

ARTICLE:

THE (VIRTUOUS) CIRCLE OF ECONOMIC DEVELOPMENT

Entrepreneurs once started in this circle feed the other side of the circular form to act and react.

This circle encompasses both the economic development and the entrepreneurial development side operating both through supply as well as through the demand side. Pushing just one of these two sides would set a virtuous circle in motion. SEF is the Entrepreneurial Development side of this circle.

Explanation

A virtuous circle can be thought of as a situation where a success in one component of a system drives a desired result in another component in that same system, which it turn furthers the success of the original component. This type of interaction generates what is known as a 'positive feedback loop', and this model can be used to accurately describe effective economic development strategies.

To get this circle started, there must exist some force that initiates the action to create the momentum of the circle. In terms of local economic development, this force is identified as the 'Top-down' Strategic Plans; the 1st leg of development conceived and implemented by the leaders usually a small group of decision makers within the community. This Top-Down Strategic planning is being addressed right now for your community. No matter how big or small, you and your team are thinking about the future prosperity the community and what to do about it. You are putting in place initiatives to make sure the community will be able to live, work and thrive where you are. Usually such strategic plans have to do with the creation of infrastructure and programs that will improve the overall capacity of the community to retain and attract businesses. Strategic plans deal with the provision of infrastructure for business, transport, communication, education, finance, recreation and health.

But what if strategic infrastructure development is the only thing that the community does?

In order for this infrastructure to provide the benefits that it was built to deliver, there has to exist within the community the capacity to utilize and maintain this infrastructure effectively. This capacity emerges (or is revealed) when local businesses are created, or existing ones expand.

Communities can create infrastructure but they can't create the entrepreneurs to use them.

And without entrepreneurs prepared to "suffer" to build new businesses and open up new shops in the enhanced area, what is the use of that new infrastructure? The virtuous circle is then never completed, and economic development within that community is in danger of coming to a grinding halt.

We believe that the problem can be remedied by developing a **second leg of economic development** that specifically addresses “finding” and successfully supporting entrepreneurs. The top-down approach is not the force that drives this. The 2nd leg is the (only) sustainable initiative that can maintain and expand the benefits created by the first leg

This second element is what the initiating force drives, and the success of this second element serves to further drive the initiating force. When this occurs, the virtuous circle of economic development is complete, and can begin to maximize benefits and put the community in (towards) a sustainability path.

How do you find, support and develop entrepreneurs in your community?

This methodology of economic development focuses not on the ideas of the planners but on the ideas, passion, energy and imagination of the entrepreneurs. And to do so, this second element has to be **bottom up and responsive**. It has to start with entrepreneurs willing to come forward with their ideas. For this to happen, an entrepreneur-friendly infrastructure and environment has to be created. Such an environment must be:

- **Confidential** because entrepreneurs jealously guard their ideas
- **Convivial** because unless the service is free, friendly and companionable they will not use it
- **Competent** because entrepreneurs want to learn how to be successful from someone who has done what they are attempting to do

Communities that can successfully create the virtuous circle of economic development can both produce infrastructure projects and have them properly and fully utilized and maintained. They are capable of developing timely projects based on the needs of entrepreneurs. Their infrastructure is not “hunches” of well-meaning civic leaders, but resources that have been created in response to entrepreneurial needs, opportunities, investments and commitments. When a community has this balanced model of economic development securely in place, larger numbers of people explore entrepreneurship and existing resources and programs are better utilized.

The program strengthens existing programs, encourages local investment, supports and empowers other local businesses while keeping money circulating through the local economy.

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Suzette McFaul is the Managing Director of SEF Canada, which consults and trains field of local economic development. This proven program engages local communities creating a “parallel economy” independent of extractive industries.

Notes & References

1. "Virtuous circle and vicious circle." *Wikipedia, the free encyclopedia*. (n.d.). http://en.wikipedia.org/wiki/Virtuous_circle_and_vicious_circle.
2. "What is virtuous circle?" *Business Dictionary*. <http://www.businessdictionary.com/definition/virtuous-circle.html>.