

**Title: Social Enterprises, the Social Economy and Community Economic Development – paper to be presented at the second annual CommEnt Research Symposium, Hanmer Springs, February 2006.**

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**Abstract**

***Background***

Social enterprises, the social economy and community economic development in New Zealand struggle for recognition from all sectors of society. This contrasts with the case in countries such as the UK, Ireland, Canada, Australia and the USA where social enterprises are seen as a means of overcoming social, employment and economic barriers in disadvantaged communities.

***Contents***

The focus of the paper will be an examination of the key economic and social tasks involved in community economic development in urban and rural areas. It will consider the role social enterprises (community owned businesses or the trading arms of not-for-profit organisations) play in community economic development.

The paper will consider the author's findings from a study trip to the above countries that examined the role and funding of social enterprises. It will consider the role of public, private and philanthropic sectors in assisting social enterprise development in New Zealand and overseas.

The paper will discuss the enabling environment required for social enterprises and community economic development to operate and grow. Policy, strategies, issues, challenges and opportunities for social enterprises and community economic development in the New Zealand context will be discussed and contrasted with overseas developments.

***Keywords***

Community economic development, social enterprises, social economy.

## **1.0 Introduction**

The chosen perspective of this paper is that of a practitioner. It is informed by more than twenty years experience working in the small business and not-for-profit sectors, academic study of practitioner literature and information collected during the author's most recent study trip to the United Kingdom, North America and Australia. A comprehensive review of relevant academic literature has not been undertaken as work-based experience reveals that the work of most practitioners in this field is not substantially informed by academic literature or university publications. The paper makes extensive use of newsletters, magazines, websites, publicity material, government policy statements, industry colleagues, word-of-mouth, networks, field-workers, case studies, study trips and workshops. These are also the prime information sources of community economic development (CED) and social enterprise practitioners.

This paper has been written for the second CommEnt Research Symposium which has as its theme "COMMunity Engagement in ENTrepreneurial Economic Activity". The relationship of the theme to CED and social enterprises needs consideration.

The paper questions the common assertion by the New Zealand and Australian private business sector and the central and local government sector that CED and social enterprises are on the fringe of mainstream socio-economic development. It considers the history of community development in New Zealand; the underlying issues - be they social or economic and the individual, community and political drivers. It also looks at communities that have engaged in the process; the methods used; the activities undertaken and the outcomes.

The paper examines New Zealand's position in the changing international environment of the social economy and CED. It suggests that CED and social enterprises are an essential ingredient in sustainable social and economic development and often environmental and cultural realities. They can achieve community engagement and entrepreneurial activity whilst addressing social, economic, environmental and cultural issues in advantaged and disadvantaged urban and rural communities.

If CED is to have the potential to address social, economic, environmental and cultural issues in advantaged and disadvantaged urban and rural communities then an enabling environment will be required. The challenge is for New Zealand authorities, practitioners and academics to examine local and overseas developments, develop appropriate models and trial new approaches.

## **2.0 Definitions**

Before the role of social enterprises in CED can be discussed in depth it is necessary to clarify the terminology being used in this paper.

## **2.1 Economic Sectors**

A nation's economy is often divided into three broad categories. The private (first sector) which is privately owned, involved in trading, market driven and profit orientated. The government (second sector) which is publicly owned, non-trading and with planned service provision. The community and voluntary sector (third sector) which is socially owned, orientated towards non-personal profit, self-help, mutuality and social purpose.

*(Pearce, Social Enterprise in Anytown, 2003)*

## **2.2 Community Economic Development (CED)**

Kenyon suggests several definitions of CED including “a sustained and united effort by the whole community to improve their local economy and quality of life by building their capacity to adapt and benefit from global economic changes” or “it is about local people taking responsibility for their economic future. It involves processes of identifying and harnessing community resources to stimulate economic activity” or “it is based on the simple premise that each community has within itself or within its grasp, considerable capacity and opportunities to influence its economic and employment future.” *(Kenyon, www.bankofideas.com.au)*

## **2.3 Social Economy**

Pearce describes the social economy as being comprised of community and voluntary organisations that “...are primarily engaged in trading; their purpose is social but they achieve their purpose by being in business, by making products and providing services which are sold in the marketplace”. *(Pearce, Social Enterprise in Anytown, pg 28)* Such organisations would include community enterprises, social firms, social businesses, mutuals, fair trade companies, voluntary organisations and charities that trade and many worker co-operatives.

## **2.4 Social Enterprises**

Whilst there are many definitions of social enterprises the United Kingdom Department of Trade and Industry (UKDTI) definition is widely accepted.

“A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” *(DTI, Social Enterprise A Strategy for Success 2002 Pg. 14)*

Pearce describes social enterprises defining characteristics as:

1. Social purpose or purposes.
2. Engaging in trading.
3. Not distributing profits to individuals.
4. Holding assets and wealth in trust for community benefit.

5. Democratically involving members in the governance of the organisation.
6. Independent organisations accountable to a defined constituency and to the wider community. (Pearce, *Social Enterprise in Anytown*, pg 31/32)

### 3.0 Background

The roots of Canadian CED can be traced back at least 12,000 years. Communities, to cope with the effects of hunger, disease and war, needed to be as self-sufficient as possible in food supply, to trade and form alliances that provided other resources and tools, to determine a communal allocation of resources and to work within the natural environment. (Cabaj, *CED & Social Economy in Canada, Making Waves, 2004*) The community was the social enterprise (community or collectively owned businesses) and therefore social enterprises are probably the archetypal business form.

The same is true for Maori in that "... in pre-European times.... all economic development work – based as it was on the whakapapa-based collectives (including the collective wealth and well-being) of iwi, hapu and whanua communities – could be said to be CED." (Howard, *Community Economic Development in Northland, 2004*)

Howard suggests that in Western Europe the starting point for CED and social enterprise may have been the social and economic system based on "the commons" where the uses of land and resources was negotiated between families and communitarian values dominated. (Howard, *Community Economic Development in Northland December 2004*)

Other writers such as Pearce and Birkholzer trace the European origins of social enterprise to the medieval guilds of workers and other socio-political movements, which stressed the importance of working together for a common social and economic purpose. Pearce and Birkholzer suggest that the birthplace of the modern form of CED and social enterprises is the co-operative movement of the 1840's onwards. (Pearce, *Social Enterprise in Anytown, 2003*. Birkholzer *Bauhaus Dessau Foundation (Ed.), Peoples Economy: Approaches Towards a New Social Economy in Europe, 1996*)

In post European New Zealand, the co-operative movement played a crucial role in the social and economic development of New Zealand. Land based industries such as freezing works and dairy factories were built on co-operative principles as farmers recognised the need to act co-operatively to process and market their products. Urban based co-operatives in the retail, insurance and banking sectors were also established between the 1880's to 1930's to provide workers with access to reasonably priced food and services. Many of these traditional co-operatives proved to be successful businesses and several survive today

In the 1970's traditional co-operatives in New Zealand were joined by craft and life style co-operatives (and collectives) created as a response to the oil crisis, Britain's pending entry into the European Economic Community, economic slow down and rising unemployment. Many such groups used establishment funding (SCOPE) from the Department of Internal Affairs.

A decade later in the 1980s work trusts were formed by enterprising community agencies and some local councils. Some later combined together to form employment resource

centres which developed enterprise skills training and advisory services to assist unemployed people entering into self-employment using government support packages. Others developed managed workspaces or business incubators.

In 1990, a new government agency, under the Department of Labour, called the Community Employment Development Unit (changed to Community Employment Group (CEG) in 1991) was established to promote CED. Funds became available for the establishment of social enterprises (community businesses) to overcome rising levels of unemployment, promote local economic development and address environmental issues. In 1992, CEG launched the Be Your Own Boss training, support and advisory package aimed at disadvantaged individuals and communities.

The 1994 Employment Task Force report advised government to empower communities to find solutions to their own problems and provided the rationale for the National Government to continue to support CED and provide training for the unemployed through courses run by polytechnics or private training establishments. Some local councils, in response to such government initiatives, established their own development agencies/corporations to encourage economic development and to provide specific programmes for unemployed people entering the labour market.

In the later 1990s the National Government closed Business Development Boards (established in the late 1980s) and redirected funding towards regional development. This resulted in most of New Zealand's councils creating development trusts or enterprise agencies to access available funds. These agencies placed increasing importance on private sector business development, attracting overseas investment and inward migration strategies. In 1998 CEG was also moved from the Department of Labour to Work and Income New Zealand with a change in emphasis.

The Labour Government elected in late 1999 remodelled the public sector and introduced a raft of policy initiatives aimed at increasing the country's economic growth. These included promoting regional development, the creation of business clusters, venture capital funds, business innovation centres and export-led growth strategies. In 2000 CEG was moved back to the Department of Labour as a result of community lobbying and its budget increased. New programmes such as the Community Employment Organisation and Social Entrepreneurs Award Scheme were introduced. With declining unemployment in 2003s emphasis shifted towards inward migration and skills shortages.

In response, to these changing economic and political circumstances third sector agencies responded by developing trading arms to create income generating activities to overcome funding deficits. These new social enterprises were often in the arts, environment, health, housing, land development, recreation, tourism and community revitalisation sectors.

In addition, many Maori or iwi-based organisations, had from the late 1980's started social enterprises as means of fulfilling both social and economic missions. Government funding for these early initiatives was small or non-existent although fieldwork support was made available from the Department of Internal affairs and later CEG and Te Puni Kokiri. The development of iwi-based social enterprise development has increased following Treaty of Waitangi claim settlements.

However, the increasing level of government support for CED and social enterprise proved to be short lived. In 2004, some recipients of the CEG funded Social Entrepreneur Award Scheme were accused in the media and parliament of not spending the money allocated correctly. These accusations, coupled with some other failed projects, led to the closure of not only the programme, but also the agency. The CEG programmes that survived were transferred to other government departments particularly the Ministry of Social Development which has a welfare and labour market opportunities focus rather than a CED focus. As a result of this decision both the levels of funding and support services available to people and communities is now severely restricted.

As a consequence during the last ten years New Zealand has slipped from being a world leader in CED to a laggard. The key contrast between the recent New Zealand experience and that of the UK and Canada has been the absence of reflection on the economic realities which suggests that even in times of prosperity the need for CED increases, as Western countries experience a dual economy of mainstream growth and chronic pockets of poverty.

Tony Blair (UK Prime Minister) says disadvantaged communities and individuals suffer from *market failure* as neither the private sector nor government schemes can overcome the problems or address the needs at the community level. This view has also received support from the OECD, (*OECD, 1999:20*) and the Canadian Federal Government.

Social enterprises are being actively encouraged by the UK and Canada as a means of overcoming social, employment and economic barriers in disadvantaged communities. In these countries much is made of social enterprises ability to address cultural, environmental and social issues by promoting CED, driving up productivity and competitiveness and contributing to socially inclusive wealth creation. Support from government has been forthcoming through major social enterprise funding increases; new initiatives to ensure that CED becomes part of mainstream economic development; the appointment of Ministers with specific responsibility for social enterprises and the creation of Government departments with a focus on social enterprises.

Current business support services in these countries have been expanded to include providing advice to social enterprises. In the UK the Department of Trade and Industry has established a specialist social enterprise unit which produced a series of reports on social enterprise. (*DTI (UK), Social Enterprise: A Progress Report on Social Enterprise: A Strategy for Success, 2003. DTI (UK), Public Procurement: A Toolkit for the Social Enterprise Sector, 2004.*) The devolved governments in Scotland Wales and Northern Ireland have likewise produced reports (*Department of Enterprise, Trade and Industry, Developing a Successful Social Economy, 2004*).

In Ireland, the Irish National Development Plans provide a mechanism by which the government, private, trade unions and community/voluntary sector agree on common economic goals and priorities for a seven year period. This centralised approach to economic development is very different from other Great Britain countries. Despite Ireland's rapid economic growth over the last decade the Irish government acknowledges that the benefits of economic development have not been shared across all sectors of the economy or geographical areas. (*Department of Community, Rural and Gaeltacht Affairs Many Communities A Common Focus: Strategy Statement 2003*)

The Australian federal government has provided funding towards several social entrepreneurs conferences held between 2001 and 2003 and towards the establishment of a national social entrepreneur network. .

In the UK and Canada social enterprises are expected to fulfil a broad mandate including enabling local neighbourhood regeneration, providing new models of public sector delivery and assisting in developing an inclusive society and active citizenship. This expectation is not evident in New Zealand where the drivers for social enterprise and social entrepreneurship are employment, environmental management and trading ventures for not-for-profit organisations. In Australia, whilst it is acknowledged that organisations such as WorkVentures have played a significant role in social enterprise development, the drivers of social entrepreneurship are largely organisations such as the Brotherhood of St. Lawrence, Adelaide Central Mission, The Benevolent Society, and The Smith Family; plus writers such as Barlett (*Barlett, Smart City: Social Entrepreneurship and Community Engagement in a Rural Regional City, 2005*) and Botsman (*Botsman. & Latham; The Enabling State, 2001*) politicians such as Latham (*Latham, Social Entrepreneurship and the Welfare State, 2001*) and indigenous activists such as Pearson (*Pearson, SEN Conference Dinner Address, 2002*) who are predominantly interested in welfare reform.

The failure of New Zealand to keep pace with the changing environment for CED and social enterprises can probably be traced to the predominant socio-economic and political ideologies that have shaped New Zealand since 1984 and marginalized the social economy sector. The New Zealand economic landscape has changed considerably over the last two decades. The nation has moved from one of the most regulated to one of the less regulated economies in the world. This transformation has been well documented and its effects on the social, environmental and cultural fabric of society widely debated (*Easton 1997, Jesson 1987 & 1999, Kelsey 1993, 1997 & 1999*).

New Zealand society from the 1930s to the mid 1980s considered social issues such as unemployment and housing as the collective responsibility of society. Consequently, local and national governments accepted responsibility for addressing such issues.

However, with the introduction of new right philosophies the responsibility for social and economic disadvantaged was moved to the individual. This remains true today despite the rhetoric espoused by Labour Government. This shift from a community to an individual focus was exemplified by the Social Entrepreneur Award Scheme launched in 2001 providing funding support not to the social enterprises but directly to the individual.

As a result of the current emphasis on private business development and state sponsored initiatives, CED in New Zealand is marginalised from mainstream economic and social development thinking, policy development, funding and support services.

## 4.0 Relationship of Community Economic Development and Social Enterprises

Cabaj states “So much of human history is about communities that mainstream society has forgotten or pushed aside....Natural and spontaneous market forces leave them behind. .. All too often, dominant elements of society pointedly exclude them.....Communities respond to this exclusion in many different ways.....many turn to violence.... many have simply withered away. ....(*others have a*) history of people organising and innovating to defend the ties that bind them together and survive, even prosper.” (*Cabaj, CED & Social Economy in Canada, Making Waves, 2004 pg.12*)

This latter process is CED at work with local communities responding to local issues and events. Lewis argues CED involves the struggle of citizens living in disadvantaged communities to reinvigorate the places they call home whereas the social economy approach focuses on collectively owned enterprise development that achieves social goals. (*Lewis, Common Ground, Making Waves, 2004 pg 7*)

Lewis argues that to build socially inclusive, sustainable and thriving local economies and communities, five social and five economic tasks need to be achieved:

### Social Tasks

- Access to quality **Education**
- Affordable **Housing** and **Food** security
- **Health and safety**
- Opportunities for **Culture** and **Recreation** pursuits
- **Social supports** that encourage civic participation, strengthen families, and collective and individual aims.

### Economic Tasks

- **Local equity and ownership** to ensure that local interests are paramount influences on local business decisions
- **Accessible credit** for marginalized people and social enterprises
- Preparing **People** to become competent employees and employers
- **Physical infrastructure**
- **Planning, research and advocacy** that enables good local decision-making

(*Lewis, Common Ground, Making Waves, 2004*)

Lewis illustrates the connectedness of CED and the social economy in the diagram over the page:





(Lewis, *Common Ground, Making Waves*, 2004 Pg 11)

Social enterprises are one of the results from local communities addressing such key economic and social tasks and may operate in any sector of the economy.

The benefits from using the social enterprise approach may include the following:

- Catalysts for social and economic change
- Contributors to reducing unemployment
- Creators of spin off businesses
- Promoters of civic pride
- Attractors of external investment
- Increased local ownership of local assets
- Builders of social capital
- Developers of national business icons

In recent years in the UK, Ireland and Canada the fastest growth areas for social enterprises that derive all or some of their income from trading (at least 25%) have been in the fields of:

- Social housing (often co-operatively owned) for example Coin Street Community Builders, London
- Urban and rural regeneration for example Creggan Enterprises Derry, Northern Ireland and the LEADER programme in the Western provinces in Ireland.
- Community owned wind farms such as Cumbria and the proposed joint venture Arts Factory and United Utilities Green Energy Ltd wind farm in Rhonda Fach Wales.
- Environmental/recycling projects for example Fairfield based at the Fairfield Produce and Fruit Market in Manchester
- Ownership and management of community facilities for example Greenwich Leisure Ltd
- Specialist banks such as Charity Bank, Triodos Bank and Unity Bank
- Credit Unions for example Vancouver City Savings Credit Union (VanCity)
- Community Foundations for example the San Francisco and Vancouver Community Foundations

- Community Development Financial Institutions (CDFIs) in the USA and the UK.
- Social investment funds for example the Irish Social Investment Fund and the Canadian Community Economic Development Investment Funds.
- Co-operatives such as the Wales Co-operative Centre and the Canadian Co-operative Association.
- CED and Social Enterprise Networks and Coalitions In the UK, the national Social Enterprise Coalition and regional networks including Liverpool, Bristol, London, Sunderland and Birmingham.

Social enterprises therefore are an intrinsic part of any economy and are at the forefront of providing the infrastructural support mechanisms required for successful community development and ultimately the economic well-being of the whole society.

## **5.0 The Building Blocks of Economic and Social Development**

A key aspect of any CED strategy is enterprise development. Such development may include social enterprises, entrepreneur development, business incubators plus services aimed at business retention and expansion.

Social enterprises fulfil several vital roles in CED environments. Some are on-going functions whilst others are project or business specific. In all cases they provide building blocks to a healthier, thriving community. Outlined below are several economic development roles with examples from the New Zealand environment.

### **5.1 Permanent Roles**

#### **A. Stimulating Business Generation**

In deprived communities, or those suffering from a major turmoil, traditional private sector businesses tend to withdraw from the region or close as they are unable to operate safely or profitably. As the businesses withdraw a cycle is created whereby raising unemployment results in reduced income in the district, leading to increased crime, declining health of the population, the breakdown of social structures and less civic participation. Many remaining businesses operate in the black market as people attempt to either produce income or supplement welfare support. The result is a ghetto or ghost town as people leave the area. To re-establish such areas people have to work collectively and mutually to achieve common social and economic purposes rather than pursue individual goals. This is the stage at which social enterprise is created. The success of the social enterprise provides a signal to privately owned micro and small businesses that they can safely re-enter the community. Upon their establishment larger medium sized businesses and often government agencies will also return to the district and complete the cycle.

Examples of such a business generation cycle can be seen in New Zealand in the rural centres of Kaikoura and Westport. (*Lancaster, Communities of Enterprise, 2000*).

## B Providing a Bridge Between Economies

The existence of a dual economy in many Western countries is well recognised overseas. “Bypass(ed) by the regional or national economy some places and citizens still experience a vicious cycle of social and economic decay that consigns them to unemployment, business failure, family stress, crime, deteriorating housing, poor health and other ills”. (Lewis, *Common Ground, Making Waves 2004* pg. 7)

Without the bridge provided by social enterprises between mainstream and disadvantaged communities social exclusion would be compounded with disadvantaged communities reliant upon mechanisms of the state or philanthropy to move people from a disadvantaged to advantaged status. However, the state’s record, and that of the philanthropic sector, in providing such support is, at best, uneven.

In New Zealand, the role of social enterprises in re-igniting and linking elements in the local economy is best illustrated by Kaikoura’s Whale Watch and Kaitaia’s Community Business and Environment Centre. (Lancaster, *Communities of Enterprise, 2000*).

## C Offering an Alternative to the Mainstream Economy

Social enterprises always have a place in the economic life of a nation. They are part of the normal economic cycles maintained by the people in society who prefer to work mutually and collectively rather than market place values, competition and individualism. Such examples can be seen in the continuing role in New Zealand of credit unions, (Hawke’s Bay Credit Union), building societies (Southland Building Society, PSIS), community owned banks (TSB), co-operatively owned buying groups (CRT) and community owned mutual associations (Farmers Mutual Insurance, AMI and AA Insurance).

Social enterprises are a significant industry sector in their own right. Official statistics suggest that the social economy accounts for 6% of GDP in the UK, 10-12% of GDP in Canada and a similar figure in the EU. (The difference between the UK and other figures is due to inclusion and exclusion categories – in the UK mutuals, retail and agricultural co-operatives are excluded.) Comparative New Zealand figures will not be known until late 2006 when Statistics NZ publishes its satellite accounts on the not-for-profit sector.

## D Addressing Social, Environmental and Economic Problems

In New Zealand, like most Western societies, there are several entrenched social, economic and environmental problems that private sector businesses tend to ignore as they are commercially unprofitable. In certain circumstances they may even actively campaign against potential solutions. Such examples include air and water pollution, waste management, public transport, housing for the elderly and child-care. In addition, government is frequently unwilling to address such problems due to budget constraints.

As a consequence many entrenched social, economic and environmental problems are left to the social enterprise, community and voluntary sectors and the family or household unit to solve using voluntary labour and charity with support from the philanthropic community.

A linked issue is the subject of sustainable business practices. To be sustainable a business needs to balance conflicting requirements – namely the maintaining of efficiency and cost-effectiveness whilst remaining environmentally friendly, ecologically sound and socially responsible. For privately owned businesses whose primary reason for being is to make personal profit, the social and environmental perspectives are normally ‘add-ons’ that fulfil the owner’s social conscience or for public image purposes. For example, The Warehouse, a large New Zealand retailer, has adopted many socially and environmentally friendly practices and produces triple bottom line accounts yet it continually urges customers to buy more products and thereby promotes growing consumption of finite resources. For social enterprises, the social and environmental perspectives are at the heart of the business. Profit making is required to keep the business financially sound and to meet economic obligations to the community, but it is not its prime purpose.

## 5.2 Specific Roles

### A Challenging the Mainstream Social and Economic Paradigms

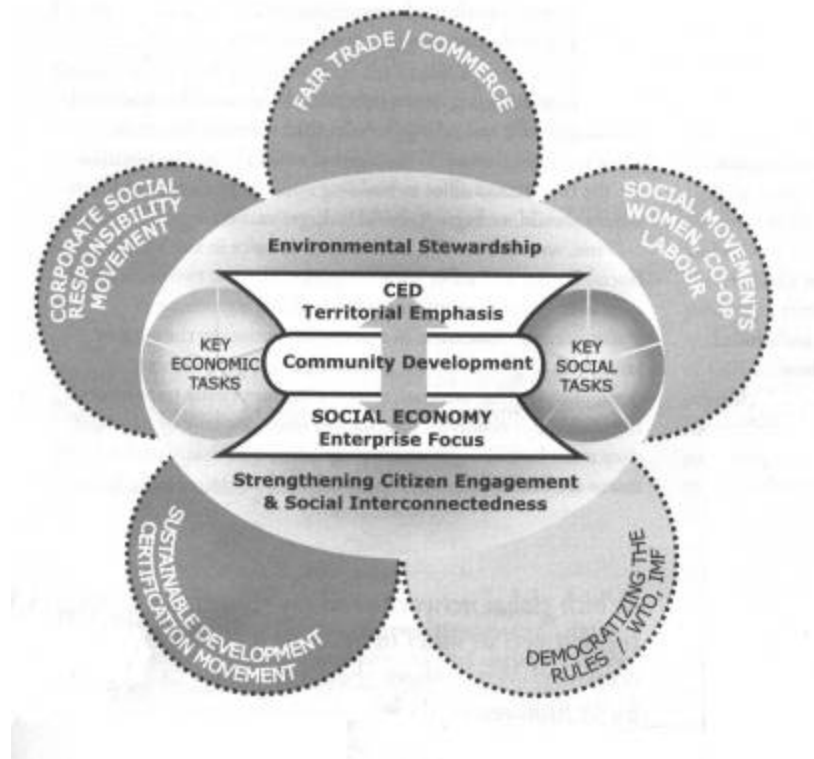
The social enterprise model is a reminder that there is more than one way to address social and economic issues. Writers such as Hazledine suggest that the current economic model operating in New Zealand is based on economic rationalism and supports individualistic free trade, open markets and global trade. He argues that the proposition that such an approach is the most efficient way to deliver goods and services to the market is subject to challenge by people concerned about the side effects of the open market system (wealth disparities, loss of human values, alienation and poverty). Hazledine contends that rationalism, laissez-faire and globalisation does not only have negative effects and spin-offs; it is bad economics, even bad market economics. Decency, trust and behaving well are not just leisure time activities, to be indulged in after the real work has been done: they are essential to work itself, to a prosperous and stable economic system.” (*Hazledine, Taking New Zealand Seriously, pg. 226*)

Hazledine is dismissive of the concepts of ‘building stronger communities’, fostering neighbourhoods and local self-help if such approaches are intended to replace the welfare state. He fears that “more folksy neighbourhoods” and “geographical communities” could be barriers to economic activities and argues for inclusive not exclusive communities and that the nation state should be the “natural domain of community”. (*Hazledine, Taking New Zealand Seriously, pg. 220*)

By being driven by self-help, mutuality and social purposes social enterprises provide a model of economic development and management that helps create civil society.

(*Douthwaite, People’s Economy: Approaches towards a new Social Economy in Europe, 1996*)

Lewis argues that the social economy puts the local context into the global economy by suggesting that people think locally and act globally. The social economy model suggests that economics should be rooted within the social context in which human beings live out their lives rather than the vice versa. At the same time it requires linkages and alliances to build a solidarity economy at the global level as suggested in the figure below:



(Lewis, *Going Glocal, Making Waves*, 2004 Pg 40)

## B Indigenous Businesses

A number of businesses run by indigenous people including Maori and Pacific peoples can be described as social enterprises as their mission is not to achieve individual profit but to achieve group wealth and well-being. The concept of a social enterprise having two purposes to achieve both a business and a social mission sits more comfortably with people from such ethnic backgrounds. (Tahu Potiki, CEO, Ngai Tahu, Christchurch Press 5 February 2005 and Mark Solomon, Chairman, Te Runanga O Ngai Tahu, Personal Communication).

## C Maintenance and Retention of Local Ownership

There is a significant group of people who, if given the choice, will choose to support locally owned businesses in preference to external or foreign owned businesses. This support appears to be more evident in the areas of land and infrastructure ownership than the wholesaling and retail industries.

Economists frequently argue that the New Zealand economy pays an interest loading due to its small scale and non-diversified economy (*National Bank Rural Report Economics March 2005*) yet the remedies frequently suggested involve strategies that seemed destined to make the problem worse. CED helps to diversify the local economy through business creation and retention, encouraging the purchase of NZ made goods and services, increasing the level of NZ owned businesses and assets thus helping to reduce the level of “invisibles” paid to overseas firms and financiers.

#### D Macro Economic Outcomes

The economic performance of New Zealand in the ‘neoclassical economic’ period 1985 to 1999 was mixed. The positive outcomes were low inflation, budget surpluses, repayment of government debt and reduction in government expenditure as a percentage of GDP. The negative outcomes were low economic growth, growing trade and balance of payments deficits, the failure to improve international competitiveness, high levels of unemployment and no improvement in the living standards for all New Zealanders (*Kelsey, J., Reclaiming the Future: New Zealand, 1999. Hazledine, Taking New Zealand Seriously*)

Since 2000, despite greater government intervention, higher levels of economic growth and reduced unemployment, the low levels of productivity and high trade and balance of payments deficits have remained. Wealth redistribution has continued to be from the poor and middle classes to the rich while the economic gap between Maori and non Maori has widened. (*Statistics NZ, 1999. Waldergrave et.al 1996, Te Puni Kokiri 1998*)

Kelsey argues that “New Zealand governments that sought to put the ideology of globalisation into practice believed they could reshape the country’s economic, social and cultural existence to fit an economic theory. Market failures, Treaty rights, economic decline, social distress and public opposition were all swept aside by the free market evangelists, supported by elites eager to defend the gains and opportunities they had secured. Yet those human realities did not disappear.” (*Kelsey, Reclaiming the Future, 1999, pg. 384*),

Social enterprises and CED through local ownership, retention of profit in the community, ability to attract and leverage local capital and utilisation of the local asset base can play a part in addressing the negative micro and macro economic issues facing New Zealand.

#### E Creative Industry Development

In emerging creative industries, such as the New Zealand film industry, social enterprises play a vital role of creating the infrastructural support necessary for a film company to produce a film. For example, Film South was instrumental in securing the filming of *The Lion, The Witch and The Wardrobe* in the Canterbury district.

#### F Tourism Development

In New Zealand, in addition to developing such tourist icons as Kaikoura Whalewatch social enterprises have often been at the forefront of developing rural based tourism by:

- maintaining essential services such as service stations, food outlets, toilet facilities
- forming tourism boards/councils
- developing and using existing natural and human resources by developing a tourism product (eg. the Palmerston Butterfly Farm)
- developing tourism accommodation such as hotel, backpacker, home or farm stays
- creating events such as food, wine and music festivals
- running visitor support services such as tourism information offices
- creating new businesses and new jobs.

## **6.0 Why Does Community Economic Development Struggle in New Zealand?**

Since the Second World War the history of CED in New Zealand has been largely that of an outsider to the mainstream of economic and social development with the emphasis and timing of support from central and local government, government agencies, the private sector and the third sector largely based on pragmatism rather than any coherent ideological commitment to CED.

Politics and social attitudes in New Zealand are dominated by pragmatism which results in centralists governments being elected on moderate or conservative policy platforms. CED and social enterprises provide a challenge to the conservative view of economic development and where the conservative view holds supremacy CED can be marginalised. CED poses a threat to the existing power hierarchy and this is one explanation of the lack of support it receives from establishment groups.

Successive New Zealand governments have demonstrated limited commitment to CED and this can be illustrated by the history of the only specialist government agency set up to work in this field in recent times. When CEG was closed by the Labour Government in early 2005 some of its funding was redistributed to various government departments, especially Work and Income new Enterprising Communities division whose stated purpose was “to help communities to create local employment opportunities and to address skills issues by developing community owned businesses.” and “The main change we have made to the programme is to strengthen the focus on labour market outcomes.” and “Our priority is to work with organisations that can show they will be making a measurable difference to their local economy.” (*Enterprising Communities, May 2005 pg. 1*) The opposition applauded the decision to close CEG as it had been highly critical of many of CEG’s programmes. With such a volatile history and lack of political support it is a credit to CEG and its staff that it achieved many positive outcomes.

The response from local government towards CED and social enterprises is also non-supportive despite the fact that the Local Government Act requires all New Zealand councils to develop Long Term Council Community Plans (10 years) that focus on social, economic, environment and cultural activities. The Plans are also required to include

strategies to improve citizen participation in the democratic process. By treating each area separately the key linking role of CED and social enterprises is lost. No new initiatives appear to be forthcoming on public procurement strategies such as happened in the UK (*DTI, Public Procurement: A Toolkit for Social Enterprises 2003*) to assist social enterprises.

Since the 1980s the New Zealand private sector has been dominated by big business, overseas owned, a belief in the primacy of the market and limited government involvement in business. It tends to view entrepreneurs as only people working in the business sector “ I think we are seriously short of true entrepreneurs. By entrepreneur I mean the person with enough commercial expertise to take the bright idea and turn it into a viable commercial enterprise.” (*Bevan Graham, Chief Executive, EDANZ, NZ Herald, 5 Dec 2005*) Community involvement in any aspect of business is seen as an impediment to businesses. Business, including banks and financial institutions, tend to view any community run business as not being a “real business” and considers that the role of the third sector should be limited to social service delivery to the needy and funded by philanthropic organisations.

The New Zealand media’s attack of CEG verged on the hysterical given the level of public money allegedly misspent. Headlines included “Govt. axes hip-hop travel fund” and the accompanying article listed four “trips” worth a collective sum of \$58,410. (*The Press, 2 July 2004*) The subsequent inquiry into this and other CEG grants by the Labour Department and the Auditor General found no misspending. The amount of money involved was small compared to the wastage of public money by other government departments on various programmes and projects. For example, the \$140 million overspent on two new prison facilities at Springhall and Milton (*Christchurch Press, 19 January 2006*) or even Work and Income’s payment of \$500,000 to train 150 people in early 2002 who were then employed by Jack Links, a US owned company which laid off 102 workers in January 2006. Both sets of spending were vigorously defended by the government with in the latter case Minister Anderton stating that “...the grant had saved the taxpayer nearly \$2 million in unemployment benefits” and “These Kiwis will have gained useful skills and work habits.” (*Christchurch Press 26 January 2006*) The media, which claims to represent the public interest, when reporting on the third sector appears to have a strong bias towards negative rather than positive stories.

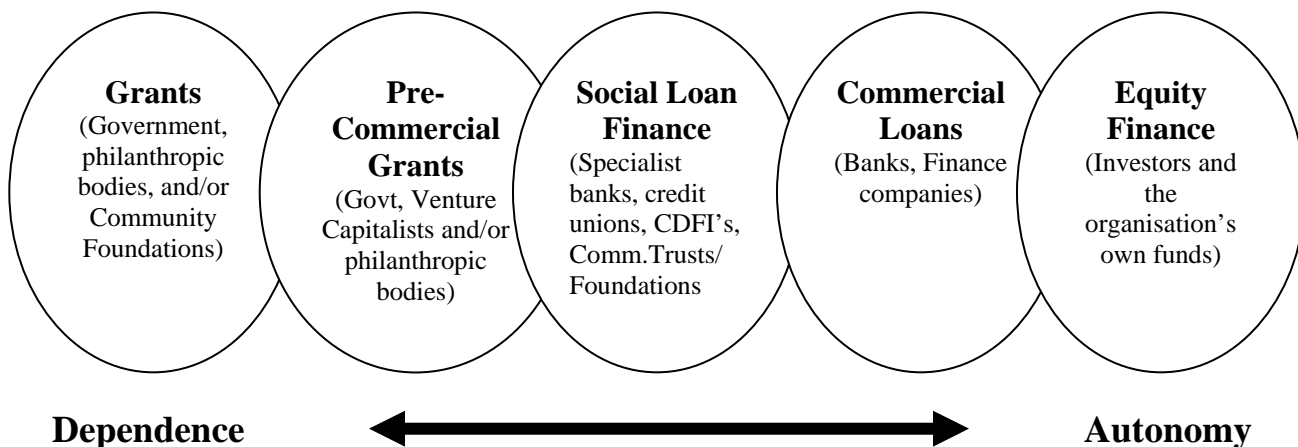
Government department officials appear to be reluctant to support CED and social enterprises. In New Zealand social enterprises are explicitly excluded from access to publicly funded mainstream business schemes, advisory services, training, venture capital schemes run by the Ministry of Economic Development and their service delivery arm New Zealand Trade and Enterprise. Officials from the Ministry, when questioned, simply state “why should we be concerned with not-for-profit organisations. We deal with firms operating in the real world of private for-profit business. If CED and social enterprises are given any space they are put into the social development arena which fails to understand the role and needs of the social economy sector. In addition, staff frequently lack the necessary skills, experience and knowledge to properly assess or assist social enterprises. For example, Work and Income Enterprising Communities



despite having well-paid and resourced staff send all applications to external agencies (normally for-profit businesses) for final business plan approval.

The academic community in New Zealand tends not to have seen CED and social enterprises as an important area of study. However, there are pleasing signs of some softening of attitudes and this conference and new courses on economic development and not-for-profit management are examples. Nevertheless there is still considerable room for improvement. No New Zealand equivalent of the CEDTAP (The Community Economic Development Technical Assistance Program), based at Carleton University, Canada exists.

The philanthropic community in New Zealand has tended to be orientated towards grants and donations to charitable social services organisations for operating and occasionally capital projects. This approach has, and will continue to work well, for organisations, that have no ability or desire to become self-financing. However, for social enterprises the traditional grant approach maintains dependence and undermines their efforts to become self-sustaining and self-sufficient. A different funding model using loans and equity funding is required. Jeffs has suggested the integrated funding model below that recognises the gap between programme/project funding, commercial funding and equity funding.



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(Jeffs, *How Community Trusts Can Assist Social Enterprise Development*, 2005)

The community and voluntary sector in New Zealand is dominated by social service organisations who often view social enterprises with suspicion as they consider that they represent a commercialising of the sector and are a further method of the state withdrawing from the provision of public services. Unfortunately, due to a misunderstanding of the roots of CED and social enterprises, and the key social and economic tasks that they are attempting to achieve little progress has been made in

gaining support from third sector bodies. There is a disconnect between NGOs working in the social, economic, cultural and environmental sectors.

CED organisations and social enterprises have been slow to form sustainable networks in New Zealand and with the demise of CEG no public funds are available to encourage such developments. The few organisations that existed, such as Small Business Enterprise Centres of New Zealand, COMMACT Aotearoa, and the South Island CEO Network, have either been disbanded or gone into recess. This situation is in stark contrast to that existing in the UK and Canada where national, regional and local networks either exist or are being encouraged to form with financial support from central and local government, the philanthropic community and sometimes the business sector.

CED and social enterprises being based on radical political ideologies receive support from the establishment in New Zealand only in times of economic and social upheaval such as times of high unemployment. New Zealand communities likewise tend to use the model when they are under stress and collective, self-help and mutual action is required for survival. The use of CED and social enterprises as an emergency approach to social and economic development fails to acknowledge and utilise its history of past success and its future potential.

## **7.0 Pathways for Community Economic Development & Social Enterprise Success**

Community development practitioners such as Peter Kenyon (Australia) ([www.bankofideas.com.au](http://www.bankofideas.com.au)) consider that CED requires four building blocks – community enterprises, community banking, community foundations and community leadership.

Other writers such as Lewis (Canada) state community development requires the enabling 3 C's of capacity building, credit access and competence. (*Lewis, The End of the Beginning, Making Waves, 2004 Pg.2*)

Pearce argues that the concepts of community development, CED and co-operative development are increasingly becoming merged and "...the term 'CED' is no longer useful, perpetuating, as it does, the separation of economic from social." (*Pearce, Social Enterprise in Anytown, pg 83*) This appears to be a logical development.

Schorr suggests that successful CED initiatives in the USA have four things in common:

- Combining strategic action in a number of areas – economic, physical development, service and educational reform and community building.
- Relying on the community's own resources and strengths to build change.
- Drawing on outside resources – private and public funds, professional expertise and new partnerships that bring clout, influence and technical assistance.
- Focusing on long-term outcomes.

(*Schorr, Common Purpose: Strengthening Families and Neighbourhoods to Rebuild America, 1997*)

France reports that in New Zealand, based on the experience of CEG, there are eight key processes involved in community employment (rather than economic) development, namely:

- strategic planning including planning for sustainability
- consultation with willing and supportive local people
- partnerships between the community, private and public sectors
- capacity building for individuals and organisations
- leadership and community entrepreneur development
- local ownership
- networking with existing and new groups
- evaluation and risk management.

*(France, What is Community Development, 1999)*

Byrne reports that CEG used a five step model of community group development namely:

- Planning – participants develop a vision for the future
- General support – information and advisory support from field workers and the provision of funding
- Consolidation – partnerships are developed with other stakeholders
- Sustainability – the community is able to sustain the continuance and future development of the project.
- Independence – project becomes independent from government support.

*(Byrne, Literature Review on Community Development, 1999)*

For social enterprises to flourish in New Zealand an enabling environment is required. Such an environment includes:

- Government awareness and understanding of the contribution social enterprise can make to the economy.
- Central and local government awareness and understanding of the unique characteristics of social enterprises.
- Specific legislation regarding legal structures for social enterprises.
- Specific legislation regarding taxation issues for social enterprises.
- Amendments to charity laws, trustee liability and existing organisation constitutions that restrict borrowing by social enterprises.
- Review of the role of the proposed New Zealand Charities Commission to ensure it is competent to deal with the issues relating to the establishment and operation of social enterprises.
- Revised compliance requirements for obtaining grant/loan funding and outcome reporting.
- Advisory and assistance schemes to assist social enterprises to protect their intellectual property, develop branding strategies and franchise or licence opportunities.
- Encouragement of Community Trusts to develop an investment culture perspective, provide funding through community loans or loan guarantee schemes to social enterprises.
- Additional support to the emerging community development movement.

- An understanding by financial institutions of the special nature of social enterprises that means normal lending criteria can not be applied.
- An understanding by funders of the special nature of social enterprises and the shift in their mentality to not penalise organisations earning revenue and profit.
- Conditions and terms of Government contracts being changed to permit a profit margin and the retention of surpluses.
- The creation of specialist financial institutions, banks and instruments that lend specifically to social enterprises.
- An attitude change in not-for-profit organisations to the mind set that making a profit is acceptable.
- Encouragement of risk taking and innovation throughout the sector by the organisations themselves, government departments and funders.
- Creation of networks of social enterprises at national, regional and local levels so that individuals and groups can share learnings and experiences in operating social enterprises.
- Specific government funding for the ‘front end’ of social economy projects such as feasibility studies, business planning, initial market trials prior to other financial institutions or philanthropic organisations investing in the enterprise.
- Specific training for social entrepreneurs and social enterprises staff provided by people who have expertise in the not-for-profit sector, not by for-profit organisations or individuals.
- Recognition of the dual – social and business – missions of social enterprises. To achieve both goals successfully requires particular expertise, skills and knowledge by both governance and management.
- Specific governance training for people involved in social enterprises.
- Development of techniques by which successful social enterprises can be replicated in other communities whether they be a geographic or interest based group.
- Creation of specialist accountability tools that can measure the dual mission of social enterprises such as social accounting and auditing, triple bottom line reporting.
- Local and central government mechanisms to encourage social enterprises to be involved in public procurement tendering processes such as waste minimisation.
- Support to assist the formation of vertical and horizontal clusters of social enterprises to achieve economies of scales for public procurement tendering, exporting and bulk buying.
- A specific government department that has responsibility for social enterprises such as UK’s Department of Trade and Industry, Social Enterprise Unit.
- A Minister or Cabinet Member who has a specific responsibility for the social economy and social enterprises.
- Development of tools to measure the economic impact of social enterprises in the national and local economy. Such tools also need to be extended to measure employment, social, environmental and cultural impacts.
- Encouragement of tertiary and research institutions to undertake research into the social economy and social enterprises.

- Creation of formal mechanisms such as annual awards to recognise achievement e.g. Best Social Enterprise Award and Young Social Enterprise Manager Award .
- Facilitation of the promotion of the social economy and social enterprises
- Encouragement of young people to seek involvement and work in the social economy.
- Expansion of enterprise training in schools and tertiary institutions to include the management of not-for-profit organisations and specific social enterprise training.
- Establishment of a national lobby group for social enterprises.
- Establishment of a venture capital industry that focus specifically on social enterprises and includes “social angel investors” (*investors who do not expect a financial return on their investment*).
- Promotion of and understanding of common terms used in the social economy and the social enterprise sector.
- Expansion of the lending criteria of credit unions, building societies and ethical financial institutions to permit lending to social enterprises.
- Encouragement of strategic partnerships between first, second and third sector operators and investors.

Without the creation of such an enabling environment the provision of more accessible or greater funding will not result in a healthier social enterprise environment. Support is also needed to build the internal organisational capability and capacity including human, personal, financial, social, cultural and physical assets. Assistance with the establishment of proper, internal organisational policies, procedures and systems covering not only operational matters but regulatory and compliance issues are also required.

## **8.0 Conclusion**

CED and social enterprises provide a template, a coherent vision of the means of creating a sustainable future as differentiated by the outdated economic models advocated by the private, business and government sectors. These sectors have not responded well to the issues and challenges offered by CED and social enterprises. Instead they have dismissed CED due to their economic, social, power and ideological commitments to the current free market agenda leaving core social and economic service providers depending for their survival on the maintenance of dependency of either the individual or the community.

Without an integration of community development and social enterprises into mainstream economic, social, environmental and cultural policy and strategy development New Zealand will turn its back on a tried and proven approach to development and the engagement of citizens in entrepreneurial activities which help to build an inclusive civil society.

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