



ReRegions Project

Socio-Economic Component

Issue Report

26th November 2006

Introduction

This document presents the Issue Report prepared by Recycling Institute for the Socio-Economic component in the ReRegions project.

The **purpose of the ReRegions project** is to explore regeneration in regions of brown coal mining around Europe.

The **purpose of the socio-economic component** is to explore regeneration of the socio-economic landscape in these regions. In other words, this component concentrates on the restoration of the quality of social life by economic means, especially job and enterprise creation.

As this is one partner's Issue Report, the **purpose of this document** is:

1. to outline the nature of the issue as it appears to Recycling Institute;
2. to describe the key problems causing the issue as they appear to Recycling Institute in consequence of the ReRegions project;
3. to test the key problems against the experience Recycling Institute has encountered within the ReRegions partners;
4. and to suggest what might be a strong and innovative development route to address the key problems.

The partners in the Re Regions project are not all able to illustrate the socio-economic issues. Recycling Institute itself does not represent an area of Brown Coal mining, as it is a research and development institute, with an international engagement, and has no regional knowledge, responsibilities, or archives. AGH, in Poland, is similar, in that it is an educational body, with no specific regional remit (although it has a more developed research interest, which relates to the Environmental component in ReRegions). KEPE, in Greece, is a consultancy, although, in this case, KEPE does have very strict regional responsibilities and knowledge relating to the Prefecture of Kozani, which is itself a partner in ReRegions. Thus the meaningful partners, which are examples capable of illustrating the socio-economic conditions prevailing in consequence of brown coal mining, and against which all views as to the issues relating to the socio-economic climate in these regions can be tested, are:

- The Region of Usti
- Oviedo Chamber of Commerce
- The District of Burgenlandkreis
- The Prefecture of Kozani

We will therefore first explain the socio-economic issue, as Recycling Institute perceives it; then analyse the problems which Recycling Institute believes to be the cause of the issue; we will test this analysis against our experience of the partner regions; and conclude by offering an innovative approach which has the potential for addressing the problems and changing the context of the issue for the regions in the partnership, and others which might be influenced and affected by this work. It is worth noting now, that socio-economic regeneration is a

challenge that does not restrict itself to areas of brown coal mining, but to all areas dominated by heavy industry, which has gone into decline. Hence the value of this work is not local or small-scale, but applies to the post-Industrial environment caused by heavy industry throughout Europe. The quality of thought and ideas represented in the Issue Reports prepared for the ReRegions socio-economic component is therefore critical.

The Issue

Recycling Institute believes that the Issue confronting socio-economic development in this context is simple, but quite cruel.

This theme engages with one overwhelming problem, solutions to which are required for any progress to be made. But solutions are not easy to come by. The problem is that economic regeneration is most difficult in those regions that most need it, because these are the regions where economic activity is likely to have been impossible in the first place. There is a natural link between economic activity, ease of access, transport and communications, and population density. The geographical distribution of enterprise is not accidental, random or haphazard. Areas of brown coal mining have tended to be remote, underpopulated regions, of low economic activity, until coal was discovered. When mining ends, the conditions required for active economic life also end. But the area has now become more heavily populated by the workforce attracted to the region by the opportunity of employment in the mines. The sequence we are dealing with is:

Remote thinly populated area when...
coal is discovered when...
population explodes (it would more than double or treble) when...
mining supports the region when...
mining becomes uneconomic or exhausted when...
employment declines when...
job opportunities are not adequate for the size of the population when...
socio-economic hardship results.

The Issue is:

What happens next?

The Origin of the Problems

Recycling Institute believes there are different reasons to account for the socio-economic problems. The most notable are:

Cost of Labour

The cost of labour in all sectors has prompted a shift in manufacturing away from the developed and expensive labour markets in the West, towards the cheap labour markets in the East, which have been made available by the lowering of trade barriers, which is a feature of globalisation. This, in some ways, can be interpreted as a shift in the exploitation of labour.

This aspect of globalisation has caused some controversy that already threatens the further development of the trend. The history of human rights shows, time and again, that a liberal governing class will assert its values and require human exploitation to stop. Slavery was not ended by the slaves, but by the societies observing it from a distance. The exploitation of the working classes in industrial Britain was not stopped by the Trade Unions, but by the groundswell of opinion from the governing classes.

In the modern global economy, the multinational corporates have largely shifted the exploitation of cheap labour from the affluent western economies to the poor economies of East Asia.

This has created prosperity in some regions. But it has also created hardship and deprivation in those areas that were, in the past, the most active areas of industrial activity.

Mining is no exception to this. Although mining was a harsh, cruel and dangerous environment in which to work, and its history is characterised by awful demands on the bodily health and well-being of its workforce, the reason why it has declined in the West is economic. The cost of extraction became too high, and cheaper energy became available from other sources, most notably those poorer economies where labour is cheaper.

The Failure of Economic Development

Economic development strategies have been used to combat the problem. But the consequence of the failure of large, single employers in mining regions, which have traditionally been remote from other employment centres, hence exclusively dependent upon the one economic activity, have been disastrous. High levels of unemployment, poverty, hardship and ill-health have become apparent. These have been accompanied by a consequent growth in crime, abuse, violence and exploitation. Economic development strategies have, to date, struggled to overcome these problems.

The problems become circular, and can be seen in many communities in Scotland where mines have been closed. The political will to address them has been weakened, not least because the problems are so difficult to solve. Re-location and the complete death of some communities was, for a period, the strategy favoured most by the politicians.

This solution acknowledges the obvious fact that communities in remote regions which were created as a result of mining are located in regions that had not previously supported commercial enterprise, and, once mining ends, have no reason to support enterprise in future. The geography of commerce is an important issue in this respect. Commercial centres have traditionally developed at points that favour communication, transport or production. When none of these conditions is satisfied, the area will not naturally generate commercial activity, and economic development can provide little to alter this.

Dependency Culture

Mining communities throughout Scotland, England and Europe are struggling to come to terms with this problem. They suffer from the continuous erosion of activity, opportunity and self-sustaining commercial life. A dependency culture has been created, in which subsidy and social funds have been used to maintain social structures, and to attempt economic development. Business and job creation has been attempted against a background of collapsing social cohesion. The concept of social exclusion has been created for those communities in the First World that are no longer able to support themselves. It is a useful replacement for "poor" or "deprived", because these communities possess modern amenities, and most households own cars, televisions, use central heating, electricity and modern plumbing. But they are excluded from mainstream commercial activity and active social participation in a prosperous, independent society. Hence they are quite specifically excluded from society. The dependency culture perpetuates this, in which all sides are unconscious enablers, complicit in a system that traps all concerned in a co-dependent relationship. The agencies depend on their recipients, and the recipients depend on their agencies. Without one, the other would cease to exist.

Competition

The consequence of competition in a mature free market economy are that the strongest competitors will naturally attempt to remove the power of weaker competitors, which gives rise to centralisation and concentration of economic activity.

In considering this problem, it is necessary to make a distinction between macro and micro economics. Although the economic climate of the micro regions concerned in ReRegions reflect the withdrawal of a single major employer, and a growing dependency on a much larger number of small enterprises, the macro economic picture is somewhat different.

At a macro-economic level, the trends of the last thirty years in areas of economic hardship have been accompanied by opposite trends elsewhere. Numerous small businesses have been acquired and absorbed within larger corporate, frequently multi-national companies. This phenomenon has been made possible by the lowering of trade barriers known as globalisation. The pattern has been encouraged by the expansion of the European Union, and the economic power of the US.

In consequence, there are numerous industries, such as alcoholic drinks, non-alcoholic carbonated drinks, confectionery, automobiles and grocery retailing, as well as heavy industries such as energy, steel, and extraction where the character of the economic landscape has shifted from numerous local companies serving a local market, to a few, large, international companies serving many different regional and national markets.

Examples of this are numerous. The Scotch Whisky industry in 1960 boasted more than 100 different companies in Scotland. In 2006, there are no more than 10, and these are overwhelmingly dominated by one huge multinational company, Diageo. The Brewing Industry in England has undergone a similar transformation, as has the automobile sector. There are no longer any indigenous car producers in the United Kingdom.

The consequences of competition are the centralisation and concentration of production in regions advantageous to the producer, stripping out employment and economic activity in regions less advantageous to the producer.

Does this Analysis reflect ReRegions partners?

The ReRegions partners observed by Recycling Institute reflect these characteristics in different ways.

Kozani, in Greece, is still active in mining, and the region still employs a large and stable workforce. With production projected until 2050, the threat to the workforce directly employed in the extractive industry is negligible. However, unemployment is high, economic development activity is limited, and business creation is largely unsuccessful. In other words, the problems that relate to communities where mining has ended also relate to Kozani. Like them, Kozani is a remote region, with few advantages in terms of location, transport, access, or convenience. It is also a region where traditional economic support methods are struggling, such as agriculture, and nothing has appeared to replace it. The above analysis matches the situation in Kozani with regard to the concentration and centralisation of industry due to competition and globalisation.

Burgenlandkreis, in Germany, is similar in that it projects continued activity in mining for several decades, and sustained employment in the industry. But, as with Kozani, unemployment levels are high, and attempts to stimulate economic development have not been successful. Unlike Kozani, Burgenlandkreis is neither remote, nor inaccessible. In this case, however, the reasons relate to the Unification of Germany, and the effects of opening up the economy to free market capitalism. The effects of competition were particularly important here. Many industries that thrived in the former GDR were closed down as soon as the more robust West German competitors gained access to them. They were bought up, absorbed, stripped of any asset value, and closed. Burgenlandkreis provides strong evidence in support of Recycling Institute's analysis with regard to the effects of competition.

Asturias, in Spain, is a good example of a region where mines have been closed. It is a remote, inaccessible, rural region of Spain, where little economic activity existed prior to the opening of the mines in the 19th century. It became highly successful as a result of coal, but the end of the industry in the region has caused major problems. Asturias reflects nearly all the features of the analysis provided above, except that the economic development activities have been original, exciting, adventurous and progressive. They have also been notable, throughout Europe, for being successful. In particular, the example provided by Valnalon is one of the best illustrations of good practice in the field throughout Europe.

Usti, in the Czech Republic, is also a good example of a region where mining is ending, and the effects follow the path indicated in Recycling Institute's analysis. Usti combines the problems of a remote rural environment where mining is coming to an end with the difficulties created by the end of socialism in 1990, and the change to a free market economy. Attempts to regenerate the declining economy by means of business stimulation have had to fight the problems caused by all the above difficulties.

Can the analysis of the problems be justified by testing it against the practical reality of the ReRegions partners? The indications would suggest that it can.

Any direction suggested by way of solution must therefore take into account the challenge presented by these particularly vicious and depressing problems. We are not dealing with economic or social engineering, but entrenched and deep rooted conditions of economic and social hardship, which admit of no easy remedy.

These problems have often been the subject of glib and meretricious discussion by politicians wishing to claim success for their own reputations. Almost always, these discussions are followed by initiatives that achieve nothing in reality. This is nowhere more demonstrable than in the region where Recycling Institute is established, Scotland, where the job and business creation strategies have continuously and repeatedly failed, despite high investment levels.

Innovative Development Routes for the Future

The capacity to achieve any successful new direction for addressing this socio-economic issue depends on the quality of business creation policies, which need to promote activities of a kind that so far have been less effective than required. This requires innovative thought.

The capacity to achieve this also demands entrepreneurship of greater quality and quantity than has so far been achieved, and a new understanding of how best to promote and encourage this must be offered. The motivations and skills required for independent, self-sustaining business life must be encouraged.

The capacity to compete is also essential for effective outcomes. Uncompetitive businesses will always fail. Hence the regional economy must be developed with a clear cutting edge in its competitive terms.

The following **Development Routes** are offered for consideration:

a Recycling Businesses/The Green Economy

Recycling is a natural niche sector for business creation to address the problems outlined in this issue:

- It is part of the Green Economy, which is the only growing sector of the global economy
- It will continue to receive increasing levels of public sector attention and investment
- Regulatory regimes will increase statutory recycling targets
- It uses low cost source material
- Its channels of supply are readily accessible

It is therefore a natural target for business activity within areas of socio-economic deprivation.

However, there are certain obvious problems with development of business creation in this sector.

The activity of recycling throughout Europe is principally undertaken by Local and Regional Government, which has statutory responsibility for waste management. Recycling activities are driven by the requirements of the EU Landfill Directive, according to which specified fractions of the waste collected must be diverted from landfill, in stepped targets up to and including 2020. Local Authorities are generally supported by large, private sector waste management operators, to whom the collection and disposal services are sub-contracted. In addition to this, there is a large number of small, community recycling businesses, which is dominated by the voluntary sector. CRNS (Community Recycling Network Scotland) estimates there are 166 community recycling businesses in Scotland alone. Their total turnover in 2005 is estimated to be £18 million, which means an average of £108,400 per business, and their total employment in 2005 was 754 full time equivalent staff, which means an average of 5 people per business. These are very small businesses. They tend to struggle for life, and be partially or heavily dependent on public subsidy, without ever achieving independent self-sustaining life.

It is thus obvious that, although recycling activity has substance and receives investment at Local Government level, it has thus far struggled as an activity for business creation. New thinking is required for business creation, and entrepreneurialism, to be successful in this sector. It will require new strategies to foster the change from a culture of grant dependence on state subsidy.

The challenge is to answer the questions, what kind of new thinking will be effective? What change in strategy might foster the change in culture, to help take advantage of the opportunities in recycling for effective business creation?

b Social Enterprise

Social enterprise is a second natural focus for business creation to address the problems outlined in this issue.

In terms of the macro-economic changes caused by the decline in industrial economies, the relationship of society to commerce is changing. Social enterprise has always played a role in industrial economies, and the co-operative movements throughout Europe in the 19th and 20th Centuries have been influential in maintaining the link between the community and commerce. It becomes especially important now, when the economic difficulties of industrial decline are creating social problems. How can the role of social enterprises be given a new character in order to help address these problems?

Social enterprise is also already an active sector. It is well researched, receives considerable political attention and public investment. In Scotland, Senscot's (Social Entrepreneurs Network Scotland, a networking organization for the sector in Scotland) database lists 1000 social enterprises, which is probably one third of the total in Scotland. In a recent Senscot survey of the support needs of the sector, 111 questionnaires were completed (an 11% sample). The enterprises have a collective board membership of 710 people. The social enterprise sector in Scotland may engage 20,000 people at board level. A 2002 HIE study, on the other hand, estimated that the social economy in the Highlands and Islands comprised over 8,000 organisations generating an annual income of some £360 million, an average of £45,000 per organization.

This disparity highlights a problem of definition. What is a social enterprise? Definitions sometimes include businesses such as The John Lewis Partnership and the Co-operative Movement, and sometimes exclude these examples of collective ownership.

These difficulties are mirrored in the local Tayside region of Scotland. A recent study into the Social Economy commissioned by the local SEP (Social Economy Partnership) which involves Dundee City Council, DVA, Communities Scotland and SE Tayside makes no attempt at precise definition or measurement. It sub-divides the social economy into sectors, which themselves are hard to define and measure, ranging across voluntary organization in education, sports, health and arts, as well as those businesses attempting to serve areas of social exclusion.

However, it also highlights another problem. By any standards, the greatest proportion of social enterprises are small, struggling and unable to achieve long-term growth. This causes a particularly difficult relationship with Economic Development in areas of economic deprivation. Subsidies are never large enough, and yet they are being wasted on job creation when the jobs they create disappear as soon as the subsidy is no longer offered. There is pressure on the Economic Development Agencies to support social enterprise, but its job creation outcomes are rarely satisfactory.

In areas of comparatively greater economic deprivation, the sector is well served by agencies, both public sector and voluntary, with the declared purpose of helping the social economy. These are numerous in Scotland, and are led by Scottish Enterprise. These agencies now recognise a need for imaginative thinking and new ideas to contribute to economic development at every level. In Scotland, more than 50% of the national work force is employed in the public sector. It has an urgent need for economically productive and self-sustaining activity. In this climate, all ideas are considered, and the development of discussions concerning social enterprise and social entrepreneurship has caught the attention of the Government as well as the voluntary sector.

The potential for new thinking to be developed within this project is therefore of great interest.

c Incubation for Business Creation

Incubation is the final focus for business creation to address the problems outlined in this issue.

Unlike social enterprise and recycling, business incubation has no specific public remit. Its origins as a device for economic development, and productive wealth creation, owe as much to the private sector as they do to the public sector. It also suffers from a difficulty in definition, although this has more to do with the comparatively small and under-researched nature of the sector. EU research into Benchmarking of Business Incubators suggests that there are less than 1,000 incubators in the whole of the EU. Equally, there are thought to be no more than 200 incubators in the UK. However, statistical measurements are unreliable. It is certain that there are few true incubators in Scotland, and none of substance within the Tayside region. There are some initiatives within the University sector, the most recent being the launch of ACE by Abertay (Abertay Centre for the Environment), but these are not really incubators in the true sense of the word, offering little by way of business development support services. Incubation for the private sector has been an area of experimentation within the Scottish Enterprise network, and also in the private sector in Scotland, however, and there is much to be learned from the failures and successes. There is also much to be learned from US models of incubation in the private sector, especially in relation to the importance of leadership within the incubator and also the funding streams for the tenant companies. The US model uses a much more aggressive private sector investment strategy.

Incubation as a strategy for fostering the changes required for greater entrepreneurialism, business creation and independent enterprise is a useful theme.

In each of the three proposed development routes, **Innovations** are suggested for the change in strategy required for the changes in culture and the performance of business creation. These innovations set out to re-define terms and so invite a new strategic focus. The innovations are as follows:

What is a social business? A social business has been variously defined as a business that is owned by the community, managed by the community, whose profits are for the benefit of the community, whose products or services are for the benefit of the community, or which is set up to employ the community. The confusion this creates is then further complicated by a tendency to speak of social business and economic deprivation in the same breath, as if the purpose of social business is to alleviate economic deprivation. The consequences of this muddle are firstly that social businesses are hard to assess and measure, and secondly that

they have a tendency to appear to be failures, because the recent fashion to identify them with economic deprivation highlights those that are least likely to achieve self-sustaining life.

The concept of social enterprise long predates the development of the term. The Co-operative Movement is one example of social enterprise at its simplest, and has maintained robust and vigorous life throughout the economic fluctuations of the last century. The John Lewis Partnership is another example of a social enterprise that has flourished. There are many Victorian experiments with social business long before the term was used, from Robert Owen on, which also shed interesting light on the subject.

As if the difficulty with the concept, social business, was not enough, the debate was further blurred at the end of the 80's by the adoption of a concept of social entrepreneurship, which must also be considered.

What is social entrepreneurship? The term was created in the UK after the Thatcher years had seemed to elevate entrepreneurship to new levels of achievement. It was adopted by the social sector to harness its impetus and dynamism within a group that had seemed to be left behind in the economic acceleration of the 80's. It made the glib connection between capital and social capital, and suggested that, while a private entrepreneur risks capital investment on an adventurous business start-up, the social entrepreneur uses social capital on an adventurous business start-up. The concept of the Intermediate Labour Market (an intermediate employment stage for the long-term unemployed, between unemployment and employment) had already been invented in the early 80's as an economic development tactic, but this was adopted as the mechanism by which social capital could readily be deployed, at no risk, since the costs were born by the Employment Services.

Social Entrepreneurship was also undermined by the tendency to link it exclusively to the purpose of alleviating economic deprivation, with the consequence that it quickly became ghettoised. Social entrepreneurship seemed to be exclusively for the poor – set up in poor communities, employing poor people, offering goods and services that were sourced from poor people and sold to poor people. They seemed unable to break out of these limitations. Charity shops, which had existed for many years previously, seemed to be more effective at achieving the same end as many social enterprises born of this theory.

Recycling Institute offers ReRegions a conceptual innovation in the basis of social enterprise.

This concept is to offer something that is new in the model of the social enterprise, which will provide a different impetus to the concept of social entrepreneurship. The core of this new concept is a mixture between the idea that:

- Social entrepreneurship is only capable of succeeding if it has the engagement of the whole society, not just the disadvantaged
- Social entrepreneurship is only capable of succeeding if it has the support and involvement of real entrepreneurs

Social enterprise should also reserve the right to flexibility in its legal model (other than being not for profit, and non-dividend distributing), but must maintain the need to provide a social service in all circumstances.

By re-defining social enterprise, we open up the possibility of new avenues of exploration to stimulate the strategies for business creation in circumstances of economic deprivation.

What is recycling? Recycling, in its conventional context, is the process of resource recovery through re-processing. It is a technological solution to the problem of excessive resource use and waste. As such, it has caught the eye of the public sector throughout Europe as an activity of the future.

However, recycling, in reality, is still a struggling activity, which the affluent Western world sees as a virtuous gesture towards global equity. It is still inconvenient, clumsy and

uneconomic. It is growing slowly as an activity, but is still highly inefficient. Most of all, the mindset to which recycling applies is the opposite of the economically induced culture of the developed world. “Sustainable Development” is an ideology that sums up the officially sanctioned philosophy, and the concept of development is at its heart. Yet economic development is predicated on consumerism, which requires the increasing generation of waste to remain healthy. The less that is thrown away, the less demand for production will grow, the lower the demand, the greater the threat to the machinery of production, wealth, employment and hence sustainable development.

“Recycling” is more than a process, a practice or a technology. It is a philosophy, dimly understood, and barely studied, researched or taught at all. It is a means of understanding our world in an entirely different manner.

For these purposes, the range of recycling businesses should be taken to mean a breadth of activity never before considered, and never before considered to be recycling. By this mean, it is possible to re-define recycling, and this in turn allows the re-definition of recycling businesses, opening up the possibilities of imaginative and unique business creation.

This is another conceptual innovation from current practice for the ReRegions programme.

What is Business Incubation? Business Incubation has been misused as a term, and treated as a catch-all for many things that are not incubation at all. Business incubation is, properly speaking, the process by which start-up businesses, whose life outside the incubator would be more fragile and susceptible to failure, are given the resource and protection required to ensure healthy and self-sustaining long-term life beyond the incubator. All true business incubation requires the businesses incubated to mature and leave the incubator, or to fail and leave the incubator. All true incubators also earn from the companies incubated (tenant companies) and therefore benefit from the success of their own incubation efforts.

Incubation has been treated variously as a glorified serviced office facility; as a means of providing business services at a charge; as an economic development tool for subsidised job creation; or as a means of grouping business clusters together, also at a charge, for real or imagined synergies.

Each, it will be noted, implies there is a specific value in proximity, and therefore places great emphasis on the benefits provided by a common building, or shared accommodation of some sort.

Yet the true concept of “incubation” does not have any bearing on business location, rather it has a bearing on life-stage, and health of a business. If an incubator is to treat more than one business, the only reason for the two to be in the same place is for the convenience of those supplying the incubation services.

This is a false economy. In addition, the conceptual innovation for incubation to be pursued is the idea that incubation of successful business start-ups requires input from business people who have experience of successful businesses.

These are further conceptual innovations from current incubation practice for the ReRegions programme.

Strategic Proposal

That the strategy to be proposed from this Issue Report should be a new incubator in the Green Economy, establishing start-up and early stage social businesses in recycling, where all these terms are treated with the innovations described above.

Footnote

All these innovations have been stimulated by Recycling Institute’s work in the ReRegions programme and are being pilot tested in Scotland in a new incubator called Green Shoots.