

Chapter 3.

The Role of the Social Economy in Local Development

by
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By traditionally presenting itself as an alternative to the market and to public production, the social economy has always claimed to play a pioneering role in the allocation of resources. However, a more recent issue has been to understand the contribution of the social economy to local development. From an empirical perspective, various links appear between local development and the social economy. Due to their very nature, social economy organisations can flexibly adapt to local development needs. Not committed to maximising financial profit, social economy organisations can take into consideration the values and expectations of actors in the field of local development, and the long-term effects of decisions, as well as define actual development strategies. This chapter explores the three main processes through which social economy organisations contribute to local development, namely that: firstly, they are able to consider the external costs resulting from a split between the economic and social dimensions and act as a lever for integration; secondly, they offset information asymmetries and stimulate new productive behaviour; and, thirdly, that social economy organisations reduce moral hazards and create trust and social capital, which may in turn encourage the implementation of interdependent projects.

Introduction

Local development is a subject whose relevance is now clearly recognised by the majority of local, national and international actors. Many of its core themes such as partnerships, the bottom-up approach, community development and social capital are so widespread that they seem to cover all concepts and yet have no operational dimension. Moreover, they often occupy a marginal place in the national policy agenda leaving pride of place to macroeconomic policies, multinational transfers of industries and social collective agreements. Local development deserves more attention than this, as it now serves as a mirror for understanding the economic and social history of the last twenty-five years and grasping the issues at stake today.

In Europe and North America, the macroeconomic crisis of the 1970s has rapidly generated a territorial crisis. Many areas have suffered from a slowdown of national growth through the collapse of their basic economic sectors. Moreover, highly mobile capital has moved, and is moving, between jurisdictions. As soon as unemployment and exclusion appeared to be imminent, some local actors reacted immediately and took on the responsibility of securing the future of their territories by creating projects and compacts in order to define new stakes and new ways forward. The origin of local employment development can therefore be traced back to the inefficiencies of centrally organised policy approaches. Unable to solve the unemployment problem, these centralised policies reshaped solidarity into the abstract form of monetary transfers, and were managed by institutions that many citizens felt were remote and too intrusive.

However, this new movement of local initiatives was not really favoured for two main reasons. Firstly, to many observers, minor alterations will never offset the effects of macroeconomic policies at the national level, and this only serves to create discrimination in favour of the main economic policies and against these minor changes. The creation of a few thousand jobs appears pointless when loss of productivity and competitiveness destroys hundreds of thousands of jobs. Secondly, many of these local initiatives were intended to protect rather than to adapt. In many European countries, local development was outlined as a strategy to preserve the local milieu from international competition. The objective was to create a “parochial economy” where local needs would be satisfied through local activities, and where the required new assets were looked for in the past. This attitude was faulty and actually served to generate an under appreciation of the changes that were taking place.

In fact the expression “local development” was not used at that time. Many people used the phrases such as “local initiatives for employment

development”. This expression was meaningful for two reasons: firstly, it was more coherent with the type of local actions which were being implemented but not always co-ordinated; and, secondly, it expressed the immediate objective which was to create new jobs, either in the private sector or linked with social utilities. The OECD, and in another context, the European Union, adopted this expression instead of the more controversial one of “local development”. At that time those involved in this analysis were mainly looking at new experiences, identifying good practices and contributing to their dissemination.

Table 3.1. The evolution of local development

Focus	Tools
To early 1980s	
Mobile manufacturing investment attraction from outside local area Attraction of foreign direct investment Making hard infrastructure investment	Massive grants, tax breaks, subsidised loans for manufacturing investors Subsidised hard infrastructure investment Lowered production costs through techniques like recruitment of cheap labour <i>Public and centralised tools</i>
1980s to mid 1990s	
Community development Re-integration of long term unemployed Retention and growth of existing local businesses Continued emphasis on inward investment attraction but usually more targeted towards specific sectors	Training for unemployed individuals Use of the social economy to alleviate social costs Direct payment to individual businesses Business incubators / workspace Advance and training for SMEs Business start -up support <i>Public sector driven with increasing participation of local private and public actors</i>
2000 onwards	
New services and new jobs Soft infrastructure investments Human resource development Leveraging private sector investment for public goods Improving quality of life Improving the cultural image of the territories	Holistic strategy to link economic and social dimensions Partnership Use of the social economy to support quality of life improvements and to take charge of 'non-contractable qualities' Cross community networking and collaboration Support for clusters, industrial and cultural districts <i>Local governance, with horizontal and vertical co-ordination</i>

Common and connected characteristics increasingly appeared, adding value to the development process, these included: the ability of the partnership to create synergy between the objectives of the actors; the capacity of the bottom-up approach to mobilise new sources of information; and, the capacity of pacts and agreements to offset the absence of the market process of co-ordination. Progressively, it appeared that these initiatives for local employment were not only the result of voluntary or proactive actions but also the expression of new levers of growth. Local initiatives for employment were giving more effectiveness and efficiency to national policies, by delivering the relevant information that was impossible to find at the national level, thereby increasing their effectiveness – and by mobilising new local assets, which increased their efficiency. Such employment initiatives define new relevant projects for creating new jobs, and therefore reinforce the employment content of the macroeconomic growth. With the progressive recognition of these two pillars, we started to speak in terms of local development. This led to states and international organisations giving more and more importance to the role of this “local development perspective” (Greffé, 2003a).

Let us look at the OECD experience. Back at the beginning of the 1980s, the theme of local employment initiatives was introduced at the request of France, and later Italy and the United States. The reason for this was to consider the role of initiatives for solving the problems met by three types of territories: cities confronting an industrial crisis, rural areas without a future, and suburbs facing important exclusion problems. But the need to stimulate employment was the common denominator. At the same time, some countries were reluctant to engage with the debate since they feared that such a theme might be used as a weapon against the market economy and had the potential to stimulate contradictory views. However, the theme of employment was very rapidly linked to entrepreneurship. By the end of the 1980s, the expression “local development” came to the fore. The underlying idea was that these initiatives could re-enforce each other and develop a coherent view at the territorial level.

In 1982 the OECD Local Economic and Employment Development Programme (LEED) was created. Apart from the distillation of good practices, it also developed an important evaluative role of the various instruments contributing to local development. Other themes were then taken on board, such as the third sector, social innovation, etc., and different tools have since been added to the aforementioned, such as forums and capacity buildings programmes. Moreover, the LEED Programme developed its analysis both at the local and regional levels. The essence of regional development is not so different from that of local development. However, in regional development there will be different government actors

and, potentially, economic differences within the region. It is this multiplicity of actors and potentially competing demands which can create problems of co-ordination and redistribution. Hence, it should be understood that local development is a multidimensional strategy (OECD, 2003).

The social economy

By traditionally presenting itself as an alternative to the market and to public production, the social economy has always claimed to play a pioneering role as compared to these other two means of allocating resources. Contemporary forms of social economy emerged in the course of the 19th century. Their aims were threefold: ensuring the right to work; allowing workers access to consumer goods; and, implementing the principles of solidarity, notably between producers and consumers, in order to correct the functioning of an unseeing market. Nowadays, other roles and specific characters are attributed to social economy organisations, including a positive contribution to the problems encountered by the welfare state and a special role due to its ability to act over the long-term.

However, a more recent issue has been to understand the contribution of social economy to local development. From an empirical perspective, various links appear between local development and the social economy. It is generally agreed that local development needs:

- A synergy between the various actors in a given territory.
- A positive association of economic, social and environmental dimensions.
- An agreement on long-term development prospects.
- Social capital to consolidate the partnerships.

That is why terms such as local development, good governance, partnership and sustainable development are intertwined and mutually dependant (Grefe, 2003a).

Due to their very nature, social economy organisations are subject to three constraints:

- A “one-dimensional” constraint: since they are not committed to maximising financial profit, social economy organisations can take into consideration various dimensions, types of values and expectations related to actors in the field of local development.
- A “short term” constraint: since they are not committed to an immediate or annual financial constraint, they can take into

consideration the long term effects of decisions and define actual development strategies.

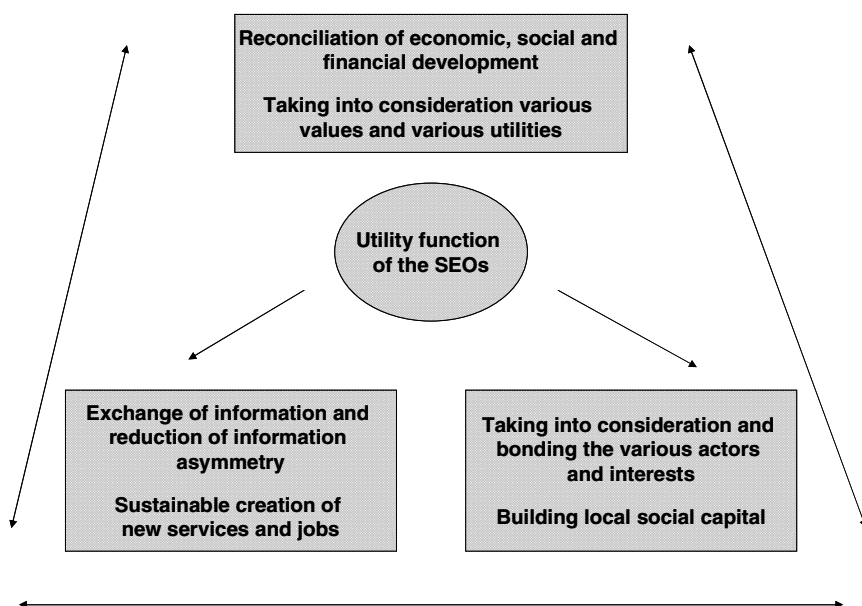
- A non-opportunism or confidence constraint: by their nature social economy organisations are normally not expected to create a moral hazard. Their partners can thus have confidence in the functioning of these institutions and trust them (Balazs, 2003; Glaeser and Shleifer, 2001; Greffe, 1998 and 2003b; Shleifer, 1998).

These characteristics, dependent on the specific utility function of social economy organisations, enable us to understand why these institutions are at the core of local development values and strategies. This is because such characteristics enable them to take into account simultaneously a range of issues, such as the expectations of various stakeholders; the environmental and economic dimensions; and they are also able to simultaneously look at both short and long term prospects in order to define sustainable development strategies. This is because social economy organisations are not bound to establish a strict hierarchy between objectives as private organisations do for profit motives, nor do they overlook some of these objectives due to short-term budget constraints as in the case of public bodies. The specific link between the social economy and local development has its origin in the very nature of the utility function of social economy organisations. By taking into consideration objectives that have a wider impact than mere profit, and which have a long-term rather than a short-term effect, social economy organisations can distil and disseminate values and processes that are intrinsic to local development.

This general perspective must be explained in more detail. Identifying the opportunities offered by social economy organisations is a starting point. We have to understand the channels through which they can produce their positive expected effects. There are three main processes through which social economy organisations can contribute to local development. They can:

- Consider the external costs resulting from a split between the economic and social dimensions and act as a lever for integration.
- Offset information asymmetries and stimulate new productive behaviour.
- Reduce moral hazards and create trust and social capital, which may in turn encourage the implementation of interdependent projects.

These three points, and their interconnections, can be seen in Figure 3.1.

Figure 3.1. Utility of social economy organisations

Internalising external effects

Bonding economic, social and financial dimensions

In a market economy, each actor tries to maximise their usefulness by making the most of their resources and limiting the impact of their constraints. The actors' interests may be contradictory and it is up to the invisible hand – actually the mechanism of pure and perfect competition – to transform the pursuit of these private interests into general interest whose outcome will be beneficial to all.

This idyllic view will not take on a definite form spontaneously. What is worse is that in some areas, the pursuit of private interests may only worsen a situation that is already difficult: some local actors will be content to protect their own income to the detriment of other actors and very few will realise the advantage of devising strategies that associate preferences and resources in a positive manner. In such a case, the minimum would be to take into account the effects of decisions taken by others around them, a problem which is known as the internalisation of external effects. This can be seen in the following two examples:

- If specialised labour is imported from outside at a high cost to develop a particular activity instead of training unemployed persons living in the area, the possibility of training local human resources at a reasonable cost is precluded.
- If an urban environment is destroyed to attract tourists while driving out the local population and its activities, this will give rise after some time to a process of speculation and gentrification that may harm the area's development prospects.

Thus, short-term economic benefits may go against social and environmental interests. The maximisation of certain economic benefits at the cost of social or environmental factors can be described as an external diseconomy because their cost is borne by actors other than those who were responsible for this decision without giving rise to any compensation in the market. It is therefore necessary to internalise, as far as possible, the likely consequences of projects and define strategies that will strengthen both. For this purpose, the differing aspirations, as well as the differing resources, of various actors should be taken into consideration promptly. The distinctive character of the social economy lies precisely in deviating from this perspective by building bridges between the various possible dimensions of the strategies employed. This can be seen in the conjunction between economic and social dimensions, and the conjunction between financial and economic dimensions, both of which are explored below.

The conjunction between economic and social dimensions

Developing an economic activity that creates jobs is not an extraordinary objective in and of itself. However, organising an economic activity to create jobs for people who confront difficulties in finding work is quite different, as it associates both social and managerial objectives. Complex project objectives demand complex financing schemes, such as support from the private sector for the economic activity and from the public sector (or sponsorship) for the social action. Many social economy organisations are engaged in this activity, enabling them to develop experience and provide a focus that is lacking in other organisations which are encouraged by the financial incentives to take on this role, even as they remain committed to their core business and the profitability criterion, driven by their shareholders (Borzaga, *et al.*, 2000).

An example of a social economy organisation linking the social and economic dimensions is *Vitamine W*. Based in Antwerp, *Vitamine W* manages a project which seeks to get people back into employment who face exclusion from the labour market and to ensure that individuals receive

the highest possible unemployment and compensatory allocations they are entitled to. One of the most delicate questions is that of the succession of status: certain persons fall under a particular protective measure (single mothers, etc.); others fall under the usual rules of unemployment benefit; and others still, under a policy that tries to reconcile access to part-time employment with maintaining a certain income level. *Vitamine W* has been able to successively assemble two services. The first is the dissemination of pertinent information to the target groups concerned. The second consists of interpreting, bending and adapting the relevant legal rules in such a way that social policies become effective based on their knowledge and understanding of the administrative complexities and how to adapt them to concrete situations. They have only been able to do so because they have been able to gain the confidence of the public authorities; the aim is not to cheat but to contribute to social justice.

Intermediary organisations, such as the *entreprises d'insertion* in France or *community-based co-operatives* in Italy, focus on socially underprivileged sectors: people with drug related problems, people on parole, people with psychiatric problems, families and single parents in situations of acute poverty and with scarce economic resources, marginalised ethnic minorities, immigrants, etc.. These organisations are granted a specific legal status that makes them eligible for tax and social benefits to offset their costs. These social economy organisations are not interested in entering fields that require high investment in terms of capital or sophisticated technologies. They are geared toward highly labour-intensive processes that generate little profit for the private sector. Accusations of unfair competition are therefore more difficult to level in such cases.

Social exclusion is essentially a loss of connection that people suffer from their social environment. This involves the loss of a sense of integration into the community. Not having a job plays an important role in this process. Another approach favours a vision of social cohesion as an integral, and integrating, policy by which society assumes an active commitment to admit, integrate and encourage each of its citizens. In relation to this concept of exclusion, the intermediary organisations of the social economy do not share the sole efficiency criteria of integration programmes based exclusively on the number of jobs obtained in private companies. Integration neither begins, nor ends in the obtainment of a job in a private company. Rather, integration into both society and the world of work is a process that begins with a recovery of lost connections. The location of suitable venues for self-training and work in social economy organisations, in which they are accepted and recognised as workers and citizens, can play an important role in the recovery of those connections.

Improving the employability of workers who are socially excluded and/or confronting structural unemployment, as well as the placement of these workers in private sector companies are undoubtedly very positive aspects to be valued and recognised. It is a conceptual mistake, however, to limit integration into the world of work to these factors and therefore, a mistake to measure progress in integration exclusively by parameters related to them. The common right that must be recognised for all citizens is not the access to a given type of contract or to work in a given type of company, but to provide them with a space in which they have access to employment that is useful for society, which provides them with economic sustenance and social benefits, in which their vocational education and training is encouraged and their personal development is promoted.

However, two issues can be highlighted. Firstly, it is sometimes argued that many of the jobs created by social economy organisations are sustainable because they are financed out of public funds. The same jobs could have been created as government jobs if the local authorities had chosen to open new public services or by for-profit enterprises if the local authorities had not given preference to social economy organisations in their contracting-out policies. This argument is not entirely supportable when social economy organisations provide collective services and services with a high relational content: that is, that they 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 the private sector is also reluctant to become involved.

Secondly, the jobs created by social economy organisations may be badly paid and/or of poor quality. It is therefore possible to argue that individuals motivated to work in organisations with social goals, or those that encourage participation, may accept wages lower than what they would expect from work in other enterprises. Consequently, lower wages may be associated with the same or even higher job satisfaction due to the trade-off between the monetary and non-monetary conditions of the job. If worker effort depends not just on pay but on many other considerations as well, a higher wage-level may crowd out intrinsic motivations without any improvement in the quantity and quality of the services provided.

Conjunction between financial and economic dimensions

Many local initiatives fail due to a lack of financial resources. New projects may come up but those who design such projects do not have access to financial resources at the onset, or at a later stage, when additional financial resources are required (Borzaga, *et al.*, 2000). Actually, it is evident that many traditional banks are abandoning entire sections of

potential clients as they prefer to finance large companies, make high profits in market activities or take ill-controlled risks in new activities like real estate. There are many reasons for such attitudes:

- Financing is requested by segments of the population that do not meet the “required” profile of an entrepreneur, such as women, migrants, etc.
- Applicants lack training or experience in managing traditional SMEs.
- Banks do not understand the logic of micro-projects where, in effect, there is a deliberate intent to sacrifice a portion of the profitability.
- Projects are in service niches that are very innovative and thus often incomprehensible to outsiders.
- Projects lack guarantees or are located in what banks consider to be risk areas.

Furthermore, the banking business is changing radically. Financing is not always profitable because newcomers (such as insurance companies) create ferocious competition for the costs of the services offered by the banks. Consequently, bank concentrations are multiplying in order to benefit from economies of scale and reduce their operating costs. As a result, it can be argued, banks are more interested in large scale rather than small scale operations, which ultimately harms their retail banking activities.

Three general characteristics can be identified in order to highlight the difference between a pure financial logic and a local development one.

- Firstly, the complex objectives of local development projects require financial involvement from both the private and public sectors. In structural terms, the economic activities of social economy organisations are not very profitable with reference to the traditional criteria of private companies; indeed, they often experience great difficulties in obtaining the financial services they need.
- Secondly, the low profitability of the project is often explained by the fact that the companies created are merely for the support of social projects. For example, integration companies are, in the economic dimension, SMEs, but they employ people who are usually excluded from returning directly to mainstream employment as a result of personal factors, low skills, etc.. This in turn contributes to the explanation of their low economic profitability and the subsequent need for subsidies for jobs to offset extra costs.

- Finally, the complexity of the projects entails lengthy negotiations; the lack of profitability requires investing significant amounts of time to find resources; the lack of funds limits the capacity to take risks; and, partnerships require constant maintenance if they are to be sustained. This would explain why projects often develop slowly.

There exist two types of financial responses to these issues. The first response is to change the environment of the traditional financing actors in order to make them more sensitive to the needs of local development actors. The second response is to create genuine instruments, such as micro-funding. There is thus a temptation to create new tools. But this may take a very long time and it is not certain that mainstream banks will agree and mobilise such tools. Therefore, it would appear more appropriate to make them take into consideration new actors, entrepreneurs or fields of activity screened by social economy organisations. This partnership is interesting because a much bigger amount of funding can be mobilised for new areas of activities. It is important to establish the fact that the financiers of the third system are ready for the task of assuming responsibilities that the banks are abandoning. They can provide innovative expertise in this field, which consists of managing, as in other areas, the complexity of relations between providers of capital and providers of subsidies.

The intervention of social economy organisations to change the environment of the traditional financing actors

The French National Association for Entitlement to Credit (ANDC) has introduced a financial tool that could provide credit to micro-entrepreneurs. The projects go through an initial filter of the local member associations of ANDC, who can verify the seriousness of the projects as well as of the people from their local networks. The ANDC team then examines applications for loans; and loans are allocated and made available by the bank. The agreement between the ANDC and the bank is such that the bank abandons a portion of its decision-making power (as part of a global package). The conventional security mechanisms do not come into play because, at the request of the ANDC, the bank is prohibited from taking collateral. Conversely, the bank is not prohibited from going after any borrower who is in default on repayment of the loan, but undertakes to notify the Association before taking such action. The Association must deposit the return on the income from savings disseminated among the groups affiliated with the association to the bank. This deposit must, by definition, constitute five percent of the committed funds, and serves to reimburse losses.

Social economy micro-credit

Among the financial tools available to the social economy, that of extra-bank micro-credit is undoubtedly the most significant achievement today. More specifically, this refers to associations, co-operatives, mutual insurance organisations and other non-profit associations linked to churches or unions, depending on the country, who have decided to act as banks in the place of traditional banks to help finance micro-initiatives. Micro-credit does not signify credit in a small amount. Members of the European Commission have informally observed that most banks are no longer interested in professional loans of less than EUR 100 000. Thus, micro-credit would be for less than this amount.

Micro-credit covers at least three realities to which different types of social economy system initiatives correspond. Firstly, micro-credit is a way to offset an insufficient supply of funds due to lack of expertise. Most banks do not want to devote the time and effort needed to acquire the means and resources necessary to be able to make an offer on the market. Secondly, micro-credit is a way of fighting such social and vocational exclusion. Personal loans to long-term unemployed people who want to go into business for themselves are not included in regular banking practices. Therefore, this practice requires specific tools and resources. For example, experts estimate that the essential quality of interventions by the French *Association pour le Développement de l'Initiative Economique* (ADIE) (Association for the Development of Economic Initiatives) is to restore the autonomy of individuals who confront social exclusion. The main challenge is to take charge of projects submitted by people who have no experience, and to organise appropriate advice and support. Loans are meant to help to restore their ability to gain control over their projects. In addition, ADIE has gradually shown that the development of self-employment, promoted by this type of micro-credit, is a non-negligible factor of economic development. Finally, micro-credit can act as a club. This is a variant that purportedly resembles what co-operative banks or savings and loans associations did initially, a task that is now performed by ‘Tontines’, and clubs like ‘Cigales’ in France or credit unions in Ireland and in Austria.¹ What makes these tools efficient is the trust among members and a volunteer spirit, which means that transaction charges are virtually absent.

Such tools are not always profitable. They cannot secure their development on the basis of their internal yield; they do not compensate the capital placed at their disposal. In order to demonstrate their socio-economic efficiency and their global performance, it is necessary to reveal the relatively low cost of the net jobs created within this framework (including jobs for those who are excluded) and the macroeconomic consequences of these operations aimed at social “re-integration”. It appears then that the

amount required to create a job is approximately EUR 10 000 as compared to the cost of an unemployed person (approximately EUR 15 000) or the cost of subsidising a job created with foreign investment (from EUR 30 000 to 60 000) (*Assemblée Nationale*, 2003).

Eliminating asymmetrical information

The ex-ante co-ordination of employment decisions

The information asymmetries between provider and consumer can often make transactions seem opaque in many areas of activity, but mainly in those fields characterised by relational services. Consumers find it difficult to assess quality. Producers, if they are profit oriented, can choose to deceive consumers and thereby maximise earnings at the expense of quality. In so far as the market does not transmit correct information, it must be superseded or placed within a framework to provide the information necessary to satisfy needs adequately. This interpretation of the social economy is relevant: as far as relational services are concerned, information about the quality of these services is difficult to obtain, which may result in effectively discouraging consumption. When the need is potential, no funding system exists from which to start both the production and delivery of such services. Thus effective demand is prevented from developing (Smith and Lipsky, 1993; Weisbrod, 1998).

However, social economy organisations are able to compensate for the lack of information and build links between provider and consumer, because of their social purpose and because they are restricted in their profit distribution. Moreover, in most cases the customers, or their representatives, may be part of the social economy organisation or its management, which encourages them to be sensitive and responsive to their customers' needs. In fact, many of the goods and services can be classified as merit goods that would be under-provided or completely neglected by the private sector under market conditions. In relation to the public sector, they are often closer to actual and potential customers by virtue of their organisational status and role, and can rely on additional volunteer effort, as well as, in many cases, a greater effort and/or commitment from staff. The issue of job creation in new services areas demonstrates the relevance of the social economy for local development.

From a very general viewpoint, the relevance of the social economy for the creation of jobs is well recognised in the area of local development. The principal ways in which social economy initiatives contribute are usually identified as follows:

- Direct job creation within social economy organisations.
- Indirect job creation thanks to social economy initiatives.
- Job creation due to the spill-over from social economy initiatives in all possible sectors of the economy.
- The implementation of programmes for job placement and skill enhancement, which generally take on of two forms:
 - Temporary hiring of people from disadvantaged groups, often using public financing, contingent upon the obligation of entering the job market after a set amount of time.
 - Organisation of training programmes for interns who in most cases must find a job at the conclusion of the programme or, much more infrequently, return to their previous activity with a higher skill level. This classification is not that useful, since other types of institutions, either private for-profit or public, may share such roles.

In order to demonstrate the contribution of social economy organisations, it is then possible to identify their comparative advantages relative to other organisations. These include their ability to: utilise free (economic and, more importantly, human) resources not available to public and for-profit organisations; reduce production costs by means of organisational innovations, different industrial relations, flexibility in the use of resources and a better ability to meet ‘niche’ demand; and, aggregate paying private demand by creating trust, thus overcoming information asymmetry problems between organisations and consumers.

These aforementioned characteristics emphasise the specificity of social economy organisations. However, it is not simply their comparative advantages which make social economy organisations so important for local development. It is the wide range of aspirations which they embody which further embeds this. As mentioned previously, social economy organisations are not subject to pressure to make short-term profits. They are also able to identify where the response of the market economy or public welfare to existing needs is inadequate. By doing so, social economy organisations can then seek to design responses which will address those needs adequately and appropriately, and put in place funding networks that will ensure those needs are met.

New jobs in environmental activities

Among the 19 sources of employment identified by the European Commission in its 1995 study *Local Development and Employment Initiatives*, eight have a clear environmental component: tourism, public transport, pollution control, water management, waste management, urban renewal, energy efficiency and conservation and the conservation of natural areas. This is a profound economic trend that helps elucidate the growing association that European citizens make between a healthy environment and the quality of life. This is also the context in which important, non-satisfied social demands in European metropolises can be identified. Preliminary estimates place the number of jobs in the environmental industries connected to waste and water management, the reclamation of derelict environmental areas, emission and noise control to one and a half million people, equivalent to one percent of all jobs in the European employment (Borzaga, *et al.*, 2000).

Social economy organisations are present in a range of different sectors, including the environmental one. By analysing the demand for environmental goods and services, the environmental economy has paid particular attention to the specific relation between economic growth and the quality of the environment. This relationship has been analysed empirically by means of econometric studies, most of which have corroborated what is known in the literature as the Environmental Kuznet Curve Hypothesis (Panayotou, 1993; Shafik, 1994; Selden and Song, 1994). According to this hypothesis, the relation between economic development and environmental quality generally follows a reverse-U curve, which indicates that in the initial stages of economic development measured in GDP per capita, a deterioration of the environmental quality occurs, measured through such indicators as emission levels, pollution, deforestation, etc.. Once a certain threshold of economic development has been exceeded, the direction of the curve is reversed. The demand for environmental quality on the part of the citizens begins to grow progressively with the increases in income levels, as environmental goods and services are incorporated into the economic category of luxury goods, demand for which grows more than proportionately with the increase of income levels.

Today, social economy organisations intervene in the following environmental activities:

The creation and maintenance of green and natural areas

Green areas in urban settings, in addition to their recreation and relaxation role, have a number of benefits including: contributing to

improving the urban micro-climate; contributing to the recycling of organic matter; conduciveness for physical exercise; providing a setting for nature conservation, environmental education and research; and, increasing the aesthetic experience of the urban landscape. To meet such social demands, social economy organisations have been particularly active, especially those working with underprivileged segments of society. Studies into social integration co-operatives in Italy (Defourny, et al., 1997), which provide employment for more than 11 000 people, have identified the maintenance of public green spaces as the most widespread service provided by such organisations.

Rehabilitation of housing and facilities in the suburbs

Housing in neighbourhoods traditionally inhabited by socially underprivileged groups are characterised by their low quality: poor building design and overcrowding, scarce green areas, poor quality of construction materials, etc. are all features of this. Social economy organisations have been active in trying to meet the social demands of the urban renewal and renovation sector.

Excessive energy consumption and the resulting pollutant emissions are substantial

Social economy organisations are active in the field of minimising the end consumption of energy in homes. This minimisation is carried out through policies geared to information, the general installation of efficient heat insulation systems and large scale installation of energy conservation devices.

Then there is the issue of urban solid waste

The European Community produces an estimated 200 million tons of municipal waste per year and since 1985 the annual growth rate has been about three percent. Social economy organisations have contributed to meeting this challenge. For example, a project entitled “Implementation, Development and Structure of a European Partnership”, launched by *Terre a.s.b.l.*, is geared precisely to extending and consolidating its experience in valorising waste, and accompanies this by working with underprivileged groups. They collected 6 000 tons of textiles and 20 000 tons of paper in the French-speaking part of Belgium in 1998 – creating 275 jobs in the process, 75% of which were for people from underprivileged parts of society. All these activities and installations are generally labour intensive. Jobs in this industry combine manual, mostly unskilled labour, which can be used to

generate processes for integration into society and the world of work, with highly qualified jobs for managerial, planning, supervision and monitoring tasks.

This response of the social economy to environmental demands combines three complementary vectors: the environmental, the local and the social dimensions. Social economy organisations can play an important role in environmental awareness and education campaigns among citizens. They are very well situated to assume an active role, at the local level, in energy efficiency and conservation campaigns, rational water consumption campaigns, waste recycling and re-use campaigns, initiatives for the voluntary cleaning of natural settings, support campaigns in favour of organic agriculture, campaigns for composting in the home, as well as more general environmental education work. *Terre a.s.b.l.*, mentioned above, not only plays an important role in encouraging social inclusion, but also provides the opportunity for young people to visit its installations every year, where they receive important information on the importance of appropriate waste management

At the local level, social economy organisations can make an important contribution to the environment and local development, accompanied by a social dimension. Active participation in local development assumes different forms such as the creation of new, community-based companies. Providing support to local private companies which are already established comes in the form of assistance to carry out new environmental activities by availing them of feasibility studies, knowledge of the sector, contacts with companies working in the area, etc.; of free advice on how to improve their own internal environmental action: eco-audits, environmental management programmes, etc. Such assistance enables those environmental organisations that operate within the social economy to continue their fight against social exclusion, such as *Terre a.s.b.l.* For these organisations, work in environmental sectors is therefore conceived as the appropriate tool for promoting active dynamics to fight against social exclusion.

Why are social economy organisations so relevant to addressing environmental needs?

- They have a high level of self-financing in comparison to other sectors. This self-financing is essentially achieved by offering products and services on the market.
- They receive very substantial local social support as non-profit associations with an important social dimension. This support enables them to attract a segment of the community to work as volunteers.

- They are active in interweaving networks of relations with local institutions that see them as flexible and dynamic instruments for local development.
- They are flexible and enterprising structures with a great readiness to enter new areas of work in re-use, recycling, environmental education, cleaning and maintenance of natural areas, cleaning and recovery of contaminated industrial estates, etc.
- They are predisposed to creating networks of co-operation with other organisations of the community-based economy, which consolidate social capital.

New jobs in neighbourhood and social services

Since the end of the 1980s, the gap between needs and the supply of neighbourhood and social services and between the demand (needs translated into demand) for services and their supply has widened. This is due to the ageing population, increased female participation in the labour-market and a shift in demand towards more skilled labour. The supply of these services, mainly publicly financed, has been hampered by the growing difficulties of public finance (Borzaga, *et al.*, 2000; 1998).

Social economy organisations have played an important role in providing social and neighbourhood services. The non-profit distribution constraint has contributed to the dissemination of relevant information about new needs, the creation of a relationship of trust with consumers and workers, the absence of opportunistic behaviour in the delivery of the services, the flexible use of factors and the low cost of the resources. As Borzaga *et al.* (2000) point out there are also structural features which make social economy organisations relevant for addressing social and neighbourhood service needs. These features include: a participatory structure that ensures both trust relations and stakeholder commitment to the organisation's mission; a multi-stakeholder nature, which guarantees either direct participation in management by several groups of stakeholders or other organisational devices designed to take account of stakeholders' interests; the presence of voluntary workers who, in addition to providing free labour resources, also exercise control in matching the activity carried out with the organisation's mission; and, a close link with the local community which enables social economy organisations to identify and highlight local demand.

Such characteristics enable social economy organisations to:

- Produce neighbourhood and social services, even at zero profit.

- Foster the transformation of needs by increasing the number of consumers, thereby generating a net increase in transactions.
- Recover a part of the demand that draws on underground supply by differentiating supply and reducing costs.
- Transform a part of the self-production of services by families into a formal supply in order to face new issues such as an ageing population or increasing female labour market activity.

However, the innovative role of social economy organisations has been disputed by some, due to the competition of the private enterprise, the internal inefficiencies of social economy organisations and, also, the low quality of the jobs created. Indeed, some private companies deny the innovative role of social economy organisations by arguing that their role in generating new jobs has a compensatory effect either because they prevent the creation of new jobs in for-profit, private companies or that they actually destroy these very jobs. This argument can be exaggerated, particularly, for example, when we consider the field of culture and crafts. The handicraft sector and SMEs, which are being economically displaced as a result of the economic globalisation processes, are projecting their malaise to social economy organisations, by lumping them with direct public aid. Discussions and reflection must take place to bring social economy organisations, and SMEs and handicraft organisations, closer together so as to continue to generate a strategic confluence between the two sectors geared to the dynamics of local development.

Nor are such concerns the only ones regarding the role of social economy organisations. Another series of arguments is related to the internal workings of social economy organisations. Notably, their inadequate economic capitalisation can impose serious limitations. For example, it hinders access to traditional sources of financing in the market; it can restrict them from attracting and consolidating jobs for qualified professionals; it can prevent them from undertaking major entrepreneurial initiatives; and it can contribute to a greater dependence on access to public resources. Furthermore, by focusing their work on underprivileged groups, social economy organisations can inadvertently project an image of low quality management. The economic difficulty in attracting qualified professionals and consolidating employment in environmental areas contributes to the perpetuation of such deficiencies. At the same time, employees in social economy organisations may view volunteers as a source of constant downward pressure on their wages.

Social economy organisations may also confront the fact that the services they offer may be undervalued. The quality of their services grows

out of the conjunction of three elements: a relevant analysis of needs, the satisfactory professionalisation of jobs, and proper mediation of relationships between users, workers and partners of social economy organisations. The first element, the relevant analysis of needs, must be based on the clearest possible understanding of existing needs and of the agents or institutions likely to fund some of them. The main risk here would be that these needs are defined solely by professionals who want to create or maintain activities that provide a means of livelihood or by elected officials looking for publicity or seeking short-term economic benefits. Also, in the initial stages, social economy organisations are often faced with a dilemma: it may be difficult to find people with the necessary qualifications either because they are too expensive to hire or they are not sufficiently motivated to adjust to this specific context. Therefore, motivation and the level of qualification must be assured from the very beginning, even if significant intangible investments are needed. Finally, the third element in the quality of services provided has been described as “qualifying mediation”. The goal is to ensure the continuance of the partnership that exists between workers’ activities, users’ needs and the various institutions involved at the time an initiative is launched.

Preventing moral hazard: social capital as an endogenous resource

In an economy that is constantly changing, the so-called intangible factors, such as knowledge and trust play a crucial role, together with the more traditional factors such as land, financial capital and labour. Trust now plays an increasingly important role and many international organisations value this quality as social capital. In our present-day economy, calamities come fast and without warning and some actors are likely to worry that others may not fulfil their commitments or even that opportunistic behaviour may replace these commitments, a problem described as a moral hazard. In areas going through such crises, trust is crucial because there will be no development if the projects clash with one another or, even worse, try to take advantage of the situation at the cost of others.

To avoid this moral hazard, it is advisable to look positively at interdependent relationships, which means promoting consistent local development together with mutual trust among actors. According to some analysts, this is exactly what community development means: Rosalyn Moss Kantor has described the role of the community in local development as the production of social glue holding it all together. Community building as a response to the challenge of urban regeneration deals with this kind of resource (Grefe, 1998).

Local social capacity building – that is building trust – has become an important component of local employment initiatives. Sometimes this aspect is considered less explicitly: government reports on neighbourhood renewal may seek to develop new approaches founded on the concept of local neighbourhoods being able to develop their own solutions to some of the problems facing them. But this trust is not only necessary to develop specific social solutions: it has an effect on economic projects such as the compacts linking financial investment and training.

Social economy organisations are a key factor in the distillation and dissemination of such trust:

- They take into consideration various utilities and expectations.
- They are well placed to reach the disadvantaged groups and neighbourhoods being targeted.
- They understand new market needs – not just in the sense of developing neighbourhood services or cultural activities, but also in terms of the importance of raising the local population’s aspirations.
- They are living examples of how people’s lives can change as they gain confidence to take advantage of the opportunities around them. People are more likely to believe that they can move towards higher skilled employment if they can identify with people who have already done so.
- They create a forum for employment solutions growing out of the interests and activities of the targeted groups.

There are many mechanisms through which social economy organisations may create and disseminate trust. In some cases, social economy organisations may use information and communication technology (ICT) to support local social capital building. This approach is being explored by the Finnish MOPO (More Professionalism for Social Co-operatives) project. Here, multicultural co-operatives are being used to meet some of the unmet needs of Russian immigrants living in Finland. Finnish professionals with co-operative or private business backgrounds have been recruited to work with the existing social networks of Russian immigrants to help them develop pathways into the labour market. Internet usage is high in Finland, and the immigrants’ co-operatives use the internet to the extent that their financial resources allow them to. MOPO has used the co-operative framework to structure its ICT and business training for this immigrant community. Russians who have already set up their own co-operatives receive training on data processing, internet usage, and webpage design and authorship.²

In other situations, social economy organisations may use cultural activities in order to support local social capital building. Cultural activities may create references and ties that not only strengthen the cohesiveness of the social fabric, but also enable those involved to integrate themselves into this fabric more fully. Through the production of cultural services the Marcel Hicter Foundation in Brussels intends to create a forum for socialisation in territories that have experienced the three-fold handicap of long-term unemployment, environmental damage and haphazard migratory movements. Reconstituting areas for social exchange, which had suffered from the disappearance of all kinds of micro-instruments such as shopkeepers, public markets and local cinemas, creates a favourable environment in which new projects can be developed and undertaken. Culture can satisfy a number of individual or collective aspirations at the local level if it can take the form of cafes where music is played, cyber cafés, local theatres, street performing arts, libraries, etc.

In rural areas, the approach to culture must be viewed as the foundation for activities and the creation of new values in the economic as well as the social field, rather than a source of leisure or entertainment for those segments of the population deprived of them. La Rioja is an autonomous Spanish community of about 250 000 people, characterised by old rural traditions and the contemporary economic importance of its agricultural activities, in particular wine growing, market gardening and fruit production. This autonomous community decided to tie its economic development to cultural development, aimed at asserting the originality of its traditions and its craft industries, while putting these cultural resources to work towards economic development. With the co-ordination of a social economy organisation, the Rioja Foundation, five municipalities undertook actions specifically to do this. They have been supported by transversal actions from social economy organisations, of which the basic principle is the mobilisation and modernisation of craft industry resources as a basis for development, but also as an asset for enterprise development in terms of references, skills, qualifications, new products, and the exchange of information, etc.. Local government actions focus mainly on rehabilitating craft industries, providing training in new craft skills and encouraging the creation of small craft co-operatives.

Social economy organisations must ensure that the partnership that exists at the start of a project between workers' activities, users' needs and the various institutions involved is continued or even reorganised. It is in the nature of social economy institutions to take on a multitude of objectives without absorbing them into a single indicator, such as profit, which then changes the rules of the game. This underlines the role of their "entrepreneurial culture" and their "internal democracy". Many new social

economy organisations do not have a “social economy culture”, nor a clear idea of their role: they often do not know if they are providing innovative services or creating new jobs, or improving the employability of low-skilled workers, or even creating new social bonds. Moreover, they often have no idea about their possible evolution, and are therefore managed with a short-term perspective. Furthermore, managers are often unaware of the organisational characteristics that generate their specific advantages, and of the costs that arise from combining and fulfilling multi-stakeholder interests. In addition, there is no well-developed system of second-level social economy organisations that could play an important role in giving organisational, technical and financial support to the first-level social economy organisations.

The balance among the various partners must be continually pursued and must not be tipped in favour of any one of the parties involved: being in favour of professionals leads to the bureaucratisation of institutions; leaning in favour of users leads to the introduction of a market logic and the elimination of certain social values; while being in favour of institutions threatens to benefit political interests in particular. Some issues may be screened here: rigid and obsolete boards of directors; segmentation between old and new members, or at the local level between traditional and new social economy organisations; and, conflicts between workers and volunteers – these last ones being a permanent lever to raise the very issues of the culture of social economy organisations. In fact, we must not exclude a life cycle of social economy organisations. After growing, they may enter into a process of bureaucratisation that makes them less and less sensitive to their expected role and less and less efficient in their response to the local development needs.

Conclusion: scaling up the social economy for local development

The social economy offers an approach to local development, which provides potential for a new vision and additional elements compared to traditional approaches. It does this by widening the structure of a local economy and labour market by addressing unmet needs and producing new/different goods and services, and by widening the focus of the local development process by taking into consideration the variety of its dimension and in building the required trust. In summary, the social economy introduces, into the functioning of the sectors in question, added value linked to:

- Its neutrality in relation to the interests in place and therefore its capacity to introduce elements of sustainable transformation.

- Its capacity to pursue several objectives simultaneously and thus to assume an essential multidimensional development strategy.
- Its ability to correct biases in certain sectors.

It should be acknowledged that the drive to engage local partnerships, associations and social enterprises in tackling unemployment (while at the same time being drawn also into filling gaps in local service provision) has spawned a new generation of low capacity, dependent organisations where support structures are as yet only slowly coming into place. All need support to grow and become sustainable, and there are a number of means through which support can be developed:

- The improvement of networks, information exchange and sharing of best practice.
- The franchising and exchange of models to diffuse approaches.
- The ‘Strawberry fields’ model, whereby growth is encouraged by linking local ventures, whilst ensuring that local characteristics are retained.
- The ‘Umbrella’ approach with intermediary support structures created specifically to be the carrier agencies for growth and for support the growth process at the local level.
- ‘Trailblazing’ to infect the mainstream with innovative approaches (Lloyd, *et al.*, 1999).

In order to implement innovations and/or to design effective policies, a clear understanding of the main barriers to development is important. There are numerous barriers, including: the idea that for-profit organisations and/or an active state can efficiently satisfy overall demand for neighbourhood and social services; the slowing down of the public social budget traditionally mobilised for the development of the social economy organisations; the incoherence between most contracting-out rules and the characteristics of social economy organisations³; the lack of a legal definition/framework for social economy organisations; the unfair competition by the informal economy; the lack of managerial and professional skills, and the lack of systems of quality control on the services.

These barriers may lie outside or within social economy organisations themselves. While the former can be overcome only through joint action by different subjects (institutions, politicians, local authorities, competitors, stakeholders, etc.), the most important pre-requisite for eliminating internal barriers (at the unit or at the sector level) is the full understanding of their contribution to local development by social economy organisations themselves.

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Notes

1. “Tontine” is an African system where people informally have a small fund of money that can be used alternatively by those of these people who need it. “Cigale” is a more French system inspired by tontines but more formally structured.
2. The Multimedia Employment Project for Young Finnish Unemployed has helped the MOPO project provide this training. In addition the MOPO project has provided a six months’ basic training course on developing business skills and setting up co-operatives.
3. When competition is introduced for the delivery of new services, it tends to favour the larger organisations, which compete mainly through low prices and discriminate against social economy organisations which produce positive externalities in terms of social capital.

Notes on Contributors

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Carlo Borzaga is the Dean of the Faculty of Economics at the University of Trento, where he is also a Professor of Economics. Since 1997, he has served as President of the *Istituto Studi Sviluppo Aziende Non-Profit* (ISSAN), a research and training institute of the University of Trento that focuses on non-profit research and, since 2002, he has been the Vice-President of the EMES (The Emergence of Social Enterprise in Europe) Network. He is currently the scientific co-ordinator of the OECD LEED Centre for Local Development on social economy research. Professor Borzaga has worked with the European Commission (DGV), as a member of the Capitalisation Committee and also as an advisor to the Italian government in the development of a number of bills focusing on the non-profit sector. Professor Borzaga has authored and co-edited numerous works on the theory of non-profit enterprises and social enterprises.

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Nilda Bullain is Executive Director of the European Center for Not-for-Profit Law (ECNL). ECNL previously operated as the Budapest branch office of the International Center for Not-for-Profit Law (ICNL), an international organisation headquartered in Washington, DC, where Ms. Bullain has been serving as Senior Legal Advisor. She has been working in CSO legal reform in several Central European countries joining the EU. Ms. Bullain has expertise in legal and fiscal areas concerning CSO and civil society development, especially the CSO-government cooperation framework, CSO taxation, philanthropy, public benefit status, volunteering, and delivery of social services.

Prior to joining ICNL, Ms. Bullain was Executive Director of the Civil Society Development Foundation Hungary (CSDF), a leading resource and support centre for CSOs in Hungary and Central and Eastern Europe. Before her involvement with CSDF, Ms. Bullain worked as a parliamentary aide in

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Emma Clarence is a policy analyst with the OECD LEED Programme based at the Trento Centre in Italy, where she started working in 2007, focused on social inclusion and the social economy. Prior to joining the OECD, Dr Clarence had worked as a research associate in various universities in the United Kingdom and had been a lecturer in politics at the University of Aberdeen (Scotland), as well as doing part-time consultancy work. She has published widely in the field of public policy.

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Vanna Gonzales obtained her Ph.D. in political science from the University of California Berkeley (2006). She is currently an Assistant Professor at the School of Justice and Social Inquiry at Arizona State University (USA). Her teaching and research interests include the welfare state, community and non-profit organisations, and social and economic justice. Currently, she is working on projects related to social exclusion and the impact of governance on social capital formation. Her latest work is “Globalization, Welfare Reform and the Social Economy: Developing an Alternative Approach to Analyzing Social Welfare Systems in the Post-Industrial Era,” *Journal of Sociology and Social Welfare*, Vol. 34, No. 2, 2007.

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Xavier Greffe is Professor of Economics at the University Paris I - Sorbonne where he manages the doctoral program in Economics, having taught in Algiers, Los Angeles (UCLA), Poitiers and Orléans where he was Rector. For twelve years he worked with the French administration, where he was Director of New Technologies in the Department of National Education, and Director of Training and Apprenticeship in the Department of Labour and Employment. He is a consultant for the European Union Commission, where he managed the Local Employment Development Action Program (LEDA) between 1995 and 1999, and the OECD, where he is currently serving on the Trento Scientific Committee on Local

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Prior joining ECNL she co-founded and managed the Human Rights Students' Organisation at the Central European University in Budapest, when she initiated courses to supplement the curriculum of the Human Rights Program of the University and developed human rights awareness raising and capacity building projects. Also, she volunteered for the Civil Society Resource Center in Macedonia, during which time she worked on projects aiming to raise awareness about the rights of pre-trial detainees and refugees, and has conducted comparative legal analysis in these fields.

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Peter Lloyd

Professor Peter Lloyd is an Emeritus Professor and former Dean of Social Sciences at the University of Liverpool. He is a recognised European authority on regional and local economic development. He left the academic world in 2001 to pursue a career in private consultancy after 40 years as an academic Geographer. He is currently a part-time Technical Director at Ecotec Research and Consulting Ltd and works part-time in an independent capacity.

During the last decade Peter's most important role has been as an "expert" advisor to the European Commission. He has contributed to European Commission research programmes on Local Development and Employment Initiatives, New Sources of Employment, Jobs for the Long Term Unemployed, Community Economic Development, Territorial Employment Pacts and the Third System and Employment. In association with ECOTEC Research and Consulting, he has just completed two major projects for DG Employment and Social Affairs. IDELE reviewed policy and best practice in local employment development across the EU25 and FALDE carried out a "stocktake" of the available capacity for local employment development in the EU12 new accession states.

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Antonella Noya is a policy analyst with the OECD LEED Programme, where she has been working since 1997. She is responsible for LEED activities on social inclusion at the local level and Manager of the OECD/LEED Forum on Social Innovations. Prior to joining the OECD, Ms Noya was for several years a lecturer in Industrial Relations and Labour and Trade Union Law at the LUISS University in Rome, where she also worked as a manager in the Legislative Directorate of INTERSIND (the former employers' association for state-owned business). Parallel to this she did part-time work for leading Italian research centres.

At the OECD, Ms Noya has developed new areas of work, including: the role of the non-profit sector in local development, the role of culture in local development, asset-building for low-income people, social innovation, and community capacity building. Within this framework she has organised international conferences and study missions and coordinated studies and international reports. She is the editor and co-author of several OECD publications.

Ermanno Tortia

After graduating in economics at the University of Turin in 1995, Ermanno Tortia pursued Masters degrees in London and Rotterdam in institutional economics and the philosophy of economics, before completing his doctorate in Bologna, on labour managed firms. Since 2001 his research interests and activities have been in the field of industrial relations, human resources management and organisational innovation. From the beginning of 2004 Dr Tortia has been employed at the University of Trento as a researcher working on governance and labour relations in non-profit organisations and co-operative firms.

Glossary

Civil society

Civil society may be defined as a space or arena between households and the state, which affords possibilities of concerted action and social organisation. Thus, it encompasses all voluntary associations of citizens, whether politically motivated or active or not (although the term carries an implication of political consciousness and activity): business, labour, non-governmental organisations, churches, special interest or purpose groups. These elements are the constituents of civil society, but none can individually be representative of it. Business is often excluded, although the OECD does include it, given that channels of communication between traditional organised business and labour and government are generally well established. Most frequently the term is used interchangeably with “NGOs” where the term “NGO” refers specifically to activist groups, although these are simply one category of civil society as a whole.

Co-operative

A co-operative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Examples of co-operatives in Europe can be traced back to the 19th century. The International Labour Organisation has recently (2003) suggested that co-operatives should be based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity and share the principles of: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and, concern for the community, which were identified by the International Co-operative Alliance in 1995. A co-operative includes one or more kinds of users or stakeholders: 1) consumers who use the enterprise to acquire products or services (such as a retail co-operative, housing, healthcare or day-care co-operative); 2) producers (such as independent entrepreneurs, artisans, or

farmers) who use the enterprise to process and market the goods or services they produced, or to buy products or services necessary to their professional activities; and 3) workers who use the enterprise to secure their employment and control their working conditions. Co-operatives operate democratically (one person, one vote) through two bodies (general meeting of the members or delegates, and the board of directors, which is composed of members elected at a general meeting). The delegate structure may be required to reflect the size of the organisation or the distance covered by the co-operative. The co-operative's start-up capital usually comes from co-op shares purchased by members. Since 1980, special co-operatives, known as social co-operatives, have become more widespread in OECD member countries.

Foundation(s)

Foundations are philanthropic organisations, organised and operated primarily as a permanent collection of endowed funds, the earnings of which are used for the long-term benefit of a defined geographical community or non-profit sector activity. Foundations operate as grant-making institutions, and also as providers of social, health and cultural services. It thus provides a significant link between the private and non-profit sectors, acting as a recipient of private capital and a funder of non-profit organisations. Foundations are tax-exempt, incorporated, not-for-profit, organisationally autonomous, and cannot be controlled directly or indirectly by government at any level, corporations, associations and their members, or individuals). Because they occupy a unique and central place in the non-profit sector, the development of foundations will strongly affect the future of the sector as a whole.

Mutual organisations/societies

A mutual organisation is an organisation owned and managed by its members and that serves the interests of its members. Mutual organisations can take the form of self-help groups, friendly societies and co-operatives. Mutual organisations exclude shareholding as they bring together members who seek to provide a shared service from which they all benefit. They are widely represented in the insurance sector.

Non-profit sector

The best known definition, while not commonly shared, particularly in European countries, is undoubtedly that supplied by the Johns Hopkins University in Baltimore (www.jhu.edu/~cnp/). According to this definition,

the sector includes organisations which are voluntary, formal, private, self-governing and which do not distribute profits, such as hospitals, universities, social clubs, professional organisations, day-care centres, environmental groups, family counselling agencies, sports clubs, job training centres, human rights organisations and others. In fact, entities belonging to the non-profit sector can vary from country to country according to national history and tradition. The term non-profit, born in the USA, refers mainly to the absence of profit distribution. This is substantially different to the European approach of “social economy”, which includes co-operatives. However, this difference is less significant when investigated through empirical research. C. Borzaga and J. Defourny (*The Emergence of Social Enterprise*, 2001, Routledge, London) argue that the distribution of profits is in any case limited by internal and external regulations in co-operatives and mutual organisations in European countries.

Social economy

The term “social economy” first appeared at the beginning of the 19th century in France. It was, nevertheless, only at the beginning of the 20th century that it began to be employed to indicate various entities aimed at improving collective working conditions and individual lives. This concept is now also used by Anglo-Saxon countries to refer to the production of goods and services provided not solely by the non-profit sector, but also, in some cases, by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations belonging to the social economy, one can find associations, co-operatives, mutual organisations and foundations. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism. The “social economy” is a broader concept than the non-profit sector, as it is less strictly bound to the non-distributional constraint, according to which organisations cannot legally redistribute their surplus to their owners (see also “Third sector”).

Social enterprise

An organisation form which has flourished in recent years, many definitions of social enterprise exist. Apart from academic definitions, and those elaborated by international organisations, which are built around general criteria, definitions used within countries are specific to the national understanding of the phenomenon of social enterprises. Increasingly countries are developing legal definition of social enterprises. Generally, this concept refers to any private activity conducted in the public interest,

organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to problems such as social exclusion and unemployment (see *Social Enterprises*, OECD, 1999). In this way, social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole. Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses, or charities' trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services.

Solidarity economy (économie solidaire)

The idea of the solidarity economy is mainly used in France and Canada (Quebec), and is also widespread in Latin America. It has different meanings according to the geographical context in which it is used: in the South American context, it mainly refers to fair trade and the popular economy, in Quebec it is linked to cooperatives, non-profit enterprises as well as to community economic development (*mouvement économique communautaire*) and in Europe to solidarity initiatives, mainly, but not exclusively, in the proximity services. Sometimes the term is used in association with the term social economy (as in Quebec) and sometimes in opposition to it, notably where the social economy is seen as composed of established organisations, while the solidarity economy mainly refers to non-established citizens' initiatives aimed at experimenting with new paths of economic development. In the European context, examples such as the fair trade movement are developing inside the sector, together with innovative forms of financial/non monetary-exchanges based on reciprocity.

Third sector

The concept of “third sector” is often used as a synonym to the non-profit sector and, more recently, also to “social economy”, particularly in European literature. The term was chosen to reflect the idea that the sector assembles these otherwise disjointed entities, and that it sits between the public and private sectors and follows unique social goals and internal organisational rules. Its mode of financing is mixed, as it can seek both private and public funding. The idea of establishing a distinct “third sector”

has given rise to many hefty debates, which have centred upon the danger of using the third sector as a residual sphere or “dumping ground” for those individuals excluded from the private and public sectors. To avoid the danger of social polarisation, the third sector should not merely be seen as an alternative route or juxtaposition to the public and private sectors, but as an interactive and reflexive component of economy and society. Others have argued that the boundaries of the third sector cannot be established with certainty, and for this controversial reason the European Commission preferred the use of the term “Third System”.

Third system

The term “Third System” was first utilised by the European Commission in 1997 and refers to the economic and social fields represented by co-operatives, mutual companies, associations and foundations, as well as all local job creation initiatives intended to respond, through the provision of goods and services, to needs for which neither the market nor the public sector appear able to make adequate provision. On the initiative of the European Parliament, in 1997 the European Commission introduced a new pilot action entitled “Third System and Employment”. The aim of the action was to explore and enhance the employment potential of the “Third System” with an emphasis on the areas of social and neighbourhood services, the environment and the arts (http://ec.europa.eu/employment_social/publications/2002/ke4502555_en.html).

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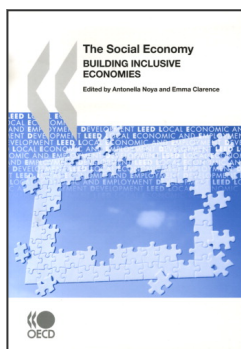
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