

MSMEs AND TIMOR-LESTE'S TOURISM SECTOR



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METHODOLOGY

The Asia Foundation and The Policy Practice

2020 ECONOMIC IMPACT OF COVID-19 ON

MSMEs AND TIMOR-LESTE'S TOURISM SECTOR

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ABOUT THE ASIA FOUNDATION

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Informed by six decades of experience and deep local expertise, our work across the region addresses five overarching goals—strengthen governance, empower women, expand economic opportunity, increase environmental resilience, and promote regional cooperation.

Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC. Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals. In 2020, we provided \$78.6 million in direct program support and distributed textbooks and other educational materials valued at \$5 million.

The Asia Foundation's tourism program has been active in Timor-Leste since 2013. During this time, it has worked with the Government of Timor-Leste and private sector partners alike to facilitate evidence-based decision making, product development, marketing, research, and analysis. Its current project will receive NZD \$5 million, over a period of five years with funding from the New Zealand Ministry of Foreign Affairs and Trade. This project aims to improve the economic well-being of Timorese by engaging the tourism sector to increase equitable livelihood opportunities through job creation and increased income, particularly at the community level.

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Executive Summary

Over the course of 2020, the Covid-19 pandemic had an unprecedented worldwide impact. Although rising infection numbers gained attention, globally, there was limited understanding of the economic consequences of domestic containment measures, and how the worldwide recession was affecting developing countries such as Timor-Leste.

In Timor-Leste, micro, small, and medium enterprises (MSMEs) were particularly vulnerable to the economic impact of the pandemic, and of these, the MSMEs in the tourism sector experienced the worst setbacks. To improve understanding of the scale of Covid-19's impact on tourism MSMEs in Timor-Leste, and MSMEs in general, from May to August 2020, The Asia Foundation conducted interviews with 342 MSMEs, 59 percent of which were in the tourism sector.

Although the businesses that were required to close during Timor-Leste's state of emergency were able to reopen when Covid-19 cases declined, they suffered considerable income loss, while at the same time, their operating costs remained almost the same.

Timor-Leste's swift Covid-mitigation response resulted in a year-long ban on international travel and closure of the country's international borders. As a result of imposing local restrictions from March 26 to April 26, 2020, and international travel for the whole year, Timor-Leste was able to limit the spread of Covid-19 infections throughout much of 2020. However, the restrictions had an enormous impact on tourism businesses because international travelers were their primary customers. Almost half of the tourism businesses that depend on international travelers closed, or reduced their operations, whereas only one in five of the tourism businesses that depend on domestic travelers reported the same consequences.



Although a greater proportion of women are employed in the tourism industry than men, women earn up to 15 percent less than men. This study shows that the Covid-19 pandemic has exacerbated women's existing financial vulnerabilities in Timor-Leste as more women than men lost their tourism sector jobs.

While the Government of Timor-Leste has taken steps to address the potential negative economic impact of the pandemic on MSMEs by providing them with subsidies and other types of support, overall, this study showed that MSMEs' awareness of government support options was low. This study also found a discrepancy between the support the government is providing to businesses, and the support that businesses want the government to provide. Although the majority of MSMEs want financial support such as a credit guarantee and tax waiver, the government's support comprises social security waivers and contributions toward employees' salaries.

Based on the key findings of this study, and feedback given in presentations that have been made to stakeholders in government, the private sector, and international development agencies, this study found that there is great need to: (i) improve MSMEs' ability to access information about government support, as well as Covid-19-related regulations and restrictions; ii) ensure that government support packages are responsive to the needs of MSMEs; (iii) establish a system for Covid-safe travel that includes the MSMEs that provide accommodation, food, and beverages, as well

as the travel and tour operators; and (iv) ensure that tourism demand is sustained through a strategic marketing initiative that focuses on Timor-Leste's primary markets, and links the country's niche consumer products such as coffee with the country's attributes as a tourist destination.

The Covid-19 pandemic has had a widespread and lasting impact in Timor-Leste, with MSMEs, in particular, experiencing lower profits and considerable challenges regarding how to access government subsidies.

Timor-Leste has embarked on a process designed to achieve long-term economic recovery that will require the ongoing participation of both the public and the private sectors. To support the government's efforts, and achieve sustainable economic growth in the months and years ahead, this report provides examples of innovative assistance that the country's development partners could provide to the government and the private sector.





INTRODUCTION

Over the course of 2020, the Covid-19 pandemic had an unprecedented global impact, with the death toll surpassing more than one million by the end of the year.¹ Many regions of the world continue to report rising infection numbers, and this is even the case in countries where infection numbers and deaths were declining. Also, the global recession, as well as local containment measures have had a serious impact on domestic economies.



Timor-Leste, which is Asia's youngest democracy, faced serious consequences in 2020 as a result of the global spread of Covid-19. Due to the country's fragile healthcare system, an unstable political situation, and high levels of poverty, concern was widespread about how Timor-Leste would be able to cope with the pandemic.

When the first case of Covid-19 was confirmed in Timor-Leste on March 21, 2020, the country's government took swift and decisive action to prevent an outbreak. The government closed the borders with neighboring Indonesian West Timor, implemented a state of emergency, and launched a widespread public information campaign. As a result, Timor-Leste's government was able to limit the number of cases, which made the country one of only 10, worldwide, that effectively contained the virus.²

¹ BBC News. 2020. "Coronavirus: Global Covid-19 death toll passes one million." BBC News. September 29, 2020. <https://www.bbc.com/news/world-54334496>

² Maguire, Dannielle. 2020. "New Zealand may be COVID-free, but these other countries beat coronavirus first." Live Blog. Australian Broadcast Corporation News. June 9, 2020. <https://www.abc.net.au/news/2020-06-09/countries-that-have-eliminated-coronavirus-no-active-cases/12335256>





While the public health threat from Covid-19 was the government's primary concern, the pandemic has taken a toll on more than people's health.

For Timor-Leste, the economic impact has been very severe. Globally, the pandemic has exacerbated pre-existing negative social and economic conditions,³ and with Timor-Leste's economy already in recession, and high pre-existing levels of poverty and unemployment, Timor-Leste has felt the pandemic's economic impact acutely. Prior to Covid-19, the country's gross domestic product (GDP) was rising at approximately

7 percent per year, but due to the pandemic, projected GDP in 2021 is –6.8 percent.⁴ With more than 95 percent of the government's revenue coming from taxing oil and gas exports, and income from the Timor-Leste Petroleum Fund (Petroleum Fund), the fall in oil prices has implications that are not fully captured in this GDP projection.⁵ Finally, the Covid-19 containment measures imposed by the government have resulted in many businesses either downsizing or closing completely due to their lack of income, and the consequential staff cuts have been driving up the unemployment rate.⁶

³ Neves, Guteriano. 2020. "Timor-Leste's Covid-19 Response." *The Diplomat*. June 3, 2020. <https://thediplomat.com/2020/06/timor-lestes-covid-19-response/>

⁴ World Bank Group. 2020. "Towards a Sustained Recovery: October 2020 Timor-Leste Economic Report." Washington, DC: World Bank Group. <https://openknowledge.worldbank.org/handle/10986/34748>

⁵ Miller, Terry, Anthony Kim, and James Roberts. 2021. *2021 Index of Economic Freedom – Timor-Leste*. Washington, DC: The Heritage Foundation. <https://www.heritage.org/index/country/timorleste?version=920>; https://www.heritage.org/index/pdf/2021/countries/2021_IndexofEconomicFreedom-Timor-Leste.pdf

⁶ Neves, Guteriano. 2020. "Timor-Leste's Covid-19 Response." *The Diplomat*. June 3, 2020. <https://thediplomat.com/2020/06/timor-lestes-covid-19-response/>

In response to the economic shock resulting from Covid-19, Timor-Leste's government took strong measures to counter the rising levels of poverty, inequality, and unemployment. Using money from the country's Petroleum Fund, the government launched an assistance program to support households', businesses', and individuals' immediate needs.⁷ For households, the government provided a universal food basket.

To help businesses recover and continue to employ their staff, the government provided subsidies for employers and employees. The government provided subsidies too for informal workers.⁸ The government's spending in response to the pandemic has been among the highest in the region.⁹



However, due to the lack of information on the economic impact of the pandemic, it has been challenging for the government to design and implement support initiatives that sufficiently address the challenges faced by the private sector. Timor-Leste's micro, small, and medium enterprises (MSMEs) have been particularly vulnerable to the economic impact of Covid-19, and among these, MSMEs in the tourism sector have experienced profound setbacks.¹⁰ However, the scale of Covid-19's impact on Timor-Leste's tourism stakeholders, and on the broader economy has not been quantified, and consequently, it is not well understood. To help the government assess the impact of its initiatives to help businesses, The Asia Foundation (the Foundation) has conducted a study on the impact of Covid-19 on Timor-Leste's MSMEs and, as a subset, the impact on tourism MSMEs.

⁷ GoTL (Government of Timor-Leste). 2020. Ministerial Order no. 18/2020, of 14 of May; Regulating the Financial Support provided to households during the Covid-19 pandemic (English translation). Article 1. Dili: Government of Timor-Leste; The Asia Foundation. 2020. "Timor-Leste Covid-19 Household Cash Transfer – Initial Effects on Welfare and Gender Dynamics." September 2020. Dili: The Asia Foundation. <https://asiafoundation.org/wp-content/uploads/2021/01/Timor-Leste-Covid-19-Household-Cash-Transfer-Executive-Summary-EN.pdf>

⁸ GoTL (Government of Timor-Leste). "Timor-Leste 2020 Economic Recovery Plan." p.13. Dili: Government of Timor-Leste. http://timor-leste.gov.tl/wp-content/uploads/2020/10/EN-PRE_screen.pdf

⁹ Howes, Stephen and Sherman Surandiran. 2020. "COVID-19 spending across the Pacific: the self-funded, the aid-financed, and the constrained." DevPolicy Blog. <https://devpolicy.org/covid-19-spending-across-the-pacific-20200820/>

¹⁰ GoTL (Government of Timor-Leste). "Timor-Leste 2020 Economic Recovery Plan." p.11. Dili: Government of Timor-Leste. http://timor-leste.gov.tl/wp-content/uploads/2020/10/EN-PRE_screen.pdf

METHODOLOGY



Since undertaking Timor-Leste's first visitors' survey in 2014, under its Tourism Development Program, the Foundation's country office has conducted a number of studies to support the sustainable development of the country's tourism sector.

These studies, which have been conducted with support from New Zealand's Ministry for Foreign Affairs and Trade, have examined the impact on the tourism sector of government policies, strategies, structures, and programs, as well as the impact of funding from the country's development partners. The Foundation's latest tourism industry study, which is summarized in this report, examined the impact of the Covid-19 pandemic.

The study examined the operational and economic impact of Timor-Leste's Covid-19 State of Emergency on MSMEs, in general, and on tourism MSMEs, in particular. It was conducted by the Foundation and the Mata Dalan Institute, and utilized a mixed-method approach to data collection that comprised face-to-face surveys, telephone interviews, and online data collection. Between May and August 2020, the Foundation's Tourism Development Program surveyed the owners or managers of 342 businesses regarding how their business operations had been affected by Covid-19. Of these businesses, 59 percent were operating in the tourism sector.



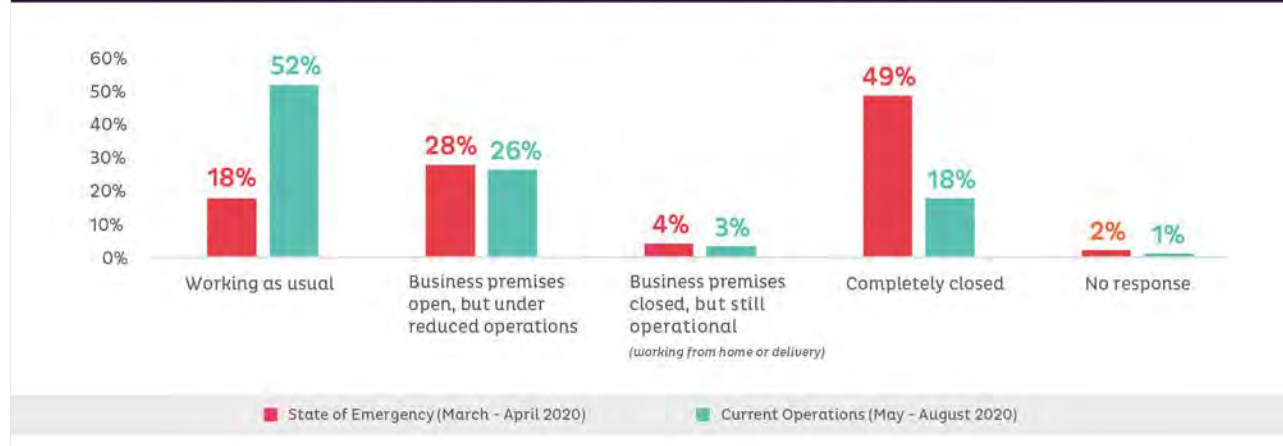
Four months were required for data collection because many of the businesses had either changed their contact details, reduced their hours of operation, or had closed temporarily during the country's State of Emergency. The quantitative data collected for this study were contextualized through key informant interviews with businesses operating in Timor-Leste's tourism industry. On an ongoing basis, as the data for this study were collected and analyzed, they were provided to the Economic Recovery Team in the Office of the Prime Minister, and to the Ministry of Tourism, Trade, and Industry.





FINDINGS

FIGURE 1. BUSINESS OPERATIONS DURING THE COVID-19 PANDEMIC



Covid-19 Impacts on MSMEs in Timor-Leste

The survey found that while a small number of businesses were able to adapt their goods or services to address needs that arose as a result of the Covid-19 pandemic, most businesses suffered considerable losses. During the period of the government's most limiting restrictions (the State of Emergency from March 26, 2020 to April 26, 2020), only 18 percent of the businesses surveyed were operating as usual, and almost half of the businesses (49 percent) were completely closed. As restrictions loosened, many of the MSMEs surveyed were able to reopen, and half (52 percent) were able to operate as usual; however, 18 percent remained shut.

Over the months when businesses were closed or operating at a reduced level, income loss and profitability varied. The survey compared MSMEs' costs and revenue in January, March,

and April 2020, and found that, on average, business revenue declined by almost half. In January, before the pandemic began, the average revenue for the month was \$3,600; in March this dropped to about half (\$1,790); and in April revenue dropped by half again (\$840). However, businesses' costs in March and April declined by only 30 percent. As a result of the government's restrictions during the State of Emergency, MSMEs experienced significant losses in April 2020, when compared to previous months in 2020.

FIGURE 2. AVERAGE PROFIT OF MSMEs DURING COVID-19



MSMEs' loss of income in Timor-Leste can be attributed to three key factors: 1) changes in demand, 2) limited market access, and 3) supply chain disruptions.¹¹

During qualitative surveys, tourism MSME interviewees were asked to compare their business' income in April and May 2019, with their income in April and May 2020. Due to the pandemic, these MSMEs experienced even worse losses than MSMEs, in general. For example, a hotel manager reported that the business' income had declined 78 percent in April 2020, in comparison with April 2019, and the reduction in income was 65 percent, when comparing May 2020 with May 2019.¹² Similarly, the manager of a car rental company reported an 82 percent reduction in income in April and May 2020, in comparison with the same two months in 2019.¹³

A previous survey¹⁴ by the Foundation found that the most common impact reported at the household level was the loss of income, and less access to food. The latter was the result not only of the decline in income, but it was also due to lack of access to food markets, which were closed to stop the spread of Covid-19.

The decline in income at the household level also had a negative impact on the business community. As customers had less income to

spend on products and services, businesses' income dropped significantly too. In addition, the market access challenge was experienced by MSMEs, which suffered from access issues on both the supply and demand side. Of the MSME interviewees surveyed in this study, 29 percent reported that lack of customers due to Covid-19 was the primary reason for not being able to operate as usual. Obstacles to customers' accessing markets resulted in sellers lacking customers to buy their goods, and customers being unable to buy the goods they needed.

In line with the challenges posed by market access, MSMEs also faced significant difficulties in accessing supplies. This was particularly the case for businesses outside of the capital, Dili. These businesses reported that due to supply chain disruptions they could not get the goods they needed and, consequently, they could only sell their existing inventory.

¹⁵Due to changes in supply and demand, which were caused by the pandemic, 45 percent of interviewees reported having to reduce their sales. Additionally, as a result of fewer sales and lower revenue, 56 percent of interviewees said that their business had been forced to reduce the number of workers. On average, MSMEs reduced their number of workers by 4.7, of whom 3.2 (68 percent) were women. In cases where workers were not let go, 23 percent of MSMEs reported reducing workers' hours.

¹¹ Aldar, Dolgion, Noelle Poulson, Ricardo Santos, Frank Eelens, Guido Peraccini, Carol Boender, Nicholas McTurk, Sunita Caminha, Scott Whoolery, Munkhtuya Altangerel, and Ronny Lindstrom. 2020. "Socio-Economic Impact Assessment of COVID-19 in Timor-Leste." UN-TL SEIA Final Report. p. 12. Dili: United Nations <https://mail.un.org.tl/en/component/jdownloads/download/17-covid-19/78-seia-final-report>

¹² Key-informant interview (2020), 'Interview with manager of a hotel in Dili', July 27, 2020

¹³ Key-informant interview (2020), 'Interview with manager of a car-rental company in Dili', September 16, 2020

¹⁴ The Asia Foundation. 2020. "Timor-Leste Covid-19 Household Cash Transfer – Initial Effects on Welfare and Gender Dynamics." September 2020. Dili: The Asia Foundation. <https://asiafoundation.org/wp-content/uploads/2021/01/Timor-Leste-Covid-19-Household-Cash-Transfer-Executive-Summary-EN.pdf>

¹⁵ Aldar, Dolgion, Noelle Poulson, Ricardo Santos, Frank Eelens, Guido Peraccini, Carol Boender, Nicholas McTurk, Sunita Caminha, Scott Whoolery, Munkhtuya Altangerel, and Ronny Lindstrom. 2020. "Socio-Economic Impact Assessment of COVID-19 in Timor-Leste." UN-TL SEIA Final Report. p. 12. Dili: United Nations. <https://mail.un.org.tl/en/component/jdownloads/download/17-covid-19/78-seia-final-report>



Covid-19 Impacts on the Tourism Industry in Timor-Leste

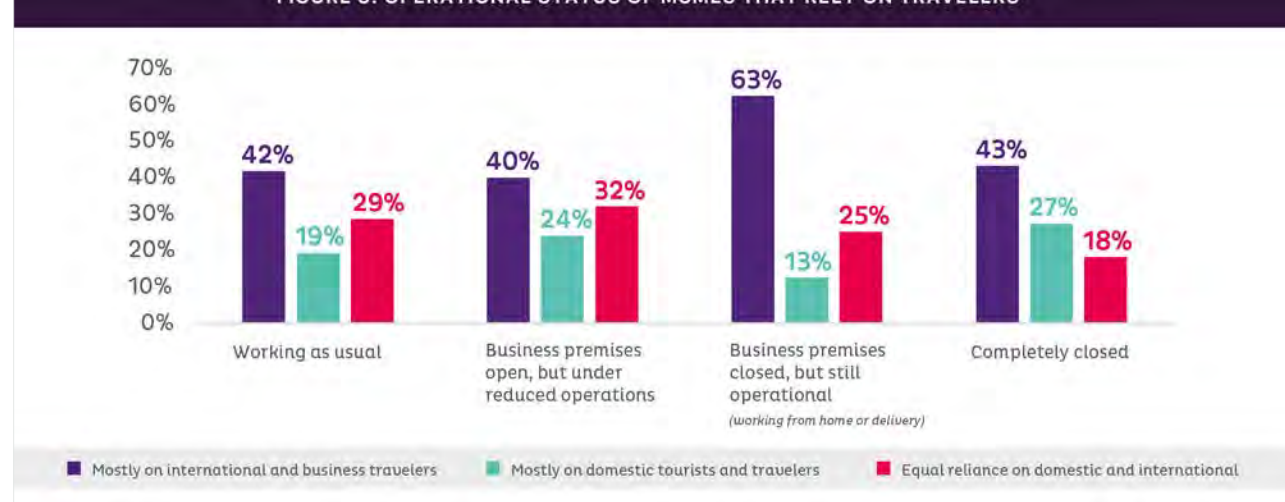
For the tourism sector, the impact resulting from changes in demand, limited market access, and supply chain disruptions has been profound. According to the Association of Hotel Owners of Timor-Lorosa'e, Timor-Leste's sales revenue in the hospitality and tourism sector has fallen by 95 percent.¹⁶ The changes in supply and demand have made it difficult for tourism and tourism-related companies to retain staff and pay operating costs.

Although the tourism industry is relatively small and undeveloped in Timor-Leste, constituting only 0.5 percent of GDP,¹⁷ due to the opportunities for growth, tourism has been identified as a key focus for diversifying the nation's petroleum-dependent economy.

Both the country's 2017 National Tourism Policy, and its 2020 Economic Recovery Plan, recommend using state resources to support tourism sector growth so that it becomes a future source of government revenue. As the tourism industry supports a wide range of related businesses that provide goods and services such as restaurants, local markets, and tour providers, tourism's growth could have a far reaching positive impact on the economy.

However, with international travel to and from many countries now banned, tourism businesses have been effectively cut off from their customers. The Foundation's survey found that tourism MSMEs have felt the loss of international travelers especially acutely. Of the MSMEs surveyed that primarily depend on international travelers, 43 percent reported closing. Although 84 percent of the MSMEs that serve domestic tourists reported a decline in business, only 18 percent of these had closed.

FIGURE 3. OPERATIONAL STATUS OF MSMEs THAT RELY ON TRAVELERS



¹⁶ GoTL (Government of Timor-Leste). "Timor-Leste 2020 Economic Recovery Plan." p. 70. Dili: Government of Timor-Leste. http://timor-leste.gov.tl/wp-content/uploads/2020/10/EN-PRE_screen.pdf

¹⁷ Ibid.

Of the MSMEs surveyed about the impact of Covid-19, tourism companies reported having to reduce their operations at a considerably higher rate (66 percent) than was the case for MSMEs that were not serving tourists (42 percent). While 64 percent of the surveyed tourism companies reported that they had to change their business model because of the slow-down caused by the pandemic, this was only the case for 44 percent of non-tourism companies.

Overall, 48 percent of the tourism companies surveyed for this study reported that of all the government's Covid-19-related measures, the restrictions on international travelers had the greatest impact on their business. Conversely, only 30 percent of the MSMEs that were not in tourism reported the same level of serious impact from the restrictions on international travelers. In general, while the requirement for MSME staff and customers to socially distance and wear a facemask was considered a less serious impact of Covid-19 restrictions, survey respondents did say that it interfered with their business' ability to operate as usual.

The economic impact of the restrictions that barred international travelers was particularly serious for MSMEs in the hotel and accommodation industry. Of these businesses, only 39 percent reported that they were able to operate as usual, which was far fewer than was the case for restaurants and food businesses—68 percent of the latter reported that they were able to operate as usual. However, all of these MSMEs reported high levels of concern that due to Covid-19, their business might not survive—91 percent

FIGURE 4. REDUCTION IN OPERATIONS DUE TO COVID-19

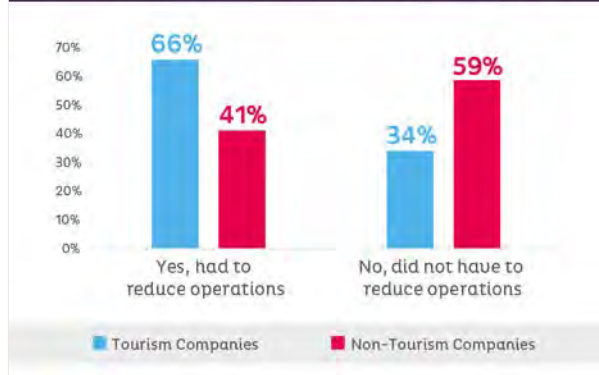
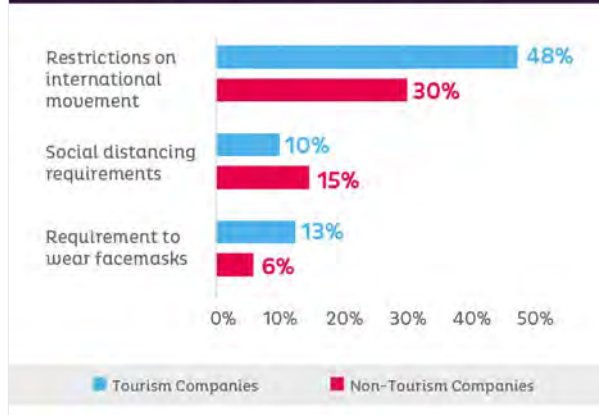


FIGURE 5. GREATEST IMPACT ON MSMEs



of the hotel and accommodation interviewees reported this concern, as did 94 percent of restaurant and food business interviewees.

While most MSMEs (90 percent) reported that they expected cash flow problems, and they feared that the survival of their company was at risk (89 percent), tourism companies reported even higher rates of concern about their business' cash flow and survival—96 percent, and 93 percent, respectively.

Covid-19 Impacts on Women Working in Tourism in Timor-Leste

Globally, 54 percent of the people employed in the tourism industry are women, which is higher than the percentage of women employed in other sectors of the economy (39 percent).¹⁸ However, women in the global tourism industry earn up to 15 percent less than men.¹⁹ Women also occupy lower-level positions than men, and are underrepresented in senior management.²⁰ In Timor-Leste, women comprise 62 percent of the accommodation and food service workforce; and similar to the global tourism industry, the average annual income in this sector is \$2,100 less than the average income in other sectors.²¹ Additionally, women working in tourism are over represented as unpaid family workers, they perform more unpaid labor than men, and their labor is often seen as an extension of their domestic roles and unpaid care work.²²



The Covid-19 pandemic has exacerbated the existing vulnerabilities across different demographics. Underlying social and economic conditions, and especially those attributed to gender inequality, have been magnified due to the impacts of Covid-19. According to the United Nations' report "Timor-Leste Socio-economic Impact Assessment of Covid-19", women comprise 61 percent of the workers who have lost their jobs, versus 39 percent for men.²³

To address the negative impact of job losses and lower income on households, the Government of Timor-Leste provided a one-time household cash transfer of \$200 that was rolled out from June to August 2020.

¹⁸ World Bank, Washington D.C. World Bank. 2019. World Bank Open Data. World Bank, Washington D.C. <https://data.worldbank.org/>

¹⁹ WTO (World Tourism Organization). 2019. Global report on Women in Tourism, 2nd Edition. Madrid: United Nations World Tourism Organization. <https://doi.org/10.18111/9789284420384>

²⁰ Ibid.

²¹ Ximenes, Eduardo Martinho, Nani Rolanda, Octaviana Maria de F.S. Lemos, Martinho Celcius Yeros, and Cristino Gusmão. 2017. "Business Activity Survey of Timor-Leste." National Directorate of Economic and Social Statistics. Dili: Government of Timor-Leste. <https://www.statistics.gov.tl/wp-content/uploads/2019/04/Publikasaun-BAS2017-English.-Rev.pdf>

²² Moreno Alarcón, Daniela and Ernest Cañada Mullor. 2018. "Gender Dimensions in Tourism Work." Contrast Reports 04: Responsible Tourism. Barcelona: Alba Sud Publishing. <http://www.albasud.org/publ/docs/81.en.pdf>

²³ Aldar, Dolgion, Noelle Poulson, Ricardo Santos, Frank Eelens, Guido Peraccini, Carol Boender, Nicholas McTurk, Sunita Caminha, Scott Whoolery, Munkhtuya Altangerel, and Ronny Lindstrom. 2020. "Socio-Economic Impact Assessment of COVID-19 in Timor-Leste." UN-TL SEIA Final Report. p. 12. Dili: United Nations. <https://mail.un.org.tl/en/component/jdownloads/download/17-covid-19/78-seia-final-report>

Looking at the gender dynamics of the cash transfer, and its impact on power relations within households, the UN study found that the funds did not affect pre-existing norms. Further research conducted by the Foundation, indicated that both male- and female-headed households spent most of the cash transfer on food for the household, and utilized the same decision-making processes they already had in place to deal with their finances.²⁴ However, when taking into account the unpaid care-work undertaken by women, the pandemic appears

to have increased intra-household inequalities because women have been taking on more domestic and child-care work than men. The UN report found that 34 percent of women reported spending more time on one or more of six household tasks, compared to 20 percent of men who spent more time on these.²⁵

Women have also been affected differently by the pandemic, depending on which sector they work in, and where they live—for example, women in agriculture have been particularly hard hit, financially.²⁶ As already noted, Timorese women are heavily involved in the burgeoning tourism industry, and the sector has considerable potential to grow, which would offer employment opportunities and financial empowerment to women in both urban and rural areas.²⁷

However, tourism is also a sector that has been heavily affected by the pandemic, and tourism is likely to feel the lingering impacts of the global recession and travel restrictions. Studies show that these impacts will likely affect women working in the tourism industry differently from men in the industry, and more research should be conducted so this difference is better understood and addressed.

MSMEs' Awareness about Government Support

The Government of Timor-Leste took steps in 2020 to address the potential negative economic impact of the pandemic on MSMEs, but awareness about the government's support options was low. On June 10, 2020 Timor-Leste's Council of Ministers under Resolution 18/2020 approved the creation of a Commission for the Preparation of the Post-COVID-19 Economic Recovery Plan, with the plan itself released and approved by Government Resolution 28/2020 of August 19, 2020. The plan outlines a number of subsidies and allowances, including one covering 60 percent of the income of employees who lost their jobs or had their hours reduced; exemption from paying social

²⁴ The Asia Foundation. 2020. "Timor-Leste Covid-19 Household Cash Transfer – Initial Effects on Welfare and Gender Dynamics." September 2020. Dili: The Asia Foundation. <https://asiafoundation.org/wp-content/uploads/2021/01/Timor-Leste-Covid-19-Household-Cash-Transfer-Executive-Summary-EN.pdf>

²⁵ Aldar, Dolgion, Noelle Poulson, Ricardo Santos, Frank Eelens, Guido Peraccini, Carol Boender, Nicholas McTurk, Sunita Caminha, Scott Whoolery, Munkhtuya Altangerel, and Ronny Lindstrom. 2020. "Socio-Economic Impact Assessment of COVID-19 in Timor-Leste." UN-TL SEIA Final Report. p. 10. Dili: United Nations. <https://mail.un.org.tl/en/component/jdownloads/download/17-covid-19/78-seia-final-report>

²⁶ Chen, Li Li. 2020. "Report on Women in Agriculture in Timor-Leste. State of Emergency and Covid Impacts." Bangkok: Oxfam in Asia. September 23, 2020. <https://asia.oxfam.org/latest/policy-paper/report-women-agriculture-timor-leste>

²⁷ Foreman, Sally. 2021. "For Equality and the Economy: Exploring the Gender Dimensions of Timor-Leste's Tourism Sector." Dili: UN Women Timor-Leste Country Office. <https://asiapacific.unwomen.org/-/media/field%20office%20eseasia/docs/publications/2021/03/tl-tourism-sector-s.pdf>

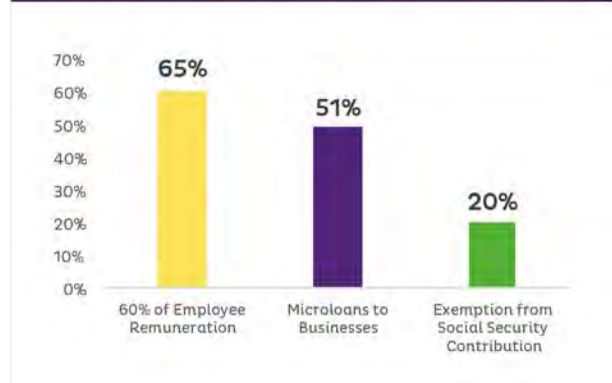


security contributions for employers who were paying half salaries to staff whose jobs were suspended; and exemption from paying social security contributions if an employer's contributions were overdue.²⁸ However, eligibility restrictions, challenges in registering for social security contribution exemptions, MSMEs' varying level of awareness about the government's assistance programs, delays in government disbursements, and MSMEs' confusion about whether they were eligible, resulted in underutilization of the government's support mechanisms.

The program that the largest number (65 percent) of MSME owners knew about was the government subsidy equivalent to 60 percent of employees' remuneration. Also, only 51 percent MSMEs were aware of the government's provision of microloans to businesses in the tourism, retail, manufacturing, and agriculture sectors. With regard to employers' exemption from paying the required social security contributions for their employees, only 20 percent of the MSMEs surveyed knew about this.

With regard to the tourism MSME respondents, a higher percentage were aware of the available government support and subsidies. A total of 72 percent of the tourism respondents reported that they knew about the government subsidy of 60 percent of employees' remuneration, and 57 percent said they were aware of the government microloans that

FIGURE 6. KNOWLEDGE OF GOVERNMENT STIMULUS PACKAGE



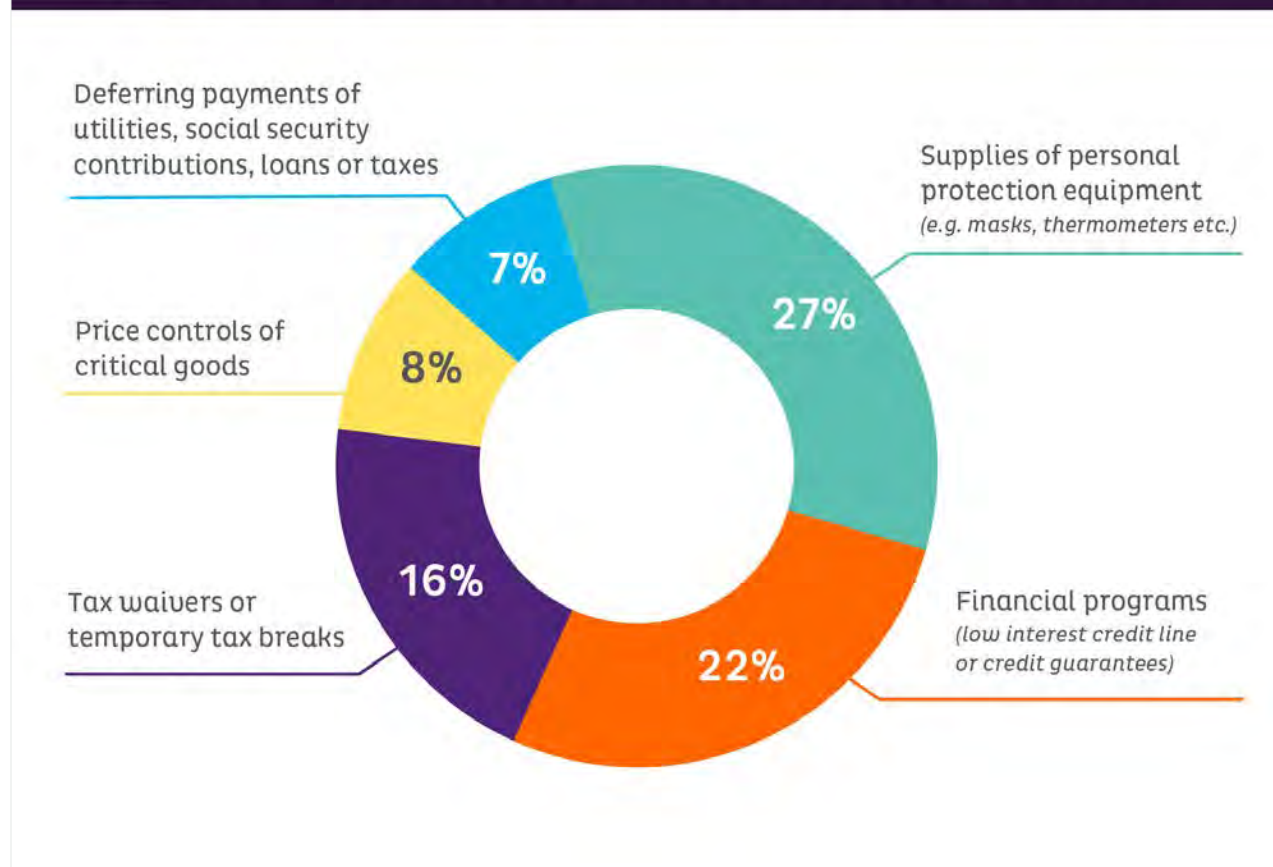
were available to businesses in the tourism, retail, manufacturing, and agriculture sectors. However, only 24 percent of the tourism MSMEs knew about the exemption from paying their share of employees' social security contributions.

This study found that more than a third (35 percent) of the MSMEs surveyed listed financial support programs as the most important government support that they could receive. This support included a low-interest credit line or a credit guarantee (19 percent), and tax waiver or temporary tax break (16 percent).

Similarly, more than a third of tourism businesses (38 percent) identified financial support programs as the most important government support that they could receive.

²⁸ Aldar, Dolgion, Noelle Poulson, Ricardo Santos, Frank Eelens, Guido Peraccini, Carol Boender, Nicholas McTurk, Sunita Caminha, Scott Whoolery, Munkhtuya Altangerel, and Ronny Lindstrom. 2020. "Socio-Economic Impact Assessment of COVID-19 in Timor-Leste." UN-TL SEIA Final Report. p. 110. Dili: United Nations.

FIGURE 7. TOURISM COMPANIES' MOST PREFERRED FORMS OF GOVERNMENT SUPPORT



This included a low-interest credit line or a credit guarantee (22 percent), and a tax waiver or temporary tax break (16 percent). Interestingly, only 6 percent of all the MSMEs surveyed, and 7 percent of tourism businesses surveyed, identified deferring social security contributions, loan payments, and utility bill payments as important types of government support.

With regard to the requirement for businesses' staff and customers to use facemasks, almost a third (30 percent) of all the MSMEs surveyed, and more than a quarter (27 percent) of the tourism business, indicated that the government should supply personal protection equipment (e.g. masks and thermometers) to ensure that businesses would be able to comply with these requirements.



A PATH TO RECOVERY



According to the World Travel & Tourism Council, globally, in 2020, 62 million jobs were lost due to the Covid-19 pandemic, and the tourism sector suffered a loss of \$4.5 trillion.²⁹

Across South and Southeast Asia, countries are struggling to contain the negative impacts of the Covid-19 pandemic on their tourism industry and their economy, overall. In 2020, global inbound visitor arrivals declined by nearly 80 percent, which has resulted in millions of job losses in the region, and the closure of millions of MSMEs.³⁰

The Foundation's survey of Timor-Leste's MSMEs shows that given the country's reliance on international as well as domestic mobility, income, and freedom to travel—all three of which have been drastically reduced by safety measures to contain the pandemic—the country's tourism sector is particularly vulnerable to the negative economic impact of Covid-19. It is also clear that additional initiatives are required to counter these negative economic impacts, especially if Timor-Leste is to regain momentum in expanding the tourism industry.

The Government of Timor-Leste's 2020 Economic Recovery Plan lists guidelines for economic recovery and growth that include recommendations for investment and promotion to achieve medium- and long-term growth, with ongoing financial support from the state and the Petroleum Fund. In the short term (Phase 1–2020), the government's strategy for mitigating the negative economic and social impacts of the pandemic has been to apply temporary measures that “support the maintenance of companies in the market and the resumption of their activity”.³¹ However, this will not be without challenges because, as indicated above, the government lacks information about the support mechanisms that private businesses want.

The Government of Timor-Leste intends to create a monthly cash subsidy for eligible businesses that are resuming their regular activities. This subsidy is intended to help businesses to cover their fixed costs, and allow them to make the small investments that may be necessary to carry out their activities.³² The subsidy will help to address the immediate needs of MSMEs, but it will have to be revisited,

²⁹ WTTC (World Travel and Tourism Council). 2021. *Economic Impact Reports*. Website accessed April 25, 2021. <https://wtcc.org/Research/Economic-Impact>

³⁰ PATA (Pacific Asia Travel Association). 2020. “COVID-19 and The Tourism Sector: A Comparison of Policy Response in Asia Pacific.” November 12, 2020. Bangkok: Pacific Asia Travel Association. <https://cra.pata.org/covid-19-and-the-tourism-sector-a-comparison-of-policy-responses-in-asia-pacific/>

³¹ GoTL (Government of Timor-Leste). “Timor-Leste 2020 Economic Recovery Plan.” p.11. Dili: Government of Timor-Leste. http://timor-leste.gov.tl/wp-content/uploads/2020/10/EN-PRE_screen.pdf

³² *Ibid.* p. 49



and perhaps revised, as the impacts of Covid-19 continue to emerge, and the long-term consequences become clearer. In future, it may be necessary to consider providing businesses with tax relief and small loans, opening the borders for trade, finding ways to open public markets, and developing a communication strategy that ensures that MSMEs are fully aware of their options and entitlements under the new stimulus packages.

The Timor-Leste Hotel Owners Association (HOTL) Association estimates that since the start of the pandemic in 2020, due to the decline in air travel and fewer bookings, the country's hotel industry has suffered a 95 percent reduction in sales revenue.³³ This is putting unprecedented strain on restaurants, hotels, and travel companies, which are trying to keep their doors open, retain staff, and pay basic operating costs (i.e. rent and utilities).³⁴

As the government aims to mitigate further contraction of the country's economy, recommendations for supporting and stimulating Timor-Leste's tourism sector in the immediate term (2021) are outlined below:

IMPROVE MSMEs' ACCESS TO INFORMATION

The MSME survey found that businesses' awareness of government subsidies and other support is low, ranging from 20 percent to 65 percent, depending on the initiative.

While this study did not explore the sources that businesses use to obtain information, the Foundation's quarterly Covid-19 pulse surveys in Timor-Leste, which interview over 400 people in the general public, asks respondents where they find information related to Covid-19. When the survey was last conducted in February 2021, most respondents (89 percent) cited television as their most trusted source of information, 74 percent cited social media, 55 percent cited radio, and 40 percent cited newspapers, which they read a few times a week.³⁵

Global studies have shown that social media play a crucial role in disseminating health information about Covid-19,³⁶ and could play a similar role in making information available to businesses, especially with regard to the government's response to the pandemic. While there have been attempts to digitize information to make it available to businesses

³³ Ibid. p. 70

³⁴ Chemonics International Inc. 2020. "Timor-Leste Tourism Reboot Initiative: A proactive plan for the after-corona era." May 7, 2020. p. 12. USAID Tourism for All Project. Washington, DC: United States Agency for International Development. <https://www.timorleste.tl/wp-content/uploads/formidable/4/TimorLeste-Tourism-Reboot-Initiative.pdf>

³⁵ The Asia Foundation. 2020. "Timor-Leste Covid-19 Survey. Round 3: September 2020." Dili: The Asia Foundation. <https://asiafoundation.org/wp-content/uploads/2021/03/Timor-Leste-COVID-19-Survey-September-2020-EN.pdf>

³⁶ Tsao, Shu-Feng, Helen Chen, Therese Tisseverasinghe, Yang Yang, Lianghua Li, and Zahid A Butt. 2021. "What social media told us in the time of Covid-19: a scoping review." *The Lancet*, Vol. 3, January 28, 2021. [https://doi.org/10.1016/S2589-7500\(20\)30315-0](https://doi.org/10.1016/S2589-7500(20)30315-0)



in Timor-Leste,³⁷ the government and business associations need to work together to use television and internet-based media to increase the uptake of information in a timely manner.

PROVIDE THE GOVERNMENT SUPPORT THAT MSMEs WANT

The MSME survey found a discrepancy between the support that the government is providing to businesses, and the support that businesses want the government to provide. Timor-Leste's Economic Recovery Plan indicates that \$3.6 million will be allocated to provide a six-month social security subsidy to approximately 40,000 employees, and a further \$35 million will be allocated for a monthly cash subsidy for employers who resume their regular business activities.³⁸ However, the MSME survey found that only 7 percent of MSMEs identify this as important support for the government to provide. A much larger percentage of the businesses surveyed (35 percent) preferred the provision of financial support through a credit guarantee and a tax waiver, and nearly the same percentage of tourism MSMEs (38 percent) preferred these types of support, too.

Since this research was conducted, the Ministry of Tourism, Trade, and Industry and the National Commercial Bank of Timor-Leste, with support from the United Nations Development Programme have established a low-interest (3 percent) loan guarantee facility aimed at supporting start-up and social enterprises that otherwise would not qualify for a bank loan.³⁹ While the initial loans are up to \$25,000, the support has total capital of \$480,000, and the targets are agriculture, tourism, fisheries, livestock, manufacturing, and retail firms.⁴⁰

ESTABLISH REGULATIONS AND INITIATIVES TO ENSURE COVID-19 SAFE TRAVEL

Throughout 2020, Timor-Leste was able to keep Covid-19 cases to a minimum. However, the risk of community transmission remains great. Accommodation facilities are potentially high risk as most of the people using the facilities are traveling, nationally and internationally. While infection-prevention control (IPC) training for government-sanctioned quarantine hotels has been conducted,⁴¹ IPC training should be provided for all accommodation facilities in the country so that they too follow appropriate prevention measures.

³⁷ The Asia Foundation. 2020. "July 2, 2020 COVID-19 Update: The Asia Foundation Timor-Leste." *Empreza: Information for businesses in Timor-Leste*. July 2, 2020. <https://www.empreza.tl/july-2-2020-covid-19-update-the-asia-foundation-timor-leste/>

³⁸ GoTL (Government of Timor-Leste). "Timor-Leste 2020 Economic Recovery Plan." pgs 49–52. Dili: Government of Timor-Leste. http://timor-leste.gov.tl/wp-content/uploads/2020/10/EN-PRE_screen.pdf

³⁹ Ximenes, Florêncio Miranda. 2020. "Government launches 'social business loan guarantee scheme' for Social Enterprises." *Tatoli*. September 21, 2020. <http://www.tatoli.tl/en/2020/09/21/government-launches-social-business-loan-for-social-enterprises/>

⁴⁰ *Ibid.*

⁴¹ Infection prevention & control train-to-trainer workshop, Hotel Timor, August 2020, with support from the World Health Organization, The Asia Foundation, Hotel Owners of Timor-Lorosa, and St John of God.



The United States Agency for International Development has financed IPC training for selected food and beverage providers in Dili,⁴² but now that domestic tourism is being encouraged,⁴³ this training should be country-wide, and also extended to tour and travel agencies.

Internationally, the discussion has shifted from rapid management and recovery from Covid-19 impacts to more long-term renewal, and rethinking how the tourist industry should operate. When selecting a destination, international travelers are now placing greater emphasis on safety, hygiene, and cleanliness protocols. In the Asia-Pacific region, 73 percent of consumers reported that compared to the trips they took before Covid-19, now when selecting their accommodation, health and safety precautions are more important than price (37 percent), location (46 percent), or exclusive offers (35 percent).⁴⁴ To ensure competitiveness, Timor-Leste must prioritize health and safety throughout the customer's journey, which means not only at accommodation, food, and beverage facilities, but also at Nicolau Lobato International Airport—the first point of contact when visitors arrive.⁴⁵

DEVELOP A MARKETING CAMPAIGN THAT PROMOTES TOURISM AS WELL AS TOURISM-LINKED EXPORTS

Historically, prior to Covid-19, the growth of Timor-Leste's tourism sector was constrained by low accessibility, the high cost of travel to the country, and limited awareness of Timor-Leste as a tourism destination. Development of an official country brand, "Explore the Undiscovered", and the national tourism website (www.timorleste.tl), are part of the government's concerted efforts since 2017 to drive demand from international markets.

Restrictions due to Covid-19 have made it almost impossible for international tourists to travel. In 2020, in comparison to 2019, Timor-Leste experienced a 78 percent reduction in foreign arrivals by air.⁴⁶ Given the reduction in tourism, it is imperative that Timor-Leste continues to market its destination to ensure that demand continues, and can be converted into sales once the travel restrictions have eased. In addition, to interest resident expatriates and Timorese citizens in domestic tourism, new visual content should be created.

⁴² USAID (2020), 'USAID Tourism for All Annual Report FY20,' p.29

⁴³ Ministry of Tourism. 2020. " 'Ha'u-nia Timor-Leste' Domestic Tourism Fair and Expo". Timor-Leste Travel News, August 28, 2020. <https://www.timorleste.tl/hau-nia-timor-leste-domestic-tourism-fair-and-expo/>

⁴⁴ PATA (Pacific Asia Travel Association). 2020. "The Impact of Health and Hygiene on Post COVID-19 Destination Competitiveness." Bangkok: Pacific Asia Travel Association. <https://cra.pata.org/health-hygiene-post-covid-19-destination-competitiveness/>

⁴⁵ Hooper, Paul. 2020. "Covid-19 and the Alignment of Timor-Leste's Aviation and Tourism Strategies." September 2020. Dili: The Asia Foundation. <https://asiafoundation.org/wp-content/uploads/2020/10/Covid-19-and-the-Alignment-of-Timor-Lestes-Aviation-and-Tourism-Strategies.pdf>

⁴⁶ Ministry of Planning and Finance. 2021. Quarterly Statistical Indicators. Portuguese. February 2021. Government of Timor-Leste. Accessed April 25, 2021. <https://www.statistics.gov.tl/wp-content/uploads/2021/03/QSI-Q4-2020-FINAL.pdf>



If this is curated strategically under the “Explore the Undiscovered” country brand, this could also increase international visibility and the marketability of Timor-Leste’s tourism in the months and years to come.

The Covid-19 pandemic has had a wide ranging and lasting impact on Timor-Leste’s economy. While the country seeks to diversify its economy so that it no longer depends on earnings from the petroleum industry, its two other major products—coffee and tourism—have been significantly affected by the pandemic. Across both industries, profits have fallen nearly 80 percent. In 2020, the coffee sector contributed only \$3.9 million to the economy (down from \$18.3 million in 2019).

⁴⁷This was largely due to Indonesia, Canada, and the United States reducing their imports of Timor-Leste’s coffee by over 90 percent, which cut industry revenue by \$12.7 million.

To facilitate the recovery of both the tourism and the coffee industry, an innovative promotion strategy for the Australian market links both industries. Australia is Timor-Leste’s primary source of international travelers—in 2019, Australians comprised 40 percent of the country’s leisure travelers.⁴⁸

To promote both coffee and tourism in Australia, The Asia Foundation and the Market Development Facility supported Timor-Leste’s National Coffee Association (Assosiasaun Café Timor) with a campaign that publicized Timor-Leste as a coffee-producing destination in Australia’s leading specialty coffee magazine,⁴⁹ and also distributed Timor-Leste’s top 15 coffees to 50 roasters in Australia.⁵⁰ Together, the two marketing campaigns have potential to increase Australian consumer awareness of Timor-Leste as both a source of high quality coffee, and as a travel destination.

⁴⁷ Ministry of Planning and Finance. 2021. “Export of Coffee by Country of Destination.” Quarterly Statistical Indicators. Portuguese. February 2021. Government of Timor-Leste. Accessed April 25, 2021 <https://www.statistics.gov.tl/wp-content/uploads/2021/03/QSI-Q4-2020-FINAL.pdf>

⁴⁸ The Asia Foundation. 2020. “2019 survey of travelers to Timor-Leste.” <https://asiafoundation.org/publication/2019-survey-of-travelers-to-timor-leste/>

⁴⁹ Beanscene Magazine. 2020. “Timor-Leste: A rising star.” October 26, 2020. <https://www.beanscenemag.com.au/timor-leste-a-rising-star/>

⁵⁰ Raw Material Coffee. 2021. Best of Timor-Leste coffee distribution campaign. [e-mail] (Personal communication, March 31, 2021)



CONCLUSION

Because businesses' profits have fallen substantially, the Government of Timor-Leste has been providing them with subsidies. However, as this study shows, information about how to access these subsidies is not reaching MSMEs, and MSMEs' preferences for support differ from what the government has been providing. As economic recovery from Covid-19 will take some years, recovery must be viewed as a long-term process that requires the participation of the country's private as well as its public sector. As outlined in this report, innovative support by development partners, in partnership with the Government of Timor-Leste, and the private sector, could enable sustainable tourism industry growth, and long-term economic growth, overall.

