Introduction

Funding: Australian Aid Program

Aims:

• Reflect on Stage I Strategic Development Plan

• Explore the role of agricultural development in addressing poverty and creating an economy that is growing sustainably
Planning action towards this goal is difficult:
- Many competing priorities
- Much co-ordination required across many areas
- Some initiatives can have unhelpful social impacts

Nobody has all the answers!
We are here to listen and learn, and humbly reflect from an outsider’s perspective.

SDP phases of implementation

STRATEGIC DEVELOPMENT PLAN 2011-2030
“Vision: Timor-Leste to be an upper-middle income country by 2030”

Short-Term 2011-2015
Mid-Term 2016-2020
Long-Term 2021-2030

STAGE I
- Human Resources Development
- Infrastructure
- Strategic Industries

STAGE II
- Infrastructure
- Strengthening Human Resources
- Market Formation

STAGE III
- Eradication of Extreme Poverty
- Strong Private Sector
- Diversified Non-oil Economy
All three priorities are essential for successful development

- **Infrastructure** – the things that facilitate economic activity. But: they are not (sustainable) economic activity in themselves.

- **Human Resources** – people capable of taking the economic opportunities created by the infrastructure.

- **Strategic Industries** – infrastructure alone will not do it. Needs to be accompanied by more “grass roots stimulus”, targetting specific priority sectors.

What impacts on poverty can we expect to see during Stage I?

There are unlikely to be major impacts on poverty during this stage. Why?

- Investments in human capital and large scale infrastructure have little short term returns.

- Some impact might be felt through “strategic industries” – agriculture and manufacturing.

  Except that these are the areas where progress has been most difficult to achieve.
Real Non-Oil GDP has increased strongly overall, but not in agriculture or manufacturing.

Constraints
- Labor costs are relatively high and educational standards are poor
- Poor business climate
- Inflation was high from 2011 to 2013 likely pushing up costs for businesses
- Import duty rates are low and do not give an incentive to produce domestically
- Government has not yet identified specific sub-sectors (e.g., food processing, brewing etc) of manufacturing where Timor-Leste could compete

Many of these issues are now being addressed
- Improving business climate; with introduction of SERVE (one stop shop)
- Inflation has fallen and access to education has improved
- CoM recently established a working group to review import duty and excise to encourage domestic production (without reducing overall domestic revenue)
- Ministry of Finance and ESCAP are undertaking study on economic diversification

Evidence of sharp increase in number of international companies interested in investing in Timor-Leste
No detailed study has been done on this issue. But likely causes are:

**Poor Incentives**
- Access to money in rural areas from pensions, remittances, labor on PDID schemes *arguably* means that there is less incentive to work long hours to produce food to sell
- Access to jobs and education in Dili may have encouraged urban migration of younger more productive farmers
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**Limited Support Services**
- Limited access to subsidized inputs (fertilizer), extension services and marketing

**Cultural Constraints**
- Farmers may not regard main staple crops (rice and corn) as business opportunities
- Poor harvest in 2011 (due to heavy 2010 rains) and access to subsidized rice may have led to a shift in tastes away from corn toward rice

**Inefficient Investments**
- Large scale investments in weir based irrigation schemes seem are unlikely to significantly increase production

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**The Agricultural Sector**

**Why a priority sector?**

- Development almost always starts with agriculture - where the people are, and how the people actually live.

- Development involves modernising economic activity in both agricultural and “urban” sectors (manufacturing, services), and some rebalancing between the sectors.
Increased agricultural production

Increased Inputs

Increased agricultural productivity

More food:

for household

for markets

Decreased poverty & a growing economy

Increased employment in manufacturing & services

Increased supply of well-fed, healthy & educated labour for other sectors

Investment in other sectors

Surplus labour

Better health & education

More energy

Increased inputs

Increased agricultural productivity

Cambodia’s Story

Cambodia has some historical similarities with Timor-Leste:

- Conflict 1970-1999, followed by peace-building
- 80% of the population is rural
- Largely subsistence agriculture (with very different crop mix and export profile – mainly rice)
- In 2007, the poverty rate was 50.1% (53.2% in 2004)
Cambodia’s Story

How did they do it?

- Government investment in basic rural infrastructure (roads, rural irrigation, etc.)
- Very little urbanisation
- Nearly doubling of cash crop production (rice) through improved yields and expanding cultivated area
- Luck: sizeable increase in world rice price
Consumption Poverty, TLSLS 2007:

- 49.9% below the consumption poverty line
How is Consumption Poverty Calculated?

Adds up the value of per capita household expenditure (actual or imputed) on each of:

- Utilities
- Rent
- Health
- Education
- Non-food purchases
- Food

Components of Household per capita Consumption

<table>
<thead>
<tr>
<th>Category</th>
<th>Per Capita Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>$0.25</td>
</tr>
<tr>
<td>Rent</td>
<td>$0.20</td>
</tr>
<tr>
<td>Health</td>
<td>$0.15</td>
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<tr>
<td>Education</td>
<td>$0.10</td>
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<tr>
<td>Non-food purchases</td>
<td>$0.05</td>
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<tr>
<td>Food: purchased</td>
<td>$0.10</td>
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<tr>
<td>Food: from gifts</td>
<td>$0.05</td>
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<tr>
<td>Food: own production</td>
<td>$0.10</td>
</tr>
</tbody>
</table>

Poverty Line: $0.88
Poverty Line $0.88

Components of Household per capita Consumption

Utilities: 6c
Rent: 13c
Health <1c
Education 1c
Non-food: 7c
Food: Purchased 31c
Food: Gifts 4c
Food: Own Production 26c

Total per capita Daily Consumption: 88c
Total Food: 61c (70%)
Components of Household per capita Consumption

- Utilities: 6c
- Non-food: 7c
- Food: Purchased 31c
- Health: <1c
- Education: 1c

Cash Component: 45c

Where Does the Cash Come From?

<table>
<thead>
<tr>
<th>Source</th>
<th>Poorest 10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>Richest 10%</th>
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</thead>
<tbody>
<tr>
<td>Cash assistance</td>
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<td>Pensions</td>
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<td>Enterprise</td>
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<td>Livestock sold</td>
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<td>Forestry</td>
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<tr>
<td>Crops sold</td>
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</tbody>
</table>
Where Does the Cash Come From?

- **Timor-Leste Population**
  - Consumption Decile
  - % Cash Income

- **Coffee-Selling Households**
  - % of Coffee-Selling Households in each Population Decile

- **Households with Employment Income**
  - Consumption Decile
  - % Cash Income
  - % of Employment-Income Households in each Population Decile

Legend:
- Cash assistance
- Fishing
- Pensions
- Livestock sold
- Enterprise
- Forestry
- Employment
- Coffee
- Byproduct
- Crops sold
What could Help Boost Households Over the Poverty Line?

Suppose all the crop & coffee-selling households (47% of population) could increase their production ...

...What would happen to the poverty rate?
## Simulation: What if ... ?
### Growth in Agriculture

<table>
<thead>
<tr>
<th></th>
<th>% Population</th>
<th>Poverty Rate amongst these Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sells Crops (but not coffee)</td>
<td>26 %</td>
<td>57 %</td>
</tr>
<tr>
<td>Sells Coffee (but not crops)</td>
<td>5 %</td>
<td>63 %</td>
</tr>
<tr>
<td>Sells Crops &amp; Coffee</td>
<td>16 %</td>
<td>61 %</td>
</tr>
<tr>
<td>All above</td>
<td>47 %</td>
<td>59 %</td>
</tr>
</tbody>
</table>

### 2007 Actual

- Sells Crops & Coffee: 25%
- Does not Sell Crops / Coffee: 41%
- Poor: 49.9%
- Not Poor: 22%

**Simulation:** What if growth in agriculture?
Simulation: What if ... ?
Growth in Agriculture

<table>
<thead>
<tr>
<th></th>
<th>2007 Actual</th>
<th>Double Production (Households that Sell)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sells Crops &amp;/ Coffee</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Poor</td>
<td>49.9%</td>
<td>37%</td>
</tr>
<tr>
<td>Not Poor</td>
<td>50.1%</td>
<td>63%</td>
</tr>
<tr>
<td>Does not Sell Crops &amp;/ Coffee</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td>Poor</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td>Not Poor</td>
<td>90%</td>
<td>83%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population</th>
<th>% Population</th>
<th>Poverty Rate amongst these Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grows Crops</td>
<td>83 %</td>
<td>53 %</td>
</tr>
<tr>
<td>Sells Crops</td>
<td>42 %</td>
<td>58 %</td>
</tr>
<tr>
<td>Does not Sell Crops</td>
<td>41 %</td>
<td>48 %</td>
</tr>
<tr>
<td>Grows Crops &amp;/ Coffee</td>
<td>83 %</td>
<td>53 %</td>
</tr>
</tbody>
</table>
### Simulation: What if ...? Growth in Agriculture

#### 2007 Actual

- **Grows Crops & Coffee**
  - Poor: 44%
  - Not Poor: 39%

- **Does not Grow Crops / Coffee**
  - Poor: 6%
  - Not Poor: 11%

**Poor**: 49.9%

#### Simulation: What if ...? Growth in Agriculture

**Double All Production**

- **Grows Crops & Coffee**
  - Poor: 26%
  - Not Poor: 58%

- **Does not Grow Crops / Coffee**
  - Poor: 11%
  - Not Poor: 6%

**Poor**: 31%
Simulation: What if ... ?
Growth in Agriculture

- Is doubling crop & coffee production achievable?
- Is it possible to sell all this produce?
- Is it enough to be just above the poverty line?
- What are the multiplier effects / consequences?

Simulation: What if ... ?
Growth in Employment

- On average, in 2007 a non-agricultural worker earned $100 per month.
- Suppose we doubled the number of households with employment income (from 22% to 44%), allocating this extra income to selected households who don’t already earn employment income) ...

...What would happen to the poverty rate?
### Simulation: What if ... ?
#### Growth in Employment

<table>
<thead>
<tr>
<th>% Population</th>
<th>Poverty Rate amongst these Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earns Income from Employment</td>
<td>22%</td>
</tr>
<tr>
<td>Does not</td>
<td>78%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

2007 Actual

- Earns Income from Employment: 42%
- Does not Earn Income from Employment: 36%
- Poor: 8%
- Not Poor: 14%

Total Poor: 49.9%
Simulation: What if ... ?
Growth in Employment

2007 Actual

- Earnings Income from Employment
  - 14%
  - 36%
  - 42%

- Does not Earn Income from Employment
  - Poor: 49.9%
  - Not Poor: 50.1%

Double Employment

- Earnings Income from Employment
  - 34%
  - 9%

- Does not Earn Income from Employment
  - Poor: 31%
  - Not Poor: 69%

How can Agricultural Production be Increased?

We observe three complementary approaches:

1. Addressing constraints
2. Setting goals
3. Creating opportunities
1. Addressing Constraints

Identifying and addressing the major constraints.

For example ...

Why has growth in agricultural production been slow?

No detailed study has been done on this issue. But likely causes are:

**Poor Incentives**
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**Inefficient Investments**
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2. Goals, Responsibilities & Targets

An application of Results-Based Management:

- Setting broad goals, and more detailed sub-goals
- Giving clear responsibility to people for working towards these goals
- Setting targets against which to measure progress

For example ...

3. Establish targets
Each goal, sub-goal and activity has a specific target

<table>
<thead>
<tr>
<th>LEVEL 1: Goals</th>
<th>LEVEL 2: Sub-Goals</th>
<th>LEVEL 3: Products &amp; Services</th>
<th>LEVEL 4: Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal: Increase Agricultural Production</td>
<td>Target: Annual production increased by %</td>
<td>Target: Production of staple food increased by %</td>
<td>Increase area cultivated with rice</td>
</tr>
<tr>
<td>Target: Sector growth of 5% per year</td>
<td>Target: Increase crop production</td>
<td>Product Increase staple food production</td>
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<tr>
<td>Sub-Goal: Increase crop production</td>
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<td>Target: Increase staple food production</td>
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</tbody>
</table>

Example of RMB applied to DPCM Economic Sector
3. Opportunities in Agriculture

What is currently working well, or could be significantly transformed and scaled up with some support and encouragement?

1. Locally based rural development programs that address the whole supply chain.

2. Focus on crops and producers with an existing level of marketed surplus, and those with market potential.

3. Food processing facilities.

Summary

(1) Strategic Development Plan lays out some broad directions, and establishes priorities.

(2) It is much tougher to achieve progress in some areas than others. (e.g. agriculture, education, private sector)

(3) Substantial reductions in poverty can be achieved through modest growth in human capital-intensive sectors.

(4) We see great value in a focus on supporting and expanding programs that work.