

No evaluation has been conducted to compare the results or impacts of the two programs, but the Metro Credit Union's program is probably disbursing more loans for a few reasons. The Metro Credit Union is building on an existing portfolio of clients. The manager at the Metro Credit Union is assessing loans on an on-going basis rather than once a month. It is also likely that it is easier to approve loans going through one staff member rather than seeking a unanimous positive decision from a committee.

Thus far, the two loan funds have similar loan loss rates hovering between five and seven percent of the portfolio. This is not unexpected as the ACCE\$\$ Riverdale loans are administered through the Metro Credit Union and so the collections procedures for the two funds are very similar.

One might expect a microlending program using a committee to conduct a more thorough due diligence process than one using a single staff member. This might be the case in other circumstances, but the manager of the Metro Credit Union's program is very experienced. She worked at Calmeadow for three years and moved with the portfolio to the Metro Credit Union. Prior to this, she worked for the Royal Bank for six years. Even with her extensive experience making loan decisions, she is recommending changes be made to her program so loans over \$10,000 are taken to a credit committee.

Another important reality about these loan funds is that they do not operate in isolation from one another. If staff from either program encounter business owners who need services from the other, they are referred.

People starting up very small business need more than financing. Typically, microcredit programs are offered in conjunction with either a financial service or a business support service organization, both of which are critical to the success of most businesses in North America. In this city we are lucky to have both.



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## Innovation & CED

*What can they learn from each other?*

BY ERIC LEVITEN-REID & SHERRI TORJMAN

*I*nnovation. To some it means everything. To others, not much at all.

Such is the life of a buzzword: of such consequence to everything it ceases to mean anything in particular.

Over the past two years, innovation has emerged as a focal point of Canada's public policy. Industry Canada and Human Resources Development Canada have jointly undertaken a consultation process on Canada's Innovation Strategy and are now moving to develop the innovation agenda.

This is the terrain on which the Caledon Institute of Social Policy and the Community Economic Development Technical Assistance Program have launched their own research initiative on innovation and CED.

The strategy? Avoid the "everything or nothing" syndrome. Instead, focus on the specific body of concepts and practices commonly identified with "innovation" and ask three questions:

- How does this version of innovation compare with the kind of innovative work that goes on in CED?
- What can CED contribute to innovation?
- What can innovation contribute to CED?

We held focus groups with approximately 100 CED practitioners from across the country. We conducted an extensive review of the research literature relating to innovation. A scan of CED initiatives identified ways in which communities are addressing various aspects of the innovation challenge. A workshop last fall at the Winnipeg conference on Community-led Innovation capped off the process. Caledon and CEDTAP shared their preliminary findings and got feedback on their draft recommendations for strengthening the innovation capacity of the CED sector.

Ultimately, we intended that research build a dialogue between practitioners of CED and proponents of innovation, challenging both to broaden their horizons and see what they could learn from one another. The following article summarizes the research findings.

*CED practitioners know that the revitalization of a vulnerable community involves certain key actions.... The building of a more innovative economy is essentially the same, only its focus is identifying & developing the constituency's knowledge assets ...*

## **Innovation: A View from the Ground**

In the course of the research, a broad-ranging dialogue evolved about the connection between CED and innovation.

Some practitioners perceive innovation as a political “flavour of the month” that could distract people from the core concerns of CED. Others noted the link between the federal Innovation Strategy and the “New Economy.” They questioned the wisdom of supporting an economic agenda that had generated more hardships than benefits for many marginalized individuals and communities.

A second group of practitioners emphasized the fundamentally innovative nature of CED: it is an ideal-seeking, problem-solving venture that brings together diverse groups of people to find new and better ways of meeting social and economic goals. Surely, they argued, the accumulated experience and expertise of practitioners could offer real insight into the process of innovation itself.

Many practitioners also identified limits to CED’s innovative capacity. They proposed means for strengthening this capacity – both outside support and measures that CED organizations could take themselves.

## **Innovation: A View from the Literature**

Our literature review revealed a remarkable degree of similarity in the current thinking about innovation and in established CED practices. There are also significant differences. These differences create opportunities for the CED sector to contribute to innovation and to benefit from it.

Innovation is often defined as “the creation or generation of new ideas.” This conceptualization is too narrow, however. Innovation also entails the application of *existing* ideas in new ways or to new fields. In recent years, the understanding of innovation has evolved in at least two other important ways.

Innovation used to be understood as a specific event, brought about by factors internal to a firm or organization. It is now understood to be a process of solving problems. Typically, innovation is the product of an interaction between a firm and other actors, enhanced through social exchange and an ongoing process of learning, searching, and exploring.

Innovation also used to be understood primarily in terms of “national systems of innovation” – the many interdependent institutions through which a nation supports the processes of learning, searching, and exploring.

More recently, the focus has shifted. Innovative capabilities in fact are sustained through regional communities of firms and supporting networks of institutions that have a common knowledge base and share access to unique skills and resources. As the term “regional” suggests, space and proximity make a critical contribution to the knowledge and capacity for learning that support innovation.

The literature reveals three activities that are critical to the innovation process: learning, clustering, and management.

### **Learning**

The most important asset in a technology-driven economy is people. The wealth of a nation no longer hinges on the harvesting of natural resources, but on its capacity to harness the potential of its human “capital,” that is, the “knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social, and economic well-being.”

The acquisition and application of knowledge are continual processes. The accelerating pace of change in the global economy steadily erodes the value of even the most specialized knowledge. It is the capacity not just to learn, but to keep learning and adapting to rapidly changing conditions that distinguishes the innovative firm, region, and country from its neighbours. In essence, it has created a “learning economy.”

Learning was once assumed to be a linear process. It was a one-way transfer from “teacher” to “learner.” The teacher produced and distributed information to the learner, who had “learned” the information simply by virtue of having received it.

No more. Today learning is understood as a far more complex phenomenon. The translation of information into knowledge is now seen to be a dynamic and interactive process that relies heavily on institutions, networks, norms, and trust that facilitate common action for mutual benefit – on social capital, in other words.

Knowledge itself may be divided into two types. Codified knowledge is the information that comprises the compulsory expertise and skill base of any given field, and the formal curriculum of an educational institution.

Tacit knowledge, by contrast, is the understanding that one derives from experience and mutual learning. Tacit knowledge involves the kind of intuitive and experiential expertise that is critical for making decisions, solving problems, and adapting to rapidly changing situations.

In this information age, codified knowledge is widely available. Tacit knowledge, by contrast, is embedded in communities and is a crucial local resource.

*The new understanding of innovation connects with many of the distinctive strengths of the CED sector. The attention that innovation is receiving in public policy circles offers a window of opportunity for CED. At the same time, innovation is critical to many of the challenges that CED practitioners seek to address ...*

Innovation is achieved through the ongoing interaction between these two types of knowledge. Tacit knowledge transforms codified knowledge so that it can be applied to the particular circumstances of the local setting. Distinctive forms of local knowledge can in turn be codified and shared with others confronting similar challenges. Social capital in its varying forms facilitates the exchange among all those involved in the knowledge-making process.

### Clustering

A cluster is a geographical concentration of interdependent firms, for example, groups of interconnected service providers, suppliers, customers, or manufacturers of related products. Clusters can also involve infrastructure. Governments, laboratories, training institutes, universities, and trade associations can be examples.

However, it is the *relations* among firms and organizations, and not their mere co-location, that is decisive to the definition of a cluster. Synergies arise from the exchange of knowledge, skills, ideas, and financing between its elements. Because of their proximity, organizations can share knowledge, skills, and experience readily. Thus, the cluster is a powerful mechanism for transferring and developing knowledge.

Clusters have many advantages. With timely information about trends, components, and technology, member organizations can improve or enhance their products or capabilities. Each member can focus on a particular area of expertise and draw upon others for complementary expertise. Co-operation creates more opportunities for learning and permits a sharing of risks and R/D costs. The cluster's range of employment prospects can act as a magnet for talented workers.

### Managing the Innovation Process

CED practitioners know that the revitalization of a vulnerable community involves certain key actions: identifying assets; framing opportunities and challenges; developing an action plan; mobilizing for implementation; taking action; and monitoring and assessing performance. To achieve maximum impact, in other words, action must be systematic and the application of resources managed.

The building of a more innovative economy is essentially the same, only its focus is identifying and developing the constituency's *knowledge assets*: workforce skills, knowledge and research development, creativity, advanced telecommunications infrastructure, quality of place, and financial capital.

Knowledge assets are the foundations of the New Economy, and efficient planning and management are essential to their development.

### Linking Innovation & CED

The local or regional system as the focal point of creative action; the key role that local people play in the development process; the importance of social capital and of institutional capacities at the local level; a group's capacity to learn as the resource most critical to its development ...

Sound familiar? It should.

The new understanding of innovation connects with many of the distinctive strengths of the CED sector. The attention that innovation is receiving in public policy circles offers a window of opportunity for CED. At the same time, innovation is critical to many of the challenges that CED practitioners seek to address in support of marginalized individuals and communities.

For example, how *do* we enhance the local capacity for learning and change? How do we overcome the "digital divide" and enable communities to make effective use of new technologies? How do we shape the labour market and create new enterprises so that "good jobs" are available to all? How do we maintain social cohesion in a world of rapid change? How do we develop communities that offer both the security and the stimulation people need in order to lead productive and satisfying lives?

Those are but a few of the questions to which the CED sector is seeking specific answers. A firmer link between innovation and CED could highlight the important contributions CED practitioners are able to make, while helping them grapple with some of the most pressing challenges communities face.

### CED Can Influence Innovation

Conventionally, innovation is discussed in narrow terms, as a means of realizing economic competitiveness and growth. Issues of social inclusion, equitable development, and quality of life are excluded or treated as mere side effects of economic development. To the extent that the literature on innovation does address questions of social inclusion, it typically focusses on education and training.

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Long have CED practitioners sought to develop supports that help marginalized individuals and communities participate in economic and social life: basic education, housing, childcare, transportation, food security, personal and community asset-building, and business development. Innovations in these areas enable the communities of today to pursue robust strategies of equitable development.

Conventional thinking about innovation also tends to focus narrowly on such growth sectors of the New Economy as computer technology, photonics, and biotechnology. But many Canadians are employed in traditional areas of the economy, like agriculture and resources. More effort is required to apply strategies associated with innovation to sectors of the Old Economy. They may present more employment opportunities for people lacking the advanced education and skills required for many New Economy jobs.

It is also apparent that CED organizations can contribute to the innovation process in another way. As bearers of tacit knowledge, they are particularly well-suited to act as catalysts of innovation within specific communities or regions.

Leaders of the Antigonish Movement coined the adage “local people know where the ice is thin” to point out that local people know how to make things work in their community. They understand not only local strengths and weaknesses but also local dynamics and sensibilities. CED organizations can draw on their tacit knowledge to apply useful ideas and share unique local approaches to social and economic issues.

CED organizations also play a catalytic role by bringing together key players around a local project. Increasingly, these partnerships involve diverse sectors: business, voluntary organizations, educational institutions, low-income groups, and governments. The resulting capacity to combine knowledge and resources in new ways is a primary source of innovation.

## **Innovation Can Influence CED**

There are a number of ways to promote innovation within CED.

To take one example, workforce strategies are becoming more focussed upon clusters. Community organizations that provide employment services can enhance their effectiveness by building stronger links with firms in designated clusters. A deeper knowledge of the technical requirements of the cluster (such as emerging skills) allows community organizations to target their programs and services more effectively.

At the same time, a closer working relationship with a cluster

of firms allows CED organizations to better understand and address the underlying, systemic factors that result in “bad jobs” (i.e., low skill, low wage work offering part-time or casual hours and few if any benefits) or in a reluctance to invest in the skill development of employees. New and better strategies can be generated for improving labour market opportunities.

Much of the literature on innovation also concerns the application of new technologies. Information technologies connect people with new information, facilitate the flow of ideas, and encourage the creation of partnerships. Individual CED organizations and the field as a whole should explore more systematically their capacity to use such technology to acquire new knowledge about the various issues in which they are – or wish to become – involved.

Innovation also results from the application of new technologies to various processes or the training of workers to use those technologies. Stronger links with technology research institutes, such as the National Research Council and universities, are needed to enhance the ability of CED organizations to capture the benefits of scientific and technological advances for their communities.

There is another important lesson that CED practitioners can learn about innovation. The “region” has emerged as a key site for addressing economic and social issues. This is evident in the design of transportation systems that link people to jobs, and in the inclusion of low-income residents in opportunities generated by regional clusters, to name just two examples. It is becoming increasingly necessary to convene multisectoral groups on a regional level to tackle such issues. CED organizations can help foster positive regional dynamics and should participate in the partnerships needed to sustain them.

Finally, the literature points to the need to actively foster a culture of innovation within CED organizations. Change is often perceived as a problem because of the challenges it creates for marginalized communities. But the literature on innovation highlights the importance of organizational structures that foster creativity, collaboration, and learning. Organizations must be flexible and outward-looking, capable of scanning the environment to identify emerging trends and design appropriate responses.

## **Recommendations**

On the basis of the research, we have drafted a number of recommendations for enhancing the innovation capacity of the CED sector.

*Innovation may well be the “flavour of the month” in policy circles. However, the underlying issues it raises are enduring ones for CED. That is true in terms of capacities that CED organizations aspire to develop. It is also true in terms of the influence that practitioners want to have on governments & other agencies ...*

We propose that a Pan-Canadian working group be formed to advance an innovation agenda within the sector over the next year. Such an agenda should address both the foundations for CED's role in innovation and a series of areas for action.

The CED sector should respond to the federal government's Innovation Strategy with a submission that emphasizes the principles of equitable development and describes a robust array of strategies for building creative, inclusive communities.

As a complement to this policy initiative, the sector should raise the public profile of CED. A public awareness strategy should promote the vision of creative, inclusive communities and present examples of how they are being achieved across the country by means of CED.

Finally, the sector should establish a funding collaborative involving government, charitable foundations, social venture capitalists, and corporations with a focus on providing the sustained funding needed to initiate, develop, and expand CED ventures.

We also recommend actions in three key areas:

**Learning:** The sector should strengthen the learning capacity of the sector and the communities it serves by supporting efforts to

- build local learning communities.
- enhance collaborative learning among CED practitioners.
- improve links with universities and other research institutes.
- form a roundtable to focus on ways to use learning and evaluation to foster innovation.

**Clustering:** Enhance the innovation capacity of CED by deepening its technical and business expertise in targeted sectors of activity

and by

- adapting the concepts and practices of cluster-based development to marginalized individuals and communities.
- building expertise in selected economic sectors.
- partnering with research institutes to extend the benefits of science and technology to marginalized communities.

**Community-based governance:** Establish multi-stakeholder processes focussed on the broad goal of building creative, inclusive communities by

- convening or participating in multisectoral partnerships for equitable development.
- building the capacity of CED organizations to serve as facilitators of such processes.
- promoting co-operatives and nonprofits as alternative service delivery vehicles in the human services sector.

The term innovation may well be the “flavour of the month” in policy circles. However, the underlying issues it raises are enduring ones for CED. That is true in terms of capacities that CED organizations aspire to develop. It is also true in terms of the influence that CED practitioners want to have on governments and other agencies upon which the success of our work in part depends.



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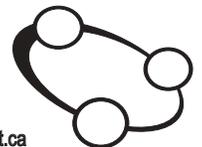
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