

Local Economic Development in Indonesia

A Model of Supporting Factors

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Abstract

This dissertation establishes a framework of factors contributing to the success of Local Economic Development (LED) Projects in Java, Indonesia. In order to identify a range of contributing factors experts from the University of Indonesia, the Technical Institute of Bandung, the BAPPENAS (State Ministry of National Development Planning), the Ministry of Public Works and the DFATD (Department of Foreign Affairs Trade and Development) of the Canadian embassy are interviewed. The qualitative data resulting from the interviews is coded in order to create a grounded theory based on the procedures of Corbin & Strauss (2008). The dissertation results in an extension to the theory on LED support in Indonesia based on a model with four layers; Initial Investment, Operational Basis, Proceeding Operation and Market Reach and the particular factors contributing to each layer. In total, it presents an overview about how and under which circumstances different factors can be beneficial for LED projects in the country of interest.

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Abbreviations

BDA	Business Development Agency
BDS	Business Development Service
BDSP	Business Development Service Provider
CIPSED	Canada Indonesia Private Sector Economic Development
DFATD	Department of Foreign Affairs Trade and Development
LED	Local Economic Development
MFI	Micro Finance Institution
MSME	Micro, Small and Medium Sized Enterprises
PNPM Mandiri	Program Nasional Pemberdayaan Masyarakat Mandiri Perdesaan National Program for Community Empowerment in Rural Areas
SME	Small and Medium Sized Enterprises
VOC	Vereenigde Oost-Indische Compagnie Dutch United East India Company

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Chapter 1: Introduction

The economic wellbeing of human beings varies strongly between different countries and regions. Poverty is in many areas around the world an issue of live and death, where people cannot afford enough food to survive. Local and regional development projects are one approach to fight poverty in economically disadvantaged regions. According to the World Bank: *‘The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation’* (World Bank, 2011). Indonesia is the largest insular state and with 251 million inhabitants, it is the fifth most populous country in the world with the fifth largest labour force consisting of 118 million workers (Central Intelligence Agency, 2013). They accomplished a substantial growth rate over the last years and it is expected to grow for an annual average of 4.8% between 2013 and 2043. The growth, however, is mainly based on the export of natural resources and the unemployment rate is still high by regional standards (IHS Global Insights, 2013). According to the (World Bank, 2013) data from 2012, 12% of the weighted average of urban and rural population in Indonesia lives below the poverty line. Previous research has indicated that chronic poverty is commonly found in rural and especially in remote areas and that households in urban areas have higher probabilities to escape from poverty (Fields, et al., 2003) (Teguh, et al., 2013). LED projects are focused on those disadvantaged areas in order to fight poverty. Previous work has established guidelines for strategy development (Swinburn, et al., 2006) and frameworks on best practices (Rücker & Trah, 2007). This paper now introduces a model extension, a framework of beneficial factors, categorized according to different needs, for LED projects in Indonesia.

1.1 Purpose

The aim of this paper is to contribute to the theory about LED projects and projects in Indonesia specifically. Due to the large size, the regional, cultural and economic diversity of the country is this study limited to the main island of Java. The study is done by allocating factors, contributing to the success of LED projects in Java, and the establishment of a framework with explanation power about how and in which context the found factors contribute to the success of a given project. The success of a LED projects can be measured in jobs created, wages paid, investments attracted and revenues earned (EDAC, 2011), but for the sake of simplification the success of an LED project within this paper is simply seen as the creation of a sustainable business, which is assumed to satisfy the previously mentioned measurement criteria.

The framework should be seen an addition to existing theory and a starting point into a deeper understanding on how the success of LED projects can be enhanced in the national context of Indonesia. Those insights can be an asset to support the planning and execution of LED project within the region. An in-depth understanding of contributing factors increases the success rate of projects, which strengthens the trust of local people in LED projects and finally accelerates the fight against poverty.

Chapter 2: Theoretical Background

2.1 Indonesian Culture

An understanding of the local culture is crucial when it comes to the establishment of LED projects. Tubadji (2012a) defines culture as *‘the ruling group of attitudes belonging to a critical mass of residents – typically the majority of the population in a locality’*. Local culture acts as a proto-institution and shapes the rationale behind all formal and informal institutions in a given locality and is determined through the historic

development of the locality (Tubadji, 2012b). The understanding of attitudes, informal and formal institutions, can help to avoid pitfalls in development projects and gives meaning to some beneficial factors. Therefore, a cultural background is essential for this paper's model. To understand the Indonesian culture four distinct categories are essential: The Javanese worldview *Kejawen*, Islam, colonialism and Pancasila, the regimes of Surkarno and Suharto (Spranz, et al., 2012).

2.1.1 Kejawen the Javanese Worldview

The island of Java is the focus of this research within Indonesia and almost half of the Indonesian population lives on Java, which makes the Javanese world view central to understanding Indonesian culture. Even though most Javanese nowadays identify themselves as Muslims, they still refer to *Kejawen* categories in order to explain their behaviour (Mulder, 2005, p. 17). *Kejawen* is not a strictly religious category, over the cause of time it was influenced by Hinduism, Buddhism and lately, Muslimism (Woodward, 1989). At the core of this worldview stands the desire for unity, harmony and inner peace (Mulder, 2005). The society according to *Kejawen* has a hierarchical order. The superior class provides moral guidance and protection and receives in return loyalty and moral admiration from the lower class. This kind of patron-client relationship can be contradicting with modern market economies (Spranz, et al., 2012), but for the upcoming model it provides explanation power over the impact of local authorities. The desire for harmony lead to two guiding principles in everyday interactions: respect and the avoidance of conflicts in Bahasa (Indonesian) known as *Rukun* (Magnis-Suseno, 1981). This is often achieved by mutual consultation, which grants a feeling of participation in decision making. This feeling of participation makes it less likely that any individual feels offended by the decisions made. It can slow down the pace of decision making and action and is locally referred to as “Indonesian democracy” (Magnis-Suseno, 1981, p. 47). During the planning process of LED projects, the “Indonesian democracy” needs to be taken into consideration in order not to unintentionally offend local actors. Another concept is the sharing of burden which contributes greatly to social capital, the

value of the relations between social actors (Coleman, 1990) because the practise of collective work for common or individual needs increases the value of networking (Magnis-Suseno, 1981, p. 47). These joint efforts of local people often accelerate LED projects. The quest for harmony and inner peace which is considered highly important in the Javanese culture does not go well with the principles of market economies. The most important attributes to achieve inner peace are: „patience, acceptance, humility, self-knowledge and modesty” (Mulder, 2005). According to these principles, the pursuit of riches is not worth the effort (Spranz, et al., 2012), which leaves the implication that sustainable development should be aimed at improving the living standards for all, rather than the maximization of wealth, in order to get the support of the people.

2.1.2 Islam

In the 1200's the first Muslim kingdoms where established in North Sumatra (Drakeley, 2005). From there on, the religion expanded through Indonesia and nowadays Muslims represent 86% of the Indonesian society and are the largest religion of the country (Central Intelligence Agency, 2013). As mentioned earlier, the Islam as main religion of the nation did influence the Kejawen, but Kejawen nowadays does not explain the behaviour of all Indonesian Muslims. There are two main categories of Indonesian Muslims, the Abangan and Santri, and the religion has different impacts on their daily lives. Abangan are nominal Muslims, which take part in the religion but are not orthodox and their behaviour is well explained by the Kejawen. The Santri, on the other hand, make the Islam a central part of their lives and follow the rules and rituals strictly. The Islam has in general more explanation power over their behaviour then the Kejawen (Fealy, 2006, p. 39). The percentage of Santri Muslims in Indonesia is increasing since 1950 (Fealy, 2006, p. 41), which makes it important to look into the influence the Islam has on local development. In general, most predominantly Islamic countries share considerably low levels of economic development and democratic elements, but it is up for debate if the Islam had a negative impact on the development or not (Spranz, et al.,

2012, p. 469). Authors like Tessler (2002), Guiso et. Al (2003) and Leipold (2006) argue that the Islam hinders economic development and Ariff (1991) and Kuran (1997) oppose that. Main arguments that see the Islam as an obstacle towards economic development are the conservative view on working women, an attitude against competition which makes Muslims '*the most anti-market*' (Guiso, et al., 2003, p. 228) and the resistance to power sharing in a meaning full way (Tessler, 2002, p. 3). Leipold (2001) argues that the institutional inefficiency is based on orthodox constraints and the legacy of tribal characteristics with competing subgroups. The authors, who favour Islam as a positive factor in economic development Ariff (1991) and Kuran (1997) argue that the Islam consists of important attributes to support economic development including the encouragement of private enterprises, the protection of individual freedom, social justice, encouragement to hard work and learning. In addition, it is argued that a significant reduction of uncertainty and transaction costs is the result of the internalisation of formal institutions by the followers of Islamic rules, written in the Qur'an and the Sharia (Mirakhor & Askari, 2010). The research of Tessler (2002) and Leipold (2001) are mainly based on evidence from Arabic cultures and are therefore not necessarily accurate in the context of Indonesia. From a behavioural perspective, the arguments of Ariff (1991) and Kuran (1997) are valid that the Islam as a religion does not contradict the economic success of individuals. For the LED projects in Jawa, it is necessary to take Kejawen as well as Muslim characteristics of local people into account.

2.1.3 Colonialism

The colonial period brought drastic changes to the Indonesian way of live. Western ideas, formal institution and the introduction of a market economy lead to profound changes in attitudes and the Kejawen due to the adaptation to capitalism (Mulder, 2005, p. 78). The Portuguese where the first Westerners to gain colonial power over Indonesia in 1498, followed by the Dutch United East India Company, (dutch: Vereenigde Oost-Indische Compagnie (VOC)), which gained nearly governmental power in 1602 (Schulze, 1995).

The colonial rule of the VOC was shaped by determination and brutality in order to secure the spice monopole, which meant riches for the Netherlands. The spice monopole was challenged from a different direction and at the end of the 18th century, the VOC overstretched its own capacities by the attempt to change from having trading posts to exercise colonial power over the nation, which ultimately lead to the bankruptcy of the VOC (Drakeley, 2005) (Brown, 2003, p. 69). In the following period, the Dutch started to seek rent not just out of the trade but from the country itself. They sold land, including the right to use the labour of its residents to other Europeans and a new cultivation system was established where the villagers had to use one fifth of their land to cultivate a crop nominated by the government and suitable for the European market. The demand in Europe was satisfied with coffee, sugar, indigo, tea, cinnamon, tobacco, silk and cochineal (Drakeley, 2005, p. 39) (Brown, 2003, p. 84). The in-kind payments had been a part of the cultural established patron-client relationship and gave a *'fig leave of legitimacy, which reduced the level of animosity that might otherwise have been generated'* (Drakeley, 2005, p. 40). But the burden of the additional work was so hard on the Javanese peasants that some of them fled their homes to live in some remote areas where they could escape the Dutch control (Brown, 2003, p. 85). The local authorities were in charge to secure the one fifth harvest for the Dutch and were compensated by with 1% of the production. In addition with corrupt behaviour, it lead to a large disparity in wealth distribution. Furthermore the cultivation system lead to high profits for the Dutch and increased division of labour and money usage for the Indonesians (Drakeley, 2005, p. 41). The system was morally indefensible, but it brought some money and infrastructure to the countryside which did contribute to some entrepreneurial activity (Brown, 2003, p. 87). In the mid 19th century, the Dutch brought European national based formal institutions to Indonesia including law and regulations, health services and education facilities, as well as credit unions and public administrations (Drakeley, 2005, p. 47). In 1870 the Liberal area started with essential changes on the Dutch-Indonesian relationship. The Agrarian law introduced two main features. Only Indonesians were allowed to own land in Indonesia and the law made provision for the rent and lease of land by foreigners. During that period, private foreign investors rented land and started

businesses in Indonesia, but the privatisation largely failed, due to a depression in the 1880s. As a result, large Dutch banks and financial institutes controlled major agribusiness enterprises (Brown, 2003, p. 90). The Liberal Era brought a strong decline in living standards especially for the Indonesian peasantry. This was due to a combination of population growth and the import of foreign goods which reduced local sources of income (Brown, 2003, p. 91). The colonial time brought massive changes to Indonesia. Formal institutions brought functional differentiation to the society, the local authorities where in disfavour due to their enrichment from the cultivation system and a market economy was established. The market economy came with a strong decline in living standards, which made the people distrust Western market economies. In this time of uncertainty the Kejawen and the Islam gained importance in the people's everyday lives (Spranz, et al., 2012, p. 473). A general distrust in liberal markets does still hold in some rural areas from that period and therefore it is important to demonstrate that markets are the most effective way to improve the wellbeing of people (McMillan, 2003, p. 13)

2.1.4 Pancasila

The period between 1945 and 1998 is known as the Pancasila past (Spranz, et al., 2012, p. 473). It was a turbulent time and after the declaration of independence, the nation struggled to give a meaning to their new identity (Brown, 2003, p. 157). After abuse through Portuguese, Dutch and Japanese rulers the Indonesians were eager to take their fate in their own hands. In 1945 Sukarno drafted Pancasila as Indonesia's national philosophy based on the five pillars: belief in one God, humanitarianism, nationalism, democracy and social justice (McGregor, 2007, p. 3). He had his own kind of democracy in mind and in October 1956 he explained it in a public speech:

" [T]he democracy I crave for Indonesia is not liberal democracy such as exists in Western Europe. No! What I want for Indonesia is a guided democracy, a democracy with leadership. A guided democracy, a guided democracy, something which is guided but still democracy." (Brown, 2003, p. 186)

What he intended was the equivalent to the decision making process in a traditional village, where all the adults can contribute to the process, but the head of the village is still guiding the discussion (Brown, 2003, p. 186). This movement ultimately lead to 30 years of authoritarian rule by Sukarno and Suharto, ending in 1998. The Pancasila, initially formulated by Sukarno, became elevated to state ideology und Suharto (Drakeley, 2005, p. 120). The Pancasila values economic development but emphasises the interests of the society as a whole over individual ones (Morfit, 1981, pp. 845-846). Even though scholars like Pechovich (2003) argue that a culture of individualism is a requirement for successful market economies, the Pancasila notion that material improvement is something worthwhile brought the Kejawen closer to an attitude in Western economies. The implementation for LED projects, is as previously mentioned in the section Kejawen is that a focus on the common good has a stronger motivation power then individual goals and should therefore be implemented in the LED strategy.

The Pancasila is just one and a half decades ago and the young Indonesian democracy is still proving itself and therefore depends on a positive economic development (Spranz, et al., 2012, p. 460). In the context of Indonesia, economic development can in addition to poverty alleviation help to promote democracy by providing an example of improved living standards in a young democracy.

2.2 Economic Development

Economic development has been in the centre of interest for governments and scholars, but for the fight against poverty it is important to keep in mind that:

1. *'Economic growth does not always lead to the creation of new jobs.*
2. *Economic growth does not always benefit the poor.*
3. *Competition in its purest form may well exacerbate the income gap between rich and poor nations as well as the people who live in them` (Mitchell, 2009, p. 2)*

Rather than a contribution to general economic growth, this paper is focused on local economic development projects, which in total do contribute to a nation's economic performance, but are primarily done to alleviate poverty. McMillan states that: *'Markets are the most effective means we have of improving people's well-being. For poor countries they offer the most reliable path away from poverty. For affluent countries they are part of what is needed to sustain their living standards. Markets, then, are the most potent antipoverty engine there is'* (McMillan, 2003, p. 13). Therefore LED projects are used to give economic disadvantaged people the opportunity to benefit from their participation in the market economy.

2.2.1 Local Economic Development (LED)

There are multiple interpretations of how LED should be defined. In addition to the previously mentioned definition by the World Bank, there are the International Labour Organisation (ILO):

"Local economic development (LED) is a participatory process which encourages social dialogue and public-private partnerships in a defined geographical area. LED enables local stakeholders to jointly design and implement a development strategy which fully exploits local resources and capacities, and makes best use of the area's comparative advantages." (ILO, 2013),

The Gesellschaft für Technische Zusammenarbeit (GTZ):

"LED is an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms." (GTZ, 2013)

And the UN-Habitat:

“Local economic development (LED) is a participatory process in which local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a way to help create decent jobs and improve the quality of life for everyone, including the poor and marginalized.” (Trousdale, 2003, p. 8)

Those are just examples of the most commonly cited definitions of LED and there are many more out there. The different scholars and organizations agree, that the aim of LED is to stimulate economic activity in a well-defined area by collaboration between the public sector, the private sector and local communities. The United Nations Millennium goals suggest a clear distinction between the “immediate goal” of economic growth and the “overall goal” of poverty eradication (Hindson & Meyer-Stamer, 2007, p. 9). In general LED projects are aimed to empower locals to effectively utilize local resources such as business enterprises, capital, and labour in order to achieve priorities like poverty reduction, promotion of quality jobs, stabilization of the local economy and the generation of municipal taxes to support local efforts (Trousdale, 2003, p. 9). LED projects are targeted on enterprises from micro to medium sized and large ones. They can either be locally established where the aim is retention and expansion or start-up businesses by locals and outsiders (Hindson & Meyer-Stamer, 2007, p. 9).

2.2.2 Four Scenarios of Economic Development

Birkhölzer (2005) established four different scenarios of economic development in regard of who is taking the initiative, which can be used to understand the underlining strategy. He named the scenarios “development from above”, “development from outside”, “wait and see” and “development from within”.

Within his first scenario, the economic development is entirely dependent on the government and works in a top down fashion. Strategy and resources are transferred from the central government to regional government and finally to local authorities to start the

projects. This scenario takes place where the general belief is that the government is the only responsible or capable actor when it comes to economic development. The pitfalls of this approach are that it provides little flexibility and creativity to utilize local assets and when the government is not initiating programmes nothing is improving at all. In countries where the government is either not sufficiently organized or does not possess the necessary financial assets, the **development from above** will cause weak overall economic performance.

The second scenario is similar to the first one in the dimension that the local people feel that they are dependent in order to improve their economic situation. The **development from outside** is relying on foreign investors rather than the own government in the hope for progress, but the mind-set does not change. This scenario is commonly seen in developing countries where the government lacks the funds for a development from above programme and the domestic economy does not provide enough growth on its own. Foreign investment can contribute to economic development, but there are more countries seeking investments than willing investors, which makes the dependent countries compete for investment and in most cases the investors are the only ones benefitting (Birkhölzer, 2005, p. 2). The development from outside is not necessarily a sustainable source of development. It is a common seen phenomenon that outside investment creates an initial economic growth which helps the area and increases the standards of living and therefore ultimately the wages paid. However, the higher wages end up making the region less attractive for the investors and they move to the next country which still has low wages. Examples would be companies starting investments in China and then with the economic growth, moving the production to Thailand and finally to Bangladesh, Vietnam or the Philippines.

The third scenario is **wait and see**. The people feel powerless to change things on their own so they wait and hope that some change will happen at one point. For the disadvantaged areas in Indonesia this often means that people will desert their village, if they cannot support themselves there and migrate to the bigger cities. The people who

migrate however are mostly the young and capable ones so the region becomes even worse of (Selly, 2013).

Finally, the last scenario is **development from within**. The local actors take their fate into their own hands and work to create the progress which is not coming to them from outside. The most straight forward description is in the words of James Robertson (Robertson, 1985): “Local Work for Local People using Local Resources”. This scenario is key to the current development strategies in Indonesia. The government, businesses, universities and NGO’s are supporting economic development, but rather than to dictate local people what to do, they predominantly help them to help themselves. This enables access to the most important resource, the human and social capital. Human capital consists out of skills and knowhow of individuals while social capital lies in the relationships between social actors (Coleman, 1990). The self-empowerment enables local actors to focus on what they know and are capable of doing, which ultimately makes them use their skills in a more efficient way than they could, if they were working on an external project.

2.2.3 Practical Application

Recommendations and guidelines are created by different scholars based on previous experiences and research on LED projects. The dispute about economic growth and poverty alleviation has different nuances. Rücker and Trah (2007, p.16) argue, that economic growth is the most important strategy to reduce poverty and examples from Southeast Asia have shown how economic growth leads to increased employment, increased real wages and consequently the reduction of poverty. Collin Mitchel (2009, p.2) on the other hand argues that economic growth does not always lead to creation of new jobs and the poor do not always benefit from economic growth. In the case of LED it is however to be assumed that economic development in disadvantaged areas has the

positive effect stated by Rücker and Trah (2007). When it comes to the establishment of LED projects the opinions of current scholars leave room for dispute. Swinburn ET. All (2006, p. 4) have developed a five stage sequence for local economic development planning, while Rücker and Trah (2007, p.20) believe, that economic development is frequently opportunistic and that those kind of economic opportunities are hard to plan. They see the mission of LRED support in preparing the ground for local actors to seize opportunities. In order to do that Rücker and Trah (2007) developed four guiding principles for LRED projects:

- *'Pursue process orientation and instrumentalism*
- *Promote stakeholder participation and networking*
- *Pursue a market driven approach*
- *Focus on opportunities'* (Rücker & Trah, 2007, pp. 26-27)

2.2.3.1 Pursue process orientation

Societal change and learning is a slow and ongoing process. Therefore is the implementation of the result of a working process, for example a project or institution, problematic and often leads to failure (Rücker & Trah, 2007). Other reasons for an incremental and process orientated approach, are that LED projects are complex and the economic factors are interrelated. A change at one factor might influence the others and a step wise approach enables adjustments to new changes. Finally from the perspective of the local actor, it is much easier to adjust to a number of small incremental changes instead of one ambitious big change. Big changes can be perceived as a threat and therefore it is advised to give time to adjust through an ongoing process (Rücker & Trah, 2007, p. 27). Swinburn ET. All (2006, p.7) and Rücker and Trah (2007, p. 27) both refer to the use of “quick wins” for LED projects. Swinburn ET. All (2006, p.7) describes them as tool during the starting period of a project to create momentum and contribute to stakeholder confidence, while Rücker and Trah (2007, p. 27) see the use in preparing the

ground for upcoming projects through learning, empowering and trust building of local stakeholders.

2.2.3.2 Promote stakeholder participation and networking

As most definitions state LED projects are participatory by public, private and non-governmental sector (GTZ, 2013; ILO, 2013; Trousdale, 2003; World Bank, 2011). Therefore they heavily rely on actual participation and networking. The so called bottom up process or similar the development from within by Birkhölzer (2005) promotes creativity and innovation. According to Swinburn ET. All (2006 p.7-8) stakeholder involvement is key to success. Therefore should the municipal government be in charge of the strategy. The support from the government can however be a help when it comes to technical financial or political support. They further argue that influential and effective local leaders supporting a project can unite stakeholders and provide commitment and credibility (Swinburn, et al., 2006, pp. 7-8), which is strongly supported by the patron-client relationship introduced in the Kejawen (Spranz, et al., 2012). Rücker and Trah (2007, p. 25) on the other hand argue that Local stakeholders are the best source of tailor-made solutions for their local economy based on their insights. They particularly warn against the decision making on LED projects by local elites, because in their opinion it can cause fake participation and acclamation processes, which seriously harms the creativity and innovation of the projects (Rücker & Trah, 2007, pp. 27-28). The value of networking however is widely agreed on. Networking helps amongst others to channel the energy in a common direction and reduce conflicts (Rücker & Trah, 2007, p. 25). Swinburn, et al.(2006, pp. 7-8) recommend that each project should be championed, by individuals or a group of stakeholders, who hold special interests, resources, commitment

or expertise. The commitment is a key to success and therefore projects should only be undertaken where a committed manager or champion is attendant to lead it.

2.2.3.3 Pursue a market driven approach

Efficient markets are seen to be the most powerful tool to fight poverty (McMillan, 2003, p. 13; UNDP, 2008; Rücker & Trah, 2007). The market driven approach to LRED projects starts from the neo-classical economics referred to as Washington Consensus (CID Harvard, 2013), where it is argued that under perfect competition markets will bring the economy to an equilibrium, which contributes to a pro-poor growth and ads certain limitations. According to Rücker & Trah (2007) the neo-classical economics are not wrong, but due to the fact, that the competition in LED is not perfect the theory is not sufficient. Weak infrastructure, lack of skill and knowledge as well as information disparity all prohibit perfect competition. In order to improve LED projects the question, why the markets are not working should constantly be asked and tried to be solved (Rücker & Trah, 2007, pp. 28-29). This statement get supported by the United Nations Development Programme (2008) recommending governments to improve market conditions in disadvantaged areas and to remove barriers for their economic participation. That is the most fundamental source of development from above.

2.2.3.4 Focus on opportunities

Finally a focus on opportunities is advised. Business activity usually starts with an entrepreneur turning a business opportunity into a business. The opportunities and initiatives cannot be planned, but skill development programs, for management and workforce, should be applied, in order to make local people capable of seizing opportunities (Rücker & Trah, 2007, p. 29) and prepare for the implementation of LED projects (Swinburn, et al., 2006, pp. 7-8). The continuous learning process of

stakeholders is essential because *‘the task of enhancing the understanding of the local context by the local actors will never be completed, but will constantly be relevant throughout the process’* (Rücker & Trah, 2007, p. 25). Swinburn et al (2006), supporting planned projects, recommends that the projects should be integrated according to social, environmental, physical and economic issues and especially, when it comes to economic disadvantaged areas. Furthermore it is essential to the fight against poverty to take the informal economy into account. The informal economy, business activities which are not legally registered, are often strongly interlinked with the formal one and has a strong economic impact. Economic growth is usually measured only on the formal economy, but the informal economy often provides the economic base for the majority of the poor and can’t be ignored (Swinburn, et al., 2006, p. 3). Undifferentiated by the LED setup, is the upcoming model of this paper, outlining factors, which can support LED projects in different phases and is therefore to be seen as an add-on to the existing LED theory, rather than a competing version on best LED practice. The upcoming model is aimed to be a support for any one working on an LED project in Indonesia, looking for ways to improve current operations.

Chapter 3: Triple Helix and Current Praxis

The concept of the triple helix is used to explain the relations between academy, industry and government, which ultimately form the environment for national, regional and local development. The academy provides human capital, through skill enhancement, education and knowledge transfer. The competitiveness of the industry determines employment and income of a region and the government organises the interaction of the spheres of social and economic networks and provides institutional support (Farinha & Ferreira, 2013). In the context of Indonesia, all three actors of the helix model play an active role in LED. Their practices shape the environment in which LED projects are conducted and that makes them relevant to the model of contributing factors. In the specific case of poverty alleviation, NGO’s as well as foreign governments support LED projects and are therefore included.

3.1 Governmental Effort:

The concept of “developmental local government”, defined in The South African White Paper on Local Government (1998, p.23) as *‘local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives’*, and further specified that: *‘Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities’* (South African Government, 1998, p. 24), is aligned with the concept of LED support by Rücker and Trah (2007) and is utilized in the Indonesian development policy. The community driven development programme PNPM Mandiri, established in 2007, accelerates this approach on LED. The objective of the programme is to fight poverty by creating the opportunity for local communities to create their own development agenda. The concept of PNPM Mandiri is that local communities decide on what they need in order to improve the local economy and send it as a proposal to the government agency. The government evaluates the proposal and in case of approval, grants them support in form of machinery, finances, raw material or whatever is needed in the specific case (Sambodo, 2013). By using governmental resources, while relying on local know how and involvement, the PNPM Mandiri utilizes the best of both worlds between Birkhölzers development from above and development from within scenarios. PNPM Mandiri is a nationwide program, targeted to fight poverty in all regions. Therefore it is divided in PNPM Urban and PNPM Rural. The focus on economic disadvantaged areas of this paper makes the PNPM Rural the most important governmental aid for LED projects. (Worldbank, 2012).

An example for the successful implementation of the PNPM Mandiri project is the Pasirhanja irrigation channel in 2010. In the Majalenka Regency in West Java, the local farmers could increase their productivity and end conflicts based on the improved water supply from the new channel. Rice is the most common crop in Indonesia and the

farming is highly dependent on a constant water supply. The farmers in the Majalenka regency did not have enough water to fully utilize their fields during dry season and the shortage caused conflicts between the farmers in the upstream and downstream regions. The local community came up with the solution that a channel would help them to overcome their water shortage and the PNPM Mandiri made the realisation possible. The results of PNPM projects over the last years are that members eat better, attend school for longer, find jobs and set up businesses, receive health care and participate in political forums (Worldbank, 2012).

In order to make the PNPM Mandiri work efficiently, a high degree of decentralisation is needed. Therefore the central government allocates funds to the local governments and the local governments use them to respond to proposals from villages and communities within their areas. In the starting period in 2007 the program already covered about 2.788 poor districts and it rapidly increased to more than 6.000 in 2011. The aim is to reach all districts within the Millennium Development Goal till 2015 (Zain, 2012).

The program still has shortcomings. Some regions still experience a lack of support from the regional government and marginalized groups are often untouched by the development projects either because they are uninformed about the opportunities or they lack the access. Apart from that the decision making process is often dominated by the local elites which sometimes results in PNPM Mandiri projects benefiting the local elites rather than the poor they are supposed to help (Worldbank, 2012).

3.2 University Involvement:

Universities play different rolls in economic development. Apart from their contribution to human capital, mentioned in the helix model, they have a major impact as advisors on the nationwide economic strategy. One of the current strategic aims, supported by the work of Ibu Sari Wahyuni, is to make Indonesia more attractive for foreign direct investment (FDI). *‘Abundant natural resources are not enough to attract investors to*

invest in Indonesia. We have to be more rugged, better organized and more efficient than other countries in Asia' (Wahyuni, 2012)

Special economic zones, like previously used in Malaysia, Thailand and China can play a key role in the attraction of FDIs, which ultimately causes knowledge transfer and a learning process in the region. The knowledge transfer is key to move the nation from having an only factor driven economy to and an economy which benefits from innovation and efficiency. In the long run sustainable income based on human and social capital is more likely to transform the economy of the nation then the rich natural resources. (Wahyuni, 2012; Wahyuni, 2013).

Apart from the macro planning, some universities are involved in a direct hands on approach to support small and medium size local development projects. They provide valuable teaching and training for people in need and fulfil their role in the helix model in a very direct fashion on a local basis. Most essential here are the management and financial skills. Local entrepreneurship and the involvement of the local people plays a key role to the Indonesian development projects. In order to receive investment to start an enterprise, it is essential to prove the capability to manage it. A proper business plan and the ability to make an income statement can be the difference between getting a loan and being rejected. Therefore training plays a key role LED projects (Selly, 2013).

3.3 Business Contribution:

The business sector is the hard of an economy. The creation of employment in a disadvantaged region leads to increased income and therefore reduces poverty (Farinha & Ferreira, 2013; Rücker & Trah, 2007). The core and plasma approach is a successful model in LED where an established enterprise fosters business activity in its surrounding. The core business can be essential as a starting point for a business cluster. It supports the establishment of new businesses in different ways. The core business can vouch for the satellite businesses in its plasma in order to ease the access to initial finances, it can

provide know how, material and rent out necessary machinery (Selly, 2013). For the new business units the core business provides the opportunity to jump on the bandwagon and participate in the economic development of the region. The core business itself benefits from synergy effects in the new business cluster. Enterprises in the plasma are usually either supplier for the core business, or work in the same line of business. The core business benefits from earning rent for machinery, having directs suppliers and the enterprises in the same line of business, often sell to the core business who gains profit at the resale process. Alternatively core and satellite businesses often pool their products for more efficient distribution as well as gaining a critical scale for large customers and regional branding¹. Under the condition that the core businesses is committed to support the economic development of its region, a “win-win” situation between core and satellites is often found (Sambodo, 2013; Selly, 2013). It is however important for LED stakeholders to get an in-depth view into core and plasma relation, specifically when it comes to information about prices, in order to ensure that no exploitative relationship between core and plasma gets established. That could result in a seriously harmful development for the poor in the region (Sambodo, 2013). Some successful businesses are even exceeding their role within the triple helix, by making the fight against poverty and LED part of their mission. In the mission statement integrated corporate social responsibility (CSR) of large companies can have major impact on LED projects.

3.3.1 Example Case: YASAN DHARMA BHAKTI ASTRA (YDBA)

The Dharma Bhakti Astra foundation is an excellent example how CSR can be a major driving force in economic development. The foundation based on Astra, one of Indonesia’s largest companies with nearly 190.000 employees (Astra, 2013), formulated their vision:

- *‘To become the leading institution in nurturing and facilitating the growth of MSMEs in the country.*

¹ the effect of regional branding will be further discussed in chapter 6.4

- *To be part of Astra Group's value chain with emphasis on MSME and community empowerment.* ' (YDBA, 2009)

And mission:

- *'To nurture and facilitate the growth of MSMEs engaged in business with Astra Group (subcontractors and automotive workshops) as well as MSMEs in sectors unrelated to Astra Group businesses.*
- *To nurture MSMEs and empower the local economic ventures in the vicinity of Astra Group network.*
- *To promote entrepreneurship and skills among members of the community according to competencies possessed by Astra Group.* ' (YDBA, 2009)

And they took their mission serious. According to the foundation's annual report in 2010 they supported micro small and medium sized enterprises (MSMEs) with their development program in a variety of sectors including automotive industry, heavy equipment, workshops, agriculture and handicraft. They cooperated with Micro Finance Institutions (MFIs), facilitating IDR 32 billion in 2010 and in 2009 even IDR 66 billion. The role of YDBA as facilitator has been successful, because MFIs place trust in the supervised MSMEs, due to the smooth loan repayment of previous YDBA projects. YDBA has established a total of 9 MFIs to support agricultural activities by providing loans for fertilizers, insecticides, raw material, tools, fuel and the reparation of infrastructure in the regions of East Sulawesi, South Kalimantan, Central Kalimantan and South Sumatra. Furthermore they enhanced business activities in rural areas through different approaches. They established examples on how to utilize the given land in a more productive fashion. Therefore demonstrations of superior rubber seedling nurseries, vegetable farms and fishponds are established to inspire and educate locals on how to restructure their own facilities. YDBA is currently managing 9 Business development Agencies (BDAs), which work on MSME development programs in rural areas. Those agencies are concerned with the business horizon, skills, work attitude and networking of their rural clients. Basic training in mentality, bookkeeping and taxation is used to increase discipline, tax awareness and overall product quality. In 2010 432 SMEs benefited from the training and advocacy program, those are 1st and 2nd layer suppliers as well as non-suppliers of the Astra group. An overall goal of the YDBA development program is the establishment of Independent MSMEs. In order to be consider

independent, the MSME must meet certain requirements concerning business turnover, assets, number of employees, number of customers, duration of business and so forth. In 2010, 3 new SMEs achieved independence. (YDBA, 2010).

3.4 Foreign Governments and NGO's

After a closer look at the three actors of the triple helix, the actors from outside are presented shortly in order to complete the picture. In an increasingly global economy, foreign government agencies set their goals on poverty alleviation across national boundaries. A few examples for agencies currently working in different regions of Indonesia are Australian Aid, the German Gesellschaft für Internationale Zusammenarbeit (GIZ), the Dutch Development Assistance as well as the Canadian and Department for Foreign Affairs, Trade and Development (DFATD)² as well as different religious and humanitarian NGOs. The area of impact differs from agency to agency. The GIZ for example is supporting the Indonesian National Planning and Development Agency (BAPPENAS), to establish favourable conditions for sustainable economic development. They aim on the development and encouragement of institutional and individual capacities as well as support structures, in order to make it possible for national and regional actors to implement consistent strategies for economic development (GIZ, 2013). Other agencies like the Canadian (DFATD) provide a more hands-on service like the Canada Indonesia Private Sector Economic Development (CIPSED) Projects. On the micro level the projects involve technical assistance to SME clusters in Sulawesi to develop enterprise expansions and the equitable creation of more and better jobs. CIPSED Projects are created to enhance the operational efficiency of SMEs with a

² additional information about the work of the Canadian DFATD see interview with Ibu Francisca Indarsiani: Appendix I

regional focus on Sulawesi. On a macro level they work on improvement of BDSP with the aim to build accountable private and public sector institutions with the capability to support competitive SMEs. Furthermore the CIPSED is involved in a micro finance initiative with the aim of improving income in production capacities of SMEs through better access to microfinance by men and women. In order to do so they work on the assessment of MFIs, the capacity building of human resource assets of MFIs and the access to external capital in order to fund the MFIs (CIPSED, 2008).

Chapter 4: Methodology

4.1 Research Design

The aim of the research is to create new theory with explanation power over a certain phenomenon, namely the factors contributing to positive outcome of micro, small to medium size LED projects. Different theories on best practises in LED are already established and the outcome of this research is not supposed to be challenging existing theory, but contributing to more tailor made projects in Indonesia, by improved understanding about the specific LED environment. In this research theory is the result and not the precondition. Therefore grounded theory is applied based on Strauss and Corbi (1960).

4.2 Data Collection

Interviews with the different actors of the helix model are conducted based on the guiding research question: “Which factor contribute to successful LED projects”? This rather open approach allows to let the research evolve during the investigation and to follow new leads (Gioia, et al., 2012). Essential in this starting period is to collect a myriad of information, from which the theory evolves (Corbin & Strauss, 1990). Semi structural interviews are applied in order to gather qualitative data based on the expertise of the interviewee (Gioia, et al., 2012). The interviews are recorded with permission of

the interviewee and additional notes are taken to notice as much information as possible (Seidel, 1998). After each interviews a summary about the specific case is written and continuous memo writing is utilized to '*store intellectual capital in the bank*' (Clark, 2005).

The interviews are focused on the lead question, but they are customized to every interviewee and his field of expertise in order to get the best quality of data possible. Email or telephone contact is used to prepare the interviews upfront on both sides to ensure efficiency by preparation of both parties.

Interviews are conducted over a two month period with experts working for academic as well as the governmental part of the triple helix, unfortunately contact to the business part of the helix remained unsuccessful. Interview partner from the Indonesian academia are:

Dr. Sari Wahyuni, Head of the Management Research Centre at the University of Indonesia and Editor in Chief of the South East Asian Journal of Management. Expert in FDI and economic development.

Ibu Maeyta Selly, Lecturer and Researcher at the Faculty of Economics, University of Indonesia. Experienced with SME and LED.

Dr. Heru Purboyo, Head of the Transportation department, Institute of Technology Bandung. Experienced with economic development.

Participants from the Indonesian government:

Pak Leonardo Sambodo, Head of Sub-Directorate for Supporting System of SMEs at BAPPENAS (State Ministry of National Development Planning)

Pak Danis Hidayat Sumadilaga, Head of Centre for Public Communication, involved infrastructure and economic planning.

Pak Edward Abdurrahman, Head of Ministerial Report and Programming Division at the Ministry of Public Works. Previously director for human settlement and familiar with LED.

And foreign government:

Ibu Francisca Indarsiani, Senior Development Officer at the Sustainable Economic growth (SEG) Program from the Development Section of the DFATD (Department of foreign affairs trade and development) at the Canadian embassy.

(Summaries of the interviews are to be found in Appendix A)

4.3 Data Analysis

The interviews, ranging from 30 to 90 minutes, result in a large and amount of data. Open coding (*‘breaking data apart and delineating concepts to stand for blocks of raw data. At the same time, one is qualifying those concepts in terms of their properties and dimensions.’* (Corbin & Strauss, 2008, p. 195)) is used to transform the different interviews in a collection of coded data. At this point no clear concept is visible, but *‘you gotta get lost before you can get found’* (Gioia, 2004, p. 102). The next step, the axial coding is aimed to crosscut and find the relation of the different open codes in order to establish an underlining structure (Corbin & Strauss, 2008). At the final stage the coded information is used to formulate a grounded theory about how and why specific factors do relate to the Selective code: Successful LED project. The process to come up with the final framework is based on *‘numerous cycles through a little bit of data, massive amounts of thinking about that data, and slippery things like intuition and serendipity’* (Agar, 1991, p. 193).

Chapter 5: Findings

The open coding produced to 24 codes (Appendix II), which are all related to LED projects but vary from attitudes over information to structures and strategies. After some

slight reformulations they became the final 27 included in the model. During the process of axial coding it became clear, that the open codes can be categorized according to their area of impact for LED projects. Furthermore the axial codes are set in a hierarchical relationship to each other based on different stadiums of the development projects. For each axial code a framework of respective primary codes is developed in order to demonstrate their use and correlation with other factors. The individual codes as well as the frameworks will be described in detail within the next chapter.

Open Codes	Axial Codes	Selective Code
Reliability Industry support Government buy-in Facilitator Capability Professional documentation	Initial Investment	Successful LED project
Business Setup Human Capital Motivation and commitment Economic readiness Social Capital Infrastructure Information Business and work ethics Strategic focus Flexibility	Operational Basis	
Business Development Services Sustainability Modernisation Added Value	Constant improvement	

Awareness	Market reach	
Distribution		
Rural urban partnerships		
Regional Branding		
Strategic focus		
Improved packaging		

TABLE 1: AXIAL CODING

Chapter 6: LED Support Pyramid

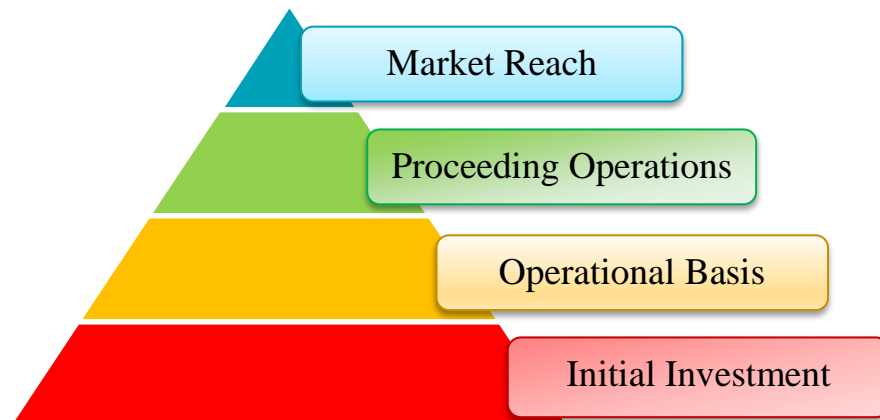


FIGURE 1: LED SUPPORT PYRAMID

By looking into factors supporting local economic development projects, it became clear that there are multiple levels on which factors have a positive contribution to the overall goal of successful LED projects. Therefore the axial coding was used according to (Strauss & Corbin 1990) to categorize the open codes in their specific context. The context in this case is the area where the coded factors have a positive contribution. The

factors can either benefit a single enterprise within an LED project or support the setup of the entire village or community. The first area of impact is initial investment followed by operational basis, proceeding operations and finally market reach. Due to the differentiated nature of the factors resulting from the interviews, a hierarchy similar to the Maslow's hierarchy of needs (Maslow, 1943), is created to give meaning to the framework. It separates areas of need and allocates relevant beneficial factors accordingly. LED projects are targeted on micro, small, medium and large enterprises and support established businesses as well as fresh start-ups. LED is created through creation of new enterprises and retention and expansion of existing ones (Hindson & Meyer-Stamer, 2007, p. 9). Support for those businesses needs to be adjusted to their current circumstances. That is simplified through the different layers of the pyramid. Start-up enterprises in LED usually are dependent on initial investment and within the "Initial Investment" category a framework of factors, contributing to the access to finances, is found. Subsequently supporter of an established enterprise, which is new or struggling, might want to look at factors contributing to a solid "Operational Basis" to secure its retention. As in Maslow's hierarchy the needs for the higher category become important, as soon as the lower one is satisfied. A project which has a solid foundation and runs smoothly will be looking into the future to ensure it stays that way, or development in terms of improvement takes place to achieve business expansion. This is where the "Proceeding Operations" become important. Finally a well-operating business, which is constantly improving its position, will be looking for additional demands to support the growth and this is when "Market Reach" becomes increasingly important. The layers are supposed to represent a guideline, but they are by no means to be seen as a strict step by step approach. From business to business, the need and therefore the hierarchy might vary, but it is helpful to find the right factors for the respected category. Some factors, which are allocated in one layer might in fact have an impact on the other layers as well. For example, as illustrated later on, the strategic focus which contributes to a solid operational basis also impacts regional branding and therefore the market reach. Like in Maslow's hierarchy of human needs, the needs in LED projects will go back to the lower level, if they are no longer satisfied. It is

important to see the presented factors as an indication for what could help, but they are by no means exclusively relevant.

6.1 Initial Investment

LED in the form of start-up businesses is mostly dependent on some sort of initial investment. As explained earlier, it is possible for SME's to acquire micro credits and benefit from the PNPM Mandiri programme. However, in order to do so, they need to convince the respected agencies, that they are credit worthy. The two most important attributes they have to show are reliability and capability. Reliability of a SME can be supported by local government or facilitators and capability can be underlined through industry support and professional documentation.

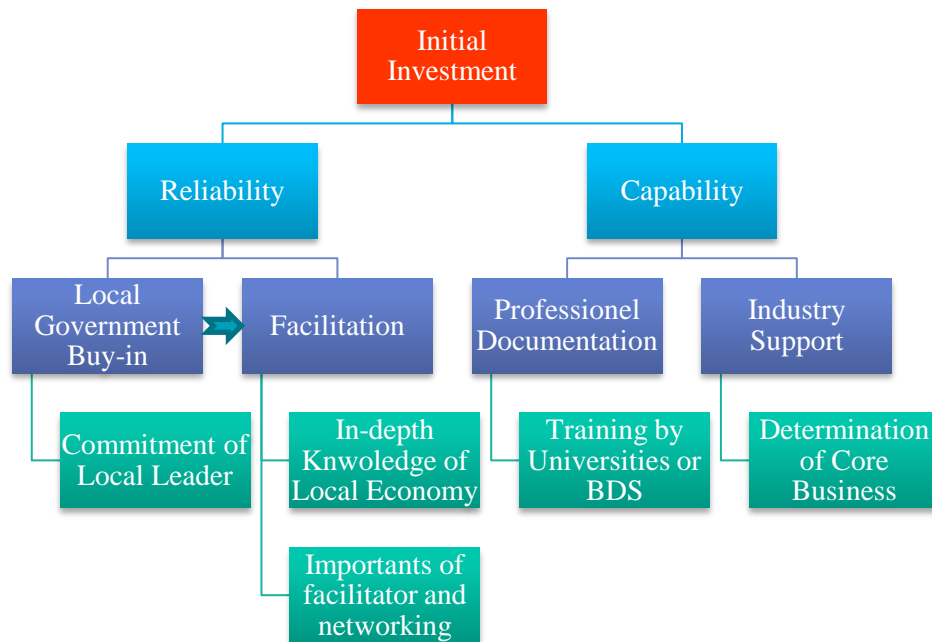


FIGURE 2: INITIAL INVESTMENT

➔ Influence

6.1.1 Reliability:

For financial institutes, whether related to PNPM Mandiri or not, it is highly important to establish if SME's are creditworthy or not. The major challenge here is to prove, that they can be successful and the likelihood, that they will pay back the credit they have received. The most fundamental assumption here is, that a sense of reliability and capability is needed (Sambodo, 2013). Reliability itself can be based on different origins and the following factors contribute to the degree of reliability, a project has in the eye of the investor: local Leader/government buy-in, industry support and the help of facilitators.

6.1.1.1 Local Government Buy-in

Local leader or in some cases the local government buy-in (here the local government simply means the group of respected people within the village who decide on the concerns of the village (Abdurrahman, 2013)).

Even though it is debated, whether local elites can cause fake participation and therefore reduce creativity and innovation (Rücker & Trah, 2007, p. 25), they are likely provide commitment and credibility (Swinburn, et al., 2006, pp. 7-8). In the context of Indonesia, the support of the village leader/government towards a project has value to the financial institution, because the people working in the projects will be less likely to abandon it, if they have the support of their local leaders. An additional factor is, that in the Indonesian culture people in the villages feel a stronger obligation towards respected people, than towards impersonal bonds like employment which makes the involvement of officials increase the seriousness of the project (Spranz, et al., 2012)(Indarsiani, 2013). The commitment of the local leaders is known to have strong influence on the facilitators and even in suboptimal conditions a strongly motivated local leader can convince a facilitator to support a project (Abdurrahman, 2013).

6.1.1.2 Facilitation

Facilitators are outside experts, including but not limited to NOG's, who evaluate and support development projects and play a major role by communicating between the people from the village and the credit institute or government. The facilitators write a report about the local economic situation and opportunities, which have a fundamental impact on the decision-making of the credit grantor. The involvement of NGO's increases the reliability of a project due to the expert supervision and makes it more likely for those projects to receive funds (YDBA, 2010). The impact of the facilitator is limited to his knowledge of the region and therefore it is required, that he spends sufficient time in the area (around 2 months) to acquire the necessary in-depth knowledge. Well known facilitators with good relations to government officials are more likely to be trusted on their judgement (Abdurrahman, 2013).

6.1.2 Capability:

When the reliability of an entrepreneur is established, it is still a question whether he is capable to manage the new enterprise. Professional Documentation and support from the Industry can back up an individual's capability.

6.1.1 Professional Documentation

In order to receive a credit and even a micro credit, it is necessary that the credit receiver proves, that he is able to manage the finances in a sufficient way. Many small business owners live on a day to day basis and have no separation between personal and business accounts. They recognize whether they have enough money to buy what they need, but they cannot tell how much money they actually earned with their businesses (Selly, 2013). For credit institutes, it is important to know that the funds are used for the purpose they

are provided for and that the credit receiver is able to plan ahead and manage the repayments.

Professional documentation is the greatest asset to show managerial capability to the credit provider. If a business writes a proper proposal, can prepare financial statements and a business plan, then it is much more likely to receive funds. Universities, BAPPENAS and BDS are all involved in providing training, because those skills can have great impact on the business performance (Sambodo, 2013) (Selly, 2013).

6.1.2.2 Industry Support

It was previously mentioned how SME's in LED can benefit from a core and plasma approach. When it comes to financing, it is specifically valuable for a small start-up business to have a larger business partner supporting and vouching for them. The core business can play the role of an intermediary between the credit institute and its partner. In a core and plasma approach, the representative of the core business usually knows the people who are working with it as satellites and is therefore better able to judge their capability of handling the responsibility of a start-up business, than the credit institutes themselves. Furthermore the core business can support the new enterprise with technology and knowhow, to improve its economic performance. By vouching for a small business the core business takes over some responsibility for the credit but, at the same time it strengthens their bond which can be an asset for further operations. The value of networking will be discussed in social capital (Selly, 2013).

6.2 Operational Basis

For any operating project it is important that it has a solid foundation. For LED projects in Indonesia, that operational basis can benefit from the business setup, infrastructure and economic readiness.

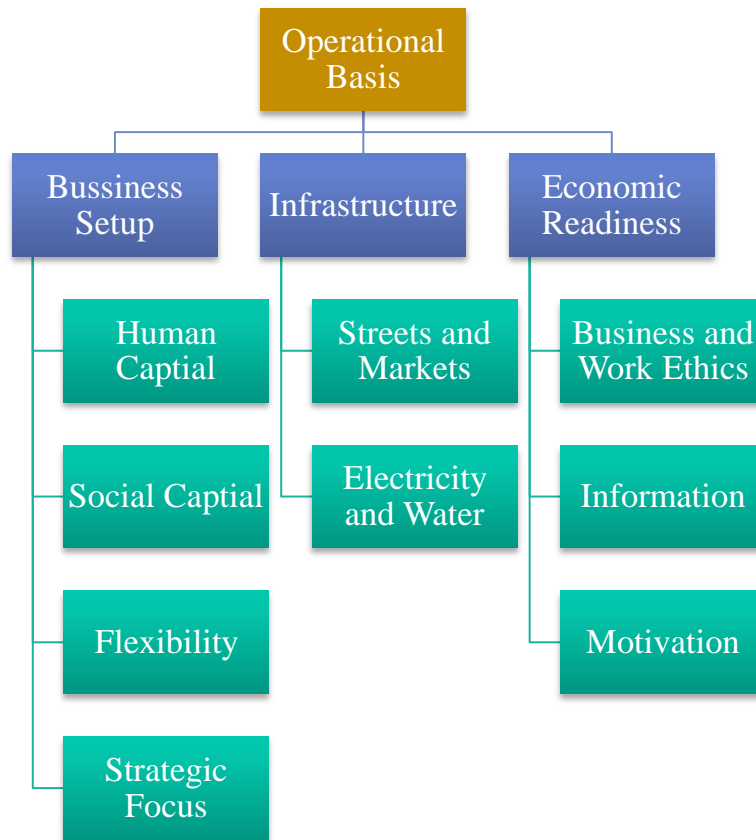


FIGURE 3: OPERATIONAL BASIS

6.2.1 Business Setup

The business setup is the construction of the business itself. The occupation and organisation. It is important to find a good fit between the local resources, the skills and abilities of the people involved and the new business. The factors influencing a good business setup are Human Capital, Social Capital, Flexibility and Strategic focus.

6.2.1.1 Human Capital

Human Capital consists, according to Coleman (1990), of individual resources such as knowledge and skill. The skill sets of the people involved play a crucial role in setting up a business. A new project of any kind is much more likely to succeed, if the people have already worked in the same line of action and pose crucial skills. For example, the seaweed farms in Sulawesi are set up by people who had previous experience with seaweed, or at least have been fisherman before. These people have all the necessary skills to work on a boat and it comes naturally to them. Starting a similar project with people who have previously worked on a farm, would be a much greater challenge (Indarsiani, 2013). Human capital plays a key role in sustainable development. People who work in their field of expertise can train newcomers and pass on knowledge. Training and skills of locals are vital for current and upcoming LED projects (Rücker & Trah, 2007) (Swinburn, et al., 2006). At the same time the new business allows skilled people to stay in the area and work in their profession instead of moving to the cities in order to find work. This is a key element in local economic development, to use the human capital to build up businesses and due to the new businesses the skilled people can stay in the area and help to develop it further (Wahyuni, 2013). The education and managerial skills of the people involved in the projects, are an important success factor. In order for the business to develop in a proper way BDS and universities provide offer training programmes to provide the locals with the basic know how on how to run a business (Sambodo, 2013).

6.2.1.2 Social Capital

Coleman (1990) states that social capital exists in the relation between social actors. Networking between small businesses, or the relations between the new business and the rest of the community or village, can have a tremendous impact on its success (Selly, 2013) (Abdurrahman, 2013). The social capital works like a safety net, where people in

need help each other out. This concept is known in Indonesia as Gotong-Royong (Guinness, 1986) the '*ideals of mutual assistance and the sharing of burdens*' (Mulder, 2005, p. 68) , joint efforts to achieve individual or common goals, which is as previously mentioned deeply rooted in the Kejawen (Magnis-Suseno, 1981). It involves physical labour as well as short term borrowings of raw material or money in order to help a smooth flow of operations. Additionally Social capital in the form of local association plays a role in disseminating information, reducing of opportunistic behaviour and facilitating in collective decision making. Networking is also beneficial for the access of credits, because cooperation of local actors is more convincing to credit institutes than individuals (Grootaert, 1999).

6.2.1.3 Flexibility

For new established LED projects, it can be a great asset to allow for some flexibility in the business setup. Especially for goods, where either the produced quantity or the demand underlies fluctuation, should the business not be too static. The previously mentioned seaweed farmers for example generate their main income through seaweed farming, but the seaweed can be influenced by a number of outside factors, such as weather conditions, water properties and the quality of the seedlings. Therefore the seaweed farmers can still use their boats to go fishing when the harvest is insufficient. In cases like this, flexibility allows the people to sustain a business during shortages by secondary income instead of abandoning the new operation completely (Indarsiani, 2013).

6.2.1.4 Strategic Focus

For economic development projects, it can be a great asset to create a strategic focus for the region in need of development. Typical examples for such a focus would be the one village one product approach or the core and plasma approach, where a village or

community focusses all their economic activities on one line of business. The advantages are that it is much easier for government agents or NGO's to support cooperatives than individuals, synergy effects between the business units and regional branding. Cooperatives, can for example, apply for machinery, which increases the efficiency of production for the entire village. Knowledge transfer and legal institutions specialized on the line of business accelerate the economic development. The centralisation of businesses also helps to reduce bribes and results in more official tax which can be used for new projects (Sambodo, 2013). The cooperation of different communities which focus on the same product can help to open up new distribution channels. Large customers like supermarket chains might just be interested, if they can guarantee a specific quantity which the cooperation achieves, but not the individual business (Sambodo, 2013).

6.2.1.5 Example: Business Setup

Banjaran, a small village in west java, near Bandung, has a business focus on the farming and processing of bamboo. They grow the bamboo in the tropical hills of that area and either dry it to get white bamboo or use a method to store it under water in the village lake for a couple of months, to get dark bamboo, which is popular for its nice sheen when it is polished. The village is dedicated to the work with bamboo and benefits from synergy effects. The bamboo farmers can sale their bamboo directly in the village and the



IMAGE 1: PACK ADÉ SPLITTING BAMBOO

excess harvest gets picked up for construction work. Most of the bamboo is further processed in dedicated workshops within the village.

Pak Adé seen in Image 1, is employed to split bamboo into very slim layers which are needed to weave mattings and chair backs. In order to split the bamboo he uses a complex technique which involves both his feet to hold the bamboo in position and his hands to cut the bamboo and to pull the layers apart. It seemed simple at the beginning but it actually takes a lot of skill to separate the layers without damaging the bamboo. The owner of the bamboo workshop explained that bamboo furniture nowadays is popular in western countries and engineers tried to build machinery to do Pak Adé's work, but the fact, that each bamboo is different and the work has to be very precise to get intact layers, made it so far impossible to create a machinery for this job. Skills like this are an example for human capital and can be a great asset for LED projects

The processed bamboo is used by different workshop in the village build bamboo furniture, which is sold through the region. The quality of the furniture from that village is famous and caused regional branding, which is supporting the sales. The strategic focus has proven successful and except of a few rice farmers, everyone in that village is involved in the flourishing bamboo industry.



IMAGE 2: BAMBOO WORKSHOP



IMAGE 3: FINISHED PRODUCT,
BAMBOO CHAIR

6.2.2 Infrastructure

Basic ways of transportation as well as the supply with electricity and water are key elements for economic development (Purboyo, 2013).

6.2.2.1 Streets and Markets

Whether roads or harbours, some way to transport the produced goods from the villages to potential customers is indispensable for economic activities (Sumadilaga, 2013). In addition, traditional markets don not only contribute to the distribution of goods. They also tend to create additional business activities in the area. People start selling goods or provide services and the markets draw in neighbours and tourists which make the location more popular (Sambodo, 2013).

6.2.2.2 Electricity and water

The access to fresh water and electricity is, in the rural areas of Indonesia, not always guaranteed. This needs to be taken into account during the planning process of a new project. It needs to be established how the quality of the supply currently is and if it can be improved. In some cases, businesses just fail because they do not have the necessary supply of electricity to operate their machinery, or hygienic standards for tourists cannot be achieved due to the lack of fresh water (Purboyo, 2013). Therefore it is highly important to take this factor into consideration before a project gets started.

6.2.3 Economic Readiness

The economic readiness in this case means the ability of small local businesses to operate with large professionals in a mutual beneficial way. For example, in the core and plasma approach small start-ups receive a great opportunity to work with the core business but in order to jump on the bandwagon they need to satisfy basic requirements and on the other hand it is important for them to be informed enough to make sure they do not get exploited (Sambodo, 2013).

6.2.3.1 Business and Work Ethics

The compliance of contracts in terms of quality, punctuality and consistency is a requirement for ongoing business relationships. The small companies need to reach sufficient professionalism to operate with larger companies in order to benefit from the new economic opportunities (Sambodo, 2013).

6.2.3.2 Information

The rural areas in Indonesia tend to be quite capsulated and they often do not have the technology to inform themselves on what is happening outside their region. To promote trade between those areas and the cities, it is important for the locals to know what kind of demand their products find in the cities and to gather information about the actual prices of their goods. The access to these kinds of information enables local businesses to bargain on a fair, supra-regional basis.(Sambodo, 2013) (Abdurrahman, 2013).

6.2.3.3 Motivation

Fundamental to LED projects is the motivation and participation of the people involved (Swinburn, et al., 2006, pp. 7-8). If they do not feel like participating or working hard to achieve economic wellbeing, the project is doomed from the beginning. For projects specifically involving cluster building and strategic focus, it is essential to motivate a large part of the community to join the effort, but also the motivation of the individual within a business is the key to its success (Swinburn, et al., 2006). The best source of motivation is a good example and that makes local champions the tool of choice to promote a project. Local champions haven been used in different economic development projects to promote best practices and set an example. A local champion is a person or a business which is highly motivated to be part of the development programme. That champion will receive as much support as possible in order to be successful and set an example for similar businesses. If new businesses learn how the champion achieved his economic success then they will be highly motivated to follow his example, which often includes the achievement of economic readiness. Motivation of the people is the real driving power behind small businesses and therefore champions can contribute to the economic readiness of the businesses in their area (Indarsiani, 2013). It is however important to channel the success in the right direction and as previously explained is the amassing of riches by individuals not necessary a motivational asset according to the Javanese mentality (Spranz, et al., 2012). The local champion should have significant contribution to the wellbeing of the people around him in order to motivate others to follow his example.

6.3 Proceeding Operation

As mentioned earlier, a sustainable income is more important than short term profits and the aim of economic development is to help people out of the poverty by enabling them to generate their own income for a lasting period of time (Wahyuni, 2012).

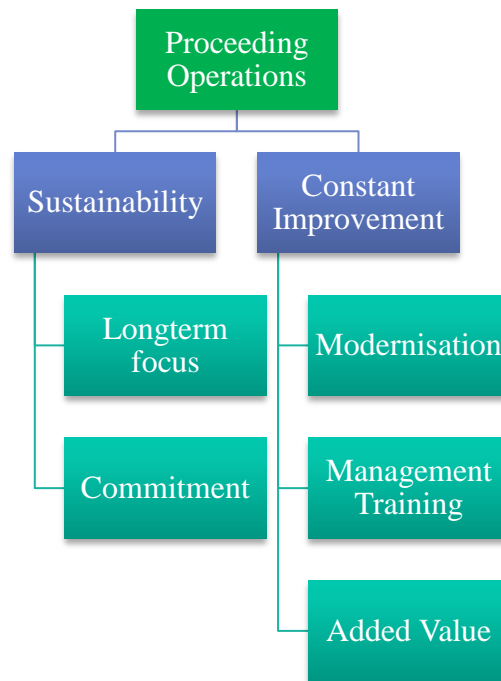


FIGURE 4: PROCEEDING OPERATION

6.3.1 Sustainability

Sustainability is the key to economic development. As the famous saying goes: “*give a man a fish and you feed him for a day. Teach a man how to fish and you feed him for a lifetime*” (modified over time, origin (Ritchie, 1885)). This is a fundamental truth which is still relevant and the aim of development projects should be to teach how to fish, rather than giving out free fish. Therefore sustainability is essential for proceeding operations. To achieve sustainability in the projects, a long term focus and commitment of the people involved are necessary.

6.3.1.1 Long term focus

The project should be focused on long term profits rather than short term. This has proven to be challenging in many rural areas because the people are reluctant to support a

project if they do not see the direct outcome in terms of their personal pay-out. In many cases, proper businesses need time to build themselves up and reach profitability. *'LED is about sustainable development in the long-term. It takes time to change local conditions, build capacity, organize participatory processes, and empower stakeholders, especially the marginalized and poor'* (Trousedale, 2003, p. 9). A major challenge is therefore to overcome the initial periods till the project reaches profitability. Improvements quite often take time to be visible, so the business needs to operate for an extended period in order to see if it works out in the long run (Indarsiani, 2013).

6.3.1.2 Commitment

The commitment of the people is crucial to the sustainability of a project. If the people involved abandon it, it will rapidly fall apart on its own. In order to achieve commitment it is seen to be best practice to create personal bonds, as explained in the motivation part people in the country side of Indonesia do not see employment rules and contractual bindings as strictly as most Westerners would and if they do not feel like working they might one day just not show up (Selly, 2013). Personal relations on the other side are important and if they respect the others and the ones they are working for, then they feel stronger commitment. Quick wins especially in terms of generated income, create commitment by pointing out to the people involved that it is actually worth working for the specific project (Indarsiani, 2013).

6.3.2 Constant Improvement

Sustainability and constant improvement can be seen as an oxymoron, but the businesses do not exist in isolation, they are part of a constant changing environment and in order to stay competitive it is necessary that the businesses improve in order to hold or expand

their competitive position. The main sources of improvement are modernisation, training and, either caused by the previous two or in addition, added value.

6.3.2.1 Modernisation

The use of appropriate technology, machinery and production methods is essential to competitive operations. New pieces of equipment do not need to be expensive, but they can increase the productivity of most SME's greatly (Sambodo, 2013). The modernisation of businesses can also have spill over effects in different aspects of daily life and therefore promote a general modernisation and development within the region.

6.3.2.2 Management Training

Initial training is often provided by government agents and universities (Selly, 2013; Sambodo, 2013), but small businesses still benefit from additional training from time to time. BDS are an important source of managerial training which leads to improved efficiency of SME's, but they are still underutilized (Sambodo, 2013) (Indarsiani, 2013). Most small businesses are only willing to pay for BDS if they can connect it to directly in increased sales, but it should be applied more regularly to improve operations and create more efficient businesses, which will be more profitable in the long run (Indarsiani, 2013).

6.3.2.3 Added value

Value adding activities are great implementations in the working process to increase the scope of operations. They increase the value of the product either by improving the quality or by producing the good further. Value adding activities can potentially help the

business to expand on an entirely new level but they are usually done a small step at the time. Examples in LED projects are coconut farmers sell next to the normal coconuts, coconut coals and other related products and some cashew nut farmers managed to improve their handling methods which reduced the amount of broken nuts and therefore resulted in higher sales value (Indarsiani, 2013).

6.4 Market Reach

Finally any business including the SME's based on the economic development projects needs to reach customers in order to generate profits. With growing businesses, thoughts should be made about the optimisation of the market reach. Two main factors are important to reach a customer. The customer needs to be aware of the product and it should be accessible for him, which makes awareness and distribution the areas of interest.

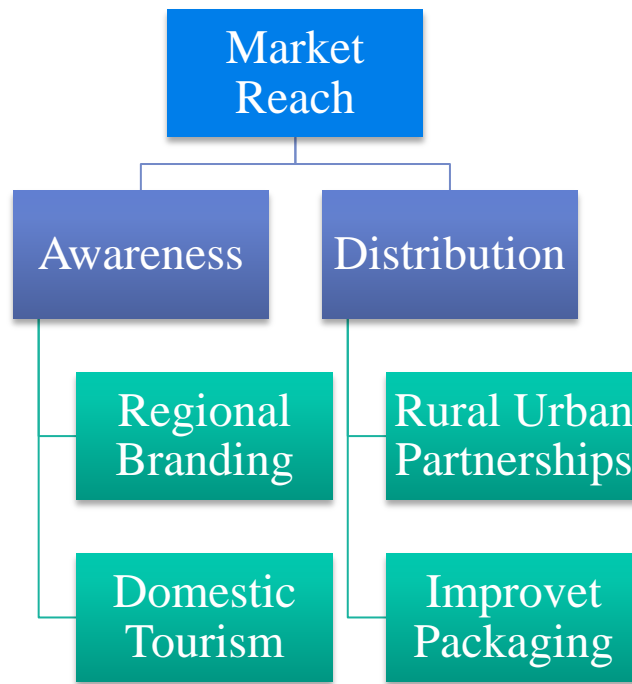


FIGURE 5: MARKET REACH

6.4.1 Awareness

A big problem with promoting village products from remote areas is, that nearly no one outside the village really knows what they are offering. In order to achieve supra-regional sales the awareness of the local products needs to be risen. Main assets to increase awareness are regional branding and domestic tourism (Purboyo, 2013; Selly, 2013).

6.4.1.1 Regional Branding

When it comes to regional branding, cooperation and strategic focus can make a specific product from a region famous through the nation or in some cases internationally. The previous example of the producer of wooden furniture in Sumadang shows the benefits of regional branding. Now that his village and the part of Sumadang are famous for wooden furniture, customers seek them out in order to get quality goods and the market reach is

expanded. The result is a level of business activity in the region which would simply not be possible on local demand (Selly, 2013).

6.4.1.2 Domestic Tourism

The village products can be promoted on national expos and regional events to increase the general awareness (Sambodo, 2013) and an additional approach is domestic tourism, more specific tourism villages, where urbanites can enjoy holidays in the traditional country side. The tourism villages can be seen as a one village one product approach, where local leaders decide to focus on tourism. The tourism is under those circumstance the main “product” of the village. Next to the income through tourism, the general awareness of village products increases. After the initial contact on a holiday, the tourist might buy the product at home as well if a distribution channel exists (Purboyo, 2013).

6.4.2 Distribution

Successful LED projects result in competitive enterprises, who rely on the open markets to support their growth (McMillan, 2003). In order to resolve market barriers local products need access to the urban markets. Rural-urban partnerships and improved packaging can help to access those markets.

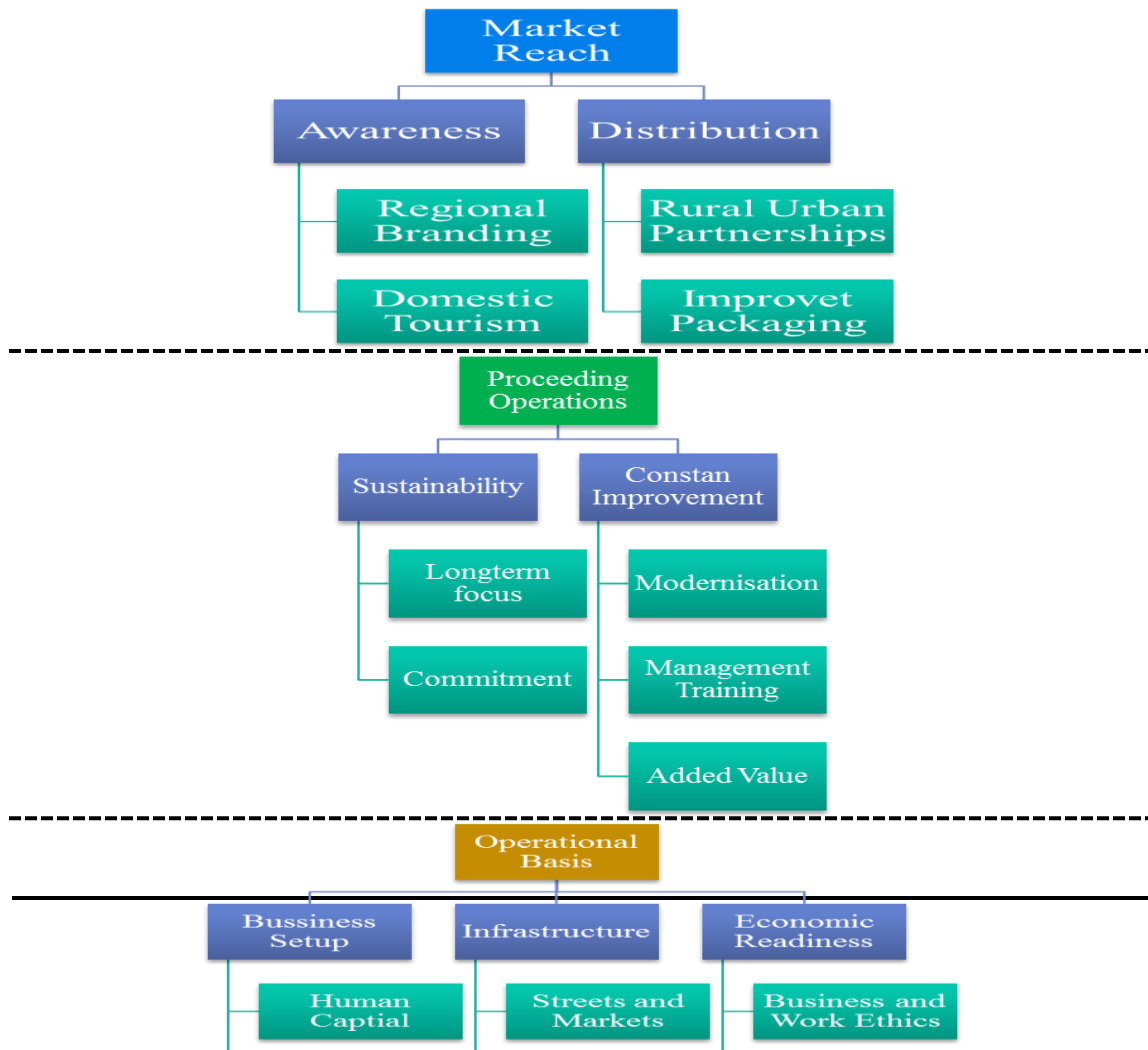
Rural-Urban Partnerships

The exchange of goods between urban and rural areas is key to slow down urbanisation and presents opportunities for people to make a living in the villages. Urban rural partnerships are created to optimise connections between cities and villages. Proper roads and organised transport ease up trade and village and city get closer together (Sambodo,

2013). Villages in need can send proposals to the ministry of transportation in order to receive funds to improve their connectivity. Good connections enable more people to live and work in the villages and exchange of goods let the villagers benefit from modernisation. The connection between villages and cities is often based on Rural-Urban partnerships where the city and villages work hand to improve the means transportation (Purboyo, 2013). It is a win-win situation where the city reduces the pressure of urbanisation and the villages receive better excess to markets and development.

Improved Packaging

The distribution of goods can further be optimised by packaging. Especially for perishable goods, proper packaging means access to additional markets. Packaging can have a range of different effects, from increasing durability over transport protection to an appealing marketing asset (Purboyo, 2013).



Chapter 7 Conclusion

This paper has established a framework of factors, in order to demonstrate where and how they can contribute to the positive outcome of LED, successful business activity in economically disadvantaged areas. The pyramided model is an extension of the established theory on how to conduct LED projects. It adds a schema, which illustrates what kind of factors are relevant for LED projects with specific kinds of needs. The hierarchical layers of needs of the Pyramid start from Initial Investment, followed by Operational Basis, Proceeding Operation and Market Reach. Economic development projects undergo different phases and therefore it is helpful to find the right factors related to the specific level of needs. The categorization of factors and the use of frameworks helps to simplify complex economic relations. This specific model is based on the context of Indonesia and the implied factors are shaped by the country's culture, history and current policies. It is aimed to be a tool for stakeholders in LED projects to understand and utilize possible supporting factors.

7.1 Discussion

Previous work has been established on the development and implementation of LED projects (Swinburn, et al., 2006; Rücker & Trah, 2007) and the results of this paper can be seen as an addendum to it. The benefit of this research is, that rather than developing a new theory on the implementation of LED projects, it just focuses on what works in a specific environment and points those factors out to stakeholders. The resulting factors can be used in combination with existing theory to customize local projects according to what seems to be most promising within the given environment. The presented factors are just the very start and the level of needs and the contributing factors could be depend in order to give more explanation power to the model. It was possible to interview knowledgeable experts from two actors of the helix model and benefit from their insights to create this model. This is, even though represented by experts of different areas, just a limited point of view. The third actor, the industry, should be implemented. Furthermore where the interviewees experts on a national level and the local representatives of Pennink's (2012) double triangle in the helix model, local government, local leaders and local social entrepreneurs, would be an additional important source of information. Local actors might provide insights on factors which are not apparent to national actors.

7.2 Limitations

The main limitation within this paper is the amount of information gathered. More data would without a doubt, lead to deeper insights into what plays a role in LED projects in Indonesia. The amount of data gathered was limited by time, cultural distance, networking and language. Traveling on a socio cultural visa allowed for the stay and research for two months in Indonesia and even though it could have theoretically been extended, the schedule of my thesis and my personal budget did not allow a longer stay. Cultural distance did play a role and made efficient work hard. The Indonesian people are in general very friendly, but it took time and effort to get accustomed to local habits especially in terms of communication. In Indonesia, even more then in the western world, networking plays a major role. Initial contacts from previous work of my professor allowed to build up a solid network in Jakarta and Bandung. In new areas on the other

hand, it was very hard to get in touch with people involved in LED projects, without being introduced by someone they knew. The interviews were all done in English, which was the mother tongue of none of the participants. The fact, that interviewee as well as interviewer were speaking in a secondary language, did limit the quality of information exchange. All the interviewees were able to speak English due to their academic or business background, but it felt like some of them, who don't use English on a regular base, reduced the conversation to factors they knew how to explain in English. The language barrier was probably a main reason why most of the people in the area in the south of Jakarta did not respond to emails at all. That made it impossible to get in touch with the local actors of the helix model. It does however make sense that it lies outside of their comfort zone to be interviewed in English by a foreigner about a rather complicated topic. The interviews of seven experts represent just a peek into what can be found in the search of contributing factors. In general a larger pool of initial interviews would be ideal.

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Appendices

Appendix A: Interviews

In order to focus on the relevant parts, all the interviews are summaries and not written down on a word by word basis. In case of interest or in order to prove the relevance of the summaries I will gladly provide the audio recordings of the interviews on request.

1. Ibu Sari Wahyuni:

Editor in Chief the South East Asian Journal of Management
Lecturer at Faculty of Economics, University of Indonesia
Gedung Department Management

Ibu Sari is an expert in the field of economic development. She is working with national development and not on the small projects this thesis is about, but she could still provide valuable insights.

Summary:

Economic development is fuelled by investment in business operations. The main interest for investors is always profitability and therefore it is important to make the relevant region lucrative for investments. FDI's are a major source of knowledge transfer and can help not only to create employment, but also help to transform the local economy from a factor driven economy to one based on innovation and efficiency.

Innovation and efficiency driven economies are the key to sustainable development. Factors driven economies are not enough to develop a country. Famous example of "Dutch disease" are very poor countries which are rich in natural resources. Sustainable income is more important than total income and resource based economy has no future.

Therefore it is important for the government to establish incentives for FDI's. It is not enough to be as attractive as other regions, the region needs to be more attractive to get the investment. Factors contributing to the likelihood of investment include for example: clear and transparent business environments, skilled labour, access to harbours or airports etc.

International companies can have crucial impact on the development of a region. One example would be Pindang where large international companies like Philips produce components and have R&D centre. Active knowledge transfer happens within the businesses and the companies support international schools to improve the quality of

labor available, which raise the education level of the region. Businesses do invest in schools and universities if they see a benefit from doing so.

CSR can play a role for companies to create business in specific regions but the economic factors are usually more important

The following factors are important for governmental decision making in which areas they should focus their attention for development projects: fight of poverty, economic growth, social capital and regional potential. Human and social capital is the key for sustainable development.

Open coding:

- Sustainable income is more important than total income
- Human and social capital is the key to sustainable development

2. Ibu Maeyta Selly:

Lecturer/Researcher
Faculty of Economics, University of Indonesia
Gedung Department Management

Ibu Maeyta Selly is working for the University of Indonesia and is personally involved in small and medium sized economic development projects in different parts of Indonesia.

She explained principles of the small scale projects by using an example case of a wooden furniture manufacturer in Sumadang, west java.

Within the region was one wooden furniture manufacturer who had the ambitious goal to transform the region into the centre of wooden furniture in Java. He was motivated to help other business units in his area based on social responsibility as well as the chance to increase scale and scope of the business operations in his sector in the region.

He was building up a core and plasma approach to cooperate with satellite business units in his area. As the largest business unit, the manufacturer is the core and he managed to help local entrepreneurs to set up satellite business in his “plasma”.

The business units in the plasma are usually working in the same business sector, either being supplier for the core business or working in the same line of business.

The core business can play different roles. He could either be directly related by having a customer supplier relationship, profit from renting out machinery and tools or managing the distribution for the satellite businesses by forwarding orders to them or by purchasing products directly in order to resale them on a larger scale. Here it is important to mention that the small business can sell to the large one but in an optimal scenario they have no obligation to do so, which limits the opportunity of the large business to exploit the smaller one.

In the case for wooden furniture a group of 50 small businesses are already gathered around the core and create a successful cooperation. This helps to create regional branding which is a major asset for Sumandangs furniture industry.

The core Manufacturer helps to develop the plasma businesses. He is providing technical knowhow and rent out machinery but he is not providing the initial investment. The investments in this project are managed by micro credits from BNI. Even though the core business does not directly give out credits, it can be a tremendous help for the small satellites by vouching for them. That provides them with more reliability and makes it easier to prove to the financial institutes that they are worthy a credit.

Examples for micro credit providers would be BNI a state owned bank and BPR a private Islamic bank which focused its operations on Java and Bali and is largely involved in micro credits.

In order to get support from the government or micro finance from financial institutions, the small business needs to prove that they are capable of managing their business. Corporations can help in multiple ways. They can support each other in writing proper proposals, increase efficiency and due to their scale, they are more likely to receive

support. It is more efficient for the government to support one cooperation by providing machinery technology or whatever is needed than 50 individual businesses.

The businesses not only employs but also trains people for specific jobs and gives them the opportunity to stay in their area. That is decreasing urbanization. It is important to keep the skilled people in the area. If the skilled work force leave the region for larger cities, the regional development will never proceed. Rural urban partnerships can help to reduce urbanization by creating linkages which opens up distribution channels for the rural products, increase their demands and at the same time enable the people to stay in their area. The support of people in the rural areas is a major goal to reduce urban rural poverty dynamics.

The universities also get involved with training and education of the people. They provide coaching on how to write proper proposals and income statements to make it easier for the government and financial institutions to support them and for the business owners to manage their business.

The core and plasma approach is one successful model, but in general it is important to notice, the networking of small businesses as a major chance to find a way out of poverty. Networking can help to overcome different kinds of shortcomings, in distribution, demand or raw material.

By planning and setting up businesses, it is most of the time advisable to focus on what the people are already doing and organize it in a more efficient way. The focus on skills they already have makes it easier to utilize the human capital of a village or region.

Open coding:

- Regional branding is an asset
- Core and plasma approach can be beneficial. Depending on existence and determination of core business
- Core business can support satellites by providing machinery and knowhow

- Social capital, networking of small businesses creates opportunities
- Core business can be a help by vouching for satellites.
- Reliability is important to financial institutes to provide credit.
- Small businesses need to prove that they are capable of acquiring credits or governmental support
- Cooperation can help in multiple ways. Support on writing proposals, increased efficiency
- Government is more likely to support one large cooperation than multiple small business on their own.
- Networking of small businesses is a major chance to find a way out of poverty
- It is important to keep skilled people in an area to get economic development happen.
- Jobs provide the opportunity for locals to stay in the area
- Rural urban partnerships can decrease the need for urbanization. Linkages' create distribution opportunities
- Proper proposals and income statements increase the likelihood of credits and improve the managerial efficiency. Universities are involved.
- Focus on lines businesses the people already work in provides makes it possible to utilize on their specific skills

3. Pak Leonardo Sambodo

Head of Sub-Directorate for Supporting System of SMEs at BAPPENAS

Pak Leonardo is the head of the Sub-Directorate for supporting systems of SMEs at BAPPENAS, which is the Indonesian state ministry of national development planning. He is working directly in my field of interest, which made this interview crucial to my research.

Summary:

The BAPPENAS has target of 5 distinctive problem areas in order to support economic development. The areas are: Financing, Organizational efficiency, Human Capital, Production and Marketing.

Financing: villagers can hand in proposals if they need credit or machineries in order to improve their business operations. The local government agency will prove the proposal and in case of approval the national bank will provide the funds or pay for a piece of equipment.

Organizational efficiency: key to improve the efficiency of the SMEs is managerial training. Most of the small businesses have no idea about bookkeeping and therefore do not even know how much they earn which makes planning processes impossible. Training for those people is most of the time done by BDS and in some cases the service paid for by the government or the government provides loans in order to use the service. Business and work ethics are one of the most important attributes the SME's can learn from the BDS. Being reliable, honest and consistent makes ongoing business relationships possible, which is underlined by the statement of Ibu Sari that: "sustainable income is more important than total income" (Wahyuni, 2013). A problem with BDS is that local people often believe that the service should be provided and paid for by the government and therefore they are reluctant to invest in the service. The government is however supporting the use of BDS for SME's because it is believed that the BDS services are underutilized and could have a greater impact on the development of the SME's. The government enables start-up businesses to use BDS and pay for it when they are profitable enough.

Human capital: the education and skills of the local people is the key to development and therefore is the support of its schools one of the major priorities of the local governments. Furthermore entrepreneurship is supported by customized training programs. The BAPPENAS organizes training workshops to coach trainers on how to educate villagers on the essentials of setting up small businesses.

Production: The productivity of many SMEs can be increased by modernization. Therefore is the strategy of BAPPENAS is the promotion of appropriate technology and

transfer of technical knowhow. The correct use of machinery and advanced production techniques can have tremendous impact and therefore private experts are employed to train and equip the locals.

Marketing: Finally it is important to market the products, after all the best products don't contribute to income if they cannot get sold. The improvement of distribution channels is one part. New traditional markets are built to improve the distribution and markets tend to have the secondary effect to create additional business activities in the area. Business activity fosters business activities. In addition to the distribution is the presence on national expos and smaller events are beneficial to spread the knowledge about the rural products. Regional branding can help to increase the popularity of the products and therefore be a major asset in the marketing process. BAPPENAS is also assisting by providing information about appropriate prices to the rural producers to ensure that they actually get a fair share of the profit, their products generate.

Apart from the five problem areas there are other factors which make economic development easier for some disadvantaged areas. The one village one product approach is designed to focus the economic activity of a village on the one most promising product. By having that kind of strategic focus it is much easier and more efficient for the government or outsiders to support them. The creation of corporates has a similar effect on the focus on one product. The larger the corporation's the more efficient they can be supported. Cooperative extension services can help to increase the economic scale of the business operations. Even though the Core and plasma partnership is utilized efficiently in economic development, Pak Leonardo outlines that unbalanced information about the value and therefore price of the products can lead to exploitation of small companies. Many small companies themselves are not ready for the partnership due to specific requirements on quality, quantity, consistency or working ethics. A major challenge therefore is to support and train them enough in order to jump on the bandwagon. The approach is not always perfectly executed but the setup, that the large company can

guarantee for the small one in order to get micro credits makes it one of the quickest in order to increase business activities in one area.

The focus of small business units into bigger cooperation's has proven to be efficient in many different areas. Street vendors are common in every Indonesian city and recent efforts have been made to relocate them into indoor markets. The benefits of being centralized and located into one of those markets are that the vendors have secured access to electricity and fresh water and are no longer exposed to illegal street tax (bribes) in order to do their business. The government on the other hand benefits from the new system by charging legal fees (taxes). Pak Leonardo made clear that usually the amount of taxes the vendors have to pay in the new indoor market are less than the bribes they were exposed to on the streets. The customers also benefit by having more choice and regular service and finally the city benefits by reduced littering on the streets.

Outside experts get hired to teach business ethics. Business development service provider (BDS) are beneficial but underutilized because people expect the service to be free. Government provides subsidies for development services and promotes the service. They think the service should be for free but it is not.

BAPPENAS has active and passive approaches to economic development. As mentioned earlier it supports projects after approving proposals from the entrepreneurs, but it also has a Master plan on development. The government has overall goals and looks for quick win location. Finds main targets for fighting poverty programs and focus on Quick wins. Quick wins are problems which give the society the chance to help itself afterwards after they are solved. Quick wins are often focused on areas with the biggest problems. So the name can be misleading because quick wins are not achieved quickly they much rather have a strong impact so the overall goal to alleviate poverty can be achieved relatively quickly.

To find the areas with the most urgent need of economic development, the ministry of man power analyses migration patterns. The areas where the most people leave are likely to have the most urgent need of economic improvement. Therefore productivity centers should be established in those areas.

Open coding:

- key to improve the efficiency of the SMEs is managerial training
- Business and work ethics are one of the most important attributes the SME's can learn from the BDS
- Being reliable, honest and consistent makes ongoing business relationships possible
- BDS services are underutilized and could have a greater impact on the development of the SME's
- the education and skills of the local people is key to development
- The productivity of many SMEs can be increased by modernization
- the promotion of appropriate technology and transfer of technical knowhow
- improvement of distribution channels is one part
- New traditional markets are built to improve the distribution
- presence on national expos and smaller events
- Regional branding can help to increase the popularity of the products
- information about appropriate prices to the rural producers
- By having strategic focus it is much easier and more efficient for the government or outsiders to support them
- The larger the corporation's the more efficient they can be supported
- Cooperative extension services can help to increase the economic scale
- unbalanced information about the value and therefore price of the products can lead to exploitation of small companies

- support and train them enough in order to jump on the bandwagon (satisfying the requirements for cooperation in terms of quality, quantity, consistency or working ethics)
- the large company can guarantee for the small once in order to get micro credits
- Focus of small business units into bigger cooperation's has proven to be efficient (easier to support, access to electricity fresh water and reduction the need for bribes).
- Business development service provider (BDS) are beneficial but underutilized
- . Quick wins are problems which give the society the chance to help itself afterwards after they are solved

4. Dr. Heru Purboyo

Head of the Transportation department

Bandung institute of technology

Dr. Heru Purpoyo currently works in the department of transportation but he used to work with economic development in the past and has been involved in tourism village projects.

A new trend and opportunity for rural villages which lack modernization is the tourism village. Those villages are focused on domestic tourism, mainly on students from the larger cities which are interested in the traditional life still in the rural areas.

The approach to tourism village can be seen as the one village one product approach where the product is tourism. The village works together to make itself suitable and known as a tourism village. That includes on the one hand side to modernize in terms of basic supply of electricity, water, hygiene and overall cleanliness and on the other side to keep the traditions alive to be interesting for the people from the cities.

The income in those village is mainly based on accommodation, food and souvenirs for tourists. But a positive side effect for the rural villages is that rural products become more popular within the cities due to the tourists bringing them to areas in the cities where they used to be unknown. That can increase the total demand for rural products and support economic activity in the villages. Pak Heru indicates that the villages benefit from traditional events like local dace and there is a paradox relationship between infrastructure and the success of the tourism villages. The isolated villages tend to be more successful, probably because it feels more authentic to the visiting students.

Apart from the tourism villages Pak Heru shared some more knowledge about local economic development with me.

Stable supply of water and electricity can be crucial to the success of SME's. He has been involved in a case where a small business mal able to receive a loan to by a new piece of machinery which was supposed to have a tremendous impact on the productivity of the business, but the expensive machinery had to insufficient electricity to operate and therefore the business ended up being in dept. without the additional productivity.

Infrastructure and markets are important. Tourists and products need to be able to move between urban and rural areas.

The packaging of products can be crucial for marketing, because it makes them more appealing and easier to trade and in terms of durableness.

Open coding:

- The village works together to make itself suitable and known as a tourism village
- basic supply of electricity, water, hygiene and overall cleanliness
- rural villages is that rural products become more popular within the cities due to the tourists
- Stable supply of water and electricity can be crucial to the success of SME's
- Infrastructure and markets are important (tourists and products)

- The packaging of products can be crucial for marketing, because it makes them more appealing and easier to trade and in terms of durability

Interview 5

5. Pak Danis Hidayat Sumadilaga

Head of data and communication centre at the ministry of public works

The central government gives autonomy to the local and sectorial governments. When it comes to roads, the main roads and highways are organized by the central government, but the smaller local roads are the responsibility of the local governments. If rural villages need improved infrastructure they can apply for it at the local government and if the proposal get approved the local government will provide funds or building material to the head of the village. They can decide for themselves how they want to use it. For example if they decide to build themselves and not pay for wages of workers they might get a better infrastructure out of the funds they received from the local government.

The villages get a lot freedom how to work with the funds but there should be an understanding how to use it in the most efficient way. Locals might be motivated to put their own effort and work into an improvement project if they see a benefit for themselves. For example improved access to markets and therefore distribution.

PNPM Mandiri is the governmental project to fight poverty. They provide help for people to help themselves. (He showed me the web pages about the project used in the main part of the paper)

Support is quite often based on poverty level. There is central data available and the region with the highest relative poverty level are supposed to get access to the most funding.

The improvement of infrastructure is an open menu. The village people can apply for whatever they think is most necessary. It can be a new bridge, new roads etc. as long as there is a budget left for it. The people are trusted to know best what they actually need.

The different ministries have different budgets. So a village can apply for a bridge from the ministry of transportation and at the same time for business loans at the ministry for public work or at the BAPPENAS.

Example fishery village:

Improvement of the harbour and their boats in order to improve their productivity.

Open coding:

- Contribution of the villagers to improvement project can greatly increase the impact of the project (infrastructure local people work for free to get more and better roads out of the funds)
- Different ministries have different budgets. Knowing what they can apply for can be key to improvement.

6. Ir. Edward Abdurrahman

Head of Ministerial Report and Programming Division at the ministry of public works. Pak Edward used to be the director for human settlement and shared some of his insights on the essentials of planning local economic development.

The BKM local board decides on what kind of economic development would be most suitable for their village's needs. The ministry of public work provides facilitators. Technical facilitators and facilitators specialized on empowering communities. The facilitators help to design the program and to write the proposal. The facilitators write a

report about the respective projects and the report is one of the most important foundations for the government ministries to decide if they finance a project or not. It is crucial that the facilitator has in-depth knowledge about the local economy and therefore he should stay in are for at least 1-2 months. Only good reports have a chance to get the funding because many villages apply for it and the budgets are limited. It is important that the report shows that they can handle the responsibility. Skills in proposals and financial statements can increase trust but the local leader himself plays a major role.

A local leader can intervene and make sure that the operations are organized. The local leaders and government can influence the facilitator and prove to him that a project in the village will be a success. Commitment is a major factor.

Local leaders have power within the village and play a political role. Ethical local leaders represent the villages and put the need of the village before their personal needs. As in all political functions there are good and bad local leaders. The good once can have major influence.

NGO's can take the role of a facilitator and write reports about possible projects. Projects supported by important NGO's are likely to be supported by the government because they are immediately more promising. NGO's usually don't have enough money but they can have a major impact through know how and communication. NGO's can usually better communicate with the government agencies then the villagers themselves.

Open coding:

- crucial that the facilitator has in-depth knowledge about the local economy
- It is important that the report shows that they can handle the responsibility
- local leader himself plays a major role
- The local leaders and government can influence the facilitator
- NGO's can take the role of a facilitator and write reports

- Projects supported by important NGO's are likely to be supported by the government
- NGO's they can have a major impact through know how and communication

7. Ibu Francisca Indarsiani

Senior Development Officer
Sustainable Economic growth (SEG) Program
Development Section DFATD Canada
Embassy of Canada

Foreign nation support different economic development projects in developing countries around the world. Active examples within Indonesia are Ausaid Australian government, Gesellschaft zur technischen zusammenarbeit (GTZ) Germany, the Netherlands development assistance and Department for foreign affairs, trade and development (DFATD) Canada. The interview with Ibu Francisca gave me interesting insights into economic development from the perspective of a foreign embassy based supporter.

Foreign nationals usually focus their activities on one area within the country, due to the large geographic scale of Indonesia. The DFATD Canada is mainly working with seaweed, cashew and coconut farmer in Sulawesi.

The DFATD is working in cooperation with different national agencies. To design a program. BAPPENAS are does the planning for the economic development but the DFATD as an outside facilitator can have major influence by consolidating them.

In order to support the economic development in Sulawesi the DFATD consulted with the local government. The strategy is focused on SME clusters for the previously mentioned products. DFATD is providing technical assistance to the local farmers and

helps them to get access the BDS. As facilitators they can be an essential help to get credits by vouching for specific projects.

The DFATD gets involved into training for locals to set up and improve micro businesses and make them sustainable. A major problem in that area is that people tend to see business operations as one time deals and tend to abandon them after the season. Quite often the effect of improvement takes time to be visible and therefore it is important to stay with one kind of activity.

BDS can have great impact for the SME's but they are only willing to pay for it if the BDS can provide them with access to additional demand. Exhibitions or other kinds of activities which result in direct increase in sales are useful to demonstrate the effect of BDS to SMEs.

The strongest motivation for the small businesses is improved access to markets and the facilitators efforts suffer from low participation if they can't show how their series result in increased sales.

By creating a development program it is important to take the nature of the product into account. Seaweed for example is a complicated product, because it is dependent on the water, the quality of the seedlings and weather. Cashew and coconuts on the other side are more consistent and therefore easier to plan on a long term base. Especially in inconsistent products like seaweed it is important to leave some room for flexibility for the locals involved. If there is in one season problems with the seaweed the farmers can still use their boats to go fishing to make sure they don't immediately suffer from hunger because the usually don't have financial reserves to help them over one low season. The alternative business allows them to come back to the seaweed farming after the bad season without abandoning the business for good.

It is quite often a major challenge to convince the locals to focus on long term are risky projects. Most of them live on a day to day basis and prefer to have some income today rather than the option to earn a lot in a year. It is therefore important to build some kind

of security for the local to satisfy their basic needs in order to make it possible to them to try out new business with a potentially risky try and error approach.

It is preferred to work on projects in a line of business the local people are already involved in because it makes the outcomes more predictable and requires less learning.

Value adding activities are a good new implementation in the working process of the region. Indonesia is for example the world's largest producer of raw seaweed but does not utilize on the ability to move up the value chain.

For seaweed cashew and coconut farmers is value adding quite often just improved quality rather than an additional step in the production. Improved quality however, for example more whole cashew nuts, translates into higher prices and therefore increases the profitability of the product.

In the farming process families work together as family business units, which means that if the husband works, it is seen as natural that the wife is participating but she will not get paid. Therefore the husbands income needs to be sufficient to finance the family and the wife does not has the option to get an additional source of income.

For all the projects it is important to achieve stakeholder buy-in including local government. A major role for the farming programs plays Dianas (agriculture and industry department). As stakeholder buy-in simply means that the stakeholders are supportive towards the project. Dianas can help with credits or equipment which helps start up SME's.

Porters diamond cluster development helps to find additional input on what to look for when building up a business cluster

For the local farmers the cooperation of different communities building a satellite system enables them to open up new distribution channels for example for large supermarket chains due to their increase scale of operations. Networking is a key asset to success for the small business

Quotations for open coding:

- Effect of improvement takes time to be visible and therefore it is important to stay with one kind of activity.
- BDS can have great impact for the SME's but they are only willing to pay for it if the BDS can provide them with access to additional demand
- Exhibitions or other kinds of activities which result in direct increase in sales are useful
- The strongest motivation for the small businesses is improved access to markets
- it is important to take the nature of the product into account
- important to leave some room for flexibility
- challenge to convince the locals to focus on long term are risky projects
- important to build some kind of security for the local to satisfy their basic needs
- Value adding activities are a good new implementation in the working process
- value adding quite often just improved quality rather than an additional step in the production
- For all the projects it is important to achieve stakeholder buy-in including local government

Appendix B: Open Codes

Open Code	Properties	Origin from interview
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sustainability	economic growth needs a long term focus and therefore is sustainable income more important than one time events	Sustainable income is more important than total income (1) - effect of improvement takes time to be visible and therefore it is important to stay with one kind of activity (6)
Human Capital	Skill and education level of the people involved in the projects. It is important to keep skilled people in the area for economic growth. The project should be based on a line of business the people already work with to utilize on their skills. managerial training can have great impact	Human and social capital is key to sustainable development (1) It is important to keep skilled people in an area to get economic development happen (2) Focus on lines businesses the people already work in provides makes it possible to utilize on their specific skills (2) key to improve the efficiency of the SMEs is managerial training (3) the education and skills of the local people is key to development (3)
Social Capital	Interaction and cooperation of the people is important to economic development. Networking and cooperation helps to increase efficiency, receive help from the government, provides support for writing proposals	Human and social capital is key to sustainable development (1) Cooperation can help can help in multiple ways. Support on writing proposals, increased efficiency(2) - Government is more likely to support one large cooperation then multiple small business on their own (2) - Networking of small businesses

		is a major chance to find a way out of poverty (2) - Networking is a key asset to success for the small business /6)
Regional branding	promotion of public awareness about products from the region	Regional branding is an asset (2) Regional branding can help to increase the popularity of the products (3)
Industry support	One core business which enhances satellite business in its plasma. Core business can help out by providing machinery and know how. Or help to get credits by vouching for satellite businesses.	Core and plasma approach can be beneficial (2) Core business can support satellites by providing machinery and knowhow (2) Core business can be a help by vouching for satellites (2) Depending on existence and determination of core business. (2) the large company can guarantee for the small once in order to get micro credits (3)

Reliability	In order to get credits it is important to credibility. The credibility of businesses is supported by: vouching of core business, proper proposals and income statements.	Reliability is important to financial institutes to provide credit (2) - Core business can be a help by vouching for satellites (2) -
Capability	The ability do to operate the business in a professional manner	Small businesses need to prove that they are capable, to get credits or governmental support (2)
Professional documentation	The original proposal as well as financial documentation can be a huge asset to make a professional impression and to manage the business operations.	Proper proposals and income statements increase the likelihood of credits and improve the managerial efficiency. Universities are involved. (2) - It is important that the report shows that they can handle the responsibility (facilitator) (6)
Rural urban partnerships	Opens up new distribution channels and decreases the need for urbanisation by providing job opportunities in the rural area.	Rural urban partnerships can decrease the need for urbanization. Linkages' create distribution opportunities (2)

Business and work ethics	Being reliable, trustworthy and working in a consistent fashion.	Business and work ethics are one of the most important attributes the SME's can learn from the BDS (3) - Being reliable, honest and consistent makes ongoing business relationships possible (3)
Business Development Services	Services offering expertise and training, management skills, technical knowhow etc. private experts who charge wages.	BDS services are underutilized and could have a greater impact on the development of the SME's (3) key to improve the efficiency of the SMEs is managerial training (3) - Business development service provider (BDS) are beneficial but underutilized (3) - BDS can have great impact for the SME's but they are only willing to pay for it if the BDS can provide them with access to additional demand (6)
Modernisation	use of modern technology, machinery and production methods	The productivity of many SMEs can be increased by modernization (3) the promotion of appropriate technology and transfer of technical knowhow (3)
Distribution channels	ways of local products to reach customers	improvement of distribution channels is one part (3) New traditional markets are built to

		improve the distribution (3)
Awareness	the process of making the rural products or services popular among customers from different regions	presence on national expos and smaller events (3) Regional branding can help to increase the popularity of the products (3) The village works together to make itself suitable and known as a tourism village (4) a side effect of tourism villages is that rural products become more popular within the cities due to the tourists(4)
Information	Being informed about the world outside the village makes it possible to access new opportunities and get treated fair.	information about appropriate prices to the rural producers (3) - unbalanced information about the value and therefore price of the products can lead to exploitation of small companies (3) Different ministries have different budgets. Knowing what they can apply for can be key to improvement (5)
strategic focus	Focusing a village or community on one line of products hold benefits. Easier to get support, better to market, regional branding	By having strategic focus it is much easier and more efficient for the government or outsiders to support them (3) focus of small business units into bigger cooperation's has proven to be

		efficient (easier to support, access to electricity fresh water and reduction the need for bribes)(3)
Economic readiness	The ability of small local businesses to operate with larger once.	support and train them enough in order to jump on the bandwagon (satisfying the requirements for cooperation in terms of quality, quantity, consistency or working ethics) (3)
Infrastructure	Basic connection with roads, access to markets as well as supply of electricity and clean water	Stable supply of water and electricity can be crucial to the success of SME's (4) Infrastructure and markets are important for tourists and products (4) - cooperation of different communities building a satellite system enables them to open up new distribution channels (6)
Packaging	The packaging of the final product	The packaging of products can be crucial for marketing, because it makes them more appealing and easier to trade and in terms of durability (4)

Motivation and commitment	The degree to which local people are willing to support a project. Including local government and everyone in the village.	Contribution of the villagers to improvement project can greatly increase the impact of the project (infrastructure local people work for free to get more and better roads out of the funds) (5) The strongest motivation for the small businesses is improved access to markets,- Exhibitions or other kinds of activities which result in direct increase in sales are useful (6) - For all the projects it is important to achieve stakeholder buy-in including local government (6)
Facilitator	outside supporter or analyst who is writing a report for the government	it is crucial that the facilitator has in-depth knowledge about the local economy (6) - It is important that the report shows that they can handle the responsibility (6) - NGO's can take the role of a facilitator and write reports(6) - Projects supported by important NGO's are likely to be supported by the government (6) NGO's they can have a major impact through know how and communication (6)

Local Leader/Government	Respect person and political head of the village. The local government can be a group of people managing the organisation of the village	local leader himself plays a major role (6) - The local leaders and local government can influence the facilitator and prove to him that the project will be a success.(6) For all the projects it is important to achieve stakeholder buy-in including local government (6)
Business setup	How the business is set up and organized. Different businesses have different needs and after all it is important to connect it to the actual needs of the people involved	it is important to take the nature of the product into account (6) - important to leave some room for flexibility (6) - challenge to convince the locals to focus on long term are risky projects(6) - important to build some kind of security for the local to satisfy their basic needs (6)
Added value	Making the produced good more valuable. Through further processing or increased quality.	Value adding activities are a good new implementation in the working process(6) - value adding quite often just improved quality rather than an additional step in the production(6)

TABLE 2: OPEN CODING

(*) Number in brackets identifies the interview of origin

- cooperation of different communities building a satellite system enables them to open up new distribution channels

- Networking is a key asset to success for the small business