



**CO-OPERATIVES UK**

NEW INSIGHT 13

## Ultra-Micro Economics

Small plus small plus small equals big

*David Boyle*

“It is micro-enterprise, and the rise of local co-operatives, that provide the economic levers we need.”



## Introduction

The origin of this document lies in a series of meetings which I helped to organise between the Treasury and a group of key individuals in the movement which, as yet, has no accepted name, the increasingly effective group of entrepreneurs and activists who are trying to maximise the capacity of struggling local economies to regenerate themselves.

Standing in the lobby of the Treasury, and meeting each other for the first time, it was obvious that, even though the group came from across the policy spectrum, from banking and food to energy, they were all talking about the same thing: that the levers to kickstart disadvantaged local economies into action are mostly extremely local.

These places can expect to get no outside investment nor central government grants, certainly for the time being. They will get no plans for massive shopping centres, nor architects' drawings of marinas. But the 'ultra-micro' approach set out here says that this need not matter, because the elements of economic revival are there already – all around us.

This document attempts to outline this new understanding of the possibilities and potential of the ultra-local approach to economics. It claims that the real levers of economic revival are much more local than conventional thinking has suggested until now, far more local than LEAs or local authorities.

It implies that shifting the economic future of a neighbourhood involves looking closely at exactly where the money flows to, and where it leaves the local economy, and how the supply chains between small, micro- and mutual local businesses are connected with the public sector.

It is about the intricacies and weave of local economic activity, how business links to people, communities and places and the small threads that run through any broader economic and social success.

**Because, as they say, small plus small plus small plus small equals big.**

It looks at how these might be rebuilt, often using new co-operative businesses and institutions, so that they work. It also makes an important claim about the effectiveness of regeneration, based on the experience of failed regeneration over the past two generations.

The ultra-micro approach implies that big-scale regeneration is often an expensive white elephant, lacking any connection to the people it is supposed to help, that shifts the poorest people out of an area instead of helping them to be economically active. It contradicts the idea that ultra-micro local economics has been ignored for successive generations because it is too small to be effective. Quite the reverse; it suggests that local economies can be revived in the same way that the fabric of the nation's private housing stock was revived, which it had once seemed such an insurmountable challenge, by millions of people going down to the DIY shop and starting work for themselves.

It is an approach that transcends conventional right and left, just as it goes beyond the conventional distinction between free and controlled markets. It suggests that the solution is about releasing energy and providing the right scale of institutions to make that possible, rather than conventional kinds of government intervention. Because, as they say, small plus small plus small plus small equals big.

It is also a direct challenge to the idea of comparative advantage as the only design for reviving urban economies. This doctrine claims to provide a blueprint for local economic revival via specialization, competing with similar places until they are all exactly the same. Its major drawback is that it provides too few winners and far too many losers, especially when it is combined by the extreme reduction of global competition, and the way the few mega-winners carve out the world between them.

With specialization or gentrification as the only approved methods of reviving local economies, most places are simply swept aside in the narrowly efficient new world, where only one place builds radios or makes steel or TV programmes.

The irony is that even the biggest losers in the developed world, places like East St Louis, or Camden, New Jersey, do actually possess the basics they need for an economy: they have money flowing in to the remaining public sector outposts, universities or hospitals, and they have people with imagination and drive who want to work. They have people who need to buy things, and they have raw materials, maybe in the form of rubbish, but resources nonetheless.

The idea is that really local economics is about repatriating some economic activity, shortening supply chains, reducing carbon footprints, and allowing local economic to service some of its own demand more. It means taking these ignored assets and turning it into real wealth. This raises the possibility of a new kind of regeneration, based on an ultra-local and ultra-micro approach to the local economy, tracking where the money flows to, and creating institutions that make it possible for it to flow better, for longer and to more people.

This ultra-micro approach is based on the following principles, that even in the most distressed areas:

- There is money around, but not nearly enough institutions to invest locally and those which do exist are often too risk averse for growing local markets
- There are assets in communities – knowledge, skills resources, land and buildings, that can be harnessed to support local economic development
- There is money flowing through all local economies but, when there are few local enterprises and supply chains, it tends to flow straight out again
- There is a sense of place, where all the economic levers belong, the economic glue which links together those taking part in local sharing and trading

- There is something about the ultra-local approach that re-doubles benefits in other policy areas: it can produce jobs, but it also addresses environmental and social issues both locally and beyond

**Because academic economics regards these interventions as too small, then policy-makers are ignoring one of the few remaining levers left to them.**

This is a practical way forward for places which have been bypassed by the global economy. It is probably the only possible way forward given that there will be little in the way of government grants or inward investment coming their way. So why is it happening so rarely?

The following things seem to be missing.

The first is that conventional economics ignores these very small-scale possibilities completely.

Because academic economics regards these interventions as too small, then policy-makers are ignoring one of the few remaining levers left to them.

Second, that there is not nearly enough questioning of mainstream approaches in policy circles. They are too easily satisfied and too timid when it comes to demanding alternatives.

Third, most of the institutions of economic renewal that we have, from those that provide credit to those that help support local energy generation – are almost entirely designed for big players, not small ones.

Fourth, they are policy approaches born of a determination to make change happen at local level in the places that are getting left behind. It is an approach born of empathy, and the need to give our economy a human quality, but which restores self-respect and independence.

Finally, these ultra-micro approaches are well known in their separate guises as local banking or local energy, or local money flows analysis, or even enterprise coaching. We lack an understanding that they are not separate, and are in fact different aspects of the same picture. We also lack a name.

When we have that, people can ask their mayors and local authorities if they are doing it, and if they are not, then why not, or go off and do it themselves. But we need to be able to call it something before we can demand it.

## Evidence

The ultra-micro approach to economics is simple. It is a local and a neighbourhood approach to making economics work for people rather than against them. It is based on increasing the local retention of money, or perhaps the velocity of local money, on import replacement not comparative advantage, on greater levels of co-operation, allowing them to compete on more equal terms with the big behemoths, and using a much more personal or empathic approach to enterprise.

Much of it is tried and tested and waiting for local government to see the opportunity and forge an approach which is, in its own way, as important as Joseph Chamberlain's urban revolution of the 1870s. At its heart, though, it suggests that diverse, small business is not just a more effective way of keeping wealth circulating around disadvantaged local economies, making sure that it uses available local assets and people more effectively, it is also a more effective way of regenerating the national economy too.

The evidence for this has been well-rehearsed. There were an estimated 4.9 million businesses in the UK which employed 24.3 million people. SMEs provided 99.9 per cent of all private sector businesses in the UK, 59.3 per cent of private sector employment and 48.1 per cent of private sector turnover. They also employed 14.4 million people and had a combined turnover of £1,600 billion. Small businesses alone accounted for 47 per cent of private sector employment and 33.1 per cent of turnover.<sup>1</sup>

---

1 [www.fsb.org.uk/stats](http://www.fsb.org.uk/stats)

There is also the unrecognised contribution of the voluntary sector to the economy, employing 732,000 people (68 per cent women) and controlling £229 billion in assets.<sup>2</sup>

**The implication is that there is a basic mismatch behind the ultra-micro approach, between the existing institutions and the scale and places where regeneration is needed.**

But these figures are symptoms of the basic problem, that our existing financial institutions do not suit the right scale for the ultra-micro approach. Only ten per cent of business investment is from firms with less than 50 employees, despite these same firms accounting for around 45 per cent of total employment. Small businesses are not very capital intensive in an economic sense, either because capital is not available for small businesses or because the kind of things that small businesses do best don't require it (these may both be true).

Despite some studies demonstrating that small businesses can have a major impact on employment, the institutions don't exist to support their expansion. It is quite clear that the big banks are not able to do so, and recent changes to the Basel financial regulations will make small business lending even more expensive and unattractive to the banks than it has been before.

The implication is that there is a basic mismatch behind the ultra-micro approach, between the existing institutions and the scale and places where regeneration is needed. They tend to be national institutions, impersonal and inflexible, virtual, and difficult to access, whereas they need to be local and be able to deal easily with diversity.

---

<sup>2</sup> Daniel Fujiwara, Paul Oroyemi and Ewen McKinnon (2013), Wellbeing and civil society: Estimating the value of volunteering using subjective wellbeing data, DWP. London.

The evidence that the ultra-micro approach can make an impact where conventional policy measures fail to is bound to be scarce because, where those useful local institutions do exist, they tend to be new innovations. The advocates of the ultra-micro approach will need to answer the following questions to prove their case:

## 1. How can you show that the ultra-micro approach to local economies can increase economic activity?

So far, there are very few places that are systematically putting the ultra-micro approach into effect. Arguments put forward by the Institute for Local Self-Reliance in the USA suggest that spending money with local companies rather than big ones means that three times as much of that money stays circulating in the local economy.

**Social capital ... refers to features of social organisation, such as trust, norms, and networks, that can improve the efficiency of society by facilitating co-ordinated actions.**

It is also likely to support higher pay and more flexible working hours, and experience suggests that more distinctive local activity encourages people to invest and buy there.

But although this seems like common sense, the research backing for it is still small. Where there is evidence, it is that places with strong social networks, and strong social capital, tend to be more successful economically.

This dates back to the work of Robert Putnam in the Italian regions, who argued that: "Social capital ... refers to features of social organisation, such as trust, norms, and networks, that can improve the efficiency of society by facilitating co-ordinated actions".<sup>3</sup>

Putnam argued that economic differences were the result of social change that began in the distant past and which change very slowly.

---

<sup>3</sup> Robert Putnam et al (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, Princeton University Press.

There is also a link between the importance of social networks, especially when you are starting out in business, and the intelligence and information about local people and markets that allow bankers to lend.

But when Localise West Midlands carried out a literature review of the evidence that is available in this area, they concluded as follows:

"The review concluded that localised and community economies appear to deliver better than centralised on job creation, particularly in disadvantaged and peripheral areas, on resilience, stability and economic returns to an area, quality of life, security (for employees), civic welfare, civic participation, local economic power, accessibility of employment opportunities particularly for people who are vulnerable to economic exclusion ... All this has a potentially positive impact on inclusion and equality.

While it seems that more centralised large-scale approaches can have the advantages of bringing extra resources and powers that will make an immediate difference, it seems likely that they can undermine the local virtuous circle and long-term prosperity of a local economy, potentially contributing to the social segregation and inequality that have been seen to develop in centralised economic environments."<sup>4</sup>

**The issue that needs to be wrestled with is how ultra-local organisations can, in practice, gear up to take on major challenges.**

This is supported by an important study published in 2011 which analysed nearly 3,000 counties in the USA and concluded that "those with a larger density of small, locally owned businesses experienced greater per capita income growth between 2000 and 2007".<sup>5</sup>

The issue that needs to be wrestled with is how ultra-local organisations can, in practice, gear up to take on major challenges.

<sup>4</sup> <http://localisewestmidlands.org.uk/wp-content/uploads/MCED-literature-review-final-Jan-2013.pdf>

<sup>5</sup> Goetz, S. and Fleming, D. (2011), 'Does Local Firm Ownership Matter?' *Economic Development Quarterly*, 3(25): 277-281.

This takes time, but the evidence suggests it can be very effective.<sup>6</sup>

In Italy, social co-operatives have taken over co-production of care services. It has taken over 30 years to scale up to include over 14,000 co-operatives, their own co-operative banking partners, and build a network of networks with over 360,000 jobs created and a combined turnover of over 9 billion euros.

The Danish wind co-operatives have also moved over the past 30 years to capture 40 per cent of the national energy market in Denmark. Mike Lewis and Pat Conaty call this happy medium between micro and macro, the mezzo-economic level.<sup>7</sup>

## 2. Can ultra-micro approaches increase economic activity faster than other options?

**The Danish wind co-operatives have also moved to capture 40 per cent of the national energy market in Denmark.**

The argument here is not that ultra-micro approaches will ever beat the kind of return on investment from speculation, or similar, but that it can produce a return in places that would otherwise be dependent supplicants for state hand-outs. The main evidence here is around the activities of the banks.

The argument continues about the reason for the drop in bank lending by the Big Five to SMEs. Is it that small business managers don't want bank loans or is it that the terms are so much more onerous than before? Either way, it is clear that the value of outstanding SME lending fell by nearly one fifth after the financial crisis, and many more loan requests were turned down, and the value is still falling.

---

<sup>6</sup> See Mike Lewis and Pat Conaty (2012), *The Resilience Imperative*, Gabriola Island BC, New Society.

<sup>7</sup> Lewis and Conaty (2012).

One in four SMEs that applied for bank finance in 2010 were turned down outright, compared to just one in 25 in 2007, and the smallest firms were hit the hardest.<sup>8</sup> The terms of loans were also changed, in ways that have yet to be properly researched.

## One in four SMEs that applied for bank finance in 2010 were turned down outright, compared to just one in 25 in 2007.

The truth is that the credit crunch obscures a much bigger trend. In search of cost efficiencies, the big banks have relied less on local managers and more heavily on 'credit scoring', which involves noting key characteristics and using algorithms and historical data to decide whether businesses or people are good risks.<sup>9</sup>

The resulting under-provision to SMEs may be rational for individual commercial banks, but it damages the economy because it means that wealth-creating enterprises often fail to get the finance they need to expand.

Failure to meet credit scoring thresholds is the most common reason why SME loans are rejected, and about 40 per cent of applications fail because of this.

Most rejected loan applications which are overturned in favour of the customer during formal appeal processes do so because of unreasonable credit scoring. Evidence suggests that small banks are better at using the 'soft' information needed to assess the prospects of small firms.<sup>10</sup> What this amounts to is that big banks do not have the infrastructure to price local risk effectively.

8 Accenture UK (2011), *New Generation SME Banking*, London.

9 Berger, A., Miller, N., Petersen, M., Rajan, R. Stein, J. (2002), 'Does function follow organizational form? Evidence from the lending practices of large and small banks', *Journal of Financial Economics*, 76(2); and Cole, R., Goldberg, L. White, L. (2004), 'Cookie-cutter versus character: The micro structure of small business lending by large and small banks', *Journal of Financial and Quantitative Analysis*, 39(2).

10 Banking Taskforce (2012), *Appeals process: Annual report* [http://www.betterbusinessfinance.co.uk/images/pdfs/Annual\\_Report\\_Master\\_2013.pdf](http://www.betterbusinessfinance.co.uk/images/pdfs/Annual_Report_Master_2013.pdf)

For that reason, if no other, it matters that 70 per cent of German banks are mutually owned or not for profit, especially when, in the UK, just 3 per cent of banks are local.<sup>11</sup> The implication is that big banks do not play the role in recovery that local banks play in other European countries. Research seems to bear this out, suggesting that the UK is at an economic disadvantage.

Large banks lend proportionally less to SMEs than smaller banks, despite the critical role that SMEs have in expansion.<sup>12</sup> In 2010, co-operative banks had a significantly larger share of SME loans than their overall market share in Austria (46 per cent of SME loans, compared with 33 per cent of all loans), Germany (28 per cent versus 17 per cent) and the Netherlands (43 per cent versus 29 per cent).<sup>13</sup>

## Large banks lend proportionally less to SMEs than smaller banks.

More on this can be found in the New Economics Foundation's report *Stakeholder Banks*, from where much of this information was gleaned.<sup>14</sup>

The implication of this is that, if the UK had a similar local banking infrastructure, then recessions could be shorter and less pronounced.

It also implies that places where local economies now barely exist would be able to look after themselves, it is an argument for greater national wealth overall, rather than for shifting resources from one place to another.

11 Lord Sharkey (2013), Speech in Hansard, House of Lords, 15 Oct.

12 Cole, R., Goldberg, L. & White, L. (2004), 'Cookie-cutter versus character: The micro structure of small business lending by large and small banks', *The Journal of Financial and Quantitative Analysis*, 39(2): 227-251.

13 European Association of Co-operative Banks. (2010). Latest key figures on the sector, retrieved from [http://www.eacb.coop/en/cooperative\\_banks/key\\_figures/last\\_key\\_figures.html](http://www.eacb.coop/en/cooperative_banks/key_figures/last_key_figures.html)

14 Lydia Prieg and Tony Greenham (2012), *Stakeholder Banks*, New Economics Foundation: London.

### 3. Why should non-economic factors like social capital and mutual support be taken into account at national level?

The answer is that these factors are important when it comes to building a local enterprise base. Here, again, the evidence is all about disadvantaged areas, the places which comparative advantage leaves behind because they have no conceivable comparative advantage, at least while capital is more mobile than labour. This is not because resources spent here will provide a bigger return to resources spent elsewhere, but because the alternatives are considerably more expensive, though largely unstudied. What would it save the exchequer if a struggling city like Bradford could better fend for itself?

It also implies that the ultra-micro approach requires different skills and different kinds of spending than conventional regeneration, because there is evidence that conventional regeneration can actively exclude local people from the labour market.<sup>15</sup>

Where there is evidence, in a few places, it is of the potential of the ultra-micro approach. This is so notably in Totnes, where the Transition Towns REconomy programme carried out an extensive study of the wasted economic potential of the town.<sup>16</sup>

They looked at the potential economic difference of producing more food locally, of retrofitting homes to minimise bills, to earn money by generating local renewable energy, and by using local resources to care for people and keep people healthy.

---

15 [www.zprie.amu.edu.pl/pliki/urb\\_reg/ur080.pdf](http://www.zprie.amu.edu.pl/pliki/urb_reg/ur080.pdf)

16 Fiona Ward (2013), Totnes and District Economic Blueprint, Reconomy Project, Transition Town Totnes, Totnes.

At the heart of this approach is the theory that maximising the use of the money already flowing through the economy, so that it is passed from local business to local business before it flows away, can increase the economic impact without necessarily requiring new money. Though clearly someone will have to invest in the new businesses which can plug the local leaks.

Also community energy involves resources coming in from outside, and community care, at its best, uses more informal resources to boost the local care economy.

The Campaign to Protect Rural England (CPRE), for example, suggests that spending £10 in a local food outlet is actually worth another £25 to the local economy, as it gets re-spent locally several times (a local multiplier of 2.5); and they also report that local food shops can employ three times as many people for the same amount of turnover as a large supermarket.<sup>17</sup>

## Spending £10 in a local food outlet is actually worth another £25 to the local economy.

If this is the case, it implies that ultra-micro approaches look closely, not just at where goods come from, but where the existing money is spent.

Some economists question the theory on the grounds that it is impossible to draw a boundary between the local economy and the world outside.

It is certainly true that the boundary is extremely blurred and hard to calculate, but the evidence suggests that this may explain the difference between successful and unsuccessful places, the unsuccessful places leak out income very quickly.<sup>18</sup>

<sup>17</sup> CPRE (2012), *Field to Fork: the value of England's food webs*, London. [www.cpre.org.uk/resources/farming-and-food/local-foods/item/2897-from-field-to-fork](http://www.cpre.org.uk/resources/farming-and-food/local-foods/item/2897-from-field-to-fork)

<sup>18</sup> Michael Shuman (2005), 'Amazing Shrinking Machines: Local Economies are Thriving Alternatives to Globalism', *New Village Journal*, Issue 2, Oakland, CA: New Village Press.

You may not be able to draw a firm line, but that does not mean there is no economic significance in encouraging networks of local businesses to trade with each other.<sup>19</sup>

It is not the total amount of money that is important here. It is the diverse ecosystem of businesses, and maybe even the diversity of people that matters, because they can keep money circulating:

- The original research by the New Economics Foundation on the local multiplier effect showed that every £10 spent with the organic vegetable box scheme was worth £25 for the local area, compared with just £14 when the same amount was spent in a supermarket<sup>20</sup>
- A study in a Chicago neighbourhood showed that a dollar spent at a local restaurant yielded a 25 per cent greater economic multiplier effect than at a chain restaurant<sup>21</sup>
- Another study in Maine showed how, for every \$100 spent with 28 locally-owned businesses, \$58 returned to the Portland economy<sup>22</sup>
- Closer to home, a study of the Lincolnshire Co-operative Society found that every pound spent in a co-operative store changes hands five times, at diminishing levels, until the final penny leaves the local economy<sup>23</sup>

The implications of this for the local economy are profound. It means that sustainable economic success requires a diverse range of locally-owned businesses which trade with each other.

---

19 See REconomy Project's list of the characteristics of the kinds of new enterprises that make the most difference: <http://www.reconomy.org/what%E2%80%99s-a-transition-enterprise-draft/>

20 Bernie Ward and Julie Lewis (2002), *Plugging the Leaks: Making the most of every pound that enters your local economy*, New Economics Foundation, London, 20.

21 Matt Cunningham and Dan Houston (2004), *The Andersonville Study of Retail Economics*, Civic Economics, Chicago.

22 Garrett Martin and Amar Patel (2011), *Going Local: Quantifying the Economic Impacts of Buying from Locally Owned Businesses in Portland, Maine*, Centre for Economic Policy, Augusta

23 <http://edmayo.wordpress.com/2013/02/23/sticky-money/>

Outside investment is important, but only when it supports that local business, not when it corrodes it by taking local spending away from the area.

Because of their greater economic impacts, the growth of small companies responding to local demand may well be more important than big opportunities for footloose investors. This is how a report by Localise West Midlands summed up the benefits, because the ultra-micro approach:<sup>24</sup>

- Creates a virtuous circle between stronger local decision-making and stronger local businesses
- Is a good way to build a more successful and inclusive local economy with more jobs and better civic welfare
- Supports the development of 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, co-operation and social capital and has short feedback loops
- 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

---

24 Jon Morris et al (2013), *Mainstreaming Community Economic Development*, Localise West Midlands, Birmingham.

## Examples

One of the missing elements which is holding back the development of ultra-micro economic development is that there are not many examples in practice of how it works, and new ideas require stories above all else.<sup>25</sup> To be precise, there are not many examples of all the different elements of this approach working together. There are plenty of successful examples of these different approaches in isolation, but so far the ultra-micro approach remains largely theory, though that is now beginning to change.

Totnes is clearly one place where the ambition is in place to knit these approaches together into something that is more than the sum of its parts. Many of the local institutions have linked up and agreed an ambition that their local economy should be like:

“The purpose of our local economy is to maximise the happiness and wellbeing of our entire community, to create an abundance of opportunity to satisfy our needs, and use and distribute resources fairly, in a way that respects natural limits.”<sup>26</sup>

Totnes is being followed in this process, which they call ‘economic blueprinting’, by Hereford and Tavistock, and by other Transition Towns in Germany and Portugal. The local plans which have been launched by the Localism Act are another forum where potentially people can look in different ways at local resources.

---

25 But see <http://newstartmag.co.uk/features/experiments-in-a-new-local-economics/>

26 Fiona Ward (2013), Totnes and District Local Economic Blueprint, REconomy, Totnes.

The same is so also said of the City Deals programme. The City Deals are a brave and innovative scheme for allowing cities to draw down the powers they need to implement local economic solutions, and potentially a practical way of devolving economic power. The drawback is that many of the City Deals still confine themselves to infrastructure and work on a scale that does not allow an ultra-micro approach to be effective. In practice, although progress is being made, and the economic self-confidence of cities is rising, it has been happening largely despite the centralised structures of English government, not because they have yet been overcome in a systematic way.

Where there is evidence of shifting practice, it is often sector by sector:

## Energy

It is clear that one of the most practical actions that any area new to the ultra-micro approach needs to do is to launch a series of energy supply mutuals to operate and co-operate across the area, along the lines of those in Aberdeen and in Malmo in Sweden.<sup>27</sup> Their purpose has been set out by the London Borough of Haringey: to finance and deliver network energy services, to provide local businesses and homes with energy at a stable cost and to create local jobs. The companies would probably use gas-fired small-scale CHP in the short-term, but bring the latest technology to the city as fast as possible.<sup>28</sup>

The Haringey plan also proposes a cross-city co-operative network to install energy efficiency in buildings at a big enough scale to make a real local impact, perhaps together with neighbouring local authorities.

---

27 Elizabeth Cox and Jessica Sherlock (2012) *The Haringey Carbon Commission Report: A Sustainable New Economy*, Haringey 40/20, New Economics Foundation, London, 22.

28 Cox and Sherlock (2012).

The network would funnel retrofitting finance, from the Green Investment Bank and from networks of community development finance institutions (CDFIs), and would be owned and delivered by local people to retrofit the city.<sup>29</sup>

The community energy movement in the UK is building on experience abroad here. The Toronto Renewable Energy Co-operative began with a community-owned wind farm and now runs hydro and solar power and co-ordinates small-scale energy co-operatives.<sup>30</sup> Feldheim, a village near Berlin, has cut its bills by a third, employed 30 of its inhabitants and produces all its own energy.<sup>31</sup>

## The community energy movement in the UK is building on experience abroad here.

Freimt, a rural area near Freiburg, generates 40 per cent more energy from renewable energy than it needs, thanks to a local co-operative.<sup>32</sup> There are now more than 600 energy co-operatives in Germany, involving more than 80,000 people, many of whom make very small investments to make it happen.

Nor is this new. At the height of the Great Depression in 1934, Franklin Roosevelt set up the Reconstruction Finance Corporation (RFC) in the USA to provide finance at rates of 2 per cent for ten years to rural groups to develop energy co-operatives.<sup>33</sup> This money was so successful that it was extended for another ten years after the Second World War.

As a result, half the power lines in the USA are owned and maintained by energy co-operatives and rural energy services are still being supplied by co-operatives right across the USA.

29 The Wessex Reinvestment Trust already does this <http://www.wrcic.org.uk/whil/>

30 See case study in Pat Conaty (2011), *A co-operative green economy: New solutions for energy and sustainable social justice*, Co-operatives UK, Manchester, 9. See also [www.trec.on.ca](http://www.trec.on.ca)

31 Renuka Rayasam (2012, 'A power grid of their own', *Speigel Online International*, 9 Mar.

32 <http://ukcec.org/>

33 Conaty (2011), 8.

This is not welfare. These co-operatives pay their way and borrow money at rates available to the big corporations, and it has created the largest energy co-operative sector in the world.

We also know that community energy can make a major impact on local energy. Researchers at the Centre for Local Economic Strategies found that a pound invested in local renewable energy schemes that were early to get off the ground could deliver an average £2.90 in cashable benefits. They also found that a scheme fitting solar panels to 500 homes can create 12 full-time equivalent jobs and save 650 tonnes a year in carbon emissions.<sup>34</sup>

## Food

The Intervale in Burlington, Vermont, has developed a Community Land Trust for local food on 200 acres of an old dumping ground, which is now a city garden of a dozen community farms supplying 7 per cent of fresh food to a town of 35,000.<sup>35</sup> No similar scheme in the UK, even the Incredible Edible Todmorden, has managed to impact on the local economy in that way yet, but the network of new food businesses started in south Dorset comes closest.

The entrepreneurial revolution in Dorset has, until recently, been happening under the radar of the official economic development officials, who have tended to dismiss these new enterprises as 'lifestyle businesses'. It is true that many of them have no interest in growing huge. They have been created in order to sustain a living or to put right some local problem. But the Local Enterprise Partnership has now woken up to the potential of food and drink businesses in this predominantly agricultural economy.

---

34 Neil McInroy and Paul O'Brien (2012), 'The business case for going green', Public Finance, Feb. <http://opinion.publicfinance.co.uk/2012/02/the-business-case-for-going-green/>. See also <http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/powerful-impacts-exploring-the-social-and-economic-benefits-of-renewable-energy-schemes/powerful-impacts-exploring-the-social-and-economic-benefits-of-renewable-energy-schemes/>  
35 [www.intervale.org/](http://www.intervale.org/)

Perhaps this is not so surprising, given that food and drink has underpinned the success of so many of the local enterprises that have managed to grow, and there are now 66 restaurants, cafés and food businesses listed in the Bridport area by TripAdvisor.<sup>36</sup>

The shift emerged from Dorset Community Action, which had grants to give away to community enterprises, but no community enterprises to fund. In 1996, to help rectify this situation, they set up the West Dorset Food and Land Trust, with a trading subsidiary called West Dorset Food Links.

## Developing the ultra-micro economy requires institutions that are local enough to finance local enterprise profitably.

Their task was to start farmers' markets and direct marketing or online schemes to provide outlets for the new businesses making local or organic food. The ultra-micro links between them have clearly had an impact on local food culture, though the economic impact has yet to be studied in detail.

In fact, the impact of developing inter-connecting local food businesses in places like Bridport, Ludlow and Todmorden, is coming under increasing attention on a national scale (small plus small again).<sup>37</sup> The Community Land Advisory Service is beginning to link local food action across the country, so that projects can learn from each other what is most effective.<sup>38</sup>

## Finance

Developing the ultra-micro economy requires institutions that are local enough, and have small enough overheads, to finance local enterprise profitably. Generally speaking, these barely exist in the UK, though they do in most other countries.

---

36 See description in David Boyle (2013) *Broke: Who Killed the Middle Classes?* Fourth Estate, London.

37 See for example [www.kindling.org.uk/projects](http://www.kindling.org.uk/projects)

38 [www.communitylandadvice.org.uk/](http://www.communitylandadvice.org.uk/)

There are credit unions to help people with savings and, to some extent, borrowing (credit unions have been given the power to lend to business, but are not currently doing so).

There are also around 60 CDFIs in the UK, on the American model, investing in small business, social enterprise and retrofitting local housing (Wessex Home Improvement Loans provides loans at 4 per cent, including technical advice and support, and paying a 3 per cent service charge).<sup>39</sup>

American communities often have local banks, and they are increasingly used by states and counties, so that local savings can be invested locally. We also need to find better mechanisms to direct local authority pension funds into local energy and local food investment, either via a new bank set up for the purpose (as Cambridgeshire has done) or by starting 'collective agencies' along the lines of those used in Scandinavia for local authorities to raise finance on the bond markets.<sup>40</sup>

### **There are also around 60 CDFIs in the UK investing in small business, social enterprise and retrofitting local housing.**

We also need networks of local mutual lenders. Studies in Italy and Germany found that co-operative and savings banks help reduce the drain of capital from urban centres and foster regional equality because of their ability to lend to SMEs.<sup>41</sup>

It is also important that, although they accounted for one fifth of the European banking market, co-operative banks suffered only 8 per cent of total losses incurred during the financial crisis.<sup>42</sup>

39 [www.wrcic.org.uk/whil/](http://www.wrcic.org.uk/whil/)

40 David Boyle (2013), 'Will council banks happen?' *New Start*, 1 Feb, see: <http://newstartmag.co.uk/back-issues/will-council-banks-happen/>

41 See for example: H. Hakenes, R Schmidt and R. Xie (2009), 'Public banks and regional development: evidence from German savings banks'.

42 European Association of Co-operative Banks. (2010). Latest key figures on the sector, retrieved from [http://www.eacb.coop/en/cooperative\\_banks/key\\_figures/last\\_key\\_figures.html](http://www.eacb.coop/en/cooperative_banks/key_figures/last_key_figures.html)

## Enterprise

When the New Economics Foundation began their BizFizz 'enterprise coaching' experiment, the idea was to attract anyone passionate enough to put an idea into practice, and give them the support they needed. This was not done in the usual way with a ubiquitous training programme to tell them how to write business plans, but with local networks of support.<sup>43</sup>

The coaches were backed up by a panel of local business people, bank managers and other local volunteers, who met once a month and gave their advice on how to overcome specific barriers faced by the entrepreneurs such as providing a social network of support around the new enterprises and facilitating more local supply chain connections. Barriers range from sourcing second hand equipment, identifying local investors in new ventures, to accessing or sharing premises and it is very personal advice, not generic at all. At the local level, this results in underused assets of knowledge, skills, equipment, space and buildings being used more effectively.

Over the past decade, the 30 BizFizz experiments helped create nearly 800 businesses in areas of deprivation with a four-year survival rate in excess of 90 per cent.<sup>44</sup>

## Procurement

The most famous example of using public sector procurement to improve disadvantaged areas is in the distressed city of Cleveland, Ohio.

There are two major economic players still active there: the university and the hospital. To put the hospital to better economic use, they have borrowed an idea from one of the great success stories of co-operative business, in Mondragon, Spain.

---

43 See Paul Squires, et al. (2007). *Who's the Entrepreneur? The BizFizz Story*. London, New Economics Foundation.

44 See Squires et al (2009).

The Mondragon story dates back to just after the Second World War, when the local Catholic priest founded the first worker's co-operative to employ local people and meet local needs.

Half a century on, there are now 256 linked co-operative businesses, employing nearly 100,000 people, with offshoots worldwide, and they have been doing even better during the global downturn. So much so that the US steelworkers union have signed a long-term agreement to do something similar in North America.

Now the Evergreen Project is doing this in Cleveland, but clustered around and dependent on the hospital, starting with a sustainable laundry business.<sup>45</sup>

**Many local authorities are beginning to look at how they can use their local procurement budgets to maximise social, economic and environmental benefit locally.**

The second project is a renewable energy company, starting with installations on the hospital roof; the third is a market gardening business. So there are two elements to this innovation: new co-operatives that employ local people, and give them a real stake in their success, but which are also redirecting the spending power of the local hospital to launch them and underpin them.

The hospital has to agree that these contracts represent the best value to them, but of course hospitals have an interest in a thriving local economy, because it reduces acute demand.

Many local authorities are beginning to look at how they can use their local procurement budgets to maximise social, economic and environmental benefit locally, and to create job opportunities in the re-use and up-cycling of materials locally, and to interpret 'value' in these terms, using powers under the Social Value Act 2012.<sup>46</sup>

---

45 See Gar Alperovitz et al (2009), 'Cleveland's worker-owned boom', Yes, June.

46 [www.cles.org.uk/wp-content/uploads/2013/02/No-95-Public-Services-Social-Value-Act.pdf](http://www.cles.org.uk/wp-content/uploads/2013/02/No-95-Public-Services-Social-Value-Act.pdf)

Often that will mean helping to gear up and encourage local businesses to provide more competition to the big contractors, or by making sure that contracts are small enough to provide more than a handful of giant bidders.

Again, the potential is enormous. Back in 2006, the New Economics Foundation helped Northumberland County Council find ways of increasing the impact of their regeneration spending four times over by making sure that more of their procurement contracts went to local suppliers.<sup>47</sup>

Many local authorities are looking at the way they do procurement to see if they can contract more local SMEs, and keep the benefits of that spending locally; a few, like Enfield and Preston, are beginning to go further.<sup>48</sup>

The Centre for Local Economic Strategies teamed up with the Federation of Small Businesses to research impact. They found that, of the £4.1 billion spent by local authorities nationally with local small firms, £2.6 billion of additional benefit is generated for local economies or 63p for every £1 spent. Whereas, £4.6 billion spent by authorities nationally with local large firms generates £1.86 billion of additional benefit or 40p for every £1 spent.<sup>49</sup>

This means that small local firms generate 58 per cent more benefit for local economies than large local firms. Projections have also been produced for increases in local and small firm spend. Increasing local spend by 5 per cent and small firm spend by 3 per cent would bring a further £788 million of benefit for local economies.<sup>50</sup>

---

47 Justin Sacks (2008), *Public Spending for Public Benefit*, New Economics Foundation, London.

48 [file:///C:/Users/user/Downloads/Co-operative-leaflet-%20\(1\).pdf](file:///C:/Users/user/Downloads/Co-operative-leaflet-%20(1).pdf)

49 [www.cles.org.uk/news/the-value-of-buying-small-and-locally/](http://www.cles.org.uk/news/the-value-of-buying-small-and-locally/)

50 See also [www.cles.org.uk/wp-content/uploads/2011/01/Procurement-as-local-economic-activism.pdf](http://www.cles.org.uk/wp-content/uploads/2011/01/Procurement-as-local-economic-activism.pdf), [www.cles.org.uk/wp-content/uploads/2013/08/CLES-10-Maximising-the-benefit-of-procurement.pdf](http://www.cles.org.uk/wp-content/uploads/2013/08/CLES-10-Maximising-the-benefit-of-procurement.pdf), and this case study from Manchester: [www.cles.org.uk/wp-content/uploads/2011/01/The-power-of-procurement.pdf](http://www.cles.org.uk/wp-content/uploads/2011/01/The-power-of-procurement.pdf)

## Care

Huge sums leak out of the local economies, especially in disadvantaged areas, to big health and social care contractors. Leading the way towards a new approach is Nottinghamshire County Council, despite their spending cuts difficulties.

The micro-provider market in Nottinghamshire has been stimulated by two things: the appointment of a dedicated micro-provider support function, and the growth of personalisation within the county, including the many people who are being offered personal budgets and direct payments.<sup>51</sup>

### **Huge sums leak out of the local economies to big health and social care contractors.**

Micro-providers usually have between two and five staff, and offer highly personalised and flexible support, often based around developing low level preventative support, helping people stay independent, promoting active citizenship, and social inclusion.

The Nottinghamshire programme increases the amount of choice people have over how and where to spend their budget, and is being used by hundreds of people across the county, including people who receive direct payments and those who are self-funders. The programme has been hugely successful and, over the past two years, the local authority has had over 180 enquiries from potential micro-providers. As a result, 45 new micro providers are now up and running. Micro-providers offer over 15 different local services and work with well over 600 people who need support to live their life.

It means that local people can support other local people, creating jobs and volunteering opportunities and enabling public money to stay circulating in the local economy.<sup>52</sup>

---

51 [www.communitycatalysts.co.uk/case-studies/nottinghamshire-county-council/](http://www.communitycatalysts.co.uk/case-studies/nottinghamshire-county-council/)

52 Mike Harris et al (2012), *Doing Services Differently*, New Economics Foundation, London.

The enterprises have expanded the variety of support on offer, and include a Friday social club, numerous personal support services that help with things like shopping, house jobs or gardening, and direct payments support and sole traders.

As well as encouraging micro-businesses to build sustainable incomes around the local economy, the ultra-micro approach implies that it will be necessary to create mutual support networks across the area, around local services, charities and housing associations. Setting up time banks in all local agencies, housing estates, surgeries and schools, builds a co-production approach to service delivery, and provides mutual support, using existing resources to broaden what local services are able to achieve.<sup>53</sup>

What the ultra-micro approach is waiting for is examples of projects and institutions capable of joining up these and other approaches into a genuinely challenging and effective way of helping places use the resources they have, often mutually owned, to regenerate themselves. Some examples so far:

- C4G in Cardigan, which is joining up local regeneration with local share issues, green energy and green buildings<sup>54</sup>
- Enfield Council, which has have “gone head-to-head with non-Enfield corporations” and persuaded British Gas and others to work with them to increase local employment, local supply chains and the local multiplier<sup>55</sup>
- Also mobilising pension funds for social infrastructure including housing, and otherwise rethinking how they can maximise the local returns by localisation means<sup>56</sup>

---

53 The first boroughs to employ time bank development workers were Islington and Lewisham. Lewisham is now creating a network of neighbourhood time banks, where people can earn credits helping out which can be redeemed in local sports centres and for other spare capacity.

54 Pat Conaty (2013), *Sharing Prosperity Enabling Co-operative Enterprises to Grow the Green Economy*, Co-operatives UK, Manchester.

55 See presentation by Alan Sitkin: <http://www.cresc.ac.uk/events/rethinking-prosperity-experiments-in-local-economics-14th-november>

56 [www.enfield.gov.uk/news/article/706/enfield\\_council\\_and\\_british\\_gas\\_announce\\_partnership\\_to\\_improve\\_local\\_homes](http://www.enfield.gov.uk/news/article/706/enfield_council_and_british_gas_announce_partnership_to_improve_local_homes). Also see presentation by Neil Roussel at <http://www.cresc.ac.uk/events/rethinking-prosperity-experiments-in-local-economics-14th-november>

- High Bickington Community Land Trust in North Devon, which is attempting the complete regeneration of the village<sup>57</sup>
- LiLAC Co-housing in Leeds, a mutual home ownership institution, bringing together co-operative energy and co-operative housing<sup>58</sup>
- Preston Borough Council, which has used its City Deal to leverage investment from the local pension fund into local housing development, and is launching a new credit union, supporting worker buy-outs and investigating Evergreen-style links between local institutions and new co-operatives<sup>59</sup>
- Robert Owen Community Banking Fund in Powys, which is joining up finance, green loans and micro-hydro development<sup>60</sup>
- Wessex Reinvestment Trust, founded in 2003 and through which Wessex Home Improvement Loans now covers four different counties in the south west, persuading 20 local authorities put in capital at 0% to lend for housing retrofit. They have no bad debt and continue to expand into wider areas of housing related lending. CDFIs are doing this like Parity Trust in the South East and Street UK in different areas of the country<sup>61</sup>

---

57 [www.communitylandtrusts.org.uk/see-it-and-believe-it/rural-case-studies/high-bickington](http://www.communitylandtrusts.org.uk/see-it-and-believe-it/rural-case-studies/high-bickington)

58 See [www.ecodynamic.org.uk/croft-west-turbine](http://www.ecodynamic.org.uk/croft-west-turbine)

59 [www.gov.uk/government/news/preston-city-deal-to-build-new-roads-and-create-thousands-of-jobs-and-homes](http://www.gov.uk/government/news/preston-city-deal-to-build-new-roads-and-create-thousands-of-jobs-and-homes)

60 <http://rocbf.co.uk/>

61 [www.dorsetforyou.com/media.jsp?mediaid=182523&filetype=pdf](http://www.dorsetforyou.com/media.jsp?mediaid=182523&filetype=pdf)

## Opportunities

It is too simple to suggest that, because the ultra-micro approach is overwhelmingly local and neighbourhood based, that nothing is required from national government. Nor is it simply a matter of getting out of the way.

The most important area where action is required is to find ways of launching the local institutions we need that can genuinely make things happen at an ultra-micro scale. It is abundantly clear that most institutions are geared to another scale entirely:

- Banking regulations assume that banks will be big and, until recently, made it so difficult to start new banks that only one had been licensed for a century
- Traditional enterprise support has been so ubiquitous that it suits virtually nobody, with no feedback and no ability to deal with the very diverse needs of local entrepreneurs
- Investment tax relief is geared to big investors, and Community Investment Tax Relief (CITR) needs to be amended in line with the terms of Social Investment Tax Relief (SITR). We also need to relax the overly complex and specific requirements on the type of lending that it covers
- The Enterprise Finance Guarantee assumes it will only be used by big players, and we need a simpler guarantee for local banks to reduce costs, simplify accreditation processes and raise the amount of cover

- Loan facilities at the new British Business Bank seem likely to suit big players alone and we need a community finance loan facility to be used by credit unions and CDFIs to lend on to SMEs, social enterprises and individual consumers denied access to mainstream credit and finance services
- Local Enterprise Partnerships have a useful role to play, but most of them are still far too big to understand the needs of very local economies, or are run in effect by companies from outside the area<sup>62</sup>

**The ultra-micro approach is not usually about new resources, but about using wasted resources more effectively.**

The same pattern is true in renewable energy development and in local government procurement, where some local authorities still insist on a minimum size to their contractors. None of these changes will cost vast sums, though there needs to be considerable investment, probably in partnership with the big banks, to build a new lending infrastructure.

Otherwise, the ultra-micro approach is not usually about new resources, but about using wasted resources more effectively, and much less wastefully than traditional government initiatives.

One of the ultra-micro heroes, Pam Warhurst of Incredible Edible, said that “government will spend millions of pounds on a campaign to eat five a day”, for example. Instead, the local GP centre in Todmorden had used the wasted scrub land outside to encourage people to plant vegetables and fruit for everyone to use. “It helps if you don’t ask permission,” she said.<sup>63</sup>

---

62 See the RESO project in Canada for an example of what LEPs could become: Mike Lewis and Dan Swinny (2007), *Social Economy? Solidarity Economy?* Balta Working Paper, Centre for Community Enterprise, Alberta, 7-8.  
63 <http://locality.org.uk/blog/authority-people/>

But it isn't enough just to expect local entrepreneurs to get on with it, when the regulations and the institutions they need are so geared for another scale entirely. We also need to provide financial institutions with the resources to provide the same low cost finance that is currently available to the big banks via the government's Funding for Lending scheme.

The Evergreen Co-operatives in Ohio have set up a \$200 million CDFI just to kickstart their workers' co-operatives in green laundry, local food, solar power and housing retrofit. The strategy is to build an interdependent and risk sharing system of co-operatives, as there are in Bologna and northern Italy.

The kind of expensive capital provided by Big Society Capital, for example, will not work in this sector. We need the equivalent of the kinds of institutions set up during the Great Depression in the USA, and like the KfW public bank in Germany, advancing green loans to small business and to homeowners and landowners through local co-operative banks and local municipal savings banks, and at rates a third the cost of the Green Deal (2.6 per cent to end borrowers). This is creating over 260,000 German construction jobs per year for green retrofit.

We also need to do the following:

- Give local authorities explicit responsibilities around economics. Many local authorities are beginning to investigate ultra-micro approaches themselves, but too many regard economics as outside their chosen remit of place-shaping and service delivery. There is a learned helplessness about too many local authorities still, and we can only hope that the ambition and drive of the pioneers will encourage the others, and strengthened by a statutory duty to carry out economic development

- End the ridiculous divide between economic strategists and economic practitioners. There is a tendency for policy-makers to focus too much on the macro scale, because it seems to have more status. As if the business of actually looking at money flows on the ground and how they can be maximised is just too much like plumbing or dentistry for the comfort of ambitious economists
- Change the training of economists needs to change to include the practical application of their knowledge at a local level.

If the ultra-micro level means nothing else, it means the transformation of economics from an abstract intellectual discipline to a hands-on practical understanding of how to make things happen. It can't come too soon.

## Acknowledgements

I am very grateful for all the help and advice from the small group of ultra-micro practitioners who have been accompanying me to meetings with the Treasury:

Paul Cobbing, Localise West Midlands

Pat Conaty, Co-operatives UK

Liz Cox, New Economics Foundation

Tony Greenham, New Economics Foundation

Ben Hughes, Community Development Finance Association

Karen Leach, Localise West Midlands

Peter Lipman, Sustrans UK

Neil McInroy, Centre for Local Economics Strategies

Ed Mayo, Co-operatives UK

Frances Northrop, Transition Network REconomy Project

Josh Ryan-Collins, New Economics Foundation

Fiona Ward, Transition Network REconomy Project.

The mistakes are all mine.





---

ABOUT THE AUTHOR

David Boyle is a co-director of the New Weather Institute, a new mutual think-tank. He is the author of a number of books, including *Broke: How to Survive the Middle Class Crisis*. He recently carried out the independent *Barriers to Choice Review* for the Cabinet Office.

## Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

[www.uk.coop](http://www.uk.coop)

Are policy-makers looking in the wrong place to re-balance the economy? This report suggests that an ultra-micro approach, which can use the assets of people, imagination and resources is the most important way forward, even, and perhaps even especially, in the poorest areas. The report argues that it is micro-enterprise, and the rise of local co-operatives, that provide the economic levers we need.



## **CO-OPERATIVES UK**

Co-operatives UK Limited  
Holyoake House  
Hanover Street  
Manchester M60 0AS  
Tel: 0161 214 1750  
[www.uk.coop](http://www.uk.coop)

Published 2014

