



# 4TH WORLD FORUM OF LOCAL ECONOMIC DEVELOPMENT

PRAIA, CABO VERDE - 17-20 OCTOBER 2017

*The European Research Institute on Cooperatives and Social Enterprises (Euricse) and the International Labour Organization (ILO) Think Piece for the 4<sup>th</sup> World Forum on Local Economic Development, 17-20 October 2017 - Praia, Cabo Verde*

## **Putting the “Local” in Economic Development: The Role of the Social and Solidarity Economy**

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Rising inequalities, environmental degradation and increasing rates of unemployment, among other issues, oblige us to reconsider our current development paradigms, and seek alternate, complementary and innovative approaches to fulfil the needs of both people and planet. As was noted by ILO Director General Guy Ryder in a recent speech, aside from the social, economic and environmental crises before us, we also face a crisis of values, impeding sustainable development. The different realities, objectives and agendas within and between governments, organizations and civil society, often working in silos, have resulted in contradicting actions, misspent time, energy and resources, and have led us into the social, economic and environmental imbalance we now know far too well.

In this regard, the 2030 Sustainable Development Agenda presents 17 Sustainable Development Goals (SDGs) geared toward rebalancing the three pillars of sustainable development by ending poverty, protecting the planet, and ensuring prosperity for all. The 2030 Agenda is a call for a new development paradigm, one that integrates the various dimensions of sustainable development.

However, these Global Goals are just that: global. Each one more ambitious than the last, achieving them on a global scale by their tight 2030 deadline can seem like an imposing feat, to say the least. There is high risk of falling short of the SDG’s objectives, as was the case with the pre-2015 Millennium Development Goals (MDGs), especially if they are tackled using a top-down approach, disconnected from local realities. The challenge with the SDGs today is thus to bring them down to the local level, so that, together with the public and private sectors, civil society can play an active role in their implementation and achievement.

Indeed, in order to promote sustainable local economic development and to meet the SDGs’ timeline, macroeconomic policies for economic growth and redistributive policies aimed at poverty alleviation will not suffice. These interventions, even when successful, cannot guarantee sustainability over time nor a homogeneous distribution of development, as



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attested by the wide imbalances that can be found in many instances even within the same country. Rather, local contexts must find a way to adapt macro-level interventions to their characteristics and to leverage their own specificities. In other words, top-down policies must be integrated with bottom-up initiatives based on the assets and characteristics of each place.

However, core local development themes such as bottom-up approach, social capital, community development and partnerships are rarely transferred into an operational dimension, as they occupy a marginal place in the national policy agendas, which remain mainly focused on macroeconomic policies (Grefe, 2007). Furthermore, the origin of local development can be traced back to the inefficiencies of centrally organised policy approaches that in the past proved to be unable to solve social and economic problems like unemployment (Grefe, 2007).

These limitations can be linked to the mainstream economic paradigms that underline traditional development policies, and that are based on a utilitarian view of economic action, according to which individuals respond primarily to extrinsic motivations related to monetary or material gains. However, over the past few years, economists have begun to pay increasing attention to intrinsic motivations, related to the role of cultural and ethical values, as well as to the importance of reputation and social interactions. As the Nobel laureate Jean Tirole wrote in “The Economics of the Common Good”, each individual is part of social groups that influence his or her behaviour in various ways, as they define one’s identity and image. In other words, individuals act within social groups and networks that affect their behaviour beyond the criteria of pure economic rationality.

This has two main consequences: the first is the relationship between economic development and the cultural and social components of local contexts, as each place is characterized by important stocks of cultural and relational capital and cannot be considered the mere recipient of economic development initiatives. The second consequence is the increasing role as drivers of economic development of those organizational forms that incorporate social and solidarity elements. Indeed, after decades of viewing the economy solely as the realm of profit maximization, we are witnessing a re-birth of models and behaviours – summarized in the expression “social and solidarity economy”, a “concept designating enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity” (ILO, 2009) – that see economic action as an instrument for the social and human development of individuals and their communities.

As pertains to the relationship between economic development and the cultural and social components of local contexts, modern industrialization processes were mostly based on the need to move from a “community” system characterized by an important economic role of the family, independent work, small scale entrepreneurship and informal economy, to a “society” system based on an industrial and urban paradigm characterized by the individualization of



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relationships and the atomization of society. In this transition, the role of the specificities of local contexts lost importance relative to the replicability and standardization of the industrial model, which largely disregarded specific geographic, cultural or social structure of the places that were targeted by development policies. The rise of post-fordist industrial models started to undermine this paradigm, as firms could no longer behave as self-sufficient entities but rather were characterized by important interactions with the surrounding environment. The literature on clusters and industrial districts for example shows the extent to which the success of the firm is tied to the networks within which it operates, many of which are determined by its location in a given place.

The “quality of place” is thus a dimension that helps determine economic development in a major way, and is largely due to the social, cultural and organizational factors that characterize a territory and the population that inhabits it. Whereas in the fordist era the model for development was based on a central role of traditional production factors (land, labour and capital) and on their concentration on the basis of purely contractual relations, in the new scenario development arises from the interaction of multiple factors, including people’s values, beliefs, social structures and quality of life. Hence the ecosystems made up of diverse enterprise and organizational forms that, with their interactions, make up the social and economic fabric of each community have grown in importance. The analysis of the interactions within and between these ecosystems highlights the value of the social dimensions and of the practices in which they are embedded, namely:

- Increasing local division of labor;
- Correspondence between growth and the evolution of needs;
- The rise of a network of local markets, for both specialized labour and productions;
- Training of a sufficient number of actors that can operate as interfaces between different specializations;
- Circulation of values and knowledge coherent with the business sectors that are thriving on the market;
- Development of local social institutions, both formal and informal, that are necessary for business and production processes;
- The rise and renewal of a “sense of belonging”.

Local development that is based on the interaction among these elements is different from the development that can take place simply by the activation of a top-down policy. In this sense, local development is not just the outcome, in a given place, of a broader process of economic growth. Rather, it is a place in which specific historical, social and cultural factors interact to generate an endogenous process that depends on the ability of local actors to organize and re-generate responses to their own needs.



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In this view of development, in which people are not merely a production factor but sentient human actors, and the nature of the process concerns relational, as well as material goods, two elements are particularly important: coordination among agents and mutualistic and solidarity networks that are needed in order to face uncertainty. Both are connected to the role played in this context by social and solidarity economy organizations.

SSE organizations are more open to exchange between the production system and the local community due to their participatory governance structures and their attention toward social integration - in short, to their ability to recognize the socially embedded nature of economic action. This makes them better able to identify the demand arising from their communities and to produce the goods and services that are needed at the local level, as well as to leverage resources that would go untapped if they only relied on contractual and monetary relations.

Consequently, the SSE offers an approach to local development that provides potential for a new vision and added value compared to traditional approaches. It widens the structure of a local economy and labour market by addressing unmet needs and producing new or different goods and services, and by broadening the focus of the local development process by taking into consideration the variety of its dimension and building the required level of trust.

One of the main reasons of the relevance of Social and Solidarity Economy organizations (SSEOs) in local development can be found in the types of services it produces and their positive externalities at the local level. SSEOs play a specific role in the provision of services where either the scarcity of resources makes the public sector unwilling to intervene, or the lack of profitability means that for-profit enterprises are reluctant to be involved (Grefe, 2007). Moreover, when traditional enterprises or public agencies are engaged in the provision of these types of services, often they do it at higher costs or in less effective ways due to contract and market imperfections (Borzaga & Tortia, 2009).

Another relevant feature of SSEOs is their ability to mobilise local assets, which increases the effectiveness of local policies for employment creation. The local embeddedness of SSEOs and the multi-stakeholder governance models they adopt contribute to increasing the quality of local economic development as they allow the community members to be involved and to participate in the definition of the objectives of the development process. Moreover, they provide a more rooted and



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permanent source of development which is less at risk of delocalisation compared, for instance, to traditional manufacturing activities.

Thanks to their institutional specificities, and their allocative and distributive consequences, SSEOs are expected to improve the welfare of local systems primarily by increasing the supply of quasi-public goods which results in increasing employment and production. Since production of these goods and services is also based on trust and involvement, efficiency and effectiveness can be enhanced relative to more traditional governance forms that are based either on hierarchy and bureaucracy. The production of socially-oriented services with a high personal content also sustains endogenous development in the medium to long term (Borzaga and Tortia, 2009).

In short, the partly public nature of SSE should guarantee that not only private, but also collective objectives are taken into consideration. In this sense, SSEOs can be understood as a collector of instances of social and collective needs that, when fulfilled, allow for a better match between economic growth and the needs of local actors (Borzaga and Tortia, 2009). Due to these characteristics, SSEOs have a beneficial impact on social and economic development: they support inclusive and sustainable growth; contribute to reducing poverty; generate new and more stable employment; contribute to a more balanced use and allocation of resources; and have a role in institutionalising informal organisations.

It is not surprising, then, that from the 1980s onwards, the idea that local communities can serve their own needs through social and solidarity economy organisations has gained momentum globally. In many countries, organisations spearheaded by citizens have emerged as an important player in addressing the needs of local communities. In Europe, they have developed to produce welfare services and integrate disadvantaged people to work; in developing countries they have emerged in various fields such as agriculture, finance (including through the delivery of micro-credit schemes), the construction of infrastructure, and the supply of community services thanks to the mobilisation of local communities or the support of external actors. As for the African continent, an exploratory study conducted by Euricse (EU Parliament, 2014) confirms that the SSE is an important segment of the economy and that it substantially contributes to improving the wellbeing of local communities.

Much more work would need to be done in order to have a comprehensive assessment of the state of the social and solidarity economy in general and especially in developing countries. As stated above, though, and based on what available research has shown, there is ample reason to believe that the social and solidarity economy can help implement local economic development and achieve the Sustainable Development Goals. However, more attention needs to be paid to this issue and more development policies should be aimed at supporting the social and solidarity economy.



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As appropriate legal frameworks and policy measures play a key role in creating an environment that is conducive to the growth of SSEOs, a development policy aimed to supporting the social and solidarity economy should have as one of its primary objectives the promotion of legal frameworks that clearly define and treat each organisation type according to its specific nature. For instance, in order to tap the full potential of co-operatives, co-operative legislation must be flexible enough to permit co-operatives to spontaneously arise and operate in whatever industry they prove useful rather than limiting them to specific sectors or imposing them on unwilling local communities as a tool to boost production. External actors, including governments and public agencies, can also play a key role in supporting the growth of the different types of organisations that comprise the social and solidarity economy, beyond providing financial support.

Overall, the available evidence suggests that a key factor explaining the success of development programmes aimed at fostering the social economy is that support should be channelled directly to social economy organisations and it should be based on the interests and needs of those organisations. Another key factor in driving the growth and impact of the social economy is the availability of competent and specialised managers and sound governance structures for social economy organisations. Development policies should thus support research on management practices and governance models as well as targeted training programs, increasing in particular the capacity of colleges and universities.