

Micro, Small and Medium Enterprises (MSME) Empowerment Model as the Effort for Poverty Eradication in Malang Raya

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ABSTRACT: *The objectives of the research are to explore the potential and the leading capacity of MSME, to identify factors constraining and supporting MSME success and to formulate MSME empowerment model as well as to understand the formulation of effective monitoring and evaluation for MSME development. Population of research is the actors of MSME who will be analyzed with SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis technique. Result of research indicates that the government has provided various facilities and easiness. The economic actor of MSME still faces many internal structural-conditional barriers, such as: poor capital structure and limited access to the capital due to lack of collateral; low technical skill; simple production technology; worker as the member of family; less specialization within management or the owner who acts in the field; poor financial administration, thus many expenses beyond control; the difficulty to obtain business permit; the absence or the lack of protection for small business; and the difficulty to obtain credit.*

KEYWORDS: *MSME, Empowerment, SWOT*

I. INTRODUCTION

MSME empowerment is a strategic choice because it represents a way to recover from economic deterioration by accelerating economic growth during post-crisis period. Local autonomy has built up the power to accelerate this growth. Indeed, the local government must take responsibility to make this happening by ensuring how proactive is the local to develop the local economic, especially MSME. If MSME development receives strategic response from the local actors, it is then MSME empowerment will be based on market by the local actors including entrepreneurs, communities and local government. MSME empowerment strategy involves some programs such as organizational restructuring, financial investment by the capital owner, and budget reallocation by government such that MSME market does not only cover the domestic realm but also penetrate international market (export). Competing ability of MSME, therefore, will influence economic outputs such as economic growth, vacancy creation, and poverty elimination.

The objectives of the research are to explore the potential and the leading capacity of MSME, to identify factors constraining and supporting MSME success and to formulate MSME empowerment model as well as to understand the formulation of effective monitoring and evaluation for MSME development. Research plan is a comprehensive step from pervious reviews. Themes related to MSME and poverty eradication have been discussed by Alfiana et al (2007), Siti Asiyah, et al (2008), and Gunariato et al (2009). Alfiana et al (2007) have mentioned that factors causing poverty at Belu District, NTT, include economic, structural, situational, political and social. The grant programs and the charity-based activities conducted by the government of Belu District for the poor community take several forms such cash direct aid, indirect aid, physical structure and infrastructure assistance, public service aid, stimulant aid, empowerment aid, staple aid, and even livestock aid. MSME at Belu District have not yet given significant contribution to the economic activities because of cultural dominance factor and lack of human resource. Meanwhile, Siti Asiyah et al (2008) state that poverty eradication has been emphasized on education, health and economic sectors by empowering MSME and by producing direct community participation. Result of Gunariato et al (2009) has explained that the policy and program of poverty eradication by government seems still quite less effective in solving the problem of poverty and also in preventing the process and legacy of poverty from occurring. It is evident because the system and policy is still discriminative against the poor. The policy is always centralized and oriented toward specific sectors. It is also indeed that the poverty is considered as a governmental issue (made as centralistic), and therefore, it does not need collaboration from multiple parties. Poverty eradication program is often partial, meaning that it does not cover up all aspects and dimensions, and therefore, it is hard to make it sustainable. In addition, MSME sector and its empowerment have not been top priority to increase community economic.

II. THEORETICAL FRAMEWORK

2.1. The Role of Micro, Small and Medium Enterprises (MSME) in the Economic Development

MSME play important role in the economic development because its capacity to absorb workers is quite high with low requirement of investment capital. MSME, therefore, is easy and flexible to respond the market condition that always changes. It is enough to make MSME insusceptible to various external changes. Precisely, MSME can capture many opportunities in quick fashion, including implementing the production for import substitution and increasing the fulfillment of domestic demand. Therefore, MSME development can support economic diversification and accelerate structural change, and it is prerequisite for stable and sustainable long-term economic development. The importance of MSME for economic development is already agreed collectively but there is no consensus of how is the strategy for MSME development. The most important lesson from international experience is the question of “what is the appropriate role of the nation” in developing private sector. There is a similarity between our mindset and foreign idealism, which is that the best environment of business development is one where input market and business output are functioned effectively. Markets have offered many services needed by business world which help the business to grow. The government put attention to the main function of the business that can function efficiently, and avoids from giving priority to the business that influences and destroys market.

2.2. MSME Development Strategy

The effective MSME development policy must be more than financial and technical support programs which are stand alone without interdependence to each other. To be more effective, MSME development policy needs review and reorientation of governmental roles in many aspects. Main issues in this reorientation are:

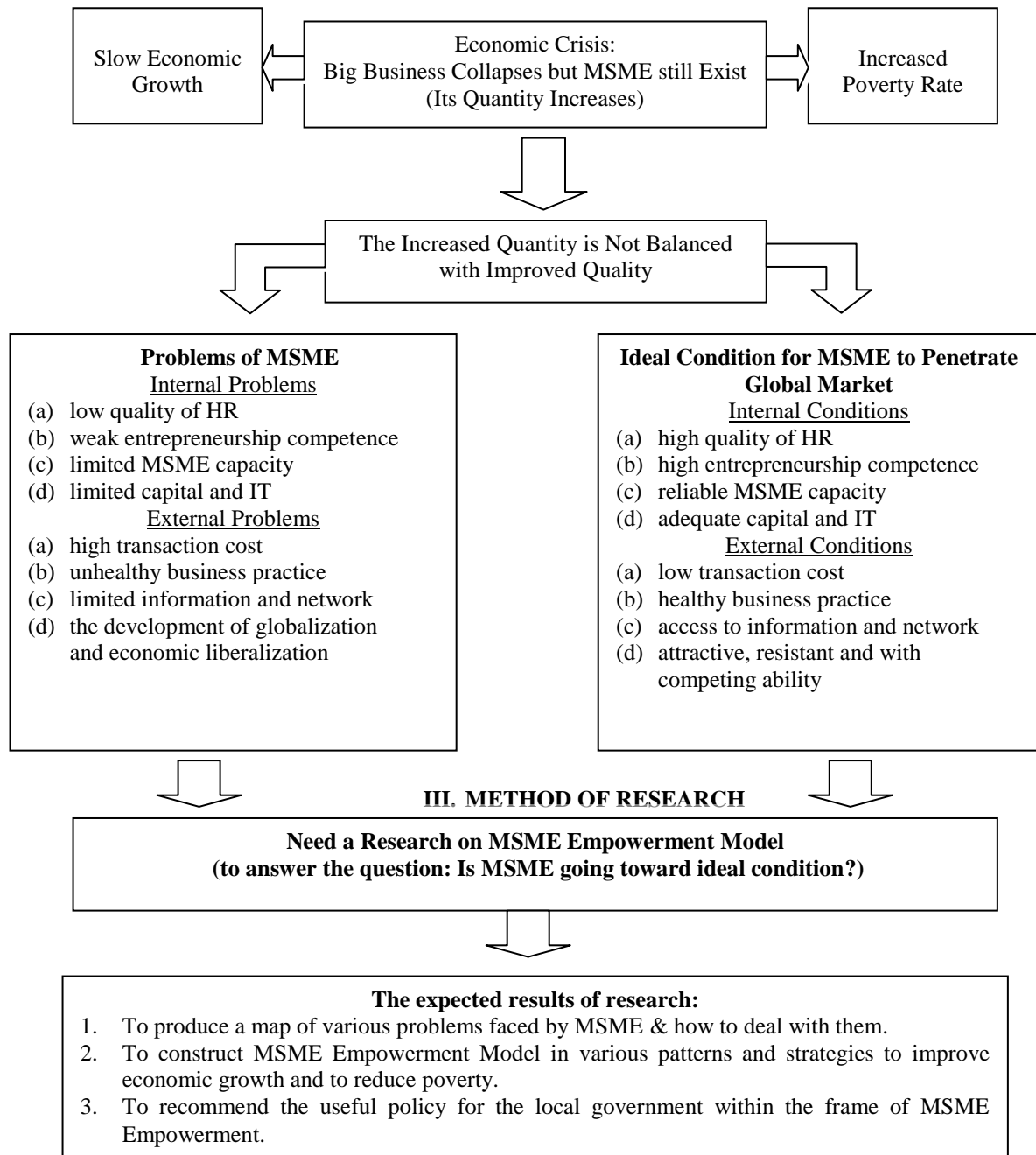
- a. to ensure the existence of “*good governance*” to create conducive environment for investment;
- b. to stimulate the emergence of environment that supports competing ability in order to create more opportunities and accesses to productive resource;
- c. to improve the role of private sector in the formulation and implementation of policy;
- d. to relieve the government from giving service directly;
- e. to institutionalize the periodic review of many regulations;
- f. to simplify the device and the supporting structure to increase efficiency and transparency of the administration; and
- g. to improve the access to the relevant information for MSME, business association, the manager of business development service, and policy maker.

Related to the implementation of strategy, MSME empowerment approach based on cluster is recommended. This approach emphasizes on giving support to: (a) the process of “*clustering*” in “*bottom-up*” way at local, and (b) the improvement of “*clustered sectors*” which is nationally relevant, through set of devices and certain steps to strengthen market.

2.3. Various Programs in the MSME Empowerment Framework

Many MSME development programs are observed. *First* is the program to create conducive business climate for MSME. The objective of this program is to facilitate the business environment that is economically efficient, competitively healthy, and non-discriminative for the wellbeing and the improvement of MSME performance. The target of this program is the lowering of barriers, the reduction of business cost, the improvement of business scale, the establishment of legality base for MSME, the increase of stakeholder participation in the planning and supervising of policies and programs, and the increase of the quality of bureaucracy service for MSME development. *Second* is MSME industrial development program. The aim of this program is to empower and to develop micro, small and medium industries to play significant role and to give great contribution to economic growth, especially to extend job opportunities. This program is targeted toward the growth of new business, the increase of competing ability, and the enhancement of product diversification. *Third* is the program to develop the entrepreneurship and the competing ability of MSME. This program is aimed to develop entrepreneurship behavior and to improve competing ability of MSME. The target is pointed toward the development of knowledge and attitude of entrepreneurship, the improvement of productivity, and the development of the leading products of MSME. *Fourth* is the program to develop MSME business-supporting system. The objective of this program is to facilitate, to make easier and to enhance the access of MSME to productive resources such that opportunities are used, local resource potentials are identified, and business scales are improved. The target is directed toward the establishment of the supporting/provider agencies that are affordable with expected quality to increase the access of MSME to productive resources such as human resource, capital, market, technology and information. Other direction is also pointed toward the improvement of intermediary function of financial agencies to the interest of MSME, and also the enhancement of the service scope of financial agencies.

Figure 1
Research Framework



3.1. Population and Sample

Research population is the actors of MSME in Malang Raya. Sampling technique is cluster sampling. Slovin equation is used to determine sample size. The number of sample in each cluster is shown by percentage.

Table 1
Population and Sample

No.	Business Type	Population	%	Sample
1	Micro	387	77.4	64
2	Small	101	20.2	17
3	Medium	12	2.4	2
	Total	500	100	83

Source: Processed from data of The Official of Cooperative and MSME of Malang City, The Official of Cooperative and MSME of Malang District, and The Official of Cooperative, Industry and Trade of Batu City.

3.2. Analysis Techniques

After data are collected through *field survey*, *Participatory Research Appraisal (PRA)* and *Focus Group Discussion (FGD)*, it is processed with SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis technique.

IV. RESULT

MSME condition in Malang City is not so much different from the condition of MSME in other cities. The business is not professionally managed, without clearly defined managerial boundary, and only concerned for subsistence. MSME may be well developed under professional management. Micro, Small and Medium Enterprises (MSME) are distributed in 3 cities/districts. The registered MSME are counted to 1,304 MSME.

Tabel 2
MSME Distribution in Malang Raya

No.	City/District	Total
1.	Malang City	500
2.	Malang District	353
3.	Batu City	451
	Total	1,304

Source: The Official of Cooperative and MSME of Malang City, The Official of Cooperative and MSME of Malang District, and The Official of Cooperative, Industry and Trade of Batu City, processed in 2013.

The above table shows that Malang City has the highest number of MSME with 500 MSME, followed by Batu with 451 MSME and Malang District with the lowest, 353 MSME. The potential of MSME can be reviewed from several aspects such as business aspect, capital aspect, marketing aspect, production aspect, and worker aspect.

4.1. Business Aspect

Business aspect talks about organization, fostering, omzet rate and asset rate.

Organization

To develop a business, it is important to examine its organization by reviewing its organizational structure to ensure clearly defined and well coordinated management. Weaknesses of MSME are indeed often found in organization, capital, administration, bookkeeping and marketing. Organization weakness is related to the unclear definition of organization structure, assignment and discretion, employee status, and payroll.

Table 3
MSME Organization di Malang Raya

Organization	Total	%
UD, <i>Home Industry</i>	236	97.12
CV	5	2.06
PT	2	0.82
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey indicates that MSME in UD, *Home Industry* format are counted to 236 (97.12 %), while those in CV format are counted to 5 (2.06 %) and those in PT format are only 2 (0.82 %). The complete description is shown in the following table.

Fostering

MSME is a business run by people who mostly have low education background. The government, therefore, is expected to improve the creativity of small entrepreneurs to exploit themselves to compete in the domestic trade. The fostering from the local government or from related agencies must be important for MSME entrepreneurs to build their business.

Table 4
The Fostering From Related Agencies

Fostering	Total	%
Fostered	98	40.33
Not fostered	145	59.67
Total	243	100

Source: Result of Survey, processed in 2013

The data of survey have shown that MSME fostered by the government or the related agencies are only 16.61 %, and the remaining 83.39 % are left not fostered. The commitment of the related agencies to the MSME development program has actually been adequate to respond the interest of MSME actors to develop their business. MSME development programs, unfortunately, are only the written document without commitment to lift up MSME wellbeing. The local government faces problems of limited fostering budget for the related agencies and of lack of coordination between policy implementers. It means that MSME are required to be self-empowered and to exploit their creativity, and therefore, it is expected that MSME must be tough, self-support and able to develop into big business comparable to other already developed business.

Omzet Rate

Every business, whatever type, has business value, although this value may vary. This value is represented by omzet rate, which is defined as gross income of company calculated in every month or every year. Business value of a company is indicating the ability of this company. Omzet rate of a company relies on sale transaction, which means that the greater transaction is the higher company value.

Table 5
Business Value

Business Value	Total	%
Max 300 millions	170	69.96
> 300 mill - 2.5 bill	73	30.04
>2.5 bill - 50 bill	0	0.00
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey shows that the greatest in percentage of business value for MSME in Malang Raya is stood for maximum 300 millions possessed by 170 MSME (69.96 %), followed by > 300 millions – 2.5 billions obtained by 73 MSME (30.04 %). Meanwhile, MSME with business value of > 2.5 billions – 50 billions are zero (0) in this sample.

Asset Rate

Asset is investment rate of a company, which may include land, building, vehicle, equipment and others. Company asset may be different based on the business. Business with heavy equipment and high technology machine in the operation will always have high asset rate compared to MSME which only depend on human for the operational.

Table 6
Asset Rate

Asset Rate	Total	%
Max. 50 millions	144	59.26
> 50 mill - 500 mill	85	34.98
> 500 mill – 10 bill	14	5.76
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey indicates that 144 MSME (59.26 %) have maximum asset rate of 50 millions. It is the highest in percentage and followed by asset rate of > 50 millions – 500 millions as observed in 85 MSME (34.98 %). The lowest asset rate is > 500 millions – 10 billions shown in 14 MSME (5.76 %).

SWOT Analysis over Business Aspect: Strengths (Very close interpersonal relationship, The central government and the local government have set policies about MSME, Great omzet annually, and Great asset rate),

Weaknesses (Quite expensive product cost, Limited accessibility and easiness to training program for workers and entrepreneurs, Quite expensive product cost, and The unclear definition of organization and organization structure), **Opportunities** (When the production and marketing is growing, clear organization is necessary.

The related agencies have attended to the fostering of MSME.

Maximizing resource other than human

4.2.Capital Aspect

Big capital is always needed in the startup. Most small entrepreneurs only use capital on their hand, and after business evolves with time, they start to look for additional capital. Business capital supply is a main barrier against MSME activity but this problem is dealt with by using some proportions of revenue from other business. Capital grant from the government, bank and related agencies is not well perceived by MSME entrepreneurs.

Table 7
Capital

Capital Source	Total	%
Self Capital	181	74.49
Loan based Capital	53	21.81
Others	9	3.70
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey shows that the greatest capital source of MSME is coming from self capital and it is shown by 181 MSME (74.49 %). It is followed by loan-based capital in 53 MSME (21.81 %), while the lowest is from other sources as observed in 9 MSME (3.70 %). Other capital sources may include friendship-based capital joint, parent and government agency. The loan-based capital is mostly obtained from general bank, installment bank, and usurer.

4.3.Marketing Aspect

Marketing aspect is an aspect in addition to capital with great influence in the development of business world. Important properties of this aspect include marketing region and market share.

Marketing Region

MSME only have narrow marketing region because MSME only concerns with downtown and out-town marketing regions. Export marketing region is not primarily concerned. If they are smart, however, there is great market chance if MSME can diversify the commodities for region or for state. Reciprocal relationship can bring out the profit for MSME itself.

Table 8
Marketing Region

Marketing Region	Total	%
Downtown	92	37.86
Downtown and Out-Town	137	56.38
Downtown, Out-Town and Export	5	2.06
Out-Town	8	3.29
Out-Town and Export	1	0.41
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey indicates that marketing region of MSME with greatest in percentage is in downtown and out-town as shown by 137 MSME (56.38 %). It is followed by marketing in downtown only as observed in 92 MSME (37.86 %). Downtown, out-town and export marketing region is found in 5 MSME (2.06 %) while out-town only marketing region is observed in 8 MSME (3.29 %). Meanwhile, there is only 1 MSME (0.41 %) with out-town and export marketing region, and therefore, it is the lowest in percentage.

Market Share

Every business has different market share. This market share may be middle-to-lower, middle-to-upper, or even both. Good business is one with wider market share, meaning that business is not only relying on certain market share but able to penetrate into every market share.

Table 9
Market Share

Market Share	Total	%
Middle-to-Upper	24	9.88
Middle-to-Lower	78	32.10
Both	141	58.02
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey shows that 141 MSME (58.02 %) concentrate their marketing in middle-to-upper and middle-to-lower market shares, or the combination of both is considered. MSME with middle-to-upper market share are counted to 24 (9.88 %) while those with middle-to-lower market share are counted to 78 (32.10 %).

4.4. Production Aspect

Production aspect is important aspect because it has great impact on production process. Production aspect in MSME includes technology usage and raw material source. It is explained as following.

Technology Usage

In general, MSME still use traditional technology. Entrepreneurs must be smart in capturing market chance and shall be always responsive to technology advance to prevent them from leaving behind by other companies. Such attitudes also influence their business, either in term of efficiency and marketing. Creative technology will help entrepreneurs to produce new products and to rejuvenate the existing products such that consumers do not feel saturated with the product they consume.

Table 10
Technology Usage

Technology Usage	Total	%
Traditional	111	45.68
Modern	49	20.16
Semi Modern	83	34.16
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey indicates that the use of traditional technology has the highest percentage of all technologies and it is shown by 111 MSME (45.68%). The lowest percentage is the use of modern technology as observed in 49 MSME (20.16%).

Raw Material Source

The limited raw material is definitely prohibiting the growth and the productive wellbeing of MSME in Malang Raya. Price is also a problem with its unexpected fluctuation. It means that the easiness to obtain raw material and the price are main factors for every business. The easier and cheaper the business to obtain raw material is the cheaper the product output. Raw material source is then influencing production because it determines the raw material price at MSME.

**Table 11
Raw Material Source**

Raw Material Source	Total	%
Malang Raya and Around	191	78.60
Malang Raya and Out-Malang Raya (in the province)	47	19.34
Malang Raya and Out-Malang Raya (out of province)	5	2.06
Total	243	100

Source: Result of Survey, processed in 2013

Data of survey show that 191 MSME (78.60 %) have their raw material sourced from Malang Raya and around. It has highest in percentage. The raw material from Malang Raya and Out-Malang Raya (out of province) is shown by only 5 MSME (2.06 %) and therefore, it is the lowest in percentage.

4.5. Worker Aspect

Worker plays very important role in business world because without them, the production is not run well unless the company uses machine as main power for the activity. Good company is one with the ability to absorb worker, thus reducing unemployment.

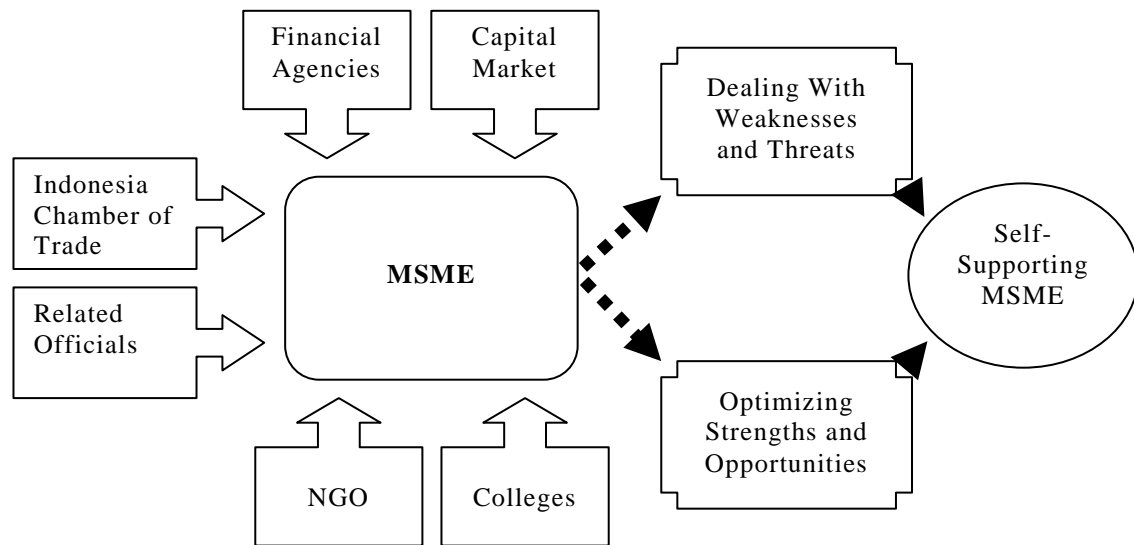
**Table 12
The Use of Worker**

The Use of Worker	Total	%
≤ 4 workers	160	65.84
5 - 19 workers	66	27.16
20 - 99 workers	17	7.00
Total	243	100

Source: Result of Survey, processed in 2013

Result of survey indicates that MSME with workers ≤ 4 have the highest potential, as observed in 160 MSME (65.84 %), followed by those with 5-19 workers in 66 MSME (27.16 %), and those with 20-99 workers in 17 MSME (7.00 %). It shows that many workers are absorbed into MSME sector, and therefore, the presence of MSME must be pushed forward to absorb greater number of workers. To identify the problems, the demand and the potential of Micro, Small and Medium Enterprises (MSME) in Malang Raya, SWOT analysis is used which emphasizes on four aspects such as *strengths*, *weaknesses*, *opportunities*, and *threats*. This analysis is aimed to identify a business in systematic and comprehensive fashions which cover some aspects such as business, capital, marketing, production and worker.

Figure 1. MSME Empowerment Model



This model describes that various national elements (such as Indonesia Chamber of Trade [KADIN], related officials, financial agency, capital market, NGO and colleges) are simultaneously and in coordinated fashion delivering the support for MSME empowerment. One of related officials is The Official of Industry, Trade, Cooperative and MSME which is the tip of spear in addition to Kadin in the MSME empowerment. The supports that may be given are capital, education, training and mentoring to produce Self-Supporting MSME. Financial agencies can involve general banks, people credit banks, and micro finance agencies (Cooperative and BMT). These agencies can deliver capital with low interest rate and even without collateral. Capital market is also important to introduce capital market agencies to MSME in order to provide the description about the alternatives of investment and capital source. NGO (Non-Governmental Organization) is already familiar with MSME problems. This organization has done so many researches and reviews related to MSME development. It must be useful starting point for NGO to hand over the supports such as education, training and mentoring for MSME in solving the problems. Colleges may involve higher education agencies which always conduct researches and community services toward MSME, and it must be helpful for MSME empowerment into a self-support enterprise. All these elements are expected working in harmony based on each capacity to the interest of MSME empowerment. Therefore, MSME can work better, more professional, stronger and more resistant against harmful threats. For the future, MSME shall be a self-support business with greater contribution to national economic. The contribution will increase national income which is also improving community income and helping community to eradicate the poverty.

V. CONCLUSION, IMPLICATION, AND LIMIT

The development of Small, Micro and Medium Enterprises (SME) have some comparative advantages than large business. Many facilities and easiness have been provided by the government. The economic actor of MSME still faces many internal structural-conditional barriers. The suitable model to deal with problems at MSME in Malang Raya is by mentoring and training, or by channeling the aid from all parties for MSME empowerment. The material of training and fostering programs must cover all supporting aspects of MSME development because all these aspects are related to each other and even inseparable. Next, MSME actors must also actively participate into all training and fostering activities, not only into activities related to financing. The local government and the provider of capital aid to Small and Medium Enterprises (SME) shall be more active (using ball-picking technique) to socialize the credit aid program to MSME and to facilitate the access of MSME to capital aid. This research attempts to find a development model of MSME in Malang Raya. Further research must conduct a trial for the existing model in the location of research.

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