



Identification, Dissemination and Exchange of good practice in  
Local Employment development and promoting better governance

**9<sup>th</sup> – 10<sup>th</sup> June 2005**

**Hotel Ambassadeur, Juan les Pins, Nice**

## **Alternatives to the grant culture: sustainable finance for local employment development**

### **THE IDELE PROJECT**

The European Commission (DG Employment, Social Affairs and Equal Opportunities) has appointed **ECOTEC** Research and Consulting to implement the **IDELE** project to "*identify, disseminate and exchange good practice in local employment development*". **IDELE** pays particular attention to identifying and disseminating best practice between localities that share common characteristics. The **IDELE** seminars provide a platform for policy-makers and promoters facing similar problems to share a real dialogue about how the local approach can make a difference and thereby strengthen local employment development across Europe. The lessons, principles and tools identified will be disseminated across Europe.

### **THE NICE SEMINAR**

#### **1. Introduction**

The focus for IDELE is local employment and economic development policy and action. The series of seminars seeks to explore policy and various programme initiatives in a way that enables policy makers and practitioners to develop a better understanding of individual issues and to move them forward. It also aims for each seminar

topic to set the tone for and lead into the next issue to be considered.

The previous seminar in Faro, Portugal explored the statement:

“Successful implementation of employment policies depends on partnership at all levels, the involvement of a number of operational services and adequate resources”

This seminar in Nice will develop the issue of resources and particularly the actions that might be necessary to reduce dependence upon any one source of funding for the future. This is particularly relevant at this time as there will be extensive changes to the Structural Funds and the associated Community Initiatives for the 2007-2013 Programming Period.

These changes are likely to affect many local employment development activities. In the older (EU15) Member States many valuable projects will be ‘at risk’ if they have not already taken steps to find alternative sources of sustainable income. Whilst the impact within the New Member States will be less dramatic in the short term, there are many vital lessons to be learned about the dangers of over dependency on any particular grant regime. Planning for more sustainable finance for the long term cannot start too soon even in these cases.

The seminar will avoid promoting ‘short term’ solutions that may simply transfer ‘dependency’ on to some other funding source but will look at the issues associated with completely transforming the culture in which partnerships and projects operate. This will be done by introducing examples of ‘good practice’ from both the Anglo-Saxon and Continental contexts and by looking at radically different US approaches.

## **2. Background**

For over a decade, local employment development (LED) has emerged as a central and increasingly successful part of the European Employment Strategy and has become integrated into the principles of European Structural Funds.

This process has been driven by a strong ‘bottom up’ movement - keen to empower and engage players at the regional and local levels and to see more consistent funding available for a range of local economic, social and environmental initiatives. The European Commission and many Member States have responded by

privileging the use of local stakeholders as key agencies for effective delivery of services.

As the **IDELE** series of seminars has confirmed, local employment development projects can range from loose confederations of local projects to well organised strategy driven partnerships with a clear place in the system of governance. In many cases, local organisations and the other key stakeholders have developed the skills and the infrastructure essential for the delivery of high quality outputs.

During the last funding period, the European Commission - working alongside other agencies - has encouraged LED programmes to take on board greater levels of:

1. Aware self-management: moving beyond the skills necessary simply to implement an activity towards a more complete participation in local decision-making;
2. Aware participation in governance systems: equipping themselves to see where they can best fit in to a multi-level strategic approach to local development; and
3. Strategic understanding: having found the most appropriate role for themselves, going on to engineer and deliver a strategy to achieve the best possible outcomes.

The **IDELE** seminars have identified and worked with LED organisations that have represented four distinct types each with a different perspective on issues of partnership and of sustainability.

- Institutional LED organisations steered by the public authorities;
- Top down institutional partnerships operating with strict public policy guidelines;
- Centrally managed partnerships operating with local partners; and
- Bottom up more decentralised partnerships made up of independent local actors.

Each will have particular strengths and roles to play and, of course, each will have a very different view of what the requirements for future sustainability should be.

### **3. Dependency**

A plethora of funding regimes has underpinned the development of a diverse LED network that finds its expression in a huge range of local and regional activities. However, there has been remarkably

little attention given to long-term financial sustainability. It can be argued that while most activities strive for a sustainable *impact*, relatively few reflect on the long-term consequences of their dependency on a limited range of funding or funders. The concern is that, being output driven, they have had less opportunity to give the proper emphasis to securing the *long-term infrastructures* on which their outputs depend and their beneficiaries require.

Indeed, over time, many partnerships in the EU15 have become over-dependent upon continued public subsidy from the European Commission or (to a lesser extent) from their national or regional governments. For example, relatively few LED projects across the EU have sought to develop strategies that will see them becoming more 'business-like' as a means to secure other forms and sources of long-term funding such as loan and equity finance.

This may be no more than rational behaviour, of course. The system in place has developed a set of rewards that flow from continually seeking grant and short-term project funding. The prescribed roles have been quasi-public ones. While the signals have been there that this situation may not continue into the future, the funding regimes have offered no active incentives to focus on 'exit strategies' or 'sustainability'. Indeed, stringent clawback rules have worked against the accumulation of surpluses and the valorisation of assets to provide a hedge for the future.

#### **4. Sustainability**

The **Nice seminar** will focus on '*sustainable finance* for local employment development' but it will link this issue to other equally important issues of sustainability in the wider sense. Real '*sustainability*' at the local level also depends upon a commitment of the national government to take steps to decentralise (where appropriate, of course) employment and local development policies.

This view of *sustainability* takes us to the experiences that were highlighted at the **IDELE Faro seminar**. For LED to continue to add the value that **IDELE** has illustrated so far, the public domain will need to be so convinced of its merit as to see sustaining it as a *mainstream* government commitment. Some of the "stories" that are being presented in **Nice** will highlight the arguments that can be deployed to gain these sorts of long-term government commitments.

While government support is essential as the baseline for the LED project to continue to develop and thrive, the seminar will also

explore the availability of other forms of financial support. While one view of LED is the one set out thus far - as a set of projects and local strategies - we need to be reminded that another way to see it is as a set of locally based organisations described variously as associations, mutuals, trusts and foundations, co-operatives and so on. This links the LED debate closely with debates on the *social economy* and this linkage cannot sensibly be ignored.

Switching languages and discourses in this way (though the subject matter of trying to find ways to tackle local unemployment and social exclusion is very much the same) opens the door to another dimension of the debate on *sustainable finance* and to a field that has a long history and a huge literature on alternative models for *sustainable finance*. The **Nice seminar** will take on board some of this sophisticated knowledge under the generic label of *microfinance* (see below).

## 5. The European Context in Outline

One "story" that is vital to the **IDELE Nice seminar** is the future prospects for European Commission funding on which so much of LED has depended to date. The European Commission has agreed its broad objectives for the next funding period (2007-2013). This will see a dramatic reduction in the support to local employment development in many Member States and regions.

While LED is still seen as a central plank of EU policy, in the context of 'greater cohesion for growth and employment', funding will increasingly be refocused towards the least developed Member States and regions with an obvious effect upon much of the activity that will have matured during the previous period up to 2006.

There will be an emphasis in the new programmes on:

- Good governance;
- Sustainable development;
- Effectiveness, efficiency and synergy.

In seeking to minimise the direct impact, the European Commission (2004) has contracted outside research that seeks to highlight the changes that might be necessary in the next funding period by recasting the purposes for which any grant aid might be appropriate, opening up opportunities for a mixture of funding. The aim is to make activity focus on sustainability with EC grant aid available for innovative early 'pump priming' actions.<sup>2</sup> The following are the published recommendations of that research:

- LED help should in future focus on the establishment of local policy frameworks, to create partnerships and to ensure ready access to any support that is available
- LED will encourage benchmarking and the dissemination of 'good practice' in the next funding period as fundamental aids to cost effective and efficient delivery
- Development of evidence based coherent and comprehensive plans, which link market policies with economic, environmental and social factors.

<sup>2</sup>Horizontal Evaluation of Local Employment Development – Research commissioned by EC Employment and Social Affairs DG March 2004

## 6. A Portfolio of Different Tools, Models and Approaches

The **Nice seminar** will, then, host a range of projects, partnerships and social enterprise organisations that can respond to the challenges presented by the evolving policy and funding context.

It will address, as a priority, two key aspects of *'sustainability'*; the first relating to sustainable financial mechanisms for *independent* development and the second to the public finance implications of taking LED sustainably aboard within *governance*.

Across Europe the past twenty years has seen the development of a number of innovative enterprise and business based funding models designed largely to support the organisations of the social economy and the Third Sector. These have included an emphasis on securing revenues from contracts and trading activities and the use of revolving loan funds, loan guarantee funds, mutual funds, community based investment funds and so on. Each model has its own demands on the training, support and mentoring needed to provide individuals and growing businesses with the best opportunity to make themselves sustainable and to, in so doing, maximise job creation and employment.

These models increasingly look to *microfinance* as the most appropriate scale of support with its lowest transaction costs and a greater chance of more targeted, cost efficient and sustainable outcomes. Whilst the mechanisms and success of microfinance services are well understood, more needs to be done to raise awareness amongst the wider LED community, its sponsors, service providers and beneficiaries. The seminar will, as part of the **IDELE** dissemination mission, offer an opportunity to look closely at this approach.

## Microfinance

Small enterprises, new and existing, often face uncertain problems when they approach finance providers for both fixed and working capital. There is an insufficient supply of microfinance, particularly for unemployed people, women and for members of the minority communities. Access to microfinance is seen as an issue of 'social inclusion'.

Banks often perceive microcredit as high risk and low return and therefore there is a clear gap in the 'market' which action by public and some private agencies attempts to close. These actions can include promoting business support services, the provision of funding through specialist agencies and sharing risk through various guarantee mechanisms.

Summarised from 'Micro Credit for Small Business and Business Creation' EC Nov 2003

Of course another view of *sustainability* rests on making sure that long-term sustainable effects come from the "carrier wave" created from its original existence. For example, LED is designed for people acquire to those skills that can "*sustain*" their participation in paid employment, that can "*sustain*" the social capital, voice and influence that comes from their empowerment, that can "*sustain*" an understanding among elected politicians and public officials that acting locally is important and so on.

We need to test the proposition that it is only by carrying on *the existing organisations that underpin LED* that its influence can be maintained. Is it, for example, really a truism to say that without sustainable partnerships and their infrastructure, there would be no long run LED outcomes? Participants in **IDELE** may well be convinced of this but the real requirement is to convince "the sceptical third party" – especially in national governments - that this really is the case.

## 7. The Seminar

The seminar will comprise four components:

1. An overview of the supply-side issues looking at European level funding as it is at present and the changes that can be envisaged; there will be at least one example of a major partnership and evidence of its complex and evolving funding arrangements.
2. A review of a number of 'demand-side' initiatives; these will demonstrate how they are adapting to the changing funding environment and how they are seeking to pre-empt or influence actions by the national and regional players that might seek to undermine their drive for local autonomy and sustainability

3. A number of projects will demonstrate activities leading to sustainable local outputs; these will provide case examples for debate as to what might be done to assist them to develop alternative sources of income as organisations.
4. A 'reality check'; this will involve all the participants and will seek to develop a number of arguments for a more pro-active approach to sustainable funding for local development addressing the complex environment revealed by the case studies. It will also consider the development of an action plan to raise awareness and to support the dissemination of 'good practice'.

## 8. The Key Questions

The key questions for the seminar are:

- *Is there a standard definition of 'sustainability' or is it always going to be influenced by local circumstances.*
- *In light of the on-going debate about the EU Constitution, is getting a consistent and credible message about the form and scale of EC support and the eventual mix between private and public funding likely to be harder or easier.*
- *Should there be a clear distinction between innovation and start-up which might be EC / state funded and continuation funding which should always be 'sustainable' or from non-governmental sources.*
- *Is there a coherent argument for specific activities for which 'grant dependency' is the only reasonable state and what are the key elements of that argument?*
- *Should there be a more persuasive case for the establishment of appropriate legal and financial instruments across the member states which privilege 'sustainability' and should the EC actively champion such changes.*
- *To what extent should local (and regional/national?) actors be driven by EU/national support and funding possibilities?*
- *Projects are generally established to address a problem. Does 'success' always imply the need for their long term existence and are there robust mechanisms to determine the need for 'sustainability'.*
- *Is change, in these cases, always externally imposed?*
- *Do projects have appropriate change management processes*
- *Are the financial arrangements/structures/instruments that are already out there adequate? - is it more of them/different ones*

*that is needed, or simply more awareness?*

- *Is there always a strategic context in which the sustainability of individual activities can be assessed and determined*
- *Is there a readily accessible body of 'good practice' examples and access to appropriate support to aid a drive towards 'sustainability*

## 9. Notes

## FURTHER INFORMATION

For further information on the **IDELE** project please visit our website at: [www.ecotec.com/idele](http://www.ecotec.com/idele)

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