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Good Governance Brief

The Role of Local Governments in Promoting Decentralized Economic Governance in Indonesia

Introduction

One of the important functions mandated to Indonesian local governments in the landmark decentralization legislation of 1999 is that of promoting economic development. Up until that time, economic growth was solely the responsibility of national government. Local governments were ill equipped to deal with the new mandate and the legislation was not specific on just what this new mandate entailed or how this responsibility would be shared among local, provincial and national governments.

Indonesian local governments have moved slowly to take up responsibilities for economic development in part because of the lack of clear guidance and in part because of competing demands brought on by decentralization. Nevertheless, some local governments have taken up the challenge and additional laws and regulations have been issued to clarify the role of the government in promoting economic growth, especially in supporting small and medium enterprises.

There is a clearer understanding of the role of government in stimulating economic growth, although the roles of the different levels of government have not been clearly addressed.

Local governments are still in the early stages of coming to grips with the mandate to promote economic growth. The regulatory environment continues to evolve and there is now a clearer understanding of the proper role of government in stimulating economic growth, although the roles of the different levels of government have not been clearly addressed. In August 2008, the Local Governance Support Program (LGSP) convened a national workshop to bring together representatives of 17 local jurisdictions (including both governments and nongovernmental partners) that LGSP is assisting in implementing programs of support to small and medium enterprises. This workshop was designed to share and analyze the experience of those localities, to provide some international comparative experience to the group and to identify how best to support local governments in carrying out this new role.

This policy brief builds on the results of the workshop by:

- describing the progress made by local governments in taking up the economic development role;
- identifying gaps in the policy and regulatory environment that are holding back progress; and
- providing lessons learned from the current experience of local governments in initiating local economic development activities.

Framework: Government Role in Economic Growth

As in most other developing countries, the Indonesian central government held the responsibility for promoting economic growth at national and local levels up until the major decentralization reforms of the late 1990s. Central governments play a critical role in economic growth by aligning macroeconomic factors, designing national strategies to improve a country's overall competitiveness, and attracting foreign direct investment (FDI) to the country. At the same time, national policies often result in imbalanced growth, favoring large cities that attract FDI and large enterprises. National approaches often overlook the role that localities can play in improving competitiveness through a range of actions that run the gamut from provision of "hard" infrastructure services (e.g., roads, water supply, industrial estates) to "soft" infrastructure (e.g., education, workforce competitiveness, finance). Moreover, local governments do this while functioning as a facilitator, and an engager of the business community, the private sector and the non-governmental sector to appropriately adapt services to local needs.

The initial decentralization reforms in Indonesia extended the general responsibility for economic development to provincial and local levels but with little guidance on the scope of governmental intervention or the roles that the different levels of government should play. Subsequent legislation has attempted to provide more guidance on the general role of government vis-à-vis the private sector and to target support to micro, small and medium enterprises (MSMEs).

Annex 1 summarizes the main legislation and regulations since 1999 that established the policy framework for local economic development. The framework has three main themes:

- Local governments now have a general mandate for local economic development that is shared with national and provincial governments.
- Government at all levels works in concert with, and supports, private sector initiatives in economic development.
- Government support is specifically targeted to MSMEs.

Indonesia is in the very early stages of locally-led economic development initiatives and therefore there are few tangible results to evaluate. At the same time, we can compare the overall thrust of the recent LED policies and initial steps being taken at the local level with the emerging consensus of LED "best practice" from around the world.[1]

[1] For a discussion of LED best practices and applications from around the world, see the LED website of the International Labour Organization at www.ilo.org/led.

Indonesia is following the general thrust of accepted LED strategy, noting several key attributes:

- National legislation makes clear that the government role is to support and facilitate private sector initiatives.
- Government support places a strong emphasis on MSME growth.
- Initial LED activities within Indonesian local governments emphasize business-community-government dialogue ensuring that critical local services and LED activities are responsive to local business needs.
- LED activities are being initiated at the local level and reflect local priorities and commitments — not being driven by national directives.

While the early efforts seem to be on the right track, Indonesia appears to be lagging behind in certain critical areas:

- Little attention is being paid to streamlining the local government regulation and licensing of businesses—this would reduce the entry cost of starting businesses and reduce corruption. The 2006 issuance of Ministry of Home Affairs guidelines on establishing local one-stop service facilities has led several local governments to establish such a facility. However, a cultural change that makes the local bureaucracy more service-oriented (not just authority-driven) will be required to make it demonstrably successful.[2]
- The respective roles of provincial and local governments in LED are still not clear, and there have been few attempts to develop activities that cut across the two levels or bring together clusters of localities.

In brief, given the lack of specific policy guidance, local governments (cities and districts) have responded to this mandate in an opportunistic and relatively ad hoc manner. Some localities have moved aggressively while others have done very little. Indeed, while all local governments to some extent support LED initiatives, they often do so without great resolve.

The role of MSMEs in Indonesia within the context of LED deserves some amplification. Over the past two decades the small enterprise has emerged as a major engine of economic growth worldwide. It has also become increasingly recognized that the small enterprise is particularly influenced by factors under local government control. For example, small enterprises rely heavily on local public services, especially infrastructure services, and are particularly susceptible to local licensing, regulation and tax rules. Local government really can "make or break" MSMEs.

[2] The World Economic Forum's *Global Competitiveness Report 2008-09* cites "inefficient government bureaucracy" as the most problematic factor for doing business in Indonesia (http://www.weforum.org/documents/GCR0809/index.html).

It has become increasingly recognized that MSMEs actually dominate the Indonesian economy. The definitions of micro, small and medium-sized enterprises applied in Indonesia are captured below.

MSME Definitions

Depending on the source, MSMEs in Indonesia are defined according to either annual sales and net assets or the number of employees. The most recent definitions are found in Law 20/2008:

- **Micro Enterprise (MIE):** *net assets* up to Rp 50 million (approximately USD 5,000); *annual sales* up to Rp 300 million (USD 30,000);
- **Small Enterprise (SE):** *net assets* Rp 50 million - 500 million (USD 5,000 - 50,000); *annual sales* Rp 300 million - 2.5 billion (USD 30,000 - 250,000);
- **Medium Enterprise (ME):** *net assets* Rp 500 million - 10 billion (USD 50,000 - 1 million); *annual sales* Rp 2.5 billion - 50 billion (USD 250,000 - 5 million);
- **Large Enterprise (LE):** *net assets* over Rp 10 billion (USD 1 million); *annual sales* over Rp 50 billion (USD 5 million).

Meanwhile, the Central Statistics Agency (BPS)[3] bases its definitions on the number of workers, with micro, small, medium and large enterprises having, respectively, 1-4, 5-19, 20-99, and 100+ employees.

Over 95% of the Indonesian workforce is employed by MSMEs. Further, micro and small businesses account for more than 99% of all Indonesian businesses,[4] with a 55% share of Indonesia's GDP. With such a significant role in the Indonesian economy, building businesses means building MSMEs.

MSME-support strategies in Indonesia have spanned a wide range of interventions: subsidies for credit and raw materials; human capital development and training; general management assistance and business incubator systems; partnership programs between small and large enterprises; marketing, promotion and export support, to name a few. These programs have typically been the responsibility of central government ministries and agencies, being implemented by the provinces as extensions of the central government, rather than by local government agencies themselves.

In addition to changing the locus of economic development planning, the new regulatory environment also prioritizes support to MSMEs in pursuit of economic development. As noted above, MSMEs have historically been a prominent target of economic development programs in Indonesia, and represent a large share of the economy. Law 32/2004 and Regulation 38/2007 specifically mention SME support as government functions. Law 20/2008 on Micro, Small and Medium Enterprises, which was passed in August 2008, reiterates this. The language of the law stipulates that the central and local governments (lumping

[3] Cited in Tambunan, Tulus. Journal of Developmental Entrepreneurship. *Entrepreneurship Development: SMEs in Indonesia.* Vol 12, No 1 (2007), pp 95-118.

[4] Indonesian Ministry of Cooperatives and Small and Medium Enterprises (Menteri Negara Koperasi dan Usaha Kecil dan Menengah), 2008.

together the province and district/city under the term "local government") are tasked with "empowering" MSMEs – creating a supportive business environment for them – in order to expand their business opportunities. It also specifies what sort of activities are mandated: improving the business climate, facilitating business development capacity of MSMEs, providing financing and loan guarantees, and facilitating partnerships between Large Enterprises (LEs) and MSMEs. Although this law is explicit in making MSME support a government function, it, too, fails to differentiate the roles of central, provincial and local government in providing this support.

Current Local Government Practice in Economic Development

Approximately a third of the 45 local governments currently supported by LGSP identified local economic development as a key service delivery priority at the inception of LGSP,[5] with a strong emphasis on MSME support. A full list of the MSME initiatives being supported by LGSP is provided in Annex 2, which includes their objectives and accomplishments to date.

In August 2008, LGSP convened a national workshop to bring together 16 district and municipal governments and one provincial government participating in LGSP economic development activities. While this group is not representative of all 450 localities in Indonesia, their experience provides some valuable insights into how local governments are going about their new LED roles and suggests that LED has become an important concern for local governments in general. However, LGSP does not have a statistically valid way of estimating the true scale of LED involvement across all local government sectors.

At the LGSP workshop, the LED initiatives of participating localities were grouped into three main categories:

- **Local Economic Development Partnerships**: These function as forums for discussion of economic development needs and plans, as well as networks to mobilize resources and institutions for local economic development. These partnerships, forums or working groups (as they are variously called) typically represent MSME actors, chambers of commerce, local banking institutions, training and education institutions, and prominent civil society figures.
- **Business Development Service Centers**: Commonly referred to as business clinics (*Klinik Bisnis/Usaha*), these centers provide training and advisory services on markets, capital, raw materials, technology and business management. In some cases, the services are provided by a local government unit such as the Unit for Cooperatives and SMEs. In others, they may be provided by private sector actors.
- **Micro-finance Services**: Districts focusing on micro-finance cited the need to work with both local governments and municipal banks, as well as with individual business owners, to increase the effectiveness of micro-loans. On the local government side, this meant improving loan management processes to increase repayment rates, and creating more transparency and

[5] This identification was done as part of LGSP's technical assistance to the participating localities which includes workshops to identify what services are priorities for each locality, followed by the drafting of service improvement action plans (SIAPs) to implement the agreed service improvement.

equity in granting micro-loans. On the borrower side, many small businesses do not separate business funds from household funds; therefore, it was also deemed necessary to provide training to small businesses on effective budgeting and credit management.

Many districts provide services that combine elements of more than one of these areas, such as the city of Kediri, where the local government has channeled funds to a municipal bank for micro-loans, and is also providing support to an MSME partnership organization. In other cases, the LED partnership organization is the locus for the planning and coordination of either a business clinic or micro-finance services.

The choice of these types of LED interventions as a starting point for LED initiatives deserves further discussion. All three interventions are built largely on adaptations of existing experience within Indonesia. For example, micro-finance has a long history in Indonesia, and Bank Rakyat Indonesia (BRI), which was founded over 100 years ago, is a major micro-financing institution with 3.5 million borrowers nationwide. Many other types of micro-financing institutions are also found in Indonesia, ranging from informal moneylenders, rotating savings and credit associations, pawnshops, non-governmental organizations (NGOs) and cooperatives, to government micro-finance projects.

Similarly, business development service centers have been widely promoted over the past 15 years as a means of supporting MSME growth—often with external donor assistance. Business development partnerships arose from local participatory planning initiatives that originated in the urban infrastructure planning of the late 1980's, being a key component of the assistance provided by LGSP and its predecessors. Lacking clear guidance on how they should undertake LED, local governments have been fairly creative in adapting existing models.

Based on a review of experiences of participating jurisdictions and comparing them with experiences of several local governments in other parts of the world to locate examples of LED approaches that would be transferrable to Indonesia (see Annex 3), the national workshop identified a number of constraints that local governments face in designing and implementing LED initiatives:

Absence of shared knowledge of good LED models. While there has been a variety of LED and MSME support programs in Indonesia over the years—mainly through national agencies—there is little documentation of the lessons learned and practical guidance available to local governments.

Absence of a consolidated approach to LED. Partly because local governments are lacking good models, and partly because they are at an early stage of LED planning, many localities do not have an integrated focus on LED. In many cases, each government unit has its own program, resulting in a piecemeal approach instead of a consolidated LED strategy. This is especially true given that local government agencies are stove-piped. For example, as a single agricultural product moves through the value chain from harvest to canned product, it must pass through the jurisdiction of several separate agencies, which are not communicating well with each other. Also, local development plans seldom attempt to create synergies between infrastructure development, land management, and LED.

Competition among different governmental jurisdictions. The lack of clear guidance on the roles of different levels of government fosters competition among localities and between levels of government. There is little understanding of the interrelated roles of provinces, cities and districts in sub-national

economic development, and by extension, there is little coordination in LED planning and service delivery among these levels of government. An exception is the Central Java Forum for Economic and Resource Development (FPESD), through which the province, a network of Forums for Economic Development and Employment Promotion (FEDEP) and their MSME clusters in several districts collaborate on shared LED objectives. The FPESD has created a Resource Development Center for training, consulting, partnering with networks of service providers, and marketing information services.

Persistent view that local government should provide rather than facilitate LED services. Although national policy now firmly supports the concept of government as LED facilitator rather than direct service provider, many local officials still cling to the old paradigm. For example, the idea that local governments should directly provide micro-loans at below-market rates as a public service is very strong. In addition, many MSMEs still view government as a provider rather than a facilitator or partner, and tend to seek out direct funding rather than an enabling environment.

Overall lack of local government management capacity. Indonesian local governments are still endeavoring to fulfill their expanded mandates under decentralization, including expanded LED responsibilities. Since local governments are still building their management capacity and governance systems, their LED services are also plagued by management shortfalls in budgeting, planning, service implementation and coordination.

Performance measurement systems are lacking. There is a general lack of LED performance monitoring and analysis of service effectiveness. For example, in the case of micro-lending, there is no measurement of performance other than keeping track of how much is being distributed. In general, performance measurement in LED services is the least developed among municipal services and is rarely applied in Indonesian localities.

LGSP has been able to address some of these practical issues by improving the management of the local government responsible for promoting MSMEs as the backbone of the local economy. However, broader measures are needed in order to create a more conducive climate for local economic development, especially through the equitable management of public resources such as land, infrastructure, and finance. Local governments will have to balance regulatory frameworks that stimulate investment with measures to protect the environment. They will have to make a greater effort to manage public resources more transparently and equitably in order to build the foundations for sustainable economic growth. These measures do not need to be costly in order to be effective. Significant improvements can be achieved through relatively straightforward steps, such as organizational restructuring, simplification of procedures, integration of local development planning and budgeting processes, and periodical consultations between local government agencies to align their economic growth strategies and measure economic performance.

Recommended Next Steps

The following recommendations flow from the workshop discussions and further analysis of useful next steps. Since these measures require a timeframe that extends beyond LGSP's completion date, they are not intended to be proposals for LGSP action but rather activities that would help Indonesian local governments better assume the LED role that has been mandated to them.

Document key lessons learned and best practices as they occur. The sharing of LED experience among selected LGSP partner localities shows that valuable experience is already being generated and needs to be documented. While LGSP is already engaged in doing this for LGSP partners, a wider national effort should be considered that could guide all local governments as they take up this new function. This activity could build on the experience of the leading LGSP partners in the following three areas (for more details, see Annex 2):

- *Local Economic Development Partnerships (*city of Kediri, districts of Probolinggo, Klaten, and Kebumen, and Central Java province)
- *Business Development Service Centers* (cities of Tebing Tinggi, Pematang Siantar and Palopo, and district of Jeneponto)
- *Micro-finance* (city of Kediri, district of Enrekang)

Provide best practice toolkits from international experience. There is a wealth of international case studies of innovative LED initiatives that could be packaged appropriately for Indonesian local governments—together with the Lessons Learned documentation proposed above, this body of practical knowledge would be extremely valuable to Indonesia localities as they undertake the LED mandate.

Pilot programs in intergovernmental partnerships. Much more work needs to be done in developing and testing LED approaches that bring together provincial and local governments along the lines of the Central Java Forum for Economic and Resources Development. A set of pilot activities would not only provide models for local application but would also provide the basis for better regulation on the proper roles for the different levels of government—a serious gap in existing legislation.

Pilot programs in LED performance monitoring. There has been little meaningful results-oriented measurement and analysis by local governments of the performance of their LED and MSME support programs. Given that most local governments are still in the early stages of LED program formulation, now would be the opportune time to help local governments introduce straightforward procedures for performance measurement.

In its final year of implementation, LGSP will be working with partner jurisdictions to document good practices developed and experience gained in these areas of MSME support, and to develop indicators to lay the groundwork for better performance monitoring of LED initiatives.

Annex 1: National Laws Affecting Local Government Role in Local Economic Development

Law 22/1999 on Local Government Autonomy	Sets the stage for local government autonomy, especially in the municipality and district. This law determines that the highest authority within local government is the legislative council, which is elected directly by citizens, and has extensive budgeting authority, including for local economic development (LED) programs. With the passage of this law, local governments suddenly became the chief providers of various services previously handled by the central government, including economic development.
Law 32/2004 on Regional Governance	Revises Law 22/1999 on local governance, scaling back the power given to the local council and restoring some authority to the provincial governor. In terms of SME support, however, this law gives **both** the provincial and local governments the authority – and an obligatory role – in facilitating the development of cooperatives and SMEs. While provincial governments implement inter-LG programs mandated by national government (de-concentrated programs), local governments implement their own mandatory LED programs for which they are locally responsible, with provincial governments endeavoring to coordinate in order to promote consistency.
Government Regulation 38/2007 on the Division of Roles between National, Provincial and Local Governments	Elaborates on the provisions of Law 32/2004 on regional governance. In terms of MSME support, it stipulates that for the MSME sector, the role of national, provincial and district/city governments are similar and include SME empowerment (improving the business climate, expanding financing and access to credit for SMEs), as well as provision of monitoring and evaluation to track SME empowerment activities. The regulation also notes that both provinces and districts have "discretionary functions". These are vaguely defined, and the regulation gives no guidance on whether provincial or district/city governments take precedence when assuming such functions.
Government Regulation 50/2007 on Guidelines for Regional Cooperation	Constitutes a legal basis for provincial and local governments to cooperate or partner with other jurisdictions as well as with other public institutions and private sector entities on public service management.
Law 20/2008 on Micro, Small and Medium Enterprises	Describes the scope of central and local government responsibilities in "empowering" MSMEs. The law details activities related to **improving the business climate** (e.g. expanding access to financing, simplifying business licensing regulations); **facilitating business development capacity** (e.g. improving production techniques, improving human capital capabilities in entrepreneurship and management); **providing financing and loan guarantees** (e.g. financing provided directly by the government or state enterprises; promoting development of a venture capital industry, promoting creation of non-bank financial institutions); and **facilitating partnerships between large enterprises and MSMEs** (e.g. through subcontracts, mentorship programs, trading arrangements). The law notes that these functions are the responsibility of both central and local governments, but again is silent as to how provincia and local governments should interact in providing these services.

Annex 2: Economic Public Service Improvements Supported by LGSP

Province	Jurisdiction	Service Improvement	Achievements to date
North Sumatra	Tebingtinggi (city)	Create SME development clinic as a district operational unit with professional management	Clinic ('Klibi') has been created by a local decision, housed, staffed, and is open for business
	Pematang Siantar (city)	Create SME development clinic as a district operational unit with professional management	Proposed clinic (D'Best) is awaiting local decision and budget allocation
	Karo (district)	Create agribusiness service center for SMEs at district level for guidance on production and marketing	After a promising start, LGSP recently opted out of technical assistance due to a change in local leadership
Central Java	Provincial Government	Support FPESD as regional coordinating and capacity-building body for LED, and help build capacity of its newly created RDC	RDC has drafted business action plan with LGSP support
	Kebumen (district)	Create SME development forum at district level to formulate local economic development policies and improve public services to SMEs	The forum has been created by local decision and has started implementing its assigned functions pending formal approval
	Jepara (district)	Improve management of the Jepara Trade and Tourism Centre (JTTC) to market local furniture and handicraft	The JTTC has been housed and partially staffed while its organizational structure is still being debated
	Klaten (district)	Support a coordinating body (BKPED) to improve government and NGO initiatives for SME recovery and development after earthquake	The BKPED has started implementing its assigned functions and is advocating a program and budget for SME recovery
East Java	Probolinggo (district)	Improve management of business development forum linking SMEs, related local government agencies, and other economic actors to promote LED as part of medium term development plan	The forum has been created by a local decision, has started implementing its assigned functions, is advocating a program and budget for SME development based on the local medium-term development plan, and is promoting locally made products
	Kediri (city)	Improve management of SME development forum at district level combining business advice with micro-finance service	The forum has been created by a local decision, has started implementing its assigned functions, is providing micro-credit to MSMEs through a local bank (BPR), and is using an independent team to verify loan eligibility
	Malang (district)	Improve SME business development in one pilot sub-district, to be replicated in all sub-districts	Due to friction between local government units and their managers at sub-district level, progress has been slow, and LGSP has opted out of technical assistance
	Batu (district)	Improve management of SME business service centre at district level and develop network of SME groups	The design of a business service center is still on-going, and the local government unit in charge has not yet been able to set a deadline for a local decision
	Mojokerto (city)	Improve management of business development forum linking SMEs, related local government agencies, and other economic actors to promote LED	The forum has been created by a local decision, and is advocating the interests of MSMEs as part of the medium-term local economic development plan
South Sulawesi	Jeneponto (district)	Create Micro and SME business service centre at district level and improve related services by local government agencies	The center has been created by a local decision, preparation of a business action plan is underway, and a local budget is expected to be allocated for 2009
	Soppeng (district)	Create SME development clinic as a district operational unit with professional management	The clinic (Lattemammala) has been created by local decision, and a local budget is expected to be allocated for 2009
	PangKep (district)	Create SME development clinic as a district operational unit with professional management	Despite commitment of the local government unit in charge, the lower echelons have not responded well; eventually, the communication and access problems inherent to this multi-island district led LGSP to opt out of technical assistance
	Enrekang (district)	Improve management of SME development service center at district level combining business advice with micro-finance service	Pending a local decision, the center has started implementing its assigned functions, and the management of the micro-finance facility has been moved from the local government unit to a local bank
	Palopo (city)	Create SME development clinic as a district operational unit with professional management	Proposed clinic (Klupo) is expected to be created by a local decision before the end of 2008, and a local budget is expected to be allocated for 2009

Annex 3: Local Economic Development Practices in Other Parts of the World

Sevlievo, Bulgaria is situated in a valley 200km east of Sofia. With 50,000 inhabitants, the municipality was devastated by the fall of the Soviet Union and the demise of many state-owned firms. After the changes in the 1990s, the Mayor and a group of businessmen created a Union Sevlievo 21st Century—an association of 43 area employers. The main task of the Union was to unite employers with municipal representatives to identify priorities for the economic and social redevelopment of the area. Today it has over 80 members, comprised of the municipality, big and small firms, municipal-owned firms, banks and others and has managed to attract over US$100 million in foreign direct investment over a 10-year period. The impact of foreign direct investment and the willingness of the municipality to facilitate enterprise growth and investment are dramatic. Between 1992 and 2005, 3,000 new jobs were created in 26 new businesses targeting service to the large foreign-owned companies. Local unemployment stood at just 8%, against a national rate of 18%, average incomes were one-third above the Bulgarian average, and local social service expenditures and investments were far higher than in most Bulgarian municipalities.

> *"The economic success of communities depends upon them being able to adapt to the fast changing national and international market environment." (Porter)*

In Cape Coast, Ghana, a well-connected, visionary Regional Governor transformed the economy of the Central Region by turning three crumbling World Heritage Monuments in two old and deteriorated historical cities and an unprotected forest 30 kilometers away into major tourist attractions. That project not only conserved these resources, it led to the creation of West Africa's newest tourist destination—attracting tens of millions of dollars of new investment in hotels, restaurants, tour agencies and handicraft production.

> *"Economic growth springs from better recipes, not just from more cooking. New recipes generally produce fewer unpleasant side effects and generate more economic value per unit of raw material. In other words, new ideas generate economic growth. Growth takes place when resources are re-examined, re-arranged, and re-allocated to maximize their value. Innovation expands the economic pie and increases productivity by providing better ways to produce more output." (Romer)*

In Lewiston and Auburn, Maine, two US municipalities, officials and business owners joined efforts to create the Lewiston-Auburn Economic Growth Council (LAEGC). Initially looking much like economic development partnerships being created in several Indonesian districts, LAEGC brings together actors from government and the business community to drive economic growth in the area. However, the key takeaway is that it is now the single point of MSME development and contact—housing all the support an emerging or expanding business might need: information on business resources; technical assistance; networking opportunities; site-search assistance; commercial financing—including micro-finance; and marketing. LAEGC developed a consolidated strategy to tackle a variety of constraints to businesses in the area. As a result, US$500 million of new business investment came to the area between 2000 and 2007.

And in rural North Carolina, another US state, life was hard and jobs were scarce in the 1950s. Three universities—Duke, University of North Carolina at Chapel Hill and NC State—were losing their graduates to out-of-state jobs as the American economy boomed elsewhere. University leaders, executives from the three cities of Raleigh, Durham, and Chapel Hill and state government, local businesses, and land developers hatched a plan to change all that. They acquired land to create a Research Triangle Park (RTP), established a Research Triangle Foundation to manage the Park and set up the Research Triangle Institute (currently known as RTI International) to undertake contract research. In 2006, with 157 companies, 39,000 workers, and well over 70,000 acres under development, Site Selection Magazine named the RTP area the "Number One Best Business Climate in America."

> *"Governments are responsible for adopting policies that provide a good environment for business to create jobs and for establishing needed organizations and institutions of governance ... Governments also make specific investments in public services ... Private entrepreneurs and investors, if provided appropriate incentives, security and access to markets, use their ideas, knowledge, and capital to establish companies that produce a wide variety of goods and services." (USAID)*

About LGSP

The Local Governance Support Program (LGSP) provides local governments in Indonesia with technical assistance that supports a framework for governing justly and democratically. LGSP supports local governments to become more competent at the core tasks of integrated planning governance and finance, and more capable of supporting improved service delivery and managing resources. LGSP also strengthens the capacity of local legislatures and civil society organizations to perform their roles of representation, oversight, and citizen participation in the decision-making process. LGSP works with over 60 selected Indonesian local governments in nine provinces: Aceh, North Sumatra, West Sumatra, Banten, West Java, Central Java, East Java, South Sulawesi and West Papua.

LGSP is implemented in partnership with the National Development Planning Agency (Bappenas), the Ministry of Home Affairs, the Ministry of Finance, and local governments and civil society organizations in the target provinces. LGSP is funded by the United States Agency for International Development (USAID) and implemented by RTI International in collaboration with the International City/County Management Association (ICMA), Computer Assisted Development Incorporated (CADI) and Democracy International (DI). Implementation of the program began on March 1, 2005 and is projected to run through September 30, 2009.

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