



Suggestions for revisions to the Business Activities Survey

To the Directorate-General for Statistics, RDTL Ministry of Finance

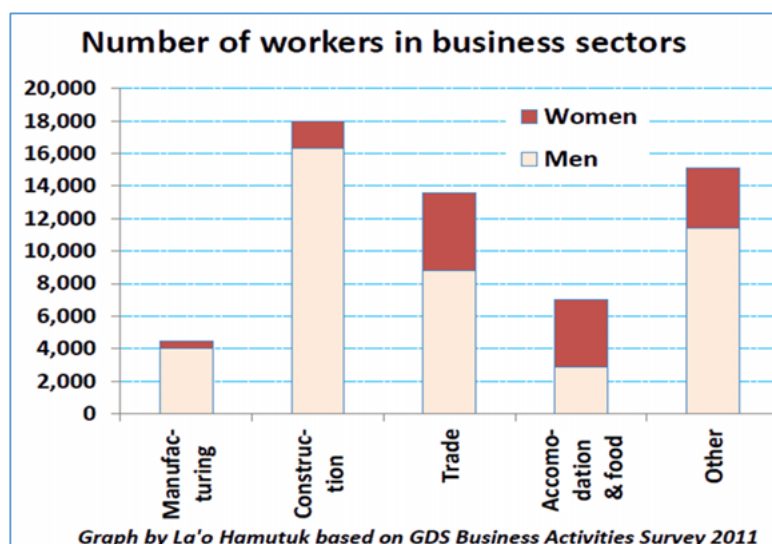
From La'o Hamutuk, 9 October 2013

La'o Hamutuk, as a Timor-Leste civil society organization which tries to understand Timor-Leste's economy and encourage sustainable, equitable development, is grateful for the invitation from the Directorate-General for Statistics to join the discussion about the Business Activities Survey (BAS). As you know, we often use DGS research and publications, including the BAS, and find them very valuable. We welcome this opportunity to suggest ways to make them even more useful.

We hope that this effort, as well as events around World Statistics Day during this International Year of Statistics, will help policy-makers and citizens in Timor-Leste implement the first Fragile States Principle: *Take context as the starting point*.

For example, La'o Hamutuk made the graph at right from data in the 2011 BAS, and we presented it to the Timor-Leste and Development Partners' Meeting last June.¹ A few weeks earlier, we wrote an article² with highlights from several new DGE reports, including the BAS.

The BAS is essential to a solid understanding of Timor-Leste's macro- and micro-economy. Enhancing the BAS could provide better information about critical issues here, including:



- Import dependency (we have a 95% trade deficit)
- The effect of public spending (which underlies about half our non-oil GDP)
- The all-important productive, non-oil, non-state-funded, private sector (which is currently very small but needs to grow rapidly)
- How much of Timor-Leste's wealth stays in the country? (Most of the revenue from our declining petroleum reserves goes out of Timor-Leste.)

¹ <http://laohamutuk.blogspot.com/2013/06/rdtl-and-donors-take-economic.html> (English) or <http://laohamutuk.blogspot.com/2013/06/gov-parseiru-sira-tenke-dezenvolve.html> (Tetum).

² <http://laohamutuk.blogspot.com/2013/06/understanding-timor-lestes-context.html>

Overall observations

Large businesses comprise most of Timor-Leste's GDP. We recognize that local small businesses may have difficulty completing a sophisticated questionnaire, but we believe that the need for concrete data validates DGE's current practice of using separate questionnaires for small and large businesses, although large businesses in the districts should also complete the longer one. Most of our suggestions below are for the longer version.

It would be useful to expand the portion of the economy covered by the BAS to include international agencies, non-profit organizations and public institutions, which are significant portions of Timor-Leste's employment and economic activity. Such institutions should be included even if they receive little income from trading activities. This may entail adding additional categories of sources of income, such as grants, contract awards, appropriations, donations.

In addition, a separate survey of the informal sector, which involves more than 2/3 of the working-age population, would be invaluable in understanding how to develop our economy.

The BAS can help confirm or identify discrepancies in other data. Therefore, it is important to collect data independently as much as practical, rather than relying on other sources. For example, La'ó Hamutuk discovered a discrepancy between fuel imports between DGS Trade Statistics and MoF Budget Execution Reports,³ leading the Government to change its system for procuring generator fuel and prompting the Anti-Corruption Commission to investigate. We recognize that the main purpose of the BAS is not to be a "check-and-balance" on other data and that confidentiality precludes using questionnaires to investigate individual cases, but it can be a valuable "reality check" on other information.

It is necessary to harmonize the revised BAS with the National Accounts and to maintain consistency with data from past surveys. However, we hope that you will also consider consistency with *future* surveys, including questions to provide a baseline to see if we are on track as we implement the National Strategic Development Plan. It would be a shame if we lacked critical data in 2020 because it wasn't collected in 2014 in order to maintain consistency with 2010.

Specific suggestions

Business Ownership (Q3)

It would be useful to know what percentages of businesses are owned by foreigners and what percentage by Timorese nationals. For partnerships where all co-owners have equal shares, this can be done by counting the people (after asking their nationality), but in some cases a foreign "silent partner" owns most of the business, with a Timorese minority owner as the public face. Can the BAS find out what portion of equity is owned by Timorese entities and by non-Timorese?

Since preferential contracting is one of the ways that the Government honors veterans for their service to the nation, it would also be interesting to know how many companies are owned by veterans, how they contribute to various sectors, and if their statistics are significantly different from non-veteran companies.

³ <http://laohamutuk.blogspot.com/2012/10/tl-govt-also-pays-too-much-for-fuel.html> (English) or <http://laohamutuk.blogspot.com/2012/10/timor-leste-mos-selu-barak-liu-ba.html> (Tetum)

Business type (Q4)

Some of these categories are too broad and should be disaggregated, including

- Separate agriculture/forestry from fishing (does this include food processing?).
- Separate construction (which is more than a third of the total) so that companies which implement government infrastructure contracts can be distinguished from those who do construction for individuals or the commercial sector.
- Separate the “Wholesale...” catch-all as follows:
 - Wholesalers/importers (or separate these)
 - Retailers
 - Motor vehicle repair
- Separate accommodation and food services.
- In the published report, separate out the largest components of “other industries.”

Employment (Q5)

The date of 31 December, coming in the midst of the Christmas-New Year’s holiday, undercounts foreign workers who are on leave and distort the picture of businesses linked to a yearly budget cycle. Perhaps 15 December would give a more representative view.

Foreign employment should also include full and part-time.

How are consultants or hourly-contracted, short-term workers counted?

Are people who do unpaid labor (due to family obligations or in exchange for housing, tuition, a commission, etc.) considered as employees? They are a large part of Timor-Leste’s labour force.

Income (Q6-7)

At present, Timor-Leste’s non-petroleum export sector is very small, according to Trade Statistics reports (although we worry that some exports may not be counted in these reports). It would be interesting to ask what portion of sales of goods is to customers outside Timor-Leste or who intend to sell the goods overseas. Since expanding TL’s exports is often mentioned as a goal for economic development, this would provide a baseline from which it could be measured, expanding and/or cross-checking the Trade Statistics.

Approximately half of Timor-Leste’s “non-oil” economy is fuelled by public spending (90% of which comes from oil money). It would be useful to know, for each business, how much of their income comes from:

- RDTL Government contracts or purchases
- Other companies implementing RDTL Government contracts (to identify subcontractors)

Expenses (Q12-20)

For labour costs, it would be interesting to disaggregate Timorese and foreign nationals. (Larger businesses should be able to provide this easily, as different wage taxes apply.)

In the 2011 BAS (page 5), 22% of total expenses are listed as “other expenses,” which it would be good to disaggregate in the report as well as in the questionnaire.

For purchases, it would be interesting to know:

- How much was imported directly by the business?
- How much was produced overseas but purchased from a local importer or other business?
- Subtracting the previous two from the total can tell how much was produced in TL.
- Disaggregate communications from electricity, water, fuel and other utilities.

Taxes (Q23-25)

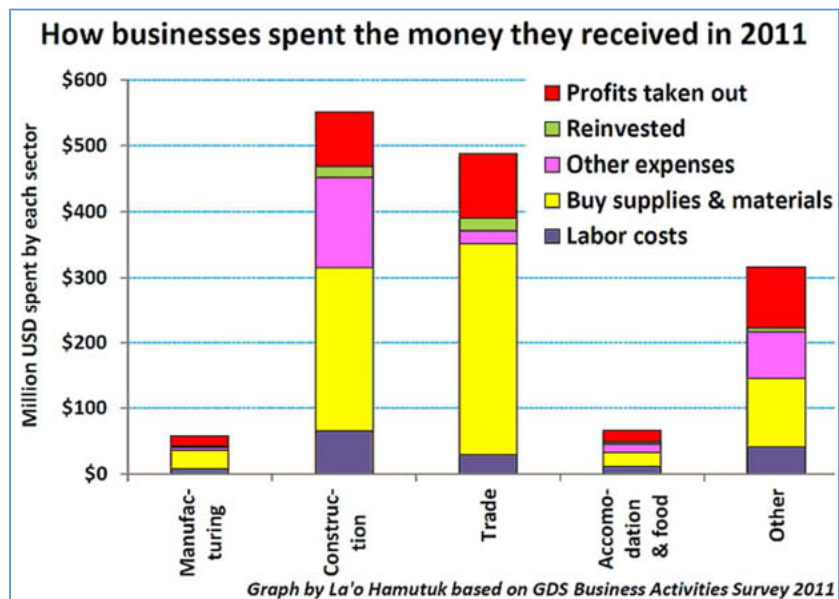
Several significant taxes, such as wage/income tax, withholding tax and corporate tax are not on the questionnaire, which lists primarily indirect taxes. Approximately 40% of domestic revenue comes from these direct taxes.

Profits

The BAS doesn't ask directly about profits, but they can be calculated by subtracting outlays from income. Past BAS reports revealed interesting information about profit and reinvestment, which La'o Hamutuk displayed in the graph at right. It would be good to know more about this.

Capital flight is a problem in all developing countries, and a particularly severe one here where our national wealth is finite and shrinking. Timorese

businesspeople often complain about difficulties in raising capital, while foreign contractors repatriate large portions of public disbursements to their home countries. Is there a way for the BAS to ask how much money is taken out of the country by business owners, in addition to what they spend on expenses?



Capital investments (Q28, 29, 31)

It would be good to ask if these goods and materials came from Timor-Leste or from overseas. This may be the intention of question 28 (direct imports of capital goods) and 29 (purchases of other capital assets), but Q29 should be clearer if it is intended to include only Timorese-made products. Otherwise, a category should be added for purchases of imported assets from a local supplier.

Thank you very much for considering our suggestions, and we are happy to discuss them with anyone who is interested.

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