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FOREWORD

This book, one of the first to focus explicitly on the links between entrepreneurship and urban regeneration policy, presents a "toolbox" of instruments for entrepreneurship development, showing how entrepreneurship can indeed prosper even in some of the most hostile environments for economic development. It is based on the proceedings of the conference on Entrepreneurship and Economic Development in Distressed Urban Areas held on 7-8 October 2003 in Rome, which received generous financial and logistical support from the European Commission (DG Employment), the municipality of Rome, and Risorse per Roma. The OECD Secretariat would particularly like to thank Xavier Pratts Monné, Director, DG Employment, European Commission, Professor Marco Causi, Deputy Maire of Rome in charge of Economic Development, Luca Lobianco, Director, Risore per Roma and Greg Clark, Chair of the LEED Forum of Cities and Regions for their intellectual input to the conference and their general inspiration of LEED work in this area.

Identifying innovative instruments and approaches to promote entrepreneurship in the most deprived neighbourhoods within OECD cities is a fundamental part of LEED's programme of work. *Entrepreneurship: A Catalyst for Urban Regeneration* examines four issues in detail; financing entrepreneurs, providing advice, training and mentoring to entrepreneurs, using special zones and tax incentives to promote new and small firm growth and supporting social enterprises. It is also shown how these policies can be brought together in integrated policy strategies at the level of individual cities and neighbourhoods.

LEED will continue to vigorously address the challenges raised by these issues with the aim of developing new tools and policy recommendations for local and national authorities to help stimulate entrepreneurship in deprived neighborhoods and thus contribute to generating higher income and employment levels.

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This cutting-edge publication has been compiled and edited by Jonathan Potter and Antonella Noya of the OECD LEED Programme, with technical assistance from Cécile Cordoliani and Nathalie Gosselin.



Sergio Arzeni
Director, OECD Centre for Entrepreneurship
Head, OECD LEED Programme

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EXECUTIVE SUMMARY

Entrepreneurship – both of traditional and non-profit type – is a central pillar of economic development, job creation and social inclusion, and a catalyst for urban regeneration in deprived areas.

Across the OECD the scope, number and growth of entrepreneurship support programmes are striking. Yet entrepreneurship strategies targeting distressed urban areas need to be strengthened. The obstacles that entrepreneurs face when they plan to start or run a business in distressed urban areas are not the same as those that entrepreneurs might face in more wealthy areas. Targeted strategies and ad-hoc tools are therefore needed in order to foster entrepreneurship and support entrepreneurs in deprived areas.

To be effective, approaches to support entrepreneurship have to be designed with reference to the special situation of the "milieu" of inner cities and deprived areas in which businesses are to be set up. The strategies have to take into account a number of factors that are typical of these areas pertaining to their particular structural, cultural, human, economic and social situations. Many distressed urban areas display several competitive disadvantages: racism, poor infrastructure, crime, land assembly difficulties, greater costs of workforce qualification and recruitment, and limited access to capital. But businesses based in inner city locations have several advantages: a strategic location in the centre of major urban areas and transportation nodes, untapped local markets with substantial buying power, growth opportunities for businesses that arise from integration with regional business clusters, and a large, diverse, and available pool of human capital. Addressing these challenges is vital in order to create an appropriate business climate in these areas.

The publication examines the **most common obstacles** to the development of **entrepreneurship in deprived areas** and presents some **strategies and tools to foster and support entrepreneurship** in those urban areas, both in the United States and in European countries. The book is divided into 5 parts: the first analyses **entrepreneurship financing**; the second presents tools and

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strategies aimed at **promoting entrepreneurship skills and spirits**; the third explores **social enterprises** as innovative actors in urban rebuilding; the fourth focuses on **area-based policies for entrepreneurship**; and the final part contains a **synthesis** of all the issues tackled, which also shows how cities combines all these actions into comprehensive strategies and a **conclusion, including policy recommendations.**

Entrepreneurship financing

Financing is a challenge to success for any entrepreneur. However, entrepreneurs wishing to start a business in a distressed urban area face special barriers to access. These barriers generally include lack of verifiable market information, limited access to capital markets, cost of technical expertise, redlining and racial discrimination, reluctance and risk aversion of bankers and underdevelopment of seed financing and business angel investors. While in the United States analysis shows the existence of a wide range of types of finances, in Europe there is certainly a major need to stimulate them, as they are not sufficiently widespread. Among these financing options are: personal credit; micro-angels; bank and credit unions; government assisted financing; hybrid programmes bringing together banks, governments and foundations; and private seed and venture capital. One of the main characteristics of an entrepreneurial area is the offer of a hybrid variety of financial instruments. Policy must therefore, especially in Europe, look at innovative ways to stimulate entrepreneurship in combination with innovative financing schemes. Innovative approaches to financing, together with measures tackling the demand issue should be part of a local policy aimed at creating economic growth and employment in distressed urban areas. The North American analysis, while indicating some methods for improving access to finance (via the improvement of sources of data on market analysis and the use of tax credits), underlines that money is not the most important aspect of entrepreneurship, and that public programmes can bring capital closer to the entrepreneurs but they cannot bring the entrepreneurs success. Capital must be wedded to understanding of the market, good planning, mentoring and advice.

Entrepreneurship skills and spirit

Advice, training and mentoring are essential tools for promoting entrepreneurial skills and spirit in potential and active entrepreneurs, particularly in inner cities or distressed urban areas. In the USA and Europe such programmes are developing rapidly: they are very diverse and are provided by public, private, and non-profit organisations. In spite of the fact that there is not much evidence on the concrete impact of these programmes, there are

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certain issues that might result in them failing to reach the target group. To avoid these problems the authors suggest that services should be more focused on entrepreneurs rather than on businesses and should be better organised. Business incubators, both physical and virtual, provide entrepreneurs with these services, also offering them excellent networking opportunities. Social capital – key element of networks – is becoming one of the critical ingredients of new strategies fostering and supporting entrepreneurship and some interesting programmes are developing, mostly in the USA. Among other possible strategies to foster an entrepreneurial spirit in deprived areas, investment strategies, learning strategies and advocacy strategies are highly recommended. As far as business advice and training services are concerned, they should be: client focused, comprehensive, customised, coordinated, capacity building oriented, connected and quality consistent. "Active brokers" can be critical in connecting inner city residents to appropriate assistance.

Social enterprises

Social enterprises are playing an important role in regenerating distressed urban areas both in the United States and in European countries and their untapped potential needs to be fully exploited. In order for social enterprise to develop and contribute in an effective way to urban rebuilding some strategies are needed. These strategies vary from country to country but they aim to meet common challenges: obtaining finance, moving to scale, and providing an enabling framework for development and effective support strategies. In the USA, social enterprise development has taken off but much has still to be done in order to strengthen social enterprises' effectiveness in distressed urban areas. The definition of social enterprise oriented towards urban rebuilding in cities should be broadened to include non-profit agencies that generate revenue in pursuing their social mission, for-profit enterprises that explicitly adopt social criteria related to their investments and business operations, Community Development Financial Institutions and other social investors that combine financial and social criteria and also public enterprises. This broadening seems useful and needed "to reach scale for urban rebuilding". Clearly, this vision seeks to build on the changing nature of the main stakeholders – for-profit and public enterprises – which are becoming more oriented towards social responsibility and identifies this shift as an opportunity to build bridges to increase social enterprise sustainability and effectiveness. It is also argued that social enterprises can effectively contribute to urban rebuilding on behalf of low-income and excluded populations if urban rebuilding strategies succeed in increasing the connectedness and productivity of these communities.

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In Europe – where the definition of social enterprise differs from the American one – many strategies have been adopted to support social enterprise development, ranging from providing an appropriate legislative and fiscal framework for social enterprises, to creating ad hoc representation structures. However, social enterprises still face many constraints, both internally (such as their inability to manage their diversified role effectively) and externally (lack or inappropriateness of support and development strategies). Social enterprises build local social capital, enhance trust relations and civic engagement through wider participation in communities; stimulate greater social cohesion and community confidence; and widen the structure of local economies in terms of organisational form and economic structure. They can also provide a range of benefits that go beyond disadvantaged areas and communities to impact on the wider locality and the region, but, in order to do so, they need to overcome the existing barriers. Some key strategies to do so include; establishing a supporting framework against which the activities of the system as a whole can both be scaled up and sustained over time; creating intermediate, or "umbrella" structures which could play a vital role in providing information, advice and training; and strengthening the role of regional development agencies in supporting social enterprises by promoting sub-regional and area-based strategies or sector approaches.

Area-based policies

Area-based policies are those policies that feature a broad combination of measures to reduce barriers to entrepreneurship in selected deprived areas or special zone based initiatives focused on tax incentives. The most common programmes in the United States are Empowerment Zones; Enterprise Zones; Tax Increment Financing Zones; and Industrial Corridors. All are aimed at urban regeneration in broad terms but incorporate initiatives for new and small firms. While these programmes undoubtedly have many strengths, they have been criticized for various reasons: they target large established firms rather than small ones; the firms that receive assistance are often those which are the most politically connected; the mechanisms of measurement of the success of these programmes are not very clear or transparent; the costs for small enterprises can outweigh the benefits themselves; the programmes are not well publicised; there is tremendous fragmentation and little coordination among the various programmes; and gentrification often equates with displacement. Some recommendations can be drawn: the various redevelopment efforts should be co-ordinated so that there are links between the zone-based programmes and non-zone-based programmes available to all business, but for which business located in redevelopment zones have priority status; the programmes should be

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better publicised and the displacement effects should be reduced. In Europe, area-based and zone-based programmes also exist, such as the British Enterprise Zones and the French Zones Franches Urbaines. As in the USA, such programmes present strengths and weaknesses. Three approaches are examined in more depth. Integrated area approaches are particularly effective at removing economic barriers such as low level of effective demand and low housing values; the development of urban infrastructure as a socio-economic catalyst can contribute to reducing various economic barriers, such as low levels of economic demand and low housing values; and the creation of business centres to stimulate new small enterprises can help nurture new and growing firms and improve their access to services and networks.

Conclusions

The concluding part of the book seeks to highlight the key messages on how entrepreneurship can be promoted in distressed urban areas. It shows how different kinds of policy instruments can be drawn together into comprehensive strategies. Initiatives pursued in five case study cities are described (Amsterdam, London, Boston, Toronto and Sao Paolo) and the lessons identified. It is argued that city strategies should embed entrepreneurship policy within wider initiatives to deal with urban distress, create appropriate economic framework conditions and support social inclusion. The final chapter sets out key arguments for entrepreneurship promotion in distressed urban areas and summarises the policy instruments identified in the book as being capable of tackling the barriers to entrepreneurship in these environments. In terms of policy implementation a number of principles are identified, including: delivery of entrepreneurship support through comprehensive and integrated strategies; placing entrepreneurship policy within broader urban regeneration policies; distinguishing between measures with a direct or an indirect impact on disadvantaged residents; tailoring policy to the needs of distressed urban areas; and making entrepreneurship support visible and accessible in distressed urban areas.

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PART I ENTREPRENEURSHIP FINANCING

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CHAPTER 1: ENTREPRENEURSHIP FINANCING IN DISTRESSED URBAN AREAS: NORTH AMERICAN APPROACHES

By Diane Lupke
CEcD President Lupke & Associates, Inc. Evanston, Illinois; USA

Abstract

This chapter starts by examining the importance of entrepreneurship financing for distressed urban neighbourhoods as well as the barriers that exist, including lack of verifiable market information, limited access to capital markets, cost of technical expertise, "redlining" and racial discrimination. It then describes the current mechanisms for financing entrepreneurs in U.S. distressed urban neighbourhoods, covering personal credit, micro angels, banks and credit unions, bank Community Development Corporations, government-assisted financing, hybrid programmes bringing together banks, government and foundations, and private seed and venture capital. Three case examples are presented to illustrate both typical and innovative financing methods. The examples cover a Certified Development Corporation, a Community Development Financial Institution and an initiative to attract private finance by generating data showing the full extent of investment opportunities in a distressed neighbourhood. The conclusion sets out priorities for policy development.

Why is financing for entrepreneurship in distressed urban neighbourhoods important?

Observers of the United States economy often refer to the highly entrepreneurial nature of Americans that seems to allow almost anyone in the United States to start a business and build it into a success. The Bill Gates story is a favourite recent version, or earlier, any of the turn-of-the-century automobile, rail, or lumber barons will fit the tale. Most Americans will parrot that perception, many ascribing it to a residue of our early revolutionary roots. That good old American 'can do' spirit would sum it up nicely.

Unfortunately, there are a lot of places in the United States where Americans live in a business environment much more closely representative of

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a Third World nation than one of the wealthiest countries in the world. These areas are endemic to most of our larger cities beginning in the east with New York, Boston, New Haven, and Philadelphia, and extending down into the Old South and across the country to Los Angeles.

The Midwest includes a number of great industrial cities now languishing because they are not a 'good fit' to the so-called new economy. These include the once stable steel making cities of Pittsburgh, Gary, Youngstown and East Chicago. Elsewhere in the Midwest St. Louis is trying to rebuild itself with only one third of its original population, much of it impoverished and living in poorly maintained housing. Detroit, the early home of the automobile industry, has acres of distressed neighbourhoods with few commercial services.

Even the high technology economy of Silicon Valley cannot save the West Coast from this malady as Los Angeles tries to absorb a constant river of in-migration from Mexico as well as rebuild urban neighbourhoods torn by violence and fire less than a decade ago.

So where is this great entrepreneurial spirit that Americans like to boast about when discussing technology commercialisation and innovation? Has it somehow or other decided to focus on just a few and then skipped over our central cities and distressed neighbourhoods like an avenging angel? Why do American cities – or cities in other parts of the world where there is a concentration of poverty and unemployment – lack the ability to reinvigorate these areas of economic aridity? And why is it important that they find ways to do so?

Why is it important? Any local US economic development practitioner can tell you that his or her main roadblock to creating an all-round healthy economy is the weight of that city's poor, uneducated and untrained population. Many times primarily African American, but in other cities Hispanic, Asian, Native American, and/or, poor white, this "distressed" portion of the city generates little or no sales taxes, at least not within its own neighbourhoods. Its debilitated buildings create only a fraction of the property taxes similar buildings generate a few blocks away and its workforce is, for the most part, unemployed. Year after year of unmitigated poverty slowly eats away at a community's reserves, economic and civic; resulting in a neighbourhood in which existing businesses disinvest and few new businesses choose to locate, pushing a larger community on a downward slide.

Not only do these parts of our communities have fewer businesses, fewer jobs, and fewer commercial services, but, their populations are less safe, less

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affluent, and less educated. Thus these pockets of poverty not only contribute less economically to the common wealth of the community at large – but they also burden local, state, and national governments with the remedial costs of that unemployment, poverty, and lack of a sustaining neighbourhood economy.

If the distressed areas of the United States could become productive and less dependent upon public subsidies, the overall economy of the country would be much healthier. For this reason alone, ways are being sought to revitalise these neighbourhoods and get them to contribute more to the overall health of the nation. More importantly, a viable neighbourhood economy in these areas uplifts not only the immediate economic condition of its residents, but enables residents to build wealth and security that will sustain a family and the neighbourhood into the future.

Much research has been done on this difficult problem and many reasons have been put forward as to why these pockets of distress continue throughout the United States. Lack of education, lack of opportunity, lack of a business culture, poor credit history, bank redlining, and racial discrimination have all been put forward as leading restrictions on the creation and growth of new businesses within distressed areas. However, one of the most often cited problems has been the unavailability of financing for small business development and growth. A recent study commissioned by ACCION in Miami learned that "88% of micro-entrepreneurs there have no access to capital. In fact, existing micro-lenders were serving less than 1% of these small businesses." (ACCION, 2002)

Yet entrepreneurship is not dead in Miami or other distressed neighbourhoods; it has only been shunted into a different economic model – one that does not need consistent sources of business credit to survive. There are numerous old pick-up trucks that carry local craftsmen and handymen to small repair and contracting jobs within the community. You will see street merchants who will gladly sell you a stuffed animal or an oriental rug at all times of the day and night in many such neighbourhoods. A lively buzz emanates from neighbourhood barbershops, beauty parlours, hair braiding and nail care storefronts – all doing a lively business. Off the main streets, local machine shops serve small manufacturers with custom specialty pieces.

Entrepreneurship has also moved onto the street corners where less legal goods and services are for sale as well. All of these businesses have found some way to finance their business beginnings, growth, and survival. Some of these initial financing options are common to most start up businesses regardless of location, while others are the product of unsavoury lenders

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intended for a near desperate borrower. Unfortunately, for those borrowers in disadvantaged areas, their financing options for growth and survival are much more limited than businesses in more affluent parts of the city. What those barriers are and how they can be overcome is the main issue of this chapter.

What are the barriers to entrepreneurs obtaining financing in distressed urban areas?

Financing is among the more troubling challenges to success for any entrepreneur. Lenders tend to agree that businesses with insufficient or too uncertain cash flow, too little collateral, little banking history, not enough management experience, or that pose excessive risk or overhead costs are simply not provided credit. For most lenders, their obligations to protect depositors' funds and earn profits for shareholders preclude excessive risk taking and inadequate profit margins. Indeed, these tenets are basic, and lenders and their regulators pursue them vigorously (Meeker, 1990). If these are the barriers to the ordinary entrepreneur, what about the entrepreneur seeking financing from a site within a distressed urban neighbourhood? Community Investment Officer Kathryn Dunn of the Helen Bader Foundation recently commented "in low income areas, businesses face tremendous hurdles accessing capital so they can grow or even just survive" (Dunn, 2003). Lenders and investors, just like anyone viewing a distressed urban neighbourhood, are adversely affected by urban decay, economic disinvestment, and lack of a diversified economy.

If credit-worthy appearance is the universal underpinning for obtaining financing in distressed urban areas, several other barriers seem to make the prospect of financing all the more daunting.

Lack of verifiable market information

The most damaging of the barriers to financing entrepreneurship in distressed urban areas is the belief by banks and other investors that where there is evident distress there is also insufficient market to support successful business activity. More than any other obstacle, this barrier will prevent any investment of size – because without a market a business cannot survive. Often the perception amongst lenders that inner city businesses have a limited market cannot be overcome, even if that borrower has a high credit score.

However, there is a belief by some that there is enormous unrealised economic potential in America's distressed urban neighbourhoods. In 1999, then President Bill Clinton issued a groundbreaking report challenging the

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conventional wisdom and encouraging new approaches to market analysis and urban development (US Department of Housing and Urban Development, 1999). His premise, stated in that year's State of the Union Address, was "Our greatest untapped markets are not overseas – they are right here at home. And, we should go after them."

This address was based on a study prepared by the US Department of Housing and Urban Development of 539 central cities. This study, though limited in depth, sought to identify untapped and underserved markets. The shockingly high numbers reported in the study were met with stunned disbelief. The average difference between a sample of six central cities' household buying power and the amount of goods and services that were purchased in that area on an annual basis was 23.2%. In Los Angeles the retail gap was USD 5.4 billion; in Chicago USD 9.8 billion; in Detroit USD 1.4 billion; USD 3.9 billion in San Jose; and USD 2.8 billion in Washington DC.

Although the report did not spawn a surge to distressed urban neighbourhoods, it did cause a number of key retailers with a significant customer base in inner city locations to rethink their reliance on certain market research tools and caused them to look for other, more reliable clues to market density. Moreover it caused cities themselves to consider their own perceptions and sources of data.

The lack of substantive data extends beyond retail buying power. Too often lenders and business support agencies seem to be blind to the active business community that exists within urban neighbourhoods. In an effort to support neighbourhood based jobs, the University of Toledo Urban Affairs Center embarked on an ambitious survey to document manufacturers doing business in urban neighbourhoods. Local manufacturing inventories kept by the Chamber of Commerce and other business groups identified only a handful of businesses, yet the University of Toledo survey identified 410 manufacturers in neighbourhood settings with 25 356 employees (Wuest, 1995). If banks and other funders believe that few businesses flourish in urban neighbourhoods, and anecdotal evidence suggests that this is the case, they will be hesitant to finance business expansions and slowly starve urban neighbourhoods of the capital and jobs that support a healthy economy.

The misreading of economies within distressed urban neighbourhoods becomes a self-fulfilling prophecy. The less purchasing power and business activity the commercial banks believe exists within such neighbourhoods, the less likely they are to fund business start-ups and expansions in those areas –

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thus "proving" to themselves that their information was correct and that such areas do not provide a good business climate.

Limited access to capital markets

Anecdotal evidence suggests that if one were to ask any small businessperson, especially one trying to develop a business within a distressed urban neighbourhood, what was his or her biggest problem in achieving success, they would say the lack of equity or debt financing. Lack of capital for business development reflects both the total amount of capital available in the market and the degree of access of an individual borrower to that capital. There has been significant debate among lenders and investors given to whether there is sufficient investment capital available to small businesses and entrepreneurs. Venture capitalists cite the competition for qualified deals as evidence that more than enough investment capital exists. While others would use those same statistics, showing that only a small fraction of deals circulated to investors are funded, as evidence that there is indeed a capital gap. A report prepared by Weinheimer & Associates for the Association for Enterprise Opportunity identified 13.1 million entrepreneurs in the United States. It was estimated that some 10.8 million of those entrepreneurs have never had bank financing (Weinheimer & Associates, 2002). This leads one to conclude that more than seventy-five percent of identified entrepreneurs either do not have access to or otherwise choose not to use bank financing.

A recent article published by Fortune Small Business in its issue devoted to minority business activity shows that the rate of increase in minority business ownership is some 17% annually. Yet Fortune Small Business cites several studies showing that access to credit has not kept pace. A study by the Ewing Marion Kauffman Foundation showed that people of colour are denied credit more often, and pay higher interest rates when compared with white business owners. Latino- and black-owned businesses are rejected for bank loans nearly twice as often as white-owned companies, according to the Federal Reserve Board. As a result, the Milken Institute estimates, half of all minority entrepreneurs don't bother applying for loans, figuring they will be turned away (Daniels, 2004). Though this data refers to financing for minority business ownership rather than financing specifically for businesses in distressed urban neighbourhoods, minority business statistics are sometimes the best proxy for business statistics in distressed urban neighbourhoods (Initiative for a Competitive Inner City, 1999).

While there may be sufficient capital in an absolute sense, meaning that if all capital were available to all deals all could be comfortably financed, the

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system of finance is imperfect. Thus, despite any absolutes there can be a true lack of capital in particular segments of the marketplace. The varied sources of capital available for businesses operating in distressed urban neighbourhoods, both equity and debt, are discussed and evaluated in the next section.

Cost of technical expertise and lender transactions costs

Another barrier noted by small business owners relates to lack of knowledge about how to get a business started, how to create a realistic business plan, and how to change business practices to fit the market. All of which affect a borrower's attractiveness to a lender and the amount it will cost for a motivated lender to make such a loan. Why are business owners in distressed urban neighbourhoods more expensive to lenders? With few models of legitimate ownership, starting your own business is rarely considered or supported as a career path by peers and counsellors and hence those coming forward to lenders often have less well developed proposals, associated with higher risk. Thus, it is generally accepted that combining technical support with loans and investments will improve the performance of that loan or investment. Provision of these services significantly increases the cost of a transaction for the lender. The Community Investment Institute, based in Baltimore, Maryland, estimates that it costs a commercial lender upwards of USD 850 to process a single loan without the provision of technical assistance. This is the cost of a loan processed through a conventional financing entity, meaning a bank or savings and loan organisation. The cost of processing a loan in an economic development or micro-lending environment, though reports of cost vary widely, is agreed to be significantly higher. The cost may be as much as several thousand dollars when training and technical assistance are included. In some development banks, administrative costs approached thirty percent of assets (Parzen and Kieschnick, 1992).

It is obvious that such costs cannot be charged to an already overtaxed borrower. Numerous government and foundation programmes, discussed in the next section, therefore provide a subsidy for technical assistance. However, there are limits to those funds. A recent report for the Association of Enterprise Opportunity finds that "current funding streams for the industry are barely sustaining programs…funding for training and technical assistance is extremely limited hampering the potential for sustainability and growth." (Weinheimer & Associates, 2002) The report goes on to say that individual lenders in their Association have reported pre-lending technical assistance requirements as high as 45 hours.

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Venture capitalists are particularly hard on the point of technical expertise, often taking more than fifty percent of company stock in return for their equity infusion as well as their advice and counsel. Venture capitalists take substantial risk for their investment and expect substantial returns for that risk. An individual investor may have just a handful of investments to support with his or her technical aid, while the typical banker may have hundreds of business loans to manage, providing assistance only after such a loan is 60 or 90 days past due.

It is generally considered that whole categories of loans, particularly those under USD 50 000, have been eliminated by banks as simply too costly to generate and maintain. Few institutions are willing to support the cost of providing adequate technical assistance for borrowers of small business loans. Thus, the burden of technical assistance has fallen primarily to non-profits, which have to scrape money together from a variety of sources to help borrowers succeed in repaying their loans and, more importantly, in growing their businesses.

"Redlining" and racial discrimination

"Redlining", the practice of drawing an imaginary line around a neighbourhood of perceived lower income or minority borrowers, has long been illegal, yet persists in some neighbourhoods as an economic reality. Many bankers admit that some institutions have avoided market areas that they believed to be "more complex" or "higher risk", even though it would probably be possible to make sound loans in those areas with a little extra effort. Paul Grogan in his book *Comeback Cities* quotes a conversation with an unnamed senior banker as follows:

> *"You don't want to take on high-risk loans in an area you're not already familiar with. That isn't a racial decision, it's an economic one. If you're not doing much business in a particular neighborhood, and the data on the surface look bad, are you going to spend the time it takes to ferret out the few strong opportunities from the overly risky ones? How much time and research is it worth investing for a few small loans in a place where you don't really understand the risk factors, and the chances for a bad decision are high?."* (Grogan and Proscio, 2000)

This suggests, that at least in part, the persistence of or appearance of redlining and racial discrimination may be the result of a lack of familiarity with minority and low income borrowers, lack of training in more difficult

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community development lending, and the relatively high cost of making such loans.

How are entrepreneurs financed now?

The typology of equity and debt financing options available to entrepreneurs in distressed urban neighbourhoods can be listed under the following headings: personal credit; micro angels; banks and credit unions; government assisted financing; hybrid – bank/government/foundation; and private seed and venture capital. Some of these options hold more promise for entrepreneurs in distressed urban neighbourhoods than others.

Personal credit and alternative financial service providers

The most common source of financing for small business is personal funds from savings, trust accounts, or some other form of personal equity of the business owner or owners (Braddock Communications, 1996). This is the least expensive form of financing and also the easiest, as the decision to lend is made by the same person who wishes to borrow. Repayment terms can be as lenient as the business owner chooses. The obvious limitations are the extent of available personal funds and the willingness to put them at risk in a business venture.

Outside of the business owner's personal savings, according to a study conducted by the U.S. Small Business Administration on the financing patterns of small businesses, personal credit cards is the number one source of financing for small businesses in the United States (SBA, 2003). 46% of all businesses fund their operations, at least in part, with the use of personal credit cards. Seventy-one percent of businesses use personal credit cards or other personal loans from the business owner. More than half of businesses that are still considered small-sized but larger than micro businesses – those with 10 to 19 employees – used personal credit cards to fund business operations. The largest small businesses, those with 100 to 499 employees used personal credit cards at a rate of 23.7% to fund business operations, at least in part.

If we use the financing patterns of minority entrepreneurs as a proxy for financing in distressed urban neighbourhoods, this suggests that the usage of personal credit cards is identical to the population as a whole, at 46%. However, the use of business credit cards and lines of credit is reduced. Only 29% of minority entrepreneurs use business credit cards, rather than 34%, and only 20% of minority entrepreneurs use lines of credit, rather than 28%. The

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SBA suggests the lower reliance on such sources of credit may be the result of barriers to financing faced by these borrowers from these sources (SBA, 2003).

The ease of credit card usage can hardly be denied. Such cards are readily available, even to students and others, without verifiable income. However, they often come with the highest interest rates allowed by law, severe penalties for late payments and over limit fees, and sometimes, as recent lawsuits have shown, questionable business practices.

But, for the entrepreneur there are advantages in using credit cards: the business owner does not have to ask anyone's permission to use this form of available credit. Nor does he or she have to pay it back within a certain amount of time. All he or she has to do is pay the extraordinary interest once a month to have a revolving working capital loan of sorts within a card swipe away. The disadvantages of such a funding mechanism are also clear: such cards have credit limits and many small business owners soon reach them. Once their credit limits are reached, the temptation to apply for yet more cards is hard to resist. Credit cards are also the most expensive type of credit, other than loan sharking, and can put the business owner at risk to lose more than just their credit rating. As the popularity of this funding source suggests, many business owners use this form of external capital successfully. However, for those whom the payments become too high to manage, the card user is on everyone's bad credit list and his or her credit rating is in ruins.

The recent popularity of home equity loans (taking a second mortgage on one's home) has spilled over into the credit needs of small business owners. Such loans have the advantage of a lower interest rate and interest tax deductibility (in some cases). However, the risk of using home equity loans is even more devastating – a default could result in the business owner losing his or her home along with the business. Yet many entrepreneurs in the United States use both credit cards and home equity funding on a daily basis. The disadvantages of using these forms of business finance transcend national boundaries. They should be credit of a last resort; unfortunately they are usually the first place a small business owner looks when business financing is otherwise unavailable.

For those without a home or access to credit cards, business funding like that of their day to day financial affairs must be conducted in cash. An industry of alternative financial service providers has developed to support businesses that conduct their operations in cash. For these borrowers, check-cashing outlets, payday lenders, pawnshops, rent-to-own stores, and auto title lenders are the only options after the funds, or interest, of friends and family are

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exhausted. A recent study of Boston entrepreneurs commissioned by the Pioneer Institute identified eight percent of business owners obtaining financing for their businesses, at least in part, from such alternative sources (Pioneer Institute, 2003). While these alternative, non-bank financial service providers offer convenient services and easy access to cash, their services often carry high costs thus limiting low-income business owners' ability to repay loans. In a study conducted by the Urban Institute for the Fannie Mae Foundation, alternative providers tend to cluster in neighbourhoods with a higher share of minority and low-income residents. Fees for services can be 15 to 17% for a two-week loan; annual percentage rates (APR) can range as high as 300% (Temkin and Sawyer, 2003). In addition to the cost of cash lending services, usage of such sources of funding limits the ability of business owners, even those with an excellent record of repayment, to accumulate assets and establish the credit history necessary to access more traditional credit. Repayment records are often not kept or not reported to credit services.

One other non-bank source of credit is "factoring". Factoring entities buy a business' payables at a discount, up to fifteen percent or more, and collect the due bills in the company's stead. This is an alternative, though high cost, level of credit many small to mid-size companies use when cash flow becomes tight and equity is unavailable. Continued use of such financing can ultimately drain a company's operating margin, limit its use of more traditional sources of funding, and render it open to other forms of more damaging financing options.

Informal investors: micro angels

According to the Global Entrepreneurship Monitor, nearly one in twenty (4.6%) of adults in the United States were considered informal business investors; meaning that these individuals invested in new ventures started by family members, work colleagues, neighbours, and friends (Neck, 2003). Over the past three years, with the support of the Rockefeller Foundation, the Community Development Venture Capital Alliance (CDVCA) has carried out a programme to explore ways to encourage individual investors, sometimes called "angel capitalists" or "micro angels", to do more financing of businesses that benefit lower income people and lower income neighbourhoods. The CDVCA has identified 200 000 private individual investors investing USD 15 billion into more than 36 000 businesses. More importantly, the study identified an even greater contribution in the form of time, energy, and expertise contributed to the businesses (Williams, 2003).

The advantage of using such credit is that family loans do not have the same ramifications as other kinds of credit if the loan is unpaid. However,

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owing money to one's family and friends can become a difficult burden on an entrepreneur, especially if the loan default results in financial difficulties for those close to him or her. Yet this kind of financing has been around well before banks were created. Many ethnic groups form family syndicates that provide start-up and expansion funds to relatives and near relatives. Anecdotal reports suggest Asian and Middle Eastern cultures extend the micro angel model as far as international investing in a fellow countrymen's business with little more than a handshake as collateral. Unfortunately not all cultures have such a credit system, though a credit union is a modern version of this age-old practice.

Private banks and credit unions

Bank funding would seem to be the most logical source of external capital for a business. However, an SBA study reported that just over half of all businesses, 55% fund their businesses in part through banks or credit unions (SBA, 2003). Nearly all of these businesses operate in higher income areas of their communities. Less than six percent of bank lending reaches businesses in lower income areas.

Few banks and fewer credit unions will lend money without collateral. Though investors readily buy commercial paper issued by large corporations, it is understood that the corporations' assets stand behind that paper. Most entrepreneurs working in distressed urban neighbourhoods have little or no collateral. Those that own homes may have little equity in them and thus are not even able to take out a second mortgage. Banks have little interest in taking automobiles, boats, or other hard goods as collateral. They want an asset they can quickly turn into cash if the loan goes bad such as stocks or assignment of rents.

Banks prefer to make loans on new machinery and real estate, assuming both appraise out to be worth more than the loan. These asset-based loans fit comfortably into the bank's lending criteria. Working capital loans, or "unsecured loans" can be gained, but usually only after some period of working with a bank and creating a solid credit record with them. Though banks say they lend on "character", they really mean someone with whom they are familiar and in whom they have trust. The many bank mergers and acquisitions that have played out over the past twenty years have resulted in fewer and fewer bankers that have had the opportunity to get to know their borrowers. Local lending in the community banking style has been all but eliminated by local buyouts, reductions in work force, and loss of local banking control. Credit Unions are even more finicky when it comes to unsecured lending. Most will

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not do it unless the borrower has been with the organization for a long time, has a solid job and credit history, and a substantial deposit history with the credit union.

Bank Community Development Corporations

Bank Community Development Corporations (Bank CDCs) are established by national banks or bank holding companies. They are regulated by the Office of the Comptroller of the Currency (OCC) in the US Treasury or by the Federal Reserve Board (Fed), and they can be used by local bankers to provide debt or equity financing for many types of projects that no individual bank could or would be willing to do alone. Bank CDCs became popular after the passage of the Community Reinvestment Act (CRA) in 1965 (see government assisted financing – 6). CRA required federally chartered banks to provide adequate credit to all sectors within a bank's market area, particularly areas of distress and low economic activity.

The involvement of a Bank CDC provides an incentive to a bank to participate in the financing of businesses in distressed areas. Bank CDCs provide equity or debt financing to entrepreneurs that would otherwise not meet the underwriting requirements of bank regulatory agencies. Bank CDCs are more flexible with their investments than banks can be with conventional loans.

Thus the value of Bank CDCs is that they support banks to provide CRA-driven lending to distressed neighbourhoods. Often the Bank CDC and the bank are involved in financing the same project. For example, the CDC may make an equity investment in a project. That equity enhancement means that the bank's own investment then meets its loan underwriting criteria and thus the bank can make a loan that it otherwise could not make. The Bank CDC can also be an active participant in the development of a project, for example in conceiving the project, bringing the partners together, working with government to obtain incentives, investing its own funds, and then bringing its associated bank(s) into the project as a lender.

Bank CDCs may be established as for-profit, common stock corporations or non-profit organisations. They may be organised and sponsored by a single commercial bank (or bank holding company), by a group of banks, or by one or more banks or bank holding companies with non-bank investors including savings institutions, corporations, private individuals and others.

Under the OCC's community development investment authority, commonly referred to as "Part 24", a Bank CDC's investment must mainly

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benefit low and moderate income persons, low and moderate income areas, or other areas targeted for redevelopment. In addition, the investment must demonstrate non-bank community support for or participation in the investment. Since 1965, the OCC approved 1 700 investments totalling USD 11.2 billion in financing from national banks and their community partners. During the year 2000, 47 banks made 134 investments totalling USD 690 million in funding from national banks and community partners (Comptroller of the Currency, 2001).

Government assisted financing

There is a veritable "alphabet soup" of US federal government programmes, private agencies and entities, and national legislation that has been put in place to assist in developing financing opportunities for entrepreneurs in distressed urban neighbourhoods. Programmes follow two basic formats, direct lending or granting; or incentives to the private market to make loans or investments in targeted areas or companies. In addition to more well-known programmes within the US Small Business Administration (SBA), such as loan guarantee programmes (7A) and equity funds through Small Business Investment Corporations (SBICs), there is the federal Community Development Block Grant (CDBG) programme and the federal Community Reinvestment Act (CRA) legislation – both aimed at either providing or driving more financing into distressed areas.

In addition, a fairly new federal programme that designates certain local development organisations as Community Development Financial Institutions (CDFI) and the two-year old New Market Tax Credits (NMTC) legislation were created to support more investment in such areas as well. All these initiatives are discussed below.

SBA: 50 years of assistance

The US Small Business Administration (SBA) is the primary public sector agency helping entrepreneurs and small businesses in the United States. It has been operating for some 50 years and provides numerous small business financial assistance programmes, many of them targeted to distressed areas. According to the SBA, total financial assistance has reached USD 232.9 billion in loans and venture capital financing to small businesses, creating more than

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6 million jobs. More than 56% of business development assistance goes to businesses operating in distressed areas (SBA, 2003).[1]

Calculating all assistance from August 1, 1953 to July 31, 2003, the SBA claims the following track record:

- *1 182 707 direct and guaranteed 7(a), 504 loans and micro-loans, totalling USD 193.11 billion.* These programmes provide either SBA credit or other forms of credit enhancement and guaranteed debentures to encourage commercial banks to make loans to companies that do not have sufficient credit to meet bank borrowing requirements. The 7(a) and micro-loan programmes usually provide operating capital while the 504 programme provides long term, fixed interest rate financing for capital investments such as equipment and real estate.

- *136 000 SBIC financings of venture capital for USD 39.8 billion to 96 050 businesses since 1958.* The Small Business Investment Corporation programme allows the SBA to invest in private equity corporations that target small business financing, usually through equity and debt investment combinations. It is one of the very few US government programmes that indirectly provides equity financing to business.

- *Through the SBA's Surety Bond Program, 322 582 bid bonds were guaranteed for USD 64 billion worth of contracts.* This programme provides necessary bid guarantee and performance bonding for small and minority contractors who cannot obtain such bonding on their own.

SBA also provided almost USD 31 billion in *disaster loans* to small businesses that incurred substantial damage from natural disasters such as floods, hurricanes, forest fires and tornadoes.

The SBA also manages the *Small Business Innovation and Research* programme. This programme provides direct grants to entrepreneurs to assist them in commercialising their technologies. Since its inception, the SBA has made 64 000 SBIR awards worth USD 11 billion. Few SBIR awards find their way into distressed urban neighbourhoods unless a major research university is

1. www.sba.org, office of advocacy, consulted November 2003.

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located there as well. Only technologies of direct interest to US government agencies are eligible for this programme. And, entrepreneurs usually have a university researcher as a partner.

The *Small Business Technology Transfer Program* provides direct grants to university researchers working with entrepreneurs to commercialize technologies sought by US government agencies. Though fairly new, SBA has made 2 900 awards worth USD 549 million under this programme. Again, few of these awards benefit entrepreneurs within distressed urban neighbourhoods.

SBA has also tracked *US Government contracts* issued to small businesses. The government has issued 542 000 contracts worth USD 88 billion. HUBZones target contracts to geographically targeted distressed urban areas. During 1996-2000, 2.7% of US government contract dollars were awarded to minority entrepreneurs (SBA, 2003) and we might expect the proportion going to distressed urban neighbourhoods to be similar.

Probably the most helpful SBA programme for businesses within distressed urban neighbourhoods has been the 7(a) Loan Guarantee Program that provides the lender with an SBA guarantee on a portion of the total loan's value. In many cases the guarantee can reduce a bank's liability to less than 50% of the loan. Unfortunately, that is still not enough coverage for some banks and too many entrepreneurs in distressed urban neighbourhoods end up trying to start or expand their businesses with inadequate capitalisation. The micro-loan programme is more useful in distressed urban neighbourhoods, primarily funding self-employment for individuals. Few of these businesses seek or generate much growth yet they begin the process of asset building so critical to wealth accumulation.

The other SBA tool that is well used in distressed urban areas is the 504 long-term, fixed asset loan that works through a non-profit Certified Development Company. These loans help entrepreneurs finance capital expenses such as machinery and real estate, including rehabilitation of an existing building. This long term financing programme has been very successful in the past and SBA has recently received an expanded amount of loan guarantee authority to increase its activities in this area. Unfortunately, a small business needs a strong balance sheet and a reasonably long-term credit history to be considered for this programme. A start-up business has little chance of using this kind of tool, though it can be of great help in acquiring and rehabbing commercial space in a distressed neighbourhood for more mature businesses.

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Small Business Development Centers (SBDC)

In addition to many different financing programmes, SBA also provides accessible mentoring services to small business owners through their Small Business Development Center (SBDC) programme that funds technical assistance centres throughout the United States. There are 1 100 SBDC service locations in the United States with sub-centres located at colleges, universities, community colleges, vocational schools, chambers of commerce and economic development corporations. It is expected, though not required, that SBDCs target services to distressed urban neighbourhoods.

The SBDC programme is designed to deliver up-to-date counselling, training and technical assistance in all aspects of small business management. SBDC services include, but are not limited to, assisting small businesses with financial, marketing, production, organisation, engineering and technical problems and feasibility studies. Special SBDC programmes and economic development activities include international trade assistance, technical assistance, procurement assistance, venture capital formation and rural development.

The SBDCs also make special efforts to reach minority members of socially and economically disadvantaged groups, veterans, women and the disabled. Assistance is provided to both current or potential small business owners. They also provide assistance to small businesses applying for Small Business Innovation and Research (SBIR) grants from federal agencies.

In addition to the SBDC programme, the SBA has a variety of other programmes and services available to small businesses. They include training and educational programmes, advisory services, publications, financial programmes and contract assistance. The agency also offers specialised programmes for women business owners, minorities, veterans, international trade and rural development. More information can be found at the easily accessible SBA web site, www.sba.gov.

Community Development Block Grants (CDBG)

The CDBG programme is operated through the US Department of Housing and Urban Development (HUD). It is an outgrowth of many categorical funding programmes HUD once administered that funded discrete redevelopment projects in urban areas for redevelopment of real estate including property acquisition, demolition and relocation of owners and building tenants. These competitive grants to cities and counties also included public works

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funding for the rebuilding of crumbling urban infrastructure such as streets, sewers, lights, and site preparation for new development.

During the Reagan administration (1980-1987) these discrete project funds were converted to direct block grants to cities of over 50 000, allowing them to develop their own priorities of how they wished to spend those monies. The funds were targeted to eligible areas of distress and required local citizen input in determining how the funds would be spent. Some cities decided to use a portion of their federal CDBG grant to fund small business lending entities, many times sponsored by local community development corporations in primarily distressed African American neighbourhoods. These loan programmes tended to concentrate on both starting up new minority-owned businesses as well as assisting existing retail and services businesses to expand. Many of the funds focused on local retail and service businesses because the local CDCs making these investments were looking to replace similar businesses that were either destroyed during the urban riots of the 1960s or had left the area seeking a safer environment.

Though these funding entities had some impact on financing availability for neighbourhood businesses, they seldom focused on export manufacturing or larger service businesses which were usually owned by whites and whose markets were primarily outside of the targeted neighbourhood. Today local community development corporations are better informed and understand urban economies far better than in the past. However, the block grant funds from CDBG have, over time, been reduced or allocated to a growing number of social service agencies, elderly organisations, and other non-profits that have created constituencies within distressed areas that compete with each other for fewer and fewer dollars. The result has been that few CDBG funds are now targeted to economic development projects, especially financing programmes for entrepreneurs within the distressed urban neighbourhoods.

Though HUD does allow city governments, under some circumstances, to pledge their annual CDBG allocation as security against loans made to businesses seeking capital to expand within targeted neighbourhoods (HUD 108), it has been difficult to allocate CDBG dollars for this purpose over the historical opposition of recipient organisations.

Economic Development Administration loan guarantee

The Economic Development Administration (EDA) within the US Department of Commerce provides a loan guarantee programme that enables city governments to help businesses within distressed areas to borrow needed

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funds to modernise and remain in place. These loan guarantees are targeted to businesses within EDA-designated areas of high unemployment and distress. Such a loan was used in New Haven, Connecticut to help in retaining US Repeating Arms, Inc. and preserving some 700 jobs within a severely distressed area of the city. In time that company was purchased by a European firm that ultimately was encouraged to build a new facility within that distressed urban neighbourhood, using many of the financial assistance programmes discussed in this chapter.

Though EDA loan guarantees are targeted to distressed urban neighbourhoods, they are not readily accessible to smaller businesses. However, they do provide funds to help larger companies to remain in distressed urban neighbourhoods and provide needed employment. In many cases these companies use local companies for goods and services, some of which are owned by area entrepreneurs. By keeping manufacturers and other export-based companies within distressed areas, well-paying jobs are preserved for the community and the trickle down effect of purchased goods and services from local companies helps stabilise the local micro-economy.

Because CDBG and EDA programmes require local government approval, these incentives usually come with a redevelopment agreement that provides for a quid pro quo. Many times cities that provide development assistance to for-profit businesses require that minority contractors participate in construction contracts and that local residents within distressed urban neighbourhoods be given employment priority. Unfortunately that employment participation many times is in the form of low paying, unskilled jobs. However, jobs are still jobs and are eagerly sought by residents in most such projects.

Community Development Financial Institutions

Community Development Financial Institutions (CDFI) are specialised financial institutions whose core purpose is to provide financial products and services to people and communities underserved by traditional financial markets. They are part of a formal response to the loss of locally based, family-owned banks through bank mergers and acquisitions. Banks are encouraged to invest in CDFIs through federal financial incentives and the award of Community Reinvestment Act credits (see part 7 of this section).

CDFIs provide affordable banking services to individuals and help finance small businesses, affordable housing, and community services that, in turn, help stabilise neighbourhoods and alleviate poverty. In addition, CDFIs provide credit counselling to consumers and technical assistance to small business

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owners and housing developers to help them use their financing effectively. Thus CDFIs are an important mechanism for bridging the gap between the financial services available to the economic mainstream and those offered to low-income people and communities.

Currently, approximately 1 000 CDFIs operate in low wealth communities in all states and the District of Columbia, Puerto Rico, and the Virgin Islands, of which some 625 were certified by the US Treasury CDFI Fund as of January 2004. In total, CDFIs serve 98% of the nation's most distressed urban and rural communities and therefore have an unprecedented financial reach.

Certification from the US Treasury CDFI Fund can be obtained if a CDFI meets all of the following criteria: has a primary mission of promoting community development; serves principally an investment area or an underserved targeted population; makes loans or development investments as its predominant business activity; provides development services (such as technical assistance or counselling); maintains accountability to its target market; and is a non-government entity. The primary benefit of certification is access to technical assistance, loans, equity investments, and grants from the CDFI Fund, which is a programme to support capitalization and capacity building in the sector and thus enhance the ability of CDFIs to support community development in underserved markets. Some CDFIs choose not to seek certification. Those CDFIs that choose not to seek certification may do so because they do not meet all the criteria for certification; because they believe the certification process to be too onerous; or because they believe that they have sufficient investment capital.

According to the Coalition of Community Development Financial Institutions, CDFIs fall into six basic types: community development banks; community development loan funds; community development credit unions; micro-enterprise funds; community development corporation based lenders and investors; and community development venture funds. All are market-driven, locally-controlled, private-sector organisations.

All CDFIs share a common vision of expanding economic opportunity and improving the quality of life for low-income people and communities. The most common business models for CDFIs are:

- Community Development Banks, which provide capital to rebuild economically distressed communities through targeted lending and investing. They are for-profit corporations with community representatives on their Boards of Directors.

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- Community Development Credit Unions, which promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people. They are non-profit financial cooperatives owned by their members.

- Community Development Loan Funds, which provide financing and development services to businesses, organisations and individuals in low-income communities. Community Development Loan Funds tend to be non-profit.

- Community Development Venture Capital Funds, which provide equity and debt with equity features for small and medium sized businesses in distressed communities. They can be either for-profit or non-profit and include community representation.

CDFIs measure success by focusing on the so called 'double bottom line' meaning that they focus not only on repayments of financial instruments but also on the economic gain or overall contribution that the funded project makes to the community. This focus on outcome, meaning the impact on local housing, neighbourhood facilities, and/or businesses that they fund, rather than on output, or the loan itself, puts the CDFI in the role of community partner. CDFIs are much more likely to be involved in community planning and decision making because they are truly part of the local community. CDFIs maintain the flexibility to adapt lending guidelines and criteria to local situations such as accepting unconventional collateral for loans, and providing education, training, and assistance to borrowers and potential borrowers.

Using minority borrowers as a proxy for borrowers in distressed urban neighbourhoods, sixty percent of all CDFI financing goes to minority borrowers. Sixty-six percent of all clients are urban. This is an instrument with quite strong targeting on distressed urban areas. CDFIs have made 4 680 business loans equalling USD 312 million to entrepreneurs in distressed urban neighbourhoods (CDFI Data Project, 2004).

New markets tax credit

In December 2000, Congress passed the federal "new markets tax credit" (NMTC) under the Community Renewal Tax Relief Act. The NMTC is intended to attract private sector investment in businesses located in low-income communities. Through the NMTC programme, taxpayers are provided a credit against federal income tax for qualified equity investments made to acquire

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stock or other equity interests in qualified community development entities (CDEs). The CDE in turn must use all of the invested funds to make qualified investments, which can include loans or equity interests, in businesses or other CDEs operating in low-income communities. This new capitalisation mechanism is intended to generate USD 15 billion in new, private-sector equity investments and fuel business growth in low-income urban and rural communities that have been largely overlooked by the traditional marketplace. The value of the credit is 39% of the taxpayer's qualified investment and is claimed over a seven year period beginning on the date the investment is made. Based on the seven year span of the investment the present value of the credit is about 30%.

In the first two rounds of NMTC awards, 31 institutions received USD 1.2 billion in tax credit allocations. A third funding round of USD 2 billion is expected in 2004 and then another USD 7 billion is scheduled for allocation by 2007.

Community Reinvestment Act

The federal programme that may have had the greatest impact on the availability of capital for entrepreneurship in distressed areas is actually a regulation. The Community Reinvestment Act (CRA) compels banks to extend credit in all parts of the markets they serve. It requires every bank to "[meet] the credit needs of its entire community, including low- and moderate-income neighbourhoods, consistent with the safe and sound operation of such institutions." (Grogan and Proscio, 2000) Bank lending to moderate and low income neighbourhoods is rated and published by the Federal Reserve. CRA has placed enormous pressure on banks to extend more credit to distressed urban neighbourhoods than they otherwise would have. Although the Act has no explicit penalties, the Act has come to be enforced most vigorously at the time when banks seek to expand, merge, or otherwise change the scope of their charter. If their lending in low income neighbourhoods is too low, such change can be blocked. The response to that threat of enforcement has been strategic announcements of major commitments of lending and investing in low income neighbourhoods by banks on the cusp of a merger. For example, the following release was made to major media in 1998: "Citicorp and Travellers Group today made a ten-year, USD 115 billion commitment to lending and investing in low and moderate income communities and small businesses. This pledge is more than double Citibank's USD 56 billion of domestic deposits – the largest such community commitment as a percentage of deposit base ever made by any institution." (Grogan and Proscio, 2000) During the 1990s, at the height of the

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merger boom, such announcements became commonplace. The same regulators that must approve mergers are empowered to enforce the CRA.

In the Federal Reserve's annual community reinvestment reviews, 90-95% of banks generally get ratings of "satisfactory" or "outstanding" and total bank commitments have added up to more than USD 1 trillion. According to Paul Grogan, one reason for this is that commitments actually conceal tens of billions of dollars in routine business that banks would have done anyway. The commitments frequently include, in addition to genuine new activity, ongoing credit-card services, and the processing of conventional home loans that are almost immediately sold to national mortgage institutions, and highly subsidised, collateralised, and guaranteed loans. Nevertheless, a June 1995 report by the Chicago Federal Reserve estimated that some USD 8 million in lending per metropolitan area, an average of roughly 100 loans per market, was attributable primarily to CRA (Grogan and Proscio, 2000). It must be recognised, however, that the CRA has been more successful in increasing lending for home loans than for enterprise finance in distressed urban areas.

Hybrid bank/government/foundation

Micro-loan or micro-credit programmes for self employment or small businesses with fewer than 5 employees, needing less than USD 35 000 in start up funding are often hybrid-funded programmes. The great majority of these programmes are run by locally based non-profit Community Development Corporations or other non-governmental organisations with financial backing from government and foundations. Nearly 100% of funding goes to lower income entrepreneurs in distressed areas. Approximately USD 855 million is invested annually in business creation or expansion. SBA estimates that there are 2 million micro-enterprises in the US needing such financing (SBA, 2003).[2] The Association for Enterprise Opportunity estimates that 57 000 new businesses are created annually with the assistance of micro-loan programmes. Loans range from USD 500 to USD 35 000; average micro-loans are USD 15 000.

Since much of the funding for these programmes comes from foundations, there is extensive research available concerning the start up and management of programmes, lending practices, repayment schedules, growth rates, and overall viability of the business and the programmes. The programmes attain remarkable success while being seriously undercapitalized year after year.

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2. www.sba.org, office of advocacy, consulted November 2003.

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Seed & venture capital

Though the term "venture capital" is used often to describe equity investments of various kinds, most US venture capital firms have little interest in small business financing unless the company has the potential for quick and substantial growth and the investors can exit at a substantial profit within five to seven years. Though many venture capital firms concentrate on technology companies because they provide the potential for fast growth and quick exit, many also use their funds to assist in leveraged buyouts of struggling companies as well as buying or investing in non-technology companies which have a proprietary product and strong management. None of these descriptions is a good fit for entrepreneurs within distressed urban neighbourhoods.

Approximately USD 48 billion is invested in private venture capital annually. However, many venture firms ceased or drastically reduced investing after the dot.com meltdown of 2000 that slowed the market for Initial Public Offerings (IPO), the preferred cash-out method of venture firms.Seed capital, however, does look at earlier stage companies that need investments of between USD 100 000-USD 500 000. Again, these funds tend to look for companies that are fast growing, many times harvesting their investment in a few years when the larger venture firms come into the picture. Some seed funds have been created by city governments and private investors and are targeted at a particular geographic area. Some of these funds are the result of federal grants such as the Technology Investment Fund of New Haven, Connecticut that was begun with a USD 1 million federal Economic Development Administration grant. Another in Indiana, was the result of a state tax credit that encouraged individuals to invest in a venture fund to spur new business development. Most community-based seed capital funds have a strong economic development justification and job creating investment strategy.

One of these funds, the Evanston Business Investment Corporation (EBIC), was a non-profit corporation founded by a private economic development organisation with five investors: two banks, a private university, an insurance company and a medical products company. Their investments totalled USD 1 million. After 10 years all investors were repaid at 6% interest except the university, which invested its money on an equity basis. At final cash out the non-profit and the university split over USD 600 000 of profit. The EBIC fund concentrated early on in investing in small and minority-owned businesses. Unfortunately a number of its early loans went bad and it changed over to an equity investor model – targeting the same fast growing, technology companies sought by for-profit seed investors.

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There are other examples of locally-raised seed capital funds scattered across the US. Most of these funds have great difficulty in keeping their financial heads above water, but some have done very well. Most do not invest in distressed urban neighbourhoods unless the target business has a very strong track record and very good management. The key to investing tends to be a concentration on fast-growing technology companies that offer multiple returns in a short period of time. Because most seed capital investments tend to be written off, large returns must be generated by the few "winners" within a portfolio. Such equity fund models are of little help to entrepreneurs in distressed urban neighbourhoods if their businesses do not meet the high growth criteria.

Some case examples of policies in action

Three specific case examples have been chosen to illustrate the standard as well as the innovation of small business finance in United States distressed urban areas. First, CDC Small Business Finance Corporation, San Diego, California has been chosen to illustrate the standard method of fixed asset, small business finance. The second example is Southeast Community Capital (SSC), Oak Ridge, Tennessee. Southeast Community Capital is a Community Development Financial Institution (CDFI), the emerging standard for other types of community-based small business and real estate financing organisations. The third example is the Initiative for a Competitive Milwaukee, Milwaukee, Wisconsin. This example is an illustration of a more recent and innovative approach to channelling finance to US distressed urban areas, which aims to craft a sustainable, long-term solution to new enterprise creation in these communities. It is a particularly useful example because it shows how putting resources into collecting and analysing data on investment opportunities can attract private finance. This example illustrates quite clearly how new paths were uncovered with this new data and how the continuance of existing paths were justified when conventional wisdom would have suggested otherwise.

CDC Small Business Finance, San Diego, California

Founded in 1978, CDC San Diego is a non-profit financial intermediary serving the capital needs of small businesses in the San Diego, Orange, Riverside, and Imperial Counties of California. In 2002, CDC San Diego was the nation's number one Small Business Administration 504 lender. In 2002, it received a total of 312 SBA 504 loans approvals. Those loans represented a record USD 152 million financing for projects exceeding USD 445 million, creating 6 500 jobs in 2003. It is the largest of 270 approved Certified Development Corporations working with the SBA.

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The CDC 504 loan programme is a long-term financing tool for businesses that provide economic benefit to the communities within which they are located and that are unable to find financing without assistance. Working with a bank and through one of the SBA-approved non-profit CDCs, businesses can find long-term, fixed rate financing for major fixed assets such as land and buildings. Each CDC covers a specific geographic area. Most communities have access to a CDC if not immediately within their city or county, then within their state.

A typical 504 project includes a loan secured with a senior lien from a private-sector lender for about 50% of the project cost, a loan secured with a junior lien from the CDC (backed by a 100% SBA-guaranteed debenture) for about 40% of the project cost, and a contribution of at least 10% equity from the small business being financed. Interest rates on 504 loans are pegged to an increment above the current market rate for five year U.S. Treasury issues. Fees total about 3% of the debenture and may be financed with the loan. The project assets are used as collateral and sometimes personal guarantees are required. The 504 programme cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

The CDC San Diego works with more than 50 bank funding partners throughout its region to share the risk of real estate investments in distressed areas. Ninety percent of the financing produced by CDC San Diego is fixed rate financing. It is able to pre-select most borrowers through an online interactive application process in under 72 hours. This turn around time is significantly faster than most traditional financial institutions. The SBA guarantee portion of the deal is limited to USD 1 million.

The average deal produced by CDC San Diego is USD 1.2 million, 40% of which is a CDC loan, 50% is a loan from a bank funding partner in the area of the business and 10% is borrower equity. The typical project is the purchase of an industrial or commercial building that has been previously leased by the business. This purchase is intended to help build the assets of the business and the owner and encourage its long term commitment to the community. In the average project, the business contributes USD 120 000 (10%) in equity to the deal and receives a 20-year, fixed rate, of 6.5%. Nearly all of its financing goes to entrepreneurs in distressed urban neighbourhoods.

CDC San Diego is the largest and arguably the best of the 270 such institutions operating in the US and it is extremely responsive to the community, highly respected by the banking and economic development communities, and well managed. Its results are exemplary. Part of its success is due to the very high density business environment in which it is located.

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Thus, while it is very successful in its own specific environment, it is hard to replicate on the same scale in other US cities that have less business-rich environments. On the other hand, the higher density of most European and other cities outside North America makes it a potentially transferable model for fixed asset financing for distressed urban neighbourhoods abroad.

Southeast Community Capital, Oak Ridge, Tennessee

Southeast Community Capital (SCC) provides loans, investments, and developmental services to start-up and early stage small businesses in communities in Tennessee and southern Appalachia that do not have access to traditional financing. SCC's goal is to create employment for low-income area residents through investments in these businesses. SCC is certified as a Community Development Financial Institution (CDFI) and a Community Development Entity (CDE) by the U.S. Department of the Treasury.

Southeast Community Capital (SCC) was created in December of 1999 as part of a state wide effort to increase access to capital for small businesses in Tennessee. Working in conjunction with other community, regional, state, and federal partners, SCC offers technical assistance for enhancing business planning, marketing, management, financial management, and entrepreneurial skills to small business owners. Seventy-five percent of its lending is provided in lower income communities. To date it has provided 44 loans totalling USD 2.3 million creating 238 jobs that provide sustainable wages of an average USD 34 240 annually. By any standards, its results have been exemplary. It has an admirable 99% recovery of dollars lent to date.

SCC is typical for the new style community bank, amassing pools of funding from a variety of sources. It has received funds at the federal level from the Small Business Administration, the US Department of Agriculture, and the US Treasury; and further funding from the State of Tennessee, the Chattanooga Opportunity Fund, Nashville Opportunity Fund, private banks and foundations, and individual and institutional investors.

In Knoxville and the Eastern Tennessee region, SCC works in partnership with Economic Ventures, Inc. and the Small Business Development Center to provide lending, one-on-one counselling to borrowers, and entrepreneurship training. Through their combined business resource centre they are able to provide training to about 500 people annually. They are credited with the creation of 40 new businesses annually in Knoxville alone that provide 75 jobs for residents of the area. The partnership has also more than doubled the resources available for small business lending, created the first venture fund

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focused on distressed area businesses, and dramatically enhanced the availability of technical assistance.

SCC is the managing entity for the TennesSeed Fund 1, a USD 30 million venture capital fund, which has applied for a Small Business Investment Company (SBIC) license from the Small Business Administration. Through a partnership with Kentucky Highlands Investment Corporation, SCC formed a New Markets Venture Capital Company (NMVCC), the Southern Appalachian Fund, which includes the states of Kentucky and Tennessee.

SCC was awarded a USD 2 million New Markets Tax Credit (NMTC) allocation in the first round of applications. SCC officials estimate that the NMTC allocation will help create 235 new jobs at sustainable family wages through the funding of 278 loans to Tennessee small businesses. SCC provides more than 75 of its lending assets to benefit small businesses in low-income communities in Tennessee where the median household income is at or below 80% of the area median household income. SCC's rigorous standards and hands-on technical support have earned an enviable 99% recovery of its dollars lent to date.

The CDFI programme includes institutions of great diversity. SCC is an example of a highly sophisticated regional lender and investor. It may be the kind of institution that would be transferable to other countries because it truly serves the function of a community bank. Moreover, in areas where there are few successful small business models, such as Eastern Europe and the former Soviet Union, the hands-on style may be exactly what is needed to move a business to success.

Initiative for a Competitive Milwaukee, Milwaukee, Wisconsin

In 2001, the Helen Bader Foundation invited the Initiative for a Competitive Inner City (ICIC) and CEO Michael Porter to develop a new approach to improving the situation for the 5 000 businesses and 376 000 residents of inner city Milwaukee. Milwaukee's strong industrial history and rust belt glory were rapidly fading. Though an activist Mayor and continued commitments by local institutions maintained many bright spots, high wage jobs were being lost at an alarming rate. It was clear that the attraction of a few new businesses would be insufficient to rebuild its economic base. The Foundation hoped for a comprehensive solution that would refocus energies on creating jobs and wealth, identify untapped opportunities within the community, attract new investment, and inspire private sector leadership.

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ICIC's work first provided a base of data that was unprecedented. Their research provided a far better understanding of Milwaukee's overall economy, how it functioned internally and how it related to the nation as a whole. The analysis uncovered significant untapped investment opportunity in the inner city, including upwards of USD 1.4 billion retail spending power. Moreover, they identified that 15% of Milwaukee's workforce was underemployed based on skill level. Most significant was the analysis of Milwaukee's inner city economy. Four industry clusters were selected as a starting point for their work: health services, construction & development, business process service centres, and manufacturing retention and renewal. Additionally, the consultants decided to address two cross-cutting business environment issues: workforce development and entrepreneurship. Action teams were formed for each of the four clusters. The action teams are diverse groups of private and public sector leaders and industry experts. Together they developed action plans for each cluster.

This base of new data was able to challenge the conventional wisdom about the inner city. While the most welcome surprise may have been the new knowledge about the significant asset of their work force, the information about entrepreneurship was more discouraging. Milwaukee ranks 48th among the 50th largest metropolitan areas in black-owned businesses and 49th among the same group in Hispanic-owned businesses. Still, the availability of this base of data allowed a complete rethinking of financial resources and financing programmes. Since this study was conducted, much more private debt financing has been targeted to identified industries and a new publicly-supported venture fund has been created for entrepreneurs starting or expanding businesses in targeted industries within the inner city.

Priorities for improving access to finance

Entrepreneurship is the way an individual takes economic advantage of new wealth-creating opportunities that arise daily from constant change. Such changes exist throughout the economy in all types of economic environments. The individuals who take advantage of such changes also exist in all types of economic environments. What differs is the opportunity such entrepreneurs have to finance and advance the business ideas that emerge from those opportunities.

If America is to address the problems of distressed urban neighbourhoods, it must tap new markets, drawing on unmet consumer demand, harnessing underutilised labour, and investing in developable urban land. Such markets

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must enable capital to generate significant returns and produce jobs and lasting benefits.

In the United States as a whole too few businesses are starting and too many businesses are failing, even in prosperous areas. And despite the programmes of the SBA, Treasury, and other federal agencies, including the Department of Housing and Urban Development's Community Development Block Grant funds the odds of an entrepreneur starting and maintaining a new business in a distressed neighbourhood are still constrained by limited capital availability.

One's belief in the wasteland of a distressed community is wholly convincing. Despite high profile reports touted by Presidents, the logic of there being a real lack of resources – of money and talent in a distressed community – just makes common sense. We know now that it is not entirely true. There are substantial underserved markets in distressed communities. But, we cannot yet see them and we certainly cannot yet feel them emotionally. What we, and our bankers, still believe is that the data must be wrong. There still exists very little easy-to-collect, verifiable, comparable, and accurate data usable by cities to support their development efforts. This lack of data is crushing. The cost of independent market analyses is prohibitive to many communities, and even with such a study in hand, if the business cannot verify the numbers the value of the study is limited. *Policy makers must agree upon sources of data to augment the US Census, Census of Manufacturing, and Consumer Expenditure Survey that will be more accurate for distressed urban markets and more useful in understanding the interdependence of urban firms and the potential for growth both within and outside of the immediate urban neighbourhood.*

There is not enough debt and equity funding available for new and growing firms in the US, especially for entrepreneurs in distressed urban neighbourhoods. Despite high profile efforts, such as minority sports figures funding minority entrepreneurs, the bulk of traditional equity capital is going to very traditionally-led businesses. Moreover, in spite of important political victories, such as the Community Reinvestment Act (CRA) that requires federally chartered banks of a certain size to invest in affordable housing and small business development within distressed areas, there still is a very obvious lack of traditional bank investing in distressed communities. The CRA was enacted to combat "red lining" – the practice of bankers and others drawing a line around distressed areas and refusing to finance either commercial or residential debt. Red lining still exists, only now it is a state of mind rather than the marks of a red pencil. *Increasing the level of CRA accreditation given to*

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banks if they actively provide capital to new and existing entrepreneurs within distressed urban neighbourhoods would refocus the emphasis of community development financing from primarily affordable housing to include business development.

With a continuing lack of traditional debt and equity financing, distressed areas are sentenced to a self-fulfilling prophecy of spiralling decay: we make no investments because there are no other investments being made. Yet there is clear evidence that it is quite possible to make profitable loans and investments in distressed urban areas. Banks and institutional investors must be challenged to do more. The entire burden of distressed area revitalisation must not fall on the government, foundations, and financial intermediaries. *Expanding the use and availability of the New Markets Tax Credit would continue to attract more private investment capital from traditional and non-traditional sources.*

Lack of debt and equity funding prevents new firm creation and growth, one of the main sources of new investment in distressed neighbourhoods. Without that investment, how are these neighbourhoods going to climb back to economic health. Public subsidies have a major impact in promoting firm creation and growth but informal investors are the primary source of support for new and growing firms. And they should be recognised and encouraged to expand their role in new business development. There are no legal incentives in place for informal investors. They bear the risk alone. *A new investment tax credit that would apply to informal investors would help expand this most important source of equity financing, especially if such tax credits were doubled within targeted distressed areas.*

North Dakota has recently taken the step to encourage more informal investors to keep their investments local. The state has offered a tax credit for investors in an investment fund. The investors receive an immediate tax break for their investment. And the fund can be used to spur investment in businesses and real estate in North Dakota's cities and towns. More investment dollars are kept within the state and badly needed funds for business and real estate development are now available. Similar funds could be established for seed capital and growth capital in distressed areas.

Distressed urban neighbourhoods often lack solid business models. In consequence, individuals growing up in distressed urban neighbourhoods often do not see a parent, relative or neighbour going off to spend their day in gainful employment. We have spent considerable effort in remedying such lacks. Yet, we failed to see that we were not creating a complete economic picture. We suggested only one option, finding a job. There was no option to create a job.

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Lack of a business culture is probably the biggest detriment to entrepreneurs attempting to build and grow businesses within distressed urban neighbourhoods.

There are entrepreneurs of every culture or heritage that succeed because of their determination and drive, though some benefit greatly from familial networks that provide precious capital and mentoring. Others are born into family businesses and learn from childhood the mysteries of business and the making of the sale. The private entrepreneurial support system is substantial and has many sponsors. But the same is not true for the entrepreneur in a distressed urban area who is unlucky enough not to be born into a family business, or who has not invented a new technology, or who may not have a cultural financing mechanism willing to invest in his or her idea. Capital by itself is not the sole answer for this entrepreneur. Along with it must be a rational business plan, a mentoring source of support and advice, as well as more understanding by the economic system that you cannot do business the same way in distressed neighbourhoods as you can downtown.

The many programmes of the federal government can only bring capital closer to the entrepreneur; they cannot bring the entrepreneur success. That can only happen with more help than is currently available. The community based non-profits and other local sources of financial support are closer to the entrepreneur, but they many times lack the business expertise to help him or her with the many other problems of managing and growing an economic enterprise. Banks many times have this knowledge, but have little time or financial incentive to share it with a small, growing business in a distressed urban neighbourhood.

That is why what success stories that exist revolve mostly around community-based financial entities that provide mentoring and technical assistance along with debt and equity capital. These organisations are run by financing professionals who understand both culture of local banks as well as the myriad government programmes and their paperwork.

It is only when all of these resources become available together that businesses survive and grow. In order to rebuild the economies of distressed urban areas in the United States – or anywhere for that matter – there has to be a realisation by government, the private sector, the banks and local community organizations that building businesses in distressed areas is a complex and difficult undertaking that requires many kinds of expertise and support. Capital is but one of them, but an important one. However, capital must be wedded to

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mentoring, understanding of market, good planning and plenty of determination by everyone involved.

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CHAPTER 2: ENTREPRENEURSHIP FINANCING IN DISTRESSED URBAN AREAS EUROPEAN EXPERIENCE

By Rudy Aernoudt
Director of Cabinet to the Belgian Minister of Economy, Research, Scientific Policy and Energy, Brussels, Belgium

Abstract

This chapter examines financing entrepreneurship in European distressed urban areas. A "finance issue" is identified focused on the need to stimulate a wider range of external financing instruments in distressed urban areas. Particular attention is paid to financing of pre-activity, bank-SME round tables, mutual guarantee schemes, business angels and "love money" investments. At the same time an "entrepreneurship issue" must also addressed, by improving the overall climate of an area for fostering entrepreneurship and making inner city entrepreneurs more investment-ready. Various finance innovations are illustrated with concrete examples from European countries.

Introduction

One of the main characteristics of an entrepreneurial area is the offer of a hybrid variety of financial instruments. Evidence shows that it is easier for dynamic areas to attract a wide range of types of finance than it is for distressed urban areas. In trying to address this geographical gap, we see that distressed areas too often concentrate on only one of the potential sources of finance, neglecting the wider spectrum of financing opportunities. Moreover, current policy intervention in Europe puts too much emphasis on finance supply issues and too little on demand issues.

Alongside classic bank financing, special attention should be given to private investors in view of their well known preference for local investments. The "friends, fools and families" approach can be of considerable importance in

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distressed urban areas and should be stimulated. However, all policies focused on improving the supply side will be inefficient if they are not combined with a cultural change focused on the demand side. Thus, government should look at innovative ways to stimulate entrepreneurship (to develop the demand for finance) in combination with innovative financing schemes (to develop the supply of finance). This combination, promoting entrepreneurship and facilitating access to finance, seems to be one of the best ways to support the development of distressed urban areas. But it implies a shift from traditional small and medium-sized enterprise (SME) policy to a policy based on financing "entrepreneurship", viewed in a wider sense.

After explaining the financing issue and the entrepreneurship issue, we will focus on the financing problem in distressed urban areas and look for new ways to address their needs, taking into account the points made above, namely that not all money is the same and that the demand issue should not be neglected. We will develop a view of an appropriate financing policy for distressed urban areas and illustrate it with concrete examples of how such an approach can be implemented. In doing this, we will pay particular attention to the financing of pre-activity, the development of mutual guarantee schemes and the promotion of informal capital, as we consider these to be the most effective tools to finance entrepreneurship in distressed urban areas, guaranteeing the best value for public money.

The financing issue

Entrepreneurs consider that not all money is the same. They take into account several criteria when considering different sources of finance for their ventures. To achieve successful and profitable business development it is necessary to ensure that the right type of money is matched to the real risk involved. For a start-up, with no income until the product is fully developed and the first sales are made, debt finance is rarely the best source of external finance. Debt finance is usually secured on assets. The longer or the more uncertain the period to exit, the higher is the collateral required. Moreover, the riskier the project, the higher the anticipated reward needed to attract investors.

Therefore, financing instruments should include a wider range of finance sources. Enhancing entrepreneurship and encouraging people to set up their own businesses does not make sense if good projects do not find appropriate financing. And despite recent interest in promoting venture capital and business angels, and the very liquid position of banks, the problem of access to finance is still not solved, as shown by different surveys.

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A survey of 50 000 SMEs in Europe conducted yearly by Grant Thornton reveals that access to finance remains a major obstacle, both in the short run and the long run. Access to finance and the cost of finance are still considered major obstacles to growth. Amongst the twelve obstacles quoted by SMEs, the fourth most serious obstacle was lack of finance, the fifth was cost of finance, and the sixth was lack of own funds (Grant Thornton, 2002). An ENSR enterprise survey came to similar conclusions. In seven of the countries of the European Union (EU15) access to finance came out as the main constraint impeding the performance of enterprises, and in six countries as the second important constraint (EIM, 2002).

Various studies show that the problem of financing in distressed urban areas is similar to the general problem on financing, but more pronounced. To give just one example, a study carried out by the International Finance Corporation, mainly focused on urban areas in Estonia, Latvia and Lithuania, came to the conclusion that SMEs in distressed urban areas suffer from chronic lack of funding. The main obstacles were:

- Lack of availability of equity finance.
- High interest rates.
- Unsatisfactory terms of credit.
- More collateral required than available.
- Banks do not like to work with SMEs.
- Insufficient size of loans.

Banks were considered as having unrealistic collateral requirements and procedures that are too complicated.

Bank loans

On a more global level, a survey of the 500 highest growth companies revealed that, apart from retained profits, bank loans were by far the most important source of finance. Indeed, in 40% of cases it was the only other source of finance. Only 5% of the enterprises mentioned venture capital and private investment as a source of finance. Perhaps the only exception to the pre-eminence of banks in Europe could be the United Kingdom. The United

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Kingdom on its own it represents more than half of the institutional risk capital market of Europe. It developed the use of business angels and uses stock quotation proportionately more than the United States. But even there, bank credits still represent 48% of external finance (Bank of England, 2000).

Venture capital

In terms of formal risk capital, we see a persistent increase in the number of enterprises that do not, or cannot, access venture capital finance. This phenomenon is often referred to as the equity gap. Recently, we have seen both a global slowdown of the market and a decline in the share of early investment. Management buy out (MBO) financing is still the most important element of the risk capital scene in Europe and one might ask if banks could not finance those MBOs through more creative credit constructions. MBOs are not particularly risky, but often the buyers are not able to offer sufficient collateral. At first sight venture capitalists, in their mainstream activity, differ from banks only in that they take risk with less security in case of failure, rather than in taking higher risks. This reduces the complementarity between banks and venture capitalists, implying that few finance suppliers are interested in projects combining lack of collateral with high risk, such as start-ups.

Even in the way venture capitalists evaluate projects, they do not differ substantially from banks. The classical discounted cash-flow methods, together with the use of comparables, are by far the most used evaluation methods (Babson College, 1999). More academic methods such as the option-based approach or the residual approach are hardly used. These conventional appraising methods do imply a bias towards projects characterised by a stable cash-flow projection in the short run. Start-up companies and projects with a long incubation period and a high burn-rate are therefore less attractive to the venture capitalist.

The fact that most risk capitalists perceive and appraise projects through the bankers' eyes is not surprising. Most of the fund managers are ex-bankers making a career move towards risk capital funds, often within the same banking group. Moreover, in contrast to the United States, bankers in Europe are the most important source of finance to the risk capital sector. In North America, venture capital is raised from funds with longer investment horizons, mainly from institutional investors such as public and private pension funds and insurance companies rather than banks, which tend to be the largest investors in Europe (OECD, 2000).

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These factors explain of course why the views of risk capitalists differ only slightly from a banking approach. This bankers' view is confirmed when we have a closer look at the number of SMEs at start-up and seed stage that receive venture capital finance and the amounts involved. This demonstrates an unsettling reality: in the European Union less than one-fifth of all risk capital goes to start-up and early stage businesses.

We can ask why venture capitalists have such a clear preference for MBOs and mature companies. Investors should, in conformity with portfolio theory, spread their assets over the different stages of company development instead of concentrating on the big deals. The problem can be tackled by applying agency theory to the venture capital sector. Investors, and especially institutional investors, are rarely involved in the daily management of funds. The fund manager is rewarded on the basis of the carried interest principle, which means that they receive a percentage of the capital gain achieved beyond the normal return. Therefore they prefer large, not labour intensive, deals with short term exit opportunities. Consequently, injection of more private or public money into the market will not make it easier to obtain risk capital financing at launching stage or for small amounts, on the contrary. The equity gap is hence the outcome of a much deeper problem of information asymmetries within the venture capital market. These asymmetries arise from the fact that neither suppliers nor recipients of risk capital are aware of the sensitive balance between risk and return. After having analysed the relevant policy in a number of countries, Harding (2002) concludes that those regions that have experienced a rapid growth of risk capital have tended to be those that have dealt with this information-asymmetry problem.

In a nutshell, we can summarize the reasons for market failures in equity finance in seven main elements (Saublens, 2004, Harding, 1999):

1. *The geography*. It is obvious that large cities and dynamic regions are more able to attract specialized services or products or highly skilled professionals than lagging or remote areas. Moreover, accessibility costs have an impact on service provision. Investors may be reluctant to invest in one or a few deals in a region if the cost of follow-up is too high in comparison with the expected return on investment.

2. *The immaturity of the market*. In some areas, entrepreneurs might be reluctant to innovate in their use of finance. Entrepreneurs are not always ready to open the capital of their enterprises to outside investors or to share the management of their businesses with outside investors.

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3. *The insolvency of market segments.* Start-up entrepreneurs sometimes cannot afford to pay market prices for advanced services such as business plan improvement or market research, services which often make their business plans more attractive to investors.

4. *Lack of interest in some types of entrepreneurs.* Investors might not be interested in investing either in certain geographical areas, in certain sectors, in enterprises created by certain categories of entrepreneurs or in start-up enterprises.

5. *High risk and unproven return:* Venture capital goes mainly to businesses without a proven track record. When the perceived risk is greater than the estimated potential rate of return, a venture capital fund will *not* invest and will prefer safer MBOs where the risk-return relationship is more balanced.

6. *The average investment size:* Investors tend to go for large investments. This is linked to the problem of the costs of due diligence (costs for analyzing the proposal), which increase the minimum size of *profitable* investments. Literature suggests that amounts of less than half a million euros are hard to obtain. This phenomenon has been named the "small equity gap".

7. *Inadequate deal flows:* Venture capital is rarely seen as the best financing method for *enterprises* in the first instance. Venture capitalists are often considered as lenders of last resort.

From this general overview it is clear that the equity gap in distressed urban areas will be more pronounced than in prosperous areas. In order to compensate for the equity deficiencies due to geographic and other reasons, policy for improving access to equity finance in distressed urban areas should focus, as will be developed further on, on measures dealing with the seven failures, such as stimulating investment readiness and providing services.

Business angels

Business angels offer an alternative to banks for financing. They provide, through their investors, financing and hands-on management to start-up companies. Up to 90% of business angel investments are seed or pre-seed

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money. Major impediments to their development are the lack of good projects, the lack of formal seed money to facilitate exits and the lack of entrepreneurship, but above all, the lack of professional business angels. These angels are mostly serial entrepreneurs who have ceased their own business activity and are looking for investment opportunities in the area where they live. So again one might assume, as preliminary statistics suggest, that they are harder to find in distressed urban areas and the scarce resources have hence to be optimized. Therefore, at a local level the development of micro-angels should be promoted. Indeed evidence shows that 70-80% of all businesses start with less than EUR 10 000. Ways to facilitate access to such small amounts should not be neglected.

Concluding remarks on the financing issue

The overall problem of financing is most serious for (small) starters and fast (technology) growers as the supply of risk capital is mainly oriented towards the less-risky segment of the market. In this context the problem is more acute in distressed urban areas where perceived risk is higher and there are thought to be fewer business opportunities. Perhaps business angels can partly fill the "small equity gap", as they are more focused on small financial injections. However, preliminary empirical research seems to show a positive correlation between high performance and the size of the investment for both informal and formal capital (Mason, 1999). This leads us to the paradoxical conclusion that the more the venture capital market is booming, the more difficult it is to obtain start-up risk capital (Aernoudt, 2003). Therefore, new financing methods should be explored for distressed urban areas, such as the mobilisation of local investors, investing locally. And above all a well designed subsidy scheme involving the banking sector can be efficient in distressed urban areas.

Policy efforts should be focused on the very early stage of entrepreneurship, including the financing of the "pre-activity" and the seed phase, mainly through informal investors and loan guarantee schemes. When formal risk capital funds are supported, government involvement should act as a catalyst channelling the money to start-ups. As these elements are crucial to the development of a financing policy for distressed urban areas, we will mainly focus on them illustrating our entrepreneurship financing approach.

Indeed, as the problem of access to finance seems still to be important, particularly in distressed neighbourhoods, we need all players on board in order to tackle the problem. Too often we see that policies either are focused on making access easier to the capital markets or are oriented to the credit segment

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of the financial market. Instead, each distressed urban area should seek an optimal combination of own resources oriented policies on the one hand and credit policy on the other hand. We must not end up in a situation where, due to overshooting, business angel financing or formal venture capital financing is privileged over credit financing. The environment should create a neutral space for the development of a full range of financial instruments in a way that an SME can at any time calculate what is the most suitable solution based on arguments linked to its balance structure rather than to fiscal or subsidy advantages.

Direct actions in order to stimulate formal and informal risk capital should run alongside direct actions aimed at facilitating access to credit. In the same line of thinking we can argue that the asymmetry of information between risk capitalists and SMEs, often meaning that deals do not take place, has its counterpart in the often complex relations between banks and SMEs. In both fields actions should be taken that lead to a better understanding between the partners involved.

Moreover, from the point of view of the SME, the problem in distressed urban areas is not so much the absence of certain specific financial instruments, but the absence of any finance at all. Nonetheless, depending on its capital structure and stage of development, one instrument might be much more appropriate than another. Moreover, there is possible synergy between different instruments. For example, the participation of a business angel might imply that the formal venture capitalist becomes less reluctant to step in as he knows that the business angel will assist the manager. And this might further lead a financial institution to grant credits as the SMEs own funds are developed, guarantees become available and the business plan becomes more solid after the involvement of the business angel.

Therefore, the best way to achieve easier access to finance in distressed urban areas is to create a favourable context for the development of the whole range of different instruments available on the financial market.

The entrepreneurship issue

At the start of the 1980s, the majority of European countries experienced an economic downturn. Unemployment was high and the neo-keynesian approach of deficit spending led to budgetary and monetary problems in a number of countries. Distressed urban areas suffered particularly strongly from the economic slowdown. Governments had to look for alternatives to intervene in the economy. At about that time the American economist David Birch

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(Birch, 1987) reported that small firms were creating more jobs than large firms in the United States. He concluded that "mice", and especially "gazelles" were more important for the maintenance and creation of employment than "elephants".

Different measures at local, regional, national and European levels were set up in order to assist SMEs. It did not take long before SME policy became a patchwork quilt of complexity and idiosyncrasy. And although evaluation of the different policies stressed the methodological problems in identifying policy impacts, the overall conclusion was rather negative. In particular, evaluations showed that only a few small businesses appeared to be willing to accept support. Various reasons were identified for the low take-up of SME support measures:

- The support provider is perceived as not understanding the owner's business.
- Accepting external support is often perceived as threatening the personal autonomy of the owner.
- Support measures ignore the heterogeneity of small firms or the specific characters of localities.
- Application procedures are considered too heavy, involving a lot of red tape.

For example, an analysis of SME policy in the United Kingdom concluded that the widespread received political wisdom on the benefits of small business support is worth close questioning because the policies and the infrastructure to deliver support to SMEs are expensive while small business owners themselves appear resolutely unwilling to accept their alleged benefits (Curran, 1999).

An analysis of Belgian SME policy comes to similar conclusions. An in depth historical study shows that more than 70 years of Belgian SME policy did not serve SMEs well. The major shortcoming is that one of the aims of SME policy – positive discrimination of SMEs in order to create equal opportunities for all enterprises – has actually led to discriminations among the SMEs themselves (Lambrecht, 2002). The local impact of SME policy, and the eventual impact on urban distressed areas, was hard to measure (Aernoudt, 2003a).

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It is not surprising that in the late nineties there was a shift from small business policy to a more global entrepreneurship approach. The OECD predicted in its *Small and Medium Enterprise Outlook* publication that future governments will orient their policies and programmes more towards fostering entrepreneurship but suggests that entrepreneurship remains a mysterious process (OECD, 2000). Barriers discouraging entrepreneurship are found in the education and training system, regulatory environment and institutional arrangements. Relevant policy areas identified by the OECD include:

- Regulatory reform to ease business creation.
- Access to finance.
- Fiscal incentives.
- Tax burden.
- Tax credits to encourage certain kinds of behaviour, such as R&D investments.
- Streamlined tax procedures for start-ups.
- Changes to corporate tax, capital gains, VAT and other fiscal instruments.
- Internationalisation of SMEs.
- Culture.
- Targeted programmes (*e.g.* for the unemployed, women, indigenous people, urban distressed areas).

At the same time Paul Reynolds and his team tried to measure the entrepreneurial climate of a country. Through his Global Entrepreneurship Monitor, covering 92% of world GDP, countries were able to compare their position with that of other countries (Reynolds and Hay, 2002). Europe, almost as a whole, was considered as a region where entrepreneurship was something of an anomaly whilst it was part of daily life in the United States. If we add to this that a positive correlation was found between entrepreneurship and growth ($R^2 = 0.36$) on the one hand, and to a lesser degree between entrepreneurship and employment ($R^2 = 0.22$) on the other hand, the logic is clear for shifting

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from SME policy (focused on existing small firms) towards entrepreneurship policy (focused on encouraging people to become more entrepreneurial, in large part by creating new businesses). Encouraging entrepreneurship is now high on the list of priorities of many countries and is even considered as one of the best approaches for developing distressed urban areas. This implies that enterprise policy should be more concentrated on issues to do with improving the overall climate of an area for fostering entrepreneurship rather than on developing targeted subsidy schemes. Despite the absence of figures at local level we can hypothesise that the problem of lack of entrepreneurship is not more pronounced in distressed urban areas than in richer areas. This is because entrepreneurship can be motivated by opportunities or by necessity. The latter being more frequent in distressed urban areas.

The emerging interest in entrepreneurship policy often leads to the false conclusion that the end of SME policy is in view. There is absolutely no need for a specific SME policy, concludes a researcher having analysed fifty years of SME policy in his doctoral dissertation (Lambrecht, 1998). The focus on and the shift towards entrepreneurship policy does not, however, imply the end of an SME policy but a shift of focus towards environmental issues rather than direct support measures. Our view on this is more pragmatically than academically inspired. Let us first compare both focuses.

The starting point of traditional SME policy is the neo-classical approach, *i.e*. that one should reduce imperfections or negative external effects in the market place (Boter *et al*, 1999). The goal of SME policy is hence to strengthen the existing base of small enterprises by ensuring they can compete in the marketplace and that they are not prejudiced because of their small size relative to large firms (Lundström and Stevenson, 2002). The different types of incentives in the SME area can be summarized as follows:

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Table 1. Different types of SME policy

Type of policy	Type of problem	Size of resources	Example of Objectives
Administrative burden	High compliance costs	Relatively small	Reduce burden by x %
Finance	Lack of capital at reasonable terms and conditions	Significant, but few grants	Increase seed capital
Counselling and information	Lack of competence High cost of services	Significant	Create transparency
R & D	Little technology transfer	Significant	Facilitate research and innovation
Exporting	Low degree of internationalisation	Relatively small	Better use of export potential
Special programmes	Too few tailored programmes	Relatively small	More women entrepreneurs

Entrepreneurship policy is more ambitious and focuses less on existing SMEs and more on the creation of a mindset where the target group is the entire population, in order to create an entrepreneurial society.

We can schematically compare both approaches:

Table 2. Comparison between SME policy and entrepreneurship policy

	SME policy	Entrepreneurship policy
Basic assumption	Market imperfection	Entrepreneurial gap
Objective	Help SMEs to overcome disadvantages compared with large firms	Encourage people to set up a business or to think entrepreneurially
Target group	Enterprises, mainly existing firms	Individuals, entrepreneurs
Specific criteria	Picking winners: high growth sectors	Various segments possible: women, ethnic groups, youth,...
Levers	Financial (investment subsidies, R&D, export,..)	Mainly non-financial support
Focus	Business environment	Entrepreneurial culture

A close reading of the table (based partly on Lundström and Stevenson, 2002) shows that the choice is not one between SME policy and entrepreneurship policy, but that they can be complementary as neither the focus nor the target group are the same. Rather than concluding that SME

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policy is inefficient, we claim that an SME policy cannot be efficient in the absence of an entrepreneurial society. In setting up a more comprehensive policy, one should of course avoid red tape and use monitoring and evaluation tools as much as possible.

How can this approach be applied in the field of financing and in relation to distressed urban areas? Let us have a look at the basic assumption. All the figures suggest that there is a lack of seed investments for new and very small firms in distressed urban areas. One could wonder whether the problem is mainly on the demand-side or on the supply-side. The problem on the supply-side is that the gap between return and risk is too large. Why take more risk if one can get a better return on the low risk MBO deal? On the demand side, entrepreneurs consider, in conformity with pecking order theory, that risk capital should be a last resort solution. Therefore, the market does not function at the lower end of the capital market and hence there is a rationale for government involvement. This intervention should be twofold:

- Working on creating an entrepreneurial mentality in inner cities and other distressed neighbourhoods, making entrepreneurs investment-ready and the venture capitalist less risk averse.

- Exploring ways to reduce the gap between return and risk in distressed urban areas, for example through incentives enabling the risk capitalists to levy cheap funds or to support part of their due diligence costs, which are relatively expensive for small amounts.

This example indicates that an SME policy can be complemented by a wider entrepreneurship policy, which will make SME policy more efficient. On the other hand, changing the mindset of entrepreneurs, for example making them less reluctant to open their capital to investors, does not make sense if the supply of seed capital is absent.

An optimal combination between SME policy and an entrepreneurship focus seems to be the most efficient way to create value for public and private money. We will therefore discuss the financial instruments that can be employed to support SMEs and entrepreneurship in distressed urban areas, treating in turn subsidies for pre-activity, bank-SME round tables, business angels and “love money” investments.

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Subsidies for pre-activity

Various studies on entrepreneurship (*e.g.* the yearly Global Entrepreneurship Monitor study) show a huge potential of people who would like to set up a business but do not dare to take the inherent risk. Moreover, they are often pulled back by family pressures rather than pushed forwards, precisely because of concerns about the risks involved. Thus attitudes are often that one should neither invest family money nor jeopardize a secure job for such a venture, even if one is far from satisfied in one's job. The Global Entrepreneurship Monitor points to two categories of people where there appears to be huge potential for start-up activities, namely the female population and the "elderly" (over 45 years old). Giving incentives to these people could help generate many start-ups in distressed urban areas. Box 1 provides an example to illustrate the potential for this type of programme.

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Box 1. The Walloon "bourse de pré-activité" (pre-activity grant)

The Walloon Region is characterised by a high level of unemployment, associated with the decline of the steel industry. This unemployment is concentrated in two main urban areas, namely Charleroi and Liège, and in certain communities that were most heavily associated with steel work. Figures for the region as a whole show that it is characterised by a very low level of entrepreneurship (one of the lowest in Europe). A masterplan to promote entrepreneurship was therefore designed, called "4X4 pour entreprendre" (www.4X4entreprendre.be) in order to stimulate entrepreneurship. It included the creation of a one-stop-shop to facilitate access to the various finance instruments available. One of the most interesting financial measures amongst the over one hundred measures in the masterplan is the "bourse de pré-activité" or pre-activity grant.

This initiative makes available a small grant (EUR 12 500) for anyone with a business project. The grant is a lump sum enabling the would-be entrepreneur to finance their first steps towards an eventual enterprise, including setting up the business plan, exploring the market, often involving some trips abroad, etc. The measure has led to a relatively large number of start-ups and, given the small grant sizes, fraud was not a serious concern. Moreover the measure led to better presented business plans, giving potential starters a better chance to obtain the financing necessary for actual start-up.

Employers accepted that beneficiaries of this measure could obtain a 3 month "on leave" or sabbatical period. Their loss of income is therefore compensated for by the grant. At the end of the period some retake their old job, convinced that this is the best solution for them. Others start their business, normally keeping good contacts, or even going into business with their former employer.

The three months also permit the future entrepreneur to analyse the various support schemes available. One of their key choices is to decide whether to become an independent start or join an incubator.

The pre-activity grant scheme seems to be particularly useful for small start-ups in distressed areas, as part of a wider local development project for the area. Such a scheme is therefore an attractive way to promote the regeneration of distressed urban areas, as it addresses the geographical gap explained above. Moreover it is a good combination of entrepreneurship policy, focused on individuals, and a more traditional SME policy working through a financial lever. In its first two years of activity, 150 grants have been awarded, of which a lot have been in distressed urban areas. Initially foreseen only for innovative activities, following an evaluation the scheme was opened up to all sectors.

Bank-SME round tables

One of the reasons that bankers are unwilling to agree on long-term loans, besides entrepreneurs' lack of own-resources, is often the lack of collateral. Therefore there might be a rationale for policy involvement in this matter as financial markets, although not suffering from lack of capacity, do not fill the

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gap. In an analogy with the equity gap, we could speak about the confidence gap.

One issue is transparency of information between banks and SMEs in distressed urban areas. Banks are still considered by entrepreneurs as the better partner. As long as the firm pays back as contracted, bankers are satisfied by receiving regular information and will not really interfere in business decisions. SMEs are therefore interested in the banks' policy in good and bad times, in the quality and the availability of the products offered by the bank as well as in the costs of the products, presented in a way that the SMEs can compare with other offers. The banks, from their side, would like to rely on entrepreneurs. They need to believe that they are receiving accurate information on the business and on its expected evolution. Hence transparency is a key concept in relations between banks and SMEs.

The European Third Round Table between banks and SMEs analysed how transparency can be improved. Many examples of good practices have been discussed and are included in the final report. These good practices relate to different factors that are linked to increasing transparency. Quality of people is a key factor. Banking people having contact with SMEs should be able to explain why a certain request was rejected and why the bank proposed another solution. Linked to this is the problem of transfer of information. We should inquire about the best way to inform the client. Especially in our information technology epoch, it is important to remember that inter-personal relations can be crucial, especially in the field of credit. In this context the setting up of a round table bringing together SMEs and bankers in distressed urban areas, providing information on bank selection procedures, seems useful in order to facilitate access to credits.

Mutual guarantee schemes

Confidence is, of course, a matter of perception. And though the chance that loans will be paid back out of the return on investment does not a priori become greater with good guarantees or collateral, the perception changes, because bankers know that in any event they can "fall back" on guarantees. Hence, the confidence gap cannot be entirely addressed by collateral, but collateral can change bankers' perceptions and hence release long-term credits permitting a healthy balance sheet structure for the enterprise and a solid basis for further development. The well-known leverage effect of external, rather cheap, resources on profitability will moreover stimulate growth and in the long run increase own-resources.

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Thus it is little surprise that, in this context, renewed attention is being given to credit guarantee policy. This is at least the case in Europe, where evaluations point to good value for (public) money from investing in guarantees, especially in terms of employment. Various new initiatives have been taken or are about to be implemented at European, regional and local levels.

One of the most promising types of initiative for firms in distressed urban areas is the setting up of mutual guarantee schemes. Lack of guarantees remains by far the greatest financial problem for SMEs (Bank of England, 1998). Many regions and cities have reacted to this problem by setting up public guarantee schemes. By contrast, mutual guarantee schemes, although more difficult to set up, are more market-orientated and therefore have the advantages of lower public investment requirements and greater self-sustainability, whilst also providing a mechanism for other types of mutual support and networking between firms, going beyond loan provision.

Although credit risk as such for banks is not reduced by issuing guarantees, banks find this arrangement more secure since, in the event of failure, they reduce their losses. Public loan guarantee schemes make bankers feel more comfortable and hence less reluctant to grant credit. Public schemes, however, provide a guarantee of last resort and it is not surprising that the negative economic selection argument prevails. Hence one of the criticisms of public schemes is that only weak projects are financed through the provision of guarantees.

Mutual guarantee schemes go further. They not only deal with the negative consequences of information asymmetry between banks and entrepreneurs, but they tackle the problem itself. Mutual guarantee schemes are based on the solidarity principle. Private groupings of companies, often linked to sector-specific interest groups or to local economies, provide loan insurance to banks. Funds are composed of premiums (membership fees) paid by the members of the mutual guarantee organisation, often backed by a public guarantee.

This description might give the false impression that the only difference between mutual and public guarantee funds is in the fund-raising process. But this is not the case. Members often have a different relationship with the mutual guarantee scheme than they have with banks. They reveal information about their business to their "colleagues" that they would not automatically give to banks. Furthermore, they are usually known to the locally-managed mutual guarantee scheme. These two elements allow mutual guarantee schemes to

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grant not only financial guarantees but also to give moral and technical opinions to banks. Thus mutual guarantee schemes cope with the information asymmetry problem itself instead of only dealing with its consequences.

Historically, the concept of mutual guarantee schemes started in Belgium in 1848. The *Credit Union of Brussels* aimed to attract capital for the benefit of its members with a view to using it as a guarantee in favour of third parties. Within Europe, mutual guarantee schemes are well developed in the south, and particularly so in countries like Spain, France and Italy (Aernoudt, 2000). The Italian mutual guarantee schemes (the so-called Confidi), are represented in almost every area. Austria and Germany have a bank-based system close to the mutual system. The amounts guaranteed in Europe by mutual guarantee schemes are estimated to be higher than those guaranteed through public guarantee schemes.

Based on the triple guarantee approach (financial, moral and technical guarantees) and the market-orientated character of mutual guarantee schemes, both the European Commission and the European Economic and Social Committee have expressed their preference for this system.

Experience has indeed shown that good relations between banks and SMEs considerably reduce credit risk (Bank of England, 2000). But mutual guarantee schemes, since they tackle the information asymmetry problem, also improve banks' appreciation of a company's standing and the market in which it operates, and this in turn allows a better ex ante evaluation. A good illustration of this point is the case of the Italian area of Emilia Romagna where insolvency rates for loans granted by mutual guarantee schemes are below 1%. The average default rate on ordinary loans in the area is by contrast 10-11% (Tubia, 1997).

Mutual guarantee schemes are thus much more cost-effective than public guarantee schemes and provide easier access to finance. Although the advantages of professionally-managed mutual guarantee schemes seem evident, in practice it is often much easier to put public money in a public fund, rather than to stimulate the setting-up of a mutual guarantee scheme. Therefore there is some legitimacy in sophisticated policy intervention to help set up mutual guarantee schemes, complementing the current dominant approach, which is mostly just a matter of providing public funds to directly guarantee loans with banks.

Stimulating the setting-up and development of mutual guarantee schemes requires a more thoughtful approach where government needs to play a more

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"arm's length" role (Cressy, 2000). The functioning of a mutual guarantee scheme should therefore be explained to the different policy and market players in distressed urban areas, especially through practical examples.

In this context, the actions undertaken by the AECM (Association Européenne pour le Cautionnement Mutuel) have contributed to the dissemination of the concept throughout Europe (www.aecm.be). Moreover, assisted areas of the European Union, including distressed urban areas benefiting from Objective 2 or Objective 1 Structural Fund assistance, can seek European co-financing for the public backing of mutual guarantee schemes.

The local involvement of the members of the mutual guarantee scheme is a must. Professionally managed mutual guarantee schemes are perhaps the best way to cope with the confidence gap in distressed urban areas.

Business angels

How many good ideas or projects, important for urban development as they have great potential, fall by the wayside as a result of a lack of capital financing? Who can entrepreneurs turn to when they have exhausted their personal financing capabilities? In addition to public subsidies and guaranteed bank loans, discussed above, there is a further major source, namely private venture capital investment, also known as informal investment. One part of this informal market is professional investors, so-called business angels.

However, this extensive informal venture capital market is constrained by problems of asymmetric information, lack of a communication channel, poor knowledge of the investment process and differences in the perception of expectations, on the part of both the potential investors themselves and the entrepreneurs looking for capital. In particular, many private investors do not have sufficient knowledge of the private investment process and are not able to identify, recognise and evaluate investment opportunities.

Stimulating informal investing should be an important element in the local development strategy for urban neighbourhoods that are in difficulty. The focus on informal investment does not mean that classical credit financing or formal venture capital should be neglected. We plead for an integrated approach between the different financiers. Our focus on informal investment, of which business angels are a part, is linked to the conviction that these ways of financing might be amongst the best for distressed urban areas to deal with the equity gap. But it is hoped that this type of equity injection will help release the potential for other types of investor to move in.

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Stimulating business angel investments

Business angels are former entrepreneurs, who – after having sold their company – want to invest in start-up companies and provide advice based on their own business experience. Business angels generally display certain characteristics, such as a significant level of personal wealth, intense entrepreneurial experience, a profound knowledge of the business world and a large network. Normally, business angels form part of the management team or the company board in which they are investing, thus contributing both their management skills and their network of contacts, giving them the status of "smart capital". As a result, the business angel is the perfect bridge between a business in its initial stages and a business that has become attractive to the institutional or formal venture capital sector.

Business angels might be the best placed to fill the small equity gap. However, as they are very different in their perception and functioning from formal investors, it does not make sense to try to extrapolate to them policy measures used to stimulate formal venture capital, such as injecting money into the markets through funding of funds or through guarantee schemes to business angels (Aernoudt, 1999b). Stimulation of the use of informal capital in order to facilitate access to funds for enterprises needs a different approach.

Indeed, from what precedes, it must be clear that business angels do not need money. Their own capital, often the result of a successful sale, covers the availability of money, and it is this that makes them business angels. Moreover, the part of their capital that they make available for informal investments is generally only a limited part of their assets. Local government should hence never be involved in making more money available for informal investments. In this context, there is only very little room for government involvement. National (or regional) government should focus on the tax and regulative aspects. All administrative, tax and other regulations impeding the development of informal risk capital should be removed.

The main problem however remains lack of information and awareness, both from the side of the entrepreneur and from the side of the business angel. Indeed, various economic studies show that markets, including financial markets, can never work efficiently as there is always an information gap. One might assume that this information gap is particularly pronounced in the field of business angel financing. Although the problem of information asymmetry can never be completely solved, various techniques can help create a better mutual understanding between the different partners. Various ways of increasing

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knowledge and awareness amongst entrepreneurs, business angels and public authorities must be explored.

In the case of distressed urban areas we should recall that the two conditions required to stimulate business angel investments is to have good projects and a number of wealthy individuals living locally. As we saw entrepreneurship is not less developed in distressed urban areas than elsewhere. The question remains if there are sufficient wealthy individuals willing to invest.

The fact is that most of these individuals make their fortune elsewhere, but settle down in their hometown and seek to invest there. The task for local public authorities is to identify them and to attract their interest to nearby projects in distressed urban areas within their home city or their region. In this context a number of measures can be stimulated such as increasing investor readiness, promoting the business angel vocation through academies and setting up and increasing the efficiency of networks. Let us have a quick look at each of these approaches, which of course should be set up simultaneously.

Investor readiness

Entrepreneurs, especially those running enterprises with growth potential and who are willing to grow, need greater understanding of venture capital and specialist advice on how to structure business plans to secure external equity finance. There is evidence that some firms hold back from seeking external finance because they are unsure about the practicalities and worried about the complications (DTI, 2001).

We could speak of a gap in the market akin to the classic equity gap: there is an information gap between the demand for and supply of funding, due to the fact that entrepreneurs do not fully understand the range of financial options. There seems to be a certain amount of luck involved in the search for funding. Going to a business angel with a story written as a pitch to a public sector development agency is the quickest way to be shown the exit door. Therefore part of what needs to be done is to bring entrepreneurs to a point where they recognise how to tell the right story to the right investor at the right time. Local development agencies could play an active role in the matter. Indeed, this investor readiness gap does not only apply to equity capital but is relevant to all forms of finance. At this stage only a few experiments exist with investor readiness. In the United Kingdom, the Department of Trade and Industry launched five pilot projects to test the efficiency of public action in the field of

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investor readiness (www.dti.gov.uk). The first attempts at evaluation suggest that these actions provide good value for public money.

Business angel academies

It is often noted that even with funds, time and experience, the three main ingredients to become a business angel, the majority of people considering making angel investments are reluctant to make an initial investment. When you question new potential business angels, so-called "virgin angels", they note the lack of a structured framework for investment. Providing them with an adequate understanding of the investment process is therefore an important tool to increase the number of active business angels. From this observation the idea emerged of creating a business angel academy.

The basic idea behind the angel academy concept is to make the investment process clearer to potential business angels. Potential business angels need skills providing them with the capabilities to assess the risk of investment opportunities and manage the process. Individuals who are not skilled in assessing the risk of an opportunity at an initial stage will not invest. In order to increase the investment activity of potential business angels, specific training, mainly oriented towards virgin angels, can have a significant impact (San José *et al*., 2004). This concept, marketed under the name "business angel academy" has been successfully tested in IASE Business School Barcelona and in the university area of Louvain La Neuve in Belgium.

Business angel networks

One of the best ways to bridge the information gap between business angels and entrepreneurs is by setting up business angel networks. Business angel networks form a platform where SMEs and business angels can make contact. This platform can function through the internet, magazines or forums, promoting SME access to angel finance.

Angels neither need advice nor technical assistance on how to select projects. It is one of the characteristics of the business angels that selection is based on a rather subjective, but not irrational, perception of the project and especially of the project manager. They will spend a lot of time with this manager, in particular during the launching of the project. Subjective elements must therefore be involved and the only people who can take them on board in the decision making are the business angels themselves. Any form of technical assistance programme for business angels, apart from the two measures considered above, would be nothing else but the proof that public authorities do

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not have a clue on what informal investment is about. The obstacle for the development of informal investment, apart from the crucial fiscal and regulative environment, is rather the lack of good and well presented projects.

If there is any market failure, it is in terms of matching potential investees and investors and ensuring that investment projects are well presented. Investees have to be guided in the presentation, both written and oral, of their projects. In addition, they have to be brought into contact with business angels who might be interested in their projects. Experiences in the United Kingdom showed that this market failure could easily be remedied with very simple means, and around 150 business angel networks have now been established all over Europe. Some of these networks are focused on individual urban areas, often in partnership with the local authorities. In the Netherlands for instance, the national network NEBIB set up a business angel network with entrepreneurs and the municipality of Rotterdam, focused only on the Rotterdam urban area. It is called ROBAN (Rotterdam Business Angel Network – www.roban.org).

"Love money" investments

Alongside business angels, another type of informal investment is "love money", comprising "friends, family and fools" and "local investment funds".

"Friends, family and fools"

Private, but not very wealthy, individuals are often a neglected source of financing. Many individuals, even in distressed urban areas, have some money, but neither the time nor the interest to get involved in entrepreneurial activities. They are often looking for a good placement for their money, rather than the optimum investment. In terms of the risk-return relationship, they will often prefer lower return if compensated by an absence of risk. The risky business of start-up financing is not their cup of tea, unless the risk is taken by someone else, or if the starter is a relative.

Friends, family and fools (or micro-angels) are very interesting for local development as they have, even more than business angels, a marked preference for investing in local start-ups. Their investments can be promoted through awareness raising and collecting local money though local networking.

For example, local collection of money for a project is an old, but still used Asiatic approach. The system, called *Hui*, which means community, implies that entrepreneurs, mainly starters, looking for money go to the local community instead of going to the bank. On a regular basis (*e.g.* weekly) the

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community gathers. On the table there are two hats. In the first, investors put a note indicating how much money they want to invest. Usually the total content of the hat is between EUR 20 000 and EUR 100 000. In the second hat entrepreneurs and would-be entrepreneurs with a good reputation drop a ticket indicating how much interest they are willing to offer for the money they can collect. The highest offer can take away the content of the first hat. The others can come back next week trying a second chance by offering a higher interest rate. Given the implicit pressure of the community, the payback ratio is very high.

The Asiatic system has inspired local initiatives in other countries. In France, for instance, there is an organisation called Love-money (www.love-money.org). The organisation works mainly in the Paris area and in the urban areas of Beaune (in the Bourgogne region) and Fougère (in Brittany). The organisation gives advice on the projects, but individual investors invest directly into enterprises. Through this procedure money collected from private investors amounted to EUR 2 million, invested by 650 people in nine companies, during the period 1999-2003. The organisation also operates an alternative way of collecting money through the so-called *cigales* (the cicada insect, which in France is associated with the idea of thrift and savings), where people invest small amounts (from EUR 5 to EUR 75) on a monthly basis serving to invest small amounts in projects that have a local impact. Some *cigales* have over 3 000 members, all local people.

Local investment funds

An alternative way of injecting local informal investment into enterprises in distressed urban areas is to work through a special purpose vehicle created for the collection of very small amounts but pooling them in a formal way. In practice local investors are asked to participate in a fund that invests only in projects that meet a number of criteria. It considers small projects, embedded locally and with a sufficient viability without necessarily offering a high return. Ethical or environmental criteria can be added. Such a fund, financed by local people and investing locally can have a significant impact on local development. In distressed neighbourhoods, matching through public funds can be considered.

In order to illustrate this approach let me give some concrete examples. One of the oldest funds of this type can be found in the Basque country. The fund, called *Herrikoa*, which means area, convinced over three thousand investors through a public call to invest an average of EUR 500 each. The amounts invested in companies in the area are between EUR 10 000 and

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EUR 100 000. Transparency and professional management have been important to the success of the approach. Similar initiatives have been taken in other French areas such as Corsica, where a fund was set up called *femu qui*, which means "amongst us"; Acquitaine (proxinox Acquitaine), Ardèche (Ardèche participations) and the Alsace (fonds Alsacienne).

This type of fund can be very important as a trigger for enterprise development within an urban area, recognising, however, that the detailed implementation will vary significantly from one area to another.

The seven critical characteristics of these local funds can be summarised as follows:

- A large number of individual investors (varying from 1 000 to 3 000), each with a limited investment (varying from EUR 100 to EUR 2 000).

- Small sums of money invested in local start-up companies. The invested amount varies from 10 000 to 100 000 with an average of EUR 25 000.

- A limited capital gain is achieved since investors are not primarily return driven. This does not provoke any problems.

- The most important investment criteria is the contribution to local development in terms of employment and urban development. They can focus on distressed urban areas.

- Transparent management, which is needed given the large number of investors. The General Assembly can be compared to a parish gathering.

- *Prudentia* as a leitmotiv for the investments. Because there are limited capital gains large losses cannot be accepted either. The local links involved motivate entrepreneurs to honour their commitments.

- Investments are often accompanied by various forms of mentorship.

Well-managed local funds can be an important element within the broad range of financial products that should be offered in distressed urban areas.

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Local governments could support this type of small local fund by co-investing in the fund together with local partners. Many European countries have such semi-public funds. Alternatively, or in conjunction with an investment stake, a subsidy can be considered to help cover some of the high operating costs associated with due diligence. Such a subsidy scheme was implemented in France leading to the establishment of a number of local seed funds. For example, a fund was set up in the city of Lille in northern France in association with the bank "Credit Mutuel" called FIP (fonds d'investissement de proximité). In the United Kingdom, through the Phoenix Fund, the Community Development Fund invests on a pound for pound basis with private sector investors in order to stimulate the provision of venture capital to viable SMEs capable of substantial growth located in the 25% most deprived wards in England (DTI, 2002).

However, areas seeking to set up such local investment funds should pay close attention to the following seven golden rules based on the experience of schemes already in operation:

- They should be managed by professional managers, not necessarily by local authorities.

- Research should be carried out on the financial needs of local companies and of the financial instruments that are already available.

- A detailed set of performance targets should be agreed before launch.

- Funds should never be financed only by the public sector. At least 50% of the fund should come from private sources such as "love money" or other private sector involvement, *e.g.* banks, local large companies or pension funds.

- The exit strategy and mechanisms should be clearly discussed from the outset.

- It should be guaranteed that public involvement does not lead to a withdrawal by the private sector (the so called cannibalism-effect).

- Transparent information should be ensured at all times. This can be achieved through a publicly accessible website, with a part accessible only to the shareholders.

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Some final considerations

The methods discussed in this chapter for improving access to finance in distressed urban areas should not be considered separately. One of the main characteristics of an entrepreneurial area is the presence of a wide range of financing possibilities. The variety of supply is crucial to the effectiveness of each of the individual instruments.

However, supply-driven initiatives also have to be embedded in an entrepreneurial context, considering demand aspects as well. Indeed, too often policy makers seem to have the firm belief that J.B. Say's law stating that *each supply creates its own demand*, applies to the business of enterprise finance. As we have shown, this is not the case.

Indeed, one of the biggest barriers for the development of entrepreneurship in distressed urban areas is the reluctance and risk aversion of bankers and the underdevelopment of seed financing and business angel investors, even though there is a strong potential supply of business projects requiring funding.

It is clear that the enterprise finance market does not function well in inner city areas, especially at the lower end, which means that start-ups in particular have difficulties obtaining finance. This should not however be taken as a legitimation for public initiatives to take over from the failing market by launching expensive subsidy schemes, but rather as a stimulus for local and national governments and city development agencies to look into innovative ways to make the market work better. In this context, addressing the information asymmetry problem is crucial, both for the equity gap and for the confidence gap.

Initiatives aimed at setting up mutual guarantee schemes and organizing round tables between entrepreneurs and bankers could be the best way to cope with the confidence gap in inner cities and distressed neighbourhoods, altering bankers' views on credit lending and leading to easier access to credit.

In relation to the equity gap, business angel networks have proven to be a good tool in Europe and they can contribute significantly to the development of the local economy in which they are embedded. However, even in a prosperous climate, business angel networks are faced with huge problems in securing their own financing in a sustainable way. Targeted subsidies, especially in the launch phase, hence seem unavoidable in distressed urban areas in order to facilitate the setting up of business angel networks. Linking the subsidy element to

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performance criteria will push business angle networks to become gradually, through a learning process, more efficient.

Another way to address the small equity gap is to promote "love money" financing. Pooling investors allows the gap to be bridged between the small amounts available from investors and the larger amounts entrepreneurs sometimes need to start their venture. Local government can act as a co-investor in the pool or can get involved in supporting the operating costs.

Beyond stimulating finance supply, policy should not neglect investor readiness, *i.e.* the capacity of entrepreneurs to understand what finance is available, what is most appropriate to them and how to present tailored proposals. This involves intervening on the demand side of the finance market by working directly with entrepreneurs.

To summarise, the financing of pre-activity, bank-SME round tables, mutual guarantee schemes and the promotion of seed capital through business angels and "love money" financing, together with measures tackling the demand issue should be part of a local policy aimed at creating economic growth and employment in distressed urban areas. The basic philosophy of these schemes is that they involve local actors for the benefit of the local economy. This combination of a traditional SME policy focusing on the confidence and equity gap, and an entrepreneurial policy focused on the entrepreneurial gap, would seem to be a better way to cope with the geographical gap than traditional policies. It will enable the conversion of the vicious circle, which often characterises distressed urban areas, into a virtuous circle leading to more dynamic inner cities and urban neighbourhoods and creating employment, both for skilled and unskilled residents.

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PART II PROMOTING ENTREPRENEURIAL SKILLS AND SPIRIT

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CHAPTER 3. ENTREPRENEURSHIP ADVICE, TRAINING AND MENTORING FOR URBAN RENEWAL: US PERSPECTIVES

By Brian Dabson
Director, Corporation for Enterprise Development, Washington DC, USA

Abstract

This chapter examines policies for advice, training and mentoring of entrepreneurs in US distressed urban areas. Existing support is described, covering federal, state and local government programmes, and foundation-driven support and limitations of existing support are highlighted. New thinking is outlined about the provision of advice, training and mentoring to entrepreneurs in United States inner cities, based around integrating individual programmes into a broader system of support and creating networks among entrepreneurs to supplement or replace formal support. Examples are provided of how this new thinking is being applied to enhancing minority business development and business incubation services, creating entrepreneurs' networks and providing training to business advisors in community-based organisations. Three principles are put forward for making advice, training and mentoring services more effective in a distressed urban area context.

Introduction

Entrepreneurship and small business development are widely accepted as important, but less well-resourced components of strategies to expand and revitalize local and regional economies in the United States. A central element of these strategies is a wide range of services to advise, train, and mentor aspiring and existing entrepreneurs and business owners. The rationale is usually one of four imperatives: to make entrepreneurs aware of the wide range of financing and support services that are available to them; to increase the rate of new firm formation; to reduce the failure rate of small businesses; and to mitigate risks associated with providing debt capital to start-up businesses.

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Over the years, a complex array of overlapping programmes and specialized agencies have been established all over the United States with support from the federal, state, and local governments, and active involvement from business groups, universities and community colleges, and non-profit organizations. There has been little research done on the effectiveness of these efforts and little consistent data collection on the resources spent and who benefits. This means that it is almost impossible to analyze the quantity and quality of advice, training, and mentoring that is specifically targeted at or available to entrepreneurs and small business owners in distressed urban areas. Each state, city, and community will most likely have services and policies in common but other than lists and directories, anecdotes, and isolated studies, there is no coherent body of information and research from which to draw. Wherever possible, this paper refers to what limited information there is on material that has some direct connection to the specific needs of entrepreneurs in distressed urban areas and inner city locations, or to programmes that support disadvantaged entrepreneurs.

However, there is growing interest in tackling some of the more obvious deficiencies in the design and delivery of these services and some promising approaches that move away from supply-driven, publicly-directed provision to services that are demand-driven, entrepreneur-centred, and systems-based. Such reorientation can be expected to yield significant benefits to entrepreneurs everywhere but in particular those located in distressed urban areas.

Entrepreneurship in distressed urban areas of the United States

There is a prevailing assumption in many circles that entrepreneurs and small businesses may need greater incentives, support, and encouragement to operate than their counterparts in other locations. Indeed, many inner cities display several competitive disadvantages such as racism, poor infrastructure, cumbersome regulation, crime, difficulties of land assembly, greater costs of workforce qualification and recruitment, and limited access to capital. However, there has been a widespread shift in perspective that suggests that inner cities benefit from some significant advantages.

Professor Michael Porter is credited with changing the way inner cities in the United States are regarded as competitive business locations. Several years of research by the Initiative for a Competitive Inner City, founded by Porter, has identified four actual or latent competitive advantages for businesses based in inner city locations: a strategic location in the centre of major urban areas and transportation nodes, untapped local markets with substantial buying power, growth opportunities for businesses that arise from integration with regional

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business clusters, and a large, diverse, and available pool of human capital (ICIC, 1999, p. iii).

The shining of a light on the potential of inner city and other distressed urban areas, identifying the assets and not just the liabilities, has prompted some important research. The Federal Reserve Bank of Richmond released a study in 2 000 of residents' purchasing power of ten major inner-city communities in its district. Despite the low average incomes of urban residents, the high population densities found in urban neighbourhoods often translates into local markets with substantial purchasing power. Similar studies have been conducted in other cities across the country that highlight that inner cities, contrary to conventional wisdom can offer buying power, stability, and security, all important factors in business investment (Federal Reserve Board, 2001). Inner cities also have many resources that are well suited to small business needs. Compared to large companies, small companies have fewer problems finding available operating space. Small businesses are also able to better use existing labour, and are more accessible to inner-city residents (Hamlin, 2002).

For the past five years, Inc. Magazine has published its annual Inner City 100, a listing of the fastest growing companies in America's inner cities. For the 2003 list, nearly 5 000 companies in 155 cities were nominated reinforcing the argument that inner cities can be good business locations. Among the selected 100 firms, the average company had USD 25 million in sales, employed 112 full-time and 59 part-time workers, and had grown over 600% over five years. The average start-up capital was USB 231 000 although 44% started with less than USD 10 000 in capital (Case, 2003).

Federal government support for entrepreneurship development

A report by the Initiative for a Competitive Inner City (ICIC, 1999) that tracked Federal obligations for urban business development programmes for the 1996 fiscal year showed that the US Government spent approximately USD 16 billion on such programmes, of which USD 9 billion affected inner cities. This represented about 1% of the total Federal budget and compared with the USD 28 billion spent on housing, mainly rental subsidies in urban areas, and USD 19 billion on food stamps for the metropolitan poor. These urban business development programmes were widely defined to include crime prevention, infrastructure, and job creation, but the report did establish that there were 17 "technical, marketing and procurement assistance programs targeted at inner cities administered by seven federal agencies at a cost of over USD 112 million". Mentoring, technical assistance for micro-enterprises and

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small businesses, and minority business development centres were the main recipients of this funding.

The U.S. Small Business Administration is the largest national supporter of business training, technical assistance, and counselling. The following is a brief description of its main programmes, together with one from the U.S. Department of Commerce, that are likely to impact distressed urban areas:

- **Small Business Development Centers.** There are 63 lead Small Business Development Centers across the country, with at least one in every state. These lead centres coordinate programme services through networks of about 1 100 sub-centres and satellites, located at colleges, universities, vocational schools, chambers of commerce, and economic development organizations. These networks are open to anyone interested in starting up a business for the first time or in improving and expanding their existing small business. A range of training, counselling, and information services are available through paid staff and volunteers focusing on basic business topics such as finance, marketing, and production, as well specialist areas such as exporting, procurement, and venture capital. The SBA provides up to half of the funds for these centres and networks, with the balance funded by state legislatures, private foundations, and chambers of commerce. According to the Association of Small Business Development Centers, which represents the interests of the centres, the networks assist about 500 000 aspiring and operating businesses every year. There is no data that distinguishes clients in distressed urban areas from those in other locations.

- The SBA also supports a parallel national network of **Women's Business Centers** that assist women start and grow small businesses, with the mission of "levelling the playing field for women entrepreneurs." (SBA, 2003) Of 94 SBA Women's Business Centers and sub-centres, 63 have an urban focus. The SBA Office of Women's Business Ownership also sponsors WNET (Women's Network for Entrepreneurial Training), a network of 165 groups across the country that includes one-to-one mentoring as well as group mentoring and support groups for women business owners. Participants receive practical support and guidance from a range of individuals with a wealth of experience in an informal, ongoing relationship – the most effective way to build a network. Again there is no data on specific services to distressed urban areas.

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- **Small Business Information Centers.** There are over 80 centres across the United States that offer state-of-the-art personal computers, graphic work stations, and interactive **technologies** that allow entrepreneurs **access** to market research databases, planning and spreadsheet software, and information libraries. The majority of these centres operate in urban areas, but there is no specific inner city focus.

- **The SCORE Association.** SCORE (Service Corps of Retired Executives) has been mobilizing retired **and** working volunteer executives to provide free business counselling and advice as a public service for nearly 40 years. Some 10 500 volunteers provide this service through 389 chapters across the country, often in association with the Small Business Development Centers and Business Information Centers. A recent development has been the BEST Business Plan competition organized with the Ford Motor Company and Diversity Inc. that offers a total of USD 100 000 in prizes to the winners.

- **BusinessLINC.** Launched five years ago as joint initiative between the SBA and the US Treasury, BusinessLINC encourages business-to-business linkages that enhance the viability and competitiveness of small businesses, particularly those located in economically distressed urban and rural areas. Essentially, BusinessLINC is an on-line database that enables small businesses to be matched with larger companies that can offer technical advice, market and financial access, partnering, and mentoring support. The matching is a private agreement between the businesses but there are a number of intermediaries or local coalitions that can help smooth the process. Led by the Business Roundtable, an association of chief executive officers of large corporations, BusinessLINC has fostered the creation of 15 local coalitions, each of which is chaired by a chief executive officer of a major corporation and hosted by community, civic or business organizations.

One example of best practices identified by BusinessLinc is the GE Small Business College which provides technical assistance and networking opportunities to help owners of existing, successful companies grow their businesses to the next level. The College was started in 1993 primarily to address the needs of minority-owned and inner-city businesses and has expanded to serve a diverse set of entrepreneurs in a variety of businesses. The programme, available in many major metropolitan areas, includes interactive

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lectures by GE or external subject-matter experts, personalized advising by GE associates, and networking opportunities with other successful entrepreneurs. The content addresses key management issues owners face, such as how to increase sales, access capital, beat the competition and use technology effectively.

- **Micro-enterprise Development.** Micro-enterprises are defined as businesses with five or fewer employees, which require less than USD 35 000 in start-up capital, and do not have access to the traditional commercial banking sector. The SBA is one of the main sources of Federal funding for technical assistance to micro-enterprises, although most micro-enterprise development organizations obtain the majority of their support from state governments, private foundations, and financial institutions. There are approximately 500 micro-enterprise development organizations nationwide that provide a range of training and technical assistance on topics such as business planning, bookkeeping, taxation, legal issues, marketing and sales. Many micro-enterprise organizations also provide access to capital and markets, and economic literacy and asset development services, primarily to low-income entrepreneurs. A study by the Self Employment Learning Project (Clark and Kays, 1999) showed that 57% of micro-enterprises survived beyond five years; nearly three-quarters increased their household income over five years, and more than half of poor entrepreneurs climbed out of poverty.

An example of a micro-enterprise programme focused on a distressed urban area is the New York Association for New Americans. The design of their programme was influenced by the target market. "Our classroom training, loan process, method of securing the loan, and one-on-one technical assistance was developed with the personality and the economic reality of our clients. Immigrants and refugees tend to be extremely entrepreneurial and have many responsibilities, so the training has to be to the point and practical, and the primary question they ask for any service we provide is, "How will this help me to increase my income?" (AEO, 2004).

- The **SBA PRIME** programme makes grants to qualified organizations to fund training and technical assistance for disadvantaged entrepreneurs, build these organizations' own capacity to give training and technical assistance, and fund research and development of best practices in micro-enterprise development and technical assistance

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programmes for disadvantaged micro-entrepreneurs. Again the focus is on the socio-economic circumstances of the entrepreneur rather than her/his location.

- **Minority Business Development Centers.** Similar in scope to the SBA's network of Small Business Centers are the 27 Minority Business Development Centers funded through the US Department of Commerce. These provide a range of electronic and one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assure adequate financing of minority enterprises located in designated metropolitan areas. The centres, which are competitively selected, can be operated by individuals, non-profit organizations, for-profit firms, local and state governments or educational institutions. In 2002, 6 392 clients were assisted and financial packages from private sources were assembled totalling USD 328 million.

- **Federal Procurement Assistance.** The federal government spends USD 200 billion a year on procurement of goods and services, and has programmes designed to support access for small businesses in distressed areas. The **HUBZone Program** is for businesses located in "historically underutilized business zones" and provides assistance and training to small businesses in securing government contracts. The programme offers preferential federal government contracting to businesses in 9 000 distressed urban census tracts, as well as in rural areas and "Indian Country". Technical assistance in applying for these grants is provided through Department of Defence Procurement Technical Assistance Centers (PTACs), and designated SBA representatives. Other SBA programmes are in place where experienced contractors provide business advisory services and mentoring to these disadvantaged contractors, although these are not necessarily located in inner cities.

Other public and private support for entrepreneurship development

The landscape of business development supports comprises a mix of public and private programmes and organizations, operating at the federal, state and local levels. In addition to the Federal programmes referred to above, every state has its own array of programmes. A recent study of the economic development budgets of three states (Pages and Pool, 2003) showed that nearly half of their funds were devoted to entrepreneurial development. A study of

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Pennsylvania's economic development service delivery system (Dabson and Levere, 1993) referred to its complexity, diversity and significance – 12 programmes representing an annual financial commitment of approximately USD 365 million for business financing, technical assistance, and technology development were delivered through a loose network of about 250 local development agencies. Some USD 30 million per year was spent on non-financing programmes. In some states, there are parallel networks of technical assistance: for instance, in North Carolina, there is a Small Business and Technology Development Center network which is part of the SBA university-based system, and a state-supported Small Business Center network based at community colleges. Both networks provide similar services to entrepreneurs.

There are a number of training programmes that are available nationwide and are being taught in urban locations. The two main adult programmes are NxLevel and FastTrac. The NxLevel Training Network, based at the University of Colorado at Denver, engages with small business development centres, chambers of commerce, business incubators, private industry councils, community development corporations, and many other types of local organizations "to develop and disseminate business-oriented training programmes that assist in strengthening the entrepreneurial spirit in communities". It develops replicable training courses, provides "train the trainer" programmes, and assists states and communities in implementing their training programmes for small business, tourism, community economic development, youth enterprise, and so on. Some 65 000 people have received NxLevel training. FastTrac was first created by the University of Southern California in Los Angeles in the mid-1980s and then launched nationally by the Kauffman Foundation in 1993. Programmes are provided in 150 cities in 38 states and it is estimated that some 50 000 people have completed the classes. FastTrac is delivered through a network similar to NxLevel's and focuses on community development, micro-enterprise, and college and university courses.

A number of programmes focus on young people either as part of school curricula or as out-of-school activities. The largest and best-known provider of experiential entrepreneurship education is the National Foundation for the Teaching of Entrepreneurship (NFTE). Based in New York, NFTE teaches low-income young people aged 11-18, mainly from large cities "to be economically productive members of society by improving their academic, business, technology, and life skills". Some 40 000 young people in the United States and across the world have experienced NFTE's programmes, and its

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certified training programme instructs 500 educators each year enabling them to teach entrepreneurship in a variety of settings.

In addition, there is a huge array of private sector services either provided as professional services by accountants, lawyers, and consultants, through financial institutions, or by chambers of commerce. All these interact to a greater or lesser extent with the plethora of government supports. There is no readily information available about the extent to which these advice, training, and mentoring supports target or serve distressed urban areas.

Limitations of entrepreneurship development supports

It seems evident from the preceding discussion of public programmes of advice, training, and mentoring that while there may be some programmes that serve disadvantaged entrepreneurs and others that may be located in metropolitan or inner city locations, there is little explicit focus or adaptation for entrepreneurs in distressed urban areas. This suggests that there is a prevailing assumption that the needs of entrepreneurs for advice, training, and mentoring are broadly the same wherever they happen to be located. While it may be argued that the barriers to business creation in distressed urban areas may be higher and more challenging to negotiate than in other areas, it should also be the case that good quality support programmes should automatically be factoring these barriers into their services.

What seems to be a more important consideration is that there is limited evidence to show that any of these programmes add real value either in terms of increasing the viability of individual enterprises or enhancing the performance of local economies. Thomas Lyons in a recent conference paper (Lyons, 2003) provides five reasons why these services are not as effective as might be expected:

- Most efforts are focused on businesses rather than entrepreneurs. Services, if they are targeted at all, are related to stages in the business cycle rather than on the skills and abilities of the entrepreneur.

- Many providers determine what services they will offer and how they will supply them without regard to the actual needs of their customers. Entrepreneurs may still use the programmes because they are free or because they do not know what they need. Standardized programmes are undoubtedly efficient but not necessarily effective.

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- Assistance to entrepreneurs tends to be fragmented and categorical. Each provider has its own source of funds, its own mission and procedures. There is a tendency for agencies to be turf-oriented and focused on their own survival rather than on the needs of entrepreneurs or on collaboration with other organizations to improve service delivery.

- Business support agencies operate in the belief that they are in competition with others for the same finite pool of entrepreneurs. This assumption precludes the possibility that the pool can be significantly expanded and suggests that all service providers offer the same things.

- The above lead to a lack of transparency of the system, where entrepreneurs find it hard to identify where they should look for help and to distinguish between the scope, relevance, and quality of services offered.

Systems and networks

Tom Lyons and Gregg Lichtenstein have taken this analysis to develop what they call the entrepreneurial development system (Lichtenstein and Lyons, 2001). This recognizes that entrepreneurs differ in the extent of their technical, managerial, entrepreneurial, and personal maturity skills. These skills can be learned, measured, and monitored by an assessment tool, which places them within a hierarchy of skill development, and tracks their progress towards mastery. The advantage of this approach is that the path to success is much clearer both to the entrepreneur and to those who provide assistance. The aim is to drive changes in the way entrepreneurship supports are delivered so that they are tailored to the appropriate skill level of the entrepreneur and are integrated into a system of providers.

They put these ideas into practice three years ago in Louisville, Kentucky, when they were approached by the City of Louisville to explore ways of enhancing minority business development particularly in the inner city. They found an impressive collection of 24 service programmes and providers, which were fragmented and categorical, each with its own performance standards and systems, and very little positive interaction between the providers, just animosity and competition for resources. With the help of the city and county government, a service provider network was created, with the goals of establishing a single point of entry for minority entrepreneurs to the network of

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organizations and of providing training to the agencies' staffs so that the needs of entrepreneurs can be adequately assessed before referral to the appropriate source of assistance within the network. The network is now also considering the idea of appointing "scouts", people who will either look for potential entrepreneurial talent within the communities or for business opportunities that entrepreneurs might be able to pursue.

This approach is very much part of new thinking in the United States about the provision of advice, training, and mentoring to entrepreneurs and new businesses. The goal is to forge systems that integrate the plethora of programmes in ways that are more market-oriented, and to emphasize the importance of networks among entrepreneurs to supplement or even replace formal support programmes – what some commentators refer to as entrepreneurial social capital.

A well-developed manifestation of this approach is the business incubator. According to the National Business Incubation Association, a business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services. What distinguishes incubators from other programmes is that they provide clients with access to appropriate rental space and flexible leases, shared basic office services and equipment, technology support services, and assistance in obtaining business financing. They have on-site management that develops and orchestrates business, marketing, and management resources tailored to a company's needs (National Business Incubator Association, 2003). Importantly, they also provide a context where entrepreneurs can meet each other to share problems and explore possibilities for collaboration or joint venturing.

There are approximately 950 business incubators in North America of which 44% draw their clients from urban areas. They are usually sponsored by academic institutions, government departments or agencies, economic development organizations, or for-profit entities. In 2001, North American incubators assisted more than 35 000 start-up companies that provided full-time employment for nearly 82 000 workers and generated annual revenues of more than USD 7 billion. 87% of incubator graduates are still in business, and 84% stay in their communities. Nearly half of the incubators accept a wide variety of clients, but 37% focus on technology firms.

There has been a recent discernible shift in the emphasis of business incubation from a focus on a building with related services to the process of business incubation within a community. Indeed, there have been a number of

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"incubator-without-walls" programmes initiated around the country, which provide the opportunity and the structure for entrepreneurs to network with each other and for business services providers in a community or region to coordinate their efforts.

The importance of networking among entrepreneurs has been attracting much attention as a highly effective means of building capacity, knowledge, and social capital. As the National Commission on Entrepreneurship points out, networks "are essential because they are the links to potential sources of capital, new employees, strategic alliance partners, and service providers". They also allow entrepreneurs to share information and assessments of markets and technology as well as lessons learned from their own entrepreneurial experiences (NCOE, 2002 p. 16). This notion of entrepreneurs organizing themselves to articulate their needs and to define the services they require represents a major shift away from entrepreneurs being passive clients of cookie-cutter public programmes, and highlights how little attention has been paid to social capital as the engine of successful entrepreneurial development. In other words, the best source of advice, training, and mentoring may not necessarily be formal programmes but the facilitated interaction between entrepreneurs and small business owners.

A report prepared for the US Economic Development Administration explored the importance of network building among black businesses based on a survey of minority business development managers across the country. The authors (McLean and Vance, 2002) identified four types of capital that can be achieved through effective network building. Entrepreneurial Capacity Capital refers to increasing the number of individuals in a community who are economically self-sufficient and independent through entrepreneurship training, mentoring, and counselling. Community Capital focuses on building trust and relationships between businesses, residents, and local institutions with a view to improving the social, political, and economic climate of their neighbourhoods. The emphasis is on incubating and nurturing small businesses in place to create wealth and employment opportunities. Minority Networking Capital refers to the forging of collaborative efforts between entrepreneurs and between entrepreneurs and the range of educational, governmental, non-profit, and mainstream business institutions that have the capacity and resources to support minority business development. The fourth is Minority Niche Capital that derives from specialist relationships between minority businesses and procurement and financing staff in large corporations and public agencies, with the aim of expanding business opportunities.

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Social capital was the key concept in an important project led by the Philadelphia Industrial Development Corporation with funding from the Pew Charitable Trusts. The project, the Urban Industry Initiative (UII), focused on a ten square mile section of Northeast Philadelphia, a decaying inner city industrial area that was home to 330 firms employing 13 000 people and selling annually more than USD 3 billion in products and services. More than half of these firms employed less than 25 workers. The UII rather than seeking to provide a set of services, focused on working directly with groups of firms, particularly those who were on the cutting edge, had greatest economic impact, and were best connected to other firms in the neighbourhood. Much emphasis was placed on building relationships and trust, and on the careful diagnosis of problems. This opened up the possibility of collaborations between companies to explore joint solutions to common problems or common responses to new commercial opportunities. As time went on the networks became more dense and complex, and potentially transformative for the whole area.

A number of projects were initiated to build and reinforce social capital such as quarterly manufacturers' meetings, a plant manager network, a supplier alliance, an industrial marketing programme, several shared resource initiatives, mentorships, and the creation of an industrial park to clean-up and upgrade the infrastructure of one of the neighbourhoods. The UII is an example of social capital-building through a process of "industrial organizing" where firms interact directly with each other rather than through a single intermediary such as a chamber of commerce. This is similar to community organizing but instead of mobilizing around a single cause, it allows multiple needs and issues to be tackled simultaneously. It differs from more conventional economic development approaches in that it focuses more on relationships and less on transactions, more on diagnosis, facilitation, and organizing, and less on product and service delivery, and more on being opportunistic and less on being deterministic (Lichtenstein, 1999).

The concept of social capital and systems building was the central theme of a Winthrop Rockefeller Foundation-funded state-wide strategy for entrepreneurship development in Arkansas (Dabson, 2003). The strategy identified two principal objectives. The first was the creation of a pipeline of entrepreneurs. The report argued for an infrastructure of lifelong learning from elementary school to beyond retirement on the principle that it is never too early or too late to become an entrepreneur. The aim was to create a large and diverse pool of people – in essence the creation of community social capital – out of which would flow a steady stream of high achievers with an interest in creating jobs and wealth in their communities. The second and complementary

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objective was to enhance business services for entrepreneurs in ways that would produce seamless systems to deliver effective financial, technical assistance, and other services to entrepreneurs at different levels of development.

Another approach to improving the quality and reach of business service providers is being introduced in Massachusetts by the Pioneer Institute's Center for Urban Entrepreneurship and the State Street Corporation, a regional bank. Their initiative, the Urban Business Alliance, aims to bring high quality business consulting services to low-income entrepreneurs. The Alliance working in conjunction with the Entrepreneurial Management Institute at Boston University is providing training to community development corporations and other community-based organizations. This is intended to enable advisors to better diagnose problems and potential for low-income entrepreneurs, and make effective referrals to sources of expertise and capital. The Pioneer Institute's own research suggests that nearly 10 000 low-income urban entrepreneurs are engaged in starting a business in Massachusetts and that another 30 000 established Massachusetts businesses are owned by low-income urban residents. The Alliance hopes to help the community development corporations support 1 500 entrepreneurs starting and growing businesses over the next two years (Pioneer Institute, 2003).

Creating effective advisory, training, and mentoring services in distressed urban areas

Programmes for providing advice, training, and mentoring in distressed urban areas in the United States are available from a wide range of public, private, and non-profit agencies and institutions. Although most agencies are able to provide activity and output data together with claims for businesses and jobs created, there is little objective data on the effectiveness of their programmes in increasing the rate of new business formation, the rate of survival and success of new enterprises, or the rate of growth of new enterprises. Research by Lyons and Lichtenstein points to some significant problems with the supply-driven, categorical services that are usually available, both in terms of their lack of correspondence with entrepreneurs' real needs and their inability or unwillingness to operate as part of coherent service delivery systems. The way forward seems to be a shift in focus to one of social capital facilitation where entrepreneurs are encouraged to network among themselves to respond to challenges and opportunities, and where service providers pay more attention to developing skills of diagnosis, facilitation, and organizing in support of these networks rather than marketing standardized services and products.

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Turning the latent competitive advantages of inner cities into successful entrepreneurial ventures requires a comprehensive, systemic approach to creating an entrepreneurial climate and culture. Such an approach is much wider than the provision of advice, training, and mentoring but there are some principles (Dabson, Malkin et al, 2003) that need to be adopted in order to make these services more effective in a distressed urban area context.

First, the community and neighbourhood provide the immediate environment which will determine whether entrepreneurship flourishes or withers. Local communities need the tools and resources to identify and build upon their assets, to make choices that appropriately balance economic, social, and environmental imperatives, to learn from the experiences of others, and to be open to experimentation and innovation. This suggests that advice, training, and mentoring might come from a wide variety of sources, many of which are unrecognized or under-valued – a lifetime's experience of growing and sustaining a business in the neighbourhood for a storeowner, mechanic, or print shop may be invaluable to people setting out on their own business venture; a church might become a venue for training classes; the local newspaper might sponsor a community process to identify local assets which might offer entrepreneurial opportunity; or the local high school might include entrepreneurship training into its curriculum and encourage its students to create and offer community-responsive services. Given the right momentum, a downtrodden neighbourhood can overcome its historical challenges and become a hub for small businesses.

Second, the resources available to provide support for entrepreneurship and small business development in many communities are inadequate to match the scale of need (or opportunity). Only through regional cooperation across multiple jurisdictions and through regionally-focused institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as integral parts of metropolitan or regional economies. Just as important, local markets are generally too small to sustain growing neighbourhood businesses and they need access to regional or metropolitan economic drivers to survive and expand. Advice, training, and mentoring has thus to be geared to broadening the horizons of local entrepreneurs beyond their immediate neighbourhoods, to challenging them to expand their marketing aspirations, and to reach out to other businesses across the city or county.

Third, entrepreneurship development is ineffective when it is programmatic and uncoordinated. The notion that entrepreneurs have different needs that are a function of their education, skills, and maturity seems

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commonsense, but tailoring the plethora of training, technical assistance, and financing programmes and products to these needs usually requires major adjustments to current practice. Such a focus also brings along the need for systems thinking, requiring providers of entrepreneurship development services to be aligning themselves as parts of regional systems rather than independent fiefdoms with turf and resources to protect.

Concluding remarks

Without adequate research and data on whether the needs of entrepreneurs and small business owners in distressed urban areas are significantly different from those in other areas, or on the urban focus, scope and quality of advisory, training, and mentoring programmes, it is not possible to make any firm judgment as to whether there is a good match. What can be said is that there are clear deficiencies in the way these services are structured and delivered to entrepreneurs in all locations, and that efforts to make them more demand-driven, entrepreneur-centred and system-based should also make them more responsive to the particular challenges, needs, and opportunities faced by entrepreneurs and small business owners in distressed urban areas.

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CHAPTER 4. ENTREPRENEURSHIP ADVICE, TRAINING AND MENTORING FOR URBAN RENEWAL: PERSPECTIVES FROM THE UNITED KINGDOM AND EUROPE

By David Grayson
Director, Business in the Community and Principal, BLU, UK

Abstract

Effective training, advice and mentoring programmes are needed to develop entrepreneurial attributes amongst inner city residents together with specific functional competencies like financial management or market research. Various initiatives are described, including promotion of enterprise as a viable option, use of role models, sensitive outreach and tailoring of programmes, linkage to appropriate finance, promotion of social enterprise and use of the internet. Business support in distressed areas should take account of the European Commission's BEST principles, but applying them in distressed urban areas will mean customising and segmenting the support. Amongst the most critical issues for business development policy in inner cities is to encourage advisers, trainers and mentors to develop more entrepreneurial mindsets and adapt the design of support programmes to respond better to client needs.

Introduction

A GBP 7.6 million (EUR 11.5 million) international exhibition services and contracting firm, a GBP 6.5 million Internet publisher, and a GBP 3.1 million high-quality clothing manufacturer. Each of them growing rapidly over the past five years. Do they sound like businesses you would expect to find in the United Kingdom's most distressed urban areas? Would you be surprised to learn that a significant number of these and similar companies have experienced over 500% turnover growth during the past five years? They are amongst the Inner City 100 fastest growing firms in the United Kingdom. Stereotypes about inner city areas and the people who live there abound. Successful strategies for regenerating such areas will have to challenge the stereotypes – whether they are held by outsiders or by the

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residents themselves. But there are no quick fixes to achieve sustained improvements in start-up and survival rates of enterprises in distressed urban neighbourhoods.

There is also a need here to separate issues of physical urban renewal from the renewal of distressed urban communities. In Leeds, for example, in the north of England, much of the urban renewal is driven by new mixed use development on brown field sites fuelled by the expansion of financial and other service industries. This regeneration appears to have very little impact on the distressed communities of Seacroft, Chapeltown, Gipton, Belle Isle etc. Regeneration and development of these communities from within, rather than the yuppifying of neighbouring areas and the belief in trickle down, is the key contribution that business development can make. This is about long-term culture and behaviour change. It needs patient investment in building financial capital and social capital.

The theme of this volume is "entrepreneurship", but after almost a quarter of a century working in small business development, I think only a small minority of people starting and running businesses are genuine entrepreneurs. The terms "entrepreneur" and "entrepreneurship" are usually associated with enterprises and creating your own job, but the goal must be particularly to draw out more entrepreneurial instincts in a larger proportion of owner-managers. Policy-makers need to recognise this difference between the artisan and the entrepreneur. They should value and want to service both.[3] This is where effective training, advice and mentoring can contribute – as part of a wider integrated approach to entrepreneurship and business promotion.

There is no standard definition of entrepreneurship. It is not the same as new venture formation or small business management. It is an attitude of mind, a way of thinking and of behaving.

David Kirby, Professor of Entrepreneurship at the University of Surrey, United Kingdom, lists a series of characteristics and attributes. Entrepreneurs, according to Kirby, are:

- Creative.
  - see opportunities.

[3]. Michael Gerber in the US has done some interesting work on this.

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- Doers
  - make things happen
- Intrinsically motivated
  - do things because they are there to be done
  - enjoy a challenge
- Self-confident
  - believe they are capable of performing the task
  - approach difficult tasks as challenging goals
- Persistent
  - energy and enthusiasm
- Learn from failure
  - bounce back
  - look for new challenges and opportunities
  - do not give up
- Have a thirst for knowledge – they see personal learning as fun
  - practical not theoretical
  - learn by doing
- Well networked
  - know who, not know what
- Have a passion for improvement
  - personal

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  - organisational – they train and retrain their staff and encourage staff to come up with new ideas

- Embrace change

  - cope with uncertainty

  - make sense out of chaos.

Effective training, advice and mentoring programmes need to address these entrepreneurial characteristics – as well as functional competences like financial management or market research.

This chapter:

- Examines the barriers to entrepreneurship in distressed urban areas – and the obstacles to delivering effective help for enterprises in these areas.

- Looks at some of the practical things that are being done around Europe to overcome those barriers – particularly from my own country – the United Kingdom.

- Suggests some critical success factors for such activity.

- Identifies some implications for businesses and business support organisations.

- And, finally, concludes on the importance of supporting business development in distressed urban areas.

Barriers to entrepreneurship in distressed urban areas

The barriers to entrepreneurship in distressed urban areas have been discussed in various OECD LEED events and reports; and elsewhere. They include:

- Lack of positive role models.

- Poor self-image of individuals and of the area collectively.

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- Poor education and limited skills – including limited management skills – which stunts ambition and options, and suppresses entrepreneurial spirit.

- Limited financial and social capital – limited personal networks means less know-who as well as less know-how; and by relying on selling to poor, local markets, the chances of survival are further reduced.

- Illegitimate enterprise may be seen as an alternative.

The result tends to be lower than average rates of business start-up, and higher death rates. These areas have low firm density with insufficient small firms per head of population and fewer growth businesses per capita. Official figures, of course, do not reflect what may sometimes be a thriving informal economy and considerable, unofficial, entrepreneurial activity.

Additionally, initiatives and organisations which have been established to help develop enterprises may suffer from any number of barriers to success in trying to engage people in distressed neighbourhoods, such as:

- Residents do not think self-employment is for them.

- Residents do not know of help available.

- Residents know about help but believe it is inaccessible, inappropriate or "not for people like me".

- Residents seek help but help is inaccessible – whether of good quality or not.

- Residents seek help, get it, but it is inappropriate – *e.g.* it is too academic, too inflexible for clients' needs or too short.

- Residents know of help, it is accessible and good quality – but make a conscious decision to ignore it because his/her illegal enterprise is more financially attractive.

- Residents use help – but ignore advice and start non-viable enterprises.

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The relative weight of these barriers may vary considerably between different types of distressed urban area.

One might differentiate between:

- The areas that we describe as distressed, which are often areas where new immigrants are housed. As each wave of immigrants begins to find its feet and get more of a stake in the system, they move out to less "distressed" environments and the distressed environments become a landing place for a new wave of immigrants. Perhaps we should see these areas as stepping stones for global development?

- Old, traditional neighbourhoods which consist largely of long-term, predominantly white, working class residents – where the challenges of promoting enterprise may be radically different.

In the former case, the issues may be more to do with making help known and presenting it in ways which are attractive to ethnically and culturally diverse client groups. For the latter, it may be more to do with promoting the idea of enterprise and of the value of making the transition to the formal economy.

Initiatives to promote enterprise in distressed urban areas

Successful initiatives need to address all the barriers identified above. Residents need to be stimulated to see enterprise as a viable personal option; they need to know that help is available and that it is accessible to people with their personal circumstances. The training, advice and mentoring programmes need to be relevant, timely and of good quality – so that a higher proportion of users are motivated to and capable of applying what they have been helped to learn. Overall, successful initiatives are likely to involve some combination of the following three points:

- Active promotion of being enterprising and of positive role models of legitimate business activity. This is because such communities tend to have few role models or ones based on enterprises in the informal economy or in illegal enterprises. There may also be a need to show a route from the informal to the formal economy.

- Sensitive outreach of start-up and existing business advisory services to target communities. This will almost certainly require diversity training for front-line staff and business advisers, e.g. to handle clients

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with disabilities or from different racial and cultural communities, and much more effort to recruit and train advisers from these target groups. It will also require specific promotion and outreach to particular groups such as to young people. There may be particular opportunities for exchanges of materials and experiences amongst international schemes.

- Tailored, quality business development programmes. These may combine training for both business and technical skills with advice, marketing support, mentoring and business incubators. These programmes should have good connections to appropriate finance for business. Localities with particular ethnic communities, for example, may also require links to business finance schemes which conform to (say) Sharia Law for Muslim businesses.

Effective training, advice and mentoring programmes, and the organisations that run them, are far more likely to be successful in attracting clients and developing their entrepreneurial skills if they are themselves manifesting the attributes of entrepreneurialism identified above. Manifestly, training, advice and mentoring programmes which are not themselves entrepreneurial are going to be less attractive to individuals with entrepreneurial spark already; and will find it hard to inculcate in others what they themselves lack.

Promotion of enterprise as a viable option

Effective training, advice and mentoring programmes need to be grounded in promotion of enterprise as a viable option. Otherwise, they are hobbling themselves before they start. Without aggressive and proactive promotion, the "gene pool" of clients for training, advice and mentoring programmes will be massively constrained – that is, the potential target audience is minimised. Meeting potential clients where they start – sometimes in the shadow economy – may also be needed. This is a difficult problem for Government-backed business support organisations; but without this sensitivity and "street-smart" awareness, there is a danger that promotion could be counter productive – if it is seen as an establishment message.

Some activities will focus specifically on the promotion of starting a business. Yet if creating your own business is not even on the radar screen for many residents in distressed urban areas, such promotion may have little resonance. Efforts may be better directed to the promotion of the idea of being **enterprising** – which can have many different manifestations. A community

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group may be enterprising in harnessing the energy of volunteers and in assembling resources to fulfil their mission, from a variety of charitable and public sources. Likewise a school. The promotion of business enterprises in distressed areas may be easier in enterprising communities.

In Padua, Italy there is an interesting initiative of the Chamber of Commerce and the schools in which the whole community has come together to promote quality work experience, which in turn, has encouraged a more favourable view of enterprise. In the United Kingdom, the major organisations representing business: the Confederation of British Industry, the Institute of Directors, the Federation of Small Businesses, and the British Chambers of Commerce, have come together in a multi-year campaign to promote enterprise – including in schools. Enterprise Insight aims to help create a culture of enterprise in the United Kingdom. They are developing a high-energy national campaign to inspire young people to have ideas and make them happen. The campaign will target young people and those who influence them. Initially, the focus is on mid-teens to mid-twenties, because they can be reached via educational institutions and are at an age when they are thinking about their future careers. It will focus on initial inspiration. The argument of Enterprise Insight is that there already exists a huge number of downstream services for enterprise development involving education, training, mentoring and start-up support. What is missing is a populist communications "front end" to light the initial spark of awareness or ambition that inspires young people to believe in their own entrepreneurial potential. It will encourage enterprise in the broadest sense. The message is that whether you aspire to own a business, develop your community or work in an existing organisation, you will need enterprising qualities – and that these can bring money, creative fulfilment and career success. The intention is to popularise enterprise as accessible and relevant to a broad cross-section of people, including those from under-represented groups (notably women). Activities will include "entrepreneurs in residence" with successful businesspeople and social entrepreneurs going into schools, and travelling teams of young interns running role-playing and simulation workshops in schools and youth groups (www.starttalkingideas.org).

The British Enterprise Insight campaign emphasises the importance of language, as the information in Box 2 shows.

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Box 2: Promoting enterprise: The Enterprise Insight campaign

"To maximise the campaign impact we would like you to use the top-line message: 'Make Your Mark – Start Talking Ideas'."

Behind this simple phrase lies a substantial research effort – focus groups and video diaries with 14-25 year olds, interviews with parents and teachers, a review of past research and an analysis of global youth trends. Key findings were:

Individuality: Young people have a profound need to "be someone" to achieve success and be recognised for it.

Creativity and control: They like to fill a framework with their own ideas and views, and it must be them who decide whether to participate in something.

Determination: They know that success will not come easily and they value self-confidence and self-belief.

One step at a time: They are anxious about making the right choices in life, so like to try things out with non-committing first steps.

Personal stories: They respond to stories from peers or role models and are eager to create their own personal narratives.

Authenticity: They respond to a tone which is warm, empathetic, and honest, not "fake cool" and which combines the inspirational and the practical.

Language is crucial – words like "ideas" and "making it real" resonate well with this age group. In contrast, "enterprise" and "enterprising" are seen as daunting, unattainable or only for the gifted few – common associations being middle-aged men in suits, and Star Trek.

Young people like the concept of enterprise, but the language often used to describe it does not connect with them. The phrase "Make Your Mark" tested very positively across the age range as representing enterprise in a dynamic way.

"Make Your Mark" represents the goal. The supporting strap line "Start Talking Ideas" focuses on taking the first step on the journey.

The campaign focuses on language that connects:

Make – tangible and real, implies personal control and creativity.

Your – the importance of the individual.

Mark – being known, being recognised, and standing out by achieving.

Source: www.starttalkingideas.org – Campaign launch booklet, June 28th 2004.

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Whilst this initiative relates specifically to young people, there is a broader point here about the use of language and positioning which is customer-led rather than service-driven, and applies equally well to addressing non-youth groups in marginalised communities.

The use of role models

One particular element of campaigns, whether to promote enterprise broadly or specifically in terms of business is the need for positive role-models of legitimate business activity. The Inner City 100 is a US programme to change the image of enterprises in distressed inner city areas and to develop knowledge of the needs of these businesses, by identifying and publicising the achievements of the one hundred fastest growing businesses in distressed urban areas. A British version of Inner City 100 is now into its fourth year. As the United Kingdom finance minister, Gordon Brown, the Chancellor of the Exchequer, has said.

> *"We must do away with the old urban myth that our inner cities are areas characterised by social problems and economic blight for businesses to shun, but instead see these areas as places of untapped potential, where there are young people with dynamism looking for work and markets waiting to develop and grow Inner City 100, shows that even the most disadvantaged inner cities are not the enterprise 'no-go' areas of the past, but the investment opportunities of the future…I want the spirit of enterprise to be fully celebrated, its opportunities opened up beyond the few to the many, and its potential valued, not least in Britain's poorest communities as a solution to unemployment. There should be no no-go areas for the enterprise culture."*[4]

This does beg the question of "What kind of enterprise are we promoting?" Amongst 15-18 year-olds in the United Kingdom, the most mentioned entrepreneurs are Richard Branson and a TV character called Del Boy – who operates in the informal economy and generally illegally.[5] We surely do not want to produce more Del Boy spivs – but socially and environmentally responsible entrepreneurs. One of the four strands of the European Union Multi-Stakeholder Forum on Corporate Social Responsibility looked specifically at Corporate Social Responsibility and smaller firms. Advising and coaching on environmental and social impacts should become part of the core

4. www.theinnercity100.org.

5. Research for the UK Enterprise Insight Campaign.

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capabilities of publicly-funded business development agencies and "responsible entrepreneurship" should become an integral part of enterprise promotion campaigns. In the United Kingdom, the major small business representative organisations and the main Corporate Social Responsibility groups have joined forces to develop and promote www.smallbusinessjourney.com as an on-line resource for small businesses and their advisers about responsible business.

Sensitive outreach

Activities to promote enterprise will have only marginal impact, unless they are connected to efforts to ensure that help for those interested in starting or developing their entrepreneurial skills, are accessible. Hence the importance of ensuring that business development agencies are equipped – culturally as well as technically – to serve these urban communities. In particular, there is a need for sensitive outreach – that is to say, which understands the concerns and perspectives of the target communities (including black and ethnic minority communities, women and young people), can talk their language (literally as well as figuratively) and have staff who are credible with them.

Business support could learn a lot from Youth Services and Social Workers who have pioneered outreach techniques for service delivery. However "outreach" does imply that the establishment is trying to bring clients "in from the cold". Many of these clients may not want to be reached by the establishment at all – and this needs to be understood.

Organisations providing training, advice and mentoring programmes need to audit themselves regularly as to their attractiveness, relevance, appropriateness and accessibility to their different target audiences. In some cases, this may involve separate small business support organisations for particular target audiences such as a Youth Enterprise Centre. Generally, however, the concerns of achieving economies of scale and accessing high calibre staff and expertise are in conflict with the idea of creating a series of separate organisations. Instead, it may be more effective to develop different "fronts" or "shop-windows" for different target audiences, within the same overall organisation. This requires sensitive advertising (a traditionally-minded business support service which produces brochures with pictures which only feature men or only feature white faces is unlikely to be very successful at appealing to women or non-white clients, for example). Given the ethnic and cultural diversity of many distressed urban areas, the ability to reach out to these communities is of paramount importance. It also requires cultural sensitivity on the part of business advisers.

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STEW, the Centre for Small Business Development in Amsterdam (www.stew.nl), has been operating a variety of outreach programmes to targeted groups such as businesses run by specific ethnic minority communities. STEW has employed business outreach workers from the same community to overcome language and cultural barriers.

In Sweden, the Jobs and Society initiative has been supporting the development of a national network of business-sponsored local enterprise agencies since 1986. Sweden now has a challenge to integrate the "New Swedes" – immigrants – into the economy. To help meet the challenge, Jobs and Society has recently established an Enterprise Agency with a particular emphasis on start-ups and existing businesses run by "New Swedes" and employing "New Swede" staff and others sensitised to working with the target communities.

Shell Live*WIRE* now operates in over twenty countries. One of the results is the range of materials that Livewire now has available in different languages and aimed at different cultures. In Sweden, where there is a large number of New Swedes from Iran, the Swedish Enterprise Network and the public authorities recognised the potential of the Iranian Shell Live*WIRE* material produced in Farsi from Iran.

In some instances, publicly-funded mainstream business development agencies may increase their effectiveness in reaching businesses and would-be businesses in distressed urban areas by working indirectly through intermediaries such as mosques, community associations or business organisations specifically for ethnic minority businesses. Asian Trade Links (ATL) in West Yorkshire, England, was formally launched in 1998 by a small group of Bradford Asian businessmen with support from the government-funded Business Link Bradford. It represents all sectors of business life in the area. The members come from service, retail and manufacturing sectors from all over Yorkshire. It aims to be the principal voice and representative body for the Asian business community in Yorkshire, to signpost and provide a range of quality services in response to the needs of the Asian business community in Yorkshire and to help connect to the full range of business support available. ATL is working pro-actively to raise the participation of minority enterprises in a wide range of business and community forums, so that the needs of this community are better understood (www.asiantradeslink.co.uk).

As well as issues of perceived/actual receptiveness to ethnically diverse clients, the Global Entrepreneurship Monitor 2002 survey showed that the British Black and Ethnic Minority communities have a strong entrepreneurial

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spirit but that this is not translating into business formation. Some of the barriers identified by the British Government's Ethnic Minority Business Forum include poor access to finance, lower take-up of Information and Communications Technology, poorly adapted public and private sector procurement practices, and lack of succession-planning where Black and Ethnic Minority businesses do exist.

Customising the offer – and how that offer is promoted - to different target audiences is a critical element in the marketing of training, advice and mentoring services. Any business development organisation – like any other service organisation – has to be excellent at marketing itself. For the public sector, or for a publicly-funded business development agency, this may involve a significant shift of mindset and culture: from seeing government ministers as the customer to treating the clients of training, advice and mentoring as the customers.

Tailored programmes

As well as working harder to engage with clients in distressed urban neighbourhoods in the first place, business development agencies also need to ensure that they can customise their offering. If one takes the case of England:

- 15-20% of adults are functionally illiterate (this is some 6 million people).
- It has the fourth highest education drop-out rate at 16 of any developed economy.
- The proportion of adults with level 2 or 3 educational attainment is lower than much of the rest of Western Europe.

This means not only a less well-educated adult population but also one which is less well skilled. This skill deficit is heavily concentrated in the country's distressed urban areas. Agencies seeking to address the skills deficit in general or to provide training, advice and mentoring for entrepreneurship in particular have to understand the problem recently underlined by John Harwood, the first Chief Executive of the England-wide Learning and Skills Council.

> *"I believe there is thus strong evidence in some parts of the country of what one might term a deeper cultural antipathy to learning. Those surveys which have been undertaken to find out why adults do not*

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engage in learning seem to indicate that one of the most frequently cited reasons is that it is just not seen as relevant. …it seems to me that our national educational (comparative under) performance must be a product not just of poor quality teaching and learning but also of a wider social phenomenon; a perceived irrelevance extending into hostility to learning…" [6]

In other words, much vocational and enterprise training is currently provided on the assumption that people want it and that they will come and get it. For many in distressed urban areas in particular, this may be a very false assumption. John Harwood went on to argue for more creative approaches both to the marketing and delivery of training to such target audiences. In London, for instance, oneLondon writes to SMEs, with the endorsement of their landlord to promote business support. This is a marketing programme but links to a programme called Customer First (which has started in Yorkshire and London to raise the quality of publicly-funded business development agencies) so that participating agencies, in order to benefit from extra referrals, have to be prepared to improve their quality including by offering more tailored programmes. The initiative aims to help disadvantaged inner city areas of London to become "hotspots" for enterprise.

Training

Training for enterprise, for example, needs to be delivered in locations that clients feel comfortable in – less in formal classroom settings and more in informal venues such as pubs and clubs and faith and community centres.

The programmes also need to be presented in a relevant and accessible style, pace and length. We must encourage entrepreneurs to want to learn. It also needs appropriate content. Much of the training that the business development organisations undertake with starters is actually training in how to write a business plan, not training in how to manage and grow a business.

To increase the tailoring of enterprise training programmes to the needs of inner city clients we need to consider the following issues:

- How do we ensure that learning is just-in-time, not just-in-case?

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6. John Harwood, former CEO Learning and Skills Council of England: BLU Principal's Lecture – London – January 21st 2004.

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- How do we ensure that it is provided in bite size chunks – say 15 minutes at a time instead of 15 hours?

- How can lifelong learning by entrepreneurs be encouraged and supported?

To respond, there needs to be much more emphasis on experiential learning and action learning amongst course participants and use of role-models that people can relate to.

The New Entrepreneur Scholarship Programme (NES) in the United Kingdom helps people living in disadvantaged areas to start in business. People from disadvantaged areas and backgrounds often have the ideas and ambition to succeed in business, but many say they find it hard to find support and finance relevant to their needs. NES, which is funded by the Learning and Skills Council and managed by the National Federation of Enterprise Agencies (NFEA), Association of Business Schools (ABS) and Prince's Trust, aims to overcome these difficulties by providing a comprehensive package of training, mentoring and funding in order to encourage and support the start-up and growth of new businesses. All business ideas within reason are supported, and social enterprise ideas are particularly welcomed. More than 850 scholars have been accepted onto the programme since its national promotion (www.nesprogramme.org). An extension of the programme was announced at the end of 2003 which includes provision for some Scholars to spend time at a business school in the United States.

Advice

Repeated studies and surveys suggest businesses and would-be business start-ups are often confused by a plethora of support organisations offering help for small businesses. In London, for example, 349 independent organisations are members of the Small Business Development Network. In regions like the North East of England and Yorkshire/Humber, some reports suggest there are at least 400 separate business support agencies in each region. Clients often complain also about complex eligibility criteria and of being passed "from pillar to post" in a seemingly never-ending series of onward referrals. What they say they want is timely, relevant and quality advice.

Hence, the increasing emphasis on front-line brokerage services which can effectively and actively broker to a range of training, advice, mentoring and other appropriate support. The English business development sector is seeking to move to a system of active brokerage. The Active Broker can make the

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crucial connections between the front-line and mainstream business advisory services. We have a number of studies now under way in United Kingdom to try and isolate the critical success factors in Active Brokerage and develop more robust models and principles for such active brokerage for business support.

Box 3: What puts the "Active" in Active Brokerage?

An important issue is what constitutes "brokerage" and/or "*active* brokerage". How are these distinguished from "signposting" or "referral" at one end of the spectrum, and "direct delivery" at the other?

One useful definition is that signposting or referral involves a transfer of "ownership" of the client and their need, whereas brokerage implies that the broker retains responsibility for the client. At the other end of the scale, brokerage does imply introducing service delivery by somebody or some organisation that is *independent* of the broker.

This leads us to a definition of brokerage as "the delivery of a service to a client by an external provider, where the broker retains some responsibility for the delivery of the service."

We can then consider that "Active Brokerage" implies a degree of continuing support and/or project management during (and after) the process. So, we may define "Active Brokerage" as:

"The delivery of a service to a client by an external supplier (*e.g.* a consultant), where the broker retains some responsibility for the delivery of the service, and provides support to the client before, during and after the provision of the service."

Source: Active Brokerage Subject Active Team – unpublished report for BLU – June 2004.

One very specialised form of Active Brokerage – more akin to community facilitation – is at the heart of the US-based Sirolli Institute, which has now been brought to the United Kingdom through the championship of one of the Business Link Operator chief executives in the North West of England (www.sirolli.com). Both in the United States and in the United Kingdom, the Sirolli approach depends on community brokers able to relate to and be credible in distressed communities, who can find and support men and women who may be lacking in self-confidence, but, with appropriate support, can develop enterprises.

Much of the work of Active Brokerage is transferring what is known colloquially as "know-who" rather than "know-how" – and is crucial in distressed urban communities where social capital and networks may be in short supply.

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There is an excellent little book by Malcolm Gladwell called The Tipping Point about how ideas and fashions take off. He draws analogies with how viruses and diseases spread. A key conclusion is that ideas and fashions spread thanks to the existence of people whom Gladwell calls: "connectors"; "mavens"; and "salespeople". "Connectors" just naturally put people together all the time – it is second nature to them. "Maven" is Yiddish for collectors and assemblers of information – people able to make sense of it. Essentially, brokers have to be both "connectors" and "mavens" as well as "salespeople" in order to link clients to appropriate help.

Mentoring

An increasing number of organisations run mentoring programmes. Mentoring may be defined as a naturally occurring relationship within a programme that is set up between a more senior/experienced individual (the mentor) and a lesser skilled individual (the mentee). One international expert on mentoring – Professor David Clutterbuck, claims that four out of five chief executives surveyed, say that having a mentor was one of the keys to their success. Mentoring offers personalised learning through a developmental relationship with someone of substantially greater experience, who has taken a direct interest in the mentee. Clutterbuck argues that:

> *"Powerful, often transformational mentoring relationships have helped young graduates find their feet in an organisation, helped mothers of young children return to work, or enabled young offenders to turn their lives around. People coming up to retirement have been eased through this difficult time, by tapping into the experience of others, who have been through it already. In short, mentoring can help anybody, who has a major transition to make in his or her life, whoever or wherever they are. Mentoring taps a basic instinct most people share – the desire to pass on their learning, to help other people develop and fulfill their potential."* [7]

Many business development organisations supplement their formal adviser support with mentoring programmes which harness the expertise and interest of established business people to support newer businesses. In the United Kingdom, the Prince's Trust now supports some 58 000 young people per year to start their own business through a combination of training, advice, mentoring

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7. "How to be a Great Mentor" – Professor David Clutterbuck – Clutterbuck Associates – 2003.

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and access to soft loans and grants. The Shell Livewire Scheme quoted above also relies heavily on volunteer business mentors.

One relatively new extension of mentoring is E-Mentoring. Primarily using electronic communications, it is intended to develop and grow the skills, knowledge and confidence of the mentee and help them to succeed. One pilot programme is a joint venture between the South East of England Development Agency and the English Business Link network. It will explore the potential for developing and encouraging individuals to succeed in business. E-mentoring may be less immediately relevant in distressed urban areas, where broadband, fast connectivity access to the Internet may be less than the average, but this may become more important in the future.

Links to appropriate finance

Although outside the scope of this paper, access to appropriate finance is a critical issue for many small firms – whether in distressed urban areas or elsewhere. In urban areas – particularly those with high immigrant and ethnic minority communities, there may be additional issues about the compatibility of finance with religious rules. In Birmingham, England, for example, a number of public agencies have come together to support a business fund which is compliant with Sharia Law.

Organisations like the Prince's Trust Business and Shell Livewire – both of which now operate in more than twenty countries – emphasise the value of linking the start-up finance they provide to mentoring and other help. The point to be stressed in relation to training, advice and mentoring programmes is that the availability of grants and/or soft loans or cash awards through a competition, can be the magnet, the hook, the "come-on" which persuades clients to contact the business development agency and then to use the other services. By making training, advice and mentoring a conduit to cash, it may enhance client take up of these other services.

The link between business advice training and mentoring programmes and social enterprise

Social enterprise is discussed in some detail in Chapters 7 and 8. But it is nevertheless worth making the connection here between social enterprise and more general business development programmes. For many people in distressed neighbourhoods, the route to enterprise may go through, or even end in, social or community entrepreneurship (*i.e.* businesses with primarily social rather than profit maximising objectives) rather than the formation of a

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commercial enterprise. Networks promoting community/social entrepreneurship are therefore an important part of the total strategy.

Often the local agencies which really capture the imagination and engagement of the local community and which are also able to make the connections to other help, will be run by one-off social entrepreneurs.

Like conventional, commercial entrepreneurs, these social entrepreneurs are alchemists, able to bring about positive change and harness resources from a disparate range of sources. You cannot "bottle" such people and they are hard to replicate, but there are some initiatives to develop social entrepreneurs *e.g.* The School for Social Entrepreneurs and the Community Action Network.

Social enterprise should not be seen as somehow a "second best" or "not as good as the real thing". Nor should social enterprises be seen as an easier option than conventional businesses. In many respects they are harder to start up and run – but they may be more appropriate vehicles in some cases for distressed urban areas.

In the United Kingdom, the Government has developed a multi-year Social Enterprise Strategy which embraces many different government departments. A co-ordinating unit is located in the Department of Trade and Industry. Social enterprises are now explicitly eligible for all government schemes and assistance for small businesses generally. The Business Link operators are now required to help social enterprises and a number are developing expertise in this area. Training courses for Business Advisers on social enterprises are now available. These are designed to help general business advisers to know when and how to refer social enterprise clients to more specialist sources of assistance. New funding sources have been made available specifically for social enterprises, and the creation of a new corporate legal form: the Community Interest Company will further help social enterprises. A review of the first year of the United Kingdom's Social Enterprise Strategy was published in October 2003.

The Internet and the marketing and delivery of training, advice and mentoring

Internet usage continues to grow exponentially. There were 600 million Internet users worldwide in 2002 (up from less than 60 million in 1996), and this is predicted to rise to 965 million by 2005.[8] Inevitably, this affects both

[8]. Pyramid Research, quoted in The Economist Year Book, 2004, p. 107.

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marketing and delivery of training, advice and mentoring. Business Link for London has found, for example, that in one year firms using their website increased from 4 000 to 25 000. This now means about 45% of client firms only use the website to access information and services whilst a further 25% use the website with others services. Currently (May 2004) online service delivery is now responsible for 52% of all client activity. This was driven by an email newsletter that now has just under 40 000 subscribers. Some 40% of usage is outside office hours, so the site offers increased accessibility of services. And in terms of customer satisfaction, online services were the only service at Business Link for London to exceed all their targets. So the Internet is helping this business development organisation to achieve much higher volumes, service available all the time and higher levels of satisfaction. And all this from just 1% of the corporate budget and 6 members of staff.[9]

The Internet is an opportunity to complement other service delivery methods in distressed urban areas that cannot be ignored, even though Internet penetration tends to be lower in distressed urban areas than in the population as a whole.

Critical success factors

There is no need to reinvent the wheel. The European Commission has already offered a set of conclusions on good practice from European approaches to the provision of business support, which is relevant for advice, training and mentoring programmes in distressed urban areas (Box 4).

9. Material provided to author by Business Link for London.

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Box 4: The European commission best principles of business support

The European Commission has made considerable effort to identify elements of good practice from European approaches to the provision of business support, including the identification of what they refer to as "top-class" services, and they have also made comparative studies of the different levels of provision within the European Union.

They have identified seven types, or levels, of support:

- Reception, facilities and basic information, referral (including diagnosis and signposting).

- Professional information services (legislation, technical, financial etc.).

- Advice and direct support (business planning, mentoring, advice on functional activity).

- SME-specific training (start-up, growth and development, targeted training).

- Finance (grants and subsidies, loans and loan guarantees, equity).

- Premises and environment (incubation, technology parks etc.).

- SME-specific strategic measures (trade missions, cluster promotion, etc.).

The European Commission conclusions, which they suggest are treated as recommendations for the provision of top-class business support services across the European Union, are:

Client focus

- Client focus has to be a fundamental principle of support service provision.

Comprehensive provision

- Entrepreneurs must be able to get convenient access to all the support services they need.

Coherence & rationalisation

- Coherent support services are required, so that entrepreneurs can easily access a package of services covering all the main management functions.

- New stand-alone initiatives should be avoided. Public authorities should take a strategic approach to the support that they provide or sponsor and ensure that it is co-ordinated with other provision.

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- All support services (core and specialised) should be based on an approach which assists enterprises to develop their own management capacity.

Responding to differing needs

- Provision should take account of the different needs of different types of SMEs, by offering distinct packages of services for entrepreneurs, start-ups, established businesses etc.

- There must be procedures in place which help determine the best advice available for the client and subsequently manage and follow up their access with specialist staff, including those in other agencies.

Responding to the modern economy

- It is important that rather than launching completely new initiatives, new elements should be effectively integrated into existing provision.

- Recent developments in Information and Communications Technologies need to be fully exploited in the delivery of services.

Delivering top quality services

- Public authorities responsible for service provision should ensure that support organisations have access to the necessary human and material resources to provide top-class services.

- The development of a distinctive professional culture needs to be encouraged among staff by the implementation of demanding recruitment training and development policies.

- Quality assurance systems need to be routinely implemented.

Source: European Commission: DG Enterprise.

I endorse the BEST principles – but I am not sure if many of us can keep *twelve* principles in our head. So let me try and distil them to their essence, what I call the ***Seven Cs*** of effective small business development.

- Client-focussed
- Comprehensive
- Customised

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- Coordinated
- Capacity-building
- Connected
- Consistent quality.

Applying these principles to the promotion of entrepreneurship in distressed urban areas means:

- Client-focussed: Support services which start with the needs of the target groups. This may include helping clients move from the informal to the formal economy. It also requires sensitive outreach to different client groups.

- Comprehensive: New and existing businesses need access to a wide range of support which may include finance, business incubation, workspace, technical and business training, help to market including to export etc. This also means that Active Brokers are needed to help clients access an appropriate package.

- Customised: Active Brokers can help individuals to "mix and match" from a menu of services, to meet their particular needs.

- Coordinated: Different agencies should reinforce each other rather than duplicate wastefully. And business development programmes need to be coordinated with other public policies such as welfare payments, access to skills training and good local public transport.

- Capacity-building: Business development agencies need to be supported with access to appropriate training of their professional staff.

- Connected: Agencies should make maximum use of the Internet both to promote and deliver services to businesses and to provide better back-up to intermediary or outreach agencies.

- Consistent quality: Continuing public funding to business development agencies should be conditional on agreed action plans to

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progressively improve the quality of their services against defined standards.

But it needs to be recognised that achieving consistent quality in any small business development service is hard – and there may be additional problems of high staff turnover in distressed urban areas.

A further issue of particular relevance in distressed urban areas concerns being clear about the objectives of policy in supporting a particular business development project. Is it principally about social policy and reducing social exclusion; is it about skills development; or is it about finding and nurturing businesses with the aspiration and the potential to grow, so that competitiveness is improved? Clarity in setting objectives will greatly improve the chances of developing appropriate design, delivery and evaluation of advice, training and mentoring programmes in distressed neighbourhoods.

Overall, there needs to be far more IDEA (identification, dissemination, experimentation and application) of good practice and tools to do this.

In the United Kingdom, one such vehicle for identifying and disseminating good practice is the BLU – the world's first, virtual corporate university for small business development professionals – established by the United Kingdom Small Business Service. The BLU is focussing on the individual and organisational development needs of the small business "value-chain" from government officials concerned with policy-making and regulatory enforcement through to front-line business advisers. The objective is to combine knowledge, learning and networking; and to access useful practice from both within the United Kingdom network and internationally – and from other sectors (see Box 5).

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Box 5. The BLU: A vehicle for disseminating good practice

The BLU is a virtual, corporate "university" for small business development professionals in the United Kingdom. It has been established by the United Kingdom's Small Business Service (SBS) to help fulfil the SBS's mission to make the United Kingdom the best place in the world to start and grow a business.

The BLU is focussed on individuals and organisations working across the small business development value-chain from central government policy-makers interested in small firms through to front-line business advisers in Business Link operators, Chambers of Commerce and enterprise agencies.

BLU provides a range of service in the areas of learning, knowledge-sharing and networking. BLU's purpose is to inspire people to develop their personal skills so they contribute to the achievement of the Government's ambitions for small business.

BLU works with leading business schools and international experts in the design and delivery of its programmes, as well as drawing out the best of practitioner knowledge within the small business development sector.

BLU provides executive coaching, bursaries and personalised learning opportunities for today's leaders in the business development sector. It also targets rising stars through a Tomorrow's Leaders Programme, international Study Fellowships, and action-learning sets. As well as face-to-face learning, BLU also supports e-learning through the SBS Extranet.

There is an on-going programme to identify Useful Practice for small business development agencies – including in the design and delivery of business advisory and training services in distressed urban areas; and in how to target particular audiences such as black and ethnic minority communities.

Generally, we need to offer many more incentives for front-line community and enterprise development agencies to raise their game in distressed areas and to be creative about the kinds of capacity-building on offer. In Boston, United States, for example, there is a new programme to train staff from front-line ethnic minority community development agencies to enhance their business skills and improve the quality of the business referrals they make to banks. This "Urban Business Alliance" is a collaboration of 12 Boston Community Development Corporations (CDCs), in association with State Street Bank and Boston University School of Management. There is a formal 12 week course for the CDCs' front-line advisers. State Street Bank also provides mentors to participating front-line CDC business advisers for six months – which also improves links between banks and agencies working with ethnic minority communities. This is exactly the kind of good practice experience that the BLU is designed to capture and apply in the United Kingdom.

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Implications for businesses and for business support organisations

The critical issue is less the technical competence of advisers, trainers and mentors – and the business development organisations they work for – and much more whether they have the entrepreneurial culture and mindset that clients need. Functional competences can be taught to advisers, trainers and mentors. It is harder to stimulate the entrepreneurial culture and way of doing things. Prof. David Kirby, quoted earlier, suggests that if they are to succeed and grow their businesses, advisers, trainers and mentors need to get their clients to:

- See growth as a challenge and enjoy it.
- Believe in themselves and be positive.
- Be committed and determined to succeed.
- Be prepared to work hard to achieve the goal.
- Build contact networks – and use them.
- Learn from their mistakes.
- Bounce back from "failure".
- Be constantly looking for ways to improve the business.
- See personal learning as "fun".
- Train and retrain their staff.
- Encourage their staff to come up with new ideas:
  - reward them
  - do not penalise.
- Be focused but flexible.
- Look for new challenges and opportunities.

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- Be responsive to changes in the environment.

- Lock on to their customers.

Advisers, trainers and mentors need to be the same. Yet this is often not the prevailing culture in publicly-funded business development organisations. Professor Allan Gibb, founder of the former Small Business Centre at Durham University Business School in Northern England and now with the Soros Open Society Foundation, has been the doyen of entrepreneurship and small business development academics and organisations around the world for more than quarter of a century. In a challenging BLU's Principal's Lecture in April 2004, Professor Gibb contrasted the typical entrepreneurial qualities of small businesses, with those of large corporates and governmental organisations (Table 3). He argued that the latter are more commonly the characteristics of business development organisations and that this is why such agencies find it hard to attract and retain entrepreneurial and small business clients.

The major challenge for policy-makers, therefore, in examining how to encourage more entrepreneurship in distressed urban areas, is how far their own policies, funding regimes and reporting requirements are helping or hindering the business development agencies in those areas to be entrepreneurial themselves.

Table 3. Comparison of the entrepreneurial characteristics of government/corporate organisations and small businesses

GOVERNMENT/CORPORATE	ENTERPRISE/SMALL BUSINESS
Order	Untidiness
Formal	Informal
accountability	Trust
information	Judgement
demarcation	Overlap
Planning	Intuition
Corporate strategy	strategic awareness
Control	Autonomy
standards	personal observation
transparency	Ambiguity
functionalism	Holistic
Systems	Feel
Position	Ownership
performance appraisal	customer/network exposure

Source: BLU Principal's Lecture, April 2004, by Professor Allan Gibb.

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Conclusion

The danger if distressed urban areas continue to fall further behind the mainstream is an accelerating downward spiral of decay. At a time of faster and faster global economic activity and innovation this is all too real a danger. Conversely, the "prize" if there is more successful promotion of enterprise in these areas is substantial, both in terms of improved competitiveness through increased productivity and in social inclusion and cohesion. Research in the United Kingdom, for example, has suggested start-up rates in the best performing areas are ten times those in the worst, contributing to an enterprise gap in our inner cities estimated at 88 000 businesses and GBP 5 billion in turnover. And the entrepreneurship rate in the United States is twice that of the United Kingdom.

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PART III SOCIAL ENTERPRISES

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CHAPTER 5. SOCIAL ENTERPRISE AND URBAN REBUILDING IN THE UNITED STATES

By Robert Giloth
Annie E. Casey Foundation, Baltimore, USA

Abstract

Social enterprises in the United States are increasing economic options for low-income communities and nonprofit organisations. An unanswered question, however, is to what degree social enterprises can significantly contribute to urban rebuilding, particularly for highly-distressed cities. This paper argues that social enterprises can make such a contribution if public and private enterprises with social missions are included in the definition of social enterprise, social enterprises explicitly address urban rebuilding challenges, such as unemployment, and that public and private policies, as well as a support infrastructure, are put in place to aid social enterprises start up, grow, and replicate within cities and metropolitan regions.

Introduction

Social enterprise development has taken off in the United States, increasing opportunities for low-income communities and sustainability options for non-profit organisations. Social enterprises are an important arena for policy inquiry because of the growth of earned income within the non-profit sector during the past few decades, the success and dramatic growth of such social enterprises as Pioneer Human Services, and the lessons from an emerging investment infrastructure that supports social enterprises.

Social enterprises have a double bottom line; they seek earned income and produce social benefits (Dees and Economy, 2001). Social enterprises have thrived in the U.S. for some time, combining business and social criteria and serving specialised populations. In the 19th century, Women's exchanges combined charity and profit as producer cooperatives in many cities (Sander, 1998). In contemporary cities, Goodwill Industries is a familiar retail outlet for donated goods, employing workers who experience labour market challenges.

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During the past decade a social enterprise movement has taken root throughout the country (Emerson and Twersky, 1996).

This chapter addresses two questions about social enterprises and cities in the United States. The first: Can social enterprises make a significant contribution to urban rebuilding? And second: What policies and investments are required to bring social enterprises to scale to achieve this purpose? Answering these questions requires attention to the factors contributing to urban distress; social enterprise definitions; barriers to increasing social enterprise impacts; getting-to-scale strategies for social enterprise; and policies and investments in support of scale impacts.

This discussion is not without controversy or tension. Scale of impact for cities and social ventures are not the same – one involves saturation of impact in places, the other involves standardization and larger geographies of scale. This chapter concludes that promoting the growth of social enterprises generally should be complemented with more targeted strategies related to urban rebuilding.

Distressed urban communities

The 1990s witnessed a wave of urban revitalisation related to the longest economic boom in U.S. history. Income gains for low-income families and reductions in child poverty resulted. Poverty became less concentrated in many cities for the first time in decades, reversing a trend that seemed intractable and strongly linked to the intergenerational transmission of poverty and racial disadvantage. Nonetheless, pockets of poverty remained in cities and the low-income population remained large, only now they were working and had a more fragile safety net (Jarowsky, 2003).

Although the suburbanisation of population and jobs continued, no one pattern of urban change prevailed. Cities like Philadelphia and Baltimore lost population; Chicago gained residents once more; and cities like Seattle became unaffordable to working families who increasingly moved into the suburbs. The economic downturn of the past several years undermined many of the fragile gains for families of the 1990s and stalled urban revitalisation.

The concern of this chapter is how social enterprises contribute to urban rebuilding on behalf of low-income and excluded populations. Exploring their potential role requires articulating a strategic framework for urban rebuilding and identifying critical challenges and opportunities. Presenting an urban rebuilding framework is not to imply a consensus among experts and

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practitioners; rather, it's important to identify the actual and potential linkages between urban rebuilding and social enterprise and how these linkages might be strengthened.

An overarching goal of urban rebuilding is to have labour, consumer, and financial markets work for low-income families and neighbourhoods (Weissbourd, 2003). This does not happen for several reasons. Market failures (and market successes) undervalue low-income community assets, isolating these communities and families in poverty and outside the economic mainstream and hence poverty. An effective urban rebuilding strategy must increase the connectedness and productivity of these communities. Such a development path requires equitable access to economic opportunities, fairly priced goods and services, as well as increased local ownership of assets, community institutions, and development strategies.

Five challenges confront this urban rebuilding strategy of connecting low-income communities to the economic mainstream:

- Too few jobs, good jobs, and careers.
- Skill mismatches of inner-city residents.
- High costs of working and living.
- Untapped economic assets.
- Information and intermediation problems.

At the same time, each of these challenges provides an opportunity for linking urban rebuilding and social enterprise.

Cities do not have enough family supporting jobs to satisfy the demand. In Milwaukee, there are 10 job seekers for every good job. Baltimore even has a deficit of bad – or poorly paying – jobs (Levine, McHargue, and Maene, 2003; JOTF, 2003). Overall estimates of the jobs required given those in need of work range from 5 to 19 million, a range that may be even larger given the economic downturn of recent years. Moreover, most new jobs are created in the suburbs and ex-suburbs, far from the inner-city locations of many low-income communities and making car ownership a must no matter where one lives. Unfortunately, these new jobs often lack career ladders that workers can ascend (Lafer, 2002).

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Even when jobs are available, low-skilled, low-income urban residents often lack job readiness and vocational skills, which make it difficult to pursue higher-paying jobs and career advancement opportunities. Multi-generational separation from the economic mainstream creates a "two worlds" problem in which prospective workers have not had the opportunity to develop business culture skills and hence experience challenges in transitioning from neighbourhood or home cultures and into a work setting (Stone and Worgs, 2004). At the same time, poor schools have created educational deficits that can require as many as 1,000 hours to remediate, even when basic reading has been mastered (Carnevale and Reich, 2000).

These challenges are exacerbated within special populations. Increasingly, inner-city neighbourhoods are struggling to re-integrate formerly incarcerated men and women, at a rate of several million per year. In addition to problems cited above, these ex-offenders may have a history of substance abuse and often face barriers related to employer acceptance, benefits, child support, and transportation (Reentry Policy Council, 2003).

The growing number of immigrants and refugees in cities and rural regions face special problems with English proficiency, immigration documentation, and workplace exploitation by employers (Capps, *et al.*, 2003). Finally, a "hard to employ" welfare population was not able to move into the workforce even during the good economic times of the 1990s. In general, they face two or more barriers related to literacy, substance abuse, domestic violence, and depression.

Even when low-income families obtain and keep jobs they frequently pay more for basic goods and services in their neighbourhoods (AECF, 2003a). This only adds stress to already tight household budgets, undermines creditworthiness, and prevents the accumulation of assets. For example, in one neighbourhood in San Antonio, almost 40% of full time workers use check cashers for everyday financial services even though more than 80% of these workers have bank accounts. Check cashers are alternative providers of financial services who charge from 2-4% to cash a check. Some of these financial services are nothing less than predatory and drain billions of dollars a year in income and assets from working families.

The largest anti-poverty programme in the United States is the Earned Income Tax Credit (EITC) and Child Tax Credit, refundable federal tax credits for working families. The average EITC refund is USD 1 600; 20 million citizens receive more than USD 30 billion a year in these work supports. Unfortunately, a large proportion of those receiving EITC rely upon private tax-

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preparation services that load tax services, short-term loans, and check cashing services on families, amounting to hundreds of dollars (AECF, 2003b).

In a broader sense, low-income communities contain diverse economic assets that are undervalued and untapped. These understudied communities, for example, frequently contain a higher density of disposable income compared to higher-income suburbs, yet lack access to affordable goods and services. At the same time, low-income communities receive millions of dollars of human service investments but are not able to take advantage of these jobs, contracts, and business opportunities. Cultural assets are often untapped assets as well. Some neighbourhoods are fortunate to be close to such urban economic engines as hospitals, universities, and utilities. In many cases, however, it has proven remarkably difficult to build connections between these economic engines and their low-income neighbours. Finally, low-income neighbourhoods are frequently unable to take advantage of either public services or public construction taking place in and around them because of a lack of leadership, or policy, and administrative failings.

Low-income neighbourhoods, like the residents who live in them, are disconnected from the mainstream in many ways. Businesses and investors have little knowledge of their markets. Few bridging mechanisms exist that link them to markets, regions, nonprofits, and policymakers. And low-income neighbourhoods are often disconnected from cyberspace, the knowledge-based economy, and technology. This chasm only accelerates disadvantage even while other areas prosper.

Defining social enterprises

Social enterprises, however we define them, have competitive advantages in fostering urban rebuilding and addressing urban development challenges/opportunities. Non-profits have inner city market knowledge that is frequently ignored by mainstream businesses and these organizations are connected to the social capital and networks of communities. Non-profits are also more clearly driven by social mission and therefore value economic and social assets ignored by others. They can also settle for lower thresholds of profit from business ventures. Increasingly, non-profits are sources of underutilized entrepreneurial skills and capacity.

Common definitions of social enterprise focus on the extent and type of revenue the enterprises generate, their corporate form, organisational identity, and the degree of social benefit that they produce (Young, 2001). How much earned income has to be generated? How connected is the venture to core

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organisational sponsor mission and service delivery? Is the quality of social benefits as important as the quantity of benefits? From the perspective of Europe or Canada, the embeddedness of social enterprises in solidarity networks with substantial community ownership is a defining feature. Consequently, cooperatives in Mondragon, Spain or the networked firms in the region of Emilia-Romagna, Italy are included under the wide umbrella (Ninacs, 2002) Although cooperatives and a "social sector" exist in the United States, social enterprises are generally less communal, more often formal corporations, and highly individualistic.

This chapter adopts a definition of social enterprise oriented towards urban rebuilding and achieving scale impact in cities. It attempts to create a bigger tent around a way of thinking and business investment rather than creating a "silo" or specialised niche for a rather small group of enterprises. Overly narrow definitions limit the impact of social enterprises on urban rebuilding; overly broad definitions, however, may inadvertently dilute the power of double bottom line thinking.

The definition first includes those non-profit agencies that generate revenue in pursuing their social mission. But, in contrast to the common definition of social enterprises, it also includes for-profit enterprises that explicitly adopt social criteria related to their investments and business operations. In addition, this definition includes Community Development Financial Institutions and other social investors that combine financial and social criteria. These institutions are important as a part of the infrastructure that supports more traditional social enterprises, as well as being double bottom line themselves. A neglected type of social enterprise is that of municipal enterprises that generate revenue as they provide public services. They are neglected because of their affiliation with government and because, in many instances, they pursue efficiency goals rather than social benefits. Finally, this social enterprise definition includes social entrepreneurship product and service innovations that are important for the economic success of inner city families and neighbourhoods.

This definition of social enterprise expands the focus from organizational entities to products and markets or even industries. Social enterprise products may be programme designs or financial innovations that shape the workings of the market place, introducing social components that, in turn, affect how revenues and assets are generated or accumulated. Individual Development Accounts are one example. On the other hand, attention to groups of similar social enterprises, such as staffing or temporary job agencies, for example,

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directs attention to the social, economic, and policy impacts of multiple social enterprises operating in neighbourhoods and regions.

Why include for-profit enterprises in this definition of social enterprise? Without for-profit enterprises it is implausible that social enterprise can expand their impact in urban areas. There are simply not enough social enterprises. But it is equally important to ask whether, and to what degree, for-profit enterprises will adopt social benefit criteria. This question deserves ongoing attention but it is true right now that there are a growing number of socially responsible for-profit enterprises, and, increasingly, for profits have won contracts to deliver educational, welfare, and social services (Case, 2003). A number of factors are at work in addition to the social values of owners and entrepreneurs: business incentives and contract opportunities related to entering new markets, retaining customers, securing capital, solving workforce issues, and contributing to mandated community benefits. It is also important to recognise that segregating non-profit enterprises from for profits may have negative consequences for the competitiveness and sustainability of non-profit social enterprises.

Why include public enterprises in the definition of social enterprises? Are not social enterprises formed in opposition to the grants and bureaucratic mentality of public sector service delivery? Are not public enterprises monopolies that have little to do with entrepreneurship? These concerns are not easily dismissed, but public entrepreneurs have become more prevalent and successful within the context of public sector "reinvention". The public sector exerts substantial control over public purchasing, waste management, service delivery, and land management. Thousands of public enterprises exist related to utilities, composting, and land development (Scharf, 2003). As with most enterprises, public or private, these businesses produce economic benefits and opportunities. The question is what role social criteria play amid continuing pressure to use public resources more efficiently.

Examples of social enterprises

Established and emerging social enterprises exist within each of these urban rebuilding opportunity/challenge areas. The good news about examples is that they concretely illustrate social enterprises in action, what double bottom line thinking and investment looks like, and how specific urban rebuilding challenges are addressed. The problem with examples is that social enterprises are dynamic and examples inevitably become outdated.

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Social enterprises represent a mix of market interests, social benefits, and urban rebuilding. Many important urban rebuilding interventions, for instance, are either non-market or pure market – not requiring social enterprises. Indeed, politics, policy, and private competition are crucial. Most social enterprises contain different combinations of market and non-market elements that redefine or refine market functioning. In this sense social enterprises may improve markets systemically as well as produce discrete social benefits. Changing markets systemically suggests social enterprises may be operating on a **triple** bottom-line basis.

On the job creation front, The Reinvestment Fund (TRF) of Philadelphia is a CDFI that has created the Urban Growth Partners Fund. This venture fund has raised USD 45 million to invest in small, job-producing companies in a large region that extends from Newark N.J. to Washington D.C., with a focus in Baltimore. The fund does two important things: it targets viable, growing companies with good paying jobs accessible to low skilled workers; and it provides these companies with more than patient capital-human resource assistance, access to public benefits, training, and recruitment. In a prior USD 10 million fund, TRF helped create 1 400 jobs in companies such as Allegheny Childcare, a for-profit operator of childcare centres in Philadelphia that has generated 500 jobs (Kostelni, 2003). Fifty other community venture funds in the U.S. have adopted aspects of this approach.

At least 100 non-profit staffing or temp agencies connect jobseekers – often hard to employ – to jobs, work experiences, higher wages, permanent jobs, and careers Carre, *et al.*, 2003). Non-profit, such as Esperanza Unida in Milwaukee or Bidwell Training Center in Pittsburgh, teach occupational skills through businesses that generate revenue. For formerly incarcerated men and women or for those in recovery from substance abuse, organisations like Pioneer Human Services, Delancey Street, or Greyston Bakery provide supported, transitional jobs (Boshee, 2001). Such for-profit companies as Sylvan Learning Centers provide educational services and homework help in low-income communities on a contractual basis. Ben and Jerry's ice cream stores provide training and employment opportunities for youth.

Getting to work is a serious challenge for many working families. FANNIE CLAC is a young non-profit enterprise in New Hampshire that provides access to new and quality used cars at fair prices and with low-cost financing. Their business model is to build fees into their low cost services (Chambers, 2003).

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Low-income, working families paradoxically pay more for basic consumer and financial services, a drain on already fragile incomes. Making things worse, predatory financial and temporary work firms have frequently filled the gaps left by mainstream companies. Social enterprises supply alternative sources of affordable financial services and benefits. Our Money Place, on the west side of Baltimore, is a partnership of a credit union, for-profit check casher, and employment centre. Projecto Azteca operates in the colonias on the Texas/Mexico border and charges USD 35 for members to have their taxes done and obtain the Earned Income Tax Credit. Working Today, located in New York, provides portable benefits and services to temporary workers in particular industry sectors, an important innovation, as workers are increasingly more mobile (AECF, 2003b; Alliance for Children and Families, 2002).

Inner cities are rich in human, organizational, and economic assets that are largely unrecognized. Tapping these assets is important for urban rebuilding. Cooperative Home Care Associates, for example, links workers needing of jobs and seniors in need of home health-care services. They have created better jobs, better care, and better standards in the home care industry (Dawson, 1998).

Charter schools, discussed more below, tap public and private funding streams, community entrepreneurship, and often rely on discouraged teachers and principals to create new beacons of hope in urban education and community economic development (Grogan and Proscio, 2000; Halsband, 2003). They have not generally been thought of as social enterprises, but starting a new school is essentially a business start-up, replete with financing, operating, and entrepreneurial challenges.

Specialised employment staffing agencies connect neighbourhood residents to jobs that are part of ongoing human-service investments in low-income, urban neighbourhoods. The Georgia Justice Project connects formerly incarcerated men to landscaping jobs, as does Skookum Construction, which focuses on the environmental clean up of inner-city properties. Bickerdike Redevelopment Corporation in Chicago established Humboldt Construction Company twenty years ago to capture locally generated construction opportunities and ensure the hiring and training of neighbourhood residents (Tebo, 2001; Boshee, 2002).

Finally, Market Creek Plaza in San Diego improves access to affordable quality basic services and goods, including food, while promoting community wealth creation through community ownership of land as an urban resource (PolicyLink, 2000). Bringing supermarkets to inner-city locations requires new market and performance information. Social Compact and MetroEdge

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specialise in building reputable data bases that show that low-income neighbourhoods have a higher concentration of disposable income than more affluent suburban neighbourhoods (ICIC, 2000).

A variety of other social enterprises are creating products and services that help low-income families access financial services and asset building. Pay Rent Build Credit is a start up company that is developing an alternative credit scoring database that includes rent and utility payments in credit scoring calculations, thus demonstrating that many more low-income families are creditworthy and capable of buying homes and other assets (AECF, 2003a). D2D is a start up social enterprise that provides online financial services for financial products and innovations, such as Individual Development Accounts, which have been plagued with high administrative costs. The Beehive is a web-based set of financial services tailored for low-income markets, particularly in the housing and community development field (Doorways to Dreams, 2003; Sittenfeld, 2002).

Still other social enterprises are devoted to improving the quality, efficiency, and sustainability of non-profit organisations. Foothold Technology Inc. and Social Solutions have developed client tracking, benefit, and results systems for human service organizations (Alliance for Children and Families, 2002). WinCo is a new company that packages and sells workforce-related federal tax credits to enhance non-profit organisations that employ low income workers, such as New Community Corporation's Babyland childcare centres in Newark, N.J. (Armistead and Springer, 2003).

Scale of impact and urban rebuilding

Knowledge of success factors required for successful social enterprises is spreading throughout the United States (Dees and Economy, 2001). Much less knowledge exists about how to scale up social enterprises or link them more explicitly to urban rebuilding. But clues from within the social enterprise field and from other fields provide guidance (Bradach, 2003).

Successful social enterprises exhibit many of the same characteristics as all other successful enterprises (Boshee, 2002). They have entrepreneurial vision and capacity, and demonstrate in-depth market knowledge and ongoing expertise in business planning and execution. Social enterprises benefit a great deal, particularly in their early years, from corporate partners that provide contracting and mentoring resources and from interaction with networks of social enterprises grappling with similar issues in different markets. Social

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enterprises develop more quickly in the context of supportive investors that provide patient capital, mentoring and technical assistance, and accountability.

Social enterprises, however, face a number of barriers in the context of thinking about scale and urban impact. Being "entrepreneur dependent" is not unique to social enterprises. But the supply of social entrepreneurs, while robust in a latent sense, is arguably undeveloped; there are simply not enough of them.

When social enterprises are successful they have a tendency to expand their market areas or replicate in other cities. This is the way the business world works. Successful businesses frequently produce a single product or service that they get really good at. Another successful business approach consists of a host of related enterprises that produce different goods and services. This holding company model of diverse enterprises certainly exists in the social enterprise arena – Bidwell Training Center or Pioneer Human Services to name two – but such an enterprise can take decades to build.

In many cases inadequate access to markets, capital, and human resources prevents the start up and proliferation of social enterprises. One Chicago neighbourhood receives an annual investment of more than USD 30 million in human services – but the jobs and contracts that make up this investment are constrained by a multitude of government agencies, administrative rules, and the practice of using preferred providers (Bush, Ortiz, and Maxwell, 1995). Barriers to entry for new community-based businesses are too high. In a broader sense, an inadequate investment infrastructure exists for both start up social enterprises and for the replication of effective enterprises in the same city or in other markets.

Social enterprises both benefit and suffer under the mantle of "social enterprise". They benefit by gaining access to low-cost capital, set-asides for social purchasing, technical assistance, and shelter from competition. But being sheltered may hamper their sustainability and long-term growth as well. In many cases, for-profit enterprises operating in the same markets, but without a double bottom line, exclude social enterprises from their regional employer associations, as is the case in the staffing agency field. This can mean that social enterprises fail to harness the benefits of competition, insider knowledge, best practices, and organizational networks.

The purpose of discussing success factors and growth barriers for social enterprises is to gain a better understanding of how to increase their scale of

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impact in cities. But what is meant by "scale"? And how does "scale" apply to social enterprises?

In the private sector world "scale" is embedded in the very meaning of sustainability – the growth or market share required to support operations and make profits. In the non-profit and social enterprise world, however, "scale" is a holy grail that produces more consternation than guidance about what to do (Moy and Ratliff, 2003).

One contemporary metaphor for scale is tipping point – the threshold at which there is a multiplier effect of activities, impacts, and change. This is the point at which the change process becomes self-organising, without additional increases in investments. The question, of course, is how to define threshold levels and more importantly how to get there. Another metaphor is the saturation of impacts from a specific type of social enterprise, such as staffing agencies, in neighbourhoods or for certain populations, whether low-income families, formerly incarcerated men, or women on welfare. Saturation means reaching a large number of potential customers. In both cases "scale" means that public and private sector investors have adopted specific products, services, or delivery systems.

All of these definitions of scale raise questions about how many social enterprises currently exist and what has been their recent growth experience in the United States. The non-profit sector is large and growing, with 115% growth in the number of organisations between 1977 and 1997 or 23 000 new organisations per year. During this period non-profit revenues grew 144%, 47% of which came from fee income from paying customers. Between 1990 and 1997, the Internal Revenue Service reported a 35% increase in the "unrelated business income" of nonprofits – one indicator of growing social venture activity (Salamon, 2002).

A recent survey by Community Wealth Ventures (CWV) of social enterprises offers another, more focused perspective on the question of scale. CWV identified 265 organisations to be surveyed; 72 agreed to the phone survey, representing 105 ventures. CWV's data reveals that 46% of the organisations operated multiple ventures, 40% of the ventures related to employment, the large majority of sponsoring organisations were more than 16 years old; and almost 70% of the ventures were profitable or break even (Community Wealth Ventures, Inc., 2003).

Increasing social venture scale to support urban rebuilding is not the typical approach to promoting social ventures. Yet, as the above data shows,

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the growth process of social ventures overall, its focus in the employment arena, and the launching of multiple ventures by sponsoring organisations bodes well for creating stronger linkages with urban rebuilding. Before summarizing four "scale-up" strategies for social ventures and urban rebuilding, it is worth recounting three "going to scale" cases.

Examples of "going to scale"

No one model for reaching scale in relation to urban rebuilding has surfaced in this review of social enterprises. Multiple models of scale are directed to different challenges and opportunities of urban rebuilding. The following three examples demonstrate a range of social ventures.

Charter Schools. New Schools (NS) is a venture philanthropy and public charity in San Francisco. It works "to transform public education through powerful ideas and passionate entrepreneurs so that all children…have 21st Century skills." One focus of NS is charter schools.

More than 2 000 charter schools now exist in the United States. Growing like wildfire in the 1990s, Charter Schools are new schools within and outside of public school systems that have substantial autonomy and variation in school philosophy and obtain annualised daily student fees from local government. Charters function within various state and local policy frameworks. In the past they have had difficulty raising additional revenues, particularly for working capital or for new or renovated school facilities (New Schools Venture Fund, 2003).

Charter schools are entrepreneurial by definition – having to attract students, personnel, and funding. A variety of nonprofits have established charter schools, including community development corporations. Advocates of charter schools hope that charters will improve educational outcomes for children and youth as well as introduce competition, and thus "systems change", into bureaucratic school systems.

NS hopes to grow charter schools in quality and scale – from 2 000 to 5 000 by 2020. Growth to date has usually been school by school within local policy frameworks and with uneven access to technical assistance, financing, and incubation services. NS believes that the charter movement needs to establish regional Charter Management Organizations (CMOs) to support future growth. CMOs would create networks of like-minded schools in regions, bring together education and business leaders, and jointly take advantage of economies of scale to develop sustainability strategies for all the charters.

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NS plans to establish 4-6 CMOs in the next several years. These networks will involve upwards of 150 schools and 55 000 students. Because charters are largely urban-based and serve disadvantaged populations, their success and growth is directly tied to urban rebuilding.

Centres for Working Families. Low-income, working families do not have easy access to affordable financial services. The banking system has changed dramatically over the past several decades, leaving many communities without mainstream banking services. At the same time, the United States social welfare system has moved from entitlements like welfare to work supports such as EITC, food stamps, and child health insurance, now totalling USD 55 billion annually. Unfortunately, gaining access to these benefits and services is costly and time consuming for many families. Consequently, many families do not take advantage of benefits or pay exorbitant fees.

The Annie E. Casey Foundation is a children's foundation concerned with family economic security and well-being. It is prototyping the design of a Centre for Working Families (CWF) that would bundle work supports, financial products, employment access, and other services in centres or networks that are accessible, supportive, and low cost. CWFs would locate in neighbourhoods, generate revenue through partnerships and fees, network with other services, and offer a range of their own services (Raffel, 2003).

It will take five to seven years to design and scale up CWFs, starting with prototypes of different designs and configurations and with identifying other models in existence and likely partners. The foundation will identify the most effective designs, key products and services, a sustainable business model, and the national infrastructure required to scale up CWFs in specific cities and across the United States.

This exploration of CWFs has identified other private and social venture examples. A major tax preparation and financial advising company, for example, is launching several prototypes in 2004 that combine tax preparation, financial services, asset building, and financial advising. The company is forming partnerships with banks and check cashers so it can position itself as a type of CWF for moderate to low-income families.

Versions of CWFs already exist and are social enterprises. Consumer Credit Counselling Service – Atlanta, formed in 1964 provides financial counselling and debt management services to mostly low and moderate-income families in Georgia and Florida. In 2002, the company answered more than 490 000 phone calls, held 75 000 in person counselling sessions, recommended

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debt management plans for 13 000 clients, and helped clients pay more than USD 107 million to their creditors. In addition, the company provided critical housing counselling to 4 700 families and financial literacy and home buying seminars to 27 000 individuals. Consumer Credit Counselling Service – Atlanta derives 59% of its revenues from creditor contributions and 30% from clients (CCCS, 2002).

Employment Staffing Agencies. Access to jobs and careers is a key challenge for urban rebuilding and an area of focus for social ventures. The Community Wealth Venture survey, discussed above, found that 40% of social ventures were employment related. Another recent survey identified 100 non-profit staffing agencies in the United States. Some of the most well known U.S. social ventures operate in this sector: Chrysalis in Los Angeles, Primavera in Phoenix, Milwaukee Career Cooperative, and CEO in New York City.

Although they are numerous, non-profit staffing agencies have not organised as a sector – regionally or nationally – and for-profit agencies have generally excluded them from their associations. Organizing a sector would entail documenting best practices, outcomes for workers and companies, and successful business models. Moreover, non-profit staffing agencies require increased access to working capital and technical assistance (Carre, *et al.*, 2003).

Most non-profit staffing agencies work with populations that are particularly hard to employ – the homeless, formerly incarcerated men and women, or individuals in recovery. This niche market is subsidized and generally unattractive to for profit staffing agencies, such as Manpower Inc. It is also a large and growing niche. Prospects for non-profit staffing agencies that go head to head with for-profit agencies in the same markets are less encouraging.

Scaling up for urban rebuilding

This chapter has shown that numerous social enterprises in the United States are focused on urban rebuilding challenges and opportunities. Future policies and investments should expand social enterprises generally as well as link them more explicitly to urban rebuilding. Four broad scale-up strategies for social ventures and urban rebuilding are discussed below: promoting social enterprise; building social enterprise industry networks; organising social enterprise venture capital; and promoting public and private policies supportive of social enterprise.

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Promoting Social Enterprise. Although non-profit ventures have existed for decades, and social enterprise promotion efforts emerged in the 1980s with federal funding cutbacks, it is only within the 1990s that social ventures have developed an identity and momentum. Successful national gatherings of social entrepreneurs have unified an outstanding set of social ventures and creative entrepreneurs. This energy and networking need to continue and evolve.

A number of cities promote social enterprise creation, supported, in part, by the Kauffman Foundation and the evangelism of Bill Strickland and the Roberts Enterprise Development Fund of San Francisco. In Seattle, for example, former Mayor Paul Schell created a campaign to support social enterprises. Milwaukee, Columbus, and St. Louis, among other cities, established local social venture networks. A collaborative of foundations is working with Community Wealth Ventures to provide social ventures in Baltimore with technical assistance and investment resources. Networks of nonprofits and their intermediaries, such as Goodwill Industries and the Enterprise Foundation, have supported development of ventures among their affiliate organizations.

Identifying and cultivating social entrepreneurs is an important strategy for promoting social enterprise. Simply, are there enough entrepreneurs? The Denali Initiative of the Kauffman Foundation, with the guidance of Bill Strickland of Bidwell Training Center, has worked in multiple cities to identify and support enterprising non-profit leaders in the social venture development process. Several business schools solicit social venture business plans for potential investment. The only caution with these approaches, as with all promotion of social enterprise, is that social enterprises fail and can contribute to undermining the sponsoring non-profit if not carefully managed.

Building Social Enterprise Industries. The need exists for regional and national networks of enterprises operating in the same sector or industry niche. This is a particularly relevant strategy for non-profit employment staffing agencies.

Industry networks sponsor the documentation of best practices, common definitions and benchmarks of high performance, and appropriate technical assistance and capital sources. Networks support the development of critical competencies related to "adaptive learning" that enable enterprises to adjust to changing customer, competitive, market, or financing conditions.

Industry networks also facilitate access to new sources of workers, employers, financing, and national partnerships. As with charter schools, there

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may be economies of scale and other efficiencies for networks of staffing agencies. Such a step, however, would go against the individualistic grain that characterizes many of these agencies and entrepreneurs.

Organising Social Enterprise Venture Capital. For too long social ventures, especially those existing outside of membership networks like Goodwill Industries have struggled to succeed without the help of an explicit support system. During the 1990s the Roberts Foundation in the Bay Area demonstrated that the quality and quantity of sustainable social enterprises could be enhanced by the provision of appropriate capital, technical assistance, research and development, and accountability (REDF, 2003). This is more than grant making or technical assistance: it represents a deep commitment to innovation, capacity, and success (Brinckerhoff, 2000). It is about being an investor. Examples include New Schools and SEEDCO in NYC (New Schools Venture Fund, 2003; SEEDCO, 2002).

Social venture funds as well as community development financial institutions, such as The Reinvestment Fund in Philadelphia, are important financial intermediaries for the rebuilding of U.S. cities. Their double, often triple bottom line benefits are ample justification for favourable access to low-cost, patient capital in additional to grant resources to underwrite their important technical assistance roles (CDVCA, 2003).

Social enterprise venture funds should commit to two tasks that would improve the linkage of social enterprises to urban rebuilding. First, the challenge of social replication requires sustained attention. One aspect takes successful enterprises and documents their critical success factors so that they can be successfully replicated in other contexts. Another approach is to work with successful sponsor organizations to develop a family of social enterprises.

Second, social enterprise funds could target their investments to social enterprises that contribute to urban rebuilding and to scale of impact in urban areas, as in the case of charter schools. This approach may, at the same time, lay the groundwork for industry networks of social enterprises, such as employment staffing agencies, in cities and regions.

Promoting Policies for Social Enterprises. The reach and sustainability of social enterprises would increase if the public policy context were more supportive. Policy advocacy is a necessary corollary to an investment system for social enterprises because lower barriers to entry (*e.g.* access to markets) would in itself lead to more social enterprise start-ups.

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Community benefits policies articulate the reinvestment goals and requirements for development projects and activities that require public investment, approval, or resources (Urban Habitat and PolicyLink, 2000). Similar policies have been used in the past to obtain hiring commitments or affordable housing payments or inclusion; but they could also be used for defining contracting opportunities, partnerships, and types of jobs. Such a policy could encourage private firms to adopt social benefit criteria.

Reforms are needed in how the local, state, and federal governments contract for human services. The lack of multiyear contracts undermines overall service provision and precludes the use of debt and equity financing to create a more entrepreneurial culture and balance sheet within the non-profit sector.

The Community Reinvestment Act of 1974 required financial institutions to make every effort to invest in low- and moderate-income communities. A similar policy framework for government contractors and partners (public and private) could encourage allocations for social-purpose contracting and the purchase of social enterprise products. Again, this policy would encourage private sector adoption of social criteria.

Public enterprise offers substantial opportunity for linking to social benefits and urban rebuilding. Policy analysis of both efficiency and social benefits is needed; likewise we need demonstrations that more explicit incorporation of social criteria is a win/win proposition for cities.

And the role of private sector policies should not be ignored. Fifty years ago Boeing Company in Seattle stimulated social enterprise creation, and the formation of Pioneer Human services, through cause-related purchasing (Pomerantz, 2003).

Conclusion

This chapter has argued that it is not enough to assume that social enterprises necessarily enhance urban rebuilding. A more explicit strategy is needed to link social enterprise development, replication, and "going to scale" with targeted opportunities and challenges that are key to urban rebuilding. A broader definition of social enterprise, including private-sector firms that adopt social criteria, community development financial institutions, and public enterprises, is needed to reach scale for urban rebuilding. Moreover, social-enterprise products and industries are as important as individual enterprises, and enable the market reforming or systems change impacts of social enterprises.

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Nonetheless, substantial risks exist for scaling up social enterprises for urban rebuilding. The quality of social benefits produced by social enterprises has been taken for granted in many respects; few impact evaluations have compared the contribution of social enterprises to other service delivery approaches. For example, are the jobs of non-profit staffing agencies as good as those of for profit companies? Are any staffing jobs "good"– even without supports that enhance career advancement?

Replication remains a paradox and a source of failure. Charismatic entrepreneurs, such as Bill Strickland of Bidwell Training Center, are unique and simplified, standardized models of successful social enterprises frequently flounder when imposed in different contexts (Dees, Anderson, and Wei-Skillern, 2002). On the other hand, encouraging sponsor organizations to establish multiple enterprises places extraordinary, and perhaps unrealistic, pressure on institutions that have their own ups and downs.

Scaling up takes time and may proceed in nonlinear fashion, especially given the existing barriers to entry, lack of patient capital and social investor supports, and inadequate policies. Other approaches for obtaining the same social benefits, through non-profit or for profit contracting, for example, may ultimately be more timely, cost- effective, and beneficial.

These are critical but not insurmountable challenges for the social enterprise field. These enterprises are critical for the sustainability of the non-profit sector and for urban rebuilding in the United States. These goals can be mutually reinforcing. As a first step, social enterprise advocates should target development to key urban rebuilding opportunities and challenges. Public, private, and philanthropic supporters of social enterprise should be more intentional about helping to organize the industry, and regional sub-industries like non-profit staffing agencies. Finally, these supporters should build an investment system that can bring social enterprises to scale.

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CHAPTER 6. SOCIAL ENTERPRISES AND URBAN REBUILDING IN EUROPE

By Andrew Carter
The SMART Company, London, UK

Abstract

If social enterprises wish to have a positive impact on the regeneration of distressed urban areas, a supporting framework enabling them to scale up and sustain their activities is needed. Another strategy is to establish intermediate structures (acting like development agencies) able to play a role in providing information, advice and training. Supporting social enterprises also means providing them with appropriate financial tools. To take advantage of the development of these alternative and innovative financial instruments, the creation of an effective Social Investment Framework is needed. The promotion and dissemination of models, case studies and skills should be accompanied by efforts to benchmark and foster the most dynamic social enterprises.

Introduction

In Europe the last two decades have witnessed the growth of community-based organisations and particularly, the increase in the size and scope of the "social economy" – the collection of not-for-profit enterprises that produce socially and environmentally responsible goods and services, many of which are targeted at and involve residents of distressed urban areas.

The emergence of these community-based organisations has occurred in parallel with the growth of interest in local development as a sphere of public policy. This reflects the essential attributes of community-based enterprises – that they are local both in terms of operation and impact. Many have inspired new ideas for social and economic development and have been successful in complementing public initiatives. They have become increasingly prevalent in distressed communities and now attract growing policy attention among local, regional and national governments. A marginal activity is fast becoming a key

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part of the initiatives required to deal with deep-rooted problems of poverty, economic restructuring and social exclusion that many urban areas are facing. However, many social enterprises are being asked difficult questions in terms of their role, function and delivery. How can social enterprises make any impact on problems like unemployment, and welfare restructuring, when the key problems are increasingly perceived to be of global rather than local origin?

The purpose of this chapter is to examine the unique contribution that social enterprises, as part of the wider social economy, can make to local development and regeneration in distressed urban areas. Across the EU each region, city and neighbourhood will operate in a distinctive context therefore there is variability in the extent, range and quality of social enterprises in terms of their capacity, critical functions and delivery.

The chapter has wider relevance as a checklist, a source of ideas and a point of reference for the development of strategies for developing social enterprises. Its primary aim is to develop some consistency around the treatment of social enterprises at the city and regional level and to stimulate debate about its application in different areas.

The rest of the chapter is structured in the following sections:

- Issues relating to the definition, scope, scale and activities of the social economy.
- The context in which social enterprises emerge and operate.
- The various contributions that social enterprises make to the local development and regeneration agenda.
- The barriers and constraints that need to be overcome to enable social enterprises to realise their potential and play a larger role.
- Can success be scaled-up and what are the key principles for achieving scale?
- How these principles can be delivered and the importance of regional support structures for achieving the sustainability of the sector in the long-term.

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- The role of finance, in particular non-grant finance for social enterprises and the importance of CDFIs in financing the sector.

Common characteristics of social enterprise

> "Social enterprises are organisations which take different legal forms in different countries, which are organised in an entrepreneurial spirit and which pursue both social and economic goals" (OECD, 1999).
>
> "social enterprise seek a certain degree of self financing through the production of goods and services as a complement to (variable) public subsidies, with the primary goal of assisting victims of social exclusion rather than generating profit for shareholders – any profit generated being reinvested for this purpose." (attributed to European Union's EMES network by OECD, 1999).
>
> "… competitive businesses owned and trading for a social purpose. They seek to succeed as businesses by establishing a market share or making a profit. Social enterprises combine the need to be successful businesses with social aims. They emphasize the long-term benefits for employees, consumers and the community" (Small Business Service, UK 2001).

Box 6. Social Enterprises across Europe

- No internationally accepted definition for social enterprises.
- EU definition: co-operatives, mutuals, associations and foundations.
- Provide a wide and varied range of services and a major source of employment – approximately 9 million in EU.
- Strength and diversity reflects each country's history of welfare provision and support for local community activity – Sweden, Italy, Spain.
- Public Interest is a common defining aspect.
- Many receive tax relief, VAT exemptions, low interest rates, etc.
- Regulatory changes – legal and financial – have resulted in recent growth – e.g. Italy social co-operatives 1990s, Germany, UK.

A number of governments are now consulting on appropriate company structures for social enterprises, including Sweden and the UK.

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There is an extensive literature on the definition of social enterprise and its position within the social economy. This Paper is not the place for a full rehearsal of the issues. The terms "*social economy"*, *third sector,* and *"third system"* are often used interchangeably but this does not recognise the very considerable institutional and other differences between arrangements in different countries. There are, for example, distinct institutional and evolutionary differences between the meaning applied to the social economy in Southern European, Scandinavian and United Kingdom contexts. As well as variations between countries, there are often several models of social enterprise within each country, which makes it difficult to give a clear definition and establish transparent rules of conduct for existing and potential new operators.

Since the concept of social enterprise does not correspond to a precise legal form, definitions tend to describe the functions of social enterprises. The functional approach seems to be a more appropriate analytical tool, given the wide variety of legal forms in different countries covered by the concept.

In 1997 the European Network for Economic Self-Help and Local Development (Birkholzer, 2000) analysed the variety of social enterprises in European countries and identified some common principles which led to working definitions of social enterprises:

- They seek to tackle specific social aims by engaging in economic and trading activities.

- They are not for-profit organisations, in the sense that all surplus profits generated are either re-invested in the economic activities of the enterprise or are used in other ways to tackle the stated social aims of the enterprise.

- Their legal structures are such that all assets and accumulated wealth of the enterprise do not belong to any individuals but are held in trust to be used for the benefit of these persons or areas that are the intended beneficiaries of the enterprise's social aims.

- Their organisational structures are such that the full participation of members is encouraged on a co-operative basis with rights accorded to all members.

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- It is a further characteristic of social enterprise that it encourages mutual co-operation between social enterprises and with other organisations in the wider social and local economy.

More generally, the social economy is often seen, in the words of the EU White Paper on Growth, Competitiveness and Employment as *"the continuum of possibilities ranging from supply totally protected by public subsidies to totally competitive supply."*

But the social economy is more than just the characterless space between the private sector and the public sector; it is a separate sector in its own right with distinctive development needs and opportunities. It is perhaps more helpful to focus on the distinctive characteristics of social enterprises, rather than focusing on the details of alternative definitions. Simon Clark Associates (2000) provide a useful summary of other studies which have addressed the issue of definition. Their analysis is based on the following studies: Salamon and Anheier (1996), OECD (1999), European Commission (1997), Kendall and Knapp (1995), Pearce (1999), Greater London Enterprise (2000). Their summary is outlined in the table below and a rough estimate of how many studies – all, most, some or few – mention each of them is also provided.

Table 4. Key characteristics of social economy organisations

Operating on a not-for-profit basis	All
Existing in response to a need not supported by the market	All
Profits not distributed to the "owners" of the businesses but reinvested for community benefit	All
Providing goods &services not supplied by private or public sectors	Most
Have a clear social, ethical or environmental purpose	Most
Hold their assets in trust for community benefit	Most
Incorporate a collective form of accountability &control	Most
Involve local people/their members in the governance of the organization	Most
Services provided by paid employees but voluntary activity & service delivery and management are strong features	Most
Have a high degree of autonomy from the state	Most
Goals achieved to some degree by engaging in trading &income generation	Some
Entrepreneurial in outlook &looking for innovative solutions	Some
Employment is more likely targeted to the more disadvantaged communities and groups	Some
May work in mutual co-operation with other organizations in the sector	Few
Provide goods and services on a financially viable basis	Few
Improve the quality of life of their employees and community	Few
Have a local rather than a regional and national focus	Few

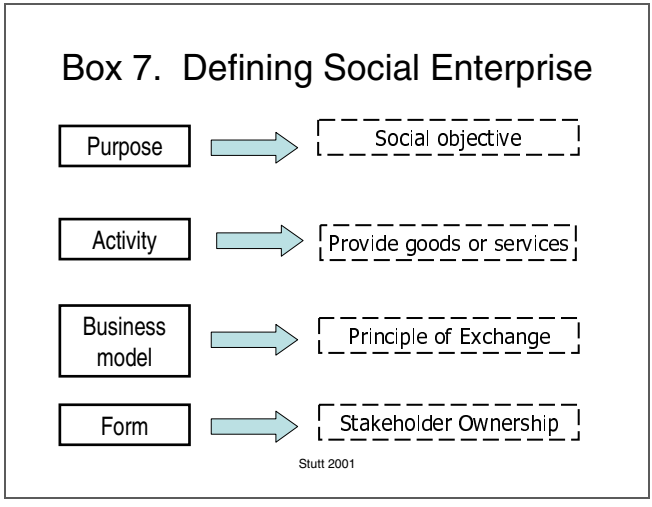
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Stutt (2001) summarising the definitional debate, identified certain key characteristics or features which distinguish, and thereby define, social enterprises. Those essential characteristics are shown in Box 7.

Social enterprise organisations have a distinctive and clear purpose and possess the following definitive operational features:

- To serve a social, community or ethical purpose.
- To utilise an explicit, market-based business model.
- To operate in a legal form appropriate to its not-for-personal-profit status.

Box 7. Defining Social Enterprise



It should be noted that there are many organisations which have a social, community or ethical purpose and are not-for-personal-profit status, for example, charities and associations. These, however, are not social enterprises because they do not have an explicit, market-based, business model. The essence of social enterprises, therefore, lies in the application of an explicit business model to not-for-personal-profit organisations with a social, community or ethical purpose.

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Why definition is important

Debates about definitions can be tedious, academic and often unnecessary. As Pearce (1999) points out, "we should recognise complexity and be pragmatic. In the case of social enterprise, it is important to achieve definitional clarity as the term is of relatively recent vintage and does not carry the same meaning for everyone – while many are mystified as to just what it is."

Clarity of definition is also a real issue for intervention in terms of:

- Deciding which organisations are in scope for assistance.
- The nature of assistance that these different types of organizations might require, flowing from their defining characteristics.
- Making the case for governmental and private sector resourcing, again based on specific characteristics which set organisations apart from the private and public sectors.

Identifying these key attributes can help public and private sector bodies decide whether supporting specific types of social enterprise falls within their powers and remit (Simon Clark Associates, 2000). This issue is revisited later in the chapter.

Scale of the social economy is significant

Given the diversity of the social economy, in terms of activities and organisations, it is unsurprising that the scale of the sector is significant but difficult to capture. Many of the studies of the social economy across European countries and internationally have noted the difficulty of measuring the scale and impact of the sector using conventional statistical techniques. They have also commented on the "*low visibility*" of the social economy, which has often meant that the sector has not received the public policy attention it deserves on the basis of its scale and its impact on disadvantage and social exclusion (Campbell, 1999).

At an international level, according to the CIRIEC study (1999) social economy organisations provide between 1 and 2.5% of civilian jobs in Greece and Portugal; around 4 to 8% in Italy, Sweden, Germany, France, Austria, Finland, Spain and the United Kingdom; and between 12.5 and 14.3% in Denmark, Ireland and the Netherlands.

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A study by Campbell (1999) analysed the impact of the social economy in eight member states of the European Union and found that it employed around 7.2 million people, accounting for 6.6% of total employment and 7.7% of employees in employment. Employment is equivalent to 39% of the total numbers of the unemployed in the EU, more than the total of people employed in agriculture and one third of the numbers of people who are self-employed in the EU.

In terms of future job creation potential according to the European Commission (1998) the development of services to meet unmet needs, even in relation to a relatively small set of needs, could amount to as much as 120 000 jobs in the United Kingdom, 380 000 in Germany and 100 000 in France, for example. The Commission suggests that the promotion of the Social Economy could contribute to an increased demand for and supply of these services which could also help close the employment gap amongst the social groups where the gap is the greatest.

Change creating new opportunities

In many European cities, two decades of regeneration and local economic development have produced only limited long-term improvements, causing frustration felt most acutely by communities, their organisations and businesses, at the sharp end of economic decline and social upheaval. The good news is that familiarity with economic decline and social exclusion is breeding a new dynamic. Past lessons are being learnt. Recent national government policies, bottom-up and top-down innovation and lessons from the past now provide the impetus to develop new markets, re-engineer community services, increase social investment and modernise many of our institutions. The new dynamic evident in countries across Europe is creating a greater mixed economy, requiring additional investment, improved services and new competencies. Governments of all political complexions across Europe are committed to introducing and supporting those measures that foster a superior diffusion of employability, adaptability and entrepreneurship across their populations.

Current policy discussions and initiatives taking place in Europe are attempting to redefine the needs of poorer communities and organisations within them in terms of how "investment" can be made to work to create long-term sources of wealth. In the United Kingdom, the Government has adopted the model of social enterprise as a mechanism for "kick-starting" local economies in deprived areas. This approach emphasises the role and importance of social enterprises in linking social exclusion and entrepreneurship in disadvantaged neighbourhoods. In particular finding ways in which social

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capital and other personal and group capacities can be improved in local communities with high unemployment and social exclusion (Lloyd *et al*, 1996), and means to secure the development of community-based enterprises and the promotion of the social economy (Lloyd and Ramsden, 2000).

Competitive advantage: Treating communities as assets

In an increasingly flexible and dynamic economy, a fresh approach to economic development and regeneration is emerging with regional development at its heart and an agenda to develop sustained competitive advantage through integrated measures. Nationally designed programmes of intervention and support are ceasing to have the desired impact as many other factors are combining to dilute the effectiveness of single issue solutions. Across Europe this agenda has been accompanied by a host of tax and benefit changes which will have direct consequences for people experiencing poverty and unemployment.

A key part of this agenda is fostering growing interest in linking community-based economic activity (both at neighbourhood and local levels), to regional economic development, with the intention of strategically developing those opportunities that add value to regional development. For example, the search is on for the new "social entrepreneurs", agents who operate in the social economy or, for new means of empowering local communities, building durable systems and networks to support them to take advantage of the opportunities which are emerging from the push to modernise the economy and political institutions.

As Porter (1995) asserts, "strategies developed at the city or regional level will be ineffective without attention to the local, community level; as the competitive advantage of a region is sustainable only through a highly localised process". Similarly, Kanter (1995) argues that the ability of an area to compete no longer comes from geographical location, but rather from the ability to command other more intangible assets: "the best way for communities to preserve their local control is to become competitive globally".

Other commentators, such as Putnam, have argued that broader civic engagement is essential for effective government and economic growth. Based on evidence from Italy explaining uneven regional development, he notes:

> The regions characterised by civic involvement in the late twentieth century are almost precisely the same regions where co-operatives and cultural associations and mutual aid societies were most abundant in

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> the nineteenth century, and where neighbourhood associations and religious confraternities and guilds had contributed to the flourishing communal republics of the twelfth century. And although those civic regions were not especially advanced economically a century ago, they have steadily outpaced the less civic regions both in economic performance [and] in the quality of government (Putnam 1993).

Collectively, community-based activities have become regarded as a potentially effective tool for engaging organised communities in economic development as active players, tackling some of the problems of unemployment and deprivation as well as providing a range of goods and services in a deliberately integrated approach. There are three primary reasons for this:

- The growth in full and "intermediate" employment in community-based activities in recent years, partly as a result of the changing role of the state, has meant that its job creation and employment potential is now viewed favourably. In addition to this, the sector is engaging in enterprise development. The Prince's Trust in the United Kingdom, for example, through its own brand of micro-credit, is estimated to have helped 35 000 young persons nationally to start up 30 000 businesses, 60% of which survive for three years or more. There are now more than 4 000 social co-operatives operating in Italy providing a range of services and employing thousands of people.

- Within the most deprived communities, social enterprise activities have become viewed as a valuable instrument to build capacity through directly engaging in economic actions within these communities and to enable them to act more "entrepreneurial" and to fulfil a range of social and neighbourhood management functions themselves.

- As government policy has sought to target those most in need, the limitations of other economic interventions such as inward investment, flagship projects, large-scale regeneration programmes and the scope to make the connections with other economic interventions, has become apparent. With this in mind, social enterprise as part of a "strategic economic regeneration tool-kit" has begun to prove immensely attractive.

However, whilst some of the most dynamic and enterprising organisations operate in this field, being small and close to the community can have its

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drawbacks. Lack of visibility, poor integration with strategic economic regeneration activities, lack of access to finance, a multitude of programmes with different objectives and funding mechanisms, poor technical support, low priority given to developmental work and simply lack of "space to experiment" creates a hazardous, some might argue frustrating environment to operate in.

Cities and regions across the EU need to be more imaginative and radical in responding to these challenges. A new "social contract" is required – a framework where communities and their organisations are empowered to respond to challenges and opportunities of globalisation and technology at one level, and to revitalise their neighbourhoods, learn new skills to meet employer needs and engage in civic society at another. Cities and regions need to encourage and support new patterns of wealth creation and distribution which reflects the new economic and political realities of many European cities.

Minding the gap: utilising local capacity

A growing concern across Europe has been the substantial mismatch between the scale of the problems faced by communities and the current capacity of solutions. For many communities the problems extend well beyond lack of opportunities. Loss of high-street services, discrimination by financial institutions and employers and general revenue leakage from the area where money only circulates once or twice before leaving communities, as opposed to five or ten times in richer areas, all combine to undermine the wealth creation strategies mentioned so far.

Policies need to be concerned with a much wider range of options, attempting to connect people back into the "mainstream", giving them access to employment, income and other resources, including social networks. Targeted small business development, industrial retention, business finance, micro-enterprise development and business incubator programmes could all form part of a more strategic package.

One major element of bridging the gap between problems faced by communities and the current capacity of solutions to handle the wider sets of issues has been to utilise the energy that local people and social enterprises can bring to the process of economic regeneration. Within this context, social enterprises are able to contribute to local and regional development in various ways:

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- As a vehicle to accelerate the growth of the social economy sector, including "market making" where there is evidence of market failure or gaps in services.

- As a practical tool to engage communities in regeneration and economic development, and support employability and entrepreneurship.

- As a community-led mechanism for better neighbourhood management and promoting civic pride.

- As a vehicle to enable businesses to engage more productively with local communities through corporate partnerships and community investments which secure mutual benefits.

- As a mechanism to enable the public sector to deliver competitive and accessible services outside the public sector but within the public realm.

- In stimulating new forms of investment, providing avenues for investment in communities, social investors and recycling of wealth.

- As a response to higher customer expectations and growing cultural and ethnic diversity.

A central element of the appeal of social enterprise, in responding to the impact of structural economic changes on communities (high unemployment, poverty and deprivation), has been its potential to combine what have traditionally been seen as separate policy responses; people or place-orientated policies.

Reform of welfare services

Government policies and programmes play a critical role in maximising the broad effectiveness of social enterprises. On the one hand, government sets the fiscal, monetary, regulatory and legal environments in which social economy organisations operate. On the other hand, government schemes and programmes in themselves provide a market, important sources of revenue and a focus of activity for many social enterprises. For example, in France where the public authorities have traditionally been opposed to organisations emanating from civil society (Archambault 1997), the development of

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associations (a specific legal status under French law) and the third sector in general has lagged behind other countries, such as the United States, the United Kingdom and Canada, where the formation of intermediate organisations has generally been encouraged. In Germany, strict application of the principle of subsidiarity, which requires the State to delegate the delivery of social services firstly to charitable organisations, appears to have hindered the emergence of mixed markets (Borzaga, Santuari, 1998). In contrast, in Italy legislation passed in the 1990s has substantially increased the number of social co-operatives operating in the country.

Despite these differences between the national and regional/local contexts, more and more governments across Europe are using social enterprises to simultaneously improve and reconstruct the Welfare State, according to a revised model of the provision of welfare services (OECD 1999). Their expansion in many EU countries is certainly linked to the acceleration of these reforms and outsourcing of welfare services. In this field the appeal of social enterprises is their ability to respond to a number of challenges which governments are grappling with. According to the OECD (1999) these can be divided into five broad categories:

- New sectors of activity, which are often unprofitable in their start-up phase.

- Highly segmented demand, centred on geographical, ethnic and community units, which is inadequately covered by standardised supply.

- Reduced public budgets leading to the withdrawal of the State from not-for-profit collective projects.

- Withdrawal of central governments, after or during administrative and fiscal decentralisation, accompanied by empowerment of private, co-operative and community operators and priorities based on new parameters: better cost/benefit ratios, review of positive discrimination policies in the light of specific situations in certain countries and the achievements of private and/or non-profit organisations at various levels, and reassessment of the forms and conditions of public support (temporary rather than permanent, needed for operators to seek co-financing and to become self-financing in time).

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- Varying capacity of social economy/non-profit sector operators to co-ordinate with the private sector, including the private financial sector, and to form public/private networks at a regional/local or national/international level to expand and sustain their action.

Contribution of social enterprises to local development

In many ways social enterprises represent the missing parts of the jigsaw or the "third way" between state and market roles in employment and local development, as they seek to articulate, activate and reconcile the effective provision of services with greater social solidarity in the local economy. With many goods and services beyond the reach of our poorest communities, social enterprises' added value is in improving access to services through a more creative blend of public, private and voluntary activity and investment. For instance, wired-up social housing, childcare, leisure activities, culture and arts, healthy living centres and supplementary education can contribute enormously to regeneration, improve access to services and help encourage market development in stagnant areas.

Social enterprises represent a potential source of dynamism and creativity which can compliment, enhance and help to nurture services provided by the public and private sectors. It potentially offers "win-win" outcomes because of its multiple objectives and its internalisation of the negative externalities created elsewhere in the economy (Campbell, 1999).

By their nature organisations that emerge from a mutual desire to achieve public good by the co-operation of stakeholders who seek no individual ownership rights can do very different things in the economic and social sphere. They can, for example, do some or all of the following (see Borzaga, 1999; Salamon and Anheier, 1996; Lloyd 2001; Campbell 1999; Stutt 2001):

- Address complex multiple objectives (problem solvers not limited by the drive for enhanced market share/ shareholder value).

- Adopt a variety of alternative forms of work organisation (mutual, co-operative, employee ownership etc).

- Operate and work well within systems of service delivery that combine together: forms of subsidy (grants, direct payments, vouchers); mutual support (LETS, time banks); philanthropic giving etc; revenue receipts from trading.

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- Offset their factor costs through "solidarity inputs" (volunteer labour, ethical finance, community sponsored facilities).

- Build legitimacy and trust through direct involvement with the communities they serve.

- Act as a source of innovation and creativity – finding new ways of doing things that conventional markets and the public services cannot handle.

- Tap sources of excluded entrepreneurial talent that cannot readily find a home in the private economy (through cultural, geography, ethnic, gender or age barriers).

- Give specific attention to disadvantaged people and to progressive causes and mobilise support in finding solutions.

Where can social enterprises operate?

The diversity of the social economy means that different social enterprises do very different things in a myriad of different settings. These activities are clearly very different from those undertaken by private companies and many of them have clear relationships with key government policies and priorities. It is for this reason that in many policy areas there is a symbiotic relationship between government, its agencies and the social economy.

As alluded to previously, the range of activities undertaken by social enterprises is diverse. The Social Economy Framework London (GLE, 2000) suggested it is possible to group these activities under a number of themes:

- Employability – skills training, work placement opportunities, education, capacity-building, welfare benefits advice.

- Job creation – enterprise and business development, set-up of new firms, niche firms, social firms, community enterprise/business, local employment policies.

- Community needs – social care (elderly, children, youth), health programmes, lunch clubs, play space.

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- Wealth enhancement and retention – leveraging investment, Credit Unions, LETs (Local Exchange & Trading schemes), fund-raising mechanisms, revolving loans, welfare services, food co-ops, recycling schemes, energy efficiency programmes.

- Property development and asset base – self-build housing, property development, retail, offices, managed workspace, "gifting" of derelict buildings etc.

- Neighbourhood improvement – environment, crime and safety, special events (carnivals), housing refurbishment and maintenance, open space.

Any one of these themes can provide a starting point for action. The specific point of activity will depend on the mix of skills, opportunities, concerns and commitments that exist in the area and in the external environment (support and resources).

The European Commission's Local Employment and Development Initiative (LDEI) were particularly important as a source for ideas about innovative ways to use new forms of local enterprise to create sustainable employment (CEC, 1995, 1996, 1998). Research through the LDEI programme and by GLE (2000) identified a number of sectors that offered the potential for local action to search out new job slots to fill unmet service needs. A number of broad sectors were identified as the most promising for local action:

- Care economy (including childcare).

- Financial services.

- Environmental sector.

- Arts, leisure, culture, sport.

This work confirmed that all these sectors had seen a pace of change that has left substantial gaps not plugged by conventional market or public systems. This was particularly the case where fiscal pressures had placed constraints on traditional public sector provision and where the search was on for new kinds of providers to participate in the new *mixed economy of welfare* (Ferrara and Rhodes, 2000). The evidence of the LDEI programme and other United

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Kingdom and European ventures shows that social enterprises have tended to colonise the following service areas:

- Social, environmental and community care – especially for those services that can be measured by quality, sensitivity, flexibility and trustworthiness.

- Innovations in social service delivery – particularly in finding ways to fill service gaps for disadvantaged people or deprived neighbourhoods.

- Best-value service delivery for public authorities – through offering the best available balance of sensitive service quality and cost.

- Work integration social enterprises – by their special ability to access and support hard-to-place unemployed people.

A key strength, according to Campbell (1999), is the ability of social enterprises to combine the provision of local services with a wider contribution to the development of the locality in which they operate (see box below).

Added-value: beyond jobs and services

In operating in the way that they do and where they do it can be seen that social enterprises are distinct from the working of the wider private economy in a number of ways:

- Many of the benefits are focused on disadvantaged areas or disadvantaged groups.

- Where it is successful social enterprise activity leads to the development of monetary and human resources in the community and a continuing improvement in the ability of a community to contribute to and determine its own future.

- By drawing in people who would not be likely to work in the private economy, social enterprises are able to widen the labour market and train and prepare people for work who might not be able to participate in the labour market without other support and action.

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- Social enterprises are also able to draw upon voluntary support, which the private sector cannot do.

- Social enterprises can be important advocates for disadvantaged areas and communities and an effective channel by which public sector funds can reach those areas and communities.

Box 8. Combining Local Development and Service Delivery

Social enterprises have major roles to play in the employment and local development agenda through:

- Generating employment in a range of existing and new fields of employment.

- Responding to evolving demand and supply dynamics and connecting to the changing needs of society.

- Enhancing the employability of those currently facing, or at risk of, labour market exclusion.

Social enterprises add value to the process of local development in a range of other ways:

- Building local social capital, enhancing trust relations and civic engagement through wider participation in communities.

- Helping to stimulate greater social cohesion and community confidence by reconnecting many 'outside the loop' of local development.

- Widening the structure of local economies in terms of organisational form and economic structure.

Campbell, 1999

Social enterprises can provide a range of benefits that go beyond disadvantaged areas and communities to impact on the wider locality and the region:

- Economically, both by its own activity and, in increasingly tight labour markets, by removing the constraint on firms' growth, output and employment by providing additional employees with experience.

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- Socially, by providing employment, incomes and wealth in areas of disadvantage and need and by enabling individuals to enter the labour market and progress in employment.

- Politically, by providing a more equitable and stable society.

Social economy and social capital

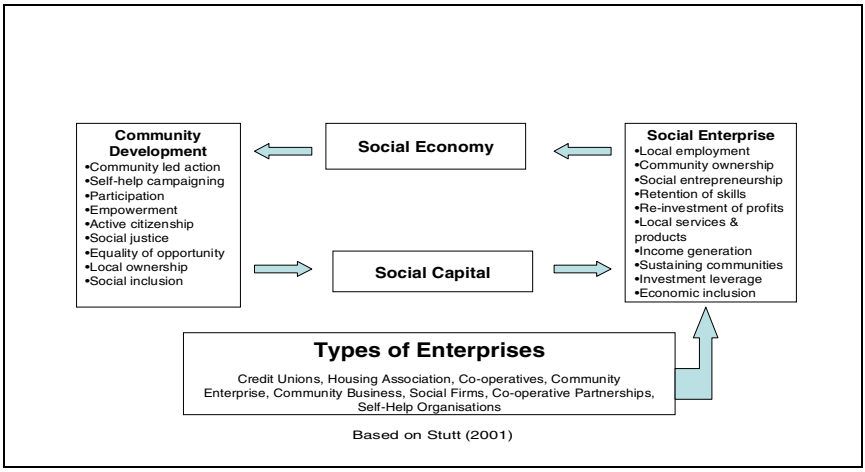
Social enterprises are distinctive in that they build up social capital at local, community or regional levels. This is a major advantage of social enterprises compared to other approaches to solving a problem or addressing an issue. This emphasis on social values (alongside the economic priorities of operation) highlights the contribution to the development of social capital:

> "Social capital is the value created by the whole range of social institutions from informal and family networks to more formal institutions such as religious and political groups. These bring people together to create resources and assets for social renewal and development and hence increase the quality of life for people in the local community. Economic regeneration and the development of social capital are mutually-reinforcing objectives." (HM Treasury: Enterprise and Social Inclusion, 1999).

The social capital building benefits of the social economy are, in general, additional to the specific action or initiative being undertaken by a social economy organisation – these benefits arise not from the specific activity or initiative but from the distinctive characteristics of social enterprises.

The Social Economy Agency in Northern Ireland identified clearly the interconnections between Social Capital and the Social Economy and the capacity contained within organisations operating in the sector to define and sustain routes out of poverty and social deprivation.

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The ability of the social economy to build up social capital and to operate largely on a cross-community (or bridging social capital) basis is strong grounds for making it a cross-Departmental policy of all national governments so that, where feasible:

Social enterprise delivery mechanisms are to be preferred to direct delivery by the public sector or contract based delivery by the private sector.

- Policies and programmes should be systematically examined to ensure that they contribute to building social capital, do not erode existing social capital and use social enterprise delivery mechanisms wherever it is feasible to do so.

Implementation of this conclusion will pose fundamental yet potentially rewarding challenges to both the public sector and social enterprises (Stutt, 2001).

Constraints facing the sector

Given the complexity of the market and the diversity characterising the sector, social enterprises face many barriers to development, both internally and in terms of policy intervention. These barriers are widely acknowledged and it is often difficult to distinguish the angle specific to social enterprises over general issues facing the community level, SMEs etc.

Campbell (1999; 2001) identified four categories of barrier that are summarised in the table below.

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Table 5

	External	Internal
General	Political: - over-estimation of the roles of the market and of the state as institutions able to respond to economic and social needs Environmental: - mismatch between growing demand for services and existing social policies. - stringent fiscal policy, which impedes the growth of private demand for services Institutional: - lack of appropriate legislation on contracting-out procedures; - overlap between labour policies and social policies supporting local innovators Financial - annual/short term funding makes planning difficult; ties up staff resources 'grant chasing'	Managerial: - lack of a labour supply possessing the managerial and professional skills needed to provide services; - lack of quality control systems for the social services provided by private organisations Co-ordination/Competition: - lack of co-ordination and/or excessive price competition among organisations providing the same kinds of service and/or working for the same clients Cultural: - preference of the bureaucratic organisation of social services provision
Specific	Cultural: - lack of a SE culture (which role for what aim) in society as a whole - misunderstanding of the role of SE as social capital versus social service/integration producers Institutional: - lack of a clear legal definition/ framework for SEs - bureaucratic barriers imposed by public bodies Competition: - unfair competition by the informal economy - barriers to entry Financial: - access to financial resources/core funding, which goes beyond project income, to finance partnership and development work; - limited range of financial instruments available to grow organisation	Cultural: - lack of appropriate culture to their role and operation in the current policy/political environment in the country in question; Managerial: - client/service orientation or job creation/ employability orientation? - availability of social entrepreneurs and managers; - difficulties in accessing financial resources, especially for investments, planning and partnerships Co-ordination/Competition - lack of a well-developed system of second level SE organisations (for organisational, technical and financial support) - competition between traditional, well established SE and new ones Financial: limited knowledge and expertise in non-grant finance

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External barriers refer to the political, environmental and institutional constraints on the development of demand for local services, or general barriers, and on the adoption by social enterprises of more productive and entrepreneurial behaviour, or specific barriers.

The internal barriers stem from the inability of social enterprises to manage their diversified role effectively. While external barriers can be overcome only through joint action by different organisations (institutions, politicians, local authorities, competitors, stakeholders, etc.), the most important pre-requisite for eliminating internal barriers is for social enterprises to clarify their specific function. These internal barriers to development may either be general *i.e.* common to other (public/private) organisations which provide (or could provide) local services, or specific to the innovators which result from specific characteristics/disadvantages of the innovators themselves (Campbell 1999).

Overall the key issues that emerge from this "matrix" of problems are twofold. The first is that of the nature of the public policy regime – how supportive, neutral or antagonistic is the overall thrust of public policy towards social enterprises? Does policy recognise its contribution and seek to nurture its development, is it neutral towards it, or is it hostile to its development because of views about the roles of state, market and not for profit organisations in the particular, contemporary society?

The second issue relates to the efficiency and effectiveness of social enterprises themselves. How far have they developed the tools and actions commensurate with their emerging role in regeneration, employment and local development? How far have they coherently articulated the actual and potential contribution in terms that policy makers, citizens and the private and public sectors can understand and relate to?

> "In its current state, without systematic actions to sustain it by tackling the key barriers and issues that confront them, many social enterprises are perhaps too "fragile" to carry the weight of more than modest expectations with regard to significantly expanding their current contribution. The policy regimes are limited in their "friendliness" to social enterprises whilst the social economy system itself is fragile almost by its very nature. In many ways, the vitality and contribution of social enterprises is all the more remarkable given the current policy and operating environment in many EU countries." (Campbell, 2001).

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Can success be scaled up?

Building the support structures

A key starting point is that there is a need to find a supporting framework against which the activities of the system as a whole can both be scaled up and sustained robustly over time. It is helpful to think of social enterprises as being akin to small businesses. Like small businesses, social enterprises vary. Some are highly ambitious and innovative, others are modest in their anticipated scale and merely replicate at local level what has been done elsewhere. Some exceed expectations and others fall short, some survive but never really prosper and others fail and close down. This is a normal, healthy and efficient feature of the market economy in which social enterprises operate.

The need for small business policies is now well established. There is a broad consensus that a stable and favourable business environment is fundamental but that specific targeted assistance can be justified in areas such as small business finance and training and in functional areas such as marketing and product innovation. These initiatives complement the favourable and stable environment to produce, overall, a thriving small business economy. In addition, there is a recognition of the importance of entrepreneurship not only in small business development but more generally in the functioning of the overall economy and government supports entrepreneurship awareness and development because of the wider economic benefits which it generates for the economy (Stutt, 2001).

If we are seeking to develop a successful and effective social enterprise sector we might expect to have to make similar interventions in support of social enterprise development by providing training, appropriate financial support where it is justified and stimulation of social entrepreneurship.

There is already considerable activity and new developments taking place across Europe to support the development of social enterprises and the social economy more widely. These need to be scaled up, gaps addressed and a supporting regional framework created which can be sustained over the medium and long term. Social enterprises require development support for new products, connections and linkages, finance, training, etc, and a flexible response from programme and funding administrators to ensure that opportunities and mainstream support programmes are made available to this emerging sector. This approach requires a reorientation of thinking and practice to one based on building on previous experience, challenging it where appropriate and developing new models and mechanisms.

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The Social Economy Framework for London (GLE 2000) sets out a comprehensive strategy for the development of the social economy. The key principles for building scale are outlined below. The principles of the approach draw on the experience from a range of countries across Europe and the US to suggest an approach that aims to build the skills, scale and capacity of organisations and individuals to lead the regeneration of their own neighbourhoods. The principles seek to address the main barriers identified in the previous section.

Table 6

Achieving Scale: Principles for Support	
Stimulate greater risk, experimentation and replication	Establishing "spaces" to pilot and test ideas and initiatives is key. Entrepreneurial activity is not a linear process – the value of "failure" must be broadened and accepted as part of the learning process Procedures to ensure regulation and bureaucracy must not stifle and constrain innovation and entrepreneurialism
Expand beyond the "neighbourhood economy"	Establish social, physical and economic connections across communities and areas: Training schemes which link with employers outside the immediate neighbourhood Asset-based developments which house income generating activities Partnerships with businesses looking to access new markets Engage communities of interest and place – reflecting where people live and work
Create and build new markets	Turn community needs and deficits into markets and opportunities Limited robust market intelligence exists about which sectors offer the most potential for growth Identify and maximise hidden untapped assets – many distressed neighbourhoods and communities have assets that are overlooked by mainstream institutions: cultural and social networks; informal (cash-based) economy; high than average cash spend ratios
Promote plurality of models for supporting enterprises in distressed areas	Multi-owner and membership organisations are key organisations in developing a broader-based stakeholder economy Engage small business owners – many will work and live in a locality and are important players in addressing issues such circulation and leakage of money from local economies Encourage organisational innovation – social franchising models, mutual guarantee schemes – amongst local organisations
Better match of solutions to problems	Clarity on aims and objectives of intervention – jobs, services, wealth creation – is pre-requisite for establishing appropriate forms of intervention Select appropriate tools based on what priorities need to be addressed and evidence of what works

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New forms of finance and investment	Need to develop micro credit and other community-based financial instruments to enable access to loan finance and help move beyond "project" status and dependency on grant aid to enhance sustainability Capitalisation based on assets and strong balance sheets is an important prerequisite for growth Developing more sustainable income streams based on: Large-scale investments, possibly linked to asset appreciation and profit sharing Long-term public service delivery contracts Private Finance Initiative (PFI) deals Accessing and leveraging private sector sources of finance – particularly equity and risk capital
Branding and marketing	Equip social enterprises to network and promote their advantages and successes to their clients and to the wider local, regional and national audience Promote sector champions to give shape and form to promotional activity and to be responsible for making the case for social enterprise culture in economic and social policy frameworks. Demonstrate and celebrate success more widely. Knowledge about local success frequently remains local and the normal processes of project evaluation are limited to demonstrating to funding bodies of forecast outputs having been met. Promote SEs as agents for creativity and learning to address the impression that they are simply another quasi-public social welfare instrument for disadvantaged people.
Support the role of social entrepreneurs	Establish mentoring and peer development techniques to encourage sharing of experience R& D customised skills development programmes Create new ICT systems and products for gathering and disseminating knowledge and experience
Specialist development & support systems	Establish customised specialist support intermediaries operating at the regional level providing the following functions: Services (Sign-posting, brokerage, advice, training and support) Development (innovation, piloting, best practice, research) Co-ordination, promotion and networking Representation and negotiation Use ICT-based signposting, advice & information, and brokerage
Encourage transfer of experience and knowledge	Create and extend open networks for information and ideas exchange between projects and enterprises utilising ICT technologies Networking, combined with franchising and "Exchange Mart" activities to keep local organisations up to date with best practice and new ideas Most innovative ideas are likely to come from the juxtaposition of different cultures it is the *international* aspects of these exchanges that will be the most valuable.

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Build connections and relationships with the private sector	Calibrate private sector involvement around a number of key themes: Access and affordability to basic services and products Design and delivery of public policy objectives Employment and skills Corporate social responsibility Establish joint ventures with private sector organisations focused on: mutual, co-operative relationships – based around supply chain, service contracts commercial alliances – cause-related marketing schemes
Measure performance andilmpact	Use alternative cost-benefit methodologies and indicators which go beyond financial performance and sustainability – e.g. Social Auditing to capture the reflect the full contribution of social enterprises Establish benchmark performance systems to drive up standards ad quality Devise and promote Quality Assurance systems

Delivering support services

Responding to change

The key question for national, regional and local authorities is, then, how to act to maximise the contribution in the long term from social enterprise organisations of all kinds. The problem is not simply a function of the current funding regime. It is also due to the difficulty social economy players themselves are having with the emergence of what Laville (2000) describes as the new dynamic of social enterprise. The organisations of the voluntary sector and social economy are currently having to cope with and manage rapid change and any consideration of support structures needs to take this on board.

Under circumstances where there is so little scope for evolution through mergers and acquisitions and where closure is anathema, the fast pace of change in this new dynamic may find many of the more traditional organisations ill-equipped to respond (Lloyd, 2001).

The pressure on all these players is to become at the very least more "businesslike" in their relations. There is also a general tendency for movement toward new organisational forms – partnerships, complex multi-partner associations and clusters. These aspects of the new dynamic have the effect of undermining the ability of social enterprises to present themselves as a tightly defined formal entity or sector. From a policy perspective this produces a complex and confusing picture for the local and regional public authorities.

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Segmenting the sector

In order to support the development of social enterprises the establishment of intermediate, or "umbrella", structures which could play a vital role in providing information, advice and training will be needed. These should have the capacity to support social enterprises and operate as a local and/or sector "development" agency, encouraging start ups, providing a range of professional, advisory and technical services, to support business development, as well as covering the traditional role of umbrella organisations as lobbying, representative and network organisations. In addition to these customised support structures, "traditional" SME support organisations should be encouraged and reconfigured to support social enterprises.

In relation to prioritisation, the scale of the sector and its readiness and willingness to advance, combine to require a segmentation of support. Organisations need and want different levels of help. Some organisations will require help to strengthen their management capabilities, for example; others will need support through a more radical change process.

The point about the nature of support is both more basic and more controversial. In the past, there has been a tendency to confuse or conflate organisational development (designed to render an organisation more effective at what ever it does) with programmes for the disadvantaged in particular. Often funding has been attached to the programmes rather than to organisational capacity and performance. Especially at the higher level, there is an opportunity to promote high-performing organisations – good at what they do and able to cope with and drive their own continuing change.

Lloyd (2001) usefully suggests a simplified segmentation based on a functional typology of those basic forms of social enterprises that exist and that might require different kinds of policy intervention. The main aim of introducing this segmentation, whilst not wishing to add to the confusion around definitional issues, is that a prior condition for giving support to social enterprise organisations is to recognise that support structures may be very different for each segment of the overall population. Lloyd identifies three segments of social enterprise each emphasising a different aspect of the overall range of characteristics identified earlier in the definitions section.

- Social businesses – market-based, managed for trading and contract service delivery, surpluses for community benefit.

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- Community enterprises – locally-based, small scale orientated towards addressing community needs, partial cost recovery.

- Mixed format social enterprises – multi-functional with several subsidiaries, combining elements of other approaches.

This segmentation provides a more sophisticated understanding of the different types and needs of social enterprises operating in different contexts. This enables policy-makers to devise more tailored support and development services reflecting the different missions, structures, and ways of doing things. For example the development needs of an early stage social business are likely to be very different from those of a community enterprise. As with small business, interventions to stimulate the social economy can well be justified but they must be appropriately targeted at the needs of particular social enterprise organisations and not provided on a "*one size fits all"* basis.

The more tangible needs of social enterprises are the obvious ones for which support may be needed as the venture grows – access to revenue and capital finance, to premises and to the necessary human resources. This support needs to be available, not simply as add-ons to existing commercial offerings, but designed to reflect the different needs of social enterprises.

What is needed to support them is a dedicated structure where business support is endowed with an understanding of what has been called the new dynamic of social enterprise. It needs to be capable of envisaging the true nature of the choices that confront the boards of these sorts of organisations. The ideal system would see both new financial instruments and informed business support structures operating together to provide a comprehensive and efficient supporting infrastructure (Lloyd, 2001).

Role of Regional Development Agencies (RDAs)

As was highlighted earlier in the chapter, the recognition of the contribution that social enterprises can and do make to regional development and competitiveness has been growing amongst public agencies, particularly Regional Development Agencies. Support from the RDAs will be vital to achieving scale and increased impact in the social enterprise sector. Across Europe, Regional Development Agencies (RDAs) have the task of identifying the appropriate support and development needs for their regions and ensuring that the actions implemented are conducive to sustainable growth. Drawing on the activities of RDAs across Europe – notably Ireland, Spain, United Kingdom, Germany and France – it is possible to identify a number of roles which RDAs

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have adopted in relation to the development of social enterprises in their regions. These include:

- A promoter role to champion social enterprises in each area in order to ensure that they have a high profile in the regional economy and with other economic sectors.

- An enabler role by disseminating knowledge and best practice within the locality about the potential of social enterprises.

- A co-ordinator role by developing a strategy for the sector and by working with key agencies relevant to the integrated growth of actions.

- A risk-taker (pump-primer) role by developing initiatives and backing projects that other agencies or the private sector may be reluctant to support in the first round.

- A commitment role by bringing political weight behind strategies and actions to develop the social economy within regions.

The mix between these various roles will vary from one RDA to another, reflecting both the needs and opportunities offered by social enterprises and the preferences and priorities of individual RDAs.

In developing their support for social enterprises there are a number of issues that RDAs will need to consider. The first is the need to consider whether it is appropriate to develop sub-regional and area strategies. The suitable spatial scale of intervention will depend on the content of the programme and nature of the problem. The need to think spatially about the social economy and to connect disadvantaged communities and areas to growth opportunities and sectors is crucial.

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Box 10. Elements of Approach for RDAs

- Establish accurate baseline of social enterprise activity in the region
- New connections for new products, cross - cutting needs, priorities and linkage to existing support systems
- Identify appropriate approaches:
  - Sub - regional and area based strategies – UK, Netherlands, Ireland
    - Spatial analysis and focused on making connections between growt h areas and distressed neighbourhoods
  - Sectoral approach – Sweden, Italy, Germany
    - Sectors of potential, providing new opportunities – ICT, Childcare, Environment
    - Strong sectors needing specific intervention – Retail, Finance, Leisure
    - Weak sectors needing urgent attention – Social Care, Youth Services
    - Sectors under threat, is intervention justified? – rural transport, Manufacturing
  - Immediate priorities and actions – Germany, France
    - Responding to crises or opportunities that arise – welfare state funding crisis
  - Supporting other policies
    - urban development policies, local sourcing to reduce leakages fr om disadvantaged communities

adapted from Stutt (2001)

There is also a need to develop sectoral policies to support an integrated and balanced economy in each case. Some sectors lend themselves more readily to social economy interventions and "mapping" at local level should help to record a baseline of local conditions. Spatial, sectoral and action thinking is of course best conducted in an integrated way, and tasks or programmes should not be seen as separate.

Strategies to develop social enterprises at the regional level should aim to produce an appropriate and varied pattern of activity, support systems and resources that are capable of building sustainable local economies and organisations.

Financing social enterprise

Emerging alternative financial instruments

A key obstacle for supporting and growing the sector is access to finance – start-up, operating and growth capital. What is needed at the present juncture is the application of new sorts of financial instruments to support the social enterprise dynamic. For a variety of reasons social enterprises find it difficult to access finance – in terms of the appropriate product and investment size – from the mainstream market. In response to this over the last two decades, but

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particularly since the mid 1990s, a number of "alternative" financial providers offering a range of products have surfaced in Europe.

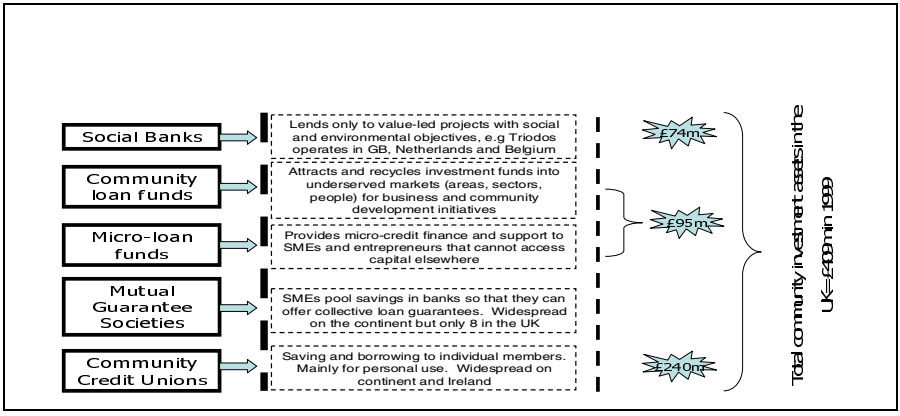
Within the United Kingdom these alternative financial service providers are known as community development finance institutions (CDFIs) a term and concept borrowed from United States. The community development finance sector in Europe is relatively small in comparison to mainstream financial services and to the equivalent sector in the United States. The sector is most advanced in the United Kingdom spurred on by recent government financial support and is becoming more widespread in continental Europe. Whilst much of this activity is predominantly the result of publicly funded initiatives there are more examples of public and private backed initiatives – examples include Ekobanken in Sweden; ANDC in Spain; Prêt Solidaire in Belgium; and Banca Etica in Italy. It is important to note that these alternative finance providers, established to provide finance to social enterprises amongst others, are themselves social enterprises and exhibit many of the principles and characteristics seen in their clients.

Importance of Community Development Finance

Estimates of the sector's asset size for the United Kingdom vary between GBP 250-400 million (SITF, 2000; Bank of England, 2000). It also contains a wide variety of different business models and legal forms. The box describes examples of community development finance institutions (CDFIs) that are currently active in the United Kingdom.

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Box 11. Some UK Examples



The scope of community development finance is potentially very wide – including helping people to start in self-employment, backing the growth and creation of small for-profit enterprises in deprived communities, and helping to finance social and community enterprises, such as local childcare schemes.

Many social enterprises that deliver benefits in community and economic development can of course be funded on fully commercial terms – and this should continue to be the way in which they are financed. The rule of thumb therefore is the more efficient the finance markets are, the more capable social enterprises should be of being funded in this way.

But as we have seen there are also social enterprises delivering benefits in community development and regeneration that cannot attract fully commercial financing – but which are still capable of servicing some debt or equity. This market is not currently being served for a number of reasons:

- the transaction costs and complexity are too great.
- the intrinsic returns are simply too low, on a risk-adjusted basis, and there are more profitable opportunities elsewhere.
- there are barriers to innovation among those who might demand such finance, supply it, or both.

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Whatever the causes, there are good reasons for wanting social enterprises like these to be able to use more debt or equity investment, on terms that are as near-commercial as possible (HM Treasury, 2001).

The best way to do this is to encourage the community development finance sector as an intermediary. The key reasons why are:

- Expanding the supply of debt and equity should help to increase the total supply of finance for local development and regeneration, by leveraging in private finance alongside public funding.

- If done effectively, it should also help to bring more commercial models and disciplines into activities and communities that might otherwise look just for grant funding.

- The key features of community development finance include being close to the community served, thus acquiring specialised knowledge, but also having the technical skills required to assess proposals for financing.

- Community development finance institutions (CDFIs) also typically provide business support and advice to clients as well as financing, so they work on the demand side of the problem as well as the supply side.

In advocating for a growth in this activity, both in terms of size and reach, it is important to highlight two caveats. First, if community development finance grows it should do so in a way that improves the efficiency of the rest of the market rather than reduce it. We should expect market segments and individual enterprises that become capable of fully commercial financing to graduate to it. Second, we should ensure that there is pressure for CDFIs themselves to be efficient, for example by operating at appropriate scale. Good information and performance indicators will be vital here, given that conventional measures of performance in the private sector (profitability, earnings growth etc) are less relevant.

Need for patient capital

Social enterprises are seldom, if ever, started with a strong equity investment (SITF, 2000). Indeed, the legal form of most social enterprises rules out the existence of a share capital, *e.g.* Finland. Although to a varying extent this has been rectified in a number of European countries, for example changes

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to financial restrictions for Spanish co-operatives has enabled them to raise a greater share of equity form outside investors than previous. As a result, social enterprises generally start with a balance sheet which shows loans, rather than equity, as the main source of finance. This makes the organisation more vulnerable to fluctuations. It also makes it more difficult for social enterprises to gain commercial funding from banks.

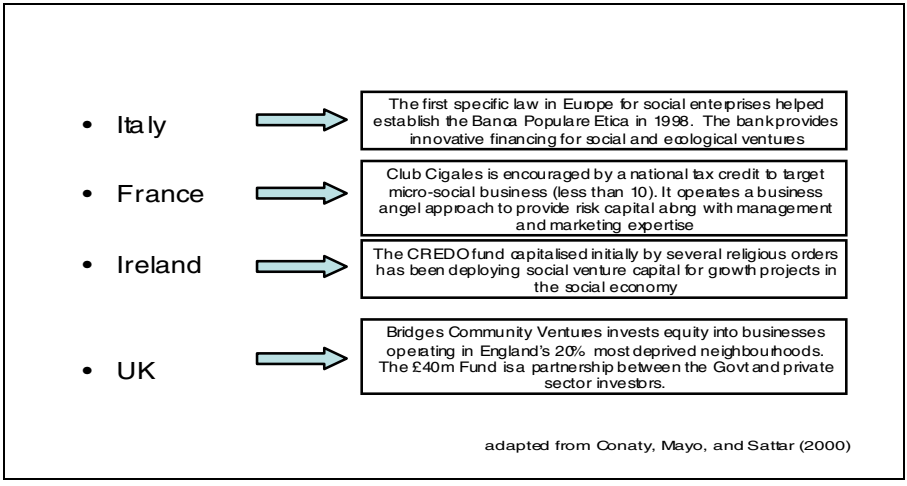
The only way in which a new social enterprise can, in effect, develop equity is by way of a grant from government or from a philanthropic organisation. Specialist social lenders can provide an alternative method of development for some social enterprises but this does not compensate for the absence of equity in the balance sheet and not all social enterprises will have a cash flow or balance sheet which will sustain borrowings. In such situations a grant may be the only way in which a social enterprise organisation can become established.

In trying to address this issue one particular type of financial instrument, Community Development Venture Capital (CDVC), again an idea borrowed from the US, offers significant potential for meeting the needs for patient capital that many social enterprises require. Venture capital can be a powerful tool for building strong entrepreneurial businesses. Because of the patience of equity capital and the entrepreneurial and managerial assistance that a good venture capitalist provides to augment the investment, businesses are able to grow in ways they generally cannot with debt financing alone. The field of CDVC recognises this and seeks to use the powerful tool of equity finance, not just to build businesses, but to build businesses that benefit low-income people and distressed communities.

Like traditional venture capital funds, CDVC funds look for businesses with strong growth potential that promise to provide market rate financial returns for investors. However, unlike traditional venture capital funds, CDVC funds also have their eye on a second, social bottom line. They look to invest in businesses whose growth has the potential to create good jobs for people with limited job opportunities. This double-bottom line approach means that while traditional venture capital funds and CDVC funds use the same financing techniques, their investment portfolios ultimately look quite different. The box below highlights a number of examples of different types of CDVC currently in operation in different European countries.

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Box 12. Community Development Venture Capital



In Europe this type of financial instrument is still new. The combination of patient money and management offers a real opportunity to build the organisational capacity of social enterprises and move them away from dependency on annual grant regimes.

Beyond project funding: Creating a framework for investment

The financial instruments highlighted in this section are examples drawn from a wider body of practice that is beginning to emerge across Europe. However, despite these pioneering examples many funding providers for social enterprises remain under-capitalised, have inadequate capacity, patchy coverage and operate at lower than efficient scale. This impacts on sustainability, as the flow of deals for organisations (or the sector as a whole) will continue to be too low to achieve sufficient impact or support the costs of lending. It will take time for CDFIs to prove that they can be attractive reliable partners to banks and other investors.

To take advantage of these innovative examples and build the size and scale of CDFIs and their activities requires the creation of an effective Social Investment Framework. The indicative components of a Framework are outlined below. The Social Investment Framework should be developed by drawing upon the lessons learned from the experiences in the past thirty years of the emergence and development of the United Kingdom venture capital

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industry, in which development of an infrastructure to support the sector ultimately resulted in tremendous growth.

Devising a Framework for future financing and development of the sector will have a number of positive impacts and implications for the finance providers as well as the enterprises they are financing:

- Scale brings choice, drives up quality, reduce costs and increases knowledge and confidence across the sector.

- Collaboration between financial institutions (sharing costs and risks) and other agencies.

- Stimulates propositions from communities and entrepreneurs.

- Financial intermediation skills are more widespread and larger infrastructure is in place.

- Lessons are learned and "track records" are created.

- Creates a long term perspective about being in the market and building it.

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Social Investment Framework

- **Incentive Structure for Finance**
  - The business case
  - Tax credits, guarantees and other public assistance
  - Regulation?
- **Boost supply of good propositions**
  - Education and Information
  - Investment and lending readiness
  - Outreach and technical assistance
- **Sustain quality intermediaries**
  - Fund management and brokerage
  - Investment and lending support
  - Technical assistance and capitalisation
  - Co-ordination of support
- **Monitoring and co-ordination**
  - Benchmarking progress and participation

Impact assessment and evaluation

The sector needs to prove itself over a time frame of around ten years if it is to attract commercial partners at scale on a sound footing. The framework is therefore, crucial. Without this framework, the timeframe would be far longer, perhaps twenty to thirty years. Policy is able to put in place a number of key building blocks for growth. The prime need is to address issues like the capitalisation of CDFIs, the risk and return to lenders and the relationship with public sector bodies.

Final thoughts

This chapter has introduced some of the key development issues for social enterprises across Europe. These include the need to build an appropriate financial architecture to support the sector in different areas, at different levels and with different development needs. But the analysis also demonstrates the way the sector has grown and functioned in different contexts. Important structural, skills and financial obstacles must be overcome if the social economy is to realise its full potential across Europe. A major effort is now required to bring a much wider range of social enterprises up to the standard of the very

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best in their contribution to local economic development. The promotion and dissemination of models, case studies and skills should be accompanied by efforts to benchmark and foster the most dynamic social enterprises.

The primary purpose of the chapter is to stimulate thinking about how best to develop social enterprises as part of the wider social economy at regional/city-wide level. The ideas are generic and will not suit all settings, but there is a need to think coherently at a regional level about the content and scope of the social economy. In particular, there is a need to build an identity around the social economy and to support its distinctive requirements relative to the public and private economy. The use of public expenditure and the work of RDAs in regenerating distressed neighbourhoods and communities in a lasting and sustainable way will benefit from a more strategic approach to social enterprise development, drawing on the ideas set out in this paper, innovation and best practice from across Europe and from other countries around the world.

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PART IV AREA-BASED POLICIES AND ENTREPRENEURSHIP

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CHAPTER 7. AREA-BASED POLICIES AND ENTREPRENEURSHIP: CHICAGO

By Rod Shrader[10] and Wim Wiewel[11]

Abstract

This chapter examines area-based programmes in distressed areas of Chicago. These programmes are typical of those employed in the United States, have been associated with significant success and have considerable scope for transfer to other countries. Five programmes are described: federal Empowerment Zones; state Enterprise Zones; municipal Tax Increment Financing zones; municipal Industrial Corridors; and the state-sponsored Chicago West Side Entrepreneurship Center. They are all area-based programmes, aimed broadly at urban regeneration, but incorporate initiatives for new and small firms. After an examination of the strengths and weaknesses of the programmes, key conclusions and policy recommendations are made.

Introduction

Prior to the 1970s, most government support for businesses in the United States focused on the largest of firms and industries. Tax incentives and other initiatives focused on industries like automobile manufacturing, steel production, or oil refining, which were considered the backbone of the U.S economy. It was believed that strengthening large firms was the key to a healthy economy and favourable employment growth. However, research published in the 1970s shattered that paradigm. For example, David Birch's "Job Creation in America: How Our Smallest Companies Put the Most People to Work" clearly demonstrated that the majority of new jobs were created by small and new businesses, not by the large companies that had frequently been the beneficiaries of government largesse. Furthermore, research also demonstrated that smaller firms were often more innovative than larger firms.

10. Associate Professor of Entrepreneurship, University of Illinois at Chicago.

11. College of Business Administration, Professor of Urban Planning & Policy; Professor of Managerial Studies, University of Illinois at Chicago.

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As a result, small and new firms increasingly became the focus of government incentives to stimulate economic development and job creation. More recently, small and new businesses have been viewed as a key to job and wealth creation in developing countries and in disadvantaged regions within industrialized nations. Consequently, programmes to stimulate economic development in distressed urban zones should provide incentives that will help new and small firms grow and, thereby, provide jobs for area residents.

This chapter discusses an array of zone-based programmes that have been used in Chicago to stimulate entrepreneurship in distressed areas. Chicago was chosen because the programmes used there are extremely representative of the programmes employed across the country in dozens of states and in scores of cities. Furthermore, these programmes are easily transferable to other countries. In addition, Chicago has experienced an easily noticeable renaissance in recent years in terms of economic development. As examples of success, neighbourhoods such as the West Loop and the South Loop, which were considered undesirable just a decade ago are now among the most gentrified locations in the city. In addition to new housing, a wide array of new businesses has also opened there.

The five programmes we are going to discuss include federal Empowerment Zones, state Enterprise Zones, municipal Tax Increment Financing (TIF) zones, municipal Industrial Corridors, and the recently formed, state-sponsored Chicago West Side Entrepreneurship Center (CWSEC). All five of these programmes benefit firms moving into or expanding within specific geographic zones. While these programmes are aimed broadly at urban regeneration, all incorporate initiatives that can benefit young and small firms. Only the CWSEC focuses exclusively on young and small firms. Between 1996 and 2000, a total of USD 10.4 billion was spent in Chicago on economic development, and 35% of that expenditure came from public funds.

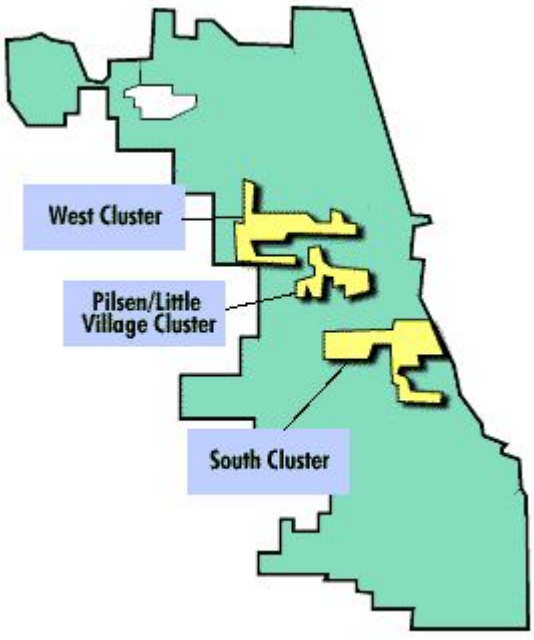
Empowerment Zones

Empowerment Zones were established and funded by the United States government. In 1994 Chicago was chosen as one of six cities to receive initial Empowerment Zone designation. In 1997, 15 additional cities received Empowerment Zone status in Round II of the programme. Designation was given based on competitions in which cities throughout the country submitted Strategic Revitalization Plans. These plans were to focus on assets each city could devote to revitalization efforts, key problems faced by the city, municipal leaders' vision of the city's future, and plans for achievement of that vision. More than 200 government and non-governmental agencies participated in

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developing the plan for Chicago. The Chicago plan included six initiatives: economic empowerment, affordable housing, public safety, cultural diversity, health and human services and youth futures. As shown in Figure 1 Chicago's Empowerment Zone actually consisted of three separate geographic areas, including the West Cluster, the Pilson/Little Village Cluster, and the South Cluster. The zone encompassed a total of 14.3 square miles and included 199 938 residents, 72% of whom African-American and 24% of whom were Latino.

FIGURE 1: Empowerment Zones



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/EmpowermentZone.html.

Federal funding for the Empowerment Zone in Chicago is now coming to an end. However, the zones retain their designation, which will enable them to continue to benefit from priority status for various Federal programmes. In addition, some state and city funds are still being devoted to the zones.

Benefits of Empowerment Zone designation included a USD 100 million federal grant for the city to use for economic development, which was enriched with an additional USD 29 million state and city commitment to the

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Empowerment Zone. The city government reported having used this money to assist with more than 100 economic projects within the city. However, because federal, state, and city monies were commingled, in is difficult to track exactly how that money was spent and which projects were funded. In addition to the USD 100 million grant, the federal government also granted priority to cities with Empowerment Zones and to businesses within those zones for consideration for hundreds of federally sponsored assistance programmes. Companies located within the zone could take advantage of numerous tax incentives designed to encourage private investment and job creation. According to the Mayor's office, firms in Chicago's Empowerment Zone took advantage of approximately USD 250 million worth of incentives. Such incentives included tax-exempt financing, wage and training tax credits for hiring and training Empowerment Zone residents, increased income tax deductions for equipment investments, and low income housing tax credits. In addition, the government provided money for environmental cleanup.

One of the major drawbacks of the Empowerment Zone programme, however, was that, given their extremely high failure rate, firms at the start-up stage were explicitly discouraged from participating in the programmes. In addition, participation among small businesses was also somewhat limited. In their 1999 report to the U.S. Congress, the General Accounting Office reported on the use of Empowerment Zone benefits by small businesses, which they defined as those businesses having fewer than 50 employees. According to their census of 9 of the 21 urban Empowerment Zones in effect at the time, there were 12 854 small businesses and 585 large businesses within the zones. Thus, small businesses made up 95% of the population of firms. However, only 10% (1 285) of those small businesses participated in the programme. In contrast, 46% (269) of the large businesses participated. While 83% of the participants in the programme were small businesses (1 285 out of 1 554), the number of firms participating in the programme clearly would have been much larger if more small businesses had taken advantage of the programme. Some of the primary reasons small businesses gave for not participating included: they didn't know about the programme; they employed workers from outside the zone and, therefore, did not qualify for credits; they employed family members and, thus, were not qualified for wage or training credits; the programme appeared too complicated; or they had no tax liability and, therefore, couldn't benefit from tax incentives. Among those firms participating in Empowerment Zone programmes, 40% took employment tax credits, 40% took advantage of the tax benefit of accelerated depreciation expense, and 68% took advantage of tax exempt financing.

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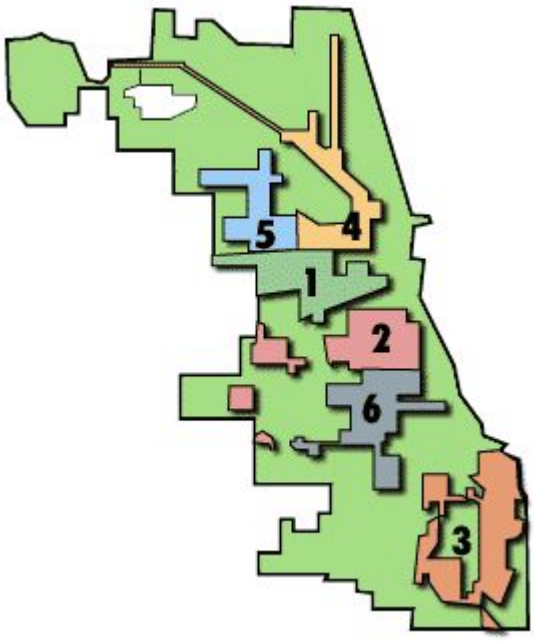
While numerous firms have taken advantage of Empowerment Zone benefits, it is difficult to assess the exact impact of the Empowerment Zone programme on entrepreneurship, or on economic development for that matter. For example it is unclear whether participating in the programme or not participating in the programme affected the employment and/or investment decisions of any of the businesses in the zones. Furthermore, statistics regarding the impact of Empowerment Zones on small and young firms were not generally tracked. For example, no data were found regarding the number of jobs created by small and young firms as opposed to the number created by larger, established firms.

Enterprise Zones

Enterprise Zones are funded by the State of the Illinois and are designed to promote the economic development of "declining areas". Enterprise Zones, though sometimes given other names, have been used throughout the United States. In the Illinois programme, city officials selected the specific geographic regions that were given Enterprise Zone status. Enterprise Zones were to remain in effect for 30 years and are designed to make a long-term commitment to economic development. As shown in Figure 2, six Enterprise Zones were established in Chicago. City officials reported that between 1983 and 2001 the programme assisted 23 000 firms and 190 000 new jobs were created as a result.

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FIGURE 2: Enterprise Zones



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/EnterpriseZone.html.

Benefits provided to companies in Enterprise Zones include financial assistance in the form of grants; financial assistance in the form of loans ranging from USD 10 000 to USD 750 000; sales tax exemptions; property tax reductions; real estate transfer tax exemptions; investment tax credits; state job creation tax credits; sales tax exemptions on the purchase of equipment; utility tax exemptions; as well as priority consideration for all other state programmes. While all businesses in the zones, regardless of age or size, qualify for assistance, no particular focus is placed on new and small firms. No statistics are available to show how the Enterprise Zone programme separately benefited small and/or new businesses.

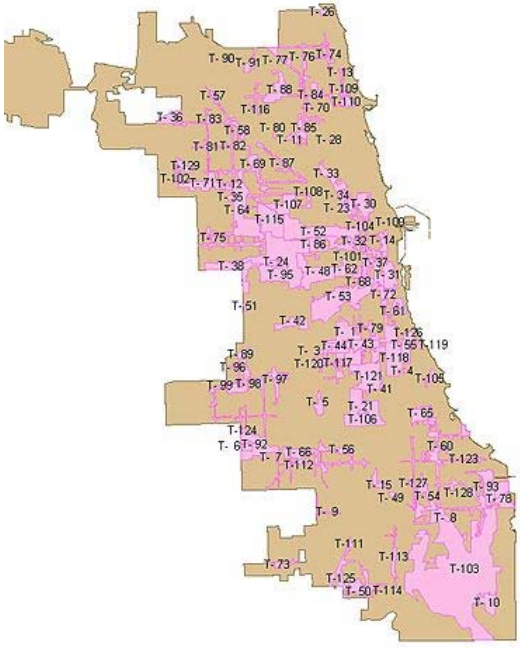
Tax Increment Financing zones

Perhaps the most controversial and most widely used zone-based economic programme in Chicago is Tax Increment Financing (TIF), which Mayor Richard Daley has called, "the only game in town". TIF zones are each established for a period of 23 years, and are intended to allow municipalities to focus resources on improving "blighted" areas over the long term. City officials have the

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exclusive right to designate which geographic areas are blighted and, therefore, qualified for TIF zone status. TIF in Illinois began as a result of the 1977 Illinois Tax Increment Allocation Redevelopment Act, however this programme was not used in Chicago until 1984, when the North Loop redevelopment project began. Between 1985 and 1990, ten additional TIF zones were created. Between 1991 and 1997, 33 were added and between 1998 and 2003 85 new TIF zones were created. Figure three, illustrates the widespread use of TIF zones throughout Chicago. There are 129 zones, each consisting of a minimum of 1.5 acres. Currently more than 25% of the city's total geographic area is included within these TIF zones. Furthermore 13.5% of the city's tax base is included within the zones.

FIGURE 3: TIF Zones



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/TIFzones.html.

Within designated TIF zones the city provides numerous benefits to the community beyond the investments that it normally would make throughout the city. The city provides increased public infrastructure improvements such as roads and sewer system additions and upgrades. Extra improvements to the public transportation system are also made, such as the addition and or

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renovation of commuter rail stations. The city frequently subsidizes commercial development within TIF zones, for example, by helping finance the first condominium development, the first strip mall, or the first manufacturers in the area. The city provides interest rate subsidies of 3% so that businesses are allowed to finance commercial development in the TIF zones at reduced rates. For businesses that start up, expand in or transfer into a TIF zone the city may help with land acquisition, environmental cleanup and other site preparation, or, in some cases, building rehabilitation. In addition businesses in TIF zones are given priority consideration for all municipal programmes including, for example, limited micro loans. The intent of TIF zone designation is for the city to invest heavily at the early stages of redevelopment in the area and thereby "get the ball rolling." Once a certain critical mass of redevelopment has occurred, private investment flows into the area and the TIF zone is lifted out of its "blighted" condition.

How TIF works

Tax Increment Financing is based on the division of property tax revenues generated within the designated zone. Typically, property taxes are divided among the city, the county, the school district, the park district and other governmental bodies. Figure 4 illustrates how TIF works. TIF zones are established to assist localities where economic activity is stagnant and no real economic growth is expected in the long-term future. As a result, property values would be expected to remain constant or, in some cases, decline. If this assumption were true, revenues from property taxes in that zone would also remain stagnant during that time period and government agencies that share those tax revenues would expect no increases from that zone. The area labelled "EAV Base" in Figure 4 illustrates the assessed value of properties over a 23 year period in a specific region if economic activity in that zone remained stagnant over time. However, if the city intervenes with specific programmes designed to promote development in that zone, then doing so would lead to increased property values and, as a result, property taxes would be expected to rise along with redevelopment. The area illustrated in Figure 4 by the increased EAV curve minus the EAV base represents the increased property valuations that might be expected as a result of this intervention. During the 23 year period that the TIF zones is in place, tax revenues generated as a result of projected stagnant property values (the area called the EAV Base in Figure 4) continue to be split as they normally would have been between the city, the county, the school district and the park district. However, tax revenues generated as a result of increased property values resulting from the city's intervention (represented in Figure 4 by the increased EAV curve minus the

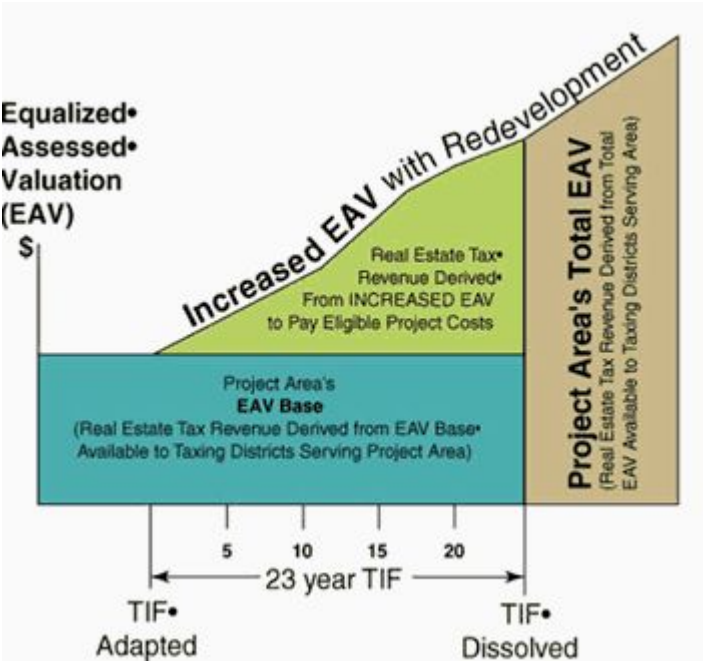
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EAV base) go exclusively to this city during the entire 23 year time period. The city issues bonds as the means of financing its investments in TIF zones, and the increased property tax revenue stream are pledged to pay for that debt over the 23 year time period. At the end of 23 years property values in the targeted zone are expected to be much higher than they otherwise would have been, and they are expected to continue to grow once a growth curve has been established (the Project Area's Total EAV in Figure 4). Property taxes at that time would be split among the various government agencies with claims to that revenue just as they would have been without TIF.

If this scenario unfolds as predicted, everyone is better off as a result. After the 23 year time period, property taxes split among the city, county, school district, and park district would be much higher than they would have been had property values in that zone remained stagnant. In addition, the county, the school district, and park district would be no worse off during the 23 year time that the city takes all increased property tax revenues, because those revenues would not have been generated had the city not invested in economic redevelopment.

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FIGURE 4: How TIF Works



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/TIFzones.html.

For this win-win situation to unfold, however, three critical assumptions must be met. First, it is assumed that the designated zone would remain stagnant for 23 years if it were not for the city's intervention. Second, it is assumed that increased property values are a direct result of the city's investments. Third, it is assumed that development is not simply diverted from another part of the city. The importance of these assumptions is illustrated by the following quote, which appears repeatedly in official TIF zone reports from the City of Chicago.

> "It should be emphasized that all of these benefits are the direct result of the City's use of Tax Increment Financing. Without TIF, these project areas would not have been upgraded or redeveloped. In the absence of TIF, these areas would continue to be characterized by decline and disinvestment, and would continue to be neglected by the private sector development community."

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The "benefits" alluded to in the above quotation are also described in a city report. According to that report, between 1984 and 1997 Tax Increment Financing resulted in the following accomplishments within the city's TIF zones: the addition of 1 100 housing units, 4 912 600 square feet of new commercial space, 422 100 square feet of rehabbed commercial space, 791 800 square feet of new industrial space, and 913 800 square feet of rehabbed industrial space; USD 271 933 000 public investment followed by USD 1 713 980 000 private investment (86.3%); retention of 22 150 jobs and creation of 6 400 new jobs; and USD 270 million in incremental property taxes. Details on how new and small firms in TIF zones were affected were not reported.

As mentioned earlier TIF is as controversial as it is prevalent. Numerous criticisms of the TIF programme have been advanced. The process by which TIF zones are designated lies at the heart of most criticism. It is this city's sole discretion to designate TIF zones and it is also the city that stands to potentially gain the most from such designations, given that the city benefits solely from increased property assessments for the entire 23 year life of the TIF. If the city designated a TIF zone based on an erroneous assumption that the particular area would remain stagnant for more than two decades, the city would benefit from that error, while the county, school district, and park district would lose the additional tax revenues they might otherwise have received over 23 years. Further complicating matters, TIF zones are meant to target blighted areas and the city of Chicago has defined blighted as an "area not living up to its potential." Critics contend that such a loose definition leaves considerable room for interpretation and manipulation by city officials. Furthermore, cynics argue that growth areas could sometimes intentionally be designated TIF zones as a means for the city to increase its revenues at the expense of the other government agencies with rights to share property taxes. One of the most troubling downsides of gentrification, especially in TIF zones where efforts are specifically designed to increase property values and property taxes, is that the poorest residents and business owners often relocate to other neighbourhoods with lower property values and lower taxes, potentially causing widespread displacement in TIF zones.

It has also been noted that cities with TIF zones have demonstrated slower short-term growth than cities without TIF zones. This perhaps indicates that there is an opportunity cost associated with inefficient resource allocation. That is, these same cities might perform better if they invested resources in supporting high potential areas of the city and thereby "get more bang for their buck" instead of investing in areas with less potential. An additional criticism

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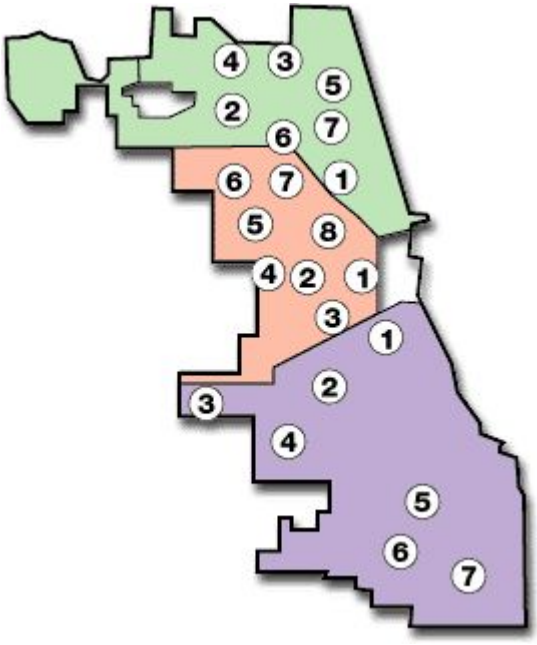
suggests that TIF growth comes primarily from intracity relocations, whereby businesses relocate to TIF zones in order to take advantage of all of its benefits but these relocations represent no real growth. Finally, critics claim that the benefits to businesses in TIF zones leads to unfair competition.

Industrial corridors

In addition to the broader economic development programmes discussed above, which target all businesses in the special zones, Chicago also has developed a municipal programme to promote the retention, expansion, and relocation of manufacturing firms and, consequently, the retention and growth of industrial jobs. Twenty-two zones have been declared Industrial Corridors. These Industrial Corridors have been established primarily as a strategic initiative intended to stimulate specific discussions among city officials, community leaders, and business leaders. Corridor development plans are developed with input from all of these participating members. These strategic plans are intended to address the key concerns of the communities, including: safety, accessibility, attractiveness, and the competitiveness of manufacturers in those communities.

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FIGURE 5: Industrial Corridors



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/IndustrialCorridor.html.

Chicago's industrial corridors have a long history of neglect and crime. As a result, many manufacturing firms have located or relocated in suburban areas. In response to these specific needs the city provides special attention to these areas in terms of law-enforcement, road construction, environmental cleanup, and other city services. In addition, manufacturing firms located in these Industrial Corridors receive priority consideration for city funding and other programmes, and they may receive site assistance. Site assistance includes locating suitable facilities for moving or starting production activities, assistance with environmental cleanup, and in some instances the seizure (using the city's power of eminent domain) and consolidation of smaller properties in order to create one property large enough to be attractive to a large manufacturing firm. Although this programme does not exclude young and small firms there it has no specific emphasis on them.

Chicago west side entrepreneurship centre

The most recent zone-based development programme in Chicago is the only zone-based programme to date that specifically targets new and small

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firms. The Chicago West-Side Entrepreneurship Center Network (CWSEC) was founded in May 2003 by the Illinois Department of Commerce and Economic Opportunity. CWESC is the first and lead centre in the Illinois Entrepreneurship Center Network, which includes entrepreneurship centres located around the state. The Illinois Department of Commerce and Economic Opportunity, the University of Illinois at Chicago, and Chicago Community ventures are partners in running the CWSEC. The aim of the Centre is to support the creation and expansion of new and small businesses on Chicago's economically disadvantaged West Side. Its mission is to help small and medium-sized businesses with high growth potential to develop into economically viable and sustainable companies that will grow and create jobs in Illinois.

One focus of the Entrepreneurship Centers is to administer monetary awards funded by the state. These awards allow entrepreneurs and existing small and mid-size businesses to gain access to a broad range of professional services to accelerate the formation of new businesses and growth of existing businesses. The award is available on a competitive basis for specific projects aimed at achieving significant business goals that support growth targets. Eligible uses of funds include the acquisition of specialized professional services deemed critical to the successful achievement of a significant business milestone. Applicants are required to provide a cash match of 100% of the award.

In addition to awards, CWSEC client services include: identifying gaps and limitations in clients' current operations and coordinating support services for clients that address gaps and limitations in their current operations. CWSEC also offers professional consulting services, educational programmes, and links to resources and services offered by a vast array of partner organizations, including: technology incubators, manufacturing assistance centres, venture funds, small business development centres, and University engineering departments. Although this programme specifically targets new and small firms, its implementation is too recent to assess any results.

Geographic overlap of zones

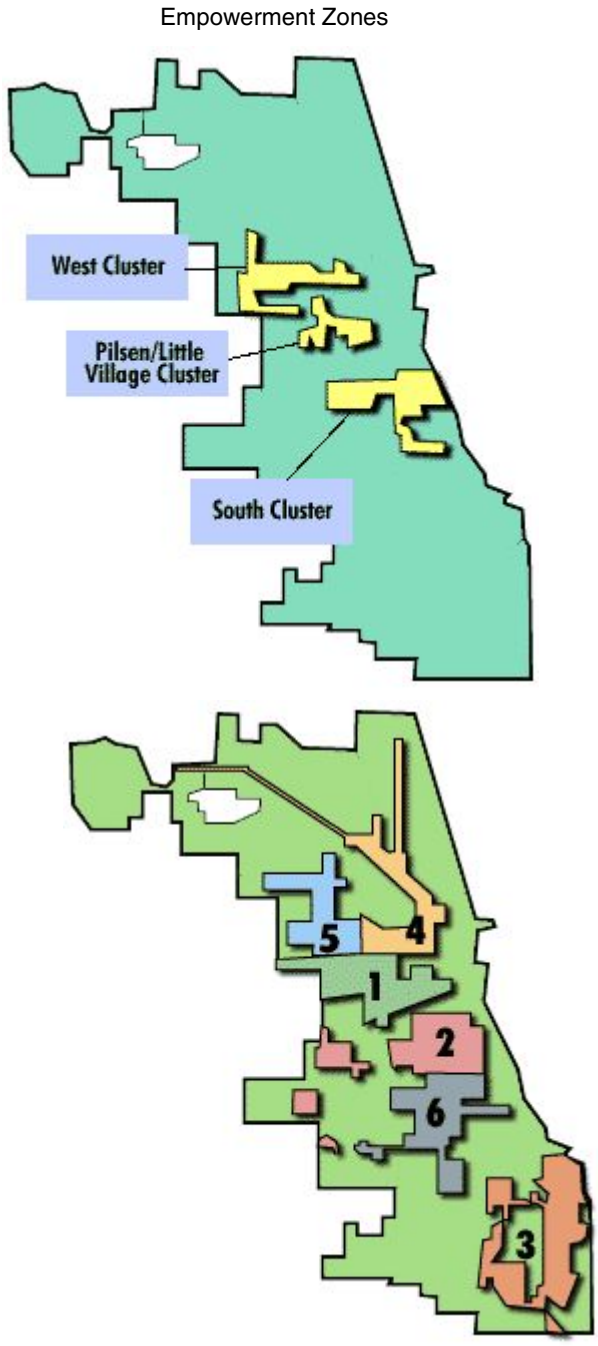
When maps of Chicago's established zone programmes are compared side-by-side, as shown in Figure 6 below, it is easy to see that there is substantial geographic overlap among the various programmes. Two neighbourhoods, Pilson and the Stockyards, are served by all four programmes. In addition, viewing the maps side-by-side also clearly demonstrates that certain regions, particularly in the southwest and northwest, are covered by few or no

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development programmes. These regions are among the most isolated in terms of distance from the city's business core; however, they are predominantly residential neighbourhoods.

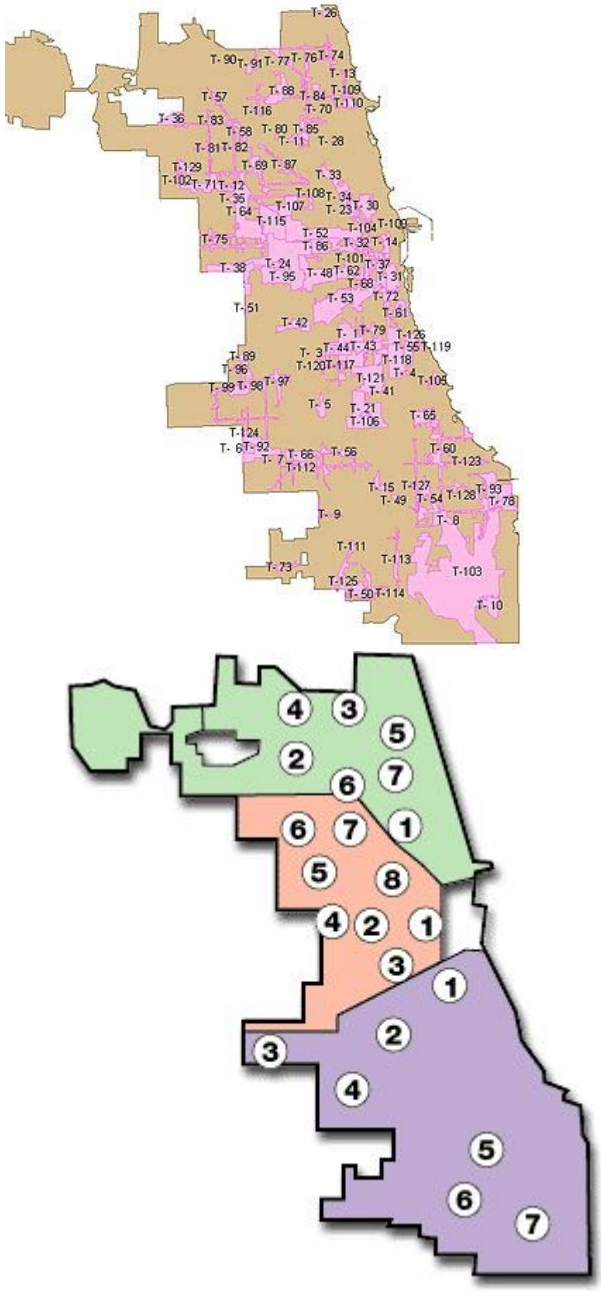
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FIGURE 6: Zone Overlap



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TIF Zones Industrial Corridors



Source: http://www.ci.chi.il.us/PlanandDevelop/Programs/EnterpriseZone.

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Programme overlap

It is also interesting to note that there is substantial programme overlap among the various zone-based initiatives. As shown in Table 7 below, all of the programmes are available to industrial/manufacturing businesses and all but the Industrial Corridors assist commercial businesses. Four of the five programmes provide some form of financial assistance and four of the five provide some form of site assistance. One programme offers infrastructure development and two provide an array of tax incentives. While only one programme offers management consulting services, two programmes are community led and allow for significant input from constituents in those zones. All provide assistance to small businesses; however, only one provides any kind of start-up assistance.

TABLE 7: Programme Overlap

	Empowerment Zone	Enterprise Zones	TIFs	Industrial Corridors	CWSEC
Commercial	X	X	X		X
Industrial	X	X	X	X	X
Financing	X	X	X		X
Infrastructure			X		
Site assistance	X	X	X	X	
Tax incentives	X	X			
Community led	X			X	
Consulting services					X
Small businesses eligible	X	X	X	X	X
Start up assistance					X

Strengths of zone programmes

When taken as a whole the five zone-based programmes enacted in Chicago provide numerous benefits to businesses operating within those zones. Programmes provide tangible resources, including financing in some cases. Various programmes provide strong assistance in terms of site selection and site development for firms wishing to establish a bricks and mortar presence within the targeted zones. As a whole the programmes demonstrate a surprising degree of flexibility for government programmes. At the heart of all these programmes

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appears to be the belief that a "rising tide lifts all ships." That is, if interventions take place and resources are provided to assist initial investments in a neighbourhood, once a certain critical mass of development has been achieved free-market mechanisms will take over to ensure that redevelopment continues. Although small and new firms are not specifically targeted for these programmes, it is believed that those "ships" will also be lifted by the "rising tide".

The Boston Consulting Group recently did an extensive study of Chicago's efforts in terms of economic development. They concluded that, for the most part, Chicago's investment and economic development has been money well spent. They particularly complimented Chicago's investments in infrastructure, especially public transportation and safety. According to their study some communities fared particularly well. They concluded that communities that were contiguous to the downtown business core or contiguous to other thriving neighbourhoods fared the best in terms of economic gains.

Criticisms of zone programmes

Despite the strengths of zone-based initiatives discussed above, these programmes also have received much criticism. As mentioned above, the programmes appear to be grounded on the assumption that "a rising tide lifts all ships." However some critics view this approach as unproven and unfair "trickle-down economics." Much of the focus of these programmes is on larger established firms. It is assumed that investments in these firms will spur a general economic climate in which new and small firms can also thrive. As a result numerous resources are devoted to the privileged few – firms that may not indeed need the assistance – at the expense of more impoverished small and new firms that often demonstrate a greater need for assistance. However, the question can be raised whether public programmes specifically for start-up businesses make sense. Start-ups have a high failure rate. Venture investors have a hard enough time picking winners; it is unlikely that government can do much better. Furthermore, while venture firms can tolerate high failure rates among their portfolio companies, because of the large returns on a small number of investments, it is unlikely that any public programme could withstand the scrutiny that failure rates of 80-90% would invite. It may well be that more generic business assistance programmes, which would not exclude new ventures, are more palatable politically and have a greater chance of survival.

Some critics allege cronyism in the selection of firms that receive assistance. That is, they allege that only the politically connected receive major

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grants and substantial assistance. Furthermore, the Boston Consulting Group reported that in Chicago certain post-industrial neighbourhoods, which were most in need of redevelopment, were among the most isolated and the most neglected in terms of redevelopment efforts.

Another major criticism of zone-based economic development programmes involves the measurement of progress. Often government agencies report accomplishments in terms of the number of companies assisted or the number of projects funded. However, little effort is made to measure the actual benefit to the public of expenditures on these programmes. When government agencies do attempt to measure benefits to the public in terms of job creation or economic stimulus, it is impossible to establish a defensible baseline against which to measure progress. For example, it is impossible to know with any degree of accuracy how many jobs would have been created in a given region had the zone-based programmes not been in effect. Furthermore, government agencies often assume that no progress would have been made had they not intervened. Thus, they assume a baseline of zero and then take credit for 100% of any positive developments within the zone. Additionally, the most cynical critics conclude that, because it is politically expedient, outcomes can be manipulated by intentionally selecting zones with inherent growth potential. For example neighbourhoods that border currently gentrifying neighbourhoods are more likely to be next in the spread of gentrification even without government intervention, even if they might currently be labelled "blighted". Furthermore, it is hard to know how much urban renewal has resulted from government redevelopment efforts and how much has resulted purely from the social trend of suburbanites choosing to return to the city core and resultant development stemming purely from free market mechanisms.

Evaluating the success of economic development strategies is notoriously difficult, and having the strategies be highly targeted does not make the task any easier. Indeed, analysts have argued that since their success cannot be proven, such strategies should be discontinued entirely (see Terry F. Buss, "The Case Against Targeted Industry Strategies," *Economic Development Quarterly*, Vol. 13, No. 4, November 1999, pp. 339-356.) However, others have argued that such opposition seems to have more of an ideological basis, opposing government intervention in principle, than a scientific one. Acknowledging the weakness of data, Wiewel (1999) argues that enough evidence exists that many intervention programmes work, and that research is available to carefully assess the costs and benefits. ("Policy Research in an Imperfect World: Response to Terry F. Buss, 'The Case Against Targeted Industry Strategies,'" *Economic Development Quarterly*, Vol. 13, No. 4, November 1999, pp. 357-360.) See

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also Wim Wiewel, Joseph Persky and Danny Felsenstein, "Are Subsidies Worth It? How to calculate the costs and benefits of business incentives." *Economic Development Commentary*, Vol. 18, No. 3, 1994, pp. 17-22.

Another key criticism of zone-based programmes is that they offer relatively modest assistance, especially given the complex process required to gain access to benefits. In some cases business owners feel that the costs of applying for benefits outweigh the benefits themselves. Business owners argue that their greatest needs are for capital, skilled employees, and customers. However, government programmes rarely provide capital, offer incentives to hire employees with low or no skills, and do little or nothing to assist with customer acquisition. In addition, the programmes are criticized because they provide few resources for job training or education and, as a result, newly created jobs frequently go to workers from outside the zone.

An obvious weakness of government efforts is the programmes often are not well publicized. This appears to be particularly true where small businesses are concerned, given that the number one reason found by the U.S. General Accounting Office for not participating in the programmes was that entrepreneurs didn't know about the programmes. Although it is a well established fact that the majority of new jobs and the majority of economic growth in the U.S. comes from small businesses (which make up 98% of all U.S. businesses) zone-based programmes place little or no emphasis on small businesses, and many programme descriptions specifically stipulate that the programme is not appropriate for start-ups.

In addition, there is tremendous fragmentation and little coordination among the various programmes. This is particularly true when examining how these programmes impact new and small firms. The government has hundreds of programmes to assist all businesses – including young and small firms. Furthermore, once an area has been declared an Empowerment Zone, an Enterprise Zone, an Industrial Corridor, or a TIF zone, businesses in that zone are frequently given priority consideration for a wide range of additional federal, state, and/or municipal programmes that are not zone-based. Not only does the lack of promotion of the programmes leave entrepreneurs unaware, but, lack of coordination among various government agencies makes it virtually certain that entrepreneurs will not be able to take advantage of the full range of assistance available to them. Interestingly, programmes that aim to assist economic development are so numerous that the federal government must survey its own agencies in order to determine what kinds of assistance are available to businesses in the United States.

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One of the outcomes that makes zone-based redevelopment so controversial is that gentrification often equates with displacement. As a neighbourhood gentrifies, businesses move into the area, new businesses are started, new residents move in, crime declines, property values rise, property taxes rise, and rents increase. As this cycle repeats itself and economic redevelopment picks up steam, a neighbourhood takes on an entirely new character. Old buildings are renovated or demolished and replaced. Wealthier residents move in. All too often small business owners and residents who worked or lived in a neighbourhood prior to redevelopment can no longer afford to live there because they cannot afford the rents or the drastically increased property taxes. Occasionally, new residents even petition for the removal of certain businesses they deem inappropriate for their neighbourhoods, even if those businesses were there long prior to gentrification. If one were to drive through the neighbourhood after redevelopment one would see a shiny new neighbourhood that is thriving in all outward appearances. It would be full of the new businesses and new housing. The streets would be cleaner and there would be less evidence of criminal activity. It might appear that the neighbourhood had been reborn. However, this pattern of gentrification raises the important question of whether the community has indeed benefited from redevelopment. If a community is defined as a geographic region, then of course the answer is "yes". However, if a community is defined as the people who inhabit a geographic region, then all too often the answer is a resounding "no" because those people have faced widespread displacement.

Conclusions and recommendations

Based on the strengths and weaknesses of programmes that have been used in Chicago to stimulate economic redevelopment for more than 20 years, a number of conclusions can be reached and recommendations offered. Firstly, the vast array of programmes used within the city of Chicago demonstrates that city's aggressive, proactive commitment to economic redevelopment. Tremendous effort and vast resources have been used to advance this cause. Anyone familiar with the city is undoubtedly aware of the tremendous renaissance of neighbourhoods such as the West Loop, the South Loop, Edgewater and Lakeview. However, as discussed above, not only has the economic and physical nature of these neighbourhoods changed drastically, but the demographic nature of these communities has also changed drastically.

Chicago's success with "contiguous" redevelopment, that is, successful redevelopment of areas geographically close to the downtown business core or to other successfully redeveloped neighbourhoods demonstrates a pattern that

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works. It appears that investments in economic redevelopment might be most effective when they follow a pattern outward from economically strong areas. Furthermore, Chicago's success with enhancing public transportation reinforces the importance to economic redevelopment of workers being able to travel to jobs and customers being able to travel to businesses.

While Chicago's successful redevelopment projects clearly provide positive insights, the criticisms levelled at these programmes lead naturally to several basic recommendations. One recommendation is that various redevelopment efforts should be coordinated so that there are obvious links between the zone-based programmes and non-zone-based programmes available to all businesses, but for which businesses located in redevelopment zones have priority status. There is an obvious need to better communicate to businesses, especially new and small ones, the full range of programmes available to assist them. Clearly, there is a greater need to focus on start-ups and small businesses, particularly given the understanding that, in the United States, new and small businesses are the greatest contributors to job creation, innovation, and economic development.

A number of efforts need to be focused on reducing displacement of established small businesses and residents in developing areas so that communities are lifted up – not systematically evacuated and repopulated. A greater effort needs to be placed on job training for zone residents. For example, the USD 3 000 tax credit provided in Empowerment Zones for training zone residents may not be enough to cover the cost of the job training. As a result it may not only be easier, but also more economically efficient for businesses to hire workers from outside the zone. In addition, a greater emphasis is needed on retaining and adding affordable housing in gentrified neighbourhoods. For those residents fortunate enough to own property prior to gentrification, increases in property taxes need to be controlled so that long-time residents are not forced to move simply because they can't afford property taxes.

The example of Chicago is informative because the city has employed various federal, state and municipal programmes over a period of decades in its efforts toward economic redevelopment of blighted inner-city areas. The results are easily seen. However, there is nothing unique about the programmes used there. The same and/or similar programmes have been used in major cities around the world with varying degrees of success. A lot can be learned from systematically studying the efforts of other cities in the United States and abroad. Furthermore, this chapter has focused only on the efforts of government agencies. Much could also be learned by examining other types of

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initiatives for promoting entrepreneurship in distressed urban areas, including entrepreneurship development initiatives by foundations, which are very active in the United States.

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CHAPTER 8. AREA-BASED POLICIES AND ENTREPRENEURSHIP: EUROPEAN INITIATIVES

By Prof. Dr. Leo van den Berg, Dr. Peter M.J. Pol and Dr. Willem van Winden[12]

Abstract

Increasingly, promoting entrepreneurship is considered to be a useful tool to turn the tide in deprived urban areas. This chapter discusses implicit and explicit area-based policies to promote entrepreneurship in five distressed neighbourhoods in the cities of Antwerp, Dortmund, Manchester, Rotterdam and Strasbourg.

Introduction

Promoting entrepreneurship is increasingly regarded as a useful tool to fight negative economic and social development in distressed urban areas. This chapter discusses implicit and explicit area-based policies to promote entrepreneurship in deprived neighbourhoods. Higher levels of entrepreneurial activity could be beneficial for several reasons. Evidently, it could raise incomes, bring new jobs, and increase tax income for local authorities. But also, the creation of new firms can enhance the provision of local services such as retail facilities.

The next section of this chapter presents a framework of reference. We start by tracing the causes and origins of the problem areas in Europe's larger cities, we address the question of why entrepreneurial activities are at such a low level in such areas, and we discern three types of barriers to entrepreneurship: socio/cultural, economic, and institutional. In section 3, we

[12]. Prof.dr. Leo van den Berg, Dr. Peter M. J. Pol and Dr. Willem van Winden are in the European Institute for Comparative Urban Research (EURICUR), Faculty of Economics, Erasmus University Rotterdam, PO Box 1738, Room H12-27, 3000 DR Rotterdam, The Netherlands. Fax: +3110 408 9153. E-mail: lvandenberg@few.eur.nl; pol@few.eur.nl; vanwinden@few.eur.nl.

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present a distinction between various implicit and explicit urban policies that promote entrepreneurship in a number of cities. Sections 4 to 6 use case studies to describe and analyse a number of policies in various cities. For each case, we will assess to what extent the policy helps to lift barriers to entrepreneurship. Also, we will discuss the shortcomings, pitfalls and possible perverse effects of such policies. Finally, section 7 presents our conclusions on the role of entrepreneurship policies in area-based regeneration.

Frame of analysis

Distressed neighbourhoods in European cities

Most major cities in Europe have always had deprived areas with concentrations of low educational levels and high unemployment rates and poverty. In particular, the industrial revolution is associated with urban poverty, poor housing for underpaid industrial workers and frequent social unrest in some urban areas. In the first decades after the Second World War, however, the situation was relatively favourable. Europe experienced sustained economic growth, and in many countries the creation of generous welfare states reduced income differences and softened much of the hardships of the industrial revolution. In the 1970s and 1980s, however, the oil crises and structural economic change caused a severe crisis in urban Europe. In that period, many cities lost population and their economic base weakened. Wealthier families left the cores of larger cities for suburban dwellings or smaller communities. The higher mobility of citizens – thanks to increased car ownership and improved public transport – allowed people to live further away from their work, in larger houses. The cores of many of Europe's cities became less and less attractive; the quality of housing deteriorated, and low-skilled immigrants moved in. Shopping functions suffered from the loss of purchasing power in the city, and faced heavy competition from new suburban shopping malls. In this period, neighbourhoods in or close to the city centre started to deteriorate, and many are still in a poor condition today.

For Western Europe, many observe a turning point in this downward spiral by the end of the 1980s (van den Berg, 1987; Cheshire and Hay, 1989). In some European cities, population losses came to an end; some cities were managing to transform their industrial base and developed new economic growth sectors (van den Berg, Braun and van Winden, 2001). This trend was confirmed in the 1990s, when a number of European cities experienced a remarkable revival. Many inner cities became attractive again, and adjacent neighbourhoods went through a process of gentrification. However, despite positive developments, most large European cities still have high levels of

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unemployment, crime, drug abuse, and physical degradation in certain urban quarters (Madanipour, 1998, Byrne, 1999). Power (1997) observes a concentration of poor and unemployed in large public housing estates. Wacquant (1993) and Zuckin (1998) mention the concentration of problems in neighbourhoods with large migrant/ethnic populations.

A widely held view is that a concentration of low income or unemployed people leads to a further spiral of decline, reinforcing the disadvantage faced by households in deprived estates or areas (Taylor, 1995). Households with choice will choose to live elsewhere, and the new residents are those without choice. Concentrations of deprivation are seen as weakening networks. This is detrimental, as networks are crucial in providing information about jobs (Scottish Council Foundation, 1998, p. 14), as well as in providing care and support in a variety of other contexts (Young and Lemos, 1997). Hall (1999) points to the vicious circle of low education levels, unemployment and crime in many deprived areas of Europe's cities.

In recent decades, the concentration of problems in some neighbourhoods has been persistent. Some believe that the problem will worsen in the years to come, due to globalisation and technological change. Graham and Marvin (1996) argue that the information revolution will entail an increased power of elites, widening gaps between rich and poor, and an increased social and spatial polarization and fragmentation within cities. Castells (1999), Hall (1999) and Handy (1994) believe that rapid technological change may lead to increased exclusion of weaker social groups, because they lack qualifications to keep up with the changes. These groups will remain unemployed, or will be reduced to a flexible manual workforce ("working poor") to serve the needs of the urban rich. Castells (1997) predicts further social exclusion and fragmentation tendencies as a result of the weakening of traditional family ties and the crisis of the welfare state.

It is argued that an effective entrepreneurship policy within deprived areas could break elements of the vicious circle mentioned above. For it could generate new jobs and create purchasing power and new economic perspectives. Within deprived areas however there can be a number of barriers to entrepreneurship.

Barriers to entrepreneurship in distressed areas

There is no commonly accepted definition of entrepreneurship. McQuaid (2002) discerns five main groups of overlapping perspectives on entrepreneurship. The first focuses on entrepreneurship as a function in the

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economy, rather than a personal characteristic. Entrepreneurship is the driver of innovation and structural change. Entrepreneurs are those who implement new combinations of resources by introducing new products, processes or opening new markets (Schumpeter, 1942). In doing this, they take risk. The second perspective views entrepreneurship as starting up a business. This perspective is implicitly taken by OECD (2003). The focus is not on the individual person or owner/manager of a new company, but rather on the process of creating the organisation. When the creation is accomplished, the entrepreneurial role ends, and the original entrepreneur becomes a manager or a business owner. From the third perspective, entrepreneurship is the owner-manager of a small business. In this view, an economy is more entrepreneurial if there are more self employed people or small businesses. Thus, this view ignores the innovative or growth-producing activities of larger companies. The fourth view regards entrepreneurship as a set of personal characteristics. This approach is common in social science research. In these approaches, the prevalence and success of entrepreneurship depends on personal traits, but also on someone's participation in social networks etc. From the fifth perspective, finally, entrepreneurship is a form of behaviour. In this approach, entrepreneurship should be defined according to what people do rather than who they are or their links to new or established companies.

For practical purposes, we define entrepreneurship as a combination of the second and third dimension, i.e. as 1) start-up activity and 2) small businesses activity, thereby acknowledging that personal characteristics and networks of individuals have an impact on both.

In deprived urban areas, levels of entrepreneurship tend to be very low. Why is this the case? Based on a literature overview, OECD (2003) discerns a number of potential barriers to entrepreneurship in disadvantaged local economies. They can be grouped into three categories: Social/cultural barriers, economic barriers, and institutional barriers.

Social and cultural barriers

Based on OECD (2003) we discern four types of (potential) social/cultural barriers to entrepreneurship:

- Limited social and business networks. People in distressed neighbourhoods tend to be poorly "networked", which reduces their entrepreneurial activity. Networks are very important as sources of information on market opportunities, but also to obtain subsidies, how to deploy technologies, and finding administrative and financial

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support. Without these resources, entrepreneurs are less likely to be successful (or to become entrepreneurial at all).

- Lack of role models. Positive role models can inspire others to play a similar role. There are indications that the diffusion of entrepreneurship involves an element of imitation (Bruce, 1998; Audretch *et al.*, 2002). Too often in distressed neighbourhoods however, the dominant role models are not successful entrepreneurs, but rather music stars, sports idols, or, in the worst case, drug dealers or other criminals who make "easy money"

- Cultural obstacles. Distressed urban neighbourhoods tend to have high shares of ethnic minorities and recent immigrants. These groups face cultural obstacles for entrepreneurship, which may include linguistic barriers, and residents' lack of affinity with local customs, habits, and government institutions.

- Lack of personal motivation. Long-term unemployed or inactive people often have low levels of personal motivation for becoming entrepreneurial.

Economic barriers

- Low levels of effective demand in the local economy. In distressed urban areas, purchasing power tends to be low. Thus, the local market, on which entrepreneurs often depend in the start-up stage of their company, is poorly developed, which seriously reduces their growth opportunities.

- Low value of housing/high percentage of rented accommodation. In distressed neighbourhoods, relatively few people are house owners, and house prices tend to be relatively low. Most people rent from social housing corporations. This negatively affects lending opportunities, which tend to be more favourable when the entrepreneur owns real estate, and makes the start-up of a company more expensive and/or difficult.

- Constraints in access to finance. There are several aspects including lack of collateral, high transaction costs due to small loan sizes, lack of management skills, lack of own-finance, and discrimination by banks.

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- High rates of crime. Distressed neighbourhoods typically exhibit above-average levels of crime. For entrepreneurs, doing business in such areas implies that they have to invest more in security and safety, which increases their costs and reduces their competitiveness. Also, they may have more difficulty in attracting staff.

- Lack of work experience and skills. Starting a company is closely related to having work experience. Fielden *et al.* (2000) found that over 80% of entrepreneurs had created businesses based on their previous work experience. However, in many poor localities, people with the relevant skills and work experience are relatively scarce. As OECD put it, "populations comprised of individuals who have never worked, or whose work history is limited, are likely to produce low numbers of viable business proposals" (p. 49).

- Sectoral clustering. Normally, there is entrepreneurial activity in distressed urban areas. However, it tends to be homogeneous, low margin, and low skilled. Dominant types of activity are small grocery stores, bakeries etc, often serving a restricted ethnic clientele with few growth opportunities. The risk of promoting entrepreneurship in such areas is that more of the same companies will be started, crowding out the market.

Institutional barriers

- Problems of transition from reliance on benefits. For someone who lives on welfare, becoming self-employed may entail the loss of a range of subsidies, for instance on housing, health care, education, and insurance. Unemployed people tend to have similar transition problems: if they start their own company, they lose in-work benefits. Also, their income becomes more subject to fluctuation.

Some of these barriers are likely to be more important than others, such as the lack of work experience and skills. We have however no direct empirical evidence on which are the most important.

Policy options

Removing the barriers is likely to increase entrepreneurial activity in distressed urban areas. How can policies lower the barriers that prevent entrepreneurial activity in such neighbourhoods? We make a distinction

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between implicit and explicit policies. Implicit policies do not target entrepreneurship directly, but rather remove (some of) the barriers to entrepreneurship, while explicit policies specifically address entrepreneurship issues. In Table 1, we indicate which barriers will be addressed in the different policy options. Below, we will discuss three types of policies, ranging from implicit towards explicit.

Integrated area approaches

Many cities try to revitalise distressed urban areas by tackling physical degradation, social exclusion and economic decline simultaneously. In doing so, they intend to stop the downward spiral and change the socio-economic structure of the neighbourhood. Typically, such policies aim to attract wealthier inhabitants, lure companies and improve the local amenities in the area. Concerning entrepreneurship, these policies typically not only aim to attract existing companies from outside, but may indirectly tackle a number of the barriers listed in the previous section and contribute to indigenous firm creation.

Policy makers can undertake a variety of measures to stimulate entrepreneurship within distressed urban areas which they want to revitalise in an integrated way. They can for instance set up specific tax incentive zones in order to attract entrepreneurs in distressed urban areas. Examples are the UK Enterprise Zones or the *Zones Franches Urbaines* (French Zones Franches). The Enterprise Zone concept was originally developed in the UK at the beginning of the 1980s with the aim of securing physical and economic regeneration in areas with problems that were resistant to solution by market forces or traditional urban and regional policy instruments (Potter and Moore, 2000). In addition, tackling physical degradation often implies investing in new housing (and demolishing old dilapidated houses) and in the quality of the public realm. Moreover, they can invest in education; for instance to teach foreigners in distressed urban areas the national language, to create more self esteem and/or to teach them entrepreneurial skills. Attracting more highly educated inhabitants can contribute to having better role models within deprived urban areas. Policy makers can also create work experience places to stimulate residents to find good jobs or get involved in entrepreneurship. Furthermore, they can set up preconditions for the location of companies within deprived areas in order to guarantee sufficient heterogeneity of economic activities.

An integrated area approach consists of a combination of various initiatives and the participation of a variety of actors. When successfully applied in deprived areas, such an approach can lead to a gentrification process. This implies, amongst other things, the attraction of wealthier inhabitants

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(leading to a rising level of effective demand) and a gradual increase of land and house prices. Potential entrepreneurs living in areas that are being successfully revitalised, can use these value increases as collateral for financing the establishment of new firms. Moreover, this policy approach also aims to remove typical social/cultural barriers for entrepreneurship, such as cultural obstacles and lack of personal motivation.

An integrated area approach can also lead to enterprise displacement effects. To some extent this can be positive because some low-order economic activities may be replaced by higher-order activities, demanding higher skills and capital.

Relatively high crime rates can be a serious constraint on business. It can force companies to invest in unproductive assets such as security systems. And fear of crime can discourage skilled and more mobile workers (OECD, 2003). Normally, people will perceive urban districts with a relatively poor quality of public spaces and houses as less safe than those with relatively good quality (van den Berg and Pol, 2003). Comprehensive area approaches aim to contribute to reducing this barrier to entrepreneurship. It is thus expected that investing in economic, social and physical measures will reduce (fear of) crime and thereby stimulate entrepreneurship. In Section 4, we will discuss the cases of Rotterdam-Hoogvliet, Strasbourg-Neuhof and East Manchester.

Urban infrastructure as socio-economic catalysts in distressed urban districts

One of the explicit aims of investing in urban infrastructure (such as roads, light-rail and railway stations) can be the expected catalyst effects on the socio-economic development of the districts being served. The expected benefits of such investments are not only transport benefits, and attracting the purchasing power of travellers, but also broader effects, such as the attraction of new companies and inhabitants, employment creation, image improvement, and other investments in the attractiveness of the concerned urban areas.

A barrier to entrepreneurship in deprived areas is often the low level of effective demand. This barrier can be limited by investing in urban infrastructure. For more people are expected to travel to the areas involved and more (well to do) inhabitants can be attracted. Both can contribute to a higher level of effective demand, and thus create more room for (new) entrepreneurs.

In many deprived areas the value of housing is low and/or potential entrepreneurs live in rented accommodation. This can constrain enterprise creation because of the fact that housing is an important source of collateral for

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financing the establishment (and development) of new firms (OECD, 2003). Various research shows that by investing in infrastructure, the value of real estate in the vicinity of that infrastructure increases (Schütz, 1996). These infrastructure investments can thus reduce barriers to financing for new firms because entrepreneurs can make use of the value increases of real estate.

Poorer localities often contain a disproportionately large share of firms in mature, low-growth, easy entry markets. These are industries in which skill and capital requirements are relatively limited and barriers to entry are low. Attracting new businesses after infrastructure investments may lead to enterprise displacement effects (OECD, 2003). Higher skill and capital demand businesses will partly replace their weaker counterparts. It is expected however that the net economic effects on the districts involved will be positive.

Pitfalls of this approach are the relatively large investments necessary and possible limited spin-offs in the area itself. For to achieve economic growth, there must be complementary investments and a facilitating environment as well (Banister and Berechman, 2001, p. 210). In Section 5, we will discuss the case of Dortmund (investments in a concert hall and a railway station).

Creation of business centres to stimulate new small enterprises

The most explicit policy described in this chapter for stimulating entrepreneurship is the setting up of business and/or incubator centres. The supply of business accommodation in distressed areas is often problematic. Private investors do not feel attracted to supply such accommodation, as the risks are relatively high. Many cities have therefore invested in business centres that offer accommodation but also training and all kinds of support for entrepreneurs. By providing (relatively cheap) accommodation with shared business facilities, business support and contacts with local knowledge centres it is hoped that new local business will set up and grow to profitable organisations.

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Table 8. Barriers addressed by different policy options
(0 = not addressed; 1 = averagely addressed; 2 = well addressed)

Type of barriers	Integrated approach	Infrastructure as catalysts	Business centres
Social/cultural barriers			
Limited social/business networks	1	1	2
Lack of role models	1	1	2
Cultural obstacles	1	0	1
Lack of personal motivation	1	0	1
Economic barriers			
Low levels of effective demand	2	2	0
Low value of housing/tenure	2	2	0
Limited access to finance	1	1	2
High rates of crime	2	1	0
Lack of work experience/skills	1	0	1
Low-grade sectoral clustering	1	2	2
Institutional barriers			
Benefits reliance	1	0	1

A major barrier for entrepreneurs in deprived areas is often their limited social and business networks. However, various strands of research demonstrate that entrepreneurs who maintain and develop contacts with other entrepreneurs tend to be more successful than those who do not (OECD, 2003). Business centres and incubator centres can contribute to developing networks and thus to reducing this barrier to entrepreneurship.

It turns out that role models can be very important for stimulating entrepreneurship. A recent examination of successful inner-city firms showed that they often had immediate family members who had owned a business (Westall *et al.*, 2000). On the other hand, where there is a lack of role models for potential entrepreneurs this can be a barrier to starting up new businesses. Business centres and incubator centres can reduce this barrier by setting up networks between potential and experienced entrepreneurs.

Business centres and incubator centres will ceteris paribus lead to the setting up of relatively high quality businesses. A side effect might be the closure of some low quality enterprises. In Section 6, we will discuss the case of Antwerp.

Selected case studies

In sections 4 to 6, we will describe and analyse a number of European case studies. For each of the three policy options listed in the last section, we will

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present cases. For each case, we will assess how the policy addresses the barriers to entrepreneurship that we identified in Section 2.2. The case areas are located in five different European countries. This helps to reveal the diversity of approaches in Europe, and reflects the differences between national institutional contexts.

Integrated area approaches

Integrated area approach in Rotterdam-Hoogvliet

Rotterdam, the second city of the Netherlands, has 600 000 inhabitants (2004). Since the end of the nineteenth century, when shipbuilding, dock work, the petrochemical industry, the wholesale trade and so on were flourishing, Rotterdam's population had grown rapidly to a peak of 740 000 residents by 1965. From the 1970s onward, however, increased prosperity and shifting housing preferences, smaller households and a national housing policy favouring spatial deconcentration, caused a net population drop of some 175 000 in twenty years. Since 1985 the population has been growing again, though not very fast. Currently, one of the main challenges for the city is to attract and retain middle and high-income groups, which form only a small part of the population.

We will focus on Hoogvliet, one of the thirteen Rotterdam boroughs. Hoogvliet, located in the south-west of the urban region, was built in the 1950s as a satellite town of Rotterdam, to provide housing for port workers in a rather open and green environment. Since the 1970s, many people of foreign descent have moved into Hoogvliet, especially from Surinam and the Antilles. At present, 30% of its population has a foreign background. In particular in the neighbourhood North-Hoogvliet the housing stock is considered to be very unattractive. The often very small houses register an average vacancy of more than two years.

During the past decades, Rotterdam Hoogvliet was faced with high crime rates, youth problems, tension between groups of foreign and indigenous extraction and between old and young people, hardships suffered by young single mothers, a higher-than-average rate of unemployment, hard-to-let flats, a distressingly low average level of education and skills, poor chances for the inhabitants to improve themselves socially, an obvious downward spiral in some neighbourhoods, and a poor image.

To turn the tide in Hoogvliet an integrated area approach has been started. For 2000-2010, EUR 90 million in financial support has been allocated to

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Hoogvliet within the framework of an integrated area approach (IAA). The IAA plans for Hoogvliet have been laid down in an investment plan "Hoogvliet, a Proud City", drawn up by the borough itself. Within a decade, the borough wants to: considerably raise the quality of the housing stock, create a fully-fledged district centre with attractive provision, enhance its image, attract more economic activities, upgrade educational services, improve leisure services, offer more opportunities for migrants, and strengthen social cohesion.

The core of the programme is formed by the physical measures; the replacement of a major portion of the housing stock. In the whole of Hoogvliet, one quarter of the existing dwellings will be demolished (4 500 out of the 17 500 dwellings). In principle, an equal number of new housing units will replace these. In the first instance, investment will be in social housing to meet the demands of the current inhabitants. Later, houses "for the market", now in short supply, will be built to attract new inhabitants with on average higher incomes.

Social measures are focused on reinforcing cohesion. The inflow of several groups of immigrants as well as the impending demolition has put the social structures under heavy pressure. Projects are being set up to nurture more mutual understanding and more involvement in the environment among the populace. Efforts are being made to make individual needs the guiding force for physical restructuring: esteem for occupants and social tissues, neighbours who prefer to move together, special requests by teenage mothers, elderly persons, groups of youngsters, etc.

Economic measures are focused on raising the attractiveness and accessibility of Hoogvliet to attract and bind more business companies and (affluent) residents. At present, Hoogvliet has still relatively few well-to-do inhabitants, which reflects on the (rather low) level of services. The most important element of the economic measures is the revitalisation of the centre, where quite a lot of open space is available. The idea is to give the area greater appeal by infrastructure operations and by filling the empty spaces with new buildings for offices and business companies. The centre of economic gravity for Hoogvliet is the business and office park *Gadering*. Nearby, a new metro station has recently been opened, contributing to an improved accessibility and image of this location. For Hoogvliet, the new linkage this station affords to the Rotterdam metro system is considered to be a strategic trump card. There appears to be quite a healthy demand to locate there. Furthermore, the economic pillar of the IAA aims to support entrepreneurs and/or promising ideas. The secondary schools in Hoogvliet cooperate with each other in order to

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broaden their community role, including through the promotion of entrepreneurship. Together they have set up a common campus in which there are facilities, including the presence of some small businesses (such as restaurants and shops), where pupils can learn entrepreneurship skills.

Table 8 shows a broad pallet of barriers which the integrated area approach in Hoogvliet aims to reduce. It is expected that the combination of physical, social and economic investments will initiate a gentrification process in the district. In particular, economic barriers are to be reduced, for example increasing levels of effective demand and housing values. Furthermore, the relatively high rates of crime have to be reduced. Indeed, a slight decrease of perceived unsafety has already been achieved in Rotterdam-Hoogvliet. It is also expected that the barrier of lack of work experience/skills can be reduced, for example by the new initiatives being pursued by local schools.

A potential pitfall concerns the capacity of the area to lure wealthier inhabitants. Hoogvliet's location is quite peripheral to Rotterdam city centre and it has a relatively poor image with outsiders. On the one hand the district is located close to attractive areas along the river, on the other hand it is located near to large chemical complexes. Unfortunately, the image of the area seems to be more connected with the latter than with the former. Moreover, to increase the attractiveness of the area large capital investments will be necessary in the coming decade. It will be difficult to raise sufficient public and private capital for this policy, particularly during economic recession.

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Table 8. Barriers addressed in the different case study examples

(0 = not addressed; 1 = averagely addressed; 2 = well addressed)

	Integrated area approaches			Infra-structure	Bus-centre
Type of barriers	Ro	St	Ma	Do	An
Social/cultural barriers					
Limited social/business networks	1	1	1	1	2
Lack of role models	1	1	1	1	2
Cultural obstacles	1	1	0	0	0
Lack of personal motivation	1	1	0	0	1
Economic barriers					
Low levels of effective demand	2	2	2	2	0
Low value of housing/tenure	2	2	2	2	0
Limited access to finance	1	1	0	1	1
High rates of crime	2	1	2	1	0
Lack of work experience/skills	2	1	0	0	1
Low-grade sectoral clustering	1	1	1	2	1
Institutional barriers					
Benefits reliance	1	1	0	0	2

Infrastructure = Urban infrastructure as socio-economic catalysts in distressed urban districts.
Bus-centre = Creation of business centres to stimulate new small enterprises.
Ro = Rotterdam; St = Strasbourg; Ma = Manchester; Do = Dortmund; An = Antwerp.

Integrated area approach in Strasbourg-Neuhof

Strasbourg, the seventh city of France, is located in the Alsace region, in the *département* of Bas-Rhin and has 264 000 inhabitants. The *Communauté Urbaine de Strasbourg* (CUS) has a total population of 451 000. In the economy of Strasbourg the service sector is dominant; about 77% of the economic activities are services. The presence of European and some international institutions is one of the main causes of that dominance. The financial activities concentrated in the centre of the city account for 5.4% of jobs. Nevertheless, thanks to foreign investments, the industrial sector has remained quite important for the regional economy. The prominent sectors are the metal, agro-industry, chemicals and pharmaceutical industries.

We will give special attention to *Neuhof*, a neighbourhood in southern Strasbourg that is seriously affected by social problems. About a hundred years ago this area was set up as a modern garden city. Many four and five floor blocks of flats were built here during the 1960s and 1970s. Nowadays the neighbourhood has deteriorated. Many of its approximately 20 000 inhabitants are immigrants and a high proportion depend on social income. In this

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neighbourhood, there is high (petty) crime, which has a negative impact on the safety perceptions of the inhabitants.

The government has already intervened several times in Strasbourg-Neuhof without much success. These interventions were often fragmented policy steps, focused on one specific issue, for instance improvement of housing. However, the problems have come to be considered as being so bad that only a comprehensive approach will lead to real improvements.

A large urban revitalisation process has been set up in South Strasbourg. This "*Grand Projet de Ville"* (GPV) is a strategic urban development plan, initiated by the national government but elaborated and carried out by local partners. One of the aims of the GPV is to address the problems in a comprehensive way, stimulating co-operation between different governmental layers and different urban actors. Indeed, several partners cooperate closely in the GPV, predominantly the State, the Department, the Region, the City and construction companies for social housing. The GPV comprises three elements: to stimulate cultural and social inclusion, to improve living conditions and to accomplish urban and economic transformation. Much attention is thereby given to the physical restructuring of the urban area. In 2006, Strasbourg-Neuhof will be connected to the city centre by the modern tramway system which is already in use in other parts of the region. Furthermore, at least 500 social housing units will be reconstructed.

The programme is undertaken in collaboration with the European URBAN-II Programme through which for the 2000-2006 period EUR 1.8 million has come available for the city (making up 18% of the estimated total costs). One of the key elements of this URBAN-II programme is support for small and medium sized enterprises and development of sites and real estate for new economic activities (predominantly artisanal and service activities). Objectives of this economic part of the programme are the creation of 100 new businesses, 200 jobs and 6 000m^2 of new business space.

In 1997, Strasbourg-Neuhof was designated as one of the 44 *Zones Franches Urbaines (ZFU).* The French government decided that within these zones exceptional means have to be used to stimulate economic revitalisation. In these zones companies of less than 50 employees can benefit from fiscal and social exemptions. They can get five-year exemptions from local business tax (*taxe professionnelle*), from land taxes, corporate taxes, social employer charges and personal social contributions for illness and parenthood. Some of the exemptions are bounded to a certain limit. After the 5 year exemption period, there is some prolongation of the fiscal advantages by way of favourable tax

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rates. At least one third of the employees of the companies that want to benefit from the exemptions have to live in the ZFU or in other designated *Zones Urbaines Sensibles* (Zones at risk) within the urban region.

To become designated as a ZFU, a (deprived) district has to have more than 10 000 inhabitants, an unemployment rate 25% higher than the national average, a youth percentage that is 36% above the national average, and more than 30% of youth above the age of 15 without a school qualification. Within a ZFU an action programme also has to be set up for, amongst other things, urban renovation, professional education, accessibility, development of shops and services and support for setting up companies. For Neuhof, such an action programme has been set up within the framework of the GPV. Thanks to the ZFU, 330 new jobs have been created in Strasbourg-Neuhof.[13] In January 2004, 41 new ZFUs were created in France, bringing the total number of ZFUs to 85.

Table 8 shows indicative scores for the integrated approach in Strasbourg-Neuhof. Like the comparable approach of Hoogvliet, Neuhof particularly aims to reduce economic barriers such as the low levels of effective demand and low value of housing/ tenure. However, because of the broad approach taken, social/cultural and institutional barriers are also expected to be lifted. Moreover, the ZFU approach stimulates entrepreneurs by fiscal incentives to start business within Neuhof. This policy appears to be quite helpful considering the number of new jobs created.

A potential pitfall is that companies move within the urban region from a non-designated to a designated area because of the fiscal advantages. This policy can therefore generate unwanted distributive effects. Another potential pitfall is that companies may not be able to find sufficient skilled and motivated employees within the designated urban areas; a precondition for the tax exemptions. Moreover, the success of desired gentrification processes can never be predicted with security. It depends on many complementary issues. The most important aspect is probably the trust potential residents will have in the socio-economic future of a district. Consequently, whether the policy approach proves to be successful depends largely on the behaviour of potential residents. The city can only influence preconditions for the attractiveness of the area. Thus a major potential pitfall will be the image of the area and hence the willingness of potential wealthier residents to move to Neuhof.

13. http://www.ville.gouv.fr/pdf/editions/zfu-pratique.pdf.

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Integrated area approach in East Manchester

East Manchester is situated to the east of Manchester's (440 000 inhabitants) now booming city centre. As one of the United Kingdom's largest regeneration sites, it is an interesting case for our purposes. East Manchester used to be an industrial area, but it has lost most of its jobs in recent decades, and has high levels of unemployment (12% in 2001, more than double the Greater Manchester average). The quality of housing is low, crime rates are high, and the education level of its inhabitants generally does not meet market needs. Many people have left the area in recent decades: the population has dropped from 60 000 in the 1970s to 30 000 in 2002. Some 52% of households receive benefit.

In 1971, the area supported 34 000 jobs, 63% of which were in manufacturing. Between 1971 and 1985, 20 000 jobs were lost due to business closures in manufacturing and construction. Economic activity is low and declining, with 62% of the population in work. This contrasts with the 87% (with an upward trend) nationally.

There is a large skills mismatch in the area. On the one hand, many businesses in the area find it difficult to recruit locally, mainly because of the low skills base. Some 40% of them claim not to recruit from the local area. On the other hand, people in East Manchester have difficulties in finding work: 10% of the unemployed have never had a job, and 38% have been out of work for more than 2 years.

The city of Manchester, in co-operation with the North West region and strongly supported by national and European regeneration funds, has elaborated a plan to revitalise the area. From 2000 to 2010, GBP 90 million public spending has been committed to address many of the physical, economic and social problems of the area. The regeneration strategy can be characterized as area based, integrated and opportunity oriented. It seeks to tackle social and economic issues simultaneously. The strategy has a time span of around 15 years. Key projects include the development of up to 12 500 new homes, of which many will be for higher income groups, and the improvement of 7 000 existing homes. The aim is to double the population to a total of 60 000.

Promoting entrepreneurial activity is an integral part of the programme. Also, as part of a "sports city complex", a new 48 000 seat stadium has been built, that was a major venue for the Commonwealth Games in 2002. Adjacent to Sports City, a new town centre for East Manchester is being constructed, incorporating retail outlets, a market hall and restaurants and pubs. The

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northern part of the area will become a 160 hectare business park. This park, at a distance of two miles from the city centre, should become the major employment base in the city, with 10 000 jobs. The area is easily accessible by motorway as well as public transport, and a new public transport interchange is envisaged on the line of the Manchester to Oldham/Rochdale Metrolink extension.

Many initiatives are being taken to empower local people and to tackle all kinds of social problems in the area. For instance, substantial efforts are being put into improving primary and secondary education in the area.

The regeneration framework is implemented by a limited company named New East Manchester Ltd (NEM). This company is a partnership between the City Council, English Partnerships and the North West Development Agency. Information and communications technology (ICT) is incorporated as an important tool to achieve economic and social goals in East Manchester. ICT is seen as a tool to improve local services, to empower local communities, to address the skills mismatch, to improve public service delivery and safety.

Simultaneously, the City of Manchester supports several initiatives to increase the development of indigenous firms in the distressed area. The City wants to take action because the number of start-ups in the area is low, and the same holds for their survival chances: new business start-up survival in East Manchester stands at 50%, compared with a national rate of 73% (East Manchester New Deal for Communities Delivery Plan, 2000). There are many financial instruments to promote entrepreneurship in East Manchester. Since 2002, the Enterprise Fund offers a package of financial and non-financial (information, advice, guidance and mentoring) aid to small companies and social businesses that have been refused finance by the regular banks. Table 9 shows the three target groups of the fund, and the conditions that apply.

Table 10. The Enterprise Fund: Target groups and conditions

Target group	Conditions
Start-up businesses (less than 1 year old)	Up to GBP 3 000 repayable over a maximum period of 3 years
Micro businesses (less than 10 employees)	Up to GBP 5 000 repayable over a maximum period of 3 years
Social/community businesses	Up to GBP 20 000 repayable over a maximum period of 5 years

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The loans are funded through the national Department of Trade and Industry's Small Business Service, which encourages entrepreneurship nationally but has special concern for in disadvantaged areas.

East Manchester was not designated as an Enterprise Zone (a comparable instrument in the United Kingdom to the French *Zones Franches Urbaines)*. So there were no specific tax exemption instruments to stimulate entrepreneurship.

Table 8 contains the indicative scores for the regeneration schemes in East Manchester. Social and cultural barriers should be lifted, but to a limited extent. Instead, the scheme mainly addresses economic barriers that inhibit entrepreneurship. Effective demand will rise strongly when the neighbourhood succeeds in attracting wealthier inhabitants and new firms, and the value of real estate will increase. The strong commitment to fight crime in the area is likely to result in lower crime rates, with a favourable impact on entrepreneurship possibilities. Sectoral clustering is likely to diminish with the envisaged diversity of economic activity, both in the neighbourhoods (amenities, shopping malls) and in the business park.

A potential pitfall of Manchester-style renewal schemes is the emergence of a "dual neighbourhood", with wealthy parts of newly constructed, high-quality areas existing side-by-side with poor-quality areas, without any integration between the two. If this is the case, none of the barriers to entrepreneurship will effectively be lifted: the problem neighbourhoods will still exist, with low levels of entrepreneurship, but on a different spatial level. New demand will not be effective, the new "role models" will remain invisible, and crime rates will probably not drop in the poor areas. Second, an integrated area approach as such does not address some important specific barriers to entrepreneurship, such as lack of access to finance by micro firms, or a lack of skills.

Furthermore, the support of entrepreneurship in one specific area can lead to lower levels of entrepreneurship in other areas. In Manchester, deprived areas that are not so heavily supported may suffer from the incentives offered in East Manchester. Subsidies may keep unviable businesses alive, and/or produce unfair competition with businesses in other neighbourhoods that cannot claim so much aid.

Urban infrastructure as a socio-economic catalyst in Dortmund

Dortmund is situated in the north-east corner of the German Ruhr region. The city itself has 587 000 inhabitants, and the surrounding urban region

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2.5 million. In the post-war period, Dortmund's economy flourished thanks to its fast-growing manufacturing industry. But in the 1960s and 1970s, many manufacturing activities declined and disappeared, and unemployment soared. After a decrease in the late 1980s, the unemployment rate once more rose during the 1990s, a reversal that was blamed on the negative effects of German reunification.

The centre of Dortmund is enclosed within the former city wall, now an inner-city ring-road. The central station is located to the north of this city ring, outside the historical city centre. When the station was built in the 19th century, it stood on the outer rim of the city. At that time, there was no urban development north of the rail infrastructure. Since then, in parallel with the fast growth of manufacturing industry, substantial urban developments have taken place north of the city centre. Currently, the railway infrastructure and station form a serious urban barrier, preventing a sound integration of the two parts of the city. Most of the deprived areas of Dortmund are located in the northern part of the city. In this part of this Ruhr city, there is a concentration of low-income groups and there are relatively high unemployment rates. Many of the approximately 55 000 inhabitants had been employed in the steel and mining industry.

To promote the conversion of the Dortmund region into a modern service economy, and to strengthen the socio-economic function of the inner city, new urban cultural facilities are considered to be important. Some have already been added to the inner city in the last decade. Examples in the vicinity of the central station are the new library, the new mega-cinema north of the station and the Harenberg Publishing Company (which regularly organises special events such as chamber music concerts and cabaret performances).

To further improve the appeal of the inner city, plans have been made to upgrade the *Brückstraßenviertel*, a district situated close to the central station area. The redevelopment aims to provide the intimacy of an ancient inner city, with a multitude of small services and facilities, such as small specialised shops, pubs and restaurants, art, culture and leisure-time facilities, and predominantly urban housing. The main local attraction is a new concert hall, opened in 2002 with a EUR 55 million investment, seating 1 600 persons, combined with a museum and a music school. It is expected that this will inspire a host of related activities, such as shops and restaurants.

The revitalisation of the *Brückstraßenviertel* aims to produce synergetic effects for the inner city of Dortmund together with a new main station. Since the late 1980s, the redevelopment of the station area has been under discussion.

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The present station is not regarded as worthy of the city. Its capacity falls short of the growing flow of travellers, and the whole complex is considered an awkward urban barrier. A new station is intended to attract more passengers to use new high speed rail services and other public transport and has to substantially increase the attractiveness and accessibility of the inner city. The redevelopment of the Dortmund station area is thus expected to bring about a positive *investment climate* in the inner city.

The current plans envisage extensive roofing-over of the rails to accommodate, in addition to the terminal functions, a hotel, shops and urban entertainment complex. On top of the complex a tall tower is foreseen, which could become the landmark of the New Dortmund. The whole complex should be complete by 2006, the year of the World Football Championships, hosted in Dortmund.

One of the explicit goals of the station redevelopment is the promotion of the city districts north of the central station. Once the rail infrastructure has been roofed over to make the station complex less of an obstacle, and new (cultural) functions have been established just north of the station, like the already realised mega cinema, that urban district should benefit from a new economic upswing. The ambition is to make this northern neighbourhood in the perception of the local population an integral part of the city centre, instead of being seen as the poor urban part.

The ambitions for northern Dortmund are supported by a substantial urban revitalisation project, sponsored by EU funds in the URBAN-II framework. Within the 2000-2006 period, about EUR 29 million is to be invested in the northern part of Dortmund (of which EUR 10 million from the EU). More than one third of these funds are dedicated to measures to support the local economy, in particular strengthening local businesses through counselling and investment support and setting up local business networks. Special attention will be given to ethnic entrepreneurship. Moreover, the urban district will be better promoted and the quality of the physical environment improved.

Table 8 shows the indicative scores for the investments in urban infrastructure in Dortmund. Important aims of this policy to invest in urban infrastructure (*i.e.* the large concert hall and the station area) are to attract investors, related businesses and high-income residents. In particular, economic barriers are expected to be reduced: increasing the relatively low level of demand and the relatively low value of housing/tenure. The policy can also help to attract more high-grade activities; thereby lifting the barrier of low-grade sectoral clustering. It is expected that with this package of investments,

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the upgraded *Brückstraßenviertel*, the redeveloped station area, new cultural investments and improving the built-up area, new entrepreneurs will be attracted to set up their businesses in North Dortmund.

Possible pitfalls of this approach are fierce competition from other urban areas, such as from nearby Ruhr cities and suburban developments, a stand-still of complementary investments in the attractiveness of the city centre, and insufficient demand from higher-income groups to reside in the regeneration area.

Business centre in North-East Antwerp to stimulate new small enterprises

The city of Antwerp in Belgium has about 452 000 inhabitants and the administrative region of Antwerp nearly one million. As in many other western European cities, in Antwerp suburbanisation processes took place during the 1960s and 1970s. The people who could afford to left central urban areas and moved to greener areas where they could find more space and better housing. They left behind people who were not able (or willing) to move to suburban locations. New inhabitants in the old central urban areas were often immigrants and people with relatively low income and education.

The port of Antwerp is still the motor of the economy but no longer the pre-eminent generator of jobs. One negative effect of the growth of the service sector is the lack of jobs for low-skilled or unskilled workers and the ensuing persistent unemployment. Like other labour markets, that of Antwerp is characterised by the spatial paradox of a great demand for labour side by side with considerable unemployment. With seven jobseekers to each vacancy, entrepreneurs are still complaining that they cannot find suitable workers. In January 2000, 12% of workers in the city of Antwerp were out of employment. In the suburban municipalities the percentage was a mere 5%, which brings regional unemployment to some 8%.

The example in this study is located in North-East Antwerp, between the historical and commercial inner city and the suburbs. Some characteristics of this area are the low economic dynamism, high unemployment, large migrant and refugee populations, feelings of insecurity and relatively bad housing. The district counts only 22 000 job opportunities for a population of over 60 000. Moreover, part of this employment is taken by commuters from the suburbs of Antwerp. There is therefore a serious need for new businesses and job opportunities in the area.

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In North-East Antwerp, a good example of the setting up of a local business centre can be found. The "NOA business centre" for starting entrepreneurs opened its doors in 1995. It was an initiative funded by the European URBAN pilot programme, the Flemish Government and the GOM (the regional development company). The economic effects were intended to benefit the immediate neighbourhood. The City of Antwerp made an abandoned school building available for conversion to accommodation for 30 small businesses. Once a business plan had been drawn up, some private companies were found who were willing to participate financially (among others, *Mercator Verzekeringen*, *HAS Spaarbank*, and *De Hefboom*). They did so not so much for the envisaged return as for reasons of "social responsibility" and to develop and consolidate a good relationship with the municipality. Managing directors of those companies are on the NOA Board of Governors. They take the "social side" of enterprise very seriously. The starting entrepreneurs are offered accommodation and administrative support at relatively low prices. There is no selection procedure; in principle the accommodation is open to any business. A great variety of service businesses have settled in the centre, such as media coaching and business communication, a publisher, an informatics consultancy, a company for expert research into labour-market and business science, a bicycle messenger service and an industrial paint and plaster company. The centre also boasts a café, which fulfils a prominent function as a meeting place for the neighbourhood.

The business centre adopts an "open" attitude, which means that services are also given to companies in the neighbourhood that are not established within the centre itself. However, at least 50% of the employers and their employees live in the city of Antwerp. Moreover, growing companies are assisted to find other accommodation in the neighbourhood or the city when they need to leave the centre. From the start in 1995 until September 2003, 72 companies started their activities in the NOA business centre. Eight of them found another location within the district, 23 located elsewhere and 22 stopped their activities. In September 2003, 19 organisations were located in the business centre. Currently, NOA is no longer supported by any external funds. On average, businesses located within NOA generated 45 yearly jobs.

Since 1997, the NOA has also been involved in a project to support ethnic enterprises. This helps entrepreneurs of foreign origin to run their own companies in a more professional way (by for instance providing training courses). NOA also helped with the setting up of two subsidiary organisations: a Telecentre and a Design Centre.

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In 1999, with help of European URBAN and Flemish funds some old prostitution buildings in the station area were transformed into a Design Centre "De Winkelhaak". This is a specialised business centre for entrepreneurs in product development, architecture, graphical communications and multimedia. The centre helps the City of Antwerp to profile itself as a "design city" and to stimulate entrepreneurship in this sector.

Table 8 shows the indicative scores for the NOA business centre in terms of its effects in reducing barriers to entrepreneurship. This relatively explicit policy for stimulating entrepreneurship contributes particularly to the reduction of social and cultural barriers. The NOA business centre helps to encourage mutual social/business networks and role models. By generating employment it also contributes to reducing people's reliance on social benefits.

A potential pitfall of this type of initiative is that beneficiaries may live in areas other than those aimed at. In the case of this business centre, evidence shows that only a part of the entrepreneurs lived in the targeted district, and only eight of the companies moving out of the business centre stayed in that district. Furthermore, if the perceived attractiveness of a district is considered to be too low, it will be difficult to retain entrepreneurs within the area.

Conclusions

Most major European cities have always had deprived urban areas with concentrations of poverty, low average education levels and high unemployment. This has not been changed by regeneration efforts during the 1990s. Moreover from the literature, it can be expected that the information revolution will lead to an increasing social and spatial polarisation, aggravating the current socio-economic problems in certain urban districts.

More and more, promoting entrepreneurship is considered to be a useful tool to turn the tide in distressed urban areas. This chapter has therefore discussed implicit and explicit area-based policies to promote entrepreneurship in deprived areas. Implicit policies do not target entrepreneurship directly, but rather remove (some of) the barriers to entrepreneurship, while explicit policies specifically address entrepreneurship issues. We therefore discussed three categories of barriers to entrepreneurship, socio-cultural, economic and institutional barriers, and considered to what extent these barriers were tackled by area-based policies.

We presented three types of explicit as well as implicit policies to increase entrepreneurial activity. The information has been predominantly hypothetical;

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the exception being the business centre in North-East Antwerp, for which some concrete results could be given.

Firstly, integrated area approaches aim to initiate gentrification processes in distressed areas. This policy is the most radical and costly of the three types of approaches discussed. Tackling physical degradation, social exclusion and economic decline simultaneously is expected to attract wealthier inhabitants and lure companies. At the same time, social exclusion phenomena are tackled and social cohesion stimulated. Integrated approaches are expected to tackle social/cultural, economic as well as institutional barriers. Three cases were discussed: Rotterdam-Hoogvliet, Strasbourg-Neuhof and East-Manchester. It was found that this type of approach is particularly effective at removing economic barriers such as low levels of effective demand and low housing values. However, as it is a rather broad instrument it tackles also many other barriers. An important one is insecurity. Gentrification processes brought about by integrated area development can lead to a reduction of crime and fear of crime, which consequently can help the process of attracting entrepreneurs.

The second approach discussed is urban infrastructure as a socio-economic catalyst in distressed areas. Provided that it is successfully employed in deprived areas, it is expected that this implicit policy will lead to positive indirect socio-economic effects, such as attraction of new inhabitants, which consequently lead to the reduction of barriers to entrepreneurship, such as a low level of effective demand. This instrument is therefore particularly focused on removing barriers rather than stimulating entrepreneurship directly. We discussed the case of Dortmund: investments in a concert hall and the station area. This case was still in an early development stage, but the first signs and expectations led to the conclusion that this policy might indeed contribute to reducing economic barriers in particular, such as low levels of economic demand and low value of housing/tenure.

Thirdly, the most explicit policy discussed in the chapter is the creation of business centres to stimulate new small enterprises. Supply of business accommodation is often problematic in distressed areas because, due to the high risks, private actors are often not inclined to invest in deprived areas. Many cities have therefore invested in business centres in such areas, offering accommodation but also training and all kinds of support for entrepreneurs. North-East Antwerp (NOA) was the case discussed for this policy approach. The NOA-business centre in Antwerp helped quite a few companies to start up and has generated on average 45 jobs per year within the centre and more jobs from companies that left the centre. But its tie to the deprived area remains

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limited. Around 50% of the participants are from Antwerp, but not necessarily from the deprived district. Only eight companies moved to another location within the district. This case aimed in particular to reduce barriers to the setting up of social/business networks and the lack of role models.

We can see that implicit policies for stimulating entrepreneurship, such as investing in urban infrastructure and integrated area approaches, predominantly reduce economic barriers for entrepreneurs. Such policies aim at initiating gentrification processes in deprived areas whereby wealthier inhabitants and more high-grade companies are attracted. This can contribute to higher levels of effective demand and higher values of housing/tenure, which might encourage entrepreneurship. However, a pitfall may be the displacement effects, whereby "social problems" are moved to other urban areas. Moreover, frequently high costs can be involved for these policy options.

More explicit policies for stimulating entrepreneurship, such as the creation of business centres, reduce social and cultural barriers in particular. These policies can contribute to strengthening social and business networks and offer role models to potential entrepreneurs. However, pitfalls for these options may be that participants have limited willingness to cooperate mutually in a strategic way; and that the beneficiaries of these policies may live in other areas than those initially aimed at.

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PART V SYNTHESIS AND CONCLUSION

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CHAPTER 9. SYNTHESIS: FOSTERING ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT IN DISTRESSED URBAN AREAS

By Greg Clark
Chairman, OECD LEED Forum of Cities and Regions

Abstract

This chapter builds on the preceding analysis, on specific tools to promote entrepreneurship, by examining how cities and their development agencies can create integrated entrepreneurship strategies for distressed neighbourhoods. It shows how cities combine actions for social enterprises, area-based and zone-led regeneration, finance, training and mentoring and other initiatives into comprehensive strategies. Initiatives being pursued in five case study cities in Europe and America are described (Amsterdam, London, Boston, Toronto, São Paolo) and the major lessons identified. The chapter then argues that a new era of city economic development strategies has emerged in which cities are embedding entrepreneurship policy within wider initiatives to deal with urban distress, create appropriate economic framework conditions and support social inclusion. Common features of the new initiatives are alignment with new global economic and demographic realities, building new tools and mechanisms for economic inclusion and building local development capacity.

Introduction

In order to build upon the analysis set out in the preceding chapters, presented in preliminary form at the Rome conference, a set of presentations was also made to put the specific role of cities and their development agencies, of various kinds, into the context of national and international initiatives to promote entrepreneurship. These case studies provide an integrated view of the roles of social enterprises, area-based and zone-led regeneration initiatives, finance for entrepreneurship, mentoring/training for entrepreneurship and other initiatives to support enterprise development in distressed urban areas. The session did not seek to repeat what had already been said, but rather to focus upon some cities in which some specific attempts were being made to foster

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entrepreneurship and economic development in the context of disadvantage and urban distress.

Case studies were presented from three European cities; Amsterdam, London, and Rome and three American cities; one each from the United States, Canada, and Brazil; Boston, Toronto, and São Paolo. Each city offered a different perspective of how initiatives at the local level can contribute to fostering entrepreneurship in distressed urban areas. As hosts of the conference, the presentation from Rome focussed more upon their broad work in urban regeneration.

This chapter starts by describing the initiatives being pursued in each city. It then pulls out the major themes and issues highlighted by the case studies in terms of the roles that cities and development agencies can play in promoting entrepreneurship in conditions of urban distress. It concludes by examining how the economic development benefits of city entrepreneurship strategies can be maximised through combination with initiatives to promote supportive framework conditions, strategies for social inclusion and local development capacity.

The five cities

Five cities offered an analysis of their role in fostering entrepreneurship. Rome, as host city, provided a wider briefing on its work in regeneration and public/private partnerships (this is recorded elsewhere).

Amsterdam

Marilou Keller from the Amsterdam agency STEW began with some facts and figures about entrepreneurship in the Netherlands and Amsterdam. She reminded the conference that over 94% of businesses in the Netherlands have fewer than 10 employees and that new enterprises generally account for about 6% of the total, meaning that new businesses are each year providing this percentage of the total. She also reminded us that failure rates (or "closure" rates to be more precise, because not all closures are "failures") are about 25% of all starts within 2 years and about 50% within 5 years. This process of regular annual new starts, combined with closures, provides the dynamism in the small business base. Of all businesses, women-owned businesses are about 27.5% of the total, much lower than the participation of women in the labour market, but still constituting an important component of the entrepreneurial class.

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In Amsterdam, STEW has undertaken some detailed analysis of what business success and failure factors appear to be. Five key issues were highlighted:

- Lack of insight by entrepreneurs into their own strengths and weaknesses in terms of business formation, management and growth.

- Lack of business management skills by the entrepreneurs.

- Insufficient access to finance at critical stages of the business formation and growth cycle.

- Limited business growth due to dependency on a very small number of customers and the tendency to start businesses that have only highly localised markets where there is also intense local competition (*e.g.* retail).

- Focussing too much attention on day to day issues in business performance rather than on future growth and acquisition of new customers, assets, and activities.

Against this backdrop, Marilou sketched out the work of STEW as a city based Centre for Small Business Development. She argued that it was important to understand the stages of formation of a business and that these each needed to be addressed systematically, starting with the individual, their own particular drives and goals, and their degree of preparedness to start and manage a business successfully. Following from this focus on the individual, it was then necessary to address the business formulation and concept, and move on through explicit processes of business planning involving marketing, finance, organisation and management. STEW's approach is to assist the entrepreneur with each aspect, and to make the assistance available at flexible times and in flexible ways.

Consequently STEW's model for entrepreneurship involves two basic contributions that revolve around the facilitation of entrepreneurship and the development of businesses. Within each of these dimensions there are both general services for all entrepreneurs and some that are more specifically targeted, for example to women entrepreneurs, those living (or planning to operate a business) in certain neighbourhoods, or operating with certain sectors (*e.g.* retail).

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Within the general services a "starters' desk" operates, providing a basic foundation of information, guidance, and diagnostic services for all would-be entrepreneurs. Equally, once an individual is beginning the business development process there is support from a central department for entrepreneurs providing access to city services, and a programme of personal training and guidance tuned to various parts of the business development process.

In terms of specific and more targeted services, these include initiatives targeted towards particular populations to encourage more start-up (*e.g.* for unemployed people) at the early stages, and as the business develops. There are tailor made programmes for specific population groups and certain parts of the city, including those that can be defined as distressed or participating in revitalisation programmes.

Two clear themes emerged from the presentation on Amsterdam in terms of distressed urban areas.

Firstly, in terms of populations, entrepreneurship is encouraged for women returning to work, for unemployed people, and for minorities. These programmes have more of a focus on re-integration into economic life and the gradual movement away from social security or welfare dependency. The guiding principles of such initiatives are that they are:

- Offered at the early stage (pre-start) and aimed at helping people make good decisions about whether and how to start a business.
- Offered in forms which make them easily accessible.
- Focused on helping to define and develop broad entrepreneurial skills.
- Offering tailor made guidance, advice, and training oriented to the real circumstances of the participants (*e.g.* low levels of financial capital to invest, little formal entrepreneurial experience, and the maintenance of other responsibilities such as the care of dependents).
- Access to start-up capital through micro-lending programmes.

Secondly, there are initiatives which focus more on certain key locations where more entrepreneurship would be desirable. These also have some discernable principles that underpin them, and they include:

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- Focus on existing entrepreneurs as the best potential source of business growth in certain areas.

- Targeted action aimed at improving business performance, especially building wider and more valuable customer bases.

- Focus on businesses that can improve the character of urban neighbourhoods, such as investment in the appearance of retail businesses, making shop front improvements a contribution to improving the attractiveness of certain commercial locations as a key contribution to wider regeneration efforts.

These two approaches introduce a major theme of the whole discussion; the distinctive roles of (and complementarity between) people-focused and place-based initiatives. These will be reviewed again later.

London

Peter Thackwray, from oneLondon (a major enterprise and regeneration company led by large corporates and operating within the framework of the Greater London Enterprise Group) presented the case on London. Peter set out the work of oneLondon as an enterprise-focused development company seeking to promote innovation and tackle exclusion. He reminded the conference of London's character as a city of sharp contrasts:

- 7 500 000 people, 450 000 self-employed individuals, 250 000 registered businesses contributing 17% of United Kingdom GDP.

- 42 Universities/Higher Education Institutions, with a workforce where 33% have university qualifications.

- 1 000 000 service jobs, 300 000 in manufacturing, 400 000 in creative industries.

- GDP per capita 40% higher than the UK average.

At the same time, London is also a city where:

- Unemployment in the inner area is twice the national average and 43% of all children in London live below the official poverty line.

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- GDP per capita in outer West London is six times higher than in inner East London.

- 25% of the labour force lack basic literacy skills.

Prompted by this backdrop, some important themes for looking at enterprise in distressed urban areas were proposed. These included the enormous untapped entrepreneurial and commercial potential of the inner city areas of London. Equally, poor access to relatively small amounts of start-up and working capital were cited, despite London being the single most powerful financial centre in the world. A major problem of lack of clear enterprise awareness and ineffective outreach to disadvantaged people was identified. Using these key themes, the work of oneLondon was presented.

Firstly, access to finance for disadvantaged entrepreneurs is tackled by oneLondon through its London Business Loan Fund. This is a GBP 3.3 million fund supported by bank lending and a grant from the London Development Agency. It targets excluded groups and is a "lender of last resort", especially for those who have been declined by retail banks and may have a poor credit history. The fund currently has 400 lendees, and has achieved a bad debt rate so far of only 5% (which is very low for this kind of fund). The main features of the fund are:

- It combines money with management support, providing assistance to help the business grow and meet the repayment schedules.

- It is a cost-effective fund that has focussed its attention on building a high quality deal-flow through a network of other intermediaries.

- The fund is inexpensive to run. In depth loan appraisals of borrowers' character and propositions are provided by intermediaries, and entrepreneurs must participate in post-lending support programmes, which minimises the failure rate of the companies involved.

The fund is now three years old and is still building its reputation and track record. Considering the lessons learned so far these include recognising that it is not the cost of finance that is important (this fund lends money at rates which are not more attractive than current bank lending for other enterprises). Rather, access to some structured start-up finance, or working capital, from a reputable and dependable source is the real need. A second lesson is that it is necessary to actively market this fund, building the deal flow pro-actively, taking the fund to

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the entrepreneurs and not simply waiting for them to find it amongst the myriad of support programmes on offer. Thirdly, the fund relies upon building mutually beneficial partnerships between all those participating, including banks, other enterprise agencies (*i.e.* business support organisations) and local level intermediaries, local authority economic development programmes, and the entrepreneurs. In this way effective marketing, pre-lending appraisal and post-lending support can become an integral part of the lending model within an affordable cost model. For the banks, there is clear pooling of risk between them and the public and civil society sectors that makes their participation feasible.

In terms of the performance of the fund, more than 300 new businesses have received capital, despite initial refusals from banks and others. All of these entrepreneurs are from disadvantaged groups. £1.85 million of capital has been raised from the banks, and this capital is all at risk within the fund, and only a 5% default rate has been incurred. Over the course of a whole business cycle this kind of performance would be exceptional as the fund grows in maturity.

A second issue tackled in the London case study was that of how to stimulate entrepreneurship amongst disadvantaged communities. In London, the context is that there is no basic shortage of entrepreneurship support with over 300 different initiatives and organisations available to provide encouragement. Equally, there is apparently no shortage of would-be entrepreneurs as evidence shows that considering starting a business is a common phenomenon, and there is a vibrant informal economy. However, there is evidence that residents of disadvantaged communities appear unconnected to the support services available.

In 2002 and 2003 oneLondon undertook a highly targeted campaign to try to identify potential entrepreneurs who were not accessing support services, to help them consider whether and how to establish a business. Working in partnership with social housing organisations that provide low cost accommodation in inner London, oneLondon wrote to a group of 4 000 inner city residents offering to help them start a business. The letter was sent with the endorsement of the housing organisations, which were also the landlords of the recipients. In all, 200 (5%) people from the target population responded positively. The survey encouraged those who were positive about starting a business to reply particularly, and did not screen out those who were already working, already in business, or unable to work, and therefore the size of the returns, for a one-off mailing are significant. Of these 86% were ethnic

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minorities, 64% were women, and 82% had never used any business support organisation.

Subsequent meetings with each of the respondents produced some interesting insights. Despite the fact that all of the 200 people were positive about starting a business, almost none were connected to the wide-ranging business support services available. Further insights showed there was not particularly any lack of general awareness that support was available or any perceived barrier in terms of cost. Rather the barriers appeared to include the confidence of the respondents and the poor targeting of them by the marketing activities of entrepreneurship initiatives. For example, there was little specialised marketing to them, with the wrong messages and wrong channels being used, and a perception that simply advertising services as "free" would work, rather than considering how to define the "value" of support services for these customers.

The clear message arising from the London experience was then that disadvantaged entrepreneurs are not so much a challenging customer group who are hard to serve, but that insufficient specialised marketing and programme design has been done to address their particular needs and interests. Initiatives such as the London Business Loan Fund and the marketing of services specifically to residents of social housing groups, via their landlords, have had the effect of significantly increasing entrepreneurship amongst these client groups.

Boston

Steve Adams from the Pioneer Institute for Public Policy Research in Boston presented the case of Boston, Massachusetts, emphasising the assistance given to low income entrepreneurs. The context for this work has to be recognised. Boston is the hub of a dense innovative urban region in which high value knowledge-based firms and sectors are to the fore. The Boston economy is both dominated by large institutional employers in the fields of financial services, health care, government, higher education, consulting and manufacturing, and it is a major source of new "high flying" firms spun out from, or developed in conjunction with, the major universities (*e.g.* Harvard, MIT) and health centres. These firms are the main focus of entrepreneurship policies within the region, and they include high tech, bio tech, and telecom start-ups.

Entrepreneurship is not the major focus of initiatives to tackle urban distress, which are more focused on business attraction efforts combined with

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job matching; the idea is to import jobs into those neighbourhoods and assist local people to access them. Initiatives include enterprise zones, the attraction of large retailers, and the linking of inner city residents to institutional employers such as hospitals and public works projects.

Where some focus has been paid to encouraging enterprise in the inner city it has tended to be focused on the "main streets" approach, emphasising local services, especially retail, and focussed more on the physical appearance of businesses within certain locations. It could be concluded that the overall focus has been one of trying to help inner city residents get access to secure incomes, not a focus on wealth creation through entrepreneurship per se.

One problem with this approach is that it occurs in a situation where the wider city and regional economy is actually very dynamic. Linking residents of poor neighbourhoods into stable but relatively low paying jobs can mean that they do not really get to participate in the dynamic surges of the regional economy during growth periods. This can often mean that they get forced out (priced out) by gentrification, as certain neighbourhoods experience substantial reinvestment from higher income families or more productive firms, with consequent price rises. This focus on job creation, rather than business development, can also mean that the enormous potential of the inner city markets and entrepreneurs goes untapped. Whilst there are about 40 000 low income residents of Massachusetts cities starting or running their own business, the existing policy approach can ignore their wider potential and contribution.

Consequently, the Pioneer Institute and others are putting new attention on the potential role of low income entrepreneurs. One issue is that most of the support services are provided by highly localised community based organisations (CBOs) including Community Development Corporations (CDCs), whose horizons might be quite narrowly focussed. This presents an imperative to find ways to help develop this infrastructure.

The CBOs tend to target very small scale businesses including micro-enterprises and sole proprietors. These CBOs are very close to low income residents and are sometimes quite sophisticated providers of highly localised enterprise services such as incubators. Their general services include business plan preparation, entrepreneurship courses, and micro-loans.

However, there are some clear limitations to this highly localised approach. There are potentially too many very small scale initiatives, with the neighbourhood perspective limiting the potential more than is helpful. For example, there might be up to 22 CDCs within an area of 44 square miles,

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having the effect of providing duplication and competition for customers, and spreading the overall resources too thinly. The local focus can also extend to the markets of the businesses, not recognising the importance of businesses that can trade and export their services or goods to other local economies and beyond.

For these reasons the Community Business Network (CBN) has been established. It aims to overcome some of these difficulties of scale by providing a vehicle for collaboration and differentiation between 12 Boston CDCs and the Massachusetts Association of Community Development Corporations (MACDC). This involves a system of lead, affiliate, and supporting members working together in a way which is clearly orchestrated under a central co-ordination and fund-raising programme. Collectively, the CBN provides direct technical assistance to entrepreneurs as well as training workshops and courses, along with referral to the specialised providers and access to capital through referral to banks and specialised funds. Over the 3 years 1999 to 2002 the CBN served 200 clients each year with one to one assistance and supported 700 entrepreneurs through training. 78% of the clients were minority entrepreneurs, 39 new businesses were established and 59 existing firms were strengthened and stabilised.

Despite these positive results, it is recognised that CBN is still working very much at the micro support level. Whilst there is an aspiration to support more growth oriented businesses, and over half of the firms supported do serve a target market beyond their neighbourhood, a majority of the entrepreneurs served have little real experience, funding is inadequate and unstable, and very few staff have business experience. These factors contrive to thwart growth objectives.

Overall, there is market mismatch between the objectives of banks (for example) who do want to make loans to moderate and low income entrepreneurs, and their ability to cover the ground in order to find the firms and support them. But CBOs do have these skills and therefore the potential for a more vertically and horizontally integrated approach now exists.

This has led to the creation of the Urban Business Alliance. This is a business led and supported initiative to raise the growth rate of low and moderate income enterprises by providing market-oriented business-like support to community based organisations to improve the quality of their services to clients. By building a cadre of CBO business advisors with better skills it aims to raise the business expertise of CBOs and connect CBO based advisors with local lenders. The expected result is more growth oriented

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businesses run by low and moderate entrepreneurs because CBOs will be better able to support growth oriented firms and therefore produce better deal flow for banks, increasing the quality and consistency of the propositions they are presented with.

The programme is designed by the Pioneer Institute and is entirely private sector funded with principle support from the State Street Foundation, with additional funds from local commercial banks. A high quality business consulting curriculum has been developed by Boston University School of management, and is delivered by skilled graduate level instructors. There is follow-on technical assistance and mentoring provided by local lending officers from the banks, who act as mentors.

A number of key lessons appear from this model. Firstly, the model targets local indigenous entrepreneurs, not inward investment or institutional employers. The focus is on growth oriented business run by low and moderate income entrepreneurs and provides one to one technical assistance which is flexible and customer driven. The firms are encouraged to look beyond the neighbourhood for their markets but to stay connected to the community, and it is driven by market opportunities and dynamics not by public policy. It rests on the principle that local CBOs can better provide services to these clients if they are well supported by the private sector. It is therefore driven by a belief in building capable community based intermediaries with strong links to market players.

Toronto

The Greater Toronto area was introduced by George Wheeler from the City of Toronto. Situated in southern Ontario on the shores of the Great Lakes and close to the border with the United States, Toronto is the industrial and commercial centre of Canada with a population of 5.5 million in the Metropolitan Area, and a great agglomeration of leading firms and industries.

The City of Toronto itself houses 2.5 million people in an area of 630 square kilometres. Toronto is a unique city in the North American context. It has a population density ten times greater than its metropolitan area and is the most ethnically diverse city in the continent. It has the highest usage of public transport and attracts 65 000 plus immigrants per year.

But, Toronto is also a city of sharp contrasts; it has the highest rates of both poverty and wealth in Canada. It has very high welfare case loads, half of all the low income immigrants in Ontario, and the highest incidence of single

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parent families in Canada. Toronto is a magnet for immigrants of all kinds including the very poor seeking a new life.

But Toronto's success has been its remarkable ability to be a big city whilst retaining a high quality of life. It has a much lower incidence of crime than large US cities and a high degree of acceptance of diversity. But, with declining resources, there is increasing visible poverty and homelessness, income polarisation that is becoming concentrated in poorer and wealthier neighbourhoods, and declining services. Incomes of recent immigrants, the majority of whom are visible minorities, are not increasing as quickly as immigrants who arrived prior to 1985. Toronto is seen as living off previous investments whose value is running out.

Turning to the initiatives to foster enterprise and economic development in distressed urban areas, activity can be seen at a number of scales; Federal, Provincial, and City.

At the Federal level, the most recent key moments were the 1989 Free Trade Agreement and 1994 NAFTA which led to a wide ranging industrial restructuring and significant job losses in the Toronto area. This led to adjustments in Federal policies which emphasised controlling inflation through higher interest rates, deficit reduction in public finance with devolution to the Provincial level of certain social programmes and restructuring of employment insurance entitlements to encourage greater labour force flexibility.

At the Provincial Government level, policy choices resulted in an acceptance of new responsibilities, but, with the pursuit of a fiscally conservative approach, many assistance programmes were cut, most significantly welfare, which was cut across the board by 22% in 1995, the level at which it remains today.

At the programme level, the Federal Government, using the Employment Insurance fund, operates a Self-Employment Assistance (SEA) programme that provides a one year entrepreneurial training to employment insurance recipients. In Toronto, this programme assists about 600 people a year and is targeted towards laid off workers, visible minorities and women, who must be, or have been, eligible to receive Employment Insurance. Over the past 10 years it has helped form over 6 000 small businesses that have produced over USD 100 million in returns for the communities from which the entrepreneurs come. 90% of the participants do successfully start a business and the average first year revenues are USD 27 000.

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Other interesting programmes are "Young Entrepreneur" and "My Company", supported by the Province of Ontario but delivered by Enterprise Toronto. This is a loan guarantee programme for young entrepreneurs up to the age of 29 making about 70 loans a year through commercial banks possible. Two other Provincial programmes are "Summer Company" and "Ontario Works". The Summer Company provides a grant of USD 3 000 to students starting a summer business, and Ontario Works enables people on welfare benefits to earn money from entrepreneurial activities without losing their benefits. All of these initiatives are relatively small in scale.

Turning to the City initiatives, many of these are run by Enterprise Toronto (ET), the small business development arm of the City Department of Economic Development. ET operates four main business support centres providing counselling and research to Toronto's small business and entrepreneur community. ET supports 2 300 business registrations per year and deals with 25 000 walk-in clients or phone calls, in addition to the 6 000 businesses it trains and the 2 000 consultation sessions it provides. The programmes target all would-be entrepreneurs and have successful attractions of immigrants, women, and aboriginal entrepreneurs.

In addition to these programmes to help start-up firms, the Employment Revitalisation programme tries to improve the operating conditions of companies in certain parts of the city (14 defined zones in 2003). Within these areas the programme offers support for retail and shop front (façade) improvements as well as Capital Improvement Programmes and an incentive programme for revitalisation of commercial areas. This latter programme links well with Toronto's Business Improvement Area (BIA) programme which enables local business associations in 45 areas within the city to set up and support their own programme of commercial revitalisation through a levy facilitated by the City. In turn these BIAs are complemented by the activities of The Toronto Economic Development Corporation (TEDCO) which has used its real estate assets and financing powers to develop business incubators related to catering, creative industries, fashion and service sectors.

A wide range of programmes are also provided in the City of Toronto through social sector organisations (non-governmental organisations) using mostly federal funds. These programmes provide support to low income entrepreneurs, especially within new immigrant communities, many of which are from Asian countries, but the programmes are only provided in limited parts of the City. They also offer advice and support with a focus on craft sector industries such as textiles and fashion, and access to micro-loan funds that

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perform very well. Default rates on loans are very low. While programme resources are very limited, they are fully utilised, suggesting that these types of loan programmes could be beneficially expanded.

These initiatives to foster enterprise and economic development in distressed urban areas in Toronto offer many insights which we can build upon. The first one concerns the need for a programme with clear progression routes within it, from start-up through to business development. The second concerns differentiating between programmes that target people and those that are designed to help certain areas in their revitalisation. The third issue concerns scale and intent. The programmes in Toronto have some of the largest throughput of those we have seen and yet the support they offer for the disadvantaged groups they serve is small in comparison to the support they previously received through the welfare payments that have now been reformed. In a stark sense, there remains a big separation between "welfare" and "entrepreneurship" policies, with little attempt to integrate them. In effect, social enterprise programmes would need to be substantially expanded to replace the income provided by Employment Insurance and welfare programmes.

São Paolo

The case of São Paolo in Brazil was presented by Jeroen Klink from the municipality of Santo André. Jeroen outlined the key attributes of Santo André, a municipality of some 650 000 people within the ABC region (2 350 000) which itself is a key sub-region of the Greater São Paolo Region (17 800 000).

The ABC region, within which Santo André is now working to improve its local development policies, was traditionally an industrial development area during the 1950s to 1970s, focussed upon car manufacturing, petrochemicals, metallurgy, etc. These industries were characterised by the integrated vertical structure of firms, which led to a significant presence of large firms. Few local SMEs benefited from this model, and the larger firms were not good at outsourcing even within various cycles of modernisation.

Economic restructuring began in the 1970s as the diseconomies of agglomeration became evident in terms of congestion, land use, labour market functioning, and quality of life. The abrupt changes in the macro-economic regime of the 1990s (industrial and technological developments and trade policies) intensified some changes that were already in train and began others. Following the micro-economic changes within larger firms, the *plano real* brought about changes in the way supply chains were orchestrated. The

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combination of these with wider macro-economic changes to stabilise Brazil's balance of trade and GDP growth, resulted in higher unemployment as a consequence of stabilising productivity and value added within the re-structuring firms.

This growth in unemployment was the starting point for a new momentum in inter-municipal co-operation on local development within the region in 1990. Seven municipalities within the ABC region in southern São Paolo got together to form the Inter-municipal Consortium. By 1997 they had created a chamber within the region and were undertaking a wider effort of master planning, restructuring, and the promotion of enterprise development. In 1998, they created the first Regional Development Agency in Brazil, with a specific mission to support wider economic development planning especially through entrepreneurship and re-development.

The focusing of the support of entrepreneurs and SMEs has especially involved the encouragement of networking between SMEs and other actors such as universities, larger firms, training institutes, and local governments.

Further initiatives to support SMEs have included the development of good socio-economic information to help with market analysis and understanding and the generation of international links. Two major initiatives have been the creation and management of incubators and the raising of funds for investment and lending to SMEs. As these have developed, so the agency has started to become involved in clustering initiatives.

The development agency is now managing three incubators that are making an intense contribution to the work of modernising the business base of the region and revitalising key locations that have suffered from de-industrialisation. The next stages for the Development Agency include working to foster a clear economic strategy for the whole greater São Paolo city-region within the context of the Mercosur free trade area.

The case of São Paolo highlights several important themes. Firstly, the importance of patiently building capable intermediaries in the form of development agencies in this case. Secondly, the importance, again, of combining distinctive work with firms and those that tackle the problems of places. Lastly, there is a key theme of focussing enterprise support efforts around the implementation of a clear long term economic strategy.

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Major themes from the case studies

The five cities show us some important and diverse approaches in terms of how cities, and various forms of development agencies, can seek to promote enterprise in the context of urban distress and industrial restructuring. This review of five cases has highlighted several important themes that might be summarised as:

Aspirations

It is important that would-be entrepreneurs within distressed urban areas are not solely encouraged to build businesses that address local "inner-city"/neighbourhood markets. Whilst innovative models of business development that can service neighbourhood markets are an important strand of regeneration of urban areas, entrepreneurship aspirations should not be limited to these.

Business support services

There is a need to provide advice, training, and access to capital and accommodation (where appropriate) in integrated ways, to optimise their value. This is generally true of all initiatives to support SMEs, but in the context of urban distress the need is even more stark.

People and place focused initiatives

Successful entrepreneurs from distressed city environments are likely to leave those localities as they succeed unless the places they are from are also being regenerated. When successful people leave urban neighbourhoods this can have the effect of retarding regeneration, by representing an additional form of disinvestment. Initiatives need to address people and place based issues in ways that are capable of integration. Entrepreneurs need the best for their businesses, finding synergies with the needs of places is key. It is important to overcome the challenge of people moving out of a poor neighbourhood as soon as they become successful and the related problem of poorer people being squeezed out of their neighbourhoods through gentrification processes, which only emphasise place.

Neighbourhood focused businesses with export potential

There is a growing seam of activity surrounding fostering businesses that can make a particular kind of contribution to addressing urban distress either

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because business provides services to local people that they would not otherwise get, or the business can improve the physical appearance of a neighbourhood and contribute to wider revitalisation efforts, or the business will bring income into the neighbourhood from outside through "exporting" its products or services to other markets beyond the local economy. These are important businesses in distressed urban areas and there is growing expertise in how to encourage them. Sometimes these are social enterprises.

Effective marketing of entrepreneurship opportunities and support is essential

Targeting disadvantaged populations in new and innovative ways, and finding the most effective means of communication with them is important to fully address the potential entrepreneurship of urban populations.

Building effective intermediaries

Building effective intermediaries is key to delivering on the ground. The Boston case shows particularly that intermediaries with community reach are essential, but for fostering entrepreneurship they also need to have commercial acumen and disciplines. This includes City Development Agencies too; they need to have a robust business perspective on new business formation as well as an orientation towards urban regeneration.

Incentive structures for entrepreneurs

Many would-be entrepreneurs are impeded by the marginal returns of starting or formalising a business due to the way that welfare and other benefits operate combined with the costs of being in business. There is a need to calibrate effective incentives to leave benefits to start up in business for people on welfare type programmes, and also a need to seek integration between the differing systems of support in order to avoid an "income jeopardy" situation when people take the risk to pursue entrepreneurship.

Networking for start-up and growth

Networking between entrepreneurs appears to be a very effective tool, at the right points, in the business formation and growth processes, and can be encouraged. In the Boston, Toronto, and Amsterdam cases networking is used variously: to improve the commercial acumen of business advisors, to encourage collaboration between urban neighbourhood businesses and experts/entrepreneurs from the wider region, and to support businesses working together to improve urban neighbourhoods and grow their markets.

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Scalability

Most speakers commented that the very best initiatives were often the smallest in scale. Sometimes this was a function of cost, or of the dedication needed to produce innovation. Scalability of the best initiatives is a key challenge, nearly all of the most effective programmes are capable of some degree of expansion, but not necessarily of simple replication.

Prioritising entrepreneurship within city economic strategies

The fostering of entrepreneurship is but one of the ingredients of a multi-faceted local development strategy for cities with distressed urban neighbourhoods. A key conclusion of the discussion was the need to place these initiatives within a wider strategy that can help foster the environment in which they can succeed and create the context in which they become sustainable (see below). Placing enterprise development within a longer term economic development strategy for the city is essential to giving it real integration with the wider dynamics of social and economic change in the city.

This last point provides us with an opportunity to better connect entrepreneurship activities into the wider array of economic development initiatives of city governments and development agencies. To understand the work of cities and development agencies in this regard we also need to look beyond activities that are directly focussed upon stimulating entrepreneurship, and consider to what extent city economic development can provide the right context for entrepreneurship to address urban distress.

City economic development: a new era

Over the past 20 years, there has been a clearly visible re-assertion of the importance of cities in terms of the economic performance of national and sub-national economies. This can be viewed from a number of lenses. Economists are increasingly emphasising how cities can foster a wide range of agglomeration economies. That is to say that cities can be attractive to private investors because they house key infrastructures, endowments, and sunk investments that make them efficient places from which to do business, and, they are also capable of being an effective milieu for clustering, networking, resource and innovation sharing between firms that gives them competitive and productivity advantages.

Whilst this thinking is not new, it has challenged some of the more widely held views, of the 1970s and 1980s, that cities were becoming economic

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backwaters. It has emphasised that globalisation has provided new opportunities for cities to grow such roles. The re-opening of the international economy, during the past 20 years, through processes of restructuring, integration, and technology development have provided an opportunity for cities to assert new economic roles and identities for themselves somewhat beyond traditional roles they may have played in older nation-state/national economy frameworks. Cities see themselves increasingly within a global network of cities not a national urban hierarchy.

This has been visibly expressed in the work of the Globalisation and World Cities (GaWC) group at Loughborough University who have provided a pictorial "roster of world cities".[14]

Thus, a key aspect of city economic development over the past 20 years has become that of redefining, or clarifying, the long term feasible economic aspirations of cities within a new paradigm. This involves a very wide range of initiatives that can be mounted at the city level, and at higher and lower tier levels to address the perceived strengths and weaknesses of the city against its goal. Some of the fastest growing cities are doing this very effectively.

City economic development and urban distress

How to address urban distress inevitably becomes an important task in this process of city economic development. Urban distress is variably seen as both a waste of economic assets and resources, an ethical and moral imperative, and also a long term risk due to volatility of impoverished communities.

However, to properly locate the role of entrepreneurship within economic development strategies that can address urban distress, it is important to recognise that there are a great many forms of, and a great diversity of causes and consequences for, urban distress. This certainly varies significantly within national and continental contexts, where widely varying development patterns and models exist.

There is no single approach that is going to work in every city. Most of the cities we have looked at are cities where areas of urban distress exist within otherwise relatively prosperous cities, or amongst particular populations. There are many other cities we could look at where distress and poverty are much more widespread. São Paolo is a much less wealthy city than Boston or

14. See www.lboro.ac.uk/GaWC Roster of Wold Cities.

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Toronto for example. The continental economic development model of Latin America is not that of the United States and Canada. The starting points are different.

Causes of urban distress can also be affected by some highly localised factors such as the change in use of a piece of land, or a rise in crime, which triggers disinvestment. However, many cities within OECD countries have experienced growing distress over the past 20 years as a result of some common factors, including:

- Globalisation and shifting economic geographies which may have made some cities more peripheral to new economic centres.
- Rural-urban migration within nations.
- Industrial restructuring resulting in job losses in traditional urban sectors.
- Re-engineering of urban labour markets as a result of technological changes which have achieved productivity improvements at the expense of job creation.
- Arrival of new immigrants at the bottom of the income ladder.
- Failure of public policies which have tended to concentrate poverty and distress into certain areas (*e.g.* through monolithic public housing schemes).

Consequently, city economic development activities may need to provide rather distinctive approaches to tackling urban distress depending upon the balance of factors at play. For example, the issue of large numbers of immigrants seeking work may be fundamentally one of labour market inclusion (*e.g.* in Toronto), whereas the problem of concentrated poverty brought about by public housing policies may require a more targeted response (*e.g.* in London).

City economic development and framework conditions

Another important "framework condition" is worth mentioning. Using city economic development tools to tackle urban distress is only going to work when other fundamental framework conditions are effectively operating. It is

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important to note that most city economic development activities in OECD countries take as a starting point that; for example, city business environments are relatively conducive and transparent, that urban land markets, property rights, and land-use planning functions relatively well, that public services such as education, sanitation, housing, policing, and healthcare are, to a great degree, fully effective.

This does not mean that there is an assumption that no improvements can be made, nor that it is not a role of city economic development leaders to agitate for improvements. Rather, the assumption is that there is a qualified and experienced group of professionals who command some degree of sufficient resources for these tasks. Outside of the OECD countries these assumptions might not be systematically safe to make, and the role of city economic development activities may well be to help systematically and improve efforts in fundamental public services and business environment. Given that so many cities in the developing and transitioning world are encouraged to copy and borrow initiatives from the OECD cities, it is important to be aware of the assumptions about the context in which those initiatives are intended to operate. The success of initiatives to foster economic and enterprise development in distressed urban areas will usually depend on these factors very greatly.

So, for example, attempts to replicate the success of business financing programmes operating within many OECD countries in other countries where there is not yet a fully conducive local business environment, or land-use planning and property rights system may well be doomed to failure. Business finance schemes depend hugely upon both the transparency of business accounts and the use of property based collateral, for their functioning. If these are absent, the schemes will need adaptation.

Cohesive and inclusive cities

As a result of the tendency towards urban distress, even in otherwise successful cities, city leaders have become much more focussed on long term development planning that is designed to address the problem of social and economic exclusion on a human and on a territorial basis. Looking at the cities that have taken major initiatives here, there appear to be a number of common features that are worthy of record. These are spelt out below under three headings:

- Aligning the city with new economic and demographic realities.

- Building new tools and mechanisms for economic inclusion.

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- Building local development capacity.

These are each discussed briefly below.

Alignment of cities with new global economic and demographic realities

Placing enterprise development for distressed urban areas within the wider city economic development efforts can be better viewed by reviewing the common dimensions of economic development programmes of the major cities within OECD countries. This especially addresses how cities are responding to the opportunities and challenges of globalisation. We might identify twelve kinds of activities, although it is not suggested that these are always successful, or effective. They include:

- **Leading, planning, monitoring and co-ordinating for the long term**. Globalisation invites cities to distinguish themselves from others in a much wider market for urban assets and to plan for the long term. Cities are increasingly leading collaborative long-term visioning and strategic planning efforts to identify a clear path into the future, long term investment needs, assets and opportunities, risks and threats, and to mobilise energy and resources behind a shared set of flexible goals. They base this on the dissemination of key insights from observing and recording change in the city-regional economy. This activity is intended to properly place the city within the new global urban networks, acquiring optimum roles in valued activities.

- **Branding and promotion.** Cities are reviewing and revising their images and branding. They do this to strengthen their distinctive identity, and appeal to new markets. More frequently than previously, cities are investing in promoting themselves on a multi-sectoral basis (tourism, sports, business investment, culture, retail, entertainment, trade, studying, etc) to growing international audiences.

- **Connectivity and openness.** Cities are developing initiatives to improve internal and external connectivity (transport, ICT, logistics), aiming to make the city more open to itself (re-integrating rivers, waterfronts, brown field sites, and other places that were dangerous, polluted, derelict, or redundant) and making the city more open to the international economy; digitally and physically (airports, seaports, bridges, tunnels, satellites, wireless zones, and deeper ICT hubs).

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- **Excellence and value.** Cities are fostering excellence and value for money in public services, business environment, quality of life, and cost base, and are seeking to acquire an international reputation for these. There is more focus than ever on winning liveability awards and being perceived as excellent value within the international comparisons of places.

- **Metropolitan scale.** Cities are adopting a metropolitan scale, or foot-print, in building new initiatives, recognising that (with the changing economic geography of the past 3 decades, led by suburbanisation and industrial relocations) the whole of the "functional territorial area" needs to be included in the process of alignment with global opportunities and challenges.

- **Catalytic projects**. Cities are seeking to identify, win, and successfully mount large scale "catalytic projects" that have the potential to drive forwards several other indicators of urban progress at once (e.g. hosting major international games or events that can contribute to promotion, connectivity, and resource mobilisation).

- **Entrepreneurial, productive and innovative collaboration**. Cities are seeking to develop clear economic strategies that foster collaboration amongst firms and institutions within the city, increasingly embedding high value functions, innovations, and networks within the city, anchoring especially those high value activities that are otherwise mobile.

- **Clout and flexible investment**. Cities are advocating to win, and use, increasing flexibility and financial support from higher tier governments and other authorities, by effectively demonstrating the high return on investment for them of helping to make cities work.

- **Access and settlement**. Cities are preparing for population growth, immigration, and enhanced social and racial diversity, much more effectively. Alignment with globalisation makes all cities more diverse. Improving "settlement services" for immigrants of all kinds, reducing the time and cost between arrival in a city, and full participation in the urban economy, is a key indicator of openness and efficiency.

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- **Build the urban management tool-box.** Cities are trying to make greater use of existing tools of urban management (*e.g.* using land use planning powers, property assets, pension funds, or traffic management competences more effectively to achieve social and economic goals). Cities are also seeking to build momentum for new tools, competencies, and powers at the local level, and are winning new competencies from higher tier government when they show that there is sufficient positive national value.

- **Inclusion paths**. Cities are trying to address the challenge that globalisation produces more poverty in cities. They are creating new and more effective social and economic inclusion programmes, using existing resources more flexibly and removing barriers to inclusion.

- **Sweat assets and build capacity**. City leaders can see that public assets and community organisations have important roles to play. They are increasingly attempting to anchor municipal resources and assets to the growth opportunities in the local economy, and build up the capacity of civil society and other capable intermediary organisations.

These points do not amount to an economic development programme for any city on their own. Local development initiatives will need to flow from the strategy setting process, and out of the programme development in each theme. The point of this list is to organise the actions that cities are taking to align themselves with economic realities, so that some economic development can occur in an effective manner. Local development initiatives will work better when supported by these actions.

New tools and mechanisms for economic inclusion

New tools and mechanisms for economic inclusion are needed in our cities. Again, there are some emerging approaches here. But before considering what these are, there are a number of angles to this issue that should be set out. Firstly, there is a broad and common misconception that all local development initiatives should deliver economic inclusion goals directly.

There have been furious arguments between city leaders when they discover that inward investment, venture capital initiatives, and incubators (to name a few) do not necessarily create jobs for the most vulnerable groups in a locality, or effectively address urban distress. Some of these arguments have

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resulted in local development taking a major step backwards in certain cities as confidence is lost in the process.

It can be helpful to recognise that there are essentially two different kinds of local development tools (though both may be present in any one initiative or programme). Some of them are good for fostering investment, enterprise, productivity improvements and growth, and others are good for fostering labour market attachment, growth of targeted firms, increases in social capital, community development and, ultimately, economic inclusion. Several initiatives will include both kinds of "growth" and "inclusion" goals, but these are not common.

The problem has been that insufficient attention has been paid to how put these tools together to achieve abroad range of local development initiatives that can deliver some growth, some inclusion, and some integration of the two.

To illustrate this point very crudely, the revitalisation of a major site to house globally traded advanced business services only delivers economic inclusion when it is accompanied by programmes that ensure the training and recruitment of local people for jobs created, and supply contracts for local firms. Trickle-down does not just happen, the mechanisms for capturing the benefits have to be studiously built. This is obvious to most people, but easily forgotten. A related point is that many of the mechanisms that are needed to create more inclusion involve being both innovative with rigid resources, and much more flexible with programmes provided by higher tier governments.

Some of the main tools that cities are using to achieve economic inclusion in distressed urban areas, and thus to link entrepreneurship development with improving economic outcomes for residents of distressed urban areas, are suggested below. This is not an exhaustive list, but it does provide some insights into what cities are doing.

Active labour market interventions

A fundamental tool is an active labour market policy coupled with mechanisms for improving the competitiveness of the labour force in distressed urban areas. In most cases, this requires not just the basics of supply side enhancement of skills, but much more active intermediation between supply and demand, often with assistance given to employers who employ people who have been out of work for long periods or have had no formal employment previously. Equally, intermediate stages in the labour market may often be needed such as labour market transition programmes, intermediate and

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temporary jobs. The re-alignment of health, housing, transport, childcare and crime reduction policies around the building of real incentives to participate in work is often also required. Cities like Glasgow, Berlin, and Chicago have been experimenting with such programmes.

Leveraging the informal economy

The informal economy (sometime called the "black economy", or the "twilight economy") is a major force in most large urban areas. It includes both legal and illegal activities, but the common denominator is that the activities are "undeclared", and people working within the informal sector have very few opportunities for career progression or business growth. The informal economy does perform an important function in that it operates as a rapid gateway into gainful employment for many migrants, and it offers a second source of income for people on benefits. However, in both of these cases it also increases jeopardy; both from the lack of fundamental support systems such as health, insurance, fair pay and safety at work, and, it can criminalise people who are simply seeking to work for a living. Equally, people get stuck in informal employment, with few routes out, and this contributes to urban distress. "Clusters" of informal activity in certain locations can also have a blighting effect and retard urban regeneration, especially if the activities are illegal or anti-social.

Several cities have started to address this with informal economy strategies and interventions focussing upon improving the conditions for informal economy activity and the incentives for formalisation. Benefits to business and welfare to work amnesties have been attempted. Enterprise rehearsal schemes that allow people to set up a business whilst receiving benefits have also been deployed. Equally cities such as Johannesburg and Durban, in South Africa, and New York have made new provision for informal trading a key element of their urban regeneration initiatives. In such cities providing a new infrastructure for informal economy activities has proved to be a good incentive for formalisation of firms, and better than seeking to enforce rules.

Local investment instruments

One feature of urban distress has been the difficulty of securing financial services (insurance, banking, etc) and access to capital for entrepreneurs, regeneration initiatives, and social enterprises at the local level. Equally, concern has been repeatedly expressed about how quickly scarce financial resources are extracted from neighbourhoods (through "loan sharks" and institutions that are not locally focussed), failing to "recycle" resources locally.

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Therefore new investment instruments that can provide new financial services within neighbourhoods, harnessing institutional capital for local and regional investment, are a key tool for social inclusion.

Such local investment funds have been a major focus in US cities such as Philadelphia and Chicago, and also featured in Italian, Spanish, and British cities very prominently. These funds provide access to capital for local people and projects and they also offer incentives to tackle profit gap, risk and return scenarios for larger investors. Capable fund management intermediaries are thin on the ground, and have to built up carefully, and a major focus on demand side stimulation is required (quality propositions are hard to trigger). A more detailed discussion of these funds occurs in the LEED publication *Private Finance and Economic Development* (OECD, 2003).

Integration of migrants and refugees

Another significant focus of the case studies is that urban distress tends to correlate with ethnic and racial diversity. This is not that migrants and immigrants create distress, rather they often gravitate towards the poorest neighbourhoods where housing is cheaper (and community support systems might exist), but from where jobs might be less accessible. However, from a social inclusion perspective such people are in danger of falling into long term under-employment and unemployment. Cities are recognising that it is essential to make optimum use of all labour, including that of migrants and immigrants, and that particular mechanisms and programmes may be required. Skills and experience conversion programmes for people who have worked in other national and continental systems are one example, but so too is investment in language capacity and ability. Countries with active pro-immigration policies tend to be better at this, such as Canada and New Zealand, but cities like Miami, Los Angeles, Stockholm and Helsinki also have active measures to help immigrants succeed economically.

Fostering entrepreneurship in disadvantaged areas

These programmes have been fully covered by the case study cities cited above. As has been seen; entrepreneurship and business formation programmes that also emphasise socially useful businesses and businesses which can lead regeneration efforts are able to make an important contribution. However, the most important issue from a broad economic inclusion perspective is that distressed urban areas are seen as a key source of entrepreneurs and as a vibrant market for businesses of all kinds.

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Engaging the purchasing power of the city-region

Another important set of tools for economic inclusion within cities surrounds the mechanisms to leverage city-wide purchasing capacity for firms and employees in poor neighbourhoods. Procurement and supply chain initiatives that encourage aggregation and benefit capture at the most local levels are key. This is especially important when cities are going through peak short run growth, such as that associated with hosting a major event, or building a new facility. However, the more general need to consider how procurement and supply chain strategies can be used to capture benefits also applies to any aspect of the city economy which is in growth. North American cities such as Philadelphia (Conventions), Miami (Tourism) and Los Angeles (Toys), and European cities such as London (Airline Food) and Glasgow (Call Centres) have been somewhat effective here.

Linking people and places

One of the main themes arising from the case study analysis above is the need to find ways to link strategies for the inclusion of people and strategies for the inclusion of places together. The twin problems of "gentrification" (where places improve as a result of external investment but the lives of poorer people do not) or "brain drain" (where people leave poorer areas as soon as their personal life chances improve) have to be tackled together. Initiatives that link place with people and engage people in improving their place as they improve themselves are key. Housing is one vehicle for this, especially mechanisms which can transfer equity in housing to individuals and communities. Equity in neighbourhoods can result from strong community development organisations. Asset building and management strategies within poor communities and neighbourhoods is a key aspect of this. They require a capable set of local and city-wide intermediaries. Cities like Chicago and Baltimore in the United States, Glasgow, Belfast, and Dublin, and Rotterdam have achieved some success here.

Tackling discrimination

One feature of economic exclusion is that discrimination exists in the ways that the markets for employment, supplies, and services operate. Much of this may be unwitting, resulting from a failure to recognise how the systems for procurement and recruitment may favour some over others. Some cities have tried to address this directly, though most initiatives have been mounted at the national level. Washington DC has taken initiatives in employment, and many South African cities in relation to procurement and supply. Anti-discrimination

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incentives are sometimes used in terms of labour hiring and procurement (*e.g.* employment tax credits). Making and disseminating the business case for Corporate Responsibility here is also important. Systematic marketing of the skills and abilities of people excluded from the labour market is also important.

Building local development capacity

It will be clear that one key variable in terms of how well cities can pursue both the wider economic strategies now associated with globalisation, and the particular tools that might help achieve economic inclusion in distressed urban areas, is the presence of capable intermediaries and local development capacity. In some cities the primary form of local development capacity is the local development agency. Especially in cities within countries where the evolution of a local development model is quite new, the establishment of a local development agency may be the first proper step.

However, over time, in those cities that have been pursuing local development for some years the challenges of distressed urban areas have led to many other forms of local capacity being built. These include local partnerships (see OECD, 2001), but also various local agencies including intermediate employment organisations, local fund and investment managers, community development corporations, enterprise agencies (several of the case studies in this chapter were provided by these), and many others. The investment that creates these kinds of capable intermediaries is long term in nature.

City development agencies

Few city development agencies are set up with this whole agenda in mind, and there are very few agencies whose role covers all of the issues discussed above. Work on city development agencies over several years shows that there are many different kinds and that their overall powers and competences are derived especially from the competences of the governmental bodies that support them. This means that not all cities have the same capacities to engage in local development or tackle urban distress through fostering enterprise.

However, cities can certainly learn from one another and they can simulate the same tools and levers of actions, even if they do not have the same powers.

The five city case studies and the wider discussion in this chapter demonstrate how important local development agencies and initiatives are within cities in order to create the best context to foster entrepreneurship and economic development in distressed urban areas.

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CHAPTER 10 ENTREPRENEURSHIP IN DISTRESSED URBAN AREAS: FUTURE POLICY DIRECTIONS

By Jonathan Potter
LEED Programme, OECD

Abstract

This chapter summarises the main messages of the book. It starts by examining the importance of entrepreneurship promotion in distressed urban areas and the key obstacles to entrepreneurship. The following section sets down a description of all the policy instruments identified in the book as capable of helping tackle these barriers, covering entrepreneurship financing, entrepreneurship attitudes and skills, support for social enterprises and area-based and zone-based policies. Each instrument is described together with the barriers it addresses and considerations for successful implementation. The final section sets out some principles for entrepreneurship support in distressed urban areas.

Importance of entrepreneurship promotion in distressed urban areas

Distressed urban areas, including inner cities, run-down social housing estates and other marginalised communities, are sites of serious economic and social exclusion. Within OECD Member countries and throughout the world cities usually contain areas of highly concentrated unemployment and poverty that the market on its own seems unable to regenerate. Addressing the problems of distressed urban areas is an important matter for the residents whose lives are affected by lack of opportunities to access employment and increase their incomes as well as for cities as a whole, which are burdened by the costs of remediating problems and which will not reach their full potential without employing the resources available in these areas.

Whilst there has always been some level of inequality within cities under capitalism, many of the current difficulties of distressed urban areas can be traced back to the structural adjustment required as city economies react to globalisation and technological and market change by shifting from

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manufacturing to service industries and from low to high skill occupations. The costs of this structural adjustment have been concentrated both in terms of people and place. Employment opportunities for people with low skills and education have tended to decline relative to those for more highly skilled and educated people. At the same time, the manufacturing and port areas of cities have borne the brunt of decline in traditional industries. And because of the way housing markets operate, the people and the place problems have come to overlap, since those people marginalised by economic change have tended to concentrate in low cost housing, often in the same areas that have been hit hardest by economic change, whilst others can take the opportunity to migrate out.

With time, "hysteresis" has set in. Thus what might be expected to be short term structural adjustment problems, leading only to temporary unemployment of resources, have long term consequences on development prospects of the areas affected. People who have become unemployed in distressed urban areas often have deteriorating skills and confidence, many young people have not been able to enter the labour market and gain experience, inactivity levels are high, premises are no longer appropriate for the types of uses that the modern economy requires and external perceptions have often come to be negative about the opportunities for development. It now appears clear that securing economic growth at national level is not enough to regenerate distressed urban areas.

Distressed urban areas therefore represent an important economic and social challenge for policy makers. If entrepreneurship activity can be increased in these areas we can expect a range of economic and social benefits, including job generation, increased incomes, reduced social exclusion, enhanced built environment, and increased provision of local services. And although entrepreneurship will not be enough on its own, it has potential to act as a catalyst for urban regeneration if these impacts can be achieved.

There are certainly opportunities for policy to increase entrepreneurship in areas of urban distress. There is a range of evidence to show that new and small firms are a major source of new job creation in the economy as a whole. Their impact may be particularly important in inner cities because compared to large companies, small businesses have fewer problems finding available premises and provide more accessible employment to residents.

However, the potential of distressed areas for new and small firm growth is not fully being exploited. Distressed areas often have thriving informal sectors and many micro businesses, but surveys such as the Global Entrepreneurship

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Monitor show that more residents would like to create or run their own businesses and that the type of entrepreneurship occurring is often more 'necessity driven' than 'opportunity driven'. There is substantial market demand in central cities that appears not to be fully tapped (US Department of Housing and Urban Development, 1999). Porter (1998) has stressed the existence of many sources of competitive advantage in inner cities including favourable factor conditions, such as large pools of labour and centrally located premises, large local market demand and the frequent presence of competitive local enterprise clusters. Inner cities often include major universities and hospitals and are adjacent to major retail centres, concentrations of financial and business services firms and so on, which can all provide a catalyst for entrepreneurial growth.

Furthermore, distressed urban areas host substantial levels of social entrepreneurial activity amongst disadvantaged and excluded groups. The 2004 UK GEM Social Entrepreneurship Monitor shows that people from ethnic minority groups, who are proportionately more concentrated in areas of higher deprivation, are far more likely than others to be involved in social entrepreneurship and that ethnic minorities, low income groups and the unemployed are more likely to be social entrepreneurs than mainstream entrepreneurs (Harding and Cowling, 2004). The same survey showed that the median socially-oriented start-up business creates four jobs compared to just one amongst mainstream start-ups. This suggests that there is considerable potential for social enterprise in distressed urban areas as well as considerable potential for mainstream entrepreneurship. Because of the rapid expansion of the sector, its focus on delivery of socially-oriented services and the relatively strong involvement of socially excluded people in entrepreneurial activity for social purposes, social enterprise could be a strong driver for social and economic regeneration in distressed urban areas.

The case for economic and social integration of distressed urban areas is well recognised and a range of policies have been developed and implemented since the early 1980s to try and address the problems. They include measures targeted on land, in terms of property-led regeneration, on labour, in terms of training, employment subsidies, job matching and welfare-to-work type measures, and on capital, in terms of attracting inward direct investment and private finance. However, the factor of production that has been less emphasised in all this is entrepreneurship. Yet this may have significant potential for helping inner city regeneration when combined with more traditional policies. The argument is increasingly being put forward that distressed urban areas actually have very strong potential for bottom-up

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development, led by mainstream and social entrepreneurs living there. These entrepreneurs have the potential to see opportunities for development and to combine resources in order to exploit these opportunities. The potential benefits of promoting entrepreneurship in these areas include increased incomes and tax revenues, local job generation, increased skills development and work experience amongst the labour force and improvement of the built environment. However, there are obstacles to overcome. These obstacles are outlined in the next section before potential policy responses are examined and issues are considered for the implementation of these policies.

Obstacles to entrepreneurship in distressed urban areas

This book identifies a number of potential barriers to entrepreneurship in disadvantaged urban economies concerning the four themes covered in the book. They can be briefly summarised as follows:

Lack of finance

- *Limited own-resources*. The most common finance source for small business in general is personal funds from savings or some other form of personal assets of the business owners. In distressed urban areas people tend to have fewer assets than in more prosperous areas.

- *Limited networks*. Many business starts borrow money from friends and family. Low income people in distressed neighbourhoods often have networks of people who are less well off than in more prosperous areas and this can be a constraint relative to other areas.

- *Limited or poor credit history*. Low income entrepreneurs in distressed urban areas may have a poor credit history that limits their ability to access bank lending.

- *Limited collateral*. Banks tend to demand collateral for debt finance and an important source of collateral is home equity. In areas of urban distress housing tends to have a relatively low value and many people are in rented housing, limiting the collateral they can offer.

- *Credit rationing through bank screening practices*. Mainstream banks tend not to provide credit to businesses with insufficient cash flow, collateral, banking history or management experience. These can be important issues in areas of urban distress.

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- *Lender transactions costs*. Relative to entrepreneurs from other areas, inner city entrepreneurs may come forward to potential investors with less well developed proposals and projects associated with higher risk. Financial institutions may try and reduce risks by greater attention to project selection and by combining technical support with investments. This increases costs of lending and hence reduces expected returns for investors, which is likely to reduce the amount of funding made available.

- *'Redlining' and racial discrimination*. A way of reducing lender transactions costs is to select not on the expected risks and returns of individual projects but on group characteristics of entrepreneurs from a particular area or ethnic community. Thus entire areas or ethnic communities may be 'redlined', although many individual projects may be viable. The problem of basing lending on group characteristics can be compounded by lack of familiarity with minority and low income borrowers leading banks to judge projects on misplaced stereotypes.

- *Limited variety of financial instruments*. The supply of finance in distressed urban areas is often too strongly concentrated on debt finance and informal finance, with too little supply of other complementary financing opportunities, such as equity finance.

- *Lack of awareness of the financial options available*. Inner city entrepreneurs tend to rely on own finance, informal finance and debt finance and have relatively little information on the practicalities and implications of securing other types of finance. This limits local demand for other financial instruments, in turn affecting supply.

- *Lack of information on investment opportunities.* Banks and potential investors often have negative perceptions of business opportunities in distressed urban areas because of a lack of information on issues such as the real scale of purchasing power, skills, sites and premises, clusters of competitive industries and so on.

Weak entrepreneurship attitudes and skills

- *Poor self image*. The 2003 UK Global Entrepreneurship Monitor survey found that individuals on low incomes have more negative perceptions of their own capacity to start a business than their

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counterparts on higher incomes. They are more likely to perceive barriers to finance, have lower confidence in their own skills and are less likely to report seeing good business opportunities (Harding, 2003). A general problem often cited with respect to distressed urban areas is that residents do not think entrepreneurship is for them.

- *Limited positive role models*. Distressed urban neighbourhoods often have a relative paucity of positive entrepreneurial role models. Residents of distressed urban neighbourhoods often do not have entrepreneurs in their families or peer groups that could inspire them to follow the same course.

- *Limited business networks*. Entrepreneurs in distressed urban areas often suffer from a lack of networks with other entrepreneurs that could help them secure access to capital, employees, suppliers and collaborators, information on business opportunities and advice and mentoring.

- *Poor education and business skills*. Distressed urban areas are often characterised by relatively poor general educational attainment, which may knock on to poorer business management skills. For example, in the central city of Glasgow (UK) within the wider Strathclyde agglomeration, 27% of the adult population have no formal qualifications (OECD, 2002a) and 32% of adults in the city of Baltimore (USA) have no high school diploma (OECD, 2002b).

- *Strong informal economy*. Inner city and other distressed urban communities have often developed relatively strong informal economies characterised by higher than average illegitimate enterprise activity. Although this suggests that actual entrepreneurship rates and potential are higher than might otherwise be thought, it also means that people may be pulled towards activities with relatively poor conditions and growth prospects.

- *Local market outlook*. Entrepreneurs in distressed urban areas often set up in sectors or businesses that depend on local markets, such as retailing. Strong local competition therefore constrains opportunities for growth.

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Obstacles facing social enterprises

- *Lack of recognition of social enterprises*. There seems to be a strong potential supply of social entrepreneurs in areas of urban distress, and clear market opportunities. However, there appear to be barriers to people setting up social enterprises related to a lack of social recognition of the importance of social enterprise and lack of public support.

- *Weak business management skills*. Social entrepreneurs are often highly driven in their motivation to address social issues in their neighbourhoods. However, sometimes people with strong social motivation put less emphasis on their business planning, management skills and investor readiness than optimal for the growth and sustainability of their enterprise.

- *Inadequate access to finance*. Social enterprises, particularly in distressed urban areas, often find it difficult to access mainstream private finance because of poor information flows and mutual understanding between finance providers and social enterprises.

- *Inadequate access to public markets*. Despite trends towards increased contracting-out, public procurement in many OECD Member countries has still not taken full advantage of the social enterprise sector as potential suppliers in social goods markets.

- *Local outlook*. Dependence of many social enterprises on local markets may limit their growth and development, increase their vulnerability to funding or demand shocks and limit their visibility to public sector procurement agencies, finance institutions and business support organisations.

- *Diversity in the sector*. Because the social enterprise sector covers many types of business and areas of activity it can be difficult for public support to properly target the sector.

- *Short-term funding*. Social enterprises are often highly dependent on a few short-term contracts from public sector purchasers. This can make forward planning and strategy building difficult.

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- *Regulatory framework*. The rapid recent growth and development of the social enterprise sector has often not been adequately followed up by clarification of legal status and regulatory provisions. Regulations originally designed for more traditional social purpose organisations can constrain innovation in the sector, for example in access to finance.

- *Limited specific financial tools*. Social enterprises often differ from private enterprises in various aspects of their business, such as the nature of their assets, the predictability of their revenues and their reporting arrangements. They also tend to have a higher dependency on grants and loans than commercial enterprises. Private finance is not being fully exploited to generate growth in the social enterprise sector because of lack of specialist institutions or financial tools adapted to the characteristics of social enterprises.

Interplay among a range of economic and social problems

- *Social, economic and physical constraints*. Entrepreneurship vitality depends in many ways on the quality of the local environment surrounding firms. In areas of urban distress there are many areas where conditions in the local environment are not conducive to entrepreneurial success. The problems can include low incomes, poor human capital in terms of skills, health, motivation and job readiness of local labour, poor physical infrastructure in terms of availability of business premises, high crime rates and poor image. Taken together these problems can represent a serious constraint to entrepreneurship in an area and policies that ignore this context are unlikely to succeed.

What instruments can help overcome these obstacles?

The section above has highlighted some of the barriers to entrepreneurship development in areas of urban distress. This section summarises the types of instruments that have been identified in the book as capable of helping tackle these barriers. As with the book as a whole the focus here is on four key themes: access to finance; advice, training and mentoring; social enterprises; and area-based and zone-based policies. For each instrument, the nature of the instrument, the barriers it addresses and considerations for successful policy implementation are discussed. In addition a Table sets out some of the main strengths and weaknesses of each instrument discussed. Such an assessment gives both an idea of how suited the instrument will be to particular

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circumstances and of considerations to be borne in mind when designing and delivering the instrument in order to maximise the benefits.

It should be noted that the instruments in the four areas examined here are not the only tools relevant. Other instruments need to be considered as well, such as supporting local enterprise clusters or encouraging innovation, and approaches that combine a series of measures are likely to be more successful than fragmented initiatives. However, the instruments in the four areas chosen are seen as among the most important of the entrepreneurship development tools available for distressed urban areas. More detailed descriptions of how the instruments are being applied in specific contexts are given in the body of the book.

Entrepreneurship financing

Pre-activity grants

Pre-activity grant schemes offer a small grant to target individuals interested in setting up a business to enable them to finance activities prior to setting up the business, such as preparing a business plan, assessing the market, understanding the support services available and so on.

The main barriers addressed are lack of self-confidence amongst potential entrepreneurs in distressed areas and lack of experience in setting up enterprises. This type of instrument helps potential entrepreneurs to explore the viability of their business proposition before starting. This should help people to make better decisions about whether or not to go ahead in business, and, for people who do decide to go ahead, increase the quality of the business and its prospects for survival. It can also provide encouragement to people who are unsure about whether they want to make the plunge, especially where they know that they can go back into employment at the end of the assessment period.

Pre-activity grants are likely to be most successful where they are part of a package providing other assistance such as advice and training. It can often be useful to agree a pre-activity period with the potential entrepreneur's existing employer, to secure an agreement to come back into employment if necessary and to improve the opportunities for business activities with the former employer if the start-up goes ahead. Deadweight might be reduced by targeting grants on the most needy entrepreneurs.

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Grants and loans to small and start-up enterprises

Public grants and loans provide repayable or non-repayable finance to small firms having difficulty financing start-up or growth.

Grants and loans help directly overcome the finance gap for small firms in distressed areas by improving their financial position. If the award is competitive, it can also provide a signal to other potential investors that the company is worthy of finance. Small grants and loans are commonly used in distressed urban neighbourhoods to fund the movement into self-employment for individuals.

In implementing grants and loans an important issue is whether to apply them to all applicant firms in a distressed area without a selection process or whether to award only to the most promising businesses. The blanket approach has the advantages of maximising the coverage and low administration costs. On the other hand a selection process can help to minimise deadweight and crowding out of private finance, reduce total costs and provide a signal that it is worth supporting the business with other private and public services. It may also be possible to attach conditions to awards, such as on levels of employment creation.

Loan guarantees

Public sector loan guarantee funds involve public provision of guarantees to banks making loans to specified businesses that would not otherwise receive finance, and can be targeted on new and small firms located in designated neighbourhoods. The public sector usually covers a proportion of the cost of loan defaults and may also cover some of the set up and/or operating costs of the funds.

Loan guarantee initiatives help to overcome the difficulties that entrepreneurs from distressed urban areas often face in meeting the collateral requirements of mainstream banks. They also alter the risk-return relationships for banks considering investment in projects in distressed urban areas, increasing the likelihood of investment being directed towards these areas.

To maximise the impact of public investment it is important that the public sector acts as a broker and lender of last resort, rather than attempting to finance and run schemes alone. This helps to capitalise on the market access and loan appraisal and management competencies of the private sector as well as to lever-in private finance. It is also useful to combine financial support with other

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support to enterprises, such as advice and training, in order to reduce firm failure rates.

Bank-SME round tables

Bank-SME round tables are forums where local banks and SMEs can discuss overall business development issues and specific investment propositions.

Round tables help address the problem of incomplete and uneven information between banks and entrepreneurs by improving the flow of information and building interpersonal relations. This can be particularly important in distressed urban areas where there can often be cultural barriers to mutual understanding.

In implementing round tables it is useful to provide information to local entrepreneurs on bank project selection procedures and to banks on local investment opportunities.

Mutual guarantee schemes

Mutual guarantee schemes are private groups of companies that mutually guarantee individual loan applications to banks by members of the group whose projects are selected as worthy of financing. The guarantee is backed by membership fees paid by the members of the scheme. The public sector may broker the establishment of a mutual guarantee group in distressed areas and contribute some proportion of the loan guarantees.

The schemes help address problems of bank reluctance to lend in distressed urban areas by backing bank loans and by improving the banks' ability to identify good projects using project selection based on the members mutual knowledge of their businesses and business propositions.

In implementing these schemes it is important that there is a sufficient critical mass of members with reasonable knowledge of each other's business activities.

Support to business angels

Business angels are wealthy individuals, usually former entrepreneurs, who are ready to invest in new and small companies and provide advice based on their own business experience. The public sector can encourage business

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angel investments by identifying potential business angels and attracting their interest to projects in distressed urban areas, brokering the establishment of business angel networks (platforms functioning through the internet, magazines or forums that help match angels and entrepreneurs), promoting the business angel vocation through academies (providing training to potential angels, for example in risk assessment) or fiscal or other incentives to angel investors.

Support to business angels helps overcome the finance gap for small investment amounts in distressed areas by tapping into an underexploited source of finance. Business angel networks more specifically help overcome the problem of incomplete information to lenders on the existence and quality of potential investments in distressed areas by acting as an intermediary, ensuring information flows between potential lenders and entrepreneurs. Support to business angels also helps deliver management assistance and networks to inner city entrepreneurs.

Business angel initiatives for distressed areas are likely to have to draw in investors from the wider city or region and may suffer from a lack of strong potential growth companies to attract in investors. It may be useful to stress social motives for business angel investments in distressed areas (sometimes referred to as "virtue capital").

"Love money"

"Love money" is a term for finance provided to entrepreneurs by other people with a close link to them, who are motivated by a desire to help the entrepreneur succeed as well as by a search for a good return. This may be based on an affinity for the person involved, for example friends and family, or stretch further to people who do not directly know the entrepreneur but who want to make an investment in their local area. Policy can support the flow of "love money" to local projects in distressed urban areas through awareness raising and establishing local investment funds. Local development agencies can act as co-investors in funds or get involved in supporting the establishment or operating costs.

"Love money" initiatives help tackle the finance gap for small projects by tapping into new sources of finance and help intermediate between potential investors and entrepreneurs by pooling small amounts of money and making them available to selected projects. They also help overcome the problem that local informal investors often do not have the time or expertise to identify, assess and invest in appropriate projects.

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Where initiatives go beyond simple awareness-raising it will often be necessary to support significant administrative costs for publicising initiatives, identifying investors and entrepreneurs with projects requiring funding and managing payments and repayments. "Due diligence" costs may also need to be subsidised by the public sector.

Specialist community development lending institutions

Specialised community development lending institutions include organisations such as "Bank Community Development Corporations" and "Community Development Financial Institutions", which invest in low income areas or low income people. They often operate in partnership with mainstream banks, providing specialist expertise and facilities in distressed neighbourhoods. Public support may be needed for the establishment of community development lending institutions for example in the form of regulatory mechanisms or through incentives for investment in this type of institution.

Community development lending institutions help overcome the information gap that discourages mainstream banks from investing in distressed communities. They can also be more flexible with their investments than mainstream banks, for example in terms of the value and nature of collateral demanded. In addition, these institutions can help overcome weaknesses in management and business skills of local enterprises through provision of technical assistance to accompany investments.

The development of a community development lending institution sector can be significantly encouraged by regulations or rating systems that require or encourage investment by private sector banks in distressed communities. The involvement of individual social lenders and organisations like charities and socially responsible companies can also stimulate the sector. Where the sector is yet to develop, a central support organisation can be useful for training of staff, information on management methods, networking between institutions and so on.

Equity funds

Equity funds or venture capital funds collect finance to inject as long term capital into companies through taking an equity stake, sometimes supported by management and business development assistance to the company. The public sector can set up its own funds or contribute to the capital or operational costs of private funds, for example through grants or tax credits. Publicly-supported

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funds can direct their investments to new and small firms located in specific areas, including distressed urban areas.

Equity funds help address the finance gap for early stage companies with growth potential requiring relatively small amounts of finance, broadening the range of financial instruments available.

Some equity funds have been created by city or regional authorities and private investors targeted at small firms in their territory, often stimulated by public grants or investments. However, because of potential issues about reaching appropriate economies of scale in management and securing sufficient deal flow it may be preferable to create national funds targeted on small businesses in all distressed areas in a country rather than a series of local funds in specific distressed areas. Alternatively small businesses in distressed areas could benefit from existing public or private equity funds through proper signposting and work on investor readiness.

Tax incentives for investment in distressed communities

Initiatives such as the US New Markets Tax Credits programme provide tax incentives to private individuals who invest in community development finance intermediaries, which in turn make investments in low-income communities.

The tax incentives help to overcome the reluctance of individuals to invest in projects in distressed urban areas because of negative perceptions or an absence of channels to assess and pool risk. More generally, this is another way to increase the supply of investment funds in these areas by reinforcing community development intermediaries.

These initiatives are generally pursued by national governments and tend to support a small number of specialist financial institutions.

Data on investment opportunities in inner cities

This instrument involves collecting and disseminating information to public and private investors on untapped investment opportunities in inner city areas. For example, in the USA the Initiative for a Competitive Inner City (ICIC) has been involved in a number of projects to provide data on untapped opportunities in terms of unmet retail purchasing power, unexploited workforce skills, unused development land and industry clusters that could be strengthened.

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The aim of these initiatives is to change negative perceptions of investment opportunities in distressed communities in order to increase the finance being channelled into entrepreneurship and development more generally in inner cities.

To have the desired impact, information must be well presented, relevant, objective, timely and targeted to potential investors. Information is often gathered, analysed and disseminated by non-profit organisations not based in the distressed neighbourhoods in question in order to establish the necessary independence, although national government could also act as a respected supplier of data.

Legislation against "redlining"

The Community Reinvestment Act in the USA is the best example of legislation against "redlining". The legislation requires federally chartered banks to provide adequate credit to all sectors within a bank's market area, particularly areas of distress and low economic activity.

The barrier being addressed is the tendency of banks to ration credit in circumstances of incomplete and uneven information by refusing to lend to whole categories of clients rather than assessing individual proposals case by case. "Redlining" refers to the practices of drawing a line around certain geographic areas that are considered high risk areas in which banks refuse to lend.

It may not be necessary to apply severe sanctions on banks that are suspected of redlining. The establishment and publication of ratings in terms of the degree to which a bank lends to low income communities can do much to change the attitudes of banks. It is also important that legislation is accompanied by some mechanisms for banks to address the information problems that lead them to underinvest in distressed areas. In particular the presence of community development banking intermediaries can help banks to meet their legal obligations or obtain good ratings.

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Table 11. Some strengths and weaknesses of entrepreneurship policy instruments for distressed urban areas: finance

Programme type	Strengths	Weaknesses
Pre-activity grants	Gives potential starters time to develop better business plans. Many employers will allow employees to take leave for the period of the pre-activity grant, allowing return to employment if necessary. Administration costs are low.	Funding is often given irrespective of needs and deadweight may therefore be high.
Grants and loans to small and start-up enterprises	Can target firms with specific needs that tend to be concentrated in distressed areas, including those owned by the unemployed, ethnic minorities and low income groups. It may be possible to attach conditions, for example on levels of employment creation.	High administration costs. Potentially high deadweight and displacement. May have low penetration in target group if not well marketed.
Loan guarantees	Access to finance can be combined with management support. Public support can leverage private capital and loan assessment expertise.	Public sector schemes may crowd out the private sector. If the public sector takes on too much of the loan provision and management it may be a poor use of public money.
Bank-SME round tables	Helps SMEs to have confidence to open up to external finance. Helps banks to better understand the investment opportunities available. Can lead to development of new approaches.	Smaller distressed urban neighbourhoods may not have the critical mass to form a group.

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Programme type	Strengths	Weaknesses
Mutual guarantee schemes	Attenuate the adverse consequences of information asymmetry between banks and entrepreneurs. Lower public investment requirements and greater self-sustainability than public guarantee schemes. Provide a mechanism for mutual support and networking between firms, going beyond loan provision.	More administrative difficulties for the public sector to set up than public guarantee schemes. Difficult to set up in areas without a history of mutuality or a critical mass of potentially successful businesses. May be more appropriate at city or regional level than for distressed neighbourhoods.
Support to business angels	Opens up an underexploited source of finance. Business angels can also contribute management skills and a network of contacts. Provides a bridge to formal finance at later stages.	Entrepreneurs can be reluctant to cede equity and elements of control to outside investors. Distressed urban areas may have relatively few wealthy individuals living locally. Business angels may not have good networks in distressed areas and may have negative perceptions of business opportunities in these areas.
'Love money' (e.g. 'friends, family and fools')	'Friends, family and fools' have a preference for investing in local start-ups. Pooling of assets in local investment funds allows larger amounts to be raised for business ventures.	Distressed urban areas tend to have a lower density of wealthy people with assets to invest in businesses. This source may already have been well tapped by entrepreneurs even without public brokerage. The public sector may encounter high operating costs if tasked with due diligence.

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Programme type	Strengths	Weaknesses
Specialist community lending institutions	Better knowledge of target communities, helping project selection and giving confidence to banking partners. Flexibility to adapt lending criteria to local situations, such as unconventional collateral. Capacity to offer technical assistance together with finance. Accepted vehicles for pooling funds from public agencies, private banks and non-profit organisations.	High administration costs.
Equity funds	Meet a gap for seed or early-stage financing of potential growth businesses.	Difficult to achieve adequate deal flow in distressed urban areas. Little help to entrepreneurs with businesses that do not meet high growth criteria.
Tax incentives for investment in distressed communities	Supports investment flows to intermediary community finance organisations. Can demonstrate a new profitable market. Leaves specific investment decisions to investors.	May be low take up if awareness is low or intermediary institutions are not in place. May be high deadweight if investment already taking place is supported. Can be high administration costs if incentives available only for certain investments.
Data on investment opportunities in inner cities	Can identify or highlight investment opportunities (e.g. local enterprise clusters, local markets) that have been underestimated by the investment community.	Seeking to increase investment in enterprises serving local retail and personal consumption markets may be associated with high displacement.

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Programme type	Strengths	Weaknesses
Legislation against 'redlining'	Ratings and sanctions on banks can channel large amounts of investment to distressed urban areas at little public cost. Provides a strong stimulus to the development of a community banking sector. Demonstrates profitable opportunities to specialist institutions.	Significant constraints on banks may impinge on the efficient allocation of capital. Redlining is difficult to legislate for because it is often implicit, embedded in mentalities, rather than formal. Legislation may not be successful unless accompanied by support for intermediary agencies. Banks may seek to meet the requirements of legislation by including routine business they would have done anyway.

Entrepreneurship attitudes and skills

Influencing attitudes to entrepreneurship

Initiatives to promote enterprise as a career option in distressed neighbourhoods include work experience with small businesses, enterprise education in schools, presentations by entrepreneurs in schools and youth groups and raising awareness of entrepreneurship through the media. These initiatives also encourage a broader outlook towards the types of entrepreneurship that can be pursued by local residents, emphasising the opportunities in higher value-added sectors and wider markets than are traditionally addressed by local entrepreneurs.

The aim is to overcome negative perceptions of the relevance of entrepreneurship to people from marginalised communities and negative self-perceptions of capacity to succeed. Influencing attitudes may also help shift the focus of entrepreneurship activity in inner cities away from activities with highly localised markets towards activities with greater growth potential.

Because a wide target audience is addressed, mainly made up of people who will not be aiming to start a business it is important not just to focus on encouraging business start-up but also on being enterprising more generally. It is also important to consider how public entrepreneurship initiatives are likely

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to be perceived by the target group. It may be necessary to overcome negative perceptions of government interventions that in the past failed to deliver genuine entrepreneurship opportunities.

Use of role models

Role model initiatives draw attention to the stories of successful entrepreneurs that people in distressed neighbourhoods can draw inspiration from, for example by publicising their achievements in local media or arranging presentations to schools.

The aim is to overcome perceptions that entrepreneurship is something that is not relevant to people living in distressed neighbourhoods.

It is important that the role models demonstrate how it is possible for people from the target populations to succeed, without hiding the difficulties that are likely to be encountered. The role models need to be people with whom the local community can relate and not necessarily the owners of the fastest growing or largest local enterprises.

Management and business skills training

Various public initiatives support training for the management and employees of new and small firms, for example through subsidies for internal training or for external seminars and courses. Programmes cover a range of subjects such as finance, marketing, production, exporting and procurement.

The initiatives aim to overcome problems of a relative lack of training in small firms compared to large firms. This in turn may be related to fewer opportunities for small firms to gain from staff training through promotion via internal labour markets, greater difficulties in covering the costs of training and lack of private sector training provision tailored to the needs of very small firms. In addition, it has been noted that small business owners in distressed urban neighbourhoods face a lack of skills on setting up and running a business, which is partly related to limited networks.

In delivering training it is important to tailor provision to the existing technical, managerial, entrepreneurial and personal maturity skill levels of entrepreneurs.

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Networking amongst entrepreneurs

Networking initiatives tend to operate through meetings and seminars based around key issues of common interest such as particular business techniques or opportunities.

The aim is to help overcome the isolation often felt by entrepreneurs who do not start with strong personal networks with other entrepreneurs. Once in contact with each other, entrepreneurs can often help each other with information and advice that will increase their confidence and motivation and help them to overcome business problems or take business opportunities.

Network building often focuses on particular types of entrepreneur or business. For example there are many networking programmes for black and ethnic minority entrepreneurs. One of the difficulties is providing the incentive for entrepreneurs to come together in the first place. Linking networking structures to access to other business support may be useful.

Business advice

A variety of publicly-supported business advisory centres exist to provide information and advice on issues such as business planning, market research, recruitment and so on.

In distressed urban areas private services tailored to the needs of micro businesses may be lacking and local entrepreneurs may not have information on their presence or be reluctant to use them. Publicly supported business advice services may help small businesses to grow, particularly in the relative absence of other sources of assistance such as personal networks with other entrepreneurs.

In delivering this type of support it is important not to crowd out existing private sector services and indeed to build on these using signposting where possible. Advisory services may be more relevant to growing than stable businesses because growth firms are more likely to be facing new challenges.

Mentoring

Mentoring involves experienced entrepreneurs providing information and advice to newer entrepreneurs through regular meetings over an extended period of time in an informal, ongoing relationship. Programmes include one-to-one mentoring as well as group mentoring and support groups for particular classes

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of entrepreneurs, such as women entrepreneurs. Mentoring can be individual-to-individual or company-to-company.

The aim is to overcome problems of lack of personal networks of entrepreneurs and to encourage and motivate people who may otherwise lack the confidence to develop a business.

As with any mentoring relationship, the quality of the match is critical. The mentor should have knowledge of the specific business area of the entrepreneur or company being mentored. Intermediary agents can help with the matching process. Mentoring relationships can be used prior to take over by younger people of existing firms from entrepreneurs who wish to retire.

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Table 12. Some strengths and weaknesses of entrepreneurship policy instruments for distressed urban areas: advice, training and mentoring

Programme type	Strengths	Weaknesses
Influencing attitudes to entrepreneurship	Raises awareness of enterprise as accessible and relevant to people in distressed communities. Changes people's perceptions about their own capacity to be enterprising. Increases social standing of entrepreneurs within their own communities.	Programmes aiming to encourage people to start their own enterprise, rather than be more enterprising generally, may have little relevance to the majority of the population. Economic impacts are only likely to be seen in the long term.
Use of role models	Can change perceptions of entrepreneurship in residents. Can change perceptions of distressed urban areas to outside bodies such as investors.	Residents may not relate well to the stories of the most successful entrepreneurs and companies often identify in role model programmes. May encourage people to underestimate the difficulties of entrepreneurship.
Management and business skills training	Improves business skills and thus growth and survival prospects. Can increase willingness of third parties to provide finance. Builds confidence.	Difficult to design programmes around the specific concerns of entrepreneurs. Entrepreneurs may be reluctant to participate in training. There may not be a strong link between training and firm performance. Training tends to be more effective when accompanied by other support, such as access to finance. Such support can provide a practical project around which to train and be the incentive for entrepreneurs to become involved.

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Programme type	Strengths	Weaknesses
Networking amongst entrepreneurs	Responds to the relatively weak networks of some residents of distressed communities. Provides links to potential sources of capital, employees, strategic alliance partners, service providers etc. Provides confidence to entrepreneurs who may feel isolated.	Can be difficult to sustain networking initiatives over time because of high drop-out rates. Can be difficult to find areas of common interest between members of a network. Contacts through publicly-supported networks may not be as strong as privately-built networks.
Business advice	Can improve the quality of business plans and business decisions. Can increase willingness of third parties to provide finance. Can broaden the horizons of inner city entrepreneurs, for example to non-local markets or partners. Can make entrepreneurs more aware of the range of private and public services available to them.	Advice may not be valued if it is not paid for or if the entrepreneur considers the advisor does not have sufficient experience in their particular business area. Public support may crowd out private services.
Mentoring	Transfers knowledge. Can be associated with taking on the businesses of entrepreneurs who wish to retire, which may be less risky than a new start.	Mentoring relationships are difficult to sustain over time. Only some pairings are successful.

Support for social enterprises

Channels to mainstream business support

Initiatives in this category involve raising the awareness of business support organisations to the existence and needs of social enterprises and

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encouraging them to target and market their services to the social enterprise sector.

This type of approach helps to address two barriers. Firstly, social enterprises are not always recognised by business development organisations as part of their legitimate client group, although they can have strong benefits for economic and social development in distressed urban areas. Secondly, social enterprises often do not see mainstream support services as relevant to them, although they often face obstacles that are similar to those faced by commercial enterprises.

In seeking to open channels for social enterprises to mainstream support it is important to have outreach and marketing that is appropriate to social enterprises, recognising the different motivations, operations and expertise of social entrepreneurs. It is also important to provide specialist services when appropriate rather than to seek always to provide the same services to enterprises whatever their purpose.

Adjusting the regulatory framework

The regulatory framework can have an important influence on the ability of the social enterprise to operate and grow as well as on deciding which types of organisations can be eligible for assistance. Initiatives can be taken in this area to clarify the impact of existing regulations and make adjustments where this could help expand the sector without undue negative consequences.

Certain barriers to the growth of the social enterprise sector can be identified in national regulatory frameworks, for example limiting the scope of social enterprises to get involved in for-profit activities or their ability to raise private capital whilst retaining favourable tax status.

Clearly this is an area for national government or even international legislation, which needs to carefully balance the potential benefits from legislation that could help grow the sector with the potential disadvantages associated with diluting the social purpose of the sector or displacing existing enterprises.

Championing social enterprise

These initiatives aim to promote social enterprises and give them a higher profile both to policy makers involved in design of economic and social policies and to potential social entrepreneurs, funders, collaborators and clients.

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The barrier addressed is a lack of understanding of the role and importance of the social enterprise sector in the regeneration of distressed urban areas, which constrains the development of the sector.

The importance and role of the social enterprise sector in distressed communities can be emphasised both through profiling the achievements of specific social enterprises and by drawing attention to the overall economic weight of the sector.

Umbrella structures and social enterprise networks

Umbrella structures and social enterprise networks are frameworks similar to mainstream trade associations and employers organisations that lobby for the interests of social enterprises, provide a forum for exchange of information on best practices and new ideas and provide training and development activities.

They help address issues of lack of general awareness of the importance of the sector and lack of frameworks for training and exchange, partly reflecting the fact that the social enterprise sector is in a period of growth and change.

Information technology and web based tools can be very useful in providing low cost methods of exchange. Franchising, exchanges and mentoring can all also be important. Rather than seeking to set up local networks within individual distressed communities it may be preferable to support the development of regional and national networks for social enterprises working in the same sectors, which can link to social enterprises working in distressed communities.

Financing tools specific to social enterprises

Various community development finance organisations are very active in the provision of finance to social enterprises such as social banks, community loan funds, micro-loan funds, mutual guarantee schemes, community credit unions and social enterprise venture capital funds. These organisations are better able than mainstream institutions to provide financing tailored to the products and investment sizes required by social enterprises. Public intervention can support these institutions in various ways, including supporting intermediary organisations that can provide technical assistance and finance to individual organisations, provision of incentives such as tax credits for people and organisations making social investments and investor-readiness work with social enterprises seeking finance.

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One of the barriers addressed is a lack of information by potential investors on the social enterprise sector, interfering with the optimal allocation of finance to the sector. A consequence of this seems to be an under-capitalisation of many social enterprises, leading to over-reliance on grant finance and difficulties in developing long term strategies. Where financial tools also include technical support they can help improve the survival and growth prospects of social enterprises.

In implementation terms, it is important that the financial organisations concerned develop specialist knowledge of the social enterprise sector and that they are supported by quality intermediaries. It is also useful for technical assistance to be available together with finance. Clearly, financing institutions will make greater investments in the social enterprise sector if they are operating with a double bottom line (seeking both financial and social returns from investment).

Directing public procurement to social enterprises

Public authorities can support the growth of social enterprises by directing existing or new procurement to social enterprise providers. For example, there may be benefits from including social enterprises in initiatives to increase public procurement in the fields of housing, childcare, leisure activities, the environment, training and so on.

In general the public sector to date has not strongly capitalised on the potential advantages of the social enterprise sector over commercial enterprises or the public sector in supplying certain services. Relative to commercial enterprises these advantages are related to reducing principal-agent problems, such as moral hazard, because of the social rather than profit-maximising purpose of these organisations. Relative to the public sector the advantages largely lie in an ability to provide services more efficiently because of the competitive nature of bidding and a greater capacity for innovation in products and working methods.

Such efforts should be careful to monitor the value for money of alternative providers so as not to lead to protected markets in which social enterprises become inefficient. Moreover, treating social enterprises in exactly the same way as commercial enterprises in public procurement policies may lead to a dilution of their socially-oriented working norms.

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Table 13. Some strengths and weaknesses of entrepreneurship policy instruments for distressed urban areas: support for social enterprises

Programme type	Strengths	Weaknesses
Channels to mainstream business support	The barriers facing social enterprises are often similar to those facing small firms in general. It may then be more efficient to ensure access of social enterprises to existing SME support.	Some social entrepreneurs may feel that standard SME support is not relevant to them. Mainstream business support organisations may not understand well the context of the social enterprise sector.
Adjusting the regulatory framework	Adjusting regulations may enable some social enterprises to overcome limitations on their activity, such as the ability to accept share capital or tackle commercial markets.	Adjusting regulations to allow more commercial orientation may dilute the social mission of the sector.
Championing social enterprise	Demonstrates to inner city residents that there are opportunities to be enterprising in fields that may be of more interest to them than the commercial sector. Can capture the engagement of people with social more than profit objectives. Can support the creation and development of new markets by identifying sectors with the most potential for social enterprise development.	May distort decisions on labour supply away from what is socially optimal and encourage people into activities that are not appropriate for them. May be limited scope for scaling up or replicate successful initiatives, particularly if they depend on key dynamic individuals.
Umbrella structures and social enterprise networks	Provide a framework to learn from innovations and good practices. Provide a framework for mentoring and peer development. Can lobby for the sector.	Diversity in the sector makes it difficult for one organisation to be relevant to the whole sector.

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Programme type	Strengths	Weaknesses
Financing tools specific to social enterprises	Specialist community finance institutions may be able to assess investment opportunities in the social enterprise sector better than mainstream banks. Community finance institutions with specialised knowledge of the social enterprise sector may provide attractive partners to mainstream banks. Access to private finance can reduce the public cost of social enterprise activity. Finance provision can be accompanied by management and skills development and other business support activities to make social enterprise activity more sustainable.	Providing specific finance tools for social enterprises might actually limit their access to finance by steering enterprises away from mainstream funders. There is a danger of crowding-out commercial financing by publicly supported schemes. Specialised institutions may have better understanding of the social enterprise sector but suffer from lack of economies of scale, poor deal flow, poor liquidity etc.
Directing public procurement to social enterprises	Can lever existing spending commitments to stimulate more entrepreneurial methods of supply of social goods and services. A useful channel for public funds to reach marginalised communities.	Commercial enterprises or the public sector itself may be more efficient or better at meeting social needs than social enterprises. Reliance on public funding could make social enterprises vulnerable to short termism, e.g. difficulties planning if future revenues from the public sector cannot be predicted. Involving social enterprises in competitions with commercial firms may dilute their socially-oriented working norms.

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Area-based and zone-based policies

Empowerment Zones and Enterprise Zones

In the United States federally-supported Empowerment Zones and state-supported Enterprise Zones exist in designated distressed areas providing a range of fiscal and other support for economic development in these areas. Typical benefits of zone location include tax deductions for capital investment and wage and training tax credits and there can be other benefits such as grants and loans, sales tax exemptions, property tax reductions and priority consideration for other public programmes. There are similar special zones in some other OECD countries, including Zones Franches in France and UK Enterprise Zones.

The barriers to entrepreneurship addressed by these zones include the reluctance of small firms to invest locally because of physical dereliction, lack of security and poor image and lack of appropriately skilled labour in the designated areas. Zone measures also often include programmes to promote the employment and training of local residents.

If these zones are to encourage entrepreneurship in distressed urban areas, it is important that the designations genuinely correspond to the strongest areas of both need and opportunity, that there is a long-term public commitment to development of these areas and that the incentives are available and marketed to new and small firms. Displacement and deadweight can be high if firms are allowed to transfer onto the zones from immediately surrounding areas or if firms already located on the zones automatically benefit even without job creation.

Tax Increment Financing (TIF) Zones

The creation of Tax Increment Financing (TIF) Zones is a US initiative to focus resources on regeneration in blighted areas of cities. Municipalities designate TIF zones in distressed areas of their cities where they invest heavily in physical infrastructure improvements, business premises development and business subsidies in order to set off an inflow of private investment. The assumption is made that property taxes in the zone would remain stagnant without the public investment, and so any tax revenues generated above this baseline will be additional revenues for the city. The city borrows against these future tax revenues in order to finance its initial investment.

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TIF Zones address the same types of barriers as Empowerment and Enterprise Zones, namely a reluctance of the private sector to invest in an area because of poor physical infrastructure, security and image and other economic and social problems. The aim is to release positive externalities by achieving a critical mass of publicly-stimulated investment that will then release self-sustaining private investment.

A critical implementation issue is how the zones are designated. If zones are designated in areas that are likely to see redevelopment anyway then the objectives of the policy will not be met. At the same time designation must be in areas that have a good prospect of long-term development given the right public stimulus.

Industrial Corridors

This book has discussed the Industrial Corridors initiative in Chicago, but this is typical of many similar initiatives focused on the development of particular zones for specific sectors. Zones are designated as areas for development of industry and plans are developed in consultation with local stakeholders from the city, business and local community on what is needed to drive development. In Chicago the emphasis is placed on issues of safety, accessibility and attractiveness (through law enforcement, road construction, environmental cleanup and improved city services) and incentives for the attraction, retention and expansion of manufacturing firms in the Corridors such as grants, tax credits and site assistance.

As with other zone-type initiatives, the aim is to overcome a vicious circle of decline in given distressed areas, in the form of reduced attractiveness, out-migration of firms and further reduction of attractiveness, by making public investments to redress the problem and again interest private investment.

This instrument is essentially focused on business development, but for local people to benefit it may be necessary to link incentives to programmes for the training and recruitment of local residents.

Integrated area approaches

Integrated area-based approaches put in place at the same time and in the same locality a broad range of complementary measures to tackle physical decay, social exclusion and economic decline.

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Integrated area approaches attempt to remove barriers to entrepreneurship that exist in the wider context of urban distress, including social problems associated with low security and poor labour quality, physical problems such as lack of appropriate business premises and communications and poor image, and economic problems in the adaptation of the area to new economic functions.

Because integrated area-based approaches are aimed broadly at urban regeneration rather than specifically at new and small firms they can appear expensive if impacts are measured only in terms of changes in the performance of the small firm sector. However, it can be argued that truly sustainable development requires such a broad approach, which should also enable local people to benefit from economic development that takes place locally. Each local area-based approach should be tailored to the needs and opportunities of the specific locality targeted and involve a variety of stakeholders in design and delivery.

Infrastructure investments

Infrastructure investments for distressed urban areas can include transport linkages, metro and rail station improvements, cultural, sporting and retail facilities and so on.

These investments are not directly targeted on promoting entrepreneurial activity, but they may influence factors that indirectly promote entrepreneurship, for example by capturing local spending, attracting new companies and residents, improvement the image of an area and increasing housing values.

Infrastructure investments should not be seen as specifically an entrepreneurship promotion measure but the potential impact on local entrepreneurship should be recognised when assessing the likely benefits of such investments for urban regeneration.

Business centres and incubators

Business centres and incubators provide small business accommodation together with associated training, shared business facilities, business information and advice and access to other support. Usually, new and small firms with growth potential are targeted and assistance provided to help them become sustainable businesses.

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These centres and incubators help address the problem of lack of suitable business accommodation in distressed urban areas. They also address barriers related to poor social and business networks of entrepreneurs in deprived areas, difficulties in obtaining finance, limited training of managers and workers, poor business planning, poor knowledge of and links to support services assistance, and high early failure rates of start-ups.

In order to nurture sustainable new firms it is important that the centres have a policy to select potentially successful new and to free up accommodation when the firms reach sustainability. It is also important to provide a range of services going beyond accommodation. The impact on the local area is likely to be enhanced if local enterprises not located on the centres can access some of their services.

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Table 14. Some strengths and weaknesses of entrepreneurship policy instruments for distressed urban areas: area-based and zone-based approaches

Programme type	Strengths	Weaknesses
Empowerment Zones and Enterprise Zones	A long term commitment is made to the economic development of targeted areas. Designation is often awarded based on the quality of strategic plans developed jointly by a wide range of stakeholders. There is a range of supporting initiatives beyond tax incentives, e.g. training, infrastructure. They are concentrated on the most deprived areas. Concentrated support in small target areas may be sufficient to achieve a critical mass of development and release private investment.	Support in targeted areas may lead to lower levels of entrepreneurship in other areas through displacement or transfer. Criteria for support from US zone-based programmes have often favoured existing businesses and inward investors relative to small businesses and start-ups. Areas of significant economic development opportunity have sometimes been overlooked because of a focus on needy areas. High deadweight is likely if zones with the greatest growth potential have been selected for zone designation. Small firms may not apply for modest benefits if the administration procedures are complex. Zone programmes are often not well publicised to small businesses. Firms with small tax liabilities will benefit little from tax incentives. Zone initiatives tend to be less successful in areas not close to areas of already thriving activity such as central business districts.

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Programme type	Strengths	Weaknesses
Tax Increment Financing (TIF) Zones	Enables future revenues from property development stimulated by the public sector to be used to finance the initial investment. Targeted on areas of high economic development opportunity.	Support for entrepreneurship in targeted areas may lead to lower levels of entrepreneurship in other areas through displacement or transfer. The areas with most need are often overlooked if opportunities for development appear weak. Cities have an interest in designating areas where increased property values will occur anyway. Since efforts are designed to increased property values in the zones, the poorest residents and business owners may be forced to relocate to other neighbourhoods with lower property costs.
Industrial Corridors	Targeted on the most distressed areas. Strategies are developed by a wide range of stakeholders to address the problems of manufacturing businesses including safety, accessibility and attractiveness.	With cities generally shifting towards services and high value added activities, support for traditional manufacturing businesses may delay necessary structural adjustment. The approach does not specifically target new and small firms.
Integrated area approaches	Tackle the full range of economic, social, environmental and institutional factors that affect the entrepreneurship potential of a distressed urban area.	Because of their broad focus integrated area-based policies are very costly compared to more entrepreneurship-specific approaches. Policy only influences entrepreneurship indirectly by improving conditions for business operation.

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Programme type	Strengths	Weaknesses
Infrastructure investments	Increase market demand, e.g. through attraction of higher income inhabitants. Increase housing values, thus increasing collateral available for financing entrepreneurship.	Emergence of gentrification or dual neighbourhoods with wealthy parts of newly regenerated areas existing side-by side with poor quality areas, and little integration between the two. Do not address some important barriers to entrepreneurship, such as lack of access to finance or lack of skills. Relatively large expenditure is necessary. The impact on entrepreneurship may be limited without complementary enterprise support measures and a conducive environment. Attracting new businesses adjacent to infrastructure investments may lead to enterprise displacement effects.

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Programme type	Strengths	Weaknesses
Business centres and incubators	The support given in terms of accommodation, training, shared facilities and networks should lead to the setting up of relatively high quality enterprises. Encourages mutual social/business networks and role models. Helps overcome problems of supply of business accommodation in distressed areas. Training and other support can be offered to entrepreneurs through these centres. These centres specifically target new and small firms, particularly those with growth potential.	Entrepreneurs benefiting from the centres may live outside the distressed areas targeted. If associated enterprise support services are restricted to firms in the centres the impact on other local enterprises is likely to be low. Distressed urban areas may have small numbers of potential tenants. Public support for accommodation and business services may crowd out private sector provision. If accommodation is provided without business support services growth may be weak. If there is no policy to move on firms once established the centre may not be able to serve its incubation function for newer firms.

Some principles for entrepreneurship support in distressed urban areas

In seeking to implement entrepreneurship programmes for distressed urban areas, such as those highlighted above, there are certain issues that policy makers should keep in mind. These are the subject of this final section.

Entrepreneurship is important to urban regeneration

The principal contribution of entrepreneurship to urban regeneration is through employment and income generation. Policy makers now see new and small firms as a key source of new jobs and incomes for national and local economies in general. Increasingly, it is also being recognised that these benefits of entrepreneurship can also be harnessed for the development of distressed urban neighbourhoods. Employment and income generation clearly must be part of the response to social exclusion in deprived areas and policy

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makers cannot ignore the opportunities that exist to exploit the potential of entrepreneurship in this respect.

Policy could seek to increase entrepreneurship vitality – and hence jobs and incomes – in inner city and other distressed urban areas on pure equity grounds, by simply subsidising activity in areas of need. But policy is likely to be more efficient and effective in this aim if it identifies and addresses barriers to entrepreneurship amongst the residents of distressed areas. The discussion in this book has shown that entrepreneurs face some important barriers in distressed urban areas, which are in many ways more severe than in other areas, and suggested where policy may be able to play a positive role.

One of the most important messages of this book is that entrepreneurship is a real opportunity for economic development and regeneration in distressed urban areas. This opportunity is in the form of both underexploited skills and motivation amongst inner city residents and strong and under-recognised market and investment opportunities in distressed urban areas. Policy can help make a difference to distressed urban areas and their residents by tackling the barriers to entrepreneurship in distressed neighbourhoods using the methods identified in this book.

Entrepreneurship support should be delivered through comprehensive and integrated strategies

It has been shown that a wide range of potential instruments are available to support entrepreneurship in distressed neighbourhoods in various fields of activity, including access to finance, advice, training and mentoring, support to social enterprises and special zone and area-based initiatives. However, these activities should not be seen in isolation from one another and neither should they be seen as all that is required. Instead, development agencies need to combine these and other initiatives into comprehensive entrepreneurship strategies.

Given the wide range of instruments available it is important first to understand the specific context of each distressed area in terms of the nature of its problems and where the opportunities lie for further entrepreneurial development. For example, some distressed urban areas have strongly entrepreneurial ethnic minority communities in which existing enterprises could be encouraged towards sustainable growth, whilst others have attractive locations near to universities and city centres that could support the attraction and establishment of small firm niches in high technology or creative sectors. Once there is an understanding of the local needs and opportunities the policy

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objectives can be decided and the instruments chosen that can best be applied to meet these objectives.

In any given neighbourhood it is likely that there will be a range of issues and a range of instruments will need to be applied at the same time. It is therefore important to bring instruments together in an integrated and comprehensive programme rather than to apply them in an independent manner. Questions need to be addressed about how to maximise the synergies between programmes and how to avoid duplications or gaps in the policy offer.

What is needed is more than just a series of new and small firm support measures, but a comprehensive entrepreneurship strategy ranging from the creation of a more entrepreneurial mindset in the target populations within distressed urban areas, to helping start-ups, to supporting survival and growth and taking steps also to create a broad range of favourable factor conditions and institutional structures to create a favourable climate in the neighbourhood for fostering entrepreneurship.

Entrepreneurship policy should be placed within broader urban regeneration strategies

The main expectation of policy makers seeking to exploit entrepreneurship for urban regeneration is that increased entrepreneurship rates will help increase local incomes and reduce unemployment. It is generally accepted that other aspects of the urban problem, such as degraded physical environment or crime, will not be addressed directly, although they may be alleviated as more investment enters into an area and as social exclusion is reduced. Yet it does need to be remembered that employment generation is just one of the needs of distressed urban areas alongside physical regeneration, crime reduction, social welfare programmes and so on. Furthermore, the relative poverty of distressed areas to a large extent reflects broader inequalities in society, with groups who are disadvantaged in the labour market tending to concentrate where social or cheaper housing is available. These issues need to be recognised so that the potential of entrepreneurship as an urban regeneration tool is not oversold and so that other important responses to urban distressed are not neglected.

It also needs to be recognised that there are limits to the capacity of entrepreneurship to directly address even the issues of social inclusion and job creation for local residents. Entrepreneurship can provide employment and incomes to a proportion of the resident population. But not all residents of inner city and deprived urban areas, indeed only a small minority of residents, will be interested and able to start and run enterprises, not everybody will be able to

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work in local small enterprises and many of those employed are likely to come from other areas of the city. Moreover, entrepreneurship's own potential as a local job and income generator is very much dependent on broader conditions in distressed neighbourhoods, for example in terms of labour quality, physical environment, fear of crime, attitudes towards investing in the area and so on. Thus entrepreneurship programmes are unlikely to have much success if other conditions are not in place. Many of the disadvantages faced by entrepreneurs in distressed neighbourhoods themselves reflect a range of broader social issues. For example, the management and business planning skills of some potential entrepreneurs in distressed urban areas could be of poorer quality than in other areas if education provision is poorer. Or local market demand may be more limited if disposable incomes are lower. This type of problem cannot be solved simply by support to individual firms, for example assistance with skills development or subsidies to firms operating in distressed areas, although these types of measures can help in the short term. Instead, a broad range of support is required to create the conditions in which entrepreneurship can thrive in distressed urban areas.

The main message here then is that if policy makers are fully to exploit the potential of entrepreneurship for urban regeneration then entrepreneurship itself should be seen as one component of a wider programme of regeneration for distressed urban areas, including a wide range of social projects, physical regeneration, human capital building and use of other economic development tools such as the attraction of inward investment. At the same time we should be careful not to oversell the potential of entrepreneurship policy for urban regeneration, stressing instead that it is one part of a broader economic, physical and social strategy for distressed urban areas, albeit one that to date has been underexploited.

Distinguish between measures with a direct or an indirect impact on disadvantaged residents

It is useful to distinguish between two principal methods by which entrepreneurship policy can support employment and income generation in distressed urban areas. First, some unemployed or low income residents may be helped to set up in self-employment or create their own micro enterprises and thus improve their own personal situations. Second, existing small and medium sized enterprises, whether or not they are owned by local residents, may be encouraged to grow and as they do so to hire local people. These are two different methods of using entrepreneurship to support local economic development and to a significant extent they involve different policy

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instruments. Both approaches will have an impact on social inclusion, but the first targets low income and workless people directly and the second works indirectly, with an expectation but no guarantee that local people will take a proportion of the jobs created. The right balance has to be struck between the two approaches.

Support for a few growth enterprises may actually have a greater impact on employment and incomes for disadvantaged residents than support for self-employment and micro-enterprise creation, even though a proportion of the jobs created will be taken by non-residents. Nevertheless, maximising the social inclusion potential of entrepreneurship as an indirect measure implies efforts to ensure that disadvantaged residents are in a position to take the jobs that may be generated. Thus policies for supporting small firm growth in distressed areas should be seen as closely connected with social policies (such as assistance with childcare, health, transport or housing problems) and labour market policies (including training and job matching) that will help local residents to take local jobs.

By contrast, policies aiming to encourage large numbers of inner city residents to find routes out of worklessness by setting up their own businesses are likely to be misplaced because only a minority of people in any environment appear to have the desire or capability to become entrepreneurs. One of the problems of entrepreneurship as a direct measure for social inclusion is that those people who are the most likely to successfully start and run enterprises are also those who are least likely to suffer from severe problems of labour market exclusion. Thus it needs to be recognised that entrepreneurship policy can assist some unemployed and inactive people to get work, and social enterprise is particularly strong at this, but at the same time other measures such as training and broader social assistance may be more appropriate for achieving social inclusion with the most disadvantaged groups. At the same time, however, policy seeking to influence the culture of entrepreneurship in low income areas by encouraging more people from disadvantaged groups to set up their own enterprises could have very important long term effects.

The overall point is that governments and development agencies should engage in both activities but also distinguish between them in order to undertake the right amounts of each and to ensure that the instruments and delivery are appropriate to each. If agencies focus solely on self-employment and micro enterprises run by the most disadvantaged they may miss out on stronger growth potential in other businesses. If they target strong potential growth enterprises in distressed areas disadvantaged local residents will not

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necessarily benefit strongly. And clearly the instruments required vary significantly according to the objectives and target groups.

Entrepreneurship support should be tailored to needs in distressed urban areas

It is always important to align the policy support offered with the support people and businesses need. This is a particular issue for entrepreneurship in distressed urban areas because the support offered is often the same that is available to all businesses irrespective of location. Often insufficient analysis has been undertaken of the extent to which needs differ in distressed urban contexts and of the nature of these differences. There may be a few instruments or organisations operating specifically for distressed neighbourhoods, but much of what is available is mainstream support that has not been adapted to the inner city context.

It has been argued in this book that the needs of inner city entrepreneurs as a group diverge in some ways from those of entrepreneurs in other areas. Some inner city entrepreneurs have poorer education levels, entrepreneurship experience, networks, finance possibilities and so on than entrepreneurs in more prosperous areas. These differences should be recognised in the type of support offered. Thus in inner cities, greater emphasis may be needed on skills development, on awareness of entrepreneurship as a career option or on microfinance than in other areas.

At the same time it is important not to stereotype inner city entrepreneurs and to recognise the great variation that exists in the group. It should not be assumed that all people or businesses in distressed urban areas have the same needs. Whilst some inner city entrepreneurs face greater difficulties than those in other areas, as the Inner City 100 initiatives in the UK and the USA show, there are also some rapidly growing and very successful businesses in inner cities run by dynamic and highly skilled entrepreneurs. These successful enterprises should be able to benefit from the same sort of supportive conditions, such as venture capital finance or availability of larger, high quality premises locally, which that type of business would seek wherever it is located. The needs of inner city businesses also vary by stage of development – from developing a business idea, to making the decision to start, to the actual start-up, and on to the growth and survival stages. At initial stages, efforts to support positive entrepreneurship attitudes and assist potential entrepreneurs to evaluate the options available to them and make the proper choice about whether and how to go ahead are important. At later stages it is more important to improve business management and strategy. Other important distinctions can be made

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between different social groups (where special and distinct initiatives may be helpful for example for certain ethnic groups, youth, unemployed people or women returning to work), between business sectors (where support may vary for traditional manufacturing businesses, from that provided to retail or high technology or office or creative and design enterprises) and between social enterprises and commercial enterprises. All these distinctions need to be recognised in the type of support provided.

In some cases it may be best for assistance to be general and available to all businesses. This approach has the advantage of increased economies of scale, greater visibility and greater networking and knowledge sharing between different categories of entrepreneur. On the other hand it is sometimes better to create tailored programmes, if needs are different between different groups or if people feel more comfortable in one format than another. The latter argument has been put forward for women entrepreneurship programmes, for example, where it seems often to be the case that more women will participate actively in initiatives specifically for women than in general programmes. This may also be the case for other target groups, for example youth or certain ethnic minority communities.

In designing entrepreneurship policy approaches, it is important first to understand how far needs differ between different target groups and then to understand the advantages and disadvantages of targeted versus general measures before a decision is taken on the proper balance between the two approaches.

Entrepreneurship support should be visible and accessible in distressed neighbourhoods

A clear client interface

It is often observed that a large number of organisations deliver enterprise support, spanning the public, non-profit and private sectors, and delivery is often particularly crowded in distressed urban areas. In this context, it is important to ensure that people and enterprises can find their way around the full network of support.

A key step is to have a single and clear client interface, for example managed by a public agency, which signposts to all the assistance available in response to website, telephone and face to face enquiries. This is known as the one-stop-shop or first-stop-shop approach. As an idea it is not new, but whilst localities often profess to have one-stop or first-stop shops the reality is that the

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client often remains confused as to where to start. Another important step in simplifying the client interface is to develop a common language amongst all the agencies involved so that the client can more easily see what is on offer and agencies can better co-ordinate their offer to minimise duplications and gaps.

Some incentive will probably be needed to get independent agencies to work together. There may be a role here for some public funding of actions undertaken through partnership and for active cross referrals and onward referrals to provide an incentive for collaboration.

Furthermore, although this book has identified many possible initiatives that could be introduced to support entrepreneurship in distressed urban areas these will often best be provided within existing agencies or as extensions to existing programmes rather than through the creation of entirely new initiatives or organisations. The policy landscape is already sufficiently complicated and a key priority for accessibility and synergy is to pull together existing fragmented support.

Tailored marketing

Another priority in making enterprise support visible and accessible in inner city contexts is to reach out to the full potential audience with tailored marketing. Mainstream business support agencies are often not good at addressing inner city contexts, in which there is often a kaleidoscope of different cultures, not just in terms of ethnic mixes but also within ethnic groups, each requiring adapted marketing messages to fully reach the various target groups. Sensitive outreach to target communities should therefore be a priority for enterprise support organisations. There are various methods available to better reach out to the residents of distressed areas:

- *Training and recruitment of development agency staff.* Existing business advisers may need training in how best to relate to clients from different racial and cultural communities. Efforts can also be made to recruit advisers from the target communities who use the language and understand the needs of the target populations and are credible with them. In both cases appropriate training will help. It will support mainstream business support staff to better meet the needs and expectations of target communities and support people from those communities working in enterprise support or intermediary organisations to improve the quality of the business support services or referrals they make.

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- *A range of "shop windows" to common services*. Another approach is to develop different "shop windows" for different target audiences, thus marketing services in a way that is appropriate to each key group, signposting them to appropriate services offered by the development agency. It can also be useful to produce marketing and business support materials in the languages of target ethnic minority communities. These materials need to go further than translations of standard mainstream services, but when appropriate should also present services specially adapted to the needs of the client group.

- *Service format*. Some residents of marginalised communities may have difficulty accessing services such as advice and training provided over the internet, delivered at offices some distance from their neighbourhood or delivered in traditional classroom settings. It can therefore be useful to try other formats for service provision, such as meetings in more informal settings or hosting enterprise advisers in intermediary organisations, essentially adapting the style of delivery to the expectations of the client group.

- *Use of intermediaries*. Mainstream enterprise support organisations can improve their outreach in deprived urban communities by partnering with community-based intermediary organisations, often in the non-profit sector, working with particular ethnic minority or other communities. Community-based intermediaries often have better knowledge of conditions affecting inner city residents, better channels of communication to them and greater respect from inner city communities than mainstream organisations. They can be particularly effective in identifying and supporting small scale and micro businesses. But at the same time it is important not to block businesses from accessing mainstream services and to capture economies of scale in provision available from larger organisations. Thus an ideal support structure would include both intermediaries for outreach and mainstream providers for larger scale provision, with bridges between them so that enterprises can move between specialised intermediary and mainstream support as meets their needs.

- *"Scouts"*. Another possibility is to appoint "scouts", people who will either for potential entrepreneurial talent within particular urban communities or for business opportunities that local entrepreneurs might be able to pursue.

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- *"Active brokers"*. An increasing emphasis on front-line brokerage services is required. "Active Brokers", as being developed in the UK and the USA, can make the connections between the front line and mainstream business advisory services. Active brokerage lies between the roles of "signposting" or "referral" and "direct delivery". Whilst signposting and referral involve a transfer of ownership of the client, brokerage implies that the broker retains responsibility for the client, although delivery is made by a supplier independent of the broker. Active Brokers can help clients to access a comprehensive package of support and to obtain the specific services that most meet their needs.

- *Reach out to the informal economy*. It needs to be recognised that in some distressed urban areas there is a significant group of entrepreneurs operating in the informal economy, producing goods and services for market exchange but not fully declared to the authorities. There can be great potential for people in this group to increase their income and security or expand their operations in a legal manner if approached in a sensitive way by local development agencies.

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