

# Local Economic Resource Development

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A Synopsis of the projects in Indonesia



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*"Everything will be alright... Sometimes a bit later"*

*V. Wolfard, 2008*

*"Semua akan baik-baik saja, terkadang perlu waktu"*

*V. Wolfard, 2008*

# Abstract

This report shows that the LERD project in Indonesia is a project that is organized by the Neso and Bappenas in order to realize local economical development. The LERD project is a development project that is based on the PARUL approach. LERD knows 2 phases: the development and the implementation phase. The project uses resource development and export led growth as the leading way to develop the region. The most important thing is to change the way people think. Empowerment and development from within are central themes. Therefore, the socialization process is a very important step in the project. Research is done in ten regions in ten different projects.

The LERD teams form a Public, Private, University partnership that form the core of the development project. They are responsible for the success or failure of the projects. The composition of the project team and the commitment has influence on the outcomes of the project, technical knowledge and the creation of networks is the most difficult to realize.

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# ***Chapter 1: Introduction***

*"Give a man a fish, and he may eat.*

*Teach him to catch a fish, and he may feed himself.*

*Allow him to sell fish, and he may prosper."* (Kawik Suwiana, 2000)

This sentence illustrates what local economic development projects do. Teaching people how they can improve their own lives. 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.

Today, millions of people work together in development programs and billions of euros are spent at local economic development projects. The results of these projects vary enormously. Wouldn't it be great if we knew what the reason is why the one project is successful, while the other project fails? It would be possible to set up development projects in a better way, with better results. Quality of life for many people would certainly improve.

Many development projects are set up all over the world. One of these projects is the Local Economic Resource Development Project (LERD) in Indonesia. There are many people and organizations involved in the project who all have their own opinion what exactly the LERD project is. So far, no overview of the total project exists. People and organizations are working to make the same project a success, but sometimes with a different goal of

success in mind. This report tries to make a complete overview of the LERD project so that it can be used as a reference document for all people and organizations involved in LERD. The goal of the report is

***"To give an overview of the LERD project and of problems that occur in the LERD project in order to give direction to future research with the goal to improve LERD."***

The main question that is answered in this report is:

***"What does the LERD project look like in theory and practice and in what way does it fit the theory about local economic development?"***

In order to answer this question, the following sub questions will be answered:

- What is LERD?
- How do regions develop in theory?
- How is LERD organized in practice?
- What are the differences between the theory and the practice?

The first question will be answered in chapter 2. I'll give an overview of the total LERD project, divided into the development and the implementation phase. The theoretic plan of LERD and the organization of the project are described in this chapter.

In Chapter 3, the literature behind the LERD project will be described. The LERD project will be placed in the bigger framework of local economic development and the ideal development model will be used to describe the process of LERD.

In Chapter 4, we'll look at how the LERD project is implemented in practice. Ten case descriptions are made based on interviews, observation and



secondary data. The ten case studies together will be analyzed and placed next to LERD in theory. The results of this show different fields that need more attention and further research in order to increase the results of the next LERD projects.

## **Data collection**

In order to answer the first sub question, the secondary literature about the LERD projects like action plans, descriptions of the project according to the universities are used. Semi structured interviews and observations are conducted at both the training sessions in the Netherlands as on location in ten regions in Indonesia. Together with the theoretic blueprint of one of the projects prior to LERD, a complete overview of the LERD project is given.

For the second question, a literature study is used. The literature study is conducted in two parts; the first part was a general exploration of the total literature on the field of Local Economic Development. The second part is a literature study aiming on the specific activities of LERD. The ideal model of development, (Birkholzer, 2005) is used because it describes the activities of LERD for the most part. The model is connected with other authors to get a fundamental understanding of the theory behind the LERD project.

The answer on the third question is based on ten case studies in different parts of Indonesia. In every region, interviews with members of the LERD team are conducted. Most of the time, it was possible to interview team members of the government, the universities and the private sector. In some cases however, it was not possible to visit all three groups. More information is collected by observing production sites, formal and informal meetings and production sites. Next to that, secondary data is used where possible.

Question four is answered by analyzing the ten case studies altogether and comparing it with the results of chapter two and three. Everything together provides enough information to answer the main question.

## ***Chapter 2 What is LERD?***

This Chapter will describe the LERD project. It will start with explaining the difference between LED and LERD, after that, the two phases of the project will be described.

### ***LED and LERD***

LED stands for Local Economic Development. Local economic development is a relative new phenomenon. The earliest articles about the subject were published in the end 70s, beginning of the 80s (Bennington, 1986). Before that, microeconomic approaches focused on single enterprises while macroeconomic approaches focused on Nations.

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 (Worldbank, website 2008).

From a descriptive perspective LED can be described as: “all economic activities which happen at local or regional level and/or have impact on the localities” (Brikholzer, 2005).

The Worldbank wrote the following about LED:

“Local economic development (LED) offers local government, the private and not-for-profit sectors, and local communities the opportunity to work together to improve the local economy. It focuses on enhancing competitiveness, increasing sustainable growth and ensuring that growth is inclusive. LED encompasses a range of disciplines including physical planning, economics and marketing. It also incorporates many local government and private sector functions including environmental planning, business development, infrastructure provision, real estate development and finance. The practice of local economic development can be undertaken at different geographic scales. A local government pursues LED strategies for the benefit of its jurisdiction, and individual communities and areas within a

local government's jurisdiction can also pursue LED strategies to improve their economic competitiveness. Such approaches are most successful if pursued in partnership with local government strategies. LED is thus about communities continually improving their investment climate and business enabling environment to enhance their competitiveness, retain jobs and improve incomes. Local communities respond to their LED needs in many ways, and a variety of approaches can be taken that include:

- Ensuring that the local investment climate is functional for local businesses;
- Supporting small and medium sized enterprises;
- Encouraging the formation of new enterprises;
- Attracting external investment (nationally and internationally);
- Investing in physical (hard) infrastructure;
- Investing in soft infrastructure (educational and workforce development, institutional support systems and regulatory issues);
- Supporting the growth of particular clusters of businesses;
- Targeting particular parts of the city for regeneration or growth (areas based initiatives);
- Supporting informal and newly emerging businesses;
- Targeting certain disadvantaged groups.

Brikholzer (2005) describes 4 scenarios of LED:

*"The first scenario is called "development from above": The main actor here is the state, working top-down from the central government to regional government and local authorities. In this scenario the local actors, people, enterprises as well as authorities wait for decisions as well as resources coming from above, because they believe that the state is either mainly responsible for all kinds of development or has only the power to do so"*

*"The second scenario is called "development from outside": It often follows the breakdown of the first option. What they have in common is that the*

*local actors believe they cannot do anything on their own. Therefore, outside investors are needed to bring in the necessary resources, especially money."*

*"The third scenario could be called "wait and see": The local actors remain more or less passive waiting for things to come. Some might look at it as a quasi natural process of selection, some might have resigned as a result of the failures of option one and two. The traditional "solution" in this scenario is migration. In fact, this is the most popular option, although it becomes more and more difficult to find places to go, not only because of political restrictions, but also for economic reasons, because the islands of prosperity around the world become smaller in size and numbers."*

*"The final scenario is called "development from within": As option number one is dominated by the state, number two by private investment and number three by fatalism, in this scenario the local actors, the people themselves play the key role. This is the heart of Local Economic Development: It starts when people realize that neither the state nor the market economy serve their needs or solve their problems, and if they are unwillingly or unable to leave their homes."*

I used this citation because this describes LED and directly shows the problems with it. The basic underlying principle of LED is that people have to help themselves and the most important thing that has to be changed is the way people see the world. (Aaronvitch, 1996). The difficulty lies in the transformation of a policy into development from within. One way to realize LED is by setting up development projects. One of those projects in Indonesia is LERD.

LERD stands for Local Economic Resource Development. It is a project set up by the planning department of the national government in Indonesia (Bappenas) and NESO, the Netherlands Education Support Office. In short, the goal of LERD is to achieve Local Economical Development and by that

create sustainable growth in the regions it targets. At the time of collecting the data for this report, the project was done for the 3<sup>rd</sup> time in Indonesia. Every year, 6 regions are targeted that all produce a different commodity. The LERD teams from these regions set up activities that help to enhance development of the selected products. The main goal is resource development that leads to export from the regions so that extra money comes into the regions.

This report will provide an overview of the LERD project in all its facets. We'll start with giving an overview of the organization of the project. Then a description of the project in terms of input, process, output, outcomes will be given. This description gives insight in what is done in LERD. After that a description is given of LERD and regional development, with the LERD team as driving force. This description shows the importance of the LERD team.

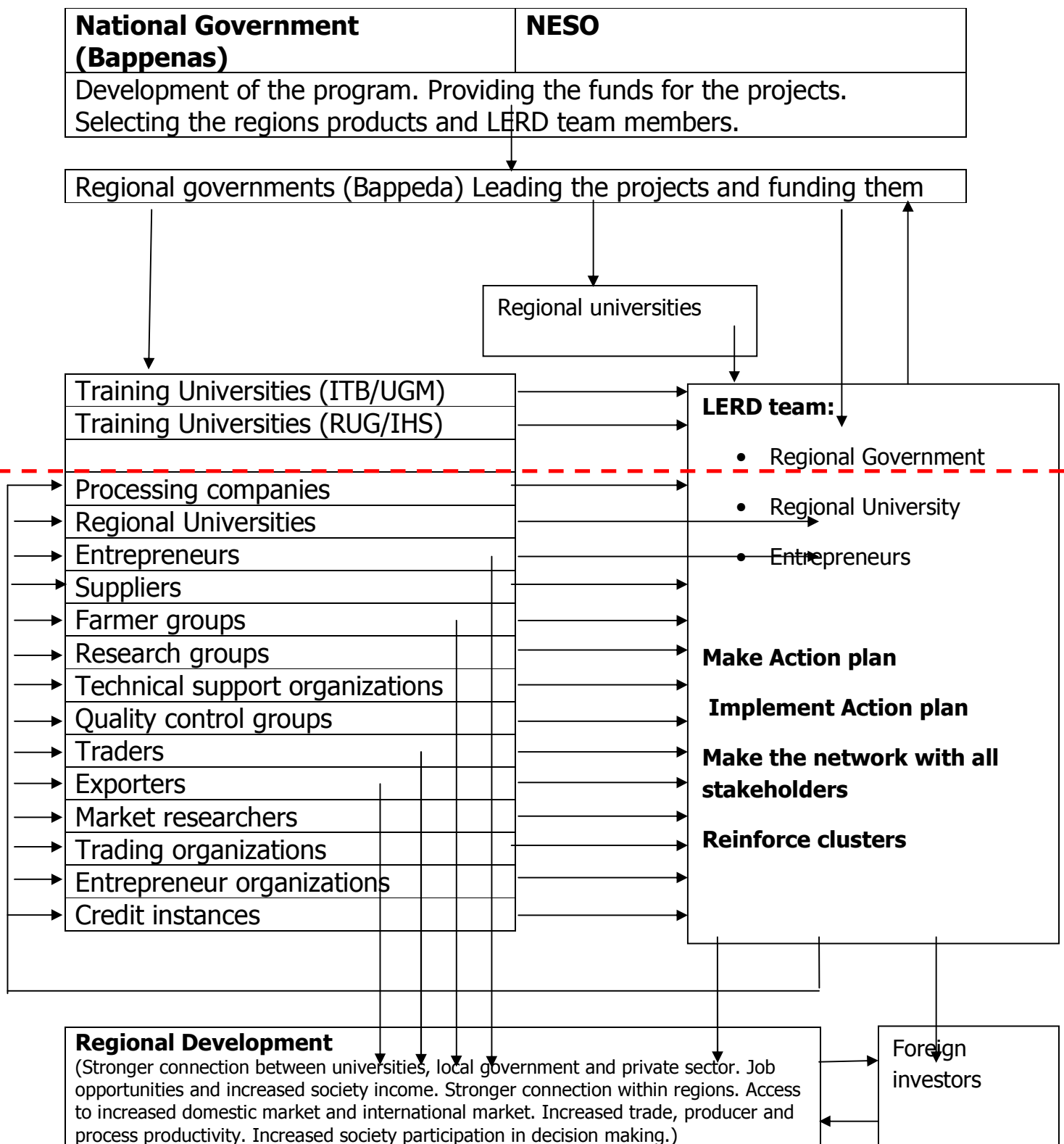
## ***LERD PROJECTS***

LERD consists of two different phases: the development phase and the implementation phase. The idea is simple: a project first has to be developed before it can be implemented. The development phase starts with the theoretical design of the project as a whole. Furthermore, the partners for training and assistance are selected and the main players are defined. The main players in LERD are the LERD teams. The LERD teams are responsible for implementing the project in the region and spreading knowledge, to create networks, to involve people and to develop the selected product. The following figure gives an overview of the project:

The development phase of the project is illustrated above the red dashed line. This include the development of the project the funding of it, the selection of the regions, the selection of the LERD teams and the selection of

the partner Universities. The implementation phase of the project is shown below the red dashed line. The LERD teams start a development cycle with input from universities, government and private sector. In the next paragraphs the figure will be explained in detail.

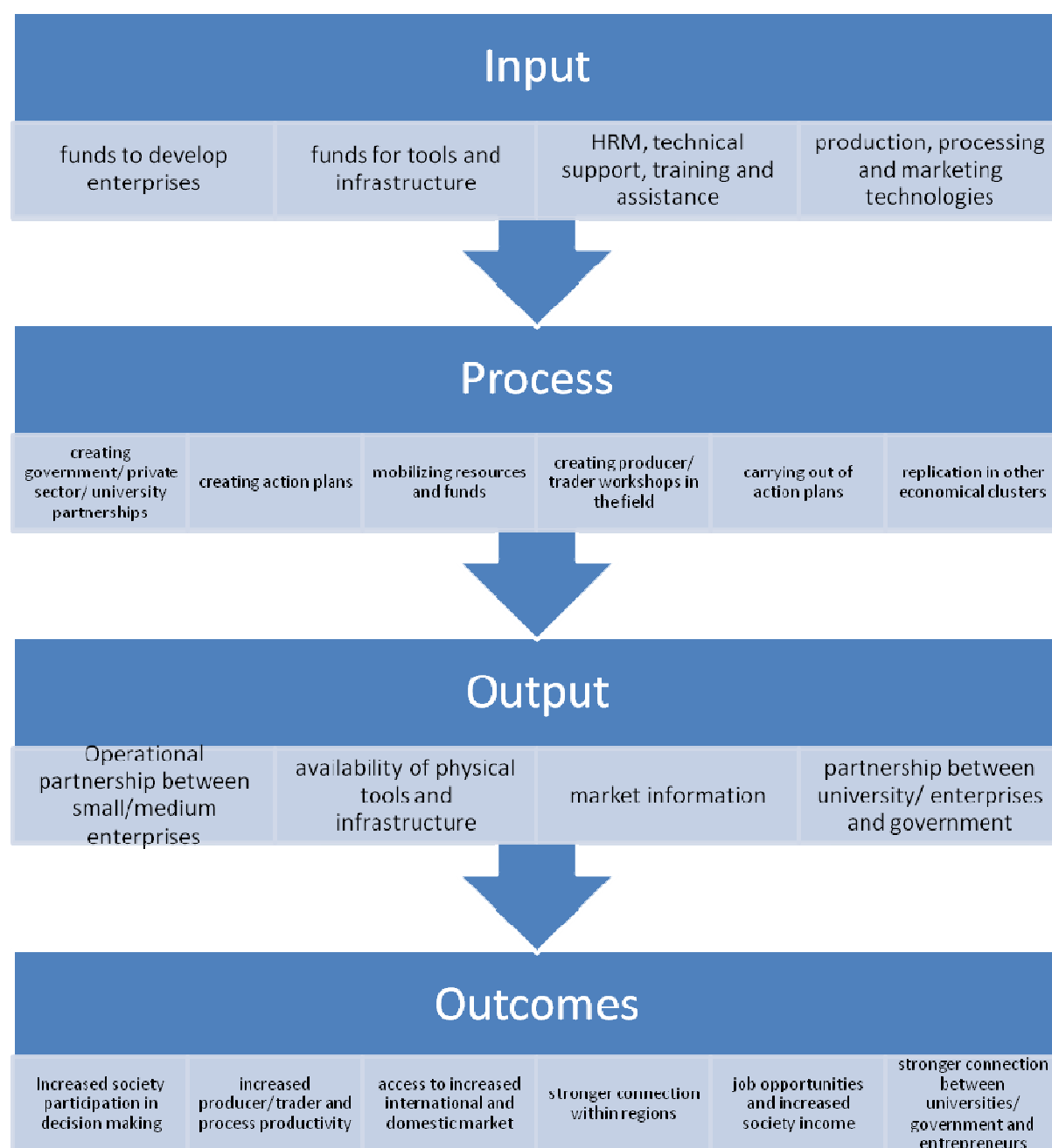
**Figure 1: LERD in total**



## ***Input, Process, output and Outcomes of LERD***

There are different ways to look at the LERD project. In this paragraph we will look at LERD in terms of input, process, output and outcomes (see figure 2).

**Figure 2: LERD viewed in input, process, output and outcomes**





Inputs: the various resources needed to run the program, e.g. money, facilities, program staff, supplies and equipment, etc.

Process: the set of activities in which program resources (human and financial) are used to achieve the results expected from the program e.g. training courses conducted, materials developed etc.

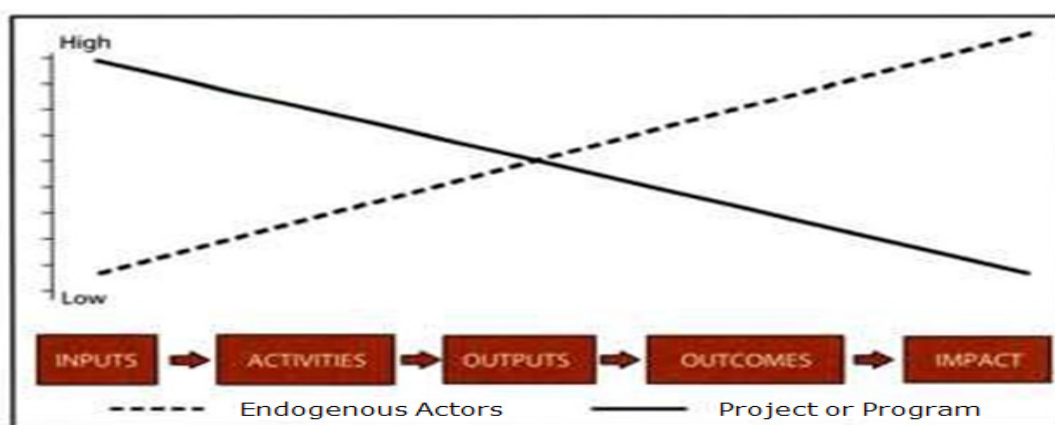
Outputs: are the immediate results obtained by the program through the execution of activities

Outcomes: are the intermediate results obtained by the program through the execution of activities.

The Difference between the output and the outcomes of the project is the time period in which the results are shown.

Smutylo (2001) argues that the relative influence of the program developers get's lower when the project proceeds. The actors, at which the project is aiming, get more influence when the project is advancing.

**Figure 3: relative influence along the results chain**



**Relative Influence Along the Results Chain**  
(source: Smutylo 2001)

In a successful project the local actors will get more influence when the project advances.

## ***Development Phase of LERD:***

The development phase of LERD is a phase in which the program itself is developed. This phase of LERD consists of two different parts: the development of the LERD as a project and the development of LERD in practice. Although the development of LERD as a project is of great importance for the success of the project (Implementing a bad theory can never lead to good results), the development of the theoretical project falls beyond the scope of this report. However, in the next chapter I'll zoom in on the PARUL approach to show what the underlying theory of LERD is and how it was developed. The theoretical development of LERD is based on earlier approaches like the PARUL approach that was set up by UNDP from 1997-2001 (PARUL information package, 2000). The development of LERD in practice consists of the selection of the regions, the LERD team members and the products. Also the selection of both the regional universities that are partner universities of the LERD teams in the region as the training universities in Indonesia and The Netherlands falls into this phase. Let's have a closer look at the development phase.

## **Set up of the program**

The theoretical development of the LERD project is out of the scope of this report. In this paragraph of the report, the activities that are undertaken to prepare for the implementation of the project in the regions. The preparation

activities involve the selection of the regions, the selection of the products, the selection of the LERD team members, the selection of the universities and the funding. We will also take a look at the main stakeholders in the development phase of the project.

## **Selection process**

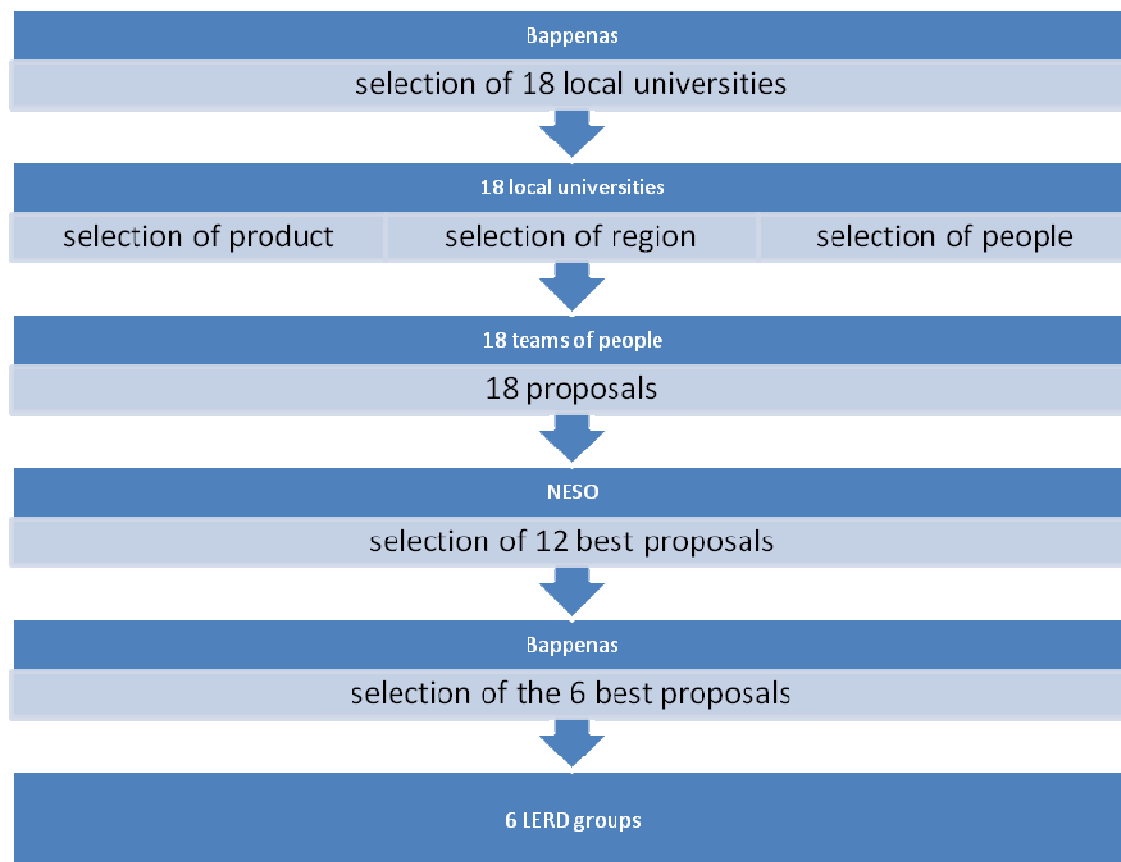
The selection of the regions targeted by LERD together with the selection on the regional universities, products and LERD team is a very important step in the LERD projects. This is how the selection is done:

The first step is that Bappenas (the planning department of the national government) selects 18 local universities. The selection of these universities is based on ties between the Bappenas and the regional universities that already exist.

Each of the 18 chosen universities chooses a region, a promising product and composes a LERD team. Bappenas has set several requirements that every person who wants to join LERD has to fulfill:

1. The level of English language has to be sufficient. Because most of the training is given in English, this is a very important condition. The level of English language is measured with a toefl test.
2. The people need to be under the age of 35. This condition is important because the projects take several years. It is important that LERD team members are young enough to finish the projects and can use the gained knowledge later in their career. The participants have to work in relevant field in addition of the product.

**Figure 4: selection process**



When the region and the product and the people are decided, the 18 teams make a proposal. From the 18 proposals, the 12 best are chosen by NESO. The selection is done with the following criteria in mind:

1. potential external demand,
2. potential for continued future growth,
3. potential for involving small scale farmers and non-farm businesses, raising incomes and creating productive employment opportunities for poorer households, and

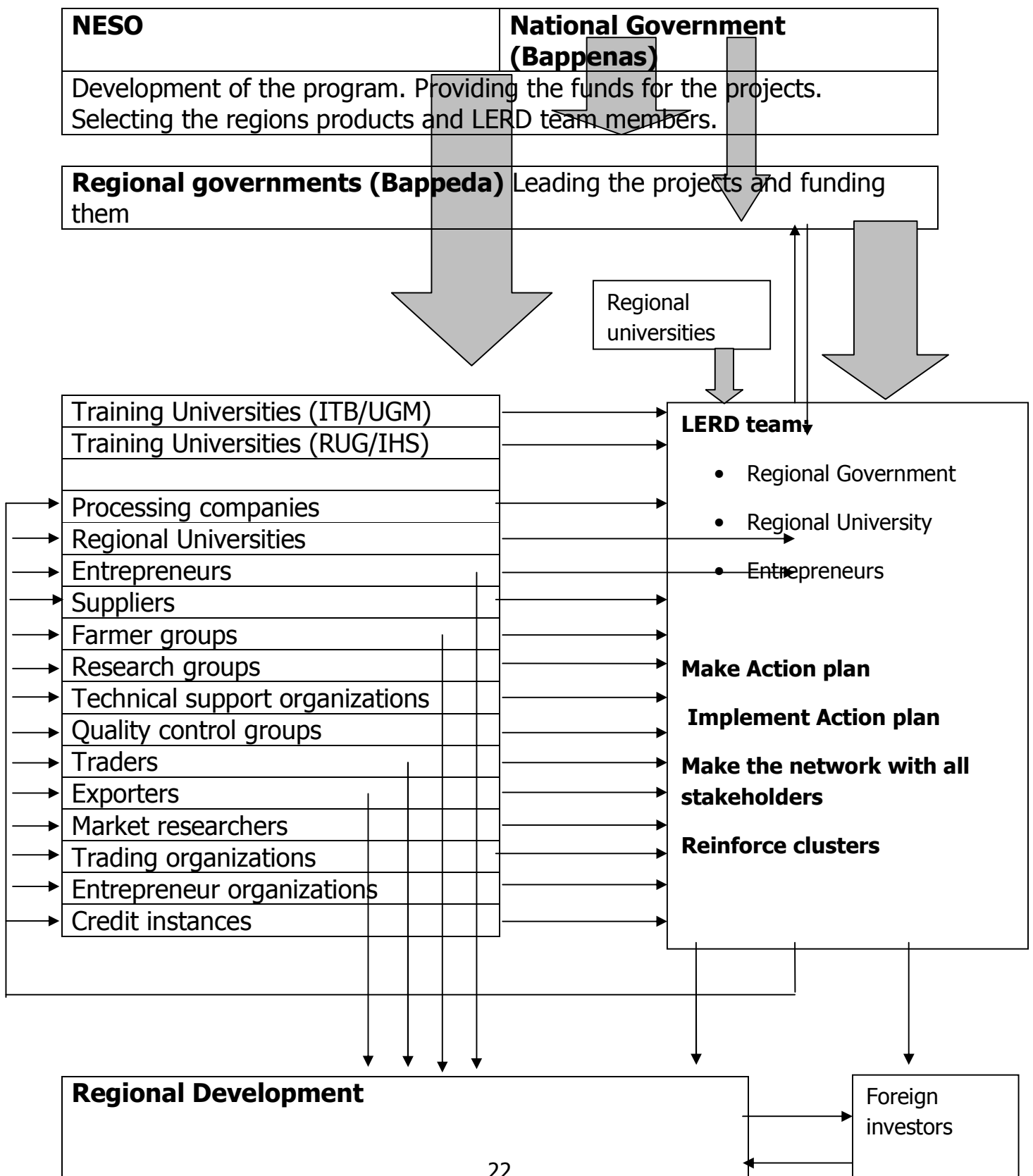
4. Potential for multiplying initial earnings from exports into further rounds of spending and income that benefit local households.  
(interview with Bappenas, interview with PARUL developer in UGM)

The 12 selected groups improve their proposals and present the improved versions to Bappenas. Based on this Bappenas chooses the best 6 proposals. The six selected groups will join the LERD project (interview with Bappenas).

## **Funding**

A project like LERD costs a lot of money. Where the money comes from decides who can make the decisions in the projects. Figure 5 illustrates the setup of the LERD project including the funding of the project. The gray arrows show the cash flow in the development phase of the LERD program. The money comes from the Bappenas and NESO. They fund the training in ITB/UGM, in RUG/IHS and in the local universities. Furthermore, they provide the Local government (Bappeda) with funds for regional development. LERD teams (consisting of Local government employees, local university employees and local entrepreneurs) create action plans with the required budgets. If Bappeda approves, budgets are given and the LERD team distributes the money among the actions described in the action plans.

**Figure 5: funding**



## **Stakeholders in the development phase of the project**

The stakeholders in the development phase of the project set up the projects, support the LERD teams by giving training and are involved in the local and national seminars. Together they facilitate the projects and prepare the LERD teams for the implementation phase of the project in the field.

The organization that requested LERD and is also financing the project is NESO (Netherlands Education Support Office, former NEC). This organization plays an important role in the organizing stage of the project.

Bappenas is the planning office of the national government in Indonesia and is actively involved in the organization of LERD. NESO and Bappenas together have great influence on the way the project is set up and who the cooperating partners and the regions/products and people involved in LERD are.

Bappenas and NESO together have chosen ITB and UGM to be the partner Universities to organize training for the LERD teams in Indonesia.

Furthermore, RUG and IHS are chosen to be the partner Universities in the Netherlands that organize training for the LERD teams in the Netherlands.

The LERD teams are stakeholders in the development phase of the project

## ***Implementation Phase of LERD:***

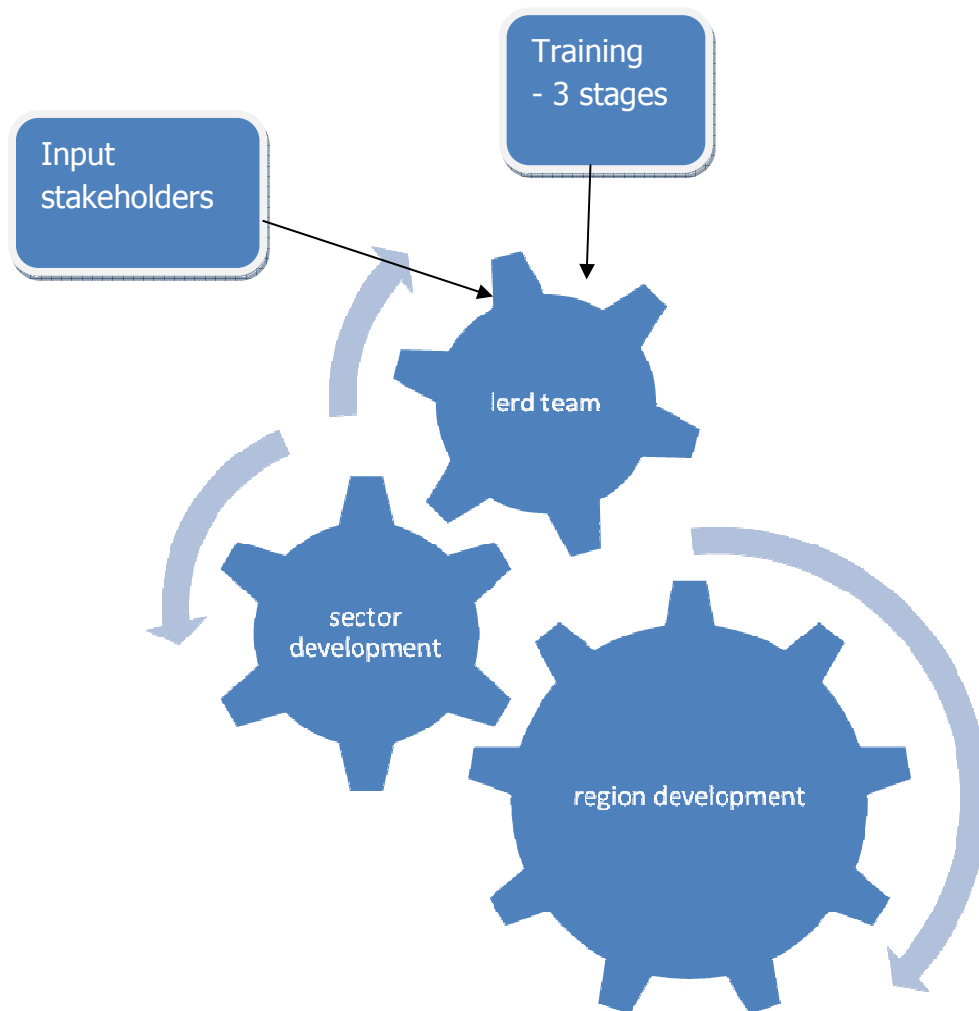
Now the regions, the products, the LERD teams and the universities are selected and the funding is arranged, it is time for the implementation phase. The implementation phase is the phase that follows the development

phase. The implementation phase of LERD is a very important phase in the project. In this phase, everything done in the development phase will be put to the test and implemented in the different regions. A good project in theory has to be implemented in a good way to get the best results.

The following figure (figure 6) shows the importance of the LERD team. It is the engine of the total project. It has to set up the partnerships in the region and province, mobilize the funds, create the action plans, carry them out, socialize the plans, make connections with other stakeholders like traders, etc. Without a good LERD team the LERD projects are nothing more than reports lying on a shelf of planning departments of the government. So the LERD teams are very important.



**Figure 6: LERD teams as the engine of the LERD project**



We'll use this figure to describe the implementation phase of the LERD project. We'll start with describing the LERD teams, after that the input for the LERD teams is discussed and after that, the actions initiated by LERD team members. The actions set up by the LERD teams aim at developing the sector. Development of the sector should lead to development of the region. In the Chapter 3 we'll have a closer look at how this development works according to the literature.

Let's first have a closer look at the LERD teams. Who are the people that are in those teams? And what is it they actually do?

## **LERD teams**

LERD was first introduced in 2003. At the time the data was collected for this report (2007), three batches of 2X3 projects were started. Earlier, we have seen how the LERD team members are selected. Every LERD team consists of 6-9 people.

Based on experience gained every time the projects are held, the projects evolve. Also the composition of the LERD team is changing. In the first batch of projects, the LERD teams consisted of government people only. The LERD teams in the later versions are composed out of 3 different stakeholders: universities, local government and the private sector. Since the start of LERD the collaboration between government, universities and entrepreneurs has been strengthened by improving the composition of the LERD teams. In the first batch of project there were no entrepreneurs involved in the LERD teams and in the third batch the amount of entrepreneurs was raised to 20% of the total group.

Involvement of these three stakeholders helps to see the problem from different points of view and strengthens the links between these three stakeholders. Some of the LERD team members are working for the regional government (Bappeda). In every project, these team members are leading the group. The Bappeda is responsible for the budget of the project. The people who work for the universities have the role to put knowledge into the project. The private sector team members are the voice of the entrepreneurs in the region.

The LERD teams first make action plans during the training sessions with input from university teachers and after that, implement these plans in the

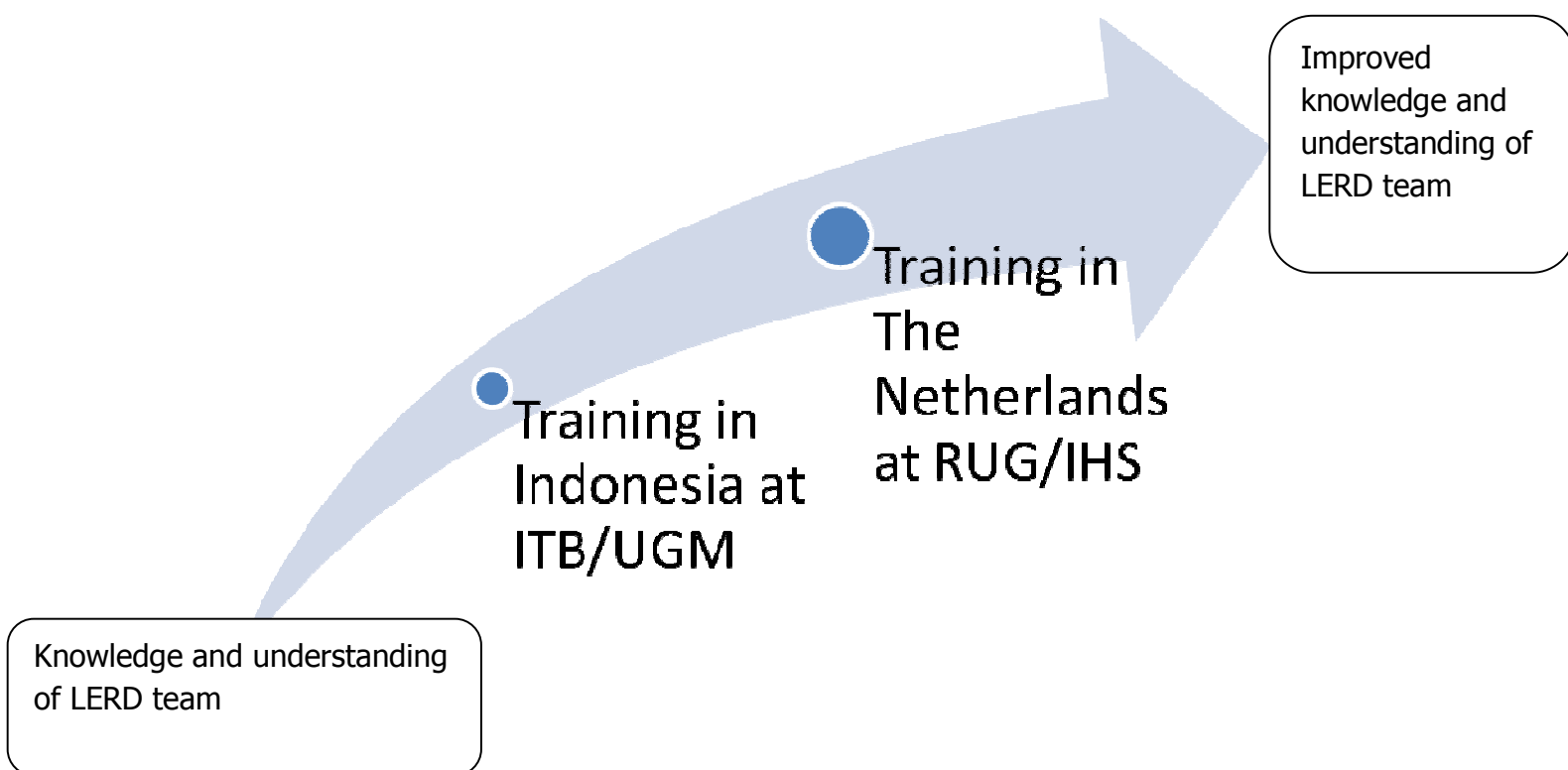
regions. Their most important task is to set up and coordinate the activities of LERD (see figure 8).

Let's look at the training now.

## LERD Team Training

The training can be seen as input for the LERD team. In the two stage training, the LERD teams get knowledge and skills about regional development. The training has to prepare the LERD team for their job of regional developers. It gives input to make and implement action plans.

**Figure 7: training in LERD**



The first training stage is in Indonesia in two national universities: ITB and UGM. In ITB and UGM the training focuses on the following aspects:

1. What is LERD? Basic concept, Scope
2. What is LERD? History
3. LERD as an Approach to Regional Development
4. What is Local Development?
5. LERD as a Tool to Local Development
6. LERD initiative in Indonesia, SME and Agribusiness sector
7. Policies (national, regional) on LERD
8. LERD in planning process: sectoral and spatial
9. Logical Framework & Staging/ Process of LERD
10. Strategy Implementation & Precondition for Success
11. Stakeholders Analysis of LERD
12. Financial Scheme and Credit System
13. LERD through Public-Private Partnership
14. SME and Local Cooperative Agency
15. Local Economy Assessment: Natural Resources/Agriculture
16. Local Economy Assessment: Non-Natural Resources/ Industry and Craft
17. Analysis on local human resources
18. Collection and Distribution Product Activities
19. Commodity Cluster Analysis
20. Network Infrastructure Support to Product Mobility
21. Management of LERD Activities
22. LERD Impact on Economic Growth and Local Government Revenue
23. LERD Impact on employment
24. Presentation from Guest speaker on LERD Experiences in West Java
25. Site Visit: Local Economic Activities, SME-Agribusiness
26. Site Visit: Local Economic Activities, Craft-Home Industry

27. LERD Action Planning Exercise
28. Presentation of LERD Action Plan  
(ITB topic list)

This training gives a more theoretical view on LERD as a project, the purpose of LERD, how to manage a project like LERD, who the stakeholders are and how LERD can contribute to economic growth. A first Action plan is created.

In the training in the Netherlands (RUG/IHS), the training aims at developing an achievable action plan for each region to overcome the most imminent institutional constraints for Local Economic Development. The training focuses on the concept of LED and its most essential components and on analytical tools to analyze the institutional environment in both Indonesia as The Netherlands. The focus is on the institutional setting, marketing and export, product and technology development attracting direct investment, small enterprise development. The role of the government (local, regional and national) and the private sector is analyzed.

([http://www.ihs.nl/prospective\\_students/ihs\\_programmes/tailor\\_made\\_courses/lerd/](http://www.ihs.nl/prospective_students/ihs_programmes/tailor_made_courses/lerd/)).

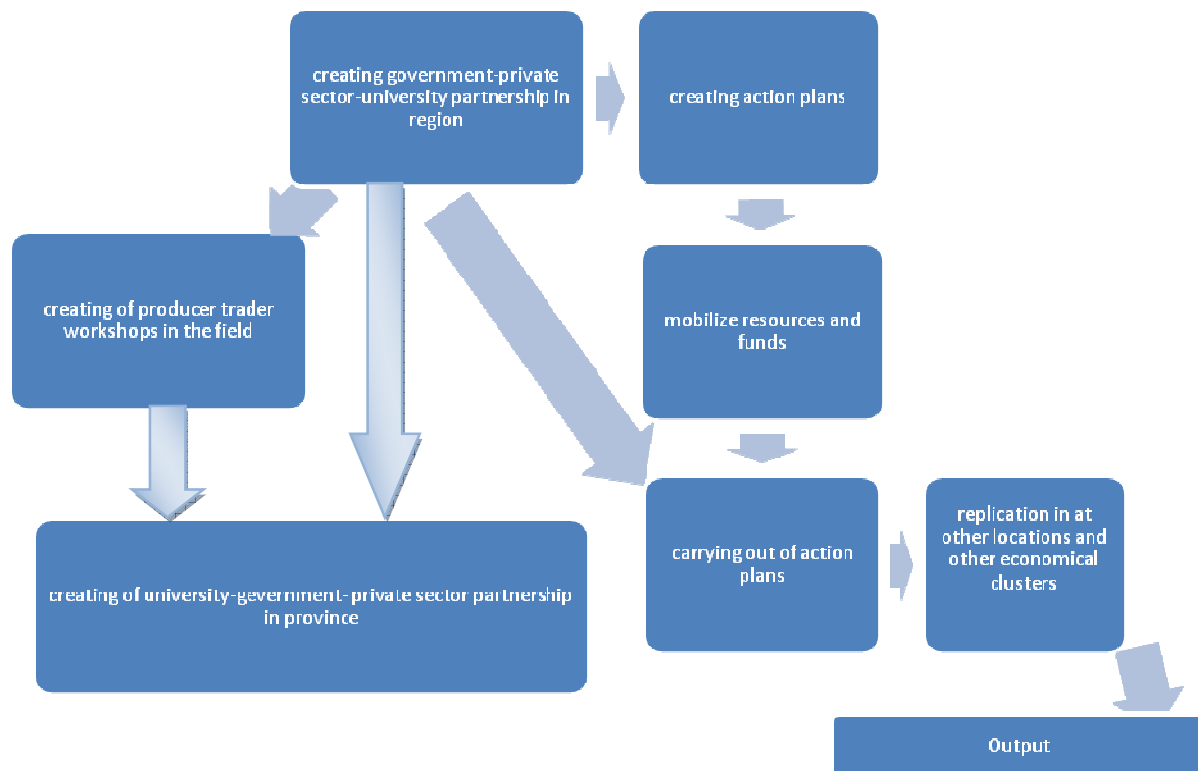
The two training sessions combined have to equip the LERD groups with all the necessary knowledge to implement the action plans in their regions. The content of the action plans is discussed later in this report.

## **Activities set up in LERD**

In the previous paragraph we already saw that action plans are created by the LERD teams in the training sessions. In this paragraph we'll look at all activities that are set up in the implementation phase of LERD (see figure 8).

Figure 8 can be placed in the process stage of figure 2. The output of figure 8 is shown in figure 2.

**Figure 8: activities in the implementation phase of LERD**



The first activity is to create partnership between the governments, the private sector and universities in the region. A good start with this is done by the formation of the LERD teams in which all three stakeholders are represented.

The LERD teams create action plans which will also be implemented. Later this chapter the content of the action plans is discussed.

Next, the funds that are necessary to implement the action plans are collected. This is done by the regional government. The LERD teams make a budget based on the planned activities. The government members of the

teams try to have these budgets approved by the heads of the local government. Just money is not enough to carry out the action plans. Also the involvement of some of the stakeholders is eminent for the success. This is done in the socialization process. With the money from the government and the help of the stakeholders in the region the action plans are carried out.

Furthermore, workshops and seminars are created in the field. When the action plans are successful, the project can be replicated in other sectors in the region. The activities in the implementation phase in total lead to outcomes. The outcomes can be seen in figure 2.

## **Seminars**

In order to spread the action plans among the different stakeholders in the region, the LERD groups have different tools. One of the most important is the local seminar.

The local seminar is held three months after the beginning of the projects. The local seminar is a meeting between all stakeholders in the region on which the projects are discussed. This is the first occasion that all stakeholders are together. For the success of the project this is an important moment. The seminar is organized by the national government (Bappenas) and NESO.

The LERD groups have the chance to present their progress to the outside world. By presenting the plans, they create more knowledge among the stakeholders about the projects with the goal that more stakeholders will cooperate in the projects. They present their action plan and reflections on what has been learned. Because the project is already three months on the way, the action plans are expanded.

Furthermore, it is a chance to get input from all stakeholders about regional development. Government officials, university professors, small entrepreneurs, exporters and traders are also invited to join the local seminars and help improve the action plans. The seminars are official. It is important that high valued people show up to give their support. The day starts with a formal opening and several speeches of important people. After this, the groups present their plans. And finally all stakeholders have the chance to ask questions and give remarks.

The following table shows (most of) the stakeholders who were invited for and showed up at the local seminars in the different regions.

Region	Aceh	Bima	Klaten	serang	Pontianak	tasik	batu	palembang	Subang/cimahi
ITB/UGM	X	X	X	X	X	X	X	X	
RUG/HIS	X	X	X	X	X	X	X	X	
Regional universities	X	X	X	X	X	X	X	X	
National Government (Bappenas)	X	X	X	X	X	X	X	X	
Regional Government (Bappeda)	X	X	X	X	X	X	X	X	
entrepreneurs	X	X	X	X	X	X	X	X	
Entrepreneur	X	X	X	X	X	X	X	X	



organizations									
Farmer groups	X	X	X	X		X			
Research groups	X	X	X	X		X		X	
Technical support organizations	X	X		X	X		X	X	
NESO	X	X	X	X	X	X	X	X	X
Traders	X	X	X	X	X	X	X	X	
Exporters	X	X	X	X	X	X	X	X	
Quality control companies	X								

The presentations show what the problems are in the regions and what the LERD teams consider the best way to solve the problems in a time period of several years. The progress of the project so far is presented. It is important to present the success of the projects. It gives trust and one of the goals of the local seminar is that the LERD groups show that they are ready to continue the program by themselves.

The local seminar provides another chance for the LERD team. All stakeholders are together. This gives the opportunity to create networks and partnerships.

Another seminar is the national seminar. The national seminar is held one year after the start of the project. This seminar is organized by Bappenas and NESO. On the national seminar, the LERD groups present their action plans and the progress so far. Problems and successes are discussed.

The main goal is to share knowledge about the project with the other LERD groups and to get insight in how other groups solved the problems. The seminar also provides information that can be used to improve the training in the next edition of LERD.

## **Action plans**

As we saw earlier in this report, the LERD team creates action plans. In this paragraph, we will look at the content of the action plans. Every action plan is different because it targets a different region and a different product, but there are similarities in all the action plans.

The action plans are based on an analysis of the region. Among other methods, a SWOT analysis of the sector is used. Strengths and weaknesses and opportunities and threats are identified. Actions that aim at overcome the threats and weaknesses and use the strengths and opportunities are written down in the action plans. Most plans discuss the product itself, the producers of the product, the industry as a whole, the availability of resources, the availability of (sales) networks and the availability of (technical) knowledge. Also the way to spread the plans among the

stakeholders in the region is mentioned in the plans. This is called socialization.

### **Action 1: Socialization**

The Socialization process is a very important action that has to be taken by the LERD team. Action plans are only of use if they are implemented the right way. Many actions in the action plans target activities, in which local farmers or producers play an active role. In order to involve as many local farmers, or fishermen, or producers, the socialization process plays an important role.

Most action plans contain planned actions that aim at improving the product and empowering the people. This can only be done when the plans are spread among the people involved. This action is described in more detail in Chapter 4 in the case descriptions. The higher the amount of people involved in the project, (or organized in farmer groups etc), the more successful the socialization process is.

### **Action 2: Empowerment**

In many cases, one of the main problems is that producers and farmers in the targeted region lack the technical or managerial knowledge that is needed to produce high quality products which are needed to generate export. In many other cases, the profit that is made doesn't go to producers and farmers, but to one or a few big traders.

Giving producers more bargaining power by organizing them into groups or giving training or providing knowledge are all forms of empowerment.

In LERD often training for the farmers, fishermen and small and medium sized entrepreneurs in the regions is organized. Sometimes training is given to farmers/producers directly. Sometimes first teachers are trained, that can teach farmers/producers after that. Also workshops and the participation of entrepreneurs in the LERD team are good ways to empower people.

### **Action 3: Product improvement**

There are different kinds of products involved in LERD. Most of them are primary commodities like coffee beans and apples. Some are secondary commodities like metal casting, fish krupuk and sometimes a combination of these two. In all cases, the quality of the products has to be improved, standardized or adjusted to international law. In almost all cases also the production capacity has to be increased. Sometimes technical knowledge is necessary to improve the products. Often the university members of LERD can provide some input for product improvement.

### **Action 4: Reinforce the industry**

In some cases the main problem lies on the industry level. Sometimes the competition is that fierce that it is harmful for the development of the industry. Sometimes extra processes are added to the product. Other ways to reinforce an industry is by building infrastructure of legislation. Sometimes bigger companies are linked to smaller companies to improve the industry.

## **Action 5: Create networks**

In order to export, products need to be produced and sold outside the region. In order to do this, products need to be made and sales networks need to be formed.

In most cases one of the actions stated in the action plan is to create better sales channels. In most cases there is limited knowledge of international trade regulations among the entrepreneurs.

The availability of network also is important to make producers and industries less dependent on exporters and traders.

Marketing activities are often needed as well.

## **Stakeholders in the implementation phase of the project**

The implementation phase of the LERD project contains all activities that put the theory of the development phase to the test. As figure 1 shows, the LERD teams form a key party that influences and is influenced by many stakeholders. It is the LERD teams' task to implement the action plans they made. These action plans deal with many different stakeholders. Therefore, it is necessary to interact with many stakeholders to make the projects successful.

There are many different stakeholders and in every region different stakeholders play important roles. What all stakeholders have in common is that they are groups of people or organizations that directly benefit from LERD, actively participate in the activities of LERD or support LERD in a more indirect way. Each of these stakeholders provides input for the LERD group. This can be in different forms (e.g. money, technical knowledge, entrepreneurial knowledge, regulations, etc.).

There are many stakeholders. In every activity of the action plan (see previous paragraph), different stakeholders are needed. For the socialization phase for example, the most important stakeholders are the producers or farmers in the region. For the creation of networks, exporters and traders play a bigger role. Most projects start with the same activities: socialization, product improvement and empowerment. After some time, the other activities are initiated. It is important that the stakeholder groups are involved in the project at the right moment in time.

I'll now give an overview of stakeholders that might contribute to the success of LERD.

For the improvement of the products, quality control companies, research groups, entrepreneur organizations, farmer groups, entrepreneurs and technical support organizations are of great importance.

To empower the people, farmer groups, entrepreneurs, universities, local government, credit organizations, and research groups are the most important stakeholders.

To reinforce the industry the local government, the national government, entrepreneurs, research groups, universities, external clients and foreign investors are important.

To create/reinforce the networks the farmer groups, entrepreneurs, traders, exporters, universities, local government, national government, NESO, external clients, foreign investors and market research organizations are important.

Very important for the projects' success is that the stakeholders are actively involved at the right time. The LERD groups are responsible for the involvement of the different stakeholders, but they get help from NESO and Bappenas. NESO and Bappenas organize local seminars and invite all

stakeholders to join. During these seminars the LERD groups present their plans and can interact with the stakeholders. After that, the LERD groups are responsible for the participation of the stakeholders.

After reading this chapter, it should be clear what LERD is and what the LERD projects look like. We will now have a closer look at the theoretical background of the LERD idea

## ***Chapter 3: the theory behind LERD***

In this chapter I will give an overview of the literature about local economic development and also focus on where LERD comes from. I'll start with mentioning some other development programs that have been set up in the past and zoom in on one particular program that has had big influence on the LERD program; PARUL. PARUL stands for poverty allocation through rural urban linkages. I'll make a comparison between LERD and PARUL.

After this, I will use the model of ideal development (Birkholzer, 2005) and combine it with the one region one product approach and use it to describe the LERD projects. More theories will be used to explain the LERD project in total.

### ***Development theory***

In his literature overview on regional growth, Dunford (2007) describes that in the literature an area's development, wealth and income depend on four sets of factors:

- Natural and created resource endowment
- The way these resources are mobilized (to what degree and how effective)



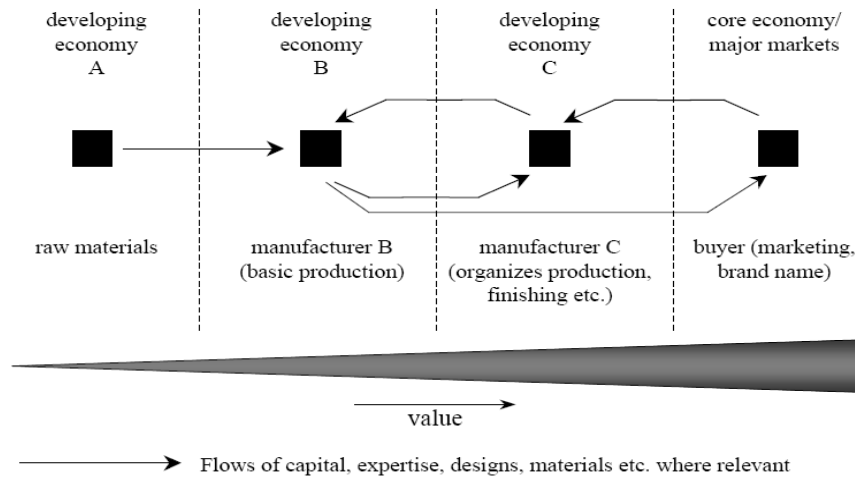
- The extend of how inhabitants can command and control those resources
- Resources are not just created, but also conserved and reproduced in and through development. This means that resource development can lead to virtuous (and vicious) circles.

The level of development, wealth and income of a region depend on the resources that the region possesses. These resources can be natural resources like agricultural products, but also human capital, skills and experience (Putnam, Becker).

There are ways to improve human capital and also ways to create new natural resources. Human capital can be increased by education and training (Foster and Rosenzweig, 1996; Mincer, 1996). It depends on the region and situation how it should be improved. Increase in human capital is useful for several reasons: It is linked to an increase in the growth rate of technology (Lucas, 1988); and directly to a higher level of output (Mankiw, Romer, and Weil, 1992).

Next, it matters how these resources are used. If resources are mobilized to a higher degree and more effective, it has a positive effect on development of the region. The more value is added within the region, the better it is for development. This can be done by increasing the quantity of the resource production (assuming that the products are sold), or by adding more value to the resources in the region. This can be done by processing the resources, by improving the quality or by innovating.

**Figure 9: adding value**



Source: Henderson 1998: 370

To which extent inhabitants of the region can command and control the resources decides to which extent the money created by the resources goes to the region. The more money goes to the region, the better it is for development.

Resources are not just created, but also conserved and reproduced in and through development. Because of multiplier effects and spin offs, the money that is generated in a region goes round and round. This means that resource development can lead to virtuous- (up) and vicious- (down) circles.

The big push theory (Rosenstein-Rodan, 1943, 1961; Murphy et al. 1989) is a theory about hidden potential for economic development in regions that can be released by giving a big push. The potential is hidden because it is stopped because of barriers. These barriers can be political, economical or social. When these barriers are removed, the regions will get in an upward spiral (virtuous circle) that creates economical development and reveal its full potential. LERD can be seen as the push in this theory.

Stapletrap theory demonstrates that producing primary commodities can influence the economic growth positively or negatively dependently on its linkages with other sectors. Sometimes, development of a resource sector stimulates the rise of industries that supply its inputs (backward linkage) and that process the staple products prior to export (forward linkage). Because of this and some other linkages an economy becomes diversified gradually. However, the diversification does not take place if the linkages are weak (when, for example, inputs are supplied from abroad). If diversification doesn't take place, the region is dependent on the export of one commodity. The region can export the commodity, but most of the value is added by processing the commodity. Without these linkages, the region falls into a staple trap in which it is only possible to export the relatively low valued commodity (Findlay, Lundahl (2001), Abidin (2001) Gylfason (2001)). Especially forward linkages are a problem within LERD. Next to that, other problems like dependency on a few traders, lack of financial resources create boundaries for regions to develop themselves. 90% of the profit goes to the few traders and the farmers and small entrepreneurs and staple trap is a commonly seen phenomenon (Innis (1954), Baldwin (1956) and Hirshman (1977, 2001).

When seen as a Big Push, the LERD project should overcome this problem of staple trap, because it can build the linkages and by that, decrease the dependency of the regions and create virtuous spirals.

Development programs can be set up in different ways and can use different theoretical frameworks. However, most development programs have the following set of underlying principles in common (Birkholzer, 2005):

- The projects have to be for the common good
- An integrated holistic approach should be used

- Unmet needs have to be served
- Re-establishing local economic cycles
- Building and improving social capital
- Community centered development

The next paragraph will mention several development programs and zoom in on one of them and compare this project with the LERD approach. This comparison will be used to show where LERD comes from and put it in perspective. LERD is one of the many development programs and should always be open for improvements and lessons learned from other development programs.

## ***PARUL and LERD***

Local Economic Development is an often addressed issue. There are many ways to develop local economies. Many development programs have been set up in the past. Some of them are listed in the following figure:

**Figure 10: LED approaches and strategies**

<i>Approach</i>	<i>Main Features</i>
Central Places Theory	Aimed at widening service provision to certain centres but cutting costs
Integration Strategies	Attempts by the state to allow markets to work more effectively by financial analyses to increase information regarding low wage areas and access to markets
Growth Poles and Growth Centres	Attempts to stimulate broad based growth by identifying certain sectors and targeting usually small and intermediate urban centres (SIUC)
Spatially Oriented Regional Development	Stimulating growth by interlinking farm and non-farm enterprises, usually targeting basic needs and specific groups (e.g. women)
Locally Integrated Economic Circuits	Improving conditions for growth in rural areas through market access, resources, technology (green revolution), population structure, raising incomes, access to services

(Source: Grimm, 1999).

The perfect development program has not been found yet, (probably because every situation is different). The five programs mentioned in figure 10 all have some downsides and limitations.

Common to these programs is that they are organized top-down and from a macro-level perspective, which has shown to be largely ineffective in causing growth (de Janvry & Sadoulet, 2003, Satterthwaite & Tacoli, 2003, Grimm, 1999, Pedersen 2003).

It falls beyond the scope of this report to describe all development programs. However, it is important to know that LERD is based upon development programs that have been executed in the past. Lessons have been learned and policy makers try to not make the same mistakes again.

There is one development program that has had a big influence on the LERD approach: the PARUL approach. PARUL stands for poverty allocation through rural urban linkages. On the following pages there is a comparison between LERD and PARUL.

The comparison between PARUL and LERD shows the many similarities between the two programs. One of the most important similarities is that both programs are organized bottom up, use a holistic approach and acknowledge the importance of economic clusters.

The most important difference between the two programs is that PARUL's main focus is on Rural-Urban linkages, while LERD's main focus is on developing local resources.

### PARUL approach

The approach is based on the following basic assumptions: To achieve broad-based economic growth in a region:

- The region must succeed in selling its products and services to markets in other regions elsewhere in the country and abroad.
- Earnings from exports must generate additional rounds of income within the local economy through the purchase of inputs and household spending on consumer goods by those involved in export production.
- The region must possess an efficient set of economic linkages connecting producers, traders and suppliers in rural and urban areas throughout the region and further afield.

The PARUL approach suggests taking the following actions:

- Promoting local economic development based on exports out of the region.
- Focusing on cluster(s) of economic activities associated with key export commodities.
- Applying a “market driven” approach to local economic planning and development.
- Linking small - scale producers to broader markets through collaboration with larger scale enterprises.

### • LERD approach

The approach is based on the following basic assumptions: To achieve broad-based economic growth in a region:

- The region must succeed in selling its products and services to markets in other regions elsewhere in the country and abroad.
- Earnings from exports must generate additional rounds of income within the local economy through the purchase of inputs and household spending on consumer goods by those involved in export production.
- The region must possess an efficient set of economic linkages connecting producers, traders and suppliers in rural and urban areas throughout the region and further afield. **However, the focus is less on the rural urban connection.**

The LERD approach suggests taking the following actions:

- Promoting local economic development based on exports out of the region.
- Focusing on cluster(s) of economic activities associated with key export commodities.
- Applying a “market driven” approach to local economic planning and development.
- Linking small - scale producers to broader markets through collaboration with larger scale enterprises.

- Establishing Public – Private Partnerships to formulate action plans, mobilize resources and implement the plans for promoting local economic development.
- Empowering farmers, fishermen and small and medium entrepreneurs through their participation in planning and decision making in the Partnerships.

The Parul approach consists of 2 stages:

#### DEVELOPMENT PHASE

- To develop a better understanding of the nature of rural-urban linkages in the local economy and interventions to strengthen them ;
- To build a consensus among those involved on a rural - urban linkage approach to planning and development ;
- To obtain agreement on the main implementation phase of the program

#### IMPLEMENTATION PHASE

- To enhance the capacity of central and local institutions, led by broad-based public-private-civic coalitions and to design and execute plans and strategies for strengthening rural-urban linkages as a means to promote Local Economic Development.

- Establishing Public – Private Partnerships to formulate action plans, mobilize resources and implement the plans for promoting local economic development.
- Empowering farmers, fishermen and small and medium entrepreneurs through their participation in planning and decision making in the Partnerships and by setting up training activities.

The Lerd approach consists of 2 stages:

#### DEVELOPMENT PHASE

- **To develop a better understanding of the nature of export led growth and of empowerment of people ;**
- To build a consensus among those involved ;
- To obtain agreement on the main implementation phase of the program

#### IMPLEMENTATION PHASE

- To enhance the capacity of central and local institutions, led by broad-based public-private-civic coalitions, and to design and execute plans and strategies that lead to sectoral development.

- 1. To set up an institutional framework separate from the formal government system and a base support for PARUL
  - Public-private partnerships in each province and district to facilitate collaboration between government and the private sector, and
  - Project Support Units (PSUs) with a small professional staff to establish, guide and assist the partnerships
- 2. To develop a common and increasingly better understanding of the rural urban linkage approach at the provincial and district levels
- 3. To build a sustainable institutional framework for PARUL activities at the provincial and kabupaten levels
- 4. To provide information to support the rural-urban linkage approach in the province

- 1. To set up an institutional framework separate from the formal government system and a base support for LERD
  - Public-private-university partnerships in each province and district to facilitate collaboration between government, the private sector and the universities
  - **No Project Support Units (PSUs), but LERD teams**
- 2. **To develop a common and increasingly better understanding of the export led growth approach at the provincial and district levels in combination with empowerment.**
- 3. To build a sustainable institutional framework for LERD activities at the provincial and kabupaten levels
- 4. To provide information to support export led growth approach in the province



- To develop and implement policies, programs and projects that support the strengthening of linkages for production and trade between rural and urban areas
    - 1. To develop broad participation in and support for actions to strengthen rural-urban linkages
    - 2. To develop Action Plans for strengthening rural urban linkages associated with each sectoral cluster
    - 3. To formulate and develop proposals for funding Action Plans
    - 4. To implement Action Plans to strengthen rural-urban linkages
    - 5 To support complementary kecamatan and village initiatives to strengthen rural-urban linkages
    - 6. Policy and regulation reforms to strengthen rural-urban linkages
  - To facilitate replication in other areas of the country by assisting the government and donors to adopt the approach
    - 1. Initial expansion of PARUL approach into other provinces
    - 2. Initial promotion of broad-based Provincial Economic Development Coalition in PARUL pilot provinces
- 
- To develop and implement policies, programs and projects that support the strengthening of linkages for production and trade between rural and urban areas
    - 1. Socialization process to develop broad participation and support among local stakeholders.
    - 2. To develop Action Plans for strengthening export led growth associated with each sectoral cluster
    - 3. To formulate and develop proposals for funding Action Plans
    - 4. To implement Action Plans to strengthen export led growth
    - 5 To support complementary kecamatan and village initiatives to strengthen export led growth
    - 6. Policy and regulation reforms to strengthen export led growth
  - To facilitate replication in other areas of the country by assisting the government and donors to adopt the approach
    - 1. Initial expansion of LERD approach into other provinces by repeating the project

- 3. Dissemination of methodology of the PARUL approach and specific technical assistance provided to staff of relevant projects and activities that request it
- 4. PARUL coordination with related projects and activities
- 5. Incorporation of PARUL principles and methodology into new Government and international donor financed programs

This comparison between the PARUL and the LERD approach shows that LERD uses the same basic principles as PARUL, but that the focus of the project has shifted from the Rural-Urban linkages towards export led growth and empowerment of people. In the LERD project, the Project Support Units have been left out. The PSU is replaced by the LERD teams.

The process of LERD

In the beginning of this report we have seen what local economic development is and that LERD a program is that aims at developing certain regions in Indonesia.

Not all regions develop at the same speed. There are regions that perform better than others. Understanding the causes of differences between regional economic performances, is an important step of sustainable development (Ceccato & Persson, 2002). In a case study they identified 10 factors that explain the differences. (See figure 11) The factors are divided into two categories: tangible and less tangible. Their main conclusion is that regions with the similar economic, social and environmental circumstances perform differently due to a combination of these 10 factors. Regions that score high on these factors perform better than similar regions with lower scores on these factors.

**Figure 11: factors that explain the differences between regional economic performances**

<i>Less Tangible</i>	<i>Tangible</i>
Market performance	Natural resources
Institutions	Human resources
Networks	Infrastructure
Community	Investment
Quality of Life	Economic structures and organisation

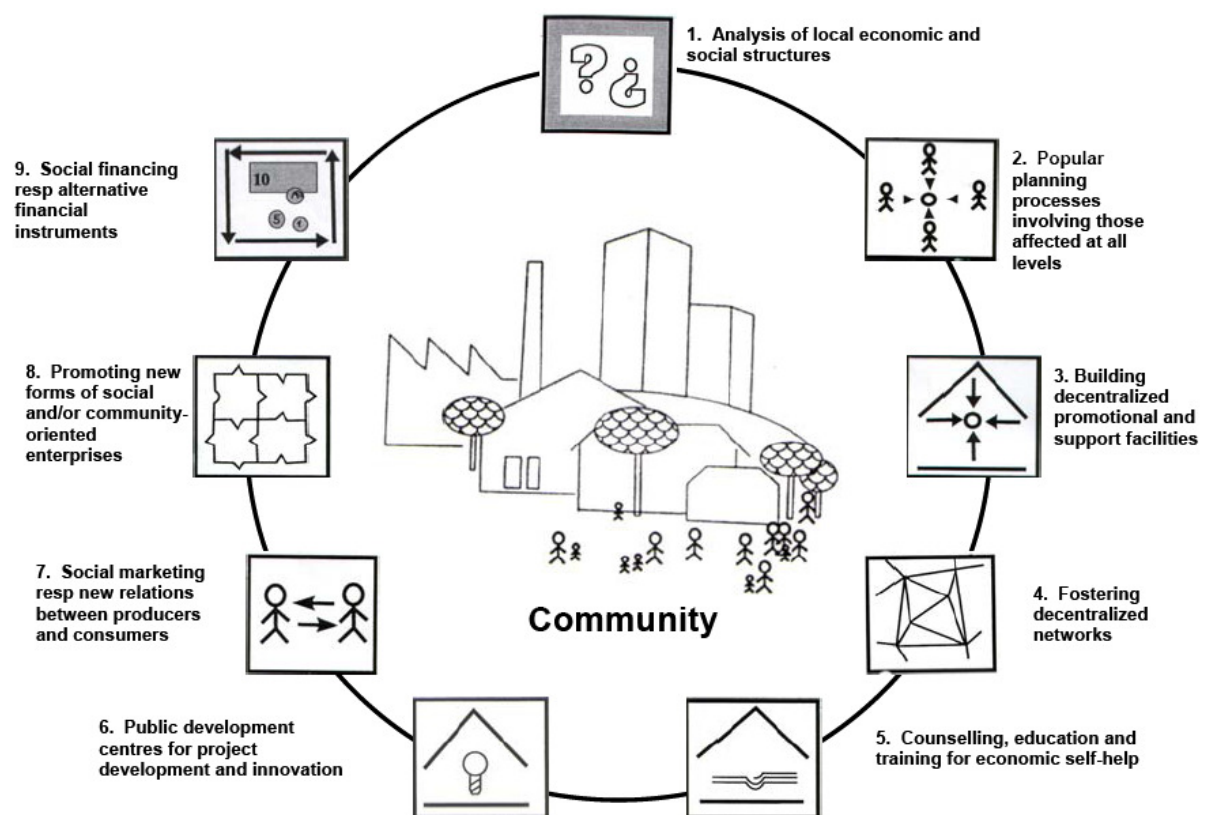
**(Ceccato & Persson, 2002)**

Models that aim at developing regions should involve these factors.

Figure 12 is called an ideal model for local economic development. The model is developed by Birkholzer in 1999 (Birkholzer, 1999b) and describes an ideal way to develop a community. The steps don't have to be followed in order, or always in the same way, but these nine fields are rather fields of attention in the local economic development process.

We'll use the model of Birkholzer to describe the process of LERD. Each of the 9 steps will be described and connected with other literature to understand the process of LERD and to find out if the LERD project is organized in a good way according to the literature. The reason I use Birkholzer is that it comes very close to LERD and it can be used to divide the activities of LERD into nine steps and directly compare them with the literature.

**Figure 12: an ideal model for economic development**



Source: Birkholzer, 2005

The figure is divided into 3 phases:

1. Phase one is building ground in the community (Step 1-4)
2. Phase two is further community development (step 5-7)
3. Phase three is establishing a working community economy (step 8-9)

The main idea is that a group of people come together and form an initiative or community organization to start with the process. Without such a body nothing will happen. The group of people should be neutral in the sense that it represents mainly citizens and not local authorities. **Members of the authorities can be part of the group, but important is that it represents the citizens.**

Let's first have a closer look at the 9 steps in the development and compare that with literature. In the next chapter we'll have a closer look at how this process actually goes in the LERD projects by looking at the case descriptions.

## **The 9 steps of development:**

### **Step 1**

the first step is to make an analysis of the local economy and social structures. Based on that analysis, action plans can be made to start the development process.

### **Step 1 in LERD and theory**

Before the start of LERD government planners in the different locations already performed several analysis on the region they work in.

From the different actions that are made we can see that at least 3 analysis tools are used:

1. Shift Share (an analytical tool to measure the impact in industrial restructuring on regional and local economies)
2. Location Quotient (an analytical tool to measure an industries concentration relative to a reference area (usually the country))
3. Economic base model (an analytical tool that can be used to measure the impact of new activities in a region) (Dinc, 2002)

The first analysis is done on location. During the training in the Netherlands and Indonesia an analysis on lower level is made. Several tools are used:

1. SWOT analysis,
2. force field analysis,
3. problem trees,
4. Mapping the region with its resources and potential and defining the main problems.

Based on the analysis of the region, action plans are made to solve the main problems defined. A quick theory scan showed that these analyzing methods are suitable instruments to make a good analysis (Dinc, 2002, Armstrong, 1992, Lewin, 1943).

## Step 2

The second step is to make a planning process in which people from all levels are involved to give input about unmet needs.

## Step 2 in LERD and literature

In LERD this is done in many ways. To start, partnerships are formed in the

shape of LERD groups consisting of people from the government, the private sector and universities. Several activities are set up by the LERD group to involve local stakeholders. The local seminar is a formal way of getting input from stakeholders. In most projects more informal ways like meetings and discussions are set up as well.

Community participation is an important issue. Partnerships seem certain to play a central role in establishing policy frameworks, coordinating public and private sector activities and incorporating varying sections of local community opinion. (Department of the Environment, Transport and the Regions, 1997b).

The advantages of partnerships is that if properly constituted and run they are more suited to implementing the bottom-up approach to regeneration than a single central or local government organization. They can help to promote ownership of regeneration activity within local communities. (Department of the Environment, Transport and the Regions, 1997b).

According to Burns & Taylor (2000, p. 2) community participation is important because of:

“Community definitions of need, problems and solutions are different from those put forward by service planners and providers.

Community knowledge is an important resource, and widens the pool of experience and expertise that regeneration and renewal strategies can draw on.

Community participation gives local residents the opportunity to develop skills and networks that they need to address social exclusion.

Active participation of local residents is essential to improved democratic and service accountability. Central government requires community participation in regeneration and neighborhood renewal strategies.” Burns & Taylor

(2000). Bjaras, Haglund e.a. (1991) indicate five indicators that strongly influence the community participation process: needs assessment, leadership, organization, resource mobilization and management.

Socializing action plans among local stakeholders is a central theme in LERD it is clear that this step is seen as very important. This is in line with my findings from the literature. The extent on which the socialization process is a success depends on needs assessment, leadership, organization, resource mobilization and management. In LERD, all five indicators play a role. As the case study will show, the way the socialization process is executed varies per region. The five indicators are not specifically addressed in the training sessions.

### Step 3

Step three is to build decentralized promotion and support facilities. The main idea behind this step is that mobilizing people and involve them in community development needs symbolic as well as practical space for action. It is one way to show commitment of the government to the project. Having a place to meet makes the plans real. It can help in convincing people to join the project.

### Step 3 in LERD and theory

In LERD this is done in the socialization process. The socialization process is an important step in LERD that takes form in many different ways. The main goal for the LERD team members is to involve as many people as possible in their action plans and in the realization of it. This is not done in a standardized way. I did not find any other literature about how decentralized promotion and support facilities influence the socialization process.

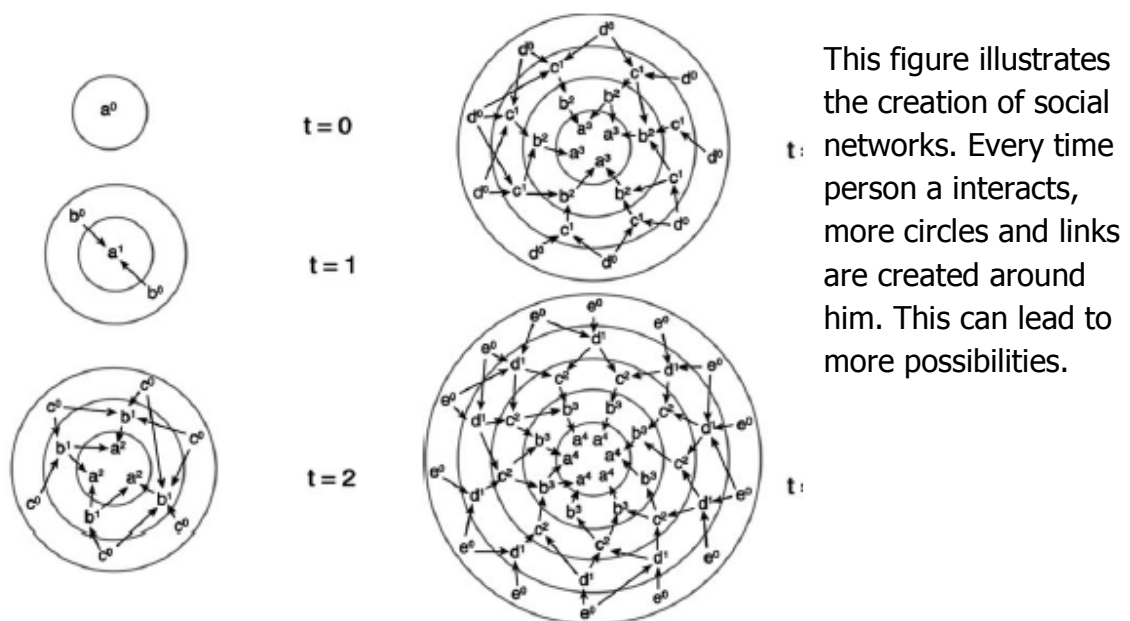


#### Step 4

The fourth step is to build up new and to strengthen existing social networks.

#### Step 4 in LERD and theory

Building social networks is one of the most important tools to build up social capital. Social capital can be used productively by individuals and groups to facilitate actions to benefit individuals, groups and community more generally. (Putnam 1993, 1995a, Lin 1982, Coleman 1988, Burt 1992,) Social networks are very important in local development because social networks give access to resources. Having access to resources has a positive influence on development.



Every person or organization is interacting and networking with people within the existing network. For organizations interacting and networking with people leads to profit and gives the organization the right to exist. Embedded resources in social networks, such as trust, shared opinions and beliefs, etc. will enhance the outcome of the activities because of four

reasons: It leads to more available information, more influence, higher social credentials, reinforcement of identity and recognition. This is on the level of individuals and because a company is a group of individuals, it also works on organization level.

If we zoom out a bit we'll come to the regional cluster or network model (that is used in PARUL and also in LERD). This model is based on the fact that clusters of businesses (small and bigger), households, technical assistance organizations etc. reinforce each other. They can all benefit from each other's skills and presence. The main idea is clusters of businesses, each with their own expertise together are driving forces in development of the region. Economical activity is not just centered in big cities, but is done in multiple sectors at the same time. These sectors can work together in order to enhance development. Regional cluster or network models are organized bottom up (Douglas, 1998).

The opposite of this model is the growth pole model. Growth pole models (Perroux, 1955), are based on the principle that increasingly sophisticated production in a single sector drives economic growth in linked sectors throughout a local and regional economy; ideally, the magnitude of these linkages expands to include services and local consumer-goods industries. The economic activity is centered in a single center that is believed to "radiate" a bit of its economical development to the surrounding areas. Growth pole development is organized top down. LERD seems to be a bit of a combination of both models. On the one hand, LERD focuses on one specific sector (fish crackers e.g.), while on the other hand, the program is developed bottom up. Action plans are made by people from the specific regions. Local entrepreneurs join the LERD teams. Some efforts are done to

make connections with other clusters (value adding activities are set up sometimes) but this stays very limited.

In LERD the formation of a LERD team already creates a new network. The cooperation between people from different organizations is the first step. And has a positive influence on social networks. The organization of the regional seminars also helps to improve the networks.

The LERD team can be seen as a bridging network that establishes contact between different stakeholders. In time this can lead to a stronger social network which can have a positive effect on LED. LERD sets up a Public-private-university collaboration (also known as triple helix). According to triple helix theory (Saad, Etzkovic, 2002), the main goal of collaboration between government, entrepreneurs and universities is to improve innovation in the region. Endogenous growth theory states that innovation is the way to develop a region. Education and training are good ways to develop innovation (Agion, Philippe and Howitt, 1998).

According to Birkholzer (2005) formalized local partnerships and cross border partnerships in which experts are brought in contact with local actors, also enhance the social capital. The input of knowledge from the experts leads to more knowledge of the local actors. In the LERD project this means that expert organizations could be linked to the people in the projects in order to enhance social capital.

## Step 5

The fifth step is counseling education and training for economic self-help. This is also called empowerment or capacity building.

## Step 5 in LERD and theory

There are four kinds of empowerment:

### 1. Economic empowerment

Are there new opportunities in terms of formal and informal sector employment and business opportunities? Problems with economic empowerment: inequity in the spread of economic benefits. A community does not consist of a homogeneous group of people with a shared goal. Unequal power distribution causes inequality in spreading of the financial benefits. The distribution of financial benefits is just as important as the total benefit for the community (Scheyvens, 1999).

### 2. Psychological empowerment

A local community which is optimistic about the future, has faith in the abilities of its residents, is relatively self-reliant and demonstrates pride in traditions and culture can be said to be psychologically powerful. According to Wilson (1996) all empowerment comes from within and individual empowerment leads to commitment and cooperation. Psychological empowerment is one of the key ingredients for the development from within

### 3. Social empowerment

Social empowerment refers to a situation in which a community has sense of cohesion and integrity

### 4. Political empowerment

if a community is to be politically empowered, their voices and their concerns should guide the development of any project from the feasibility stage through to its implementation. Power will need to be decentralized.

Empowerment and capacity building can change people who have a lack of self esteem and think they can't improve the bad economic situation they are in at the moment. (Chanan, 1992; Ronnby 1994; Craig/mayo, 1995)

LERD tries to empower people in the targeted region by showing them that they can change it when they work for it. In LERD this is a central theme. In LERD empowerment is done by giving technical training, entrepreneurship training, organizing farmers in farmer groups, providing starting capital, changing power distributions, lower dependency of people by creating networks, giving entrepreneurs new market knowledge. The LERD projects also work as an example for people in the same region who work in a different sector. The hope is that the project will be copied and implemented in other sectors. The LERD team starts with a series of training and education activities and the team is counseled by members of the university during the whole implementation process. These activities are limited to the LERD team itself in the project. It is up to the LERD teams to set up training activities for the actors in the field, which should lead to the empowerment of local actors.

## Step 6

The sixth step is to set up public development centers for project development and innovation. These development centers will be used to assist local actors in the field of project development and innovation.

## Step 6 in theory and in LERD

The idea behind setting up development centers is that the development of managerial skills, technological development is useful for development programs. A development center can assist in providing the required

technological knowledge and can train local actors to obtain economical and managerial skills that are useful in doing business. In LERD this is a relative small issue. Sometimes training of local actors is set up and sometimes technological assistance is given. However, no development centers are set up in LERD. In Indonesia, chambers of commerce already exist and could fulfill the role of development center. Universities could help to provide the technological knowledge.

#### Step 7

Step number seven involves social marketing resp. creating new relations between consumers and producers. The main idea is to overcome the problem of a lack of profitability in the beginning. Social marketing can overcome the lack of investment from profit oriented companies. Customers, clients and users should be involved actively in the development of the products and the production of the goods and services.

In LERD this approach is not taken. In LERD money from outside is used to develop marketing channels.

#### Step 8

Step number eight is promoting new forms of social and/or community oriented enterprises.

#### Step 8 in theory and LERD

A social enterprise acts like a private enterprise, but also focuses on social and/or community oriented objectives of public interest. They mobilize private initiatives and resources like any other company, but do this for the common good. Furthermore they reinvest the profits in the community and they trade on the market on a basis of mutual reciprocity and cooperation

(Birkholzer 2005; Mannilla 1996; Borgaza & Santuari 1998; Grove et al 1998; Birkholzer et al. 1998; Pearce 2003; Castelli 2005). Reinvesting money in the community can lead to spin off effects. These effects can be supply chain effects, multiplier effects and also replication effects because of copying the program in other sectors in the region.

The creation of social enterprises is something that is left out of LERD. Promoting social enterprises are no part of the LERD project.

### Step 9

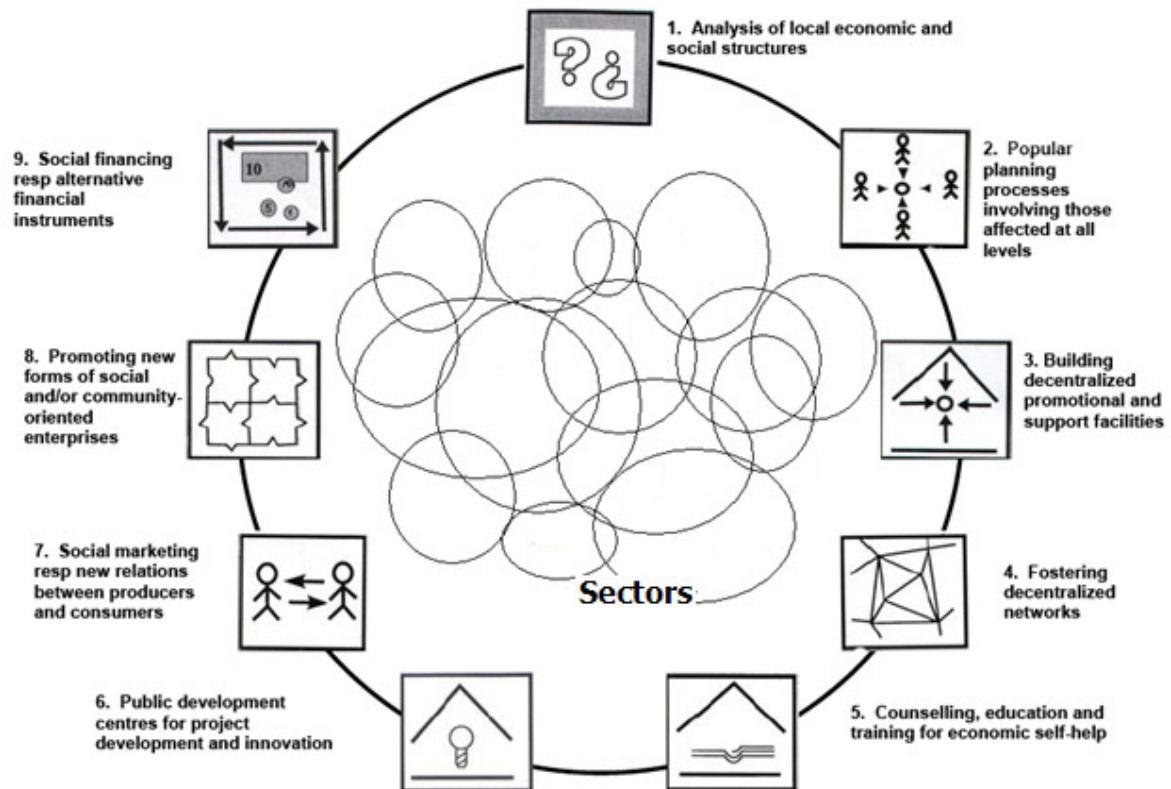
Step number nine is about social financing or alternative financing instruments. This step is the last step in the cycle because if the first question is where the money comes from, paradoxically it fails to meet the real needs. Therefore money is put at the end instead of in the beginning.

### Step 9 in theory and LERD

According to Birkholzer (1999b), money is not leading in a development process, but initiative is. Money will follow. The point he makes is that there is always a way to organize a community and by that add value. Money will follow after that. It is the key of the self-help method he pleads for.

In LERD one of the first questions is where the money comes from. The project sometimes stops because the budget is not available yet. Financial instances sometimes are involved in the project.

To be able to apply the Birkholzer model to LERD, there is something that has to be changed first. LERD is focusing on one particular cluster in a community. The clusters are intertwined and together they form the community. LERD is focusing on one of the specific clusters (one of the circles) in the region.



Clusters are attractive for the LERD program for two reasons:

- They can create competitive advantages
- They stimulate innovativeness

(Porter, 1990)

Clusters are important in LERD because:

- Clusters can be made up of small enterprises - being small does not stop firms from competing even on the world market;
- Clusters can arise in regions that have not had previously industrial advantages.



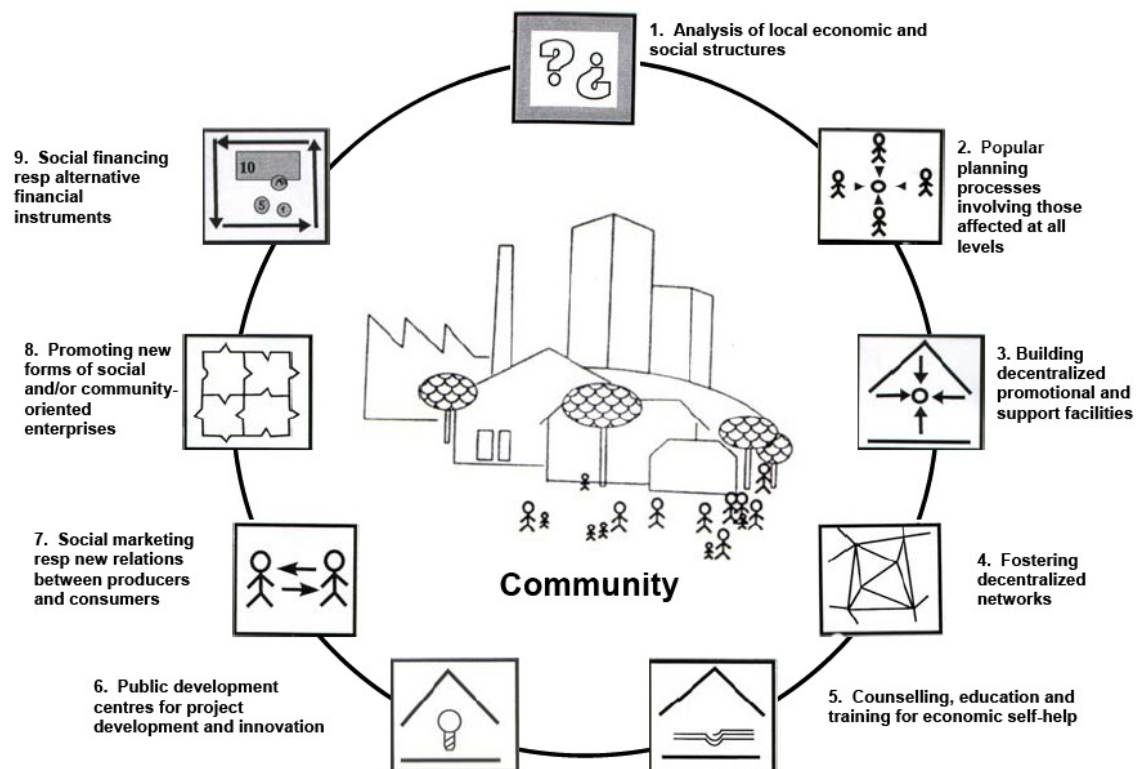
The LERD program aims at small enterprises and is targeting some regions that have not had previously industrial advantages.

One of the difficulties of using clusters is that there is no clear theory of how clusters emerge (Haggblade et al. 2002; Rosenfeld, 2002).

## Chapter 4: Case descriptions

The data collected in this research is collected in 10 regions in Indonesia. Data of LERD projects from 3 different batches is collected. In every region members from the LERD group were interviewed, site visits were done, local seminars were visited, informal meetings were conducted and external literature (like project descriptions, consultant reports, government reports etc.) is used. The members of the interviewed LERD groups come from Government, university and private sector.

In order to analyze the cases, I'll use the 9 step figure for economic development.



**Figure 13: map of the visited projects in Indonesia**



Figure 13 shows the map of the projects that were visited for this report in Indonesia. Only the projects that were actually visited are shown.

## ***The First Batch:***

First, the projects of the first batch (2003) are presented: Subang and Cimahi. Both cities are located on West Java. Only government people joined the training program in The Netherlands. Unfortunately, soon after the LERD training took place, the first batch projects were stopped.

## **Subang**

Subang is a first batch LERD project. The product is flowers. Only government people went to the training in The Netherlands. Because the final project has not yet been decided by the government, not Subang was

chosen for the development project, but Klaten. The project was stopped before it even started.

## **Cimahi**

Cimahi is another first batch region that failed to start the implementation of the project because the lack of government support. The suggested product was Rattan, but it never started.

## ***The Second Batch***

In the second batch of LERD projects (2005), the following regions were involved:

Palu, Batu, Bima, Banjar, Tasikmalaya and Aceh. I have visited Bima, Batu, Tasikmalaya and Aceh. Unfortunately, it was not possible to visit the other two projects. In the second batch projects, the LERD teams consisted of government people and some university and private sector people.

## **Aceh**

In this region I collected data by observing and interviewing several members of the LERD team. I visited the local government. Unfortunately, it was not possible to visit the coffee plantations. Secondary data (such as action plans, consultant reports) given to me on location is also used.

## **Analysis of the local economy and social structures**

Aceh's product for LERD is coffee. The region is well known all over the world for its high quality coffee and could compete with almost every other

coffee region in the world. There is about 75 000 ha of coffee land in Aceh. The region produces two different kinds of coffee: Arabica and Robusta. These two kinds of coffee come from different coffee plants and grow under different circumstances. The Arabica coffee is more expensive than the Robusta. For both kinds of coffee a premium price (an extra amount of money on top of the world coffee price) is paid because of the high quality.

There are many coffee farmers in Aceh. Most of them own a small piece of land and work informally (without being registered as a company). The coffee beans are picked and collected by the collectors. The collectors sell it to traders, who sell it to exporters. Coffee is exported in the form of raw beans.

The coffee farmers get around Rp 4500 for kilo raw coffee beans (38 cents). The collectors add a little bit to the price when they sell it to the traders. Traders sell the coffee for about Rp. 12000 (1 euro) to the exporters who sell it again for about Rp. 35000 per kilo (3 euro). The coffee already is exported to Europe, US and other parts of the world. The first quality of coffee is exported, while the second and third quality is meant for the Indonesian market. Holland international is the biggest trader. Distribution of the product now goes via the port in Medan, but will go via the port in Aceh in another 4 years.

Right now, Starbucks buys about 50% of the total production of Aceh coffee. The company still offers a good price for the coffee, but there is a threat of becoming too dependent on one big company. Starbucks buys the coffee in raw form and processes it itself. The Aceh coffee region is dependent of companies like Starbucks and is not able to process it by itself to get a higher price. Packaging is also done by the coffee companies. No extra value is created. If Aceh refuse to sell its coffee unprocessed, big companies

like Starbucks will buy their coffee elsewhere. The region has no other sales channels than these big traders.

Because of the conflict in Aceh along with the tsunami a large amount of coffee plantations was abandoned and neglected. Many houses of farmers have been destroyed in the conflict. These farmers can't live on their land anymore like they used to and have to travel from and to their plantation every day. Both the quality of the product together with the production capacity drastically declined. The region is well known for their high quality coffee. The lowered quality forms a threat to their reputation, which can cause a decline in the sales price per kilo. At least 20 000 HA coffee production sites has to be rehabilitated.

Another problem is that farmers have a lack of money. Because of harvest times, they only receive money 2 times a year. When they are out of money, they have to sell their coffee production in advance for a lower price. By doing this, the money from the harvest period will not be enough again and the end up in a vicious circle.

The main goal of the LERD project is to rehabilitate the land and improve the quality of the product again. Furthermore, the project tries to empower farmers in order to improve their income.

### **Make a planning process in which people from all levels are involved.**

Involving people from different levels is done by the local seminar. This doesn't involve most of the farmers. To involve the farmers, extension workers are assigned and discussion forums are organized. The project certainly meets the needs of the farmers. They directly benefit from free seedlings and assistance from one of the extension workers to increase the

quality. More than enough resources are mobilized in this project, although it is not clear if it is coming from LERD or from one of the many other projects going on in the region. Leadership is strong enough and organization and management of the project are done well.<sup>1</sup>

### **Build decentralized promotion and support facilities (socialization)**

Socialization is done mostly by giving incentives. Good quality seedlings have been distributed among farmers. These seedlings are provided by the government for free. Farmer groups are made and extension workers are assigned to these groups. This has a positive influence on the socialization process.<sup>2</sup> Not centralized promotion and support facilities are set up.

### **Build up new and to strengthen existing social networks**

Farmers are organized in farmer groups. This doesn't just help to improve their bargaining position; it also helps to improve the quality of the coffee. Every farmer group has an extension worker in it. This is a farmer who has received training about how to produce the best quality coffee. The government has established a quality control system. The improvement of quality is done by using variation in the coffee plants together with the manual book of Aceh coffee. Farmer leaders and extension workers implement this in the farmer groups. Good quality seedlings have been distributed among farmers. These seedlings are provided by the government

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<sup>1</sup> Results are based on interview questions and an interpretation of the process of the project. To increase reliability of these findings, more research is needed.

<sup>2</sup> Farmers like to get free seedlings and technical assistance. Interview with LERD team member from the government

for free. Networks between universities and farmers are built by training extension workers. The required technical knowledge is transferred from the universities to the farmers who need it. Sales networks already existed in this region. Also external organizations provide technical assistance, management training, R&D funding etc. This project is benefitting from the many other projects going on.

### **Counseling education and training for economic self-help**

Farmer empowerment is done by establishing a coffee forum that organizes farmers.

Extension worker training is set up. The extension workers transfer their knowledge among the farmers. Farmers are organized in farmer groups. Also a buffer fund is set up to prevent farmers from selling their coffee before harvest time. Next to LERD there are a lot of other projects going on in the region. This gives a lot of opportunity to get technical assistance, management training and R&D funding. The local cooperatives and SME office is empowering cooperative institutions and human resources.

### **Set up public development centers for project development and innovation.**

This is not done in the project. However, the government together with supporting organizations have done research about coffee production and spread the knowledge. External organizations are available to give assistance and input (like technical knowledge). Also the university is doing research.



### **Social marketing resp. creating new relations between consumers and producers**

This is not addressed in the project. Farmers just sell all their coffee to the traders. There is an exporter organization that does some marketing activities. The region is quite dependent on one big company. This is not addressed in the project.

### **Promoting new forms of social and/or community oriented enterprises.**

This subject is not addressed in the project.

### **Social financing or alternative financing instruments**

A buffer fund is created to ensure farmers have enough money to live and have no urgent need to sell their product immediately (before the next harvest period) for a lower price in order to buy food for their family.

### **Batu**

Data in this region is collected by interviewing several members of the LERD team, visiting an apple farmer, the apple touristic plantation, interviewing the head of the farmer association.

## **Analysis of the local economy and social structures**

The product of LERD Batu is Apple Batu. Batu is well known for its apple all over Indonesia. Actually there are five different kinds of apples in the region (manalagi, rome beauty, anna, hijau and wanling). The most common apple is apple hijau (the green apple) this apple is sour. The manalagi apple is yellow and sweet. Batu People really love their apples. However, the popularity of the apple is declining fast. People think it is sour and small. The competition with other apples like apples from New Zealand and Malaysia is difficult. Two times a year the apples can be harvested. Farmers can choose their own harvest time. An apple tree produces its first fruit after 4 years and continuous doing so until the age of 50. The best age of a tree is around 20 years. After that the production is declining.

Many innovations have already been tried in apple production. Some were successful, some failed. An idea that failed is apples with text on it by using stickers. The idea was to sell it at wedding parties. An example of a successful innovation is the combination of apples and tourism in the form of an apple farm on a beautiful location. Tourists can enjoy the scenery and pick some apples while they're there. Tourists pay an entrance fee, get a tour in this apple farm, enjoy the scenery and are allowed to pick several apples for free. Value is added by this. Although the Batu apple is small and sour, it is perfectly suited to use in apple juice production. Also apple chips are made from the apple. Both apple juice as chips are produced in Batu and region. Both the juice and the chips are of good quality. However, they are not sold all over Indonesia yet. Also the apples are not available in other regions of Indonesia.

Several years ago, apples plantations were big. Farmers had enough land and apple trees to support their families. One kilo of apples was worth the

same as 6 kilos of rice in that time. Now, one kilo of rice is worth 2 kilos of apples. All companies are family companies. These companies are transferred from father till son. When there are two sons, the land will be divided by two. When there are ten sons, it will be divided by ten. Because of this, the farm land becomes more and more divided among farmers and is often used for other purposes. At the moment, people cannot support themselves only by producing the apples. Most apple farmers have a side business like growing decorative plants. In most cases, this side business gives the farmers the biggest part of their income. Environmental changes cause some problems. And so do diseases. Most of the trees in Batu are very old. Because of this, the production capacity is declining. The quality of the apples has to be improved too. Old trees have to be replaced by younger ones. This has to be done in a way that production doesn't stop at all for 4 years.

The Batu region is a well developed region in terms of human capital. Leadership in this project is very strong and so is the commitment of the LERD team members. Because of this, the farmers trust the government in this project. The main goal of LERD is to improve both the quantity as the quality of the apple production in the region and to make it possible for farmers again to live of apple production.

The apple trees in Batu are already old (most of the trees are more than 50 years old). This affects the quality (in terms of appearance, taste, 'crispiness' and size) and production capacity of the apple. The apple itself is not a tropical fruit, so it is difficult to grow apple in Indonesia- it needs higher production cost. That's why it cannot compete with imported apple which has better appearance, taste and size. Apple demand in Indonesia is high, so there is still an opportunity to increase production (apple production in Batu is 2000 tons a year, with total apple farm is approximately 2000

hectares). Recently in Indonesia, the apple demand is fulfilled by imported ones.

LERD helps the farmers to get new seedling from The Netherlands. The seedling now is still in quarantine (1 year), but after that will be given for free to the farmers. Besides, it motivates farmers to improve their product quality, diversify products (fruits, chips, juice), improving access to market, diversify market because of variations in products. However, for the first step LERD will only focus on the improvement of quality.

### **Make a planning process in which people from all levels are involved.**

The LERD team in the region often meets the farmer groups and the other stakeholders in the region. This has led to an action plan which is based on input from people from all levels. The head of the farmer association is a member of the LERD team. The government member of the LERD team is a strong leader. Needs of local stakeholders are met and also the organization and management of the project is done in an organized and structured way.<sup>3</sup>

### **Build decentralized promotion and support facilities**

All farmers are organized in a farmer group led by one of the LERD participants. The socialization process in the region went very well. No special building is assigned. But meetings and discussions with farmers are organized at the time that is best for the farmers.

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<sup>3</sup> Meetings are held, training activities are set up and the required knowledge is sought and found.

### **Build up new and to strengthen existing social networks**

The LERD project has already led to stronger ties between the local government and the farmers. Also the involvement of the university in the project is regarded as very useful. Farmers meet each other to discuss issues regarding different aspects of apple farming. The university provides the needed technical knowledge.

### **Counseling education and training for economic self-help**

Different training activities are set up. Farmers are taught to use their land in an economically better way by diversification of products. For example by growing flowers next to apples on the same land.

Next to that, training is set up (with duration of 1 year) in order to train people how to market their products, improve the quality, use diversification innovation etc. The people, who are trained, will train apple farmers. There are 18 training places available for future teachers. The amount of applicants was 64. This shows the high interest in the apple Batu. Every year, training programs are set up and technical knowledge is available.

### **Set up public development centers for project development and innovation.**

No development centre is set up in the region. What is done, is transforming the apple industry to an organic industry. This is better for the environment, stops the toxication of the soil, lowers the production costs of the apples and increases the sales price of the apples. This is done by informing farmers how to grow on an organic way.

Furthermore, the government will make a harvesting time map. This will make the market price more stable and reduce the amount of premature harvested apples.

**Social marketing resp. creating new relations between consumers and producers.**

They will have stickers on the apple so all apples coming from Batu will be easily recognized from their sticker. The brand name of the Batu apple already is well known all over Indonesia. Everybody in Indonesia knows that the best apples come from Batu.

**Promoting new forms of social and/or community oriented enterprises.**

This subject is not addressed in LERD.

**Bima**

In this region, the data is collected by interviewing the LERD team, visiting the university, visiting the production site, visiting the village and secondary data.

**Analysis of the local economy and social structures**

The product of Bima municipality is Pearls. The market demand is higher than the production of pearls in Indonesia. In Bima, at the beginning of the LERD, no pearls were produced yet, while the marine conditions are suitable

for pearl production. Bima is located on a strategic central location in Nusa Tenggara, which is good for trade.

The production of Pearls goes in two steps: first seedlings (oysters) are needed to become the place for the pearl to grow in, second the oysters have to be injected with something small that will be the core of the pearl.

The action plan that was made at the beginning of the project tells us that 134.2 kilo pearls are produced in Bima municipality. The goal is to increase this production by 15% in the first year. The pearls are produced by specialized companies. One of the problems in pearl production is that seedling materials are scarce. Seedlings are oysters with the size of about 7 cm. The first goal of this project is not to produce actual pearls, but to produce the seedlings. Other specialized companies will produce the pearls by using the seedling produced in Bima. Later, when the seedling production already is in going well, the production of pearls will be initiated.

The plan for LERD in Bima is to set up seedling production. This is done by distributing 3500 oysters among 12 people selected from the community. Their job is to look after the small oysters for 1.5 years until they are big enough to be sold. Because of the scarcity of the seedlings, it is no problem to sell them. From the 3500 oysters, 500 are left after one year. The rest died. This shows the lack of knowledge on how to produce the seedlings. The production facility is on a floating island in the sea. The oysters are hanging below the surface in iron fences. One of the problems is that maritime conditions are very sensitive and unpredictable. Furthermore, the conditions cannot be stabilized.

Seedling production is considered easy in comparison to the injection of the oysters to make pearls. Problem is that it comes very precise and that the oyster can't be opened too far or it will die. There are just a few people in

Indonesia who can do it. What is needed most is the knowledge to inject the oysters. Learning the skill takes years. An option is to hire a professional to inject the oysters, but that is expensive and for short term only.

The LERD team consists of 6 people. None of them has technical knowledge about pearl production.

### **Make a planning process in which people from all levels are involved.**

Input is given by stakeholder at the local seminar. Giving feedback on the action plans on the seminar is done in front of the eyes of everyone.

Furthermore, the LERD team was in contact with the local community that would produce the seedlings. I don't have data about the leadership in this region. The organization of the project is not going well. The main problem is that the LERD team is spread out and is not working together anymore. The connection with the university is lost due to the transfer of the university member of the LERD team. The needs of the local people are assessed. However, because of the lack of technical knowledge, the project is not successful. The management could be done better; the project is not given high priority anymore. In short, the local community was involved, but because of the lack of technical knowledge, the project is almost stopped. Resources are mobilized. There is a government budget available.

### **Build decentralized promotion and support facilities**

The construction of the floating production unit in the ocean is a first step in the process. The cooperation with the community is going well. There is no decentralized promotion and support facility in this region.



### **Build up new and to strengthen existing social networks**

Social networks are built by the seminar. The LERD team is spread all over the country now and is not working in the project anymore. Technological knowledge and skills are needed, but the connection with the university is lost due to the transfer of the university member of the LERD team.

### **Counseling education and training for economic self-help**

Plans are made to cooperate with oyster production companies and set up training in seedling production. No results have arrived of this.

### **Set up public development centers for project development and innovation.**

This step is not addressed in the project

### **Social marketing resp. creating new relations between consumers and producers.**

This step is not addressed in the project. You need a product before you can market it.

### **Promoting new forms of social and/or community oriented enterprises.**

This step is not addressed in the project.

### **Social financing or alternative financing instruments**

There was money available in the form of a government budget.

### **Problems**

The technical knowledge to produce seedlings and pearls is missing. The network is missing in order to get this knowledge. The composition of the LERD team doesn't lead to the best results. Because there is no production yet, other problems like selling the products are not in order yet.

Furthermore, it is difficult to find investors who are willing to set up production facilities in Bima. Local entrepreneurs lack the skills, the knowledge and the money to do so.

The knowledge to inject oysters is very valuable. This is not shared easily.

### **Social financing or alternative financing instruments**

Because some small apple farmers can't live from their apple production, they are forced to sell their harvest even before the trees have any fruit for a price that is much lower than the market price. In order to stop this, apple farmers are giving access to a bank loan with a low interest rate (6% a year).

Government is supporting LERD by directly giving the needed financial support and explaining the need of improvement.

## **Tasikmalaya**

The data of this project, I collected by interviewing several LERD team members, visiting the business of a local entrepreneur, visiting a store and secondary data (Action plan).

### **Analysis of the local economy and social structures**

The product of Tasikmalaya is embroidery. There are many people active in this sector. There are two main ways to produce embroidery: traditional- and computerized production. Both production methods have strengths and weaknesses.

In the computerized production sector, many producers produce the same patterns. The same patterns they already make for a long time. The result is unoriginality and homogeneous products. This leads to low prices.

In the traditionally production sector, the embroidery is done by hand. One of the problems is to find workers who work exactly according to the pattern. This causes quality problems and makes it harder to export the products.

The demand of the products fluctuates during the year. Once every year (just before Idul Fitri) the demand is enormous. After that demands drop till a much lower level.

Entrepreneurs in the region lack the management skills they need to run successful businesses. They earn a lot of money during the peak demand time but use the money for other purposes than their business. What

happens often is that the money is spent on status goods such as a car. In the period following the peak demand, incomes fall back till a much lower level with the result that entrepreneurs can't afford to pay for their car anymore and have to sell it. Mostly they sell it for a much lower price.

Producers in Tasikmalaya have problems with finding sales networks. To solve this, they go to the market in Jakarta to sell their goods. Their spouses expect them to come back with a lot of money. What happens is that buyers in Jakarta offer a low price for the goods, embroidery sellers feel obligated to sell their goods and end up returning home with money. This money is not enough to cover the expenses, but the family is happy for a short time.<sup>4</sup> In general we can see that because of short term thinking no money is created, but rather lost. The embroiderers lack the awareness about the urgency of information to broaden the market.

The LERD project mainly focuses on setting up information facilities that gives producers information about the market and the production process.

### **Make a planning process in which people from all levels are involved.**

Input from people from several levels is given in the local seminar. Giving feedback on the action plans during the seminar is done in front of the eyes of everyone. In a culture where it is very important to be polite and to show respect there is not a real opportunity to give negative feedback. For the socialization process of the project, this is good, but the question whether a more private occasion to give feedback is needed, rises.<sup>5</sup> Fortunately during discussion forums and workshops, input is given as well. The involvement of

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<sup>4</sup> Interview with a local entrepreneur

<sup>5</sup> Interview with the LERD team

people of all levels of the community is not going very well in this region. The organization of the project is done well. Discussion forums and workshops are set up. However, not so many producers did join the project. It could be useful for producers to join the project, but they don't see it this way. <sup>6</sup> Improving the management and leadership in this region could improve the success of this project. What is needed here is management training for the local entrepreneurs and a strong leader to show the need to join the program. <sup>7</sup> Resources are not allocated in time.

### **Build decentralized promotion and support facilities (socialization)**

The socialization process is done by setting up workshops, discussions forums and seminars. The socialization process is not very successful so far. Many embroiderers don't join the LERD project yet. An information centre will be set up that will provide information on embroidery markets. No decentralized promotion and support facilities exist in this project.

### **Build up new and to strengthen existing social networks**

The creation of a LERD team strengthens the connection between the local producers<sup>8</sup>, the university and the local government. Together with the university, the chamber of commerce, the embroiderers and the local government, workshops, discussion forums and seminars are set up.

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<sup>6</sup> "We already make our products this was for a long time. My father did it in the same way and that went fine."

<sup>7</sup> Interview LERD team

<sup>8</sup> Some of them

### **Counseling education and training for economic self-help**

The workshops, discussion forums and seminars give the embroiderers some more information. Training for embroiderers will be set up. (So far it doesn't exist yet).

### **Set up public development centers for project development and innovation.**

Research is done in the university. Furthermore, highly skilled personnel will be attracted to provide technical knowledge.

### **Social marketing resp. creating new relations between consumers and producers.**

This step in the process is not addressed.

### **Promoting new forms of social and/or community oriented enterprises.**

This step of the process is not addressed.

### **Social financing or alternative financing instruments**

This step in the process is not addressed.

## **Problems**

The main problem in this project is the mentality of the entrepreneurs. There is a lack of self development will. People lack a good sales network, lack management skills and lack technological skills to improve their products. Training is needed that will teach entrepreneurs management skills and provide the technical knowledge. Everything is available in the region to make this project a success. However, not so much action is taken yet. There are good plans, but no training has set up yet and also the socialization process is not very successful yet. More research is needed to see how much time the LERD group is working at the project.

## ***The Third Batch***

In the third batch of projects (2006) the following projects took place: Klaten, Serang, Pontianak, Palembang, South East Sulawesi and Gorontalo. I have visited Klaten, Palembang, Serang and Pontianak. Unfortunately I didn't visit the other two projects. The LERD teams in the third batch consist of members of the government, university and private sector.

## **Klaten**

In this region I collected data by observing and interviewing several members of the LERD team. I visited the cooperation, a production location, a meeting with local stakeholders, and the local government.

## **Analysis of the local economy and social structures**

The product that is being developed in this region is metal casting. Klaten has the name of owning the most skilled metal workers in Indonesia.

Although the region doesn't own raw material by itself, most of the metal casting in Indonesia is done here. The raw materials mainly come from Madura, but also from all other regions in Indonesia, China and Malaysia. Scrap (used metal) is used as a raw material. This is metal, already used before that will be recycled in Klaten.

Before the monetary crisis in Indonesia, there were around 5000 people working in the sector in about 270 companies. Because of the crisis, the raw materials became relatively more expensive. Companies could no longer pay both their workers and the raw material. Because of this the amount of people has decreased from 5000 till 3000 people in 2006. The industry has changed (and still is changing) from labor intensive to more capital intensive. There is a mix between micro, small and medium sized companies who all make the same products. At the moment there are 224 companies active in the region, of which 210 companies have joined a cooperative of metal companies (founded in 1976). There are 14 companies who didn't join the cooperation. Most of them simply are not able to make the quality requirements to join. However, a few bigger companies didn't join the cooperative either. The reason for this is that they don't see the advantages of it. These companies possess better sales networks than the other companies. For the cooperative, it would be useful if these companies would join as well.

Most of the companies are family companies. The skills are being transferred from father to son. When the father is too old, he'll transfer the company to his son. When there are more son's in the family, the company often is split up.

The competition between companies is very fierce. Whenever a company has made an innovation and is able to make a product that is new, many



companies start copying it and offer it for a lower price. Protecting the innovation is hard. Innovations are stolen and copied. Raw material is very scarce. The competition is that fierce that order of raw materials often never reaches their destination; Raw material orders are captured by other companies on the way by offering a higher price for it. The company who ordered the raw material sometimes loses customers because deadlines are missed.<sup>9</sup>

After the economic crisis, the market demand is raising and has reached higher levels than ever before. Through the development of new technology, companies are able to fulfill the demand with fewer workers.

The region faces a big challenge.<sup>10</sup> Until today, the region was the only region in Indonesia that could fulfill large orders and make high quality products. Because of this, the region automatically got every large order. In order to protect the national industry, the borders were closed. In 2015, this will change because of new regulations. From that moment, it will be possible for foreign companies to enter the market and compete with Klaten and it will be possible for Indonesian customers to place their orders in foreign companies.

The main objective of the LERD project in Klaten is reducing the competition fierceness. Without cooperation, the region will not be able to deal with large orders. It would be a disaster for the region to lose large orders. Not only do these orders provide a lot of money, they also are important for prestigious reasons. When big companies purchase their metal casting elsewhere, the

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<sup>9</sup> Interview LERD team member

<sup>10</sup> Interview LERD team member from the government

good name of the region will decline and so will the regional metal industry. In order to prevent this, the LERD project is set up.

### ***Production process***

There are different methods used to make the metal casting products: wet and dry sand production. A mall is shaped out of wet or dry sand (that can stand the heat) and molten metal is poured in these malls. When the iron has cooled, the sand is removed and the rightly shaped metal product is taken out. For dry sand production, it's necessary to change the sand every time. Wet sand can be used more often.

There are three different types of machinery used in the sector to melt the iron. The first two use coal, the third uses electricity. The difference between the three types is the temperature they can reach. The higher the temperature, the higher the quality can be. The machine which reaches the highest temperature is far more expensive than the other two machines. However, it has a big advantage. Next to its capability to make higher quality metal, the high temperature it reaches enables it to use metal garbage as raw material. The other machines can't use this because the temperature is not high enough (it leaves to much other materials).

Scrap is very scarce (and quite expensive), metal garbage is much cheaper and available everywhere. Entrepreneurs have the knowledge about where to get the raw material (scrap). The problem sometimes is that it takes government permission to transfer the materials to Klaten.

In order to reduce the competition on scrap (in which raw materials suppliers are hijacked, which leads to missed deadlines etc.) a cooperative is set up that can regulate the delivery of scrap. The price of scrap from that

cooperative is 20% higher than the market price. The quality of the products is lower than the international standard.

An objective is to get the ISO certification in order to standardize the production process. Maybe it will be possible later to produce standard sub parts that can be used for the production of many different products. This can shorten production time, which is good for competitiveness. It also ensures quality for foreign companies.

### **Make a planning process in which people from all levels are involved.**

Involving people from all stakeholder groups is done by organizing meetings in which the progress of the plans is discussed. During these meetings, stakeholders ask questions. The input provided by the stakeholders is used to improve the development plans. An often heard sound coming from entrepreneurs is the question is government will stick to the LERD plan.<sup>11</sup> They are worries that the government will quit LERD when another official takes over a certain job. According to the entrepreneur, this is what happens mostly. Other input like suggestions to make the plans more measurable by using SMART, ideas about regulation and marketing and questions about market development is given. Furthermore, the local and national seminars are more official meetings in which the progress is presented and stakeholders can ask questions and give input. The socialization process in this region went quite well. Almost all companies have joined the cooperative. The companies who joined the cooperative have direct benefits from it. The few companies who didn't want to join don't need the

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<sup>11</sup> This was a question coming from one of the entrepreneurs during one of the meeting. In an interview with the LERD team members, it became clear that this is often heard concern.

cooperative, because they already possess the required networks and knowledge. The leadership in this LERD group is quite strong. The group managed to gain a bit more trust in the government. Resources were mobilized according to the action plan <sup>12</sup> and the management and organization of the project look good. <sup>13</sup>

### **Build decentralized promotion and support facilities**

The socialization process in Klaten is done in a successful way. Almost all companies joined the initiative and are member of the cooperation. Worries about government commitment exist. <sup>14</sup>

A market and product information centre will be set established. This will give input to entrepreneurs about marked needs. Market information will be published via periodicals. Web based information facilities will be made.

### **Build up new and to strengthen existing social networks**

The LERD project leads to more cooperation between government, entrepreneurs and university. There are concerns about the commitment of the local government to continue with LERD. This is improving and government is given more trust after one year LERD. <sup>15</sup>

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<sup>12</sup> Funding for the innovation and information center is hard to find.

<sup>13</sup> Well organized meetings, strong cooperation between government and entrepreneurs.

<sup>14</sup> Interview with cooperation

<sup>15</sup> Interview local entrepreneur

In order to reduce the fierce competition, the local government divides big orders given by large companies (e.g. Panasonic) among the companies in the cooperative. Orders come in at the cooperative. A list of necessary parts will be made. After that, the companies are asked which part they can make. There's internal competition for the assignment to make the parts. Sometimes, more companies work on the production of one part. One year after the start of LERD, the cooperation between the different companies is still developing. Coordination of the sub parts is not going the way it should be. The required technological knowledge is available in the companies and in the cooperation. The cooperation and government are handling the sales network.

### **Counseling education and training for economic self-help**

Next to the division of orders by the cooperation, training is given to entrepreneurs to show the importance of cooperation.

Entrepreneurs ask for training in the field of management.

Training for workers on product quality and quantity control will be set up. Four times for 100 people. Furthermore a molding workshop will be organized. External institutes will be involved to provide technical assistance. Training of motivation achievement/development is set up.

### **Set up public development centers for project development and innovation.**

A center for innovation will be set up to manage R&D processes. Qualified staff will be recruited to be employed at the innovation centre. A problem to do this is a lack of fund.

### **Social marketing resp. creating new relations between consumers and producers.**

The division of orders among many companies can be seen as a social marketing action. Getting orders doesn't seem to be a problem in Klaten.

### **Promoting new forms of social and/or community oriented enterprises.**

The cooperative can be seen as some kind of social/community oriented enterprise.

### **Social financing or alternative financing instruments**

A lower price of energy is lobbied for small and medium enterprises. No other funding initiatives are set up. They don't look necessary either.

### **Problems**

It looks like the region is on the right track to improve the situation. Solutions are found for most problems. The fierce competition is reduced by the cooperative, technical knowledge is sought in external companies, product quality is improved, processes are standardized to improve

cooperation. Trust in the Government is re-established, training is set up. Funding for the innovation and information centers is a bit hard to find. If the production process is improved, a solution for it will be found.

## **Palembang**

Data in this region is collected by interviewing several members of the LERD team, visiting some home production locations, visiting a larger producer, visiting the university, visiting a store, secondary data (action plans, city info)

### **Analysis of the local economy and social structures**

The product from Palembang is Kerupuk Ikan (fish crackers). The product is well known in Indonesia. There are many producers of kerupuk ikan. Most of the production is done in home industry. Most producers are in the grey sector of the economy. Their business is not legal. Because of this, the government doesn't know where to find all producers. In order to make the product, fish is needed. Two species of fish can be used (Belida and Gabus). This fish is coming from the region. The main problem with the use of this fish is that the cultivation of the fish is difficult. This leads to difficulties in increasing the production of the kerupuk ikan. Another fish named Patin could be used as instead of Gabus or Belida. This fish can already be cultivated. There is a difference between Gabus and Patin. Patin contains more fat than Gabus. By cultivating it is possible to control the fat contains of the fish.

Without cultivation of the fish, large price fluctuations exist (500%) This leads to problems for the small home industry producers. Cultivating the fish can sort out the price fluctuations that exist today. For entrepreneurs a stable price is of great importance. Cultivation on bigger scale can ensure that there will be enough resources to cope with the increase in demand because of export.

Because the kerupuk is produced in many different companies and households, the quality of the product varies. Many producers use certain chemicals that are not allowed in the EU. Because these chemicals make the product look good, it is difficult to convince the producers to leave them out of the production process. In order to succeed in exporting the product, the quality of the product has to be increased and the production process has to be adjusted. Regulations exist in countries like Japan and the EU that forbids import of products that used drying of fish in the sun. There already are several producers who produce according to EU regulations. The university people hope to convince all producers to implement these methods in all production sites. Main problem lies in the lack of willingness to change of many producers (because they don't see the advantages) and the focus on just a small piece of the market (just the formal section)

The LERD project aims at introducing a standardized production process which makes the quality of the product higher and suitable for export. Also different parts of the production process like labeling, packaging have to be improved.

Samples of the kerupuk are taken in formal businesses. The University tests the quality of the products and examines it.

The good thing is that more knowledge about what is needed to export exists already. For export, a large quantity of a constant quality is needed.



Gabus and Patin fish is used to produce the product. Because it still isn't possible to cultivate fish like Gabus, increasing the production has some problems. The university still researches the possibility of cultivation of Gabus. Standardization of quality is done by giving small entrepreneurs the same recipe. Entrepreneurs are organized to work together in the selling of their product.

It short, there are several problems with the product itself. It seems that with the help of the university, almost all problems will be solved. (In theory) The socialization process does not work the way it should.<sup>16</sup> Maybe an example of successful export is needed to convince small entrepreneurs of the advantages of it.

Kerupuk Ikan has to deal with another problem; although the city is famous for its fish crackers all over Indonesia, just a small percentage of the crackers are really coming from Palembang. The great name the product has in Indonesia is used (without permission) by producers all over Indonesia.

## **Production process**

The production process also causes some problems that make it harder to export, especially the use of river water and the open air, sun drying of the fish. It is forbidden in many countries to use sun dried fish. Whether or not countries use these regulations to protect their own industries is not important at this point. Indonesian companies just have to deal with it. There are options to change the process. For example by using drying machines. Drying machines are given or sold to entrepreneurs. This

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<sup>16</sup> The largest part of the producers is not involved in LERD. Furthermore, it is not clear for the LERD team where the home producers are located.

improves the hygiene and shortens drying time of the product. Another requirement for export is that products have to be labeled. The label has to show which ingredients are used in the product. Because labeling is not required for the Indonesian market yet, few companies use labels.

Another problem is to keep the products fresh for a longer period of time, which is needed because export increases the time between production and consumption. In order to deal with this, the biggest Kemplang production company in the area will buy a labeling machine and will get access to a new packaging machine. The packaging will ensure that the product will be fresh long enough for export.

### **Make a planning process in which people from all levels are involved.**

This step in the development project is done by the local seminar. Input from some stakeholders is given on this occasion. However, the largest part of the small producers is not involved in the project. For some reason home producers don't see the benefits of joining the project. The leadership in this project is questioned and local producers don't have trust in the government.<sup>17</sup> It looks like resources are mobilized in time.<sup>18</sup> It looks like management and organization in this project could be done better.<sup>19</sup>

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<sup>17</sup> More research about how to involve also the home producers in this project is useful.

<sup>18</sup> At the time of my visit, this project was just begun.

<sup>19</sup> More research is needed

### **Build decentralized promotion and support facilities (socialization)**

Purpose of this step is to involve as many entrepreneurs as possible in the project. Because the main part of the kerupuk ikan producers work in the informal industry (household production), it is hard to involve all producers. The socialization process goes slow. Most producers don't see the advantage of the pushed new production method. Another problem is that the producers don't trust the government.<sup>20</sup> No decentralized promotion or support facilities are set up in this region.

### **Build up new and to strengthen existing social networks**

The LERD team itself improves the connection between the Local government and the University. The connection with the main part of the producers is not really made.<sup>21</sup> Focus of the project is on improving the product itself. No attention is given to the forming of producer groups, stronger cooperation with the producers and similar activities.

### **Counseling education and training for economic self-help**

Some training activities are set up. Training is given to the bigger producers and not to the home industry producers. The university does research on improved production techniques, on the quality of the product and new product innovations like micro-waved kemplang. This product contains only a fraction of the amount of cholesterol of the original product. It is compatible with the demand of fatless snacks in the west. Also technical

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<sup>20</sup> Interview with LERD team members

<sup>21</sup> There is no trust in the government from home producers

knowledge about how to produce according to international standards is provided.

**Set up public development centers for project development and innovation.**

This step in the development process is not done in this project. Innovation is done in the university. Producers could be involved more in the whole project and also in this step.

**Social marketing resp. creating new relations between consumers and producers.**

At this moment, products are made on order. The producers are still dependent on the trader who orders the products. Pricing strategy is used to serve the whole market. 3 different prices and 3 different qualities are sold. Local government promotes the product and tries to set it in the market as a snack as well. Entrepreneurs help with the promotion.

Everywhere in Indonesia krupuk ikan end kemplang are sold with the use of the name of Palembang. Just a fraction of this is actually produced in Palembang. Successful export to other countries already exists too, but this too is not done by people from Palembang. The true problem does not seem to lie in the production of the products only, also the non existing sales network and abuse of the name of Palembang is a big problem. At the moment of my visit, this problem was recognized, but no actions were taken yet to solve it.

### **Promoting new forms of social and/or community oriented enterprises.**

This step is not addressed in LERD.

### **Social financing or alternative financing instruments**

No data about this is available.

## **Serang**

Data in this region is collected by interviewing the LERD team members, visiting production locations, visiting the producers group in one of the villages, visiting the local seminar, secondary data (action plans).

### **Analysis of the local economy and social structures**

The product of Serang is Emping melinjo. This is a cracker made from the melinjo nut. The nut is found all over the region and the product is well known all over Indonesia. There are many people working in the region (mostly women). The production is done in home industry. The production varies greatly in size and quality of the product. Women mostly work in their own house. The main problem here is that there is no sales channel that is good for people in Serang yet. All Emping is sold now to a few big traders who make all the profit. Emping producers are no entrepreneurs but production workers. The whole industry can be seen as a production facility with just a few entrepreneurs. The industry as a whole is making a lot of profit. Unfortunately Serang people don't benefit from this yet. The whole

industry is dependent on a few people who provide the capital and abuse their power to keep the structure the way it is.

The value added in Serang is relatively low. The emping is produced, but the packaging and labeling is done elsewhere. It would be a good idea to create extra value by packaging, labeling and marketing.

Emping already is exported to 14 countries all over the world. Serang is located on a strategic location (very near to Jakarta).

The quality of the products is improved by standardization. The main problem is the dependency on a few traders because of the lack of a good sales channel. Focus should be on the creation of the sales channel. In the Seminar there already was an entrepreneur that exports the product to Europe. This woman lives in another region. The knowledge is available, but not used yet by people in Serang.

### **Make a planning process in which people from all levels are involved.**

The action plans that are made in this region are made with input from people from all levels in the production. Socialization in this region goes very well. The producers are organized in groups. The village head is supporting the project, which leads to a high amount of producers joining the groups. Unfortunately, more research is needed to say something about organization and management.<sup>22</sup> It looks like resources are mobilized in time.

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<sup>22</sup> At the moment I visited this project, the project was just started.

### **Build decentralized promotion and support facilities**

The socialization of the project is done by making an organization of female Emping producers in one village first. The house of the head of the village is used to meet. Almost all producers in the village are joining the project. In a later stage the success of the project will be used to convince other producers to join the project.

### **Build up new and to strengthen existing social networks**

The female workers are organized in a cooperative. Furthermore a new sales channel is set up by the people in Serang to sell the products in Jakarta. The LERD group is working together in this project. University, government and the Emping producers are working together.

### **Counseling education and training for economic self-help**

New production methods are given to the female workers. Technical assistance about new production methods is given by the university. The university is working on a machine that can increase the Emping production.

### **Set up public development centers for project development and innovation.**

This is not addressed in the project yet. R&D is done in the university.

**Social marketing resp. creating new relations between consumers and producers.**

This step is not addressed in this project

**Promoting new forms of social and/or community oriented enterprises.**

This step is not addressed in this project. However, the setting up of a sales channel to sell the Emping in other regions and getting a good price for the products can be seen as a good start.

**Social financing or alternative financing instruments**

This step is not addressed in this project.

**Pontianak**

In this region, data is collected by interviewing the LERD team, site visits and secondary data (action plan)

**Analysis of the local economy and social structures**

This region produces orchids. There are thousands of different orchid species of which many are not even identified yet. West Kalimantan has some unique high value orchid species and the demand is high. The national production of orchids in Indonesia is declining. In West Kalimantan the orchid production is increasing. Both the area of production as the number of



produced orchids is increasing. With a stable price, this leads to an increase in the region's income. The orchid demand in other regions in Indonesia is still fulfilled by import from other countries.

However, the orchid habitat is declining because of forest destruction due to land conversion, illegal logging, trade and mining, the theft of germplasm and forest fires. The declining habitat is threatening some high value orchid species. Both the diversity and the quantity of the orchids is decreasing (*Agriculture agency*)

In order to produce orchids, local businesses need seedlings. The seedlings are grown into full grown orchids and then sold. The seedling production is not big enough to handle the demand of local businesses. This lack of raw material causes the need to import raw material from Java, which leads to higher production costs and a higher sales price (*Entrepreneur*). This is bad for the competitive position of the West Kalimantan orchid producers.

Conventional production methods go slow and produce fewer seedlings than cultivated production based on tissue culture. Production of seedlings with a lot of variety, produced in an orchid tissue culture laboratory and nursery improve the availability of raw material in the region. This can lead to less seedling import from other regions, lower costs and a better competitive position. The number of people working in nurseries already has increased from 3 in 1990 till 78 in 2005. A further increase is necessary to fulfill the demand of seedlings and increase the production capacity in a habitat friendly way.

The local entrepreneurs have a lack of capital to increase production capacity. Business people lack the skills about how to manage a business and market their products. Although the demand for orchids is very high, the local market in West Kalimantan is very small. Furthermore, most

businessmen don't have the sales networks to market their products elsewhere. The quality of the orchids is lower than the orchids from other countries like Malaysia. However, there are some rare species in Kalimantan which can be marketed easily.

According to the head of the LERD group in this region, the LERD project should aim more at creating networks and how to get the technical knowledge that is needed to improve the orchid production. What he learned during the training in the Netherlands is too theoretic.<sup>23</sup> The training itself should help with the networks and technical knowledge creation.

### **Reinforcing the product**

The product is reinforced in multiple ways. On the one hand, the seedling production is increased by setting up nurseries. On the other hand, research and development gives information about the best way to grow orchids. Spreading this information among orchid producers could lead to quality improvement

### **Make a planning process in which people from all levels are involved.**

Stakeholders are mobilized in different ways in this project. First of all, the members of the LERD team themselves promote the program. The businessmen in the team promote the project among other businessmen. Their task is to involve other business people in the program and by that create the will of changing the structure of the industry. Businessmen will buy seedlings that are produced in West Kalimantan in the institution and

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<sup>23</sup> Interview with the LERD team

university laboratory. This way, a virtuous circle is started in which has to lead to higher demand for seedlings from Kalimantan, higher seedling production, higher orchid production, higher income, etc.

Input is given on the local seminar. Giving feedback on the action plans on the seminars is done in front of the eyes of everyone. In a culture where it is very important to be polite and to show respect there is not a real opportunity to give negative feedback. For the socialization process of the project, this is good, but the question whether a more private occasion to give feedback is needed, rises. I don't have enough information about the leadership in this region. The organization of the project is good, the management is less good; what I saw is that all ingredients for a successful project are there, but the LERD team could do more to acquire the required technical knowledge and networks. The project targets the needs of local people, but research is needed to find out if the local people see it this way too.<sup>24</sup>

### **Build decentralized promotion and support facilities**

A nursery is set up in which as many species as possible are collected, identified and researched. The facility is a small building in which 350 species are kept. This amount will be expanded. The scale of this nursery was small in the beginning of the project. Together with the construction of the Pontianak Orchid Centre, the nursery can be a symbol of the new orchid development in West Kalimantan. The goal is to collect, maintain, produce, promote and sell orchids.

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<sup>24</sup> When I visited this project, the project was just started. No real results in the socialization process were achieved yet. The action plan did contain good ideas.

Another way to mobilize people is by performing promotional activities. The local government made orchids the icon of west Kalimantan. This is done on cooperation with the governor for extra support.

### **Build up new and to strengthen existing social networks (networking)**

Networks are created in several ways. Of course, the cooperation of government, universities and business people in the LERD team creates new and strengthens existing networks. Next to that, the Borneo Orchid Show (BOS) is organized as an annual event to promote orchids in Kalimantan. Businessmen from Malaysia, Thailand and Singapore are invited. BOS is followed by a seminar (discussion) about conservation, cultivation and market opportunities. In 2007 four markets are organized to promote ornamental orchids (and other flowers).

In collaborating with universities, training will be set up to educate the society in west Kalimantan about the importance of the orchid.

Also training for small and medium entrepreneurs will be set up to train them in orchid production. Training for nursery- and laboratory staff will be set up to improve the research on orchid production. This can lead to an increase of quality and quantity of orchid production.

Businessmen will be supported in marketing and distribution through exhibitions like the Borneo Orchid Show, the agro and food expo Jakarta and the ornamental plants exhibition.

### **Counseling education and training for economic self-help (training activities & empowerment)**

There are several actions planned in the field of training and empowerment. The university member of the LERD team discussed with the dean of the agriculture department and the rector of the university the possibilities to use the university expertise. The university can provide training.

Training in marketing skills for entrepreneurs is needed. Also information exchange with other companies who are dealing with management and marketing is needed. No concrete training was set up one year after the start of the program.

Local people will be educated in how to sell their orchids and the importance to not burn the forest and destructive harvesting through training and giving information.

### **Set up public development centers for project development and innovation. (Innovation and development)**

The local government will facilitate and support the activities in the tissue culture laboratory.

Training for nursery- and laboratory staff will be set up to improve the research on orchid production. This can lead to an increase of quality and quantity of orchid production.

### **Social marketing resp. creating new relations between consumers and producers.**

A promotion program will be set up. This program consists of writing articles in agriculture/horticulture magazines, promotion on internet, leaflets/brochures and electronic media.

The Borneo Orchid Show, the agro and food expo Jakarta and the ornamental plants exhibitions in West Kalimantan are organized.

### **Promoting new forms of social and/or community oriented enterprises.**

Businessmen will buy seedlings that are produced in West Kalimantan in the institution and university laboratory. This way, a virtuous circle is started in which has to lead to higher demand for seedlings from Kalimantan, higher seedling production, higher orchid production, higher income, etc.

### **Social financing or alternative financing instruments**

The government will provide some funds and hopes that foreign investors will be attracted so mass production through tissue culture can be initiated.

### **Problems**

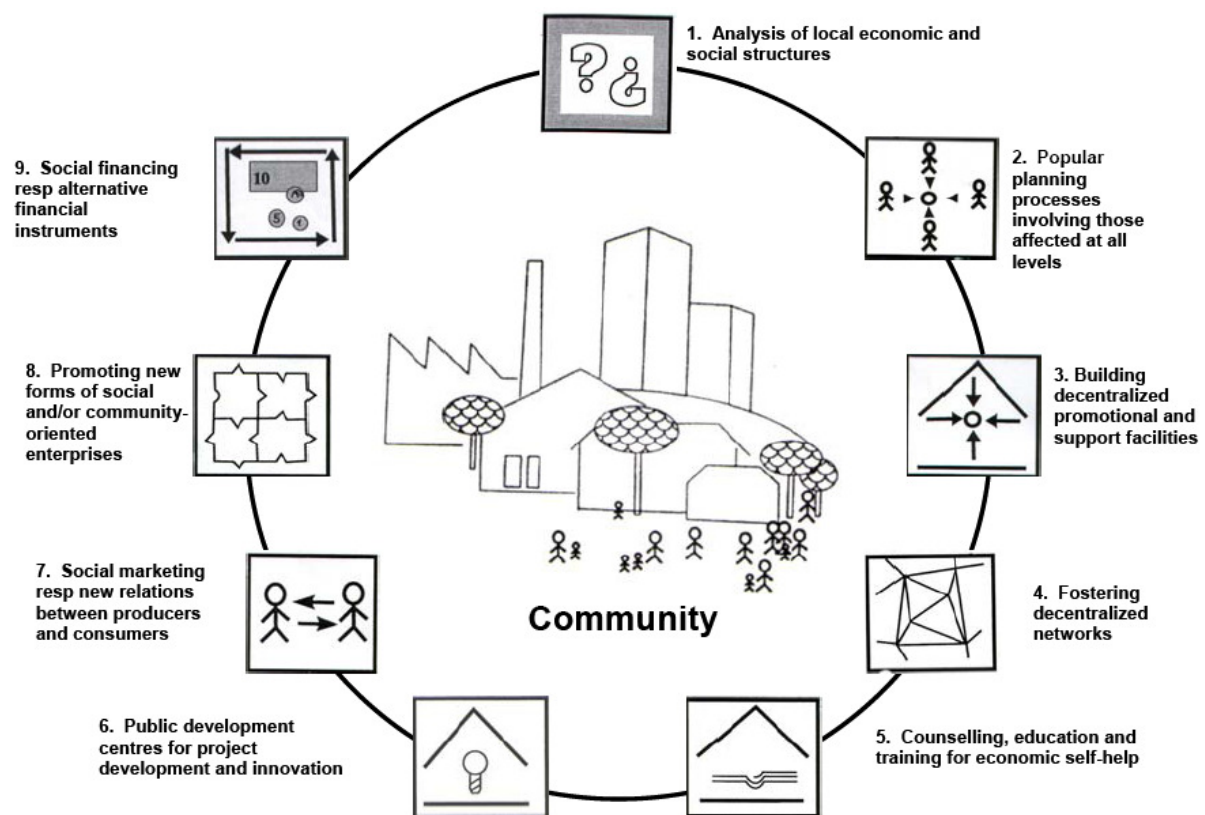
So far the expansion of the flower center goes very slowly. The facility is not used at all in the improvement of the flowers yet. It could be a big

opportunity for research on the different species. At the moment orchids from other countries are stronger, which gives the Pontianak flowers strong competition. The nursery could help producing a bit more of very rare and valuable flowers too.

There is a lack of technical knowledge about how to improve the flowers. LERD gives no input or technical assistance. The LERD group does not deal with the problem. Therefore the development stops. Solutions to get the required knowledge should be sought by the LERD team. Here is the biggest problem: the region is looking for help from outside, instead of developing from within. The attitude should be changed.

## ***All Cases together***

Now all cases have been described, I will use the results of all cases and compare them with the theory. Again the model of ideal development of Birkholzer (2005) is used.



### **Analysis of the local economy and social structures**

The analysis of the local economy and social structures is done in a good way in every project and it doesn't form a problem in any of the projects. The main problems in the regions are addressed and targeted. However, in



the earlier editions of LERD, sometimes the university trainers in the Netherlands had a different picture in mind of the situation in the regions. The description given by the LERD team was not sufficient for them to know the situation. In the later editions of LERD this problem is solved by adding field visits of the Dutch trainers to the project. A difference between the theory and the practice of LERD is that Birkholzer's most important point is that local stakeholders have to develop themselves. Money is the last step in the development process and is never leading. In the cases we saw that LERD teams sometimes waited for government funds before certain actions were taken. According to the literature, it is better to teach the LERD team members that the money will follow. This should be added in the training sessions.

### **Make a planning process in which people from all levels are involved.**

The making of action plans with input from all stakeholders is done in every region with a formal local seminar. The formality of the seminars is good to show the stakeholders that the projects are supported by many stakeholders and therefore is good for the socialization process. However, this makes it more difficult for stakeholders from all levels to give input in the plans. Fortunately in most projects this is solved by organizing less formal workshops, discussions etc. Burns & Taylor (2000). Bjaras, Haglund e.a. (1991) indicate five indicators that strongly influence the community participation process: needs assessment, leadership, organization, resource mobilization and management. This is what we saw in the case descriptions as well. In the regions with the highest community participation (Klaten, Batu, Serang), the needs of the local stakeholders are met, the strong leadership in Batu helps to involve all local stakeholders. In the regions

where the socialization process is less successful (Palembang, Tasikmalaya), we see that there either is a problem with the leadership, organization and or management. In Bima the organization of the project causes that the technical knowledge is missing. Furthermore, the LERD team is not working together anymore. One often heard sound from local entrepreneurs is that they have no trust in the government. It takes strong leadership to show those people that it is in their best interest to join the program. In some cases it takes a long time to mobilize the required resources.

### **Build decentralized promotion and support facilities**

In some regions actually a location is assigned for promotion and support. The socialization process is done on many different ways. However, in Kalimantan and Bima a real location is build. These locations are not used by entrepreneurs/producers/farmers to come together, but for research and production. In other regions (Serang, Batu, Klaten) an existing location is used to organize the local entrepreneurs/farmers/producers. These regions also have a successful socialization process. In other regions (Tasikmalaya, Aceh, Palembang) no decentralized promotion and support facilities are set up. Based on this data, the regions that have a central place where the local producers/entrepreneurs/farmers meet each other have a more successful socialization in the region. The literature is confirming this. The LERD training should address this.

### **Build up new and to strengthen existing social networks**

To start, the composition of the LERD team helps in the creation of the network between the government, the university and the private sector. In

the projects where this network is sustained, there is a positive effect on the division of knowledge and the implementation of the action plans. In the project where the LERD team didn't stay connected (Bima), the project failed to acquire the technological knowledge that is needed to make the project successful. Sometimes, the LERD team members are not really working on LERD anymore on a regular base after some time<sup>25</sup> (Tasikmalaya, Bima). If the LERD teams are working together as a team (Batu, Klaten, Serang) and are truly involved, this has a positive effect on the progress in the projects. In almost all projects, the building of new social networks is difficult<sup>26</sup>. Only in Serang, it looks like the LERD team will set up the network they need. One thing that is difficult in all projects is to set up a social network that provides the needed technological knowledge. In most cases the knowledge is (at least partly) available at the involved universities (Palembang, Batu, Tasikmalaya, and Serang). In Bima the required knowledge is missing completely. In Pontianak, the technological knowledge is partly available at the university, but more technical knowledge is needed here too. In Klaten and Aceh the required knowledge is coming from other sources. Although the connected universities do have at least part of the required knowledge, the lack of technological knowledge is a problem in most of the projects. It looks like the network should be strengthened. In Klaten a web based information facility will be set up.

In the theory we saw that LERD is a combination between Growth Pole and Network theory. The projects are targeting one specific region. Growth pole models (Perroux, 1955), are based on the principle that increasingly

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<sup>25</sup> Not during the normal working day. Interview with the LERD team.

<sup>26</sup> I have to be careful with this conclusion, because i visited the projects early after the start. The first focus in the projects is on improving the products. More research is needed on this.

sophisticated production in a single sector drives economic growth in linked sectors throughout a local and regional economy;

The regional cluster or network model is based on the fact that clusters of businesses (small and bigger), households, technical assistance organizations etc reinforce each other. They can all benefit from each other's skills and presence. The main idea is clusters of businesses, each with their own expertise together are driving forces in development of the region.

On the one hand, LERD focuses on one specific sector (fish crackers e.g.), while on the other hand, the program is developed bottom up. Action plans are made by people from the specific regions. Local entrepreneurs join the LERD teams. Some efforts are done to make connections with other clusters (value adding activities are set up sometimes) but this stays very limited. In my opinion sometimes more success could be realized by making more connections between different sectors. An explanation give by one of the members of LERD<sup>27</sup> is that financial resources are not sufficient to set up projects in multiple sectors in the same region. The hope is that the copy culture makes sure that successful projects are copied in other sectors. Financially it might not be possible to expand the project in other sectors as well; connecting the sectors that LERD is targeting could be an alternative that could have a positive of the outcomes of the projects. More research is needed on this.

The LERD team can be seen as a bridging network that establishes contact between different stakeholders. In time this can lead to a stronger social network which can have a positive effect on LED. LERD sets up a Public-private-university collaboration (also known as triple helix). According to

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<sup>27</sup> Interview with the LERD team In Klaten

triple helix theory (Saad, Etzkovic, 2002), the main goal of collaboration between government, entrepreneurs and universities is to improve innovation in the region. This means that it is very important for the LERD team members to work together closely. Unfortunately in some regions the LERD teams are not cooperating as tight anymore (Bima, Tasikmalaya). The regions with the LERD teams that work together tight (Klaten, Batu, Serang), show the best results. Sometimes the LERD team members don't spend time on LERD anymore, but continue their normal job.

According to Birkholzer (2005) formalized local partnerships and cross-border partnerships in which experts are brought in contact with local actors, also enhance the social capital. The input of knowledge from the experts leads to more knowledge of the local actors. In the LERD project this means that expert organizations could be linked to the people in the projects in order to enhance social capital. This is something that deserves attention.

### **Counseling education and training for economic self-help**

In most regions some kind of training is set up. The scale and the target of the training vary per project. In all projects, there is a lack of technical knowledge in some level. In some projects this lack of technical knowledge is slowing the project down (Pontianak) or even stopping it in total (Bima). Also in most projects there is a lack of management skills. Sometimes management training is set up (Klaten, Batu). Quite often there are plans to start training, but the training is not started yet (Tasikmalaya, Pontianak, and Bima). Reasons for this are unclear. Sometimes it takes a long time before the government budget is available. In some projects, local

stakeholders wait for help from outside to develop (like foreign investors or government funds). Actually a lot can be accomplished when they see that there is a lot to improve by themselves.

Endogenous growth theory states that innovation is the way to develop a region. Education and training are good ways to develop innovation (Agion, Philippe and Howitt, 1998).

Empowerment and capacity building can change people who have a lack of self esteem and think they can't improve the bad economic situation they are in at the moment. (Chanan, 1992; Ronnby 1994; Craig/mayo, 1995)

LERD tries to empower people in the targeted region by showing them that they can change it when they work for it. In LERD this is a central theme. In LERD empowerment is done by giving technical training, entrepreneurship training, organizing farmers in farmer groups, providing starting capital, changing power distributions, lower dependency of people by creating networks, giving entrepreneurs new market knowledge. The LERD team starts with a series of training and education activities and the team is counseled by members of the university during the whole implementation process. These activities are limited to the LERD team itself in the project. It is up to the LERD teams to set up training activities for the actors in the field, which should lead to the empowerment of local actors. It is this step that needs attention in some projects. Empowerment is one of the most important steps in LERD. In several regions there are plans to set up training, but after one year the training didn't start yet.

### **Set up public development centers for project development and innovation.**

This step is not addressed in some projects. In most projects, the university plays a role in the research and development process and possesses useful technical knowledge (Serang, Palembang). In Klaten and Pontianak development centers are set up. In the rest of the projects, no centers for project development and innovation are set up. Because almost all projects cope with lack of technical knowledge, it seems like more attention should be directed to this.

### **Social marketing resp. creating new relations between consumers and producers.**

Social marketing is something that is not done in the projects. Marketing in general is a problem in most projects because there often is a lack of a sales network.

### **Promoting new forms of social and/or community oriented enterprises.**

A social enterprise acts like a private enterprise, but also focuses on social and/or community oriented objectives of public interest. They mobilize private initiatives and resources like any other company, but do this for the common good. Furthermore they reinvest the profits in the community and they trade on the market on a basis of mutual reciprocity and cooperation (Birkholzer 2005; Mannilla 1996; Borgaza & Santuari 1998; Grove et al 1998; Birkholzer et al. 1998; Pearce 2003; Castelli 2005). Reinvesting

money in the community can lead to spin off effects. These effects can be supply chain effects, multiplier effects and also replication effects because of copying the program in other sectors in the region.

LERD doesn't target this step yet. However, in a few projects (Serang, Pontianak) some kind of social or community oriented enterprises are set up. In Serang it is done in the form of a sales network, so that local producers will get a much better price for their products. In Pontianak, the entrepreneurs involved will use the Pontianak grown orchids. It looks like this has a positive effect on the projects. More research about this is needed.

### **Social financing or alternative financing instruments**

Funding is arranged in some projects by providing some kind of micro credit when needed. This makes the farmers/producers involved less dependent on short term cash. In all projects the government provides a budget to realize the planned actions from the action plans. In most projects, the financing is not the biggest problem. Of course more access to financial sources could speed up the development process. It is more important that people realize that it isn't all about the money, but that taking initiative and positive thinking will lead to results. The money will follow.



Analysis of the local economy and social structures	<p>The analysis of the local economy and social structures is done in a good way in every project and it doesn't form a problem in any of the projects. The main problems in the regions are addressed and targeted.</p> <p>In the earlier editions of LERD, sometimes the university trainers in the Netherlands had a different picture in mind of the situation in the regions. In the later editions of LERD this problem is solved by adding field visits of the Dutch trainers to the project.</p> <p>A difference between the theory and the practice of LERD is that that local stakeholders have to develop themselves. Money is the last step in the development process and is never leading.</p>
Make a planning process in which people from all levels are involved.	<p>Socialization of the plans is done in formal and informal ways; Formal by the local seminar and less formal discussions and workshops. The success of this depends on the five indicators that strongly influence the community (needs assessment, leadership, organization, resource mobilization and management) (Burns &amp; Taylor, 2000, Bjaras, Haglund e.a. 1991)</p> <p>Sometimes the LERD teams are not working together anymore after some time. It is very important for the success of projects that the LERD teams keep working together.</p> <p>One often heard sound from local entrepreneurs is that they have no trust in the government. It takes strong leadership to show those people that it is in their best interest to join the program. In some cases it takes a long time to mobilize the required resources.</p>
Build decentralized promotion and support facilities	<p>In most regions no decentralized are set up. In some regions actually a location is assigned for promotion and support. In the regions that have a decentralized place where entrepreneurs/university members and government people can meet, the socialization process is more successful.</p>

<p>Build up new and to strengthen existing social networks</p>	<p>The composition of the LERD team helps in the creation of the network between the government, the university and the private sector. In the projects where this network is sustained, there is a positive effect on the division of knowledge and the implementation of the action plans. In the project where the LERD team didn't stay connected, the project failed to acquire the technological knowledge that is needed to make the project successful.</p> <p>Sometimes, the LERD team members are not really working on LERD anymore on a regular base after some time. If the LERD teams are working together as a team and are truly involved, this has a positive effect on the progress in the projects.</p> <p>One thing that is difficult in all projects is to set up a social network that provides the needed technological knowledge. In most cases the knowledge is (partly) available at the involved universities.</p> <p>Although the connected universities do have at least part of the required knowledge, the lack of technological knowledge is a problem in most of the projects. The network should be strengthened.</p> <p>LERD is a combination between Growth Pole and Network theory. The projects are targeting one specific region. Growth pole models (Perroux, 1955), are based on the principle that increasingly sophisticated production in a single sector drives economic growth in linked sectors throughout a local and regional economy;</p> <p>The regional cluster or network model is based on the fact that clusters of businesses (small and bigger), households, technical assistance organizations etc reinforce each other. They can all benefit from each other's skills and presence.</p> <p>Financial resources are not sufficient to set up projects in multiple sectors in the same region. Connecting the sectors that LERD is</p>
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	<p>targeting can be an alternative that can have a positive effect on the outcomes of the projects.</p> <p>The LERD team can be seen as a bridging network that establishes contact between different stakeholders. In time this can lead to a stronger social network which can have a positive effect on LED. This means that it is very important for the LERD team members to work together closely. Unfortunately in some regions the LERD teams are not cooperating as tight anymore. The regions with the LERD teams that work together tight show the best results.</p> <p>Sometimes the LERD team members don't spend time on LERD anymore, but continue their normal job.</p> <p>Expert organizations could be linked to the people in the projects in order to enhance social capital. The input of knowledge from the experts can lead to more knowledge of the local actors and to better results.</p>
Counseling education and training for economic self-help	<p>In most regions training is set up. The scale and the target of the training vary per project. Not in every region sufficient training is set up.</p> <p>In all projects, there is a lack of technical knowledge in some level. In some projects this lack of technical knowledge is slowing the project down or even stopping it in total. In most projects there is a lack of management skills.</p> <p>In some projects, local stakeholders wait for help from outside to develop. More could be accomplished when local stakeholders see that there is a lot to improve by themselves.</p> <p>LERD tries to empower people in the targeted region by showing them that they can change it when they work for it. In LERD this is a central theme. The LERD team starts with a series of training and education activities and the team is counseled by members of the university during the whole implementation process. These activities</p>

	<p>are limited to the LERD team itself in the project. It is up to the LERD teams to set up training activities for the actors in the field, which should lead to the empowerment of local actors. It is this step that needs attention in some projects.</p>
<p>Set up public development centers for project development and innovation.</p>	<p>In just a few regions, public development centers are set up. No data about the successfulness of these development centers is collected in this report.</p> <p>However, because almost all projects cope with lack of technical knowledge more attention should be directed to this.</p>
<p>Social marketing resp. creating new relations between consumers and producers.</p>	<p>Social marketing is something that is not done in the projects. Marketing in general is a problem in most projects because there often is a lack of a sales network.</p>
<p>Promoting new forms of social and/or community oriented enterprises.</p>	<p>A social enterprise acts like a private enterprise, but also focuses on social and/or community oriented objectives of public interest. They mobilize private initiatives and resources like any other company, but do this for the common good. Furthermore they reinvest the profits in the community and they trade on the market on a basis of mutual reciprocity and cooperation (Birkholzer 2005; Mannilla 1996; Borgaza &amp; Santuari 1998; Grove et al 1998; Birkholzer et al. 1998; Pearce 2003; Castelli 2005). Reinvesting money in the community can lead to spin off effects. These effects can be supply chain effects, multiplier effects and also replication effects because of copying the program in other sectors in the region.</p> <p>LERD doesn't target this step yet. However, in a few projects some kind of social or community oriented enterprises are set up. In the form of a sales network organization or by letting existing companies use regional produced goods as input for their production process. It</p>

	looks like this has a positive effect on the projects. More research about this is needed.
Social financing or alternative financing instruments	<p>In all projects the government provides a budget to realize the planned actions from the action plans. In most projects, the financing is not the biggest problem. It is more important that people realize that taking initiative and positive thinking will lead to results. After that the money will follow.</p> <p>However, access to financial sources could speed up the development process. Sometimes micro credit is provided for the local farmers/producers involved. This makes them less dependent on short term cash and has a positive effect.</p>

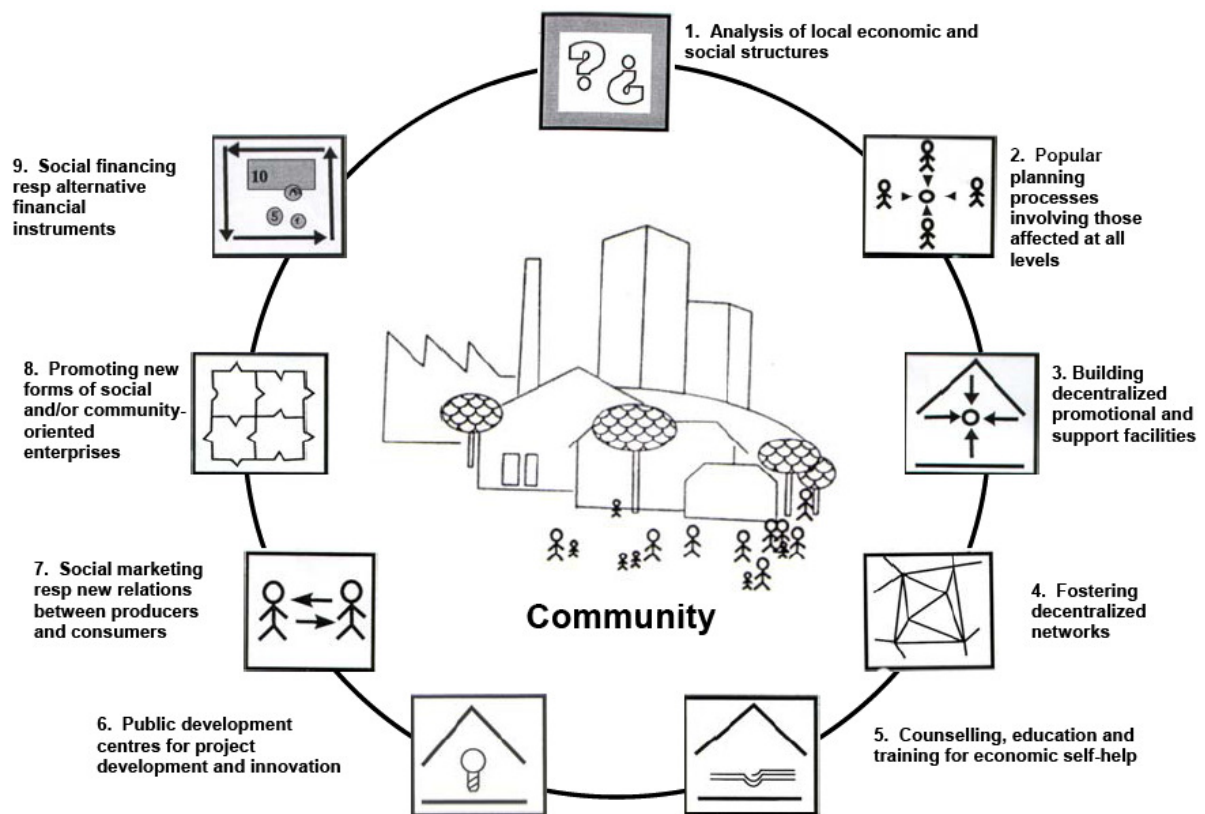
## ***Chapter 5 Conclusions and Discussion***

This report has given an overview of the total LERD project in theory and in practice.

The LERD project is a development project that is based on the PARUL approach. LERD knows 2 phases: the development and the implementation phase.

In general, the LERD projects are set up in a good way according to the literature about LED. Some fields can be given some more attention in order to improve the outcomes.

Again, I'll use the model of ideal development to structure the conclusions.



1. Phase one is building ground in the community (Step 1-4)

2. Phase two is further community development (step 5-7)

3. Phase three is establishing a working community economy (step 8-9)

### **Phase 1: building ground in the region**

More attention should be given to the socialization of the project

There are large differences between the successfulness of the socialization process. In the literature we saw that 5 factors have a big influence on the process: needs assessment, leadership, organization, resource mobilization

and management. The most successful regions have a strong leader and manage to show the usefulness of the joining the project to the local people. Also the involvement of entrepreneurs in the LERD team seems to have a positive effect on the socialization process. The regions that have more private sector members have more success in the socialization. Showing local farmers and producers the advantages of joining the project is very important. Input from the private sector (entrepreneurs) in the LERD team gives a better understanding of what local people want. Some more entrepreneurs should be added to the LERD teams to improve the socialization. However, this info is based on observations and interviews early in the LERD projects. More research is needed to improve the validity of these results.

In the organization of LERD some things can be changed. An important thing is to change the LERD group interaction. One of the goals of LERD is to create the connection between government, entrepreneurs and universities. The LERD groups form the link between these three. But the way LERD is organized now, fails to create a stable connection. The success of the projects totally depends on the LERD groups. These are the driving forces in the projects. The selection of the LERD team members also is a very important aspect. Sometimes, LERD team members' job does not fit their role in the project. Quite often, the LERD team members don't operate as a team anymore after the first year. The idea of LERD is to create cooperation between government, universities and entrepreneurs. The LERD team would form the first link. Commitment of LERD team members is an often encountered problem. Now, LERD is organized is on voluntarily basis. It is not part of the normal job of LERD team members. There also is no financial reward for efforts in LERD or achieved results. Commitment can be created by adding a (financial) reward to achieved results. Also by making LERD a

more integrated part of the job of government employees and university professors. They should have time to work on LERD. In my opinion commitment of the LERD team members combined with being on the right place (e.g. the university member should be working in the department that has technical knowledge about the product that is chosen for LERD) should get more attention in the next projects.

For the entrepreneurs, it should be rewarding to work on LERD by getting access to knowledge. Higher commitment of the LERD groups could also lead to a higher socialization of the projects among the stakeholders. More active LERD groups can make the difference between reasonable results and success.

## **Phase 2: further community development**

Human capital is something that has to be developed in every region. Short term thinking and lack of entrepreneurial knowledge are problems that are seen in almost every region. A small amount of money right now is considered more favorable than a much larger amount of money next week. Sometimes earned money is spent on things that are irrelevant for the company, but that do provide status (like a car). The most important problem however is the ability to develop from within.

I think that training should be organized on bigger scale in the projects in order to maximize spin off effects, creation of human capital, reduce short term thinking of entrepreneurs. This is a long term process.

The training given in LERD does not really address the field of innovation. In my opinion this is a chance for further improvement in the following projects.



The problems that are most difficult to solve in LERD are problems concerning networks and technical knowledge. Earlier we saw that LERD is some kind of mixture of the growth pole theory and the cluster/network theory. Because of the lack of financial sources to set up LERD in a more wide way, the projects are set up separately. That means that processing industry still has to be linked to the production of raw materials. The inability to set up processing industries (e.g. Aceh coffee production industry), fits the staple trap theory. In my opinion it is a very big advantage that developing countries have and can use to develop. Being able to produce products for 1/20 of the sales price elsewhere in the world provides the chance to make large profits. In almost every project you can see that the real profit goes to the exporters and the big companies who possess the link and network to other regions in the world combined with knowledge about that market.

LERD is a good opportunity to provide information about foreign markets and to create a sales network. The LERD training could also focus more on this aspect.

Technical support groups are missing in the projects so far. Technical knowledge is supposed to come from universities. In some cases the knowledge is missing. Availability of the required knowledge should be considered already in the selection process. And the training should address how to get technical knowledge if it is not available yet. Also more focus on knowledge sharing between the different projects could be useful. Using a web-based network could make a connection between the involved universities and LERD groups that can help transferring the required knowledge to the right regions. More research is needed on this.

### **Phase 3: establishing a working community economy**

This report has not much data about phase 3 of the project. At the moment of data collection, it was still early in the projects time span. Not much attention is spent on the activities of phase 3 yet. However, the projects are set up in a way that leads to multiplier effects. For the production of products, local resources are used. It is sure that this has positive effects within the region. It is assumable that people, who get more money, spend it within the same region and by that create multiplier effects.

When it comes to financing, a problem that is common in LERD is the long time to organize budgets in local governments. This slows down the progress of the projects. Sometimes LERD teams can't continue because of the lack of money. (Of course this is not totally true, they can go on with the project, but government budget shows that there is commitment from the government. This is important for stakeholders to cooperate in the projects.)

No attention is given to social enterprises in LERD. More research about how social enterprises can contribute to the development of region is recommended.

## ***Recommendations:***

- Give more attention to the socialization of the project by using the 5 factors (needs assessment, leadership, organization, resource mobilization and management) in a better way. Select people for the LERD teams who can listen to the local people, show strong leadership, organize well, have the power to mobilize resources and possess management skills.
- Do more research on the effect of involving more entrepreneurs in the LERD teams on the success of the socialization process.
- Create a more stable link between government, entrepreneurs and universities by changing the group interaction between them. Ideas to do this are:
  - make LERD less voluntarily and let it become a substantial part of the daily job of government and university team members.
  - Give (financial) rewards for achieved results.
  - For the entrepreneurs, it should be rewarding to work on LERD by getting access to knowledge and networks.
  - Make sure that the university team members work in the faculty that has access to the required (technical) knowledge.
- Training should be organized on bigger scale in the projects in order to maximize spin off effects, creation of human capital, reduce short term thinking of entrepreneurs. This is a long term process.
- LERD training should include the following aspects:
  - Innovation

- how to get info about foreign markets and to create sales networks.
- how to get technical knowledge if it is not available yet
- Improve the access to technical knowledge and access to networks by using information technology. A good way to do this is to build a website connected to an extranet on which all involved people can log in and interact. All universities, local governments, entrepreneurs involved in the LERD project together with selected NGO's will have access to the extranet.

Possibilities:

- Share knowledge (such as literature and technical knowledge)
- Work together to make LERD a success.
- Place and download written and spoken training that can be used in all regions so that is just has to be developed once.
- Interact with people from all involved universities
- Find potential export partners
- Get the technical knowledge that is missing to develop the products.
- Exchange contact information of possible business partners
- Post questions that will be shown to several NGO's
- Potential business partners from all over the world will be able to see the product you posted on the network.

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