OECD Trento Centre for Local Development

Conference on
SMEs and the Urban Fabric

15-16 April 2019 | Trento, Italy

SUMMARY
SMEs and the Urban Fabric

In April 2019, the OECD organised a two-day international conference on “SMEs and the Urban Fabric” at the OECD Trento Centre for Local Development, funded by the Axel and Margaret Ax:son Johnson Foundation. The event brought more than 100 participants from 19 countries together to discuss “what can cities do for their SMEs and entrepreneurs?” and “what can SMEs and entrepreneurs do for their cities?”. Presentations by academic experts and practitioners and the open discussions with the audience tackled the questions from different angles and from different points of view. The event broke interdisciplinary barriers as economists were talking with urban planners. It also broke policy silos by taking an integrated view of cities, neighbourhoods and the activity that takes place within them and the range of (complementary) policy choices available.

Much can be learned from the presentations and discussions that took place over the two days and presentations remain available at oe.cd/SMEs-Cities. Many open questions remain. The biggest ones being how to instil an appreciation of the contribution of SMEs to places in planning and at the same time how to move economists to have a closer look into what happens within cities rather than treating them as nothing but places of high density.

To move forward, there is a clear need for further dialogue between the different academic communities and with practitioners that have to make decisions that affect their cities or the firms within them. The degree of complexity in the relationship between SMEs, entrepreneurs and the urban fabric is as high as the number of actors involved. New data, new tools and new evidence increasingly cut through the complexity and lead to concrete and uncomplicated actions policy makers can take.

What are the main takeaways?

There is no template that fits every context. History shapes places and the people in them. To be successful, responses need to be tailored to the local context and the capacity of local firms, workers and public servants to adapt.

No fate is set in stone. Creative solutions driven by local leadership can turn the fortunes of places around. Reuse of abandoned industrial spaces as flexible co-working habitats can revitalise neighbourhoods and concerted efforts by public sector, firms, developers and civil society can change abandoned downtowns into magnets for knowledge-intensive firms and skilled workers.

The traditional urban-versus-suburban dichotomy is becoming obsolete in the United States. The new dichotomy distinguishes between “Driveable Suburban” and “Walkable Urban” areas. Driveable Suburban developments are stand-alone developments. They are often socially or racially segregated and rely upon private cars as the only viable form of access to opportunities. Walkable Urban areas have higher density, mixed-use (housing, office, retail, etc) and walkable neighbourhoods that are connected by multiple modes of (public) transport. All of the 30 largest US metro areas have seen an increase in the Walkable Urban living accompanied by an increase in rental premiums for office, retail and rental apartments in these areas. Suburban occupancy and rental rates have declined at the same time according to research by the George Washington University.

Change is difficult. No single factor can make or break a place. Many ingredients need to come together to create places of opportunity. Often it is the combination of different factors – the complementarity – that drives success and co-ordination is often a challenging task.

Tapping local potential to overcome transfer dependency. Agglomeration benefits dominate economic narratives and often the public view. But a sole focus on the biggest cities misses that opportunities in smaller cities and rural areas that can be unlocked by tapping local assets, concentrating activity and focusing on broad-based investment policies rather than compensating transfers.

Funding dreams is never easy. SMEs often struggle to finance growth, as entrepreneurs struggle to find that initial seed investment, even more so if they have a minority background. Mayors often struggle to unlock investment for their different neighbourhoods and national policy makers have to choose what places to prioritise. The “financialisation” of housing and office space creates opportunities for finance but can be a double-edged sword for urban development.

What is measured matters. Policy needs to be built on solid evidence. “More than 90% of firms are SMEs” or “more than half of the world’s population lives in cities” are trite but often repeated facts. Interesting and relevant measures are often missing, as links between firms or the nature of the place where they operate are often only captured in case studies making it hard to draw general conclusions. There is no coherent attempt in measuring the positive externality that SMEs or entrepreneurs can provide.
What do SMEs and entrepreneurs do for their cities?

SMEs are diverse and provide diversity. Employment growth is higher in cities with a larger share of small firms. High SME-density supports variety in services and locally produced inputs that strengthens links with larger firms that use them as inputs. Variety in consumption opportunities (coffee shops, restaurants, bars, ...) or services (carpenters, electricians, ...) is an amenity for residents and tourists.

There is a “SME effect”: entrepreneurs breed more entrepreneurs and local jobs. SMEs and entrepreneurs can create a virtuous cycle where a thriving entrepreneurial eco-system supports not only existing SMEs but also the creation of new firms, higher local job creation and better recovery after an economic shock (e.g. in French local labour markets).

Entrepreneurs act as catalysts for innovation. Entrepreneurs have every incentive to innovate. They can monetise new ideas more easily than large firms or (often) public research institutions. Clustering of activity can boost innovation among entrepreneurs, but success of clusters varies.

Small business owners are more likely to work from home and when they commute, they commute less. They thereby reduce the negative consequences of commuting for the environment and the health of the individual and can help bring economic activity to local areas.

Small businesses promote a sense of security and social cohesion. For this reason, among the others, Confcommercio in Italy – a network of regional and local associations representing more than 700,000 businesses in the retail sector – has engaged in a project with local enterprises and policy-makers that pursues a variety of objectives, including fostering social cohesion and contributing to the enhancement of historical, artistic and cultural heritage.

SMEs as partners for urban regeneration. SMEs can and do support public efforts to promote innovation, reinvigorate urban areas and promote tourism. They can be active partners in planning and implementation of local strategies.

What can cities do to support SMEs and entrepreneurs?

Provide space. SMEs and entrepreneurs benefit from flexible, seamless and modular working space, where they can experiment and have room to expand as they scale up. Creative (re-)use of underutilised centrally located space, e.g. former factories, railway arches or structures, yields a double dividend of urban regeneration and economic activity.

Provide (physical) connections. Public transport and a street network that connects rather than separates can support both social and economic goals. Connectedness is a strong predictor of land value, is associated with better social inclusion and the health of residents. An integrated planning approach is required to ensure that private and public space becomes integrated.

Provide a frame for connections among people. Leveraging the local skilled workforce, links with academic institutions, links among firms of all sizes and the local social capital, e.g. through strategic management of places, strengthens competitiveness of SMEs and cities themselves.

Provide diversity. Single-use or segregated developments create traffic and hinder entrepreneurial opportunities. High streets integrate retail with services and artisanal production in its surroundings. Only 20% of the commercial space around UK high streets is retail, the remainder are offices or industrial use.

Provide the right regulatory framework. The cost of cutting through red tape can be disproportionately higher for SMEs and entrepreneurs than for larger firms. Lean planning frameworks with short turnovers, e.g. by providing clear guiding rules or dedicated “pink zones” where flexibility reduces the red tape can help to timely respond to entrepreneurial needs.

Provide a place where people want to work and live. Attractive places can be a magnet for entrepreneurs and high-skilled workers. Increasing the share of walkable areas can act as a pole of attraction for businesses operating in the knowledge economy.

Provide the training that people and firms need to grow. Better planning, use of new technologies and integration of a range of stakeholders requires new skills and capacities in public administration. Addressing biases that SMEs and entrepreneurs, especially from minority background, can face can target both the entrepreneurs and how they present themselves and financial institutions.
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VENUE
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Vicolo San Marco 1, 38122 Trento, Italy

OECD CONTACT
Alexander.Lemcke@oecd.org

@OECD_local #OECDsme #InclusiveGrowth

OECD Trento Centre for Local Development
Vicolo San Marco 1, 38122 Trento, Italy
cfetrento@oecd.org | www.trento.oecd.org

This event is part of the OECD Centre for Entrepreneurship, SMEs, Regions and Cities activities.

The OECD Centre for Entrepreneurship, SMEs, Regions and Cities provides comparative statistics, analysis and capacity building for local and national actors to work together to unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation, and support sound tourism policies. www.oecd.org/cfe