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Local Economic Development and its Potential

Paper for the seminar on “Local Economic Development”, organized by the Network of Associations of Local Authorities of South-Eastern Europe, 14th to 15th of April 2005 in Brcko, Bosnia and Herzegovina

by

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Introduction

Although Local Economic Development seems to be nothing new, because it must have always existed, the issue was just until recently not on the political agenda nor adequately recognized in traditional economic thinking. More or less there existed only two approaches: Microeconomics focus on the economic performance of the single enterprise, while macroeconomic approaches focus on the national economy and increasingly on the economy at a world wide level. In this view the single enterprise interacts directly with the national resp the world economy more or less without any relationship to intermediate entities like neighbourhoods, communities, localities or regions. Although this might sound strange again, scientific efforts especially designed for the economic performance of neighbourhoods, communities, localities or regions were not seen as of any importance or necessity.

To my knowledge the term “Local Economy” appeared only end of the seventies resp beginning of the eighties of the last century on the political agenda as well as in the academic world, firstly in some Anglo-Saxon countries, spread out very slowly into other European countries and remains still unknown in a lot of others (Benington 1986). In this context a European Network for Economic Self-Help and Local Development (EURONET) was established in 1992 to promote the concept of Local Economic Development, exchange experiences, organize research, education and training in the field on a transnational level. The secretariat of the Network is based in Berlin at Technologie-Netzwerk Berlin e. V., a social enterprise which is setup, owned and run by a self-help initiative of formally unemployed people, academic as well as non-academic ones. The Interdisciplinary Research Group Local Economy at the Technical University of Berlin which I direct was founded by this organisation in 1985 as one of the first academic institutions of this kind in Germany (Zukunft im Zentrum 1993; IFP Lokale Ökonomie 1994; Birkhölzer 1999b). Therefore, from the very beginning there was a strong relationship between the issue of Local Economic Development and the problems of increasing unemployment, poverty and economic decline which affected increasingly not only countries in the so-called “Third World” but also the highly industrialized countries of Western Europe, North America and even Japan (Cooley 1992; Douthwaite 1992; Aaronowitz / Di Fazio 1994; Spear et al 2001). In the following years the recognition of the subject increased alongside the growing numbers of unemployed or otherwise socially or economically excluded people, and especially in areas or regions like Eastern Germany, where the process of economic transformation caused a lot more economic and social problems (Birkhölzer 1994; Bauhaus Foundation 1996). Berlin for instance is geographically situated in East Germany and faces to some extent similar problems and conflicts as the countries where most participants of this seminar come from. It is from this background that I hope to be able to contribute positively to your debate.

Our findings are based on empirical research. Local Economic Development was by no means introduced as a new theoretical concept, developed or promoted by academics or other experts. To the contrary it emerged from very pragmatic activities of a huge variety of actors on the local or grassroots level. One of our first and also most encouraging findings were the sheer number of already existing and successfully operating local economic development initiatives in more or less all parts of the world, not only in areas of economic crisis in

Western Europe, where we started our research, but also in Africa, Latin America, Asia and the Pacific Islands. Therefore, we need not to reinvent the wheel, what we have to do is to analyse and evaluate all this practical approaches, identify the successful as well as the failing mechanisms and instruments and develop a systematic set of tools as well as a coherent theoretical framework. Although this research can not build on a long academic tradition, the already existing knowledge is rather complex and well advanced. Therefore, I will not be able to cover the whole subject of Local Economic Development within this short presentation. All I can do here is to give you a short and probably provocative flavour of what Local Economic Development could possibly achieve. To find out more would require special workshops and seminars as well as training courses.

To open the dialogue I will start with the questions which you gave me for this presentation:

- What is Local Economic Development?
- What are the strategies for Local Economic Development?
- What is the impact of Local Economic Development?
- Who are the major actors?
- How can cross-border co-operation be encouraged?

What is Local Economic Development?

As generally in economics we distinguish between a descriptive or analytical perspective 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. From this perspective the locality is seen as an economic actor in its own right. In traditional economic thinking the locality exists more or less only as a place or space where other economic actors like enterprises, industries, investors, authorities etc. compete and use or exploit their natural and human resources. From a Local Economy view point the localities, i.e. the neighbourhoods, villages, towns, cities and regions are understood as “living organisms” which in the Anglo-Saxon tradition would be called “communities” (“communautés” in French, “Gemeinwesen” in German) (Pearce 1993; European Network 1997; Reseau Européen 1997; Twelvetrees 1999). Although such an analytical approach of Local Economic Development seems to be very important, it is not very often put into practice.

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. 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 the 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.

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 and so on. Furthermore, communities which try hard sometimes spend their last available resources in dubious infrastructural programmes which should attract investors like golf courses, luxury hotels and conference centres, industrial sites and office space, business development centres and so on. 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 one’s. 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.

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, some might have resigned as a result of the failures of option one and two. 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 become smaller and smaller in size and numbers.

The final scenario I would call **“development from within”**: As option number one is dominated by the state, number two by private investment and number 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 or solve their problems, and if they are unwilling or unable to leave their homes.

One of the pioneers of Local Economic Development, Sam Aaronovitch from the Local Economy Policy Unit in London (Aaronovitch 1996; Birkhölzer 1999a) put it in a nutshell: “There is no escape from self-help!” To illustrate that I will present two short examples: (Unfortunately, most of these stories are not published in English - for references see Birkhölzer 2000):

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 of them 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 infrastructure from shop keeping to health care facilities. The people living in such neighbourhoods of up to 8000 – 10.000 people were waiting for years that the responsible authorities should 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 from all inhabitants in the neighbourhood (two delegates per staircase). The association acted as a neighbourhood or community enterprise, started to take over

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 voluntary work at the beginning, but finally they were able to make 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. They even achieved to get the right of building such self-managed associations written down in the new constitution of the city of Moscow.

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 not to buy anymore anything 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 breakdown and the perspective to be 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. Of course, 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 which is 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. After the political change Stutterheim became a model for Local Economic Development in other parts of South Africa, especially under the aspect how local development could be combined with the necessary process of peace and reconciliation. 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 slowly, but steadily growing wealth not only for the first time for the black but although surprisingly for the white population. All this was achieved again with a lot of voluntary 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 in 1986 by another pioneer, James Robertson (Robertson 1985), as: **“Local Work for Local People using Local Resources”**.

What are the basic principles?

As the examples show – and we have empirical evidence from a lot of 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 this initiatives were not based on a common theoretical concept, we can identify a number of common underlying principles:

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 resp community like an enterprise or company as a coherent and interdependent economic system whose objectives are not individual aims, but what is called “social profit”, “community benefit”, or “for the common good” (Daly/Cobb 1990; Pearce 1996; Birkhölzer et al 1997). (Note: There are, of course, different explanations in different languages, and we would definitely need a glossary for adequate translation.)

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 (f.i. Cooley 1992). 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, physical, social and cultural resources. If these resources are stressed or exploited without adequate reinvestment, the Local Economy will loose its capacity to survive. Revitalising the reproductive capacity must therefore be the first and overall objective of Local Economic Development.

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 Development instead should 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 this 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 problem 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 (European Commission 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 employment in 19 **fields of activity** at local level (European Commission 1995, 1996). Together with the results of our own research these could be summarised as follows:

- serving basic needs like food and housing,
- decentralised and small-scale technical systems for energy, transport, water supply and 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.

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 functioning local economic cycles money should circulate within the local community as much as possible, and as a rule each dollar, euro or mark 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 (Birkhölzer 2000), 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 by 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 put their efforts together to find alternatives for to make a living out of their own available resources in the village. At the beginning they bought a disused four-storey grainstore and converted it into a community development centre, 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 done 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 for 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) unpaid work.

One of the most disastrous attitudes is if 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, most recently after the economic collapse in Argentina – have demonstrated that it is possible, to exchange goods and services without using money at all. This so-called LETS-schemes (“Local Exchange and Trading Systems” in English, “Systemes d’échange locales/SEL” in French, “Tauschringe” in German) are working on the basis of exchanging working time (Lang 1994; Douthwaite 1996): 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.

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 I use the term “capital” in this context? As an economist I 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 is nowadays seen as an important part of economic development in general. But within the last decade a new term, the “social capital” appeared on the agenda (Putnam 1993, 2000) and found its way into the economic and employment policy of the European Union within the framework of the community programme “Local Social Capital”. The term underwent a lot of misunderstandings, like “local capital for social objectives” or was mixed up with the meaning of the term “human capital”, 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” which was just recently finished (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** are:

- first of all the level of trust between the members of the community or the organisation as well as between the ordinary members and its leaders resp 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;
- existence and quality of generally accepted norms of behaviour between the members as well as towards outsiders and newcomers;
- strength and quality of identity with and commitment for the community or the organisation;
- numbers and quality of social networks of formal as well informal type
- and finally, but not of the same importance as the others, 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 Development.

Let me illustrate that with another example which happened on the island of Papa Westray in the North of Scotland (Birkhölzer 2000). Living far out in the North Sea it happened that from one day to the other the local shop as well as the ferry boat, the only two connections to the rest of the world, went bankrupt. But as the islanders depended heavily on these two facilities they came together and formed an island cooperative, at the beginning with the only objective to reopen the shop and the ferryboat. This was only possible by investing unpaid work collectively. As the services of the shop and the ferryboat were regularly sold, income was generated, and in the end a shopkeeper and a ferryman could be employed again. As the islanders were now used to work part-time for their co-operative, they were looking for new projects: converting disused farmhouses first into a youth hostel, later into family hotel, establishing a nature reserve as well as improving archeological sites, combined with organizing package tours to the island. The co-operative and its achievements were more or less built on social capital only which has become the source of a modest, but steadily growing wealth.

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.

As I said earlier, 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. Unfortunately, we have to say, that there is nothing like a model or recipe of Local Economic Development which can be franchised or applied everywhere. To the opposite, we came to the conclusion, that 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. For this purpose the Interdisciplinary Research Group Local Economy has developed a strategic model of Local Economic Development in nine steps.

Concept for a strategic programme of Local Economic Development

The following concept is called an “ideal” model (IFP Lokale Ökonomie 1994; Birkhölzer 1999b). Although it is constructed out of a sequence of nine steps which could be followed one after another, it is by no means intended that everybody has to follow the same way. The model might also be helpful for an organisation or community to identify what it has achieved so far, what is missing, and what it should do next. From there they might move forward and backwards, and we advise that they should re-think their performance in the nine fields of activity almost every year.

There is another necessary preliminary remark: The model describes Local Economic Development as a **process** (not a result) which needs time and patience. Everybody who will expect immediate results in numbers of jobs or turnover will be disappointed. From our experience we estimate – under the present conditions – a period of up to five years to achieve sustainable results. Of course, this depends on the stage of development in which the community or organisation is and what help it could get.

The development process in the model consists out of three phases:

- a first phase of building ground in the community (steps 1 to 4),
- a second phase of further community development (steps 5 to 7) and
- a third phase of establishing a working community economy (steps 8 to 9).

In the centre of the model (see diagram in the annexe) 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 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). This could be everything from an association, a foundation, a local partnership, a local development company to community or social enterprises. It should be neutral in the sense that it represents mainly citizens and not necessarily local authorities, political parties or other official institutions – although members of this organisations can be a part of it.

I have to apologize that the following is rather abstract, because it represents only the framework or programme for workshops and seminars which we offer either on the whole concept or on parts of it. This workshops and seminars are usually accompanied by a lot of examples and practical training which are not possible to be presented here.

Phase I: Community building

1. Analysis of local economic and social structures

It is striking that local actors including local authorities often are not well informed about the real situation in their local economy. Traditional statistics do not cover the whole spectrum of necessary information and are usually not detailed enough to describe the situation on local level like neighbourhoods, town and villages. Therefore the problems of social segregation within our big cities and municipalities are often overlooked. The city of Berlin f. i. has only just recently developed a “social atlas” which analyses the economic and social structures of communities and neighbourhoods (in German “Quartiere”). The result was – not surprisingly – to identify an antagonistic process of development where at least 19 communities were suffering from economic decline with high rates of unemployment and poverty while prosperity together with high rates of employment and income were increasingly concentrated in others. It is one of the consequences that access to goods and services is not equally distributed over the city with affluent supply in some areas and a lot of unmet needs in others. A very efficient tool to find out more about are so-called “deficit and resource analyses” on community level (Senate Department 2004). Starting with a list of unmet needs on one side and unemployed resources (unemployed people with their abilities and capacities, empty buildings and disused factories, wasteland as well as underused potential in its natural and cultural heritage) on the other, a local action plan will be developed by combining deficits and available resources. Such an analysis f. i. in a small neighbourhood in the former industrial quarter of Berlin proofed an employment potential of additional 250 jobs in this area only. The most famous example of such an analysis was the “London Industrial Strategy”, carried out by the Economic Department of the Greater London Council in 1985: “Are Londoners so well housed; are their homes so warm and so well furnished, are Londoners so well clothed and so healthy that there is nothing for 400.000 unemployed people to do?” (Greater London Council 1985). The result was an unique document which on the basis of an in-depth analysis of the whole economic and social life in Greater London showed a potential of half a million additional jobs which could have been created on municipal level. Unfortunately, the Greater London Council could not carry out this plans, because it was abolished by the Thatcher-government (Mackintosh/Wainwright 1987), but the community movement in Great Britain has learned a lot from this example and adapted the tools and instruments for economic regeneration and job creation in London as well as in other parts of the United Kingdom.

2. Popular planning processes involving those affected at all levels

One of this successful tools of the Greater London Council was to introduce a “popular planning” process, in which the so-called “ordinary people” were encouraged to be actively involved in the identifying of unmet needs and unemployed resources, based on the conviction that the people are the real experts of what happens in their neighbourhood. One of the most successful tools in this context is the “Planning for Real” which was developed by Tony Gibson from the Neighbourhood Initiatives Foundation (Gibson 1996). It is basically centred around a three-dimensional model of a neighbourhood which is placed in streets, schools, pubs or department stores and which allows everybody to make his or her comments and proposals in a non-verbal way directly on the model. The tool attracts people who would never go and talk on a public meeting, and mobilises their ability and commitment to contribute to practical solutions in their neighbourhood. Of course a lot of other tools and techniques have been developed since then like alternative workers plans, community future workshops, communal fora, neighbourhood action packs etc.

3. Building decentralized promotional and support facilities

Mobilizing people and involve them in community development need symbolic as well as practical space for action. The best places are disused buildings, factories or public spaces which will – revitalized by more or less voluntary work – not only offer work space and meeting opportunities on low costs but also symbolise the overall objective of the activities, like light houses which show the way. The already mentioned grainstore in the village of Wulkow was such an example; it is replaced now by a low-energy community centre which because of its unusually shape is known as the “UFO”. Community support and resource centres of this type should be independent of both local and central government, but be open to the public at large and offer support in the informational, political and technical areas to projects of all kinds. Such centres are often accompanied by professional development agencies which focus either on neighbourhoods or communities as a whole, on special types of enterprises like f.i. cooperative development agencies or on special target groups like woman, ethnic minorities, disabled etc. (European Network 2001).

4. Fostering decentralized networks

Building up new and strengthening existing social networks are the most important tools which enrich social capital. In his basic studies on social capital in Italy Putnam (Putnam 1993) has reported that the best performing municipalities were those with the most lively culture of civic associations, notably singing groups. Besides these traditional associations new forms of networks have emerged which are able to combine people from different cultural, political or institutional background. These so-called “bridging” networks are often at the beginning informal social constructs in which the most varied groups, institutions and individuals can come into contact with one another without having to give up their autonomy. They are, therefore particularly suited to the kinds of collaboration which cross traditional bureaucratic, political or cultural boundaries. The impact of such networks is not only to exchange information and coordinate activities, but also to combine resources and exchange services on a non-profit basis. A special type of such networking which becomes more and more important are formalized local partnerships (Heikkilä/Kautto 1996; Geddes 1997; Geddes/Benington 2001; Kjaer 2003). They try to bring together representatives from all sectors of the Local Economy, the public administration, the private profit-oriented companies and the third sector or the social economy. Another important type are cross-border partnerships which bring together local actors and experts from outside preferable again on a

mutual or non-profit basis. The European Network for Economic Self-Help and Local Development f. i. organizes every two year a European Congress in a special locality out of its membership, where local people can have access to experts and experiences from other regions and visitors vice versa can learn from practically experiences at local level.

Phase II: Further community development

5. Counselling, education and training for economic self-help

Of course, everybody is talking about the importance of education and training for economic development. But we are arguing here for something special called “empowerment” (Chanan 1992; Ronnby 1994; Craig/Mayo 1995; New Economics Foundation 2000). People, especially in disadvantaged areas or communities are usually not trained in self-help and self-management. Furthermore, they often suffer from a lack of self-esteem which leads to resignation and passivity. To overcome these obstacles special education and training programmes for economic self-help are necessary. There are a lot of programmes for “empowerment” and “capacity building” available now, like f.i. the “community leadership programmes”, set up by the Pratt Institute Center for Community and Environmental Development /PICCED for Brooklyn and other deprived neighbourhoods in New York, or the “community organizing” techniques, invented by Saul Alinsky and the Industrial Areas Foundation/ IAF in the United States (Mohrlok et al 1993).

6. Public development centres for project development and innovation

New ideas of local development projects, brought up by people or within popular planning processes are often not of that type which might be implemented immediately. Like in any other project development in private companies or enterprises, these new ideas need further development and professional help, mainly in two aspects: There is often a need for technological development, especially if they touch on more complicated issues like energy, transport, water supply and disposal, but possibly also in health care, care for the elderly and disabled and related issues. But there is often also a need for economic and/or managerial development from setting up an enterprise, developing a business plan, finding space and premises, employ and qualify the necessary workforce, to financial planning, accounting and auditing. All these necessary development processes are time consuming, and the new local development initiatives – like other small and medium size enterprises – usually do not have the money to pre-finance these development costs. Services of this kind should therefore be free of charge, at least in the first place, while in the long run so-called “revolving funds” could be established to which successful projects contribute to help others come off the ground. Best practice examples for such development agencies are the famous technology networks, invented by the Greater London Council, the cooperative development agencies in Sweden, Italy and Spain, the community enterprise and social economy agencies in the UK and Ireland, and last, but not least the Berlin Development Agency for Social Enterprises and Neighbourhood Economy/BEST which is set up and run by Technologie-Netzwerk Berlin e.V. (Senate Department 2004). All these agencies are independent, open to the public and work on a non-profit basis which allows to bring in voluntary work and contributions from students, academic and other professional experts, adult education and vocational training institutions etc.. It is striking to mention that one of the most successful local economic development projects, set up by the Mondragon Co-operative Group in the Basque Region of

Spain started in 1948 with the foundation of a local Technical High School to develop innovations and train the young people in the region (Morrison 1991).

7. Social marketing resp new relations between producers and consumers

Serving unmet needs in disadvantaged communities and areas of economic crisis has – as already mentioned – some serious handicaps: low purchasing power as well as a type of needs which affords a special targeting of services and/or adaptation of products in relation to numbers, quality and price. They can therefore not be served with technologies of mass production or economies of scale. This – together with low expectations of profitability – are the main reasons why the private, profit-oriented sector does not invest in such “socially restricted” markets. But local development initiatives all over Europe have found new solutions by inventing “social marketing” techniques. The basic idea behind is to suspend anonymous market mechanisms by involving customers, clients or users actively in the development and finally in the production of goods and services. Examples of that types are producer-consumer cooperatives which started in the field of ecologically sound agriculture and food supply, but enter increasingly the field of proximity or neighbourhood services. One of the most famous examples are the so-called Seikatsu clubs in Japan, which f. i. in the Kanagawa region produce and deliver more than thousand articles for their members (Yokota 1991). The story behind has also lessons to offer: It started with a food scandal around tuna fish which was poisoned in the sea by aluminium waste of a nearby big factory. It were mainly women who wanted to protect their families who started to control the quality of their food by organizing themselves in consumer cooperatives and to buy collectively ecologically sound products. The basic unit consists out of seven families, the so-called “Han” which is a traditional social fabric going back to meet medieval times. After a while they realised that the products they wanted to buy were not available on the market, at least not in the necessary quantities. Their next step was therefore to organize the production of these goods and services by themselves. It was an overwhelming success and the idea spread out all over Japan. Similar stories happened in the West of Ireland (Mc Dyer 1982) and in the North of Scotland (Anderson et al 1997; Pearce 2003) where the inhabitants of remote towns and villages founded community cooperatives or other community businesses, like in the already mentioned example of Papa Westray. What distinguishes these enterprises from traditional private businesses is the fact that the board of directors of these companies is a mix out of representatives of costumers, clients and users in the community as well as of the workforce. Nowadays this strategy is debated as “multi-stakeholder enterprises” (Münkner 2000). But this reflections already lead over to next phase:

Phase III: Community economy

8. Promoting new forms of 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 situation a “third sector” (Defourny/Monzón Campos 1992; Laville 1998; Molloy et al 1999; CIRIEC 2000; Birkhölzer et al 2004, 2005) has to be established, composed out of a mix of public and private elements:

- they act like private enterprises, but for to achieve social and/or community-oriented objectives of public 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 resp 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 becomes more and more popular as overall term for this new types of enterprises – have emerged all over Europe during the last decades (Mannila 1996; Borzaga/Santuari 1998; Grove et al 1998; Westerdahl/Westlund 1998; Birkhölzer et al 1998, 1999; Laville/Nyssens 2001; Pearce 2003; Castelli 2005). The term as well as the concept are not new in principle, but they seem to fall into oblivion in times of prosperity and reappear on the agenda in times and areas of economic crisis. It has just recently become an issue for academic and scientific research, f.i. by the EMES-network with the programmatic title “The Emergence of Social Enterprise” (Borzaga/Defourny 2001). One of the interesting aspects in this research is to understand the special nature and performance of such social enterprises resp how they can be run successfully. What we have learned so far is, that social enterprises have developed and need specific mirco-economic strategies, especially in the fields of

- social management,
- using and reproducing social capital,
- social marketing, as already mentioned,
- social auditing and finally
- a special mix of 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 resp services of public interest, like f.i. the Italian social cooperatives (Leonardis et al 1994; Mattioni/Tranquilli 1998) 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 (Evers et al 2002) makes it possible to be socially active and economically viable as well. Additionally, social enterprises can built 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.

9. Social financing resp alternative financial instruments

You might have noticed, that this concept has not started 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 Pat Conaty, a pioneer of social financing, has put it. He argues that local economic development needs its own financial services because local economic initiatives and community or neighbourhood initiatives in disadvantaged areas often do not have access to credits or other financial services of traditional banks. Therefore, he and others (Hoogendijk 1991; Hutchinson et al 2002) introduced the idea of setting up special community banks or social banks which are targeted for the needs of disadvantaged social groups and communities. Like the Grameen-Bank in Bangladesh (Yunus 1995) with 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 19th century. The Raiffeisen- and Popular Banks (“Volksbanken”) in Germany originate from the same background, but have today 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 principals 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. Social investment resp investment in the social infrastructure are often much more necessary. 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 mentioned, money could be replaced by local exchange and trading systems or supplemented by local and regional currencies.

Conclusion

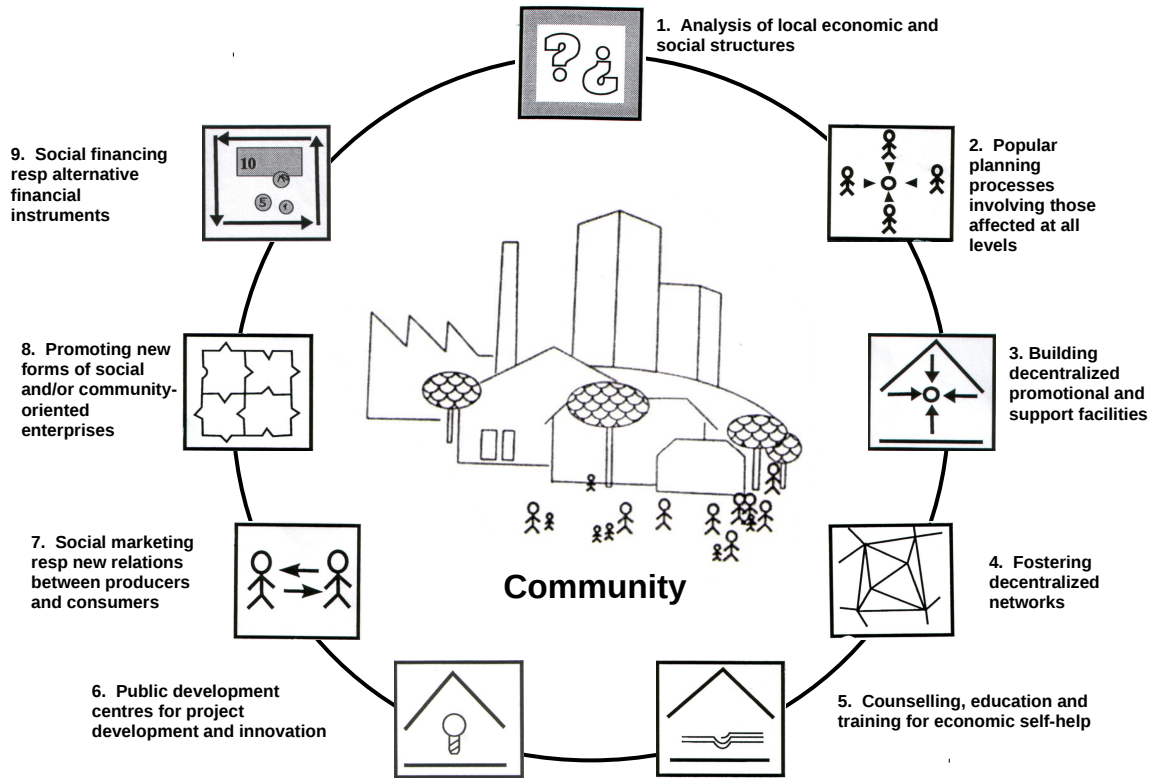
I am personally convinced that local economic development will gain more and more acceptance and importance as a necessary counter movement to globalisation (Birkhölzer 2005). What does globalisation really mean? In economic terms it is a consequence of unlimited economic growth which concentrates more and more capital in less and less hands and spread out over regional and national boundaries and creates 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 and 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 past 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 in 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. We need therefore 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 searched for such a new path of development and have gained practical experience with it (see selected references).

Thank you for listening!

CONCEPT FOR A PROGRAMME OF LOCAL ECONOMIC DEVELOPMENT



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(The following selection represents mostly references in English. For references in German see Birkhölzer/Kistler/Mutz 2004)

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