THE INFORMAL SECTOR IN TIMOR-LESTE IN THE MIDST OF COVID-19

August 2020

Mata Dalan Institute (MDI)

With support from Oxfam and Proffesor Brett Inder, Monash University

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MESSAGE FROM MDI

The challenges that have come from the global COVID-19 pandemic has impacted on people's livelihoods in many nations. During this critical period when COVID-19 has transmitted from one nation to another and many people have contracted the virus and died, many nations have gone into recession affecting vital sectors such as the economy, agriculture and social capital.

In Timor-Leste the COVID-19 pandemic has impacted on livelihoods, with actions to prevent COVID-19 community transmission leading to three State of Emergency periods from March to June 2020. These State of Emergencies effectively meant productive sectors where at a standstill and economic circulation decreased, impacting on communities particularly people working in the informal sector such as market traders small businesses, mobile sellers, small kiosks and the public transport sector.

At the end of this State of Emergency period, Mata Dalan Institute (MDI), with support from Oxfam in Timor-Leste and Professor Brett Inder from Monash University, decided to study the impact of COVID-19 on the informal economy during the State of Emergencies to understand how this situation affected informal sector businesses. We hope the findings of this research will support understanding of the impacts on a sector that is often overlooked in policy making and support economic recovery plans, to ensure that they are inclusive of the informal sector.

We would like to thank all of those that have helped during this research, particularly the research respondents from 7 Municipalities and enumerators. We would also like to thank the Government of Australia through the Department of Foreign Affairs and Trade and Governance for Development Program that gave financial support for this research.

Estevanus Coli

Director Mata Dalan Institute

EXECUTIVE SUMMARY

MDI, in partnership with Oxfam and Professor Brett Inder from Monash University, surveyed 446 informal businesses in 7 municipalities, in June 2020. The aim was to learn about how the State of Emergency has affected this vulnerable group.

The vast majority of informal sector work is small scale, self-employed workers undertaking low-skill work with few capital inputs. These are often vulnerable workers – not subject to labour laws or minimum wage or workplace safety protections etc.
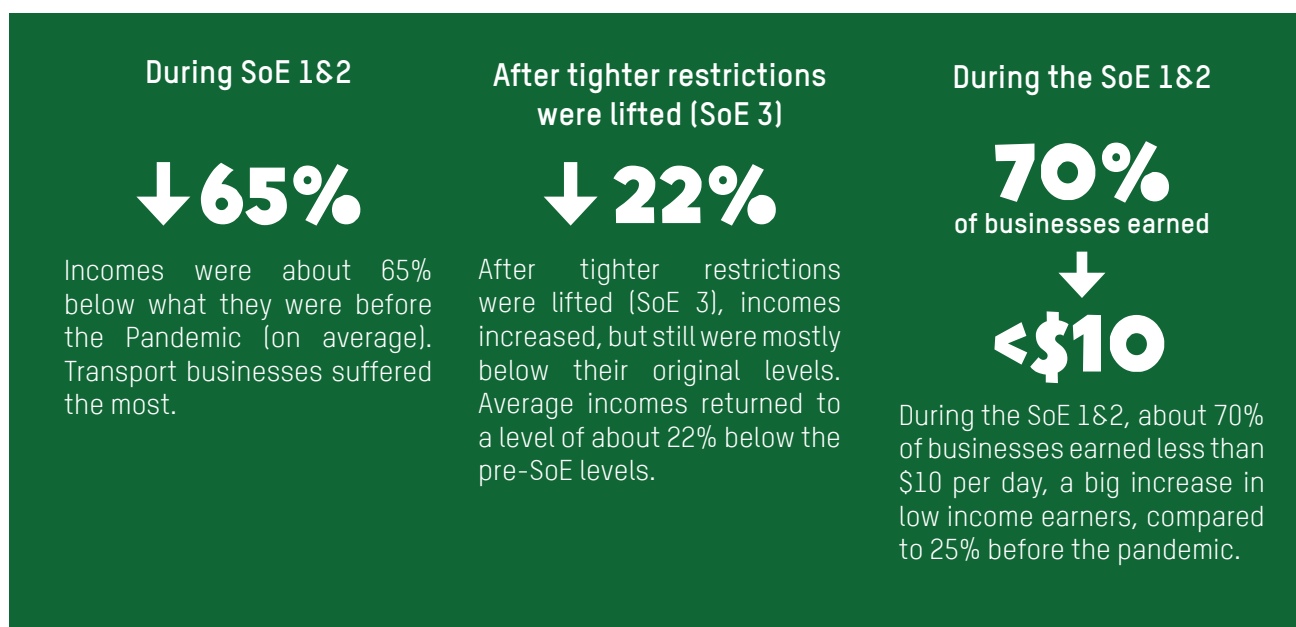
As a result, often those in the informal sector are poorly equipped to cope with shocks, or to access support during these shocks. The COVID-19 State of Emergency from March to June 2020 provide a very real example of such shocks, with informal sector businesses unable to access much of the support available in the Government's economic response package. This project examines the impacts of the crisis on these businesses both during and after the State of Emergency.

The 2015 Census shows that more than 14,500 people work in informal businesses in sales, with kiosks, street vendors or market sellers. In addition, around 3,600 work in transport, with taxis, buses or microlets. These businesses are the main incomes for around 8% of the households in Timor-Leste, so this study is focusing on an important part of the population.

In the sample of 446 businesses covering 7 municipalities, respondents were asked about their typical daily sales income over three periods:

1. Before the March 2020 State of Emergency
2. During the Two months of State of Emergency 1 and 2 (SoE 1 & 2) (March-May 2020), when restrictions were tight
3. During the third phase of the State of Emergency 3 (SoE 3) (May-June 2020), when restrictions were much less tight, and the $200 per household subsidy payment had been made.

Results show that:

During SoE 1&2	After tighter restrictions were lifted (SoE 3)	During the SoE 1&2
↓65%	**↓22%**	**70%** of businesses earned **↓** **<$10**
Incomes were about 65% below what they were before the Pandemic (on average). Transport businesses suffered the most.	After tighter restrictions were lifted (SoE 3), incomes increased, but still were mostly below their original levels. Average incomes returned to a level of about 22% below the pre-SoE levels.	During the SoE 1&2, about 70% of businesses earned less than $10 per day, a big increase in low income earners, compared to 25% before the pandemic.

Respondents reported a number of difficulties with doing business during the State of Emergency:

- The major difficulties were the loss of customers and the lack of money in the community.
- Market closures and reduced transport options clearly also had some impact.
- Model estimates suggest that before the pandemic, businesses run by women and those with disabilities tend to have lower sales, as do those relying on savings or family funds for business capital. However,

these same businesses (those run by women, people with disabilities, and that relied on informal sources of capital) also suffered smaller drops in income during the State of Emergency, showing greater resilience.

Impact of the $200 household subsidy payments:

The aim of a short term cash transfer to households during a crisis is to stimulate demand for local businesses, by encouraging people to spend more money. The Government's $200 subsidy payment, in the short term at least, seems to have been successful:

78%
When asked if they perceived an impact of the cash transfer on their business, 78% of the sample perceived a noticeable increase in sales.

80%
Along similar lines, 80% of respondents found they received better prices for their products and services after the cash transfer had been paid.

The study reveals a number of lessons for Economic Recovery Plans:

- Timor-Leste's informal sales and transport businesses suffered substantial drops in sales during the strict State of Emergency periods. These declines of around 65% are far more than the macroeconomic indicators suggest (World Bank forecast a 5% contraction in GDP).
- Those working in informal sector businesses show great resilience – while they suffer in a crisis, they can also recover well, despite their many challenges.
- Broad economic stimulus provided to households can make a substantial difference to these businesses, generating strong demand and improved prices that help the businesses survive.
- Other strategies that target support to these businesses would be a good investment in broad-based economic recovery.

Farmer in Oecuse / Kate Bensen / Oxfam in Timor-Leste

1. INTRODUCTION

The 2020 COVID-19 pandemic has brought a number of challenges to the global economy, and Timor-Leste has been affected in many ways. With local cases of the infection being identified during March 2020, the Government responded with a number of health interventions to try and identify cases and reduce risk of further spread. Following expert recommendations and patterns set by other nations, Timor-Leste imposed a number of restrictions to economic activity and daily life via a series of States of Emergency over several months, commencing on March 28th 2020, with the aim of preventing the virus from spreading into the community.

Any restrictions on economic activity and movement of people will have a significant impact on economic livelihoods. People and businesses do not have the financial reserves to cope with a sudden loss of income or access to markets. Anticipating these realities, the government set in place a number of economic 'stimulus' policies, designed to help businesses survive, ensure supplies of essential goods and services, and protect the vulnerable and those who have lost income.

The challenge with such interventions, particularly when implemented over a very short time frame, is that they cannot always achieve all their goals. There are likely to be gaps. For example, business support focused on tax relief and easier access to credit from banks, reduced rent on business premises, salary subsidies, and exemptions form social security contributions, partly because these are relatively easy to implement, as they are implemented via existing relationships between government and business. However, by their nature, they only impact formally registered businesses: informal businesses typically don't have social security registration, don't have formal loans, don't pay tax, etc.

In other words, virtually all the interventions designed to support business would have totally missed the informal sector businesses. They would likely suffer the same impacts of the State of Emergency, but obtain none of the relevant support.

In fact, informal businesses would potentially suffer the negative effects of the State of Emergency more than many formal businesses. The closure and restrictions on markets and public transport would directly affect the livelihoods of the majority of informal businesses, which operate in these very sectors.

Things are made even more serious when we consider the nature of most informal work and informal businesses. The vast majority of informal sector work is small scale, self-employed workers undertaking low-skill work with few capital inputs. These are often vulnerable workers – not subject to labour laws or minimum wage or workplace safety protections etc. As a result, informal businesses are poorly equipped within themselves to cope with shocks or to access support during these shocks.

In summary:

- Informal businesses are by their nature be vulnerable to shocks, with few resources to cope with downturn or restrictions in their activities.
- The COVID-19 shock and the resultant State of Emergency had very direct impacts on informal sector businesses through closure of markets and restricted public transport.
- Most of the Government-provided support packages for businesses were by their nature unable to benefit informal businesses.

With all of these circumstances in mind, it is important to investigate thoroughly and seek to quantify the magnitude of the harmful effects on this vulnerable part of the population. This report presents the results of a survey initiated by Oxfam, and implemented by MDI, in June 2020, with support from Professor Brett Inder from Monash University. The survey provided an opportunity for businesses to report on the impacts of the States of Emergency on their activities, and to gain some insights about the most important issues and challenges these businesses faced. This information can provide a guide for how to better support these businesses during the recovery phase after the worst of the COVID-19 crisis in 2020, and also as a context for how these businesses can be supported in the event of future crises.

The outline of this report is as follows: First, we provide some background to the Informal Sector – definitions, an international context, and some broad description of the informal sector in Timor-Leste. After that, we report the results of the survey conducted in June 2020, highlighting the characteristics of the businesses (Section 3), and their experiences during the various phases of the States of Emergency in 2020 (Section 4). The final section discusses some lessons from these finding for future support for informal businesses.

2. THE INFORMAL SECTOR - BACKGROUND

2.1. DEFINITIONS

There are official, internationally recognised definitions of the Informal Sector and Informal Employment, described here.

Informal Sector:

"*unregistered and/or small unincorporated private enterprises engaged in the production of goods or services for sale or barter. The enterprises typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale*".

Informal Employment:

"*informal jobs whether carried out in formal sector enterprises, informal sector enterprises, or households, as specified in the five categories": i) the jobs of informal own-account workers and informal employers (owner/managers of an informal enterprise); ii) the jobs of all contributing family workers. iii) Jobs of employees who have an employment relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits because the job is not-declared by their employer; iv) jobs of members of informal producers' cooperatives; v) jobs of own-account workers engaged in the production of goods exclusively for own final use by their household.*"[1]

In simple terms, here is how these definitions would apply to the Timor-Leste context.

Informal sector: businesses that are not formally registered

Informal employment: people working in their own small businesses / farms and who do not register themselves for social security, or employees who are not registered for Social Security. Normally informal employees would work for informal businesses, but there are formally registered businesses that do not register their employees for social security.

The vast majority of informal sector work is small scale, self-employed workers undertaking low-skill work with few capital inputs.

In the context of Timor-Leste, we would also distinguish between non-farm and farm / agricultural informal sector, as their needs are quite different. This study will focus on the non-farm informal sector.

2.2 HISTORY / INTERNATIONAL EXPERIENCE

A large informal sector and informal employment are very common in developing countries. Economies with history of mostly subsistence agricultural economy steadily transition to modern economy through a number of steps, which normally involve a slow decline in informal sector work and growth in the formal sector.

The main policy challenge facing informal workers is that they can be particularly vulnerable. They are usually not subject to labour laws or minimum wage or workplace safety protections, and may have unstable or unpredictable incomes. Their businesses are not registered, or even if the business is registered, employees are not likely to be registered for social security payments.

Informal businesses are also poorly equipped to cope with shocks and to access support during these shocks.

The broad development community has a goal of reducing the size of the informal sector, as reflected in the Sustainable Development Goals, SDG 8.3:

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1   https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-port_of_spain/documents/meetingdocument/wcms_306270.pdf

Abilio dos Santos, fisherman, in Tasi Tolu / Oxfam in Timor-Leste

"Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and medium-sized enterprises including through access to financial services."

The reality of economic development in many countries is that the informal economy persists for a long time and declines only very slowly. For example, In Indonesia[2], estimates of the informal sector suggest it comprised 65% of the workforce in 1990 (19% in agriculture, and 46% in non-agricultural sectors). This declined to 56% by 1997, but increased to 66% by 2006. While it is difficult to get accurate measurement of the informal economy, indications are these high levels of informal employment persist today, despite strong economic growth in Indonesia over a long period. This reflects a large informal retail economy (small shops, food stalls) and a large services sector.

There are a few reasons for this reality:
- Despite significant economic growth in Indonesia, many have not benefited from that growth, especially low-income women. The growth in the formal sector is large, but NOT in formal sector employment (production in formal economy increases, but relies less on labour, so there is little growth in jobs)
- As the economy has grown, informal sector agricultural work (mostly households working their own land for own-consumption and limited incomes) has declined, and largely been replaced by informal sector work in services (informal sales, transport, garment manufacturing and sales, household services)
- Some workers prefer the flexibility of informal sector work.

Social Protection becomes very important in an economy that relies so heavily on the informal sector. For example, in Indonesia, there is an extensive cash transfer payments system for low income households. This provides some form of protection for informal workers, although incomplete and indirect.

2.3. INFORMAL SECTOR IN TIMOR-LESTE

At the stage of development of Timor-Leste, the economy can be characterised by:
- A large percentage of working-age adults are engaged in small-scale farming, producing largely for own-consumption. Best estimates are that this sector represents the main economic activity for around 60% of households (Timor-Leste Census 2015).
- A reasonable sized non-farm informal economy. This is a similar size to the formal economy non-government workforce.
- A small but growing formal economy, dominated by public sector employment.

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2   The Informal Sector and Informal Employment in Indonesia, Asian Development Bank, 2010

We have analysed the 2015 Census data in greater detail to gain an idea of the overall make-up of the Informal sector. Household surveys like the census do not easily identify "informal workers" with one simple question. Instead, informal employment is derived from a few questions that describe the type of work the person has, the nature of their relationship with employers, whether there is formal registration of the business or employees, etc. In this analysis we rely on the 2015 Census because it is the most extensive and most recently available dataset that captures national trends in the composition of the labour market. The Census has limited labour market questions, but there are sufficient to be able to identify the level and composition of informal employment. The approach taken was:

1. First, identify the people whose main occupation is one that operates primarily in the informal sector.
2. If these people are self-employed, we assume they are most likely to be running an informal sector business, and are informally employed.

We then put the many occupations into 4 broad categories. Here is some brief summary data.

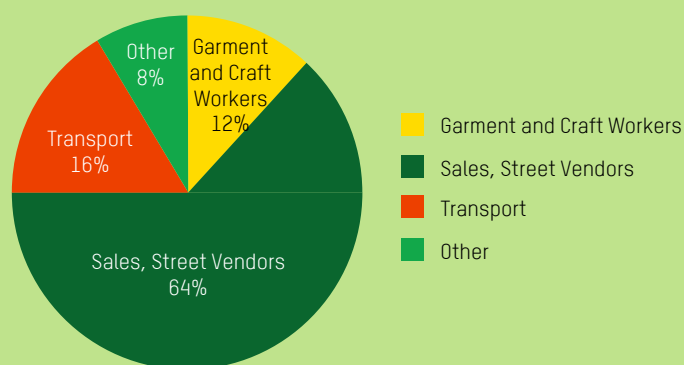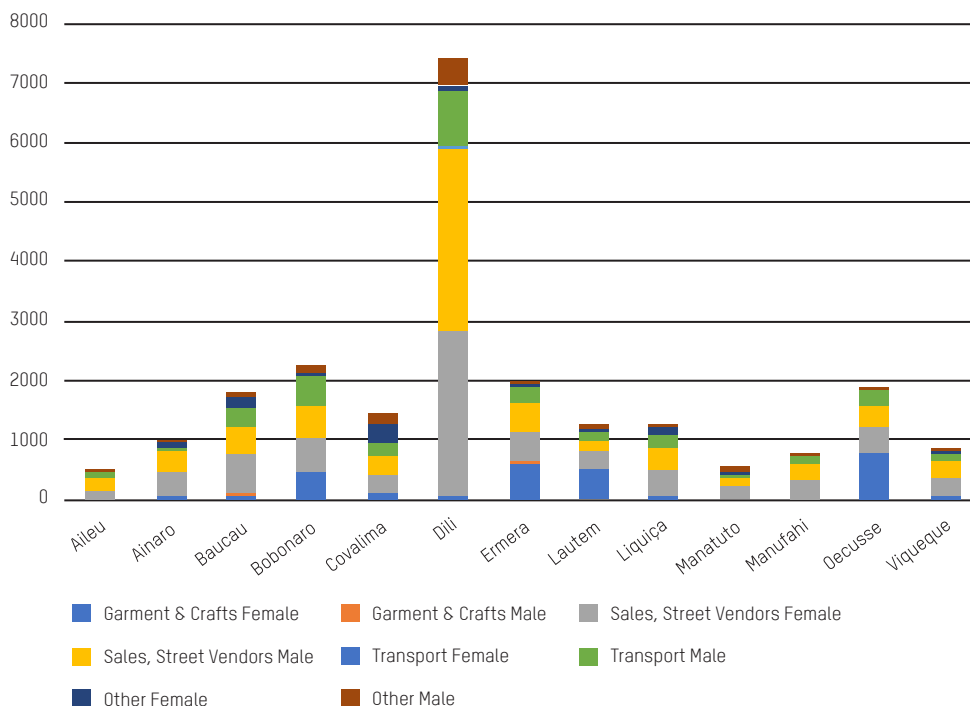Figure 1: Occupation Category (Timor-Leste Census 2015)

Garment and Craft Workers 12%
Sales, Street Vendors 64%
Transport 16%
Other 8%

Figure 2: Occupations, Municipality and Gender (Timor-Leste Census 2015)

Legend:
- Garment & Crafts Female
- Garment & Crafts Male
- Sales, Street Vendors Female
- Sales, Street Vendors Male
- Transport Female
- Transport Male
- Other Female
- Other Male

We note the following from this data:

22,902 people represent → **6%** of all workers

GARMENT AND CRAFT WORKERS ARE DOMINATED BY FEMALES

SALES AND STREET VENDORS ARE FAIRLY EVENLY SPLIT BETWEEN WOMEN AND MEN

TRANSPORT IS DOMINATED BY MALES.

DILI has the largest number of informal sector workers (**22%** of the total), but there are quite large numbers in every municipality.
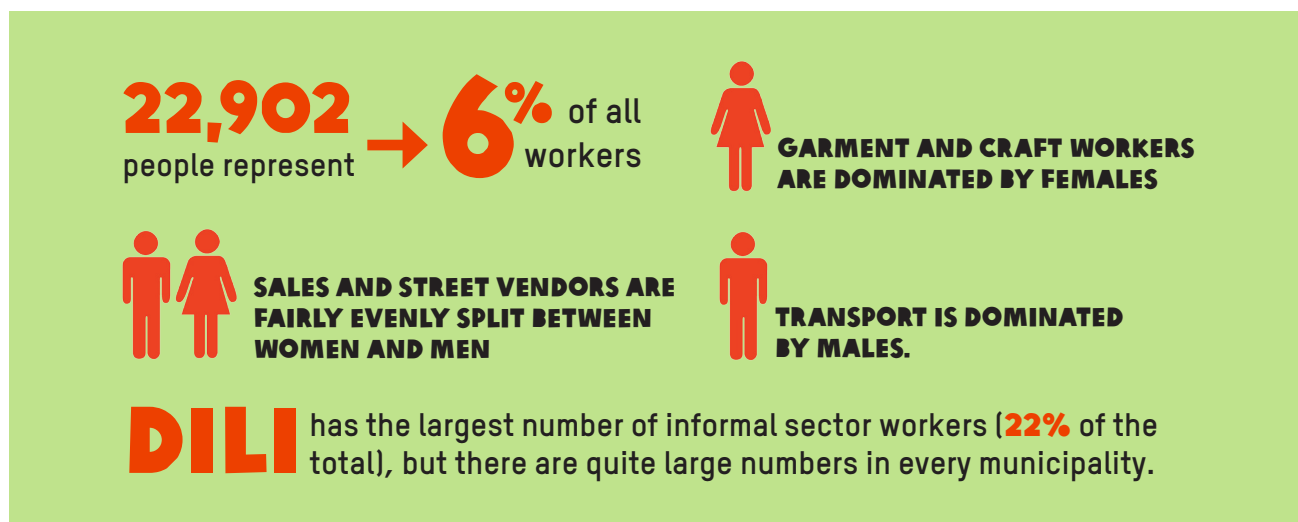
The MDI Survey will give a focused look at 446 informal sector businesses, in the post- COVID world. The focus is on two of the main categories of informal employment: sales and street vendors, and transport workers.

3.1 CHARACTERISTICS OF INFORMAL BUSINESSES

We use the opportunity of this survey to try and learn more about the features of informal sector businesses, since little is known about the people who work in these businesses or their operations. The range of questions is limited, so we cannot paint a full picture, but it is still valuable to gain some insight into their situation.

3.1 THE SAMPLING APPROACH

The sample is taken from seven municipalities.

The focus of this study is on two business types – transport and sales. Transport businesses includes Buses, microlets and taxis. Sales includes kiosks, mobile street vendors, and those selling in village or town markets.

In other dimensions, there was no specific focus on gender diversity, but we would expect to see a reasonable mix of male & female. A particular interest is in the experiences of people with disabilities who are involved with informal businesses, and enumerators will have oversampled from this group. This means there can be some useful comparisons of the experiences of people with disabilities with the rest of the population, but prevalence rates cannot be estimated from this sample.

The sampling method can best be described as a convenience sample; randomness is difficult to achieve, as a population of businesses to sample from is not easily defined. The research team attempted to select a cross section of business types in each targeted area.

The sample was taken from existing businesses actually identifiable at the time of the survey – late June 2020. This means if there were businesses that suffered so badly during the pandemic that they ceased operating, and did not reopen, they will not be captured in the sample. This is important, as it means our results will understate the harmful effects of the crisis – businesses that suffered so badly that they closed down are not captured in the sample. This means that whatever detrimental outcomes we find in the results will actually understate the magnitude of the problems faced.

3.2 CHARACTERISTICS OF THE BUSINESSES

Municipalities: Figure 1 shows the seven municipalities included in the sample, with between 50 Covalima) and 76 (Lautem) businesses from each municipality.

Figure 3: Sample by Municipality
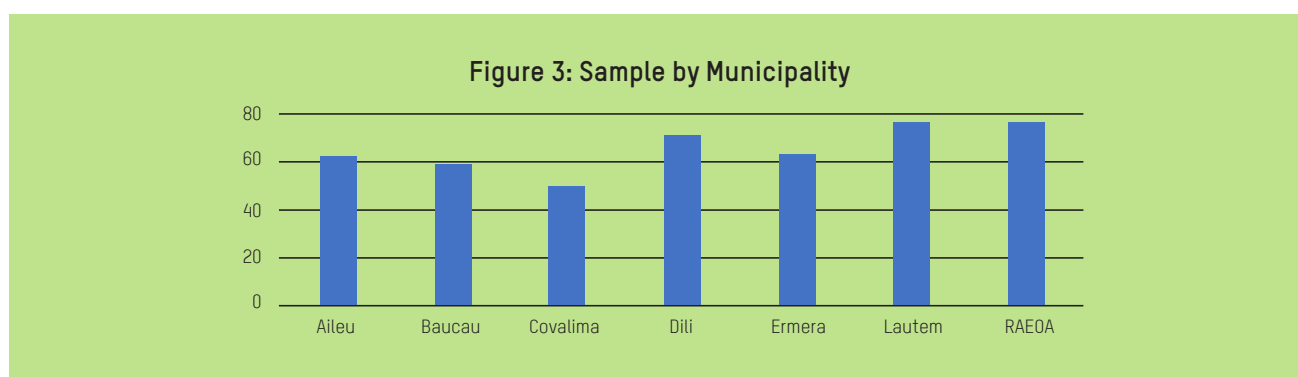
Business Type and Gender: Figure 2 shows that 75% of businesses in the sample were involved in sales, either through a kiosk, mobile trader or selling in the local market. The rest of the sample was in transport – bus, microlet or taxi. Notably, more than 2/3 of the respondents from Sales businesses were women, while virtually all the Transport businesses are run by males.

This sample mix is reasonably consistent with the population proportions as shown in the 2015 Timor-Leste Census data.


Figure 4: Types of Business and Gender of Respondent

Disability: The survey included a version of the Washington Group Questions on disability – seeing, hearing, physical mobility and difficulties with concentration. The exact version of these questions was not used, as questions allowed only yes/no responses, while the standard questions allow a response about severity. As a result, these results are not comparable with other studies that use the same set of questions. However, they still offer insight into the mix of disabilities, and to the impact of disabilities on business impacts.

Table 5 shows the mix of functioning limitations encountered by the sample respondents, highlighting that vision problems remain the most prominent challenge facing this sample of informal workers, with physical mobility also featuring frequently. Notably, more than 22% of the sample reported at least one of these functioning limitations, with 4.4% reporting three or four.

Figure 5: Proportion of sample reporting various Functioning Limitations/Disabilities
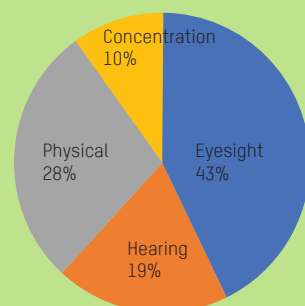
22% of the sample reported at least one of these functioning limitations

4% reporting 3 or 4

Business and Social Security Registration: Typically, small market and transport businesses would not have formal business registration, and there would not be social security payments made for workers. However, in this sample a reasonable proportion do report having some registration: 25% of Sales businesses and 54% of the Transport businesses report being registered, almost all via SERVE (Timor-Leste's Business Registration and Verification service). Notably, though, a very small proportion are registered for social security, only 7%, and less than 5% actually make social security payments.

At first pass it may seem surprising that a relatively large proportion of these small businesses do actually have business registration. However there is a clue in the very low rate of social security payments for employees, which suggests that registration alone does not bring much tangible benefit to the businesses and their employees. In other words, while a proportion of the sample may officially classify as "formal" since they have registration, for practical purposes they operate as informal businesses, with little access to employee protection, the formal banking system (see below), or other characteristics typical of formal businesses.

Sources of Finance: A key factor in a successful and growing business is access to finance. Businesses need equipment / capital (such as vehicles), and they need money to purchase supplies or inputs, needing to carry stock for a while before sales income is received. The reality is that "you have to spend money to make money", and there is a time gap between the spending and the earning! So where do businesses find the finance for their activities? The 446 businesses in this sample report the following sources of finance, shown in Figure 6.

Figure 6: Main sources of Finance for Businesses
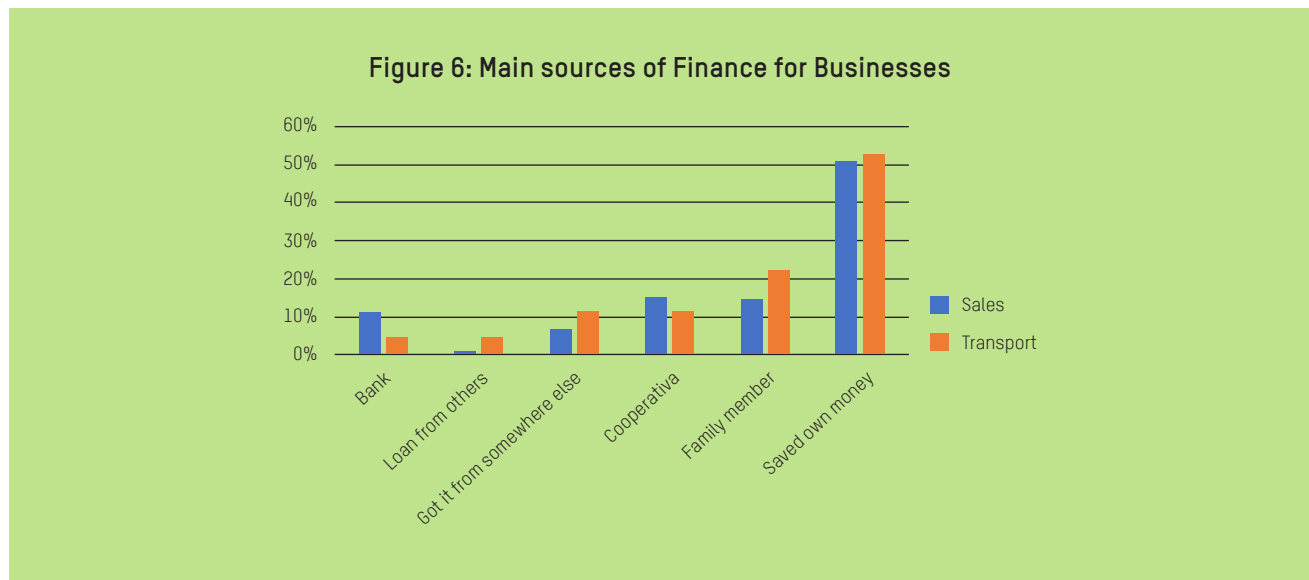
Overwhelmingly, these businesses report relying on personal or family sources for finances. Personal savings are the dominant source, for more than 50% of businesses, with family members the next most common, with 17% of businesses relying on this source of finances. A very small percentage, only 9%, are relying on formal banks.

Income prior to the crisis: As will be discussed, respondents were asked to report their daily sales incomes in ranges for various periods during the first half of 2020. Here we focus on incomes reported prior to the first State of Emergency. This can be thought of the pre-COVID-19, "normal" level of sales income of these businesses. While the incomes are reported in ranges of $10 (up to $10 per day, $11-$20 per day, $21-$30 per day, etc.), we can use these ranges to approximate sales and with use of the *linear probability model*, a multivariate modelling technique suited to this type of data, can estimate the relative importance of different factors in contributing to a business's income.

Table 1: Model of Daily Income prior to States of Emergency

Variable	Difference in Sales from Base Business*
Is in Sales	-$1.41 (-.07)
Has Business Registration	$5.17 (3.1)
Respondent reports a functioning limitation (Person with Disabilities)	-$4.09 (-2.2)
Respondent is Male	$3.85 (2.1)
Personal or family source of finance	-$3.44 (-2.0)
Local Co-operative as Source of Finance	$4.30 (1.7)

*The Base Business: is in Transport, does not have business registration, no physical difficulties, female, source of finance is bank or money lender.

Values in brackets are t-statistics.

The model results reveal some interesting patterns. Bearing in mind that the estimated average daily sales prior to the EEs was $24.73, there are some significant variations.

* there is no evidence of a difference in income between businesses in sales and those in transport, once we take account of other factors such as gender and business registration. This is an interesting result: in raw averages, Transport businesses have much larger daily sales, averaging $28.79 compared to $23.37 for Sales businesses. But the multivariate model suggests that registered businesses do better, as do those run by men. Recall transport businesses are virtually all run by males, and have a much higher rate of registration. So once we control for these other factors, sales businesses do not make any lower sales than transport businesses.

* As noted, registered businesses have higher daily sales, more than 20% higher than non-registered businesses, once we allow for the other factors.

* Similarly, if the respondent reports one or more functioning limitations suggesting they are a person with disability, they earn an average of around $4 per day less than others.

* Male-run businesses have higher average sales income than females, almost $4 per day.

* Source of finance matters: those who rely on their own savings or family finances are significantly less successful with their business, with average daily sales $3.44 below those who have more formal sources such as a co-op or bank.

It is important to note these effects are "additive", they accumulate across the characteristics. For example, compare a male in transport who is not a person with disability, running a registered business and with access to finance through a local cooperative. The model predicts an average daily sales for his business of $38.05. In contrast, a woman with disabilities, is running an unregistered sales business and relies on personal or family finances, will average $15.79 in daily sales. This indicates a wide diversity of experiences for these informal businesses.

Natersia da Costa, vegetable seller in Taibesi / Oxfam in Timor-Leste

4. IMPACTS OF THE STATE OF EMERGENCY 1, 2 AND 3

We now turn attention to the impacts of the COVID-19 responses during March – June 2020. First, a brief summary of the main events.

March 21st: First confirmed case of Coronavirus infection in Timor-Leste

March 28th: Commencement of State of Emergency for 1 month, SoE 1, which involved closure of international borders, plus substantial restrictions on business activities, closure of public transport and many local markets.

March - April: Plans are developed for various relief packages to support businesses and people through the economic consequences of the State of Emergency. This includes plans for a monetary payment of $100 per month to households (payments were made in early June).

April 28th: Renewal of State of Emergency for 1 month, SoE 2, with very similar restrictions to SoE 1.

May 28th: SoE 2 concludes, and SoE 3 commences. During SoE 3, there are very few restrictions on daily life, except basic health practices of masks and handwashing. The main impact is with continued closure of borders, with a few exceptions.

June 9th: Eligible Households began to receive the monetary support package, comprising a one-off $200 payment (covering two months due to delay in payments being made).

June 15th – 24th: The MDI Survey is conducted with businesses across 7 municipalities.

4.1 IMPACT ON SALES

As noted earlier, respondents were asked to report their average daily sales income in categories, from zero, through to "Above $40 per day". Importantly, they were asked to recall their sales over three periods:

Before SoE: Sales before any of the States of Emergency had been implemented. This represents a baseline "before COVID-19" sales of these businesses.

During SoE 1 and SoE 2: Sales during the two months of stringent State of Emergency 1 and 2. This will show the magnitude of impact of the restrictions imposed during the strictest period of the COVID-19 response.

During SoE 3: Sales since the restrictions were lifted, period SoE 3. This will show how businesses recovered after the tough restrictions were removed. The impacts of the economic interventions, such as the monetary payment to eligible households, would also show in these values. The Monetary payments commenced about 10 days after the SoE 3 period began.

Table 2 shows estimated average reported sales income for these three periods. The bottom row of the table shows these averages for all businesses in the sample, while the rest of the table shows averages for each type of business. Figure 7 shows the distribution of reported daily sales for the full sample of businesses, across the three phases.

Table 2: Average Daily Sales for Different Types of Businesses

Type of Business	Number of Respondents	Average Daily Sales before SoE	Average Daily Sales during SoE 1&2	Average Daily Sales early in SoE 3
All Transport	**112**	**$28.79**	**$8.61**	**$25.93**
Bus	66	$28.56	$9.85	$30.61
Microlet	34	$29.26	$6.47	$18.97
Taxi (a small sample, unreliable estimates)	12	$28.75	$7.92	$20.00
All Sales	**334**	**$23.37**	**$8.73**	**$16.95**
Kiosk	153	$25.03	$10.49	$18.17
Mobile Seller	100	$21.15	$5.80	$15.30
Market	81	$22.96	$9.01	$16.66
All Businesses	**446**	**$24.73**	**$8.70**	**$19.20**

Figure 7: Average Daily Sales for Different Types of Businesses

Domingos de Deus Soru Tais Colmera
Tais / Oxfam in Timor-Leste
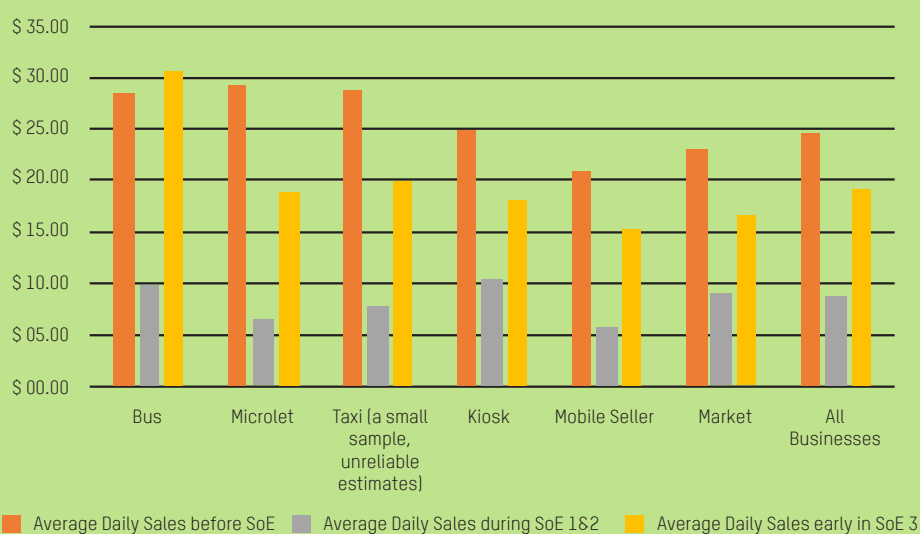
Figure 8: Distribution of Daily Sales across all Businesses

Before SoE   During SoE 1 & 2   During SoE 3
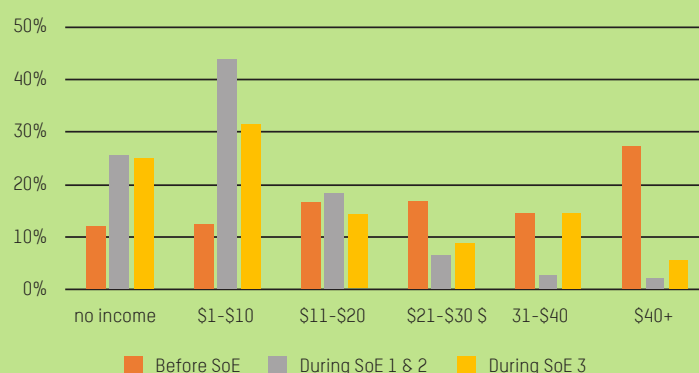
Here are some key observations from these results.

First, consider the first two State of Emergency periods, SoE 1 and SoE 2:

- During SoE 1&2, sales incomes were about 65% below what they were before the Pandemic (on average). Transport businesses suffered the most, with a 70% loss in income, with microlet businesses being the most affected.
- During the SoE 1&2, about 70% of businesses earned sales of less than $10 per day, including a large proportion who reported earning no income. This represents a big increase in low income earners, compared to 25% before the pandemic.
- A similar point can made by focusing on the higher incomes. Before the SoE period, 59% of businesses sold more than $20 per day. During SoE 1&2, this dropped to only 12% of businesses!
- What is clear from Figure 4 is that there is a big jumps in the proportion of businesses earning nothing, and an even bigger jump in the percentage earning a very small amount (less than $10). An equivalent drop can be observed in the proportion earning more than $40 per day, and more than $30.

DURING SOE 1&2

↓65% sales incomes were about 65% below what they were before the Pandemic (on average).

70% <$10/DAY
of businesses earned sales

BEFORE SOE 1&2

59% >$20/DAY
of businesses Sold

DURING SOE 1&2

12% >$20/DAY
of businesses Sold

13

Now see what has happened during the early days of SoE 3:

- After restrictions were lifted (SoE 3), sales increased, but to a level mostly below their original levels - average sales for all businesses were about 22% below the pre-State of Emergency levels.
- Recovery seems to have been much stronger for Bus Transport businesses, which is mostly used for travel between municipalities. In contrast, for microlet and taxi businesses, the recovery was well below average, their average sales were 34% lower than pre-pandemic levels.
- Note from Figure 8 that even after most restrictions have been lifted, still 25% of businesses report no sales, and another 32% report sales of less than $10 per day. Some businesses we able to recovery well, but clearly a large proportion experienced no improvement after SoE3 period had been implemented.
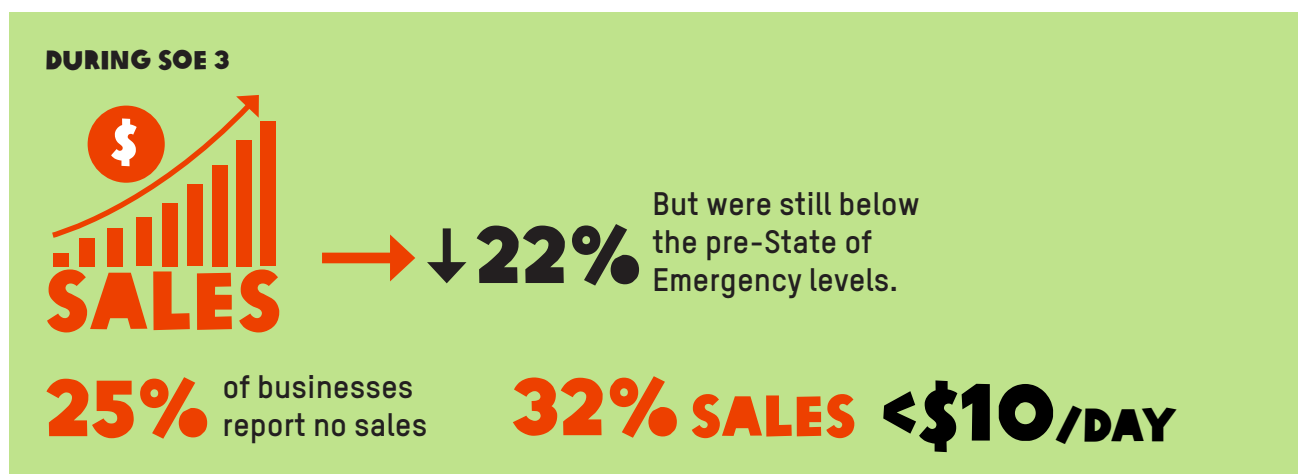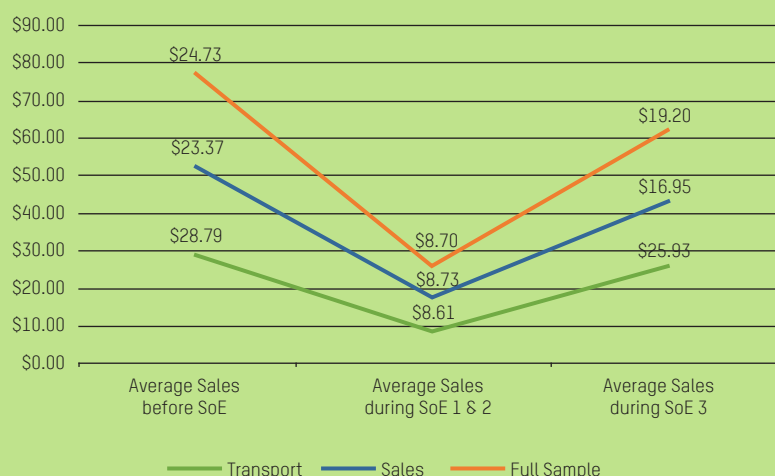

DURING SOE 3

SALES → ↓**22%** But were still below the pre-State of Emergency levels.

25% of businesses report no sales   **32% SALES <$10/DAY**

Figure 9: Average daily sales (USD) for informal businesses before and during the State or Emergency

Average Sales before SoE: Full Sample $24.73, Sales $23.37, Transport $28.79

Average Sales during SoE 1 & 2: Full Sample $8.70, Sales $8.73, Transport $8.61

Average Sales during SoE 3: Full Sample $19.20, Sales $16.95, Transport $25.93

Legend: Transport, Sales, Full Sample

This slow recovery for many businesses even during the SoE3 period is a concern. While it may be possible that the survey was conducted 'too early' for these businesses to show improvement, we should remember that the nature of these smaller scale informal businesses is that they have little start-up costs, so if the demand is there, they should have been able to return to 'normal operations' quite quickly. The fact that this did not happen for many businesses suggest either that some suffered permanent loss of business during the first two State of Emergency periods, or that demand has been slow to return to the markets and public transport services. Broader macroeconomic measures would suggest that this latter factor remains a reality: there is not as much economic activity generally, incomes are lower, and people are spending less in travel and markets.

Respondents were asked to report what difficulties they encountered with doing business during the State of Emergency periods. These give a clue as to their perceptions about the sources of the lost sales income. figure 10 shows the distribution of responses.

Figure 10: Difficulties Businesses Encountered
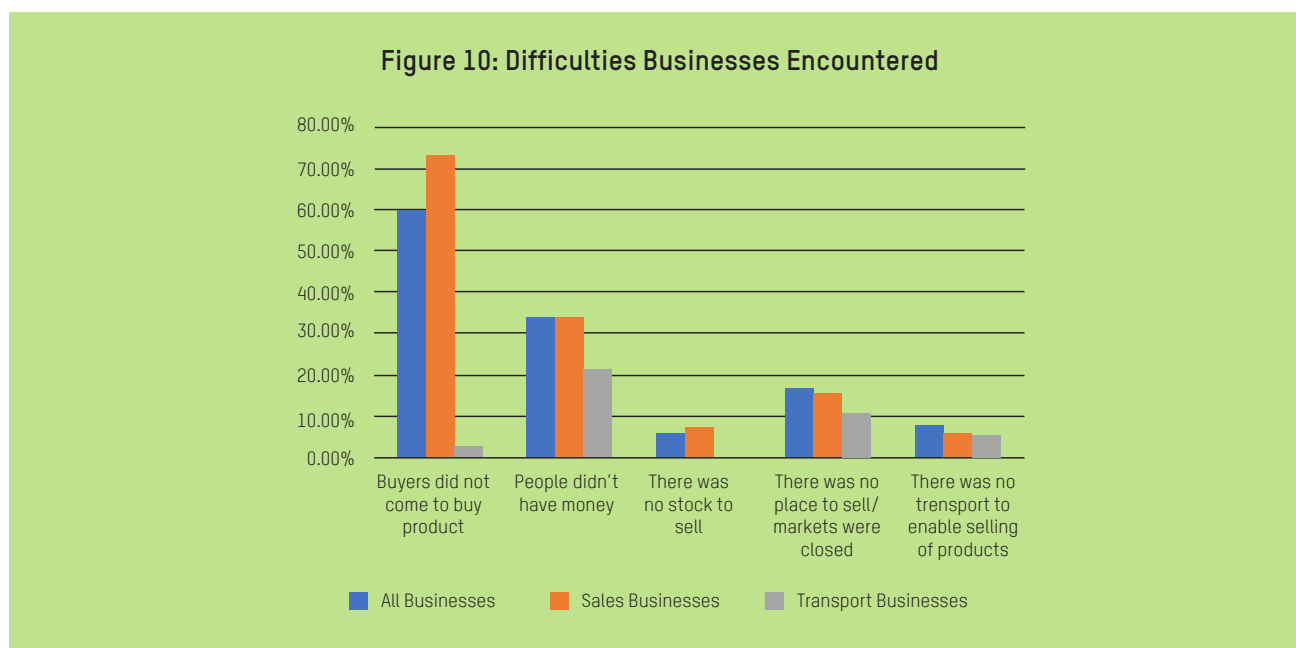
We observe the following from this table:

- By far the greatest difficulties noted were the loss of customers and the lack of money in the community. This was especially the cases for those selling produce in markets, kiosks and street vendors, with 73% blaming a lack of customers, and 34% also observing the lack of money with customers.
- Notably, the explanation for the decline was strongly skewed towards the demand side – few reported that problems with lack of supply of goods to sell or difficulties with transport to the market were reasons for the decline. It's almost all about the lack of demand from customers.

In the final piece of analysis in this section, we summarise the results of a multivariate analysis of the characteristics of businesses that suffer greater loss of sales during SoE1 and SoE2, compared to their pre-pandemic sales. Interestingly, businesses that are run by men and that have formal registration tended to see bigger drops in sales, while those whose source of finance was their own savings or family tended to experience significantly less loss of income. It appears the businesses that under normal circumstances have lower sales (informal businesses run by women that rely on their savings or family for finance) showed greater resilience during the state of emergency, experiencing smaller drops in sales.

4.2 THE GOVERNMENT $200 HOUSEHOLD PAYMENT

As noted earlier, a decision was made in April by government to offer support to households via a series of three monthly payments of $100. Due to administrative delays, this plan evolved into one $200 payment, made in early June, shortly after EE3 commenced.

There are two aims of a short term cash transfer to households during a crisis:
1. To ensure households have access to money to purchase basic essentials such as staple foods.
2. To stimulate demand for local businesses, by encouraging people to spend more money.

In this study, our interest is in the second aim: did the provision of the funds to households across the country help with recovery of sales for these informal businesses? Given these very businesses are typically run by low income households, the payment to households can potentially benefit these households by "kick-starting" their businesses again.

At the time of this survey, it appears the payments to households had been virtually all complete, although some only a short time before the survey was conducted. This means when participants were asked about the

impact of the payment on their sales, they are reporting on the immediate effects they observed, only a matter of days after households received the payment.

These short term impacts appear to be very positive:

- When asked if they perceived an impact of the cash transfer on their business, 78% of the sample perceived a noticeable increase in sales. This was especially the case for sales businesses, who reported an 81% favourable impact, while the positive impact was perceived by 70% of Transport businesses.

- Along similar lines, 80% of respondents found they received better prices for their products and services after the cash transfer had been paid.

- Notably, the positive impacts were felt strongly in all municipalities except Dili, where the increase in sales and better prices were reported by around 50% of businesses. In other municipalities, the rate was as much as 90%. It is not clear why this striking difference between Dili and other municipalities arises. It is plausible that economic impacts are very different in Dili compared to other municipalities, because the local economies are so different, but the exact cause of this anomaly remains a mystery.

78% of the sample → **SALES**

80% of respondents found they received better prices for their products and services after the cash transfer had been paid
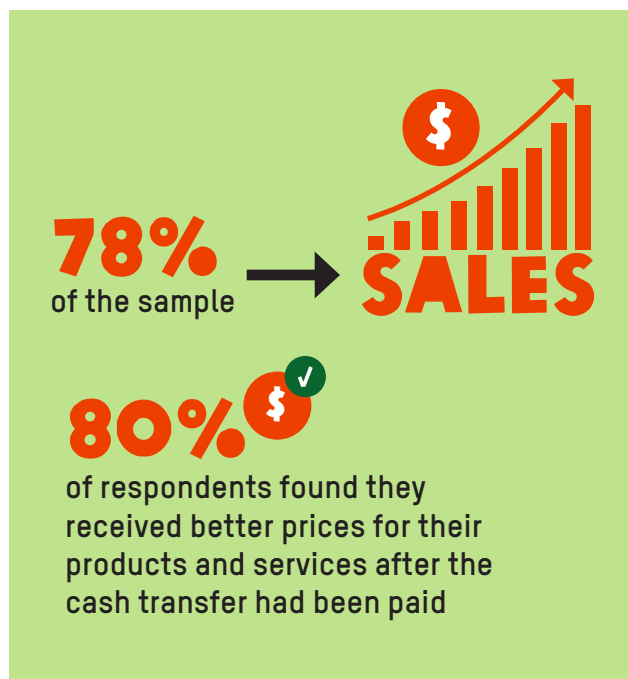
It is important to emphasise that this study cannot provide a comprehensive analysis of the impacts of the $200 monetary payment to households. All we know is that there seems to have been a very positive short term impact of the payment on these businesses, except in Dili. It is unclear what the longer term impacts of the payment would be though.

More broadly, considering the reported average sales in Table 5, the clear pattern is of a significant improvement in incomes during SoE3, compared to during SoE1 and SoE2. The question we cannot answer is whether this recovery happened primarily because of the relaxing of restrictions on people's movement, public transport and markets, or due to the economic stimulus of the $200 payment, or a combination of the two. It would be reasonable to assume there would be a substantial benefit to the changes in restrictions, which actually allowed businesses to resume normal activities. But given most businesses reported the main difficulty they faced was the lack of demand from customers, the $200 payment was likely a critical factor in restoring that demand.

Maria D. C. Tilman de Jesus, vegetable seller in Taibesi / Oxfam in Timor-Leste

5. IMPLICATIONS FOR ECONOMIC DEVELOPMENT PLANS

In this final section we will summarise some of the key messages of this study, with particular focus on what can be done to support this vital group of businesses, as well as the households and families they represent.

First, through the MDI survey we begin to gain an understanding of the nature of these informal businesses in Timor-Leste even regardless of the COVID-19 Pandemic. We cannot learn about their profitability, since there is only reported sales data. As a rough guide, given the nature of the businesses, a realistic profit rate (proportional to sales) would be around 25%, meaning a business with average sales close to $25 per day is earning the owner an income of around $5 per day. While Transport businesses do have higher sales income, the difference is not huge, and transport businesses will have higher capital costs and ongoing costs such as the price of fuel. So it appears these businesses are providing some income to their owners, but they are unlikely to be making their owners rich! They also are unlikely to be generating the kinds of profit that allows the business owners to invest in new ventures or expand their operations or improve efficiencies. The business owners are trapped in a low productivity, low income cycle.

Turning to the experiences of these businesses during the March – June 2020 State of Emergency associated with the COVID-19 crisis, not surprisingly, these businesses have experienced substantial loss of income, far worse than most other sectors of the economy. Many businesses effectively closed down during the most extreme phases of the State of Emergency, meaning their households lost their primary source of income. For those who stayed open, many saw their daily sales fall by more than half.

The easing of restrictions during SoE3 and the economic stimulus provided to households during early June was helpful to seeing these businesses revived. However, the reality is that the financial assistance reached households more than two months after the first State of Emergency was declared, and after restrictions were eased. The period when the assistance was most needed, when many businesses were forced to close down, had already passed.

Of course, implementing a nation-wide social transfer to more than 300,000 recipients in a short period of time is a challenging logistical exercise. But the reality is that emergency situations call for emergency responses, and timeliness matters a lot to the effectiveness of the response. This problem is not unique to Timor-Leste, with many countries struggling with timely responses. The lesson learned internationally is essentially to "be prepared". Countries need plans in place for responding to unexpected events such as has occurred in 2020,

including preparing health reserves, plans for delivering economic relief at short notice, and many others responses.

Besides the monetary support to households, the remainder of the relief packages offered to businesses essentially was unable to reach most informal businesses. What can be done to avoid a repeat of this outcome? We suggest two areas of focus.

1. In the long run, continuing the campaign to formalise these businesses will help. But for informal businesses to register, the process of registration needs to be simple and accessible, and there needs to be some reward for businesses associated with the registration process. This will come in part as the ongoing reforms and improvements to efficiencies of SERVE are implemented.

2. Regardless of this push for registering businesses, informal businesses will always exist. The challenge is to support these businesses to grow, to build their incomes. Interventions that support these businesses will bring direct benefit to low income households across the country, as well as providing these businesses with the capacity to manage themselves through future shocks to their activities.

This can happen through all sorts of interventions, such as: business development programs to help these micro-business owners develop their skills; creation of associations they can belong to, whether they receive support and encouragement from others in similar businesses; new opportunities for credit at affordable rates; a strategy for developing the quality and service of public transport that benefits users and business owners; and various other initiatives.

These informal businesses provide vital links to essential goods and services that affect the everyday lives of Timorese people across the country. They also represent families and households striving to build their livelihoods through hard work and entrepreneurship. Their resilience has been proved once again through the COVID-19 experience of 2020. It is vital that their important role be recognised and supported in the future development of Timor-Leste.