

The Role of Social Enterprise in Local Economic Development

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Introduction

While the role of social enterprise in social service provision and work integration is rather well recognised, its role in local economic development, especially in restructuring local economies in disadvantaged communities is not so much explored. Restructuring local economies has become an increasing need in the follow-up of economic crises as well as the polarisation together with social segregation processes all over Europe, and social enterprises play an increasing role in tackling these problems. Based on action research alongside the implementation of the “Berlin Development Agency for Social Enterprise and Neighbourhood Economy / BEST” (Technologie-Netzwerk Berlin 2009) the paper will explore and debate the following:

Starting with possible scenarios of local economic development, it will describe and analyse why social enterprises play a key role in restructuring local economies.

1. Four scenarios of local economic development

What do we mean with local economic development? We could distinguish between a descriptive or analytical approach and a more activity oriented or political one. From a descriptive perspective local economic development would cover all economic activities which happen at local or regional level and/or have any impact on the localities.

But far more interesting is the political perspective of local economic development: It is definitely more than just “economic development at local level”; it is a special way or certain type of economic development and different from other forms or types of economic development, and the argument here is that social enterprises play a key role in developing such strategies. To understand its specific character I will present four scenarios:

The first scenario is called “*development from above*”: The main actor here is the state, working top-down from central government to regional government and local authorities. In this scenario the local actors, people, enterprises as well as authorities wait for decisions as well as resources coming from above, because they believe that the state is either mainly responsible for all kinds of development or has only the power to do so. This attitude is often found in societies with centralized governments, not only in authoritarian regimes, but also in strong welfare states. This scenario is usually accompanied by a high degree of dependency and arbitrary measures. And it is finally not working anymore, if the state runs into political or economic troubles, like in former East Germany and recently in Greece.

The second scenario is called “*development from outside*”: It often follows the breakdown of the first option. What they have in common is that the local actors believe they cannot do anything on their own. Therefore, outside “investors” are needed to bring in the necessary resources, especially money. In all parts of the so-called “underdeveloped” world everybody is desperately looking for investors. I wonder where these strange animals live and how to attract them. All I can see is a disastrous competition between communities, regions and countries, where only the investor benefits from an inevitable dumping process with low wages, property prices, tax reductions etc. Furthermore, communities which try hard sometimes spend their last available resources in dubious infrastructural programmes which should attract investments like golf courses, luxury hotels and conference centres, industrial sites and office space, business development centres etc.. And like in any other competition

the winners are always only a happy few, the majority are losers. I am not arguing against infrastructural programmes as such, but there is definitely something wrong, if they are only designed for the needs of outsiders. And even in case of success the objectives of the investor might not be the same as the community ones'. Financial investments of this type are nowadays highly dynamic and flexible so that they can easily move from one place to the next, if they can find better conditions or if plans have changed. From the view point of "sustainability" attracting investors from outside is a very risky business, leaving behind so-called "ruins of investment" which could be widely visited not only in the East of Germany.

The third scenario could be called "*wait and see*": The local actors remain more or less passive waiting for things to come. Some might look at it as a quasi natural process of selection or "survival of the fittest", others might have resigned as a result of the failures of option one and two or as a result of social conflicts or civil war like today. The traditional "solution" in this scenario is migration. In fact, this is the most popular option, although it becomes more and more difficult to find places to go, not only because of political restrictions, but also for economic reasons, because the islands of prosperity around the world are shrinking in size and numbers.

The final scenario is called "*development from within*": As option number one is dominated by the state, two by private investment and three by fatalism, in this scenario the local actors, the people themselves play the key role. And here we are at the heart of local economic development: It starts when people realize that neither the state nor the market economy serve their needs nor solve their problems, and if they are unwilling or unable to leave their homes. In this situation people embark (usually after a period of not successful protesting or campaigning) on strategies for economic self-help which often leads to the foundation of new types of predominantly "social" enterprises.

One of the pioneers of local economic development, Sam Aaronovitch, founder of the Local Economy Policy Unit at Southbank University London (Aaronovitch 1996) put it in a nutshell: "There is no escape from self-help!" To illustrate that I will present two short examples:

When the Soviet army had to withdraw from Eastern Germany their former members had to be reintegrated in civil life. In Moscow for instance some had been placed in typical huge housing blocks of the type which you can find in almost all big cities not only in Eastern Europe. The houses were in bad condition, some of them empty or devastated, and the surrounding neighbourhood was lacking almost all necessary infrastructural services from shop keeping to health care facilities. The people living in such neighbourhoods of up to 8000 – 10.000 were waiting for years that the responsible authorities would carry out the necessary improvements. As nothing happened some of the former army members took the initiative to form a "self-managed neighbourhood association" whose representatives were democratically elected by all inhabitants from the neighbourhood, i.e. two delegates per staircase. The association acted as a neighbourhood or community enterprise, started to take responsibility for the maintenance of the housing blocks as well as the delivery for necessary proximity services. They negotiated successfully with the authorities about their right to organize and the permission to work in their neighbourhoods. Of course, they had to invest a lot of volunteer work at the beginning, but finally they were able to generate an income from their services and employ people on a regular basis. The idea spread out in a lot of other neighbourhoods in Moscow as well as in other parts of Russia, so that we could identify at a community economic development seminar in 1995 up to 250 "self-managed neighbourhood associations" in Moscow only (Technologie-Netzwerk Berlin 2009). They even achieved the right to building such self-managed associations being written down in the new constitution of the city of Moscow (Twelvetrees 1998).

The other example happened in the province of Eastern Cape in South Africa at the end of the apartheid period (Nussbaum 1997). The municipality of Stutterheim consisted out of a small town of about 10.000 white inhabitants surrounded by so-called "townships" with a black population of about 40.000. The living conditions there were horrible, housing at the poorest possible standard with almost no fresh water and sewage facilities. At the peak of the political conflict against apartheid the black community decided on a consumer strike and ceased buying goods from the white shop keepers. The boycott lasted for almost a year and the white community was for the first time confronted with the

possibility of economic break-down and the prospect of being forced to leave the area. In this situation a group of people around the white mayor and the leader of the black community started – also for the first time – to talk to each other in a series of meetings which they had to keep secret. A lot of patience and courage was needed to re-establish trust between the communities, but in the end the “Stutterheim Development Foundation” was established, a local partnership (or community enterprise) which was equally set up, owned and controlled by representatives of both communities. A local development plan was agreed by which young people from the black community should be trained and employed to improve the living and housing conditions in the townships. In the following years the foundation managed to build a lot of new houses, streets, gardens, water supply and sewage systems, schools and health care centres etc. and created a slow but steady growing wealth not only for the first time for the black but also surprisingly for the white population as well. This was achieved again with a lot of volunteer work and commitment invested by local actors and – at least at the very beginning – with locally available resources only. Paradoxically, help from above and outside was only offered later after they had become known and accepted for what they had achieved out of their own capacity.

The examples illustrate one of the basic principles behind local economic development which was characterized for the first time at the ‘Other Economic Summit’ in London by another pioneer, James Robertson (Robertson 1985), as:

“Local Work for Local People using Local Resources”.

2. What are the basic principles behind local and/or community economic development?

As the examples show – and we have empirical evidence from many others – local economic development is a special economic self-help strategy originally invented by and for losers, disadvantaged social groups and/or disadvantaged communities on local or regional level. It is mainly based on practical experience, improved by trial and error including learning from successes and failures of others. Therefore, networking became a crucial element in developing local economic strategies. It is important to notice that these strategies have been invented or started in different parts of the world with totally different geographical, cultural and political background, more or less at the same time and not necessarily knowing from each other. Although these initiatives were not based on a common theoretical concept, we can identify a number of common underlying principles:

2.1 For the common good

First of all, all local economic initiatives are based on a strong local and/or community identity and commitment. The importance of this principle might be illustrated by the fact that it reappears as a key element in modern social capital theory. We come back to that later. But for the time being we should highlight another aspect: Local economic initiatives understand their locality or community like an enterprise or company as a coherent and independent economic system whose objectives are not individual aims, but what is called “social profit”, “community benefit”, or “for the common good” (Technologie-Netzwerk Berlin 2009).

2.2 An integrated holistic approach

The second most important principle is an integrated or holistic understanding of the terms “economy” or “economic”. It includes not only the production of goods and services, but also the reproductive sphere of environmental, social and cultural activities. In this view the Local Economy is seen as a cyclic process of production and re-production, and if we neglect to reproduce our environmental, social and cultural resources we might end up with the breakdown of the locality and its community. From the point of view of a single company the survival of the community where it is located is not always necessary, and the same applies from the point of view of a national economy whose representatives are not necessarily interested in the survival of certain villages, towns, cities and even regions. Unfortunately we can find a lot of examples to proof this argument all around Europe (Cooley 1992; Technologie-Netzwerk Berlin 2009). In the end it is only the local people who are really

interested in the survival of their community. It seems that all localities have a limited reproductive capacity which is constructed out of its environmental, social and cultural resources. If these resources are stressed or exploited without adequate reinvestment, the Local Economy will lose its capacity to survive. Revitalising the reproductive capacity has therefore become the first and overall objective of local economic initiatives and their enterprises.

2.3 Serving unmet needs

The third principle is a shift of paradigm about the final aim of all economic activities: It is definitely not about making money. Money in the end is not a value in itself, but only a means for exchange. Therefore, all economic activity should be finally about serving needs. This statement seems to be taken for granted, but we all know examples of economic activities where you can hardly identify a real need to be served. Most economic policy nowadays is dominated by a so-called “supply-side” approach, which means that all interventions focus on the aspect of marketing the produced goods and services in the most profitable way, while others with no or even lesser profitability should be left aside or removed from the market. Local economic initiatives instead focus on the “demand-side”, especially by identifying and serving the so-called “unmet” needs. But here again we have to avoid a misunderstanding, because in traditional economic thinking “demand” is only accepted where it is accompanied by an equivalent purchasing power. As a consequence, needs of people or communities with low levels of purchasing power are not served and even neglected. In these cases, the state again should be able to compensate and deliver the necessary goods and services. But in communities with a low level of purchasing power the local state faces the same problems, because its income from taxes and revenues is limited as well. It is a vicious circle, and a shift of paradigm is necessary to find a way out of it: The question is not how much private or public expenditure is available, but how new sources of income can be generated locally. Paradoxically, the biggest untapped potential of new sources of income is buried in the unmet needs at local or regional level.

This argument was put forward for the first time by the former president of the EU-Commission, Jacques Delors, in the White Book on growth, competitiveness and employment in 1993. In the following years a “Forward Studies Unit” explored the economic potential of so-called “Local Employment Initiatives / LEIs” and collected best practice examples from all over Europe. Its final conclusion was to identify a hidden potential for economic growth as well as employment in *19 fields of activity* at local level (European Commission 1995). Together with the results of our own research (Birkhölzer/Kistler/Mutz 2004; Technologie-Netzwerk Berlin 2009) these fields could be summarised as follows:

- serving basic needs like food and housing,
- decentralised and small-scale technical systems for energy, transport, water supply and waste disposal,
- proximity or neighbourhood services of all kinds,
- local cultural activities and cultural heritage,
- leisure and recreation services,
- environmental protection, prevention and repair,
- municipal infrastructural services.

2.4 Re-establishing local economic cycles

But – as a fourth principle – all these activities should not be carried out as single, isolated activities, but put together like a puzzle to shape an integrated local action plan to re-establish local economic cycles (Douthwaite 1996). One important tool in this context is watching the money flows within the locality or community, what comes in, what goes out, and what happens with it in-between. To re-establish a functioning local economic cycle, money should circulate within the local community as much as possible, and as a rule each dollar or euro should circulate at least three times within the community before it leaks out again. To illustrate that I will present another example:

The people of Wulkow (Technologie-Netzwerk Berlin 2009), living in a small village of 150 inhabitants near the Polish border in East Germany, lost almost immediately after the unification of East and West Germany all their job opportunities due to the closing down of a local agricultural cooperative and at the same time of a big electronic company in the nearby city of Frankfurt/Oder. As most of them did not want to leave their homes, they joined forces to find alternatives for making a living out of their own available resources in the village. At the beginning they occupied a disused four-storey grain store and converted it into a community development centre. They established a village association as a community enterprise, opened a market for locally produced bio-dynamic food, started to develop new ecologically sound processing techniques, especially by using locally-based renewable energy systems, and ended up establishing their own local power station and plant sewage system. Today the villagers sell their knowledge and experience to others and own an international seminar centre for rural development. The reason behind this success story was rather simple: to generate and circulate work and income locally. Although all activities were carried out on a small scale, they fit into each other and formed a chain of activities which could be called a “local exchange and trading system”: Income is circulating from the market to the households, from the households to the power station and the sewage system where it finances new employment, while the wages are spent for local services and/or in the market and reappear as income in the households. The most difficult thing is to find the starting point to set the cycle in motion. Of course, usually money is the trigger, but if you do not have it, the only way to start is to invest (at least at the beginning) volunteer work.

One of the most disastrous attitudes is when people believe they cannot do anything without access to money. This leads either to the “wait and see”-scenario or to the dependency on donors which might have their own ideas about what their money is for. But people – almost everywhere in the world, f. i. after the first economic collapse in Argentina – have demonstrated that it is possible, to exchange goods and services without using money at all. These so-called LETS-schemes (“Local Exchange and Trading Systems” in English, “Systemes d’Echange Locales/SEL” in French, “Tauschringe” in German) are working on the basis of exchanging working time: Everybody who has spent working hours for producing goods and services for another member of the system gets a credit to receive goods and services in working hours of the same amount. All activities are listed in something similar to a bank account: Some just use the working hour or “time dollar” as the unit of exchange and then it might be called a “time bank”, others use a kind of local or regional currency and issue vouchers which again are based on the equivalent of working time. Therefore, if real money is used or any equivalent, it is the investment and exchange of working time which constitutes the local economic cycle and keeps it in motion.

2.5 Building and improving social capital

But if we start – as suggested – from the demand side, the unmet needs, what happens at the supply side, what are the available local resources? Again, if there is enough physical or financial capital, there will be no problem. But localities or areas of economic crisis are usually characterized by the lack of it. Therefore – as a fifth principle – the most important resources are the capacity of the local people, its knowledge and abilities. It is striking that especially in localities or areas of economic crisis these capacities of the local people are often underemployed and even neglected. What a waste of resources to keep thousands of capable people of all ages in unemployment or living on social benefits. I am not arguing against social benefits at all, but they are in principle targeted for those people who are not able to work and to make a living out of their own capacities. But there is definitely something wrong with the political and economic system, if we have to pay millions of unemployed for doing nothing, although at the same time a lot of work needs to be done. Local economic development is therefore about mobilising these untapped resources of local people and turn it into real productive capital.

Why do we use the term “capital” in this context? Economists believe that all production of goods and services needs the allocation or combination of three basic factors of productivity: labour, land and capital. Traditionally the term “capital” is related to “physical” capital (raw materials, machinery, tools etc.) and “financial” capital (money) only. But in modern economic thinking “human” capital, i.e. the

personal abilities, capacities and knowledge of the workforce has become equally important. Therefore, education and training nowadays is seen as an important part of economic development in general. But within the last decades a new term, the “social capital” appeared on the agenda and found its way into the economic and employment policy of the European Union, f. i. within the framework of the community programme “Local Social Capital”. The term underwent a lot of misunderstandings, but in principle it is nothing new, although it seems to be almost forgotten in economic theory and practice: It is the power of co-operation! It is nothing which can be owned individually, it happens only between people. It is therefore a collective set of resources, built on inter-human relationship. To understand more about character and nature of this specific type of capital, we had the opportunity to participate in a transnational research project on “The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe/ CONSCISE” (CONSCISE 2001-2003): The main objective was to identify and proof operational criteria to find out, how social capital could be measured, produced and re-produced. These indicators were:

- first of all the level of trust between the members of the community or organisation as well as between the ordinary members and its leaders or authorities,
- the size and quality of reciprocity, i.e. relationships on a basis of mutual help for exchange between the members of the community or organisation,
- the existence and quality of generally accepted norms of behaviour between the members as well as towards outsiders and newcomers,
- the strength and quality of identity with and commitment for the community or organisation,
- the number and quality of social networks of formal as well informal type,
- finally, but not of the same importance, the quality of information channels within and outside the community or organisation.

These criteria were proofed in a series of case studies in different countries, and it became very clear that there is a hierarchy as well as a relationship between them. *Trust* seems to be the overall objective, while reciprocity, local identity and commitment as well as accepted norms of behaviour are the components on which trust is built. On the other hand social networks and communication channels are practical tools to re-establish or improve the level of trust and its elements. But one of the most important findings of the empirical research was the fact that social capital is able to compensate the lack of physical and financial capital. Furthermore, social capital can be invested as any other capital, not only for realising social and/or community-oriented objectives, but also for accumulating the necessary resources for further development. Therefore, building and improving social capital becomes one of the most important strategies of local economic initiatives.

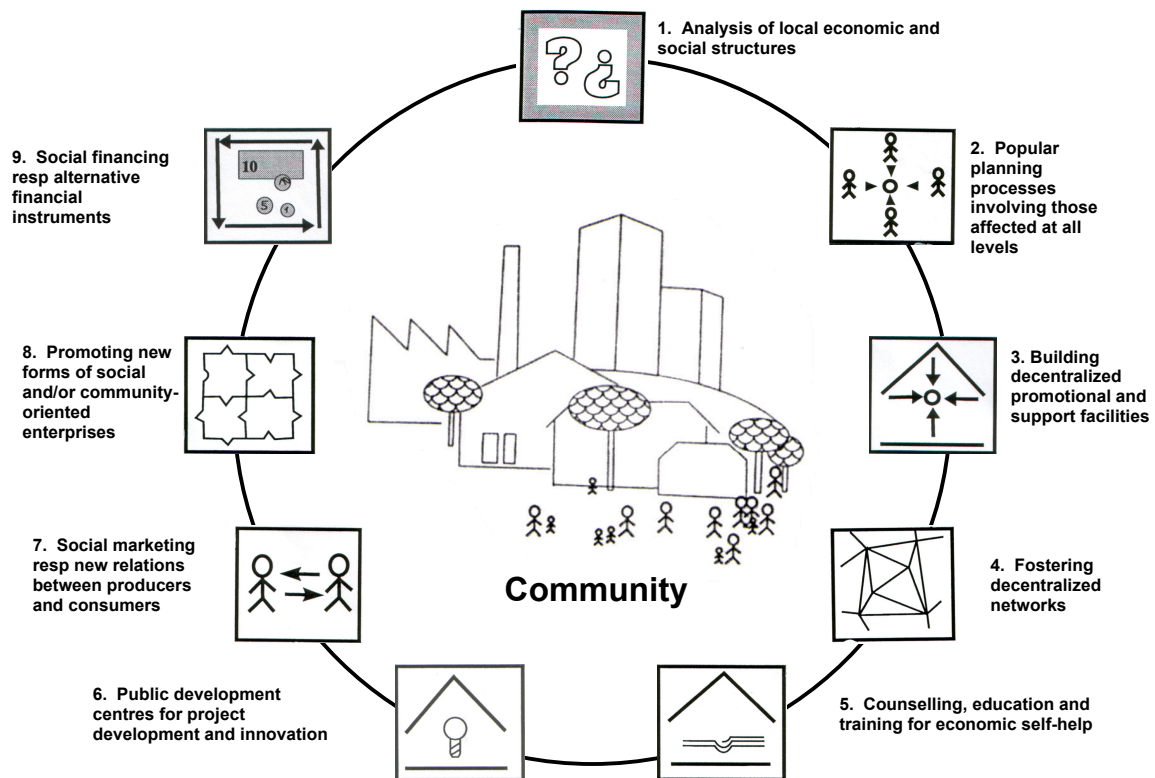
2.6 Community centred development

But what to do in localities or areas where this social capital is weak or affected by conflicts and/or economic depression? In these cases local economic development will not be successful without rebuilding social capital, especially trust. Re-building the social infrastructure might become even more important, if not the pre-condition of rebuilding the physical infrastructure. Therefore – and this is the sixth or final principle – the local economic development process has to start with at the first glance non-economic activities which are centred around community building and community development.

All these guidelines or principles have not been developed from the desktop, but are the outcome of empirical research based on the successes and failures of practical initiatives. There is nothing like a model or recipe of local economic development which can be franchised or replicated everywhere. To the opposite, each locality or community has to find its own appropriate solution. The reason is that the real good or “best-practise” examples are perfectly adapted to their special local conditions. It is one of the big mistakes that people try to copy successful examples and then become disappointed, if they fail because the conditions are not the same. But this does not mean that we are not able to learn from each other. What we can do, is to identify the tools and strategies which are behind the successful examples and re-implement these tools and strategies in each locality or community. The Interdisciplinary Research Group Local Economy in Berlin has continuously (since 1987) explored

and evaluated such examples and set up the “Berlin Development Agency for Social Enterprises and Neighbourhood Economy / BEST” (in 2003) which offers advice and training for people who want to start local economic development initiatives. Advice and training is based on a European curriculum (Technologie-Netzwerk Berlin 2009) following an “ideal” model or concept consisting of nine steps of action:

CONCEPT FOR A PROGRAMME OF LOCAL ECONOMIC DEVELOPMENT



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There is a necessary preliminary remark: Local economic development has to be understood as a *process* (not a result) which needs time and patience. Within this process we distinguish between three phases:

- A first phase of building ground in the community (steps 1 to 4):
 - Analysis or diagnosis of local economic and social structure
 - Popular planning processes involving those affected at all levels
 - Building decentralized promotional and support facilities
 - Fostering decentralized networks
- A second phase of further community development (steps 5 to 7):
 - Counselling, education and training for economic self-help
 - Public development centres for project development and innovation
 - Social marketing or new relations between producers and consumers
- A third phase of establishing a working community economy (steps 8 to 9):
 - Promoting new forms of social and/or community-oriented enterprises
 - Social financing or alternative financial instruments

3. Establishing a Local Social Economy

In the centre of the model we have placed the community as the main actor of local economic development. But – like in all examples presented – a group of people has to come together to form a community initiative or community organisation in order to start with the process. Without such a body nothing will happen. Although these initiatives usually start as an informal group, it is important that they develop a formal structure to be visible as well as to be able to act on a professional basis (for applications, contracts, campaigns and finally economic activities). They appear under a huge variety of different names or legal and institutional structures: from associations, foundations, local partnerships, local development companies to cooperatives, community or social enterprises.

3.1 Establishing social and/or community-oriented enterprises

Of course, in the process of restructuring a local economy all types of economic activities and enterprises have to be recognized. But, because of the already mentioned economic handicaps in disadvantaged communities or areas of economic crisis the development of new forms of social and/or community oriented enterprises plays a key role. Private profit-oriented businesses are not started anymore or closed down because of the lack of profitability, and the public sector is not able to invest or forced to save costs because of the lack of income. To overcome this obstacles people have invented a new or third type of enterprises, composed out of a mix of public and private elements: (Birkhölzer/Kistler/Mutz 2004; Birkhölzer/Klein/Priller/Zimmer 2005; Technologie-Netzwerk Berlin 2008, 2009, 2010, 2011):

- They act like private enterprises, but for to achieve social and/or community-oriented objectives of general interest.
- They mobilise private initiatives and resources from the civil society, but as “social entrepreneurs” for the common good.
- They are economically active to achieve a surplus or profit, but reinvest these profits in the social and/or community-oriented objectives.
- They trade in the markets, but on a basis of mutual reciprocity and cooperation.

“Social Enterprises” – this term has become more and more popular as overall term for these types of enterprises – have spread out all over Europe (European Network for Economic Self Help and Local Development 1997) and appeared also on the agenda of the European Commission (as “DG XXIII or Social Economy” in the nineties and as “Social Business Initiative” since 2011). Although the term was hardly known or used in a lot of European countries, the concept is nothing new in principle: In a historical perspective, Germany for instance can look back on a history of developing such enterprises over a period of more than 150 years (Birkhölzer 2015). This seems to fall into oblivion in times of prosperity and to reappear on the agenda in times and areas of economic crisis.

The reason why social enterprises offer a suitable solution has its roots in their special nature and performance, in other words in their special “mode of production”: It is based on private economic initiative and entrepreneurial commitment of citizens (beyond legal or public obligation) who are not primarily interested in the profitability of the invested capital, but in the quality of products and services in relation to the invested resources: Covering the costs versus maximizing the profits. This “mode of production” which is also called “nonprofit” or “not-for-private-profit” is often misunderstood as if they do not want to make any profit (or surplus) at all. To the opposite, social enterprises are – like any other enterprise – interested in a positive financial result. What makes the difference is the question: What is the profit for? Will it be privately owned or invested in the overall social or community-oriented objectives and create a “social added value”, “social profit” or “community benefit”? To achieve this social enterprises need and have developed specific micro-economic strategies, especially in the fields of

- social management,
- using and reproducing social capital,
- social marketing,
- social auditing,

- alternative financial strategies.

Again, these strategies combine elements from the private and public sector by bringing together income from trading in the market and income from carrying out public services or services of public interest, like the Italian social cooperatives which deliver municipal infrastructural services together with people with physical and mental disabilities or which are otherwise handicapped. Supported by a special Italian law these social cooperatives combine two services at the same time, market-oriented services with public services of integrating socially disadvantaged people. This so-called “hybrid” character makes it possible to be socially active and economically viable as well. Additionally, social enterprises can build on a unique third type of income based on their civil society background which allows them to add income from monetary or non-monetary contributions from the community.

3.2 Social financing

This concept does not start with the question: Where does the money come from? If local economic development is dominated by this question, it might – paradoxically – fail to meet the real needs. This is why we have put the question of money at the end of the process. Money should be seen as a “servant, not the master”, as another pioneer of social financing has put it. The argument here is that local economic development needs its own financial services, because local economic initiatives and community or neighbourhood enterprises in disadvantaged areas often do not have access to credits or other financial services of traditional banks. Therefore, the idea of setting up special community banks or social banks was introduced which are targeted to the needs of disadvantaged social groups and communities. Like the Grameen-Bank in Bangladesh which offers micro-credits predominantly to woman in rural areas, their lending procedures are based on trust in the ability and willingness of people to repay. Another type of social financing is represented by the JAK-Banks in Denmark and Sweden, which offer interest-free credits in rural areas. The clients only pay a fee for the service. In a similar way operate local credit unions in Great Britain and Ireland, which have just recently seen a remarkable revival although they trace back to the early cooperative movement in the 19th century. The Raiffeisen and Popular Banks (“Volksbanken”) in Germany originate from the same background, but today have almost lost their roots and perform like other commercial banks. In France, Italy and Spain the cooperative banks still have a feeling of belonging to the social economy and support social enterprises in one way or the other. It would therefore be very helpful, if the big cooperative banks in Europe, especially in Austria, Germany and Great Britain would change their minds and remind themselves where they came from. It was one of the principles of the old cooperative movement that successful cooperatives should offer seed-money to newcomers. The social cooperatives in Italy still call it a “strawberry strategy”, because this plant, if it is mature, always creates a new layer.

But social financing is not only about access to credits. Investments in the social infrastructure are often much more needed. They might not be repaid in terms of money, but either in access to necessary goods and services or just in a better quality of life which could then be called a “social dividend”. Finally, as already pointed out, money could be replaced by local exchange and trading systems or supplemented by local and regional currencies.

4. Social enterprises as agents of change

I am personally convinced that local economic development will gain more and more acceptance and importance as a necessary counter movement to “globalisation”. What does globalisation really mean? In economic terms it is a consequence of unlimited economic growth which concentrates more and more capital in less and less hands, and spread out over regional and national boundaries, creating international or transnational conglomerations which tend to rule the global economy. Within this process the globally operating capital – the so-called “global players” – have to a great extent liberated themselves from the workforce (and its institutions) through an unparalleled technical progress. Through the accompanied structural changes they have gained more flexibility, not only nationally, but also internationally, leading to a quasi “exterritorial status”. Powerful economic and financial conglomerations act therefore increasingly outside of national control, announcing more or less the

end of national economics, forced by the creation of supra-national single markets in Europe and elsewhere. In this process the role of the nation state is diminishing, especially in the field of social and territorial protection. In this context, the function of political control has to a large extent been passed on to so-called “non-governmental organisations” which operate on an international level as well and comprehend themselves as a “third force” within the concept of civil society.

But there is a dramatic change within the global economy itself. The global economy is not expanding to the same extent as the expectations of the global players. Therefore the competition in the world markets becomes more aggressive, leading to an antagonistic economic polarisation between winners and losers, haves and have-nots, increasing the gap between the rich and the poor. Wealth is concentrated in fewer hands and smaller territories, while poverty and deprivation are also concentrated in certain areas, localities or communities. The most important conclusion is therefore, that economic development cannot be identified with economic growth anymore. To the opposite globalisation polarises the local economies, and economic development in the traditional sense will make things even worse, ending up in social as well as territorial exclusion. Therefore the concept of social cohesion has to be enlarged by the idea of “*territorial cohesion*”. To achieve this we need not only a shift of paradigm from the global to the local economy, but also a radical change in the practical development strategies: Instead of focusing on the market forces or the welfare state – which appear to be only two sides of the same coin – a new approach beyond market and state focusing on the untapped resources of people is necessary. Fortunately we do not have to reinvent the wheel. A great number of affected social groups, neighbourhoods, towns and regions everywhere in Europe (and beyond) have – as the examples presented show - searched for such a new path of development and have gained practical experience doing so.

Moreover, these initiatives have established a new “third economic system”. Looking back we can identify four major strands which contributed to the emergence of this “third system”:

- economic self-help in the tradition of the co-operative and mutual assistance movement,
- charitable help “for others” in the tradition of charitable welfare organisations,
- philanthropy in the tradition of donations and foundations,
- voluntary community action and volunteering in the tradition of civic or civil society associations.

They formed the old social economy movement, but during the last thirty to forty years a new social solidarity-based movement has developed a lot of new organisations combining elements of the traditional approaches which converge - from our point of view - in the concept of ‘*social enterprise*’ characterised by the following constitutive criteria:

- self managed economic activities for primarily social, ecological, cultural or other community-oriented objectives,
- set up and carried out by voluntary commitment of citizens,
- performing not for private profit, but mainly for social profit and community benefit,
- participatory organisational structures based on co-operative principles.

Unfortunately, there exist a vast and confusing variety of such social enterprises throughout Europe with different names, objectives, legal and organisational structures. They might not even identify themselves as social enterprises although they fulfil the criteria listed above. Furthermore, these criteria, developed for empirical research to map the sector, are still provisional and might need to be improved in the future (Technologie-Netzwerk Berlin 2009; Birkhölzer 2015; Birkhölzer et al. 2015 - containing extensive lists of earlier published references and resources).

5. The impact of social enterprises on local economic development

There is very little research available about the real impact of social enterprises on local economic development. The following remarks are therefore based on one of the first national surveys in

Germany (Birkhölzer/Kistler/Mutz 2004) and more detailed regional surveys in the City of Berlin and the surrounding region of Brandenburg (Technologie-Netzwerk Berlin 2008, 2010 and 2011).

A recent study on the size of the “civil society” or “third sector” in Germany (Stifterverband 2012) identified 616.000 associations, foundations and limited companies with charitable status, employing 2.6 million paid staff. Although this survey did not focus on “social enterprises” at all, there is a considerable amount of overlap: The majority uses the same legal structures, but not all of them could be considered as economically active “social enterprises”. On the other hand a lot of “enterprises” use other legal frameworks. Our own survey in 2004, based on data published by social economy organisations themselves, estimated a similar size of up to 2.5 million paid employees. It seems to be almost unbelievable, but more recent data for Germany is not available.

Despite these difficulties, the figures show that we are not talking about a “niche economy” or a marginal phenomenon. To the opposite, we can identify an already well established sector of considerable economic importance. Furthermore, it is remarkable that this was achieved with socially or economically disadvantaged groups and/or within disadvantaged communities. In East Germany for instance social economy organisations are often the biggest employers in areas of economic crisis as well as some of the most important customers for the local industry. In fact, in almost all European crisis regions social enterprises are one of the most important actors for local and/or regional economic development. Therefore, in terms of economic development as well as social cohesion the significance of social enterprises for keeping such a locality or community alive can hardly be overestimated.

As social enterprises produce goods and services for unmet needs, they contribute, of course, in macro-economic terms to the gross national product. Unfortunately, we are not able to present exact figures, mainly because the necessary data is not available in the national statistics.

On the other hand, average figures as well as purely quantitative-oriented analyses are by no means appropriate, regarding the variety and diversity within the social enterprise culture, nor sufficient enough to clarify the real achievements and economic impact of social enterprises. For that we would need to introduce qualitative indicators in the way of the social audit measurements as already introduced and tested in some European countries (Pearce 2003).

The sector shows remarkable above-average growth rates in employment and a considerable hidden potential for even more employment could be estimated. Furthermore, the sector is in fact the main actor in active labour market policies, especially in intermediate labour market programmes.

But social enterprises are not only relevant as an instrument to increase job opportunities in general, but also for socially and/or economically disadvantaged people:

- Social enterprises (in Germany) offer more job opportunities for women: 72% of the employees in social enterprises are women, compared with an average of 43% in all enterprises.
- They offer more job opportunities for the elderly: 52% compared with an average of 42%.
- They offer more opportunities for part-time work, not only for women: 40% compared with an average of 20%.
- They offer finally more further education and training opportunities for these groups.

Social economy movements and initiatives emerged as a practical attempt of citizens to react to societal challenges and intervene directly in the economic sphere. This is demonstrated by the fact that their respective social or community-oriented objectives have been officially declared as overall objectives of their enterprises, usually written down in their constitutions where you can find the objectives of

- fighting poverty and social exclusion,
- offering socially useful and/or ecologically sound workplaces,

- integrating long-term unemployed or otherwise socially disadvantaged,
- re-establishing a sustainable local or regional economy.

If and to what extent such objectives could be achieved, will finally depend on the professionalisation within the sector as well as on the development of a supportive environment. Nevertheless, up to now we are already able to verify that social enterprises

- offer a considerable and increasing amount of new and additional jobs,
- carry the main load of active labour market policies,
- act as main agencies and intermediaries for local and/or community development in crises areas,
- offer target groups of the labour market and otherwise socially disadvantaged (the often one and only) economic chance for real integration,
- contribute to equal opportunities by offering more jobs for women as well as the elderly.

Furthermore, social enterprises contribute to the improvement of socially and/or locally restricted markets, i.e. they offer mainly goods and services which otherwise would not be available either because of a lack of profitability for private enterprises or because of restricted financial capacities within the public sector.

Although we cannot build on an overall accepted definition of social enterprises so far, we might agree to the observation that they are the most innovative actors in local economic development today. They are predominantly active in fields which are neither covered by traditional companies nor the state.

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