Development in Practice, Volume 15, Numbers 3 & 4, June 2005

Post-conflict pro-poor private-sector development: the case of Timor-Leste

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Post-conflict economic development is central to reducing poverty and improving local livelihoods. In this regard, many post-conflict development plans place a high priority on private-sector development. This paper examines the role of the private sector in post-conflict situations and discusses possible interventions for economic recovery based on a review of the literature and fieldwork in Timor-Leste. The paper identifies key factors critical to pro-poor private-sector development in post-conflict situations, with particular reference to Timor-Leste, considers some of the major obstacles, and suggests public policies to identify promising export products and to strengthen small and micro enterprises that might help the country to achieve pro-poor economic recovery and growth.

Introduction

Post-conflict recovery and development is the subject of increasing attention in the aftermath of internal conflicts. Afghanistan, Angola, Cambodia, El Salvador, and Timor-Leste (formerly East Timor) are countries that have gone through this process, and have faced the daunting task of restoring themselves to nationhood. A major challenge is that of economic development, which is central to reducing poverty and improving local livelihoods. Development agencies increasingly stress the importance of private-sector development in reducing poverty. Post-conflict recovery, if we think of it as a long-term road to sustainable peace, cannot be separated from economic development, which explains why current post-conflict development plans place such a high priority on the private sector in economic development and recovery. However, there is not much being said about defining the role of private-sector development in such contexts. How does the private sector assist or help economic recovery and reconstruction in post-conflict economies? Do policy making and private-sector development in post-conflict situations differ significantly from those in non-conflict developing economies? If such differences exist, how can we understand them?

This paper examines the role of the private sector in post-conflict situations and discusses possible interventions for economic recovery based on a review of the literature and fieldwork in Timor-Leste. After reviewing the importance of private-sector development in post-conflict reconstruction and economic development, we identify key factors for pro-poor private-sector development in such situations. The case of Timor-Leste is then examined, both in relation to the violent conflict experienced, and in terms of the challenges now facing the country. We explore the main factors affecting successful private-sector development as they apply to

ISSN 0961-4524 Print/ISSN 1364-9213 Online 000502-12 © *2005 Oxfam GB*
DOI: 10.1080/09614520500075995 Routledge Publishing

Timor-Leste, consider some of the major obstacles, and suggest public policies that might help the country to achieve pro-poor economic recovery and growth.

Post-conflict private-sector development

Key factors in private-sector development[1]

A fundamental issue in reducing the risk of resurgence of conflict and war in a post-conflict country is to ensure people a stable livelihood. This requires economic growth with focus on the poor, which has been called 'pro-poor growth' (Griffin and McKinley 1994).

Pro-poor growth would enable the poor to participate actively in and significantly benefit from economic activities. This is different from 'trickle-down economic growth', which pays less attention to the distributional aspects of economic growth. Promoting pro-poor growth requires a strategy that favours the poor so that they may benefit proportionally more than the rich (Kakwani and Pernia 2000). What a pro-poor growth strategy looks like depends on the circumstances of the specific country; thus, how pro-poor economic policies and development work in post-conflict settings remains an empirical question. However, a few key components of successful pro-poor policies for economic development (Klasen 2003) can be identified, namely:

- sound macro-economic policy (fiscal, monetary, and regulatory framework);
- strengthening of institutions needed for a vibrant market economy;
- support of economic entities for private-sector development.

Countries in post-conflict transition face daunting tasks in revitalising the economy and improving the population's economic well-being. Local governments and their donor agencies emphasise the role of the private sector in revitalising damaged local economies. Castillo (2001) recommends certain economic policies, based on an analysis of post-conflict economic growth and pro-poor development:

- developing basic economic infrastructure and regulating the private sector;
- developing the credit market;
- stimulating foreign investment and promoting exportation;
- developing human resources.

These four factors are regarded as central to economic growth in developing countries. Donor agencies, which exert great influence on post-conflict economic reconstruction, usually send a mission to assess the country's political, social, and economic situation and to recommend reconstruction plans and policies that they believe will be effective. For post-conflict situations, it is not possible to generalise what works best in initiating economic development and growth. Below, however, we look briefly at countries in the post-conflict transition stage to see whether different settings share these four key factors.

Private-sector development in post-conflict countries

Post-conflict recoveries are underway in Africa, Asia, and Latin America. However, these recoveries are heterogeneous, with resource constraints and endowments that are unique to each country. Thus, it is not an easy task to propose a uniform set of policies that will foster private-sector development.

We reviewed how war-torn economies recover and whether private activities assist in the recovery processes in different regions. El Salvador, Cambodia, and Mozambique[2] were analysed to determine whether Castillo's four factors are relevant to post-conflict cases (see Table 1).

Table 1: Key factors in private-sector development in three post-conflict cases

Key factor	Cambodia	Mozambique	El Salvador
Factor No. 1: basic economic infrastructure and regulation of the private sector	• Basic road reconstruction	• Electricity and road rebuilding	• Basic roads and power supply
	• Judicial system and law	• Legal reform programme	• Land registration
Factor No. 2: credit market development	• Central bank law	• Corporate law	• Privatisation of the financial market
	• Weak financial market system	• Banking law	
Factor No. 3: stimulation of foreign investment and promotion of exports	• Foreign investment law	• Trade liberalisation	• Foreign investment rules (uniform tariff rate)
	• Trade liberalisation	• Industrial free zones (IFZs)/export processing zones (EPZs)	
	• Industrial zones		
Factor No. 4: human resources development	• Devastated human resources base, with the need to improve basic skills. Still weak in vocational training	• Education sector strategic programme	• Weak education and health services provision

Key factor No. 1: basic economic infrastructure and regulation of the private sector

Private-sector development in post-conflict situations aims at reviving domestic production and improving the quality of domestic products. In many cases, conflicts destroy the basic elements of domestic production because factories are damaged by war, the financial sector collapses, and core business laws and regulations are absent. Our review of the three cases indicates the critical importance of setting up a legal framework and an administrative structure. A stable political environment and the development of stable economic institutions are considered necessary to post-conflict recovery (UNDP 2002). In Cambodia and Mozambique, a legal framework was developed quickly as a first step.

Key factor No. 2: credit market development

Any economic actors, from small to large enterprises, must have access to capital via financial institutions and credit schemes. For this to happen, the establishment of a capital market is a high priority. This includes financial market development, which enables the central bank to manage the macro-economy in a stable manner. The policies in the three cases reviewed clearly differed according to the post-conflict processes and economic characteristics of each country. For instance, El Salvador pursued mainly the privatisation of financial institutions, Cambodia established a central bank and a financial system, and Mozambique made a first priority of corporate and banking law. The three cases suggest that conditions at the beginning of recovery influence the choice of credit market policies.

Key factor No. 3: stimulation of foreign investment and promotion of exports

Export promotion led by foreign direct investment (FDI) has propelled East and SE Asia to high economic growth over the last 30 years. For this reason, post-conflict recovery plans tend to include trade liberalisation and export-promotion policies (World Bank 1993, 1998). Indeed, all three countries have adopted trade liberalisation policies such as cutting tariffs and establishing foreign investment rules and laws to attract FDI. Export-processing zones (EPZs) were adopted in Cambodia and Mozambique, in a nod to the East Asian growth path. However, the effectiveness of these liberalisation polices is not well documented, except for Mozambique's industrial zones, which have attracted significant amounts of foreign investment and created many jobs.

Key factor No. 4: human resource development

One critical factor for economic recovery and private-sector development is local human resources—both in terms of quality and quantity. Human resource development is crucial to upgrading productivity and generating tradable local products. Post-conflict situations generally make this very difficult, since conflicts destroy the human-resource base, particularly at the primary productive age, hamper educational institutions, and hinder job training.

Experiences of private-sector development in a small war-torn economy

This brief review suggests that the regulatory framework, institutional development, and human resources development are important factors for successful private-sector development. However, severe conflicts have occurred and are ongoing in much smaller nations. As we shall see for Timor-Leste, it is worth looking at small countries and their efforts to restore economic development and growth. Consider Eritrea, an African nation that has gone through decades of civil war. The Government of Eritrea (GoE) drafted an economic development plan to achieve growth based on private-sector development (World Bank 2002a). The core component of recovery planning is private-sector export-led growth. The GoE has faced problems in establishing a capital market, developing human resources, and diversifying exportable products. These are similar to the four key factors for private-sector development shown in Table 1; however, these are very difficult to achieve, and one serious problem the country has faced is a lack of competitiveness and productivity in the manufacturing sector. According to the Regional Programme for Enterprise Development survey[3] conducted in Eritrea, a main reason for manufacturing inefficiency is the scarcity of skilled workers due to their diversion into war and conflict. In fact, manufacturing workers made up only 1.3 per cent of the workforce in 1999. In Eritrea, the manufacturing workforce shrank while wages rose, which hampered private-sector development in the post-conflict context. In other words, the key factors for economic recovery are unlikely to be effective in Eritrea and similar contexts unless the country finds a way to provide the necessary training to transform soldiers into a civilian workforce.

Developing the private sector depends on harnessing scarce human resources to economic development, and this is clearly a serious obstacle for a smaller country that is short of employment opportunities except in the labour-abundant agricultural sector.

Thus far we have reviewed some examples of post-conflict economic recovery, focusing on factors influencing private-sector development in such situations. Although this review does not provide the basis upon which to generalise about the role of the private sector in these contexts, it serves as a guide as to where to look and what we should examine regarding a country's post-conflict development plan and what policies need to be adopted after a peace accord. By way of concrete illustration, we focus on the newly independent state of Timor-Leste.

Economic reconstruction and private-sector development in Timor-Leste

Development context: a briefs review of the conflict and independence

Timor-Leste's National Development Plan (NDP) identifies private-sector development as an engine of economic growth and a national poverty-reduction strategy. However, the private sector has not reached a stage where it can promote rapid economic growth and create more jobs for the Timorese population, especially among the poor (ETTA et al. 2001). To date, its manufacturing sector has contributed less to Timorese economic growth than has agriculture in terms of GDP and employment. Manufacturing and other industry accounted for 2.7–3.5 per cent of real non-oil GDP from 1995 to 2000 (World Bank 2002a). In 2002, Timorese employed in the private sector[4] accounted for about 6.1 per cent of the labour force, down from 6.7 per cent in 1998, and far below that in agriculture (73.9 per cent) (RDTL 2002). While the NDP emphasises the role of the private sector in Timor-Leste's economic development, its wish-list is long, ranging from quick-impact projects to policy reforms to liberalise trade.

According to the Timor-Leste Living Standard Measurement Survey (TLSS) 2001 (World Bank 2003), the poverty line was estimated as US$0.55 per day, with 41 per cent of the population living below this. About 85 per cent of the poor live in rural areas and the TLSS 2001 estimated that the income poverty gap was 13 per cent of the income earned by the poor. Thus, viable market economic activities, based on Timorese natural and human resources, need to be strategically designed as pro-poor at the early stage of reconstruction. It is important to assess the present situation on the ground and come up with effective policy ideas to support sustainable economic development for the Timorese poor. Below, we summarise major bottlenecks in Timor-Leste that hinder private economic activity. We then discuss steps required to promote a vital domestic market economy, using the four key factors identified in the previous section. Finally, we present policy recommendations to foster an active private sector and the development of a domestic market economy, and explore external markets for Timorese products.

Major obstacles to stimulating the private sector in Timor-Leste

As the NDP states, micro enterprises and SMEs are the core private-sector entities in Timor-Leste (Planning Commission 2002a). It is important and useful to look at the status of micro enterprises and SMEs in Timor-Leste in order to understand how these are effective in private-sector development.[5] In 2001, Timor-Leste's Ministry of Industry and Trade conducted a sample survey[6] on SMEs in the country (Queipo 2001) that was comprehensive in its coverage of industries and firms. Firms registered by the ministry in 2001 numbered 337, all of which were included in this survey. More than 40 per cent of these were in Dili (the capital), and the rest were scattered throughout the other 12 districts. The survey also sampled workers[7] employed in the sector, totalling 2178, of whom 1462 were male and 716 were female.

Wood and sawmill industries employed the largest number of workers (27.2 per cent of the total), followed by *tai* weaving and handicrafts (15.2 per cent), and concrete-block production (10.9 per cent). The main products were wooden furniture, textiles, *tai* weaving, car repairs, bricks, and baked foods. There were an average 6.5 workers per enterprise, ranging from two to nine. The survey illustrates that micro enterprises and SMEs are significant in this island state, and should therefore be the focus of pro-poor economic growth and development. With this as a main concern and query, we carried out fieldwork in Timor-Leste in 2003 and assessed Timorese prospects for private-sector development by examining the four key issues mentioned in the previous section.

Key issue No. 1: business environment in Timor-Leste: poor infrastructure and wage distortion

Poor infrastructure such as unstable power supply and poor roads throughout the country make it very difficult for private business and economic activities in Timor-Leste to be successful. Damage to the road network has had a particularly limiting effect on market access and distribution of local products from rural production sites to urban markets. Our fieldwork revealed that transportation fees had increased dramatically, which made it difficult for Timorese to trade goods and services.[8]

Also, higher wages given to unskilled workers by donor agencies inflated their reservation wage levels. This increased local wage expectations. Indeed, as the TLSS 2001 data show, the urban wage in Timor-Leste was triple that in Indonesia (World Bank 2003) for the same type of work. This upward bias distorted expectations of urban wages in the private sector, which weakened the competitiveness of Timorese industry. To examine this, we conducted a quick informal wage survey in Dili in 2003 and found that daily wages for private-sector employees ranged from US$4.00 for unskilled workers to US$10.00 for skilled workers.

Despite the small sample size (20), our survey underlines the importance of these issues. We asked Timorese businesses about their immediate concerns and problems related to business. They identified many issues: weak government support and lack of access to capital were cited as major concerns by 40 per cent and 30 per cent of the respondents, respectively. Lack of skilled local workers and wage problems were also major immediate concerns. These responses suggest that high wage expectations, lack of consumer demand, lack of skilled labour, and capital market problems do, in fact, hamper private-sector development.

Key issue No. 2: credit market development: serious financial resource constraints

Credit markets are not well developed in Timor-Leste, and SMEs, the majority of businesses in Timor-Leste, have very little access to credit. Two foreign banks (Australia and New Zealand Banking Group Limited (ANZ) and Banco Nacional Ultramarino S.A. (BNU)) in Timor-Leste provide deposit services to Timorese but do not lend. To improve SMEs' access to capital, SEP I (Small Enterprises Project) was designed with financial support from the World Bank and implemented by BNU; however, its main focus has been to strengthen and support capital-intensive rather than labour-intensive industries, which should have been a priority in order to absorb more Timorese workers.[9] The SEP I scheme expended US$3000 to create a single job. In contrast, there are some promising microcredit practices emerging to assist capital market development for Timor-Leste. The number of microfinance institutions has increased and credit unions have made a comeback. For example, Timor Aid, a credit union in Timor-Leste, expended US$200 to generate a single sustainable job, which is far more cost effective in employment generation (House 2002). Although the number of microfinance institutions has increased in Timor-Leste, the amounts are not sufficient to cover many rural communities.

Key issue No. 3: exportable Timorese products: unclear product selection and weak marketing

Timorese products have very limited scope for export because of weak marketing and poor product selection. Information on external markets is another crucial factor, but the costs of gathering and analysing market information, including tastes and preferences of consumers in external markets, are too great for small economies. In fact, exportable Timorese products are very few, and coffee can be regarded as the sole foreign-exchange earner. In external markets, where products compete strongly, the design and marketing strategy determine sales. Without such market information, which incurs the costs mentioned above, it is very difficult to find good external markets in which Timorese products will be competitive (Saldanha et al. 2002).

Key issue No. 4: Timorese human resource base: weak production and business skills

Without doubt, human resource development is a serious problem in Timor-Leste. Generally, Timorese lack production and business skills. For example, local farmers lack skills required to process farm crops and small traders have limited accounting skills. The quality of *tai* crafts is rarely controlled and, in many cases, the quality of *tai* products varies from one weaver to another. To raise these low skill levels, vocational training centres and schools were established. However, training programmes at these centres spend more on lectures than on practical production and business skills. Also, education, a good measure of the overall local human resource base, is weak in Timor-Leste. Timorese adults have low average literacy rates, which indicates that human resources and technical skills are weak. In addition, the problem of absenteeism lowers productivity significantly.[10]

Key instruments for pro-poor private economic activities and recovery in Timor-Leste

With a view to making local SMEs the engine of economic recovery and growth in Timor-Leste, we now discuss the policies that are needed to support SME development. Viable micro enterprises and SMEs in Timor-Leste, which could diversify the sources of income for poor rural Timorese families, should be given first priority in order to help the poor to overcome their fragile economic base amidst post-conflict hardship. As we have seen, Cambodia's, Mozambique's, and El Salvador's experiences in SME development and microfinance indicate what could be done to promote private economic activities and private-sector development in Timor-Leste. Given the scarcity of local products that could earn foreign exchange in Timor-Leste, it is important to target domestic demand for local agricultural products produced by poor subsistence farmers by invigorating the domestic market.

Major local agricultural products include rice, maize, coffee, cocoa, coconut and vanilla. Processed agricultural products including fruit juice, cooking oil, and vanilla essence are considered potential Timorese products. With successful domestic market expansion, non-farm economic activities such as the opening of local food stalls, the construction of home-based packaging factories, and transportation services, which have been revealed as key to restoring the health of fragile poor rural household economies in many developing nations (Reardon et al.

2001; Kusago 2002), might develop. The creation of a dynamic domestic market needs to be buttressed by both efficient supply of products and sizeable demand for local products.

Building a core economic sector in a post-conflict context requires mixed policy instruments that incorporate the four keys to private-sector development. Table 2 presents potential key policy instruments that would enable Timor-Leste to enhance private economic activities and market transactions to sustain and improve the livelihoods of the local people.

Key instrument No. 1: turning micro enterprises and SMEs into engines of Timorese development

Private economic activities require a sound economic basis across a broad range of the Timorese economy. Coffee and palm oil could generate both income and employment for Timor-Leste, but tends to benefit only those who reside in specific areas and/or certain social groups. For instance, coffee is grown mainly in central Timor and the palm-oil industry is likely to be situated near cities or palm-oil plantations. To generate jobs for the Timorese poor, micro enterprises and SMEs could play significant roles in Timor-Leste, as they did in Cambodia and El Salvador, since these tend to use labour-intensive technology and local materials such as cooking oil, sugar, dried fish, dairy foods, woodcrafts and furniture, and *tai* crafts.

To support micro enterprises and SMEs, it is important to start by investing more in developing human resources. Vocational and informal training are needed. Skill levels influence the competitiveness of products. For example, there is fierce international competition to sell furniture. Cost-effective products could be winners in such a competitive market; thus, a higher priority should be placed on improving skills. In fact, a survey conducted by Timor-Leste's Ministry of Industry and Trade confirmed that there is high demand for practical training among workers: training in production techniques, business skills and management, and marketing (Queipo 2001).

Credit market development, one of the four key factors in successful private-sector development, needs to be given higher priority for Timorese micro enterprises and SMEs. The banking sector is not functioning well in Timor-Leste. Thus, it is important to build a financial system that allows the less-endowed small and informal economic entities to access capital for production.

Table 2: Potential key instruments for pro-poor private-sector development in Timor-Leste

Key factor for private-sector development	Potential key instruments for Timor-Leste
Basic economic infrastructure and regulations on the private sector	• Rebuilding basic infrastructure (roads and electricity)
	• Local transportation network
Credit market development	• Banking-sector law
	• Microfinance for micro enterprises and SMEs
Exportable Timorese products	• Marketing support and trading partner search
Timorese human resource base	• Production skills training for SMEs
	• Basic business skills and management

One important instrument might be microfinance, which could be replicated successfully in Timor-Leste. In fact, our survey found some microfinance practices underway in some areas. Experience shows that successful microfinance practices tend to provide technical assistance to prospective borrowers, which helps these borrowers to acquire basic business skills and learn how to manage their own money (Doyle 1998). In Timor-Leste, the approach of CARE International is noteworthy here. CARE International encourages prospective members to form a small group and asks the group members to save their own money. CARE International teaches the members how to manage the group's saving by themselves. Only after CARE staff confirm their management ability does CARE start providing the group with lending to match the amount accrued as savings. Not all microfinance practices apply this method; thus, it is useful to research what practices could be replicated effectively in Timor-Leste (USAID 2003).

The economic environment needs to be strengthened for private-sector development. In Timor, poor rural infrastructure (roads and power) is the main factor in high production costs. To minimise transportation costs, one idea is to set up a countrywide bus network. It is important to emphasise that transportation services are fundamental public goods for both economic and social objectives and such a network could help local well-being.

Key instrument No. 2: finding markets for local products

Finding good domestic and foreign markets for Timorese products is crucial for Timorese private-sector development. Finding markets has become increasingly difficult in the increasingly globalised economy. China and India, where disciplined workers are available, are able to produce quality products at much lower costs than Timor-Leste. But there should be a way to cultivate markets for products produced by a tiny island state with a population of less than one million. As we have pointed out, domestic demand in Timor-Leste is very weak, partly because there are few buyers in local markets. The majority of rural Timorese live on subsistence farming and they have very little incentive to sell their products, even when they have large surpluses. One important goal is to generate stable and continuous domestic demand, possibly through links with the public sector. For example, the public sector could purchase local agricultural products for use in school lunches. Not only would this generate demand but it would also induce diversification, such as to milk and fish products. This could also generate demand for local baked goods, cooking oil, and bamboo plates and utensils, and could lead to the development of local business and the private sector in Timor-Leste. One policy might be to promote the use of local products in school lunches as a way of generating stable demand for such products. If the demand increases and such small businesses start to open and expand, a microfinance scheme could be linked to growing micro enterprises and SMEs in Timor-Leste.

Concluding remarks

Timor-Leste became an independent state only in 2002, and it is still in its early stages. This paper has reviewed the post-conflict development experiences of Cambodia, Mozambique, El Salvador, and Eritrea in order to understand how capital, labour, and technological factors were treated at the onset of economic recovery and were used to promote pro-poor private-sector development. Conflicts inevitably have negative impacts on subsequent human resources development and capital market formulation. The impacts of conflict were so severe that recovery had to start from scratch. The policies that these countries adopted were consistent with the four key factors for private-sector development identified by Castillo: basic economic infrastructure and regulation of the private sector, credit market development, stimulation of foreign investment and promotion of exports, and human resources development. Furthermore, one common economic feature of the three cases is that the dominant economic actors are micro enterprises and SMEs—core economic agents in informal economies.

This paper has reviewed the Timorese development plan and policy framework, using critical issues identified from previous post-conflict experiences and private-sector development as reference points. Our assessment, based on the author's survey in Timor-Leste, confirms that Timorese economic recovery has been too slow and weak to support private-sector development and domestic market transactions. We have examined constraints on private economic activity in Timor-Leste, and discussed whether there are policy tools that might support Timorese pro-poor private-sector development. Our field survey revealed that the majority of Timorese remain in poverty and their economic base relies on subsistence agriculture.

Timor-Leste requires massive external support, including assistance for basic economic and social infrastructure reconstruction and development, financial aid, and technical assistance in human resource development. The country might take a different development path if it built upon its natural and human resources and its local products.

This paper has shed some light on informal economic activities and their potential as an engine of growth. Rather than trying to make Timor-Leste into another export-oriented Asian tiger, we suggest concrete policies for private-sector development in the country. The goal is to develop a pro-poor private sector with economic infrastructure development, the development of a credit market scheme, local-product enhancement, and human resource development. Also, policies should concentrate on the informal economy and SME development, including human resource development, microfinance, and economic infrastructure. In other words, the recommended policies cover Castillo's four factors essential to private business development.

Post-conflict recovery is a daunting task anywhere in the world. However, what we have found from this exercise is the following: (1) instead of adopting externally imposed policy interventions (i.e. trade liberalisation), policies must be based on a better understanding of both the promising and unpromising aspects of the local economy; and (2) development and the strengthening of SMEs and the informal economy require effective policy instruments that allow SMEs to access credit markets and buttress viable local market transactions of their products.

Acknowledgements

I would like to thank the anonymous referee for helpful comments and Mr Kohei Kiya for his assistance. The views and analyses are solely my own.

Notes

1. The private sector in this paper is defined as a basic organising principle for economic activity in a market economy where physical and financial capital is privately owned; competition in markets drives allocation and production; and economic decisions are made and risks taken under private initiative.
2. The countries were selected on the basis that post-conflict recovery started in the early 1990s, and that official documentation and reports on the recovery process were available.
3. The survey, carried out in 2002, covered manufacturers accounting for about 65 per cent of manufacturing employment, and was designed to examine the cost of doing business and to generate cross-country comparisons of competitiveness and investment climate.

4 The report is not clear on whether the definition includes trade and services as well as manufacturing and industry.

5 SMEs here are broadly defined and very heterogeneous. Micro enterprises are family businesses or self-employed people operating mostly in the informal economy. SMEs normally operate in the informal economy, employing wage-earning workers. This paper will include both micro enterprises and SMEs, since the two are not distinct in Timor-Leste, despite the government's definition of SMEs.

6 The survey has its limitations, since it covers only those registered with the ministry and the majority of home-based work may not have been accounted for. However, it does give us a rough yet important idea of Timorese private business activities.

7 There are no primary data on the number of workers in the private sector. According to Queipo (2001), in 1997 there were 13,355 workers and 4494 entities in the private sector.

8 These transportation costs limit access to social services, too. People living in remote rural areas have found it difficult to reach hospitals and health clinics in urban areas. As a result, their poverty has intensified.

9 Indeed, the credit line set by SEP I was US$50,000, which was far above the capital needed for the start-up of SMEs in Timor-Leste.

10 In informal interviews with non-Timorese business managers in Dili, the managers reported a preference for Filipino or Malay workers over Timorese workers, mainly because of their work ethic. This needs to be carefully explored.

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