

# Turning economic deserts into enterprising communities

By Bernie Ward and Justin Sacks

We know from decades of economic development initiatives – often targeted at the same communities that are as deprived now as they were 50 years ago – that the current approach is insufficient for true regeneration that results in long-term change. Discussions about economic development tend to focus on how much money has been awarded to an area and what programmes and services that money will fund – building a new centre, employment training workshops, business support services. We need to look further than this because regeneration funding entering poor areas frequently leaves those communities straight away in the form of contracts to non-local businesses and staff. The target area is left virtually untouched, save for a few capital improvements, because the regeneration funding did not foster embedded enterprise links to sustain the community after funding has dried up.

Attracting inward investment is only half the equation when it comes to lifting socially excluded neighbourhoods out of poverty. The other half requires us to build

linkages in a community to keep the money we fought so hard to attract in from leaking out straight away.

We liken this process to irrigation, which is how the New Economics Foundation (NEF) makes the concept of economic development accessible to the communities for whom this work ultimately matters.

## Irrigating local economies with inward investment

Imagine a large area of desert with almost no vegetation. You want to make that land more productive. A large irrigation channel into that desert will certainly help to increase production along its banks. However, what should you do if you want to irrigate the entire desert area? Dig another large irrigation channel? Or dig some mini-channels off the existing large irrigation channel?

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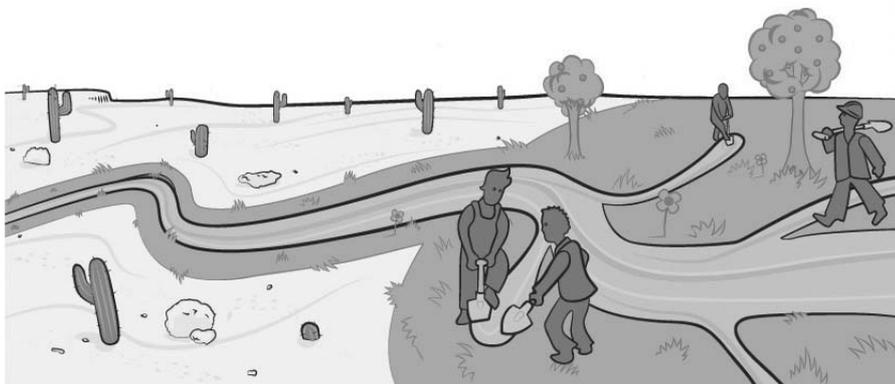
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So it is with money flows in local economies. Inward investment could be seen as a large irrigation channel. Examples could be a New Deal for Communities (NDC) grant programme, tourism income, the re-location into the area of a call centre or manufacturing plant. Getting this funding into an area is no easy thing – it often takes years of hard work, negotiating, marketing and fact-finding to start the money flowing. Regeneration officials, tourism boards and economic development practitioners are experts at attracting such income into their areas. But once funding is flowing in, what should happen next to regenerate the areas that are still in effect economic deserts? Should these practitioners set about attracting in the next large inward investment? Or should they, and the communities which they serve, make more of a concerted effort to dig mini-channels from existing in-flows?

Mini-channels could be anything that enables money to be re-spent locally. So, for example, when Luton NDC awarded a contract to renovate a café to a newly established local builder's co-operative, some were concerned that the quality of work might be poor and that the contract should have gone to an established firm with a long track record. However, not only was the contract delivered to a high standard and at a very competitive price, but it also ensured that the NDC money circulated locally and strengthened the local skill base and economy since the co-operative was run and owned by local people from the estate.

Similarly, a recent NEF investigation in Hastings revealed that a major inward investor had several ideas for increasing its economic impact on the local area, such as finding a way to source printed circuit boards locally.

The Beacons Trust in Wales has developed an overall strategy to help increase the local circulation of tourism income. This strategy includes a linkage programme between farmers, restaurants and bed and breakfasts, as well as the development of a marketing firm staffed by local youth, thus helping to stem the 'leakage' of young people from the area whilst also retaining more of the tourism money.

These examples of digging mini-channels off existing inward investment do require some creative thinking on the part of local people. As is the case for attracting inward investment in the first place, successful strategies to keep money circulating locally do not occur overnight and they do not happen, on the whole, naturally; they need to be facilitated in the early stages.

In Luton, for instance, a local painter put a torn up piece of green paper through a local NDC representative's letter-box, asking for advice and assistance in setting up a local co-operative with other trades people in the area of builders. While the painter was dissatisfied with the work done by the current external contractor, he had no idea how to set up and compete for such work. The NDC met with the local painter and offered guidance on legal issues, and training on how to organise the co-operative, and advice on how to secure good administrative back-up. This assistance put the co-operative on equal footing with external contractors, and the co-operative was able to compete for jobs while providing higher quality work.

The manufacturing company in Hastings had plenty of ideas for helping the community keep money circulating locally – free legal advice, support to a business that wanted to set itself up as a supplier of printed circuit boards, access to credit if needed – but needed someone to help make these ideas a reality. The ideas came flowing from the manufacturer with no prompting from the interviewer at all!

## Building local economic linkages

A recent United Nations Conference on Trade and Development (UNCTAD) report<sup>1</sup> highlights the need to increase supply chain linkages from inward investment, and it promotes a variety of practices that local government bodies, or the inward

investors themselves, can undertake to forge such links<sup>2</sup>. The report specifically recommends local agencies to develop a linkage promotion programme by providing market information, matching up the businesses, as well as providing technical assistance, training and occasionally financial support or incentives. Technical support services for businesses are widely available in the UK (to varying levels of effectiveness). However, this focus on connecting businesses together by providing information on forthcoming opportunities to local firms and generally exploring avenues for smaller businesses to connect to local larger firms in the area is given much less attention.

An over-riding weakness in the UNCTAD report, however, is its top-down approach. There is a real lack of consideration as to what smaller businesses or the wider community can do to become actively involved in the creation of business linkages. So, from our examples, neither the community-led Beacons Trust nor the Luton builder who wanted to set up a co-operative have a role in UNCTAD's model. In the UK, this is exactly where NEF's practical tools, ideas and case studies can help.

## Digging sustainable channels

If we move back to our irrigation metaphor – who is it that ought to dig those mini-channels? And who should then maintain them to ensure that the land is irrigated into the future? If our economic channel-digging is solely in the hands of the policy makers or the inward investors, then it is probably not sustainable. Over time, these leaders will change focus to other priorities, and the channels will silt up.

Instead, it is necessary to take a more facilitative and less protectionist approach to creating these mini-channels. For the Luton co-operative of builders, this would mean that ultimately all public tenders for contracts do need to be competitive,

1 [www.unctad.org](http://www.unctad.org)

2 UNCTAD (2001) World Investment Report 2001: Promoting Linkages, United Nations

thus ensuring that the co-operative is truly delivering a quality service. However, this does not mean that in the early stages the co-operative should not be able to access advice from the NDC on how to most effectively organise itself.

Similarly, the Beacons Trust initiative to link together restaurants with local farmers will only survive into the future if the quality and cost of the produce is good enough to compete on the open market.

However, when it comes to digging irrigation channels and mini-channels, an individual farmer would have tremendous difficulty accessing water from scratch without any support. Support can take the form of technical advice, training, access to finance or equipment, or perhaps even the creation by government of the first major irrigation channel into the area. Support should also be *just enough* for farmers to make that vital link to the water supply yet clearly ensure that the farmers have complete responsibility for maintaining the mini-channels.

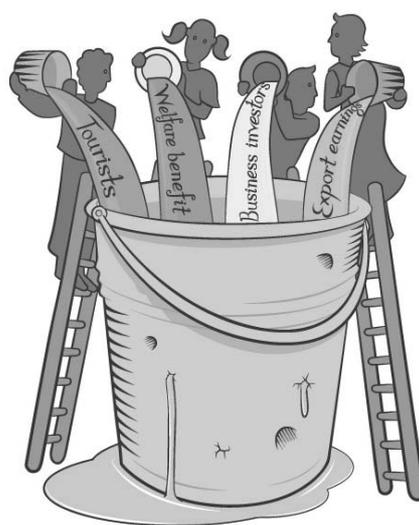
## Making enterprising communities a reality

Transforming desert into fertile land requires the various members of the community to collaborate in ways that draw on their strengths. Addressing this need, NEF has been developing and piloting new local economic development tools to help residents, businesses and public bodies work together in an integrated manner that builds on the respective skills of each sector to strengthen local economies. Two of these programmes, Bizfizz and Local Alchemy, are still in the pilot phase. Bizfizz is a community-led support programme for local entrepreneurs whereby local people join a panel and work to support entrepreneurs through a locally-appointed Bizfizz Coach. Though the programme is just completing its first year of operation, the results coming out of this

approach are very promising ([www.bizfizz.org.uk](http://www.bizfizz.org.uk)). Local Alchemy was launched in December 2002 by NEF in partnership with the East Midlands Development Agency in four pilot communities. The approach supports communities across a three year period through a process of understanding the local economy, exposure to a wide range of potential options and tools for strengthening it, and the developing and delivery of a programme of action focused on strengthening the local economy ([www.local-alchemy.net](http://www.local-alchemy.net)).

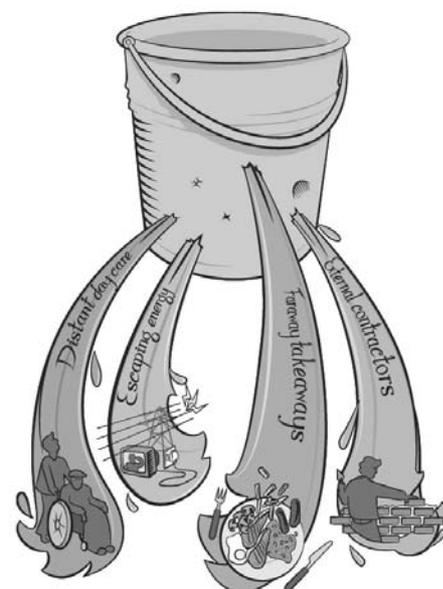
## Plugging the Leaks

Our remaining two local economic development tools, Plugging the Leaks and LM3, are fully developed and available for widespread application. Plugging the Leaks is detailed in our publication *Plugging the Leaks: making the most of every pound that enters your community*. The approach is a community-led economic development strategy tool that employs the metaphors of irrigation channels and leaky buckets to make economic development accessible to ordinary people.



Ideas to develop the local economy stem from a one-day economic literacy workshop that enables community members, businesses and public sector agencies to come together to identify economic resources in their local economy and

determine ways to use them more effectively. Once the workshop participants are comfortable with these concepts, the remaining time is spent identifying ways to increase the local economic impact of existing inflows of money and identifying ways to plug major leaks. Ideas are often focused and simple to execute, such as the Christmas savings scheme set up by Cloughmills Community Action Team (County Antrim) to tackle the issue of loan sharks.



The Plugging the Leaks process is driven by the community's interests and needs, which leads more effectively to concrete action and results. The handbook is supported by the website [www.pluggingtheleaks.org](http://www.pluggingtheleaks.org), which offers full support for any facilitator interested in organising Plugging the Leaks in a community.

Plugging the Leaks can also lead to more complex actions, such as those undertaken by the Paddington Development Trust (PDT) in London to connect hard to reach communities with employment opportunities. The brownfield area around Paddington Station is now Europe's largest development site and estimated to bring in 35,000 jobs over the next 10 years. PDT spotted the window of opportunity to link this massive development to the labour base in their target regeneration area. They formed a programme to work with corporate tenants, who identify their labour needs in both the short-

and long-term. This information was then passed to a consortium of outreach organisations, including Jobcentre Plus and LEAP, who work with hard to reach communities in the area. These organisations were then able to train up people to meet the needs of the corporate clients. The initiative has been successful because it provides clients with a reliable and appropriately skilled work base while facilitating access to work for deprived communities. PDT has since established the Paddington Business Network to develop trading relationships between micro-enterprises in the area and the corporate sector.

## Local Multiplier 3 (LM3)

The second tool is NEF's Local Multiplier 3 (LM3), which enables organisational leaders – from social enterprises to businesses to local authorities – to measure how income to their organisation or initiative is spent and re-spent in a local economy. The purpose of tracking and measuring this spending is to identify opportunities to strengthen linkages in more disadvantaged local economies so that efforts can be made to keep more of the money entering these neighbourhoods circulating locally. The approach is detailed in our DIY manual *The Money Trail: measuring your impact on the local economy using LM3*, and we also provide additional materials on the Plugging the Leaks website to enable organisations to perform their own LM3s.

LM3 answers questions frequently posed by community business leaders or managers of regeneration programmes: is what we're doing working; and what can we do to make it work better? Community leaders often have hunches about the answers – if the last cashpoint in town is lost our local businesses will suffer, or a construction contractor using non-local labour isn't really making a difference to the target community – but they need a way to *measure* and *prove* what's working, and what's not. So NEF developed LM3 to address these questions. The name Local Multiplier 3 indicates how it works. First, the multiplier is an

economics tool, usually applied at the national or regional level, to measure how income into an economy circulates within it – and so has a *multiplied* impact on the economy. We've adapted the multiplier for use at the *local* level. Since the multiplier measures how money is spent and re-spent, we stop after *three* 'rounds' of spending rather than continue onwards. This is where the bulk of spending takes place, and it also becomes unfeasible to keep tracking beyond this point.

A practical example of LM3 is NEF's work with Eden Community Outdoors (ECO). ECO wanted to evaluate its economic impact on Appleby, Cumbria. ECO first looked at its income, which was a combination of public and private monies. Then ECO separated out how much of this turnover it spent in the local area, and on what kinds of items. ECO, like most businesses, spent its turnover primarily on staff and suppliers of goods and services. So knowing which staff and suppliers were local, ECO then looked at how much those local staff and suppliers spent in Appleby. We then added all this up, did some quick maths, and came up with an LM3 score. But more importantly, the process gave ECO ideas about practical action it could take to increase the value of this 'score' so that future results would be higher; in other words, ECO wanted to find ways to increase its local economic impact. Being able to score oneself has proven very important since most corporate leaders are motivated by achieving quantifiable results!

Large budget-holding organisations, such as local authorities and grant funders, can use LM3 to better understand the differences between their investment options, such that they can improve their overall economic development performance. For instance, North Norfolk District Council (NNDC) used LM3 to evaluate several of its construction contracts to understand how its current procurement strategy was impacting on the local economy of North Norfolk. NNDC found that a contract to a local firm had generated nearly twice as much money for North Norfolk than a contract to a non-local firm, even though the contract to the non-local firm was twice the contract value!

## What next?

While NEF has the tools and research data to support the case for increasing the circulation of inward investment in poorer communities, turning economic deserts into enterprising communities will only happen through work on the ground by a wide range of actors. Large budget holders – procurement officials, regeneration managers and major inward investors – can act as powerful catalysts for raising awareness of the many opportunities for helping their funding flow and multiply more effectively in disadvantaged communities. However, it is the other 'facilitators' of channel-digging – the residents, businesses, economic development officials, business advisors, education workers, and so on – who need to mobilise themselves to truly take advantage of all the opportunities available to them. Most importantly, budget holders and facilitators need to work more co-operatively to ensure that irrigation channels in disadvantaged communities form an embedded web of linkages so that if part of the main channel dries up (as much regeneration funding will do in the next five years), the rest of the system will continue to function.

We welcome your enquiries or comments on all the Tools for Economic Renewal.

## Publications

*Plugging the Leaks: making the most of every pound that enters your community*

Written by Bernie Ward and Julie Lewis

*The Money Trail: measuring your impact on the local economy using LM3*

Written by Justin Sacks

You can purchase a copy of these books either from the NEF website, [www.neweconomics.org](http://www.neweconomics.org) or dial direct to Central Books on 020 8986 5488.