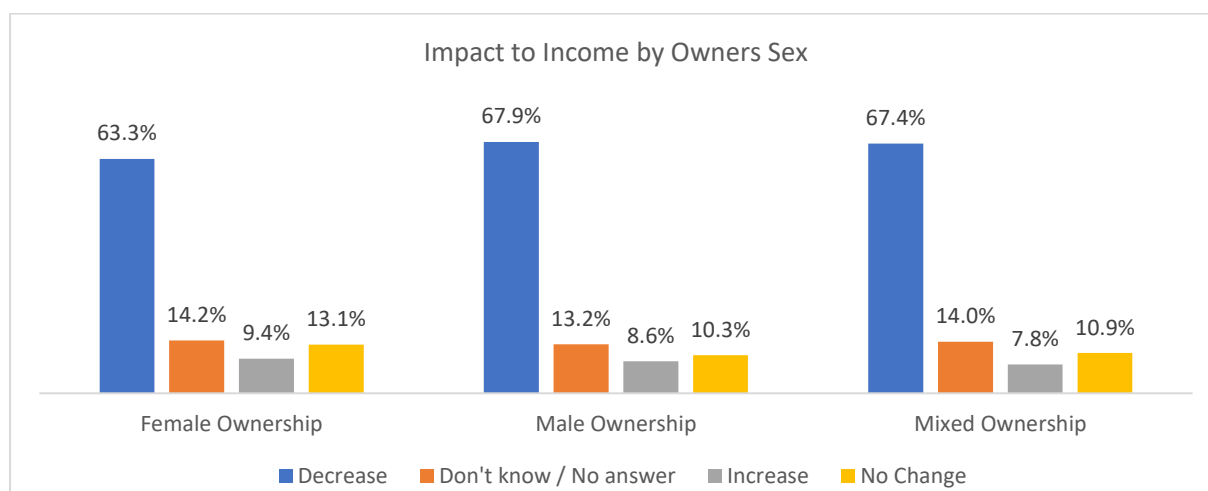
Impact on income differed by the size of MSMEs. Micro businesses were more severely impacted as a group than small or medium enterprises. A higher proportion of micro enterprises, 68.1 percent, reported a loss in income compared to 47.5 percent of small and 33.3 percent of medium enterprises. A higher proportion of medium enterprises also reported no material change to their 2020 income compared to 2019. MSMEs that reported no change in income consisted of 16.7 percent of the medium enterprises, 16.4 percent of the small enterprises, and 10.8 percent of the micro enterprises.

Medium enterprises also had the most positive impact on income during the COVID-19 pandemic with 50.0 percent of them reporting an increase in 2020 income compared to 16.4 percent of small enterprises and only 7.8 percent of micro enterprises. Bigger MSMEs performed better during COVID-19 SOE, they had a higher proportion of enterprises with a positive impact, a higher proportion of enterprises with no material impact, and a lower proportion of enterprises with negative impact. Medium enterprises managed better than small enterprises which were less impacted than micro MSMEs.

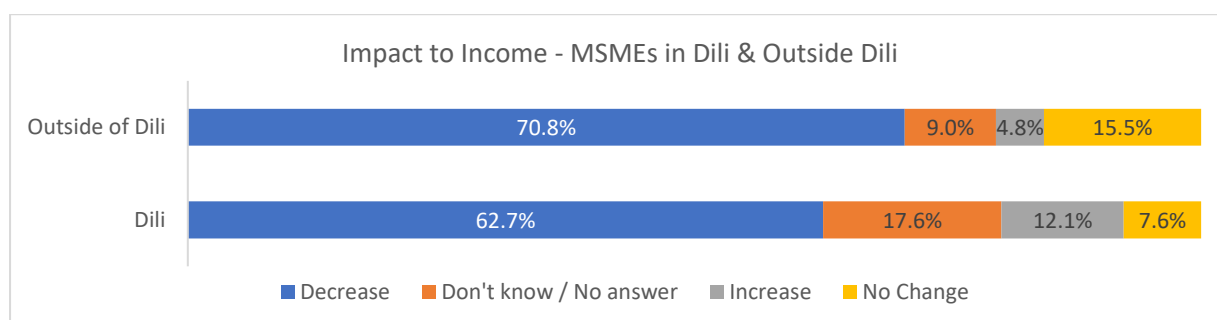
Figure 17 Percentage with change in income by size of business



The income performance of MSMEs in 2020 with female ownership, proportionally as a group, was slightly better than MSMEs with male owners or joint owners. MSMEs owned by female owners, 9.4 percent of them reported an increase in income compared to 8.6 percent of MSMEs owned by males and 7.8 percent of MSMEs under joint ownership. About 63.3 percent of MSMEs with female owners saw a declined in income compared to 67.9 of male-owned MSMEs and 67.4 percent of jointly owned MSMEs. Figure 18 provides detail on income change by sex of owners.

Figure 18 Percentage with change in income by sex of owners

Overall, MSMEs in Dili performed better than MSMEs outside of Dili. Approximately 70.8 percent of MSMEs outside of Dili reported a decrease in income compared to 62.7 percent in Dili. Only 4.8 percent of MSMEs outside of Dili reported an increase in income compared to the 12.1 percent of MSMEs in Dili.

Figure 19 Percentage with change in income in Dili and outside of Dili

The proportion of MSMEs that reported no change in their 2020 income compared to the 2019 income was higher outside Dili at 15.5 percent compared to 7.6 percent of such MSMEs in Dili. More MSMEs in Dili did not know or did not provide a response regarding income compared to MSMEs outside of Dili.

Although more MSMEs reported a decrease in income (66.4 percent) and only a small proportion (8.7 percent) reported an increase, the amount of increase reported exceeded the amount of decrease. Details on increase and decrease in income are reported by sector in Table 5.

Table 5 Amount of change in income reported by sector

Industry Sector	Decrease	Increase
Agriculture, horticulture, and fisheries	-30,524	1,850
Cafes, restaurants & other eateries etc.	-615,845	1,810
Information Technology & Communication (ITC)	-195,510	1,571,000
Infrastructure Construction	-2,658,885	110,127,712
Manufacture	-227,204	514,350
Retail - Groceries & convenience	-28,974,791	4,802,459
Retail Trade - Imported goods	-973,109	221,755
Services	-282,142	10,100

Tourism & Accommodation	-18,217,320	14,000
Transportation	-847,755	10,000
Wholesale	-499,880	1,712,000
Other	-165,565	9,200
Total	-48,370,760	118,996,236

The two sectors that accounted for 97.6 percent of the decrease in income were retail – groceries and convenience, and the tourism sector which has been crippled by prolonged COVID-19 across the globe.

In terms of dollars, on average, the increase in income reported was higher than the decrease. It means that the income of only a few businesses increased sharply during SOE and push the average upward. The average income of informal businesses declined by 49.0 percent in 2020 from 2019.

Almost one in five or 22.0 percent of the MSMEs that reported a loss in income had managed to supplement their income in 2020, 77.4 percent had not supplemented their income and 0.6 percent responded, “don’t know”.

The proportion of MSMEs reporting impact to their income by various classification is summarised in the table below.

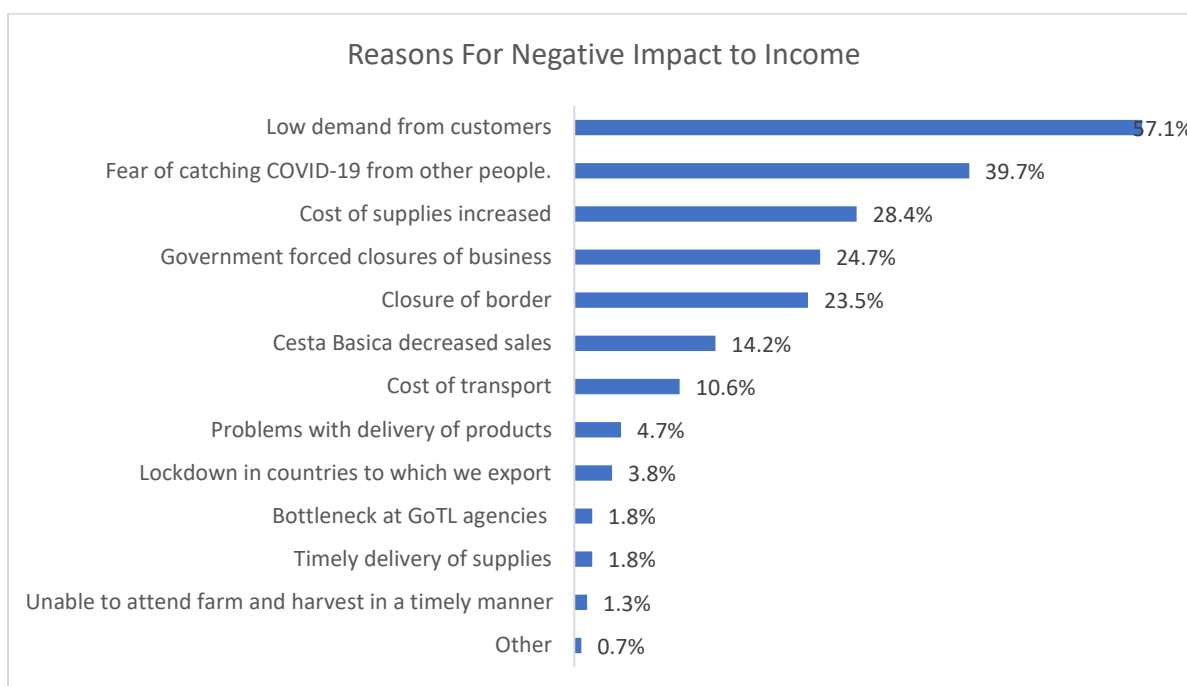
Table 6 Proportion reporting change in income - summary

Impacts to Income	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
Increase	8.7%	12.7%	2.6%	12.1%	4.8%	7.8%	16.4%	50.0%	9.4%	8.6%	7.8%
Decrease	66.4%	63.9%	70.1%	62.7%	70.8%	68.1%	47.5%	33.3%	63.3%	67.9%	67.4%
No Change	11.2%	9.5%	13.9%	7.6%	15.5%	10.8%	16.4%	16.7%	13.1%	10.3%	10.9%
Don't know	13.6%	13.9%	13.3%	17.6%	9.0%	13.3%	19.7%	0.0%	14.2%	13.2%	14.0%

Drivers of change in income

During the COVID-19 SoE, the government of Timor-Leste enacted restrictive measures which negatively impacted market conditions. The GoTL also introduced economic support measures to help impacted MSMEs and households, to sustain their businesses. These government measures coupled with inadequate information on the new COVID-19 virus during the earlier days of the pandemic, lack of vaccines, and the general sentiment of fear amongst people impacted the market conditions mostly negatively, but some enterprises were able to take the opportunity presented by the pandemic.

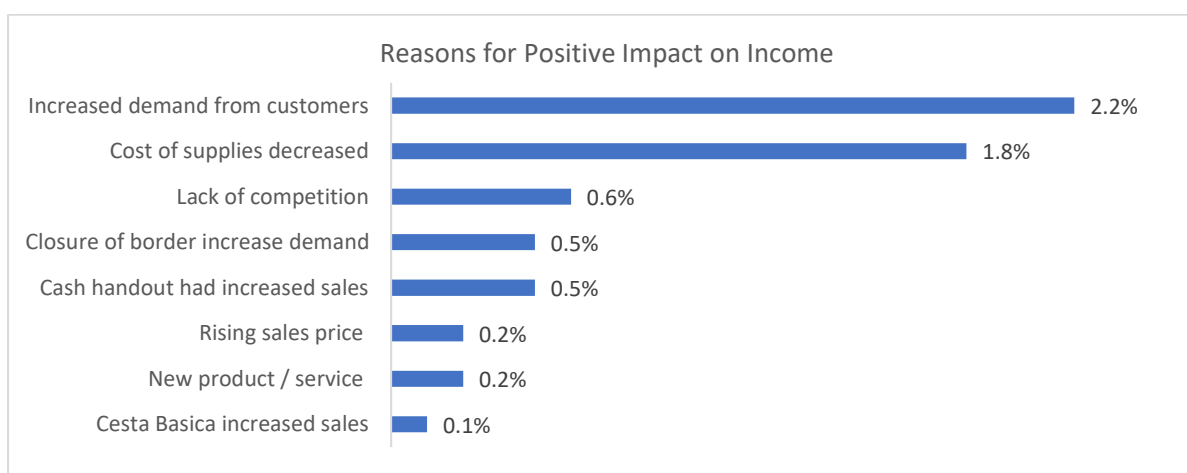
When asked to provide reasons that are negatively impacting MSMEs' income, 81.3 percent of the active MSMEs provided 1,851 responses. Responses provided are illustrated in Figure 20 below.

Figure 20 Percentage for negative impact on income of reasons

The top five responses accounted for 81.7 percent of the total responses and they included:

1. Low demand from customers,
2. Fear of catching CVOID-19,
3. Cost of Supplies increased,
4. Government forced closure, and
5. Closure of borders.

MSMEs that reported an increase in income in 2020 were asked to provide conditions that have had the most positive impact on their business income. The responses received is illustrated in figure 21 below.

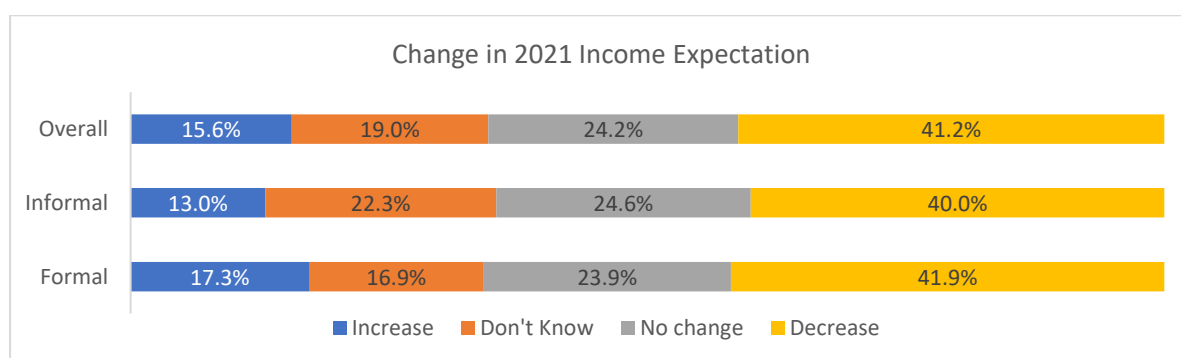
Figure 21 Percentage for positive Impact on income reasons

Income outlook 2021

The income expectations for 2021 compared to 2019 income found that 15.6 percent of MSMEs had a positive outlook and expected their income to increase, 24.2 percent of MSMEs expected income to return to 2019 level, 41.2 percent anticipated their income to stay lower and 19.0 percent of did not know how their 2021 income will compare to 2019 income level.

MSMEs had a relatively positive outlook compared to 2020 income. A higher proportion, 15.6 percent, expected their 2021 income to increase compared to 8.7 percent that reported an actual increase in 2020. A lesser proportion, 41.2 percent, of the MSMEs expect their 2021 income to decrease compared to 66.4 percent that reported a decline in 2020 actual income.

Figure 22 Percentage with change in income expectation for 2021



Expectations for 2021 income compared to 2019 income for some of the sectors were differed by sector.

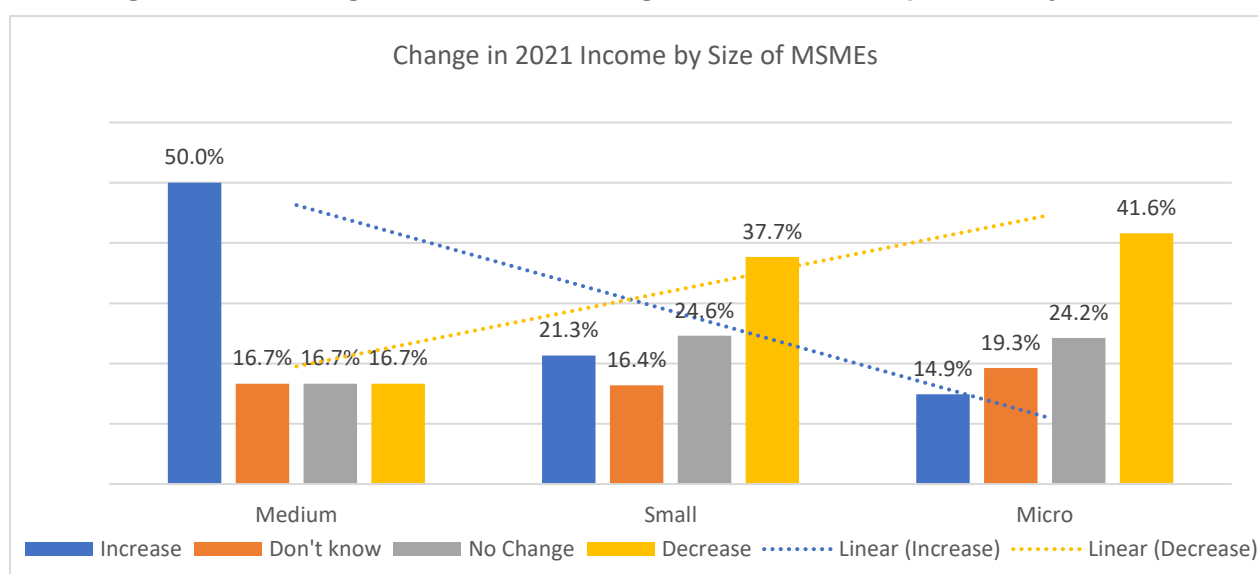
- No MSMEs (0 percent) in the Tourism & Accommodation sector expect their income to increase in 2021 and 57.1 percent of these businesses expect their income to decrease in 2021.
- All MSMEs (100 percent) in consulting services expect their 2021 income to decrease.
- Fifty percent (50.0 percent) of MSMEs in the transportation sector expect their income to decrease and approximately 13 percent expect their income to increase.
- Forty percent (40.0 percent) of MSMEs in services - personal care & beauty expect their income to increase in 2021, only 20 percent of MSMEs in the sector expect their income to decrease.
- More than half, 52.6 percent of the MSMEs, in retail – trade expects their income to decrease in 2021.
- The proportion of MSMEs in Information Technology & Communication (ITC) that expected their income to increase, to decrease, and to remain the same was 28.6 percent, same for each category.
- Tourism, service – maintenance and repair, retail – trade, real estate – long-term accommodation and transportation made up the top five sectors that expected their income to remain below 2019 level. At least 50 percent or more MSMEs in each of these sectors expected their income to remain below the 2019 level in 2021.

The table below provides the proportion of MSMEs that expected change in income for 2021 by main sectors. Some of the sectors with only few responses were merged as “other”.

Table 7 Income expectation for 2021 by sector

Sector	Don't know /No answer	No Change	Decrease	Increase
Agriculture, horticulture, and fisheries	22.1%	29.8%	43.3%	4.8%
Cafes, restaurants & other eateries etc.	21.6%	27.0%	43.2%	8.1%
Infrastructure Construction	19.0%	45.2%	21.4%	14.3%
Manufacture	19.7%	18.0%	49.2%	13.1%
Private Construction	9.1%	18.2%	45.5%	27.3%
Retail - Convenience	18.8%	24.5%	37.9%	18.8%
Retail Trade - Imported goods	14.1%	20.5%	52.6%	12.8%
Tourism & Accommodation	14.3%	28.6%	57.1%	0.0%
Transportation	25.0%	12.5%	50.0%	12.5%
Wholesale	38.9%	5.6%	38.9%	16.7%
Other	14.0%	14.0%	46.0%	26.0%
All sectors	19.0%	24.2%	41.2%	15.6%

The 2021 income expectations differed by the size of the MSMEs. Bigger enterprises expected to perform better in 2021 compared to smaller enterprises. A higher proportion of medium and small enterprises expected an increase in 2021 income compared to the baseline, 2019 income. While 50.0 percent of the medium and 21.3 percent of small enterprises expected their income to increase, only 14.9 percent of micro enterprises were expecting their income to increase in 2021 compared to 2019. The trend of bigger enterprises expecting to perform better in 2021 than micro MSMEs was in line with the actual income performance of MSMEs in 2020. The sentiment is reflective of the expected decrease in income in 2021 as well. A higher proportion of micro compared to small and medium enterprises, and a higher proportion of small enterprises compared to medium enterprises expected to see a decrease in their 2021 income compared to baseline income.

Figure 23 Percentage of MSMEs with change in 2021 income expectation by size

The assessment did not find any significant trend or outliers in expectation of MSMEs 2021 income based on the location or the sex of the MSMEs' owners.

The proportion of MSMEs reporting change in their 2021 income expectations by various classifications is summarised in the table below.

Table 8 Proportion reporting change in Income expectation in 2021 – summary

	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
2021 Income Expectations (2019 baseline income)											
Increase	15.6%	17.3%	13.0%	15.3%	16.0%	14.9%	21.3%	50.0%	14.6%	16.4%	14.7%
Decrease	41.2%	41.9%	40.0%	41.9%	40.3%	41.6%	37.7%	16.7%	40.1%	41.0%	44.2%
No Change	24.2%	23.9%	24.6%	24.4%	24.0%	24.2%	24.6%	16.7%	24.0%	25.0%	21.7%
Don't know	19.0%	16.9%	22.3%	18.4%	19.8%	19.3%	16.4%	16.7%	21.3%	17.6%	19.4%

5.2 Impact on MSMEs' operation

"Due to the restrictions, especially the Sanitary Fence (Serca Sanitaria), it has been difficult to buy from the farmers as they cannot move freely and access the markets so that restaurants can buy produce. So, it has been quite challenging." Female hotel and restaurant owner in Oecusse.

5.2.1 Restriction and MSMEs operation status.

To prevent the spread of COVID-19 in the communities, the Government of Timor-Leste imposed several restrictions and preventative measures. The timeline of these events is in Figure 1 Key Stages of the State of Emergency and SEIA-1 and SEIA-2. Section 3.2.1 Restrictions/containment measures of this report include detail on the GoTL responses.

The GoTL imposed a mandatory lockdown from 28th March 2020 to 26th June 2020 ("first lockdown") to prevent the spread of the COVID-19. Other than essential services on a limited basis, all businesses were asked to close during the period. During the first lockdown, 45.2 percent of MSMEs remained fully closed, 7.0 percent closed the premises but remained somewhat operational, 21.3 percent operated with reduced hours and 26.0 percent remained open and operational.

The 45.2 percent of the MSMEs that remained fully closed were made up of 33.8 percent formal and 11.4 percent informal enterprises; 38.2 percent remained closed for 90 days losing more than a quarter of their annual operation. The SoE was extended after the first lockdown and the border remained closed with a movement in and out of the country restricted. From 26th June 2020 to early 2021 ("ease of restrictions") most businesses were allowed to open with social distancing and with public health safety measures. Only Oecussi had been ring-fenced in December 2020 and January 2021, otherwise, the movement within the country was allowed.

During the ease of restriction, 6.9 percent of the MSMEs continued to remain close, another 6.9 percent kept premises closed but remained operational, 34.9 percent stayed open with reduced

hours and reduced operation, and 51.4 percent of the MSMEs had returned to fully operational status. Of the 6.9 percent MSMEs that remained closed, 5.2 percent were formal and 1.7 were informal businesses; 4.4 percent of the 6.9 percent remained closed as they feared COVID-19. Almost 1.0 percent remained closed due to lack of demand and 0.5 percent closed as they could not find supplies. Approximately 1.0 percent of the MSMEs that remained closed did not provide the reason for the closure.

While Timor-Leste managed to maintain the number of cases to a minimum and mostly within quarantine facilities in 2020, the number of COVID-19 cases increased in early 2021 and was no longer contained within the quarantine facilities. The first case of public transmission in the country was detected on 26th February and the first case of public transmission in the capital city, Dili, was recorded on 7th March. Starting in February, the GoTL imposed sanitary fencing and mandatory confinement in different municipalities based on the number of COVID-19 cases. The capital city, Dili also saw a spike in the number of cases and sanitary fencing of Dili, which has the only international airport and the seaport in the country, started in March 2021.

At the time of our fieldwork in August, 5.6 percent of MSMEs had continued to remain closed since February 2021, 4.7 percent were operating with closed premises, 38.2 percent were operating with reduced hours and 51.5 percent are fully operational. About 2.9 percent of the MSMEs (2.3 percent formal and 0.6 percent informal) have remained closed and are dormant.

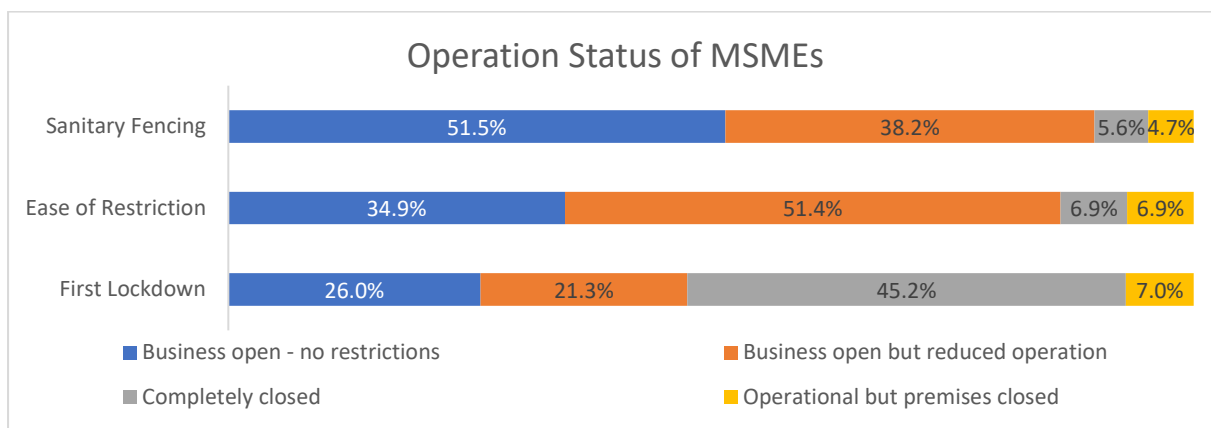
Of the 45.2 percent of the MSMEs that remained fully closed during the first lockdown, the proportion of formal MSMEs from Dili was higher amongst the MSMEs that remained closed. During the first lockdown, businesses in Dili were fully closed longer, by 10.2 days on average, than outside of Dili and formal businesses were fully closed longer by 10.6 days than informal ones.

When the restrictions were eased on 26th June 2020, 38.3 percent of the closed businesses restarted their operation. Businesses that operated with reduced hours saw a 30.1 percent increase and businesses open with no restrictions saw 8.9 percent nearly offsetting the drop in proportion of closed businesses. After the first lockdown, more MSMEs transitioned to operate with limited hours, and as time passed, more MSMEs moved operate with no restrictions. During the ease of restriction period, 51.4 percent of the MSMEs remained open with reduced hours of operations and saw the highest increase after the initial lockdown. By March 2021, approximately 51.5 percent of the MSMEs are operating without restrictions, and 38.2 percent are operating with reduced hours. The rest remain closed or operate with premises closed.

MSMEs in the agriculture sector were proportionally least impacted by lockdown and movement restrictions measures of the government. Two-thirds (67.4 percent) of agriculture businesses remained open during the first lockdown. MSMEs in the agriculture sector remained fully closed for a shorter period, by 7.6 to 11.5 days, than businesses in other sectors

Figure 24 below provides the percentage of MSMEs and their operating status during the first lockdown (28th March 2020 to 26th June 2020), ease of restriction (26th June 2020 to February 2021) and after sanitary fencing (from February 2021 till the end of fieldwork).

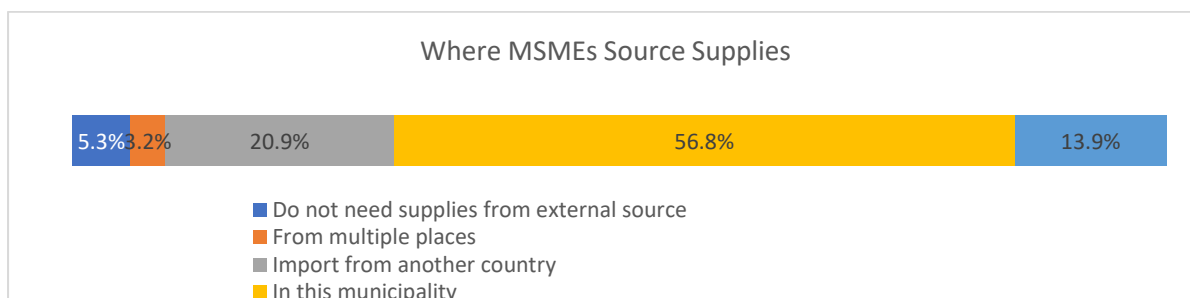
Figure 24 Percentage of operation status through various State of Emergency phases



5.2.2 Impact on value chains

During 1st lockdown, formal businesses complied with restrictions more than informal enterprises. Active MSMEs sourced their supplies from various locations within Timor-Leste and internationally. Most MSMEs sourced their supplies from within Timor-Leste with only 20.9 percent importing their supplies. The majority, 56.8 percent, received their supplies locally from their municipality; 13.9 percent received their supplies from other municipalities, 3.2 percent got their supplies from multiple places and 5.3 percent of the MSMEs did not require supplies from external sources.

Figure 25 Where MSMEs source supplies

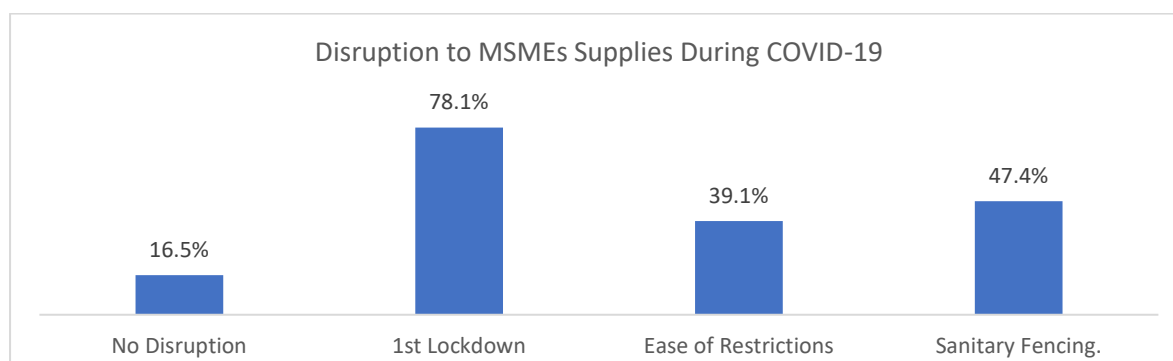


The COVID-19 state of emergency disrupted air, ocean, and land transportation into and within Timor-Leste. Some MSMEs were unable to get their raw materials and supplies. Others were unable to deliver products to buyers/customers.

Disruption in supply was most severe during the first lockdown when 78.1 percent of MSMEs experienced problems with getting supplies. After the first lockdown, approximately half of the MSMEs were able to resolve their supply issues, the proportion of MSMEs that reported problems with supplies during the ease of restriction period dropped to 39.1 percent.

The sanitary fencing restricted movement in and out of Dili and other municipalities from time to time. Refer to Figure 5 for timeline and municipalities impacted. MSMEs that relied on getting their supplies from municipalities under sanitary fencing faced difficulty. The proportion of MSMEs that reported disruption with supplies saw a spike to 47.4 percent during the sanitary fencing period.

Approximately 16.5 percent of the MSMEs were not impacted by any supply disruptions during the COVID-19 pandemic.

Figure 26 Percentage reporting supply disruptions during COVID-19 phases

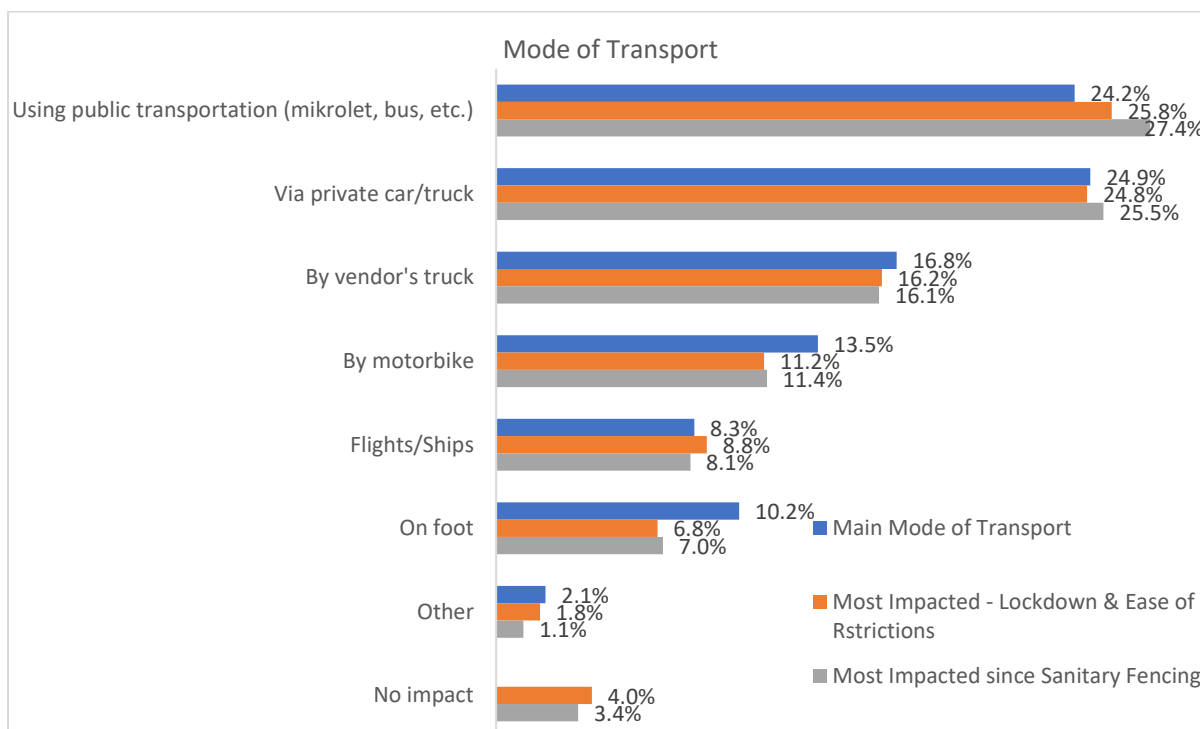
A higher proportion of formal businesses were affected by the supply disruptions throughout the SoE. During the first lockdown, 84.8 percent of the formal enterprises reported they were impacted by the supply disruptions compared to 67.8 percent of informal businesses. During the ease of restriction, 41.9 percent formal compared to 34.8 percent informal reported supply disruptions. During the sanitary fencing period, 48.2 formal and 46.1 percent of informal businesses reported supply chain disruptions. Sanitary fencing increased disruptions for 11.3 percent of the informal and 6.3 percent of the formal MSMEs compared to the ease of restrictions timeframe. Sanitary fencing disrupted supplies for a proportionally higher percentage of informal businesses compared to formal businesses.

Location of the businesses had an insignificant impact on supply disruption. A slightly higher proportion of businesses in Dili, less than 3.0 percent, reported supply disruption compared to MSMEs outside of Dili during the first lockdown and ease of restriction period. However, a higher proportion of MSMEs outside of Dili, by about 1.2 percent, reported supply chain disruption during the sanitary fencing period.

Mode of transport

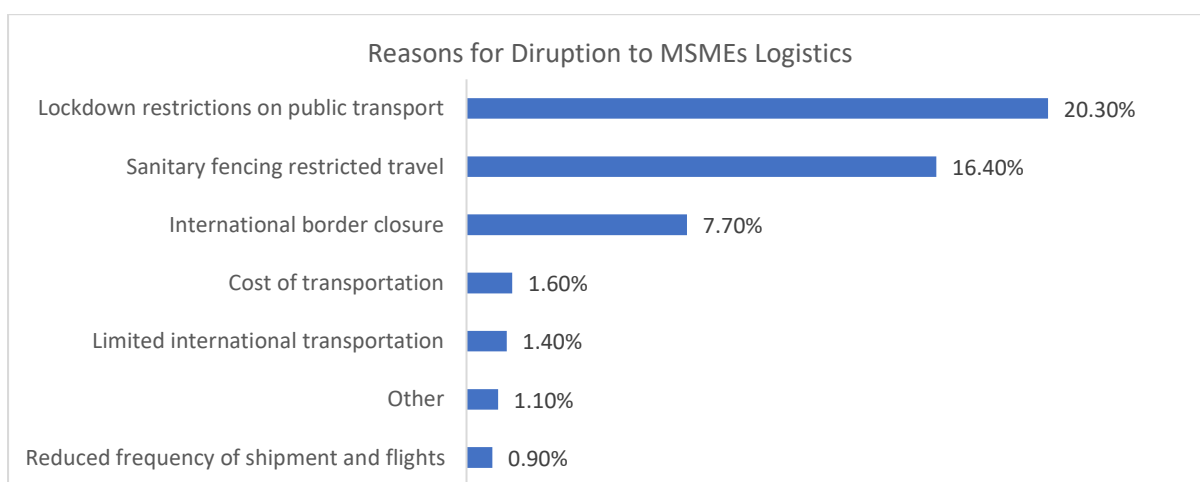
The main mode of transport for 24.9 percent of the MSMEs was private vehicles and 24.2 percent relied on public transport. As to which mode of transport was the most impacted during lockdown and ease of restriction; and since sanitary fencing, the responses nearly mirrored the main mode of transport. Details on the main mode and the most impacted mode of transport is illustrated in Figure 27 below.

Figure 27 Percentage of main mode of transport and most Impacted mode of transport



The GoTL restrictions that impacted transportation and movements had consequences to MSMEs logistics. Approximately 50.0 percent of the MSMEs responded they experienced disruptions with sourcing and transporting resources, material, and equipment during the SoE. Restriction on public transport was the main reason for the disruption for 20.3 percent of the MSMEs. Sanitary fencing and travel restrictions impacted 16.4 percent of the MSMEs and international border closure impacted another 7.7 percent of the MSMEs. Reasons for logistic disruption responses are illustrated in figure below.

Figure 28 Percentage response for logistical disruptions reasons



The COVID-19 pandemic has affected the time taken to receive supplies globally and in Timor-Leste. MSMEs who experienced supply chain disruptions provided comparative information on the time taken to receive supplies for the business during the SoE and before. Receiving supplies is taking longer for 42.2 percent of the MSMEs, 28.4 percent are receiving supplies just as before, 7.0

percent are receiving some supplies faster while other supplies are taking longer, 3.1 percent are receiving supplies faster and 2.8 percent are unable to receive their supplies.

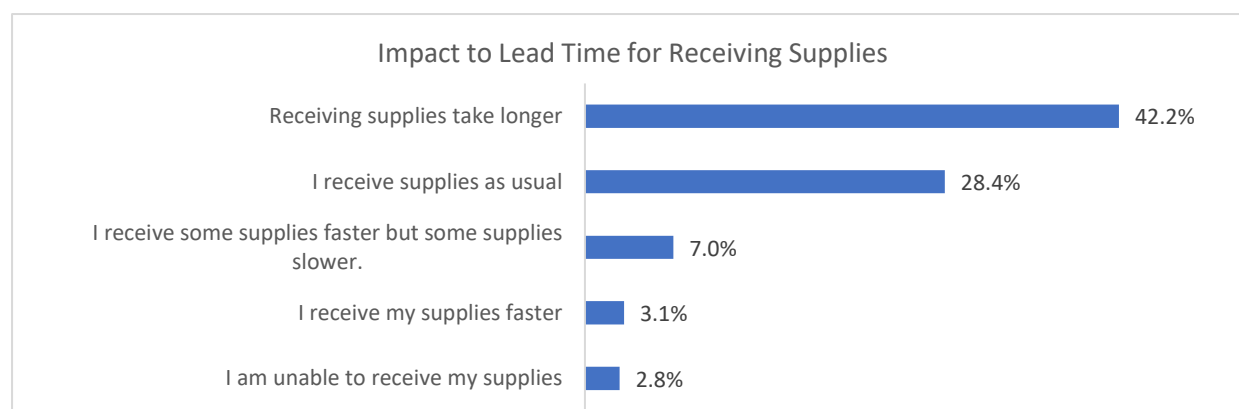
The proportion of MSMEs that reported disruptions in the supply of materials by various classification is summarised in the table below.

Table 9 Proportion reporting supply chain disruption

Disruptions in Supply of materials	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
No Disruptions	16.5%	10.8%	25.2%	13.3%	20.3%	16.5%	16.4%	16.7%	15.4%	17.0%	17.1%
Unable to receive	2.8%	3.2%	2.0%	2.8%	2.8%	2.7%	1.6%	16.7%	3.4%	2.5%	2.3%
Receive faster	3.1%	2.3%	4.3%	3.4%	2.8%	3.2%	1.6%	0.0%	3.7%	3.2%	1.6%
Receive some supplies faster some take longer	7.0%	7.8%	5.8%	7.0%	7.0%	7.2%	3.3%	16.7%	6.0%	7.1%	8.5%
Receive supplies as usual (after disruption)	28.4%	22.2%	38.0%	25.6%	31.8%	29.1%	21.3%	16.7%	32.2%	27.7%	23.3%
Receiving supplies take longer	42.2%	53.7%	24.6%	47.9%	35.5%	41.2%	55.7%	33.3%	39.3%	42.4%	47.3%

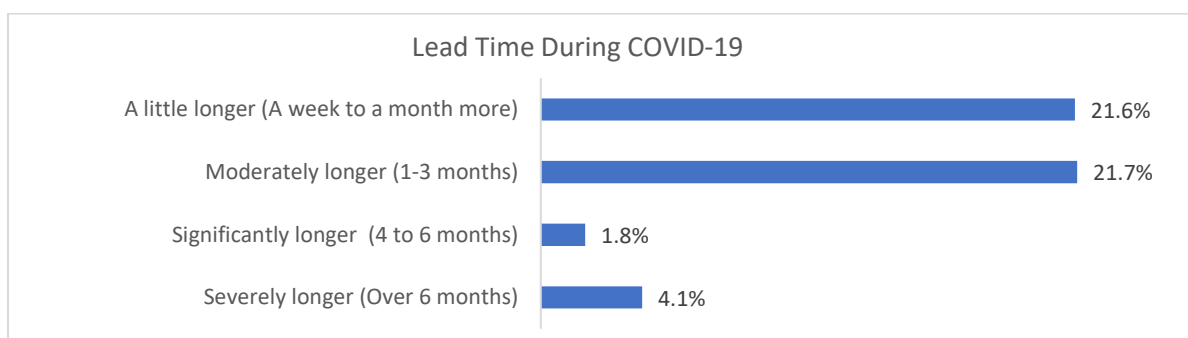
Based on the numbers reported, almost 50 percent of businesses were facing delays in receiving at least some of their supplies at the time of the fieldwork.

Figure 29 Proportion reporting impact to lead time



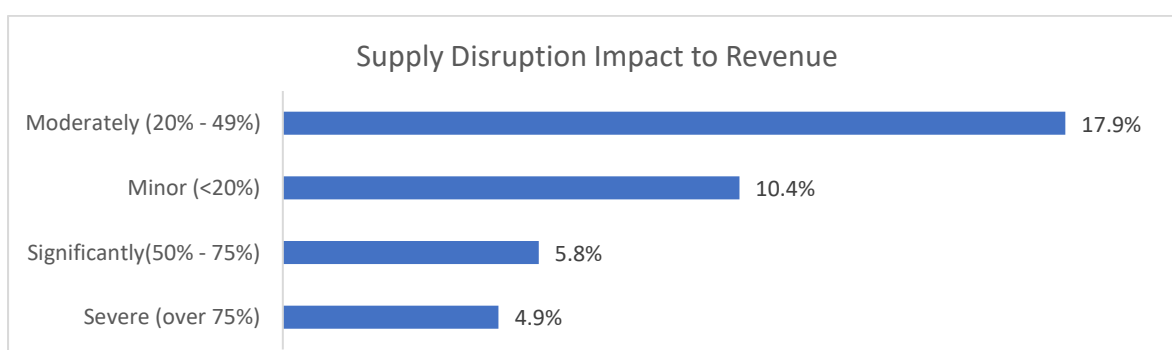
For the MSMEs that reported receiving all or some of their supplies was taking longer during SoE, the delays ranged up to a month for 21.6 percent, and from one to three months for 21.7 percent, four to six months for 1.8 percent, and over six months for 4.1 percent.

Figure 30 Percentage severity of delays in receiving supplies



These delays in receiving supplies could impact the inventory turnover and add idle time while MSMEs wait for the supplies unless the business had the financial capacity to order a larger volume of inventory, and a warehouse management system and capacity to handle a higher volume of inventory. Disruptions and delays impacted revenue, MSMEs that reported delays in receiving supplies were asked how much the impact on their revenue was due to supply delays. Responses received from 39.0 percent of the MSMEs are illustrated in Figure 31.

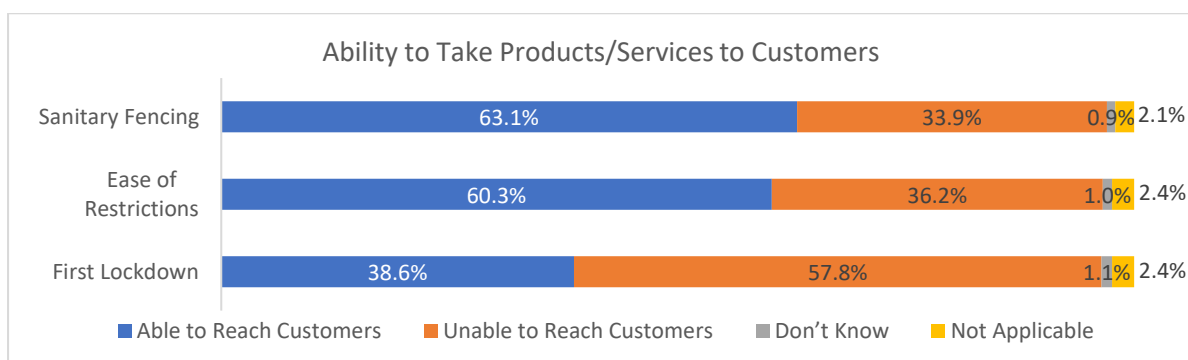
Figure 31 Percentage impact to revenue



Access to market/customers

Impact to transportation from GoTL restriction impacted MSMEs ability to take their products to the customers. A majority, 58.7 percent of the MSMEs were unable to take their products/services to customers or markets during the first lockdown. The number of MSMEs that were unable to reach customers dropped to 36.2 percent during the ease of restriction period and to 33.9 percent at the time of the survey.

Figure 32 Access to market



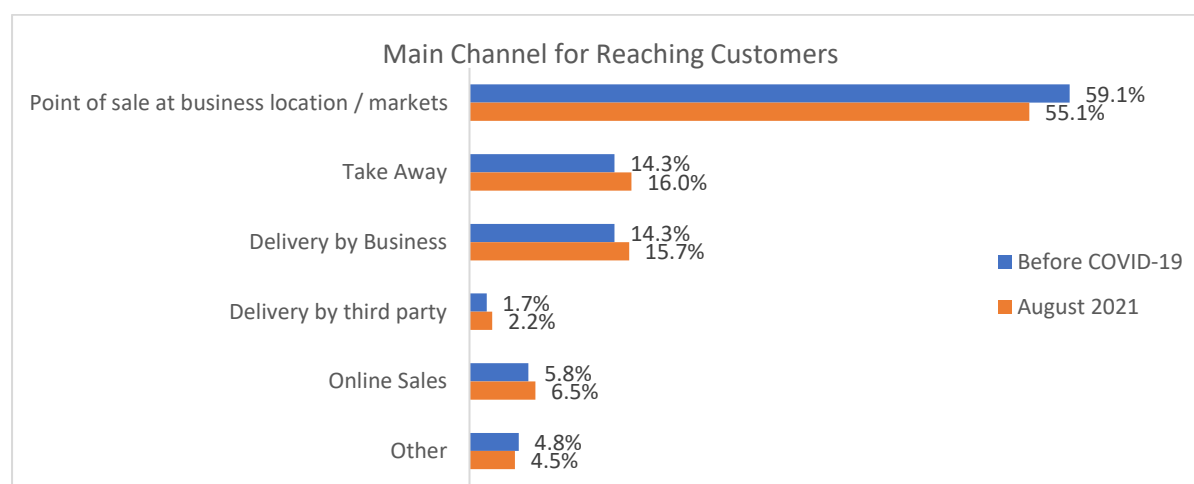
A higher proportion of formal businesses faced difficulty reaching customers through all three phases than informal businesses. Businesses in Dili faced more difficulty reaching customers than businesses outside of Dili. A proportion of businesses that are unable to reach customers during each phase of the GoTL restrictions by their registration status and location is detailed in Table 10.

Table 10 Proportion unable to reach customers

Disruptions in delivery to market	Overall	Registration Status		Location	
		Formal	Informal	Dili	Outside of Dili
During 1st Lockdown	57.8%	67.2%	43.5%	65.0%	49.3%
Ease of Restrictions	36.2%	41.0%	29.0%	42.8%	28.5%
Sanitary Fencing	33.9%	38.5%	27.0%	38.8%	28.3%

Despite the improvement in access to market/customers since the first lockdown, a third of the MSMEs still reported difficulty in reaching customers at the time of the survey. The majority of MSME, 59.1 percent transact with customers at a fixed location or in markets. Only a small proportion of the MSMEs had adjusted their channels for reaching customers. The main channel for reaching customers before COVID-19 and as of August 2021 is illustrated in Figure 33 below.

Figure 33 Main channel for reaching customers



5.2.3 Impact to cost, price, and demand

Cost of supplies

The price of supplies had changed for 52.7 percent of the MSMEs compared to pre-COVID-19 prices. For 42.4 percent, the price of supplies had remained the same. More MSMEs in Dili, 58.9 percent, said the price had changed compared to 45.3 percent of the businesses outside of Dili. The proportion of businesses reporting a change in the cost of supplies, for price increases and decreases, was higher in Dili than outside of Dili and higher in the formal sector than in the informal sector. The cost of supplies had increased for 40.5 percent of MSMEs in Dili and for 33.5 percent of the MSMEs outside of Dili. The proportion of MSMEs reporting a decrease in the cost of supply was also higher in Dili, 18.4 percent, compared to 11.8 percent of MSMEs outside of Dili.

Similarly, 40.6 percent of the formal MSMEs reported an increase in the cost of supplies as compared to 32.2 percent of informal, and 17.3 percent of formal MSMEs reported a decrease in

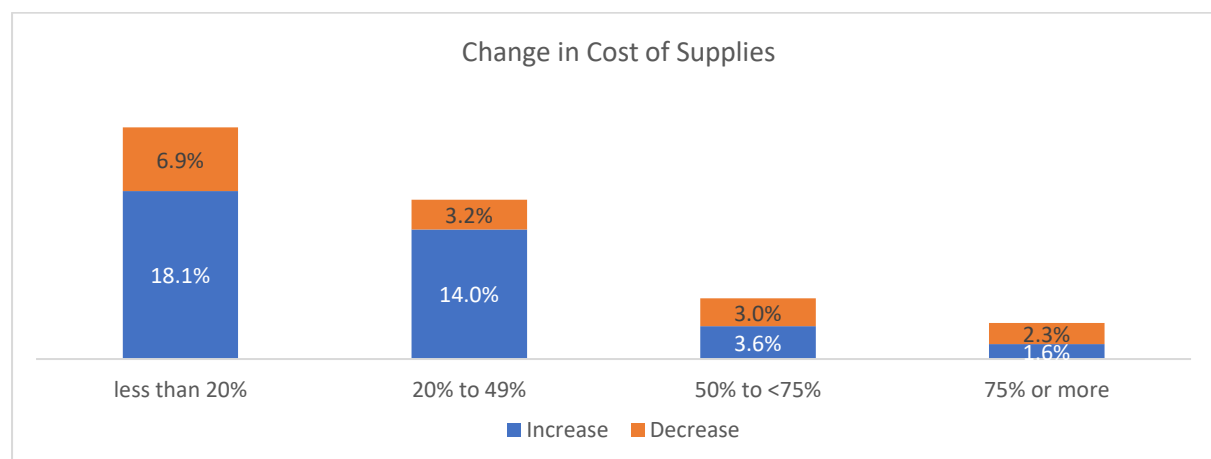
the cost of supplies compared to 12.5 percent of informal MSMEs. The proportion of MSMEs that reported an increase in cost increased with the size of MSMEs. The proportion of MSMEs reporting an increase in cost jumped from 36.3 percent for micro to 47.5 percent for small and 66.7 percent for medium enterprises. The table below summarizes the change in cost reported by different categories.

Table 11 Proportion reporting change in cost of supply - summary

Change in Cost of Supply	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
Don't Know	4.9%	3.2%	7.5%	3.8%	6.3%	5.2%	1.6%	0.0%	6.7%	4.2%	3.9%
No Change	42.4%	38.9%	47.8%	37.3%	48.5%	42.9%	37.7%	33.3%	42.7%	44.1%	35.7%
Increase	37.3%	40.6%	32.2%	40.5%	33.5%	36.3%	47.5%	66.7%	39.3%	36.3%	36.4%
Decrease	15.4%	17.3%	12.5%	18.4%	11.8%	15.7%	13.1%	0.0%	11.2%	15.3%	36.4%

The 52.7 percent of the MSMEs that experienced a change in supplies prices was made up of 37.3 percent of the MSMEs whose cost had increased and 15.4 percent whose cost had decreased. The range of price increase reported varied. The breakdown of the MSMEs that reported change in the cost of supply and percentage of increase or decrease in the cost of supplies is illustrated in Figure 34.

Figure 34 Proportion reporting change in cost of supply and range of change



Retail trade – imported goods and retail – groceries and convenience accounted for 60 percent of the MSMEs that reported an increase in cost of supply.

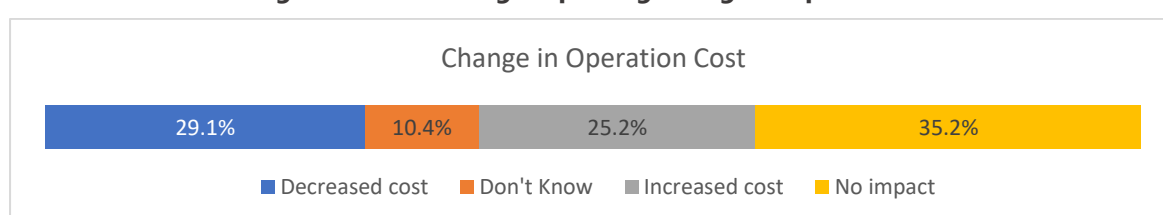
By sectors, the majority of MSMEs in all major sectors, except the transportation sector, reported an increase in the cost of supplies. These include 80.0 percent of MSMEs in tourism, 77.5 percent in retail – groceries and convenience, 75.5 percent in private construction, 70.3 percent in retail trade – imported goods, 64.3 percent in wholesale, 62.0 percent in infrastructure construction, and 58.3 percent of MSMEs in the agriculture sector that reported an increase in income.

Operation Cost

More MSMEs reported a decrease in operating costs due to COVID-19. The operation cost had decreased for 29.1 percent of the MSMEs that were able to drive savings during the GoTL restriction period. Working from home, travel restrictions reduced hours of operations and other coping mechanisms adapted contributed to the savings in operation cost. MSMEs also reported being more cost-conscious with the tough market conditions and disappearing revenue. Many took action to save costs and most resorted to saving payroll costs.

However, 25.2 percent of the MSMEs incurred additional costs and their operation expense increased during the SoE. There was no change in the operational expense for 35.2 percent of the MSMEs and 10.4 percent of MSMEs did not know the impact on their operation cost during the SoE period.

Figure 35 Percentage reporting change in operation cost



A higher proportion of MSMEs in Dili and a higher proportion of formal MSMEs reported an increase in operation cost. A higher proportion of MSMEs in Dili and higher proportion of formal MSMEs also reported a decrease in the cost of operation. One of the characteristics of informal businesses in Timor-Leste is that they do not keep financial records and a higher proportion of them are outside Dili. Therefore, a higher proportion of informal businesses and a higher proportion of businesses outside Dili reported that they did not know the change in operation cost.

Female-owned businesses also had the lowest proportion of businesses reporting an increase in operation cost. The highest proportion of jointly owned businesses reported a decrease in operation cost. Change in operation cost by different categories is summarised in Table 12.

Table 12 Proportion reporting change in operation cost - summary

Change in Operation Cost	Overall	Registration Status		Location		Size of Enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside Dili	Micro	Small	Medium	Male	Female	Mixed
Decreased cost	29.1%	32.1%	24.6%	30.1%	28.0%	29.2%	27.9%	33.3%	27.3%	29.6%	34.9%
Don't Know	10.4%	6.5%	16.5%	8.9%	12.3%	10.6%	9.8%	0.0%	10.1%	11.6%	9.3%
Increased cost	25.2%	28.7%	20.0%	28.8%	21.0%	25.3%	23.0%	33.3%	25.6%	24.3%	25.6%
No impact	35.2%	32.8%	38.8%	32.2%	38.8%	34.9%	39.3%	33.3%	37.0%	34.5%	30.2%

The top five sectors with the highest proportion of response for decreased operation cost included consulting services, private construction, agriculture, infrastructure construction, and cafes/eateries respectively.

The top five sectors with the highest proportion of response for increased cost included information technology & communication, health and medical, consulting services (tied 2nd), personal care service, and wholesale respectively. The transportation sector just missed the top five ranking for the increased cost of operation.

Sales price

To adjust to the new market conditions, 47.8 percent of the MSMEs responded that they had adjusted their sales prices, 49.4 percent, had not made any adjustments and another 2.8 responded, "don't know". About 50.3 percent of formal MSMEs and 44.1 percent of informal MSMEs changed their sales price. In Dili, 49.3 percent of the MSMEs changed their sales price which was slightly more than 46.0 percent of MSMEs outside of Dili.

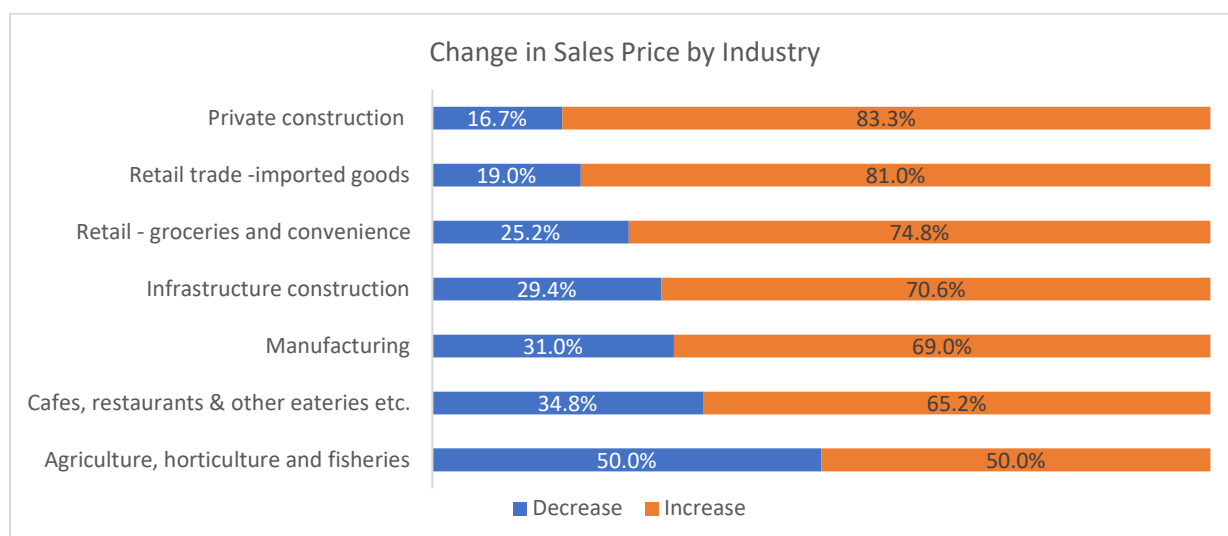
With the increasing cost of supplies, many MSMEs had decided to pass on the cost to the consumers. Of the 47.8 percent of the MSMEs that reported changes in sales price, 34.2 percent of the MSMEs had increased their sales price and 13.6 percent of the MSMEs reported that they had decreased their sales price. Small enterprises, with 47.5 percent, had the highest proportion of businesses that increased their sales prices. A higher percentage of formal businesses, 37.4 percent, had increased their sales price compared to 29.3 percent of the informal MSMEs. Changes in sales price reported by different categories of MSMEs and their owners are summarised in Table 13.

Table 13 Percentage reporting change in sales price of their products/services - summary

Change in Sales Price	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
No answer	2.8%	2.1%	3.8%	3.0%	2.5%	2.9%	1.6%	0.0%	3.7%	2.1%	3.1%
No Change	49.4%	47.6%	52.2%	47.7%	51.5%	49.9%	41.0%	66.7%	49.1%	51.7%	41.9%
Increase	34.2%	37.4%	29.3%	34.7%	33.5%	33.3%	47.5%	16.7%	30.0%	34.9%	40.3%
Decrease	13.6%	12.9%	14.8%	14.6%	12.5%	13.9%	9.8%	16.7%	17.2%	11.3%	14.7%

A higher proportion of women-owned businesses decreased their sales prices to cope with the pandemic, and the lowest proportion of women-owned businesses increased their sales price. Men-owned businesses were least likely to reduce the sales prices of their products and services.

The proportion of businesses reporting increases or decreases in sales price varied by industry sectors. Retail construction had the highest proportion of businesses that reported an increase in sales price followed by retail trade – imported goods and retail – groceries and convenience. In the agriculture sector, made up of mostly informal MSMEs, half of the MSMEs had increased their sales prices, whereas the other half had decreased their prices. Figure 36 lists the proportion of MSMEs, by main sectors for MSMEs in Timor-Leste, that reported increase and decrease in sales price.

Figure 36 Percentage reporting increase or decrease in sales price for key sectors

Impact on Consumer Demand

The movement restrictions and disruption in transport impacted the ability of buyers/customers to access sellers, and sellers to find buyers. A third of the MSMEs were still facing difficulty accessing customers and a half of MSMEs were facing disruptions with their supplies. The inability of buyers and sellers to interact had impacted the volume of transactions and therefore, the income of the MSMEs. The home confinement and movement restrictions also had many businesses and their employees working from home. It impacted the business-to-business or institutional demand of products and services.

Approximately 72 percent of the MSMEs reported a drop in demand during the pandemic. A higher proportion of formal businesses, 75.7 percent, reported reduced demand compared to 66.4 percent of informal businesses. A higher proportion of MSMEs in Dili reported reduced demand compared to businesses outside of Dili. A higher proportion of jointly owned businesses reported a drop in income compared to male or female-owned businesses. Micro enterprises had the highest proportion reporting reduced demand. The drop in demand by different categories is listed in Table 14 below.

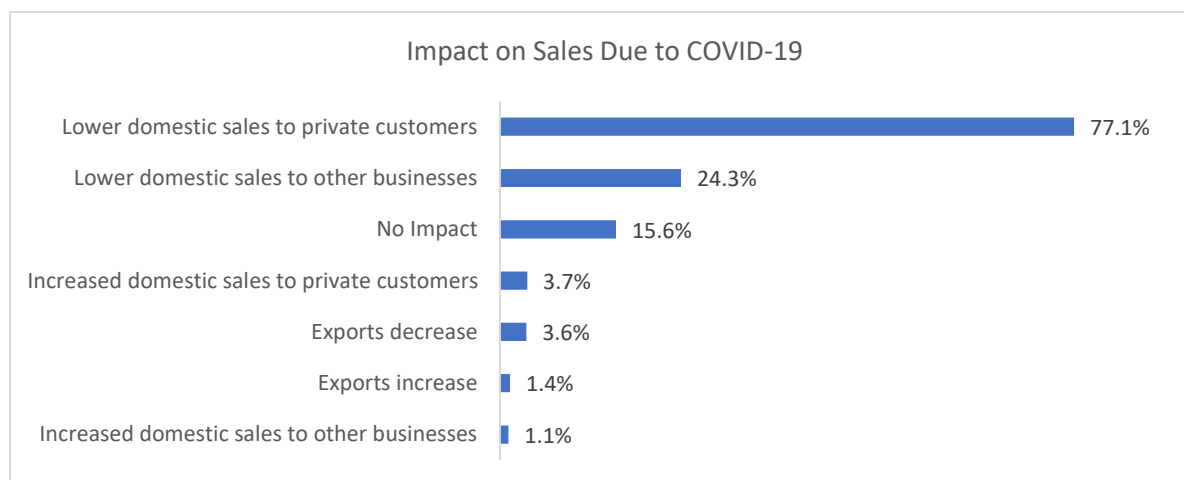
Table 14 Proportion reporting drop in demand - summary

Change in Demand	Overall	Registration Status		Location		Size of Enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside Of Dili	Micro	Small	Medium	Male	Female	Joint
Reduced Demand	72%	75.7%	66.4%	73.9%	69.8%	72.7%	63.9%	66.7%	70.8%	68.9%	82.9%

A decrease in demand led to lower domestic sales to private customers for 77.1 percent of the MSMEs and lower domestic sales to other businesses for 24.3 percent of the MSMEs. Lower demand from international customers led to a decrease in exports for 3.6 percent of the MSMEs. Approximately 57.1 percent of the MSMEs reported low demand from customers was impacting their income making it the most common cause impacting MSMEs' income.

However, a small proportion of the businesses performed better during the SoE with increased domestic sales to private customers for 3.7 percent of the MSMEs, increased sales to other domestic businesses for 1.1 percent of the MSMEs, and increased export for 1.4 percent of the MSMEs.

Figure 37 Percentage reporting impact on sales



5.3 Sustainability

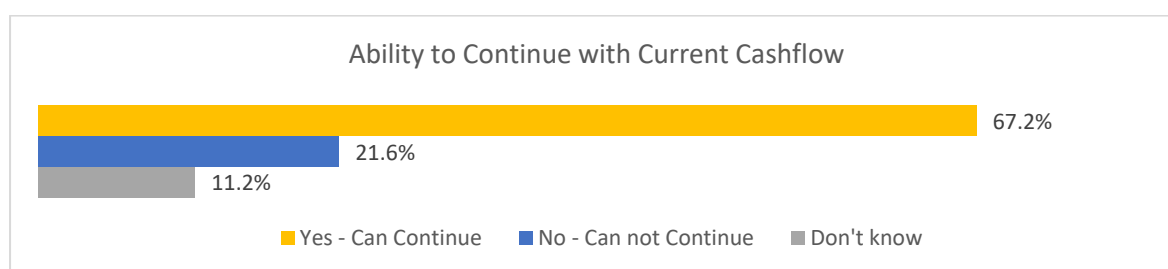
The COVID-19 virus continued to mutate and spread in 2020, and in 2021, creating uncertainty. The state of emergency has been ongoing for 20 months since it was first introduced in March 2020. The GoTL is taking action to safely open the nation and vaccinate its people. The uncertainty is testing the resilience of MSMEs and the economy. The forecasted GDP for 2021 was revised from 3.5 percent to 2.0 percent by GoTL²⁰. This section of the report includes an assessment of MSMEs' ability to continue their operation under the current conditions.

5.3.1 Cash flow & Financial Sustainability

Cash flow

SEIA-2 MSME survey inquired about the cash flow situation of MSMEs. Participants were asked if they could continue their operation for another year under the current cash flow conditions. Approximately 67.2 percent of the MSMEs could continue for another year with the current amount of monthly cash flow into the business. However, 21.6 percent would not be able to continue for another 12 months if the cash flow situation of their business did not improve. Almost half - 10.6 percent of businesses would not be able to continue operating in the retail – groceries and convenience sector. Another 11.2 percent of MSMEs did not know if they could continue under the current cash flow conditions.

²⁰ MoF GDS, April 2021, National Accounts, 2020-2022 Economic Forecast.

Figure 38 Percentage of MSMEs cashflow situation

The proportion of medium enterprises that would not be able to continue under current conditions was 33 percent. The proportion of micro enterprise that would not be able to continue was 22.4 percent and small enterprises was 9.8 percent. Informal businesses were more vulnerable to the cash flow situation than formal businesses. The proportion of the informal MSMEs that responded they could not continue if the cash flow situation did not improve was 24.6 percent compared to 19.5 percent of formal MSMEs.

There was not a significant difference in cashflow concerns reported based on the geographic location of MSMEs, in Dili or outside of Dili. The highest proportion of small businesses, 85.2 percent, reported that the cash flow situation was adequate to continue for another year. The proportion of women-owned businesses that could continue for a year with the current cash flow was lower than men-owned or jointly-owned businesses. The cash flow assessment by various categories is in Table 15.

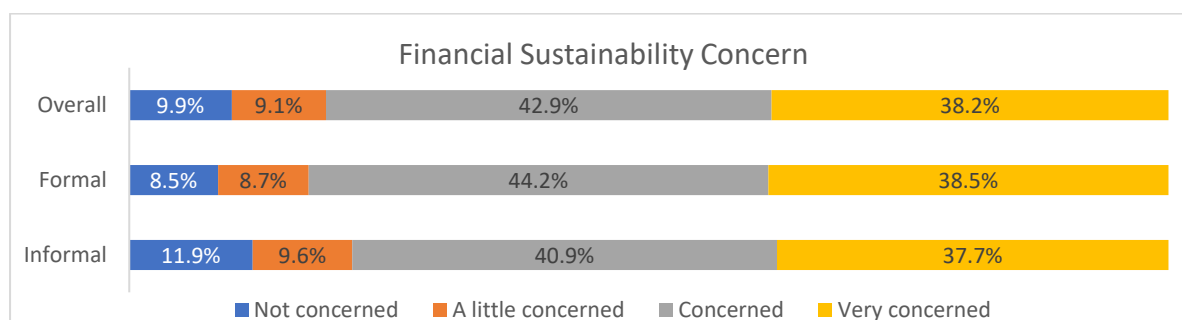
Table 15 Percentage reporting cashflow situation - summary

	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
Cashflow to continue for 12 months											
Don't Know	11.2%	9.7%	13.6%	11.2%	11.3%	11.8%	4.9%	0.0%	14.6%	9.2%	11.6%
No - not enough to continue	21.6%	19.5%	24.6%	21.2%	22.0%	22.4%	9.8%	33.3%	21.3%	22.9%	17.1%
Can continue for 1 year	67.2%	70.8%	61.7%	67.6%	66.8%	65.8%	85.2%	66.7%	64.0%	67.9%	71.3%

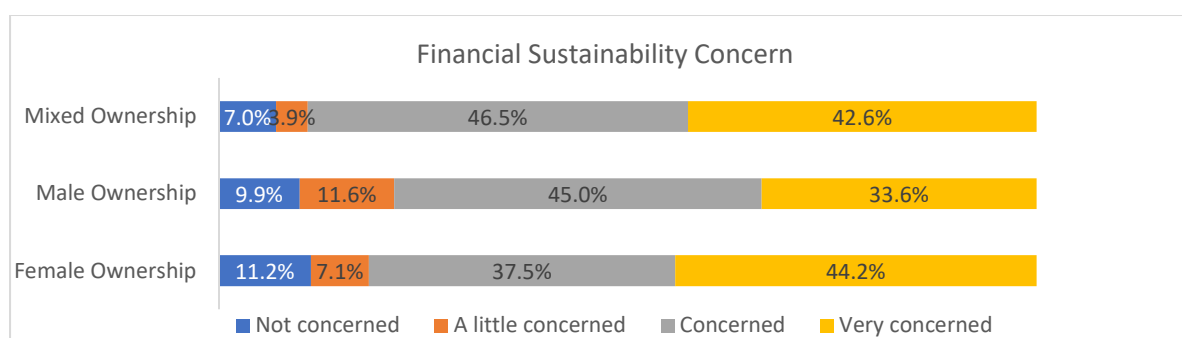
Financial Viability

The market conditions remained challenging at the time of fieldwork and many MSMEs reported that they were finding it demanding to sustain their businesses and remain profitable. Approximately four of five MSMEs were concerned or very concerned about remaining financially sustainable and only about 1 in 10 MSMEs were not concerned.

With regards to remaining financially viable from operational income for the next 12 months, 38.2 percent of the MSMEs were very concerned, 42.9 percent were concerned and another 9.1 percent were little concerned. Only 9.9 percent were not concerned about their ability to remain financially sustainable and generate more revenue than cost.

Figure 39 Percentage reporting financial sustainability concern

Half (50 percent) of the medium and 47.5 percent of small enterprises were very concerned about financial viability over the next 12 months. The concern dropped to 37.4 percent for micro enterprises. MSMEs owned by men had the least proportion of very concerned enterprises whereas MSMEs owned by women had the highest proportion of not concerned as well as very concerned MSMEs. Figure 40 below provides a breakdown of financial sustainability by owners' sex.

Figure 40 Financial sustainability and ownership

The difference in financial sustainability concerns for MSMEs in Dili and outside of Dili and formal and informal businesses were minimal. The summary of financial sustainability responses analysis through various categories is included in Table 16.

Table 16 Percentage reporting financial sustainability concern - summary

	Overall	Registration Status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
Financial Sustainability											
Not concerned	9.9 %	8.5%	11.9%	9.7%	10.0%	9.6%	13.1%	16.7%	11.2%	9.9%	7.0%
A little concerned	9.1%	8.7%	9.6%	7.8%	10.5%	9.7%	1.6%	0.0%	7.1%	11.6%	3.9%
Concerned	42.9%	44.2%	40.9%	44.1%	41.5%	43.4%	37.7%	33.3%	37.5%	45.0%	46.5%
Very concerned	38.2%	38.5%	37.7%	38.3%	38.0%	37.4%	47.5%	50.0%	44.2%	33.6%	42.6%

Ability to pay employees

The MSMEs that expressed a level of concern about their financial viability, 90.1 percent, were asked if they were concerned about their ability to pay their staff for the next 12 months. Approximately 34.5 percent were not concerned and felt they could cover staff salary. However, 18.5 percent of the MSMEs were very concerned, 29.6 percent were concerned and 7.6 percent were a little concerned about their ability to pay their staff for another year.

Table 17 Percentage concerned about paying staff salary

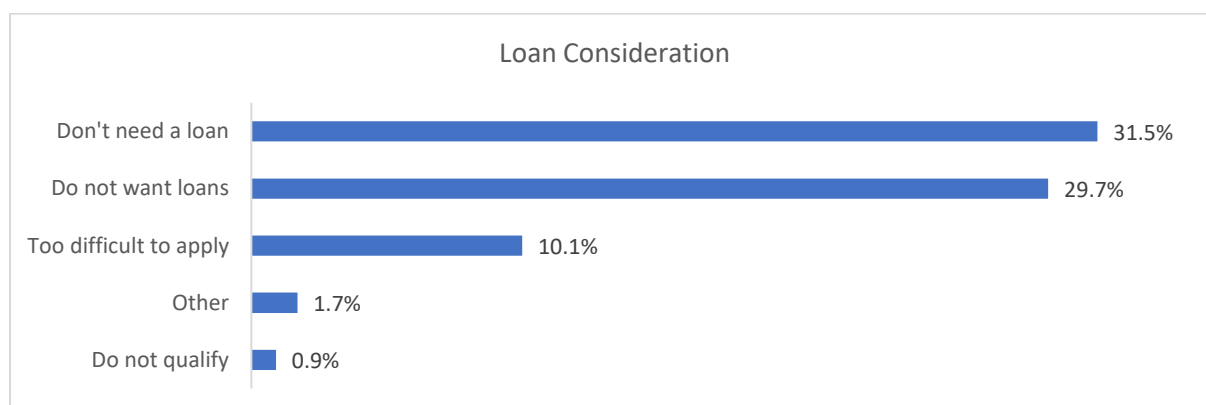
	Frequency	percent	Valid percent
Very concerned	161	18.5	20.5
Concerned	258	29.6	32.8
A little concerned	66	7.6	8.4
Not concerned	301	34.5	38.3
Total	786	90.1	100.0

Some of the MSMEs, 13.5 percent were anticipating difficulty paying staff salary as early as within a quarter, 3.0 percent of the MSMEs anticipated facing the problem within a four-to-six-month period.

5.3.2 Loan Consideration

Despite the difficulties faced by MSMEs operating under pandemic conditions, the appetite for credit to sustain or save their businesses remained low. Approximately 17.4 percent of the MSMEs responded they would consider loans to get through COVID-19 SoE, 6.0 percent had already taken loan(s) and 2.4 percent did not know if they would consider loans.

Almost three in four (74.0 percent) of MSMEs would not consider taking a loan to get through the COVID-19 market conditions. These MSMEs were asked why they would not consider loans to continue operation through COVID-19 condition; 31.5 percent of the MSMEs responded that they do not need loans and 29.7 percent responded they do not want loans.

Figure 41 Loan consideration

The proportion of MSMEs that responded they do not need loans or do not want loans included 26.9 percent of MSMEs the expressed concern over their financial viability.

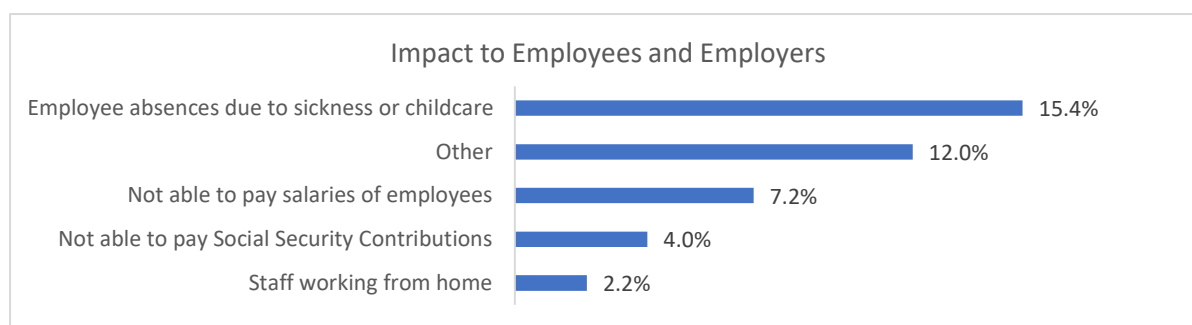
5.3.3 Coping Mechanism

SEIA-2 MSME survey interviewed 1,086 participants of which only 80.3 percent were active at the time of the survey. The 3.6 percent of participating MSMEs had delayed the start to avoid the current market conditions. Some MSMEs, 16.3 percent, found it difficult to continue under current conditions and had decided to close. Assessment of the closed and yet to start MSMEs are discussed in *section 7* Assessment of inactive MSMEs of this report. Findings from the study of

active MSMEs and how they are coping with the current market conditions is discussed in this section.

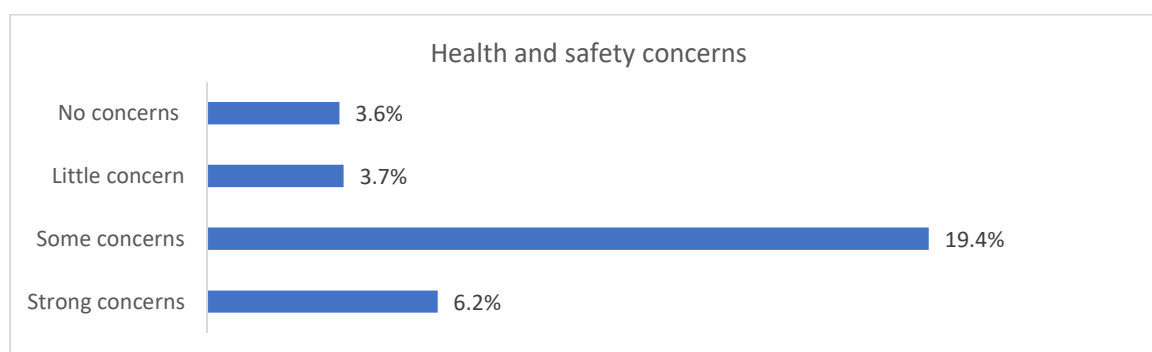
The COVID-19 SoE has affected these MSMEs and their employees in various ways. Employees' absenteeism was one of the main hindrances to businesses as well as employees during the SoE. The schools remained closed, and many employees had to assimilate childcare, particularly for women workers, while working full-time. Absenteeism also increased with the spread of the COVID-19 virus and people falling sick. The quarantine and isolation requirements for closed contacts of infected people also led to absenteeism at work. Many workers in Timor-Leste did not have an office, space appropriate for working, or a conducive environment to work from home. The response to how the pandemic impacted MSMEs' employees is in Figure 42.

Figure 42 Impact to employees



The lack of information on the COVID-19 virus and the absence /unattainability of vaccines in 2020 had people concerned about their safety at the workplace. MSMEs that had employees were asked if their employees were concerned about the health and safety at the workplace. Approximately 6.2 percent of the MSMEs stated that their employees were strongly concerned, and another 19.4 percent responded that their employees showed some concern about the health and safety at the workplace. Of the 33.3 percent of MSMEs with employees, employees of 29.3 percent had expressed a level of concern about their health and safety at the workplace.

Figure 43 Health and safety concerns



The constraints in market conditions and the prolonged continuation of these conditions led to some MSMEs adjusting their workforce in 2020 and 2021. The most common approach to adjusting the workforce amongst MSMEs in Timor-Leste was through reduced working hours. MSMEs also suspended employment, terminated employees, or did not renew contracts for employees. Some MSMEs sent their workforce on leave, some did not pay their employees for the closed periods. Each of these actions impacted the employees of the business.

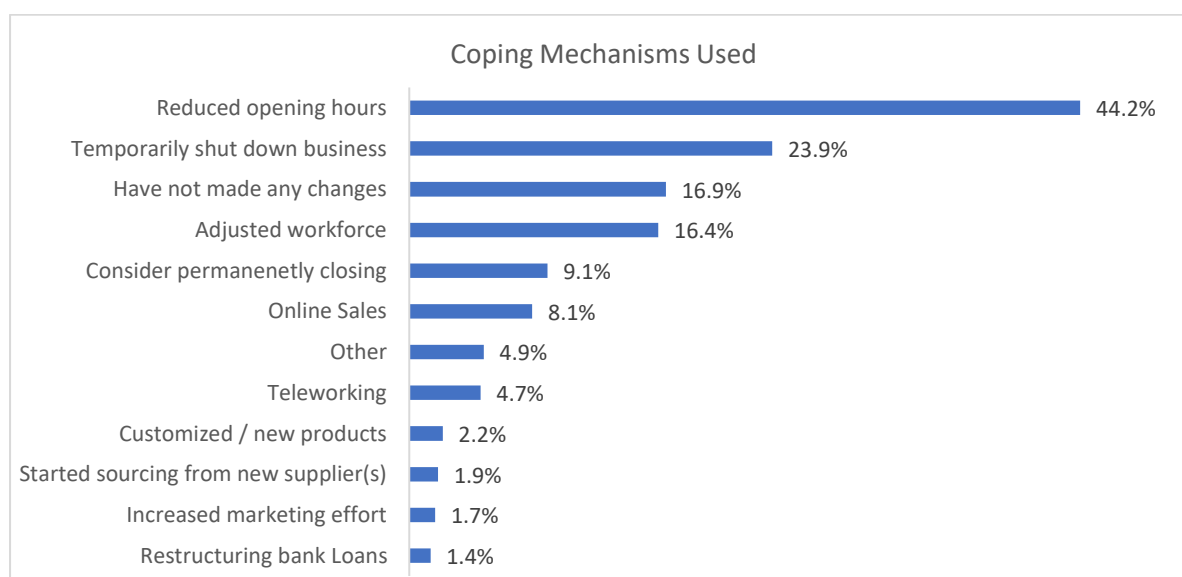
Most MSMEs were taking measures to cut costs to cope with the impact of the COVID-19. Common cost-cutting measures adopted by MSMEs have focused on payroll costs directly impacting the workforce employed by the MSMEs. The cost-saving measures that MSMEs have adopted include 44.2 percent of MSMEs have reduced hours of operations, 23.9 percent temporarily shut down businesses, 16.4 percent adjusted workforce, and 9.1 percent considered closing permanently. These measures impacted the salary of employees which was one of the reasons why the overall salary paid to the employees of active MSMEs' had decreased in 2020 compared to 2019. In addition to targeting payroll and other fixed costs, 1.4 percent of the MSMEs restructured their loans and 1.9 percent have started sourcing from new suppliers to overcome supply chain issues and to source products more efficiently.

As mentioned in section 5.1.2 of the report, some MSMEs were transferring the increase in the costs of supplies to customers raising the sales price of their products and services as a coping mechanism. MSMEs also focused on increasing sales and revenue to cope with the COVID-19 pandemic conditions. To increase sales, 8.1 percent of the MSMEs started online sales, 2.2 percent focused on customising or introducing new products and 1.7 percent increased their marketing efforts.

The survey also considered if MSMEs had changed their channel to reach customers. As a result of the restrictions, 32.1 percent of the MSMEs responded that they have changed their primary method of reaching customers with products or services. However, 65.5 percent of MSMEs made no changes to how they reached their customers and still rely on their conventional approach. Approximately 2.4 percent of the MSMEs responded they didn't know if they had made any adjustments to their method of reaching customers.

Almost 5.0 percent were taking some other actions to cope with SoE while 16.9 percent of the MSMEs had not made changes or adjustments. The chart below lists the coping mechanisms adopted by MSMEs. Figure 44 lists coping mechanisms adopted by MSMEs.

Figure 44 Percentage of coping mechanisms adapted by active MSMEs

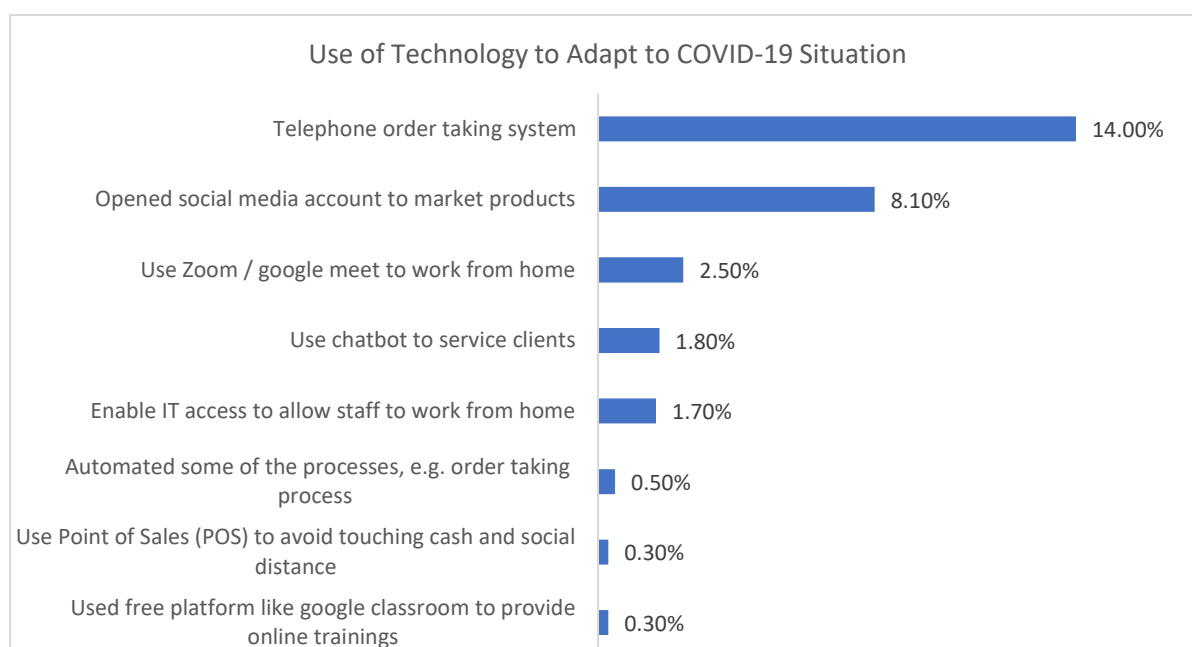


Use of Technology for Coping

MSMEs in the ASEAN region have changed their business models and used technologies to recover from the COVID-19 impact. To cope with the market conditions during the COVID-19 pandemic, 25.3 percent of the MSMEs in Timor-Leste had used technology which mostly included telephone order taking and marketing via social media. The use of technology remains low in Timor-Leste. The reliability of the internet access and the speed of internet is low. The trust in electronic transaction remains low and merchants and the general population still prefer cash transactions. A majority do not have access to the credit-card or e-wallet to support transactions. The resource capabilities to support technologies and technological innovation requires improvements.

Responses received for types of technology used to adapt to the pandemic conditions is listed in Figure 45.

Figure 45 Percent of types of technology used to adjust to COVID-19 market conditions



GoTL support

The GoTL economic recovery measures included measures to support businesses to cope with the market condition during the pandemic. These measures help offset some of the negative impacts to MSMEs. GoTL provided subsidies and grants to businesses as detailed in section 3.2.2 *Policies to address the socio-economic* impact of this report. MSMEs benefitted from the universal support provided such as electricity subsidy; other subsidies were attached to eligibility requirements. Few MSMEs applied and fewer received support to cope with the pandemic conditions. *Section 8. Assessment of government support - active MSMEs* include detailed participation of MSMEs in government support measures.

5.3.4 Business continuity

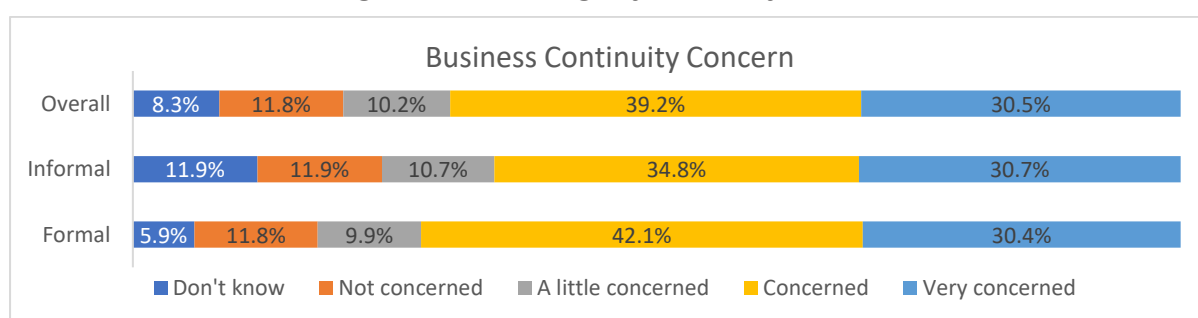
The SEIA-2 MSMEs survey assessed if the MSMEs were concerned about being able to continue the business because of operational issues. Even though the active MSMEs had managed to cope

with the pandemic, many of them were still concerned about the business outlook. With regards to MSMEs' ability to continue business due to operational issues, 30.5 percent were very concerned, 39.2 percent were concerned, and 10.2 percent were little concerned. Four out of five MSMEs had some level of concern about being able to continue due to operational issues.

Approximately 11.8 percent of the MSMEs felt they could continue their businesses under current conditions and were not concerned. Approximately 8.3 percent responded, "don't know".

Approximately 30.4 percent of formal and 30.7 percent of informal businesses, were very concerned about their ability to continue. A higher proportion of formal businesses, 42.1 percent, were concerned about their business compared to 34.8 percent of the informal businesses. Approximately 12 percent of formal and informal businesses responded that they were not concerned about being able to continue their business.

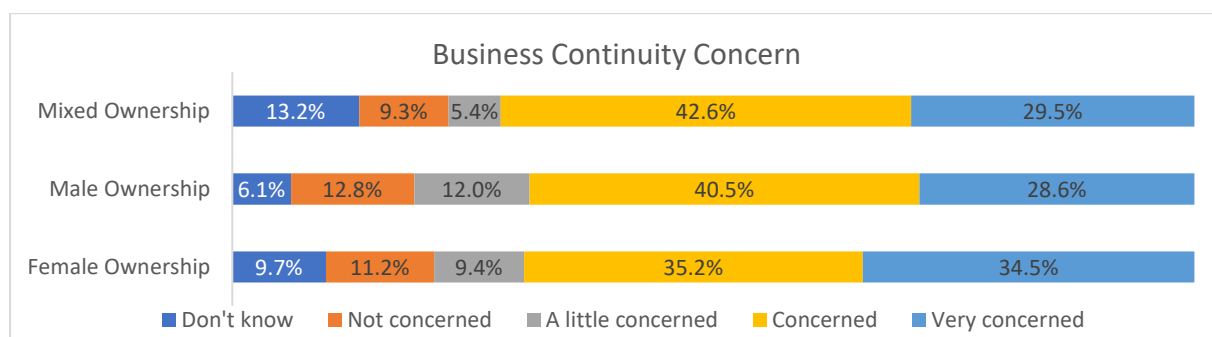
Figure 46 Percentage by continuity outlook



There was not a material difference in response to business continuity concerns for MSMEs in Dili and outside of Dili. Approximately 72.6 percent of MSMEs in Dili were concerned or very concerned regarding business continuity and 11.2 percent were not concerned about their business continuity compared to 66.5 percent and 12.5 percent, respectively, of MSMEs outside of Dili.

The MSMEs that reported they were concerned or very concerned, in total, was approximately 69.0 percent for both male-owned and female-owned businesses. A higher proportion of female owners (34.5 percent) were very concerned about the continuity of their businesses compared to male owners (28.6 percent) and joint ownership at 29.5 percent.

Figure 47 Percentage of continuity outlook by ownership



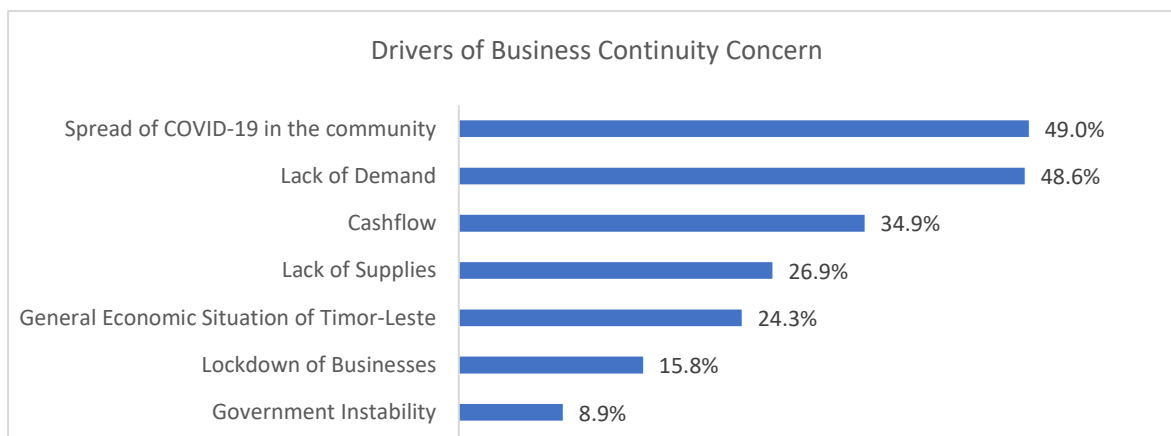
The summary of the level of concern about the ability to continue business under current conditions due to operational issues, such as supply or resource disruptions, and assessment through different categories are presented in Table 18 below.

Table 18 Percentage expressing business continuity concern

Business Continuity	Operation	Registration status		Location		Size of enterprise			Sex of Owners		
		Formal	Informal	Dili	Outside of Dili	Micro	Small	Medium	Female	Male	Joint
A little concerned	10.2%	9.9%	10.7%	7.6%	13.3%	10.6%	6.6%	0.0%	9.4%	12.0%	5.4%
Concerned	39.2%	42.1%	34.8%	40.9%	37.3%	39.8%	31.1%	50.0%	35.2%	40.5%	42.6%
Very concerned	30.5%	30.4%	30.7%	31.6%	29.3%	29.9%	39.3%	16.7%	34.5%	28.6%	29.5%
Don't know	8.3%	5.9%	11.9%	8.7%	7.8%	8.2%	9.8%	0.0%	9.7%	6.1%	13.2%
Not concerned	11.8%	11.8%	11.9%	11.2%	12.5%	11.6%	13.1%	33.3%	11.2%	12.8%	9.3%

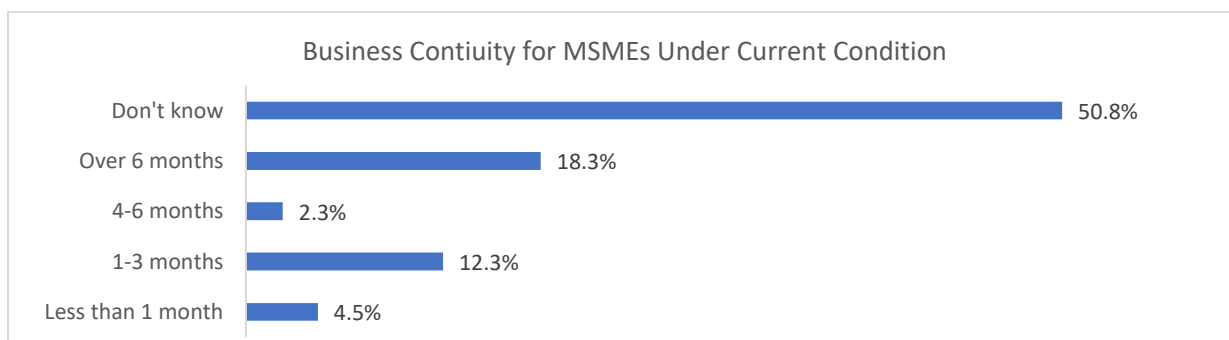
MSMEs that were a little concerned, concerned, or very concerned about the continuity of their businesses were asked the reasons for their concern. Approximately 80.2 percent of the MSMEs responded to this multiple response question and provided 1,826 responses. Based on the responses, the *Spread of COVID-19 in the community* was the main reason for business continuity concerns for MSMEs, closely followed by *Lack of demand*. The responses are illustrated in Figure 48 below.

Figure 48 Percentage of business continuity concern drivers



The 88.2 percent of the MSMEs that expressed a level of concern with business continuity or responded, “don’t know” to the business continuity questions were asked how long they could continue their operations under current conditions. Almost 4.5 percent of MSMEs responded that they were at risk of closing within a month and an additional 12.3 percent faced a risk of closure within a quarter.

Figure 49 Percentage continuity concern by timeframe



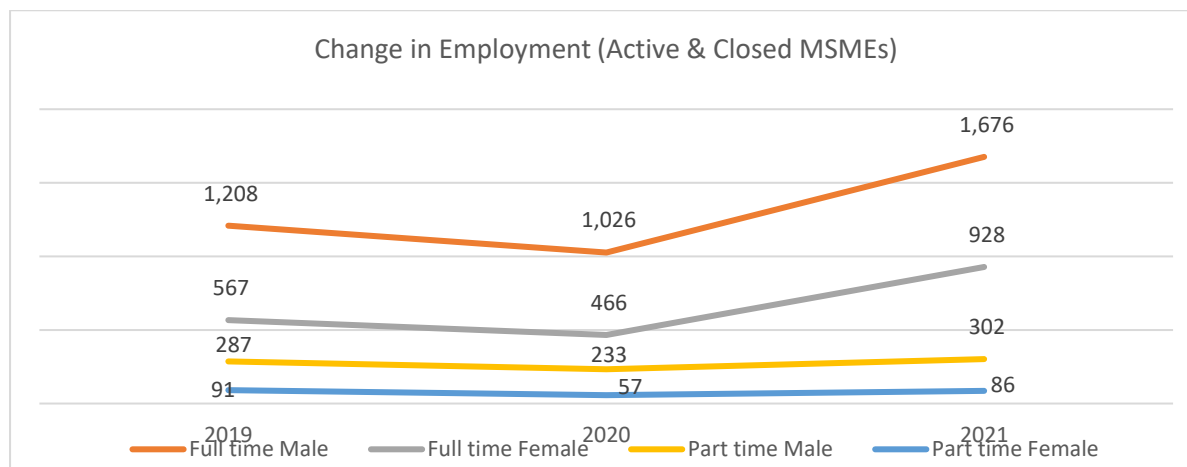
6. Impact on workforce

“The pandemic caused unprecedented socioeconomic disruptions in Asia and the Pacific. Working hour losses totalled the equivalent of 140 million full-time jobs in 2020, while prolonged school closures severely affected education. Taken together, these distortions are likely to have considerable adverse effects on human capital accumulation and productivity. The poor and vulnerable groups were disproportionately affected, resulting in a surge in poverty and a widening of inequality gaps.”²¹

6.1 MSMEs Workforce

The number of full-time and part-time employment in MSMEs fell in 2020. Full-time employment had shrunk by 15.9 percent, based on the number of people employed, and part-time employment had also decreased by 23.3 percent. The closure of MSMEs during the pandemic is the main driver for the decrease in employment; 41 percent of closed MSMEs had 449 employees in 2019. The employees of the closed businesses lost their employment when the MSMEs closed during the pandemic. The mix of male and female employment in closed businesses was 76 percent male and 24 percent female workers. The loss of employment in closed businesses was offset by the increase in employment in active MSMEs, particularly for men. Men gained employment while women lost employment with active MSMEs in 2020. With the changes in employment in active businesses, women’s full-time employment had decreased by 35.7 percent and part-time employment had decreased by 38.6 percent in 2020.

Figure 50 Employment in MSME trend



6.2 Employment in active of MSMEs

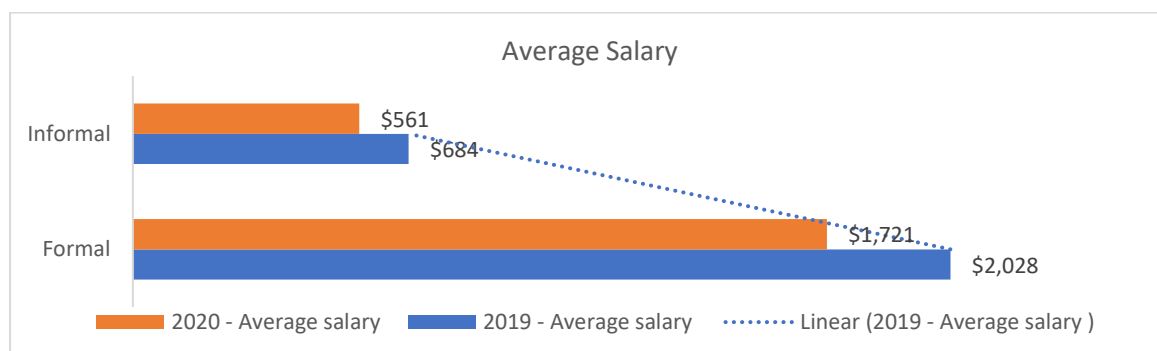
In 2019, 33.3 percent of the active MSMEs had employees. Formal enterprises employed 92.4 percent of the MSMEs workforce and informal employed 7.6 percent of the workforce. Despite COVID-19 disruptions, full-time employment with MSMEs in 2020 had increased by 5.1 percent compared to the previous year. Male, full-time employment increased by 9.0 percent in 2020, however female full-time employment decreased by approximately -2.5 percent. More men joined

²¹ UN ESCAP, 2021, Economic and Social Survey of Asia and the Pacific 2021, Towards post-COVID-19 resilient economies.

full-time employment with MSMEs in 2020 while women lost jobs. Part-time employment also increased by approximately 1.8 percent in 2020. Part-time employment for males increased by approximately 8.6 percent while part-time employment for females decreased by approximately - 18.6 percent.

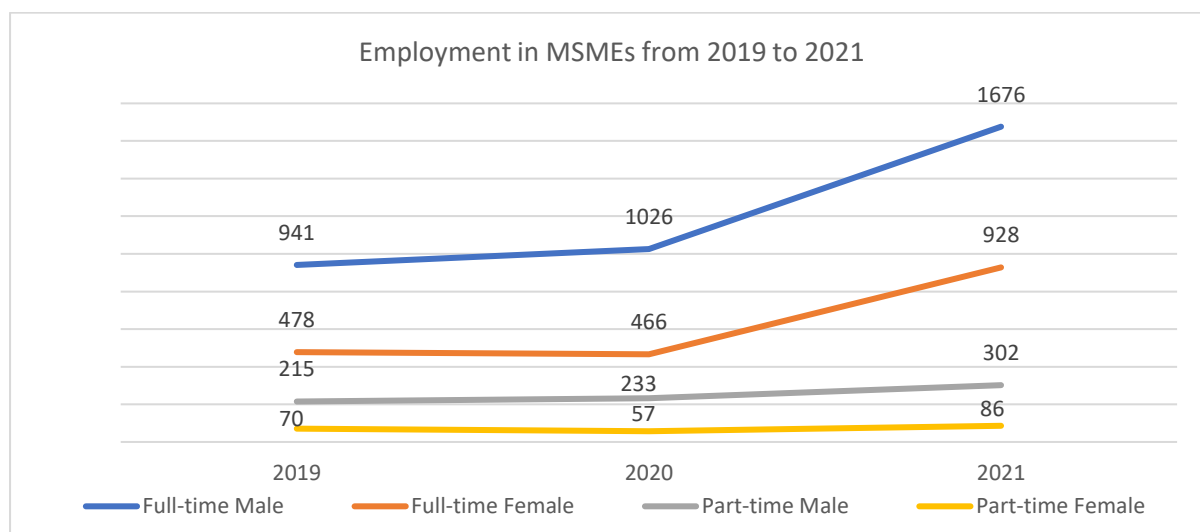
Despite the net increase in the number of full-time and part-time employees, the total salary for employees decreased in 2020. More people were working for less income and the average income of employees was lower in 2020.

Figure 51 Average salary reported



Full-time and part-time employment in MSMEs had a material increase in 2021 compared to 2020. Full-time employment has increased by 74.5 percent and part-time employment has also increased by another 33.8 percent in 2021. The trend of employment growth is illustrated in the chart below.

Figure 52 Employment trend for active MSMEs



The employment growth with MSMEs is mainly driven by a few sectors, although the growth is spread across almost all sectors. Retail – food, groceries, and convenience; retail trade; infrastructure construction, manufacturing, and cafes, restaurants and eateries sectors make the top five sectors driving employment growth with each sector adding more than 100 jobs. Table/figure below details male and female employment added in 2021 by industry sector.

Figure 53 Count of 2021 growth in employment by sector

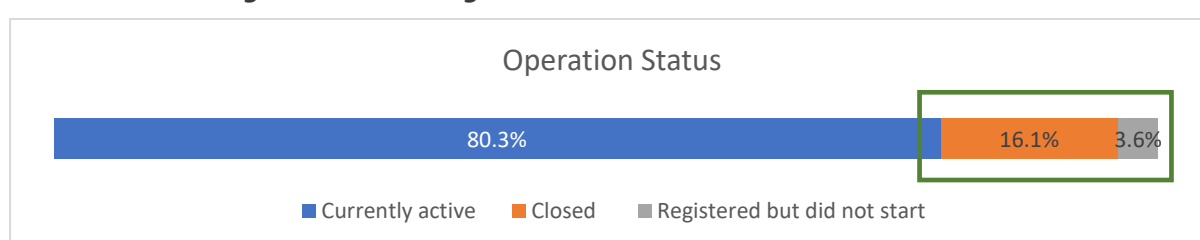
Industry Sector	Full Time			Part-Time			Grand Total
	Male	Female	Total	Male	Female	Total	
Agriculture, horticulture and fisheries	5	3	8	-	-	-	8
Arts & Crafts	3	1	4	-	-	-	4
Cafes, restaurants & other eateries etc.	50	59	109	-	-	-	109
Financial Services	-	-	-	1	1	2	2
Health and Medical	-	9	9	-	-	-	9
Information Technology & Communication (ITC)	15	8	23	-	-	-	23
Infrastructure Construction (Roads, GoTL)	75	21	96	36	4	40	136
Manufacture	86	17	103	2	7	9	112
Private Construction (Homes, for private parties)	27	6	33	-	-	-	33
Real estate & Storage & long-term accommodation	4	2	6	-	-	-	6
Retail - Food, Groceries & other convenience goods	168	195	363	23	13	36	399
Retail Trade - Imported goods (Electronics, cars,	96	58	154	2	3	5	159
Services - Consulting	1	2	3	-	-	-	3
Services - Maintenance and repair	33	7	40	-	-	-	40
Services - Personal Care & beauty	-	6	6	-	-	-	6
Tourism & Accommodation (Hotels/guest houses)	26	58	84	3	-	3	87
Transportation	27	4	31	1	-	1	32
Wholesale	34	6	40	1	1	2	42
Grand Total	650	462	1,112	69	29	98	1,210

The tourism and accommodation sector was one of the most impacted sectors by the pandemic and the revival of the sector is important for the development of Timor-Leste in accordance with the country's Strategic Development Plan. The tourism sector was also showing a pulse in 2021 adding 84 full-time and three part-time jobs.

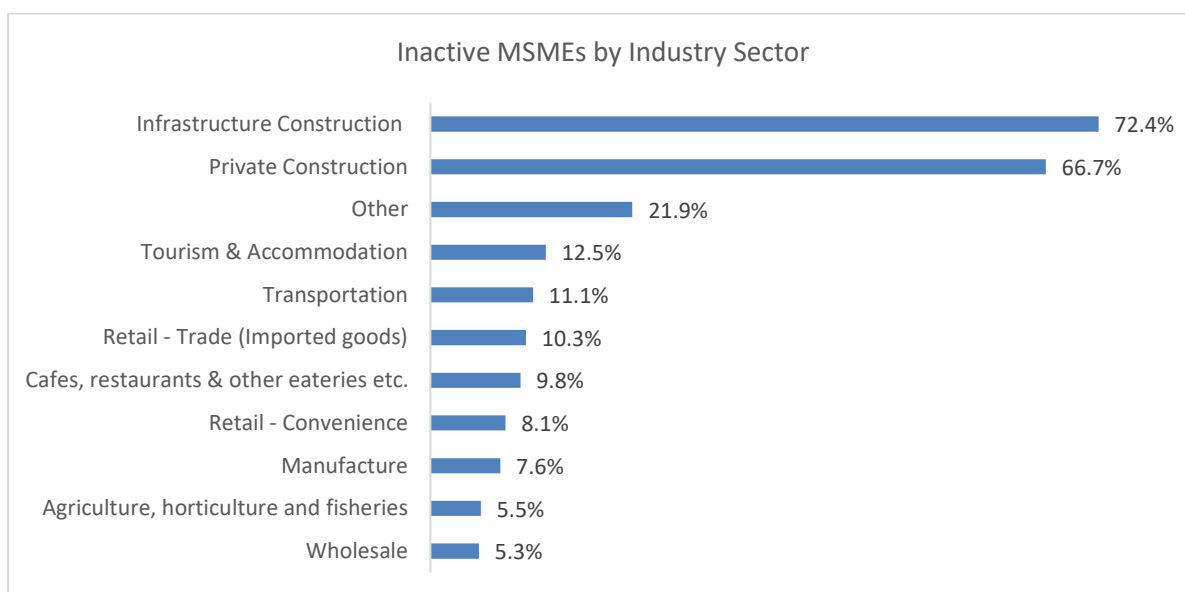
7. Assessment of Inactive MSMEs.

This section of the report focuses on the assessment of MSMEs that were inactive during the fieldwork. There were 19.7 percent inactive MSMEs in the 1,086 interviews completed, 16.1 percent had closed and 3.6 percent had decided not to start their business at the time. Almost one in five MSMEs were inactive at the time of our fieldwork.

Figure 54 Percentage of active, closed and not started MSMEs



Some sectors had a proportionally higher percentage of inactive businesses compared to others. Almost three in four businesses in the infrastructure construction sector (72.4 percent) and two in three (66.7 percent) businesses in private constructions were inactive. Infrastructure construction sector was the second largest sector for MSMEs in Timor-Leste and the sector relies heavily on government spending. The proportions of inactive businesses in the construction sector, both infrastructure and private construction, were significantly higher than other sectors and even more than the MSMEs in the tourism and accommodation sector which continues to be one of the most impacted sectors by the pandemic across the world. The tourism and accommodation sector in Timor-Leste had 12.5 percent inactive businesses.

Figure 55 Inactive MSMEs by sector

7.1 Closed MSMEs

At the time of the fieldwork, 16.1 percent of the enterprises had permanently closed. Analysis in this section covers the closed enterprises. Most of the closed businesses in the survey, 90.9 percent, were micro-enterprises and 9.1 percent were small enterprises. There were zero medium enterprises that had closed in our sample. While medium enterprises fared better during the pandemic, zero closure of medium businesses also had to do with the sheer volume of medium businesses in Timor-Leste, which is very low.

The majority of the closed businesses, 51.4 percent, were from Dili and 48.6 percent were from outside Dili. The top 3 most impacted sectors accounted for 78.9 percent of the MSMEs closure, they include:

1. Infrastructure construction (49.7 percent),
2. Retail- groceries, and convenience (19.4 percent), and
3. Private construction (9.7 percent).

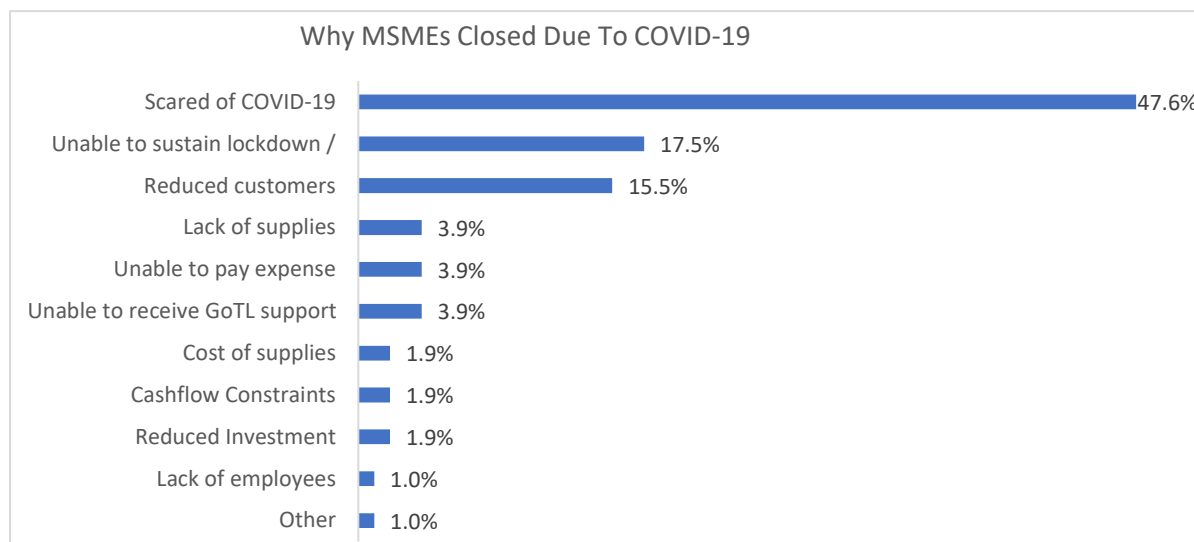
Approximately 84.0 percent of the closed businesses were not involved in international trade, 11.4 percent were import businesses, 2.9 percent bought and sold international products in Timor-Leste and 1.7 percent were export enterprises.

Foreign nationals owned 5.1 percent of the closed enterprises and 2.3 percent were jointly owned by foreign nationals and Timorese nationals. The remaining 92.6 percent of the closed businesses were owned by Timorese nationals. The businesses owned by men that had closed, as a proportion of all closed businesses, were more than double the closed women-owned businesses at 56 percent and 25.1 percent respectively. However, this needs to be considered since data on ownership of 18.9 percent of closed businesses was not available. Almost one in four (25.7 percent of the closed businesses had started in 2018 or later).

Most of the closed businesses, 81.7 percent were formal and 18.3 percent were informal enterprises. Of the closed MSMEs, 30.9 percent had closed due to COVID-19 made up of 23.5

percent formal and 7.4 percent informal businesses. These MSMEs were asked how COVID-19 impacted their business and to provide top reasons for closure with a multiple response question. Responses received are illustrated in Figure 56 below.

Figure 56 Reason for closure during COVID-19



Employment lost: Of the closed MSMEs, 41.1 percent had employees in 2019 and employed 449 staff (356 Full-time and 93 part-time). Micro and small businesses that closed because they feared COVID-19 employed 43.2 percent of the total employment in closed businesses in 2019. The former employees of closed businesses consisted of 75.5 percent male, and 24.5 percent female employees. Women’s employment in the closed enterprises was made up 25.0 percent of the fulltime and 22.6 percent of the part-time workers in 2019. All the workers in these closed businesses lost their employment and Dili accounted for 66.4 percent of the total job loss due to the business closure.

Closed formal enterprises accounted for 96.0 percent of the employment and informal micro enterprises accounted for the remaining 4.0 percent. Small enterprises made up 9.1 percent of the closed businesses and provided 59.7 percent of the employment, while 90.9 percent of the closed businesses were micro businesses and employed 40.3 percent of the employees.

The top 3 sectors for employment amongst closed businesses were also the three sectors that accounted for most closed businesses. They include:

1. Infrastructure construction (58.6 percent),
2. Private construction (25.4 percent), and
3. Retail – groceries and convenience (6.7 percent).

Both infrastructure construction and private construction, which accounted for 84 percent of the employment, were heavily dominated by male employment. Infrastructure construction had 84.4 percent male workers in their workforce compared to 15.6 percent female, and the proportion of male workers in private construction was 76.3 percent.

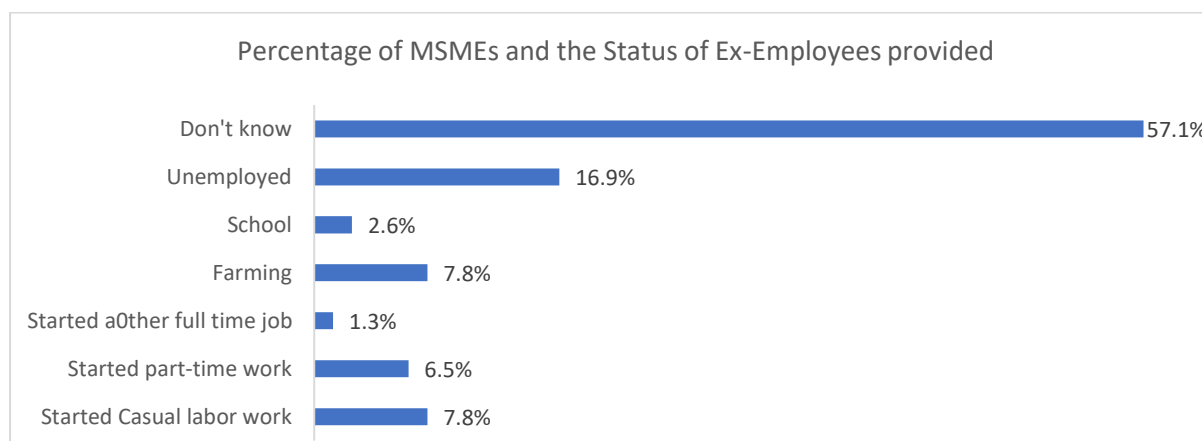
The sectors of closed businesses that employed more women than men included:

1. Retail – groceries and convenience (proportion of women in the workforce - 83.3 percent)

2. Tied 2nd. Manufacturing, and Wholesale (75.0 percent)
3. Tied 4th. Cafes/eateries, and Tourism/accommodation (60.0 percent).

Closed MSMEs that employed staff were asked what their ex-employees were doing. Most MSMEs, 57.1 percent, did not know what their ex-employees were doing but 16.9 percent responded that the ex-employees remained unemployed, ex-employees of 7.8 percent of the MSMEs had started casual labour and the same percentage had started farming. Figure 57 illustrates the responses received.

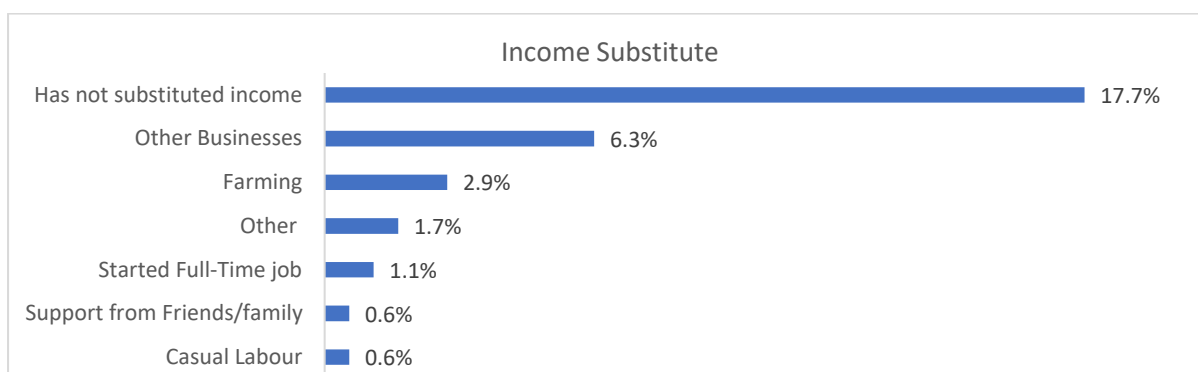
Figure 57 Percentage of ex-employees' means of income substitution



Of the closed MSMEs, 41.1 percent had closed in 2020 and 2021 when the COVID-19 pandemic started affecting the market conditions. Approximately 24.0 percent had closed in 2018 and 2019 and 35.0 percent had closed in 2017 or earlier. These MSMEs have remained dormant but have continued their registration status and therefore, it was included in our sample frame which included taxpaying and newly registered MSMEs. To focus on COVID-19 related closures, if the date of closure was before December 2019 and reason for closure was not COVID-19, the interview was stopped.

Impact on Income: MSMEs that closed after December 2019 and the reason for the closure was stated as COVID-19 were asked about their 2019 income. The 18.9 percent of the closed MSMEs provide information on their 2019 annual income, which totaled \$2,253,155. One of the closed infrastructure, construction companies reported \$2 million in 2019 income and nine MSMEs reported \$0. The average income for the rest of 13.1 percent of the closed MSMEs was approximately \$11,000.

With regards to the owners of these MSMEs substituting income, the owners of 17.7 percent of the closed businesses had not substituted income. Details responses for income substitution are in Figure 58.

Figure 58 Percentage of closed business owners income substitution

Supply Chain: One in three (33.3 percent) of the MSMEs that closed due to COVID-19 used to import their supplies from outside of Timor-Leste. Supply chain disruptions impacted these businesses. About 16.7 percent of the MSMEs sourced their supplies from other municipalities or from multiple places. Another 46.3 percent of the MSMEs sourced their supplies locally, from within the municipalities and these businesses were less impacted by transportation disruptions directly, but their suppliers could still have been subjected to supply chain issues. Almost 3.7 percent did not need supplies.

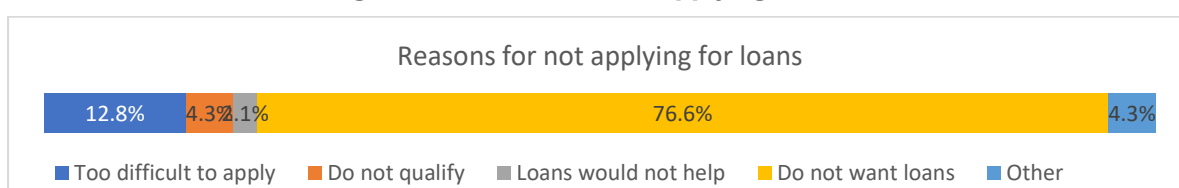
Operation Cost: The 2019 operation cost had increased for 7.4 percent of the MSMEs and decreased for 37.0 percent and remained unaffected for 18.5 percent. Approximately 37.0 percent did not know if the operation cost had increased or decreased. Based on the data analysis, change in operation cost had minimal impact to the majority of the closed MSMEs.

Coping Mechanism: The closed businesses were asked if they resorted to any coping mechanism before deciding to permanently close their businesses due to COVID-19.

- 55.6 percent started sourcing from other suppliers
- 11.1 percent decided to temporarily shutdown
- 7.4 percent adjusted their workforce
- 5.6 percent customise / introduced new products
- 3.7 percent started teleworking
- 3.7 percent started online sales

Zero businesses resorted to restructuring their loans or increasing their marketing effort.

Loan Consideration: Approximately 74.1 percent of businesses that closed due to COVID-19 responded they would not have considered loans to get through the COVID-19 pandemic situation. Over 3 in 4 MSMEs did not want to take loans, even to salvage their businesses. The survey asked these businesses the reasons as to why they would not consider loans; the responses received are illustrated in Figure 59 below.

Figure 59 Reasons for not applying for loans

7.2 Registered – Not Started MSMEs

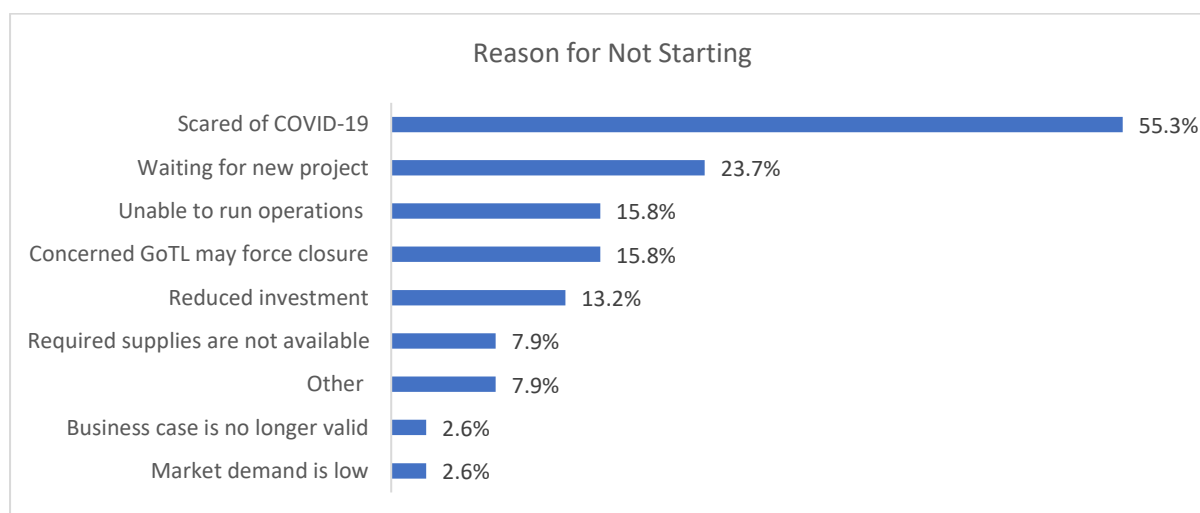
There were 39 entities in the sample that had registered but not started their businesses. This section of the report provides an analysis of these entities that decided to delay their start.

Fifty percent of registered entities that are yet to start were registered in Dili. Approximately 68.4 percent of the yet-to-start entities were registered in 2019 or after. Another 18.4 percent were registered in 2018, the year of the duodecimal regime in Timor-Leste. The remaining 13.2 percent of the entities had registered between 2015 and 2017.

The majority of the entities had registered to operate in the infrastructure construction sector (60.5 percent), 13.2 percent were registered for private construction, and another 13.2 percent for retail-groceries, and convenience businesses. The rest of the entities were spread across different sectors including the agriculture sector. The 42.1 percent of yet-to-start entities had registered to win projects from GoTL.

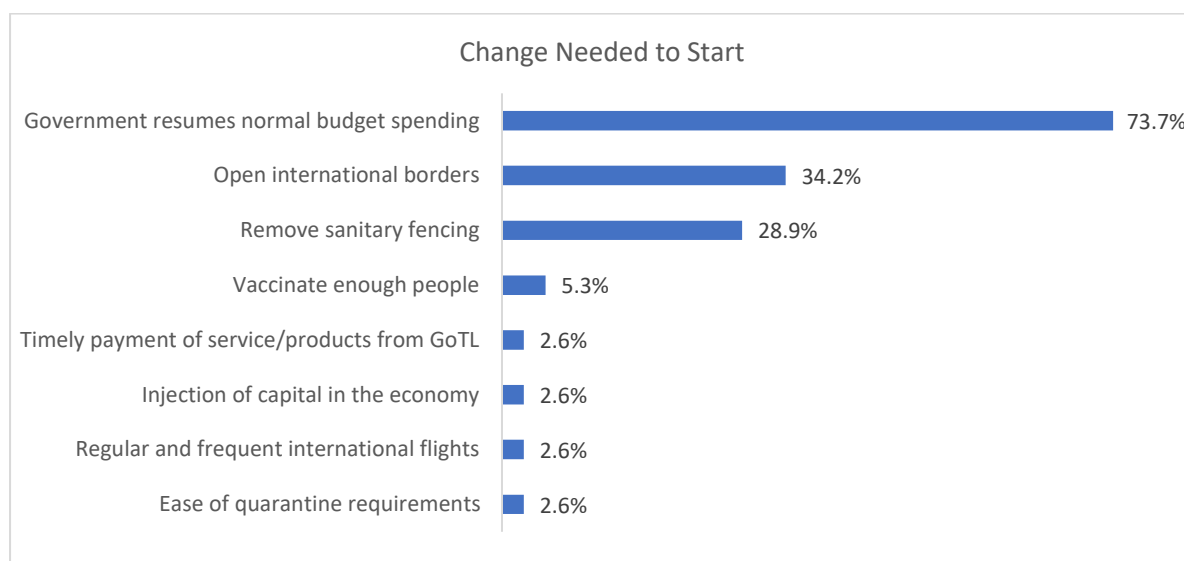
These registered entities were asked to provide reasons for not starting the business with options to provide multiple responses. Their responses are illustrated in Figure 60 below.

Figure 60 Percentage reason for not starting



When asked if they plan to start their business. Almost a quarter (23.7 percent) did not know when or if they would start, 18.4 percent responded they would start in the next 12 months and the remaining 57.9 percent said they would start after the COVID-19 pandemic.

The registered entities were asked multiple response question as to what needed to change for them to start their business. With a higher proportion of the registered entities registered to operate in the infrastructure sector, 73.7 percent of them responded that GoTL resumption of normal budget spending would help them start. Easing of government travel restrictions, international and local, were second and third in the list. The figure below provides all responses received.

Figure 61 Changes need to start registered MSMEs

Four in five, 78.9 percent, had not substituted potential income via other activities despite not starting their businesses. Some, 7.9 percent, had started full-time jobs, and become employees rather than an entrepreneur, and another 7.9 percent had turned to their family and friends for support. The remaining potential entrepreneurs had returned to farming or turned to casual work or relied on real estate income.

As far as adapting to the new normal, 73.7 percent had not considered changing their business model, but 7.9 percent were considering changes to their business model. The rest of these MSMEs responded that they did not know if they were changing their operations to adapt to the situation.

III. Government response and building back better

8. Assessment of government support – Active MSMEs

One of the key components of the SEIA-2 MSME survey was to assess the effectiveness of the COVID-19 government support measures for MSMEs. The survey focused on government support measures from 2020. A short time before the SEIA-2 fieldwork in May 2021, GoTL introduced new support measures that were not included in the survey questionnaire.

The GoTL response to COVID-19 in Timor-Leste helped mitigate some of the indirect impacts on MSMEs. Public health measures were needed to prevent the spread of COVID-19 in 2020; however, these measures had a considerable negative impact on the country's economic activity.

The Government introduced a generous economic stimulus package through the dedicated COVID-19 Fund to mitigate the negative repercussions of health-related lockdown on the private sector and to preserve jobs. Public policies to minimise the negative economic impact on the private sector and for galvanizing the economic recovery focused on:

- Incentive to employers to resume their activities
- Sustaining businesses/employers in the market
- Supporting self-employed workers (most informal MSMEs)
- Protecting jobs

The economic recovery measures (ERM) aimed to support MSMEs and to encourage the formalization of the informal sector included:

Recovery subsidy which aimed to support companies and other employers through salaries and wages subsidies of employees up to three months and to ensure business continuity on a regular basis without suspension or reduction of workers and normal working hours. Employers registered with Social Security and with the tax administration were eligible to receive the support. In the tourism sector, this measure was extended to even those companies who could not keep their regular operation.

Contributory exemption supported businesses and employees with exemption from social contributions for a period of six months.

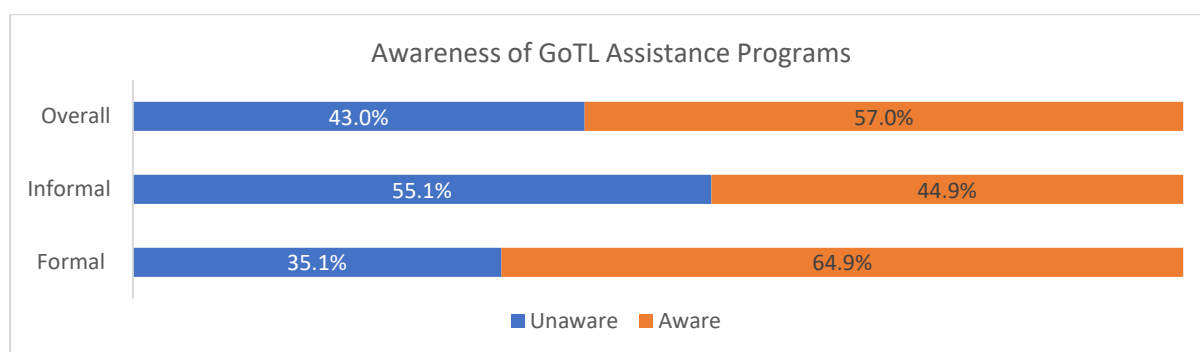
Special support for informal workers aimed to encourage workers and businesses of the informal sector to register with the social security system. The subsidy scheme provided a 60 percent discount of the value²² of the first level of membership of the Social Security contribution during the months of October, November, and December 2020. This scheme was granted to self-employed workers and informal MSMEs who were not registered in the Social Security. The scheme covered those who registered between August and September 2020, but several eligibility criteria had to be met to qualify.

²² of the conventional remuneration (the basis of contributory incidence)

"I did not hear information from the government about their subsidy programs. I also do not know where to find the information for the support programs." Female kiosk owner from Bobonaro

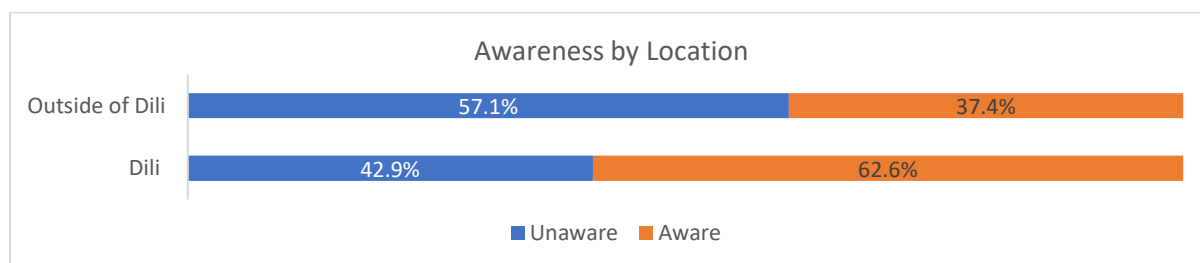
Amongst active MSMEs, 57.0 percent responded they were aware of **some** of the GoTL assistance initiatives and 43.0 percent were unaware. The percentage of MSMEs that were aware of government support measures was higher amongst formal MSMEs at 64.9 percent compared to 44.9 percent of informal MSMEs. A bigger proportion of measures were targeted for formal enterprises.

Figure 62 Percentage aware of government assistance programs

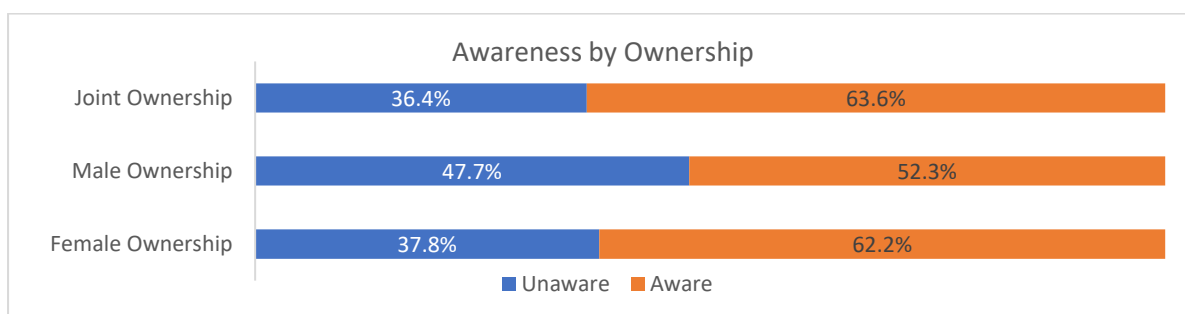


The awareness of government measures was higher in Dili compared to outside Dili. Community awareness communication about the government's economic recovery measures was less effective outside of Dili.

Figure 63 Percentage aware of government support in Dili and outside of Dili

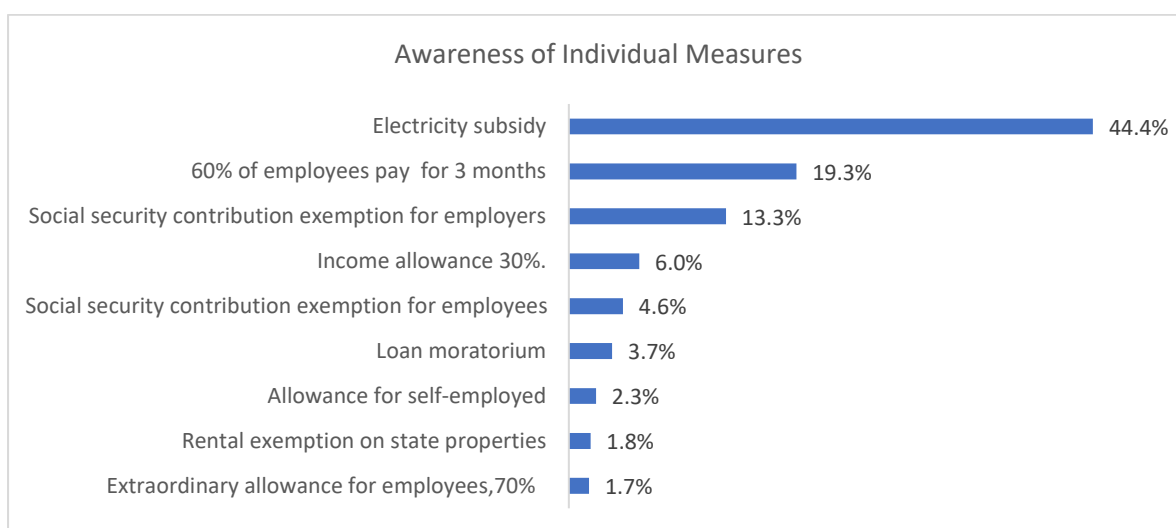


The awareness rate increased with the size of the enterprise; 88.3 percent of the medium, 77.0 percent for small enterprises, and 55.3 percent for micro enterprises were aware of the support measures. The number of owners also had a similar impact on awareness. Joint ownership reported 63.6 percent awareness, 62.2 percent of female owners 52.3 percent of male owners were aware of the measures.

Figure 64 Percentage aware by ownership

A higher proportion of male-owned informal businesses was unaware (47.7 percent) of GoTL support measures compared to female-owned (37.8 percent) and jointly owned (36.4 percent) informal businesses.

Awareness of individual, specific support measures was much lower amongst MSMEs. The electricity subsidy, which was a universal support measure for all Timorese MSMEs without any qualification requirements, was the most recognised support measure with 44.4 percent aware of the measure. The second most acknowledged support measure was the 60 percent subsidy of employees' pay with 19.3 percent of the MSMEs. The drop in awareness between the top two most aware measures of electricity subsidy to employees pay subsidy was 25.1 percent of the MSMEs. Awareness of the postponement of the employer's social security contribution was at 13.3 percent. Beyond the three measures mentioned, the percentage of MSMEs aware of other measures dropped to a single digit. Even though 57.1 percent of MSMEs were aware of the GoTL assistance program, awareness of specific economic measures was much lower as illustrated in Figure 65.

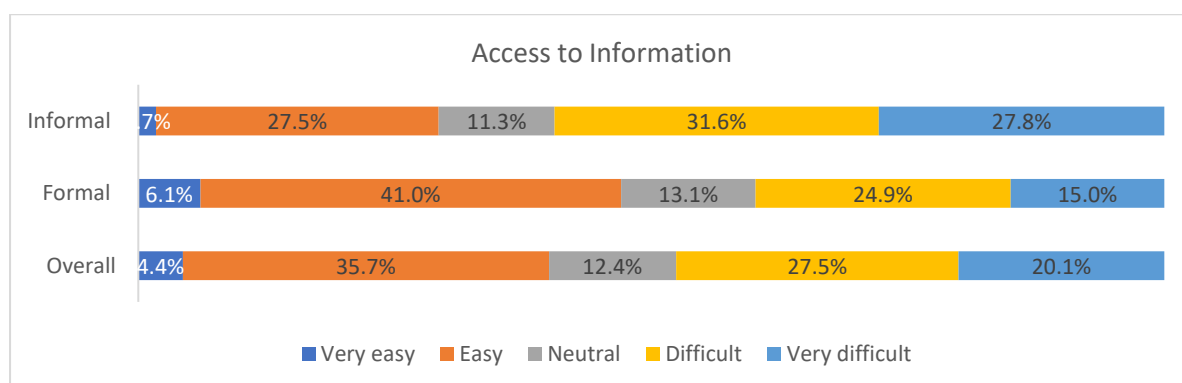
Figure 65 Awareness of individual support measures

Almost 47.6 percent of the MSMEs found access to information on support measures difficult or very difficult but approximately 40.0 percent could easily access the information. Approximately 12 percent were neutral regarding ease of access to information.

The responses for the formal and informal sectors on ease of access to information differed. Approximately 29.3 percent of the informal MSMEs found access to information easy compared to 47.1 percent of the formal businesses. Approximately 59.4 percent of informal MSMEs responded that accessing information was difficult compared to 39.8 percent of formal MSMEs. The proportion

of informal MSMEs that found it difficult or very difficult was significantly higher than formal enterprise.

Figure 66 Percentage responding ease of access to information on government

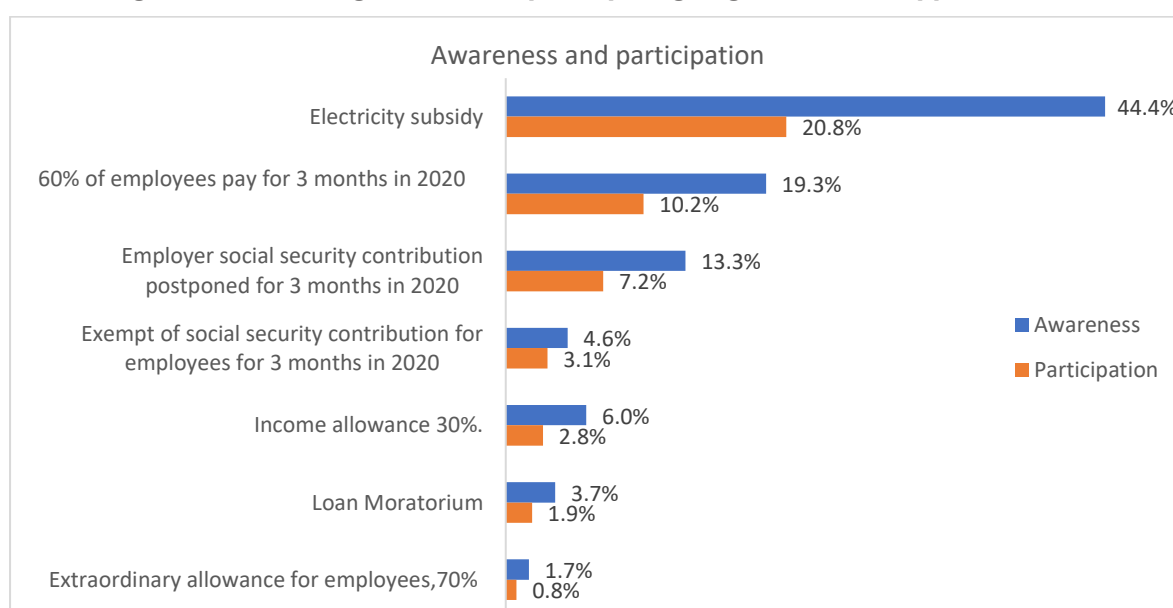


A higher proportion of MSMEs in Dili could easily access government support information compared to outside of Dili, 45.6 percent, and 33.5 percent respectively. The proportion of MSMEs that found it difficult to access information was higher outside of Dili at 55.3 percent compared to 41.1 percent in Dili.

Active and aware MSMEs

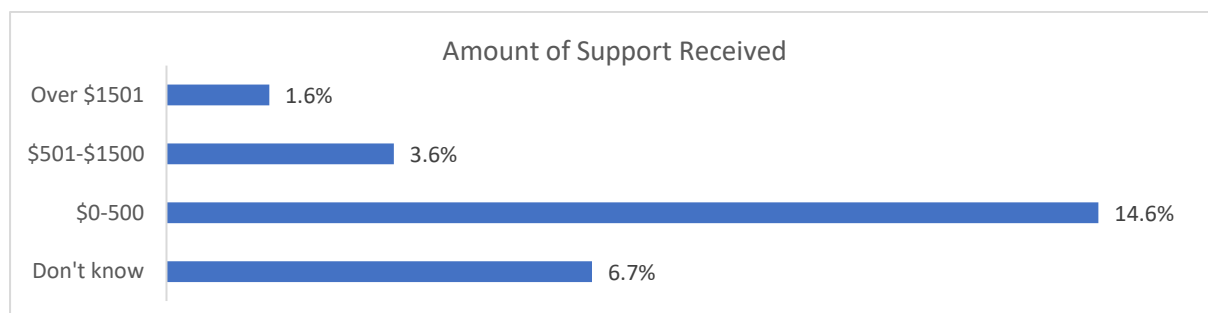
Even though 57 percent of the MSMEs responded that were aware of the GoTL support measure, less than half or 26.4 percent participated in the government economic support measures which were made up of 19.4 percent formal and 7 percent informal MSMEs. Approximately 30.6 percent of the MSMEs that reported they were aware of the support measures did not participate. The proportion of businesses that did not participate despite being aware was higher than the proportion of businesses that participated in the government support measures. Participation in each support measure is in Figure 67 below.

Figure 67 Percentage aware and participating in government support measures



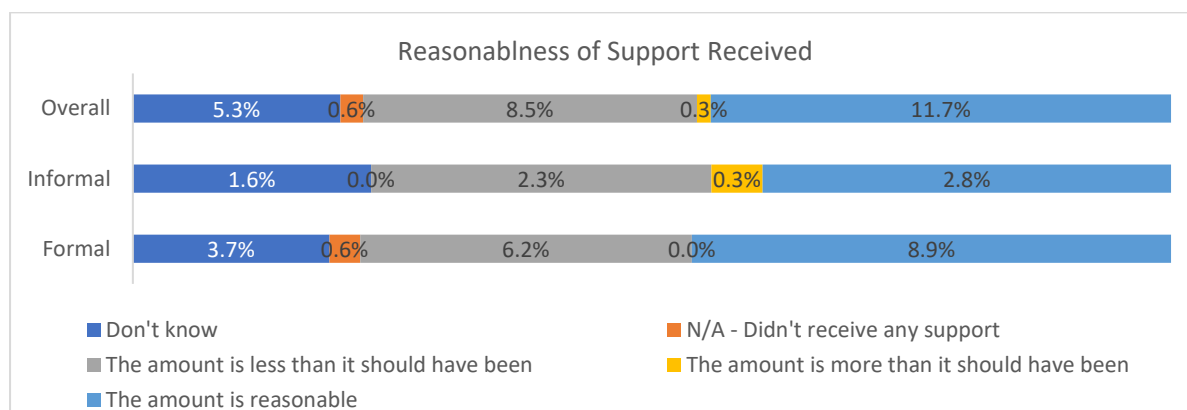
The amount of support received by the 26.4 percent of the MSMEs that participated was between \$0 - \$500 for 14.6 percent, between \$501 - \$1,500 for 3.6 percent, and over \$1,500 for 1.6 percent of the MSMEs. The amount of support received by 6.7 percent of the MSMEs was unclear as they responded, "don't know".

Figure 68 Percentage by range of support received

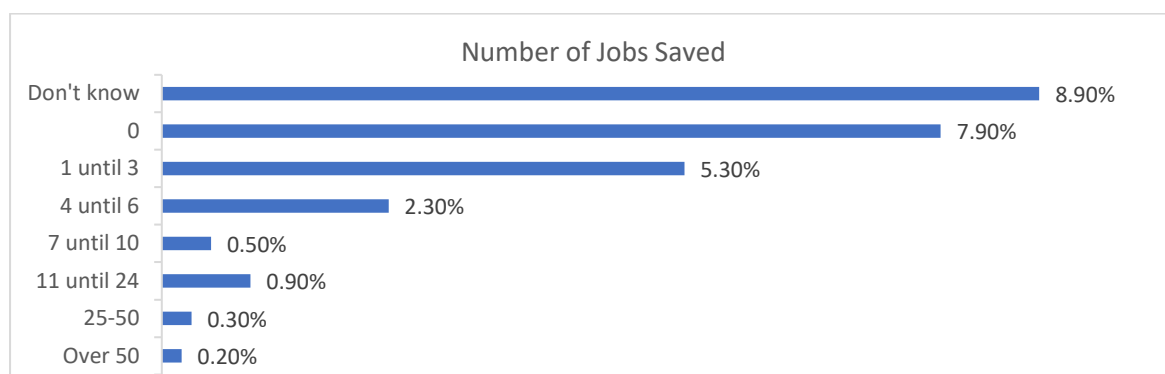


MSMEs that participated were asked about the reasonableness of the support received and 11.7 percent of the MSMEs reported the amount was reasonable and 8.5 percent reported the amount was less than what it should have been. A small portion 0.3 percent reported that the support amount was more than it should have been. The response received from participating informal and formal MSMEs is in Figure 69 below.

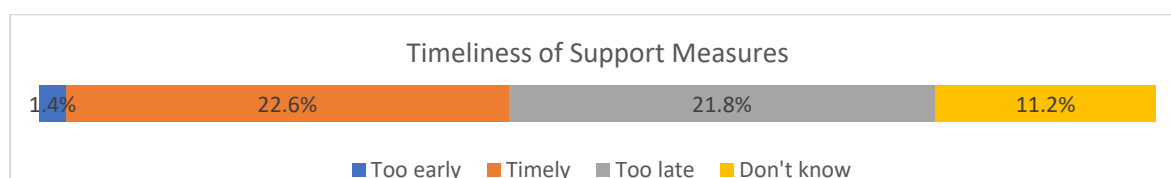
Figure 69 Percentage for reasonableness of support received



Approximately 9.7 percent responded that government support measures helped save employment. More than half of these MSMEs or 5.3 percent saved three or fewer jobs, 2.3 percent saved four to six jobs. Less than 2 percent of the MSMEs saved 7 or more jobs. Based on the responses received, the approximate calculation of the minimum number of employments saved in the information received was 398.

Figure 70 Percentage range of jobs saved due to GoTL support measures

Regarding timelines of the support measures, 22.6 percent of the MSMEs found the support timely, 1.4 percent responded support was provided too early, 21.8 percent found support was provided too late and 11.2 percent of the MSMEs did not know if it was timely or not.

Figure 71 Timeliness of support

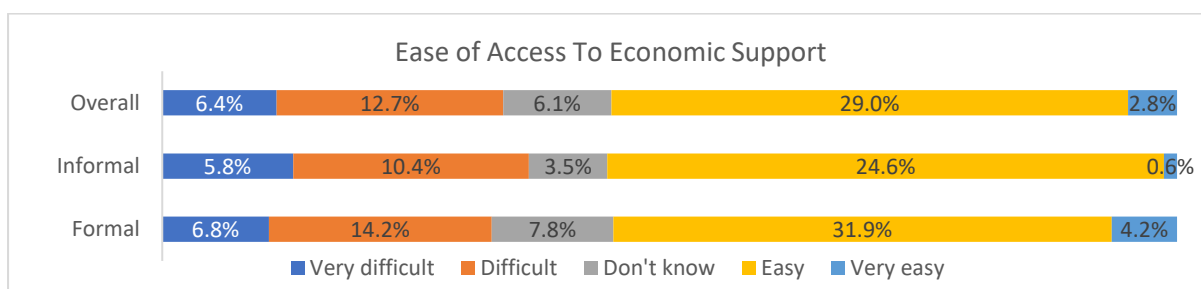
Approximately 41.2 percent of the MSMEs said the support measures were helpful, 6.8 percent responded that the measures were helpful and 9.1 percent did not know if they were helpful or not. A higher proportion of aware formal businesses, 45 percent, responded the measures were helpful compared to 35.4 percent of informal businesses. Since the support measures' eligibility criteria favoured formal businesses and targeted formalization of informal businesses,

Responses on the helpfulness of the government support measures by aware MSMEs and participating MSMEs, and by formal and informal MSMEs are detailed in Table 19 below.

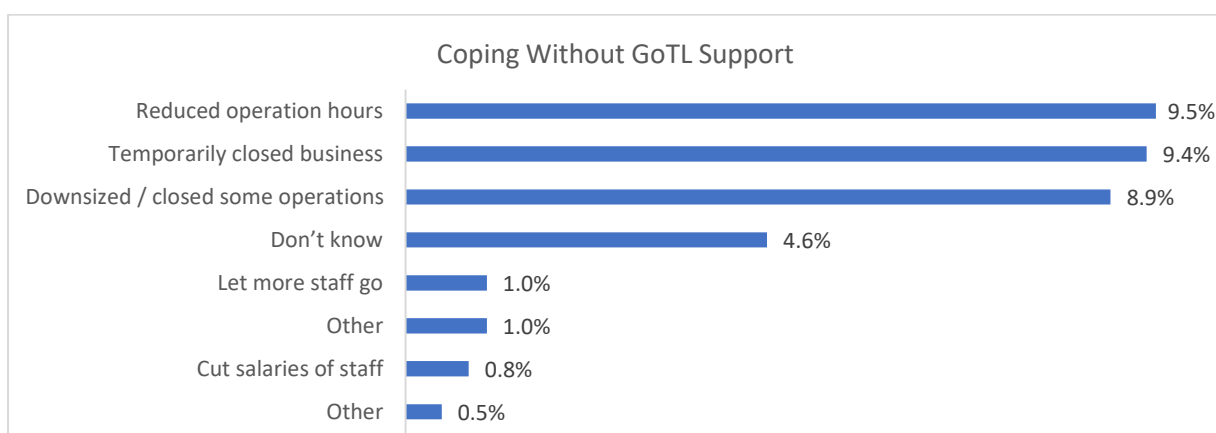
Table 19 Percentage of aware MSMEs on helpfulness of GoTL measure

Helpfulness of Recovery Measures	Aware MSMEs		
	Total	Formal	Informal
Very helpful	9.5%	10.6%	7.8%
Helpful	31.7%	34.3%	27.5%
	41.2%	45.0%	35.4%
Not helpful	4.6%	5.7%	2.9%
Not helpful at all	2.2%	2.3%	2.0%
	6.8%	8.0%	4.9%
Don't know	9.1%	9.1%	12.0%

The aware 57.1 percent of MSMEs were asked if it was easy to receive the government assistance from the COVID-19 related assistance program. Approximately 31.8 percent of the MSMEs found it easy or very easy and 19.1 percent of MSMEs found it difficult or very difficult to access the government support.

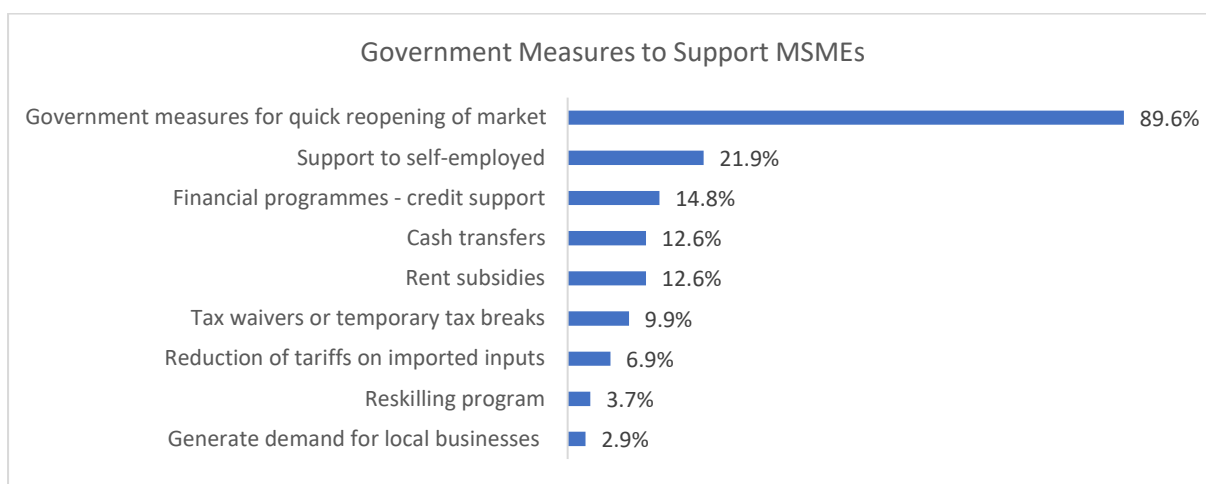
Figure 72 Percentage reporting level of difficulty receiving GoTL support

A higher percentage of MSMEs that participated in the program found it simple to access the government's COVID-19 support. Amongst the MSMEs that participated, 67.8 percent found it easy or very easy to access support, 27.0 percent found it difficult or very difficult and 5.2 percent responded: "don't know". MSMEs that received support under the GoTL programs were asked, with the option to provide multiple responses, how they would have coped with the COVID-19 situation if they did not receive the assistance. The top 3 responses included reduced operation hours, temporarily closed business, and downsized/closed some operations.

Figure 73 Percentage reporting coping mechanism without economic recovery support

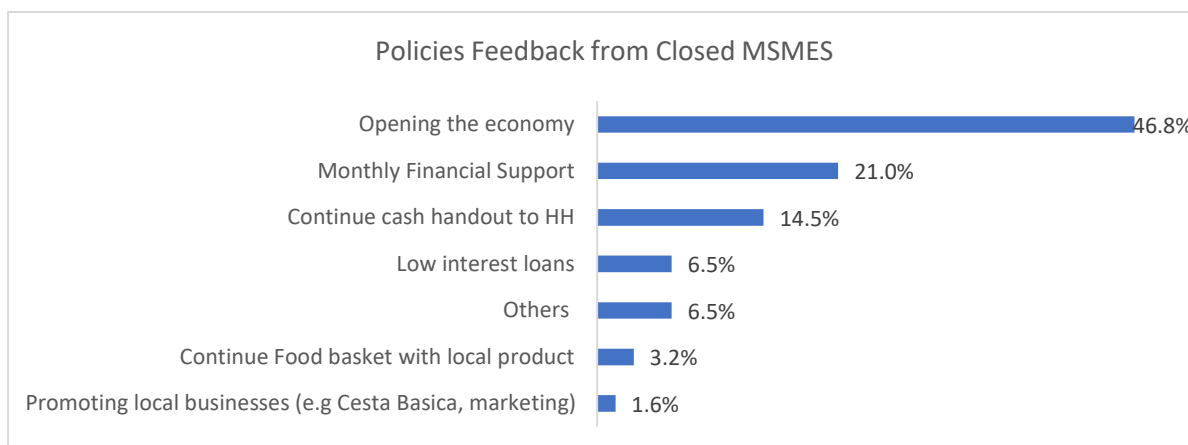
All the coping measures responses provided would have reduced cost but also impacted MSME's ability to generate income. Without the government support, the COVID-19 impact on MSMEs that participated and benefitted from the government assistance program would have been more severe.

MSMEs were asked to provide up to 3 measures that would help MSMEs cope with COVID-19; 1,524 responses were received. The most common response for the measure to help cope with COVID-19, from 89.6 percent of the MSMEs, was to open the market and economy.

Figure 74 Percentage of MSMEs feedback for future support measures

Impact of GoTL support measures on closed businesses: Approximately 42.6 percent of the closed enterprises were aware of the GoTL support measures compared to 57.1 percent for the active MSMEs. The closed businesses that were aware of the economic recovery measures were asked if they qualified for the support. Only 2 of these MSMEs responded they qualified for the benefit and applied. They had received support up to \$75.

When asked to provide policies that would help MSMEs with multiple response options, we received 62 responses. The most common response received was that opening the economy would help these closed MSMEs. The responses received are illustrated in Figure 75.

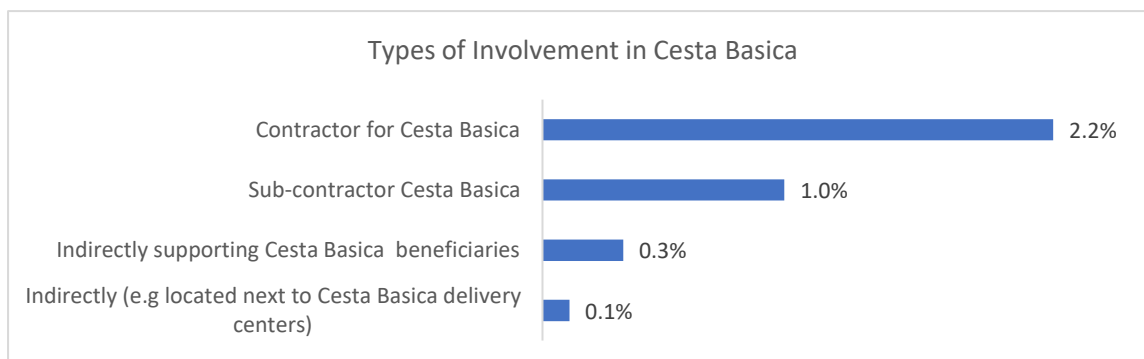
Figure 75 Closed business policy feedback

8.1 Impact of Cesta Básica

MSMEs involvement in the Cesta Básica programme was limited. Only 3.7 percent of the MSMEs were involved in the program. Of the 3.7 percent of the involved MSMEs, 3.1 percent were formal and 0.6 percent were informal MSMEs; 2.5 percent were from Dili and 1.2 percent were from outside Dili. Regarding the size of the MSMEs that were involved in the program, 2.5 percent were micro, 0.9 percent were small and 0.2 percent were medium enterprises. Most of the medium and small enterprises that participated in the program were from Dili. The program did not include 96.3 percent of the MSMEs.

The type of involvement of MSMEs varied, approximately 3.2 percent were engaged with contracts or sub-contracts and approximately 0.5 percent were involved indirectly. Approximately 3 of the 4 contractors were from Dili and almost half of the subcontractors were from Dili.

Figure 76 Percentage involved in Cesta Básica



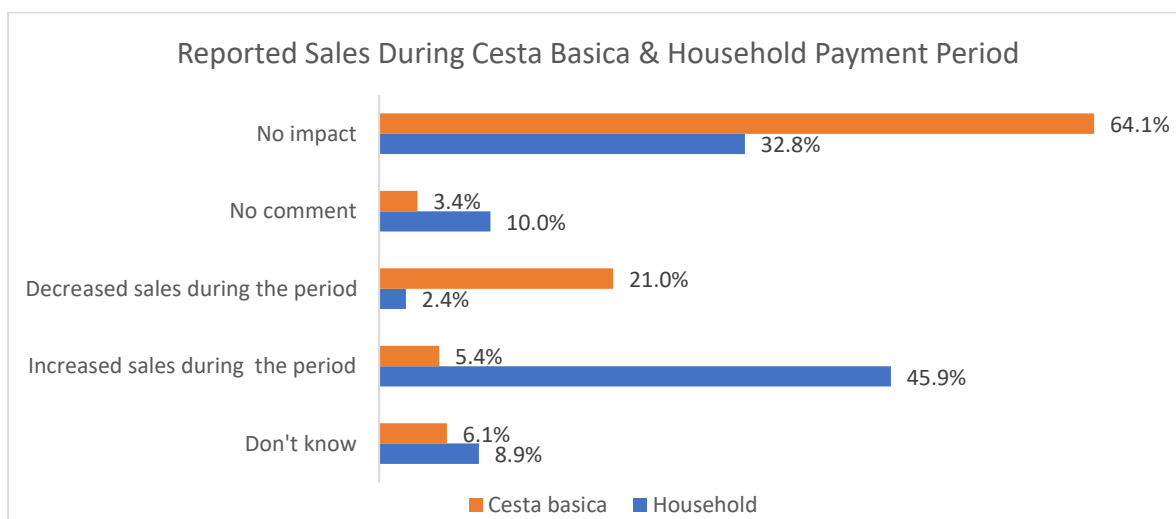
The sales of 5.4 percent of the MSMEs increased and 21 percent decreased during the Cesta Básica period. No medium enterprises reported an increase in sales during the Cesta Básica period and 5.2 percent of the 5.4 percent MSMEs were micro enterprises. Enterprises outside of Dili accounted for 3.8 percent of the 5.4 percent MSMEs.

Most of the MSMEs, 4.7 percent of the 5.4 percent that reported an increase in sales, had responded that they were not involved in the Cesta Básica program. Even though 3.7 percent of the MSMEs were involved in the Cesta Básica, 0.7 percent reported an increase in sales during the period.

In comparison to the sales of MSMEs during the household payment period, the Cesta Básica period saw less impact on the sales of MSMEs. Approximately 45.9 percent of the MSMEs reported an increase in sales during the household payment period, whereas approximately 5.4 percent of MSMEs reported an increase in sales during the Cesta Básica distribution period.

Approximately 21.0 percent of MSMEs reported a decline in sales during the Cesta Básica period compared to approximately 2.4 percent of MSMEs with decreased sales during the household payment period. Household payments had a more positive impact on sales of MSMEs compared to the Cesta Básica program.

Figure 77 MSMEs' sales during Cesta Básica and Household payment period



The 3.7 percent of MSMEs that were involved in the Cesta Básica program were asked about the timeliness of payment. Approximately 75.0 percent of these MSMEs received their payment within 3 months.

Approximately 45.9 percent of all businesses think that household subsidy has a positive impact on the businesses. A higher proportion of informal businesses, 59.7 percent, compared 36.8 percent of formal businesses reported that the household subsidy had a significantly more positive impact on their businesses.

Only a small proportion of MSMEs was involved in a Cesta Básica program and most of them were from Dili. Cesta Básica had a limited positive impact on sales and revenue of MSMEs with only 5.4 percent of the MSMEs reporting an increase in sales during the period. For every MSME that reported an increase in sales during the Cesta Básica period, more than 4 MSMEs reported their sales decreased during the period.

Involvement in the Cesta Básica program did not always result in an increase of sales. Almost 2 in 3 businesses that reported involvement in the program were paid within a quarter.

9. Conclusions

The first positive case of COVID-19 was registered in Timor-Leste on 21 March 2020. The GoTL declared the first national State of Emergency on 28th March 2020 to prevent the spread of COVID-19. The state of emergency has continued since and with varying degrees of restrictions on MSMEs, from full closures to reduced hours to reduced numbers of customers for social distancing, etc. More formal businesses, particularly in Dili, were impacted by the GoTL mandated restrictions on business operations than informal businesses and agricultural businesses outside of Dili.

The **supply chain disruptions** reported were highest during the first lockdown, when four in five businesses faced supply disruption. The supply chain issues improved during the ease of lockdown, but it deteriorated with sanitary fencing. Almost half of the businesses still reported disruptions at the time of our fieldwork. More than two in five businesses reported that receiving supplies took up to 3 months longer, while a small percentage were unable to receive supplies. The restrictions on public transport during the lockdown, restrictions on movement during sanitary fencing, and border closure had impacted the lead time to receive supplies reducing turnover and increasing *idle* time for businesses. Supply disruptions were impacting income of two in five MSMEs. A higher proportion of formal businesses were affected by the supply disruptions throughout the SoE, but sanitary fencing of municipalities had proportionally more impact on informal MSMEs.

The restrictions had also impacted MSMEs' **access to the market**, and it was most severe during the first lockdown. Access to the market has improved since initial home confinement, however, a third of MSMEs still reported difficulty in reaching customers. The main channels for reaching customers reported at the time of fieldwork had not changed significantly from pre-COVID 19 days; most MSMEs had not made any changes to how they reached customers to adapt to the pandemic conditions.

Many MSMEs were also facing **inflationary pressure** with the rising cost of supplies and the rising cost of operation. Like many small island developing nations, Timor-Leste relies heavily on imports. The cost of supplies and the cost of transportation had increased for many MSMEs. A higher proportion of MSMEs in the formal sector compared to the informal sector, and in Dili compared to outside of Dili reported an increase in the cost of supplies. To adjust to the new market conditions, about a third of MSMEs had increased their sales price and passed on the increase in the cost of supplies and operation to their customers. Women-owned businesses were less likely to increase the sales prices and were more likely to reduce prices to adjust to the market conditions.

The disruptions in access to the market, higher sales prices, and home confinements led to a **drop in demand**. Almost three in four businesses reported a drop in demand during the pandemic. A higher proportion of formal businesses reported a drop in demand compared to informal businesses. A decrease in demand led to lower domestic sales to private customers for almost four in five MSMEs and lower domestic sales to other businesses for almost one in four MSMEs. Lower demand from international customers also led to a decrease in exports. Low demand was reported as the most common cause for the negative impact on MSMEs' income.

Most of the MSMEs had not adjusted their **operating model** to respond to the pandemic situation. The main channel to reach customers had remained the same for almost all the MSMEs despite

reporting difficulty in access to the market. Only a small percentage had started telephone order-taking systems, home deliveries, and online marketing. The **use of technology** remains low amongst MSMEs in Timor-Leste and particularly low with informal businesses. Technology usage is mostly limited to smartphones, the internet, social media, and the telephone for most of the MSMEs. The availability of technologies and infrastructure for the digitalization of businesses or markets is low. Acceptance of technologies promoting digital transactions and trust in these technologies remains low with the population.

Given the constraints of divergent growth, most MSMEs resorted to cost-cutting measures for **coping** with the tough market conditions; only a small portion focused on generating extra revenue through online marketing and online sales. Payroll cost reduction was the most common cost-cutting measure opted by the MSMEs. Businesses laid off staff, reduced their hours, sent staff on unpaid leave, let contracts lapse, and even negotiated the pay of staff to reduce cost and cope with the pandemic. Even though the employment increased with active MSMEs in 2020, the full-time and part-time **employment** in MSMEs declined significantly in 2020 when considered together with employment in closed businesses. All employees of MSMEs that closed during the pandemic lost employment. With active MSMEs, men gained employment while women lost employment in 2020. Women's full-time employment and part-time employment decreased by approximately one third in 2020.

Almost all, more than nine in ten MSMEs were micro enterprises. Formal enterprises employed more than nine in ten employees of MSMEs. Despite accounting for less than one in ten MSMEs, small and medium enterprises employed more than half of the MSME employees. The growth of small and medium enterprises is key to resolving the employment challenges of Timor-Leste.

The **income** of almost two in three of the MSMEs had decreased in 2020, compared to 2019. The decrease in income was proportionally higher for the informal sector despite the sector being less affected by supply chain disruptions, operation costs, or the cost of supplies than the formal sector. The informal sector is also characterized by low payroll if any. The decrease in income of the informal sector was mostly driven by a loss in demand for their products/services. The average income of informal businesses declined by 49.4 percent in 2020 from 2019.

The retail – groceries and convenience sector and the tourism and accommodation sector reported the biggest amount of income lost in 2020. The income of the bigger enterprises was proportionally less impacted in 2020. A lesser proportion of small businesses reported a loss in income compared to micro businesses, and a lesser proportion of medium businesses reported a loss in income compared to small businesses.

A small proportion of MSMEs, mostly formal, reported an increase in income in 2020. Despite more MSMEs reporting a loss in income, the dollar value of the increase reported was higher than the loss in income reported. The increase in income was concentrated to a few businesses in the infrastructure construction sector. While few businesses increased their 2020 income, most MSMEs reported a decrease in income.

The rising cost and low demand not only decreased the income of the MSMEs, but the market conditions were too difficult for some businesses to continue. At the time of fieldwork, almost one in five businesses were **inactive**. Most of these inactive businesses had closed as they were unable

to cope with the market conditions. More than half of the closed businesses were from Dili. The top three most impacted sectors accounted for almost four in five of the closed MSMEs, they included Infrastructure construction, retail - groceries and convenience, and private construction. Almost four in five infrastructure businesses in the survey data had closed, the sector had been impacted hard due to the duodecimal budget of 2018, 2020, and the political impasse in the country, in addition to COVID-19.

A small percentage of inactive entities decided not to start their business under such conditions. The closure of MSMEs during the pandemic led to a loss of employment and was the primary reason for a significant decrease in employment in 2020.

Even the active businesses still **faced uncertainties** with two in five businesses forecasting a decrease in 2021 income compared to the 2019 income. Contrary to the small and micro enterprises where a large portion reported a negative outlook on the income expectation, the medium businesses surveyed reported a positive outlook on the 2021 income expectation. More than half of the businesses were concerned about the cash flow situation of their businesses and being able to pay their employees. A majority, four in five of the businesses were concerned about the continuity of their businesses due to various financial and non-financial reasons. The spread of COVID-19 in the community and lack of demand were expressed as the two main concerns for business continuity. Some MSMEs expressed concern about being able to continue in the next 3 months.

MSMEs are **resilient** and a small percentage had a relatively positive outlook for 2021 compared to 2020 income. A lesser proportion of the MSMEs expect their 2021 income to decrease compared to the percentage of MSMEs that reported a decline in their 2020 actual income.

The Government introduced a generous economic stimulus package to mitigate the negative consequences of public health-related lockdowns on the private sector and to preserve jobs. It was one of the largest dedicated COVID-19 Funds in the Asia Pacific region. Public policies to minimize the negative economic impact on the private sector and for galvanizing the economic recovery focused on sustaining businesses, supporting employment and employers, incentives to resume operations, and protecting jobs.

More than half of the MSMEs were aware of the GoTL support measures. The awareness was high in Dili and amongst formal businesses, however, a lower percentage of informal businesses and businesses outside Dili were aware of the government economic support measures. The understanding and awareness of individual support measures under the government's economic recovery package were even lower. The support measures available were attached to eligibility requirements. The effectiveness of economic support measures and participation of MSMEs remained low despite the GoTL efforts. The GoTL allocated the biggest fiscal policy for COVID-19 prevention and economic recovery in the region. Despite the clear intent and financial backing, the support measures did not deliver on their potential due to implementation and execution issues.

10. Recommendations

A number of development agencies have made policy recommendations for private sector development in Timor-Leste. Consolidating these known issues and prioritising them for implementation is necessary. Other studies such as *Doing Business Survey* of the World Bank highlights the constraints and foundational issues for private sector development in Timor-Leste. This report avoids duplications of the same recommendations although some themes of the recommendations remain aligned.

GoTL initiatives:

- Better communication of support measures, particularly targeting MSMEs outside Dili and informal MSMEs, using local government agencies and civil societies partners.
- Simplify requirements and make it easier to apply to improve participation. Attaching benefits to multiple objectives, for example registering informal businesses or getting MSMEs and their staff to participate in social security funds, makes the process complicated and eligibility difficult, discouraging participation.
- Maximise distribution of the existing loan guarantee scheme and finance MSMEs in targeted productive sectors of the economy to modernize, mechanise and enhance production. Simplify process for application and for participating banks or microfinance to claim guarantee if needed.
- Consider better alignment of the government handouts and grants to ensure the positive multiplier effect. So far, public spending in Timor-Leste ignores supply-side constraints and as a result, fails to stimulate the private sector and does not have a lasting positive impact on the economy.
- Promote investment incentives and tax breaks for private sector investment in agriculture, tourism, and other productive sectors.
- Prioritise recommendations in development partners (ADB, World Bank) reports, to provide a legal framework for business to enforce contracts and to protect the investment of minority owners. Lack of an enforceable legal framework is a deterrent to investment and investors.

Financing the private sector & Injecting capital:

- Relax regulatory restrictions for lending and adjust the supervisory approach for the banking sector considering the impact to lending portfolio of banks from COVID-19. Consider reducing reserve, collateral, and other regulatory requirements to allow banks to restructure existing loans and lend more to inject capital in the market for economic recovery.
- Consider introducing partial guarantee schemes to support other productive sectors of the economy. The partial loan guarantee schemes should be extended to small and medium businesses while the loan guarantee remains focused on micro, social businesses.
- Consider targeted support to informal MSMEs in the post pandemic package, if any. An example of this could include providing agricultural input and seed to farmers, raw materials to Tais makers, or discounted vouchers to be used at tourism businesses etc.

- Support banks and lending institutes develop loan products based on moveable collateral such as equipment, inventory, or accounts receivables. Provide training on how these products work if needed.
- Consider using social security funds to develop needed infrastructure and help generate returns for the fund through investment in the local economy rather than leaving the funds in the bank with minimal interest. Using social security funds in infrastructure needs sound investment and risk management strategy. The principal needs to be maintained to fulfil funds obligations, but the cumulative saving of Timor-Leste can finance the development of the nation and generate income. Examples could include funding quality private hospitals.
- Promote private and public investment opportunities for Timorese diaspora overseas to invest in Timor-Leste.

Enhance digital capabilities:

- Invest in technology infrastructure for digitalisation and develop the digital workforce.
- Improve IT capabilities of existing entrepreneurs through targeted training programs. While the intent is not to convert them into techies, entrepreneurs should feel comfortable using available e-payments and fund transfer which simplifies/enables transactions.
- Facilitate the transfer of useful technologies that are already available in ASEAN countries.

Some of the recommendations require time and dedicated efforts from the GoTL and other development partners, while others can be implemented swiftly. The GoTL should prioritise the recommendations based on their criticality and be pragmatic with the implementation of the recommendations for private sector development. A persistent and conscious effort is needed to uplift the private sector.

Annex 1: Formal and informal MSME sampling

Table 20 Sample distribution of MSMEs

Municipality	Admin Post	Suco	Formal sample size	Informal sample size
Aileu	Aileu	Seloi Malere	6	-
		Tulataqueo	-	14
Ainaro	Maubisse	Maubisse	12	11
		Leolima	-	19
Baucau	Baucau	Bahu	12	22
	Baucau	Tirilolo	24	15
	Vemasse	Vemasse	6	15
Bobonaro	Atabae	Aidabaleten	6	13
	Maliana	Holsa	12	-
	Maliana	Lahomea	12	-
	Balibo	Balibo Vila	-	10
	Maliana	Ritabou	-	2
Covalima		Raimea	-	6
	Suai	Debos	18	4
	Suai	Camenaça	6	5
Ermera	Ermera	Poetete	6	7
	Ermera	Talimoro	18	-
Lautém		Bauro	-	9
	Lospalos	Fuiloro	18	7
Liquiçá	Liquiçá	Dato	12	22
	Bazartete	Tibar	-	11
	Bazartete	Maumeta	12	8
Manatuto	Manatuto	Aiteas	12	10
	Manatuto	Sau	6	-
Manufahi	Same	Letefoho	24	32
	Same	Betano	6	12
	Same	Babulo	-	10
Oecussi	Pante Macassar	Costa	24	-
	Pante Macassar	Cunha	6	-
Viqueque	Viqueque	Caraubalo	24	-
	Uato-Lari	Macadique	6	-
		Uani Uma	-	6
Outside Dili			270	270
Dili			630	134
Grand Total			900	404

Annex 2: Economic Recovery Measures, August 202

Measures	Aim	Recipients	Eligibility Requirements	Details	Cost
Food Baskets / Cesta Básica (Nov 2020 – May 2021)	<ul style="list-style-type: none"> Support families in meeting basic needs Combat hunger and most vulnerability Support local farmers, producers, and traders 	Families	Universal	<ul style="list-style-type: none"> Deliver in voucher or basket form Composition: food, hygiene, and cleaning items Per capita basis; take into account the size of the family Prioritizing domestic products or products purchased on the local market 	71,5 million USD
Recovery Subsidy (Aug to Dec)	<ul style="list-style-type: none"> Support employers and individual entrepreneurs to resume economic activity Specifically support the Tourism sector, severely affected by the crisis 	Employers and individual entrepreneurs	<ul style="list-style-type: none"> Activity resumption (except tourism sector) Register with the Social Security and Tax system Obligation to not dismiss workers 	<ul style="list-style-type: none"> The subsidy is calculated based on two factors: loss of turnover and number of employees Loss of turnover: comparing the invoicing in Jun/2019 with that of the corresponding period (Jun/2020) Beneficiaries may use the subsidy to meet the necessary expenses 	35 million USD (Amount may be revised)
Contributory Exemption (Jul to Dec)	<ul style="list-style-type: none"> Increase the immediate liquidity of the beneficiary entities 	Employers and individual entrepreneurs	<ul style="list-style-type: none"> Activity resumption (except tourism sector) Register with the Social Security contribution is 6% 	<ul style="list-style-type: none"> Employer's contribution exemption (6%) In the case of workers voluntarily registered with the Social Security: partial exemption from social 	3,6 million USD
Special support for informal workers (Oct to Dec)	<ul style="list-style-type: none"> Support workers who are in a total lack of social protection Encourage formalization 	Self-employed and informal workers	<ul style="list-style-type: none"> Register with the Social Security in August/September Obligation to maintain contribution for 6 months 	<ul style="list-style-type: none"> The subsidy is fixed, in the amount of 60% of the first scale of the optional membership: 36 USD = 60%x60 USD Contribution rate: 4% in the months in which the measure is in force; 10% in the following 3 months 	3.3 million USD (amount may be revised)

Source: 8th constitutional government 2020, Economic Recovery Plan, August 2020

Annex 3: GDP of Timor-Leste

2015 \$m prices	2016	2017	2018	2019	2020*	2021*	2022*
Private Consumption	970	1,000	1,071	1,053	887	1,174	1,190
Public Consumption	927	873	870	898	1,017	1,063	1,092
Total Consumption	1,897	1,873	1,887	1,951	1,904	2,237	2,281
Private Investment	126	143	69	68	100	151	188
Public Investment	527	401	468	376	226	371	388
Total Investment	653	544	536	444	326	523	576
Other	26	26	23	27	13	7	3
Total National Expenditure	2,576	2,444	2,447	2,422	2,243	2,766	2,861
Exports	53	32	37	31	32	37	38
Imports	(981)	(895)	(921)	(861)	(805)	(1,303)	(1,356)
Non-Oil GDP	1,648	1,580	1,564	1,592	1,471	1,500	1,543

Source: Timor-Leste National Accounts 2000-2019 and Economic Forecasts, General Directorate of Statistics and National Directorate of Economic Policy, Ministry of Finance, April 2021. * indicates forecast