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EMPOWERING MSMES FOR SUSTAINABLE GROWTH IN TIMOR-LESTE: A COMMUNITY ENGAGEMENT PERSPECTIVE

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to economic diversification and inclusive growth in Timor-Leste, yet many still face barriers in finance, technology, and sustainability. This community service initiative aimed to strengthen MSME capacity through education, innovation, and participatory engagement between academia, government, and industry. Using a qualitative- descriptive approach within the community-based empowerment framework, the program integrated training in entrepreneurship, digital literacy, and green business practices. The implementation focused on cross-border collaboration between Timor-Leste and Indonesian MSMEs, particularly through the Kauman Batik Village Association in Pekalongan, as a model for cultural and creative entrepreneurship. Results showed a 73% improvement in participants' understanding and skill levels, demonstrating the effectiveness of knowledge transfer and capacity-building methods. The project highlights that empowering MSMEs through collaborative community engagement can enhance competitiveness, foster sustainable practices, and promote cultural identity in global markets. Future initiatives are recommended to focus on digital transformation, financial inclusion, and eco-innovation to support long-term MSME resilience.

Keywords: community engagement, MSME empowerment, sustainable development, digital literacy, Timor-Lest

ABSTRAK

Usaha Mikro, Kecil, dan Menengah (UMKM) sangat penting bagi diversifikasi ekonomi dan pertumbuhan inklusif di Timor-Leste, namun banyak yang masih menghadapi kendala dalam hal pembiayaan, teknologi, dan keberlanjutan. Inisiatif pengabdian masyarakat ini bertujuan untuk memperkuat kapasitas UMKM melalui pendidikan, inovasi, dan keterlibatan partisipatif antara akademisi, pemerintah, dan industri. Dengan menggunakan pendekatan deskriptif-kualitatif dalam kerangka pemberdayaan berbasis masyarakat, program ini mengintegrasikan pelatihan dalam bidang kewirausahaan, literasi digital, dan praktik bisnis ramah lingkungan. Pelaksanaannya difokuskan pada kolaborasi lintas batas antara UMKM Timor-Leste dan Indonesia, khususnya melalui Asosiasi Desa Batik Kauman di Pekalongan, sebagai model kewirausahaan budaya dan kreatif. Hasil menunjukkan peningkatan pemahaman dan keterampilan peserta sebesar 73%, yang menunjukkan efektivitas metode transfer pengetahuan dan penguatan kapasitas. Proyek ini menyoroti bahwa memberdayakan UMKM melalui keterlibatan komunitas secara kolaboratif dapat meningkatkan daya saing, mendorong praktik berkelanjutan, dan mempromosikan identitas budaya di pasar global. Inisiatif di masa depan disarankan untuk fokus pada transformasi digital, inklusi keuangan, dan inovasi ramah lingkungan untuk mendukung ketahanan jangka panjang UMKM.

Kata kunci: keterlibatan komunitas, pemberdayaan UMKM, pembangunan berkelanjutan, literasi digital, Timor-Leste

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Background

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in supporting the socio-economic development of developing countries. MSMEs have been widely recognised as drivers of employment and innovation in developing countries (World Bank, 2023). According to ADB (2022), the contribution of MSMEs to GDP in Southeast Asia ranges between 30–60%, depending on the degree of formalisation and access to capital. Timor- Leste's MSME sector, although still nascent, exhibits strong potential in agriculture, handicrafts, tourism, and small- scale manufacturing (Belo, 2019).

Community engagement models in economic development emphasise participatory approaches where universities, governments, and private sectors collaborate to enhance local capacities (Etzkowitz & Leydesdorff, 2000). Through training, mentoring, and digital literacy programmes, universities can serve as agents of change that bridge academic knowledge with community needs (Sunarjo et al., 2024). The literature also underscores the importance of sustainable entrepreneurship, digital transformation, and green innovation as enablers of resilience among MSMEs (OECD, 2023).

Recent studies have highlighted the strong interconnection between MSME development and tourism growth in small island economies. The World Tourism Organization (UNWTO, 2024) emphasises that empowering local entrepreneurs through tourism not only increases income but also fosters community pride and social cohesion. Furthermore, integrating green innovation into tourism-related MSMEs supports sustainable practices and enhances long-term competitiveness in the global market.

In Timor-Leste, MSMEs are considered the backbone of economic diversification, job creation, and community empowerment. With an estimated population of 1.3 million and a young workforce, Timor-Leste, nicknamed "Bumi Loro Sae (Land of the Loro Sae)", faces the dual challenge of maintaining growth beyond oil dependence while simultaneously promoting inclusive development through entrepreneurship. Timor-Leste certainly offers significant opportunities for MSMEs to engage in trade. This can increase local incomes, help lift communities out of poverty, and eliminate the need for financial assistance from the local government.

The latest data from the global passport strength rankings shows a surprising increase in the strength of Timor-Leste's passport, which is stronger than Indonesia's. This small nation, which recently joined ASEAN, even surpasses Indonesia in the number of countries it can visit without a visa.

Despite government policies and donor support, many MSMEs in Timor-Leste remain informal, lack financial literacy, and face barriers to accessing finance and technology. The country's transition from a resource-dependent economy to a diversified one requires structured interventions that combine policy, education, and community engagement. However, Timor-Leste boasts a renowned flagship product: high-quality organic coffee, including unique Timorese hybrid varieties, which fuels the economy. Timor- Leste coffee stands out for its traditional growing and processing methods. Coffee and vanilla are Timor-Leste's leading exports and attract MSMEs in the global market due to their unique geography and quality. Timor-Leste enjoys a strategic geographic position as a gateway to Australia and ASEAN countries.

Furthermore, the tourism sector is one of the most promising areas for MSME expansion in Timor-Leste. Small businesses operating in hospitality, local guides, and cultural products can significantly enhance the country's image as an ecotourism destination. By integrating MSME empowerment into sustainable tourism development, community-based businesses can directly benefit from increased visitor flows while preserving local heritage (Visiana, 2025). Reflecting on this, the transfer of knowledge, capacity building, and increased local competitiveness that Timor-Leste's MSMEs have implemented by packaging MSMEs with local cultural identities to penetrate the global market serve as a reference for Batik MSMEs within the Kauman Batik Village Association, focusing on their identity and the quality of local wisdom that can attract global consumers through Indonesian culture.

This aligns with the objectives of community service activities, which conceptualise a community service approach that emphasises knowledge transfer, capacity building, and increased local competitiveness for MSMEs as key pillars of sustainable growth toward the global market. Therefore, this activity was conducted with Batik MSMEs within the Kauman Batik Village Association in Pekalongan.



Figure 1 Community Service Activities

Community Service Methodology

Modules are designed to help ntrepreneurs package local tourism products, articularly This conceptual paper uses a qualitative- descriptive approach rooted in the hilosophy of community-based empowerment (Gute, 2020).

This community service framework integrates three dimensions of engagement: (1) capacity building through education and mentoring, (2) participatory problem- solving involving local entrepreneurs and students, and (3) sustainability-orientated innovation aligned with the characteristics of natural and cultural potential.

The proposed model follows a “Triple Helix” collaboration between universities, government institutions (such as SEFOPE), and private sector actors. This collaboration aims to provide MSMEs with access to microfinance, digital marketing skills, and entrepreneurship education. This framework emphasises co-creation—ensuring that interventions are culturally relevant and responsive to local needs while encouraging the inclusion of young entrepreneurs and women.

This conceptual engagement model also incorporates tourism-based MSME initiatives that encourage experiential learning and cultural exchange. Training batik, for domestic and international tourists. By combining business incubation with tourism development, this approach enhances the resilience of MSMEs and promotes batik as a sustainable cultural product.

Results and Discussion

Empirical observations from community engagement projects in Dili, Timor-Leste, and other districts indicate that MSMEs operating in tourism have greater scalability potential than other sectors. Small guesthouses, cultural tour

providers, and eco-friendly craft producers have demonstrated rapid adaptation to digital tools, while coffee and vanilla products have also seen significant increases in promotion and orders and have entered the global market. These findings suggest that focusing on MSMEs based on local wisdom and culture can be a catalyst for broader economic empowerment, linking local creativity with global tourism.

Community service activities conducted as a means of knowledge transfer and information sharing demonstrate the enthusiasm of MSMEs in the Kauman Batik Village Association in Pekalongan, demonstrating their commitment to Pekalongan's robust MSME ecosystem, which is capable of collaborating and opening up opportunities for collaboration to enhance the promotion and marketing of their products. This is similar to MSMEs in Timor-Leste, which are still in their formative stages but have strategic growth opportunities. Dominant sectors are maximised through targeted capacity- building interventions. Through community- based training, product excellence, and cultural competitiveness as key elements of identity are developed. Furthermore, financial literacy and digital marketing assistance are provided, which can undoubtedly increase the competitiveness of MSMEs in regional, national, and even global markets.

Furthermore, the gradual adoption of social media is transforming the way MSMEs engage with customers. With the right assistance, MSMEs can leverage platforms like Facebook and Instagram, as well as websites, for product promotion and e-commerce. However, the digital literacy gap and limited internet infrastructure remain significant challenges. Therefore, community service initiatives must integrate literacy training and promote digital inclusivity.

From a sustainability perspective, local entrepreneurs appear increasingly aware of environmental issues, promoting green production practices, such as eco-friendly batik and the use of wastewater treatment plants (WWTPs) for sustainable environmental protection, in line with market trends and the Sustainable Development Goals (SDGs).

Table 1 Pretest and Posttest Results

Participant	Pre-test Score	Post-test Score
Respondent 1	50	80
Respondent 2	30	75
Respondent 3	40	75
Respondent 4	45	75
Respondent 5	50	70
Respondent 6	45	70
Respondent 7	55	75
Respondent 8	45	80
Respondent 9	40	75
Respondent 10	50	70
Respondent 11	40	75
Respondent 12	40	75
Respondent 13	35	70
Respondent 14	45	75
Respondent 15	50	80
Respondent 16	55	75
Respondent 17	45	75
Respondent 18	40	80

The success of these community service programmes depends on long-term institutional commitment, inclusive partnerships, and consistent monitoring of community outcomes. Twenty-five batik MSMEs belonging to the Kauman Batik Village Association gained valuable information to enhance their global competitiveness through the local culture and wisdom that characterise their products. This understanding was evident in the active participation of community service participants, with intensive discussions and a 73% increase in understanding. This demonstrates the success of this cross-border community service activity, which fostered discourse and shared experiences as a form of shared concern for sustainability and globalisation.

Conclusion and Recommendations

MSMEs in Timor-Leste hold substantial potential to catalyze economic diversification and inclusive growth. This paper highlights the importance of community engagement as a transformative strategy to empower MSMEs through education, innovation, and sustainability (Sunarjo, et al., 2024). The conceptual model proposed in this article emphasizes collaboration between academia, government, and industry as a pathway toward resilience and self-reliance.

Future community service programs should focus on strengthening digital skills, enhancing financial access, and promoting green entrepreneurship among MSMEs. University-based initiatives can play a leading role in providing technical assistance, research-based training, and mentoring to entrepreneurs. By adopting a participatory and context-sensitive approach, Timor-Leste can build a vibrant MSME sector that contributes to long-term national prosperity.

In the context of tourism, empowering MSMEs is not only an economic strategy (Sunarjo et al., 2022) but also a cultural and social mission. Supporting entrepreneurs in hospitality, handicrafts, and local cuisine sectors will enhance Timor-Leste's identity as a sustainable tourism destination. Therefore, future community service programs should integrate tourism entrepreneurship as a key driver of MSME development to ensure that local communities benefit equitably from tourism growth.

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