



Enterprise and innovation in deprived urban areas  
**sharing the European experience**

The Network partners – Amsterdam, Hamburg, London, Milan and Prague – are all actively developing and implementing policies to promote enterprise in deprived urban neighbourhoods. Through LNet the cities will develop common approaches to realising the economic and social potential of deprived urban areas and practical tools to support enterprise in these areas.

**The European Learning Network Policy Bulletin  
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*LNET Policy Bulletins are designed to summarise practitioner discussions for a policy audience, recommending where appropriate changes policy, legislation or organizational competences.*

**Enterprise in Deprived Urban Areas: What are the policy questions?**

The opening Policy Bulletin aims to summarise the policy related discussions and debates which will be the central focus of LNET during the next few years. It sets out a series of issues that emerged during the project launch, which took place in London in November 2004. One of the key questions which was posed was: *More policy or more bite?*

LNET partners hope that their Policy Bulletins will make a contribution to answering this question.

**The duality of our cities**

Cities are often portrayed as the engines of our national economies and of the EU as a whole and key centre of social and cultural growth. However, over the past few decades interest in the future of our deprived city neighbourhoods has grown as conditions in these areas have deteriorated.

Within numerous EU urban areas, deprivation takes a variety of forms and geographies. In common these cities often share the negative effects of industrial restructuring of the past thirty years, worklessness and lack of business base, the skills mismatches and low educational attainment, concentrations of poor housing and social problems and ill health. Often these areas are centrally located, 'inner city' areas, a term transferred from the USA to describe economically and socially deprived strategic core locations in our cities, with clear competitive advantages including stable local markets and under-utilised workforce.

Our five participating cities all have tales of economic success to tell. However, each city also has areas of significant deprivation.

- In Prague, large concentrations of worklessness and problems related to run-down, large housing estates cast a shadow upon the most successful city among the new Member States.
- London is well known as a highly competitive world city, with a diverse and successful economy. However it has high levels of unemployment and low rates of participation in the labour market. There is a persistent economic polarisation of rich and poor particularly areas of deprivation are concentrated in inner London where for example, 48% of children live in poverty.
- Hamburg's story is of a port city's successful transition from the shipping industry to high-tech centre. However the city has pockets of deprivation and a significant proportion of the population not engaged with the mainstream of economy or society.
- Milan's post industrial restructuring has been most hardly felt in four boroughs to the north of the city, where the closure of large industrial employers left very high levels of unemployment and a desperate need to regenerate local economies.
- Amsterdam's deprived areas are illustrated in high levels of worklessness dispersed throughout the city

*Each of the LNET cities has developed a City Portrait which illustrates the distinctive features of their inner city areas and the specific causes and manifestations of urban disadvantage. These are available on the Learning Network website.*

## The 'enterprise gap' in deprived urban areas: challenges and opportunities

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.

Entrepreneurship is increasingly recognised as a key driver of change by stimulating innovation, competitiveness, job creation and growth. Yet its potential for redressing imbalances in deprived areas is still under-utilised. A clear 'enterprise gap' persists in more deprived neighbourhoods, with significantly lower levels of small business density

### The challenges in our cities

- Hamburg identified a number of problems in its deprived urban areas - bad housing, shopping and public infrastructure, long term unemployment, low buying power, empty premises, ethnic conflicts, prejudices, drug abuse and crime.
- In London, the barriers identified mainly related to issues of high costs and accessibility: low availability of affordable business premises, poor access to finance, specialist expertise and support, low-level of operation in local markets and lack of expertise in business management and planning.
- In Amsterdam, the City is seeking to inject new dynamism in the economic and social fabric, promoting investments in human capital, creating a safer and more pleasant environment. Unemployment is highest among the immigrant population. There is also a large proportion of the population on welfare. A large volume of low cost rental accommodation means that households do not have the incentive to move up the housing market ladder - making it often very difficult for new-comers to access accommodation in the city.
- Prague highlighted several barriers relating to the administrative and institutional set-up, such as the lack of an entrepreneurial framework, including the tax and investment system, lack of capital (for example the small number of venture capital investments), a limited commercialization of research competence and a lack of business management skills. At the city-region level, there is a lack of supply of business workspace and advice.
- In recent years, North Milan has undergone significant restructuring to its economic and social base. Successful business incubators, targeted services and networks have allowed the entrepreneurial spirit to develop without de-linking it from weaker economic actors. However, a high level of fragmentation of the business base is likely to pose a new, considerable challenge.

in comparison to wealthier areas. There may also be concentrations of low value added activity where businesses might serve only a small local market, exist informally or operate in highly competitive sectors where there are low barriers to entry, or predatory sectors such as loan sharks. Participation in employment or education is seen as the best protection against social exclusion and thus support for a generation of low income entrepreneurs offers significant potential for social justice.

There are multiple barriers to a successful deployment of the potential of deprived urban areas. Crime, a poor physical environment, issues of accessibility can all contribute to discouraging enterprise. Other barriers which have been identified include:

- *Low level of social and business networks*, which are often invaluable sources of finance, labour and managerial expertise. These networks might be compromised by issues of poor accessibility and communication.
- *Unhealthy local economies* hinder entrepreneurship, where high levels of unemployment and low levels of disposable income and savings often lead to a self-perpetuating cycle of disadvantage.
- *Poor access to finance* and poor credit histories can lead to lower levels of business start-ups in deprived urban areas or result in many entrepreneurs establishing businesses in sectors with low capital requirements and minimal barriers to entry, thereby exposing themselves to high levels of competition, low levels of profitability and very high failure rates.
- *Discrimination* is a significant barrier to business start-up. 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.
- *Low level of human capital* due to long term unemployment or lower skills levels inevitably affect entrepreneurial opportunities. Linked to this is the lack of role models, which contributes to making enterprise a distant and unknown option.
- *Lack of targeted 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. Linguistic and cultural barriers such as lack of affinity with mainstream institutions, can act as significant barriers to enterprise. In addition, the regulatory burden appears to fall disproportionately on smaller companies.

## **A thematic approach to tackling urban deprivation**

During the launch conference and experts workshop, LNET partners took the opportunity to focus on three policy themes which will form the basis of discussions over the next two years: social enterprise, innovation and the enterprise gap and entrepreneurship.

## **Social Enterprise**

In spite of a long history of promoting employment and social inclusion, social enterprise has only recently been considered by governments across the EU as a public policy instrument, in particular given its role in service provision. The growing policy and strategic interest in social enterprise has come with great expectations of the sector. Partners agreed that it is crucial to think about the rationale for promoting social enterprise as a

public policy instrument: it is not about a 'cheaper way' to achieve public policy aims, but a 'quality' way of doing so.

Defining social enterprises is a difficult task. Different countries have a different history and experience of social enterprise, making it difficult to draw comparisons and reach a common understanding. The creation of social enterprises was seen as being based on the identification of gaps in public service delivery and community and social needs and an entrepreneurial response to them. However, the key element of differentiation between a normal business and a social enterprise is the social values on which the latter is based, values of solidarity and community cohesion, which go beyond any form of business model.

### **What role do social enterprises play in the economic development in deprived urban areas?**

Social enterprise is more than just a new response to urban regeneration. Social enterprises can play a key role in raising public awareness, combating poverty, helping people to become self employed, expanding new markets, creating jobs with a sense of 'values', contributing to anti-discrimination, creating and an enabling environment between profit and non-profit. It is crucial to keep in mind that social enterprises are not just relevant to deprived urban areas, and that these areas should be considered in relation to the wider city and urban region.

In relation to stimulating business start ups, the sector is essential for achieving economic development goals through the provision of affordable accommodation and finance and support activities in the labour market, for example the operation of intermediate labour markets.

### **What barriers do social enterprises face in achieving their potential contribution to economic development goals?**

To allow the potential of social enterprises to be fully achieved, several barriers need to be tackled. LNET could usefully identify these and provide recommendations for the future. Social enterprises often need specific support and finance measures to achieve their aims. Mainstream business support services might not always respond to their needs and financial instruments may not always be flexible enough. At the same time, some voluntary and community organisations which could potentially become viable social enterprises might be discouraged by the 'business jargon'. Enterprise agencies need to be more aware of the needs of voluntary and community organisations and social enterprises and the language they should use when talking to them.

### **What are the characteristics of effective public urban policy in supporting social enterprises to achieve their potential?**

Drawing from the case studies presented at the LNET social enterprise workshop and the ensuing discussions, partners will identify from their city's experience the contribution of social enterprise to combating deprivation and the more effective ways that the city can invest in the development of social enterprises to overcome barriers to their development.

## Innovation

LNET partners agree that support for the stimulation of innovation in disadvantaged urban areas is an under explored theme in economic development.

### **How can innovation be a solution to deprivation and how can it deliver social and economic justice?**

LNET partners embraced an expansive definition of innovation which includes technological as well as non technological activities: 'all possible organisational solutions to increase competitiveness'. Based on this, LNET partners found it straightforward to identify a shared objective in this field – 'securing an uplift in regional economic performance ensuring that all sectors and areas are part of this process'. Innovation approaches can only work for cities when it is shared across diverse communities and this challenge faces all the city partners. At the launch conference partners heard about London's Innovative Actions programme which is helping Black and Minority Ethnic owned business be more innovative, for example the programme is investing in helping businesses in the fast growing Black hair and beauty sector to develop their product lines.

During the workshops, participants suggested social innovation as an opportunity for disadvantaged urban areas, for example addressing local need for childcare provision with innovative local solutions. For the public sector innovative new solutions are required to get the local 'basics' in place, for example rubbish collection, security and environmental quality in order to stimulate investment and enterprise and to encourage investment.

### **How are LNET cities stimulating innovation in deprived urban areas?**

At the LNET opening workshop partners heard from Hamburg about city-region activities to stimulate innovation. The case study raised important questions about the role of city level institutions in this field and generated a number of themes to explore in more detail at the innovation workshop in Autumn 2005. In particular the Hamburg case studies provoked an interest in examining how cities identify and build on local strengths, how cities get the relationship between public and private sectors right, how cities develop projects that are the right mix of risk and reward, getting people and organisations networked, thinking flexibly in order to see problems as opportunities and developing clusters that relate to local areas so that economic growth moves local people and local place at the same pace.

## Enterprise gap and Entrepreneurship

### **What does the enterprise gap in disadvantaged urban areas look like and where is the potential for closing the 'gap'?**

This Policy Bulletin will draw on the City Portrait work that city partners have undertaken to characterise their city's experience of urban disadvantage. This description and analysis of extent, nature and geographic location is crucial to identifying local opportunities. In London for instance, the emphasis over the past 5 years has been on re-exploring the geographic opportunities presented by the inner urban location of these areas. The opportunities for closing the gap lie in identifying these competitive advantages. LNET

partners were quick to identify the competitive advantage presented by ethnic and linguistic diversity as well as the potential for women owned enterprises to closing the gap and will share experience and learning in these areas.

### **How can we ensure that local success is driven and shared by local people?**

A recurring problem for disadvantaged urban areas is that they find it difficult to retain their talented individuals and more successful entrepreneurs. In major cities a common dynamic is that disadvantaged areas do indeed produce higher skilled workers and growing companies. However, it is a well researched phenomenon that such workers and companies frequently leave the poorer neighbourhoods as soon as they become more successful and can afford to do so. This can lead to a continuous process of such areas being stripped of their most productive assets just as they begin to succeed, further eroding the economic performance of the areas itself.

An important question for the LNET partnership will be to assess how such companies might be persuaded to stay in the poorer neighbourhoods and contribute to a sustained revitalisation rather than a temporary surge followed by a further trough. This question requires us to consider how we might try to combine people and firm based support process with place and market based interventions to create a positive environment in which growing companies can grow well without relocating.

### **What are the roles of the public and private sectors in stimulating enterprise in deprived urban areas?**

Until recently there has been an emphasis conceptually, rhetorically and in practice to present inner cities as 'problem' areas. This has led to defining areas through deprivation measures, understanding the people and place as different from elsewhere in the city and often a confused mix of welfare based and regeneration policies. In the past ten years, the focus has shifted to the opportunities presented by inner city areas and a focus on generating and retaining wealth in the local economy.

LNET launch conference presentations noted that problems faced in deprived urban areas might be ones of *degree* rather than *kind*. This suggests that given the right circumstances businesses can operate, invest and grow in inner city areas. The public sector needs to understand what those circumstances are, whether they can affect them, how they can affect them, how to shape interventions and how to determine the best mix of actions to address the particular barriers to enterprise and innovation and increase the likelihood of business decision making resulting in optimum outcomes for the city.

More widely, the role of business, and business organisations, in supporting efforts to foster more entrepreneurial urban neighbourhoods is important. This might include a review of how individual sectors can contribute, for example retail and how business organizations such as Chambers of Commerce and commercial area partnerships such as Business Improvement Districts can play a vital role.

It is also be very important to assess how the public and private sectors should work more closely together. This will involve assessing the scope for better public and private interactions at local, regional, and national levels, as well as a consideration of the forms that joint working can take.

## Learning from transnational cooperation: the LNet learning method

The EU has over the years played a key role in promoting the exchange of best practice and experience among practitioners from different regions and cities. It has helped to broaden horizons, promote innovation, strengthen partnerships and explore joint solutions to common challenges. In order to capitalise on this shared learning, its transferability needs to be put to the test. This has been one of the main concerns behind the development of LNet.

A key LNet output - crucial for its success and sustainability - is the development and testing of a common Best Practice Assessment Framework to support the exchange of best practice that is transferable and practitioner-friendly. The Framework will provide a template for appraising local experiences and case studies, ensuring that the best practice that is transferred passes the test of implementation and delivery in different economic and social contexts.

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**Please visit the LNet website: [www.thelearningnetwork.net](http://www.thelearningnetwork.net)**

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