

Shifting Paradigms: The Future of Economic
Development in Appalachia

By Esther White
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Introduction

Since the end of World War II, the perspective in the Western world has primarily been to equate economic development with industrialization. However, over the decades, there has been a growing realization that this traditional view has not always brought about the desired results. Rather than bringing about an improved quality of life for the recipients of economic aid, many well-intentioned economic development strategies have instead created a legacy of increased poverty and environmental degradation. Although some communities¹ *have* experienced economic growth as a result of a focus on industrialization, the overall benefits are frequently diminished by a plethora of unforeseen externalities, such as mass migration into the industrialized area and out of rural areas which leads to high levels of unemployment and shortages of public goods and services.

More and more often, policymakers and development practitioners are approaching economic development from a broader perspective that emphasizes “local solutions for local problems” instead of a “one size fits all” strategy. Through an examination of community economic development theories and practices, an assessment of Kentucky’s economic development approaches, and research into alternative strategies to development that are being implemented around the world and close to home, *Shifting Paradigms: The Future of Economic Development in Appalachia* presents an evolution of thought that is gradually lifting millions of the world’s poorest from the throes of poverty into a sustainable economic future.

Community Economic Development

It is becoming increasingly evident that the most effective local solutions for local problems are implemented from within the community itself. Accordingly, the practice of basing economic development strategies on traditional economic growth theories is giving way to the practice of community economic development.

¹ Throughout this paper, the term *communities* will be used synonymously to speak of a geographic grouping of any size, including a state, region, or nation to indicate that the basic tenets of economic development hold true regardless of the size of the area served.

Defining the Concepts

In *Community Economics: Linking Theory and Practice*, "community" is defined as "a group of people in a physical setting with geographic, political, social, and economic boundaries and with discernable communication linkages" (Shaffer 2). Within a community, people develop relationships in order to attain common goals. Typical methods of studying communities employ the following perspectives of the community as:

- Qualitative: a place to live;
- Ecological: a spatial unit;
- Ethnographic: a way of life;
- Sociological: a social system; and
- Economic: an interaction among economic sectors, income, job opportunities, human capital, and other community resources (2).

Any thorough study of a community will include elements from each perspective.

One definition of "development" is "sustained progressive change to attain individual and group interests through expanded, intensified, and adjusted use of resources; an ongoing process that may progress at different rates over time." While "growth" is usually indicated by an acquisition of more jobs, more income, more people, etc. exemplary development shows an enhanced quality of life through simultaneous changes in social, environmental, and economic venues (Shaffer 3). Development is also more equity-focused than equality-focused and holds human welfare at the core of its processes. Similarly, "economic development" includes "those activities that lead to greater resource productivity, a wider range of real choice for consumers and producers and broader clientele participation in policy formation"(4).

"Positive economics" deals with what *is* and cause and effect relationships. Conversely, "normative economics" looks at what *should be*. From an Economics standpoint, community economic development strives for "social optimality," in which resources are allocated both efficiently and in the way the community

deems fair (Shaffer 8). These value judgments fall within the realm of normative statements. In a competitive market, "Pareto optimality" is reached when no further transactions can occur to make one party better off without harming another and is classified as a positive statement.

The *first fundamental theorem of welfare economics* asserts that competitive markets yield Pareto optimality and efficient resource allocations, but social optimality is not considered (Shaffer 13). Community economic development involves combining the community's value judgments with theories of market efficiency (9). In a more straightforward approach, Colander suggests rather than seeking Pareto optimality that decision makers should use the "reasonable person" criterion in which policies are constructed in a manner that would be acceptable to any reasonable person who is presented with accurate information regarding costs and benefits (7). These perspectives strive to reach allocation levels that are both economically and socially optimal. However, in the real world, this is frequently quite difficult to achieve.

Real World Economics

When it comes to market theories in the real world, there are both explicit and implicit assumptions regarding market efficiency that must hold true. For example, in an efficient market structure, there is perfect competition and transactions occur as parties act for their own self-interests. There are also several assumptions implied when we say the market is efficient, such as everyone behaves rationally, access to all information is free and accurate, there is no risk associated with decision-making, and all goods and services are traded within the market. In the real world, we experience structural market failure when one or more of these assumptions turn out to be false. When the market economy fails to bring about socially optimal allocations of production or income, a performance failure occurs. Often, government intervention through policies or provision of goods and services must compensate for such market failures (Shaffer 14).

Providing Public Goods and Services

When government intervention is deemed necessary to compensate for market failures, there are many factors to consider in seeking an efficient and effective allocation of goods and services within the community. Local decision-makers must design policies and implement strategies that address the difficulties associated

with public provision of goods and services and be prepared to adjust the level of provision if unforeseen problems occur.

Externalities. In the case of public goods and services such as clean air, recreation sites, law enforcement, and highways, there are unforeseen results called externalities which may occur that cause an inefficient allocation within the market structure. These externalities may be negative, such as environmental pollution from industrial sites, or positive, such as community beautification projects (Shaffer 168, 169).

Excludability and rivalry. In the market economy, goods and services are excludable, meaning that some consumers will be excluded from them through mechanisms such as pricing. Goods and services are also considered rivalrous if their use by one consumer keeps another from consuming them. Public goods and services are nonrivalrous and nonexcludable, therefore the private market cannot profit from providing them (Shaffer 168). There will always be free riders who benefit from services without directly paying for them, and it is difficult to determine how much of the service individuals will use. Furthermore, when taxes are attached to the provision of services, it may be argued that individuals generally will not reveal their true preferences regarding how much they use or consume (169).

Property Rights. Additionally, division of property rights, such as the line at which your air ends and your neighbor's begins, are sometimes difficult to establish. In order to provide clean air in a market economy, there would have to be clearly defined property boundaries and a way to limit competitive access to the clean air. There is neither a clear nor simple way to limit the amount of clean air that people consume. Obviously, without public provision of clean air and other similar services, there can be no expectation of receiving them at an efficient and effective level.

Level of provision. One of the greatest challenges that local governments face is deciding upon an efficient level of providing public goods and services. It is generally a straightforward task to measure the inputs involved in providing public goods and services and determine an approximate output level. Measuring effectiveness through *outcomes*, however, is much more difficult to accomplish. Often, higher costs of provision are correlated with lower levels of service, particularly in impoverished areas (Shaffer 173). Local governments may examine levels of provision in other similar communities to help determine an effective and

efficient allocation of goods and services, but it is important to remember that local solutions are essential for local problems.

Tiebout advanced a theory that has proven helpful in determining people's true preferences called "voting with one's feet." The idea that people will migrate to communities which provide the levels of public goods and services they prefer is a good companion to Oates' theory that property values reflect individual preferences. Combined with a focus on the preferences of the median voter, these theories can help provide a framework for strategic economic development planning (171).

Policies. Economic development policies arise from local issues and are primarily based on either a "people" or a "place" strategy. A people-based policy attempts to address the needs of a particular group within the community, such as the disabled or undernourished children. Place-based strategies alter the geography of the economy in a way that ultimately enhances the people's quality of life, such as improved water or sanitation systems (Shaffer 213).

Barriers. Wherever the market fails, there is an opportunity for innovative entrepreneurial leaders to exploit the circumstance for the betterment of the community. Economic development may occur through policy changes, new or established institutions, civic organizations, the private business sector, or any combination of the various sectors of a community. However, Shaffer lists several barriers to development which may exist in a community, including a lack of entrepreneurship, capacity, key resources, or organizations, rigid institutional frameworks and a lack of integration or coordination between economic and political sectors (Shaffer 17).

Another market underprovision which creates barriers to development is access to financial capital through the credit market for people of low income/wealth. The phenomenal growth of the microfinancing industry (MFI) and its subsequent economic opportunities over the last few decades is an excellent example of an alternative solution to the credit market failure.

Human and Social Capital. The concept of human and social capital as necessary inputs for economic development has been widely studied in recent years, and in real world economics, the market underprovides both (Dowla 3). Human capital consists of the individual and collective skills that the work force makes

available for use by employers. Social capital may be broadly defined as “the attitude, spirit and willingness of people to engage in collective, civic activities. Over time, social capital builds what may be termed as social infrastructure.”²

Readiness. Healthy, growing communities are concerned with both monetized and nonmonetized advancements and prefer that local institutions cooperate rather than compete. Economic development requires that the members of the community are ready for stable, steady, deliberate changes and are prepared to cooperate in the transformational process in order to bring about a better way of life for the community's future. As communities demonstrate readiness, community economic development practitioners may initiate local development strategies.

Transitioning to Local Solutions

The changing perspective in economic development has evolved from decades of cumulative economic growth research and offers a more sustainable paradigm for development than does the view of industrialization as development's prerequisite. Along this evolutionary path, decisions have been made at times that have resulted in irreversible negative consequences for the community which was intended to benefit. The construction of the Aswan Dam in Egypt, for example, was completed with the assistance of economic aid from Russia to provide abundant electrical energy for an emerging industrialized economy (Schumacher 6). Among its immediate effects were the inundation of Nubia and the unexpected relocation of some 90,000 Nubian peasants who are still striving to regain their lost culture more than thirty years later. Additionally, irretrievable Egyptian cultural heritage was washed away as many valuable archaeological sites were destroyed by the flooding. Today, scientists say that Aswan's environmental impact on the southeastern Mediterranean area has become an unforeseen consequence which has caused a major alteration of the marine ecosystem (Sayed). Economist E.F. Schumacher³ astutely observed, “Poor countries⁴ slip, and are pushed, into the adoption of production methods and consumption standards which destroy the possibilities of

² envision.ca/templates/profile.asp?ID=56.

³ Schumacher used the term “appropriate technology” to promote his economic philosophy of designing economic development to meet local solutions or a “technology that fits.” For more information, see www.schumachersociety.org/about.html.

⁴ For the purposes of this particular study, it may be beneficial to substitute the word *communities* for *countries*.

self-reliance and self-help" (6). Intended to describe economic development efforts in underdeveloped countries, these words also apply to similar economic circumstances in Appalachia.

Economic Development in Appalachia

Often referred to as a "third world nation" within the United States, the Appalachian region is a good example of an area that has struggled to grow economically despite decades of economic aid and development projects intended to bring prosperity and an enhanced quality of life to impoverished and environmentally degraded areas. In the Appalachian Regional Development Act of 1965, Congress stated that "the Appalachian region of the United States, while abundant in natural resources and rich in potential, lags behind the rest of the Nation in its economic growth and (that) its people have not shared properly in the Nation's prosperity." As a result of this act, the Appalachian Regional Commission (ARC) was established as a partnership between the federal government and states within Appalachia to develop and coordinate programs which encouraged economic development in the region (ARC).

According to ARC's website, in 1965, one in three Appalachians lived in poverty. That figure was reported to have been cut in half in 1990. Although this statistic shows economic progress overall, there are many Appalachian communities whose populations still subsist well below the national poverty level. While a variety of factors contribute to this continuing circumstance, one of the most significant is the fact that Appalachia once held an abundant wealth of coal, arguably the single most important requirement at the dawning of the Industrial Age. While several corporations were made wealthier from coal extraction, many Appalachian communities flourished only briefly and ultimately suffered the consequences of providing scarce natural resources and human capital for profits that went elsewhere.

During the nineteenth century and into the twentieth, absentee ownership of coal-rich mountain lands established a pattern of extracting scarce natural resources from communities which enjoyed few benefits from the profitable enterprises. As the coal companies gradually depleted the rich veins of fossil fuel and pulled out of Appalachia, many communities, such as Benham, Kentucky and Clearfork, Tennessee reverted to economic conditions that were worse than ever before. When the land belongs to someone else and the economic outlook looks bleak, people have a tendency to migrate in search of a better life. Benham and

Clearfork lost over ninety percent of their populations to outmigration, and those who determined to stay in the beautiful region they have called home for generations are still struggling to rebuild the communities and create a viable local economy.

Asset-based community development. Policies that intend to alleviate areas of economic distress work best if they are structured as place-based people strategies, a combination of the aforementioned policy design strategies. In general, development priority is given to areas possessing the most potential for productivity, but these areas are frequently not the places in greatest economic distress (Shaffer 214). In order to address poverty issues in Appalachia, alternative approaches are increasingly being utilized that fit with the distressed area's unique circumstances. Asset-based community development (ABCD) seeks to identify and define a community's resources and develop strategies that fit the local economy and allow community "self-development" (228). For the people living in Benham and Clearfork, employing ABCD as a sustainable community economic development strategy has brought about positive change.

Benham. In Harlan County, Kentucky, the community of Benham is home to around 600 people. Once a thriving coal town built by Wisconsin Steel's International Harvester subsidiary in 1911, Benham's population steadily declined and its economy virtually collapsed after the company pulled out in 1970.

Determined to survive economically and build a community that would give its young people a reason to remain in the mountains of Kentucky, a small group of women formed a "Garden Club" in 1990 which established a thrift shop and began other fundraising initiatives for downtown revitalization projects. The group's successful efforts eventually landed one of their leaders, Betty Howard, in the office of Mayor. The "Petticoat Mafia," as the group became known at City Hall, continued to improve Benham's economic status through the purchase of new city vehicles such as a fire truck and garbage trucks.

Today Benham is building a tourism-based economy that makes use of its local assets and also serves to preserve its rich history through such attractions as The Kentucky Coal Museum, a Coal Miner's Memorial Park, and the Benham Schoolhouse Inn, a former coal town school building which now houses a hotel and restaurant. Through initiatives that seek to find local solutions to local problems, a community that was once slipping into economic oblivion has become a place where people are proud to live and work.

Increased access to jobs and an enhanced quality of life is causing many former residents to return to Benham.⁵

Clearfork. Communities within the Clearfork Valley area of Tennessee have formed several coalitions over the past few decades in an effort to rebuild an economy that was devastated by the aftereffects of coal mining in the region. At the height of Clearfork's economic prosperity, 12,000 people resided there (von Dach 28). In the years following the closing of area coal mines, ninety percent of the area's population migrated to more prosperous locales. Correspondingly, financial resources and local provision of services declined, leaving the remaining residents struggling to maintain the community.

One group of local citizens approached the state government for assistance in attracting industrial companies to Clearfork, but found that the community did not meet the government's requirements for incorporation or industrial site provision (von Dach 29). In response, the Model Valley Development Corporation was formed and succeeded in attracting a sewing factory and a wood pallet builder.

When Marie Cirillo first moved to the area in the 1970s, she found that ninety percent of the land in the Clearfork Valley was owned by absentee companies. Believing strongly that lack of property ownership adversely affects the development of a local economy, Cirillo began mobilizing community groups to take charge of their own economic development through such initiatives as the Woodland Community Trust,⁶ which purchased 400 acres of absentee-owned land and leased it to local residents; the Woodland Community Development Corporation, formed to assist with new home construction and mortgage financing; the Mountain Women's Exchange, which contracted with a college to provide courses locally; Save our Cumberland Mountains, a five-county environmental advocacy group which battles strip mining; and the Clearfork Community Institute, a "living-learning" facility that offers community members of all ages a variety of educational and social services (Cirillo 9 and von Dach 30).

Funding Economic Development

⁵ This information was gathered during an interview with Mayor Betty Howard and the Petticoat Mafia in Benham City Hall in June 2004.

⁶ Community land trusts are a model developed by Robert Swann and Ralph Borsodi in the 1960s (Meeker-Lowry 105).

Much of the economic development aid to the Appalachian region has gone to build infrastructure that was intended to enable industrial access to isolated communities in need of economic revitalization. However, studies have shown that businesses actually value other criteria more than new roads and tax incentives when considering locating their production facilities in underserved areas, and that, in many instances, economic development dollars would be more efficiently allocated if used to finance local entrepreneurial endeavors and public goods and services within the community (Lynch vii).

At the state government level, this way of thinking is in its infancy in the Commonwealth of Kentucky. Despite little statistical progress in areas crucial to economic growth over the last few decades, Kentucky's economic development strategies adhere to the traditional narrow focus of industrial recruitment through tax incentives, one of the most expensive approaches according to Lynch (1). In *Accounting for Impact: Economic Development Spending in Kentucky*, the Mountain Association for Community Economic Development (MACED) reported that in 2004, Kentucky spent \$808 million in economic development, an estimated \$571 million of which was in the form of tax expenditures (Bailey 2).

Tax expenditures at the state and local levels generally come in the forms of loopholes, credits, and abatements and tend to be undervalued when economic development spending is scrutinized. Lynch further estimates that tax incentives cost state and local governments in the US approximately \$50 billion annually (1).

Tax burden. All too often, taxes are considered only from the "tax burden" perspective rather than as the source of finances for provision of public goods and services, leading to the argument that tax breaks for industrial recruitment is a practical approach (Lynch 4). Without considering the "tax incidence," the true nature of the tax burden cannot even be determined (5). Because taxes amount to such a small portion of a firm's expenses, Lynch also states that the decision to locate in a particular area is usually not based on tax incentives (16).

Many companies which locate in Kentucky have what amounts to a negative tax rate to them and an unnecessary loss of services to the taxpayers (Stamper 5). A 1997 study by Ronald Fisher found that investments in transportation, education, and public safety held more overall economic benefit for

communities than tax incentive investments for industrial recruitment (Lynch 43). Furthermore, Bartik determined in 1996 that increased spending on higher education and health care generally produced higher manufacturing output within the jurisdiction within eleven years (Lynch 45).

Unpleasant consequences. Across the state, several abandoned industrial sites stand as mute witnesses to the failure of Kentucky's economic development approaches. For example, in Pikeville, the government gave Sykes Enterprises land and free title to buildings as part of its incentive package. Less than five years later, the county government had to buy back some of the land that Sykes had abandoned when it moved operations to El Salvador (Stamper 3). In Wolfe County, Whiting Manufacturing was given a grant of \$450,000 for a production and work force boost that never occurred. The money was not required to be repaid (1).

Shifting paradigms. After investing billions of seemingly ineffective dollars in economic development throughout the state over the last few decades, taxpayers are beginning to demand a higher level of accountability which includes evaluative measures to assess the benefits of those costly investments and the exploration of alternative approaches to economic development. Although industrial recruitment should remain a primary strategy for development, the overuse of tax expenditures as incentives must be shifted to a more practical, less costly strategy.

In addition, the government of Kentucky should begin to diversify its strategies and allocate more economic development dollars to other critical areas such as quality education, training and workforce development, rural development, community development organizations, and small business entrepreneurs.⁷ Furthermore, several innovative and successful alternative strategies for community economic development have emerged that deserve consideration for application in Kentucky and the Appalachian region as a whole. Microenterprises,⁸ microfinancing, business incubators, social entrepreneurship, socially-conscious investing, and nonconventional partnerships between communities, government, and the private sector are a few of the

⁷ Economist Joseph Schumpeter defined entrepreneurs as “innovators who drive the creative-destructive process of capitalism” by reforming or revolutionizing production patterns (Dees 1).

⁸USAID defines microenterprises as small, “informally organized, non-agricultural businesses that often employ a third or more of the labor force in lower-income countries (What are Microenterprises 1). In the United States, microenterprises are businesses with five or fewer employees which generally require financing of \$35,000 or less to start up or expand.

possible solutions to local problems of economic development that may prove to be paradigms worthy of state and regional governmental funding.

Innovative Approaches

As we have seen, the dictum “local solutions for local problems” is central to successful community economic development. Accordingly, Schumacher’s concept of appropriate technology in economic development held “technology that fits with the region” as a core consideration. However, Schumacher also stressed the central concept of *permanence* when he espoused that “Nothing makes economic sense unless it is sustainable” (30).

Schumacher believed that the market represents only the surface of society and falls short of providing for all of society’s economic needs. He also observed that economic decisions tend to place more value on the short term rather than the long term, passing the rather harsh judgment that “In a sense, the market is the institutionalization of individualism and nonresponsibility” (42). Furthermore, Schumacher astutely observed that economic development strategies tend to preclude accurate analysis of the true costs of the one material factor that is the precondition of all other factors of production: energy (114). In constructing economic development policies and strategies in today’s world, the issues of environmentally- and socially-sustainable programs and energy generation and conservation cannot be undervalued.

Filling the gaps. As mentioned previously, sometimes the market fails to provide a desirable level of provision of essential goods and services and government provision helps to compensate for these failures. However, empirical and statistical assessments of past economic development strategies have shown that government intervention often fails to bring an appropriate allocation of goods and services to many segments of the population that are in economic distress. In an effort to fill in the gaps, entrepreneurial leaders from around the world are using resilience and innovation to find practical, sustainable economic development solutions for many underserved sectors of society that would otherwise remain immersed in poverty.

Following is a brief overview of some alternative approaches that have been successful in various areas and are worthy candidates for consideration from community development practitioners and

policymakers in shifting the paradigms for economic development to a more “local solutions for local problems” strategy.

Microcredit. Economics professor Muhammad Yunus launched a project in his native country of Bangladesh in 1976 to alleviate the oppressive cycle of borrowing from local moneylenders that rural non-landowners endured in order to live from day to day. Yunus’ project targeted the poorest of the poor and repudiated traditional banking systems by establishing a rural bank, which he named Grameen,⁹ to provide unsecured microloans to the skilled, but impoverished, villagers of Jobra. Adhering to the wisdom he acquired from his graduate school professor at Vanderbilt, Yunus tackled the problem of lending money to the underserved poor of Bangladesh with the view that “things are never as complicated as they seem; it is only our arrogance that prompts us to find unnecessarily complicated answers to simple problems” (Yunus 19).

From Yunus’ simple “local solutions to local problems” approach, Grameen has grown to include 2226 branches across Bangladesh and works in 71,371 villages with a total staff of 18,795. The 6.7 million borrowers, 97 percent of which are women, own 94 percent of the bank. Since its inception, Grameen has disbursed almost \$6 billion, and with a loan recovery rate of 99 percent, \$5 billion of that amount has been repaid. Grameen has successfully operated without receiving any donor funds since 1995. Furthermore, Grameen Bank has made a significant contribution to Bangladesh’s Gross Domestic Product (GDP). Between 1994 and 1996, the average was 1.3 percent of GDP (Grameen).

Grameen’s model and variations of it has spread around the globe. In the Philippines, Malaysia, Vietnam, South Africa, and Bolivia, just to name a few, successful microcredit programs are in operation today.

In the United States, microfinancing is considered an emerging industry. The International Year of Microcredit, 2005, saw the Federal Reserve Bank of Dallas calling for the credit market to accommodate the low-wealth segment of society, traditionally ignored for its uncreditworthiness (Norman 1). The ARC has launched an entrepreneurship initiative which views the use of microfinancing as both economic and social development (Evaluation 1). MACED also includes financing microbusinesses in its economic development

⁹ Grameen means “rural” or “of the village” (Yunus 92).

initiatives in the region (Investing 1). For lenders, investors, and low-wealth consumers, there exists a virtually untapped market for services.

Incubators. Although far from being a new idea, business incubators are becoming increasingly attractive as a means of developing the economies of several communities within a geographic region. A business itself, an incubator offers facilities, equipment, technology, and services to small enterprises that lack the financial capital to launch full-scale operations. The ARC reports that 72 incubators in 60 Appalachian communities have graduated 890 businesses and created 14,000 jobs (ARC).

In rural southeastern Ohio, the Appalachian Center for Economic Networks (ACENet) provides incubator services for small start-up businesses in the food, agriculture, artisan and wood sectors, giving priority to those who are lower income area residents. Across town, Ohio University operates a business incubator which helps build technology-based enterprises in the area as part of their vision for enhancing the economic status of Appalachian Ohio. Increased financial support for new and existing incubators would be a good investment of economic development dollars in many impoverished regions made up of rural and isolated communities which have established a need for such a facility.

Social Entrepreneurship. Filling the gaps that the market economy and government provision of goods and services have created in community economic development has given rise to an innovative new concept that has become known as social entrepreneurship. Dr. Alex Nicholls of the Oxford University's Skoll Centre defines social entrepreneurship broadly as "any venture that has creating social value as its prime strategic objective and which addresses this mission in a creative and innovative fashion" (9). Paul Light further describes social entrepreneurs as navigators of social and institutional barriers to communities and markets (6). Social entrepreneurs may be seen at work all over the world, in organizations both small and large, determinedly pursuing visions of sustainable social and economic development in areas where change is needed the most. These individuals and organizations maximize entrepreneurial skills and utilize their abilities to pull diverse resources together in order to achieve their goals.

Although social entrepreneurship originated with a passion for social change driven by entrepreneurial spirit, it has evolved in the business world from the concept of socially-responsible

businesses, a trend which began with Fortune 500 companies seeking to improve their social contributions. Smaller companies, such as Timberland and Newman's Own, were quick to further progressive causes by adopting socially- and environmentally-responsible standards and committing a portion of all profits to a variety of charitable organizations.

This trend spawned more organizations, such as Business for Social Responsibility (BSR) and the Social Venture Network (SVN), which were founded to help establish a network for businesses who were interested in furthering progressive change in society (Shuman 8).

Although any corporate involvement in social change is beneficial, much more than financial contributions are needed in many underserved areas. Thus, social entrepreneurship, with its emphasis on local ownership, has evolved as a more effective approach to the economic development strategy of "local solutions to local problems."

Recently, new organizations have formed which promote local ownership of the economy in conjunction with social and environmental reform and offer social entrepreneurs a variety of supporting services. The Business Alliance for Local Living Economies (BALLE), headquartered in British Columbia, is working to build a global network of local businesses who are "dedicated to building strong Local Living Economies."¹⁰ The American Independent Business Alliance (AMIBA) is a national coalition that seeks to support home town businesses that purvey community character and build local economies.

Social entrepreneur Bill Drayton founded Ashoka, an organization whose focus is upon building the citizen sector.¹¹ Drayton believes the citizen sector is the fastest growing facet of society and that "everyone is a changemaker." Ashoka estimates that the citizen sector is "halving the gap between its productivity level and that of business every 10 to 12 years" (Drayton 5). As resources flow into this sector, major growth has occurred in recent years, generating jobs "two and a half to three times as fast as business" (5). Through social entrepreneurship, Drayton is mobilizing communities to become active participants in local economic development.

¹⁰ www.ballebc.com.

¹¹ Citizen organizations seeking to promote social change.

Social Investments. In the past, not-for-profit nongovernmental organizations (NGOs) which were funded primarily by private donors worked to fill social and economic gaps. Increasingly, however, donors are finding that social entrepreneurs are more effective in generating the desired social returns on investments (SROI) that are sought and provide more transparency and accountability than the nonprofit sector. Consequently, there are an increasing number of business and public policy programs within academia that are training social entrepreneurs (Lafuente 1). This increased visibility is also leading to the creation of investment companies that are building and promoting social investment portfolios of businesses with a double bottom line.¹²

Venture philanthropy (VP) “provides a blend of performance-based development finance and professional services to social purpose organizations” in a manner similar to private financing through venture capital (John 1). Permira, a private equity firm worth \$26 billion, partnered with Community Action Network to start a VP fund in 2006 that focuses on supporting sustainable social enterprises (2). Unitus is a nonprofit organization that uses the Unitus Acceleration Model to combine venture capital and investment banking practices to direct finances to MFIs globally.¹³ The Calvert Foundation channels investments into social entrepreneurship endeavors that fit strategically within its “Theory of Change” (Berlin 3).

SROI. Both venture capitalists and venture philanthropists follow their investments closely with the expectations of a return on investment. However, as government and NGOs can attest, program outcomes and SROI can be wide-ranging and rather difficult to monetize with any measure of accuracy. For example, in assessing the Calvert Foundation’s investments in affordable housing enterprises, Berlin observes that “it is quite likely that some of the benefits of homeownership result from the individual’s determination and personality” rather than as a result of Calvert’s social investments (4). To address problems associated with accurate assessment of the outcomes of investments made in sectors which work for social change, several organizations are working to develop innovative and effective SROI analysis models.

¹² Whereas most businesses have economic dividends as their solitary bottom line, many now also strive for returns in the form of social dividends, or a *double bottom line*, in order to add *purpose* to corporate goals rather than just *profit* (Boschee).

¹³ www.unitus.com/sections/aboutus/aboutus_mh_main.asp.

The Roberts Enterprise Development Fund (REDF) utilizes an evolving methodology that assesses SROI through a series of steps that calculate enterprise and social purpose value and a blended value of the two. The social purpose value is determined using a discounted cash flow analysis of socioeconomic results from direct factors such as increased employee income taxes and tax dollars saved from lessened dependence on public assistance programs (Gair 6). Each value is presented in an index of return that represents the project's SROI: a blended value index of return of at least one is an indicator that the investment meets expectations (7). While the REDF has encountered some critical challenges in its methodology, it continues to refine its processes along with the myriad other emerging SROI analysis frameworks being developed by venture philanthropists.

Former Vice President Al Gore and former CEO of Goldman Sachs Asset Management, David Blood, have become social entrepreneur partners in an investment management firm called Generation Investment which is working to "find a way to integrate sustainability values into traditional equity analysis in a way that adds value and clearly does not incur a penalty" (Gore 5). Gore observes, "If the only tool you use to measure value is modernization, those things that do not come with a price tag can seem as if they have no value" (6).

The Rockefeller Foundation Double Bottom Line Project assessed sixteen models of SROI analysis and found that there are many useful analytical tools that have been developed over the last few years (Social Impact 4). One of these is the Balanced Scorecard methodology developed by New Profit, Inc. (NPI). Annual reports evaluate *growth* as measured by compound growth rates, revenues, and numbers served; *quality* according to improvement benchmarks; and *leverage* based on assessment of grantees' success in leveraging outside resources (9).

Shifting Paradigms

In *The Idea of a Local Economy*, Wendell Berry says, "If the government does not propose to protect the lives, livelihoods, and freedoms of its people, then the people must think about protecting themselves. There

seems, really, to be only one way, and that is to develop and put into practice the idea of a local economy – something that growing numbers of people are now doing” (8).

Throughout Appalachia and around the world, years of failed economic investments have begun to shift strategies for bringing sustainable economic development to impoverished areas from “one size fits all” to “local solutions for local problems.” As innovative changemakers emerge to develop new methods of creating economic and social parity, the menu of alternative solutions is growing at a rapid pace. Additionally, many communities have untapped potential to benefit economically from nonconventional partnerships that can be established to maximize human and social capital. Dissatisfied taxpayers in Kentucky and other regions must consider appropriate economic development options as they press for accountability in government spending.

As the paradigms of economic development continue to evolve and shift to locally-initiated and implemented strategies, the future of economic development in Appalachia offers many promising possibilities for appropriate and sustainable economic growth. Despite an economic history fraught with environmental and social exploitation and degradation, Appalachia’s communities contain many assets upon which successful development programs may be based, including citizen sectors which are willing and able to promulgate change. Community economic development practitioners have an abundance of opportunities to affect long term, sustainable growth. With thorough assessments, sufficient funding and effective allocation of resources, the future of economic development in Appalachia can be one of true and lasting value.

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Additional Resources

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