

# Mainstreaming Community Economic Development

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## Aims and rationale

*“Capitalism has become more and more centralised...and as power becomes centralised, ordinary individuals feel as if they have less and less influence over critical decisions...and that when decisions are made, they are not responsive to local situations and local needs” - [Gary Hamel](#) speaking on Radio 4’s ‘In Business: Crunching the Crisis’ on 25<sup>th</sup> August 2011.*

**The UK economy is one of the most centralised in Europe.** Localise West Midlands’ experience of working with local economies led us to believe that in a more localised, place-based economy, more people have more of a stake, which redistributes economic power, reducing disconnection, inequality, and vulnerability to economic failure. The purpose of *Mainstreaming Community Economic Development* was firstly to establish what evidence there is for these benefits and secondly to explore how the successes of such an approach could be replicated and scaled up in mainstream economic development.

Despite the success of thousands of community economic development (CED) initiatives in generating livelihoods, social benefits, vibrancy and local distinctiveness, it is seen as ‘niche’ and irrelevant to the real economic development game. It was because of this perception that Localise WM identified the need for research into **scaling up this success and integrating it with mainstream economic approaches.**

In this work LWM has actively sought evidence to counter our assumptions on local economic development as well as material which supports them. The research has strongly reinforced our understanding, and signals the need to **revalue how we balance and integrate more community-based approaches** to economic development with the more dominant focus on attracting inward investment in economic development practice and policymaking.

In considering the two approaches we have explored the long-term benefits to a local area, the implications for inclusion, resilience, community cohesion and engagement, how widely economic benefits are distributed and the contribution to local distinctiveness and diversity, as well as the traditional measures of short-term job creation and economic growth.

**About CED:** We define CED as economic development led by people within the community and based on local knowledge and local action, with the aim of creating economic opportunities and better social conditions locally. We have included not only initiatives with social objectives, but also private sector activity that is locally controlled and based, where the community’s participation is as owners, investors, purchasers and networkers. CED is defined and understood differently across the world; being a more developed concept in Canada and the USA than in the UK. The [Canadian CED Network](#) demonstrates a holistic and strategic, community-led approach rooted in local knowledge, incorporating social, environmental and economic goals.

## Project stages

- **Literature Review** (MCED appendix 1) The [literature review](#) examines whether CED, localised ownership and supply chains create more social and economic inclusion, diversity, local

distinctiveness and income equality than mainstream, centralised economic development approaches. The focus is primarily on identifying empirical evidence, but it also reviews some of the theories around the socio-economic benefits, or otherwise, of centralised or inward investment and community economic development approaches, particularly where empirical evidence was difficult to find. Evidence in the literature to support the case for the effectiveness of the centralised approach proved virtually non-existent.

- **Case studies** 15 case studies were selected from two sectors relevant to the urban West Midlands: five from the relatively mature food economy and seven from the new and emerging energy retrofit sector. In addition, and in tandem, two case studies were undertaken with economic development officers and one from Birmingham Airport to illustrate a more traditional approach, but within a locally-based organisation. The case studies were identified from known good practice but also chosen to achieve a balance between initiatives with social objectives and purely business-focused activity that nevertheless has a good social impact, values or both.

- **Other activities** included a workshop for case study representatives and economic development practitioners to test ideas emerging from the research; analysis of the financial context for community economic development ([Access to Finance](#): MCED appendix 2); and a workshop for LWM associates to explore lessons from their consultancy and activist experience.

## Findings

The literature review identified strong evidence that local economies with higher levels of SMEs and local ownership perform better in terms of employment growth (especially in disadvantaged and peripheral areas), the local multiplier effect, social and economic inclusion, income redistribution, health, civic engagement and wellbeing. They also have benefits in terms of supporting local distinctiveness and cultural diversity.

The evidence suggests that a **community economic development approach is most effective where it is integrated into strategy and decision-making**. In Italy and Spain the lead comes from networks of workers cooperatives, in Canada and the US from third sector organisations with public sector support and in Germany, Scandinavia, Scotland and Greece from public sector-led networks that work effectively with the local private sector and where the public sector has considerable decentralised power.

**Absentee landlords have little local commitment and cause failure:** the literature and case studies supported the view that a local economy largely controlled by distant public and private sector decision-makers (absentee landlords) is, at least in the long term, a recipe for economic failure. Decisions made with little local knowledge may be inappropriate for local circumstances, and with no real commitment to the local area, private businesses may leave if economic conditions are better elsewhere. This makes it harder to provide the right environment for local businesses and creates a self-reinforcing cycle of decline. A virtuous circle can be created instead if there is a better combination of two factors: local commitment and knowledge involved in decision-making, and delegation of appropriate powers.

The combined evidence suggests that **the wider social benefits of more locally controlled economies are intrinsic** rather than being always the result of deliberate strategies to achieve these aims. The case studies represent the range of CED types from which we can learn why the approach, purposive or otherwise, might create these wider benefits, what influences how and how much this occurs, and how these can be maximised.

Some firms are more supportive of excluded groups because of their business function (Birmingham Wholesale Markets) or where they are located (East End Foods) rather than as a result of conscious actions. Some support the local economy because it provides demand for their business, so that whatever strengthens it supports them (Birmingham Airport); others because it is the purpose of their existence (RESCO, RETA and HEFF). Some act in an overtly economically inclusive way because of their purpose (Jericho); others because of the beliefs of their owners and managers (Encraft, New World Solar, East End Foods and Eco2Solar). The latter also see it as good business, which supports their success.

**In localised economies more business owners and managers are part of the local community** and so are more likely to have a commitment to it. Local business is more able to adapt to local needs where centralised companies might move to new markets. Employment may be more accessible; there are more opportunities to have a stake in the local economy, through peer experience, through the wider distribution of owners and managers, or more formally through co-operatives; and the overall increase in civic welfare reduces disadvantage.

**A more strategic CED approach can build on these natural advantages.** In identified good practice, local businesses, public sector, third sector and communities are all essential partners; an explicit social objective to economic development maintains focus. They foster co-operation, trust, entrepreneurship and the use of local knowledge, assets and needs. Within a local authority, it was felt that economic development is best delivered cross-departmentally (community development, procurement, planning); but despite the potential whole system cost-savings there was difficulty in resourcing this approach.

**Procurement presents opportunities and problems** as a tool for building local economies. It is fraught with policy and operational conflicts between the goals of narrowly defined 'efficiency' and of maximising its potential local benefits; institutional bias towards large organisations; and the minefield of procuring locally through a large intermediary. Solutions included use of the [Social Value Act](#) and better monitoring of comparative costs: participants recognised the inaccuracy of the assumption that centralised procurement was cheaper. In procurement and other decisions, there were often untested and questionable assumptions that small businesses presented greater risks.

Because of their greater (socio) economic impacts, the **collective growth in small companies responding to and developing local demand may well be more strategically important than big sites for footloose investors**, and likewise there are advantages to encouraging more smaller businesses in a sector rather than significant growth of a few of them. Co-operation between small businesses can replicate economies of scale while retaining the benefits of their size.

**Strong bonding and linking social capital** are also key to a local economy's effectiveness and inclusiveness. Some of this was provided by key organisations that link together supply and demand chains (Encraft, Wholesale Markets), others that link excluded groups to economic opportunities (Jericho); and by community development that 'thinks in economic terms'. The public sector also contributes this (Find it in Sandwell, Birmingham Energy Savers, Buy for Good) but is constrained by the highly centralised nature of the UK economy and governance.

**Open networking and sharing of ideas and good practice** across organisations also seems a central feature of creating a really dynamic local economy. This was key to the 'Silicon Valley effect;' and sharing ideas through Birmingham's Lunar Society at the start of the Industrial Age performed a similar role. In a much smaller way the benefits of such networking were evident in the West Midlands retrofit sector.

**Considering demand chains as well as supply chains** seems to be critical to success. Some businesses have key roles in linking or creating local demand to supply. If firms are providing for a specifically local demand (e.g. housing retrofit) then this gives them a reason to stay local, and being tied into local supply chains adds to this. **Physical regeneration projects can destroy supply networks** when account is not taken of the wider impact of the loss of businesses on those firms buying from or selling to them.

**Central Government policy and support interventions** such as training, business support, accreditation and regulation, were seen as at best irrelevant and at worst harmful to building strong locally-grounded economies. Interventions appeared designed to meet the needs of large national or multinational organisations or lacked the ability to adapt to local circumstance. Such interventions often created additional costs for local companies and the public sector and limited their ability to respond to local and wider market demands. Market information, networking and linking services were valued, alongside those helping businesses to take on disadvantaged people. Of those that were valued, all were locally managed and run.

Similarly **financial institutions were seen to serve local economies poorly**; and to have a structural bias towards large organisations, with borrowing difficult for small and new businesses. The community banking sector appeared to be greatly underused, despite statistics and overseas good practice showing its great potential; but changes to mainstream banking are also required.

**National centralisation of economic power** - bolstered by government policy - was identified as one of the greatest and most intractable barriers to effective locally based economies. This is made worse by inconsistent government policy-making, creating a 'stop-start' business environment. The local impact of policies was little understood and national processes were developed to suit the interests of big companies. Consequences include London and South-east centrality in decision-making, long 'feedback chains' for the rest of the country that make it difficult to be heard; the pure economic focus of some structures such as LEPs and some changes to planning policy; and economic development's extreme inefficiency in achieving societal goals or reducing external costs.

Issues around measuring exacerbate the bias. **Centralised systems with long feedback chains rely on data, while a local economic relationship is direct and visible**; but CED impacts are complex and so harder to measure.

## **Recommendations: how to mainstream CED in the UK**

In summary, adopting a CED approach:

- Can contribute significantly to both the economic and social wellbeing of communities.
- Creates a virtuous circle between stronger local decision-making and stronger local businesses; develops local power to make key decisions about investment and innovation.
- Enables and empowers people to be economically active and included, with high levels of trust, cooperation and social capital and short 'feedback loops' between purchasers and suppliers, employees and management.
- Creates an economy based on local vision, needs and resources.
- Builds trust and enables the sharing of ideas and best practice across businesses and other organisations, without which the Silicon Valley effect cannot happen.

Three levels of change are required in the UK to help mainstream CED, necessitating three levels of commitment and integration:

1. The first is for interested individuals or organisations to simply do more of the sorts of good practice described in the body of the report, using it as a menu for actions. Some of this good practice is very familiar and its value is recognised; but much of it is also constrained by its value not being widely understood, by being under-prioritised in relation to inward investment approaches, or by having to work against bigger policy and practice environments. Thus:
2. In the second level, local authorities or organisations with broad economic remits take a fully integrated approach that mainstreams CED into their practice (see the literature review for details of integrated approaches taken elsewhere in the world including Canada, US, Italy, Spain). This integrated approach is likely to include the full range of actions described below and require the commitment of relevant local decision-makers. It is likely to be effective, but would fail to reach its full potential, disempowered by the heavily centralised economic and other decision-making of the UK. Thus:
3. The third type of action - Government action to remove barriers to, and give full consideration to, CED - would maximise the potential of CED.

Even in the currently highly centralised nature of UK decision-making, there are many actions that can be taken locally to mainstream CED; but it needs a long-term and consistent commitment. Multiple initiatives need to be brought together into an integrated whole, with local business leaders, politicians and other key decision-makers in the public and voluntary sector working together to build a strong vibrant and inclusive local economy.

A MCED approach involves developing a mindset that thinks of the local economy as a complex ecosystem in that it takes a 'supply *and demand* chain' approach rather than focusing on individual businesses or sectors. In an ecosystem, removal of a link in the food chain upsets the whole system; likewise regeneration and economic development decisions need to be assessed for their impacts on existing supply networks. The CED approach mindset also seeks to build a relationship-based economy, focuses economic development on partnerships and networking, understands the strategic importance of the multiplicity of the small scale, seeks to maximise local power rather than handing it to absentee landlords with little interest in or understanding of the local area, and takes a long-term perspective, with clear aims to support greater social and economic inclusion. It would identify the specific circumstances in which inward investment would bring long-term benefits and seek to ensure that future inward investment delivered on those local benefits.

An integrated approach would therefore:

- Create a shared local vision based on the principles above;
- Involve individuals with long-term personal commitment to the local economy and to social inclusion in key roles;
- Ensure a voice for, and listen to, SMEs that support the local economic and inclusiveness agenda, deliberately or otherwise;
- Identify economic development priorities based on seeing the economy as an ecosystem which needs a balance of sectors, types of businesses and functioning networks;
- Amass and shares good market intelligence;
- Create and strengthens organisations which help develop supply and demand chains and horizontal social capital;
- Form close ties between economic development and public sector procurement so that the latter can be used for the former to achieve more within limited whole system costs;
- Ensure finance is decentralised and locally responsive, support positive development and enable local and small businesses to access finance;
- Use planning, regeneration, funding and support services in locally responsive ways;

- Find ways of measuring and evidencing the approach without creating undue burdens for the SMEs and other locally sensitive organisations it seeks to support. Using local business success as a proxy objective is inadequate to achieve social goals.

### **National support for CED**

To effectively mainstream community economic development, to allow it to make an effective contribution to our economy and society, requires change at national level to decentralise economic power. Changes are needed around policy, support services, subsidies, banking and infrastructure to ensure that CED has a level playing field. Local authorities that uncritically pursue inward investment approaches are needlessly undermining local power and the local economy.

The 'big is best' approach has a hegemony in our policy-making despite the vast majority of the evidence pointing in other directions. It needs to be challenged by thinktanks, charities and other policy commentators as well as by those in local government and SMEs and their representatives. Numerous [specific research gaps](#) have been identified which, if filled, would help to support our understanding of the benefits and delivery of a mainstreamed approach to CED.

### **Conclusion**

Adopting a CED approach can make the economy less remote, more linked into place and benefiting people, and inclusive for all parts of the community. The locally-orientated option should at least always be considered on its merits with more centralised options. Ignoring or dismissing its potential effectively restricts the future development and shared wellbeing of many localities across the country; it is like entering a boxing ring with one hand tied behind your back.

We make a number of practical recommendations for local and national changes, but perhaps the priority is the need for a rational, evidence-based debate. Mainstreaming community economic development could provide an attractive new political and civil society point of interest, addressing public concerns over concentrations of economic power. We hope that local and national exploration of the approach can at least contribute towards changing the terms of the debate.

### **More information**

The project webpage, with links to the final report, literature review and associated briefings is at [http://www.localisewestmidlands.org.uk/mainstreaming\\_CED](http://www.localisewestmidlands.org.uk/mainstreaming_CED).

The [Barrow Cadbury Trust](#) is an independent, charitable foundation, committed to supporting vulnerable and marginalised people in society. It provides grants to grassroots voluntary and community groups working in deprived communities in the UK, with a focus on Birmingham and the Black Country. It also works with researchers, thinktanks and government, often in partnership with other grant-makers, seeking to overcome the structural barriers to a more just and equal society.

[Localise West Midlands](#) is a thinktank, campaign group and consultancy promoting local supply chains, money flow, ownership and decision-making for a more just and sustainable economy. It has been working on the practice and policy of community-scale economics for ten years.



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