

THE MAPPING OF LOCAL ECONOMIC DEVELOPMENT IN DECENTRALIZED GOVERNANCE ERA

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ABSTRACT

This paper summarizes the relationship between decentralized governance and local economics development, and the mapping of LED's concept at the country that implemented decentralized governance model. This paper seeks to (a) Understand what is the LED's concept compare with the Decentralized Government for Development (DGD) concept, (b) Describe the impact of the DGD's implementation in Indonesia base on the past research from some experts; and (c) Informing some comprehensive program and projects which better be conducted for to reach the main goal of MDGs: eradicate poverty.

As a relatively new literature overview, the paper thus grapples with the many research or empiric experience conducted by many expert some time ago, and concludes with three prerequisite in implemented the LED's concept was combined with DGD's concept which is expected will be able to add the understanding about local economics development concept at the government that applying decentralized governance model.

Keywords: *Decentralized governance, local economic development, human development, poverty alleviation*

INTRODUCTION

Since year 2000, some region in Indonesia change over status become 'province', it is related to Laws 22/1999 and 25/1999 about Decentralized Governance and Region Autonomy.

According to Mardiasmo (2002), elementary things are found on both two regulations: 'the efforts of strengthen society empowerment, initiative & creativity developments, enhanced the role of societies and the role of Parliament (DPRD) development functions'. While especially target of giving of this status according to Saad, Ilyas, (2003), is to improve government's service to society so that can be quicker, effective & efficient in conducting economic activity, where efficacy of local government measured and proved by improvement 'economic activity of resident' and to the number of 'area investment'.

Moreover, both Laws give regulation framework on authority decentralization of government. It means, local government have fully authority to developed their region or have fully authority to doing their local economic development in the same direction with national economic development goals.

Besides, in related with poverty, Mishra and Islam, (2002), said that, decentralization is the general perception is that decentralized governance will bring about more effective poverty alleviation program by bringing the government closer to the people and by creating a conducive environment for more efficient public service delivery mechanisms.

Unfortunately, recent evaluations on the link between decentralization and anti-poverty policies in developing countries suggest a rather ambivalent picture. Often, the local decision-making machinery becomes prone to capture by elites in the absence of a well-functioning legislature, a robust civil society and a free press. Besides, whether by design or default, central governments tend to display re-centralizing tendencies. Case studies of decentralization highlight examples of countries that undertook them too fast and on too wide a scale without any clear strategic intent, and usually in a turbulent context of political and economic crises.

The current decentralization agenda in Indonesia displays characteristics that are uncomfortably close to the cases of 'failure' documented in recent evaluations. It is proceeding in the context of ethnic conflicts and political uncertainty stemming from the secessionist tendencies of resource-rich provinces. It is occurring in the wake of a deep economic recession and dwindling fiscal resources. It is moving ahead without a clear vision of how decentralization will support the government's core mission of eliminating poverty.

One of the most critical has been the unclear distribution of functions between the central government and the regions. Decentralization has also raised the prospect of further increases in inequality. The fiscal structure of decentralization has been designed largely to accommodate the demands of the better endowed regions – their 'aspiration to inequality'. This has also contributed to a proliferation of new regions with bad impact; create high economic cost through local taxes, with the reason to increase regional income.

The current system makes it advantageous for better endowed areas to break off as new districts, partly because they qualify for the basic lump sum given to every region, but mainly because they

then have less responsibility to share their resources with their neighbors. For example, in 1998 Indonesia had 319 regions. By January 1, 2004 there were 472 regions: 32 provinces and 440 districts. In addition many districts have introduced a large number of new taxes: by 2003 there were over 2,000 new regulations on local taxes

Briefly, in related with local economic development, these all condition tends to make unfavorable business climate that impact local investment reduction, decreased the rate of local economics growth, and in so far means that local economics development fail to enhance the social welfare of local peoples, and their prosperity, or fail to achieved the entire goals of local economics development on decentralization era.

Formulation of the Problem

From some descriptions above, we know that the performance of local governments in Indonesia, at decentralization era, not yet gratified; means almost entire local governments, not yet successful execute decentralized governance. Anticipated several things as its cause factors, are estimated that many agents of development do not yet understand the whole context of local economics development concept and decentralized governance.

Shortly, formulations of the problems divided by two premises, as follow:

Premise Minor: How far the relationship between Decentralized Governance concept and Local Economics Development concept?

Premise Mayor: How to map the Local Economics Development concept was combined with the Decentralized Governance concept?

Purpose of the Study

Intention of these studies is to describe both premise, and then related with premise mayor we try to formulate the correct way in executing LED's concept in Decentralized Governance Era - in the form of conceptual framework that mapping those ideas

Benefit of the Study

Giving information for decision makers, concerning best solutions to determine and implement local economic development through decentralized governance.

Giving contribution for enrichment a theory, shown until how far endowment from some former study or theories which be used, along change of dynamics social life, economic, politics, and culture

Result of the study, can be used by all academicians or other researcher, to be developed or be built a new theory that matched with situation and condition in this current time.

THEORETICAL FRAMEWORK

LED: Definition and Goals

According to Townsend's, Peter (2004), 'economic development' describes a basket of activities undertaken by central and local government which have the common goals developing local economies and creating employment; as a set of policies, economic development is sold as being able to benefit everyone, socially, environmentally and financially.

While, Local Economic Development (LED) is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all (Townsend, 1979).

Hence practicing local economic development means working directly to build up the economic strength of a local area to improve its economic future and the quality of life of its inhabitants. The success of communities today depends upon them being able to adapt to the fast changing national and international market environment (Bertelsmann Stiftung, DFID, London, 2003).

Besides, Blakely, Edward (2000), describes the detail goals of local economic development - divided by three goals, as follow:

1. *Build quality jobs for the current population*

The thrust of economic and employment planning is to build employment for the resident of the community. This is preferable to relying on approaches that attract new employers who may require a different set of skills that can be developed with the resident labor pool. It is important to rethink job generation by starting with supply side (who are our population, what skills do they bring, what kind of jobs might best fit them, etc.)

2. *Achieve local economic stability*

Local economic development will be successful only if the community has a specific approach to meet all the needs of business (i.e. land, finance, labor, infrastructure, technical assistance). If community wants to obtain and retain jobs, it must have all its economic resources and socioeconomic data available in an organized form.

3. *Build a diverse economic and employment base*

No community with single or set employers is safe from fluctuating employment. Regardless of whether the community is high tech or low tech, it must have a broad base to provide continuing employment opportunities for residents. As firms become global, it is important for every community to develop regional strategies to create a web of economic and social infrastructure that will act as hubs for global firms.

In so far, according to Puljiz Jaksa (2004), the main reasons in favor of the LED approach are the following

1. The "top-down" approach proved to be unsuccessful in solving complex development problems
2. The best knowledge regarding local problems, local needs, local resources, local development potential, as well as local motivation for promoting change, exist on the local level
3. It is of fundamental importance that the local community sees its place in the future has its

development vision and development goals and participates in their implementation.

4. Shortly, local economic development is thus about expanding the choices people have to lead lives that they value. And it is thus about much more than economic growth, which is only a means - if a very important one - of enlarging people's choices.

Moreover, Anup Shah (2006), ensure that a successful development can imply many things, such as:

1. An improvement in living standards and access to all basic needs;
2. A stable political, social and economic environment, with associated political, social and economic freedoms, such as equitable ownership of land and property;
3. The ability to make free and informed choices that are not coerced; and be able to participate in a democratic environment with the ability to have a say in one's own future; and
4. To have the full potential for what the United Nations calls Human Development.

Hence, how far local economic development embrace human development paradigm, or in another word, is there any link between human development paradigm and local economic development?

The human development approach adopted by UNDP in 1990, basically argues that people are the real wealth of a nation and hence the basic objective of development should focus on enlarging people's choices through the creation of "an enabling environment for people to enjoy long, healthy, and creative lives". The human development concept is very broad - encompassing almost every aspect of human life - from freedom of expression, to gender equality, to employment, to child nutrition, and to adult literacy. Rather than trying to educate people and keep them healthy in order to provide a better workforce, for example, or to boost economic prosperity, they should instead try to help men, women and children to lead richer and more fulfilling lives (HDR, 2004).

Furthermore, there are four essential components of the human development paradigm, as follows (Indonesian Human Development Report, 2004) :

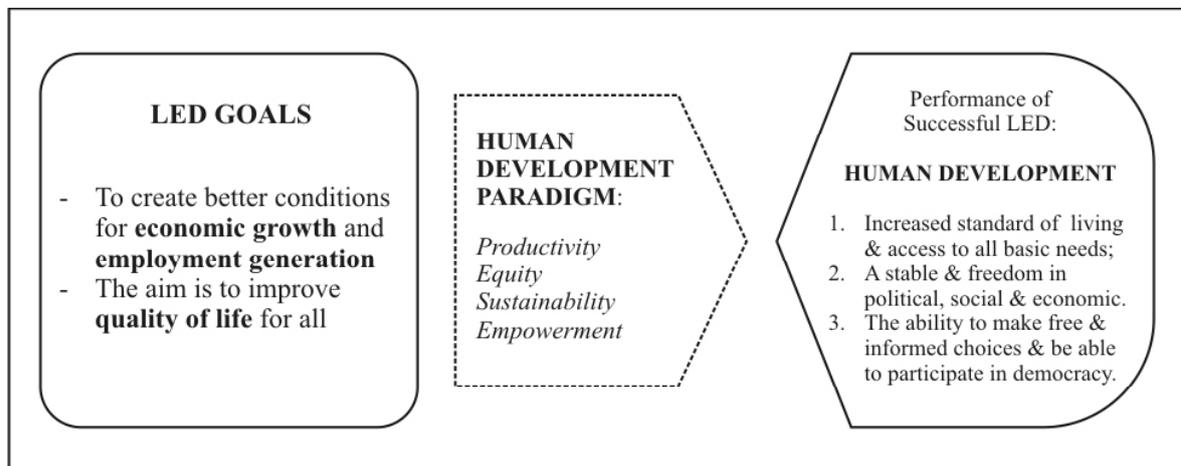
1. *Productivity*. People must be enabled to increase their productivity and participate fully in the process of income generation and remunerative employment. Economic growth is, therefore, a subset of human development models.
2. *Equity*. People must have access to equal opportunities. All barriers to economic and political opportunities must be eliminated so that people can participate in, and benefit from, these opportunities.
3. *Sustainability*. Access to opportunities must be ensured not only for the present generations but for future generation as well. All forms of capital - physical, human, environmental - should be replenished.
4. *Empowerment*. Development must be by the people, not only for them. People must participate fully in the decisions and processes that shape their lives.

Briefly, the human development is about much more than the rise or fall of national incomes. It is about creating an environment in which people can develop their full potential and lead productive,

creative lives in accord with their needs and interests.

In conclusion, based on the clarifications above, we can figure the link between local economic development and human development, which can be seen in figure 1.

Figure 1: The Goals of LED and Human Development

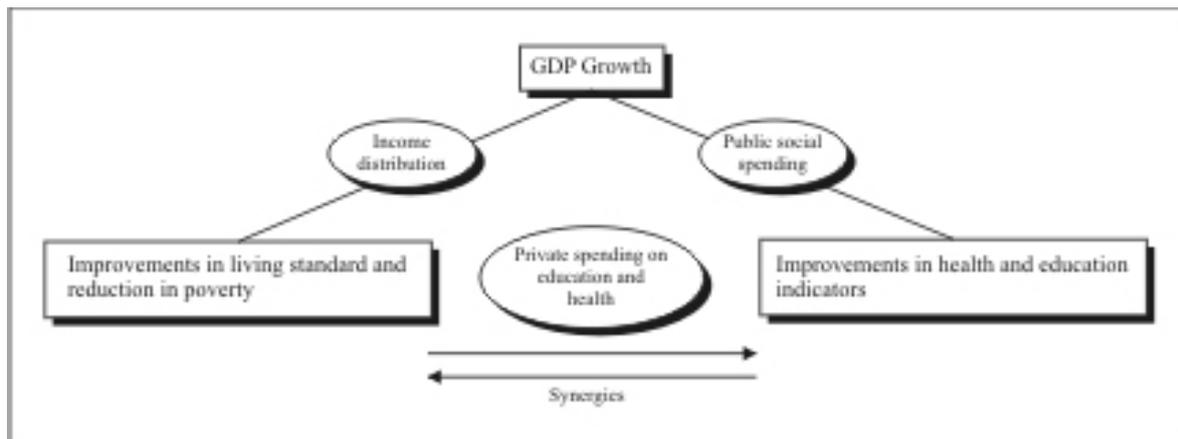


In addition, related with local economic growth, there are various pathways to achieving human development, but some are more useful than others - depending on the particular circumstance of a country and its development priorities. Local economic growth can lead to human development first by raising overall living standards and reducing poverty and second by increasing the government's capacity to spend more on education, health care and various poverty-focused programmed.

Neither of these links between growth and human development can be taken for granted. The former link will depend on the quality of growth in terms of income distribution. The latter link will depend on the government's spending priorities.

Besides these pathways, the various dimensions of human development have synergistic relationships, reinforcing one another's impact. It is important therefore to achieve appropriate combinations of public support in each of these areas. This is not easy. But the rights-based approach can help since it demands the active participation of the beneficiaries themselves. They tend to have a much better appreciation of how best to use limited resources in an optimal manner. Civil society organizations can also play an important role, especially when public spending is inadequate (Indonesian Human Development Report, 2004) (see figure 2).

Figure 2: Pathways to Human Development



Source: HDR 2000

LED: Linked with Decentralized Governance

According to CIDA (2004), the implementation of Decentralized Governance in Indonesia - through the Laws 22/1999 and 25/1999 on January 1, year 2001, fundamentally altered the conduct of intergovernmental relations in Indonesia.

Under Law 22/1999 on “Regional Government,” district (city and county) governments became the central focus of autonomy, with district heads becoming responsible to local assemblies. Responsibility for many policies and programs were transferred from the central to the district level. These included health, public works, education & culture, agriculture, transportation, investment, the environment, and industry & trade. District governments were assigned residual responsibility for all programs not specifically assigned to the central government or provincial governments.

Law 25/1999 on “The Fiscal Balance between Central and Regional Governments” established a system of revenue sharing consistent with the new assignment of responsibilities. This law is the basis for new intergovernmental transfer arrangements, including revenue sharing, general and special allocation funds for the districts, and other tax sharing (CIDA, 2004)

So, what are the link between LED and decentralized governance?

Hence, both Laws give regulation framework on the authority of decentralization government. Thereby, local government will have more authority and more responsibility in managing their regions. In other word, local government have fully authority to developed their region without ignore the national development goals determined by central government, or have fully authority to doing their local economic development in the same direction with national economic development goals.

More over, UNDP Executive Board, 2003, gives the general meanings of Decentralized Governance for Development (DGD), underlined on three understanding (UNDP, 2003):

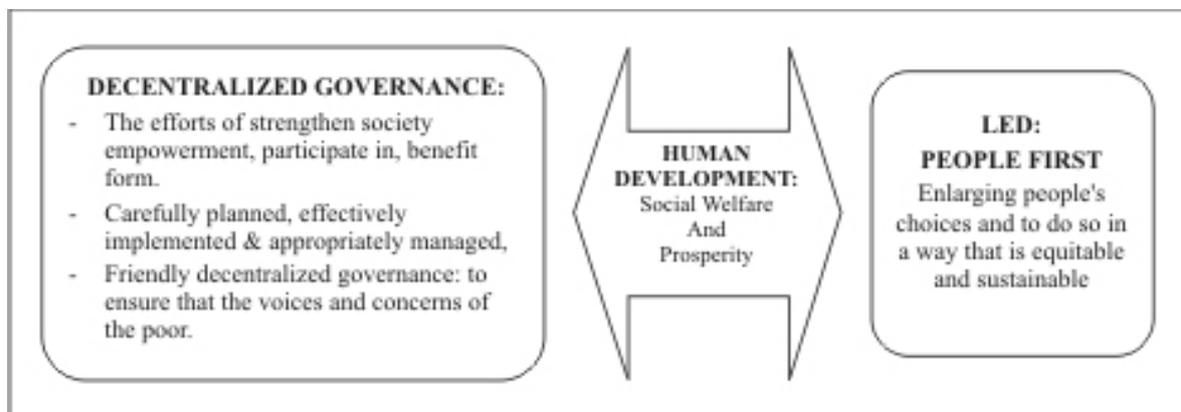
1. Decentralized Governance for Development, comprises empowering of sub-national levels of society to ensure that local people participate in, and benefit from, their own governance institutions and development services.

2. Decentralized Governance, carefully planned, effectively implemented and appropriately managed, can lead to significant improvement in the welfare of people at the local level, the cumulative effect of which can lead to enhanced human development.
3. DGD is not a panacea or a quick fix. The key to human development - friendly decentralized governance is to ensure that the voices and concerns of the poor, especially women, help guide its design, implementation and monitoring.

Decentralization is a necessary, but not a sufficient condition for local governance. The same relationship exists between local governance and local development and between local development and poverty reduction.

Based on the description above, we can conclude that in execute decentralized governance; every aspect of their work local officials should put people first - considering them not as means but as ends. So every activity is it investing in roads, or granting licenses for mining or building new health facilities, should aim to enlarge the choices available to the whole population, and to do so in a way that is equitable and sustainable (Indonesian Human Development Report, 2004). Hence, execute decentralized governance, it means practicing local economic development to increase the values of human being toward social welfare and economic prosperity (see figure 3).

Figure 3: The Link between LED and Decentralized Governance



LED: Partnership and Collaborative Process

LED initially started being practiced in the 1970s because local governments and other local stakeholders realized that highly mobile capital was moving between jurisdictions. So, by actively examining local economic base, understanding obstacles to growth and investment, and by strategically planning programs and projects to remove obstacles and facilitate investment, communities sought to grow their economic and employment base (DFID, 2003)

The next question is who does Local Economic Development?

Successful private enterprises create wealth, jobs and improved living standards in local communities. Private enterprise, however, depends on favorable local business conditions to achieve prosperity. Local governments have an essential role in creating favorable environments for business

success and job creation. Hence, local economic development is thus a partnership between local government, business and community interests.

In so far, because of each community have unique local conditions that can help or hinder its economic development, so in order to build a strong local economy, each community can undertake a collaborative process to understand and act on its own strengths, weaknesses, opportunities and threats (SWOT analysis) (DFID, 2003).

Briefly, in developing local economics, community needs a collaborative process as a partnership between all stakeholders, such as local government, private sectors, non governmental organizations (NGO), community base organizations (CBO), donator/creditor, shareholders, expertise and so on. Without partnerships, developing local economic going to failed. For certain, local government it self, does not yet have capability to create and execute local economic development (LED) strategy, both on 'moral' or 'material' reasons.

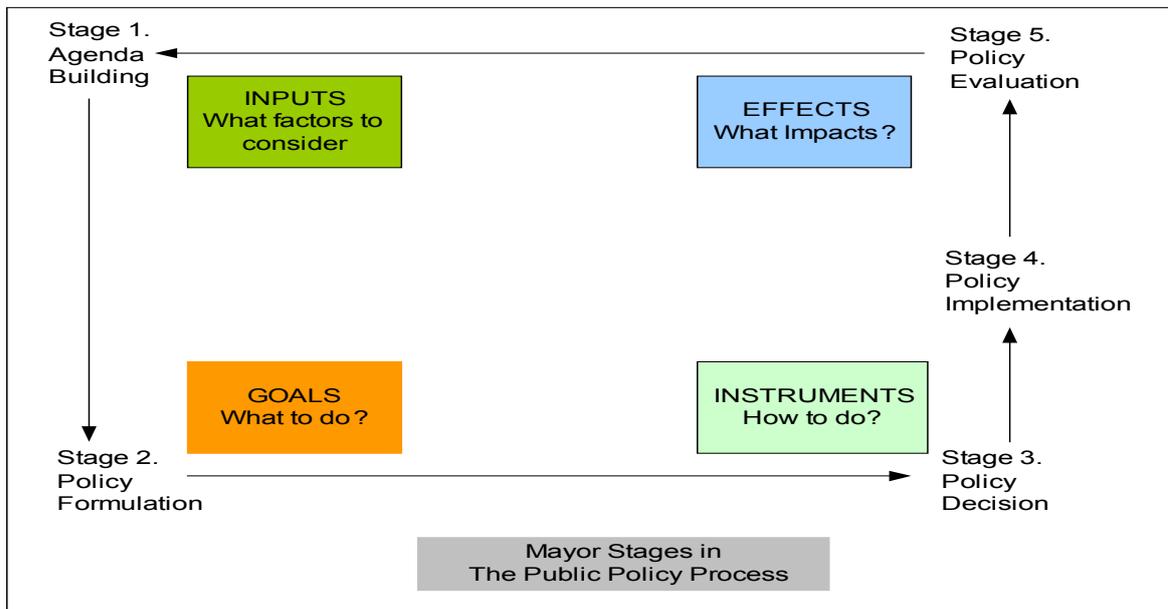
Moreover, when preparing LED strategy or determining local public policy, they must ensure that all stakeholders can participate actively and with sufficient information at all stages – agenda building, formulation, decision, implementation, and evaluation or monitoring. Participation will necessarily be diverse in form and shape, but one of the most important requirements is to ensure that people have institutions (legal and otherwise) that enable them to become fully involved (Indonesian Human Development Report, 2004)

In related with this matter, William C. (1992), mentioning some key element in public policy process, these are:

1. *Inputs*, or various factor that influence public policy development, for example political pressure of parliament, macro economic condition, new technology development, etc;
2. *Goals*, in this case concerning freedom values, democratize, prosperous and fair opportunity, which improve social welfare and poverty alleviation.
3. *Instruments*, is various equipments that be used to achieve public policy target, for example in budget negotiation, is focused on income rise, reduce individual tax, improve automotive tax, tobacco tax, etc.
4. *Effects*, in execute public policy, sure give impact, some of expected and intended, while the other not be expected or not be wanted to happened (see figure 4).

In conclusion, because LED is so comprehensive, it involves all stakeholders. When communities first start LED, they usually create a team within the local government. The team normally works with stakeholders to develop public-private partnerships. Sometimes the program can start as a public-community-private sector partnership.

Figure 4: Mayor Stages and Key Elements in the Public Policy Process



Moreover, in this partnership any organization who interested in local economic development, must take is decide on the role it wants to play in the development process. Organizations have constraints derived from their current or historic roles or set by charter. It is always difficult for an organization to go beyond its mandate.

Therefore, the role definitions must precede any attempt to shape local economic environment. These roles are: to act as the entrepreneur, coordinator, facilitator, and/or stimulator of local development initiatives (Blakely et al., 2002).

1. Entrepreneurs/developers

- The organization takes on the full responsibility of operating a business enterprise
- Local government or community based organizations (CBO) may decide to operate commercial enterprise them selves
- Both rural and urban local government have found new ways to promote small business and other enterprises by better use of existing facilities and opportunities

2. Coordinators

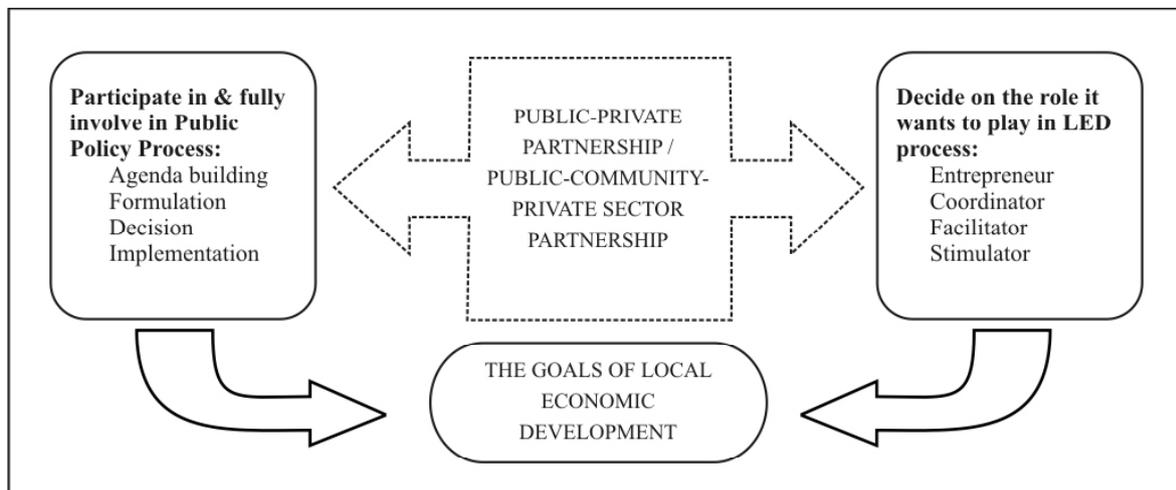
- A local government or CBO can act as a coordination body to establish policy or purpose strategies for an area's development
- Because services delivered by both governments and by community and business organizations have local impact, local councils are increasingly attempting to provide some leadership in the planning and coordination of services within their areas.
- An extensions of this role to LED: on collecting and evaluating economic information; working with other government agencies, business and community interest to evolve economic objective, plan and strategies
- All sectors focus their approach and resources in similar goals and that limited resources are used in more effective ways.

- Ensure consistency with state economic programs and strategies so that local economy receives maximum benefit from them.

3. Facilitator

- Some community groups and/or local governments have decided they can best promote development by improving the environment in the community area. This might involve streamlining the development processes and improving planning procedures and zoning regulations
- A city or community group may bring together a range approaches from different functional areas into a policy statement on economic development. It would provide a focus for the local governments
- Local council members, can advocate local concerns and bring economic problems and opportunities to the attention of higher levels government.

Figure 5: Partnership and Collaborative Process



4. Stimulator

- Both community and city councils can stimulate business creations or expansion by taking a specific action that induces firms to enter or remain in the community. Stimulation may range from developing brochures to actually building industrial estates or small manufacturing workshop.
- The issue whether the council should or should not act, but what action to take and how to take it.

In conclusion, all stakeholders become the agent of local economic development, which work through partnership and make collaborative process between them in order to execute the goals of local economic development (see figure 5).

LED: Government Policies and Business Climate

Jakša said that local economic development is the process of transforming the local economy and broader society with the aim of overcoming existing difficulties. It seeks to improve the living conditions of the population by means of consensus-based actions among different social and economic local actors to take advantage of endogenous resources by promoting local business capacities (Puljiz Jaksa, 2004).

Meanwhile, in related with promoting 'local business capacities', WCBSD (2004), said that the policy makers determine the conditions in which business operates; consequently, local governments play a key role in companies success. Enterprise urgently needs support from policy makers, focusing efforts on creating the right conditions for development - oriented business initiatives to take root and grow. The fight against poverty calls for bold and innovative strategies. Framework conditions are the single most important factor affecting business investment.

By contrast, business prospers in a competitive market-based economy. Where the investment climate is favorable, entrepreneurship flourishes. This enables companies, large and small to thrive and secure a return on their investment, strengthening the local economic fabric/structure and maximizing development benefits. Tackling these areas will have multiplier effects on development (WBCSD, 2004).

Therefore, evaluating local economic development policies is important, not only because of the billions of dollars of resources involved, but also because economic development activity is clearly one of the most important functions of state and local governments in a decentralization system. Distinguishing between strong and weak claims for the effects of some proposed policy in providing economic development benefits is clearly crucial in having well-functioning state and local governments. (Bartik, Timothy J., 2002)

Blakely, also said that the key to good climate is in determining what kinds of regulatory and policy tools will facilitate business development. He formulates 'the new concept' of four components local economic development, as follows (Blakely, 2002).

- a. Locality, a quality environment and strong community capacity multiply natural advantages for economic growth
- b. Business and Economic Base, clusters of competitive industries linked in a regional network of all types of firms create new growth and income
- c. Employment Resources, comprehensive skill development and technological innovation lead to quality jobs and higher wages
- d. Community Resources, collaborative partnerships of many community groups are needed to establish a broad foundation for competitive industries.

In order to support these components, WCBSD, strongly advocate focusing investment on government improvement into three activities. The aim is not only improves the business environment but strengthens human rights. The three activities, described as follows (WBCSD, 2004).

- a. A strong regulatory and legal framework

A robust overall regulatory and legal framework to promote and uphold the rule of law is essential. Likewise, security of tenure and property rights are critical, especially since it is the

very poorest who suffer most from their absence. Policymakers and government representatives ought to continue to consider issues such as transparency, good governance, equality before the law, a fair and independent judiciary and contract enforcement.

An environment which does not have onerous bureaucracy is conducive for grassroots entrepreneurs, local enterprises and overseas firms, bringing new jobs, technology transfer and reversing the brain drain. Stable, sound macro-economic policies are also an important prerequisite. Creating a level international playing field for trade is also imperative to realizing the latent power of business. Unfair tariffs must be abolished, markets liberalized and the benefits of trade opened up to developing nations.

b. Building the capabilities of local enterprises

Building up infrastructure and promoting education are investments that benefit people. It means, encourage targeting resources toward building SME capacity and investing in human capital through training and strategies for the retention of skilled workers. A vibrant SME sector is the key to wealth creation.

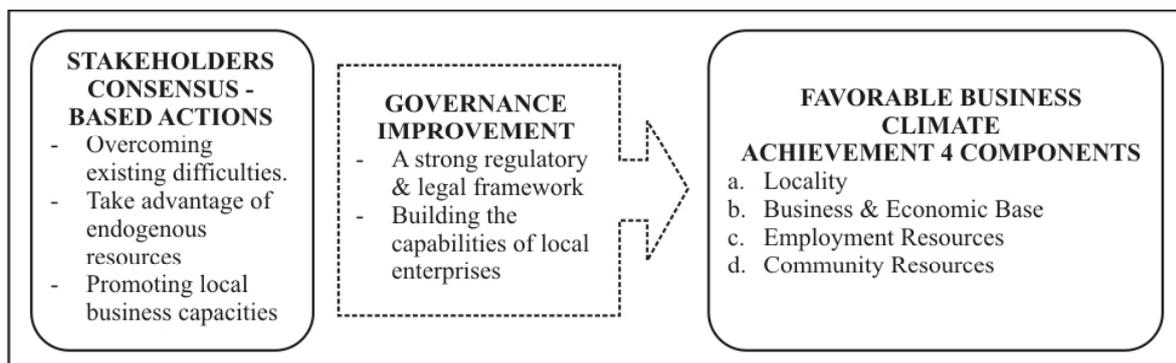
c. Core infrastructure

Improve investments in infrastructure such as roads, ports and above all energy to provide support for economic growth. Water, energy and health are priorities to meet the needs of the poor. Public and private investment in appropriate infrastructure is imperative to facilitate trade and economic activity. Little can be achieved however when individuals and economies lack basic infrastructure. For none of the Goals will be achieved without adequate energy provision.

Based on the clarifications above, we know that there is interrelation between favorable environment and the successful business enterprise. This favorable condition must supported by strong regulatory & legal frame, the capabilities of local enterprises and better infrastructure. But in case that community lack of favorable condition, to build it, needs more and more time and very expensive. So, this is not easy matter, but can be achieved.

Hence, the role of public-private partnerships or public-community-private sector partnership, in this case, become extremely important, because it is not possible if the whole program could executed by local government it self without assistance from all stakeholders

Figure 5: LED and Business Climate



Local Economic Development: The Feature and Social Responsibility

Local economic planning is based on a number of key concepts that are still unfolding because the direction of the process is not yet fixed. Mean while, local economic development, as an area of practice, remains a collection of historical activities and reactions to current circumstances that guide its course. Hence, although circumstances associated with local economic development are still quite diverse, the following salient features are truly developmental and thus important for all planners to consider (Blakely et al. 2002).

1. Targeting Zones of Action

- This central idea recognizes geography of employment and economic distress. There is a need therefore to direct resources, concern and energy to specific localities irrespective of what macroeconomic or social policies are pursued.
- LED programs are design to intervene in the right place at the right time, affecting both people and place irrespective of political boundaries

2. Capacity Building

- Building Community - Level Institutions For Development:

Locally relevant institutions and organizations can traverse political, economic and social barriers in both the public and the private sectors in order to promote development. These institutions are inclusive, bringing together community actors who can effect change. Their mandate is to locate the capital necessary to combine with existing resources as the base for economic development

- Expanding Local Ownership:

Creating new business or retaining existing ownership in a community is important because local firm form the base for development headquarters and use local resources, both human and physical, in their operation.

3. Human Building.

- Building Quality Jobs.

Attracting firms is not only always equivalent to improving circumstances in the community. It is important to determine which jobs “fit” the local populace while offering opportunities to increase skills to competitive levels, both currently and in the future. As an intervention in the market system, LED thus increase the potential for secure jobs, which in turn stabilizes the community both economically and socially.

- Linking Employment and Economic Development Policies and Programs:

Public resources can be used to improve the link between jobs available and people available to work. There will never be a perfect match, but there can be better matches.

4. Financial Building:

- Public/Private Venturing

Whether in government or in the neighborhood – is the combining of the (financial) resources of the public sector and the private sector in just the correct balance to attain objectives neither could attain alone.

- Merging The Resources of The Social Welfare System:

Corrective measures attempt to merge welfare and job skills formation into the same projects, for example, by using welfare payments as wage supports in various economic developments programs.

In conclusion, the key feature is the recognition of the capabilities and resources of local people. It depends on the self-help mentality of the community. Hence these features reflect of social investment responsibility that must carried out by all development agent or all stakeholders, in determine policy decision and implemented.

By contrast, in corporate business, there are similar situation, that known by corporate social responsibility (CSR). CSR is usually related to sustainability, green issues, the use of resources and an organization's relationship with the environment when conducting business. CSR activities have effects on the workforce a variety of ways such as on health and safety, the use of child labor, employment and training opportunities for marginalized segments of the labor force, and the reputation an organization has a good employer, personnel practitioners have a role to play in all issues pertaining to the professional management of the organization's resources, not just obvious people issues. Corporate Social Responsibility, refer to a company's obligation to society at large - emphasizes the benefits to social groups outside the business. Three kinds of resources which used by companies in conducting their business (WBCSD, 2004)

1. Financial resources: investment dollars and sales revenues, etc
2. Environment resources: water, energy, raw materials, etc
3. Social resources: community employees' time and talents, and infrastructure provided by government agencies

Therefore, based on these statements above, various roles from each stakeholder as a planners and executors of local economic development, is expected can create socially investment responsible - as does corporate social responsibility (CSR).

Moreover, in related with 'social responsibility', Weber, Savitz, (2006), formulate the concept of Corporate Sustainability, as how business can prosper financially while protecting and renewing the social, environmental, and economic resources they need – and how they can fail if they do not tend to those resources.

In other word, corporate sustainability is the way to grow their economics without destroying the environment or sacrificing the well-being of future generation. In consequence, a sustainability corporation is one that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts. Besides, a sustainable business stands an excellent chance of being more successful tomorrow than it is today, and remaining successful, not just for months or even years, but for decades and generations. Sustainable organizations and societies generate and live off interest rather than depleting their capital.

Capital, in this context, includes:

- *Natural resources*: water, air, sources of energy and foodstuffs
- *Human and social assets* – form worker commitment to community support.

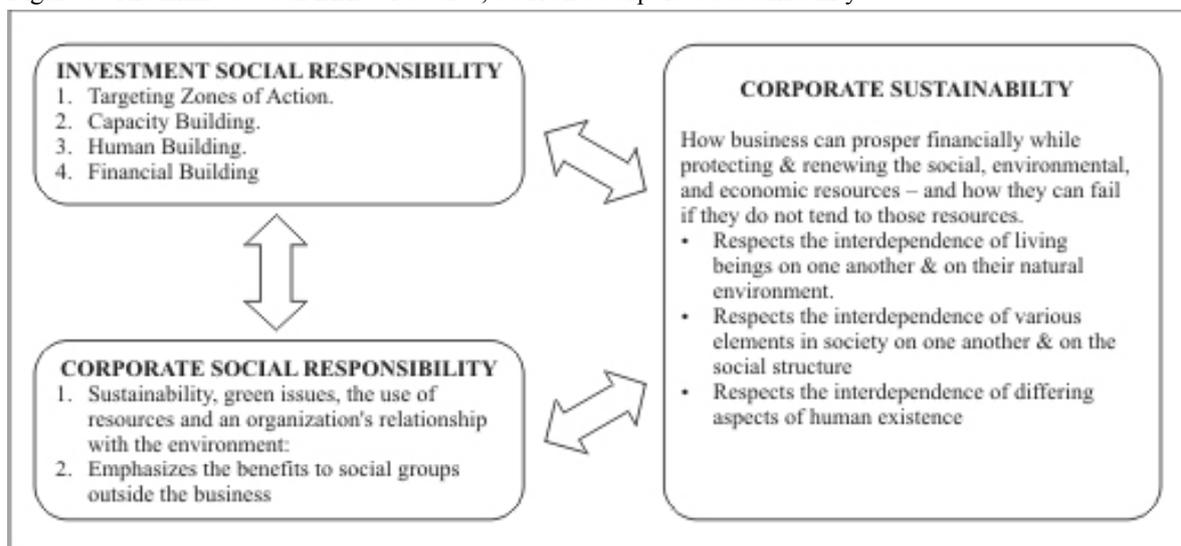
- *Economic resources*: a license to operate, a receptive marketplace, and legal and economic infrastructure.

Sustainability in practice can be seen as the art of doing business in an interdependent world (Weber, 2006).

- Respects the interdependence of living beings on one another and on their natural environment, means operating a business in away that causes minimal harm to living creatures and that does not deplete but rather restores and enriches the environment
- Respects the interdependence of various elements in society on one another and on the social fabric/structure, means operating a business in away that acknowledges the needs and interest of other parties (community groups, educational and religious institutions, the workforce, the public) and that does not fray but rather reinforces the network of relationships that ties them all together.
- Respects the interdependence of differing aspects of human existence. Economic growth and financial success are important and provide significant benefits to individuals and societies as a whole. But other human values are also important, including family life, intellectual growth, artistic expression, and moral and spiritual development, means operating a business so as to grow and earn profit while recognizing and supporting the economic and non economic aspirations of people both inside and outside the organization on whom the corporation depends.

Briefly, base on the clarification above, we can figure the relationship between LED's features, CSR and corporate sustainability (see figure 6).

Figure 6: The Link between LED's Features, CSR and Corporate Sustainability



LED: Strategy and Doing Business with The Poor

Business plays a central role in creating opportunities for empowerment and development. Business cannot create the right investment climate. It is for policy makers to follow through their

commitments with consistent and effective action. This will require steady, long-term commitment, action and coherent strategies that intimately involve the private sector.

Given the right incentives, business-led solutions can help accelerate the pace of development efforts considerably. By focusing development efforts on creating supportive investment climates in developing countries, governments can provide an innovative way to leverage their collective resources and capabilities.

For business to embrace development, an enabling environment is needed. This is true for the entire spectrum of business from micro entrepreneurs to large corporations. This environment must include a transparent, effective, and honest legal system, access to affordable credit, and access to technology not hampered by trade tariffs and barriers. In consequence, local economic development must carefully planned, effectively implemented and appropriately managed, such as UNDP say.

According to DFID, local economic development should always begin with the formulation of a strategy. The LED strategy is a critical component of any community's planning process. Ideally the strategy should form a component of a broader community-wide strategic plan. There are five stages strategic planning process in Local Economic Development (DFID, 2003).

1. Organizing the Effort by Developing a Management Team & Partnership Network

LED depends for success on the collective efforts of all stakeholders. The strategic planning process begun by identifying the people, public institutions, businesses & industry, civic organizations, private professional organizations, and training institutions & other groups with vested interests in the local economy. The skills and resources that each stakeholder group brings to the process make up the critical foundation of the strategy process.

Establishing working relationships and structures that fully engage stakeholders in the process should also lead to beneficial long-term. These working relationships can range from a process of relatively informal collaboration through working groups to the establishment of a regional development authority in local government or a constituted public-private partnership.

2. Doing The Local Economy Assessment (LEA)

Knowing the context of the local economy is crucial to help the stakeholders strategize for the future. The analytical boundaries of LEA should not be limited by an administrative jurisdiction such as a municipality, but rather defined by the economic relationships in a geographic area, such as the metropolitan region or a city and its rural hinterland.

A preliminary LEA will use available quantitative and qualitative knowledge of the sources, structures and trends in production and employment, skills, and other resources to help identify the strategic direction for the local economy. The LEA must also identify public, business and non-governmental resources; collect and analyze or critical new quantitative and qualitative information; and establish knowledge management systems for future use in monitoring and evaluation.

In the preliminary study, data collection (first step), the level and depth of data will depend on its availability, budget and nature of the local economy. While the tools which can be used for LEA, are SWOT analysis, benchmarking and regional economic indicators. This information (result) will also point towards projects and programs that will strengthen the economic base of the local area. (See also Local Economic Assessment Package (Arc Leap Hand Book, 2004).

3. Creating the Local Economic Development Strategy

As in comprehensive strategic plans, the intent of the strategy is to achieve a holistic approach to LED. Professionals in local government and principal stakeholders need to balance economic development with environmental and social needs. Besides, before creating the strategy, all stakeholders must have same opinion or perception and determine some elements of LED's strategy: vision, mission, goals, objectives, programs and projects.

- Vision, describes stakeholders' consensus on the preferred economic future of the community.
- Mission, are the point which all stakeholders trying to achieve.
- Goals are based on the overall vision and specify desired outcomes of the economic planning process.
- Objectives set the performance standards and target activities for development goals. They are time bond and measurable.
- Projects, implement specific program components. They must be prioritized and cost established. They are time bond and measurable.

4. Implementing the LED's Strategy

Strategy implementation is driven by a broad implementation plan, which in turn, is driven by individual project action plans. A good implementation plan can often result in more efficient and effective use of existing budgets within local government, private associations and companies. It can also be used to target funding from external sources such as national government, bilateral and multilateral donor agencies.

Developing good monitoring and evaluation techniques for holistic LED's strategies is important to quantify outcomes, justify expenditures, determine needed enhancements and adjustments and develop good practices. Indicators will need to measure both process (qualitative) and impact (quantitative).

5. Reviewing the LED's Strategy

A review of the economic development strategy occurs at least annually. This review should use established monitoring and evaluation indicators of the local economy and of the resources available for the strategy effort. The review needs to cover not just inputs, outputs, outcomes and impact, but the implementation process, levels of participation, the dynamics of changing local conditions and changing economic (and political) relationships of the local economy within the region or within national and international markets.

Alongside the review of the entire strategy, systems should be in place to monitor the progress of every project. These systems will give decision-makers the tools they need to adjust the strategy in response to dynamic local conditions.

Table 1: Five Stages Strategic Planning Process

Stage	Strategy	Description
I	Developing a Management Team and Partnership Network	Depends on: <ul style="list-style-type: none"> ▪ The collective efforts of all stakeholders ▪ The skills and resources that each stakeholder group brings to the process ▪ Establishing working relationships and structures that fully engage stakeholders in the process
II	Doing the Local Economy Assessment	Knowing the context of the local economy by SWOT Analysis or LEA's package analysis: <ul style="list-style-type: none"> ▪ Local economic assessment ▪ Targeting diagnostics ▪ Policy analysis
III	Creating the Local Economic Development Strategy	<ul style="list-style-type: none"> ▪ The intent of the strategy is to achieve a holistic approach to LED ▪ Need to balance economic development with environmental and social needs. ▪ Directed to elements of LED's strategy: vision, mission, goals, objectives, programs and projects.
IV	Implementing the Local Economic Development Strategy	<ul style="list-style-type: none"> ▪ Driven by a broad implementation plan, which in turn, is driven by individual project action plans. ▪ Developing good monitoring and evaluation techniques for holistic.
V	Reviewing the Local Economic Development Strategy	<ul style="list-style-type: none"> ▪ Occurs at least annually ▪ Use established monitoring and evaluation indicators ▪ Give decision-makers the tools they need to adjust the strategy in response to dynamic local conditions.

Source: DFID, London; 2003

In related with LED's goals, that is create better conditions for economic growth and employment generation, with the aim is to improve the quality of life for all, that is mean LED must have finally performance improve social welfare such as poverty alleviation, full employment, equality in income distribution, and increasing in prosperity.

Hence, on the case where about 50% peoples lives in poverty - with income less than \$ 2 per day - such as occurs in Indonesia (World Bank Study, 2004), so for future betterment LED must directed to 'eradicate poverty'. This also related with the first goal of Millennium Development Goals where Indonesia become one of the member's (Indonesia must achieved poverty alleviation, where the amount of poor people, on year 2015 only 7.5% of Indonesian people).

Meanwhile, in order to achieve LED's goals and Indonesia MDGs, WBCSD, give some field guidance how doing business with the poor, as follow (see table 2) (WBCSD, 2004):

1. Creating wealth and opportunities – the key to alleviating poverty

The key to alleviating poverty undoubtedly lies in broad-based wealth creation. In the developing and the developed world alike, business provides the engine for economic growth. Means, development is good for business and business is good for development. Together with generating prosperity and opportunities, the private sector can deliver lasting development solutions.

These provide not only a fertile ground for commerce and exchange, but lie at the very heart of empowering citizens. Historically, commerce has gone hand in hand with long-term improvements in quality of life and progress toward social rights and liberties. Entrepreneurial culture thrives in open, participatory and equitable societies.

2. Leveraging business core competencies

Many companies have long seen it as part of their role in society to benefit disadvantaged communities and low-income groups. Traditionally, business has fulfilled this role both through its core activities – providing jobs, paying taxes – and through its corporate philanthropy programs. However these programs are inherently limited in scale and falls largely outside the scope of mainstream business activity.

Today, companies are establishing many dynamic and ground-breaking business initiatives that empower low-income people and foster sustainable livelihoods. The principles that underpin corporate social responsibility provide the foundation on which these new business models are built.

Table 2: Doing Business with the Poor

No	Field	Description
1	Creating wealth and opportunities – the key to alleviating poverty	Broad-based wealth creation: development is good for business and business is good for development: <ul style="list-style-type: none"> ▪ The private sector can deliver lasting development solutions. ▪ Commerce has gone hand in hand with long-term improvements in quality of life and progress toward social rights and liberties. ▪ Entrepreneurial culture thrives in open, participatory and equitable societies.
2	Leveraging business core competencies	Companies role: to benefited disadvantaged communities and low-income groups: <ul style="list-style-type: none"> ▪ Establishing many dynamic and ground-breaking business initiatives that empower low-income people and foster sustainable livelihoods. ▪ The principles that underpin CSR provide the foundation on which these new business models are built. ▪ These business models are highly transferable and can have a much greater sustained development impact.
3	Exploring new ways of doing business	The ground-breaking initiatives featured: <ul style="list-style-type: none"> ▪ Companies are pushing far beyond the conventional boundaries of corporate philanthropy to demonstrate how ‘inclusive business’ ▪ Inclusive business – business that includes all social groups – companies are committed to investing resources to develop their potential ▪ These initiatives create valuable community resources, and some of the benefits are clearly visible and can be directly attributed to the success of these business ventures
4	Maximizing opportunities for the poor	Create more opportunities for the poor: <ul style="list-style-type: none"> ▪ Opportunities for access to all basic need. ▪ Opportunities to earn a living, to accrue income and to invest in the family’s future ▪ Broad-based access to market-led opportunities is essential to kick start the virtuous cycle of economic and human development.

5	Playing to each other's strengths	<p>Involve public-private partnerships & many new partnerships models.</p> <ul style="list-style-type: none"> ▪ Recognition that the private sector brings technology, resources, effective delivery, global reach and an understanding of how to bring a product to market ▪ A shared vision and forward-looking strategies provide an unprecedented opportunity to work together toward poverty alleviation.
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Source: WBCSD, 2004

By investing in new business ideas that provide innovative products and services and create jobs and skills in low-income communities, companies act as a powerful catalyst for market-based development. Transforming these ideas into commercially-viable realities enables companies not only to invest large amounts of capital into implementing these; it also allows the scaling up of successful pilot projects, thereby improving the lives of significantly more people.

By recovering initial costs and becoming self-financing, these business solutions can grow and spread far beyond the limited possibilities of even the best corporate philanthropy projects. Though each region is unique in terms of the challenges it presents and each calls for a tailored solution, these business models are highly transferable and can have a much greater sustained development impact.

3. Exploring new ways of doing business

The ground-breaking initiatives featured, show how companies are pushing far beyond the conventional boundaries of corporate philanthropy to demonstrate how 'inclusive business' – business that includes all social groups – can make a difference to people's lives. These companies are committed to investing resources to develop their potential so that it can strengthen the business role in the concerted global effort to reduce poverty.

These initiatives create valuable community resources, such as new income streams for impoverished families, improved living conditions and the provision of essential services. Some of the benefits are clearly visible and can be directly attributed to the success of these business ventures. However, for many projects it is still early days, and it will take time for the tangible benefits to feed through.

In addition, their innovative nature means that there are very few widely accepted indicators and monitoring mechanisms to quantify development benefits. This makes assessing these more challenging.

4. Maximizing opportunities for the poor

'Pro-poor' businesses aim to create more opportunities for the poor to improve their own lives: opportunities for access to safe water, food, housing, education, medicines, transport and energy; opportunities to earn a living, to accrue income and to invest in the family's future. These opportunities help the deprived to foster their own development.

Broad-based access to market-led opportunities is essential to kick start the virtuous cycle of economic and human development. For a local economy to thrive, both the supply and the demand side of the market equation must be stimulated.

In the developing world, small and medium-sized enterprises (SMEs) are major drivers of innovation, entrepreneurship and employment. Building up a healthy mix of quality large, medium and small companies is essential to strengthen and broaden the economic base. We strongly support strategies to build capacity for local entrepreneurs and to invest in training to ensure a skilled workforce to develop the local economy.

5. Playing to each other's strengths

Many success stories involve partnerships with government agencies and NGOs, and many new partnership models are being created.

Business can benefit enormously from the on-the-ground expertise of development organizations and vice versa. There is growing recognition within the development community that the private sector brings technology, resources, effective delivery, global reach and an understanding of how to bring a product to market, none of which are core competencies of development agencies but all of which can be used to help meet development needs. Over the last decade, the business and public policy agendas have drawn closer. A shared vision and forward-looking strategies provide an unprecedented opportunity to work together toward poverty alleviation.

Figure 7: The Mapping of Local Economic Development

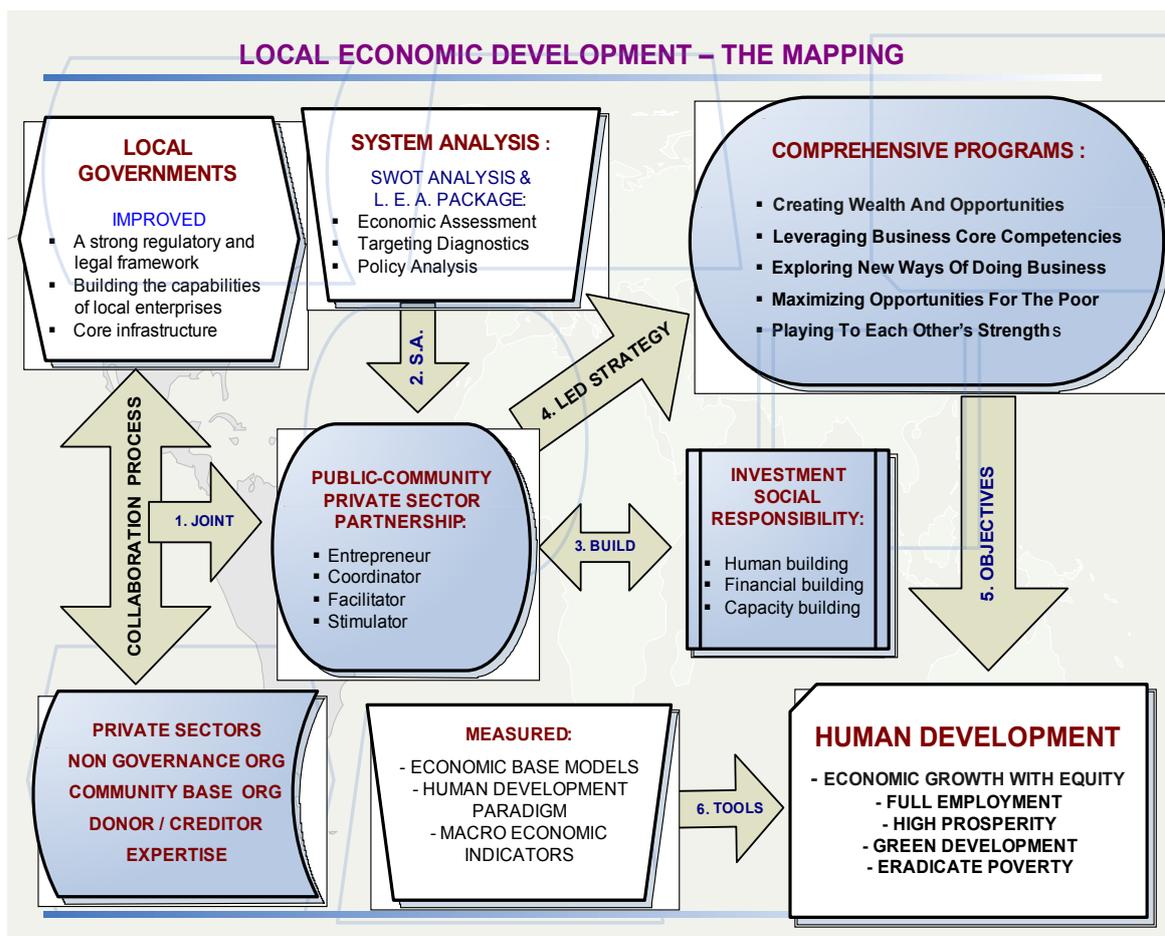
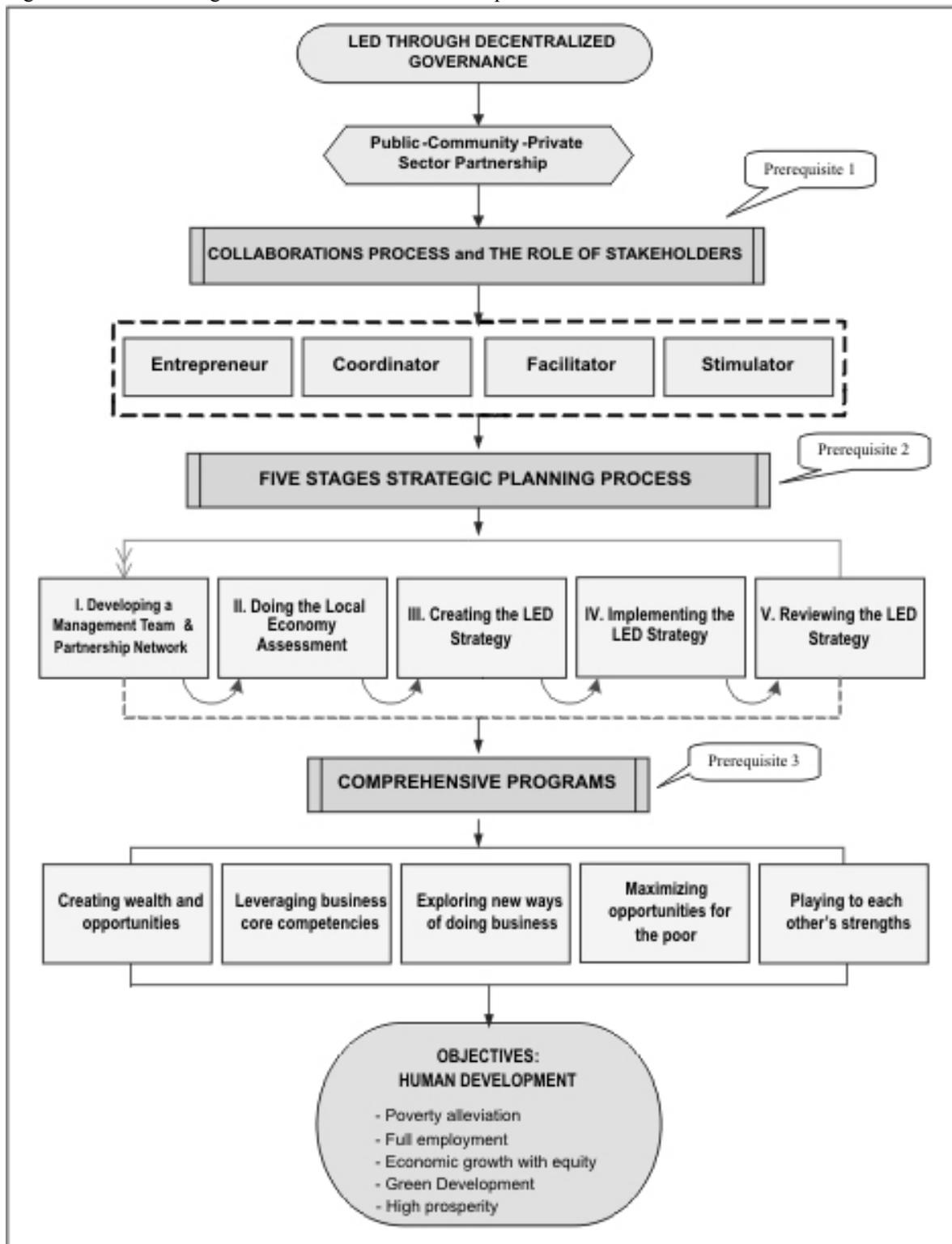


Figure 8: The Flow Diagram of Local Economic Development



RESULT

Finally, in the last paragraph, base on the result of literature overview above, we can build the flow diagram of the all stage doing local economic development in the decentralization era.

Hence that is 'The Conceptual Framework of LED in Decentralization Era'. The flow diagram below will give an idea how the LED's concept combined with DGD's concept, will achieved human and economic development goals. Moreover, we also can map these phenomena. To make a map of these phenomena is to show or establish the features or details of, with clarity like that of a map. This result can be seen in figure 7 and figure 8 above.

CONCLUSIONS

Base on the clarification above, we can conclude that the first prerequisite to implemented LED's concept was combined with DGD's concept is the happening partnership and collaborative process between all stakeholders. Partnerships are driven by synergy. Government brings scale, political legitimacy, transparency, and provide infrastructure. NGOs, the 'content providers', bring expertise, commitment, and understanding. Businesses bring market connectivity and 'heft'. Donor or creditors provide capital which is needed to launch local people business. By working in partnership, CBO can benefit from additional skills and expertise that can help them adapt their business models to the needs and specific conditions of developing region. Shortly, in collaborative process, all stakeholder have to positioning it self at each role that creating symbiosis mutualism among them and peep out synergy toward prosperity.

Moreover, the second prerequisite is not only all stakeholders needs be integrated, but the success of the developing region in improving its prosperity is how to determine fundamental strategic importance to almost every community. The motivation for and method of collaboration may differ, but it is grounded in the fact that the all stakeholders have many long-term goals in common:

- They have an interest in a stable society.
- They want to foster income-generating activities and build the capacity of local entrepreneurs.
- They want to ensure that people are healthy and educated.

So, in order to determine regional public policies, the rules or various decrees related to project and programs that be made, all stakeholders must used five stages strategic planning process, in order to develop a vision for the economic and social future of the community, where all stakeholder must be fully participate in those process.

Besides, the third prerequisite for successful development is the direction or the content of various project and programs that be made shall represent a holistic or comprehensive program, where the main goal is increases prosperity and quality of life. To do this matter, the keyword that must become basic is 'people first'; means all activity have to be directed for the sake of society, and majored disadvantage people or deprivation society.

In so far, related with Millennium Development Goals (MDGs) that have been implemented in Indonesia, the comprehensive program that was created by all stakeholders must be directed to Doing Business with the Poor, as well as WBCSD suggestions.

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