

Fostering local economic development in urban neighbourhoods – results of an empirical assessment

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ABSTRACT

Neighbourhood-oriented local economic policy applies selected measures, which were established in other fields of economic policy (particularly regional policy), to strategies operating on a sub-city territorial level. While it is intuitively convincing that neighbourhood characteristics add up to an important location factor, knowledge about the benefits that individual firms and entrepreneurs can draw from neighbourhood-oriented policy is still limited. This paper contributes to the discussion by highlighting the results of an evaluation study of neighbourhood-oriented economic policy in Germany. It reviews the policy rationale and analyses the strategies, progress and results of selected measures supported by the “Socially Integrative City” programme of North Rhine-Westphalia. It focuses on the relevance of the neighbourhood context in connection with two strategy goals: (i) reduction of vacancies in local retail property, and (ii) supporting business start-ups and local business networks. The analysis provides evidence for a number of aspects of the local “business environment”, which can play an important role for the performance of small firms and should, therefore, be a central focus of neighbourhood-oriented economic policy.

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1. Policy context: diversification of urban regeneration policy

In the 1990s, urban policy in Germany began to incorporate business-oriented measures within a more comprehensive approach to urban revitalisation. Up to the 1980s urban renewal had been regarded predominantly as an incentive to encourage reinvestment into the housing stock of urban quarters. In particular, diversification of neighbourhood-oriented urban regeneration policy in Germany was promoted by the URBAN I Community Initiative during the 1994-1999 period. URBAN implied combination of various fields of policy (e.g. environmental upgrading, improvement of the housing stock, economic development, education and qualification of local residents, improvement of inter-ethnic relations), all focused on a particular redevelopment area. Similar national and regional programmes were initiated by different European countries. A more comprehensive approach to local economic development has been established in the U.S., where non-profit community development corporations (CDC) have focused on fostering neighbourhood economies since the 1960s.

In 1993, the government of North Rhine-Westphalia (NRW) was among the first state level authorities in Germany to implement an integrated neighbourhood-oriented renewal programme within its urban policy approach. This programme included local economic policy measures, which were mainly derived from regional policy measures focusing on economic clusters and social capital (see below). As part of an evaluation of this programme, a case study on strategies, progress and results of local economic development measures in the neighbourhoods eligible for support by the “Socially Integrative City” programme of NRW (“Soziale Stadt NRW”) was carried out by the authors. It focuses on the relevance of the neighbourhood context in connection with

two strategy goals: (i) reduction of vacancies in local retail property, and (ii) supporting business start-ups and local business networks.

Drawing on selected findings of the study, this paper examines in what way the improvement of neighbourhood-specific characteristics can upgrade the performance of existing businesses, induce firms to locate in the area and foster entrepreneurship. It is structured as follows: the next section gives a brief review of the rationale of the selected measures and of existing evidence about their outcome. The third section presents the approach and selected findings of the NRW evaluation study. Section four derives central conclusions and gives an outlook on issues for further research.

2. The neighbourhood as a territorial setting for economic policy?

Although the existence of distinct urban quarters is a long and widely accepted phenomenon, an academic discussion about the character and development of economic structures within particular urban districts has been established only quite recently (Curran and Blackburn, 1994). This discussion intensified in the course of the more recent work on regional economic “clusters” (Porter, 1995; 1998) and “milieus” (Grabher (ed.), 1993; Läßle et al, 1994; Boston and Ross, 1997), from which arguments in favour of neighbourhood-oriented local economic development measures can be derived (Parkinson et al, 2006). Studies which are based on the concept of relational economic geography emphasise that embedded local businesses are to some extent able to shape their local “business environment” through their own economical, social and political activities and interactions, aiming at the development of more favourable location factors (Bathelt and Glückler, 2003). Such processes can be supported by policy measures, which focus on urban renewal and related local economic development in a particular neighbourhood. As a result, a local milieu can be developed, which fosters the creation of social capital and trust-based relations, e.g. in the form of

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network organisations. We can distinguish between bonding and bridging forms of social capital, with the former referring mainly to relationships between homogeneous groups, the latter to relations between socially heterogeneous groups (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998). In a geographical context, bonding social capital could occur in associations of entrepreneurs in a particular urban neighbourhood, while bridging forms link entrepreneurs, business organisations and local authorities at the local level and across different spatial levels (Welter et al, 2008). Hence, it stands to reason that policies for neighbourhood renewal should thoroughly consider such circumstances of social capital formation (Forrest and Kearns, 2001; Purdue, 2001).

During the past two decades policy-makers in an increasing number of cities have shown high expectations with respect to urban regeneration via SME and entrepreneurship promotion (Potter, 2004, 294-296). However, existing study reports point out serious obstacles (Curran and Blackburn, 1994; Curran et al, 2000; Fielden et al, 2000; OECD, 2003; Storey, 1994; Van den Berg et al, 2004), such as:

- low purchasing power of consumers,
- lack of entrepreneurial skills, experience and role models,
- lack of appropriate business space and access to finance
- unattractive ambiance of the area,
- a strong tendency of venture formation in service fields, where low entry thresholds and low opportunities for growth, but high competition go hand in hand, resulting in less sustainable business models,
- lack of network organisations and the individuals' lack of resources to engage themselves in networks,
- limited scope for direct business involvement in governance processes,

- lack of comprehensive, steady consultation and adjustment between different government departments at the same level (local, city, region/state) and across these scales.

In many urban areas, therefore, it may not be viable to incorporate neighbourhood-specific characteristics in a strategy of local economic policy. If it is found by urban policy-makers that a neighbourhood focus should be adopted, a starting point may comprise collaborative initiatives for social capital formation. In the following, the outcome of selected policy measures focusing on social capital, local SME “clusters” and support of entrepreneurship in urban neighbourhoods with particularly adverse basic conditions will be examined.

3. Evidence on the outcome of policy measures in North Rhine-Westphalia

Over the past decades not all cities, and therein not all localities, have been able to cope with structural change in North Rhine Westphalia equally successfully. In the 1980s and 1990s especially those neighbourhoods located adjacent to the now closed industrial sites and coal mines were characterised by industrial, commercial and overall blight. Since 1993 the Socially Integrative City programme in NRW has covered 34 neighbourhoods in 25 cities, with a strong focus on the Ruhr region (Figure 1).

Figure 1 about here

It is a key issue of this policy to allocate funds from existing state programmes in a coordinated manner to the different localities, rounded up by a surcharge of 10% on regular funding. In all projects a certain share is required to be co-financed by the

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municipality (city authorities and private sponsors, e.g. €4 mil. out of €52 mil. in Essen between 1990 and 2004).

As explained, this study focuses on the relevance of the neighbourhood context in connection with two strategy goals: (i) reduction of vacancies in local retail properties, and (ii) fostering business start-ups and local business networks. It draws on experience from the programme areas of six cities from the Rhine-Ruhr conurbation: Duisburg (Marxloh), Dusseldorf (Flingern/Oberbilk), Gelsenkirchen (Bismarck/Schalke-Nord), Essen (Katernberg), Oberhausen (Knappenviertel) and Wuppertal (Ostersbaum). These are all inner-city zones that were closely linked with old industries such as coal and steel or textiles in the past. Quite obviously, the typical obstacles to economic prosperity, which were highlighted in section 2, cumulate in these neighbourhoods¹ (Table 1).

Table 1 about here

While the character and goals of the policy measures under investigation make it very difficult to develop a research design suitable to isolate the net policy effects (considering what would have happened if no policy measure had been implemented), the study, which was carried out during a period of over one year in 2005 and 2006, provides a thorough analysis of gross policy effects and of the conditions, under which the location factors of urban neighbourhoods can be improved².

¹In Oberhausen, the renewal programme was very successful in initiating a local SME network. In this paper, however, the discussion about fostering business networks focuses on the examples from Essen and Gelsenkirchen, where the programme areas are more comparable in terms of size and basic conditions.

²Methodically, the study comprises qualitative elements (document analysis, 40 in-depth interviews with policy makers, public officers, entrepreneurs and network promoters, regular meetings with a steering group of experts from urban policy and research), field mapping, standardised questionnaire surveys among entrepreneurs and analysis of administrative data.

Policy measures aiming at *vacancy reduction* were applied in Duisburg, Dusseldorf and Wuppertal from 2001/2002 onward.

Table 2 about here

In Wuppertal, the basic strategy goals differ from those in Dusseldorf and Duisburg insofar as it is not the key aim here to attract new retail users (Table 2). In Wuppertal, the strategy focuses on developing a start-up, training and cultural centre in a redundant factory site. It is hoped that small businesses from the creative and art sector will occupy further vacant properties in the neighbourhood, once a local “creative” business “cluster” has started to establish, i.e. that social capital among a relatively homogeneous group (in spite of the diversity of “creative” entrepreneurs) can be generated. In Duisburg-Marxloh, it is part of the strategy to rearrange the character of part of the local neighbourhood shopping zone. It is envisaged to develop a more “ethnic” profile for the Kaiser-Wilhelm-Straße by combining selected retail uses with cultural offerings, catering and specialised services. In Dusseldorf the local economic strategy combined measures of urban regeneration, attraction of new residents (and purchasing power) by upgrading of the existing housing stock and construction of new housing (which is scarce in these districts since they are located near the expanding Dusseldorf CBD), acquisition of selected large retail stores as central attractions and support of local business networks.

Table 3 about here

In the survey period the vacancy rate has been reduced by a remarkable extent in Dusseldorf-Flingern/Oberbilk, i.e. in districts where admittedly economic conditions

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are more favourable than in the other programme areas (cf. Tables 1 and 3). In Duisburg-Marxloh, however, the rate of buildings containing at least one vacant commercial unit (32%) had increased and, in 2006, was still considerably higher than in the Dusseldorf (7%) and Wuppertal (12%) programme zones. A special feature of this part of Duisburg-Marxloh is that it hosts an agglomeration of cultural associations of the Turkish community. Here, it was part of the strategy to initiate an association of entrepreneurs with a Turkish background. This association has teamed up with local citizens' initiatives to develop a master profile, which aims at encouraging business in a particular "ethnic" market niche. The local development strategy in Duisburg-Marxloh therefore combined generation of both bonding and bridging forms of social capital. Eventually, revitalisation measures have begun to improve location characteristics in Marxloh: by October 2009, the vacancy rate had declined to 14%.

Our analysis of initiatives to foster *entrepreneurship and small business networks* focuses on the programme areas of Essen-Katernberg and Gelsenkirchen-Bismarck (Table 1). For about 150 years, both areas had been dominated by coal mining. After mine closures in the 1980s and 1990s, around 4,000 to 5,000 jobs were lost in each district. Recently, the building complex of the "Zollverein" coal mine – located in the Essen study area – became enlisted by the UNESCO as a World Heritage Memorial. Furthermore, Essen – as representative of the Ruhr - was nominated as European Capital of Culture 2010. This is expected to boost tourism and catering activity in the area.

The first project under consideration here is a start-up incubator, which was established on a side-estate of the former "Zollverein" coal mine in 1994. Today, it provides workspace for nearly 500 persons in 85 firms, shared facilities such as security and office services and a business advisory service for the tenants and other entrepreneurs of the neighbourhood. The tenant group includes engineering consultants, metal work-

shops, whole-sellers, IT and media firms, advertisement and design agencies, and business consultants. A mix of young and “established” firms has proven to be an advantage, because the flow of information has broadened and the opportunities for inter-firm cooperation have increased. It can be argued that social capital among a heterogeneous group of enterprises has been established. As a whole, the incubator firms are well-embedded in neighbourhood and city networks. The manager of the incubator can be considered as a “high communicator”, i.e. a person who is well-integrated in different networks at the interface of public administration and business and is capable of bringing actors from the different domains together (cf. Fromhold-Eisebith, 1995; Malecki, 1997) (Figure 2).

Figure 2 about here

The second measure is related to an association to promote tourism in the neighbourhood of the historical industrial architecture of the Zollverein site. Set up in 1997 by local citizens, between 1998 and 2004 the “Zollverein Tourist Association” received funds from the “Socially Integrative City” programme. These added up to around € 120,000 for feasibility studies, an initial PR campaign and implementing a booking and quality management system. Furthermore, funds were used to support English language tuition for the entrepreneurs, around 40 elderly landladies, who offer a total of around 100 beds (and breakfast) for overnight stay. The number of stays arranged by the local booking agency rose from 376 (2002) to over 4000 (2007) and remained above 3000 even during the economic crisis in 2009 (Figure 3). It can be argued, therefore, that the local development measure succeeded in establishing a locally based trade within the cultural heritage tourist cluster of the Ruhr. Our survey among the

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incubator firms revealed that an improved image is now becoming a new favourable location factor of this city district.

Figure 3 about here

Fostering entrepreneurship and networking also played an important role in Gelsenkirchen-Bismarck. Here, the municipal programme management appointed a consulting firm to set up a local economic (SME-oriented) promotion centre for the programme district. Although the centre succeeded in establishing linkages of entrepreneurs to important persons from the administration, its overall success in linking entrepreneurs at the local level remained modest. Contrary to Essen, there was no long-established history of local cooperation in the programme area and no widely respected “high communicators” or local leaders emerged.

In comparison, the experience from the programme areas reveals that by focusing on the particular characteristics of neighbourhood surroundings, local economic policy is capable of encouraging economic activity and generating social capital, which due to local constraints (e.g. lack of entrepreneurial skills or suitable commercial properties) would most likely not emerge otherwise. The scope of local policy to overcome the barriers to economic activity in unfavourable locations, however, should not be overestimated.

4. Conclusions

The analysis has provided evidence for a number of aspects of the local “business environment”, which can play an important role for the performance of existing busi-

nesses and start-ups. With respect to the *success factors* of promoting the local economy, the following crucial points can be derived from our study.

(i) Local economic development measures need to be part of a more comprehensive neighbourhood-oriented renewal strategy. The upgrading of the urban landscape (among the case study neighbourhoods, examples can be found in Duisburg, Düsseldorf and Essen) may be a prerequisite of a subsequent regeneration of local potential.

(ii) Economic development should be part of a local governance process incorporating stakeholders from the public and private sector. This kind of decision-making helps to define realistic goals for the recovery of deprived urban districts and to monitor progress during programme implementation (case study examples are Duisburg and Essen in particular).

(iii) Recognition of market niches, as shown by the potential of a new tourist trade in Essen and “ethnic” profiling of parts of the Marxloh neighbourhood in Duisburg, is a precondition of local economic recovery.

(iv) Both individual creativity and joint effort are necessary to boost specific trades (e.g. industrial tourism in Essen). The Gelsenkirchen example shows that approaches to economic uplifting may be more likely to fail if social capital formation faces serious barriers, e.g. if there is no local tradition of co-operation.

(v) Social capital formation and effective networking activities depend on the work of different types of network promoters: Within urban districts successful local “leaders” manage to form bonding and bridging linkages between stakeholders. The Essen programme area is an example of a successful project, in which social capital in the form of tight networks had already been established before recent renewal schemes were officially implemented. The Duisburg example shows that networks among ethnic

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communities may assume a pro-active role in neighbourhood development, in particular if it is agreed among local stakeholders that an “ethnic” profile is to be envisaged.

(vi) Additional purchasing power can be attracted to neighbourhoods benefitting from nearby large-scale urban economic restructuring, as shown by CBD expansion in Dusseldorf and regeneration of the Zollverein coal mine in Essen. However, reorganisation of the economic profile of deprived neighbourhoods in order to attract additional customers is a long-term process.

(vii) A well-planned series of sponsored social and cultural activities, political engagement and related PR may serve as an effective help to improve the image of a location. Given a certain amount of publicity, it is likely that neighbourhood-oriented projects will succeed in encouraging additional private sector funding (examples can be found in all project areas).

Our study also reveals remarkable challenges for future applied research about the possibilities and barriers to apply measures of economic development in neighbourhood-oriented policy. Within this frame it will be of great interest to

- analyse the development of urban economic space at the interface of individual businesses and local surroundings,
- observe and compare the design, implementation and spatial effects of integrated neighbourhood-oriented policies in different cities and regions,
- improve on the design of evaluation studies, incorporating recent advances in non-experimental evaluation as far as possible, even if it will be very difficult to isolate the net effects of local economic development measures, because in many cases they comprise very modest budgets and the “treatment group”

(businesses and entrepreneurs) benefits only indirectly (i.e. there is no direct “treatment effect”).

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Table 1

Structural position of case study programme areas in comparison with the respective overall cities

City/programme area	Inhabitants (1998)	Inhabitants (2006)	Population change 1998-2006 (%)	Unemployment rate* (% , 2004)	Share of foreign nationals in the overall popula- tion (% , 2006)
<i>Duisburg</i>	523,311	499,111	-4.6	12.0	15.1
Duisburg-Marxloh	19,808	17,681	-10.7	18.5	34.2
<i>Dusseldorf</i>	568,440	577,505	1.6	8.3	18.3
D.-Flingern/ Oberbilk	36,089	37,733	4.6	12.3	32.3
<i>Essen</i>	603,194	583,198	-3.3	9.8**	10.1
Essen-Katernberg	51,888	51,790	-0.2	11.7**	13.2
<i>Gelsenkirchen</i>	284,085	266,772	-6.1	15.2	13.2
Gelsenk.-Bismarck	23,089	21,183	-8.3	16.6	17.4
<i>Oberhausen</i>	222,456	218,181	-1.9	10.6	11.3
Oberh.-Knappenviertel	7,512	6,778	-9.8	16.3	15.2
<i>Wuppertal</i>	372,218	358,330	-3.7	10.3	13.8
Wuppertal-Ostersbaum	15,678	14,793	-5.6	15.2	24.4

*share of unemployed persons among all 19-60 year-old inhabitants, ** (2003)

Authors' calculations based on municipal data

Table 2
Vacancy reduction in neighbourhood retail centres: initial problems, strategies and (gross) effects of local policy measures

City	initial problems of programme area	strategy of policy measures	(gross) effects
Duisburg	<ul style="list-style-type: none"> - oversupply in retail space - bad image among the German population - clash of interests between different groups of the migrant population 	<ul style="list-style-type: none"> - problem analysis by scientific studies - incorporation of a development partnership representing the local population and businesses - development of a concept of the future profile of the Kaiser-Wilhelm-Straße by the local development partnership - initiating of "neighbourhood marketing" activities - brokering of vacant shops to intermediate users - application for further renewal funds by the local development partnership 	<ul style="list-style-type: none"> - finding a local consensus about the goals for neighbourhood development under very difficult conditions - activation of local residents and traders to participate in the local development process - management of the local development partnership by citizens and a business organisation - acquisition of renewal funds for the implementation of the local development strategy
Dusseldorf	<ul style="list-style-type: none"> - strain due to construction of new underground line - declining population - sub-optimal use of existing commercial properties - little publicity of existing location potential 	<ul style="list-style-type: none"> - contraction of basic studies on local economic perspectives - upgrading of the urban landscape after underground construction - support of private housing renovation - creation of new housing for affluent renters and of adjacent "green space" - support of existing and formation of new local business networks - "profiling" of local retail variety 	<ul style="list-style-type: none"> - population increase - participation of local businesses in local economic strategy development - improved marketing of existing commercial space - reduction of vacancy rate
Wuppertal	<ul style="list-style-type: none"> - high vacancy rate in local retail property - lack of interest of owners to find new tenants for vacant shops - deficits in local retail supply - lack of central identification points within the neighbourhood 	<ul style="list-style-type: none"> - problem analysis by scientific studies - development of a new economic core of the neighbourhood by renovation of an old industrial site - finding of intermediate uses for vacant shops - activating of landlords to participate in neighbourhood renewal processes - upgrading of the housing stock with help of qualification measures 	<ul style="list-style-type: none"> - publicity and image improvement of the Osteraubum neighbourhood - attraction of entrepreneurs to the area, partly to vacant shops - activation of local entrepreneurs to invest into the upgrading of a derelict industrial site to a new centre for artists and creative industries

Source: Own survey

Table 3
Inventory of existing buildings and vacancies in the local shopping high street areas of the programme areas in Dusseldorf, Duisburg and Wuppertal

Programme area	number of buildings (2006)	buildings with vacant commercial floor-space (2006)	buildings with vacant commercial floor-space 2002 (Dusseldorf)/2001 (Duisburg)
Duisburg-Marxloh	56	18 (2009: 8)	12
Dusseldorf-Flingern/Oberbilk	305	21	39
Wuppertal-Osteraubum	196	23	-

Own survey (2006) and documents provided by the programme cities (2001/2002)

Figure 1
The Rhine-Ruhr conurbation as case study area

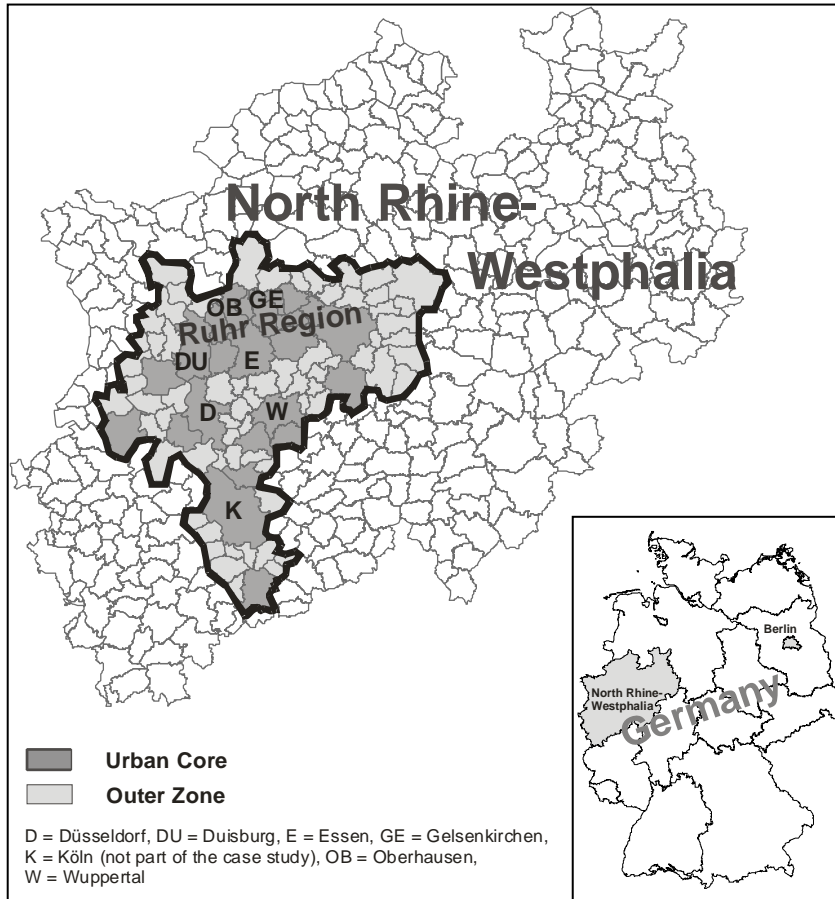
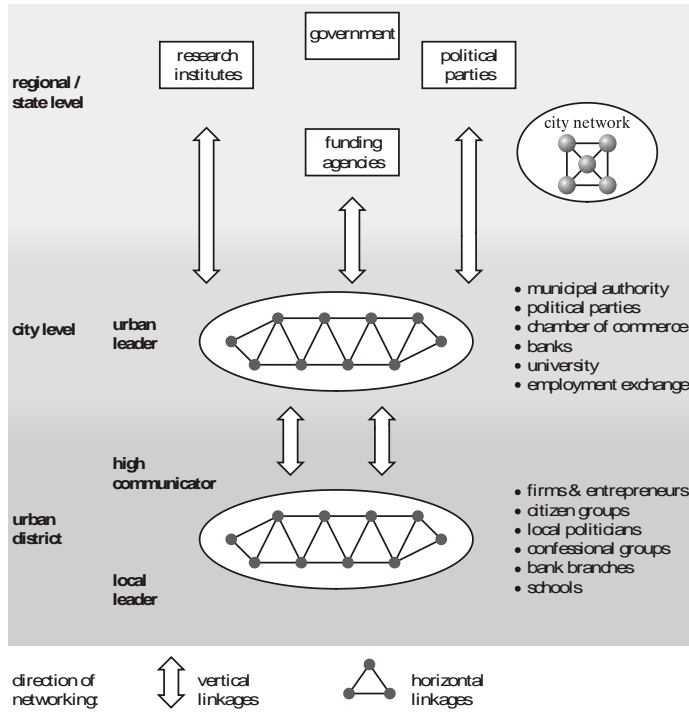
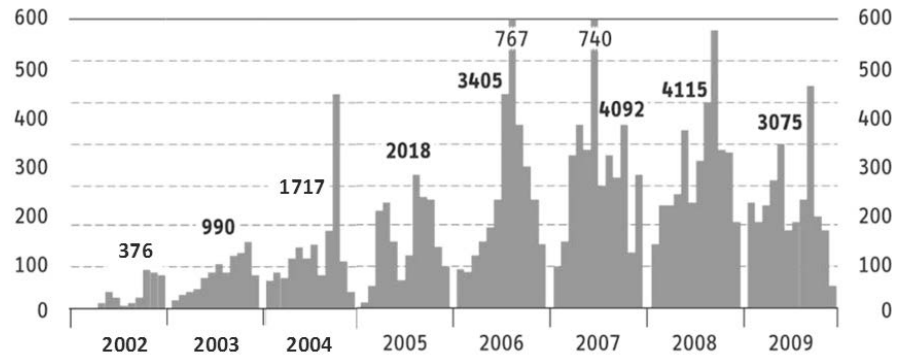


Figure 2
Operation of network promoters across spatial levels



Source: Own draft based on Welter et al. (2008); vertical linkages = across spatial levels, horizontal linkages = within spatial level

Figure 3
Annual overnight stays arranged by the Zollverein tourist booking agency
2002 to 2009



Source: Zollverein Tourist Association