



RESEARCH ON INFORMAL SECTOR ACTIVITIES IN TIMOR-LESTE

MATA DALAN INSTITUTE MDI
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This research presents key findings about resources, opportunities and challenges that contributed or impacted on the informal sector in Timor-Leste during COVID-19 and State of Emergency periods in Timor-Leste. This research was implemented from June-August 2021 with the following objectives:

1. To gather and deepen information and data on the potential, capacity and challenges facing the informal sector in Timor-Leste.
2. To gather and deepen information on areas that are identified as potential for informal sector development such as production, processing and distribution capacity and connectivity and policy development, laws and infrastructure. This aims to help the Government in decision making, with the ambition this evidence will be taken into account in Government plans to transform the informal sector.
3. To identify the impact of preventative measures against the COVID-19 pandemic (such as State of Emergency and Sanitary Fence that restricted intermunicipal travel) and the Government's Economic Recovery Package on the informal sector in Timor-Leste.

This research is a continuation of research on the informal sector during COVID-19 undertaken by Mata Dalan Institute (MDI) in June 2020.

The research used a mixed methods approach - quantitative data collection through questionnaires with informal sector workers and qualitative data from interviews with key respondents from relevant government agencies. Four

hundred informal sector workers were surveyed, 214 women and 186 men, including 5 people with disabilities (2 women and 3 men). Respondents were chosen by purposive sampling across 7 municipalities in Timor-Leste - Aileu, Baucau, Bobonaro, Covalima, Ermera, Lautem and Dili. Six Government bodies were interviewed from the Ministry of Tourism, Trade and Industry (MTKI), Ministry for Social Solidarity and Inclusion (MSSI), Coordinating Minister of Economic Affairs (MKAE), State Secretariat of Vocational Training and Employment (SEFOPE), (State Secretariat of Cooperatives (SEK00P), and the non-government Chamber of Commerce and Industry (CCI-TL).

From the sample of Informal sector actors that took part in this research the Figure 1 illustrates the categories of traders. The chart includes transport services which covers a range of vehicles such as taxis, microlets (microbus), buses, angunas (a small pickup truck adapted to carry passengers), trucks, ojek (motorbike taxi), etc.

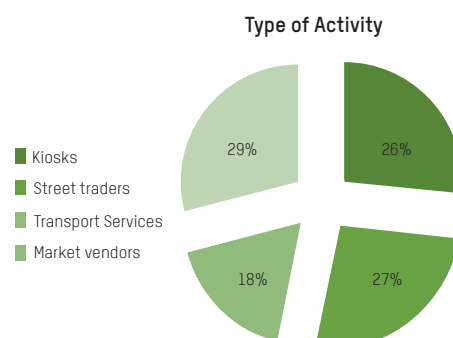


Figure 1 - Categories of informal sector activities surveyed

Locations used for informal sector business are often unsafe

This research found that many informal sector workers, such as market vendors, undertake their businesses in locations or facilities that are offered by the government. Many do not have access to basic facilities such as electricity, water and sanitation. The research showed that many of these spaces are not secure and increase risks for women. For example when there is no separate toilet or bathrooms for men and women. People with disabilities also face difficulties as toilets and bathrooms, alongside other facilities are not accessible; these restrictions can limit their movement and ability to undertake business activities in these areas.



Majority of business financing coming from informal sector workers own money

The primary source of financing for the majority of informal sector workers in the research (56%, 31% women and 25% men) was their own funds. Figure 2 illustrate the source of funds. They stated they used their own funds to finance their businesses because when they loaned funds or took credit it is difficult to pay back debts when business activities don't provide a good income, such as during the State of Emergency and the impact of COVID-19.

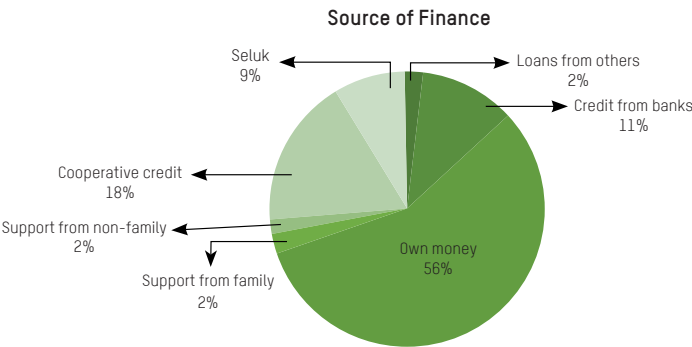


Figure 2 - Source of Finance to do Business

Financial assistance need to support scale up of business activities

The majority of the 400 people that participated in this research, 76%, wish to expand their business activities. 50% of respondents (32% women and 18% men) said that the support they need to expand their businesses is financial assistance.

What do you need to increase your business activities?	Percentage (%)
Financial assistance	50%
Financial management and business training	31%
Training to process products	5%
Policy to provide benefits for local products or promote local products	5%
Other support such as materials, facilities, logistics	9%

Table 1: Assistance needed to scale up business activities

The majority of respondents can maintain their basic household needs with the products they produce and sell

The majority of respondents, 66% (39% women, 27% men) said that they can maintain their basic household needs with the income from the products they produce and sell. Some families carry out other activities such as providing others with credit and temporary jobs. Figure 3 illustrate the income of household

However, a third of respondents representing 34 per cent (women 56% and men 44%) said their small income was not enough to sustain basic needs due to competition. Only 27 per cent (men 38% and women 62%) of respondents said their businesses either sold different products and/or they operated at a sufficient distance from other enterprises. Interestingly this data shows that women run businesses were more likely to be competitive than men.

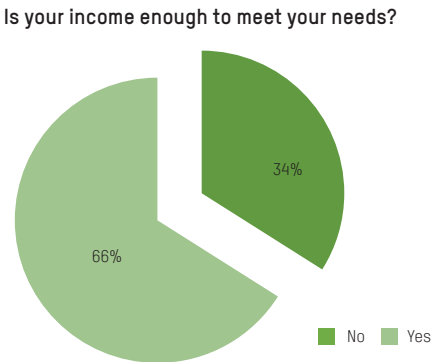


Figure 3 - Whether respondents have sufficient income for household needs

The Government's COVID-19 preventative measures impacted on informal sector business activities

Data shows (figure 4) that 93 per cent of informal sector respondents (49% women and 44% men), including people with disabilities, reported that public health controls significantly affected their activities and daily income in the informal sector. Only a small percentage (7%) was able to continue with their economic activities as normal.

Have the State of Emergency measures to reduce transmission of COVID 19, such as sanitary fences or home confinement, impacted your business activities?

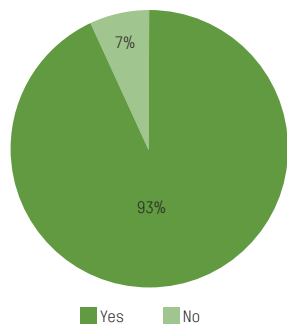


Figure 4 - Impact of state of emergency on business activities

Informal Sector incomes reduce during COVID-19

Prior to the COVID-19 pandemic and the Government's declaration of the first state of emergency in March 2020, the majority of informal sector activities made a monthly income of approximately USD30-USD150 (31%) and USD150 to USD500 (28%) with the smallest income of USD5 to USD15 being only 5% of the sample.

But during this pandemic and state of emergencies, that include sanitary fences restricting inter municipal movement and lockdowns almost all incomes dropped dramatically. Figure 5 illustrates Informal Sector respondents' income before and during the COVID-19 pandemic, showing that the majority of informal sector actors (56%) received an income from USD5 to USD15 per month, compared with only 5% before the COVID-19 pandemic. From this sample, women were more severely affected with 31% earning USD15 or less per month compared with 25% of men.

Informal Sector respondents income before and during the COVID-19 Pandemic

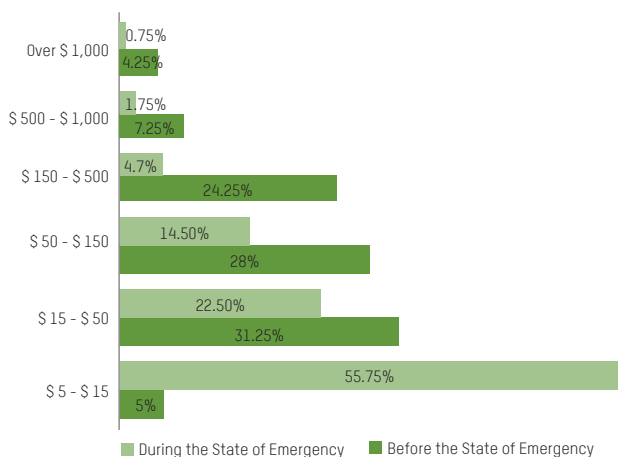


Figure 5 - Informal Sector respondent's income before and then during the COVID-19 pandemic

The Government subsidy of USD200 provided positives advantages to informal sector actors

84% of respondents (Figure 6) reported that the government household subsidy of USD200 that most registered households in Timor-Leste were eligible to receive (part of the Government's COVID-19 response) helped their business as the subsidy gave people enough money to buy goods from traders, thus supporting local economies.

Did the \$200 government payment benefit your business?

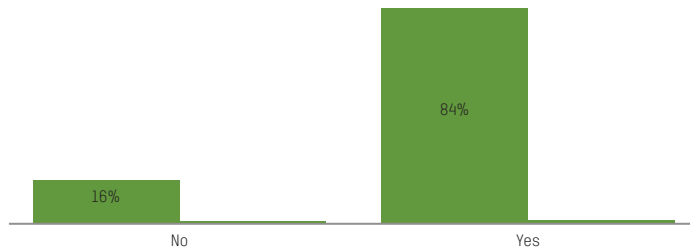


Figure 6 - Benefit of the \$200 government payment on businesses

The majority of the informal sector did not benefit from the Government's economic recovery program

While the majority of respondents outlined that the household cash subsidies of \$200 provided benefits to them, the majority of respondents (88%, women 48%, men 40%) also stated that they did not receive a benefit from the Government's economic recovery program, this included men and women with disabilities. Figure 7 illustrates the informal sector access to economic recovery program. The reason for the high negative response was that the only informal sector workers who had registered their business activities at MSSSI, and so were entitled to social security support, were those who provided transport services. Some operators – taxi drivers and owners of taxis or microlets – accessed an economic recovery package but had to endure a long bureaucratic process to do so.

Did you have access to the economic recovery program?

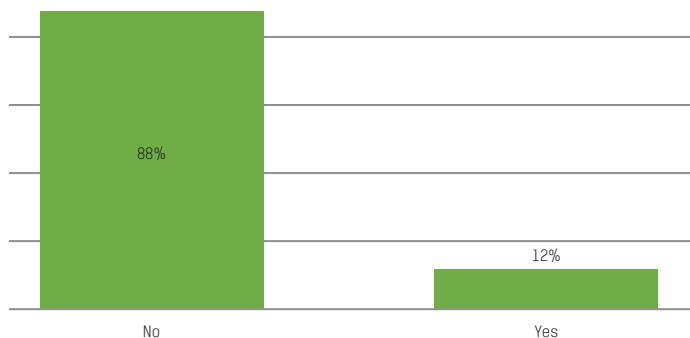


Figure 7 - Informal sectors actors access to the economic recovery program

The majority of the informal sector actors did not contribute their products to the Food Basket program

Another aspect of government economic assistance was food distribution through the Food Basket program, launched in October 2020. This cross-government initiative was another method to help families throughout the country to meet their basic needs. The Government sourced local products from communities in an attempt to support farmers to increase production. However, 90% (38% men and 52% women) – including people with disabilities but excluding the transport sector – answered that their products did not contribute to the program. Figure 8 illustrates informal sector product and Food Basket program.

The responses indicate that the vision behind the food basket program to promote local production did not include small businesses in the informal sector. Most vendors – selling in kiosks, on the street, in marketplaces – and public

transport providers were outside the framework of the program, despite claims in initial Government publicity that “these measures aim to support informal sector workers”¹. The research shows that informal economic actors had little opportunity to supply produce to local Dili-based companies that contributed to the food baskets.

Did your products contribute to the Food Basket program?

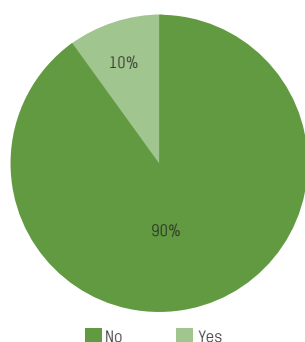


Figure 8 - Percentage of informal sector actors that contributed to the food basket program

Policies that can support the informal sector

Government support and business training for workers in the informal sector is very low. Most informal sector actors do not know how to register a business or for social security. As a result, they are outside the Government framework, so do not appear in national data, and they miss out on subsidies as a vulnerable sector. In addition, stakeholders in key ministries recognized that they have not prioritized management training support, access to capital or provided information on how vendors can sell their products through national and international markets.

Another challenge is that key Government institutions lack concrete data on informal sector workers and their activities. Not only is there no data system within the institutions, but also none has considered developing a central database. Lack of information has serious implications for the Government’s ability to develop policy to support the informal sector effectively.

Recommendations

Sites and facilities: Government needs to identify trading sites, in consultation with vendor representation, and provide basic facilities such as water, electricity, and separate toilets for men and women. These facilities must be accessible to people with disabilities. This will ensure that everyone can conduct their business safely to sustain themselves, their families, and contribute to the domestic economy.



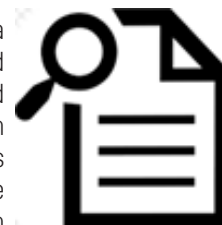
Finances: The Government should develop mechanisms for financial support or subsidies for the informal sector, as well as facilitating access to low-interest loans from banks to assist informal sector enterprises.



Training: Provide Informal sector training in priority areas. When enterprises have sufficient capacity with strong strategic business plans, they increase their chances to access credit.



Data collection: Current available data is insufficient to develop policies and guide program implementation related to the informal sector. A thorough and extensive survey and database is necessary. There should be adequate representation of women, people with disabilities, other vulnerable groups and all municipalities involved in informal businesses.



Registration and subsidies: The majority of informal sector actors did not benefit from Government subsidies as they were not registered for social security. To ensure people register criteria for vulnerable informal economic agents to access benefits must be simplified.



¹ <http://www.tatoli.tl/en/2020/08/19/timor-leste-provides-1-7-million-dollars-for-the-allocation-of-basic-staple-foods/>