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### **THE ROLE OF SOCIAL ENTERPRISE IN LOCAL ECONOMIC DEVELOPMENT**

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## INTRODUCTION

Whereas 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 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 a "Berlin Development Agency for Social Enterprise and Neighbourhood Economy / BEST" 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.**

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 recognised 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 or 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.

### 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.

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 investments 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 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.

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. In this situation people embark (usually after a period of not successful protesting or campaigning) on strategies of economic self-help which often lead to the foundation of new types of (social) enterprises.

One of the pioneers of local economic development, Sam Aaronovitch from the Local Economy Policy Unit in London (Aaronovitch 1996; Birkhölzer 1999) 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 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 volunteer 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. (Unfortunately, this story has never been published.)

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 break-down 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 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 in 1986 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 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 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" (Daly/Cobb 1990; Pearce 1996; Birkhölzer 2006).

### **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 (from Cooley 1992 to Commenne 2006). 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 loose 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 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 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; Birkhölzer 2006) 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 this 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 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 from 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 occupied a disused four-storey grain store 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) volunteer 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; Birkhölzer/Kistler/Mutz 2004; Birkhölzer 2006): 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 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" (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.

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 next 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 volunteer 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 a family hotel, establishing a nature reserve as well as improving archeological sites, combined with organizing package tours to the island., reopening the local school and so on. 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.

## 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.

## 3. INNOVATIVE TOOLS AND INSTRUMENTS DEVELOPED BY LOCAL ECONOMIC INITIATIVES

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 explored and evaluated such examples during the last decades and put the results together in an "ideal" model consisting out of nine steps or sections (see annexe).

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),
- a second phase of further community development (steps 5 to 7),
- a third phase of establishing a working community economy (steps 8 to 9).

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 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. Community building

#### *Analysis or diagnosis 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 for instance has for the first time 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.

To find more about a very efficient tool are so-called "deficit and resource analyses" on community level (Senate Department 2004; Technologie-Netzwerk Berlin 2007). 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. This exercise, carried out for instance 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 these plans, because it was abolished by the Thatcher-government (Mackintosh/Wainwright 1987), but the community enterprise 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.

#### *Popular planning processes involving those affected at all levels*

One of these 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 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 to 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 forums, neighbourhood action packs etc.

### *Building decentralized promotional and support facilities*

Mobilizing people and involving them in community economic 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 volunteer 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 grain store in the village of Wulkow was such an example; it is replaced now by a low-energy community centre which because of its unusual shape is known as the "UFO". Community support and resource centres of this type to a great extent have been set up by community enterprises, to be independent from local and/or central government, but 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 cooperative development agencies or on special target groups like woman, ethnic minorities, disabled etc. (European Network 2001).

### *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 a 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 (Geddes/Benington 2001; Kjaer 2003; Kodré et al. 2005). 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.

## **3.2. Further community development**

### *Counselling, education and training for economic self-help*

Nowadays everybody is talking about the importance of education and training for economic development. But we are arguing here for something special called "empowerment". 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 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).

#### *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 volunteer 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).

#### *Social marketing or new relations between producers and consumers*

Serving unmet needs in disadvantaged communities and areas of economic crisis has 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. These are - together with low expectations of profitability - 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 type 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 for instance in the Kanagawa region produce and deliver more than thousand articles for their members (Yokota

1991). The story behind offers lessons to learn as well: It started with a food scandal around tuna fish which was poisoned in the sea by aluminium waste of a nearby big factory. It has been mainly women who wanted to protect their families and 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 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 and in the North of Scotland where the inhabitants of remote towns and villages founded community cooperatives or other community businesses, like in the already mentioned example from 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).

### **3.3. Community economy**

#### *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 new or third types of enterprises (Birkhölzer/Kistler/Mutz 2004; Birkhölzer/Klein/Priller/Zimmer 2005; Birkhölzer 2007) has been 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 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 becomes more and more popular as overall term for this new types of enterprises – have emerged all over Europe during the last decades (Pearce 2003; Castelli 2005; Nyssens 2006). 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 only just recently become an issue for academic and scientific research, not least by the EMES-Network with its programmatic title "The Emergence of Social Enterprise".

One of the interesting aspects in this research is to understand the special nature and performance of such social enterprises and how they can be run successfully. What we have learned so far is, that social enterprises have developed and need specific micro-economic strategies, especially in the fields of

- social management,
- using and reproducing social capital,
- social marketing,
- social auditing,
- 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 or services of public interest, like the Italian social cooperatives (Nyssens 2006) 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/ Rauch/Stitz 2002) makes it possible to be socially active and economically viable as well. Additionally, social enterprises can be 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.

#### *Social financing or alternative financial instruments*

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 enterprises in disadvantaged areas often do not have access to credits or other financial services of traditional banks. Therefore, he and others 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) which offers micro-credits predominantly to women 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 19<sup>th</sup> 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. 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 (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 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 passed 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, 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 with it.

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 cooperative and mutual assistance movement,
- charitable help "for others" in the tradition of the 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 a new social solidarity-based movement during the last thirty to forty years has developed a lot of new organisations combining elements out 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,
- with organisational structures based on cooperative 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.

## **5. THE IMPACT OF SOCIAL ENTERPRISES ON LOCAL ECONOMIC DEVELOPMENT**

The following is based on a national survey carried out between 2002 and 2004 (Birkhölzer/Kistler/Mutz 2004) and a regional survey in the City of Berlin in 2007 (Technologie-Netzwerk Berlin 2008).

### **5.1. Economic development in general**

Within the EU-initiative "Third System and Employment" the size of the third sector was estimated up to 8.88 million jobs (in full-time equivalents), as part of it in Germany up to 1.86 million (CIRIEC 2000). Although these estimations are rather cautious, 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 are not available in the national statistics. All quantitative measurements of the sector are therefore (at least in Germany) rather difficult and the data had to be collected from dispersed sources. Besides the data produced and published by the social economy organisations themselves there is, on national level, only one regular panel of the performance of all enterprises in Germany carried out by the Institute for Labour Market Research of the Federal Employment Agency (Institut für Arbeitsmarkt- und Berufsforschung der Bundesagentur für Arbeit), but there was so far no distinction between social and other enterprises. To identify relevant data for social enterprises by secondary analysis was therefore a rather difficult and time-consuming task, and introducing this category in the panel (as well as in other national statistics) is definitely necessary for further analysis.

On the other hand, average figures as well as a purely quantitative oriented analysis 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 1996 and 2003).

For example, one big deficit in measuring the economic impact is that the contribution of volunteer or unpaid work is not taken into account at all, although it plays a significant role in the social enterprise culture: The charitable welfare organisations in Germany estimate the number of citizens which are voluntarily committed or working as volunteers in their organisations up to 2.5 to 3 million, i.e. twice or three times the amount of their paid staff. In sports and cultural activities as well as generally spoken in all self-help initiatives the contribution of volunteer or unpaid work is even higher: The National Federation of Sports (Deutscher Sportbund) reports the number of 2.6 million volunteer workers estimating the monetary value of their unpaid working hours up to nearly 9 billion DM in 2000 (i. e. appr. 4.5 billion €). Furthermore, a general survey on volunteer work in Germany, asked for by the Federal Ministry for Families, Women and Youth, finally reported that up to 22 million or 24% of the German population are engaged in volunteer work in one way or the other. Most of this work is, of course, spent in the third sector in the wider sense, i.e. in economic activities as well as in non-economic ones. The contribution of all this volunteer work to the production of wealth as well as the national gross product is nevertheless not taken into account, although it seems that its significance will grow in the future. Indications for this hypothesis are at present the growing number of agencies for volunteer workers in Germany as well as a growing number of enterprises which are set up and run by volunteer workers only, like village co-operatives, co-operatives of senior citizens as well as local exchange and trading systems.

## **5.2. Labour market and employment**

The German Johns-Hopkins-study identified already in 1995 the number of 1,44 million jobs (in full-time equivalents) as well as the number of overall employed (full-time as well as part-time) up to 2.1 million or 4.9% of the total workforce in Germany. But, according to the methodology of this study, the considerable amount of explicitly economically active social enterprises has not been taken into consideration. With a different approach focussing on the economically active the German CIRIEC-study in 1997 ended up with 1.86 million jobs (in full-time equivalents) or 6.5% of the overall workforce (CIRIEC 2000). Our own analysis, based on the already mentioned IAB-enterprise panel could more or less verify these figures, arguing that there is a minimum of at least 1.9 million jobs in social enterprises. Furthermore, we could identify a growth rate in employment of up to 4% between 1999 and 2000, mainly in health and social services, culture, sports and leisure.

Besides its remarkable above-average growth rates in employment and its estimated hidden potential for even more employment the sector is in fact the main actor in active labour market policies, especially in intermediate labour market programmes. Although these programmes suffer from bad reputations and financial constraints it has to be pointed out that without this so-called "secondary labour market" the number of registered unemployed in Germany would increase about nearly half a million. Of course, this type of a job rotation market does not lead to sustainable employment, but this is the result of a misconception in these programmes which tries to keep unemployed in a kind of a parking space or reservoir for to re-integrate them in the existing, but limited or even shrinking labour market, instead of focusing on widening the existing labour market by the creation of new and additional job opportunities. So, all the money was invested in temporary employment, not long enough to turn it into a permanent job, and it

was invested in virtual employability instead of real employment in sustainable enterprises. This led to the paradox situation that social enterprises on the one hand were very much involved in these programmes but could not benefit from it. Together with financial and other restrictions using these programmes became even contra-productive, the more social enterprises got involved, the more uncertainties and dependencies increased, and a considerable number was in risk to close down recently.

Therefore, changing the existing framework of labour market and employment policies seems to be one of the preconditions to unlock the hidden employment potential within the social enterprise culture. The argument is nothing new: There is no lack of work, but only a lack of reasonable solutions to organise and finance it. Social Enterprises are already a part of the solution, but they could perform much better, if they could benefit from an appropriate and supportive environment.

Social enterprises in Germany could be identified as active in all fields of the economy but with a majority working in health and social services, culture, sports and leisure, while in the other fields there seems to be a potential for further development.

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 offer more job opportunities for women: 72% of the employees in social enterprises are women, compared with an average of 43% in all enterprises of the panel.
- 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.

Although social enterprises employ a high percentage out of the so-called "target groups of the labour market", the qualification standards of their workforce are relatively high, but their salaries sum up to only 90% of the average. The reasons for this are not fully understood, but social enterprises on one hand do have less jobs with high or very high salaries, and on the other hand employees supported by active labour market schemes have by law to be paid less than others.

### **5.3 Community development**

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,
- developing 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.

In this context the public debate in Germany (as well as in other European countries) is heavily dominated by the argument that the level of welfare services and social security can not be financed any longer and therefore has to be decreased, usually accompanied by the famous phrase: "There is no alternative!" The argument is not only used in the debate about social justice against trade-unions and other civil society movements, it was also raised against the concept of social enterprises, starting from the misconception that social enterprises are predominantly depending on public money. But, the motivation of founding a social enterprise is exactly the opposite: becoming more independent from public subsidies by starting economic activities in the market, redistribute the profits and refinance the costs of the overall social and/or community-oriented objectives. In Germany today, the percentage of public money within the budget of social enterprises is, of course, still relatively high, especially within the traditional charities and welfare organisations. On the other hand there is an increasing number of social enterprises, mainly initiated from the new social movements, which finance its activities to a great extent (some even predominantly) from private sources. But more or less all social enterprises use a specific financial mix of income from market activities, from public services and/or subsidies and last, but not least from private donations either of money or – increasingly – of working time.

From this point of view social enterprises contribute actively to the financing and keeping of quality standards of public services, especially in the field of social and/or community-oriented services. In the light of increasing financial restrictions and fiscal crises the social enterprise strategy offers a real alternative for the future of the public sector provided that the social economy sector is seen as a real partner and not as a marginal or subordinate dependent.

## **CONCLUSION**

Although we cannot build on an overall accepted definition of social enterprises so far, we might agree on 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. But this is only possible because they have developed "alternative" microeconomic strategies which allow them to be successful in areas of economic crisis with low purchasing power, lack of capital and otherwise restricted markets. Most of them have been already mentioned and illustrated, but there is much more to do: We would need more research in evaluating and systemizing practical experiences, especially in the fields of

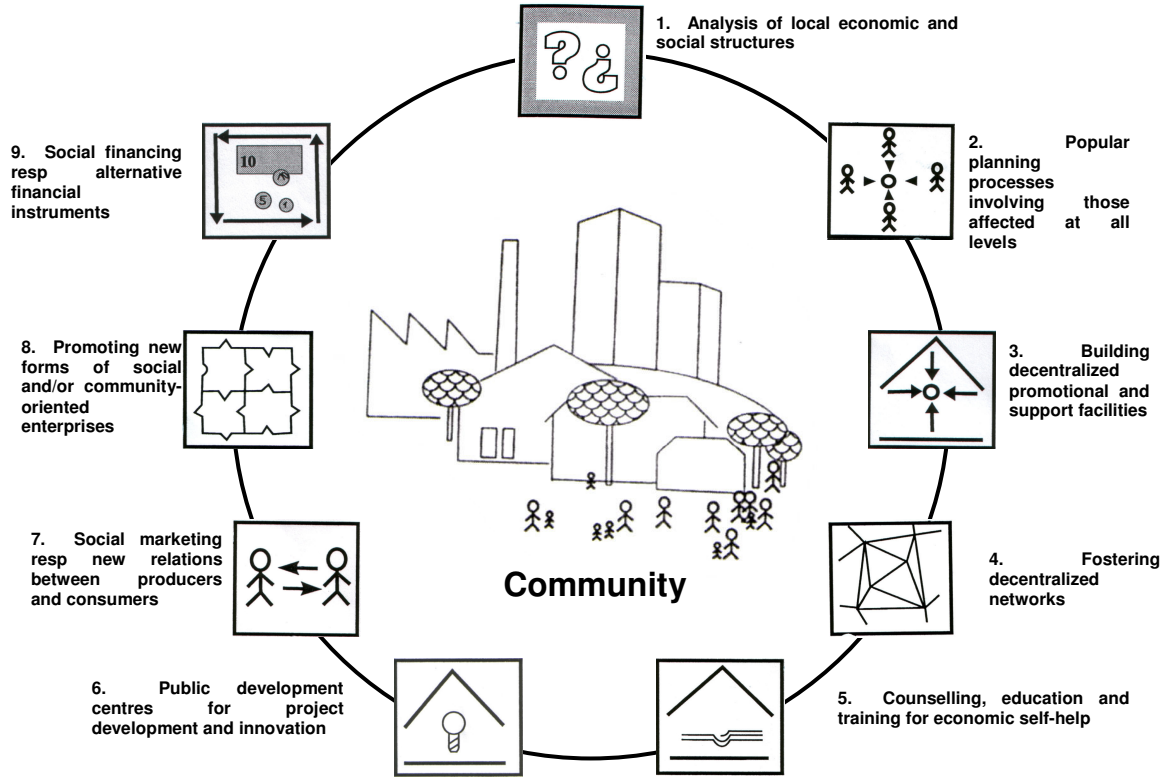
- participative management,
- producing and reproducing social capital,
- social marketing,

- social accounting and auditing,
- alternative financial strategies.

And we would need to transfer the results into a comprehensive set of teaching material and learning packages for to develop something like a "New School of Microeconomics for Social Enterprises". We are currently finalising a first set of "Learning packages for Social Enterprise Practitioners and Supporters" which will be presented at an international conference in September in Berlin.

# APPENDIX

## CONCEPT FOR A PROGRAMME OF LOCAL ECONOMIC DEVELOPMENT



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