

# VIII. Implications and Recommendations

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This paper has covered a wide range of issues, and benefited from valuable input from participants in a seminar in Dili hosted by La' o Hamutuk, and with DFAT staff in Canberra, Australia during May 2014. In this section we will try to summarise the main findings and indicate potential policy directions. With the breadth of issues covered, the conclusions remain tentative, but hopefully provide a useful stimulus for further discussion and research.

## A. Agricultural production and the Rural Sector

### Broader Development Context

We have sought in this paper to develop a sound understanding of the current realities of the rural economy. Our discussion of ways forward is built on this foundation, focusing on realistic next steps.

We acknowledge that longer term structural changes are likely to emerge, such as rapid urbanisation, increasing farm sizes, more use of inputs and mechanisation, greater specialisation in production, etc, etc. Similarly, development in the agricultural sector will clearly be affected by developments in other sectors, not least due to their implications for the supply of labour – as more urban employment is created, there will be less labour available in rural areas, for example. All of these broader issues are vital, and need much more consideration than we have been able to provide in this paper. Hence our focus on incremental steps forward in developing the agricultural sector.



### Current Realities

The various pieces of analysis presented in this study paint a picture of life for the majority of households in Timor-Leste based on subsistence, small scale agriculture. Accompanying this is a strong emphasis on communal sharing of production / food, and in contrast, very little participation in formal markets.

This subsistence lifestyle has a number of economic and social costs that are consistent with the high levels of poverty:

- Agricultural productivity is very low.
- For many households, there is insufficient food being produced to meet basic needs.
- In the absence of markets, households sensibly diversify their production, and are thus unable to experience the benefits of economies of scale or specialisation in production.
- Most households are largely unable to participate in markets.
- There appears to be a high level of post-harvest loss, in part as a result of lack of access to markets.
- Food consumption is very sensitive to geographical location, again consistent with low levels of exchange beyond communal sharing of production at the local level.

Coffee remains the main crop with a relatively well-functioning supply chain, and coffee is the source of a high proportion of the income earned from agricultural production sales. This is despite coffee yields being very low and quality variable.

### **Guiding Principles for Ways Forward**

1. First, the way forward needs to be built on a realistic understanding of these current realities. Strategies need to acknowledge the current heavy reliance on subsistence agriculture.
2. In order for livelihoods of agriculture-dependent households to improve, programs will need to be developed or expanded that address some of the hindrances to improving production and expanding market access.
3. While post-harvest loss is clearly a major problem, at least some of the problems of post-harvest loss will be addressed with well functioning markets where surplus production can be sold in a timely manner.
4. The example of coffee suggests that the whole supply chain must be established and supported for markets to grow. This is even more critical than investment in improved productivity.
5. Improving agricultural market activity is not purely a supply side issue: demand must also be stimulated. It is fair to say that there at least some broad-based demand for marketed goods; in other words, there is cash in the economy. A demonstration of this is that even in the 2007 survey, 75% of households report purchasing imported rice in the past week, despite mostly having access to alternative staple foods like corn. In more recent years, with growing social transfer systems, more rural-urban migration of some family members (with associated remittances) and more widespread government-funded local employment programs, rural economies are likely to be even less cash-constrained. However, the magnitude of these other sources of rural income should not be overstated: they each reach only a moderately small proportion of households. There is still a case to say that much of

the lack of market activity is due to inadequate demand because of a lack of cash in rural areas.

## **Specific Recommendations**

### **1. Locally based Rural Development Programs that address the whole supply chain and market constraints**

This should include improvements to productivity and improving consistency of quality and supply, establishing a physical supply chain and relationships to buyers, providing savings and loans facilities, building financial literacy, etc.

The emphasis on locally-based programs is derived from recognising that constraints and obstacles are often specific to a particular community and region, and that obtaining buy-in from locals to adapt their approaches to production and markets requires a high level of trust that must be earned.

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

In most cases, it will be easier to expand activity and income from crops that are already currently marketed than to start at the beginning with crops that are grown almost exclusively as subsistence crops. More immediate benefits will be obtained from improving productivity, quality and a more responsive supply with a supply chain that already exists but that could be expanded or improved, rather than starting from scratch.

Similarly, crops that have clear market potential ought to get higher priority. The most obvious way to ensure market potential is through identifying products whose consumption is largely based on imports, but where there is some local production. Examples include eggs, rice, honey, peanuts, spices, among others. In these cases, the markets clearly exist, so the opportunity is there for claiming a growing market share for a locally produced variety of comparable quality and price, with an equally (or more) reliable supply chain. This strategy is referred to as import substitution, an approach that used to be prominent in development circles, but in more recent decades has come under some criticism. However, the context of import substitution we are presenting here is completely different to that practiced in the past. In the past, import substitution stood for high tariffs or quotas on imported products to protect an infant industry, based on the presumption that the main impediment to domestic production is an inability to compete on price with the imported version. In the current context, we would argue this is not the main constraint to competitive domestic production: it is more about the absence of the full supply chain that can guarantee consistency in quality and supply.

Of course, there are risks associated with expansion of crops with existing or potential marketed surplus and access to markets. If households invest more resources (land, water, time) in crops for markets and less resources in subsistence food crops for own-consumption, they are vulnerable to failures in the supply chain, market price fluctuations, etc. There are also potential shifts in power relationships within households (for example, between men and women) that add to the risks in such a move. In acknowledging these risks, we would advocate that agricultural development programs need to be designed to take a locally-based, holistic approach that is based on an understanding of community and household power dynamics, and that seek to address household livelihood and welfare needs, in addition to pursuing improvements in productivity and marketed surplus.

### 3. Establishing Food Processing Facilities

As Timor-Leste seeks to expand the private sector and increase formal employment, a natural direction to pursue is with secondary processing of locally produced food. This will generate growing demand for the inputs, hence improving producer incomes, as well as creating local



employment and generating a product(s) that can compete with imported alternatives. Appropriate choice of foods and technology that results in non-perishable products can also help deal with some of the challenges with transportation.

Already there have been initiatives to establish food processing facilities within Timor-Leste – for example, roasted coffee for the local market, and Timor Global’s food processing facility in Railaco. But the potential is there for a significant expansion of such activities.

### 4. Researching key impediments to markets

While it is well recognised that there is enormous scope for expanding markets in Timor-Leste, and the specific recommendations in this section are pushing in that direction, the reality is we understand little about why markets are not already prevalent. Action should not wait until research has “answered” all the questions, but nor should we neglect seeking a better understanding of the “why” question. Such understanding of the critical impediments to markets will surely guide priorities in development programs going forward. Many opinions are put forward to explain the lack of markets – for example, a poor road and transportation network, lack of financial markets and financial literacy, lack of entrepreneurship among the Timorese people, an absence of traders and wholesalers who broker relationships between producers and buyers (again, perhaps because of a lack of entrepreneurship), weak demand for food crops due to lack of cash, variability in quality of

produce, lack of consistency in supply, food crop production that does not align with trends in consumer tastes, etc.

Research will allow us to tease out just which of these many factors are really critical, and which are of secondary importance, or will perhaps resolve themselves as the more fundamental issues are addressed.

## **B. Food and Nutrition**

This research has shown striking links between the economic activities of households and their food consumption, including the mix of foods they consume. The link of food consumption and food diversity to nutritional outcomes has been well researched. While it is acknowledged that many other factors beyond food contribute to nutritional outcomes (eg sanitation, water, housing, health services, etc), food intake and food diversity are vital. The patterns highlighted in this research can provide valuable input into the wider strategy around nutrition in Timor-Leste. The specifics are beyond the scope of this research, but potential issues to consider are:

1. Income sources matter to food intake. For example, providing greater access to local markets for locally produced food is a key to improving food consumption and food diversity.
2. The results on the income-consumption link are a clue to the importance of understanding what happens within the household in terms of who receives income and how decisions are made about the ways it is spent. For example, there is a big risk for Timor-Leste with the emergence of a growing middle class and openness to imported processed food, that spending decisions slant more towards consumption of items which symbolise economic success, at the expense of food items that best meet nutritional needs. Understanding and influencing decision making power within the household is critical here.
3. Poverty is a big problem – this is obvious but needs to be said. Moving from the bottom income decile to the fifth decile in Timor-Leste would appear to do little to improve the typical household's intake of nutritional foods; the benefits only begin to appear when households move well into the upper 50% of incomes. The nutritional challenges are deep and will require a significant economic transformation to be addressed sustainably in the long term.
4. The 2013 National Nutrition Survey provides an excellent opportunity to identify the role of food in nutrition, including looking at district and regional variations in the types of food available, and how this might affect nutritional outcomes. Ultimately this can inform strategies for targeted interventions to address nutritional needs in particular areas or in particular seasons.

## **C. Institutional and Structural Factors**

Institutional factors are vitally important in implementing the specific actions described above. It is beyond the scope of this paper to discuss institutional arrangements in depth, but we make some brief comments here.

1. The Timor-Leste government largely relies on the Ministry of Agriculture, Forestry and Fisheries (MAP) to drive agricultural planning and extension work. The Ministry of Commerce, Industry and Environment also play a role in assisting local producers to improve market access, etc via supporting the establishment of local co-operatives. The co-operative strategy builds on long term cultural values in various parts of Timor-Leste society, and hence has the potential to be a valuable mechanism for building trust and community support for change. At the same time, local co-operatives will need the support of organisations who have a broader perspective and experience, who can identify markets, facilitate the whole supply chain, bring in appropriate technical expertise, etc.

2. As already emphasised, specific local solutions are needed, and investment in relationships at the local level are vital to programs that are to be effective. This suggests much of the ongoing, local-level work of development will likely occur outside the domain of current MAP structures. This is not to say MAP does not have a role, but more that its role can be to facilitate such locally-based activities, within a broader national framework.

3. There is great potential for involving the private sector in the kinds of programs described above. However, it is likely that private sector investment will need to be accompanied by public or international support, for a few reasons. First, the risks are high in building supply chains and new markets, so private investors will be reluctant to take such risks alone. Further, development must be holistic and take account of dimensions beyond improvements in yield, quality and consistency of supply. They need to take account of impacts on household welfare – the households involved are too vulnerable to be able to carry the risk of changes in the way their daily livelihoods and food needs are generated. The private sector is unlikely to make sufficient provision for such dimensions of programs.

## **D. Final Comments**

To conclude, there is an urgent need for rural and agricultural development in Timor-Leste. This need is driven by the genuine poverty and hardship experienced by the majority of Timor-Leste's population on a day-by-day basis. It is not an option to pursue strategies that make no difference in the short or medium term to the lives of the vast majority of the population who classify as poor by any measure. It is hoped that this research can shed light on some ways forward, for the good of the people of Timor-Leste, both present and future generations.