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Development of Micro Enterprises Based on Local Potential in Improving the Economic Welfare of Vulnerable Communities: A Local Economic Development Approach

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Abstract: This study analyzes the utilization of local potential in micro business development by vulnerable communities in Ajaobaki Village, South Central Timor Regency (TTS), the application of the Local Economic Development (LED) approach, and the contribution of micro businesses to economic welfare. The research uses a descriptive qualitative method with in-depth interviews, observations, and documentation. The data was analyzed using the Miles and Huberman model with the help of NVivo. The results showed that the community developed five types of businesses, namely vegetables, coffee, livestock, weaving, and chips, but the utilization of potential was still extractive and hampered by limited capital, equipment, markets, and raw materials. The implementation of LED runs through business assistance of around IDR 30 million from the village government, annual training, business groups, and partnerships with foundations, cooperatives, PNM, Bank BRI, and Bank NTT. Before doing business, the community's income ranges from IDR 0 to IDR 500 thousand per month; after doing business, the average income is IDR 500 thousand to IDR 1 million per month, and some reach IDR 2 million. Micro businesses help vulnerable households meet their daily needs, but their income is not stable because they are affected by fuel prices and market changes. Strengthening supply and market partnerships is needed so that the contribution of micro businesses is more stable.

Keywords: Micro Enterprises, Local Potential, Local Economic Development (LED), Economic Welfare, Vulnerable Communities.

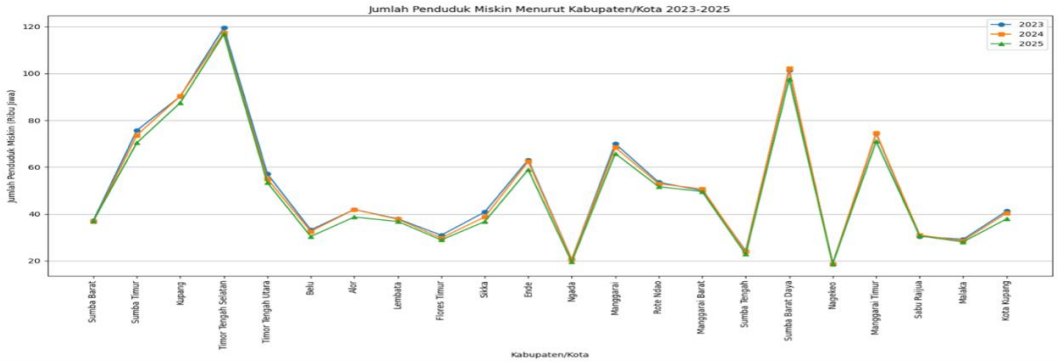
INTRODUCTION

Regional economic development is important to improve people's welfare, especially in rural areas that still face limited access to economic resources. One of the widely used approaches is Local Economic Development (LED), which emphasizes economic development based on local potential through the cooperation of government, the private sector, and

communities to create sustainable economic growth and improve welfare. LED aims to make optimal use of local resources, expand employment opportunities, and increase people's incomes (Blakely & Leigh, 2013). The World Bank formulates LEDs as the process by which public, business, and non-governmental partners work together to create better conditions for economic growth and jobs (Swinburn, Goga, & Murphy, 2006). Micro businesses have an important role for the local economy because they are able to absorb labor and increase income. Micro businesses are managed by local communities by utilizing the surrounding resources, so they have the potential to support economic growth in villages. According to the World Bank, micro and small businesses are sectors that contribute significantly to job creation and income increase in developing countries (World Bank Group, 2019). Based on ANTARA News citing BPS data, the MSME sector in Indonesia amounts to around 65.5 million business units, accounts for 61.9% of GDP, and absorbs 119 million workers (Antara, 2025).

The development of micro businesses based on local potential can be an effective strategy to improve welfare, especially for vulnerable communities who have limited capital, skills, education, and market access. Previous research has shown the role of micro enterprises in improving welfare. Undari & Lubis found that MSMEs improve community welfare through household income and create jobs [5]. Afriyani Hsb et al., stated that MSMEs have a significant contribution to increasing the income of rural communities (Undari & Lubis, 2021). Furthermore, Ayalu et al., show that micro and small enterprises increase employment, household income, and local economic activity, as well as provide alternative income opportunities for people with limited resources, have a positive impact on improving family welfare (Ayalu, Gebrekidan, & Hossein, 2022). In addition, research on local economic development also shows an effective LED approach to improve community welfare through the utilization of local potential. Harahap emphasized that development based on local potential contributes to increasing income, job creation, and preserving community culture (Ade, Harahap, Muna, Ausat, & Khootimah, 2024). Huda et al., stated that LED encourages regional economic development through the utilization of local potential, community participation, and stakeholder collaboration to improve welfare and reduce poverty (Mu, Sukantalawati, & Wijaya, 2024).

Based on the BPS of NTT Province, the percentage of poor people is 17.50%, with the number of poor people around 1.03 million people (Central Bureau of Statistics, 2025). The percentage of poor people in urban areas reached 7.68%, while in rural areas reached 22.66%. This condition shows that most of the poor in NTT are in rural areas, which is influenced by limited economic access and low productivity of the local economic sector. South Central Timor Regency has a poor population of 116.74 thousand people, the first highest in NTT. The high level of rural poverty shows limited economic access, so the development of micro enterprises based on local potential is an effective strategy to improve the welfare of rural communities and strengthen the local economy.



Source: Central Statistics Agency (BPS), data processed

Figure 1. Number of Poor People in Regencies/Cities (2023-2025)

In TTS Regency, many communities depend on small businesses that utilize local resources such as agriculture, livestock, traditional handicrafts, and natural resources. Ajaobaki Village has the potential for micro-enterprises, but its utilization is not optimal so its contribution to the welfare of vulnerable communities has not been maximized.

Based on previous research, micro enterprises play an important role in improving local economic welfare and growth. However, research that specifically discusses the development of local potential-based micro-enterprises with an LED approach to vulnerable communities at the village level is still limited. This research is also in line with the Sustainable Development Goals (SDGs) agenda, especially poverty alleviation, community empowerment, and economic gap reduction (United Nations, 2015).

This study aims to analyze the utilization of local potential in the development of micro businesses by vulnerable communities in Ajaobaki Village, analyze the application of the Local Economic Development approach in supporting the development of micro businesses in Ajaobaki Village, and analyze the contribution of local potential-based micro business development in improving the economic welfare of vulnerable communities in Ajaobaki Village.

METHODS

This study uses a descriptive qualitative approach to deeply understand the experience, perception, and economic practices of the community in developing local potential-based micro-enterprises in Ajaobaki Village, South Central Timor Regency. The informants were selected by purposive sampling, namely micro business actors from vulnerable community groups and village heads as representatives of the village government, with a total of 20 people. The village head was chosen because he understands the policies, programs, and implementation of LEDs in the village who have served for about 20 years in Ajaobaki Village and are currently serving in the third term. A total of 19 business actors were selected to represent the types of businesses run by the community, namely agriculture, livestock, weaving, food processing (chips), and sewing.

Table 1. Research Informant

Groups	Category information	Quantity	Reasons for selection
Village government	Village head	1	Understand the policies, programs, and implementation of LEDs in the village
Micro business actors (19 people)	Farmer	9	Representing agricultural businesses
	Peternak	3	Representing livestock businesses
	Weavers	4	Representing the weaving venture
	Food processor (chips)	2	Representing food processing efforts
	Penjahit	1	Representing sewing efforts
Total		**20**	

Primary data was collected through interviews, direct observation of business activities, and documentation. For business actors, there were 16 questions covering local potential, the application of LEDs, and the contribution to welfare. For village heads, there were 12 questions that included mapping the potential and vulnerability as well as the application of LEDs at the village level. Secondary data was in the form of statistical reports (BPS), and related literature.

Table 2. Indicators in Interview Instruments

Focus	Indicator
Local potential and micro enterprises	Types of businesses and resources, utilization of local potential, natural capital, human capital, social capital, barriers and financial capital (Blakely & Leigh, 2013; Ellis, 2000)

Focus	Indicator
Application of LED	Expansion of employment and business opportunities, increase in income, empowerment of micro enterprises, empowerment of partnership networks, community participation, access to capital and training (Blakely & Leigh, 2013)
Contribution to well-being	Increased income, fulfillment of basic needs, economic resilience, employment expansion, structural barriers (Chambers & Conway, 1992; Sen, 1999)

Data analysis uses the Miles and Huberman model which consists of data reduction, data presentation, and drawing conclusions or verifications (Matthew & Huberman, A.Michael Saldaña, 2014). The interview transcript is analyzed with NVivo through theme encoding (*matrix coding*), *word cloud*, and *concept map*. Observation and documentation are used as support to match the informant's statements with conditions in the field. The validity of the data is maintained by triangulating sources and techniques, namely comparing the results of interviews, observations, and documentation.

RESULTS AND DISCUSSION

Utilization of Local Potential in Micro Business Development

The use of local potential in the development of micro businesses is an effort to manage and develop natural resources, humans, culture, and local wisdom to improve the welfare of the community. In relation to this research, the people of Ajaobaki village develop village potential in the form of micro businesses with types of businesses: vegetable farming, coffee farming, animal husbandry, weaving, and chip making. In addition, one informant runs a sewing business that relies on skills. The business carried out by the people of Ajaobaki Village is strengthened with the assistance of capital funds and training facilitated by the village government.

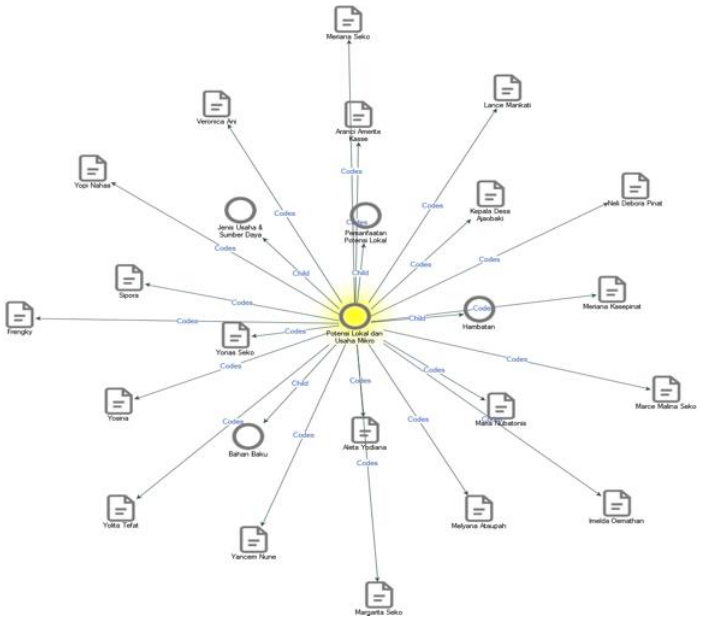


Figure 2. Output Matrix Diagram of Local Potential and Micro Enterprises

In the Local Potential and Micro Enterprises diagram, the orientation of the discussion is centered on how natural resources are articulated into economic value. This diagram shows the main branches that include the availability of raw materials, the types of businesses that rely on these resources, and their utilization strategies. In addition, the element of constraints also

emerges as an inherent entity, showing that the optimization of local potential is inseparable from operational and technical constraints in the field.



Figure 3. Word Cloud Outputs Local Potential and Micro Enterprises

The word cloud in this theme is dominated by the words "business", "materials", "sources", "tools", "prices", and "farmers", which shows that the informant's conversations focus on technical-operational matters and that businesses are still extractive and depend on the agricultural sector with price stability and the availability of production tools being the determining factors. Inherent obstacles include market limitations, lack of business equipment, dependence on financial capital, and hereditary skills. Weaving craftsmen, for example, sometimes have difficulty obtaining yarn because the material has to be imported from outside the village.

All of these efforts rely on local resources , namely land and water for agriculture and livestock, the skills of local artisans for weaving, and garden products for making chips or snacks. Thus, the people of Ajaobaki Village have managed the natural potential of the village as the basis for micro-businesses to improve family welfare, although its utilization is still at the extractive stage.

Interviews with the village head complete the picture. The village already has documents on natural potential, labor, and infrastructure as well as MSME data, and road construction is carried out evenly in each hamlet every year. According to the village head, of the approximately 520 heads of families (2,200 people), almost all of them run agricultural businesses, especially vegetables such as mustard greens, cauliflower, and carrots, in addition to cattle, chickens, and pigs. The village's superior potential is oranges, avocados, and coffee. The potential that is still little worked on is rattan and bamboo weaving, even though bamboo is widely available. The village has also begun to collaborate with bamboo and rattan craftsmen from a foundation in Kupang.

The factors that limit the use of potential, according to the village head, are skills and capital, with village funds now being cut. Human resources are considered the most difficult because skills are still lacking, followed by capital. The most common risks experienced by residents are the increase in seed prices and crop failure. The village head said that recently "there has been a fairly frequent increase in the price of seeds but the selling price has remained the same". To deal with the failure to harvest one type of crop such as corn, residents turn to sweet potatoes and fruits or buy seeds at the Sumber Tani store in Soe.

These findings are in line with Harahap et al.'s belief that local potential-based development can increase incomes and preserve culture (Ade et al., 2024). Weaving businesses show the side of cultural preservation, while agriculture and livestock show the economic side.

Framework of the five livelihood capitals (Scoones, 1998) help to read this potential. Natural capital (land, gardens, livestock, water) is relatively a strength and social capital is seen in farmer groups and business groups, while human capital (skills and business management), physical capital (tools), and financial capital (capital) are still gaps. These findings are in line with Suyatno and Suryani who discussed the development of the potential of locally-based MSMEs to boost the village economy (Suyatno & Suryani, 2022). Asset mapping like this is in line with Blakely and Leigh that the first step in LED is to map local assets and then optimize them (Blakely & Leigh, 2013). Thus, the availability of potential is not a major issue in Ajaobaki. The problem lies in the ability to convert that potential into stable economic value.

The village government also stipulates The policy of compulsory planting and small livestock shows that the utilization of potential does not only depend on individual initiative, but is also driven by village rules. From the perspective of household economics, the combination of short-lived crops, long-lived crops such as coffee, and chicken farming indicates the diversification of livelihood sources to reduce the risk of dependence on one type of business. This pattern is in line with (Race, Prawesti, Silvi, & Oktalina, 2022) which discusses the diversification of land and livelihood sources by smallholders in Indonesia. However, the economic benefits of such diversification depend on seed support, training, and market access so that agricultural and livestock products can make a real contribution to household income. Thus, vulnerable communities have taken advantage of local potential through five types of micro-enterprises, but their utilization is still extractive and hampered by limited capital, equipment, markets, and raw materials.

Application of the Local Economic Development (LED) Approach

The implementation of LED in Ajaobaki Village is understood as the cooperation of the village government, the community, and the private sector in managing local resources to improve welfare. The village government is a key stakeholder that supports the community by involving the private sector in managing available resources, with the aim of improving the community's economy, creating jobs, maximizing local potential, and strengthening an independent economy.

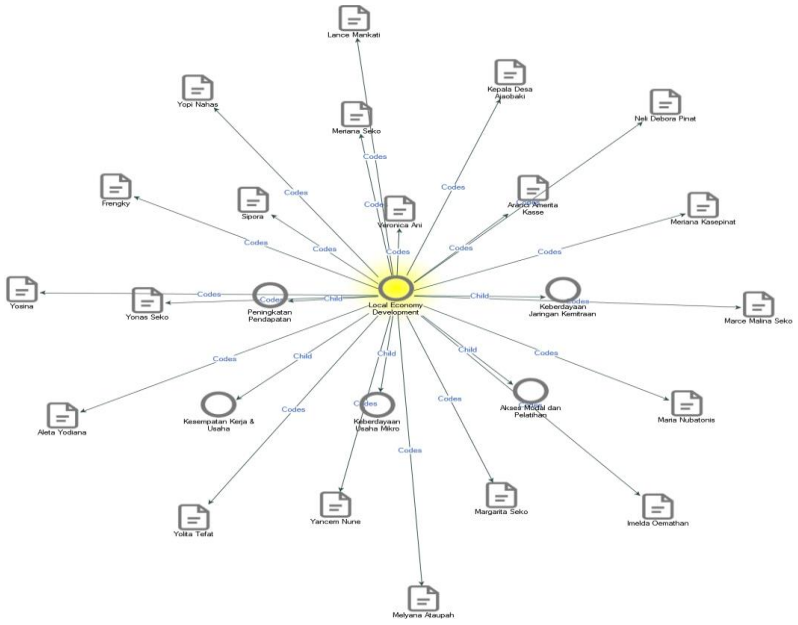


Figure 4. Output Diagram Matrix Local Economic Development

The *Local Economic Development* (LED) diagram represents an approach to economic intervention and governance. The center of this diagram rests on structural initiatives that are supported by several main pillars, namely the empowerment of partnership networks, ease of access to capital and training, efforts to increase income, and the empowerment of micro-enterprises themselves. This configuration confirms that LED plays a role as an institutional framework designed to strengthen the capacity of business actors at the grassroots level.



Figure 5. Output Word Cloud Local Economic Development

More specifically, in Local Economic Development (LED), the focus of the discourse shifts to the aspects of governance and institutional support. This is evidenced by the emergence of keywords such as "group", "training", "government", and "assistance". The dominance of these words indicates that the implementation of local economic development programs cannot stand alone, but is highly dependent on collaboration, subsidies, and interventions from third parties, both the government and empowerment institutions.

Based on the two outputs of NVivo, it can be explained that the resource managers of Ajaobaki Village have been supported by the local government through capital assistance programs (money, equipment, and training). The Ajaobaki Village Government strives to equip the village community with knowledge, equipment, and business capital. With the support of the village government, business actors in Ajaobaki Village are able to develop businesses with a wide network of partnerships. According to the village head, the village government allocates around Rp30 million for micro businesses. The amount is uncertain every year because it follows the community's proposals, and assistance in the form of tools, goods, or services from village funds, not cash: residents are brought directly to the store to shop. Capital also comes from their own capital and access to financing from financial institutions, including Bank NTT, while training is provided by the village government. Network strengthening is carried out through farmer groups and business groups. Cooperation with external parties includes the Binatani Sejahtera Foundation which provides land and water conservation training every year, as well as cooperatives (TLM cooperative and Samijaya cooperatives), PNM, Obermas, Bank BRI, and especially Bank NTT for business financing. The obstacles that arise are promises or guarantees that do not run as agreed, so a statement of cooperation is made with a stamp. Meanwhile, cafes and minimarkets are part of the marketing network of micro business products. Market access is opened through a weekly market and the receipt of crops by MSMEs within 1×24 hours, this program is considered veryuseful and helps the community.

Interviews with the village head detailed the village government's efforts on each indicator. The village economic programs that are currently active are BUMDes Fetomone and MSMEs. To expand business opportunities, the village organizes livestock and agricultural

training, provides livestock land, and is accompanied by the Prosperous Binatani Foundation, and has a special program for weavers. According to the village head, the community has participated in the training and felt the expansion of opportunities from the village government. To increase income, in addition to the mandatory policy of planting short- and long-lived crops and raising small livestock such as chickens, the village provides economic empowerment funds for livestock and agriculture every year in the form of grants. Every year business actors, and residents propose needs, then agricultural tools, weaving, and fertilizers are handed over directly according to the proposed needs and amounts.

Citizen participation is carried out through village deliberations involving family representatives from several RTs and community leaders to identify needs, especially in the agricultural sector. According to the village head, the micro business development program is a priority every year and is included in the village government's plan before the village deliberations. However, the sustainability of the program is not guaranteed institutionally, because according to the village head it depends on the new leader, who can continue or create a new program.

The findings show that the village government plays an important role inai facilitator and liaison between the needs of business actors and available resources. This is in line with Huda et al. who emphasized the role of local stakeholders and community participation in LED (Mu et al., 2024). The World Bank's definition of LED emphasizes public, business, and non-governmental partner cooperation (Swinburn et al., 2006). In Ajaobaki, all three types of partners are already present i.e. village governments, financial institutions, cooperatives, and business actors, as well as foundations as training providers. Wear emphasized that LED practitioners need to work alongside partners, and noted the increasing attention to women's entrepreneurship as well as rural economic change (Wear, 2024), which is in line with the practice in Ajaobaki. Thus, the elements of the LED partnership have been met, and the remaining challenges lie in their depth, especially the raw material supply partnership and the market that is still limited to cafes and convenience stores.

The assistance of around Rp30 million shows the village's commitment, but the scale is limited when distributed to all actors from the five types of businesses. Such funds are sufficient for start-up capital or basic equipment, but it does not necessarily solve larger problems such as the supply of raw materials and market access. The problem is more about the extent to which vulnerable business actors can access the scheme. Word cloud also shows that the implementation of the program is highly dependent on third-party assistance and intervention, so business groups need to be encouraged to become more independent, for example through the purchase of raw materials and joint marketing. Thus, the LED approach has been implemented through the role of village governments, village deliberations, business groups, and external partners, but supply and market partnerships are still limited, the involvement of vulnerable citizens is more through representation, and the sustainability of the program depends on village leadership.

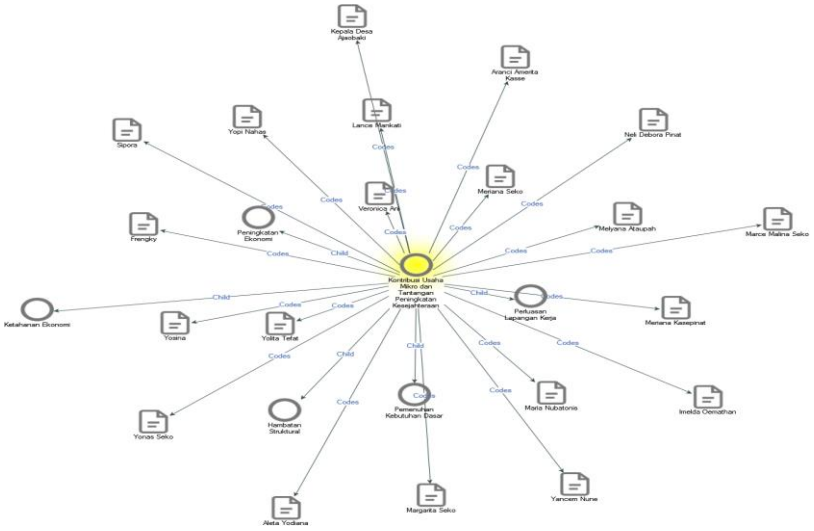


Figure 6. Output Matrix Diagram of the Contribution of Micro Enterprises in Improving Community Welfare

In the diagram of Micro Business Contribution and Challenges to Improving Welfare, it can be seen that the centrality of the issue lies in the community's efforts to maintain economic resilience. All informants are uniformly connected to this central point, which then branches off on pragmatic elements such as meeting basic needs, expanding employment, and identifying structural barriers. This indicates that welfare and its challenges are the empirical reality that is most felt and highlighted consistently by all participants.



Figure 7. Word Cloud Output: Micro Enterprises' Contribution to Improving Well-Being

It is different from the sub-chapter of Improving Welfare, where the diction that appears is more personal, domestic, and survival-oriented. Words such as "needs", "costs", "children", "school", and "health" appear prominently. This confirms the postulate that the main purpose of the existence of micro businesses is not just business expansion, but as an instrument of survival and the spearhead of financing daily household life.

An analysis of the economic dynamics in Ajaobaki Village confirms that the existence of micro-enterprises based on local potential has a much more essential meaning than just commercial activities. Micro enterprises in this region have transformed into the most fundamental coping mechanism for vulnerable communities. Through the use of local resources, this sector has proven to be effective in operating as an independent social safety net that directly supports the fulfillment of daily subsistence needs, ensures the sustainability of

children's access to education, and finances family health facilities. In the end, this empirical reality underscores that strengthening the capacity of micro-enterprises and mitigating structural barriers are absolute prerequisites for realizing resilience and rural economic welfare that is truly inclusive and sustainable.

Before owning a business, people's income ranged from IDR 0 to IDR 500 thousand per month, and some informants were not working, including housewives who did not have their own income. After running a business, the average monthly income is in the range of IDR 500 thousand to IDR 1 million, and some business actors earn around IDR 2 million per month.

These findings are in line with Undari and Lubis that MSMEs improve welfare through household income and employment [5], with Afriyani et al. that MSMEs contribute significantly to the income of rural communities (Undari & Lubis, 2021), and with Ayalu et al. that micro enterprises provide alternative sources of income for people with limited resources (Ayalu et al., 2022). Rammohan and Tohari, who evaluated the Village Fund Program, found that women's labor participation in villages increased by about 10 percentage points and was related to a decrease in rural household poverty (Rammohan & Tohari, 2023). This is in line with Ajaobaki, where housewives who were previously without income now earn a monthly income. The change from a condition of no income to an income is an important contribution, especially for groups that previously had no income of their own.

However, this contribution is more of a survival than a development. Income of IDR 500 thousand to IDR 1 million per month is relatively limited when compared to the needs of households who are dominant in word cloud. Weber et al. show that effort is due to necessity (necessity entrepreneurship) Not uniform: the type of activity, determinants, and outcomes differ according to household resources (Weber, Fasse, M. Haugh, & Grote, 2023). The findings help explain why the income of actors in Ajaobaki varies so much. Thus, micro-enterprises serve as a survival mechanism (coping mechanism) and a self-sustaining economic safety net for vulnerable households.

Chambers and Conway define sustainable livelihoods as livelihoods that are able to face and recover from stress and shock and maintain their abilities and assets (Chambers & Conway, 1992). With that size, micro businesses in Ajaobaki have helped households meet their daily needs, school, and health, but have not fully guaranteed recovery from shocks such as rising fuel prices and market changes. Sen reminded that welfare is not only about income, but also the ability to live a decent and free life (Mon, 1999). Therefore, housewives who now have their own income can be read to have additional economic freedom, in addition to an increase in income. Thus, micro businesses contribute to increasing income and meeting the basic needs of vulnerable households, but their income is not stable.

The Linkage of Micro Enterprises Based on Local Potential, LED, and the Welfare of Vulnerable Communities

The combined word cloud (All Nodes) is dominated by the words "business", "capital", "village", "source", and "material". This pattern shows that the economic activities of village communities rely on efforts to obtain capital and manage raw materials from the surrounding environment.



Figure 8. Word Cloud Output of All Nodes

The people of Ajaobaki Village have been able to manage the village's natural resources. In addition to strengthening financial capital, the government also needs to meet the needs of equipment and raw materials that are difficult for business actors to obtain. According to the informant, for example, weaving craftsmen sometimes have difficulty finding yarn for the production of woven fabrics. Therefore, the role of the village government is urgently needed to help solve these business problems.

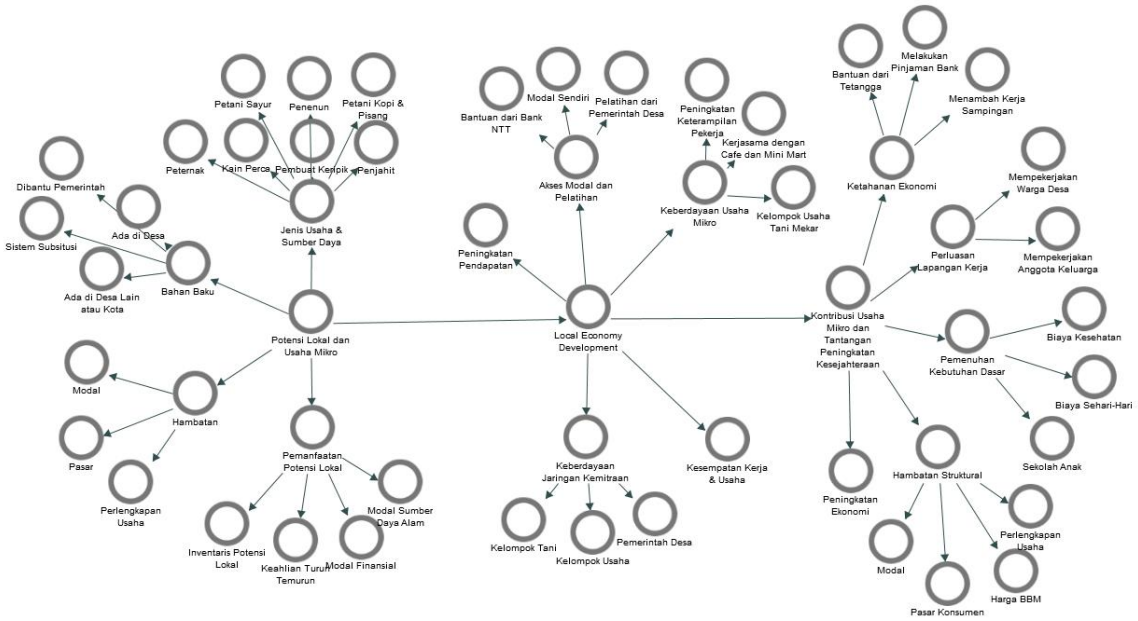


Figure 9. Output Concept Map Research

The concept map visualizes the village economic ecosystem as an interconnected system and boils down to three main variables. The first variable, the utilization of local potential and micro enterprises, is the upstream production base driven by farmers, weavers, and breeders who process natural raw materials, but are vulnerable to market limitations, equipment, financial capital, and expertise that are still hereditary.

The second variable, LED, serves as a catalyst that connects upstream potential with downstream prosperity through two mechanisms: access to capital and training (from village governments and banking institutions such as Bank NTT), as well as strengthening partnership

networks through farmer groups and village government interventions. These two mechanisms are designed to increase income and expand employment opportunities.

The third variable, the contribution of micro businesses and the challenge of improving welfare, is the estuary of the local economic turnaround. Its success is measured by the ability to meet basic needs, such as health costs, children's education, and daily needs. However, people's welfare remains vulnerable due to structural constraints, such as fluctuations in fuel oil (BBM) prices and consumer market dynamics, even though the production base and development interventions are already underway.

Overall, the economic ecosystem of Ajaobaki Village is a cycle that connects natural resources, institutional interventions, and community welfare. Although the community has been able to harness the potential of the village in the upstream sector, vulnerability to operational and macrostructural barriers remains. LED therefore acts as a systemic catalyst, while the village government and partner institutions are not only facilitators, but also integrators that bridge limited access (raw materials, equipment, and capital) with production demands. The synergy between community potential optimization and comprehensive structural support will determine whether micro enterprises can support the resilience and economic well-being of inclusive and sustainable communities.

CONCLUSION AND RECOMMENDATIONS

First, the vulnerable community of Ajaobaki Village has taken advantage of local potential through five types of micro-enterprises (vegetables, coffee, livestock, weaving, chips), but their utilization is still extractive and hampered by limited capital, equipment, markets, and raw materials. Second, the LED approach has been implemented through business assistance of around Rp30 million, annual training, business groups, and partnerships with foundations, cooperatives, PNMs, and banks, with the role of the village government as the dominant role, while supply and market partnerships are still limited and the sustainability of the program depends on village leadership. Third, micro enterprises contribute to increasing the income of actors from the range of Rp0 to Rp500 thousand per month before trying to average Rp500 thousand to Rp1 million per month, but the contribution still functions as a survival mechanism and is vulnerable to fuel prices and market changes.

Suggestions for village governments and stakeholders: (1) strengthen business groups into joint economic institutions for the purchase of raw materials (e.g. woven yarn, seeds, feed) and joint marketing; (2) increase added value from primary products to processed products through processing, packaging, and marketing training; (3) deepen partnerships from training and financing to raw material supply and wider market access, as well as ensure that vulnerable business actors can access cooperative, PNM, and bank financing schemes; and (4) develop ongoing mentoring so that assistance and training do not stop at the provision of assistance, as well as strengthen institutional mechanisms, for example through village planning documents, so that programs continue to run when there is a change of village head. This research is qualitative in one village and welfare is measured based on the perceptions of informants, so that follow-up research can use more measurable income measurement and compare multiple villages. This effort supports the SDGs goals related to poverty alleviation and inequality reduction (United Nations, 2015).

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