



## **Enterprise in deprived urban areas**

# **A Review of Enterprise Initiatives in EU inner city neighbourhoods and their implications for London**

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## 1. Foreword

- 1.1 Over the past few decades interest in the future of our deprived city neighbourhoods has grown as conditions in these areas have deteriorated. As significant problems of depopulation and unemployment became apparent across the post-industrial world in the late 1960s and early 1970s<sup>1</sup>, solutions to these debilitating issues have been sought, often with limited success, in every developed country.
- 1.2 In recent years, the encouragement of enterprise has emerged as a key element of local economic development policies. This study considers a number of issues related to this approach: has it the potential to be effective in tackling the issue of deprived neighbourhoods in cities across Europe? As European countries try to adapt rapidly to the challenges of globalisation and modern technology, is it possible to promote greater competitiveness and innovation without losing sight of the need to promote social inclusion? This study is intended to address such questions and provide an insight in key trends in the promotion of enterprise in urban areas, with a particular focus on inner cities.
- 1.3 The study was commissioned by the London Development Agency (LDA) to complement their work on City Growth Strategies (CGS) and to continue to explore the relationship between enterprise policy in deprived urban areas and regional economic policy. The CGS approach broadly promotes the strengthening of economic linkages between inner city firms and wider clusters. This study has implications for how this objective can be delivered, drawing on best practice examples from around the EU and considering their transferability. It also seeks to explore alternative approaches to enterprise, for example social enterprise and human capital development.
- 1.4 This paper takes a thematic approach to these issues and is broken into seven main sections:
- an executive summary;
  - methodological approaches;
  - an introduction to urban enterprise promotion;
  - thematic review of the case studies;
  - recommendations;
  - an appendix providing definitions.
- 1.5 This study does not seek to cover old ground: to use themes and specific examples drawn from the redevelopment of Barcelona for the 1992 Olympics or to investigate how the London Docklands Development Corporation approached issues pertaining to enterprise in deprived neighbourhoods, would be to investigate already well documented examples, albeit from a different angle. Case study examples have been selected for their relevance and for their novelty; the study

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<sup>1</sup> Read & Hall, (1982).

therefore uses lesser known examples of urban economic development to give a fresh perspective.

## 2. Executive Summary

- 2.1 This study was commissioned by the LDA to provide an insight in enterprise strategies across urban areas in the EU, focusing particularly on deprived inner city areas. Globalisation has put increasing pressure on cities to promote greater flexibility and diversification, to ensure higher levels of competitiveness and innovation.
- 2.2 As cities strive to become increasingly competitive, greater recognition has been given to the economic and social potential of deprived inner city areas. These areas are seen as strategic core locations in our cities, with clear competitive advantages including stable local markets and under-utilised workforce. Increasingly, policies have been developed to tap this potential and enterprise promotion has emerged as synonym with positive and innovative change, building on opportunities and strengths rather than focusing on redressing weaknesses.
- 2.3 However, while the 'enterprise gap' and potential of deprived urban areas should be recognised, due consideration needs to be given to the barriers to the promotion of healthier and entrepreneurial economies in these areas. Such barriers include low business and social networks, lack of role models, crime and perception of crime and obstacles to access to finance.
- 2.4 In reviewing best practice in other European cities, the analysis has focused on four key elements of enterprise promotion in deprived urban:
- The strategies and measures which have emerged, both area-based and business-led;
  - The actors involved in the processes and the development of new modes of governance;
  - The tools and practical approaches which have been developed, creating an enabling framework for enterprise;
  - The economic and social impacts of enterprise promotion in deprived urban areas and the factors which influence them and enhance their sustainability.
- 2.4 The findings of this review have highlighted six priority areas relating to enterprise promotion in deprived urban areas. We recommend that the LDA identifies and engages with transnational partners to exchange experience on the following:
- Developing strategies for the informal economy
  - Linking inner city enterprise to new and wider markets
  - Linking local economic development to the regional economy
  - Developing strategies and frameworks for business support
  - Promoting greater impact and sustainability of inner city enterprise
  - Promoting innovation in deprived urban areas

### **3. Methodological issues**

- 3.1 This study seeks to investigate different approaches to urban enterprise issues in the EU by identifying and investigating the tools, strategies and actors pertinent to each example. Through this approach, the study seeks to identify examples of best practice and the sort of interventions that represent the most effective ways of exploiting opportunities and overcoming barriers.
- 3.2 London stands at the forefront of cities committed to exploiting the opportunities presented by its deprived urban areas and has lessons to offer cities around the world. Equally, London has much to learn from theory, approach and practice in other urban areas. This study sets out to highlight some of the successes and key issues encountered across Europe that can help inform strategies and practices in London.

### **Objectives**

- 3.3 The LDA has set-out four core objectives for the project:
- Identifying and analyzing current trends in enterprise driven urban regeneration in the EU through the review of literature and relevant case study material;
  - Highlighting general lessons that can be learned;
  - Identifying implications for London specifically with respect to planning, local area and transferability.
- 3.4 This study regards as fundamental the need for deprived city localities to be viewed as opportunities and not as burdens: the extensive problems that exist must not over-shadow the potential of these areas. It attempts to draw common themes from good practice examples drawn from around the EU and therefore present options for adoption in London. The examination of the strategies and context aims to portray the circumstances in which economic development projects aimed at enterprise in deprived neighbourhoods operate. All countries and localities have a different set of circumstances in which deprived urban areas operate.

### **Sources of good practice**

- 3.5 This research has been primarily based on three types of information sources:
- Academic research in this field
  - Information provided by the organisations involved in the case studies exemplified
  - Research and analysis provided by other organisations/think tanks/government departments with a focus on enterprise and urban areas

- 3.6 While basic data is widely available, through local/regional/national/European strategies and policy documents, analytical studies on enterprise and urban areas are sparse, represented mainly by academic texts and articles that touch on rather than directly address the issue. There is no central resource for best practice in economic development and enterprise promotion, although the Local Economic and Employment Development (LEED) programme of the OECD is attempting to create such a repository. The Office of the Deputy Prime Minister (ODPM) has also recently published a study which collates evidence of 'Business-led regeneration of deprived areas' in the UK and provides an interesting insight in this field. Moreover, the New Economics Foundation reports on the Inner City 100 highlight best practice and lessons from experiences in the UK.

## **Transferability**

- 3.7 An important focus of this study is transferability, without which the study would be of academic interest only. The strategies, tools and actors central to good practice are examined in order to draw conclusions on what elements can be usefully transferred to London.
- 3.8 To tackle the complex issue of transferability, certain issues must be addressed. For example: does the LDA's approach of focusing projects in areas adjacent to inner cities, which is contrary to the continental European approach of pursuing projects in disadvantaged city areas, have implications for the transferability of lessons learnt from continental Europe to London? How can best practice lessons learnt in the rest of the European Union (EU) be transferred to the UK in light of differing definitions of inner city? Can examples of best practice be transferred from other cities to London without undertaking the extensive investigation of regional context, population trends and spatial organisation that has been undertaken in the city in which the lessons have been learnt? These questions will be implicit throughout the study.
- 3.9 Little research currently exists that covers transferability from an international perspective. The United States can in some ways be considered as pioneers in the promotion of enterprise in urban areas, and inner cities in particular, and much of the academic framework in this field is of American origin. In spite of this, lessons from the US cannot simply be transferred to the UK – significant differences in regulatory frameworks and enterprise and regeneration traditions make this problematic. Even with programmes funded by the EU URBAN Community Initiative, which adhere to the strict rules of the funding stream, no substantial research has been undertaken to identify transferable best practice. This study aims to make a contribution in this field.
- 3.10 The term "enterprise" is defined differently in the UK and the rest of the EU: on the continent the term "enterprise" tends to be associated with highly skilled entrepreneurship, whereas in the UK it relates more broadly to the establishment of all types of new businesses. Support for enterprise in deprived neighbourhoods was generally implicit in URBAN and Objective 2 rather than being portrayed as a major driver for local regeneration and in this context enterprise has a clear social

- dimension in its promotion of jobs and economic growth and in reducing unemployment at a macro level. However, the term “enterprise” is generally used in a different way on continental Europe than in the UK. The UK definition of the term is a broad one; Bolton and Thompson (two British social scientists) have suggested that entrepreneurship is best defined through the character traits of individual entrepreneurs, saying “an entrepreneur is a person who habitually creates and innovates to build something of recognised value around perceived opportunities”<sup>2</sup>. Consequently, enterprise from an economic point of view can be applied to any strand of business in any sector, as long as these broad criteria are fulfilled. Neither the nature of innovation nor the sector within which this innovation would take place is prescribed. According to UK thinking, enterprise can be found in newsagents and aerospace factories; the common theme being innovation.
- 3.11 In other parts of the EU, however, the meaning of the term “enterprise” is much narrower than in the UK and more closely tied to technological innovation. Indeed, the aim of enterprise policy in most EU states is to promote technological innovation and a knowledge based economy. Outside of these parameters, the term does not have much meaning in the economic development community. So traditionally enterprise promotion in other EU states has focused on the promotion of technological innovation, whereas in UK enterprise represents any kind of innovation, technological or otherwise.
- 3.12 In spite of the clear benefits of enterprise to local development, empirical data and academic research in this field is under-developed. The OECD’s LEED programme has in recent years tried to address this gap by focusing on enterprise in distressed urban neighbourhoods. The programme’s approach to these issues has been to recommend that regional and urban policy include the following objectives:
- build on and encourage local assets
  - sustainable development - actions owned by the community
  - globalisation and clustering
  - regional governance and cohesion of firms, individuals and administration in the regional community
- 3.13 While empirical data is effectively lacking there are many examples of best practice in the promotion of enterprise in urban areas. In some cases this has been spatially targeted towards the inner core or deprived areas, while in the majority of cases, a city wide strategy has been put in place to promote greater competitiveness, innovation and enterprise.

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<sup>2</sup> Bolton and Thompson, (2000), p241

## 4. Enterprise in urban areas: challenge or opportunity?

- 4.1 Globalisation has put increasing pressure on cities to promote measures to create new jobs and combat exclusion. It has also led to the need for greater flexibility and diversification at the local level, to ensure greater competitiveness and innovation.
- 4.2 Increasingly, policy solutions have been sought to address these issues and a clear paradigm shift in urban policy can be identified. In the UK, since 1967, four main tendencies can be identified, highlighting a shift not only in the perception of deprived urban areas but also in the conceptualisation of existing potential and opportunities in these areas:
- From social pathology to structural problems (1967-1978)
  - Property led regeneration (1981-1993)
  - Partnership and community economic development (1994-2000)
  - Promotion of enterprise (2001-date), in particular with the launch of the Inner City 100 programme, tax credit for disadvantaged neighbourhoods and the City Growth Strategies<sup>3</sup>.
- 4.3 The promotion of enterprise has emerged as a critical dimension of local economic development, particularly in deprived areas. Enterprise has become synonymous with positive and innovative change, building on opportunities and strengths rather than focusing on redressing weaknesses<sup>4</sup>. However, although the impact of enterprise on local economic development, especially in deprived areas, has been widely recognised, the potential of such neighbourhoods is still largely untapped. According to recent research by the New Economics Foundation, there is a clearly identifiable 'enterprise gap' in more deprived neighbourhoods, with significantly lower levels of small business density in comparison to wealthier wards<sup>5</sup>. The following sections will look at the opportunities for and barriers to business and enterprise development which need to be addressed.

### Seizing opportunities

- 4.4 In recent years, a new trend in economic development policies has been noted, shifting from pure macro-economic policy to a more territorial approach to economic development, building upon local strengths and assets and stimulating local enterprise, moving away from direct assistance to declining industrial sectors<sup>6</sup>. Resources have been diverted from subsidies to programmes to investment in human and social capital, diversification of the economic base and the creation of

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<sup>3</sup> Ramsden, Potts, Mayo, Raymond (2001).

<sup>4</sup> The OECD defines an enterprising person as one who has "...positive, flexible and adaptable disposition toward change, seeing it as normal and as an opportunity rather than a problem. To see change this way, an enterprising individual has a security born of self-confidence, and is at ease when dealing with insecurity, risks and the unknown"<sup>4</sup>: a definition that serves to illustrate the qualities that an enterprising company must have.

<sup>5</sup> MacGillivray, Potts, Raymond (2002)

<sup>6</sup> Bradstock, (2001).

and support to new enterprises<sup>7</sup>. Development is increasingly seen as dependent upon “*calling forth and enlisting for development purposes resources and abilities that are hidden, scattered, or badly utilised*”<sup>8</sup>.

- 4.5 This trend is reflected in the academic world in a revived interest in the ‘inner city’ as the key focus of urban regeneration strategies. During the 1990s, the work of Michael Porter in particular significantly contributed to this new impetus given to urban areas, recognising the inner city as a “strategic location at the core of major urban areas, transportation networks and communication networks that provide potent advantages in this increasingly just-in-time economy”. Porter’s notion of the inner city incorporated the standard geographical definition as a starting point but for the purpose of examining the area’s market potential the ‘inner city’ had to exhibit the following competitive advantages:
- An underserved local market with substantial purchasing power that can support many more retail and service businesses;
  - A stable and under-utilised workforce with entrepreneurial potential amid a tight overall labour market; and
  - Opportunities for inner-city companies to link with and provide outsourcing for competitive regional industry clusters in areas such as healthcare and tourism.
- 4.6 In the UK, the Government’s Small Business Service City Growth Strategy also provides an overview of the characteristics of successful local economies, which serves to highlight the key issues influencing enterprise in deprived urban areas:
- Consistent growth in GDP
  - High productivity and levels of investment
  - Growing modern and diversified business sectors
  - High rate of new firm formation
  - Good connections with other firms and those outside the area
  - Non-excessive regulation and taxation
  - Low level of crime
  - High levels of R&D and innovation
  - Availability of skills, premises and finance
  - Efficient local government
  - Ability of local businesses to influence local/national government
  - Lifelong learning as a reality for all
  - Flexible workforce
  - Good quality environment
  - A range of good quality and affordable local facilities
  - Housing available locally to meet a range of needs at different prices
  - Good quality transport and infrastructure
  - Political stability
  - Reasonable social equity
- 4.7 While Porter highlights their potential and latent resources, inner cities are often identified with social, economic, physical and environmental challenges. They are often characterised by above average concentrations of unemployment, full-time

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<sup>7</sup> Pezzini, OECD.

<sup>8</sup> Hirschman, (1958), p.5.

workers on low pay, single parents and the sick and disabled, who are living in poor quality and deteriorating housing conditions.

- 4.8 The disadvantages of deprived city neighbourhoods do not stem from their status as deprived areas. Research shows that people living in such neighbourhoods are no less productive than their suburban or rural counterparts and that they are not content to live on benefits to any greater degree than others: the inner city workforce is at least as effective as a workforce in other parts of the country.
- 4.9 While the opportunities that inner cities represent must be recognised, it is equally important to acknowledge the challenges and barriers to enterprise promotion which need to be overcome.<sup>9</sup>

### **Tackling barriers**

- 4.10 While the advantages of enterprise promotion have clearly been recognised, attention needs to be paid not to the numerous barriers to a successful deployment of the potential of deprived urban areas. The City Growth Strategy pilots, for instance, have highlighted many concerns for businesses starting up and developing in inner city areas, including crime and grime, transport and connections and congestion.
- 4.11 The New Economics Foundation's research on the Inner City 100 has highlighted the following issues as key to enterprise promotion:
- Increase transparency in financing and availability of capital
  - Provide more coherent business support services
  - Target physical improvements, as well as improvements in public transport and communications
  - Address skills gaps and shortages, creating strong links between enterprise and education (from schools to higher education institutions).
  - Develop an enabling planning framework (addressing competing high value land uses, availability of premises)
  - Encourage entrepreneurship spirit at an early age
  - Potential for BMEs and women enterprise – but more needs to be done to address barriers and capitalise on their potential.
  - Develop measures to counter-act brain-drain
  - Reduce red tape
  - Recognise and inspire talent
  - Provide role models
  - Fill the enterprise gap, taking advantage of existing potential and ideas and providing a strategic framework and more effective targeting of policies and programmes at all levels.

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<sup>9</sup> OECD, 2003, p. 14

### Low level of social and business networks

- 4.12 One of the main barriers to entrepreneurship in deprived urban areas is the low level of social and business networks that are so important in promoting enterprise. Social networks can be sources of finance, labour and management, elements which are crucial to enterprise. Research shows that successful entrepreneurs develop and maintain a large number of contacts and that entrepreneurs who do not are much less likely to be successful. These problems are exacerbated by levels of ownership of the means of communication, such as telephones and cars, which tend to be lower among disadvantaged groups, long-term unemployed people in particular<sup>10</sup>.

### Barriers to a healthy local economy

- 4.11 The nature of the economy within depressed urban areas is a hindrance to entrepreneurship. High levels of unemployment and low levels of disposable income and savings mean that opportunities for the development of business are more limited than in other areas. Demand for goods and services is therefore lower than in less economically distressed areas. The social and economic problems of these depressed areas are, without some kind of intervention, self-perpetuating. In relation to this issue, the nature and extent of the informal economy in deprived areas is still poorly understood and additional research in this field might help identify further barriers to enterprise<sup>11</sup>.

### Poor access to finance

- 4.12 There are financial barriers to entrepreneurship that lead to lower levels of business start-ups in deprived urban areas: these neighbourhoods tend to have low levels of ownership and low property values, so that the traditional method of raising the requisite capital with a loan secured on real estate is curtailed; even if the would-be entrepreneur does own property, the amount of capital that could be raised is relatively low. The general lack of financial assets in deprived areas means that loans cannot be secured on fairly valuable assets such as cars. People living in deprived areas and who have been unemployed for a significant amount of time often have poor credit histories and a poor relationship with their bank. As a result entrepreneurs establishing businesses in deprived urban areas chose sectors with low capital requirements and minimal barriers to entry, thereby exposing themselves to high levels of competition. Such firms have low levels of profitability and very high failure rates.
- 4.13 Most entrepreneurial ventures are self-financed and family and friends will often play a significant financial role in aiding a business venture. Since the family and friends of people living in depressed areas are often in the same socio-economic situation as the would-be entrepreneur, this possible avenue of financing is severely curtailed. The Inner City 100 experience has shown that access to finance at start-

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<sup>10</sup> OECD (2003)

<sup>11</sup> ODPM (2003)

up level is a significant issue: personal savings and family support are still the main sources of start-up cash. Venture capital and business angels are not significant players in this field<sup>12</sup>. Venture capital is considered too risky and complex for traditional lenders and too costly for individual entrepreneurs.

- 4.14 Discrimination is also a significant barrier to accessing finance. Research undertaken in the US suggests that businesses owned by black and ethnic minorities have less chance of being extended credit than similar white-owned firms<sup>13</sup>. Since many deprived urban neighbourhoods have relatively high levels of black and minority ethnic communities this has a significant negative impact on entrepreneurial opportunities.

### Low level of human capital

- 4.15 Human capital is as important as financial capital in the success of enterprises and people in deprived areas tend to have lower levels of skills and work experience. Most entrepreneurs gather ideas and expertise from previous employment, yet in areas with high levels of long-term unemployment these opportunities for information gathering and skills development are more scarce<sup>14</sup>.
- 4.16 There is also a strong correlation between the longevity of unemployment and the success of entrepreneurial activity. Research has shown that enterprises established by people who had previously been unemployed are more likely to fail<sup>15</sup>. Equally, the transfer of knowledge and skills within families is central to the success of enterprise, yet is available to a lesser degree in deprived areas with lower levels of education and employment experience.

### Lack of role models

- 4.17 The growth of enterprise demands entrepreneurial role models and the absence of these impacts negatively on the local economy: the presence of enterprises and entrepreneurs encourages other to follow the same path and provides individuals with the confidence implicit in others' success. There is considerable research to support the argument that individuals who have sustained contact with entrepreneurs are more likely to establish their own enterprises<sup>16</sup>.

### Cultural and psychological barriers

- 4.18 Linguistic and cultural barriers such as lack of affinity with mainstream institutions, can act as significant barriers to enterprise. Lengthy periods of unemployment and

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<sup>12</sup> MacGivlray, Potts, Raymond (2002)

<sup>13</sup> Blanchflower, (1998)

<sup>14</sup> Fielden, (2000)

<sup>15</sup> Cowling and Hayward, (2000), Taylor, (1999).

<sup>16</sup> OECD, (2003).

inactivity can lead to a loss of motivation and hence to an individual's failure to pursue an entrepreneurial opportunity<sup>17</sup>.

### Crime

- 4.19 Rates of crime tend to be higher than average in deprived urban locations. The effects are two-fold: businesses must invest in alarm systems and security guards, increasing costs and therefore making deprived urban areas less attractive places in which to establish enterprises. Equally, perceptions of crime can discourage both employees and customers. Research carried out on Inner City 100 initiatives clearly showed that vandalism and actual and perceived crime were significant issues; however the problem was not considered as affecting all inner city locations<sup>18</sup>.

### Benefit traps

- 4.20 The problems associated with the transition from benefit to employment are significant since self-employment means the immediate loss of a number of benefits, which can result in being worse off in the short to medium term. This might discourage some of the unemployed from attempting self employment<sup>19</sup>. The benefits trap can be more significant in deprived neighbourhoods where a larger than average proportion of the community is on benefits.

### Over-regulation and red-tape

- 4.21 Business-start-up costs and complex administrative procedures as can act as a significant barrier to enterprise. Regulatory burdens fall disproportionately on small business and the burden of regulation can seem outweigh its benefits<sup>20</sup>.

### Lack of targeted support

- 4.22 One of the barriers to enterprise identified in deprived urban areas is the lack of targeted business support. Mainstream support is often viewed as either inaccessible or not appropriate, providing a 'blanket approach' which fails to recognise or address more specific needs<sup>21</sup>.

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17 OECD, (2003)

18 New Economics Foundation, (2001)

19 OECD, (2003)

20 OECD, (2003),

21 ODPM (2003)

## 5. Thematic analysis

- 5.1 The main objective of this review is to identify best practice and highlight the key themes emerging from enterprise policy in deprived urban areas across the EU. The approaches to stimulating enterprise vary greatly across Europe and in researching best practice this paper seeks to maintain a balance of projects from different Member States as well as different types of initiatives (European, national, regional, local and private sector led).
- 5.2 Increasingly, countries are looking for a paradigm shift in policy making, grounded in the analysis of the failure of policy driven by compensation to correct structural problems. In its interventions in cities the EU has in recent years had the dual aim of combining enterprise with urban economic and social policy by addressing social cohesion issues (reducing unemployment, tackling pockets of deprivation) and promoting enterprise.
- 5.3 This model builds upon the strengths and opportunities of a locality rather than simply tackling its weaknesses, which is the traditional wealth redistribution policy approach. This is particularly noticeable in the URBAN Community Initiative programmes<sup>22</sup>.
- 5.4 In reviewing best practice in other European countries, four key elements of enterprise promotion have been retained to allow a comparative analysis<sup>23</sup>:
- the strategies and measures which have emerged
  - the actors involved in the process
  - the tools and practical approaches which have been developed
  - the economic and social impacts of enterprise promotion on the deprived areas
- 5.5 These elements will be considered in turn in the following sections.

### Strategies

- 5.6 Cities across Europe have developed measures and strategies to increase their competitiveness, by enhancing their innovation capacity to innovate, exalting entrepreneurship and promoting a continuous upgrading of their human and social capital, while also addressing hurdles to the local business environment<sup>24</sup>. Efforts in enterprise promotion have increasingly been focused on exploiting untapped potential, be it through place-based initiatives or measures targeting specific disadvantaged groups.
- 5.7 Cultural, institutional factors, deeply embedded in the social fabric of a city, play a significant role in shaping the approaches and strategies used in this field. While this

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<sup>22</sup> The approach promoted in Helsinki, which combines urban policy with enterprise, is also along these lines.

<sup>23</sup> It is important to note that the problems of governance are often more acute in larger metropolitan areas, due to greater complexity and size. Mario Pezzini, 'Main trends and policy challenges in OECD regions: metropolitan regions in a global context', OECD, 2003, Entrepreneurship and local economic development. OECD.

<sup>24</sup> Pezzini, (OECD).

makes it difficult to put forward a 'model', it provides an interesting insight in different types of solutions to common issues. In strategy terms, two key approaches can be identified<sup>25</sup>

- *Area-based city enterprise projects*
- *Business-led regeneration*

## **Area-based city enterprise initiatives**

- 5.8 Several initiatives have targeted specific urban areas with high levels of social and economic deprivation... In cities such as Hamburg, Rome, Malmo, Milan and Vienna we see the emergence of 'priority areas', be it the result of public intervention or private sector led regeneration. Common features in all these areas are current high levels of physical, social and economic decline, combined with clear potential for the areas to link up to the wider city's more thriving areas. This approach has been taken by the EU in URBAN I and II as well as in Objective 2 interventions, which have specifically targeted areas of need based on indicators of multiple deprivation. A number of other initiatives have sought to regenerate areas in decline, taking advantage of their central location and placing them on the map as strategic centres of change rather than problem areas in need.

### *Identifying priority areas*

- 5.9 Area-based regeneration has been based on the identification of priority areas based on indicators of need and opportunity. At an EU programmes level this has been through negotiations between the local/regional and national levels and the EU. In other case studies, economic development advisory bodies have played a key role in targeting public/private investment<sup>26</sup>. Areas have typically suffered from acute social deprivation (high unemployment and dependency rates, crime, depopulation for instance), physical decay and have been in need of considerable economic restructuring and/or improved connectedness to areas of growth.

### *Supporting an integrated approach*

- 5.10 While remaining geographically targeted, the most successful area-based initiatives have put forward a comprehensive regeneration 'package', combining physical change with support to economic and social restructuring.

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<sup>25</sup> This list is a modified version of one presented in Bradstock, (2001).

<sup>26</sup> This is the case in Rome for instance, with the key role played by Risorse per Roma.

Case study 1 - Antwerp BOM project

In Antwerp URBAN supported the development of the BOM project, an inner city regeneration project with the dual objective of improving support for local SMEs and offering customised training and support to the integration of specific target groups in the labour market.

A flagship business centre called NOA was created to offer office space, management and administrative support to new local enterprises. The centre encouraged local enterprise by establishing itself not just as a key business centre in the local community but also as a meeting and cultural point for other local activities.

*Local marketing and promotion*

- 5.11 Cities are increasingly using marketing tools to develop their position as key international players in enterprise, innovation and competitiveness. They aim to attract new start-up businesses, inward investment and help to promote local products and services. Barcelona 'City of Knowledge' or Munich 'Bio-Region' are clear examples of this.

*Landmark projects*

- 5.12 Some urban areas in crisis have opted for the development of landmark projects, as a means to attract attention and investment on previously neglected areas<sup>27</sup>.

*Property-led/physical regeneration*

- 5.13 As cities expand and the demand for space increases, some cities have turned to previously neglected urban areas, developing ambitious plans for their physical redevelopment, turning them from deprived locations to key hubs of economic development<sup>28</sup>.

*Understanding local needs and circumstances*

- 5.14 As highlighted by the City Growth Strategy approach, an in depth analysis of local circumstances, assets and needs is crucial to a successful regeneration strategy.

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<sup>27</sup> Hamburg, Vienna for instance.

<sup>28</sup> The Hamburg Hafencity redevelopment will over the next few decades transform a central location of the city from an area in decay to a key economic, residential and transport centre.

## **Business-led regeneration**

- 5.15 Entrepreneurship, technology and innovation are the various terms used to describe the driving forces behind local and national urban enterprise strategies in Europe. Cities are adjusting to the demands placed on them in the new global economy by attempting to create environments that will allow high-tech industries like biomedicine, new media and ICT to flourish. The initiatives reviewed range from the promotion of clusters, knowledge transfer and innovation to the provision of business incubation, support and growth services. Evidence suggests that while the strategic policies of the larger European cities increasingly incorporate measures aimed at attracting and stimulating innovation and enterprise, there is little evidence to suggest that these policies are deliberately targeted at depressed urban or inner city areas. Experiences from the cities discussed in this section indicate that there is growing public sector support for projects that nurture the development of knowledge-based industries.

### *Combining social and economic goals*

- 5.15 From a strictly economic perspective, the successful regeneration of an area depends upon the generation of external income and the extent to which there are local multiplier effects resulting from job creation and the development of local supply chains. Several approaches to this are possible: on one side of the spectrum is the attraction of inward investment, targeting new and existing businesses, while on the other are policies promoting or supporting self-employment of previously unemployed people or social enterprises<sup>29</sup>.

#### Case study 2 - Barcelona Quasi Enterprise Project

In Barcelona, the Quasi Enterprise project aims to promote enterprise throughout the city. It targets primarily graduate students from Barcelona University with a high tech product or service to sell. It was set up by Barcelona Activa and run by a non-profit organisation (Bosch I Gimpera Foundation). It aims to provide new or recently created enterprises with the tools to increase technological transfer and improve the creation of new technological enterprises. It provides a commercial impetus to universities and research institutes

### *Developing more targeted business support services.*

- 5.16 Evidence shows that mainstream business support in deprived urban areas has a lower take-up rate than in other areas. As a result, several cities have developed targeted business support provision to meet the needs of more disadvantaged groups, such as BMEs and women, for which mainstream provision is either not accessible or inappropriate.

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<sup>29</sup> ODPM (2003)

*Promoting a local 'philosophy of change'*

- 5.17 The importance of role models has been discussed previously. In many cases, this has meant promoting entrepreneurial 'role models' encouraging enterprise at very early stages and in diverse contexts – for instance at school and through local housing associations, encouraging enterprise among tenants<sup>30</sup>. Encouraging a debate among local stakeholders on urban futures can also promote greater cohesiveness and sense of ownership of local initiatives.

*Targeting specific sectors*

- 5.18 Cities are increasingly encouraging growth in specific sectors, such as creative industries, ICTs and bio-technology. These are among the fastest growing in Europe and provide high added value in bringing innovation to more traditional sectors<sup>31</sup>. Many of the case studies have also shown the benefits of developing cross-sector synergies.

*Encouraging technology transfer*

- 5.19 Technology transfer is a clear advantage of clustering of traditional business and universities/research institutions. As many clusters form part of the "new economy", knowledge is an essential commodity and commercially interesting products for businesses<sup>32</sup>. As a highly technological industry will necessitate a large amount of highly contextual and uncertain knowledge, face-to-face transfer is by far the most effective way in which it can be spread.<sup>33</sup> This phenomenon is sometimes called "collective learning" and means that learning takes place in a socialised way. In this sense, the club-like nature of a SME cluster creates a low or no rivalry environment in which information transfer can occur regularly, at all levels, at no cost and at a huge advantage to all sides. This kind of sharing necessitates close geographical proximity.<sup>34</sup>

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30 Rosengard, located North of Malmö, was also suffering from industrial decline and high levels of economic and social exclusion. The area was 'stigmatised' because of this and was struggling to attract economic activity and jobs. The Swedish Federal Government and the city aimed to address these issues, by promoting full employment through the stimulation of enterprise, but most importantly, by encouraging a very locally based response to local problems. One of the key initiatives implemented here was the 'House of Entrepreneurs', which was conceived and implemented by a local private housing company, MKB. The company included the promotion of enterprise in its business plan, stimulating service provision in the area with the dual purpose of addressing the lack of mainstream provision and the need to create new jobs for local residents. The House of Entrepreneurs offered low cost facilities for business start-ups and business advice and mentoring for local tenants.

31 Manchester, Leipzig, Helsinki have focused on creative industries, Munich on bio-technology, Stockholm and Barcelona on ICTs.

32 Vienna Tech-Gate: opening the market for virtual reality technologies: simplifying business access to scientists and scientific knowledge; raising university's awareness of what business needs.

33 Capello, (2002) p179

34 *ibid* p181

### Case study 3 - Stockholm Technology Transfer

Stockholm Technology Transfer is a government-funded organisation initiated by the Swedish Ministry of Industry and Trade, which alongside the Ministry for Education, is responsible for economic policy, innovation and entrepreneurship policy in Sweden. The aim of the STT was to set up 'framework contracts' between the universities and industry, to promote knowledge transfer between industry and academics, including commercialisation of academic research and entrepreneurship among academics. It has an SME oriented function and led to the creation of numerous companies based on graduates and researchers. The universities get financial support to establish new and improve existing for successful knowledge transfer. The government enactment runs until 2007, after which the different regional development strategies will be evaluated.

### *Developing strategies for consistent business support*

- 5.20 A review of enterprise in deprived areas in UK cities showed that one of the main issues faced by businesses was the lack of consistency and transparency in relation to business support services offered. A more strategic framework and co-ordination of the services provided would be beneficial to enterprise and reduce failure rates related to these issues<sup>35</sup>.

### *Promoting social enterprise*

- 5.21 Social enterprises are based on the achievement of social objectives and provide goods and services to local communities which the market or public sector are either unwilling or unable to provide<sup>36</sup>. They play a key role in local economic development, particularly in areas of disadvantage, given their direct involvement with local communities. They provide high added value through social and capacity building, stimulating community confidence and growth, enhancing employability for instance.

### Case study 4 – Helsinki Innovation Support Chain

In the Helsinki region, an 'Innovation Support Chain' can be identified, bringing together a variety of actors involved at every stage of a business development, from start-up to commercial success. Different organisations, from research institutes to incubators to business generators, can be called upon for a range of development programmes and support measures<sup>1</sup>

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<sup>35</sup> New Economics Foundation, (2002)

<sup>36</sup> DETR, (1999).

*Developing strategies for the informal economy*

5.22 Enterprise-led strategies for deprived urban areas need also take into consideration the impact of the informal economy, which accounts for a significant share of employment and economic activity. According to the ILO, employment in the informal economy in developed countries is linked to employment arrangements that have tenuous connections between the worker and formal structures and little if any access to fundamental labour rights and protection and employment-based social protection. The following specific categories of non-standard employment arrangements, which engages an increasing share of the workforce in Europe, are relevant:

- part-time employment in formal firms
- temporary employment in formal firms
- self-employment, in particular own account workers with no employees
- inter-firm subcontracted work
- industrial outwork, including homework
- sweatshop work
- day labour<sup>37</sup>

5.23 Enterprise promotion strategies should consider the potential offered by the informal sector, while considering the development of an appropriate policy and regulatory framework which ensures appropriate standards for the workers engaged in this sector.

*Developing clusters.*

5.23 The promotion of enterprise in many European cities has taken the form of the development of 'clusters' or through more formalised links between universities and research institutions and industry. In some cases these transfers have been centrally driven, in other cases a more liberal approach has been preferred. Clustering generally refers to the grouping together of firms of a specific sector, including specialist firms, suppliers and specialised business support services providers. Although the development of clusters is rooted in local economic, social circumstances and traditions, proximity of firms does not always guarantee success, nor is it always seen as an advantage in certain sectors. In Milan for instance, discussions are still ongoing as to the future of the Cantieri Isola neighbourhood. A neglected inner city area, separated from the city by railway lines, it is seen as an ideal location for a fashion industry 'cluster', the Citta' della Moda. However, the fashion industry's response to these proposals has generally been negative, as a more mixed-use area is seen as more advantageous in location terms.

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<sup>37</sup>ILO, (2002), p. 26.

### Case study 5 – Clusters

A cluster is a label given to a group of geographically bound businesses that share comparative criteria, which have created some kind of mutually dependent economic relationship<sup>1</sup>. The encouragement of clustering is becoming increasingly popular with governments, economic development organisations and academics in post-industrial economies, not least of which the UK. Research shows that clusters can fill the middle ground between people's perceptions of the negative effects and attitudes of big business and the socially responsible yet inefficient practices of publicly operated organisations.

## Actors

- 5.24 Local governments and development agencies are being asked to take an increasing role in securing economic competitiveness and social cohesion at a time when public budgets for these activities are being squeezed. In this context public agencies are developing frameworks and instruments to lever private finance into activities that the public sector has traditionally funded. More innovative forms of governance are developed, based on co-operation rather than hierarchical structures. The distinctions between design and delivery, conception and implementation are increasingly blurred, as actors increasingly work together and services and projects are jointly defined by 'producers and users'<sup>38</sup>.

### **Summary of key themes around the changing actors in enterprise promotion**

#### *Engaging the private sector*

- 5.25 The private sector is a key partner in many activities: regenerating derelict land, supporting the social and economic development of marginalised communities or participating in public efforts to overcome barriers to small firm development. For this to work effectively appropriate instruments and structures must be put in place to mitigate some of the risks that currently prevent private companies from making what could be profitable investments in deprived areas. The URBAN Community Initiative programmes have been successful in piloting new approaches to involving private businesses in employment promotion and creation at the local level. It also linked up services to SMEs which enabled them to become more competitive<sup>39</sup>.

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<sup>38</sup> Henderson and Morgan, (2000).

<sup>39</sup> In Graz (Austria), ERDF permitted the revitalisation of the Jakomini district by promoting measures stimulating a sense of community, improving quality of life, integrating foreign residents and promoting the diversification of the local economic base. The strategy was a mix of social, physical and economic regeneration, improving the attractiveness of the area and developing its potential as a cultural centre.

*Setting up new agencies for local economic and enterprise development.*

- 5.26 Some cities have created public/private agencies to deliver specific projects or initiatives. In some cases the agency is a politically neutral department of the City Council as in the case of Munich (Department for Labour and Economic Development), which initiates policies and strategies for the city building upon and substantiating the City Council's plans. In most cases public initiatives are implemented through private agencies established at arms-length of the public authorities. This is the case in Munich and Lille, where new agencies have been created operating under public control. In some cases projects continue to be delivered centrally with only a few agencies involved, as is the case in Eindhoven.
- 5.27 In other cities, new agencies have been created to supervise individual projects: in Amsterdam, where projects are mainly demand-led, agencies are developed to implement specific projects. In some cases, one of the private organisations in the partnership takes over the coordinating role, as is the case in Amsterdam's Science Park, managed by the Zernike Group. This company has specific expertise in managing facilities, ventures and start-ups. In Helsinki, the Centre of Expertise is run by Culminatum Ltd, a specialised delivery body. Culminatum brings together shareholders from a variety of sectors, including the city/county government (35%), financial institutions, universities and research institutions and the Chamber of Commerce and Science Parks, with the public sector remaining the largest shareholder. The Chairperson is a representative of one of the local technological universities, providing direction to the initiative. It is active in the fields of creative industries and digital learning services. In some cases, the projects are implemented by not-for-profit agencies. In Lille not-for-profit agency Eurasanté plays a central role in the promotion and development of the bio-tech and healthcare sector in Northern France, promoting the area to foreign investors, nurturing potential entrepreneurs through incubator activities and managing the bio-business Eurasanté Park. Partners include healthcare institutions, local authorities from Northern France and other economic development institutions, from the local/regional and national level.

1. *Developing synergies between different stakeholders.*

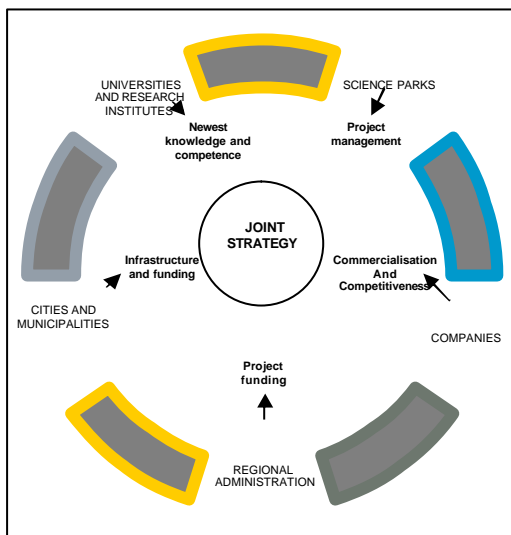


Figure 1 – New modes of governance – the Finnish example

5.28 The figure above shows the interaction of different local agencies in the case of the Finnish Centres of Enterprise. Different actors have come together in developing and implementing a joint strategy, bringing together their expertise and resources to ensure the success of this enterprise initiative.

*Getting the balance between demand and supply right*

5.29 It is apparent that, while promotion of entrepreneurship and innovation are high on the agenda, intervention by national, regional or local government is necessary to achieve a balance between supply and demand: currently supply driven interventions prevail and most of the case studies reviewed have been supply driven. The argument for this public sector led approach is that private agencies are failing to meet demand and Governments are therefore increasingly playing an enabling role to stimulate, support and facilitate innovation and enterprise.

*Enabling private companies to initiative enterprise and local economic development*

5.30 In some cases private sector companies have acted as initiators of specific developments, by attracting other players as a result of their relocation. This is the case for instance in Sweden, where in Tampere and Stockholm technology clusters have developed as a result of two firms' relocation decisions<sup>40</sup>. These two cities can offer a skilled labour force, leading research institutes and investment resources. These can serve as a basis to help create the additional services, inter-company,

40 The Kista Science Park in Stockholm can in a sense be defined as private sector-led, as the development of the area was the result of the establishment of Ericsson and IBM during the 1970s. The area now attracts 700 companies, constituting a real IT cluster.

and company-research links and networks needed to develop the cluster further. This approach has however not always worked. In Turin for instance, the presence of FIAT has in a sense hindered the switch from production to knowledge-based and R&D related activities and has meant that the city has been relatively slow to respond to the new economic circumstances.

*Engaging schools, universities and research institutes*

- 5.31 The review highlighted the key role played by education institutions in promoting enterprise in several forms, through the encouragement of entrepreneurial spirit from an early age through to the engagement of universities and research institutes in knowledge and technology transfer.

*Taking full advantage of EU policy and funding*

- 5.32 The EU has played a key role in regenerating urban areas across the EU through mainstream Structural Funds programmes such as Objective 2 and 3 or through more innovative Community Initiatives such as URBAN or EQUAL. In addition, the EU has in recent years championed the role of innovation and enterprise in regional development, promoting its dual objective of the harmonious development of the EU and addressing the 'innovation and enterprise deficit' in comparison to the United States. Through its programmes, the Commission has sought to address not just the symptoms of uneven development such as high unemployment rates and low GDP per capita, but also its causes. A new generation of innovative regional policy has emerged, addressing the demand-side problems of local firms and improving institutional capacity by sponsoring a partnership approach between public and private sectors<sup>41</sup>. To support its socially and economically cohesive and environmentally sustainable competitiveness and growth the EU has developed a significant policy framework, most notably through the Lisbon, Gothenburg and Luxembourg strategies. Combined with the recently developed SME package and work on enterprise and business support, the EU is a significant actor in shaping policy and funding for deprived urban areas.

*Encouraging greater decentralisation in policy formulation*

- 5.33 Public initiatives can be led by different levels of government, depending on their competences. In many cases the regional authority sets out the strategic framework for development, which is then delivered through practical initiatives at the metropolitan level. The roles of local, regional and national government in developing and delivering economic development strategies vary from country to country. In more decentralised countries local and regional agencies have an increasingly significant role in policy and strategy development, and this is reflected on policy development at EU level. In seeking to identify best practice, it is important to explore which activities sit more effectively at local, regional, national or indeed EU level. The city governments of Munich and Amsterdam have been extremely active in innovation and new entrepreneurship promotion, but the

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<sup>41</sup> Henderson and Morgan, (2000).

economic development role of the city government remains that of a facilitator rather than a leader in determining strategy. The Scandinavian countries have a strong local government sector which takes a leading role in setting economic development policies.

Case study 6 - Centres of Excellence Programme, Finland

The Finnish government initiated the Centres of Excellence programme to take full advantage of regional knowledge and expertise as a resource for business operations, job creation and regional development. The initiative set up 20 Centres of Expertise across the country. The funding is limited to the development of these centres and does not extend to specific projects.

*Striking the right balance between public and private involvement*

- 5.34 Where big business is concerned, shareholder return is of paramount importance. Big businesses can therefore move to new locations solely to improve profitability and this can have a serious impact on a local community, especially if the business accounts for a large proportion of local employment. Publicly owned business may see the interests of profitability as secondary to the economic and social interests of local people. Clusters of locally owned SMEs often operate in a socially responsible manner because they operate in the collective social environment they seek to build and maintain. Clusters of SMEs can be held to account both to their shareholders (either public or private), their employees (generally locally based), other local businesses (that might make up part of the cluster) and the wider local community. The opportunities that depressed city neighbourhoods present to potential entrepreneurial clusters and the opportunities clustering present to inner cities are very great.<sup>42</sup> In the US strategies have been developed which take advantage of the benefits of clustering and networking to achieve economies of scale and therefore benefit low-income and underemployed workers in deprived inner city areas.

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<sup>42</sup> *ibid* p363

#### Case study 7 - Austrian 'stimulation centres' for innovation

The Austrian Federal Ministry for Transport, Innovation and Technology is responsible for identifying so-called 'Stimulation centres' to promote enterprise, technology transfer, innovation and contribute to the development of technology centres, business parks in their region. Their focus is also on developing an innovation-friendly climate and promoting the competitiveness of enterprises through 'innovative' inputs.

There are several stimulation programmes:

- Technology transfer to SMEs.
- K-Plus Competences Centres – focusing on pre-competitive research – there are 5 of these in Vienna. They are established after public tendering in 2 phases: evaluation of research programme and business plan. Groups of universities/research institutions/enterprises can submit applications.

- 5.35 Subsidies have been recognised not to be effective in promoting long-term development. Public investment strategies need to be consistent with the valorisation of endogenous resources for self-sustaining growth at the local level. As a result, many public agencies have opted for providing support in the form of research institutes, science parks, centres of excellence, as well as traditional infrastructure, promoting competitiveness through clustering. New solutions to finance, planning and business support have been developed as new tools to promote enterprise are developed.

#### *Leveraging in private investment*

- 5.36 The UK has developed several measures to raise levels of investment in poor localities, including tax credits and the Phoenix Fund, which supports entrepreneurship in disadvantaged areas. Reservations have been expressed over early-stage venture capital funds in relation to the ability of regional funds to attract investment, the scarcity of early stage venture capital skills and low probability of financial viability<sup>43</sup>. In the Netherlands, the Aunt Agaath scheme makes it fiscally attractive for private individuals to provide start-up capital to starting entrepreneurs. The investors can provide a subordinate loan to the target group or participate in a holding company. With local and micro-finance as additional tools, public authorities in deprived areas can match welfare objectives with effective market instruments, complementing traditional welfare strategies<sup>44</sup>.

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43 BioM Venture Capital GmbH & Co. Fonds KG is a venture capital fund specially created for early stage, fast-growing companies whose businesses are centred in the life sciences. In addition to offering investment capital we see ourselves as partners to our portfolio companies and share with them our expertise and significant experience. Furthermore our partners have unlimited access to our wide-reaching contacts. The investment manager has a high level of biotechnology know-how as well as extensive knowledge on how to start up and develop a company.

44 Financial engineering for local development network, [www.localdeveurope.org](http://www.localdeveurope.org)

*Facilitating business start-ups and relocation*

- 5.37 Increasingly cities and municipalities are providing support services for businesses starting up or relocating. This can take the form of one-stop-shops directing entrepreneurs through regulation, or providing facilities or premises<sup>45</sup>. The Munich Bio-Tech initiative provides a one-stop location for entrepreneurs and biotechnology firms that includes free legal, business and administrative advice, assistance in seeking laboratory accommodation and establishing contact with public officials and experts. In Amsterdam, the First Stop Shop set up by the city's Economic and Employment Department supports companies wanting to locate in Amsterdam. It acts as an intermediary between the companies and the municipality and providing support with the administrative procedures.

*Providing customised support to local businesses*

- 5.38 Initiatives have addressed the problems faced by stigmatised areas by addressing gaps in mainstream support and developing very local based responses to local businesses' needs. The STEW project in Amsterdam has developed provides tailor-made support to specific disadvantaged areas and social groups. It supports new businesses and helps to improve business performance, by providing a start-up helpdesk and personal training and guidance.

*Supporting business incubation and growth*

- 5.39 Many local initiatives have supported local enterprise through the provision of physical workspace, advice and mentoring and supply of finance. Business incubators offer a combination of managed workspace and business services. Known as enterprise centres, nurseries, managed workspaces and venture units, these have varied approaches to business incubation including combating unemployment and assisting disadvantaged groups; expanding the supply of infrastructure; commercialising university research; upgrading the technological capabilities of firms in a given location. Incubators generally address a gap in provision and are likely to result in benefits to the area in the longer term through employment creation or general improvements to the area's economic base: a high proportion of businesses coming out of incubators chose to locate in the proximity. This can also help to encourage greater entrepreneurship in the area such as in the Italian port of Genoa, where the setting up of an incubator in a derelict steelworks eventually prevented the total abandonment of a substantial industrial zone close to the city centre.

*Supporting business angels*

- 5.40 Business angels aim to match informal investors with ventures seeking small amounts of equity finance. The UK is the European country with the highest number of business angels' networks. In France, the 'Cigales' finance local business start-

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<sup>45</sup> As is the case in Amsterdam, Berlin, Munich.

ups by contributing a monthly amount to a common investment fund that is used to finance projects identified and appraised by the group<sup>46</sup>.

*Developing an enabling planning framework.*

- 5.41 To be viable, the promotion of enterprise in inner cities requires an enabling planning framework, which places high priority on business attraction, retention and growth. Competing high value land uses, in particular recent trends in conversion of former industrial/commercial space to residential use, contribute to the erosion of inner city workspaces and as a result, have a negative impact on enterprise opportunities<sup>47</sup>.

*Improving communications.*

- 5.42 Improvements in public transport and communications in deprived urban areas as well as tackling congestion are crucial to enhance accessibility and increase the attractiveness of the area.

## **Impacts**

- 5.43 The programmes and policies reviewed cover a range of activities and sectors. The Government's Small Business Service has recently published a methodology, to assess enterprise impacts in deprived areas. The multiple impact and stakeholder model put forward highlights the impacts on business, service provision, local communities and social capital. Three key elements<sup>48</sup> can be identified as influencing the impact of particular schemes and of enterprise promotion in deprived areas:

- **Policy objectives** – clear policy objectives are necessary to ensure that actions are clearly targeted and that outcomes can be evaluated against set indicators and criteria. Evaluations of area-based business promotion schemes have highlighted that greater results are achieved when initiatives focus on fewer policy but complementary objectives, emphasising the importance of a joined-up approach to regeneration of deprived areas<sup>49</sup>.
- **Additionality** – difficulties have been noted in separating the impact of different initiatives. The question of additionality is closely linked to the indicators used to measure the impacts of an initiative. For instance, using crude employment outcomes as indicators of success of a scheme might encourage targeting least vulnerable and less risk-prone enterprise initiatives, leading to minimal programme additionality<sup>50</sup>.

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46 OECD, (2003)

47 New Economics Foundation, (2002).

48 ODPM (2003)

49 Based on ODPM (2003)

50 The impact of business incubation schemes has sometimes been undermined because sponsors have adopted crude employment-based measures of success. Such benchmarks have encouraged some incubator managers to permit established firms into the schemes, leading to minimal programme additionality (OECD, Entrepreneurship and local economic development).

- Displacement – the extent to which the benefits brought to one area/target group might be offset by negative impacts on others should be carefully considered. Research shows that displacement is likely to be higher in the types of firms that predominate in more deprived areas, i.e. more firms in mature low-growth sectors with lower skills and capital requirements and fewer barriers to entry<sup>51</sup>. Partly to counter the effect of displacement, some sectors have been excluded from enterprise promotion schemes (the UK Small Firm Loan Guarantee Scheme for instance does not cover retail services)<sup>52</sup>. It should be noted that several factors can influence displacement (size of new firms, geography of markets, products or services provided by a firm are some examples) and it should therefore be treated with caution.

5.44 The impact of enterprise promotion on local economic and social development in deprived urban areas has been measured using various indicators and criteria, ranging from: impact on local residents; creation of jobs for people in deprived areas; better quality of jobs; increased local income and spending; improved provision of products and services; enhanced social capital and inter-business links; community involvement by businesses and employees<sup>53</sup>. The wider impacts of local enterprise promotion on the regional economy should also be assessed. Some of these elements are analysed here in more detail.

- *Impact on local residents.* The question of whether the most vulnerable groups benefit from enterprise promotion schemes needs to be taken into account. Enterprise promotion in deprived areas requires higher resilience and greater aptitude than in other areas. Evidence shows that while it offers more advantages to the best-qualified, most asset-endowed and least vulnerable, enterprise promotion in deprived areas has nonetheless routes into employment for groups whose efforts have been frustrated in the mainstream labour market<sup>54</sup>. The sustainability of the impact of self-employment schemes for instance has already been discussed, with evidence showing high enterprise failure rates among unemployed people entering these schemes. Research has also shown considerable sensitivity in enterprise exit times to local unemployment rates<sup>55</sup>. The question also arises as to whether the jobs created in a deprived area actually benefit local residents or whether vacancies are more likely to be filled by in-migration. A survey of local authorities in England relating to area-based economic development initiatives highlighted that long-term unemployment tended to remain higher in high job growth areas<sup>56</sup>. Assessments of incubators have also highlighted that initial rounds of recruitment target more highly skilled people, while later rounds provide jobs for people with medium skills.

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51 Cowling and Hayward, (2000)

52 OECD, (2003)

53 Lyon, Bertotti, Evans, Smallbone, Potts, Ramsden, (2002) and Leo Van den Berg, (2003)

54 OECD, (2003)

55 Cowling and Hayward, (2000)

56 Smith, (1999).

- ***Sustainability.*** Enterprise promotion schemes are unlikely to yield benefits in the short-term. Research undertaken in OECD countries shows a 50% failure rate of new firms during the first three years. Another aspect determining sustainability is the level of mobility of supported businesses. Research carried out by ODPM has highlighted that a high proportion of 'inward investment' in deprived areas is now in the form of 'follow-on' investments and after-care policies and services to maximise the level of local embeddedness of businesses. There is the question of potential mobility of supported businesses, as they might choose to move out of the target area.
- ***Deadweight.*** It is often difficult to assess whether the outcomes resulting from an enterprise promotion scheme would have otherwise occurred. The level of deadweight can be reduced by developing initiatives or micro-finance programmes to target disadvantaged groups who face higher barriers to engaging in enterprise programmes.
- ***Soft impacts.*** The review has highlighted the importance of assessing initiatives against appropriate criteria. Crude economic indicators such as employment impacts or business survival rates fail to bring to light other less tangible impacts which can play a key role in regenerating deprived areas, such as strengthening of social capital and community networks, enhanced employability and skills, local vitality and dynamism, availability of role models, greater confidence and entrepreneurial spirit among disadvantaged groups. While more social objectives might not be economically viable in the short-term, the benefits to local communities might be greater in the longer-term.

## 6. Recommendations

- 6.1 Cities are increasingly in competition with one another to attract investment and to develop as poles of economic growth. Their success depends on their capacity to stimulate innovation and entrepreneurship and place themselves on the map of key locations in this field, from a regional, national, European and worldwide viewpoint.
- 6.2 The vast majority of cities reviewed have developed a strategy for the promotion of enterprise as a key element of the enhancement of their competitiveness. This has taken various forms in cities across the EU and no single model can be identified. While the economic and social potential of deprived urban areas has been widely recognised, both in academic literature and in a growing number of area-based initiatives, a lot still remains to be achieved in this area. Barriers to enterprise persist, in particular in relation to availability of finance, appropriate and accessible business support as well as lack of social networks and local capacity.

### Key questions

- 6.3 The review has highlighted a wealth of issues that need to be addressed when defining enterprise promotion policies and projects in deprived urban areas. These issues have been divided into four main categories and the key areas of further work are highlighted below:
- Strategies:
    - Area-based enterprise promotion
      - Identifying priority areas through the use of indicators and criteria and developing targeted measures
      - Promoting greater linkages between local economic development and the wider regional economy
      - Recognising the benefits of integrated approaches, combining social, economic and physical interventions for a more sustainable impact
      - Reviewing the impact of property-led/physical regeneration and place marketing and promotion on a location's attractiveness to investors and entrepreneurs and stimulating enterprise
    - Business-led enterprise promotion:
      - Developing targeted and consistent business support services, focusing on the needs of a diverse client group as well as the requirements of businesses during the different phases of their development and growth
      - Combining social and economic goals to maximise beneficial and longer-term impacts of enterprise on the local economies and communities
      - Linking enterprise in deprived urban areas to new and wider markets
      - Enhancing technology transfer and innovation in deprived urban areas
      - Benefits of social enterprise promotion to deprived local communities

- Analysing the contribution of the informal sector to enterprise in deprived areas
- Developing targeted measures and support directed towards specific groups experiencing greater barriers to enterprise and realising their full potential
- Actors
  - Developing new modes of governance
    - Removing barriers to significant contribution of the private sector contribution to enterprise promotion
    - Developing innovative ways to design and implement specific initiatives
    - Exploring partnerships between public/private/voluntary sectors
    - Analysing decentralisation of enterprise promotion strategies
    - Recognising the key role played by EU policy and funding
- Tools
  - Creating an enabling framework for enterprise promotion in deprived areas
    - Exploring planning-related barriers/opportunities to enterprise promotion
    - Exploring and removing barriers to availability of and access to finance
    - Enhancing transparency, consistency and accessibility of business support services
- Impacts
  - Highlighting the key factors influencing enterprise impacts in deprived areas
    - Clarifying policy objectives
    - Ensuring the additionality of programmes
    - Counter-acting the displacement effect among initiatives/areas
  - Measuring local enterprise impacts
  - Evaluating impact on local residents of enterprise promotion
  - Enhancing the sustainability of measures
  - Ensuring soft impacts are taken into account in establishing the effectiveness of enterprise promotion on deprived areas and their residents

## **Further activities**

- 6.4 We recommend that these points are explored through a range of activities closely linked to LDA objectives and strategy.

### **Creation of a network for the exchange of experience**

- *We recommend the development of a network of key cities which are working on and pursuing active policies in the promotion of enterprise in deprived urban areas.*

- *This network could be developed by GLE Consulting on the basis of the findings of the review and its links with other EU cities, EURADA and the OECD.*
- *The networks should form the basis of the exchange of best practice and experience which will take the of in-depth discussions and working groups on the following key LDA priorities:*
  - ◆ *Developing strategies for the informal economy*
  - ◆ *Linking inner city enterprise to new and wider markets*
  - ◆ *Linking local economic development to the regional economy*
  - ◆ *Developing strategies and frameworks for business support*
  - ◆ *Promoting greater impact and sustainability of inner city enterprise*
  - ◆ *Promoting innovation in deprived urban areas*
- *Discussions on these themes could be led by different cities*
- *GLE Consulting will explore opportunities for external funding for such network, in particular INTERREG III C and URBACT, and recommends an application in early 2004.*
- *The network should be launched in early 2004 and last 2-3 years.*

#### **Working groups**

- *On the basis of the key priorities highlighted above, the LDA should encourage experience sharing through the development of working groups*
- *These should involve experts and practitioners from other EU cities engaged in enterprise promotion initiatives in deprived urban areas, as well as key players in economic development in London*
- *The working groups should promote the exchange of best practice and experience on the priorities highlighted above*

#### **Study visits**

*The following issues should be analysed in more detail through a series of study visits to key enterprise promotion initiatives in deprived areas:*

- *Strategies: identifying priority areas; combining public/private funding sources to promote enterprise in deprived areas; developing frameworks for the informal economy; developing a consistent and transparent framework for business support provision; encouraging greater innovation in enterprise promotion; fulfilling the enterprise potential of disadvantaged groups (BMEs, women, disabled people, refugees for instance)*
- *Actors: engaging the private sector; enhancing the role of universities and research institutions; the role of development agencies in enterprise*

*promotion in cities across the EU; developing new governance structures and synergies*

- *Tools: removing barriers to access to finance; developing an enabling planning framework; developing appropriate support throughout the business life-cycle*
- *Impacts: ensuring sustainability of projects; linking local enterprise strategies to the wider regional economy; evaluating soft enterprise impacts in local deprived areas*

#### Best practice guides

- *The LDA should develop best practice guides focusing on the key issues highlighted above as well as the outcomes of the working groups and study visits.*

## Appendix 1 - Definitions

Deprived urban areas are often known as “inner cities”. This concept of the “inner city” however has manifold interpretations emanating from different bodies in different regions and countries within the EU. It is beneficial to take a brief look at these differing interpretations of what constitutes an “inner city” and hence what is meant by a deprived urban area.

### United Kingdom

#### London Development Agency (LDA)

The term “inner city” is not used by the LDA, although they have a pivotal role in defining how deprivation is viewed in London. The LDA regards areas of deprivation in terms of the location’s potential and its relationship to the rest of London. The selection criteria are:

- Be, or able to be, a major employment area.
- Be adjacent to, or easily accessible from, areas within concentrations of unemployment and deprivation.
- Have significant development opportunities available in the immediate future.
- Offer opportunities for making major contributions towards implementing the Mayor’s strategies which cannot be achieved without active LDA intervention.
- Offer the opportunity for the LDA to play a key coordinating role and use if the full range of the Agency’s toolbox.

#### Neighbourhood Renewal Unit (NRU)

The NRU does not use a specific definition of an “inner city”. Instead, the NRU uses the Indices of Deprivation 2000 (ID 2000) as a measure of levels of deprivation at ward level. The ID 2000 is based on six domains (income; employment; health deprivation and disability; education; skills and training; housing; geographical access to services) each comprised of a number of indicators, thereby providing a complex measure of deprivation at ward level. ID 2000 is used to allocate 17 different funding streams in England and is therefore a very influential set of criteria.

#### Scottish Enterprise (SE)

Since 1998, Scotland has largely depended on the Scottish Indices of Multiple Deprivation (SIMD), which is based on data from 1991. The Scottish model does not use the term ‘inner city’ but rather focuses on areas of deprivation. These areas were pinpointed based on the SIMD and from the geographic definition for Scotland’s 32 area-based Strategic Inclusion Partnerships (SIPs). The SIMD applies both to rural and urban areas and there are no population requirements for the designation of such an area.

Like the NRU, SIMD does not outline quantifiable requirements that define deprived wards in isolation. Instead, deprivation is viewed relatively. The five indices of deprivation are calculated using income deprivation; employment deprivation; health deprivation and disability; education, skills and training deprivation and geographical access to services.

### Inner City 100 (IC100)<sup>57</sup>

The IC100 is a yearly business index and research initiative which identifies the 100 fastest-growing inner city enterprises in the UK. IC 100's mission is to champion enterprise-led inner city revitalisation and promote the untapped market potential of the inner city. IC100 defined the inner city for the purpose of rewarding the fastest growing inner city enterprises.

IC 100 requires the 'city' to have a population of at least 100,000. Within that, the 'inner city' must have a population of at least 50,000 living in wards in the bottom quintile and with a high density measure, at least 2,000 per square mile. The geographic 'borders' of the inner city are based on wards, but are considered within the context of the wider city. By concentrating on populations of 100,000-plus, there is a higher probability of seeing "urban" phenomena, such as ethnic minorities, universities, crime, sink schools and the intangible "buzz" that can accompany large urban centres.

### European Union

Since the Objective 2, Urban I and Urban II programmes provide significant resources for regeneration and renewal in London it is worth considering how deprived areas are defined by these programmes. Notably, the criteria defining a deprived area are less clear than in the UK and there is no stated degree to which these conditions must exist to qualify as an inner city. It is also the case that EU definitions must remain broad in order to cover a wide range of urban areas and deprivation.

The EU Objective 2 programme aims to revitalise all areas facing structural difficulties, including urban areas. For an urban area to be eligible for funding, it must meet one of the following criteria:

- A long-term unemployment rate above the EU average
- A high level of poverty
- Acute environmental problems
- A high crime rate
- A low level of education

The EU URBAN I Community Initiative defines inner city areas as "neighbourhoods within the core of the urban district, but which are excluded from mainstream city life." Rather than demonstrate specific percentages of economic deficits, the inner cities must display 'characteristics,' namely high unemployment, extensive levels of poor housing stock, "a run-down urban fabric," and a scarcity of social amenities. For example, the average unemployment rate is 22 percent for the Urban I programme, ranging from 11 percent to 60 percent.

The areas selected for funding under the URBAN II programme were characterised by economic and social crises due to at least three of the following causes:

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57 Information by permission of New Economics Foundation Inner City 100 project coordinator and from Gareth Potts, consultant.

- a high level of long-term unemployment
- a low level of economic activity
- a high level of poverty and exclusion
- a large number of immigrant populations, ethnic minorities or refugees
- inadequate levels of education and skills
- a high level of crime and delinquency
- skewed demographic changes
- a particularly run-down environment

## Appendix 2 - Summary of case studies reviewed

City	Project/initiative reviewed
Amsterdam (NL)	Amsterdam Science Park Amsterdam New Media Association Amsterdam First Stop Shop
Antwerp (B)	BOM URBAN I
Barcelona (ES)	Barcelonanetactiva Barcelona Activa (BCN@22) Barcelona QuasiEnterprise
Graz (A)	Living with all your senses URBAN I
Groningen (NL)	SEND URBAN I
Hamburg (D)	Hafencity Centre of Excellence
Helsinki (FIN)	Creative industries Centres of Excellence Programme Culminatium Ltd Helsinki Science Park Art and Design Science Park
Leipzig (D)	Creative industries
Lille (F)	Eurasanté Digiport
Malmo (S)	Rosengard URBAN I
Manchester (UK)	Cultural industries
Marxloh (D)	Marxloh URBAN I
Milan (I)	Cantieri Isola <a href="http://www.cantierisola.org">www.cantierisola.org</a> Economic development institutions
Munich (D)	Bio Region
Paris (F)	R-GIS
Rome (I)	Risorse per Roma
Rotterdam (NL)	ICT City
Stockholm (S)	Kista Science City Foundation for Technology Transfer
Turin (I)	
Valencia (ES)	City of Science
Vienna (A)	TechGate Vienna
Other European Initiatives to mention	
PAXIS - Pilot Action of Excellence on Innovative Start-Ups	
Within this initiative: KREO, HIGHEST, SPRING, PANEL and START	
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