



## ORIGINAL RESEARCH ARTICLE

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## The Small and Medium Enterprises in Dili, Timor-Leste, From The Perspective Of Business Stakeholders Basis For Government Policies On Business Operations Program

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### ABSTRACT

The study aims to explore the views of business stakeholders regarding government policy on Small and Medium Enterprises (SMEs) operations in Dili, Timor-Leste. The study applied a quantitative-descriptive research design, and the data were gathered based on 167 SME stakeholders of the retail sector, manufacturing, and service sectors, using a validated and designed questionnaire. In this research, descriptive statistics were used, Analysis of Variance (ANOVA), and the post hoc tests to identify differences among stakeholders' views on the basis of their business profiles. SPSS was also used to provide statistical analysis.

The analysis of the data revealed that the majority of enterprises in Dili are sole proprietorships made up of small firms with a limited workforce capacity, and the owners of small and medium enterprises in Dili have moderate to high educational attainment. The study also found that most of the small and medium enterprises in Dili are moderately satisfied with the government support program; however, for the bureaucratic procedures, delays in releasing funds remain a challenge. The other challenges found in the study are Limited financial options, inconsistent utilities, a shortage of skilled labor, poor market conditions, and regulatory inefficiencies. For the majority of SMEs in Dili, when managing their operations for each day rely on implementing strategies such as digital adoption, product innovation, and attending training programs. However, long-term capacity-building investment remains scant. Variations in challenges and strategies that walls learn about through business size, type, and industry. The findings emphasise the need for flexible assistance to small and medium enterprises in Dili. Policy reform, regulation simplification, and capacity building programmes are crucial for encouraging the productivity of small and medium enterprises.



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### INTRODUCTION

Economically, Timor-Leste has made good progress but remains heavily reliant on public spending and oil and gas revenues. Offshore petroleum production began in 2004, and revenues have been saved in the Petroleum Fund, which by mid-2025 held roughly ten times the country's annual GDP, United Nations Economic and Social Commission for Asia and the Pacific (2025). This sovereign fund enabled a large increase in public investment and infrastructure. However, growth in non-oil sectors has been modest: private investment is still limited, and GDP growth

averaged only about 3–4% recently, below government targets. High government spending (85% of GDP on average) was financed largely by the Fund, causing fiscal deficits of nearly 40% of GDP between 2013–2023. In the absence of new resource projects, experts warn that the Petroleum Fund could be exhausted without policy changes. In short, translating natural-resource wealth into sustained, inclusive growth is a core challenge, International Monetary Fund, Asia and Pacific Dept. (2025). In reaction, attempts at diversifying the national economy are high on development plans agendas. The Strategic Development Plan 2011–2030 aims to eliminate poverty and attain upper-middle income status by 2030. Trade and growth reports have advised

building up sectors, such as agriculture, tourism, fisheries, and light manufacturing, to end dependence on oil and gas. In the case of Timor-Leste, for instance, a Diagnostic Trade Integration Study (DTIS) found that building up agriculture and tourism, as well as other non-oil/gas sectors, can assist in “diversifying away from oil and gas,” IXth Constitutional Government, Ministry of Trade and Industry. (2023). Through the use of policy measures, the government aims to achieve medium-term growth (5–6%) by encouraging private investment in these areas; however, current growth remains low (around 3.4% yearly from 2021 to 2023). In this context, SMEs are perceived as an important driver for diversification and inclusion.

SME, defined as firms ranging from the micro to large size, are universally regarded as “crucial drivers of socioeconomic development” (El Madani, A., 2018). They are often the main source of job creation, income generation, and entrepreneurship in developing economies, contributing to local production and poverty reduction. In several developing nations, SMEs have shown proven value in creating jobs and increasing local production; therefore, they greatly contribute significantly to sustainable economic development (Pandya, 2012). In Timor-Leste’s context, strengthening micro, small, and medium enterprises is identified as a national priority for resilient growth. ADB notes that although most Timorese SMEs are currently small, they represent a “potential yet untapped resource for building a framework for sustainable development” (ADB, 2025). Indeed, supporting SMEs is aligned with the United Nations Sustainable Development Goals (SDGs). Specifically, this study aligns with SDG 8: Decent Work and Economic Growth, which advocates for promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all (United Nations Department of Economic and Social Affairs, 2019). It also supports SDG 9: Industry, Innovation, and Infrastructure, which emphasizes building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation (Brodny & Tutak, 2023).

By law, Timor-Leste classifies SMEs according to firm size. For example, credit-guarantee legislation defines a small enterprise as one with 6–20 employees and a medium enterprise as 21–50 employees. In practice, turnover and asset limits are also used for classification, but employment count provides the legal definition for size categories (ADB, 2024). Nevertheless, even with this legal classification, small and medium-sized enterprises (SMEs) in Timor-Leste encounter several substantial challenges. Timor-Leste enterprise survey found that the major challenges are: access to finance, business license and permits, customs and trade regulations, electricity, inadequately educated workforce (World Bank, 2021). Numerous reports from international organizations and studies have documented these challenges, highlighting the need for targeted policy intervention.

Access to finance, such as internal funds, bank loans, supplier credit, and non-bank institutions, is hampered by dependency on internal financing, indicating poor financial intermediation. A study by Belo (2019), SMEs in East Timor have difficulty accessing credit from MFIs or banks to support their growth. Furthermore, a report by The ADB (2022) highlights that, “in Timor-Leste, the commercial banks are risk-averse and often

request too much collateral and formal documentation beyond the capacity of most SMEs”. The ADB also notes that most of the financial institutions prioritize more on larger and well-known companies over small enterprises, which contributes to the lack of access to finance by small enterprises. This exclusion is also intensified by a lack of credit history, low levels of financial literacy, and scant access to digital financial services (Shirono et al., 2024).

World Bank (2021) describes quality physical infrastructure, such as roads, energy or water supply, and telecommunications, playing an essential role in economic competitiveness and the development of firms by driving down costs of production and opening up markets. Lack of essential facilities and services (electricity, water, and internet) is a precondition for small and medium enterprises. In Dili, an overstretched water supply system leaks and frequently fails to deliver the water capacity (Asian Development Bank, 2022). According to the World Bank Group (2019), while the process of obtaining electricity in Timor-Leste is typically short, the overall number of outages per month is comparatively low, there have been concerns about the reliability of the power supply. A study by Sacchetto (2021) explains that “the number of businesses that reported that the lack of electricity was a problem increased from 30% in 2009 to 2.4% in 2015”, indicating noteworthy improvements, but the problem of power outages continues to be a major obstacle.

Human capital factors are crucial determinants of SME competitiveness, but skills gaps represent a longstanding obstacle to the country’s business environment. The International Labour Organization (2022) reports that, “Timor-Leste has made advances in the development of its technical and vocational training systems through progress towards a national qualifications framework and skills certification processes. However, most small and medium-sized businesses still struggle to find the skilled workers they need. According to Sacchetto (2021), “low levels of education are a major impediment to the productive utilization of workers in Timor-Leste, where a large working-age population has no formal schooling and both quality teaching and learning outcomes by students’ performance are low relative to the regional average.

With Southeast Asian countries increasingly bound together by trade and regional cooperation, small and medium enterprises (SMEs) have opportunities to tap into international supply chains as subcontractors or suppliers. Timor-Leste can benefit from better market access by being a member of ASEAN, opening opportunities for export diversification, attracting investment, and regional integration (Gomes, Shrestha & Buban, 2024). Yet, many SMEs find it difficult to engage due to issues such as a lack of access to finance, the absence of appropriate enterprise, digital skills, and low levels of sustainable entrepreneurial motivation (ADB, 2015). A study by Bonga (2014) reveals that many SMEs have difficulty complying with export requirements and are generally unfamiliar with international market laws. These limitations hinder small and medium enterprises’ capacity to actively participate in the global economy and limit their growth option. According to Sauv e, Lacey & Lakatos (2024), Timor-Leste has an open trade policy with low tariffs; however, market access is constrained by high trade costs, limited export diversification, and poor logistics infrastructure.

There are major regulatory constraints to growth and formality for SMEs in Timor-Leste. ILO (2017) notes that the legal environment for small and medium-sized enterprises (SME) in Timor-Leste is underdeveloped since there are difficulties in registration and little availability of business support structures. Based on the World Bank (2020) Doing Business report, Timor-Leste is in 190th position worldwide in the issues of enforcing contracts, and thus suffers from an extremely inefficient judiciary for a way to settle commercial disputes.

The absence of a clear and comprehensive law and regulation that facilitates the business environment is one of the serious obstacles that SMEs face in Timor-Leste (World Bank, 2021). Yengar et al (2022) further emphasized that the Business Registration System in Timor-Leste has been plagued by several constraints, including the absence of digital infrastructure, weak administrative capacity, and cumbersome regulations that slow down the process of formalization for SMEs.

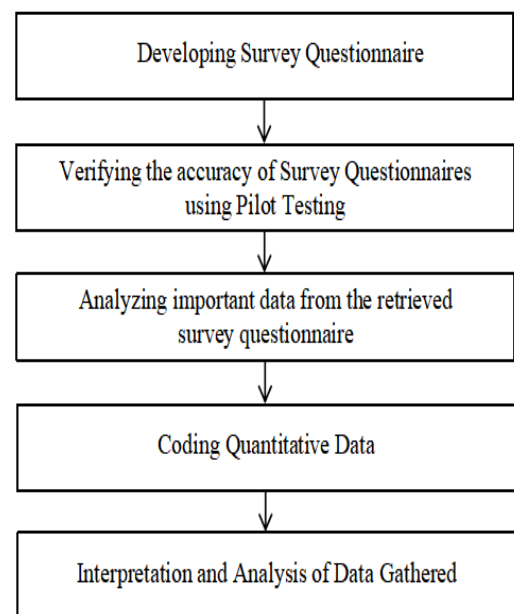
Despite these challenges, Timor-Leste has a lot of economic potential that hasn't been used. According to the World Bank (2025), there are many opportunities for SMEs in Timor-Leste in the areas of Trade Expansion, Land governance, and flows of investments. Sacchetto (2023) indicates that market opportunities for SMEs in Timor-Leste are represented by niche agriculture exports, development of eco-tourism, and development of artisanal and service-oriented industries. Small and Medium Enterprises hold an important position in advancing a nation's economy and development, serving as key agents that influence social progress, business growth, and policy transformation if there is a good enabling policy framework and access to resources. Ayandibu and Houghton (2017) also established in their comparative study on the contributions of small and medium enterprises that, given proper integration into wider development plans, SMEs are capable of significantly enhancing local livelihood. Even though they analyse South Africa, the basic principles such as training SMEs, access to finance, and enabling regulation are very relevant for Timor-Leste.

The purpose of this study is to complement such work by conducting a capital-level (Dili) stakeholder-driven assessment. By the end of the study, the readers will have a grasp of the key constraints and drivers from the perspective of SMEs in Dili, including financing challenges, workforce, infrastructure, and regulation as experienced by businesses at a micro-level.

## THE METHOD

The study was conducted in Dili, the capital city and administrative center of Timor-Leste, with a quantitative research design. The primary instrument for data collection was the structured questionnaire, designed to capture responses in line with the objectives of the study and complemented by a literature review and previous empirical studies. The questionnaire was content validated by academic and field experts in entrepreneurship SME development for cultural relevance, clarity, and appropriateness.

### Data Gathering Procedure



### The Result of Descriptive Statistical Analysis

The data presented herein show that the overall weighted mean across all determinants is 2.67, interpreted as Satisfied. It seems that the “average small business has moderate satisfaction” with government financial policies, especially in fairness and transparency, and helpfulness of financial support. Yet bureaucratic formalities and the slow speed of disbursement of funds continue to be important bottlenecks that need policy priority to improve financial schemes for SMEs. The results are consistent with studies like Amadasun and Mutezo (2022) that highlight the fact that while access to finance is still one of the most critical supports for the growth of SMEs, bureaucratic bottlenecks, stringent documentation, and delays observed in fund disbursement often minimize their capacity to tap into available financial opportunities.

## RESULT, ANALYSIS, AND DISCUSSION

The data presented herein show that the overall weighted mean across all determinants is 2.58, interpreted as satisfied. This indicates a moderate average level of satisfaction with the regulatory regime and ease of doing business under the government policy. But dissatisfaction with local-level support, administrative procedures, functionality of online services, and regulatory uniformity makes it clear there needs to be a more efficient process and a more business-friendly. These findings are supported by previous research of Mohamed and Mnguu(2014), where it was reported that a lot of excessive bureaucracy, erratic policy making, and lack of support from the local government are standard obstacles for SME development. Similarly, Alm and Farooq (2024) argue that, though there has been improvement at the national level due to tax policies introduced, leveraging digital system platforms, registration, and tax compliance, there are still challenges at the sub-national level in relation to the processing of taxes, regulatory enforcement, and efficiency of the digital systems.

## FINDINGS

The survey concluded that most of the small and medium enterprises (SMEs) in Dili are single-owner businesses with small operations employing 6-20 workers. The service sector became the dominant one and was followed by retail and manufacturing due to the nature of business in the city of Dili, which is largely service-based. While a large number of such firms have been founded for more than five years, the remaining firms are relatively young, reflecting both the stability in the SME sector as well as the dynamics. As for the number of employees, the majority of the businesses are small in size, which exposes resource limitations set by smaller firms.

The demographic characteristics of the respondents were fairly represented between the male and female respondents, with most of them falling within the age bracket of less than 44 years. Almost half of the respondents have a minimum of a bachelor's degree, which shows that there is an overall well-educated pool of operators and employees of Small and Medium Enterprises. Most

Table 7

Indicators	Mean	Descriptive Interpretation
1. Ease of business registration	3.04	Satisfied
2. Speed of permit processing	2.63	Satisfied
3. Clarity of rules and procedures	2.94	Satisfied
4. Fair enforcement of regulations	2.81	Satisfied
5. Ease of tax compliance	2.87	Satisfied
6. Support from local offices	2.07	Dissatisfied
7. Fewer steps in government processes	2.30	Dissatisfied
8. Usefulness of online services	2.11	Dissatisfied
9. Attention given to SME concerns	2.56	Satisfied
10. Consistency in applying regulations	2.46	Dissatisfied
<b>WEIGHTED MEAN</b>	<b>2.58</b>	<b>Satisfied</b>

Note. Scale 4 (3.26-4.00) = Very Satisfied, Scale 3 (2.51-3.25) = Satisfied, Scale 2 = (1.76-2.50) = Dissatisfied, Scale 1 (1.00-1.75) = Very Dissatisfied

respondents were business owners, a point that indicates that most of the views that were obtained in the study were those of people who were directly involved in making any decision. In addition, the distribution of tenure showed that the respondents were of mixed experience in their respective companies, with less than three years of experience up to a span of more than five years, showing different levels of business maturity and organizational exposure.

While assessing respondents' satisfaction with government policies concerning financial assistance programs, particularly, the respondents coming from Small and Medium-sized Enterprises (SMEs) showed some degree of moderate satisfaction regarding the fairness, transparency, and usefulness of the financial assistance programs, relative to the dissatisfaction expressed concerning the intricate requirements, delays, and disbursements of the funds the respondents need to access. Similarly, with regard

to respondents' satisfaction with government policy regarding regulatory support and ease of doing business, participants claimed that there is some improvement in the registration of businesses, payment of taxes, and adherence to regulations. But, they pointed out, there are serious problems and inefficiencies in the bureaucracy, the support of local government, and digital systems. These findings highlight the gap between policies and their implementation at the local level, where regulatory interaction with SMEs is more pronounced. The problems of Small and Medium Enterprises were multiple, from financial access, infrastructure to skills among workers, market access, as well as regulations. Access to investors and cost-effective finance, reliable utilities, attracting and retaining skilled employees, linking to markets, and working through bureaucracy were identified as ongoing constraints.

## CONCLUSIONS

Although the level of education among the operators of small and medium enterprises in Dili, and their high presence in entrepreneurship, is relatively high, the issue of financial accessibility, reliability of infrastructure, and inefficiency in the regulation of businesses remains a challenge to most businesses. The government aid programs, even where they exist, are not efficient in providing immediate services to SMEs due to the presence of bureaucracies and tedious requirements, highlighting the gap between the policy framework and the realities on the ground with regard to entrepreneurs. However, SMEs are flexible in nature since they pursue strategies that include digital implementation, innovating their products, and training programs in order to keep operating. However, their short-term survival focus leads them to provide less investment in long-term growth opportunities such as employee training and work efficiency. Particular policy reforms, enabling actions of regulation, and capacity-strengthening efforts to increase their resilience as well as competitiveness should be prioritized. In the end, it is important that the government should be responsive and the private sector should be innovative in improving the business environment of SMEs, as it is only under these conditions that the government and entrepreneurship can work to their full potential in economic growth and community development.

On these findings, the study emphasised the collaboration between policymakers, the institution of the private sector, and small and medium enterprises themselves. By establishing inclusive financing mechanisms, infrastructure development, and sustained training and knowledge sharing, SMEs in Dili may be better placed to overcome the current challenges and be in a position of sustainable growth. In the future, by enhancing an ecosystem that is conducive to entrepreneurship, not only will SMEs be empowered, but also the nation will be greatly enhanced in terms of development and poverty eradication.

## RECOMMENDATIONS

1. Minimizing the paperwork involved and consequently eliminating redundant requirements, the government should ease the process of loan applications and the granting of loans. This will allow the SMEs, especially the smaller ones

whose administrative capacity may be limited, to access support programs more efficiently and without unnecessary delays.

2. The financial institutions and policymakers should work together in coming up with credit facilities that are friendly to SME, like microloans with easy repayment schemes and less collateral. This will assist the entrepreneurs to maintain their businesses and invest in other business growth, even when they have fewer financial resources.
3. The government must focus on the reform of electricity stability, the internet, and road infrastructure in Dili. Quality infrastructure will decrease operational setbacks and enable SMEs to take part in digital trade and expanded participation in the market.
4. The SME owners should be taken through regular training programs, particularly in digital marketing, financial literacy, and product innovation. These programs will prepare them with skills to modernize their operations to make them stay competitive in a fast-changing business world.
5. Incentives that could be used to help SMEs include tax deductions or wage subsidies to offer training opportunities and career development to the employees. Human capital will enhance staff retention and output, which will enhance business sustainability in the long run.
6. The government and the business entities ought to liaise to hold trade fairs, develop online selling platforms, and provide business-to-business networking systems. This will assist SMEs to stretch their market beyond their customers locally and reach new associates and vendors.
7. Subsequent research ought to make comparisons between Dili and SMEs challenges and strategies in the rural or coastal areas of Timor-Leste. This kind of research will give a more comprehensive picture of the regional variations and will assist in the development of location-specific policies for SME development.

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